AT&T CORP
Form PREM14A
February 11, 2002

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[X] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
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AT&T CORP.

(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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PRELIMINARY DRAFT DATED FEBRUARY 11, 2002, SUBJECT TO COMPLETION

[COMCAST LOGO]

A MERGER PROPOSAL -- YOUR VOTE IS VERY IMPORTANT

Comcast and AT&T have agreed to combine Comcast and AT&T's broadband business. As a result, AT&T shareholders will have shares of both AT&T and the new corporation -- AT&T Comcast. We are proposing the transaction because we believe the combination of Comcast and AT&T Broadband will create the world's premier broadband communications company. The new corporation will be named AT&T Comcast Corporation and will be headquartered in Philadelphia.

When the transaction is completed,

- Comcast shareholders will receive one share of a corresponding class of AT&T Comcast common stock in exchange for each Comcast share they own; and
- AT&T shareholders will receive a number of shares of AT&T Comcast common stock determined pursuant to a formula described in this joint proxy statement/prospectus for each AT&T share they own. If the AT&T exchange ratio were determined as of the date of this joint proxy statement/prospectus, each AT&T shareholder would receive approximately   of a share of AT&T Comcast common stock for each of their AT&T shares. AT&T shareholders will also continue to hold their shares of AT&T common stock.

Upon completion of the transaction,

- AT&T shareholders will own [   ]% of AT&T Comcast's economic interest and, depending upon which of two alternative capital structures described in this joint proxy statement/prospectus is implemented, either [   ]% or [   ]% of AT&T Comcast's voting power.
- Comcast shareholders will own [   ]% of AT&T Comcast's economic interest and, depending upon which of two alternative capital structures described in this joint proxy statement/prospectus is implemented, either [   ]% or [   ]% of AT&T Comcast's voting power.
- Sural LLC, which is controlled by Brian L. Roberts, President of Comcast, and today holds approximately 86.7% of Comcast's voting power, will hold approximately [   ]% of AT&T Comcast's voting power upon completion of the transaction.

THE BOARDS OF DIRECTORS OF BOTH COMCAST AND AT&T HAVE UNANIMOUSLY APPROVED THE TRANSACTION AND RECOMMEND THAT THEIR RESPECTIVE SHAREHOLDERS VOTE FOR THE

PROPOSAL TO APPROVE AND ADOPT THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT. SURAL LLC HAS AGREED TO VOTE IN FAVOR OF THE TRANSACTION THEREBY ASSURING APPROVAL OF THE TRANSACTION BY THE COMCAST SHAREHOLDERS.

In addition to the merger proposal, holders of Comcast common stock are also being asked to consider a proposal that is referred to in this joint proxy statement/prospectus as the preferred structure proposal. The outcome of the vote on this proposal will determine which of the two alternative capital structures described in this joint proxy statement/prospectus is implemented upon completion of the transaction.

THE COMCAST BOARD OF DIRECTORS RECOMMENDS THAT THE COMCAST SHAREHOLDERS VOTE FOR THE PREFERRED STRUCTURE PROPOSAL.

In addition to the merger proposal, the election of directors and other matters to be considered at the AT&T annual meeting, AT&T shareholders are also being asked to consider a proposal to create a tracking stock that is intended to reflect the financial performance and economic value of the AT&T Consumer Services business and related benefit plan proposals.

If AT&T shareholders approve the proposal to create an AT&T Consumer Services Group tracking stock, AT&T plans to distribute some or all of the shares of AT&T Consumer Services Group tracking stock to its common shareholders as a dividend later this year. AT&T could, however, decide not to proceed with the proposal, or could proceed at a time or in a manner different from its current intentions.

THE AT&T BOARD OF DIRECTORS RECOMMENDS THAT THE AT&T SHAREHOLDERS VOTE FOR THE PROPOSAL TO CREATE AN AT&T CONSUMER SERVICES GROUP TRACKING STOCK.

Information about all the proposals is contained in this joint proxy statement/prospectus. We urge you to read this joint proxy statement/prospectus, including the section describing risk factors that begins on page [I-29].

Brian L. Roberts	C. Michael Armstrong
President	Chairman and Chief Executive Of
Comcast Corporation	AT&T Corp.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES TO BE ISSUED IN CONNECTION WITH THE TRANSACTION OR DETERMINED IF THIS JOINT PROXY STATEMENT/PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This joint proxy statement/prospectus is dated [ ], 2002, and is first being mailed to shareholders of Comcast and AT&T on or about [ ], 2002.

AT&T CORP.
32 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10013-2412

NOTICE OF ANNUAL MEETING OF AT&T SHAREHOLDERS
TO BE HELD ON , , 2002

The 117th annual meeting of shareholders of AT&T Corp. will be held at a.m., local time, on , , 2002, at , for the following purposes:

- to elect directors for the ensuing year;

- to ratify the appointment of auditors to examine AT&T's accounts for the year 2002;

- to approve and adopt the merger agreement between AT&T Corp., AT&T Broadband Corp., Comcast Corporation and the other parties thereto, whereby AT&T Broadband, a new holding company that consists of our broadband businesses, will be spun off and combined with Comcast in a new Pennsylvania corporation called "AT&T Comcast Corporation," and the transactions contemplated by the merger agreement, including the AT&T Broadband spin-off;

- to approve and adopt an amendment to AT&T's charter to authorize the creation of AT&T Consumer Services Group tracking stock;

- to approve a new incentive plan to enable AT&T to grant incentive awards based on shares of AT&T Consumer Services Group tracking stock;

- to approve an amendment to AT&T's employee stock purchase plan to permit the issuance of AT&T Consumer Services Group tracking stock under the plan; and

- to act upon such other matters as may properly come before the AT&T annual meeting or any adjournment or postponement thereof.

We describe these items of business more fully in the accompanying joint proxy statement/prospectus.

Only holders of record of AT&T common stock at the close of business on , 2002 are entitled to notice of, and to vote at, the annual meeting or any adjournment or postponement thereof.

BY ORDER OF THE BOARD OF DIRECTORS

MARILYN J. WASSER
Vice President -- Law and Secretary

New York, New York
, 2002

WE URGE YOU TO VOTE BY TELEPHONE OR VIA THE INTERNET, OR TO COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE POSTAGE-PAID ENVELOPE PROVIDED, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON. YOU CAN WITHDRAW YOUR PROXY, OR CHANGE YOUR VOTE AT ANY TIME BEFORE IT IS VOTED. YOU CAN DO THIS BY EXECUTING A LATER-DATED PROXY, BY VOTING BY BALLOT AT THE ANNUAL MEETING, BY TELEPHONE OR VIA THE INTERNET, OR BY FILING AN INSTRUMENT OF REVOCATION WITH THE INSPECTORS OF ELECTION IN CARE OF OUR VICE PRESIDENT -- LAW AND SECRETARY AT THE ABOVE ADDRESS.

TABLE OF CONTENTS

CHAPTER ONE -- SUMMARY AND OVERVIEW OF THE TRANSACTIONS.............. I-1
QUESTIONS AND ANSWERS ABOUT THE TRANSACTIONS.................. I-1
QUESTIONS AND ANSWERS ABOUT AT&T CONSUMER SERVICES GROUP TRACKING STOCK................ I-5

SUMMARY........................... I-7
THE AT&T COMCAST TRANSACTION..... I-9
AT&T CONSUMER SERVICES GROUP
TRACKING STOCK................ I-19
RISK FACTORS..................... I-29
CHAPTER TWO -- THE AT&T COMCAST
TRANSACTION...................... II-1
General....................... II-1
Background of the AT&T Comcast
Transaction................ II-1
Comcast's Reasons for the AT&T
Comcast Transaction......... II-8
Comcast's Preferred Structure
Proposal................... II-10
AT&T's Reasons for the AT&T
Comcast Transaction......... II-11
Material Federal Income Tax
Consequences................ II-13
Regulatory Matters............ II-16
Appraisal Rights.............. II-18
Federal Securities Laws
Consequences; Stock Transfer
Restriction Agreements...... II-18
Accounting Treatment.......... II-18
CHAPTER THREE -- FINANCIAL
INFORMATION RELATING TO THE AT&T
COMCAST TRANSACTION.............. III-1
CHAPTER FOUR -- OPINIONS OF
FINANCIAL ADVISORS............... IV-1
OPINIONS OF COMCAST'S FINANCIAL
ADVISORS...................... IV-1
OPINIONS OF AT&T'S FINANCIAL
ADVISORS...................... IV-12
CHAPTER FIVE -- DESCRIPTION OF THE
AT&T COMCAST TRANSACTION
AGREEMENTS....................... V-1
THE MERGER AGREEMENT............ V-1
THE SEPARATION AND DISTRIBUTION
AGREEMENT.................... V-14
THE SUPPORT AGREEMENT........... V-18
THE EXCHANGE AGREEMENT.......... V-21
THE TAX SHARING AGREEMENT........ V-23
THE ANCILLARY AGREEMENTS......... V-24
CHAPTER SIX -- AT&T CORP.
MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS........ VI-1
CHAPTER SEVEN -- AT&T BROADBAND
GROUP............................ VII-1
DESCRIPTION OF AT&T BROADBAND
GROUP........................ VII-1
AT&T BROADBAND GROUP MANAGEMENT'S
DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND
RESULTS OF OPERATIONS......... VII-23
CHAPTER EIGHT -- DESCRIPTION OF
GOVERNANCE ARRANGEMENTS FOLLOWING
THE AT&T COMCAST TRANSACTION..... VIII-1
CHAPTER NINE -- EMPLOYEE BENEFITS
MATTERS.......................... IX-1
INTERESTS OF DIRECTORS AND
OFFICERS IN THE AT&T COMCAST

TRANSACTION..................	IX-1
OTHER BENEFITS MATTERS...........	IX-6
CHAPTER TEN -- AT&T CONSUMER SERVICES GROUP TRACKING STOCK....	X-1
THE CONSUMER SERVICES CHARTER AMENDMENT PROPOSAL............	X-1
REASONS FOR AT&T CONSUMER SERVICES GROUP TRACKING STOCK.........................	X-10
DESCRIPTION OF AT&T CONSUMER SERVICES GROUP................	X-12
AT&T CONSUMER SERVICES GROUP.....	X-24
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS....................	X-24
RELATIONSHIP BETWEEN THE AT&T GROUPS........................	X-35

THE INCENTIVE PLAN PROPOSAL...............	X-42
THE EMPLOYEE STOCK PURCHASE PLAN PROPOSAL..............................	X-46
CHAPTER ELEVEN -- DESCRIPTION OF AT&T BUSINESS SERVICES GROUP..................	XI-1
CHAPTER TWELVE -- INFORMATION ABOUT THE COMCAST SPECIAL MEETING AND VOTING........	XII-1
CHAPTER THIRTEEN -- INFORMATION ABOUT THE AT&T ANNUAL MEETING AND VOTING............	XIII-1
CHAPTER FOURTEEN -- CERTAIN LEGAL INFORMATION..............................	XIV-1
COMPARISON OF AT&T, COMCAST AND AT&T COMCAST SHAREHOLDER RIGHTS.............	XIV-1
Summary of Material Differences Between the Current Rights of AT&T Shareholders and the Rights Those Shareholders Will Have as AT&T Comcast Shareholders Following the Completion of the Transaction........	XIV-1
Summary of Material Differences Between the Current Rights of Comcast Shareholders and the Rights Those Shareholders Will Have as AT&T Comcast Shareholders Following the Completion of the Transaction........	XIV-6
DESCRIPTION OF AT&T COMCAST CAPITAL STOCK................................	XIV-10
Authorized Capital Stock...............	XIV-10
AT&T Comcast Class A Common Stock......	XIV-10
AT&T Comcast Class B Common Stock......	XIV-11
AT&T Comcast Class A Special Common Stock..............................	XIV-12
AT&T Comcast Class C Common Stock......	XIV-13
AT&T Comcast Preferred Stock...........	XIV-13
Dividend Rights........................	XIV-13
Rights Upon Liquidation................	XIV-14
Transfer Agent and Registrar...........	XIV-14

Stock Exchange Listings................ XIV-14
DESCRIPTION OF AT&T COMCAST SHAREHOLDER RIGHTS PLAN........................... XIV-15
INFORMATION REGARDING FORWARD-LOOKING STATEMENTS............................ XIV-17
LEGAL MATTERS............................ XIV-17
EXPERTS.................................. XIV-17
CHAPTER FIFTEEN -- ADDITIONAL INFORMATION FOR SHAREHOLDERS......................... XV-1
FUTURE SHAREHOLDER PROPOSALS.............. XV-1
WHERE YOU CAN FIND MORE INFORMATION....... XV-1

ANNEXES

Annex A	Agreement and Plan of Merger
Annex B	Separation and Distribution Agreement
Annex C	Form of AT&T Comcast Charter (Preferred Structure)
Annex D	Term Sheet for AT&T Comcast Charter (Alternative Structure)
Annex E	Form of Comcast Charter Amendment
Annex F	Form of AT&T Comcast Bylaws
Annex G	Opinion of Morgan Stanley & Co. Incorporated
Annex H	Opinion of J.P. Morgan Securities, Inc.
Annex I	Opinion of Merrill Lynch, Pierce, Fenner & Smith, Incorporated
Annex J	Opinion of Credit Suisse First Boston Corporation
Annex K	Opinion of Goldman, Sachs & Co.
Annex L	Index to Financial Statements
Annex M	Form of Certificate of Amendment of the Certificate of Incorporation of AT&T Corp.
Annex N	Form of Amendment of the Bylaws of AT&T Corp.
Annex O	AT&T Corp. Board of Directors Policy Statement Regarding AT&T Groups Tracking Stock Matters

CHAPTER ONE
SUMMARY AND OVERVIEW OF THE TRANSACTIONS

QUESTIONS AND ANSWERS ABOUT THE TRANSACTIONS

Q: When and where will the meetings of shareholders take place?

A: The Comcast special meeting will take place on [ ], 2002 in Philadelphia, Pennsylvania. The AT&T annual meeting will take place on [ ], 2002 in [ ]. The address of your meeting is specified in the notice for your meeting.

Q: What proposals am I being asked to vote upon and what vote is required to approve each proposal?

A: If you are a Comcast shareholder, you are being asked to vote upon the following proposals:

- Approval and adoption of the merger agreement and the transactions contemplated by the merger agreement. This proposal, which is referred to in this document as the "Comcast transaction proposal," requires the affirmative vote of a majority of the votes cast by holders of shares of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class. Each holder of Comcast Class B common stock is entitled to 15 votes per share, and each holder of Comcast Class A common stock is entitled to one vote per share. Approval of this proposal is assured because Sural LLC, which holds approximately 86.7% of the combined voting power of the Comcast stock, has agreed to vote its shares in favor of the AT&T Comcast transaction. Any shares of Comcast Class A common stock not voted (whether by abstention, broker non-vote or otherwise) have no impact on the vote.

- Approval and adoption of an amendment to the Comcast charter to allow the implementation of the Preferred Structure. This proposal, which is referred to in this document as the "preferred structure proposal," requires the affirmative vote of a majority of the votes cast by holders of shares of Comcast Class A common stock, voting as a single class, and holders of shares of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class. Each holder of Comcast Class B common stock is entitled to 15 votes per share, and each holder of Comcast Class A common stock is entitled to one vote per share. If holders of Comcast Class A common stock, voting as a single class, approve this proposal, implementation of the AT&T Comcast capital structure referred to in this document as the "Preferred Structure" will be assured because Sural LLC has indicated that it will vote in favor of the proposal, thereby assuring approval by holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class. Any shares of Comcast Class A common stock not voted (whether by abstention, broker non-vote or otherwise) have no impact on the vote.

- Shareholder proposals. Approval of any shareholder proposal requires the affirmative vote of a majority of the votes cast by holders of shares of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class. Each holder of Comcast Class B common stock is entitled to 15 votes per share, and each holder of Comcast Class A common stock is entitled to one vote per share. Any shares of Comcast Class A common stock not voted (whether by abstention, broker non-vote or otherwise) have no impact on the vote. As of the date of this document, Comcast is not aware of any shareholder proposal to be voted on at the Comcast special meeting.

If you are an AT&T shareholder, you are being asked to vote upon the following proposals:

- Approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the AT&T Broadband spin-off. This proposal, which is referred to in this document as the "AT&T transaction proposal," requires the affirmative vote of a

majority of outstanding shares of AT&T common stock. Any shares of AT&T common stock not voted (whether by abstention, broker non-vote or otherwise) have the effect of a vote against the AT&T transaction proposal.

- Approval and adoption of an amendment to AT&T's charter to authorize the creation of AT&T Consumer Services Group tracking stock. This proposal, which is referred to in this document as the "Consumer Services charter amendment proposal," requires the affirmative vote of a majority of outstanding shares of AT&T common stock. Any shares of AT&T common stock not voted (whether by abstention, broker non-vote or otherwise) have the effect of a vote against the Consumer Services charter amendment proposal.

- Approval of a new incentive plan to enable AT&T to grant incentive awards based on shares of AT&T Consumer Services Group tracking stock. This proposal, which is referred to in this document as the "incentive plan proposal," requires the affirmative vote of a majority of the votes cast by holders of AT&T common stock. Any shares of AT&T common stock not voted (whether by abstention, broker non-vote or otherwise) have no impact on the vote.

- Approval of an amendment to AT&T's employee stock purchase plan to permit the issuance of AT&T Consumer Services Group tracking stock under the plan. This proposal, which is referred to in this document as the "employee stock purchase plan proposal," requires the affirmative vote of a majority of the votes cast by holders of AT&T common stock. Any shares of AT&T common stock not voted (whether by abstention, broker non-vote or otherwise) have no impact on the vote.

- Election of directors. The nominees who receive the most votes of holders of AT&T common stock will be elected. Any shares of AT&T common stock not voted (whether by abstention or otherwise) have no impact on the vote. If you are an AT&T shareholder and you do not wish your shares to be voted for a particular nominee, you may identify the exceptions in the designated space provided on the proxy card or, if you are voting by telephone or the Internet, follow the system instructions.

- Ratification of independent auditors. This proposal requires the affirmative vote of a majority of the votes cast by holders of AT&T common stock. Any shares of AT&T common stock not voted (whether by abstention or otherwise) have no impact on the vote. If the shareholders do not ratify this amendment, other independent auditors will be considered by the AT&T Board upon recommendation of the AT&T Audit Committee.

- Shareholder proposals. Approval of any shareholder proposal requires the affirmative vote of a majority of the votes cast by holders of AT&T common stock. Any shares of AT&T common stock not voted (whether by abstention or otherwise) have no impact on the vote.

Q: What if I return my proxy but do not mark it to show how I am voting?

A: If your proxy card is signed and returned without specifying your choices, the shares will be voted as recommended by your board of directors.

Q: What do I need to do now?

A: After carefully reading and considering the information contained in this document, please respond by completing, signing and dating your proxy card or voting instructions and returning it in the enclosed postage paid envelope, or, if available, by submitting your proxy or voting instructions by telephone or through the Internet, as soon as possible so that your shares may be represented at your meeting.

Registered shareholders and most beneficial holders that hold shares through a bank or broker may vote by telephone or via the Internet. If one of the options of voting by telephone or via the Internet is available to you, we strongly encourage you to use it because it is faster and less costly.

Registered shareholders of Comcast can vote by telephone by calling 1-800-[ ] or via the Internet at http://[ ].

Registered shareholders of AT&T can vote by telephone by calling 1-800-273-1174 or via the Internet at http://att.proxyvoting.com. If you are a beneficial holder of Comcast common stock or AT&T common stock that holds shares through a bank or broker, you will receive separate voting instructions on the form you receive from the bank or broker.

Q: If I am a holder of Comcast Class A Special common stock, do I have the right to vote on the AT&T Comcast transaction?

A: No. Except as required by applicable law, holders of Comcast Class A Special common stock do not have any voting rights. As required by applicable law, Comcast has forwarded this document to you to notify you of the AT&T Comcast transaction.

Q: Can I change my vote after I have delivered my proxy?

A: Yes. You can change your vote at any time before your proxy is voted at your meeting. You can do this in one of three ways.

- First, you can revoke your proxy.

- Second, you can submit a new proxy with a later date. If you choose either of these two methods, you must submit your notice of revocation or your new proxy to the secretary of Comcast or AT&T, as appropriate, before your meeting. If your shares are held in an account at a brokerage firm or bank, you should contact your brokerage firm or bank to change your vote.

- Third, you can attend your meeting and vote in person.

You may change your vote by submitting a new vote by telephone or via the Internet regardless of whether you submitted your earlier proxy by mail, telephone or via the Internet.

Q: If my shares are held in an account in a brokerage firm or bank, will my broker vote my shares for me?

A: If you are a Comcast shareholder and you do not provide your broker with instructions on how to vote your brokerage account shares, your broker will not be permitted to vote them. You should therefore be sure to provide your broker with instructions on how to vote your shares.

If you are an AT&T shareholder and you do not provide your broker with instructions on how to vote your shares with respect to a specific proposal, your broker will not be permitted to vote them with respect to the AT&T transaction proposal, the Consumer Services charter amendment proposal, the incentive plan proposal or the employee stock purchase plan proposal but will be permitted to vote them with respect to the election of directors, the ratification of auditors and other matters that may come before the AT&T annual meeting.

If you are an AT&T shareholder and you do not give voting instructions to your broker, you will, in effect, be voting against the AT&T transaction proposal and the Consumer Services charter amendment proposal.

PLEASE CHECK THE VOTING FORM USED BY YOUR BROKER TO SEE IF IT OFFERS TELEPHONE OR INTERNET VOTING.

Q: Will I receive dividends on my AT&T Comcast shares?

A: AT&T Comcast does not currently intend to pay dividends on its common stock.

Q: Should I send in my stock certificates now?

A: No. If you are a Comcast shareholder, after the AT&T Comcast transaction is completed you will receive written instructions from the exchange agent on how to exchange your Comcast stock certificates for AT&T Comcast stock certificates.

If you are an AT&T shareholder, after the AT&T Comcast transaction is completed you will not need to exchange any stock certificates in order to receive your AT&T Comcast shares. In addition, you will continue to hold your AT&T shares in their current electronic or certificate form, which after the AT&T Comcast transaction will represent an interest in AT&T's communications businesses.

PLEASE DO NOT SEND IN YOUR STOCK CERTIFICATES WITH YOUR PROXY.

I-3

Q: When do you expect to complete the AT&T Comcast transaction?

A: We expect to complete the AT&T Comcast transaction by the end of 2002.

Q: Is approval of the Consumer Services charter amendment proposal linked to the AT&T Comcast transaction?

A: No. The AT&T Comcast transaction is completely separate from the Consumer Services charter amendment proposal. Approval of one is not a prerequisite or a condition to the other.

Q: Who can help answer my questions?

A: If you have any questions about the AT&T Comcast transaction or how to submit your proxy, or if you need additional copies of this document, the enclosed proxy card or voting instructions, you should contact:

- if you are a Comcast shareholder:

Comcast Corporation
Investor Relations
1500 Market Street
Philadelphia, Pennsylvania 19102-2148
Telephone: 1-800-___-____
e-mail: _____________________________

- if you are an AT&T shareholder:

AT&T Corp.
Proxy Information Center

____

____
Telephone: 1-800-___-____

e-mail: ______________________________

QUESTIONS AND ANSWERS ABOUT
AT&T CONSUMER SERVICES GROUP TRACKING STOCK

Q: What is the purpose of AT&T Consumer Services Group tracking stock?

A: Approval and issuance of AT&T Consumer Services Group tracking stock will allow AT&T to offer two separate investment vehicles within AT&T -- existing AT&T common stock plus a new tracking stock intended to track the performance of AT&T's Consumer Services business.

Q: What is a tracking stock and how does it work?

A: A tracking stock is a separate class or series of a company's common stock that is intended to reflect the financial performance and economic value of a group of assets or a specific business unit, division, subsidiary or equity investment of the company. You should note that:

- Holders of a tracking stock of AT&T are shareholders of AT&T and not of the underlying business or subsidiary. Thus, holders of AT&T Consumer Services Group tracking stock will have no direct interest in the assets, subsidiaries or businesses whose performance AT&T Consumer Services Group tracking stock is intended to reflect.

- AT&T intends the terms of its tracking stock to link the economic value of the tracking stock to the performance of the tracked business rather than to the performance of AT&T as a whole. However, there may not always be a linkage between the market value of tracking stock and the financial performance and economic value of the tracked business.

- The market value of tracking stock may be adversely affected not only by factors that adversely affect the tracked business, but also by factors that adversely affect AT&T generally.

Q: Will AT&T Consumer Services Group tracking stock be intended to reflect 100% of the value and performance of AT&T's Consumer Services business?

A: AT&T currently intends to distribute all of the AT&T Consumer Services Group tracking stock. However, if AT&T determines to distribute less than all these shares, AT&T intends the remaining portion of the value and performance of AT&T Consumer Services Group to be reflected in AT&T common stock. We refer to the portion that AT&T intends to reflect in AT&T common stock as AT&T's "retained portion" of the value of AT&T Consumer Services Group.

Q: If I continue to hold all my shares of AT&T common stock, what will I receive as a result of all the transactions?

A: If you continue to hold your shares of AT&T common stock and shares of AT&T securities that you receive as dividends on your AT&T common stock, and AT&T completes the AT&T Comcast transaction and the distribution of AT&T Consumer Services Group tracking stock as it plans, you will end up with shares of:

- Common stock of AT&T Corp. These will be your existing shares of AT&T common stock.

- AT&T Consumer Services Group tracking stock of AT&T Corp. You will receive shares of AT&T Consumer Services Group tracking stock as a dividend on your existing shares of AT&T common stock.

- Common stock of AT&T Comcast Corporation. As part of the AT&T Comcast transaction, AT&T will declare a dividend on shares of AT&T common stock, New York Stock Exchange, or NYSE, symbol "T," in the form of shares of AT&T Broadband Corp. common stock. Since AT&T Broadband Corp. immediately will be merged with a subsidiary of AT&T Comcast, in the AT&T Comcast transaction, you will not actually receive these shares but instead you will receive shares of AT&T Comcast common stock.

I-5

You will not receive a dividend of shares of AT&T Broadband Corp. common stock on shares of AT&T Consumer Services Group tracking stock.

Q: Why is AT&T proposing a tracking stock rather than splitting off AT&T's Consumer Services business into a separate company?

A: AT&T is proposing a tracking stock to allow AT&T to offer a more specific, targeted investment vehicle for investors while at the same time maintaining the benefits of keeping both AT&T's Business Services business and AT&T's Consumer Services businesses together in a larger, integrated company. Following the issuance of AT&T Consumer Services Group tracking stock, if the AT&T Comcast transaction is completed, AT&T common stock will effectively act as tracking stock for AT&T Business Services Group plus any retained portion of the AT&T Consumer Services Group.

Q: Will AT&T issue fractional shares of AT&T Consumer Services Group tracking stock?

A: No. AT&T expects that it will issue cash in lieu of any fractional shares of AT&T Consumer Services Group tracking stock, including with respect to shares held in AT&T's Dividend Reinvestment Plan.

Q: Is approval or completion of any AT&T proposal a condition to any of the other AT&T proposals?

A: You may vote on each AT&T proposal separately, and AT&T may implement any AT&T proposal that receives AT&T shareholder approval, whether or not it receives approval for or implements any other AT&T proposal. However, AT&T will not implement the Incentive Plan proposal or the Employee Stock Purchase Plan proposal if AT&T Consumer Services Group tracking stock is not issued.

Q: If AT&T shareholders approve all the AT&T proposals, will AT&T definitely implement them all?

A: No. There are a number of conditions to the AT&T Comcast transaction other than AT&T shareholder approval, including regulatory approvals. Similarly, there are a number of factors that could cause the AT&T Board to decide not to proceed with the distribution of AT&T Consumer Services Group tracking stock as well, such as future market conditions, financial performance or superior alternatives that may arise. Other events or circumstances, including litigation, could occur that affect the timing or terms of the proposed transactions or AT&T's ability to complete the proposed transactions.

The Consumer Services charter amendment proposal gives the AT&T Board the authority to amend AT&T's charter to create AT&T Consumer Services Group tracking stock. The proposed Consumer Services charter amendment, however, does not mandate that the AT&T Board use this power or specify the manner in which AT&T may issue AT&T Consumer Services Group tracking stock. Rather, AT&T Consumer Services Group tracking stock will be a new class of AT&T common stock that the AT&T Board may issue from time to time as it determines appropriate, up to the total number of authorized shares and subject to stock exchange rules with respect to shareholder approval of share issuances.

AT&T does not plan to seek new shareholder approval for any change that the AT&T Board may approve in the timing or manner of issuing AT&T Consumer Services Group tracking stock.

SUMMARY

This summary highlights selected information from this document and may not contain all of the information that is important to you. To better understand the AT&T Comcast transaction, you should read this entire document carefully, as well as those additional documents to which we refer you. See "Additional Information for Shareholders -- Where You Can Find More Information."

THE COMPANIES

COMCAST CORPORATION
1500 Market Street
Philadelphia, Pennsylvania 19102-2148
(215) 665-1700
http://www.comcast.com

Comcast is a Pennsylvania corporation incorporated in 1969. Comcast is involved in three principal lines of business:

- Cable -- through the development, management and operation of broadband communications networks,

- Commerce -- through QVC, its electronic retailing subsidiary, and

- Content -- through its consolidated subsidiaries Comcast Spectacor, Comcast SportsNet, Comcast SportsNet Mid-Atlantic, Comcast Sports Southeast, E! Entertainment Television, The Golf Channel and Outdoor Life Network, and through its other programming investments.

Comcast currently is the third largest cable operator in the United States, and has deployed digital cable applications and high-speed Internet service to the vast majority of its cable communications systems to expand the products available on its broadband communications networks.

Comcast's consolidated cable operations served approximately 8.5 million subscribers and passed approximately 13.9 million homes as of December 31, 2001.

Through QVC, Comcast markets a wide variety of products directly to consumers, primarily on merchandise-focused television programs. As of December 31, 2001, QVC was available, on a full and part-time basis, to approximately 82.1 million homes in the United States, approximately 9.5 million homes in the United Kingdom, approximately 23.6 million homes in Germany and approximately 3.6 million homes in Japan.

AT&T CORP.
32 Avenue of the Americas
New York, New York 10013-2412
(212) 387-5400
http://www.att.com

AT&T is a New York corporation incorporated in 1885. AT&T currently consists primarily of AT&T Broadband Group, AT&T Consumer Services Group and AT&T Business Services Group. These AT&T groups are not separate companies, but, rather, are parts of AT&T. The transactions proposed in this document would:

- separate and spin off AT&T Broadband into a separate company that immediately would be merged into and become a part of AT&T Comcast, and

- establish a tracking stock for the AT&T Consumer Services Group.

AT&T BROADBAND GROUP

AT&T Broadband Group is one of the nation's largest broadband communications businesses, providing cable television, high-speed cable Internet services and communications services over one of the most extensive broadband networks in the country. At or for the nine months ended September 30, 2001, AT&T Broadband Group:

- owned and operated cable systems aggregating approximately 13.75 million analog video subscribers;

- had approximately $7.8 billion in combined revenue;

- had approximately $2.8 billion in net loss;

- had debt of approximately $23.3 billion; and

- had investments in companies, joint ventures and partnerships, including Time Warner Entertainment Company, L.P., Insight Midwest, L.P. and Texas Cable Partners, L.P.

I-7

AT&T CONSUMER SERVICES GROUP

AT&T Consumer Services Group is the leading provider of domestic and international long distance service to residential consumers in the United States. AT&T Consumer Services Group provides a broad range of communications services to consumers, including:

- inbound and outbound domestic and international long distance;

- transaction-based long distance services, such as operator-assisted calling services and prepaid phone cards;

- local calling offers through an unbundled network elements platform; and

- dial-up Internet service through AT&T WorldNet Service.

AT&T Consumer Services Group provides these services individually and in combination with other services. At or for the nine months ended September 30, 2001, the AT&T Consumer Services Group had:

- approximately 60 million customer relationships;

- approximately $11.6 billion in combined revenue;

- approximately $2.2 billion in combined net income; and

- debt of approximately $1.5 billion.

AT&T BUSINESS SERVICES GROUP

AT&T Business Services Group is one of the nation's largest business services communications providers, providing a variety of global communications services to over 4 million customers, including large domestic and multinational businesses, small- and medium-sized businesses, and government agencies. AT&T Business Services Group operates one of the largest telecommunications networks in the United States and, through AT&T Global Network Services and other investments and affiliates, provides an array of services and customized solutions in 60 countries and 850 cities worldwide.

AT&T Business Services Group provides a broad range of communications services and customized solutions, including:

- long distance, international and toll-free voice services;

- local services, including private line, local data and special access services;

- data and internet protocol, or IP, services, including frame relay and asynchronous transfer mode, or ATM;

- managed networking services and outsourcing solutions; and

- wholesale transport services.

AT&T Business Services Group also includes a number of joint ventures and investments, including AT&T Latin America Corp. and AT&T Canada Inc.

The table below sets forth the approximate percentage of consolidated revenue, net income, assets and indebtedness of AT&T, giving effect to the split-offs of the AT&T Wireless Group and the Liberty Media Group, that were attributable to each of AT&T Broadband Group, AT&T Consumer Services Group and AT&T excluding AT&T Broadband Group at or for the year ended December 31, 2000 and at or for the nine months ended September 30, 2001. In the future, these percentages will vary with the relative performance of the different AT&T groups. In addition, the actual debt levels of each of the AT&T groups in the future will depend on a variety of other factors, including the progress AT&T makes on its various debt reduction activities. The table also should be read in the context of the financial and other information set forth in this document.

	AT OR FOR YEAR ENDED DECEMBER 31, 2000				AT OR FOR NINE MON SEPTEMBER 30,	
	% OF AT&T REVENUE	% OF NET AT&T INCOME*	% OF AT&T ASSETS**	% OF AT&T DEBT	% OF AT&T REVENUE	% OF NET AT&T LOSS*
AT&T Broadband Group..........	15.2%	(129.9)%	56.7%	43.8%	19.4%	54.8%
AT&T Consumer Services Group...	34.0%	99.5%	1.7%	6.2%	29.1%	(41.1)%
AT&T Corp. (excluding AT&T Broadband Group)***..........	85.0%	193.9%	26.7%	56.2%	81.1%	(6.0)%

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* Based on net income/(loss) from continuing operations before cumulative effect of accounting change.

** Based on assets from continuing operations.

*** Includes AT&T Business Services Group and AT&T Consumer Services Group and excludes Liberty Media Group and AT&T Wireless Services Group.

AT&T COMCAST CORPORATION
1500 Market Street
Philadelphia, Pennsylvania 19102-2148
(215) 665-1700

AT&T Comcast is a newly formed Pennsylvania corporation that has not, to date, conducted any activities other than those incident to its formation, the matters contemplated by the merger agreement and the preparation of this document. Upon completion of the AT&T Comcast transaction, Comcast and AT&T Broadband will each become a wholly owned subsidiary of AT&T Comcast. The business of AT&T Comcast will be the combined businesses currently conducted by Comcast and the AT&T Broadband Group.

FORWARD-LOOKING STATEMENTS MAY PROVE INACCURATE (SEE PAGE [XIV-17])

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify those so-called "forward-looking statements" by words such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of those words and other comparable words. Comcast, AT&T and AT&T Comcast wish to take advantage of the "safe harbor" provided for by the Private Securities Litigation Reform Act of 1995 and you are cautioned that actual events or results may differ materially from the expectations expressed in such forward-looking statements as a result of various factors, including those described on page [XIV-17], including risks and uncertainties, many of which are beyond our control.

THE AT&T COMCAST TRANSACTION

REASONS FOR THE AT&T COMCAST TRANSACTION (SEE PAGE [II-8])

Comcast and AT&T believe that the combined strengths of Comcast and AT&T's broadband business will enable them to create the world's premier broadband communications company. The transaction will combine the companies' extensive broadband communications networks, technologically advanced broadband delivery systems and managerial expertise to build a business that Comcast and AT&T expect will create substantial long-term value for the shareholders of both companies. Comcast and AT&T believe that AT&T Comcast will grow the broadband business with more efficiency to create stronger operating and financial results than either company could achieve on its own.

RECOMMENDATIONS OF THE BOARDS OF DIRECTORS (SEE PAGE [II-8])

To Comcast Shareholders: The Comcast Board believes that the AT&T Comcast transaction, including the Comcast merger (as described below in this summary under "The Structure of the AT&T Comcast Transaction"), is fair to you and in your best interest, and unanimously voted to approve the merger agreement and the transactions contemplated by the merger agreement, and unanimously recommends that you vote FOR the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement.

The Comcast Board believes that the preferred structure proposal (as described below in this summary under "Preferred Structure Proposal") is in your best interest and unanimously recommends that you vote FOR the preferred structure proposal.

To AT&T Shareholders: The AT&T Board believes that the AT&T Comcast transaction, including the separation, the AT&T Broadband spin-off and the AT&T Broadband merger (in each case, as described below in this summary under "The Structure of the AT&T Comcast Transaction"), is fair to you and in your best interest and unanimously voted to approve the merger agreement and the transactions contemplated by the merger agreement and unanimously recommends that you vote FOR the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement.

OPINIONS OF FINANCIAL ADVISORS (SEE PAGE [IV-1])

Opinions of Comcast's Financial Advisors. In deciding to approve the transaction, the Comcast Board considered opinions of three of its financial advisors, Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith, Incorporated, each dated December 19, 2001, to the effect that as of that date, the conversion ratios in the Comcast merger applicable to the holders of Comcast common stock, in the aggregate, were fair, from a financial point of view, to the Comcast shareholders, taken together. The full text of these opinions are attached as Annexes G, H and I to this document. Comcast urges its shareholders to read each of these opinions in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. THESE OPINIONS ARE ADDRESSED TO THE COMCAST BOARD AND DO NOT CONSTITUTE A RECOMMENDATION TO ANY SHAREHOLDER AS TO ANY MATTER RELATING TO THE MERGERS OR ANY RELATED TRANSACTIONS.

Opinions of AT&T's Financial Advisors. In connection with the proposed mergers, AT&T's financial advisors, Credit Suisse First Boston Corporation and Goldman, Sachs & Co., each has delivered a written opinion to the AT&T Board as to the fairness as of the date of the opinion, from a financial point of view, of the AT&T Broadband exchange ratio provided for in the AT&T Broadband merger to the holders of AT&T Broadband common stock immediately prior to the mergers, other than Comcast and its affiliates. The full text of the separate written opinions of Credit Suisse First Boston Corporation and Goldman, Sachs & Co., each dated December 19, 2001, are attached to this document as Annexes J and K, respectively. AT&T urges its shareholders to read each opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. THESE OPINIONS ARE ADDRESSED TO THE AT&T BOARD AND DO NOT CONSTITUTE A RECOMMENDATION TO ANY SHAREHOLDER AS TO ANY MATTER RELATING TO THE MERGERS OR ANY RELATED TRANSACTIONS.

THE STRUCTURE OF THE AT&T COMCAST TRANSACTION

The AT&T Comcast transaction will occur in several steps and will be subject to the satisfaction or (to the extent permissible) waiver of the conditions specified below in this summary under "Conditions to the Completion of the AT&T Comcast Transaction." It is expected that all of these steps will occur on the closing date for the mergers. With the consent of Comcast, which will not be unreasonably withheld, AT&T may effect the separation and spin-off described below prior to the closing date for the mergers.

THE SEPARATION

AT&T will assign and transfer to AT&T Broadband, a newly formed holding company for AT&T's broadband business, all of the assets of AT&T's broadband business (as reflected in the AT&T Broadband Group balance sheet dated as of December 31, 2000 or as otherwise specified in the separation and distribution agreement between AT&T and AT&T Broadband) that are not at such time assets of AT&T Broadband or an AT&T Broadband subsidiary.

At the same time, AT&T Broadband will assume all of the liabilities of AT&T's broadband business (as reflected in the AT&T Broadband Group balance sheet dated as of December 31, 2000 or as otherwise specified in the separation

and distribution agreement between AT&T and AT&T Broadband) that are not at such time liabilities of AT&T Broadband or an AT&T Broadband subsidiary.

THE SPIN-OFF

Following the separation, AT&T will spin off AT&T Broadband to its shareholders by distributing one share of AT&T Broadband common stock to each holder of record of a share of AT&T common stock as of the close of business on the record date for the AT&T Broadband spin-off, which we refer to as the "AT&T Broadband spin-off."

THE MERGERS

Immediately following the AT&T Broadband spin-off, AT&T Broadband will merge with AT&T Broadband Acquisition Corp., a newly formed, wholly owned subsidiary of AT&T Comcast, with AT&T Broadband continuing as the surviving corporation.

In the AT&T Broadband merger, AT&T Broadband shareholders will receive the merger consideration described below in this summary under "What AT&T Broadband Shareholders Will Receive in the AT&T Broadband Merger."

At approximately the same time as the AT&T Broadband merger, Comcast will merge with Comcast Acquisition Corp., a newly formed, wholly owned subsidiary of AT&T Comcast, with Comcast continuing as the surviving corporation.

In the Comcast merger, Comcast shareholders will receive the merger consideration described below in this summary under "What Comcast Shareholders Will Receive in the Comcast Merger."

AT&T COMCAST

After the mergers, Comcast and AT&T Broadband will each be a wholly owned subsidiary of AT&T Comcast and the former shareholders of Comcast and AT&T Broadband will be shareholders of AT&T Comcast. After completion of the AT&T Comcast transaction, AT&T Comcast will have one of the two capital structures described below in this summary under "Capital Structures."

CAPITAL STRUCTURES (SEE PAGE [V-1])

AT&T Comcast will have one of two capital structures upon completion of the AT&T Comcast transaction: one that is referred to in this document as the "Preferred Structure" that will be implemented if holders of Comcast Class A common stock, voting as a single class, and holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class, approve the preferred structure proposal described below in this summary under "Preferred Structure Proposal" or another that is referred to in this document as the "Alternative Structure" that will be implemented if they do not.

PREFERRED STRUCTURE

If holders of Comcast Class A common stock, voting as a single class, and holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class, approve the preferred structure proposal, AT&T Comcast's capital structure upon completion of the AT&T Comcast transaction will be as follows:

- Class B common stock -- will in the aggregate have 33 1/3% of the combined voting power of the AT&T Comcast stock (regardless of the number of shares of any other class of AT&T Comcast stock that may be outstanding at any time),

- Class A common stock -- initially will in the aggregate have 66 2/3% of the combined voting power of the AT&T Comcast stock, and

- Class A Special common stock -- will be non-voting.

If the number of outstanding shares of AT&T Comcast Class B common stock outstanding upon completion of the AT&T Comcast transaction is reduced for any reason (e.g., by repurchase or conversion) below the number of shares outstanding at the completion of the AT&T Comcast transaction, the aggregate voting power of AT&T Comcast Class B common stock will be proportionately reduced and, unless another class of AT&T Comcast voting stock exists at the time, the aggregate voting power of AT&T Comcast Class A common stock will be proportionately increased.

Unlike AT&T Comcast Class B common stock which, except as described in the preceding paragraph, has a nondilutable voting interest, the percentage of the combined voting power of AT&T Comcast stock held by AT&T Comcast Class A common stock upon completion of the AT&T Comcast transaction could be diluted by the issuance of a new class of AT&T Comcast voting stock.

ALTERNATIVE STRUCTURE

If holders of Comcast Class A common stock, voting as a single class, or holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class, do not approve the preferred structure proposal, AT&T Comcast's capital structure upon completion of the AT&T Comcast transaction will be as follows:

- Class B common stock -- will in the aggregate have 33 1/3% of the combined voting power of AT&T Comcast stock (regardless of the number of shares of any other class of AT&T Comcast stock other than AT&T Comcast Class A common stock that may be outstanding at any time),

- Class A common stock -- will in the aggregate have 5.14% of the combined voting power of AT&T Comcast stock (regardless of the number of shares of any other class of AT&T Comcast stock other than AT&T Comcast Class B common stock that may be outstanding at any time),

- Class A Special common stock -- will be non-voting, and

- Class C common stock -- initially will in the aggregate have approximately 61 53/100% of the combined voting power of AT&T Comcast stock.

If the number of outstanding shares of AT&T Comcast Class A common stock or AT&T Comcast Class B common stock outstanding upon completion of the AT&T

Comcast transaction is reduced for any reason (e.g., by repurchase, or in the case of AT&T Comcast Class B common stock only, conversion) below the number of shares outstanding at the completion of the AT&T Comcast transaction, the aggregate voting power of the applicable class of AT&T Comcast common stock will be proportionately reduced and, unless another class of AT&T Comcast voting stock exists at the time, the aggregate voting power of AT&T Comcast Class C common stock will be proportionately increased. If additional shares of AT&T Comcast Class A common stock or AT&T Comcast Class B common stock are issued in disproportionate amounts after the completion of the AT&T Comcast transaction, the relative voting percentages of those two classes of AT&T Comcast common stock will change (based on the principle that each share of AT&T Comcast Class B common stock will be entitled to 15 times the vote of each share of AT&T Comcast Class A common stock) but the combined voting percentage of those two classes of stock will remain constant at approximately 38 47/100% (except to the extent there has been a reduction in the voting power of either class of AT&T Comcast common stock as described in the preceding sentence).

Unlike AT&T Comcast Class A common stock and AT&T Comcast Class B common stock, which, except as described in the preceding paragraph, have a nondilutable voting interest, the percentage of the combined voting power of AT&T Comcast stock held by AT&T Comcast Class C common stock upon completion of the AT&T Comcast transaction could be diluted by the issuance of a new class of AT&T Comcast voting stock.

WHAT COMCAST SHAREHOLDERS WILL RECEIVE IN THE COMCAST MERGER (SEE PAGE [V-1])

Comcast shareholders will receive one share of the corresponding class of AT&T Comcast common stock in exchange for each of their shares of Comcast common stock.

Upon completion of the AT&T Comcast transaction, assuming no shares of AT&T Comcast common stock are issued as described in this summary under "Potential Additional Payments," Comcast shareholders will own

- [   ]% of AT&T Comcast's economic interest; and

- if the Preferred Structure is implemented, [   ]% of AT&T Comcast's voting power or, if the Alternative Structure is

implemented, [   ]% of AT&T Comcast's voting power.

Upon completion of the AT&T Comcast transaction, regardless of which capital structure is implemented and whether or not any shares of AT&T Comcast common stock are issued as described below in this summary under "Potential Additional Payments," Sural LLC, which is controlled by Brian L. Roberts, President of Comcast, and currently holds approximately 86.7% of Comcast's voting power, will hold approximately 33 1/3% of AT&T Comcast's voting power, including all of the outstanding AT&T Comcast Class B common stock.

WHAT AT&T BROADBAND SHAREHOLDERS WILL RECEIVE IN THE AT&T BROADBAND MERGER (SEE PAGE [V-3])

In the AT&T Broadband spin-off, each holder of AT&T common stock, NYSE symbol "T," will receive one share of AT&T Broadband common stock for each of such holder's shares of such AT&T common stock. AT&T Consumer Services Group tracking stock will not entitle holders thereof to receive any shares of AT&T Broadband common stock in the AT&T Broadband spin-off.

The precise number of shares of AT&T Comcast common stock that each holder of AT&T Broadband common stock will receive in the AT&T Broadband merger will depend upon the number of shares of AT&T Broadband common stock outstanding (not including any shares issued in the QUIPS exchange transaction) and the value of the employee stock options and stock appreciation rights held by current AT&T Broadband employees and former AT&T employees, in each case at the time the AT&T Comcast transaction is completed.

If the AT&T Broadband exchange ratio were determined as of the date of this joint proxy statement/prospectus, assuming no shares of AT&T Comcast common stock are issued as described in this summary under "Potential Additional Payments," AT&T Broadband shareholders would receive for each of their shares of AT&T Broadband common stock:

- if the Preferred Structure is implemented, approximately of a share of AT&T Comcast Class A common stock or

- if the Alternative Structure is implemented, approximately of a share of AT&T Comcast Class C common stock.

Upon completion of the AT&T Comcast transaction, assuming no shares of AT&T Comcast common stock are issued as described in this summary under "Potential Additional Payments," AT&T shareholders will own approximately

- [ ]% of AT&T Comcast's economic interest; and

- if the Preferred Structure is implemented, [ ]% of AT&T Comcast's voting power or, if the Alternative Structure is implemented, [ ]% of AT&T Comcast's voting power.

AT&T Comcast will not issue any fractional shares in the AT&T Broadband merger. AT&T Broadband shareholders will receive a check in the amount of the net proceeds from the sale of their fractional shares in the market.

POTENTIAL ADDITIONAL PAYMENTS (SEE PAGE [V-2])

AT&T Comcast may be required to issue additional shares of AT&T Comcast common stock to AT&T Broadband shareholders if the per share value of AT&T Comcast common stock issued to AT&T Broadband shareholders in the AT&T Broadband merger is less than the per share value of the AT&T Comcast Class A Special common stock at or shortly after completion of the AT&T Comcast transaction.

PREFERRED STRUCTURE PROPOSAL (SEE PAGE [II-10])

In addition to the Comcast transaction proposal, Comcast is also seeking the approval by its shareholders of an amendment to the Comcast charter that will allow the implementation of the Preferred Structure. The preferred structure proposal will be approved if holders of a majority of the votes cast by the holders of Comcast Class A common stock, voting as a single class, and holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class, vote in favor of adoption of the Comcast charter amendment. Each holder of Comcast Class B common stock is entitled to 15 votes per share, and each holder of Comcast Class A common stock is entitled to one vote per share. As of the record date, (1) Comcast

I-13

directors and executive officers and their affiliates owned approximately [ ]% of the outstanding shares of Comcast Class A common stock, representing approximately [ ]% of the combined voting power of Comcast stock, and (2) Sural LLC, which is controlled by Brian L. Roberts, President of Comcast, owned all outstanding shares of Comcast Class B common stock, representing approximately 86.6% of the combined voting power of Comcast stock. If holders of the Comcast Class A common stock, voting as a single class, approve the preferred structure proposal, the Preferred Structure will be implemented upon completion of the AT&T Comcast transaction because Sural LLC has indicated that it will vote in favor of the preferred structure proposal, thereby assuring approval of the proposal by holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class.

APPROVAL OF THE COMCAST TRANSACTION PROPOSAL IS NOT CONDITIONED ON APPROVAL OF THE PREFERRED STRUCTURE PROPOSAL.

SUPPORT AGREEMENT (SEE PAGE [V-18])

Sural LLC, which is controlled by Brian L. Roberts, President of Comcast, and as of the record date owned approximately 86.7% of the combined voting power of Comcast common stock, has entered into a support agreement with, among others, AT&T pursuant to which it has agreed to vote its shares of Comcast common stock in favor of the AT&T Comcast transaction. Sural's vote in favor of the AT&T Comcast transaction will be sufficient to approve the AT&T Comcast transaction without the vote of any other Comcast shareholder.

Sural has also agreed in the support agreement to restrictions on its ability to transfer its shares of AT&T Comcast common stock that survive until the tenth anniversary of the completion of the AT&T Comcast transaction.

AT&T COMCAST BOARD AND MANAGEMENT FOLLOWING THE AT&T COMCAST TRANSACTION (SEE PAGE [VIII-1])

Upon completion of the AT&T Comcast transaction, the AT&T Comcast Board will consist of 12 members, at least seven of whom will be independent directors. Comcast and AT&T will each designate five of the initial members of the AT&T Comcast Board from among its existing Board members and will jointly designate the two remaining initial members of the AT&T Comcast Board, each of whom will be an independent director. Except for certain pre-approved designees, the individuals designated by Comcast and AT&T will be mutually agreed by Comcast and AT&T. If the AT&T Comcast Board decides to establish an executive committee, Ralph J. Roberts, Chairman of the Board of Comcast, will be its chairman.

Upon completion of the transaction, C. Michael Armstrong, Chairman of the Board and Chief Executive Officer of AT&T, will become Chairman of the Board of AT&T Comcast and Brian L. Roberts, President of Comcast, will become Chief Executive Officer and President of AT&T Comcast. The other members of senior management of AT&T Comcast upon completion of the AT&T Comcast transaction will be selected by Brian L. Roberts in consultation with C. Michael Armstrong.

TREATMENT OF AT&T BROADBAND STOCK OPTIONS AND OTHER AT&T BROADBAND EQUITY-BASED AWARDS IN THE AT&T COMCAST TRANSACTION(SEE PAGE [V-5])

In the AT&T Broadband spin-off, AT&T stock options and other AT&T equity-based awards will be converted to AT&T Broadband stock options and AT&T Broadband equity-based awards, adjusted AT&T stock options and adjusted AT&T equity-based awards, or a combination of both, depending on the holder of the award. For a description of the conversion of AT&T stock options and AT&T equity-based awards in the AT&T Broadband spin-off see page [IX-3].

Upon completion of the AT&T Comcast transaction, each outstanding AT&T Broadband stock option will be converted into an option to acquire shares of the class of AT&T Comcast common stock that is included in the Standard & Poor's 500 Index. This class of stock is referred to in this document as the "AT&T Comcast Indexed Stock." The number of shares subject to the option and the exercise price will be subject to customary adjustments necessary to maintain the intrinsic value of the awards immediately before and after the AT&T Comcast transaction (with

appropriate adjustments in the case of former employees).

As of completion of the AT&T Comcast transaction, each AT&T Broadband stock option held by current AT&T Broadband employees (including AT&T employees who become AT&T Broadband employees in the AT&T Broadband spin-off) will have vested and will remain exercisable for the remainder of its original term (except for AT&T Broadband stock options held by any AT&T executive officer who has waived rights to vesting of certain equity awards as a result of the AT&T Comcast transaction).

Shares of AT&T Broadband restricted stock will also vest (except for awards held by any AT&T executive officer who has waived rights to vesting of certain equity awards as a result of the AT&T Comcast transaction) and be converted into the right to receive AT&T Comcast common stock on the terms and conditions applicable to AT&T Broadband shareholders described above in this summary under "What AT&T Broadband Shareholders Will Receive in the AT&T Broadband Merger." All other awards based on shares of AT&T Broadband common stock will be converted into equivalent awards based on shares of AT&T Comcast Indexed Stock, subject to customary adjustments necessary to maintain the fair market value of the awards immediately before and after the AT&T Comcast transaction.

As of completion of the AT&T Comcast transaction, each other equity-based award (based on AT&T or AT&T Broadband common stock) held by current and former AT&T Broadband employees (including AT&T employees who become AT&T Broadband employees in the AT&T Broadband spin-off) will have vested (except for awards held by any AT&T executive officer who has waived rights to vesting of certain equity awards as a result of the AT&T Comcast transaction).

TREATMENT OF COMCAST STOCK OPTIONS AND OTHER COMCAST EQUITY-BASED AWARDS (SEE PAGE [V-6])

Upon completion of the AT&T Comcast transaction, each outstanding Comcast stock option will be converted into an option to acquire shares of AT&T Comcast Indexed Stock. The number of shares subject to the option and the exercise price will be subject to customary adjustments necessary to maintain the intrinsic value of the awards immediately before and after the AT&T Comcast transaction.

Shares of Comcast restricted stock will be converted into the right to receive AT&T Comcast common stock on the terms and conditions applicable to Comcast shareholders described above in this summary under "What Comcast Shareholders Will Receive in the Comcast Merger." All other awards based on shares of Comcast Class A Special common stock will be converted into equivalent awards based on AT&T Comcast Indexed Stock, subject to customary adjustments necessary to maintain the fair market value of the awards immediately before and after the AT&T Comcast transaction.

INTERESTS OF DIRECTORS AND OFFICERS IN THE AT&T COMCAST TRANSACTION (SEE PAGE [IX-1])

When considering our Boards' recommendations that you vote in favor of the AT&T Comcast transaction, you should be aware that a number of our directors and officers have interests in the AT&T Comcast transaction that are different from, or in addition to, yours. These interests include the potential for positions as directors or executive officers of AT&T Comcast, funding of benefits in trust, employment agreements with AT&T Comcast, acceleration of vesting of AT&T Broadband stock options and other equity-based awards as a result of the AT&T Comcast transaction (except for awards held by any AT&T executive officer who has waived rights to vesting of certain equity awards as a result of the AT&T

Comcast transaction), and the right to continued indemnification and insurance coverage by AT&T Comcast for acts or omissions occurring prior to the AT&T Comcast transaction.

CONDITIONS TO THE COMPLETION OF THE AT&T COMCAST TRANSACTION (SEE PAGE [V-10] AND PAGE [V-16])

The completion of the AT&T Comcast transaction is subject to the satisfaction or waiver (to the extent permissible) of several conditions, including:

- approval by AT&T shareholders and Comcast shareholders;

- expiration or termination of the applicable waiting period under the Hart-Scott-

Rodino Antitrust Improvements Act of 1976, as amended;

- the absence of any law, regulation or order prohibiting the completion of the transaction;

- receipt of all required regulatory approvals other than those the failure of which to be obtained would not reasonably be expected to have a material adverse effect on either Comcast or AT&T Broadband Group;

- accuracy of the representations and warranties of the other party, including with respect to the absence of a material adverse effect;

- receipt and continuing effectiveness of an Internal Revenue Service ruling or rulings (or an opinion from tax counsel acceptable to Comcast and AT&T) to the effect that, for U.S. federal income tax purposes, the AT&T Broadband spin-off will be tax-free to AT&T and its shareholders, the mergers will not cause the AT&T Broadband spin-off to fail to be qualified as a tax-free transaction, and the AT&T Broadband spin-off will not cause the distribution by AT&T of the common stock of AT&T Wireless Services, Inc. or of Liberty Media Corporation to fail to qualify as tax-free transactions;

- receipt by each party of an opinion of its counsel to the effect that the combination of AT&T Broadband and Comcast will qualify as a tax-free transaction for U.S. federal income tax purposes;

- performance by Sural LLC in all material respects of its obligations under the support agreement; and

- receipt of appropriate note consents, or the defeasance, purchase or acquisition of indebtedness, in respect of at least 90% in aggregate principal amount of the securities issued under the AT&T indenture, dated as of September 7, 1990, and outstanding as of December 19, 2001.

TERMINATION RIGHTS (SEE PAGE [V-12])

The merger agreement may be terminated by mutual agreement of Comcast and AT&T.

The merger agreement may be terminated by Comcast or AT&T if:

- the AT&T or Comcast shareholders fail to approve the transaction;

- the AT&T Comcast transaction is not completed by March 1, 2003;

- the other party breaches the merger agreement such that the related closing conditions cannot be satisfied by March 1, 2003; or

- any material law or regulation makes completion of the AT&T Comcast transaction illegal or a permanent injunction prohibiting completion of the AT&T Comcast transaction is entered.

In addition, AT&T may terminate the merger agreement if, as permitted by the merger agreement, the closing date for the AT&T Comcast transaction is delayed because the QUIPS exchange transaction described below in this summary under "Microsoft Arrangement" does not occur; provided that AT&T may terminate the merger agreement pursuant to this provision only (1) on two business days' notice delivered to Comcast between 30 and 45 days after the commencement of the delay; and (2) if prior to the effectiveness of the termination Comcast does not agree to close the AT&T Comcast transaction within 60 days of the commencement of the delay.

In addition, Comcast may terminate the merger agreement if:

- the AT&T Board withdraws or modifies, in a manner adverse to Comcast, its recommendation of the AT&T Comcast transaction; or

- AT&T willfully and materially breaches its obligations described below in this summary under "Duty to Recommend the AT&T Comcast Transaction" or "No Solicitation of Competing Transactions."

TERMINATION FEES (SEE PAGE [V-12])

AT&T will pay Comcast a termination fee in the amount of $1.5 billion in cash if the merger agreement is terminated because:

- the AT&T Board withdraws or modifies, in a manner adverse to Comcast, its

recommendation of the AT&T Comcast transaction; or

- AT&T willfully and materially breaches its obligations described below in this summary under "Duty to Recommend the AT&T Comcast Transaction" or "No Solicitation of Competing Transactions."

In addition, if a competing acquisition proposal made by a third party was pending at the time of the AT&T meeting, within one year of the AT&T meeting, AT&T enters into an agreement relating to an alternative material transaction, and the merger agreement is terminated because the AT&T shareholders fail to approve the AT&T Comcast transaction at the AT&T meeting, AT&T will pay Comcast a $1.5 billion termination fee in cash.

Comcast will pay AT&T a $1.5 billion termination fee in cash if the merger agreement is terminated because the Comcast Board withdraws or modifies, in a manner adverse to AT&T, its recommendation of the AT&T Comcast transaction or if Comcast shareholders fail to approve the AT&T Comcast transaction. See "Support Agreement" above in this summary.

DUTY TO RECOMMEND THE AT&T COMCAST TRANSACTION (SEE PAGE [V-7])

The AT&T Board has recommended that the AT&T shareholders approve the AT&T Comcast transaction. The AT&T Board is permitted to withdraw or modify, in a manner adverse to Comcast, its recommendation of the AT&T Comcast transaction if the AT&T Board determines in good faith that it must take such action to comply with its fiduciary duties under applicable law and provides Comcast with two business days' prior written notice. AT&T does not have the right to terminate the merger agreement to accept a superior acquisition proposal for its broadband business and subject to applicable law must submit the AT&T Comcast transaction to AT&T shareholders at the AT&T annual meeting.

NO SOLICITATION OF COMPETING TRANSACTIONS (SEE PAGE [V-7])

AT&T is generally prohibited from soliciting or encouraging, among other specific acquisition proposals, acquisition proposals from third parties that would reasonably be expected to be inconsistent in any material respect with the AT&T Comcast transaction or materially delay, impede or adversely affect the AT&T Comcast transaction. AT&T is also prohibited from providing nonpublic information to or engaging in negotiations with any third party that has made or is known by AT&T to be considering making an acquisition proposal of the type described in the previous sentence.

However, AT&T may furnish nonpublic information and engage in negotiations with a third party that has made an unsolicited acquisition proposal if the AT&T Board determines in good faith that such acquisition proposal would reasonably be expected to lead to a proposal that would be more favorable to AT&T shareholders than the AT&T Comcast transaction and that it must take such action to comply with its fiduciary duties under applicable law.

MICROSOFT ARRANGEMENT (SEE PAGE [V-21])

Comcast, AT&T and AT&T Comcast have entered into an exchange agreement with Microsoft Corporation pursuant to which at the time of the AT&T Broadband spin-off Microsoft will exchange $5 billion of quarterly income preferred securities, or QUIPS, issued by AT&T Finance Trust I, an AT&T subsidiary, for a number of shares of AT&T Broadband common stock that will be converted into 115 million shares of AT&T Comcast common stock in the AT&T Broadband merger. Based on the number of shares of Comcast and AT&T common stock outstanding as of the date of this document, upon completion of the transaction, an affiliate of Microsoft will hold approximately [ ]% of the combined voting power of AT&T Comcast stock.

If the QUIPS exchange transaction is completed, AT&T Comcast has agreed in the exchange agreement that it will not discriminate against Microsoft with respect to the provision of high-speed Internet services over AT&T Comcast cable systems.

REGULATORY MATTERS (SEE PAGE [II-16])

Under U.S. antitrust laws, Comcast and AT&T may not complete the AT&T Comcast transaction until Comcast and AT&T notify the Antitrust Division of the United States Department of Justice and the Federal Trade

Commission of the AT&T Comcast transaction by filing the necessary report forms and until a required waiting period has ended. Comcast and AT&T have filed the required information and materials to notify the U.S. Department of Justice and the Federal Trade Commission of the transaction.

Under federal communications law and local franchise requirements, Comcast and AT&T must also obtain the approval of the Federal Communications Commission, or FCC, and a number of state and local authorities in connection with the AT&T Comcast transaction.

Comcast and AT&T have agreed to use their best efforts to obtain all regulatory approvals that are necessary or advisable in connection with the AT&T Comcast transaction. In addition, Comcast and AT&T have also agreed to take all actions necessary to obtain termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 relating to the AT&T Comcast transaction and to obtain all consents of the FCC required to complete the AT&T Comcast transaction.

There can be no assurances that Comcast and AT&T will obtain all regulatory approvals necessary to complete the AT&T Comcast transaction or that the granting of these approvals will not involve the imposition of conditions on the completion of the AT&T Comcast transaction or require changes to the terms of the AT&T Comcast transaction.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES (SEE PAGE [II-13])

Comcast and AT&T have structured the AT&T Broadband spin-off so that AT&T, AT&T Broadband and the holders of AT&T common stock who receive shares of AT&T Broadband common stock in the AT&T Broadband spin-off will not recognize gain or loss for U.S. federal income tax purposes in connection with the AT&T Broadband spin-off. Comcast and AT&T have structured the mergers so that AT&T Broadband, Comcast and their respective shareholders who exchange their shares for shares of AT&T Comcast common stock in the mergers will not recognize gain or loss for U.S. federal income tax purposes in connection with the mergers, except for gain or loss with respect to cash received instead of fractional shares.

MARKET PRICE INFORMATION (SEE PAGE [I-28])

Comcast Class A common stock and Comcast Class A Special common stock are listed on The Nasdaq Stock Market under the symbols "CMCSA" and "CMCSK," respectively. AT&T common stock is primarily listed on the New York Stock Exchange under the symbol "T."

On July 6, 2001, the last full trading day before Comcast publicly announced its proposal to AT&T to acquire AT&T's broadband business, Comcast Class A common stock and Comcast Class A Special common stock closed at $41.85 and $42.08, respectively, and AT&T common stock closed at $16.65 (as adjusted to reflect the AT&T Wireless Services spin-off). On December 19, 2001, the last full trading day before the public announcement of the AT&T Comcast transaction, Comcast Class A common stock and Comcast Class A Special common stock closed at $38.09 and $38.07, respectively, and AT&T common stock closed at $16.80. On [ ], 2002, the last full trading day before the date of this document, Comcast Class A common stock and Comcast Class A Special common stock closed at $[ ] and $[ ], respectively, and AT&T common stock closed at $[ ].

STOCK EXCHANGE LISTINGS (SEE PAGE [XIV-14])

The shares of AT&T Comcast Class A common stock, AT&T Comcast Class A Special common stock and, if the Alternative Structure is implemented, the shares of AT&T Comcast Class C common stock, issued in the mergers will be quoted on The Nasdaq Stock Market under the ticker symbols "CMCSA," "CMCSK" and, if applicable, "CMCSJ," respectively.

APPRAISAL RIGHTS (SEE PAGE [II-18])

Holders of Comcast Class A common stock and Comcast Class A Special common stock are not entitled to appraisal rights in connection with the AT&T Comcast transaction. Holders of AT&T common stock are not entitled to appraisal rights in connection with the AT&T Comcast transaction.

AT&T CONSUMER SERVICES GROUP TRACKING STOCK

THE CONSUMER SERVICES CHARTER AMENDMENT PROPOSAL

AT&T shareholders are being asked to approve an amendment to the AT&T charter to authorize AT&T to create a new class of AT&T common stock -- AT&T Consumer Services Group tracking stock -- and certain related benefit plan proposals. The Consumer Services charter amendment proposal requires the affirmative vote of the holders of a majority of the outstanding shares of AT&T common stock.

AT&T Consumer Services Group tracking stock is intended to reflect the separate performance of AT&T Consumer Services Group, which includes the assets and liabilities shown in the combined balance sheets of AT&T Consumer Services Group. AT&T will include within AT&T Consumer Services Group all net income or net losses generated by the assets that comprise AT&T Consumer Services Group and all net proceeds from any disposition of these assets.

TERMS OF AT&T CONSUMER SERVICES GROUP TRACKING STOCK

The proposed Consumer Services charter amendment would authorize AT&T to issue up to [   ] shares of AT&T Consumer Services Group tracking stock. We describe some of the most significant terms of AT&T Consumer Services Group tracking stock below, but we include a more detailed description of AT&T Consumer Services Group tracking stock later in this document.

Voting Rights. Holders of AT&T Consumer Services Group tracking stock initially will be entitled to [   ] of a vote per share. Except as required by law or by any special voting rights of any other class or series of AT&T stock, holders of shares of AT&T Consumer Services Group tracking stock will vote together with all other AT&T shareholders on matters presented to AT&T shareholders.

Dividends. Holders of AT&T Consumer Services Group tracking stock will be entitled to dividends only to the extent declared by the AT&T Board. AT&T's charter will define an available dividend amount with respect to AT&T Consumer Services Group tracking stock. The available dividend amount is designed to be equivalent to the amount that would legally be available for the payment of dividends by AT&T Consumer Services Group if it were a separate legal entity.

Dividends on AT&T Consumer Services Group tracking stock may only be paid up to the applicable available dividend amount and also will be subject to the legal capacity of AT&T as a whole to pay dividends. Subject to these limitations, and to the discretion of the AT&T Board, AT&T currently expects to pay dividends on AT&T Consumer Services Group tracking stock equal in the aggregate to two-thirds of the aggregate annual dividend AT&T currently pays on AT&T common stock, and to pay dividends on AT&T common stock equal to one-third of the aggregate annual current dividend.

Redemption. AT&T may (or, in some cases, is required to) redeem shares of AT&T Consumer Services Group tracking stock under a number of circumstances:

- At any time, AT&T may redeem shares of AT&T Consumer Services Group tracking stock for a comparable tracking stock of any company that owns substantially all the assets and liabilities allocated to AT&T Consumer Services Group at that time without the payment of any premium.

- At any time, AT&T may redeem the shares of AT&T Consumer Services Group tracking stock for shares of AT&T common stock having a market value equal to [   ]% of the market value of AT&T Consumer Services Group tracking stock.

- At any time, AT&T may redeem shares of AT&T Consumer Services Group tracking stock for shares of one or more subsidiaries that hold all material assets and liabilities allocated to AT&T Consumer Services Group, so long as the redemption is tax free to shareholders. This would result in a split-off of AT&T Consumer Services Group.

- With some exceptions, in the event of certain dispositions of all or substantially all the assets of AT&T Consumer

Services Group, AT&T is generally required to redeem shares of AT&T Consumer Services Group tracking stock for (1) shares of AT&T common stock or (2) cash and/or property in an amount equal to the net proceeds of the disposition that are allocable to AT&T Consumer Services Group tracking stock.

Liquidation. In the event of a liquidation of AT&T, holders of AT&T Consumer Services Group tracking stock and AT&T common stock will be entitled to share in the funds available for distribution to AT&T common shareholders in proportion to the relative market capitalization of the outstanding shares of each class of AT&T stock.

ISSUANCE OF AT&T CONSUMER SERVICES GROUP TRACKING STOCK

If AT&T shareholders approve the creation of AT&T Consumer Services Group tracking stock, AT&T currently intends to distribute shares of AT&T Consumer Services Group tracking stock as a dividend to holders of AT&T common stock later this year. AT&T currently expects that the shares of AT&T Consumer Services Group tracking stock AT&T issues as a dividend to existing AT&T shareholders will be intended to reflect all of the financial performance and economic value of AT&T Consumer Services Group. However, if these shares of AT&T Consumer Services Group tracking stock only reflect a portion, the remaining portion will be AT&T's retained portion of the financial performance and economic value of AT&T Consumer Services Group, which would be reflected in AT&T common stock. NOTWITHSTANDING AT&T'S CURRENT PLANS, THE AT&T BOARD COULD DECIDE TO ISSUE THESE SHARES OF AT&T CONSUMER SERVICES GROUP TRACKING STOCK IN A DIFFERENT MANNER OR AT A DIFFERENT TIME, OR COULD DECIDE NOT TO CREATE OR ISSUE SHARES OF AT&T CONSUMER SERVICES GROUP TRACKING STOCK AT ALL, IF THE AT&T BOARD DECIDES THAT A CHANGE IN AT&T'S PLANS IS APPROPRIATE. Approval of the Consumer Services charter amendment proposal will give the AT&T Board wide discretion on how to implement the Consumer Services charter amendment proposal. If you do not want to give the AT&T Board this authority with respect to implementing the Consumer Services charter amendment proposal, you should not vote for that proposal.

Following the issuance of AT&T Consumer Services Group tracking stock, if the AT&T Comcast transaction is completed, AT&T common stock will be intended to reflect only the financial performance and economic value of AT&T Business Services Group, together with AT&T's retained portion, if any, of the value of AT&T Consumer Services Group.

AT&T expects to list AT&T Consumer Services Group tracking stock on a national securities exchange or quotation system.

REASONS FOR AT&T CONSUMER SERVICES GROUP TRACKING STOCK

AT&T believes that issuance of AT&T Consumer Services Group tracking stock will improve shareholder value by creating separate investment vehicles. AT&T believes that AT&T Consumer Services Group tracking stock will:

- allow AT&T shareholders to view more clearly the performance of each of

AT&T Consumer Services Group and AT&T Business Services Group, and to evaluate each of AT&T Consumer Services Group's and AT&T Business Services Group's results against those of its competitors, and

- enable AT&T shareholders and other investors to invest in the securities that fit their needs and investment profiles without the requirement of simultaneously investing in other businesses, and permit the creation of more effective management incentive and retention programs.

For additional reasons for, and more detail on the reasons for, AT&T Consumer Services Group tracking stock, see "AT&T Consumer Services Group Tracking Stock -- Reasons for AT&T Consumer Services Group Tracking Stock" on page .

U.S. FEDERAL INCOME TAX CONSIDERATIONS

AT&T expects the distribution of AT&T Consumer Services Group tracking stock to holders of AT&T common stock to be tax free to AT&T and to the holders of AT&T common stock.

SELECTED FINANCIAL DATA OF COMCAST CORPORATION

The following summary consolidated financial data is derived from Comcast's audited consolidated financial statements and Comcast's unaudited interim consolidated financial statements. You should read the financial data presented below in conjunction with the consolidated financial statements, accompanying notes and management's discussion and analysis of results of operations and financial condition of Comcast, which are incorporated by reference into this prospectus.

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 3			
	2001	2000	2000	1999	1998	
			(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)			
STATEMENT OF OPERATIONS DATA:						
Revenues........................	$ 6,850.1	$ 5,811.0	$ 8,218.6	$ 6,529.2	$ 5,419.0	$
Operating income (loss)..........	(412.0)	(46.8)	(161.0)	664.0	557.1	
Income (loss) from continuing operations before extraordinary items and cumulative effect of accounting change.............	546.6	1,261.5	2,045.1	780.9	1,007.7	
Gain (loss) from discontinued operations(1)..................				335.8	(31.4)	
Cumulative effect of accounting change........................	384.5					
Extraordinary items.............	(1.5)	(18.5)	(23.6)	(51.0)	(4.2)	
Net income (loss)...............	929.6	1,243.0	2,021.5	1,065.7	972.1	
BASIC EARNINGS (LOSS) FOR COMMON STOCKHOLDERS PER COMMON SHARE(2):						
Income (loss) from continuing operations before extraordinary items and cumulative effect of accounting change.............	$ .58	$ 1.40	$ 2.27	$ 1.00	$ 1.34	$

Gain (loss) from discontinued operations(1)				.45	(.04)	
Cumulative effect of accounting change	.40					
Extraordinary items		(.02)	(.03)	(.07)	(.01)	
Net income (loss)	$ .98	$ 1.38	$ 2.24	$ 1.38	$ 1.29	$
DILUTED EARNINGS (LOSS) FOR COMMON STOCKHOLDERS PER COMMON SHARE(2):						
Income (loss) from continuing operations before extraordinary items and cumulative effect of accounting change	$ .56	$ 1.34	$ 2.16	$ .95	$ 1.25	$
Gain (loss) from discontinued operations(1)				.41	(.03)	
Cumulative effect of accounting change	.40					
Extraordinary items		(.02)	(.03)	(.06)	(.01)	
Net income (loss)	$ .96	$ 1.32	$ 2.13	$ 1.30	$ 1.21	$
Cash dividends declared per common share(2)					$ .0467	$

I-21

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 3			
	2001	2000	2000	1999	1998	
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)					
BALANCE SHEET DATA (AT END OF PERIOD):						
Total assets	$38,781.4	$35,031.6	$35,744.5	$28,685.6	$14,710.5	$1
Working capital (deficit)	(804.7)	133.3	1,102.2	4,226.3	2,497.0	
Long-term debt(3)	11,494.8	8,611.4	10,517.4	8,707.2	5,464.2	
Total debt(3)	12,049.2	9,923.9	10,811.3	9,224.7	5,577.7	
Stockholders' equity	14,838.8	14,622.3	14,086.4	10,341.3	3,815.3	
Debt ratio(4)	44.8%	40.4%	43.4%	47.1%	59.4%	
SUPPLEMENTARY FINANCIAL DATA:						
Operating income before depreciation and amortization(5)	$ 2,047.1	$ 1,795.4	$ 2,470.3	$ 1,880.0	$ 1,496.7	$
Net cash provided by (used in)(6)						
Operating activities	1,254.7	814.7	1,219.3	1,249.4	1,067.7	
Financing activities	1,213.4	(1,103.2)	(271.4)	1,341.4	809.2	
Investing activities	(2,461.2)	(57.8)	(1,218.6)	(2,539.3)	(1,415.3)	(
Capital expenditures	1,691.2	1,056.0	1,636.8	893.8	898.9	

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(1) In July 1999, Comcast sold Comcast Cellular Corporation to SBC Communications, Inc. Comcast Cellular is presented as a discontinued

operation for all periods presented.
(2) Adjusted for Comcast's two-for-one stock split in the form of a 100% stock dividend in May 1999.
(3) Includes a $666.0 million adjustment to carrying value at December 31, 1999.
(4) Debt ratio reflects debt from continuing operations as a percent of capital (debt plus stockholders' equity).
(5) Operating income before depreciation and amortization is commonly referred to in Comcast's business as "operating cash flow." Operating cash flow is a measure of a company's ability to generate cash to service its obligations, including debt service obligations, and to finance capital and other expenditures. In part due to the capital intensive nature of Comcast's businesses and the resulting significant level of non-cash depreciation and amortization expense, operating cash flow is frequently used as one of the bases for comparing businesses in Comcast's industries, although Comcast's measure of operating cash flow may not be comparable to similarly titled measures of other companies. Operating cash flow is the primary basis used by Comcast's management to measure the operating performance of its businesses. Operating cash flow does not purport to represent net income or net cash provided by operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of Comcast's performance.
(6) This represents net cash provided by (used in) operating activities, financing activities and investing activities as presented in Comcast's consolidated statement of cash flows.

I-22

SELECTED FINANCIAL DATA OF AT&T CORP. AND SUBSIDIARIES

The consolidated income statement data below for the three years ended December 31, 2000, and the consolidated balance sheet data at December 31, 2000 and 1999, were derived from audited consolidated financial statements. The remaining data was derived from AT&T's unaudited consolidated financial statements.

	FOR THE NINE MONTHS ENDED SEPT. 30,		FOR THE YEARS ENDED DECEMBER			
	2001	2000	2000(1)	1999(2)	1998	199
	(UNAUDITED) (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)					
RESULTS OF OPERATIONS AND EARNINGS PER SHARE:						
Revenue..........................	$ 39,964	$ 41,623	$ 55,533	$ 54,973	$ 47,817	$ 46,
Operating income.................	3,543	8,394	4,228	11,458	7,632	6,
(Loss) income from continuing operations before cumulative effect of accounting change......	(5,451)	7,581	4,133	3,861	5,052	4,
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE:						
AT&T Common Stock Group:						
(Loss) income....................	(2,740)	4,616	2,645	5,883	5,052	4,
(Loss) earnings per basic share.........................	(0.94)	1.35	0.76	1.91	1.89	1
(Loss) earnings per diluted share.........................	(0.94)	1.34	0.75	1.87	1.87	1

Dividends declared per share.....	0.1125	0.66	0.6975	0.88	0.88	0
Liberty Media Group(3):						
(Loss) income....................	(2,711)	2,965	1,488	(2,022)	--	
(Loss) earnings per basic and diluted share..................	(1.05)	1.15	0.58	(0.80)	--	
ASSETS AND CAPITAL:						
Property, plant and equipment, net............................	$ 40,748		$ 41,269	$ 33,366	$ 21,780	$ 19,
Total assets -- continuing operations......................	160,049		207,136	146,094	40,134	41,
Total assets......................	160,049		234,360	163,457	54,185	55,
Long-term debt....................	30,007		33,089	23,214	5,555	7,
Total debt........................	48,456		64,927	35,694	6,638	11,
Mandatorily redeemable preferred securities......................	2,376		2,380	1,626	--	
Shareowners' equity...............	52,198		103,198	78,927	25,522	23,
Debt ratio(4).....................	45.1%		57.2%	54.3%	36.7%	5
Gross capital expenditures.........	5,993		10,462	11,194	6,871	6,

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(1) AT&T Common Stock Group continuing operations results exclude Liberty Media Group (LMG). In addition, on June 15, 2000, AT&T completed the acquisition of MediaOne Group, Inc.

(2) In connection with the March 9, 1999, merger with Tele-Communications, Inc., AT&T issued a separate tracking stock for LMG. LMG was accounted for as an equity investment prior to its split-off on August 10, 2001.

(3) LMG earnings per share amounts and stock prices have been restated to reflect the June 2000 two-for-one stock split. No dividends have been declared for LMG tracking stock.

(4) Debt ratio reflects debt from continuing operations as a percent of total capital (debt plus equity, excluding LMG and AT&T Wireless Group). For purposes of this calculation, equity includes convertible quarterly trust preferred securities as well as redeemable preferred stock of subsidiary.

I-23

SELECTED FINANCIAL DATA OF AT&T BROADBAND GROUP

Presented in the table below is selected historical financial data of AT&T Broadband Group. AT&T Broadband Group is an integrated business of AT&T and not a stand-alone entity. AT&T Broadband Group represents the assets, liabilities and businesses that AT&T will assign and transfer to AT&T Broadband Corp., a newly formed holding company for AT&T's broadband business, in connection with the AT&T Comcast transaction. AT&T Broadband Group consists primarily of the assets, liabilities and business of AT&T Broadband, LLC (formerly TCI), acquired by AT&T on March 9, 1999 in the TCI merger, and MediaOne Group, Inc., acquired by AT&T on June 15, 2000 in the MediaOne acquisition.

The following information was derived from the unaudited combined financial statements of AT&T Broadband Group at and for each of the nine months ended September 30, 2001 and 2000 and the audited combined financial statements for the year ended December 31, 2000 and the ten months ended December 31, 1999.

The financial data presented below is not necessarily comparable from period to period as a result of several transactions, including the acquisition and dispositions of cable systems, primarily the TCI and MediaOne acquisitions.

For this and other reasons, you should read the selected historical financial data provided below in conjunction with the combined financial statements and accompanying notes beginning on page and the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page .

	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000	YEAR ENDED DECEMBER 31, 2000(1)
	(UNAUDITED) (DOLLARS IN MILLIONS)		
INCOME STATEMENT DATA:			
Revenue	$ 7,756	$ 5,766	$ 8,445
Operating loss	(3,567)	(1,132)	(8,656)
Losses from continuing operations	(2,988)	(1,306)	(5,370)
BALANCE SHEET DATA:			
Total assets	$104,261	$127,669	$117,534
Total debt	$ 23,274	$ 28,000	$ 28,420
Minority interest	$ 3,319	$ 8,594	$ 4,421
Company-Obligated Convertible Quarterly Income Preferred Securities	$ 4,718	$ 4,708	$ 4,710

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(1) Effective June 15, 2000, AT&T acquired MediaOne Group, Inc. which is attributed to AT&T Broadband Group. The acquisition was accounted for under the purchase method of accounting.

(2) Effective March 1, 1999, AT&T acquired TCI which is attributed to AT&T Broadband Group as discussed above. The acquisition was accounted for under the purchase method of accounting.

I-24

SELECTED PRO FORMA FINANCIAL DATA

This information is only a summary and you should read it together with the financial information we included elsewhere in this proxy statement.

AT&T COMCAST

The following unaudited pro forma combined condensed financial data set forth below for AT&T Comcast gives effect to the AT&T Comcast transaction, as if such transaction had been completed on January 1, 2000 for income statement purposes and at September 30, 2001 for balance sheet purposes. The unaudited selected pro forma financial data does not necessarily represent what AT&T Comcast's financial position or results of operations would have been had the AT&T Comcast transaction occurred on such dates.

We have included detailed unaudited pro forma combined condensed financial statements in Chapter 3 of this document.

SUMMARY PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION
(Unaudited)

(Dollars in Millions, Except Per Share Amounts)

	AT OR FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001	FOR THE YEAR ENDED DECEMBER 3 2000
INCOME STATEMENT DATA:		
Revenue	$ 14,509.4	$17,923.5
Operating loss	(2,540.1)	(6,680.2)
Loss for common stockholders before extraordinary items and cumulative effect of accounting change	(1,813.8)	(1,104.0)
Weighted average AT&T Comcast common shares	2,248.0	2,189.4
Loss per AT&T Comcast common share	(0.81)	(0.50)
BALANCE SHEET DATA:		
Total assets	$141,200.9	
Long-term debt	30,573.5	
Total stockholders' equity	62,098.4	

SELECTED PRO FORMA FINANCIAL DATA

AT&T

The unaudited pro forma combined condensed financial data set forth below for AT&T give effect to:

- the Liberty Media Group distribution

- the AT&T Broadband Group distribution

as if such events had been completed on January 1, 1999 for income statement purposes, and at September 30, 2001 for balance sheet purposes. The unaudited selected pro forma financial information does not necessarily represent what AT&T's financial position or results of operations would have been had the AT&T Broadband distribution or the Liberty Media Group distribution occurred on such dates.

We have included detailed unaudited pro forma financial statements in Annex L at the end of this document.

SUMMARY PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION
(Unaudited)
(Dollars in Millions, Except Per Share Amounts)

	AT AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001	AT AND FOR THE YEA ENDED DECEMBER 31 2000	1999
INCOME STATEMENT DATA:			
Revenue	$32,391	$47,204	$49,9

Operating income..	7,110	12,884	12,6
(Loss) income from continuing operations -- attributable to AT&T common stock group............................	(2,646)	3,903	3,4
Weighted average AT&T common shares -- basic............	3,717	3,526	3,1
(Loss) earnings per AT&T common share -- basic..........	(0.71)	1.11	1.
Weighted average AT&T common shares -- diluted..........	3,717	3,545	3,1
(Loss) earnings per AT&T common share -- diluted........	(0.71)	1.10	1.
Cash dividends declared per AT&T common share...........	$0.1125	$0.6975	$ 0.
BALANCE SHEET DATA:			
Total assets..	$55,831		
Long-term debt..	12,595		
Total shareowners' equity...............................	8,517		

UNAUDITED COMPARATIVE PER SHARE DATA

In the table below, we provide you with historical per share information for Comcast, pro forma per share information for AT&T Comcast and historical and pro forma equivalent per share information for AT&T Broadband Group as of and for the nine months ended September 30, 2001 and as of and for the year ended December 31, 2000. We have assumed, for purposes of the AT&T Comcast pro forma financial information, that the AT&T Comcast transaction had been completed on January 1, 2000 for income statement purposes, and that the AT&T Comcast transaction had been completed on September 30, 2001 for balance sheet purposes. In addition, the AT&T Comcast pro forma income statement information for the year ended December 31, 2000 assumes the AT&T and Media One merger occurred on January 1, 2000. Comcast did not pay dividends during the nine months ended September 30, 2001 or during the year ended December 31, 2000; therefore no historical or pro forma equivalent per share information is presented.

At September 30, 2001 and December 31, 2000, AT&T Broadband Group did not have any shares outstanding as it represents an integrated business of AT&T. As a step in the AT&T Comcast transaction, AT&T will spin off AT&T Broadband to its shareholders by distributing one share of AT&T Broadband stock for each share of AT&T common stock, NYSE symbol "T," outstanding. The following comparative per share information assumes that 3,536 million shares were outstanding for all periods which represents the number of shares of AT&T common stock, NYSE symbol "T," outstanding on September 30, 2001. This also assumes that the AT&T shares held by Comcast are included in the number of shares of AT&T common stock outstanding.

The AT&T Broadband Group pro forma equivalent per share data presents AT&T Comcast pro forma per share data multiplied by an exchange ratio of 0.34, which represents the approximate AT&T Broadband exchange ratio calculated as if determined as of the date of the execution of the merger agreement, assuming the AT&T shares held by Comcast are included in the number of shares of AT&T common stock outstanding. Assuming Comcast retains its AT&T shares and converts them into exchangeable preferred stock of AT&T as contemplated by the merger agreement, the exchange ratio would be approximately 0.35 as of the date of the execution of the merger agreement.

It is important that when you read this information, you read it along with the financial statements and accompanying notes of Comcast, AT&T and AT&T Broadband Group included elsewhere in this document. You should not rely on the unaudited pro forma financial information as an indication of the results of operations or financial position that would have been achieved if the AT&T Comcast transaction or the Media One merger had taken place on the dates indicated or of the results of operations or financial position of AT&T Comcast after the completion of the AT&T Comcast transaction.

	COMCAST HISTORICAL	AT&T COMCAST PRO FORMA	AT&T BROADBAND GROUP HISTORICAL	AT&T BROAD GROUP PRO EQUIVALE
Book Value per common share:				
September 30, 2001	$ 15.70	$ 27.67	$12.27	$ 9.41
December 31, 2000	$ 15.00	--	12.25	--
Net income (loss) before extraordinary items and cumulative effect of accounting change per common share -- basic:				
For the nine months ended September 30, 2001	$ 0.58	$ (0.81)	$(0.85)	$(0.28
For the year ended December 31, 2000	2.27	(0.50)	(1.52)	(0.17
Net income (loss) before extraordinary items and cumulative effect of accounting change per common share -- diluted:				
For the nine months ended September 30, 2001	$ 0.56	$ (0.81)	$(0.85)	$(0.28
For the year ended December 31, 2000	2.16	(0.50)	(1.52)	(0.17

COMPARATIVE MARKET PRICE INFORMATION

Shares of Comcast Class A Special common stock are listed on The Nasdaq Stock Market under the symbol "CMCSK" and shares of Comcast Class A common stock are listed on The Nasdaq Stock Market under the symbol "CMCSA." The Comcast Class B common stock is not publicly traded. AT&T Broadband Group has been an integrated business of AT&T and its common stock is not publicly traded. AT&T Broadband Group did not pay any dividends on its capital stock during the periods indicated in the table below. The following table sets forth, for the periods indicated, the high and low sales prices paid per share of Comcast Class A Special common stock and Comcast Class A common stock, as furnished by The Nasdaq Stock Market, and dividends paid on such classes of common stock (as adjusted for Comcast's two-for-one stock split in the form of a 100% stock dividend in May 1999). For current price information, you should consult publicly available sources.

	COMCAST CLASS A SPECIAL COMMON STOCK			COMCAST CLASS A COMMON STOCK		
CALENDAR PERIOD	HIGH	LOW	DIVIDENDS PAID	HIGH	LOW	DIVIDEND PAID
1998						
Fourth Quarter	$29.50	$20.28	$.0117	$28.94	$20.13	$.0117
1999						
First Quarter	$38.56	$29.63	$.0117	$37.34	$28.94	$.0117
Second Quarter	42.00	29.44		39.69	28.38	

Third Quarter	41.56	32.63	38.56	29.44
Fourth Quarter	56.50	35.69	53.13	32.06
2000				
First Quarter	$54.56	$38.31	$51.44	$36.25
Second Quarter	44.19	29.75	41.75	29.75
Third Quarter	41.06	31.06	40.69	30.75
Fourth Quarter	43.94	34.00	43.94	33.88
2001				
First Quarter	$45.88	$38.69	$45.25	$38.06
Second Quarter	45.50	39.50	44.75	38.88
Third Quarter	43.30	32.51	42.70	32.79
Fourth Quarter	40.18	35.19	40.06	34.95
2002				
First Quarter (Through February [ ])				

The following table sets forth the high and low sales prices per share of Comcast Class A Special common stock and Comcast Class A common stock, as furnished by The Nasdaq Stock Market, on July 6, 2001, the last full trading day before Comcast publicly announced its proposal to AT&T to acquire AT&T's broadband business, on December 19, 2001, the last full trading day prior to the public announcement of the AT&T Comcast transaction, and on [ ], 2002, the last trading day for which this information could be calculated prior to the date of this document:

	COMCAST CLASS A SPECIAL COMMON STOCK		COMCAST CLASS A COMMON STOCK	
	HIGH	LOW	HIGH	LOW
July 6, 2000	$42.79	$42.08	$42.09	$41.46
December 19, 2001	39.15	37.75	39.13	37.80
[ ], 2002				

RISK FACTORS

RISK FACTORS RELATING TO THE AT&T COMCAST TRANSACTION

In addition to the other information contained in or incorporated by reference in this document, you should carefully consider the following risk factors in deciding whether to vote for approval and adoption of the merger agreement and the transactions contemplated by the merger agreement.

Merger Consideration Subject to Adjustment Only in Limited Circumstances. Upon completion of the mergers, all shares of Comcast common stock and AT&T Broadband common stock will be converted into shares of AT&T Comcast common stock. Except as described in the next paragraph, the exchange ratios applicable to the mergers are fixed, and the per share number of shares of AT&T Comcast common stock to be issued to Comcast shareholders in the Comcast merger and to AT&T Broadband shareholders in the AT&T Broadband merger will not be adjusted to reflect the economic performance of either Comcast or AT&T Broadband between the date of the execution of the merger agreement and the completion of the mergers. Accordingly, a Comcast shareholder or AT&T Broadband shareholder will not receive any additional shares of AT&T Comcast common stock in the mergers if the economic performance of its company improves relative to the economic performance of the other company between the date of the execution of the merger agreement and the completion of the mergers.

AT&T Comcast will issue up to 1.235 billion shares of AT&T Comcast common stock to holders of AT&T Broadband common stock in the AT&T Broadband merger (excluding 115 million shares to be issued to an affiliate of Microsoft in the QUIPS exchange transaction). The number of shares of AT&T Comcast common stock that AT&T Comcast will issue in the AT&T Broadband merger to each holder of AT&T Broadband common stock in exchange for each of such holder's shares of AT&T Broadband common stock (the "AT&T Broadband exchange ratio") will be calculated pursuant to the formula included in "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Calculation of the AT&T Broadband Exchange Ratio." If the AT&T Broadband exchange ratio were determined as of the date of this document, the AT&T Broadband exchange ratio would be approximately ____. However, since the AT&T Broadband exchange ratio is calculated by reference to the number of shares of AT&T Broadband common stock that is outstanding at the completion of the AT&T Comcast transaction and the cost to AT&T Comcast of assuming certain stock options and stock appreciation rights that are held by employees of AT&T Broadband and former employees of AT&T and AT&T Broadband, the exchange ratio will change if any of these variables change between the date of this document and the date on which the AT&T Broadband merger occurs. Accordingly, holders of AT&T Broadband common stock may receive less than approximately ____ of a share of AT&T Comcast common stock in exchange for each of their shares of AT&T Broadband common stock in the AT&T Broadband merger.

AT&T Comcast May Fail to Realize the Anticipated Benefits of the AT&T Comcast Transaction. The AT&T Comcast transaction will combine two companies that have previously operated separately. Comcast and AT&T Broadband expect to realize cost savings and other financial and operating benefits as a result of the AT&T Comcast transaction. However, Comcast and AT&T Broadband cannot predict with certainty when these cost savings and benefits will occur, or the extent to which they actually will be achieved. There are a large number of systems that must be integrated, including management information, purchasing, accounting and finance, sales, billing, payroll and benefits and regulatory compliance. The integration of Comcast and AT&T Broadband will also require substantial attention from management. The diversion of management attention and any difficulties associated with integrating Comcast and AT&T Broadband could have a material adverse effect on AT&T Comcast's operating results and on the value of AT&T Comcast common stock.

Regulatory Agencies May Impose Conditions on Approvals Relating to the Mergers. Before the AT&T Comcast transaction may be completed, various approvals must be obtained from, or notifications submitted to, among others, the Antitrust Division of the U.S. Department of Justice, the Federal Trade Commission, the FCC and numerous state and local authorities. These governmental entities may attempt to condition their approval of the AT&T Comcast transaction, or of the transfer to AT&T Comcast of

licenses and other entitlements, on the imposition of certain conditions that could have a material adverse effect on AT&T Comcast's operating results and on the value of AT&T Comcast common stock.

Comcast and AT&T have agreed to use their best efforts to obtain all regulatory approvals that are necessary or advisable in connection with the AT&T Comcast transaction. In addition, Comcast and AT&T have also agreed to take all actions necessary to obtain termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 relating to the AT&T

Comcast transaction and to obtain all consents of the FCC required to complete the AT&T Comcast transaction.

AT&T Comcast Will Have to Abide by Restrictions to Preserve the Tax Treatment of the AT&T Comcast Transaction. Because of the limitations imposed by Section 355(e) of the Internal Revenue Code of 1986, as amended, or the "Code," and by the separation and distribution agreement, the ability of AT&T Comcast and AT&T Broadband to engage in certain acquisitions, redeem stock or issue equity securities will be limited for a period of 25 months following the AT&T Broadband spin-off. See "Description of the AT&T Comcast Transaction Agreements -- The Separation and Distribution Agreement -- Post-Spin-off Transactions." These restrictions may limit the ability of AT&T Comcast to engage in certain business transactions that otherwise might be advantageous to AT&T Comcast shareholders.

AT&T Comcast and its Subsidiaries May Have Difficulty Obtaining Financing on Satisfactory Terms. To complete the AT&T Comcast transaction, Comcast will seek to arrange financing to repay any indebtedness owed by AT&T Broadband and its subsidiaries to AT&T and its subsidiaries and to provide appropriate cash reserves to fund the operations of AT&T Broadband and its subsidiaries after the completion of the AT&T Comcast transaction. As of September 30, 2001, the amount of indebtedness owed by AT&T Broadband to AT&T was $5.39 billion. Absent additional deleveraging activities, it is expected that this figure will grow to fund AT&T Broadband capital expenditures, operations, and third party debt maturities and redemptions through completion of the AT&T Comcast transaction. In addition, AT&T Comcast and its subsidiaries will require financing to refinance certain debt securities of AT&T Broadband and its subsidiaries after the completion of the AT&T Comcast transaction. See "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Covenants -- Interim Finance Committee." The amount of the required financing may significantly increase in the event that the QUIPS exchange transaction does not occur and Microsoft does not consent to the transfer of the QUIPS to AT&T Broadband. See "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Covenants -- QUIPS Failure."

Comcast or AT&T Comcast or their subsidiaries, including AT&T Broadband, may have difficulty obtaining the financing described in the preceding paragraph on terms that are acceptable to it, if at all. If Comcast or AT&T Comcast or their subsidiaries fail to obtain the necessary financing, such failure could have a material adverse effect on the business and financial condition of AT&T Comcast and its subsidiaries. If Comcast or AT&T Comcast or their subsidiaries are unable to obtain the necessary financing, they may be forced to consider other alternatives to raise the necessary funds, including sales of assets.

AT&T Comcast and its Subsidiaries May Not Obtain Investment-Grade Credit Ratings. After completion of the AT&T Comcast transaction, AT&T Comcast and its subsidiaries will have a significant amount of debt and debt-like obligations. Although this amount will be reduced by $5 billion if the QUIPS exchange transaction occurs, the credit ratings of AT&T Comcast and its subsidiaries after completion of the AT&T Comcast transaction may be lower than the existing credit ratings of Comcast, AT&T's principal broadband subsidiaries and their respective subsidiaries. In addition, it is possible that neither AT&T Comcast nor any of its subsidiaries that issue debt may obtain an investment-grade credit rating. The likelihood of lower or non-investment-grade credit ratings for AT&T Comcast and its subsidiaries after completion of the AT&T Comcast transaction will be increased if the QUIPS exchange transaction, which is not a condition to the completion of the AT&T Comcast transaction, does not occur. Differences in credit ratings would affect the interest rates charged on financings, as well as the amounts of indebtedness, types of financing structures and debt markets that may be available to AT&T Comcast and its subsidiaries. In addition, the failure of certain subsidiaries of AT&T Comcast to maintain certain credit ratings during the period that is 90 days before and after the completion of the AT&T Comcast transaction could trigger put rights on the part of holders of up to $5.3 billion of debt as of the date of this document, which would require AT&T Comcast to obtain additional financing. Accordingly, a downgrade in the existing credit ratings of Comcast, AT&T's principal broadband subsidiaries and their respective subsidiaries or the failure of AT&T Comcast and its subsidiaries to obtain investment-grade credit ratings, in each case upon completion of the AT&T Comcast transaction, could have a material adverse effect on AT&T Comcast's operating results and on the value of AT&T Comcast common stock.

The Voting Power of AT&T Comcast's Principal Shareholder May Discourage Third Party Acquisitions of AT&T Comcast at a Premium. After completion of the AT&T Comcast transaction, Brian L. Roberts will have significant control over the operations of AT&T Comcast through his control of Sural LLC, which as a result of its ownership of all outstanding shares of AT&T Comcast Class B common stock, will hold a nondilutable 33 1/3% of the combined voting power of AT&T Comcast stock and will also have separate approval rights over certain material transactions involving AT&T Comcast. See "Certain Legal Information -- Description of AT&T Comcast Capital Stock -- AT&T Comcast Class B Common Stock." In addition, upon completion of the AT&T Comcast transaction, Brian L. Roberts will be the CEO and President of AT&T Comcast and will, together with the Chairman of the Board of AT&T Comcast, comprise the Office of the Chairman, AT&T Comcast's principal executive deliberative body. The extent of Brian L. Roberts's control over AT&T Comcast may have the effect of discouraging offers to acquire AT&T Comcast and may preclude holders of AT&T Comcast common stock from receiving any premium above market price for their shares that may be offered in connection with any attempt to acquire control of AT&T Comcast.

The Historical Financial Information of AT&T Broadband Group After the AT&T Broadband Spin-off May Not Be Representative of its Results Without the Other AT&T Businesses and Therefore Is Not a Reliable Indicator of Its Historical or Future Results. AT&T Broadband Group is currently a fully integrated business unit of ATT consequently, the financial information of AT&T Broadband Group included in this document has been derived from the consolidated financial statements and accounting records of AT&T and reflects certain assumptions and allocations. The financial position, results of operations and cash flows of AT&T Broadband Group without the other AT&T businesses could differ from those that would have resulted had AT&T Broadband Group operated with the other AT&T businesses.

Shares of AT&T Comcast Issued in the AT&T Broadband Merger May Not Be Included in the Standard & Poor's 500 Index. In the merger agreement, each of AT&T, Comcast and AT&T Comcast agreed to use its reasonable best efforts to have the shares issued to holders of AT&T Broadband common stock in the AT&T Broadband merger included in the Standard & Poor's 500 Index. However, the decision as to whether or not these securities are included in the index will be made by Standard & Poor's, Inc. and they may decide not to include them. If these securities are not included in that index, there could be downward pressure on the trading prices of those securities. Although in some cases AT&T Comcast will issue additional shares to former shareholders of AT&T Broadband if there is a trading disparity between the shares issued to former shareholders of Comcast and shares issued in the AT&T Broadband merger, the number of shares AT&T Comcast is required to issue is limited and is calculated as of a set time and as a result may not adequately compensate shareholders for any downward price pressure resulting from the failure of these securities to be included in that index. For more information, see "Description of the Transaction Agreements -- The Merger Agreement -- Merger Consideration -- Potential

Additional Payments."

Atypical Governance Arrangements. In connection with the AT&T Comcast transaction, AT&T Comcast will implement a number of governance arrangements that are atypical for a large, publicly held corporation. A number of these arrangements relate to the election of the AT&T Comcast Board. The term of the AT&T Comcast Board upon completion of the AT&T Comcast transaction will not expire until the 2005 annual meeting of AT&T Comcast shareholders. Since AT&T Comcast shareholders will not have the right to call special meetings of shareholders or act by written consent and AT&T Comcast

directors will be able to be removed only for cause, AT&T Comcast shareholders will not be able to replace the initial AT&T Comcast Board members prior to that meeting. After the 2005 annual meeting of AT&T Comcast shareholders, AT&T Comcast directors will be elected annually. Even then, however, it will be difficult for an AT&T Comcast shareholder (other than Sural LLC or a successor entity controlled by Brian L. Roberts) to elect a slate of directors of its own choosing to the AT&T Comcast Board. Brian L. Roberts, through his control of Sural LLC or a successor entity, will hold a 33 1/3% nondilutable voting interest in AT&T Comcast stock. In addition, AT&T Comcast will adopt a shareholder rights plan upon completion of the AT&T Comcast transaction that will prevent any holder of AT&T Comcast stock (other than any holder of AT&T Comcast Class B common stock or any of such holder's affiliates) from acquiring AT&T Comcast stock representing more than 10% of AT&T Comcast's voting power without the approval of the AT&T Comcast Board.

In addition to the governance arrangements relating to the AT&T Comcast Board, Comcast and AT&T have agreed to a number of governance arrangements which will make it difficult to replace the senior management of AT&T Comcast. Upon completion of the AT&T Comcast transaction, C. Michael Armstrong, Chairman of the Board and CEO of AT&T, will be the Chairman of the Board of AT&T Comcast and Brian L. Roberts, President of Comcast, will be the CEO and President of AT&T Comcast. After the 2005 annual meeting of AT&T Comcast shareholders, Brian L. Roberts will also be the Chairman of the Board of AT&T Comcast. Prior to the fifth anniversary of the 2005 annual meeting of AT&T Comcast shareholders, unless Brian L. Roberts ceases to be Chairman of the Board or CEO of AT&T Comcast prior to such time, the Chairman of the Board and CEO of AT&T Comcast will be able to be removed only with the approval of at least 75% of the entire AT&T Comcast Board. This supermajority removal requirement will make it unlikely that C. Michael Armstrong or Brian L. Roberts will be removed from their management positions.

For a more detailed description of these and other AT&T Comcast governance arrangements that will be in effect upon completion of the AT&T Comcast transaction, see "Description of Governance Arrangements Following the AT&T Comcast Transaction."

Directors of Comcast and AT&T Have Potential Conflicts of Interest. A number of directors of Comcast and AT&T who recommend that you vote in favor of the AT&T Comcast transaction have interests in the AT&T Comcast transaction that are different from, or in addition to, yours. These interests include the potential for positions as directors or executive officers of AT&T Comcast, funding of benefits in trust, employment agreements with AT&T Comcast, acceleration of vesting of AT&T Broadband equity awards as a result of the AT&T Comcast transaction and the right to continued indemnification and insurance coverage by AT&T Comcast for acts or omissions occurring prior to the AT&T Comcast transaction. These interests may have influenced these directors in making their recommendation that you vote in favor of the AT&T Comcast transaction. For a description of these interests, see "Employee Benefits

Matters -- Interests of Directors and Officers in the AT&T Comcast Transaction."

New Trading Market. As AT&T and Comcast complete the AT&T Comcast transaction, shares of AT&T Comcast common stock will begin trading publicly for the first time. Until an orderly trading market for AT&T Comcast common stock develops, and after that time as well, there may be significant fluctuations in price.

Dividends. AT&T shareholders have historically received quarterly dividends from AT&T. AT&T Comcast does not currently intend to pay dividends after completion of the AT&T Comcast transaction.

Additional Risk Factors. For a description of additional risk factors, see "The AT&T Comcast Transaction -- Comcast's Reasons for the AT&T Comcast Transaction" and "The AT&T Comcast Transaction -- AT&T's Reasons for the AT&T Comcast Transaction."

RISK FACTORS FOR AT&T RELATING TO THE AT&T COMCAST TRANSACTION, INCLUDING THE PROPOSED AT&T BROADBAND SPIN-OFF

Holders of shares of AT&T common stock should also consider the following risk factors in deciding whether to vote for approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the AT&T Broadband spin-off.

The AT&T Broadband Spin-off May Materially Adversely Impact AT&T's Competitive Position. If the AT&T Comcast transaction is completed, AT&T and AT&T Comcast will compete in some markets. Competition between AT&T's and AT&T Comcast's business units in overlapping markets, including consumer markets where cable, telephone and digital subscriber lines, or DSL, solutions may be available at the same time, could result in material downward price pressure on product or service offerings which could materially adversely impact the companies. In addition, any incremental costs associated with operating as separate entities may materially adversely affect the different businesses and companies and their competitive positions. Synergies resulting from cooperation and joint ownership among AT&T's businesses may be lost due to the proposed transactions.

AT&T Will Have to Abide By Potentially Significant Restrictions to Preserve the Tax Treatment of the AT&T Comcast Transaction. Because of the restrictions imposed by Section 355(e) of the Code and by the separation and distribution agreement, the ability of AT&T to engage in certain acquisitions, redeem stock or issue equity securities will be limited for a period of 25 months following the AT&T Broadband spin-off. These restrictions may limit the ability of AT&T to engage in certain business transactions that otherwise might be advantageous to AT&T shareholders.

The AT&T Comcast Transaction is Conditioned on AT&T Obtaining Consents Under a Substantial Amount of Indebtedness, Which May Involve Material Costs and May Be Difficult to Complete. The AT&T Comcast transaction is conditioned on AT&T's obtaining Note Consents (as described below), or having defeased, purchased or acquired debt, in respect of series representing at least 90% in aggregate principal amount of the securities issued under the AT&T indenture, dated September 7, 1990, and outstanding as of December 19, 2001. At December 19, 2001, there was approximately $12.7 billion in aggregate principal amount which was subject to this condition. "Note Consent" means, with respect to any series of securities issued under the indenture, the consent to the transactions contemplated by the separation and distribution agreement of the holders of at least a majority in aggregate principal amount of such series to the AT&T

Broadband spin-off under a substantial portion of AT&T's long-term indebtedness. AT&T may seek to obtain these consents through a variety of measures. Although AT&T Comcast has agreed to bear a portion of the related costs, the consent process and any related transaction may result in increased costs for, and additional covenants imposed upon, AT&T. In addition, the consent process itself involves a number of uncertainties and AT&T may not be able to complete it on a timely basis on commercially reasonable terms.

If the AT&T Comcast Transaction is Completed, AT&T Will Need to Obtain Financing on a Stand-Alone Basis. Following the AT&T Comcast transaction, AT&T will have to raise financing with the support of a reduced pool of less diversified assets, and AT&T may not be able to secure adequate debt or equity financing on desirable terms. The cost to AT&T of financing without AT&T Broadband Group may be materially higher than the cost of financing with AT&T Broadband Group as part of AT&T.

AT&T's current long-term/short-term debt ratings are A-3/P-2 by Moody's, BBB+/A-2 by Standard & Poor's, and A-/F-2 by Fitch. All long-term ratings are under further review for further downgrade. The short-term ratings are not under review. The credit rating of AT&T following the AT&T Comcast transaction may be different than the historical ratings of AT&T and different from what it would be without the AT&T Comcast transaction. Differences in credit ratings affect the interest rate charged on financings, as well as the amounts of indebtedness, types of financing structures and debt markets that may be available to AT&T following the AT&T Comcast transaction. AT&T may not be able to raise the capital it requires on favorable terms following the AT&T Comcast transaction.

The Historical Financial Information of AT&T Excluding AT&T Broadband Group May Not Be Representative of its Results Without AT&T Broadband Group and therefore is Not a Reliable Indicator of its Historical or Future Results. AT&T currently includes AT&T Broadband Group as a fully integrated business unit of ATT consequently the financial information of AT&T without AT&T Broadband Group included in this document has been derived from the consolidated financial statements and accounting records of AT&T and reflects certain assumptions and allocations. The financial position, results of operations and cash flows of AT&T without AT&T Broadband Group could differ from those that would have resulted had AT&T operated without AT&T Broadband Group or as an entity independent of AT&T Broadband Group.

AT&T Could Incur Material U.S. Federal Income Tax Liabilities in Connection with the AT&T Comcast Transaction. AT&T may incur material U.S. federal income tax liabilities as a result of certain issuances of shares or change of control transactions with respect to AT&T Comcast, Liberty Media Corporation or AT&T Wireless Services, Inc. Under Section 355(e) of the Code, a split-off/spin-off that is otherwise tax free may be taxable to the distributing company (i.e., AT&T) if, as a result of certain transactions occurring generally within a two-year period after the split-off/spin-off, non-historic shareholders acquire 50% or more of the distributing company or the spun-off company. It is possible that transactions with respect to AT&T could cause all three split-offs or spin-offs to be taxable to AT&T.

Under separate intercompany agreements between AT&T and each of Liberty Media Corporation, AT&T Wireless and AT&T Broadband Corp., AT&T generally will be entitled to indemnification from the spun-off company for any tax liability that results from the split-off or spin-off failing to qualify as a tax-free transaction, unless, in the case of AT&T Wireless and AT&T Comcast, the tax liability was caused by post split-off or spin-off transactions with respect to the stock or assets of AT&T. AT&T Comcast's indemnification obligation is generally limited to 50% of any tax liability that results from the split-off or spin-off failing to qualify as tax free, unless such liability was caused by a post split-off or spin-off transaction with respect to the stock or assets of AT&T Comcast.

If one or more of the split-offs or spin-offs were taxable to AT&T and AT&T were not indemnified for this tax liability, the liability could have a material adverse effect on AT&T. To the extent AT&T is entitled to an indemnity with respect to the tax liability, AT&T would be required to collect the claim on an unsecured basis.

The Total Value of the Securities Following the AT&T Comcast Transaction Might be Less Than the Value of AT&T Common Stock Without the Transaction. If AT&T completes the AT&T Comcast transaction, holders of AT&T common stock that do not dispose of those shares of AT&T common stock eventually will own a new security -- shares of AT&T Comcast -- in addition to their shares of AT&T common stock. The aggregate value of the shares of AT&T Comcast and of the shares of AT&T common stock securities could be less than what the value of AT&T common stock would have been if the AT&T Comcast transaction were not completed. The trading price of AT&T common stock may decline as a result of the AT&T Comcast transaction or as a result of other factors.

As AT&T completes the AT&T Comcast transaction, shares of AT&T Comcast will begin trading publicly for the first time. Until orderly trading markets develop for each of these new securities, and after that time as well, there may be significant fluctuations in price.

RISK FACTORS RELATING TO THE BUSINESS OF AT&T COMCAST

Actual Financial Position and Results of Operations of AT&T Comcast May Differ Significantly and Adversely From the Pro Forma Amounts Reflected in this Document. Assuming completion of the AT&T Comcast transaction, the actual financial position and results of operations of AT&T Comcast may differ, perhaps significantly and adversely, from the pro forma amounts reflected in the AT&T Comcast Corporation Unaudited Pro Forma Combined Condensed Financial Statements included in this document due to a variety of factors, including access to additional information, changes in value not currently identified and changes in operating results between the date of the pro forma financial data and the date on which the AT&T Comcast transaction is completed.

In addition, in many cases each of Comcast and AT&T Broadband Group has long-term agreements, in some cases with the same counterparties, for the same services and products, such as programming, billing services and interactive programming guides. Comcast and AT&T Broadband Group cannot disclose the terms of many of these contracts to each other because of confidentiality provisions included in these contracts or other legal restrictions. For this and other reasons, it is not clear, in the use of certain services and products, whether after completion of the AT&T Comcast transaction each of the existing agreements will continue to apply only to the operations to which they have historically applied or whether instead one of the two contracts will apply to the operations of both companies and the other contract will be terminated. Since these contracts often differ significantly in their terms, resolution of these contractual issues could cause the actual financial position and results of operations of AT&T Comcast to differ significantly and adversely from the pro forma amounts reflected in the AT&T Comcast Corporation Unaudited Pro Forma Combined Condensed Financial Statements included in this document.

Programming Costs Are Increasing and AT&T Comcast May Not Have the Ability to Pass These Increases on to Its Customers, Which Would Materially Adversely

Affect Its Cash Flow and Operating Margins. Programming costs are expected to be AT&T Comcast's largest single expense item. In recent years, the cable and satellite video industries have experienced a rapid increase in the cost of programming, particularly sports programming. This increase is expected to continue, and AT&T Comcast may not be able to pass programming cost increases on to its customers. The inability to pass these programming cost increases on to its customers would have a material adverse impact on its cash flow and operating margins. In addition, as AT&T Comcast upgrades the channel capacity of its systems and adds programming to its basic, expanded basic and digital programming tiers, AT&T Comcast may face increased programming costs, which, in conjunction with the additional market constraints on its ability to pass programming costs on to its customers, may reduce operating margins.

AT&T Comcast also will be subject to increasing financial and other demands by broadcasters to obtain the required consent for the transmission of broadcast programming to its subscribers. Comcast and AT&T cannot predict the financial impact of these negotiations or the effect on AT&T Comcast's subscribers should AT&T Comcast be required to stop offering this programming.

AT&T Comcast Will Face a Wide Range of Competition in Areas Served by its Cable Systems, Which Could Adversely Affect its Future Results of Operations. AT&T Comcast's cable communications systems will compete with a number of different sources which provide news, information and entertainment programming to consumers. AT&T Comcast will compete directly with program distributors and other companies that use satellites, build competing cable systems in the same communities AT&T Comcast will serve or otherwise provide programming and other communications services to AT&T Comcast's subscribers and potential subscribers. In addition, federal law now allows local telephone companies to provide directly to subscribers a wide variety of services that are competitive with cable communications services. Some local telephone companies provide, or have announced plans to provide, video services within and outside their telephone service areas through a variety of methods, including broadband cable networks, satellite program distribution and wireless transmission facilities.

Additionally, AT&T Comcast will be subject to competition from telecommunications providers and ISPs in connection with offerings of new and advanced services, including telecommunications and Internet services. This competition may materially adversely affect AT&T Comcast's business and operations in the future.

AT&T Comcast Will Have Substantial Capital Requirements. AT&T Comcast expects that its capital expenditures will exceed, perhaps significantly, its net cash provided by operations, which may require it to obtain additional financing. Failure to obtain necessary financing could have a material adverse effect on AT&T Comcast.

Comcast and AT&T anticipate that AT&T Comcast will upgrade a significant portion of its broadband systems over the coming years and make other capital investments, including with respect to its advanced services. AT&T Comcast is expected to incur substantial capital expenditures in future years. The actual amount of the funds required for capital expenditures may vary materially from management's

estimate. The majority of these amounts is expected to be used to acquire equipment (such as set-top boxes, cable modems and telephone equipment) and to pay for installation costs for additional video and advanced services customers. In addition, capital is expected to be used to upgrade and rebuild network systems to expand bandwidth capacity and add two-way capability so that it may offer advanced services. There can be no assurance that these amounts will be sufficient to accomplish the planned system upgrades, equipment acquisitions and expansion.

Comcast and AT&T Broadband Group also have commitments under certain of their franchise agreements with local franchising authorities to upgrade and rebuild certain network systems. These commitments may require capital expenditures in order to avoid default and/or penalties.

Historically, AT&T Broadband Group's capital expenditures have significantly exceeded its net cash provided by operations. For the year ended December 31, 2000 and the nine months ended September 30, 2001, AT&T Broadband Group's capital expenditures exceeded its net cash provided by operations by $3.6 billion and $3.3 billion, respectively. In addition, for the year ended December 31, 2000 and the nine months ended September 30, 2001, Comcast's capital expenditures exceeded its net cash provided by operating activities by $418 million and $437 million, respectively.

After completion of the AT&T Comcast transaction, AT&T and Comcast expect that for some period of time AT&T Comcast's capital expenditures will exceed, perhaps significantly, its net cash provided by operating activities. This may require AT&T Comcast to obtain additional financing. AT&T Comcast may not be able to obtain or to obtain on favorable terms the capital necessary to fund the substantial capital expenditures described above that are required by its strategy and business plan. A failure to obtain necessary capital or to obtain necessary capital on favorable terms could have a material adverse effect on AT&T Comcast and result in the delay, change or abandonment of AT&T Comcast's development or expansion plans.

Entities that Will Be Included in AT&T Comcast Are Subject to Long-Term Exclusive Agreements that May Limit Their Future Operating Flexibility and Materially Adversely Affect AT&T Comcast's Financial Results. Entities currently attributed to AT&T Broadband Group, and which will be subsidiaries of AT&T Comcast, may be subject to long-term agreements relating to significant aspects of AT&T Broadband Group's operations, including long-term agreements for video programming, audio programming, electronic program guides, billing and other services. For example, TCI Communications, Inc. and Satellite Services, Inc., both affiliates of TCI, are parties to an affiliation term sheet with Starz Encore Group, an affiliate of Liberty Media Group, which extends to 2022 and provides for a fixed price payment (subject to adjustment for various factors, including inflation) and may require AT&T Broadband to pay two-thirds of Starz Encore Group's programming costs above levels designated in the term sheet. Satellite Services, Inc. also entered into a ten-year agreement with TV Guide in January 1999 for interactive program guide services, which designates TV Guide Interactive as the interactive programming guide for AT&T Broadband systems. Furthermore, a subsidiary of AT&T Broadband is party to an agreement that does not expire until December 31, 2012 under which it purchases certain billing services from an unaffiliated third party. The price, terms and conditions of the Starz Encore term sheet, the TV Guide agreement and the billing agreement may not reflect the current market and if one or more of these arrangements continue to apply to AT&T Broadband after completion of the AT&T Comcast transaction, they may materially adversely impact the financial performance of AT&T Comcast.

By letter dated May 29, 2001, AT&T Broadband Group disputed the enforceability of the excess programming pass through provisions of the Starz Encore term sheet and questioned the validity of the term sheet as a whole. AT&T Broadband Group also has raised certain issues concerning the uncertainty of the provisions of the term sheet and the contractual interpretation and application of certain of its provisions to, among other things, the acquisition and disposition of cable systems. In July 2001, Starz Encore Group filed suit seeking payment of the 2001 excess programming costs and a declaration that the term sheet is a binding and enforceable contract. In October 2001, AT&T Broadband Group and Starz Encore Group agreed to stay the litigation until August 31, 2002 to allow the parties time to continue negotiations toward a potential business resolution of this dispute. The Court granted the stay on

October 30, 2001. The terms of the stay order allow either party to petition the Court to lift the stay after April 30, 2002 and to proceed with the litigation.

AT&T Comcast Will Be Subject to Regulation by Federal, State and Local Governments. The federal, state and local governments extensively regulate the cable communications industry. Comcast and AT&T expect that court actions and regulatory proceedings will refine the rights and obligations of various parties, including the government, under the Communications Act of 1934, as amended. The results of these judicial and administrative proceedings may materially affect AT&T Comcast's business operations. Local authorities grant Comcast and AT&T Broadband franchises that permit them to operate their cable systems. AT&T Comcast will have to renew or renegotiate these franchises from time to time. Local franchising authorities often demand concessions or other commitments as a condition to renewal or transfer, which concessions or other commitments could be costly to obtain.

AT&T Comcast Will Be Subject to Additional Regulatory Burdens in Connection With the Provision of Telecommunications Services, Which Could Cause It to Incur Additional Costs. AT&T Comcast will be subject to risks associated with the regulation of its telecommunications services by the FCC and state public utilities commissions, or PUCs. Telecommunications companies, including companies that have the ability to offer telephone services over the Internet, generally are subject to significant regulation. This regulation could materially adversely affect AT&T Comcast's business operations.

AT&T Comcast's Competition May Increase Because of Technological Advances and New Regulatory Requirements, Which Could Adversely Affect its Future Results of Operations. Over the past several years, a number of companies, including telephone companies and Internet Service Providers, commonly known as ISPs, have asked local, state and federal government authorities to mandate that cable communications operators provide capacity on their broadband infrastructure so that these companies and others may deliver Internet and other interactive television services directly to customers over these cable facilities. Some cable operators, including Comcast and AT&T Broadband, have initiated litigation challenging municipal efforts to unilaterally impose so-called "open access" requirements. The few court decisions dealing with this issue have been inconsistent. The FCC recently initiated a regulatory proceeding to consider "open access" and related regulatory issues, and in connection with its review of the AOL-Time Warner merger, imposed, together with the Federal Trade Commission, "open access," technical performance and other requirements related to the merged company's Internet and Instant Messaging platforms. Whether the policy framework reflected in these agencies' merger reviews will be imposed on an industry-wide basis or in connection with the AT&T Comcast transaction is uncertain. In addition, numerous companies, including telephone companies, have introduced Digital Subscriber Line technology, known as DSL, which will allow Internet access to subscribers at data transmission speeds equal to or greater than that of modems over conventional telephone lines.

Comcast and AT&T expect other advances in communications technology, as well as changes in the marketplace and the regulatory and legislative environment, to occur in the future. Other new technologies and services may develop and may compete with services that cable communications systems offer. The success of these ongoing and future developments could have a negative impact on AT&T Comcast's business and operations.

AT&T Comcast, Through AT&T Broadband, Will Have Substantial Economic Interests in Joint Ventures in Which It Will Have Limited Management Rights. AT&T Broadband Group is a partner in several large joint ventures, such as Time Warner Entertainment, Texas Cable Partners and Kansas City Cable Partners, in which it has a substantial economic interest but does not have substantial control with regard to management policies or the selection of management. These joint ventures may be managed in a manner contrary to the best interests of AT&T Comcast, and the value of AT&T Comcast's investment, through AT&T Broadband, in these joint ventures may be affected by management policies that are determined without input from AT&T Comcast or over the objections of AT&T Comcast.

RISK FACTOR RELATING TO AT&T'S CREDIT RATING

The AT&T Comcast transaction, if implemented as proposed, would result in a substantial reduction in AT&T's overall debt level. Nevertheless, the AT&T Comcast transaction may not be completed and, even if it is completed, AT&T will continue to have substantial indebtedness. As a result, AT&T shareholders should consider the following additional risk.

The Financial Condition and Prospects of AT&T and the AT&T Groups May be Materially Adversely Affected by Further Ratings Downgrades. In the fall of 2001, all of AT&T's long-term debt ratings were reduced and remain under review for further downgrade. AT&T's current long-term ratings are A3 by Moody's, BBB+ by Standard & Poor's, and A- by Fitch. In addition, all three of AT&T's short-term debt ratings were reduced in the fall of 2001, but are not under further review. These ratings are currently P-2 by Moody's, A-2 by Standard and Poor's, and F-2 by Fitch. Further ratings actions could occur at any time. As a result, the cost of any new financings may be higher. Ratings downgrades by Moody's and Standard & Poor's on the $10 billion AT&T global notes issued November 2001 would also trigger an increase in the interest rate (by 25 basis points for each rating notch downgraded) on these notes. Furthermore, with additional ratings downgrades, AT&T may not have access to the commercial paper market sufficient to satisfy its short-term borrowing needs. If necessary, AT&T could access its short-term credit facilities which currently expire in December 2002 or increase its borrowings under its securitization program.

In addition, AT&T's $10 billion global offering includes provisions that would allow investors to require AT&T to repurchase the notes under certain conditions. These conditions include a maximum adjusted debt to EBITDA ratio (adjusted) for pro forma AT&T excluding AT&T Broadband Group of no more than 2.75 times at specified times and a minimum rating of these notes of no lower than Baa3 from Moody's and BBB- from Standard and Poor's. If the ratings are Baa3 or BBB-, the minimum rating requirement will be satisfied if the ratings are not under review for downgrade or on CreditWatch with negative implications, respectively. If AT&T is required to repurchase the notes, it may not be able to obtain sufficient financing in the timeframe required. In addition, such replacement financing may be more costly or have additional covenants than current debt.

To the extent that the combined outstanding short-term borrowings under the bank credit facilities and AT&T's commercial paper program were to exceed the market capacity for such borrowings at the expiration of the bank credit facilities, AT&T's continued liquidity would depend upon its ability to reduce such short-term debt through a combination of capital market borrowings, asset sales, operational cash generation, capital expenditure reduction and other means. AT&T's ability to achieve such objectives is subject to a risk of execution and such execution could materially impact AT&T's operational results. In addition, the cost of any capital market financing could be significantly in excess of AT&T's historical financing costs. Also, AT&T could suffer negative banking, investor, and public relations repercussions if AT&T were to draw upon the bank facilities, which are intended to serve as a back-up source of liquidity only. Such impacts could cause further deterioration in AT&T's cost of and access to capital.

RISK FACTORS RELATING TO AT&T CONSUMER SERVICES GROUP TRACKING STOCK

Holders of shares of AT&T common stock should consider the following risk factors in deciding whether to vote for approval of the AT&T Consumer Services Group tracking stock proposal.

The Market Price of AT&T Consumer Services Group Tracking Stock May Not Reflect the Financial Performance and Economic Value of AT&T Consumer Services Group as Intended and May Not Effectively Track the Separate Performance of AT&T Consumer Services Group. The market price of AT&T Consumer Services Group tracking stock may not in fact reflect the financial performance and economic value of AT&T Consumer Services Group as intended. Holders of AT&T Consumer Services Group tracking stock will continue to be common shareholders of AT&T, and, as such, will be subject to all risks associated with an investment in AT&T and all of its businesses, assets and liabilities. The performance of AT&T as a whole may affect the market price of AT&T Consumer Services Group tracking stock or the market price could more independently reflect the performance of the business of

AT&T Consumer Services Group. Investors may discount the value of AT&T Consumer Services Group tracking stock because it is part of a common enterprise with the rest of the operations of AT&T rather than a stand-alone entity.

The Combined Market Prices of AT&T Common Stock and AT&T Consumer Services Group Tracking Stock May Not Equal or Exceed the Market Price of AT&T Common Stock Before the Distribution of AT&T Consumer Services Group Tracking Stock, and No Market Currently Exists for AT&T Consumer Services Group Tracking Stock. Investors may not assign values to AT&T common stock or AT&T Consumer Services Group tracking stock based on the reported financial results and prospects of the AT&T groups or the dividend policies established by the AT&T Board with respect to that class of AT&T common stock.

Because there has been no prior market for AT&T Consumer Services Group tracking stock, there can be no assurances as to how AT&T Consumer Services Group tracking stock will trade or if an active market for AT&T Consumer Services Group tracking stock will be maintained. In addition, AT&T does not expect that shares of AT&T Consumer Services Group tracking stock will be included in the Standard & Poor's 500 Index. The failure to be included in that index could have an adverse effect on the market price of the shares. In addition, AT&T cannot predict the market impact of some of the terms of AT&T Consumer Services Group tracking stock, such as:

- the relative voting rights of AT&T common stock and AT&T Consumer Services Group tracking stock, and

- the discretion of the AT&T Board to make determinations affecting AT&T Consumer Services Group tracking stock.

The AT&T Board Has the Flexibility to Treat AT&T Consumer Services Group Tracking Stock a Number of Different Ways in the Event of a Future Merger or Other Transaction Involving ATT the AT&T Board is Under No Obligation to Select the Alternative that will Treat Holders Most Favorably.

The terms of AT&T Consumer Services Group tracking stock provide the AT&T Board considerable flexibility in the event of a future merger or other transaction involving AT&T. For example, depending on the circumstances, the AT&T Board could

- exercise its right to redeem the shares of AT&T Consumer Services Group tracking stock for shares of AT&T common stock at a % premium;

- roll over the shares of AT&T Consumer Services Group tracking stock into a comparable tracking stock of a new entity;

- redeem the shares of AT&T Consumer Services Group tracking stock in connection with a tax-free spin-off of AT&T Consumer Services Group; or

- redeem all or a portion of the shares of AT&T Consumer Services Group tracking stock in exchange for the net after-tax proceeds of a disposition of AT&T Consumer Services Group.

The holders of the shares of AT&T Consumer Services Group tracking stock could receive consideration with very different values under each of the alternatives. It is also possible that a particular alternative may not be available in connection with a specific transaction. For example, AT&T may not be able to structure a spin-off of AT&T Consumer Services Group on a tax-free basis at a particular time.

In selecting an alternative, the AT&T Board will make its determination based on what is in the best interests of all shareholders of AT&T as a whole. The AT&T Board has no duty to select the alternative that will result in the best economic treatment for holders of the shares of AT&T Consumer Services Group tracking stock. For example, the selection of an alternative may depend on whether it is advisable for AT&T to dispose of AT&T Consumer Services Group in connection with a particular transaction. The terms of AT&T Consumer Services Group tracking stock provide that to the extent permitted by law neither the holders of the shares of AT&T Consumer Services Group tracking stock nor the holders of any

other class of common stock of AT&T will have any claim based on which alternative the AT&T Board selects.

The Complex Nature of the Terms of AT&T Consumer Services Group Tracking Stock, or Confusion in the Marketplace About What a Tracking Stock is, Could Materially Adversely Affect the Market Prices of AT&T Consumer Services Group Tracking Stock. Tracking stocks, like AT&T Consumer Services Group tracking stock, are more complex than traditional common stock, and are not directly or entirely comparable to common stock of companies that have been spun off by their parent companies. The complex nature of the terms of AT&T Consumer Services Group tracking stock, and the potential difficulties investors may have in understanding these terms, may materially adversely affect the market price of AT&T Consumer Services Group tracking stock. Examples of these terms include:

- the discretion of the AT&T Board to make determinations affecting AT&T Consumer Services Group tracking stock,

- AT&T's rights in the event of a proposed spin-off or disposition of substantially all the assets of AT&T Consumer Services Group,

- the ability of AT&T to roll AT&T Consumer Services Group tracking stock over into a tracking stock of a new entity in the event of a merger or other business combination, or

- the ability of AT&T to convert shares of AT&T Consumer Services Group tracking stock into shares of AT&T common stock.

Confusion in the marketplace about what a tracking stock is and what it is intended to represent, and/or investors' reluctance to invest in tracking stocks, also could materially adversely affect the market price of AT&T Consumer Services Group tracking stock.

Holders of AT&T Common Stock and AT&T Consumer Services Group Tracking Stock will be Shareholders of One Company and, Therefore, Financial Impacts on One AT&T Group Could Affect the Other AT&T Group. Holders of AT&T common stock and AT&T Consumer Services Group tracking stock all will be common shareholders of AT&T. As such, they will be subject to various risks associated with an investment in a single company and all of AT&T's businesses, assets and liabilities. Financial effects arising from one AT&T group that affect AT&T's consolidated results of operations or financial condition could, if significant, affect the combined results of operations or financial position of the other AT&T group or the market price of the class of common shares relating to the other AT&T group.

In addition, if AT&T or any of its subsidiaries were to incur significant indebtedness on behalf of an AT&T group, including indebtedness incurred or assumed in connection with an acquisition or investment, it could affect the credit rating of AT&T and its subsidiaries. This, in turn, could increase the borrowing costs of the other AT&T group and AT&T as a whole. Net losses of either AT&T group and dividends or distributions on shares of any class of common or preferred stock will reduce the funds of AT&T legally available for payment of future dividends on each of AT&T common stock and AT&T Consumer Services Group tracking stock. For these reasons, you should read AT&T's consolidated financial information together with the financial information of AT&T Consumer Services Group.

Holders of AT&T Consumer Services Group Tracking Stock will have Limited Separate Shareholder Rights, and will have No Additional Rights Specific to AT&T Consumer Services Group, Including Direct Voting Rights. Holders of AT&T Consumer Services Group tracking stock will not have any direct voting rights in AT&T Consumer Services Group, except to the extent required under AT&T's charter or by New York law. AT&T will not hold separate meetings for holders of AT&T Consumer Services Group tracking stock. When a vote is taken on any matter as to which all of AT&T's common shares are voting together as one class, any class or series of AT&T's common shares that is entitled to more than the number of votes required to approve the matter being voted upon will be in a position to control the outcome of the vote on that matter.

Each share of AT&T common stock has one vote per share. Each share of AT&T Consumer Services Group tracking stock will have [   ] of a vote per share.

Holders of AT&T Consumer Services Group Tracking Stock May Have Potentially Diverging Interests from Holders of Other Classes of AT&T Capital Stock. The existence of separate classes of AT&T common stock could give rise to occasions when the interests of the holders of AT&T common stock and holders of AT&T Consumer Services Group tracking stock diverge, conflict or appear to diverge or conflict. Examples include determinations by the AT&T Board to:

- set priorities for use of capital and debt capacity, including by loaning the cash flow of AT&T Consumer Services Group to AT&T Business Services

Group, making it currently unavailable to support the growth and operations of AT&T Consumer Services Group,

- pay or omit the payments of dividends on AT&T common stock or AT&T Consumer Services Group tracking stock,

- approve dispositions of assets attributed to either AT&T group,

- formulate public policy positions for AT&T,

- establish material commercial relationships between the AT&T groups, and

- make operational, financial and purchasing decisions with respect to one AT&T group that could be considered to be detrimental to the other AT&T group.

- take positions on public policy or regulatory matters that benefit one AT&T group more than the other AT&T group or that have disproportionate impacts on the individual groups.

A Decision by the AT&T Board to Dispose of Assets Attributed to AT&T Consumer Services Group Could have a Material Adverse Impact on the Trading Price of AT&T Consumer Services Group Tracking Stock. Assuming AT&T Consumer Services Group's assets at the applicable time continue to represent less than substantially all of the assets of AT&T as a whole, the AT&T Board could, in its sole discretion and without shareholder approval, approve sales and other dispositions of all or any portion of the assets of AT&T Consumer Services Group.

In the event of a disposition of all or substantially all of the properties and assets attributed to AT&T Consumer Services Group, generally defined as 80% or more of the fair value of AT&T Consumer Services Group, with several exceptions, AT&T will be required under AT&T's charter to:

- convert each outstanding share of the affected tracking stock into shares of AT&T common stock at a [ ]% premium, or

- distribute cash and/or securities, other than AT&T common stock, or other property equal to the fair value of the net after-tax proceeds from that disposition allocable to AT&T Consumer Services Group tracking stock, or

- take a combination of the actions described in the preceding bullet points.

If a disposition of this type occurs, since holders may only receive an amount determined by reference to net after-tax proceeds, the disposition could have a material adverse impact on AT&T Consumer Services Group tracking stock.

The AT&T Board is not required to select the option that would result in the distribution with the highest value to the holders of AT&T Consumer Services Group tracking stock.

In addition, under New York law, the AT&T Board could decline to dispose of AT&T Consumer Services Group assets, even if a majority of the holders of AT&T Consumer Services Group tracking stock request this disposition.

AT&T May Make Operational and Financial Decisions that Benefit One AT&T Group More than the Other AT&T Group. The AT&T Board could, in its sole discretion, from time to time, make operational and financial decisions or implement policies that affect disproportionately the businesses of either AT&T group. These decisions could include:

- allocation of financing opportunities in the public markets or the refinancing of existing indebtedness,

- allocation of business opportunities, resources and personnel,

- loans or other transfers of funds from one group to the other,

- transfers of services or assets between the AT&T groups and other inter-group transactions, and

- purchasing decisions

that, in each case, may be suitable for one or both of the AT&T groups. Any of these decisions may benefit one AT&T group more than the other AT&T group. For example, the decision to obtain funds for one AT&T group may materially adversely affect the ability of the other AT&T group to obtain funds sufficient to implement its growth strategies or may increase the cost of those funds.

In addition, AT&T Consumer Services Group is subject to AT&T's existing agreements or arrangements with third parties. These agreements or arrangements currently may benefit both AT&T groups, as in the case of purchasing arrangements, or may have the effect of limiting or impairing the AT&T groups' respective business opportunities.

All of these decisions will be made by the AT&T Board in its good faith business judgment, and in accordance with procedures and policies adopted by the AT&T Board from time to time, including the AT&T Groups policy statement described under "AT&T Consumer Services Group Tracking Stock -- Relationship between the AT&T Groups -- The AT&T Groups Policy Statement."

The AT&T Board will have the Ability to Control Loans and Asset Transfers Between the AT&T Groups. The AT&T Board may decide to transfer funds or other assets between AT&T groups. Transfers of assets among the AT&T groups that the AT&T Board designates as an equity contribution or repayment will result in a change in AT&T's retained portion of the value of AT&T Consumer Services Group. Any change in the retained portion of the value of AT&T Consumer Services Group would be determined by reference to the then-current market value of AT&T Consumer Services Group tracking stock as determined by the AT&T Board. This increase or decrease, however, could occur at a time when AT&T Consumer Services Group tracking stock is considered undervalued or overvalued.

Under the AT&T Groups policy statement, the AT&T groups may make loans to each other at interest rates and on terms and conditions substantially equivalent to the interest rates and terms and conditions that the AT&T groups would be able to obtain from third parties without the benefit of support or guarantee by AT&T. The actual rates of interest charged or paid by either of the AT&T groups in the future is uncertain and will depend on a variety of factors, including the credit profile of the AT&T group and market conditions. As a result, future interest rates charged or paid by either of the AT&T groups may materially exceed those reflected in the financial statements included elsewhere in this document.

The AT&T Board May Change the AT&T Groups Policy Statement or Bylaw Amendment Related to the AT&T Groups Without Shareholder Approval. The AT&T Board intends to adopt the AT&T Groups policy statement described in this document to govern the relationship between AT&T groups and to amend AT&T's bylaws to create the AT&T Groups capital stock committee that will oversee the interaction between the AT&T groups. The AT&T Board may supplement, modify, suspend or rescind the policies set forth in the AT&T Groups policy statement or related bylaw amendment, or make additions or exceptions to them, in the sole discretion of the AT&T Board, without approval of AT&T shareholders, although there is no present intention to do so. The AT&T Board would make any of these determinations, including any decision that would have disparate impacts upon holders of AT&T common stock and AT&T Consumer Services Group tracking stock, in a manner consistent with its fiduciary duties to AT&T and all of its common shareholders. See "-- The fiduciary duties of the AT&T Board to more than one class of common stock are not clear under New York law" for more information regarding the AT&T

Board's fiduciary duties to AT&T shareholders. See "AT&T Consumer Services Group Tracking Stock -- Relationship between the AT&T Groups" for a description of the AT&T Groups policy statement and bylaw amendment.

It Will Likely Not be Possible for a Third Party to Acquire AT&T Consumer Services Group Without AT&T's Consent. If AT&T Consumer Services Group were an independent entity, any person interested in acquiring that entity without negotiation with AT&T Consumer Services Group's management could seek control of the outstanding stock of that entity by means of a tender offer or proxy contest. Although the Consumer Services charter amendment will create a new class of AT&T common stock that is intended to reflect the separate financial performance and economic value of AT&T Consumer Services Group, a person interested in acquiring only AT&T Consumer Services Group without negotiation with AT&T's management still would be required to seek control of the voting power represented by all of the outstanding capital stock of AT&T entitled to vote on that acquisition, including shares of AT&T common stock. As a result, this may discourage potential interested bidders from seeking to acquire AT&T Consumer Services Group. See "-- Holders of AT&T Consumer Services Group tracking stock will have limited separate shareholder rights, and will have no additional rights specific to AT&T Consumer Services Group, including direct voting rights" for more information on the rights of holders of AT&T Consumer Services tracking stock. This inability of third parties directly to acquire control of AT&T Consumer Services Group may materially adversely affect the market price of AT&T Consumer Services Group tracking stock.

There will be No Board of Directors or Committee that Owes Any Separate Fiduciary Duties to Holders of AT&T Consumer Services Group Tracking Stock, Apart From Those Owed to AT&T Shareholders Generally. Each of the AT&T Board and the AT&T Groups capital stock committee owes fiduciary duties to AT&T and AT&T shareholders as a whole. AT&T Consumer Services Group will not have a separate board of directors to represent solely the interests of the holders of AT&T Consumer Services Group tracking stock. Consequently, there is no separate board of directors or committee that owes any separate duties to the holders of AT&T Consumer Services Group tracking stock.

The Fiduciary Duties of the AT&T Board to More Than One Class of Common Stock Are Not Clear Under New York Law. Although AT&T is not aware of any legal precedent under New York law involving the fiduciary duties of directors of corporations having two or more classes of common stock, or separate classes or series of capital stock, principles of Delaware law established in cases involving differing treatment of two classes of capital stock or two groups of holders of the same class of capital stock provide that a board of directors owes an equal duty to all shareholders, regardless of class or series, and does not have separate or additional duties to either group of shareholders. Under these principles of Delaware law and the related principle known as the "business judgment rule," absent abuse of discretion, a good faith business decision made by a disinterested and adequately informed board of directors, or a committee of the board of directors, with respect to any matter having disparate impacts upon holders of AT&T common stock or AT&T Consumer Services Group tracking stock would be a defense to any challenge to a determination made by or on behalf of the holders of any class of AT&T common shares. Nevertheless, a New York court hearing a case involving this type of a challenge may decide to apply principles of New York law different from the principles of Delaware law discussed above, or may develop new principles of law, in order to decide that case. Any future shareholder litigation over the meaning or application of the terms of AT&T Consumer Services Group tracking stock or the AT&T Board's policies may be costly and time consuming to AT&T and AT&T Consumer Services Group.

Changes in the Tax Law or in the Interpretation of Current Tax Law May Result in Redemption of AT&T Consumer Services Group Tracking Stock or May Prevent AT&T From Issuing Further Shares of AT&T Consumer Services Group Tracking Stock. From time to time, there have been legislative and administrative proposals that, if effective, would have resulted in the imposition of corporate level or shareholder level tax upon the issuance of tracking stock. As of the date of this document, no proposals of this type are outstanding.

If there are adverse tax consequences associated with the issuance of AT&T Consumer Services Group tracking stock, it is possible that AT&T would cease issuing additional shares of AT&T Consumer Services Group tracking stock. This could affect the value of shares of AT&T Consumer Services Group tracking stock then outstanding.

AT&T May Optionally Redeem AT&T Consumer Services Group Tracking Stock. The AT&T Board may, at any time, redeem all outstanding shares of AT&T Consumer Services Group tracking stock for shares of AT&T common stock at a [ ]% premium. AT&T could decide to redeem AT&T Consumer Services Group tracking stock at a time when any or all AT&T common stock and AT&T Consumer Services Group tracking stock may be considered to be overvalued or undervalued. In addition, a redemption at any premium would preclude holders of both AT&T common stock and the redeemed AT&T Consumer Services Group tracking stock from retaining their investment in a security intended to reflect separately the financial performance and economic value of the relevant AT&T group. It also would give holders of the redeemed AT&T Consumer Services Group tracking stock an amount of consideration that may differ from the amount of consideration a third-party buyer pays or would pay for all or substantially all of the assets of the respective AT&T group. For further details, see "AT&T Consumer Services Group Tracking Stock -- The Consumer Services Charter Amendment Proposal -- Consumer Services Group Tracking Stock Amendment."

AT&T Has the Right to Require the Exchange of AT&T Consumer Services Group Tracking Stock for Tracking Stock of Another Entity. In the event of a disposition or other transfer by AT&T of all of the properties and assets of AT&T Consumer Services Group (whether or not involving a merger or other business combination involving AT&T as a whole), the Consumer Services charter amendment generally allows AT&T to redeem all outstanding shares of AT&T Consumer Services Group tracking stock, without paying a premium, in exchange for a new tracking stock of the entity that owns substantially all of the assets and liabilities of AT&T Consumer Services Group.

If the AT&T Board elected to roll the tracking stock over in connection with a merger or other business combination, the holders of AT&T Consumer Services Group tracking stock would not share in any premium received by holders of AT&T common stock and the holders of AT&T common stock would not share in any premium received by holders of AT&T Consumer Services Group tracking stock.

In the event of this redemption, the voting rights of the new tracking stock will be set based on the ratio, over a fixed measurement period, of the initial trading prices of the new tracking stock to the trading prices of the common stock of the entity of which the new tracking stock is a part.

This new entity may have different businesses and a different capital structure and be subject to different risks than AT&T generally. Holders of the new tracking stock will become equity holders of this new entity and become subject to risks affecting this new entity generally. Additionally, adverse fluctuations in market valuations at and after the time of issuance of the new tracking stock could materially adversely affect the relative voting power of the new tracking stock with respect to the voting power of this new entity as a whole.

The AT&T Board May Redeem AT&T Consumer Services Group Tracking Stock in Exchange for Stock of One or More Qualifying Subsidiaries of AT&T. AT&T's charter amendment proposal provides that AT&T may, at any time, redeem all outstanding shares of AT&T Consumer Services Group tracking stock in exchange for shares of common stock of a subsidiary of AT&T that holds all of the assets and liabilities of AT&T Consumer Services Group. This type of redemption must be tax free to the holders of AT&T Consumer Services Group tracking stock, except with respect to any cash in lieu of fractional shares. For more information, see "AT&T Consumer Services Group Tracking Stock -- The Consumer Services Charter Amendment Proposal -- Terms of the Consumer Services Group Tracking Stock Amendment -- Redemption."

Future Sales of AT&T Consumer Services Group Tracking Stock and AT&T Common Stock Could Materially Adversely Affect Their Respective Market Prices and the Ability to Raise Capital in the Future. Sales of substantial amounts of AT&T Consumer Services Group tracking stock and AT&T common stock

in the public market could hurt the market price of each of those securities. These sales also could hurt AT&T's ability to raise capital in the future. Any shares of AT&T Consumer Services tracking stock that AT&T distributes to holders of AT&T common stock will be freely tradable without restriction under the Securities Act of 1933, as amended, by persons other than "affiliates" of AT&T, as defined under the Securities Act. Any sales of substantial amounts of AT&T Consumer Services Group tracking stock or AT&T common stock in the public market, or the perception that those sales might occur, could materially adversely affect the respective market prices of AT&T Consumer Services tracking stock or AT&T common stock, as applicable.

Shareholder approval will not be solicited by AT&T for the issuance of authorized but unissued shares of AT&T Consumer Services Group tracking stock or AT&T common stock, unless these approvals are deemed advisable by the AT&T Board or are required by applicable law, regulation or stock exchange listing requirements. The issuance of those shares could dilute the value of shares of AT&T Consumer Services Group tracking stock or AT&T common stock, as the case may be.

AT&T Expects to Split its Current Dividend Among AT&T Common Stock and AT&T Consumer Services Group Tracking Stock. Following any issuance of AT&T Consumer Services Group tracking stock, AT&T currently expects that one-third of the current dividend payable on AT&T common stock will be allocated to AT&T common stock and that two-thirds will be allocated to AT&T Consumer Services Group tracking stock. The declaration of dividends by AT&T and the amount of those dividends will, however, be in the discretion of the AT&T Board, and will depend upon each of the AT&T group's financial performance, the dividend policies and capital structures of comparable companies, each of the AT&T group's ongoing capital needs, and AT&T's results of operations, financial condition, cash requirements and future prospects, and other factors deemed relevant by the AT&T Board. Payment of dividends also may be restricted by loan agreements, indentures and other transactions that AT&T enters into from time to time.

In addition, the dividend amount that AT&T Consumer Services Group tracking stock may pay to shareowners depends on, among other factors, the cash generation ability of AT&T Consumer Services Group. Based on the risks of a decline in the long distance industry and successful entry into growth opportunities such as DSL, there is a possibility that AT&T Consumer Services Group would not generate sufficient cash flow in the future to pay the expected dividend. This could have an adverse affect on the AT&T Consumer Services Group tracking stock market price and debt levels.

If AT&T is Liquidated, Amounts Distributed to Holders of Each Class of AT&T Common Stock May Not Reflect the Value of the Assets Attributed to the AT&T Groups. Under AT&T's charter, AT&T would determine the liquidation rights of the holders of the respective classes of AT&T common stock in accordance with each AT&T group's respective market capitalization at the time of liquidation. However, the relative market capitalization of each AT&T group may not correctly reflect the value of the net assets remaining and attributed to the AT&T groups after satisfaction of outstanding liabilities.

AT&T Consumer Services Group Tracking Stock May Not be Issued as Planned or At All. The Consumer Services charter amendment proposal gives AT&T the authority to create AT&T Consumer Services Group tracking stock. The proposed Consumer Services Charter amendment, however, does not mandate the manner in which AT&T may issue AT&T Consumer Services Group tracking stock or require that AT&T issue any of these shares at all. Rather, AT&T Consumer Services Group tracking stock will be a new class of AT&T common stock that the AT&T Board may issue from time to time as it determines appropriate, up to the total number of authorized shares and subject to stock exchange rules with respect to shareholder approval of share issuances. AT&T does not plan to seek new shareholder approval for any change that the AT&T Board may approve in the timing or manner of issuing shares of AT&T Consumer Services Group tracking stock. If you do not want to give the AT&T Board this broad authority with respect to the Consumer Services charter amendment proposal, you should not vote for the Consumer Services charter amendment proposal.

I-45

If the Consumer Services charter amendment proposal is approved the AT&T Board may issue shares of AT&T Consumer Services Group tracking stock regardless of whether the AT&T Comcast transaction is approved or completed.

RISK FACTORS RELATING TO AT&T CONSUMER SERVICES GROUP AND AT&T BUSINESS SERVICES GROUP

AT&T Consumer Services Group and AT&T Business Services Group Expect There to be a Continued Decline in the Long Distance Industry. Historically, prices for voice communications have fallen because of competition, the introduction of more efficient networks and advanced technology, product substitution, excess capacity and deregulation. AT&T Consumer Services Group and AT&T Business Services Group expect these trends to continue, and each of AT&T Consumer Services Group and AT&T Business Services Group may need to reduce its prices in the future to remain competitive. In addition, AT&T Consumer Services Group and AT&T Business Services Group do not expect that they will be able to achieve increased traffic volumes in the near future to sustain their current revenue levels. The extent to which each of AT&T Consumer Services Group's and AT&T Business Services Group's business, financial condition, results of operations and cash flow could be materially adversely affected will depend on the pace at which these industry-wide changes continue and its ability to create new and innovative services to differentiate its offerings, enhance customer retention, and retain or grow market share.

AT&T Consumer Services Group and AT&T Business Services Group Face Substantial Competition that May Materially Adversely Impact Both Market Share and Margins. Each of AT&T Consumer Services Group and AT&T Business Services Group currently faces significant competition, and AT&T expects the level of competition to continue to increase. Some of the potential materially adverse consequences of this competition include the following:

- market share loss;
- possibility that customers shift to less profitable, lower margin services;
- need to initiate or respond to price cuts in order to retain market share;
- difficulties in AT&T Consumer Services Group's and AT&T Business Services Group's ability to grow new businesses, introduce new services successfully or execute on their business plan; and
- inability to purchase fairly priced access services.

As a result of competitive factors, AT&T Consumer Services Group and AT&T Business Services Group believe it is unlikely that they will sustain existing price or margin levels.

AT&T Consumer Services Group and AT&T Business Services Group Face Competition from a Variety of Sources.

- Competition from new entrants into long distance, including regional phone companies. AT&T Consumer Services Group and AT&T Business Services Group traditionally have competed with other long distance carriers. In recent years, AT&T Consumer Services Group and AT&T Business Services Group have begun to compete with incumbent local exchange carriers, which historically have dominated local telecommunications, and with other competitive local exchange carriers for the provision of long distance services.

  Some regional phone companies, such as Verizon Communications Inc. and SBC Communications Inc., already have been permitted to offer long distance services in some states within their regions. AT&T expects that the regional phone companies will seek to enter all states in their regions and eventually will be given permission to offer long distance services within their regions.

The incumbent local exchange carriers presently have numerous advantages as a result of their historic monopoly control over local exchanges.

- Competition from facilities-based companies, including regional phone companies. AT&T Consumer Services Group and AT&T Business Services Group also face the risk of increasing

competition from entities that own their own access facilities, particularly the regional phone companies, which have access facilities across vast regions of the United States with the ability to control cost, cycle time and functionality for most end-to-end services in their regions. These entities can preserve large market share and high margins on access services as they enter new markets, including long distance and end-to-end services. This places them in superior position vis-a-vis AT&T Consumer Services Group and AT&T Business Services Group and other competitors that must purchase such high-margin access services.

- Competition from lower-cost or less-leveraged providers. The cost structure of AT&T Consumer Services Group and AT&T Business Services Group also affects their competitiveness. Each faces the risk that it will not be able to maintain a competitive cost structure if newer technologies favor newer competitors that do not have legacy infrastructure and as technology substitution continues. The ability of each of AT&T Consumer Services Group and AT&T Business Services Group to make critical investments to improve cost structure also may be impaired by its current debt obligations.

- Competition as a result of technological change. AT&T Consumer Services Group and AT&T Business Services Group also may be subject to additional competitive pressures from the development of new technologies and the increased availability of domestic and international transmission capacity. The telecommunications industry is in a period of rapid technological evolution, marked by the introduction of new product and service offerings and increasing satellite, wireless, fiber optic and coaxial cable transmission capacity for services similar to those provided by AT&T Consumer Services Group and AT&T Business Services Group. AT&T cannot predict which of many possible future product and service offerings will be important to maintain its competitive position, or what expenditures will be required to develop and provide these products and services. In particular, the rapid expansion of usage of wireless services has led and is expected to lead to an overall decline in traffic volume on traditional wireline networks.

- Competition as a result of excess capacity. Each of AT&T Consumer Services Group and AT&T Business Services Group faces competition as a result of excess capacity resulting from substantial network build out by competitors that had access to inexpensive capital.

- Strength of competitors. Some of AT&T Consumer Services Group's and AT&T Business Services Group's existing and potential competitors have financial, personnel and other resources significantly greater than those of AT&T Consumer Services Group and AT&T Business Services Group.

The Regulatory and Legislative Environment Creates Challenges for AT&T Consumer Services Group and AT&T Business Services Group. Each of AT&T Consumer Services Group and AT&T Business Services Group faces risks relating to regulations and legislation. These risks include:

- difficulty of effective entry into local markets due to noncompetitive pricing and to regional phone company operational issues that do not permit rapid large-scale customer changes from regional phone companies to new service providers,

- new head-on competition as regional phone companies begin to enter the long distance business, and

- emergence of few facilities-based competitors to regional phone companies, and the absence of any significant alternate source of supply for most access and local services.

This dependency on supply materially adversely impacts each of AT&T Consumer Services Group's and AT&T Business Services Group's cost structure, and ability to create and market desirable and competitive end-to-end products for customers.

In addition, regional phone companies will be entering the long distance business while they still control substantially all the access facilities in their regions. This will likely result in an increased level of

competition for long distance or end-to-end services as the services offered by regional phone companies expand.

Each of AT&T Consumer Services Group and AT&T Business Services Group May Substantially Increase its Debt Level in the Future, Which Could Subject it to Various Restrictions and Higher Interest Costs and Decrease its Cash Flow and Earnings. Each of AT&T Consumer Services Group and AT&T Business Services Group may substantially increase its debt level in the future, which could subject it to various restrictions and higher interest costs and decrease its cash flow and earnings. It also may be difficult for AT&T Consumer Services Group and AT&T Business Services Group to obtain all the financing they need to fund their businesses and growth strategies on desirable terms. The amount of debt required in the future will depend upon the performance revenue and margin of each of AT&T Consumer Services Group and AT&T Business Services Group, which, in turn, may be materially adversely affected by competitive and other pressures. Any agreements governing indebtedness obtained by AT&T Consumer Services Group or AT&T Business Services Group may contain financial and other covenants that could impair AT&T Consumer Services Group's or AT&T Business Services Group's flexibility and restrict its ability to pursue growth opportunities.

AT&T expects to explore and evaluate the relative advantages and disadvantages of various funding mechanisms for AT&T. These alternatives may include a bank credit line, commercial paper and other forms of public and private debt financing. The decision on debt composition is dependent on, among other things, the business and financial plans of AT&T and the market conditions at the time of financing.

The Actual Amount of Funds Necessary to Implement Each of AT&T Consumer Services Group's and AT&T Business Services Group's Strategy and Business Plan May Materially Exceed Current Estimates, which Could have a Material Adverse Effect on its Financial Condition and Results of Operations. The actual amount of funds necessary to implement each of AT&T Consumer Services Group's and AT&T Business Services Group's strategy and business plan may materially exceed AT&T Consumer Services Group's and AT&T Business Services Group's current estimates in the event of various factors, including:

- competitive downward pressures on revenues and margins,

- departures from AT&T Consumer Services Group's and AT&T Business Services Group's respective current business plans,

- regulatory developments,

- unforeseen competitive developments,

- technological and other risks,

- unanticipated expenses,

- unforeseen delays and cost overruns, and

- engineering design changes.

If actual costs do materially exceed AT&T Consumer Services Group's and/or AT&T Business Services Group's current estimates for these or other reasons, this would have a material adverse effect on AT&T Consumer Services Group's and/or AT&T Business Services Group's financial condition and results of operations.

AT&T Business Services Group's Build-Out of its Next-Generation IP Backbone Network Involves Substantial Capital Requirements and Substantial Capital Expenditures. AT&T Business Services Group's business plan will require substantial capital expenditures in connection with its build out of its end-to-end IP connectivity network, including both the next-generation IP backbone as well as dedicated IP customer connectivity and hosting facilities. AT&T Business Services Group may not be able to obtain sufficient capital or to obtain sufficient capital on favorable terms. This failure to obtain capital would have a material adverse effect on AT&T Business Services Group, and result in the delay, change or abandonment of its development or expansion plans.

AT&T Consumer Services Group's Potential Growth in its AT&T WorldNet High Speed Service Combining Voice and Data Services Utilizing DSL Technology, Involves Technological and Regulatory Hurdles and Requires Substantial Capital Expenditures. AT&T Consumer Services Group's business plan will require substantial capital expenditures in connection with its expansion into providing voice and data services through DSL technology. The development of voice and data services through DSL technology involves uncertainty relating to potential technological hurdles, regulatory and legislative requirements and unforeseen costs. AT&T Consumer Services Group historically has not had to incur these capital expenditures, and it may not be able to obtain sufficient capital on favorable terms or at all. A failure to obtain capital could have a material adverse effect on AT&T Consumer Services Group, and result in the delay, change or abandonment of its development or expansion plans.

Substantially All of the Telephone Calls Made by Each of AT&T Consumer Services Group's and AT&T Business Services Group's Customers are Connected Using Other Companies' Networks, Including Those of Competitors. AT&T Consumer Services Group principally is a long distance voice telecommunications company. AT&T Consumer Services Group does not own or operate any primary transmission facilities. Accordingly, it must route domestic and international calls made by its customers over transmission facilities obtained from AT&T Business Services Group. AT&T Business Services Group provides long distance and, to a limited extent, local telecommunications over its own transmission facilities. Because AT&T Business Services Group's network does not extend to homes, both AT&T Consumer Services Group and AT&T Business Services Group must route calls through a local telephone company to reach AT&T Business Services Group's transmission facilities and, ultimately, to reach their final destinations.

In the United States, the providers of local telephone service generally are the incumbent local exchange carriers, including the regional phone companies. The permitted pricing of local transmission facilities that AT&T Consumer Services Group and AT&T Business Services Group lease in the United States is subject to legal uncertainties. In view of the proceedings pending before the courts and regulatory authorities, there can be no assurance that the prices and other conditions established in each state will provide for effective local service entry and competition or provide AT&T Consumer Services Group with new market opportunities. The effect of the most recent court decisions is to increase the risks, costs, difficulties and uncertainty of entering local markets through using the incumbent local exchange carriers' facilities and services.

AT&T Consumer Services Group Must Rely on AT&T Business Services Group's

Ability to Maintain, Upgrade and Reduce Costs Associated with the Core Network, Which May Lead to Additional Costs. AT&T Consumer Services Group currently is dependent upon AT&T Business Services Group for leased line capacity, data communications facilities, traffic termination services and physical space for offices and equipment. Although AT&T Consumer Services Group expects to enter into a service agreement with AT&T Business Services Group for it to provide these services, if AT&T Business Services Group becomes unable to provide its current level of services to AT&T Consumer Services Group during the term of the service agreement or thereafter, AT&T Consumer Services Group may not be able to find replacement service providers on a timely basis.

Failure to Develop Future Business Opportunities May have a Material Adverse Effect on AT&T Consumer Services Group's Growth Potential. AT&T Consumer Services Group intends to pursue growth opportunities in providing services through DSL technology, which involve new services for which there are only limited proven markets. In addition, the ability to deploy and deliver these services relies, in many instances, on new and unproven technology. AT&T Consumer Services Group's DSL technology may not perform as expected and AT&T Consumer Services Group may not be able to successfully develop new enabling systems to effectively and economically deliver these services. In addition, these opportunities require substantial capital outlays to deploy on a large scale. This capital may not be available to support these services. Furthermore, each of these opportunities entails additional operational risks. For example, the delivery of these services requires AT&T Consumer Services Group to provide installation and maintenance services, which services AT&T Consumer Services Group has never provided previously. This will require AT&T Consumer Services Group to hire, employ, train and equip technicians to provide

installation and repair in each market served, or rely on subcontractors to perform these services. AT&T Consumer Services Group may not be able to hire and train sufficient numbers of qualified employees or subcontract these services, or do so on economically attractive terms. These services may not be successful when they are in place and customers may not purchase the services offered. If these services are not successful or costs associated with implementation and completion of the rollout of these services materially exceed those currently estimated by AT&T Consumer Services Group, AT&T Consumer Services Group's financial condition and prospects could be materially adversely affected.

AT&T and British Telecommunications, plc, or BT, Have Agreed to Unwind their Concert Global Joint Venture, Which May Adversely Affect AT&T Consumer Services Group and AT&T Business Services Group. On October 16, 2001, AT&T and BT announced that they had reached binding agreements to unwind their global joint venture called Concert. The dissolution of Concert will be complicated, involve a large number of steps and require the receipt of certain regulatory approvals. There can be no assurance that it will be completed in the time frames that AT&T currently expects or at all. In addition, the dissolution of Concert may lead to unsatisfactory, noncompetitive or disrupted service to Concert's multinational customers and there can be no assurance that AT&T Business Services will be able to regain and retain its former multinational customers that it assigned to Concert when the venture was formed. The dissolution of Concert may have a material adverse effect on AT&T, AT&T Business Services and on AT&T Business Services' ability to provide services internationally and to multinational customers.

CHAPTER TWO

THE AT&T COMCAST TRANSACTION

GENERAL

The Comcast Board is using this document to solicit proxies from the holders of Comcast common stock for use at the Comcast special meeting. The AT&T Board is also using this document to solicit proxies from the holders of AT&T common stock for use at the AT&T annual meeting.

COMCAST PROPOSALS

At the Comcast special meeting, holders of Comcast Class A common stock and Comcast Class B common stock will be asked to vote upon a proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement. This proposal is referred to in this document as the "Comcast transaction proposal."

At the Comcast special meeting, holders of Comcast Class A common stock, voting as a single class, and holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class, will also be asked to vote upon a proposal to adopt an amendment to the Comcast charter that will allow implementation of the Preferred Structure. See "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Merger Consideration -- The Preferred Structure." This proposal is referred to in this document as the "preferred structure proposal."

APPROVAL OF THE COMCAST TRANSACTION PROPOSAL IS NOT CONDITIONED ON APPROVAL OF THE PREFERRED STRUCTURE PROPOSAL.

AT&T PROPOSALS

At the AT&T annual meeting, holders of AT&T common stock will be asked to vote upon a proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement. This proposal is referred to in this document as the "AT&T transaction proposal."

At the AT&T annual meeting, holders of AT&T common stock will also be asked to vote separately on a proposal to approve and adopt an amendment to the AT&T charter creating a tracking stock that is intended to reflect the financial performance and economic value of the AT&T Consumer Services business. See "AT&T Consumer Services Group Tracking Stock -- The Consumer Services Charter Amendment Proposal." This proposal is referred to in this document as the "Consumer Services charter amendment proposal." AT&T shareholders will also be asked to vote on benefit proposals related to the Consumer Services charter amendment proposal. These proposals are referred to in this document as the "incentive plan proposal" and the "employee stock purchase plan proposal." Additionally, AT&T shareholders will also be asked to vote upon the election of directors and other matters that properly come before the AT&T annual meeting. See "Information about the AT&T Annual Meeting and Voting."

BACKGROUND OF THE AT&T COMCAST TRANSACTION

On October 25, 2000, AT&T announced, among other things, that it intended to create and issue a tracking stock intended to reflect the financial performance and economic value of AT&T Broadband and, thereafter, to separate AT&T Broadband from AT&T so that, ultimately, AT&T Broadband would be a standalone, publicly traded company. AT&T also announced that it intended to create and issue a tracking stock intended to reflect the financial performance and economic value of AT&T Consumer Services Group. In addition, AT&T announced that it intended to separate AT&T's wireless services business from AT&T.

In December 2000 and in early 2001, C. Michael Armstrong, Chairman and

Chief Executive Officer of AT&T, and Charles Noski, Chief Financial Officer of AT&T, received telephone calls from Ralph J. Roberts, Chairman of the Board of Comcast, and from Brian L. Roberts, President of Comcast, in which the Roberts expressed interest in initiating discussions with respect to the possible combination of Comcast and AT&T Broadband. In January 2001, Messrs. Armstrong and Noski met with the Roberts at the

Roberts' request. At this meeting, Mr. Armstrong told the Roberts that AT&T was concentrating on key restructuring and operating matters at that time and was not interested in engaging in discussions with respect to a combination.

On May 11, 2001, AT&T publicly filed preliminary proxy materials with respect to a proposed special shareholders meeting at which AT&T planned to ask shareholders to vote on (1) the creation of tracking stocks intended to reflect the financial performance and economic value of AT&T Broadband and AT&T Consumer Services Group, respectively, and (2) the separation of AT&T Broadband from the rest of AT&T. In late May 2001, Brian Roberts again made inquiries regarding AT&T's willingness to explore the possibility of a combination of Comcast and AT&T Broadband. At Mr. Roberts' request, on June 6, 2001, Mr. Noski had dinner with Mr. Roberts to discuss the potential for such a transaction. Mr. Roberts and Mr. Noski discussed, among other things, how such a combination might be structured, governed and valued. On June 17, 2001, Mr. Roberts and Mr. Noski had another dinner meeting at which they had further discussions regarding the possibility of a combination.

At a meeting on June 20, 2001, Mr. Noski reported to the AT&T Board on these discussions with Mr. Roberts. At that meeting, the AT&T Board decided that the discussions should not continue unless Comcast signed a confidentiality letter containing customary standstill provisions. The AT&T Board also believed that, if discussions were to continue, they should be with the understanding that voting power in the combined company should follow economic interest more closely than in the case of Comcast. Following the meeting, Charles Noski conveyed the AT&T Board's views to Brian Roberts in a telephone call.

At a special meeting of the Comcast Board held on June 25, 2001, Comcast management updated the directors on the status of the discussions with AT&T concerning a potential AT&T Broadband transaction. The Comcast Board and management discussed at length possible strategies to effect an AT&T Broadband transaction, including the possibility of making an unsolicited offer for AT&T Broadband. At the conclusion of this discussion, the Comcast Board determined that it was not prepared to proceed with discussions on the terms outlined by AT&T.

On July 3, 2001, AT&T filed revised preliminary proxy material indicating that it intended to hold its special meeting of shareholders in September 2001 to vote on the creation of the AT&T Broadband tracking stock and the subsequent separation of AT&T and AT&T Broadband.

On July 6, 2001, at a special meeting of the Comcast Board, Comcast management informed the Comcast directors of AT&T's timetable for the creation of the AT&T Broadband tracking stock and the separation of AT&T Broadband from AT&T. Comcast management noted that mailing of the proxy materials to AT&T shareholders for the September meeting could commence as early as late July. Comcast management also reviewed with the Comcast Board the terms of an offer it proposed to make to AT&T. After a lengthy discussion of the terms of the offer and related matters, including the timeframe in which an outcome would be determined and possible responses from AT&T, the Comcast Board unanimously authorized Comcast management to proceed with the offer.

On July 8, 2001, Ralph J. Roberts and Brian L. Roberts sent the following letter to Mr. Armstrong:

July 8, 2001

Mr. C. Michael Armstrong
Chairman and CEO
AT&T Corp.
32 Avenue of the Americas
New York, NY 10013

Dear Mike:

Over many months of discussions we have shared a vision that AT&T Broadband and Comcast should be combined to create the world's leader in broadband communications. We believed those discussions were progressing towards a tax-free transaction that would dramatically accelerate your own plan to separate the broadband company. It is unfortunate that we were not able to agree on a basis for continuing our dialogue. Accordingly, we submit this offer to you for consideration by your Board before a proxy statement relating to your broadband tracking stock proposal is sent to your shareholders later this month.

Under our proposal Comcast would issue 1.0525 billion shares with a value of $44.5 billion based on Friday's closing price and assume $13.5 billion in debt for your core broadband business, which is composed of your 13.5 million cable subscribers as well as your joint venture interests. In addition, we are prepared to acquire your interests in TWE, Cablevision and Rainbow by assuming more debt and issuing more equity to reflect their values. Under our proposal your shareholders would own a majority of the economic and voting interests of the combined company in a transaction that would be tax-free to AT&T and all shareholders.

Our proposal values your core broadband business at $58 billion, which represents 30x both 2000 EBITDA and annualized first quarter 2001 EBITDA. AT&T shareholders would receive Comcast shares valued at $12.60 per AT&T share based on Friday's closing price, while retaining complete ownership of AT&T's historical communications business that according to published reports has a value approaching $70 billion on a standalone basis. This combined value is dramatically higher than your current market value per share of $16.80 after giving effect to the spin-off of AT&T Wireless.

Your shareholders would receive significantly more value through a combination with Comcast than through your planned restructuring. Not only does our proposal avoid the market risks, costs and uncertainties inherent in the planned broadband IPO, it values your business at a significant premium to your potential public market valuation. At 30x AT&T Broadband's annualized first quarter 2001 EBITDA, our offer far exceeds the trading multiple of any publicly traded broadband company. Put another way, our proposal delivers a very substantial premium over published reports of the estimated value of your broadband business.

After combining our broadband businesses, your shareholders will retain a majority of the future appreciation resulting from substantial combination benefits. Upon full integration of our broadband businesses, we expect the combination benefits will amount to at least $1.25 billion annually. This benefit could eventually increase to between $2.6 and $2.8 billion annually as we work together to raise the level of your margins. None of these figures take account of any new content, internet or other value creating opportunities. As a result of these combination benefits, merging our broadband companies will clearly be value accretive to both groups of shareholders.

Given the strength of Comcast's balance sheet we are confident that the new company would have an investment grade debt rating, a view which is shared by our financial advisors, Morgan Stanley, JP Morgan and Merrill Lynch.

II-3

We understand that there were concerns within AT&T about Comcast's voting structure. As you know, multi-class structures are common in our industry and have not affected stock trading values. Our Class A Special shares have outperformed the cable composite index, the S&P 500 and The Nasdaq Stock Market in each of the last one, three, five, seven and ten year periods. We are confident that your shareholders would welcome our currency. In fact, 38 of your 50 largest institutional shareholders also have significant investments in Comcast.

Our proposal is subject to the negotiation of a definitive merger agreement. We are prepared to deliver a draft merger agreement as soon as you wish. We are confident that the combination does not present any significant regulatory issues.

In light of the significance of this proposal to both your shareholders and ours, we are publicly releasing the text of this letter.

We hope that you will work with us to make this vision a reality.

Respectfully submitted,

Ralph J. Roberts	Brian L. Roberts
Chairman of the Board	President

On July 10, 2001, the AT&T Board met by telephone and was briefed by AT&T's management and advisors with respect to the letter from Comcast and reviewed with AT&T's legal advisors the AT&T Board's legal duties. On July 18, 2001, the AT&T Board voted unanimously to reject Comcast's proposal to acquire AT&T Broadband. After careful review, and based in part on the advice of its financial advisors, Credit Suisse First Boston Corporation and Goldman, Sachs & Co., the AT&T Board determined that Comcast's proposal did not reflect the full value of AT&T Broadband. The AT&T Board also continued to be concerned by the corporate governance issues arising from Comcast's multi-tier voting structure. The AT&T Board directed AT&T management to explore financial and strategic alternatives relating to AT&T Broadband, including the previously announced restructuring plans, with the goal of providing the greatest long-term value to shareholders. In addition, the AT&T Board decided to delay finalizing and mailing to shareholders the proxy materials that AT&T had previously filed.

Thereafter, representatives of AT&T had preliminary discussions with representatives of a number of third parties who had expressed interest in a transaction with or an investment in AT&T or AT&T Broadband. AT&T informed each of the parties that it would not be willing to discuss valuation or commence due diligence activities until the other party entered into a customary confidentiality agreement. AT&T's proposed confidentiality agreement included provisions prohibiting interested parties from holding discussions with each other with respect to a combination with AT&T Broadband without AT&T's consent.

AT&T's discussions with third parties included discussions with representatives of Comcast. Because Comcast objected to signing AT&T's proposed confidentiality agreement, however, these discussions initially did not include any valuation discussions nor did the parties commence due diligence.

On September 17, 2001, Charles Noski and Brian L. Roberts and certain representatives of their respective financial and legal advisors met in Philadelphia. At this meeting, Mr. Roberts indicated that Comcast would be willing to negotiate certain aspects of its proposed governance structure for a combined Comcast-AT&T Broadband. He also indicated that Comcast would be willing to enter into a confidentiality agreement containing restrictions on Comcast's ability to talk to other parties regarding a potential combination with AT&T Broadband, so long as AT&T was willing to indicate that Comcast's governance position would not preclude a transaction with Comcast.

At meetings held on September 20 and 22, 2001, AT&T's management and financial and legal advisors reviewed with the AT&T Board the status of discussions with various parties and the strategic

alternatives available to AT&T with respect to AT&T Broadband. Following this review, the AT&T Board instructed AT&T's management and advisors to continue to explore and develop financial and strategic alternatives relating to AT&T Broadband. The AT&T Board authorized management to indicate to Comcast that governance would not preclude a transaction with Comcast if the terms of the transaction as a whole were sufficiently attractive. The AT&T Board also authorized AT&T's management and advisors to seek formal proposals from interested parties.

From August through October 2001, the Comcast Board met several times to receive reports from its management on the status of Comcast's proposal to acquire AT&T Broadband. After one of these briefings at a special meeting of the Comcast Board held on September 26, 2001, Comcast's legal advisors reviewed the terms of the confidentiality agreement that Comcast and AT&T had negotiated and explained the restrictions imposed by the agreement on Comcast's ability to talk to third parties. After a lengthy discussion of the terms of the confidentiality agreement and related matters, the Comcast Board unanimously authorized management to enter into the confidentiality agreement, to commence due diligence on AT&T Broadband and to continue negotiations with AT&T regarding an AT&T Broadband transaction.

On September 28, 2001, AT&T and Comcast entered into a confidentiality agreement with respect to a possible transaction involving AT&T Broadband. Thereafter, AT&T and Comcast commenced the exchange of confidential information and other due diligence activities. Representatives of AT&T also continued discussions and due diligence activities with other interested parties, including parties interested in making an investment in AT&T Broadband. In addition, AT&T's legal advisors sent first drafts of a proposed merger agreement and separation and distribution agreement to parties that had executed a confidentiality agreement.

On October 23 and 24, 2001, letters seeking formal proposals were sent on AT&T's behalf to three parties, one of which was Comcast, that had expressed interest in a possible combination with AT&T Broadband and had executed confidentiality agreements. Each letter stated that the party should submit its proposal to the attention of AT&T's legal advisor no later than November 30, 2001, and set forth procedures for submitting the proposal and for conducting due diligence. The letter also stated that the proposal should include a copy of the merger agreement marked to show any proposed changes, and that the proposal should have full board approval. In addition, the letter encouraged parties to discuss any financial or legal issues with AT&T's financial and legal advisors prior to submitting a proposal. Also on October 23, 2001, AT&T appointed William T. Schleyer president and chief executive officer of AT&T Broadband, and appointed two other new senior executives of AT&T Broadband. AT&T stated that the appointments were part of an effort to strengthen and enhance AT&T Broadband's senior management team as AT&T continued to evaluate strategic and financial alternatives for AT&T Broadband.

During the ensuing period, AT&T and its advisors conducted further discussions and due diligence activities with each of the parties. These included discussions relating to potential synergies and strategies (including telephony strategy) for a combined company, as well as discussions with respect to the draft merger agreement and other draft transaction documents, particularly the separation and distribution agreement and the other intercompany agreements. AT&T and its advisors also discussed with each of the parties the governance structure proposed for the combined company. In addition, during this period, AT&T continued to have discussions with other parties interested in making only an investment in AT&T Broadband.

Over the course of the discussions between Comcast and AT&T Broadband, Comcast agreed that the voting power of the Class B shares held by the Roberts family would be limited to one-third of the voting power of the combined company, and that the initial board of the combined company would be comprised of five members of the current Comcast board, five members of the current AT&T Board to be mutually agreed (including Mr. Armstrong as Chairman), and two new independent directors to be selected mutually. The Roberts family agreed that, for five years, it would not sell its Class B shares except to certain permitted transferees or in a transaction that offered the same per share consideration to all

shareholders and that was approved or accepted by holders of a majority of the shares held by shareholders other than the Roberts family.

From September through November 2001, Comcast held talks from time to time with Microsoft Corporation concerning an arrangement whereby Microsoft would exchange AT&T preferred securities held by it that are referred to in this document as "QUIPS" in an aggregate principal amount of $5 billion for equity in AT&T Comcast. The purpose of these discussions was to negotiate what is referred to in this document as the "QUIPS exchange transaction," in order to reduce the amount of fixed obligations AT&T Comcast would have upon completion of an AT&T Broadband transaction. Also, during October and November 2001 Brian L. Roberts and C. Michael Armstrong had a series of meetings to discuss matters relating to the strategy and management of the combined company.

On November 26, 2001, at a special meeting of the Comcast Board, management updated the Board on the status of negotiations concerning an AT&T Broadband transaction and on the extensive due diligence that Comcast and its financial and legal advisors had conducted. At that meeting, management also described its efforts to prepare a revised offer for AT&T Broadband for submission to AT&T on November 30, 2001. The Comcast Board heard a presentation from Comcast's legal advisor concerning the auction process initiated by AT&T and the fiduciary duties of the Comcast directors and a presentation from Comcast's financial advisors concerning the terms of Comcast's revised proposal. Thereafter, the Comcast Board unanimously authorized management to continue negotiations with AT&T concerning an AT&T Broadband transaction.

On November 27, 2001, a letter was sent on AT&T's behalf to each of the three parties informing them that the deadline for submission of proposals had been extended to December 3, 2001.

On the morning of December 3, 2001, at a special meeting of the Comcast Board, management reviewed with the directors the terms of its revised offer to acquire AT&T Broadband, including the amount of equity to be issued to AT&T shareholders, the amount of debt to be assumed by AT&T Broadband and the governance arrangements to be implemented for the combined company upon completion of an AT&T Broadband transaction. Management also reviewed with the directors the final terms of the QUIPS Exchange that had been negotiated with Microsoft. After discussion, the Comcast Board unanimously authorized management to submit the revised offer on the terms and conditions described at that meeting and to enter into the exchange agreement with Microsoft relating to the QUIPS exchange transaction. Shortly after that meeting, Comcast and Microsoft executed the exchange agreement.

Later on December 3, 2001, each of the three parties submitted a proposal, including proposed agreements, with respect to a combination with AT&T Broadband. Over the course of the next several days, AT&T's management and its financial and legal advisors reviewed the proposals and had discussions with representatives of each of the parties. At the AT&T Board's direction, AT&T's management and its advisors sought to clarify aspects of the proposals, as well as to negotiate various provisions of the proposed agreements.

At meetings held on December 7 and 8, 2001, AT&T's management and financial and legal advisors reviewed and discussed with the AT&T Board each of the proposals, as well as other alternatives available to AT&T. These alternatives included proceeding with the separation of AT&T Broadband without any combination with another party, or retaining AT&T Broadband as part of AT&T. AT&T's legal advisors also reviewed again with the AT&T Board the legal standards applicable to their consideration of the proposals. The AT&T Board concluded that none of the proposals as presented was sufficiently attractive to accept, nor were the proposed agreements with any of the parties at a stage to be executed immediately. The AT&T Board also concluded, however, that each of the three proposals and sets of agreements might be capable of being improved sufficiently to be acceptable to the AT&T Board. In light of these conclusions, the AT&T Board directed AT&T's management and advisors to seek to improve the terms of the proposals, and reach agreements that were ready to be executed, in advance of the AT&T Board's regularly scheduled meeting to be held on December 19, 2001.

On December 8 and 9, 2001, representatives of AT&T informed each of the three parties of the AT&T Board's decisions. The AT&T representatives proposed meetings and discussions with representatives of each of the parties over the next week with the goal of reaching revised proposals and final agreements no later than December 16, 2001. In these meetings and discussions, in accordance with the AT&T Board's instructions, AT&T's representatives requested that each of the parties increase the amount of equity in the combined company that AT&T shareholders would receive, and to agree on an allocation of assets and liabilities between AT&T and AT&T Broadband consistent with the allocations proposed by AT&T.

On December 15, 2001, the Comcast Board met to consider a recommendation by management that Comcast increase its offer for AT&T Broadband. At that meeting, management updated the Comcast directors on the status of the negotiations with AT&T concerning the AT&T Broadband transaction. Comcast's legal advisor then reviewed with the Comcast Board in detail the terms of the merger agreement and the other transaction agreements that had been negotiated with AT&T as well as the fiduciary duties of the Comcast directors. Also at that meeting, Comcast's financial advisors made a presentation concerning certain financial aspects of Comcast's proposal for AT&T Broadband. Thereafter, the Comcast Board unanimously authorized management to increase Comcast's bid for AT&T Broadband.

On December 16, 2001, each of the three parties submitted revised proposals, in each case increasing the equity amount offered to AT&T shareholders and the amount of liabilities that the combined company would assume. Over the next three days, representatives of AT&T had further discussions with representatives of each of the three parties in an effort to finalize the proposed agreements and to encourage each of the parties to make sure that it had presented its best and final proposal. In the course of these discussions with representatives of AT&T, all three parties made final improvements to their proposals.

On the morning of December 19, 2001, the Comcast Board met to consider a recommendation by management that Comcast increase the equity component of its offer for AT&T Broadband. At that meeting, Comcast's legal advisor provided the Board with an update on the status of the negotiations with AT&T. Comcast's financial advisors indicated that they would be in a position to provide the Board with opinions to the effect that the price proposed to be paid in the AT&T Broadband transaction would be fair to Comcast's shareholders. After discussion, the Comcast Board unanimously authorized Comcast management to increase its bid for AT&T Broadband and to enter into an AT&T Broadband transaction on the terms previously described to the Comcast Board.

At the AT&T Board meeting on December 19, 2001, AT&T's management and financial and legal advisors reviewed and discussed with the AT&T Board the final proposals from each of the parties, and again reviewed the other alternatives available to AT&T and AT&T's legal advisors again reviewed the legal standards applicable to the AT&T Board's decisions. AT&T's management and advisors also reviewed with the AT&T Board the risks, including regulatory risks, execution risks and certainty of completion, of each of the proposals and alternatives. Based on this review, the AT&T Board concluded that the Comcast proposal offered greater value and certainty than the other two proposals, as well as greater value and certainty than the other available alternatives. The AT&T Board noted favorably that the Roberts family had agreed to limit the voting power of Class B shares to 33 1/3%.

However, in reviewing the agreement of the Roberts family not to sell its Class B shares except to certain permitted transferees or in a transaction that offered the same per share consideration to all shareholders and that was approved or accepted by holders of a majority of the shares held by shareholders other than the Roberts family, the AT&T Board determined that this protection should be extended from five years to ten years. The AT&T Board directed management to request that the Roberts family agree to this extension. Messrs. Armstrong and Noski telephoned Brian Roberts to ask that the Roberts family agree to the extension. After considering the issue, Mr. Roberts called Mr. Armstrong back to inform him that the family would agree. The AT&T Board voted unanimously to approve the Comcast proposal and the agreements reflecting that proposal. Following the meeting, AT&T and Comcast executed the merger

agreement, AT&T and AT&T Broadband executed the separation and distribution agreement, and AT&T, Comcast and Mr. Roberts executed the support agreement.

COMCAST'S REASONS FOR THE AT&T COMCAST TRANSACTION

At a special meeting held on December 19, 2001, the Comcast Board unanimously determined that the AT&T Comcast transaction, including the Comcast merger, is fair to and in the best interests of Comcast shareholders. The Comcast Board recommends that holders of Comcast common stock vote FOR approval and adoption of the merger agreement and the transactions contemplated by the merger agreement. In the course of determining that the AT&T Comcast transaction, including the Comcast merger, is fair to and in the best interests of Comcast shareholders, the Comcast Board consulted with management, as well as its legal and financial advisors, and considered the following primary factors:

- Creating an Unrivaled Broadband Network. Comcast believes that the combination of Comcast with AT&T Broadband will create a network of unrivaled scale and scope, uniquely situated to realize the vision of broadband. On a pro forma basis, the combined network will have 22 million subscribers with 38 million homes passed, the leading presence in eight of the ten largest U.S. cable marketing areas and a major presence in 17 of the 20 largest cable marketing areas, and a physical plant that is 80% upgraded to 550 MHZ and 67% upgraded to 750 MHZ. Comcast expects these strengths will permit the combined company to lead the industry in the development of new broadband services, such as video-on-demand, interactive television and telephony.

- Synergies. Building on the strength of the combined network, Comcast expects the combined company to achieve operating synergies approaching $1-2 billion annually by 2005. Comcast expects to achieve these synergies through elimination of corporate overhead and reduced operating costs and the adoption of best practices from the two companies. In addition, Comcast expects to achieve additional synergies through increased advertising revenues, the development of new revenue-producing products and programming assets and the expansion of broadband telephony.

- Potential for Earnings Growth. Comcast believes the combined company will offer an opportunity for earnings growth as the AT&T Broadband systems are brought up to industry-standard margins. Comcast has a track record of maintaining earnings before interest, taxes, depreciation and amortization, or EBITDA, margins even as lower margin systems are integrated. By combining the best management of Comcast and AT&T Broadband, Comcast expects to accelerate the growth in EBITDA margins that AT&T Broadband has begun.

- Fairness Opinions. Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, financial advisors to Comcast, each rendered an opinion dated December 19, 2001 to the effect that as of that date and based upon and subject to the assumptions, qualifications and limitations set forth therein, the conversion ratios in the Comcast merger applicable to the holders of Comcast common stock, in the aggregate, were fair, from a financial point of view, to the Comcast shareholders, taken together. The fairness opinions of Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are included as Annexes G, H and I, respectively, to this document and should be read in their entireties. The Comcast Board believes that these opinions support the Comcast Board's conclusion that the AT&T Comcast transaction, including the Comcast merger, is fair to and in the best interests of Comcast shareholders.

- Tax-Free Transaction. Comcast expects that the Comcast merger will be tax-free for U.S. federal income tax purposes to Comcast shareholders.

- Terms of the AT&T Comcast Transaction Agreements. The Comcast Board considered the terms and conditions of the merger agreement, including the conditions to closing, the termination fees payable under certain circumstances and the restrictions imposed on the conduct of business of AT&T Broadband and Comcast in the period prior to closing. The Comcast Board took particular note of the provisions of the merger agreement which do not permit AT&T to terminate the merger agreement to accept a superior acquisition proposal or if the AT&T Board changes its recommendation of the transaction in a manner adverse to Comcast, and which, subject to applicable law, require AT&T to submit the transaction for a vote of the AT&T shareholders at the AT&T meeting. The Comcast Board also considered the terms and conditions of the other transaction agreements described or referred to in this document.

- Governance. The Comcast Board considered the fact that Brian L. Roberts will initially be the Chief Executive Officer and President of AT&T Comcast and will, along with C. Michael Armstrong, comprise the Office of the Chairman, AT&T Comcast's principal executive deliberative body. The Comcast Board also considered the fact that Brian L. Roberts will, in consultation with C. Michael Armstrong, select the initial executive officers of the combined company.

- Structure of the AT&T Comcast Transaction. The Comcast Board considered that the transaction is structured as a spin-off and merger of AT&T Broadband with a subsidiary of AT&T Comcast instead of a spin-off of AT&T's communications business and merger of AT&T (which would under such a structure consist primarily of AT&T's broadband business) with a subsidiary of AT&T Comcast. Comcast believes that the structure of the AT&T Comcast transaction reduces the potential exposure of the combined company to historic AT&T liabilities that are not attributable to AT&T's broadband business. In addition, Comcast believes that the structure of the AT&T Comcast transaction reduces the potential exposure of the combined company to contractual liabilities of AT&T's communications business.

The Comcast Board also considered potential adverse consequences and negative factors, primarily consisting of the following, but concluded that the positive factors outweighed these negative factors:

- Risk Factors. The Comcast Board considered the risks described under "Summary and Overview of the Transactions -- Risk Factors relating to the AT&T Comcast Transaction" and "Summary and Overview of the Transactions -- Risk Factors relating to the Business of AT&T Comcast."

- Increased Debt Level. AT&T has allocated a significant portion of AT&T's consolidated debt to AT&T Broadband. As a result of this allocation, AT&T Comcast will be more leveraged than Comcast has historically been. The Comcast Board believes that the financial strength of the combined company and the deleveraging opportunities that will be available following completion of the mergers will enable AT&T Comcast to support and reduce this debt level.

- Potential Additional Payments. The Comcast Board considered provisions of the merger agreement that may require Comcast to increase the amount of AT&T Comcast common stock to be issued to AT&T Broadband shareholders in the AT&T Broadband merger. In particular, the Comcast Board noted that (1) the aggregate number of shares of AT&T Comcast common stock to be issued to holders of AT&T Broadband common stock may be increased by up to 3% if the AT&T Comcast common stock issued to holders of AT&T Broadband common stock is not included in the Standard & Poor's 500 Index and there is a per share disparity between the average trading price of such class of stock and AT&T Comcast Class A Special common stock, in each case shortly after completion of the mergers, and (2) the aggregate number of shares of AT&T Comcast common stock to be issued to holders of AT&T Broadband common stock may also be increased, without limit, to the extent that such shares do not represent more than 50% of the total value of AT&T Comcast common stock that will be outstanding upon completion of the mergers.

In addition, the Comcast Board was aware of the interests of certain of its directors and officers described under "Employee Benefits Matters -- Interests of Directors and Officers in the AT&T Comcast Transaction."

Due to the variety of factors and the quality and amount of information considered, the Comcast Board did not find it practicable to and did not make specific assessments of, quantify or assign relative weights to the specific factors considered in reaching its determination to approve the merger agreement and the transactions contemplated by the merger agreement. Instead, the Comcast Board made its

determination after consideration of all factors taken together. In addition, individual members of the Comcast Board may have given different weight to different factors.

COMCAST'S PREFERRED STRUCTURE PROPOSAL

Background. The Comcast charter provides that if in a transaction like the Comcast merger the holders of the Comcast Class A common stock, the Comcast Class B common stock and the Comcast Class A Special common stock do not receive the same consideration for each of their shares of Comcast common stock (i.e., the same amount of cash or the same number of shares of each class of stock issued in the transaction in proportion to the number of shares of Comcast common stock held by them, respectively, without regard to class), the holders of each class of Comcast common stock must receive "mirror" securities (i.e., shares of a class of stock having substantially equivalent rights as the applicable class of Comcast stock). It is unclear that the shares of AT&T Comcast Class A common stock to be issued to holders of the Comcast Class A common stock in the Comcast merger under the Preferred Structure qualify as "mirror" securities because the per share voting rights of the Class A common stock relative to the per share voting rights of the Class B common stock will decrease. Consequently, Comcast has decided to seek the approval of the holders of the Comcast Class A common stock, voting as a single class, and holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class, to the adoption of an amendment to the Comcast charter that expressly permits implementation of the Preferred Structure. If approved, the Comcast charter amendment would be effected immediately prior to the Comcast merger. This proposal is referred to in this document as the "preferred structure proposal." If the AT&T Comcast transaction does not occur, the Comcast charter amendment will not be effected, even if the preferred structure proposal is approved. A copy of the Comcast charter amendment that would be filed prior to completion of the transaction if the preferred structure proposal is approved is attached as Annex E to this document.

Recommendation. The Comcast Board has unanimously determined that the Preferred Structure is in the best interests of the holders of the Comcast Class A common stock. The Comcast Board recommends that holders of Comcast common stock vote FOR the adoption of the Comcast charter amendment described above. If the holders of Comcast Class A common stock, voting as a single class, and holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class, approve the preferred structure proposal, the Preferred Structure will be implemented upon completion of the transaction. See "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Merger Consideration -- Preferred Structure." If holders of Comcast Class A common stock, voting as a single class, or holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class, do not approve the preferred structure proposal, the Alternative Structure will be implemented upon completion of the transaction. See "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Merger Consideration -- Alternative Structure."

Reason. In the course of determining that the Preferred Structure is in the best interests of the holders of Comcast Class A common stock, the Comcast Board consulted with management, as well as its financial and legal advisors. After taking into account their advice, the Comcast Board decided to recommend approval of the preferred structure proposal based on its belief that the holders of Comcast Class A common stock will benefit from owning shares in an extremely liquid class of stock. If the Preferred Structure is implemented and the QUIPS exchange transaction occurs, upon completion of the AT&T Comcast transaction, there will be approximately 1.372 billion outstanding shares of AT&T Comcast Class A common stock. By contrast, if the Alternative Structure is implemented and regardless of whether or not the QUIPS exchange transaction occurs, upon completion of the AT&T Comcast transaction, there will only be approximately 22 million outstanding shares of AT&T Comcast Class A common stock. While holders of AT&T Comcast Class A common stock, together with holders of AT&T Comcast Class B common stock, will have specific approval rights over numerous corporate actions under the Alternative Structure that they will not have under the Preferred Structure, holders of AT&T Comcast Class B common stock will control these approval rights because holders of AT&T Comcast Class B

common stock will hold approximately 86.7% of the votes entitled to be cast on such matters. In addition, Comcast does not believe that the increased per share voting power of AT&T Comcast Class A common stock under the Alternative Structure relative to the per share voting power of the AT&T Comcast Class A common stock under the Preferred Structure outweighs the advantage of the greater liquidity that the AT&T Comcast Class A common stock will have under the Preferred Structure relative to the Alternative Structure. See "Certain Legal Information -- Description of AT&T Comcast Capital Stock -- AT&T Comcast Class A Common Stock -- Voting Rights."

AT&T'S REASONS FOR THE AT&T COMCAST TRANSACTION

At a meeting held on December 19, 2001, the AT&T Board unanimously determined that the AT&T Comcast transaction, including the separation, the AT&T Broadband spin-off and the AT&T Broadband merger, is fair to and in the best interests of AT&T shareholders. The AT&T Board recommends that holders of AT&T common stock vote FOR approval and adoption of the merger agreement and the transactions contemplated by the merger agreement. In the course of determining that the AT&T Comcast transaction, including the separation, the AT&T Broadband spin-off and the AT&T Broadband merger, is fair to and in the best interests of AT&T shareholders, the AT&T Board consulted with management, as well as its legal and financial advisors, and considered the following primary factors:

- Valuation. The AT&T Board believes that the AT&T Broadband exchange ratio provides AT&T shareholders with an attractive valuation for their interest in AT&T Broadband and offers superior and more certain value than the alternatives that were available to AT&T. These alternatives included other combination proposals with respect to AT&T Broadband, continuing with the separation of AT&T Broadband without any combination and retaining AT&T Broadband as part of AT&T.

- Strength of Combined Company. AT&T believes that the combination of AT&T Broadband with Comcast will create a leading entertainment, communications and information company, passing more than 38 million homes with more than 22 million subscribers. The combined company will have a presence in 41 states and will be the leader in eight of the ten largest U.S. cable marketing areas and a major presence in 17 of the 20 largest cable marketing areas. AT&T believes that the combined company will be a leader in advanced services, well positioned for developing and bringing to market new and innovative products and services for consumers. The scale of the combined company is expected to accelerate broadband deployment in areas such as telephony, video on demand, home networking and interactive television. AT&T Comcast is also expected to be able to take advantage of significant cost and revenue synergies. By virtue of their large equity interest (approximately [ ]% in the aggregate), AT&T shareholders will have a significant opportunity to participate in the future performance of the combined company.

- Telephony Strategy. AT&T Comcast is expected to be able to take advantage of AT&T Broadband's cable telephony expertise in order to develop telephony opportunities and increase revenues from telephony service offerings. The AT&T Board believes that the opportunity to utilize AT&T Comcast's extensive facilities should enhance the growth opportunities of the combined company.

- Benefits of Separating AT&T Broadband. The AT&T Board continues to believe that the separation of AT&T Broadband from the communications services businesses of AT&T provides benefits to both businesses. The separation is expected to give the broadband and communications services businesses greater financial and operating strength to help realize growth opportunities, reduce the complexity inherent in managing an integrated enterprise of broadband and communications businesses, allow the businesses to create more effective management incentive and retention programs and allow for more focused investment opportunities than those presented by a diversified AT&T. The AT&T Board believes that the AT&T Broadband merger will only enhance these benefits by creating a better and stronger broadband business.

- Improvement of Financial Position of AT&T. AT&T has been pursuing a course of activities designed to reduce its debt levels. The AT&T Board believes that the allocation of a significant portion of AT&T's consolidated debt to AT&T Broadband, followed by the combination of AT&T Broadband with Comcast, will improve AT&T's financial position. AT&T believes that the combined AT&T Comcast will have greater financial strength and ability to support the debt allocated to AT&T Broadband and to engage in further debt reduction activities than an independent AT&T Broadband, and that the communications services business will have a strong capital position following the separation of AT&T Broadband, putting it in a better position to take advantage of opportunities in the future.

- Opinions of Financial Advisors. Credit Suisse First Boston and Goldman Sachs, financial advisors to AT&T, rendered to the AT&T Board separate written opinions, each dated December 19, 2001, to the effect that, as of that date and based on and subject to the matters described in its opinion, the AT&T Broadband exchange ratio was fair, from a financial point of view, to the holders of AT&T Broadband common stock immediately prior to the mergers, other than Comcast and its affiliates. The opinions of Credit Suisse First Boston and Goldman Sachs are attached as Annexes J and K, respectively, to this document and should be carefully read in their entireties.

- Tax-Free Transaction. AT&T expects the AT&T Comcast transaction, including the separation, the AT&T Broadband spin-off and the AT&T

Broadband merger, to be tax-free for U.S. federal income tax purposes to AT&T's shareholders.

- Other Agreement Terms. The AT&T Board considered the other terms and conditions of the merger agreement, the separation and distribution agreement and the related agreements, which are summarized in this document. The AT&T Board took particular note of the provision that AT&T and Comcast will seek to have the class of AT&T Comcast common stock which the shareholders of AT&T will receive in the AT&T Broadband merger included in the Standard & Poor's 500 Index. If the class is not included, the shareholders of AT&T will receive in the AT&T Broadband merger additional shares of the same class of AT&T Comcast common stock (up to an additional 3%) if the shares they receive in the AT&T Broadband merger trade below the AT&T Comcast Class A Special shares during a specified measurement period following the closing of the AT&T Broadband merger.

The AT&T Board also considered potential adverse consequences and negative factors, primarily consisting of the following, but concluded that the positive factors outweighed these negative factors:

- Risk Factors. The AT&T Board considered the risks described under "Summary and Overview of the Transactions -- Risk Factors."

- Governance of AT&T Comcast. Upon completion of the AT&T Comcast transaction, the voting power of the Roberts family will remain disproportionate to the Roberts family's economic interest. Under either of the two capital structures that could be implemented upon completion of the AT&T Comcast transaction, the Roberts family and its transferees will hold 33 1/3% of the voting power of AT&T Comcast through their ownership of shares of AT&T Comcast Class B common stock representing less than 1.5% of the economic interest in the combined company. In addition, this voting interest will not be diluted by future issuances of shares of any other class of AT&T Comcast stock.

- Difficulty in Execution. A significant degree of difficulty and management distraction is inherent in the process of separating AT&T Broadband from AT&T and integrating AT&T Broadband and Comcast. In addition, there is a risk that cost efficiencies and benefits sought in the AT&T Broadband merger might not be fully achieved or that achieving these benefits may take longer than expected.

- Share Trading Prices. There is no assurance as to the trading prices of the shares of AT&T Comcast or AT&T following completion of the AT&T Broadband spin-off and mergers. In addition, while AT&T and Comcast will seek to have the class of AT&T Comcast common stock which the shareholders of AT&T will receive in the AT&T Broadband merger included in the Standard & Poor's 500 Index, there is no assurance that the companies will be successful in achieving this inclusion. If the class of AT&T Comcast common stock issuable in the AT&T Broadband merger is not included in the index, this may adversely affect their trading price. In this event, while AT&T shareholders will receive additional shares of the same class of AT&T Comcast common stock to the extent the shares they receive in the AT&T Broadband merger trade below the AT&T Comcast Class A Special shares during a specified measurement period following the closing of the mergers, this protection is limited to 3%.

- Alternative Transactions Not Permitted. The provisions of the merger agreement do not permit AT&T to terminate the merger agreement for an alternative transaction involving AT&T Broadband, although AT&T is permitted to conduct negotiations with third parties under limited circumstances, and the merger agreement requires AT&T to pay a $1.5 billion fee to Comcast in the event the merger agreement is terminated under specified circumstances.

- AT&T's Lack of Diversification and Reduced Size. The lack of diversification and reduced size of AT&T following the separation of AT&T Broadband could affect its ability to achieve economies of scale, could create capital and size constraints that did not previously exist, could create increased costs due to decreasing purchasing power and could limit its ability to obtain financing.

- Potential Volatility of Earnings and Stock Prices. As more focused companies, the earnings of each of AT&T and AT&T Comcast will be more closely tied to its particular performance and as a result their securities could be subject to greater volatility.

In addition, the AT&T Board was aware of the interests of certain of its directors and officers described under "Employee Benefits Matters -- Interests of Directors and Officers in the AT&T Comcast Transaction."

Due to the variety of factors and the quality and amount of information considered, the AT&T Board did not find it practicable to and did not make specific assessments of, quantify or assign relative weights to the specific factors considered in reaching its determination to approve the merger agreement and the transactions contemplated by the merger agreement. Instead, the AT&T Board made its determination after consideration of all factors taken together. In addition, individual members of the AT&T Board may have given different weight to different factors.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

The following summary discusses the material U.S. federal income tax consequences of the separation, the AT&T Broadband spin-off and the mergers to United States Holders of AT&T common stock, AT&T Broadband common stock and Comcast common stock. This discussion is based on the Code, the Treasury Regulations promulgated thereunder, judicial opinions, published positions of the Internal Revenue Service, and all other applicable authorities as of the date of this document, all of which are subject to change (possibly with retroactive effect).

As used in this document, the term "United States Holder" means:

- a citizen or resident of the United States;

- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or

- an estate or trust the income of which is subject to United States federal income taxation regardless of its source.

The term United States Holder also includes certain former citizens and residents of the United States.

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of his particular circumstances or to holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- tax-exempt organizations;
- dealers in securities or foreign currencies;
- persons holding AT&T common stock, AT&T Broadband common stock or Comcast common stock as part of a hedge;
- United States Holders whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons subject to the alternative minimum tax;
- shareholders who acquired their AT&T common stock, AT&T Broadband common stock or Comcast common stock through the exercise of options or otherwise as compensation or through a tax-qualified retirement plan; or
- holders of options granted under any AT&T or Comcast benefit plan.

In addition, this summary is limited to shareholders that hold their AT&T common stock, AT&T Broadband common stock or Comcast common stock as capital assets. This discussion also does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction.

Accordingly, each AT&T, AT&T Broadband and Comcast shareholder is strongly urged to consult with a tax adviser to determine the particular federal, state, local or foreign income or other tax consequences to him of the AT&T Broadband spin-off and the mergers.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE SEPARATION AND THE AT&T BROADBAND SPIN-OFF

It is a condition to both the AT&T Broadband spin-off and the mergers that AT&T has obtained one or more private letter rulings from the Internal Revenue Service, which will continue in effect at the time of the AT&T Broadband spin-off and mergers, to the effect that:

- the separation and the AT&T Broadband spin-off will be tax-free to AT&T and its shareholders under Sections 355 and 368(a) of the Code,
- the mergers will not cause the separation and the AT&T Broadband spin-off to fail to be qualified as a tax-free transaction pursuant to Section 355 of the Code, and
- the separation and the AT&T Broadband spin-off will not cause the distribution by AT&T of all of the common stock of AT&T Wireless or of Liberty Media to fail to qualify as tax-free transactions pursuant to Sections 355 and 368(a) of the Code.

This condition may be waived if AT&T and Comcast mutually agree to obtain an opinion to the same effect from tax counsel of a nationally recognized reputation mutually acceptable to AT&T and Comcast. To the extent this summary describes the federal income tax consequences of the separation and the AT&T Broadband spin-off, such consequences will be set forth in the private letter ruling or the opinion referred to in the preceding sentence. The receipt of the private letter ruling and its continuing validity are subject to factual representations and assumptions. Neither AT&T nor AT&T Broadband nor Comcast is aware of any facts or circumstances that would cause such representations and assumptions to be untrue.

Assuming the continuing effectiveness of the private letter ruling or the opinion described above, for U.S. federal income tax purposes, the tax consequences of the separation and the AT&T Broadband spin-off are as follows:

- no gain or loss will be recognized by, and no amount will be included in the income of, AT&T or AT&T Broadband upon the separation and the AT&T Broadband spin-off other than gains related to certain intercompany transactions that will be triggered by the AT&T Broadband spin-off;

- no gain or loss will be recognized by, and no amount will be included in the income of, United States Holders of AT&T common stock upon their receipt of shares of AT&T Broadband common stock in the AT&T Broadband spin-off;

- a United States Holder of AT&T common stock will apportion the tax basis of such holder's AT&T common stock on which AT&T Broadband common stock is distributed between AT&T common stock and the AT&T Broadband common stock received in the AT&T Broadband spin-off in proportion to the fair market values of such AT&T common stock and AT&T Broadband common stock on the date of the AT&T Broadband spin-off; and

- the holding period of the shares of AT&T Broadband common stock received by a United States Holder of AT&T common stock in the AT&T Broadband spin-off will include the period during which such holder held the AT&T common stock on which the AT&T Broadband common stock is distributed.

Current Treasury Regulations require each holder of AT&T common stock who receives AT&T Broadband common stock pursuant to the AT&T Broadband spin-off to attach to his or her federal income tax return for the year in which the AT&T Broadband spin-off occurs, a detailed statement setting forth such data as may be appropriate in order to show the applicability of Section 355 of the Code to the AT&T Broadband spin-off. AT&T will provide the appropriate information to each of its shareholders of record.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE MERGERS

AT&T and Comcast have structured the mergers so that it is anticipated that the mergers will qualify as a tax-free exchange for U.S. federal income tax purposes. It is a condition to the Comcast merger that Comcast receive an opinion from Davis Polk & Wardwell, counsel to Comcast, dated the date of the mergers and it is a condition to the AT&T Broadband merger that AT&T receive an opinion from Wachtell, Lipton, Rosen & Katz, counsel to AT&T, dated the date of the mergers, each to the effect that, on the basis of the facts, representations and assumptions set forth in such opinion, the mergers will constitute an exchange to which Section 351 of the Code applies. Any change in currently applicable law, which may or may not be retroactive, or the failure of any factual representations or assumptions to be true, correct and complete in all material respects, could affect the validity of the Davis Polk & Wardwell tax opinion and the Wachtell, Lipton, Rosen & Katz tax opinion.

An opinion of counsel represents counsel's best legal judgment and is not binding on the Internal Revenue Service or any court. No ruling has been or will be sought from the Internal Revenue Service as to the U.S. federal income tax consequences of the mergers and, as a result, there can be no assurance that the

Internal Revenue Service will not disagree with, or challenge, any of the conclusions described below.

Subject to the discussion below relating to the receipt of cash instead of fractional shares and assuming the mergers qualify as an exchange under Section 351 of the Code, for U.S. federal income tax purposes, the tax consequences of the mergers will be as follows:

- the mergers will constitute an exchange to which Section 351 of the Code applies;

- no gain or loss will be recognized by Comcast, AT&T Broadband, AT&T Broadband's merger subsidiary, or Comcast's merger subsidiary as a result of the mergers;

- no gain or loss will be recognized by:

  -- United States Holders of AT&T Broadband common stock on the exchange of their AT&T Broadband common stock for AT&T Comcast common stock; or

  -- United States Holders of Comcast common stock on the exchange of their Comcast common stock for AT&T Comcast common stock;

- the aggregate adjusted basis of the AT&T Comcast common stock received in the mergers by:

  -- a United States Holder of AT&T Broadband common stock will be equal to the aggregate adjusted basis of the United States Holder's AT&T Broadband common stock exchanged for that AT&T Comcast common stock, reduced by any tax basis allocable to the fractional share interests in AT&T Comcast common stock for which cash is received; and

  -- a United States Holder of Comcast common stock will be equal to the aggregate adjusted basis of the United States Holder's Comcast common stock exchanged for that AT&T Comcast common stock; and

- the holding period of the AT&T Comcast common stock received in the mergers by:

  -- a United States Holder of AT&T Broadband common stock will include the holding period of the United States Holder's AT&T Broadband common stock exchanged for that AT&T Comcast common stock; and

  -- a United States Holder of Comcast common stock will include the holding period of the United States Holder's Comcast common stock exchanged for that AT&T Comcast common stock.

Cash Instead of Fractional Shares. AT&T Comcast will not issue any fractional shares in the AT&T Broadband merger. Instead, any fractional interests AT&T Broadband shareholders otherwise would have been entitled to receive will be sold and the proceeds will be paid to those shareholders. The receipt of cash instead of a fractional share of AT&T Comcast common stock by a United States Holder of AT&T Broadband common stock will result in taxable gain or loss to such United States Holder for U.S. federal income tax purposes based upon the difference between the amount of cash received by such United States Holder and the United States Holder's adjusted tax basis in the fractional share as set forth above. The gain or loss will constitute capital gain or loss and will constitute long-term capital gain or loss if the United States Holder's holding period is greater than one year as of the date of the mergers. The deductibility of capital losses is subject to limitations.

Backup Withholding. Under the Code, if you are a non-corporate AT&T Broadband shareholder and you receive cash instead of fractional shares of AT&T Comcast common stock, you may be subject, under certain circumstances, to backup withholding at the rates provided for in the Code with respect to such cash unless you provide proof of an applicable exemption or a correct taxpayer identification number, and otherwise comply with applicable requirements of the backup withholding rules. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability; provided that you furnish the required information to the Internal Revenue Service.

Reporting Requirements. A United States Holder of Comcast common stock or AT&T Broadband common stock receiving AT&T Comcast common stock as a result of the mergers may be required to retain records related to such United States Holder's Comcast common stock or AT&T Broadband common stock, as the case may be, and file with its federal income tax return a statement setting forth facts relating to the mergers.

REGULATORY MATTERS

It is a condition to Comcast's and AT&T's obligations to complete the AT&T Comcast transaction that all regulatory approvals required to complete the AT&T Comcast transaction be obtained, except where the failure to obtain any such approvals would not reasonably be expected to have a material

adverse effect on Comcast, AT&T's broadband business or AT&T's communications business. See "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Conditions to the Completion of the Mergers" and "Description of the AT&T Comcast Transaction Agreements -- The Separation and Distribution Agreement -- Conditions to the Completion of the Separation and the AT&T Broadband Spin-off." Comcast and AT&T have agreed to use their best efforts to obtain all regulatory approvals that are necessary or advisable in connection with the AT&T Comcast transaction. In addition, Comcast and AT&T have also agreed to take all actions necessary to obtain termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 relating to the AT&T Comcast transaction and to obtain all consents of the FCC required to complete the AT&T Comcast transaction. See "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Covenants -- Covenant to Obtain Regulatory Approvals."

The material regulatory requirements affecting the AT&T Comcast transaction are summarized below. Although Comcast and AT&T have not yet received the regulatory approvals discussed below, Comcast and AT&T anticipate that they will obtain regulatory approvals sufficient to complete the AT&T Comcast transaction by the end of 2002.

Antitrust Considerations. The mergers are subject to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which prevents specified transactions from being completed until required information and materials are furnished to the U.S. Department of Justice and the Federal Trade Commission and specified waiting periods are terminated or expire. On January 22, 2002, Comcast and AT&T filed the required information and materials to notify the U.S. Department of Justice and the Federal Trade Commission of the mergers. Unless extended or earlier terminated, the Hart-Scott-Rodino Antitrust Improvements Act of 1976 waiting period will expire on February 21, 2002, which is thirty calendar days after Comcast's and AT&T's filing of the required notification materials.

The U.S. Department of Justice, the Federal Trade Commission and, under certain circumstances, states or private parties may challenge the mergers on antitrust grounds, either before or after expiration of the waiting period. Accordingly, at any time before or after the completion of the mergers, either the U.S. Department of Justice or the Federal Trade Commission could take action under the antitrust laws as it deems necessary or desirable in the public interest, or states or other persons could take action under the antitrust laws, including seeking to enjoin the mergers. There can be no assurance that a challenge to the mergers will not be made or that, if a challenge is made, that Comcast and AT&T will prevail.

Federal Communications Commission. Pursuant to the Communications Act of 1934, as amended, the transfer of control of licenses issued by the FCC typically requires prior FCC approval. Comcast and AT&T each directly or indirectly hold FCC licenses and intend to obtain any necessary approvals from the FCC in connection with the mergers and the other proposed transactions. The FCC will conduct a proceeding to review the information and materials that Comcast and AT&T will file in support of their applications. Interested members of the public are entitled to participate in this proceeding. There can be no assurance that a challenge to the mergers or the transfer of control of the licenses and authorizations will not be made in this proceeding or that, if a challenge is made, that Comcast and AT&T will prevail.

State and Local Governmental Authorities. The mergers are also subject to certain state and local governmental approvals or actions. Comcast and AT&T have filed or will file applications and formal notifications in connection with the mergers with a substantial number of states and local franchising authorities. These filings seek the level of review and consent appropriate under the laws and regulations of each state and each local franchising authority's franchise agreement. Where approval or consent is required for transfer of control of cable television franchises, the governing legal standard addresses the legal, technical and financial and, in Massachusetts, managerial qualifications of the company acquiring control. For transfers of control of regulated telephony service providers, the governing legal standard is typically whether the transaction is "in the public interest."

States and local franchising authorities may, in connection with the approval process, seek to impose conditions or limitations upon the companies. As a result, depending on the nature of any conditions imposed by state authorities or local franchise authorities, these conditions could jeopardize or delay

completion of the mergers. Additionally, if Comcast and AT&T decide to complete the mergers notwithstanding any conditions imposed by state authorities or local franchise authorities, the expected benefits of the mergers may be reduced. See "Summary and Overview of the Transactions -- Risk Factors -- Risk Factors Relating to the Business of AT&T Comcast."

Other Regulatory Filings. Comcast and AT&T conduct operations in a number of jurisdictions where other regulatory filings or approvals may be required or advisable in connection with the completion of the AT&T Comcast transaction. Comcast and AT&T are currently in the process of reviewing whether other filings or approvals may be required or desirable in these other jurisdictions. If Comcast and AT&T conclude other filings or approvals are required or desirable, it is anticipated that such filings will be completed and such approvals will be sought. However, the failure to complete such filings or to obtain such approvals is not expected to have a material effect on the combined company.

There can be no assurances that Comcast and AT&T will obtain all of the regulatory approvals described above that are necessary to complete the AT&T Comcast transaction or that the granting of these approvals will not involve the imposition of conditions on the completion of the AT&T Comcast transaction or require changes to the terms of the AT&T Comcast transaction. See "Summary and Overview of the Transactions -- Risk Factors -- Risk Factors Relating to the AT&T Comcast Transaction".

APPRAISAL RIGHTS

Holders of Comcast Class A common stock and Comcast Class A Special common stock are not entitled to appraisal rights in connection with the AT&T Comcast transaction.

Holders of AT&T common stock are not entitled to appraisal rights in connection with the AT&T Comcast transaction.

FEDERAL SECURITIES LAWS CONSEQUENCES; STOCK TRANSFER RESTRICTION AGREEMENTS

The shares of AT&T Comcast common stock to be issued in connection with the mergers will be registered under the Securities Act and will be freely transferable under the Securities Act, except for shares of AT&T Comcast common stock issued to any person who is deemed to be an "affiliate" of either Comcast or AT&T Broadband at the time of the meetings. Persons who may be deemed to be affiliates of Comcast or AT&T Broadband include individuals or entities that control, are controlled by or are under the common control of Comcast or AT&T Broadband, as applicable, and may include executive officers and directors of Comcast or AT&T Broadband, as applicable, as well as significant shareholders of Comcast or AT&T Broadband, as applicable. Affiliates may not sell their shares of AT&T Comcast common stock acquired in connection with the mergers except pursuant to:

- an effective registration statement under the Securities Act covering the resale of those shares;

- an exemption under paragraph(d) of Rule 145 under the Securities Act; or

- any other applicable exemption under the Securities Act.

AT&T Comcast's registration statement on Form S-4, of which this document forms a part, does not cover the resale of shares of AT&T Comcast common stock to be received by affiliates of Comcast or AT&T Broadband in the mergers.

ACCOUNTING TREATMENT

The mergers will be accounted for by Comcast as an acquisition under the purchase method of accounting. Under this method of accounting, the assets and liabilities of AT&T Broadband not previously owned by Comcast or its affiliates will be recorded at their fair value, and any excess of Comcast's purchase price over the fair value of AT&T Broadband's tangible net assets not previously owned by Comcast or its affiliates will be recorded as intangible assets, including goodwill.

CHAPTER THREE
FINANCIAL INFORMATION RELATING TO THE AT&T COMCAST TRANSACTION

AT&T COMCAST CORPORATION

UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

The following Unaudited Pro Forma Combined Condensed Balance Sheet of AT&T Comcast as of September 30, 2001 gives effect to the AT&T Comcast transaction. The following Unaudited Pro Forma Combined Condensed Statements of Operations of AT&T Comcast for the nine months ended September 30, 2001 and for the year ended December 31, 2000 give effect to the AT&T Comcast transaction and AT&T's acquisition of MediaOne Group, which occurred on June 15, 2000. The pro forma financial statements reflect the fact that the AT&T Comcast transaction and the MediaOne acquisition are accounted for under the purchase method of accounting.

Since the acquisition of MediaOne Group occurred prior to September 30, 2001, the financial position of MediaOne Group has been included in the historical combined AT&T Broadband Group balance sheet as of September 30, 2001. The Unaudited Pro Forma Combined Condensed Balance Sheet assumes the AT&T Comcast transaction occurred on September 30, 2001. The Unaudited Pro Forma Combined Condensed Statements of Operations assume the AT&T Comcast transaction and AT&T's acquisition of MediaOne Group occurred on January 1, 2000. The unaudited pro forma financial data is based on the historical consolidated financial statements of Comcast, the historical combined financial statements of AT&T Broadband Group and the historical consolidated financial statements of MediaOne Group under the assumptions and adjustments set forth in the accompanying explanatory notes.

AT&T and Comcast have determined that the AT&T Comcast transaction will be accounted for as an acquisition by Comcast of AT&T Broadband Group. As Comcast is considered the accounting acquiror, the historical basis of Comcast's assets and liabilities will not be affected by the AT&T Comcast transaction. For purposes of developing the Unaudited Pro Forma Combined Condensed Balance Sheet as of September 30, 2001, AT&T Broadband Group's assets, including identifiable intangible assets, and liabilities have been recorded at their estimated fair values and the excess purchase price has been assigned to goodwill. The fair values assigned in these pro forma financial statements are preliminary and represent management's best estimates of current fair value which are subject to revision upon completion of the AT&T Comcast transaction. Management of both companies currently knows of no events or circumstances other than those disclosed in these pro forma notes that would require a material change to the preliminary purchase price allocation. However, a final determination of required purchase accounting adjustments will be made upon the completion of a study to be undertaken by AT&T Comcast in conjunction with independent appraisers to determine the fair value of certain of AT&T Broadband Group's assets, including identifiable intangible assets, and liabilities. Assuming completion of the AT&T Comcast transaction, the actual financial position and results of operations will differ, perhaps significantly, from the pro forma amounts reflected herein due to a variety of factors, including access to additional information, changes in value not currently identified and changes in operating results between the dates of the pro forma financial data and the date on which the AT&T Comcast transaction takes place. See Note (b) to Unaudited Pro Forma Combined Condensed Balance Sheet.

Comcast stockholders will receive shares of AT&T Comcast Class A common stock, AT&T Comcast Class B common stock and AT&T Comcast Class A Special common stock in exchange for shares of Comcast Class A common stock, Comcast Class B common stock and Comcast Class A Special common stock, respectively, based on an exchange ratio of 1 to 1. AT&T Comcast will issue stock options to purchase shares of AT&T Comcast common stock in exchange for all outstanding stock options of Comcast, based on an exchange ratio of 1 to 1. See "Certain Legal Information -- Comparison of AT&T, Comcast and AT&T Comcast Shareholder Rights" for a description and comparison of the rights of each class of common stock.

The estimated aggregate consideration and Comcast's transaction costs directly related to the AT&T Comcast transaction total $49,235.6 million. This includes the fair value of the issuance of approximately 1,231 million shares of AT&T Comcast common stock to AT&T shareholders in exchange for all of AT&T's interests in AT&T Broadband Group, the fair value of the issuance of 115.0 million shares of AT&T Comcast common stock to Microsoft Corporation in exchange for AT&T Broadband Group shares that Microsoft will receive immediately prior to the completion of the AT&T Comcast transaction for settlement of their $5 billion aggregate principal amount in quarterly income preferred securities (QUIPS), the fair value of AT&T Comcast stock options and stock appreciation rights issued in exchange for AT&T Broadband Group stock options and stock appreciation rights and Comcast's estimated transaction costs directly related to the AT&T Comcast transaction. The fair value of the shares to be issued for AT&T Broadband Group is based on a price per share of $35.97 which reflects the weighted-average market price of Comcast Class A Special common stock during the period beginning two days before and ending two days after the AT&T Comcast transaction was announced. In limited circumstances the number of shares issued to AT&T shareholders is subject to adjustment. In the event this occurs, the fair value of all of the shares to be issued would be based on the market price of Comcast Class A Special common stock on the closing date. In addition to the consideration paid, AT&T Comcast will refinance $7,819.6 million of debt and accrued interest assumed from AT&T Broadband Group based on the pro formas.

AT&T Comcast intends to review the synergies of the combined business, which may result in a plan to realign or reorganize certain of AT&T Broadband Group's existing operations. The costs of implementing such a plan, if it were to occur, have not been reflected in the accompanying pro forma financial statements. The impact of a potential realignment, assuming such a plan were in place at the consummation date of the AT&T Comcast transaction, could increase or decrease the amount of goodwill and intangible assets recognized by AT&T Comcast in accordance with Emerging Issues Task Force No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." The Unaudited Combined Condensed Statements of Operations exclude any benefits that may result from synergies that may be derived, or the elimination of duplicative efforts.

Among the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations," new criteria have been established for determining whether intangible assets should be recognized separately from goodwill. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") provides, among other guidelines, that goodwill and intangible assets with indefinite lives will not be amortized, but rather will be tested for impairment on at least an annual basis. Management of both companies believes that cable franchise operating rights have indefinite lives based upon an analysis utilizing the criteria in paragraph 11 of SFAS 142. The pro forma adjustments to the Unaudited Pro Forma Combined Condensed Statements of Operations reflect the elimination of AT&T Broadband Group's amortization expense related to goodwill and cable franchise operating rights since this acquisition will be accounted for under the provisions of SFAS 142.

Comcast incurred goodwill and cable franchise operating rights amortization expense of approximately $1,556.0 million and $1,473.0 million for the year ended December 31, 2000 and nine months ended September 30, 2001, respectively. The historical consolidated financial statements of Comcast included in the Unaudited Pro Forma Combined Condensed Statements of Operations include the amortization expense related to Comcast's goodwill and cable franchise operating rights, which has not been eliminated in the pro forma adjustments. Effective January 1, 2002, Comcast will, in accordance with the provisions of SFAS 142, no longer amortize goodwill and cable franchise operating rights.

The pro forma financial data presented assumes the AT&T Comcast transaction is completed under the Preferred Structure (see "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Merger Consideration -- The Preferred Structure"). However, if the AT&T Comcast transaction were completed under the Alternative Structure (see "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Merger Consideration -- The Alternative Structure"), this would have no impact on the pro forma financial statements as presented. Management

of both companies believes that the assumptions used provide a reasonable basis on which to present the unaudited pro forma financial data. In addition to AT&T's acquisition of MediaOne Group, both companies have completed other acquisitions and dispositions which are not significant, individually or in the aggregate, and, accordingly, have not been included in the accompanying unaudited pro forma financial data. The unaudited pro forma financial data may not be indicative of the financial position or results that would have occurred if AT&T's acquisition of MediaOne Group and the AT&T Comcast transaction had been in effect on the dates indicated or which may be obtained in the future.

The unaudited pro forma financial data should be read in conjunction with the historical consolidated financial statements and accompanying notes thereto for Comcast, and the historical combined financial statements and accompanying notes thereto for AT&T Broadband Group, which have been incorporated by reference or included herein.

AT&T COMCAST CORPORATION

UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET
AS OF SEPTEMBER 30, 2001

	HISTORICAL COMCAST(A)	HISTORICAL AT&T BROADBAND(A)	PRO FORMA ADJUSTMENTS	PRO AT&T
		(DOLLARS IN MILLIONS)		
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 658.4	$ 253.0		$
Investments	1,271.9			
Accounts receivable, net	829.7	604.0		
Inventories, net	504.3			
Other current assets	165.5	570.0	25.0(b1)	
Total current assets	3,429.8	1,427.0	25.0	
INVESTMENTS	3,302.3	22,492.0	1,878.2(b2) (1,701.0)(d)	2
PROPERTY AND EQUIPMENT, net	7,001.7	14,292.0		2
INTANGIBLE ASSETS				
Goodwill	7,168.3	20,008.0	(2,683.7)(b3)	2
Cable franchise operating rights	19,938.1	45,513.0	(2,226.0)(b4)	6
Other intangible assets	2,772.1			
	29,878.5	65,521.0	(4,909.7)	9
Accumulated amortization	(5,503.2)	(2,841.0)	2,841.0(b5)	(

	24,375.3	62,680.0	(2,068.7)	8
OTHER NON-CURRENT ASSETS	672.3	3,370.0	25.0(b6)	
	$38,781.4	$104,261.0	$ (1,841.5)	$14
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$ 3,294.0	$ 2,692.2	$ 1,023.8(b7)	$
Accrued interest	191.5	228.8	(48.4)(c)	
Deferred income taxes	194.6			
			25.0(b8)	
Short-term debt		5,390.0	(1,480.2)(c)	
Current portion of long-term debt	554.4	572.0		
Total current liabilities	4,234.5	8,883.0	(479.8)	1
			250.0(b8)	
			(11.9)(b9)	
LONG-TERM DEBT, less current portion	11,494.8	17,312.0	1,528.6(c)	3
DEFERRED INCOME TAXES	6,453.1	25,659.0	276.7(b10)	3
			(179.0)(b11)	
OTHER NON-CURRENT LIABILITIES	806.2	974.0	(253.9)(b12)	
MINORITY INTEREST	954.0	3,319.0	(2,117.8)(b13)	
Company-Obligated Convertible Quarterly Income Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debt Securities of AT&T		4,718.0	(4,718.0)(b14)	
STOCKHOLDERS' EQUITY				
			1,346.0(b15)	
Common stock	944.9		(47.3)(d)	
			(1,653.7)(d)	
Additional capital	11,742.6		47,614.6(b15)	5
Retained earnings	1,952.0			
Accumulated other comprehensive income	199.3			
Combined attributed net assets		43,396.0	(43,396.0)(b16)	
Total stockholders' equity	14,838.8	43,396.0	3,863.6	6
	$38,781.4	$104,261.0	$ (1,841.5)	$14

See notes to Unaudited Pro Forma Combined Condensed Balance Sheet

III-4

AT&T COMCAST CORPORATION

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

These columns reflect the historical balance sheets of the respective

(a) companies. Certain reclassifications have been made to the consolidated historical financial statements of Comcast and to the combined historical financial statements of AT&T Broadband Group to conform to the presentation expected to be used by AT&T Comcast.

(b) This entry reflects the preliminary allocation of the purchase price to identifiable net assets acquired and the excess purchase price to goodwill.

		COMMON STOCK	ADDITIONAL CAPITAL
	CALCULATION OF CONSIDERATION		
	Issuance of common stock to AT&T shareholders (1,231.0 million shares * $35.97)	$1,231.0(i)	$43,048.1
	Issuance of common stock to Microsoft Corporation (115.0 million shares * $35.97)	115.0	4,021.6
	Fair value of AT&T Comcast stock options resulting from the conversion of AT&T Broadband Group stock options in the merger based on Black-Scholes option pricing model		544.9
(b15)	Comcast common stock equity consideration	1,346.0	47,614.6
(b8)	Transaction costs (assumed to be funded -- $25.0 short-term debt and $250.0 long-term debt)		
	Total consideration		
	Preliminary estimate of fair value of identifiable net assets acquired:		
(b16)	Book value of AT&T Broadband Group		
	Elimination of gross AT&T Broadband Group goodwill		
(b1)	Current portion of deferred financing fees		
(b2)	Preliminary estimate of adjustment to fair value of investments		
(b4)	Preliminary estimate of adjustment to fair value of cable operating franchise rights		
(b5)	Elimination of AT&T Broadband Group accumulated amortization		
(b6)	Long-term portion of deferred financing fees		
(b7)	Preliminary estimate of current tax liability arising from the transaction		
(b9)	Preliminary estimate of fair value of AT&T Broadband Group assumed long-term debt		
(b10)	Preliminary estimate of adjustment to deferred tax liability on pro forma adjustments at combined federal and state statutory rate		
(b11)	Certain liabilities retained by AT&T		
(b12)	Preliminary estimate of adjustment to fair value of other non-current liabilities		
(b13)	Liabilities retained by AT&T related to TCI Pacific Preferred shares		
(b14)	Redemption of Microsoft Corporation QUIPS		
	Preliminary estimate of fair value of identifiable net assets acquired		
	Acquisition goodwill		

Calculation of goodwill acquisition adjustment	
Acquisition goodwill..................................	
Gross value of AT&T Broadband Group goodwill...........	
(b3) Goodwill acquisition adjustment........................	
(i) Maximum number of shares of common stock that could be issued in the AT&T Broadband merger.............	1,235.0
Share equivalent of intrinsic value of AT&T Broadband Group stock options and stock appreciation rights.....	(4.0)
Common stock to be issued to AT&T shareholders.............................	1,231.0

Certain programming and other contracts of AT&T Broadband and Comcast may, by their terms, be assumed, altered or terminated as a result of the completion of the AT&T Comcast transaction. However, due to confidentiality provisions in those contracts as well as legal restrictions, those terms cannot be shared between the two parties as of the date of this proxy. Therefore, management cannot currently estimate the impact, if any, of favorable or unfavorable contracts that may result from the ultimate allocation of purchase price. See note (m) to the Unaudited Pro Forma Combined Condensed Statements of Operations for a sensitivity analysis of the purchase price allocation.

(c) Represents the refinancing of existing short-term debt due to AT&T ($5,390.0) and certain long-term debt ($2,381.2 plus accrued interest of $48.4) with new debt of AT&T Comcast. The refinancing is assumed to be funded half with short-term debt and half with long-term debt.

(d) Represents the reclassification of AT&T Broadband Group's investment in Comcast as follows:

Elimination of Comcast stock held by AT&T Broadband Group...	$ (1,701.0)
Reclassification of Comcast stock held by AT&T Broadband Group to equity (par value common stock $47.3 and additional capital $1,653.7).....................................	1,701.0
	$ --

AT&T COMCAST CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2000

	HISTORICAL COMCAST(A)	HISTORICAL AT&T BROADBAND(A)	HISTORICAL MEDIAONE 1/1/00-6/14/00(A)	INTERCOMPA ADJUSTMENT
	(DOLLARS IN MILLIONS, EXCEPT PER SHAR			

REVENUES				
Service revenues..................	$ 4,682.7	$ 8,445.0	$ 1,325.0	$ (65.1
Net sales from electronic retailing......................	3,535.9			
	8,218.6	8,445.0	1,325.0	(65.1
COSTS AND EXPENSES				
Operating..........................	2,212.5	4,600.0	554.0	(21.5
Cost of goods sold from electronic retailing......................	2,284.9			
Selling, general and administrative.................	1,250.9	2,180.0	342.0	(21.6
Depreciation......................	837.3	1,674.0	435.0	
Amortization......................	1,794.0	2,377.0	271.0	
Asset impairment, restructuring and other charges..................		6,270.0		
	8,379.6	17,101.0	1,602.0	(43.1
OPERATING LOSS......................	(161.0)	(8,656.0)	(277.0)	(22.0
OTHER INCOME (EXPENSE)				
Interest expense..................	(691.4)	(1,323.0)	(312.0)	
Investment income (expense)........	983.9	(84.0)		(37.4
Income related to indexed debt.....	666.0			
Equity in net income (losses) of affiliates......................	(21.3)			(67.0
Other income (expense)............	2,825.5	45.0	3,341.0	(2,756.0
	3,762.7	(1,362.0)	3,029.0	(2,860.4
INCOME (LOSS) BEFORE INCOME TAXES, MINORITY INTEREST, EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE.................	3,601.7	(10,018.0)	2,752.0	(2,882.4
INCOME TAX (EXPENSE) BENEFIT.........	(1,441.3)	1,183.0	(1,189.0)	1,181.0
INCOME (LOSS) BEFORE MINORITY INTEREST, EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE............................	2,160.4	(8,835.0)	1,563.0	(1,701.4
Net loss from equity investments.....		(597.0)		
MINORITY INTEREST INCOME (EXPENSE)...	(115.3)	4,062.0		(106.0
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE.................	2,045.1	(5,370.0)	1,563.0	(1,807.4
PREFERRED DIVIDENDS..................	(23.5)			
INCOME (LOSS) FOR COMMON STOCKHOLDERS BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE............................	$ 2,021.6	$ (5,370.0)	$ 1,563.0	$(1,807.4
Earnings (loss) per share from continuing operations before extraordinary items -- basic.......	$ 2.27			
Earnings (loss) per share from operations before extraordinary				

items -- assuming dilution.........	$ 2.16
Weighted average number of common shares outstanding -- basic........	890.7
Weighted average number of common shares outstanding -- assuming dilution..........................	948.7

See Notes to Unaudited Pro Forma Combined Condensed Statement of Operations

AT&T COMCAST CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001

	HISTORICAL COMCAST(A)	HISTORICAL AT&T BROADBAND(A)	INTERCOMPANY ADJUSTMENTS	PRO ADJUST
		(DOLLARS IN MILLIONS, EXCEPT PER SHARE		
REVENUES				
Service revenues...........................	$4,195.0	$ 7,756.0	$ (96.7)(b)	$
Net sales from electronic retailing.........	2,655.1			
	6,850.1	7,756.0	(96.7)	
COSTS AND EXPENSES				
Operating..................................	1,991.6	4,245.0	(56.2)(b)	
Cost of goods sold from electronic retailing................................	1,685.6			
Selling, general and administrative.........	1,125.8	1,951.0	(17.0)(b)	
Depreciation...............................	760.4	1,952.0		
Amortization...............................	1,698.7	1,681.0		(1,
Asset impairment, restructuring and other charges..................................		1,494.0		
	7,262.1	11,323.0	(73.2)	(1,
OPERATING LOSS................................	(412.0)	(3,567.0)	(23.5)	1,
OTHER INCOME (EXPENSE)				
Interest expense...........................	(549.2)	(1,347.0)		
Investment income (expense)................	1,045.7	(1,245.0)	(18.7)(b)	
Equity in net income (losses) of affiliates...............................	(26.1)			
Other income (expense).....................	1,180.9	(911.0)		
	1,651.3	(3,503.0)	(18.7)	
INCOME (LOSS) BEFORE INCOME TAXES, MINORITY INTEREST, EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE................	1,239.3	(7,070.0)	(42.2)	1,
				(
INCOME TAX (EXPENSE) BENEFIT.................	(602.9)	3,214.0	(750.2)(d)	
INCOME (LOSS) BEFORE MINORITY INTEREST,				

EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE..........................	636.4	(3,856.0)	(792.4)	
Net loss in equity investments...............		(37.0)		
MINORITY INTEREST (EXPENSE) INCOME...........	(89.8)	905.0	(24.0)(b)	
INCOME (LOSS) FOR COMMON STOCKHOLDERS BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE..........................	$ 546.6	$(2,988.0)	$(816.4)	$ 1,
Earnings (loss) per share from continuing operations before extraordinary items and cumulative effect of accounting change -- basic...........................	$ 0.58			
Earnings (loss) per share from continuing operations before extraordinary items and cumulative effect of accounting change -- assuming dilution................	$ 0.56			
Weighted average number of common shares outstanding -- basic.......................	949.3			1,
Weighted average number of common shares outstanding -- assuming dilution...........	964.7			1,

See Notes to Unaudited Pro Forma Combined Condensed Statement of Operations

AT&T COMCAST CORPORATION

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENTS OF OPERATIONS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

(a) These columns reflect the historical statements of operations of the respective companies. Certain reclassifications have been made to the consolidated historical financial statements of Comcast and the combined historical financial statements of AT&T Broadband Group to conform to the presentation expected to be used by AT&T Comcast.

(b) Adjustment reflects the elimination of historical intercompany transactions between Comcast and AT&T Broadband Group as follows: amounts charged by Comcast to AT&T Broadband Group for programming, the gains and losses resulting from the sales of certain cable systems by AT&T Broadband Group to Comcast, the gains recorded by AT&T Broadband Group resulting from the fair value exchange of certain cable systems with Comcast and Excite@Home transactions.

(c) Adjustment represents the gains recorded by Comcast resulting from intercompany transactions with AT&T Broadband Group for the year ended December 31, 2000.

Gain on systems exchanged................................	$1,711.0
Gain on receipt of Excite@Home right.....................	1,045.0
Total...	$2,756.0

(d) Represents the aggregate pro forma income tax effect of Notes (b) and (c) above at the combined federal and state statutory rate.

(e) AT&T Broadband Group has certain intercompany agreements with AT&T Corp. which will be terminated as of the date of the AT&T Comcast transaction. The costs of replacing these services is uncertain. However, the impact of the termination of these arrangements is not expected to be material.

(f) Represents the elimination of AT&T Broadband Group's and MediaOne Group's historical goodwill and cable franchise operating rights amortization expense for consolidated subsidiaries and equity method investments. Under the accounting rules set forth in SFAS 142 issued by the Financial Accounting Standards Board in June 2001, goodwill and intangibles with indefinite lives are not amortized against earnings other than in connection with an impairment.

(g) Represents the net effect on interest expense resulting from the financings described in Note (c) to the Unaudited Pro Forma Combined Condensed Balance Sheet. Pro forma interest expense was calculated based on the interest rates of the historical debt outstanding plus the interest rates of the planned credit facilities. The pro forma financial information assumes the financings occurred on January 1, 2000. Amortization of deferred financing costs was calculated based on the expected amounts and terms of the new facilities. Short-term rates are assumed to be 4% and long-term rates are assumed to be 7%. Assuming interest rates changed by 0.125%, the related interest expense and pre-tax impact on earnings would be $9.7 for the year ended December 31, 2000 and $7.3 for the nine months ended September 30, 2001.

(h) Represents the decrease in interest expense as a result of the adjustment of AT&T Broadband Group's long-term debt to its fair value as described in Note (c) to the Unaudited Pro Forma Combined Condensed Balance Sheet. The difference between the fair value and the face amount of each borrowing is amortized as a reduction to interest expense over the remaining term of the borrowing.

(i) Represents the reclassification of losses in equity investments to conform with the presentation currently used by Comcast.

(j) Represents the aggregate pro forma income tax effect of Notes (f) through (h) above at the combined federal and state statutory rate.

III-9

(k) Represents the elimination of historical dividends on QUIPS exchanged for AT&T Broadband Group common stock.

(l) For basic earnings per share, this adjustment represents the issuance of AT&T Comcast shares to AT&T shareholders and Microsoft Corporation offset by shares of Comcast owned by AT&T Broadband Group which are classified as treasury shares (see Note (d) to the Unaudited Pro Forma Combined Condensed Balance Sheet). In addition, earnings per share assuming dilution has been adjusted to include the dilutive effects of AT&T Comcast stock options issued in exchange for the AT&T Broadband Group stock options.

(m) The pro forma combined condensed financial statements reflect a preliminary allocation to tangible assets, liabilities, goodwill and other intangible assets. The final purchase price allocation may result in different allocations for tangible and intangible assets than that presented in these pro forma combined condensed financial statements. The following table shows the absolute dollar effect on pro forma net income (loss) applicable to common stockholders and net income (loss) per share assuming dilution for every $500 of purchase price allocated to amortizable assets or certain liabilities over assumed weighted average useful lives. An increase in the purchase amount allocated to amortizable assets or a decrease in the amount allocated to certain liabilities will result in a decrease to net income. A decrease in the amount allocated to amortizable assets or an increase in the amount allocated to certain liabilities will result in an increase to net income.

WEIGHTED AVERAGE LIFE	YEAR ENDED DECEMBER 31, 2000	NINE MONTHS ENDED SEPTEMBER 30, 2
Five years		
Net income	$61.5	$46.1
Per share	$0.03	$0.02
Ten years		
Net income	$30.8	$23.1
Per share	$0.01	$0.01
Twenty years		
Net income	$15.4	$11.5
Per share	$0.01	$0.01

CHAPTER FOUR
OPINIONS OF FINANCIAL ADVISORS

OPINIONS OF COMCAST'S FINANCIAL ADVISORS

At the meeting of the Comcast Board on December 19, 2001, each of Morgan Stanley, JPMorgan and Merrill Lynch rendered its opinion to the Comcast Board that, as of that date and based upon and subject to the assumptions, qualifications and limitations set forth therein, the conversion ratios in the Comcast merger applicable to the holders of Comcast common stock, in the aggregate, were fair from a financial point of view to the holders of Comcast common stock, taken together. Each of Morgan Stanley, JPMorgan and Merrill Lynch has consented to the inclusion of their respective opinions as Annexes G, H and I, respectively, to this document.

THE FULL TEXT OF THE OPINIONS OF MORGAN STANLEY, JPMORGAN AND MERRILL LYNCH, EACH DATED DECEMBER 19, 2001, WHICH SET FORTH, AMONG OTHER THINGS, THE ASSUMPTIONS MADE, THE PROCEDURES FOLLOWED, MATTERS CONSIDERED, AND QUALIFICATIONS AND LIMITATIONS OF THE REVIEWS UNDERTAKEN BY EACH OF MORGAN STANLEY, JPMORGAN AND MERRILL LYNCH IN RENDERING THEIR RESPECTIVE OPINIONS ARE ATTACHED AS ANNEXES G, H AND I, RESPECTIVELY, TO THIS DOCUMENT AND ARE INCORPORATED INTO THIS DOCUMENT BY REFERENCE. THE SUMMARY OF THE MORGAN STANLEY, JPMORGAN AND MERRILL LYNCH FAIRNESS OPINIONS SET FORTH IN THIS DOCUMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF EACH OF THE OPINIONS. COMCAST SHAREHOLDERS SHOULD READ THESE OPINIONS CAREFULLY AND IN THEIR ENTIRETY. EACH OF MORGAN STANLEY, JPMORGAN AND MERRILL LYNCH PROVIDED ITS OPINION FOR THE INFORMATION AND ASSISTANCE OF THE COMCAST BOARD IN CONNECTION WITH ITS CONSIDERATION OF THE PROPOSED AT&T COMCAST TRANSACTION. NONE OF THE MORGAN STANLEY, JPMORGAN OR MERRILL LYNCH OPINIONS IS A RECOMMENDATION TO ANY COMCAST SHAREHOLDER AS TO HOW ANY SHAREHOLDER SHOULD VOTE WITH RESPECT TO THE PROPOSED AT&T COMCAST TRANSACTION OR ANY OTHER MATTER AND SHOULD NOT BE RELIED UPON BY

ANY COMCAST SHAREHOLDER AS SUCH.

OPINION OF MORGAN STANLEY

In connection with rendering its opinion, Morgan Stanley, among other things:

- reviewed certain publicly available financial statements and other business and financial information of or relating to Comcast, AT&T and AT&T Broadband;

- reviewed certain internal financial statements and other financial and operating data concerning Comcast prepared by the management of Comcast;

- reviewed certain financial forecasts, including information relating to certain strategic, financial and operational benefits anticipated from the proposed AT&T Comcast transaction, prepared by the management of Comcast;

- discussed the past and current operations and financial condition and the prospects of Comcast, including the strategic, financial and operational benefits anticipated from the proposed AT&T Comcast transaction, with the management of Comcast;

- reviewed certain internal financial statements and other financial operating data concerning AT&T and AT&T Broadband (including, without limitation, the structure, composition, operations, assets, liabilities and pro forma historical balance sheets and income statements of AT&T Broadband) prepared by the managements of AT&T and AT&T Broadband and Comcast;

- reviewed certain financial forecasts (including, without limitation, as to the pro forma forecasted balance sheets and income statements of AT&T Broadband), and including information relating to certain strategic, financial and operational benefits anticipated from the proposed AT&T Comcast transaction, prepared by the managements of AT&T and AT&T Broadband and of Comcast;

- discussed the past and current operations and financial condition and the prospects of AT&T Broadband, including the strategic, financial and operational benefits anticipated from the proposed AT&T Comcast transaction, with the managements of AT&T, AT&T Broadband and Comcast;

- reviewed the reported market prices and trading activity for Comcast common stock and AT&T common stock;

- compared the financial performance of Comcast and the prices and trading activity of Comcast common stock with that of certain other comparable publicly traded companies and their securities;

- compared the financial performance of AT&T Broadband and the prices and trading activity of the AT&T common stock with that of certain other comparable publicly traded companies and their equity securities;

- reviewed the financial terms, to the extent publicly available, of certain comparable transactions;

- participated in discussions and negotiations among representatives of Comcast, AT&T, AT&T Broadband and their financial and legal advisors;

- reviewed final drafts of each of the merger agreement and the separation and distribution agreement; and

- considered such other factors and performed such other analyses as it deemed appropriate.

In connection with its review, Morgan Stanley assumed and relied upon, without any responsibility for independent verification or liability therefor, the accuracy and completeness of all information that was publicly available or supplied or otherwise made available to it by Comcast, AT&T or AT&T Broadband or otherwise reviewed by or for it for the purposes of the Morgan Stanley opinion. With respect to the financial forecasts, including information relating to certain strategic, financial and operational benefits anticipated from the proposed AT&T Comcast transaction, prepared and furnished to or discussed with it by Comcast, AT&T or AT&T Broadband, Morgan Stanley assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of Comcast's, AT&T's and AT&T Broadband's managements as to the expected future financial performance of Comcast, AT&T Broadband or AT&T Comcast, as the case may be, and the strategic, financial and operational benefits anticipated from the proposed AT&T Comcast transaction. Morgan Stanley expressed no view as to such financial forecast information, including the strategic, financial and operational benefits anticipated from the proposed AT&T Comcast transaction, or the assumptions on which they were based. In addition, Morgan Stanley assumed that the mergers are intended as tax-free exchanges under Section 351 of the Code and that the separation and the AT&T Broadband spin-off will qualify as tax-free transactions under Sections 355 and 368(a) of the Code, in each case for United States federal income tax purposes, and that the Section 355(e) top-up described under "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Merger Consideration -- Potential Additional Payments" will not occur. Furthermore, Morgan Stanley assumed no responsibility for conducting a physical inspection of the properties or facilities of Comcast, AT&T or AT&T Broadband or for making or obtaining any independent valuation or appraisal of the assets or liabilities of Comcast, AT&T or AT&T Broadband, nor was Morgan Stanley furnished with any such valuations or appraisals. The Morgan Stanley opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, the date of its opinion. Subsequent developments may affect its opinion and Morgan Stanley does not have any obligation to update, revise, or reaffirm its opinion.

For purposes of rendering its opinion, Morgan Stanley assumed, in all respects material to its analysis, that the proposed AT&T Comcast transaction will be consummated as described in the merger agreement and the separation and distribution agreement, that all the representations and warranties of each party contained in the merger agreement and the separation and distribution agreement were true and correct, that each party to the merger agreement and the separation and distribution agreement will perform all of the covenants and agreements required to be performed by it thereunder without any consents or waivers of the other parties thereto, that all conditions to the consummation of the proposed AT&T Comcast transaction will be satisfied without waiver thereof, and that if the parties elect to consummate the proposed AT&T Comcast transaction by means of an alternative structure of the type described under "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Covenants -- Alternative Structure," such alternative structure will not differ from the structure reflected in the merger

agreement and the separation and distribution agreement in any respect material to its analysis. Morgan Stanley noted that it is not a legal, tax or regulatory expert and relied upon, without assuming any responsibility for independent verification or liability therefor, the assessment of Comcast's legal, tax and regulatory advisors with respect to the legal, tax and regulatory matters related to the proposed transaction. Morgan Stanley also assumed that the definitive merger agreement and the definitive separation and distribution agreement will not differ in any material respects from the drafts thereof furnished to and reviewed by it. Morgan Stanley further assumed that all governmental, regulatory or other consents and approvals (contractual or otherwise) necessary for or in connection with the consummation of the proposed AT&T Comcast transaction will be obtained without any adverse effect on Comcast, AT&T Broadband or AT&T Comcast, or on the contemplated benefits of the proposed AT&T Comcast transaction, in any respect material to its analysis. In arriving at its opinion, Morgan Stanley was not authorized to solicit, and did not solicit, interest from any party with respect to a business combination or other extraordinary transaction involving Comcast.

The Morgan Stanley opinion does not address the underlying decision by Comcast to engage in the proposed AT&T Comcast transaction or the prices at which Comcast common stock or AT&T Comcast common stock will trade after the announcement or consummation of the proposed AT&T Comcast transaction, and Morgan Stanley does not express any opinion or recommendation as to how the shareholders of Comcast should vote at the shareholders' meetings held in connection with the proposed AT&T Comcast transaction or any other matter.

OPINION OF JPMORGAN

In connection with rendering its opinion, JPMorgan, among other things:

- reviewed the final drafts of each of the merger agreement and the separation and distribution agreement provided to it by Comcast;

- reviewed certain publicly available business and financial information concerning Comcast, AT&T and AT&T Broadband and the industries in which they operate;

- reviewed certain internal, non-public financial and operating data, analyses and forecasts prepared by the managements of Comcast, AT&T and AT&T Broadband relating to the businesses of Comcast, on the one hand, and AT&T Broadband, on the other (including, without limitation, the structure, composition, operations, assets, liabilities and pro forma historical and forecasted balance sheets and income statements of AT&T Broadband), as well as the estimated amount and timing of the cost savings and related expenses and synergies expected to result from the proposed AT&T Comcast transaction furnished to it by Comcast, AT&T and AT&T Broadband;

- compared the proposed financial terms of the proposed AT&T Comcast transaction with the publicly available financial terms of certain transactions involving companies it deemed relevant;

- compared the financial and operating performance of Comcast and AT&T Broadband with publicly available information concerning certain other companies it deemed relevant and reviewed the current and historical market prices of Comcast common stock and AT&T common stock and certain publicly traded securities of such other companies;

- participated in certain discussions and negotiations among representatives of Comcast, AT&T and AT&T Broadband and their financial and legal advisors; and

- performed such other financial studies and analyses and considered such other information as it deemed appropriate for the purposes of this opinion.

In addition, JPMorgan held discussions with certain members of the management of Comcast, AT&T and AT&T Broadband with respect to certain aspects of the proposed AT&T Comcast transaction and the foregoing matters, including the past and current business operations of Comcast, AT&T and AT&T Broadband, the financial condition and future prospects and operations of Comcast and AT&T Broadband, the effects of the proposed AT&T Comcast transaction, including the estimated synergies, on the financial

condition and future prospects of Comcast, AT&T Broadband and AT&T Comcast, and certain other matters JPMorgan believed necessary or appropriate to its inquiry.

In giving its opinion, JPMorgan relied upon and assumed, without any responsibility for independent verification or liability therefor, the accuracy and completeness of all information that was publicly available or furnished to it by Comcast, AT&T or AT&T Broadband or otherwise reviewed by or for it. JPMorgan did not conduct any valuation or appraisal of any assets or liabilities of Comcast, AT&T or AT&T Broadband, nor were any such valuations or appraisals provided to it. In addition, JPMorgan did not assume any obligation to conduct any inspection of the properties or facilities of Comcast, AT&T or AT&T Broadband. In relying on financial analyses and forecasts provided to it, including the estimated synergies, JPMorgan assumed that they had been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by the managements of Comcast, AT&T and AT&T Broadband as to the expected future results of operations and financial condition of Comcast, AT&T Broadband and AT&T Comcast and as to such other matters, including the estimated synergies, to which such analyses or forecasts relate. JPMorgan expressed no view as to such analyses or forecasts, including the estimated synergies, or the assumptions on which they were based. JPMorgan also assumed that the mergers will qualify as tax-free exchanges under Section 351 of the Code and that the separation and the AT&T Broadband spin-off will qualify as tax-free transactions under Sections 355 and 368(a) of the Code, in each case for United States federal income tax purposes, and that the Section 355(e) top-up described under "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Merger Consideration -- Potential Additional Payments" will not occur.

For purposes of rendering its opinion, JPMorgan assumed, in all respects material to its analysis, that the proposed AT&T Comcast transaction will be consummated as described in the merger agreement and the separation and distribution agreement, that all the representations and warranties of each party contained in the merger agreement and the separation and distribution agreement were true and correct, that each party to the merger agreement and the separation and distribution agreement will perform all of the covenants and agreements required to be performed by it thereunder without any consents or waivers of the other parties thereto, that all conditions to the consummation of the proposed AT&T Comcast transaction will be satisfied without waiver thereof, and that if the parties elect to consummate the proposed AT&T Comcast transaction by means of an alternative structure of the type described under "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Covenants -- Alternative Structure," such alternative structure will not differ from the structure reflected in the merger agreement and the separation and distribution agreement in any respect material to its analysis. JPMorgan noted that it is not a legal, tax or regulatory expert and relied upon, without assuming any responsibility for independent verification or liability therefor, the assessment of Comcast's legal, tax and regulatory advisors with respect to the legal, tax and regulatory matters related to the proposed transaction. JPMorgan also assumed that the definitive merger agreement and the definitive separation and distribution agreement will not differ in any material respects from the drafts thereof furnished to and reviewed by it. JPMorgan further assumed that all governmental, regulatory or other consents and approvals (contractual or otherwise) necessary for or in connection with the consummation of the proposed AT&T Comcast transaction will be obtained without any adverse effect on Comcast, AT&T Broadband or AT&T Comcast, or on the contemplated benefits of the proposed transaction, in any respect material to its analysis.

The JPMorgan opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to it as of, the date of its opinion. Subsequent developments may affect its opinion and JPMorgan does not have any obligation to update, revise, or reaffirm its opinion. The JPMorgan opinion is limited to the fairness, from a financial point of view, to the holders of Comcast common stock, taken together, of the Comcast conversion ratios in the Comcast merger, in the aggregate, and JPMorgan does not express any opinion as to the underlying decision by Comcast to engage in the proposed AT&T Comcast transaction. JPMorgan does not express any opinion as to the price at which Comcast common stock or AT&T Comcast common stock will trade at any future time and JPMorgan is not expressing any opinion or recommendation as to how the shareholders of Comcast should vote at the shareholders' meetings held in connection with the proposed AT&T Comcast transaction or any other

matter. In arriving at its opinion, JPMorgan was not authorized to solicit, and did not solicit, interest from any party with respect to a business combination or other extraordinary transaction involving Comcast.

OPINION OF MERRILL LYNCH

In connection with rendering its opinion, Merrill Lynch, among other things:

- reviewed certain publicly available business and financial information relating to Comcast, AT&T and AT&T Broadband that it deemed to be relevant;

- reviewed certain information, including financial forecasts, relating to the business, earnings, cash flow, assets, liabilities and prospects of Comcast, AT&T and AT&T Broadband (including, without limitation, the structure, composition, operations, assets, liabilities and pro forma historical and forecasted balance sheets and income statements of AT&T Broadband), as well as the amount and timing of the cost savings and related expenses and synergies expected to result from the proposed AT&T Comcast transaction furnished to it by Comcast, AT&T and AT&T Broadband;

- conducted discussions with members of management and representatives of Comcast, AT&T and AT&T Broadband concerning the matters described above, as well as their businesses and prospects before and after giving effect to the proposed AT&T Comcast transaction and the expected synergies;

- reviewed the market prices and valuation multiples for Comcast common stock and AT&T common stock and compared them with those of certain publicly traded companies that it deemed to be relevant;

- reviewed the results of operations of Comcast and AT&T Broadband and compared them with those of certain publicly traded companies that it deemed to be relevant;

- compared the proposed financial terms of the AT&T Comcast transaction with the financial terms of certain other transactions that it deemed to be relevant;

- participated in certain discussions and negotiations among representatives of Comcast, AT&T and AT&T Broadband and their financial and legal advisors;

- reviewed the potential pro forma impact of the proposed AT&T Comcast transaction;

- reviewed the final drafts of each of the merger agreement and the separation and distribution agreement, respectively; and

- reviewed such other financial studies and analyses and took into account such other matters as it deemed necessary, including Merrill Lynch's assessment of general economic, market and monetary conditions.

In preparing its opinion, Merrill Lynch assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to it, discussed with or reviewed by or for it, or publicly available, and Merrill Lynch did not assume any responsibility for independently verifying such information or liability therefor, or undertake an independent evaluation or appraisal of any of the assets or liabilities of Comcast, AT&T or AT&T Broadband and was not furnished with any such evaluation or appraisal. In addition, Merrill Lynch did not assume any obligation to conduct any physical inspection of the properties or facilities of Comcast, AT&T or AT&T Broadband. With respect to the financial forecast information and the expected synergies furnished to or discussed with it by Comcast, AT&T or AT&T Broadband, Merrill Lynch assumed that they have been reasonably prepared and reflect the best currently available estimates and judgment of Comcast's, AT&T's or AT&T Broadband's managements as to the expected future financial performance of Comcast, AT&T Broadband or AT&T Comcast, as the case may be, and the expected synergies. Merrill Lynch expressed no view as to such financial forecast information, including the expected synergies, or the assumptions on which they were based. Merrill Lynch further assumed that the mergers will qualify as tax-free exchanges under Section 351 of the Code and that the separation and the AT&T Broadband spin-off will qualify as tax-free transactions under Sections 355 and

368(a) of the Code, in each case for United States federal income tax purposes, and that the Section 355(e) top-up described under "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Merger Consideration -- Potential Additional Payments" will not occur. Merrill Lynch also assumed that the final form of the merger agreement and the separation and distribution agreement will be substantially similar to the last draft reviewed by it.

The Merrill Lynch opinion is necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information made available to it as of, the date of its opinion. Subsequent developments may affect its opinion and Merrill Lynch does not have any obligation to update, revise, or reaffirm its opinion. Merrill Lynch assumed that all governmental, regulatory or other consents and approvals (contractual or otherwise) necessary for or in connection with the consummation of the proposed AT&T Comcast transaction will be obtained without any adverse effect on Comcast, AT&T Broadband or AT&T Comcast or on the contemplated benefits of the proposed AT&T Comcast transaction, in any respect material to its analysis. For purposes of rendering its opinion, Merrill Lynch assumed, in all respects material to its analysis, that the proposed AT&T Comcast transaction will be consummated as described in the merger agreement and the separation and distribution agreement, that all the representations and warranties of each party contained in the merger agreement and the separation and distribution agreement are true and correct, that each party to the merger agreement and the separation and distribution agreement will perform all of the covenants and agreements required to be performed by it thereunder without any consents or waivers of the other parties thereto, that all conditions to the consummation of the proposed AT&T Comcast transaction will be satisfied without waiver thereof, and that if the parties elect to consummate the proposed AT&T Comcast transaction by means of an alternative structure of the type described under "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement -- Covenants -- Alternative Structure," such alternative structure will not differ from the structure reflected in the merger agreement and the separation and distribution agreement in any respect material to its analysis. Merrill Lynch noted that they are not legal, tax or regulatory experts and relied upon, without assuming any responsibility for independent verification or liability therefor, the assessment of Comcast's legal, tax and regulatory advisors with respect to the legal, tax and regulatory matters related to the proposed AT&T Comcast transaction. In arriving at its opinion, Merrill Lynch was not authorized to solicit, and did not solicit, interest from any party with respect to a business combination or other extraordinary proposed transaction involving Comcast.

The Merrill Lynch opinion does not address the merits of the underlying decision by Comcast to engage in the proposed AT&T Comcast transaction and Merrill Lynch does not express any opinion as to the prices at which the shares of Comcast common stock or AT&T Comcast common stock will trade following the announcement or consummation of the proposed AT&T Comcast transaction, as the case may be. Furthermore, Merrill Lynch does not express any opinion or recommendation as to how the shareholders of Comcast should vote at the shareholders' meetings held in connection with the proposed AT&T Comcast transaction or any other matter.

JOINT FINANCIAL ANALYSES OF COMCAST'S FINANCIAL ADVISORS

At the December 19, 2001 meeting of the Comcast Board, Morgan Stanley, JPMorgan and Merrill Lynch reviewed with the members of the Comcast Board the updated financial terms of the proposed AT&T Comcast transaction and the application of those terms to the financial analyses prepared by Morgan Stanley, JPMorgan and Merrill Lynch previously presented to the Comcast Board. Such terms and analyses were summarized in a written presentation prepared for the meeting by Morgan Stanley, JPMorgan and Merrill Lynch and delivered along with their respective opinions to Comcast.

The following is a summary of the material analyses contained in the presentation that was delivered to Comcast. Some of the summaries of the financial analyses include information presented in tabular format. The tables are not intended to stand alone, and in order to more fully understand the financial analyses used by Morgan Stanley, JPMorgan and Merrill Lynch, the tables must be read together with the full text of each summary.

PUBLIC MARKET BROADBAND VALUATION

Morgan Stanley, JPMorgan and Merrill Lynch reviewed and analyzed certain public market trading multiples for five publicly traded broadband companies (Comcast, Cox Communications, Inc., Charter Communications, Inc., Adelphia Communications Corporation and Cablevision Systems Corporation). The multiples analyzed were derived by dividing the adjusted aggregate market value of each of the companies (based on closing stock prices on December 18, 2001) by (i) estimated year-end 2001 number of subscribers, (ii) estimated 2002 cable revenues and (iii) estimated 2002 cable EBITDA. Morgan Stanley, JP Morgan and Merrill Lynch also calculated the estimated 2002 cable EBITDA multiple divided by estimated 2002-2005 cable EBITDA compound annual growth rates (hereinafter referred to as EBITDA Multiple to Growth Ratio). For purposes of calculating these multiples, Morgan Stanley, JPMorgan and Merrill Lynch adjusted the aggregate market value of each of the companies to exclude the value of certain of such company's non-cable or non-operating assets, based on Morgan Stanley equity research (except as set forth below). Morgan Stanley, JPMorgan and Merrill Lynch calculated the financial multiples and ratios based on publicly available financial data as of December 18, 2001, Morgan Stanley equity research estimates and, as to the value to be attributed to Comcast's non-cable assets, Comcast management estimates, which were consistent with Wall Street research estimates. Morgan Stanley, JPMorgan and Merrill Lynch then derived reference ranges of such multiples from this analysis. A summary of the principal public market trading multiples and the reference ranges of multiples that Morgan Stanley, JPMorgan and Merrill Lynch derived are set forth below:

MULTIPLE OF ADJUSTED MARKET VALUE TO

	COMCAST	COX	CHARTER	ADELPHIA	CABLEVISION	REFERENC OF MUL
2001 Subscribers................	$4,139	$3,977	$3,707	$3,673	$4,397	$3,500 -
2002E Cable Revenue.............	5.9x	5.3x	5.5x	5.2x	5.2x	
2002E Cable EBITDA..............	14.0x	13.8x	12.0x	13.2x	14.1x	13
EBITDA Multiple to Growth Ratio.........................	0.91x	1.06x	0.80x	0.71x	0.82x	0.8x

Using these derived reference ranges of multiples, Morgan Stanley, JPMorgan and Merrill Lynch calculated implied valuation ranges for AT&T Broadband by applying the reference ranges of multiples to the (i) year-end expected 2001 number of subscribers for AT&T Broadband (based on information provided by AT&T and AT&T Broadband's management), (ii) estimated 2002 AT&T Broadband revenues (based on Comcast management's estimates), (iii) estimated 2002 AT&T Broadband EBITDA (based on Comcast management's estimates) and (iv) estimated 2002 AT&T Broadband EBITDA based on applying an EBITDA margin of 35% to Comcast management's estimate of 2002 AT&T Broadband revenues. Morgan Stanley, JPMorgan and Merrill Lynch also calculated the estimated AT&T Broadband EBITDA Multiple to Growth Ratio using Comcast management's estimate of AT&T Broadband's 2002 to 2005 EBITDA growth rate. Based on such analysis, Morgan Stanley, JPMorgan and Merrill Lynch derived ranges of implied value for AT&T Broadband of $58 billion to $70 billion on a 2001 subscriber multiples basis, $62 billion to $72 billion on a 2002 estimated cable revenue multiples basis, $46 billion to $52 billion on a 2002 estimated cable EBITDA multiples basis, $57 billion to $64 billion on a 2002 estimated cable EBITDA (adjusted for 35% margin) multiples basis, and $59 billion to $77 billion on an EBITDA Multiple to Growth Ratio basis, each as compared to the implied value for AT&T Broadband in the proposed AT&T Comcast transaction of approximately $73.2 billion (based on the closing price of Comcast Common Stock on December 18, 2001). Morgan Stanley, JPMorgan and Merrill Lynch noted that the derived ranges of implied public market values were strictly public market ranges and that no control premium had been attributed in this analysis.

The foregoing companies, in the judgment of each of Morgan Stanley, JPMorgan and Merrill Lynch and based in part on conversations with the managements of Comcast, AT&T and AT&T Broadband, were comparable to AT&T Broadband for purposes of this analysis. Morgan Stanley, JPMorgan and Merrill Lynch noted that because of the differences between the business mix, operations and other characteristics of AT&T Broadband and the comparable companies, Morgan Stanley, JPMorgan and Merrill Lynch did not believe that a purely quantitative comparable company analysis would be particularly meaningful in this context. Rather, Morgan Stanley, JPMorgan and Merrill Lynch believed an appropriate use of the comparable company analysis would also involve qualitative judgments concerning differences between the financial and operating characteristics of AT&T Broadband and the comparable companies, which would affect the public trading values of the common stock of the comparable companies, which judgments were applied in rendering the respective opinions of Morgan Stanley, JPMorgan and Merrill Lynch.

PRIVATE MARKET VALUATION

Precedent Transactions. Morgan Stanley, JPMorgan and Merrill Lynch reviewed and analyzed selected precedent transactions involving other companies in the broadband industry that they deemed relevant and calculated the per subscriber multiples paid in the selected transactions based on the transaction values and the subscriber numbers from publicly available company press releases and reports and/or public analyst research. The following table sets forth the transactions that were reviewed in connection with this analysis:

SELECTED PRECEDENT TRANSACTIONS

TRANSACTION ANNOUNCEMENT DATE	ACQUIROR	TARGET
Apr-99	AT&T	MediaOne
May-99	Charter	Falcon
May-99	Cox	TCA
May-99	Charter	Fanch
May-99	Comcast	AT&T (select markets)
Jun-99	Charter	Bresnan
Jul-99	Cox	Gannett
Jul-99	Cox	AT&T (select markets)
Nov-99	Comcast	Lenfest
Dec-99	Adelphia	Cablevision (Ohio)
Apr-00	AT&T	Cablevision (Boston)
Jan-01	Comcast	AT&T (select markets)
Jan-01	Insight Midwest	AT&T/Insight

The high, mean, median and low per subscriber multiples calculated in these selected transactions were $5,378, $4,491, $4,500 and $3,500, respectively.

Morgan Stanley, JPMorgan and Merrill Lynch then derived from these selected transactions a reference range of per subscriber multiples of $4,200 to $5,000, and applying this range of multiples to the expected year-end 2001 number of subscribers for AT&T Broadband based on information provided by AT&T and AT&T Broadband's management, Morgan Stanley, JPMorgan and Merrill Lynch calculated an implied valuation range for AT&T Broadband of $67 billion to $78 billion, as compared to the implied value for AT&T Broadband in the proposed AT&T Comcast transaction of $73.2 billion (based on the closing price of Comcast common stock on December 18, 2001).

Among other factors, Morgan Stanley, JPMorgan and Merrill Lynch indicated that the merger and acquisition transaction environment varies over time because of macroeconomic factors such as interest rate and equity market fluctuations and microeconomic factors such as industry results and growth expectations. Morgan Stanley, JPMorgan and Merrill Lynch noted that no transaction reviewed was

identical to the proposed AT&T Comcast transaction and that, accordingly, these analyses involve complex considerations and judgments concerning differences in financial and operating characteristics of AT&T Broadband and other factors that would affect the acquisition values in the comparable transactions, including the size and demographic and economic characteristics of the markets of each company and the competitive environment in which it operates.

AT&T Broadband DCF Valuation. Morgan Stanley, JPMorgan and Merrill Lynch performed a five-year discounted cash flow analysis on AT&T Broadband as of December 31, 2001 based on financial forecasts and estimates provided by Comcast's management, excluding the effect of certain strategic, financial and operational benefits anticipated in the proposed transaction according to Comcast management. In conducting this discounted cash flow analysis, Morgan Stanley, JPMorgan and Merrill Lynch utilized discount rates of between 9% and 11%, and last twelve months ("LTM") terminal EBITDA multiples of between 15x and 17x. The discount rates utilized in this analysis were chosen based upon an analysis of the weighted average cost of capital of Comcast and other comparable companies as well as Wall Street equity research.

Morgan Stanley, JPMorgan and Merrill Lynch also performed a separate discounted cash flow analysis of the effect of certain strategic, financial and operational benefits anticipated in the proposed transaction (or synergies) based on information provided by the managements of Comcast, AT&T and AT&T Broadband. In conducting this second discounted cash flow analysis, Morgan Stanley, JPMorgan and Merrill Lynch utilized discount rates between 9% and 11% and perpetual growth rates of between 3% and 4%. The discount rates utilized in this analysis were chosen based upon an analysis of the weighted average cost of capital of Comcast and other comparable companies as well as Wall Street equity research.

Based on the aforementioned projections and assumptions, the discounted cash flow analysis of AT&T Broadband yielded a range of implied values for AT&T Broadband of $62 billion to $74 billion excluding synergies and $73 billion to $92 billion including synergies, as compared to the implied value for AT&T Broadband in the proposed AT&T Comcast transaction of $73.2 billion (based on the closing price of Comcast common stock on December 18, 2001).

CONTRIBUTION ANALYSIS

Morgan Stanley, JPMorgan and Merrill Lynch calculated the implied relative equity contributions of AT&T Broadband and Comcast to the combined company based on their respective contributions of estimated 2001 year-end subscribers, estimated 2002 to 2005 cable revenue and estimated 2002 to 2005 cable EBITDA, in each case adjusted for the relative contribution of AT&T Broadband and Comcast, respectively, to the leverage of the combined company. Such analysis was done both with and without taking into account the transaction synergies estimated by the managements of AT&T, AT&T Broadband and Comcast. Morgan Stanley, JPMorgan and Merrill Lynch then compared the results of this analysis to the pro forma equity ownership implied by the proposed AT&T Comcast transaction prior to the conversion of the QUIPS. Based on the foregoing analysis, AT&T Broadband's implied equity contribution ranged from 43.0% to 54.9% excluding synergies, and 50.7% to 61.0% including synergies, as compared to the pro forma AT&T Broadband shareholder ownership of 55.8% in the proposed transaction (or 56.6% assuming the issuance by AT&T Comcast of the maximum potential number of additional shares of AT&T Comcast stock to AT&T Broadband shareholders provided in the merger agreement under certain circumstances if the stock issued to AT&T Broadband shareholders in the proposed AT&T Comcast transaction is not included in the S&P 500 Index).

DCF CONTRIBUTION ANALYSIS

Morgan Stanley, JPMorgan and Merrill Lynch also derived an implied AT&T Broadband ownership in the combined entity based on an analysis of the respective discounted cash flow contributions of AT&T Broadband and Comcast to the combined company both with and without taking into account the synergies estimated by the managements of AT&T, AT&T Broadband and Comcast.

IV-9

Morgan Stanley, JPMorgan and Merrill Lynch conducted a five-year discounted cash flow analysis of each of Comcast and AT&T Broadband as of December 31, 2001. For AT&T Broadband, the analysis was based on the same assumptions as in the AT&T Broadband DCF Valuation described above, including utilizing the same discount rates and LTM terminal EBITDA multiples as in that analysis. For Comcast, the analysis was based on financial information and projections from Morgan Stanley equity research dated November 1, 2001, and utilized discount rates of 9% to 11% and LTM terminal EBITDA multiples of 14x to 16x. The assumed discount rates were chosen based on an analysis of the weighted average cost of capital of Comcast and other comparable companies as well as Wall Street equity research.

Morgan Stanley, JPMorgan and Merrill Lynch then compared the low and high discounted cash flow values of each of AT&T Broadband and Comcast to derive a range of implied discounted cash flow equity contribution for AT&T Broadband. Based on the foregoing analysis, AT&T Broadband's implied discounted cash flow equity contribution ranged from 41% to 53% excluding synergies, and 47.5% to 60.5% including synergies.

GENERAL

In connection with the review of the proposed AT&T Comcast transaction by the Comcast Board, Morgan Stanley, JPMorgan and Merrill Lynch performed a variety of financial and comparable analyses for purposes of rendering their respective opinions. The preparation of a fairness opinion is a complex process and is not susceptible to partial analysis or summary description. In arriving at their respective opinions, Morgan Stanley, JPMorgan and Merrill Lynch considered the results of all of their analyses as a whole and did not attribute any particular weight to any analysis or factor considered by them. Furthermore, Morgan Stanley, JPMorgan and Merrill Lynch believe that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of their analyses, without considering all of them, would create an incomplete view of the process underlying their analyses and opinions. As a result, the ranges of valuations resulting from any particular analysis or combination of analyses described above were merely utilized to create points of reference for analytical purposes and should not be taken to be the view of Morgan Stanley, JPMorgan or Merrill Lynch with respect to the actual value of Comcast, AT&T Broadband or AT&T Comcast.

In performing their analyses, Morgan Stanley, JPMorgan and Merrill Lynch made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Morgan Stanley, JPMorgan, Merrill Lynch, Comcast, AT&T or AT&T Broadband. Any estimates contained in the analyses of Morgan Stanley, JPMorgan and Merrill Lynch are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates. The analyses performed were prepared solely as part of the analyses of Morgan Stanley, JPMorgan and Merrill Lynch of the fairness of the Comcast conversion ratios in the Comcast merger, in the aggregate, from a financial point of view to the Comcast shareholders, taken together, and were prepared in connection with the delivery by Morgan Stanley, JPMorgan and Merrill Lynch of their respective opinions, each dated December 19, 2001, to the Comcast Board. The analyses do not purport to be appraisals or to reflect the prices at which Comcast common stock or AT&T Comcast common stock will trade following the announcement or consummation of the proposed transaction. The Comcast conversion ratios and other terms of the proposed AT&T Comcast transaction were determined through arms' length negotiations among Comcast, AT&T and AT&T Broadband and were approved by the Comcast Board. Morgan Stanley, JPMorgan and Merrill Lynch provided advice to Comcast during such negotiations. However, Morgan Stanley, JPMorgan and Merrill Lynch did not recommend any specific conversion ratios or other form of consideration to Comcast or that any specific conversion ratios or other form of consideration constituted the only appropriate consideration for the proposed AT&T Comcast transaction.

The opinions of Morgan Stanley, JPMorgan and Merrill Lynch were one of many factors taken into consideration by the Comcast Board in making its determination to approve the proposed AT&T Comcast transaction. The analyses of Morgan Stanley, JPMorgan and Merrill Lynch summarized above should not be viewed as determinative of the opinion of the Comcast Board with respect to the value of Comcast,

AT&T Broadband or AT&T Comcast or of whether the Comcast Board would have been willing to agree to different conversion ratios or other forms of consideration. The foregoing summary does not purport to be a complete description of the analyses performed by Morgan Stanley, JPMorgan and Merrill Lynch.

The Comcast Board selected Morgan Stanley, JPMorgan and Merrill Lynch as its financial advisors because of their reputations as internationally recognized investment banking and advisory firms with substantial experience in transactions similar to this proposed transaction and because Morgan Stanley, JPMorgan and Merrill Lynch are familiar with Comcast and its business. As part of its investment banking and financial advisory business, each of Morgan Stanley, JPMorgan and Merrill Lynch is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

Each of Morgan Stanley, JPMorgan and Merrill Lynch provides a full range of financial advisory and securities services and in the past, each of Morgan Stanley, JPMorgan and Merrill Lynch and their respective affiliates have provided financial advisory and financing services for Comcast and AT&T and their affiliates and have received fees for the rendering of such services and also may provide such services to Comcast, AT&T or AT&T Comcast and their affiliates in the future for which it would expect to receive fees. In addition, in the course of its business, each of Morgan Stanley, JPMorgan and Merrill Lynch may (or its affiliates may) actively trade the debt and equity securities of Comcast or AT&T or, after the proposed AT&T Comcast transaction, AT&T Comcast for its own accounts or for the accounts of its customers and, accordingly, may at any time hold long or short positions in such securities.

Under the terms of separate letter agreements, each dated July 8, 2001, Comcast engaged each of Morgan Stanley, JPMorgan and Merrill Lynch to act as its financial advisor in connection with the contemplated AT&T Comcast transaction. Pursuant to the terms of these letters, Comcast has agreed to pay each of Morgan

Stanley, JPMorgan and Merrill Lynch an engagement fee and a customary transaction fee upon consummation of the proposed transaction. Comcast has also agreed to reimburse each of Morgan Stanley, JPMorgan and Merrill Lynch for its reasonable out-of-pocket expenses incurred in connection with the engagement, including attorney's fees, and to indemnify each of Morgan Stanley, JPMorgan and Merrill Lynch and their related parties from and against certain liabilities, including liabilities under the federal securities laws.

OPINIONS OF AT&T'S FINANCIAL ADVISORS

CREDIT SUISSE FIRST BOSTON'S OPINION

Credit Suisse First Boston has acted as a financial advisor to AT&T in connection with the mergers. AT&T selected Credit Suisse First Boston based on Credit Suisse First Boston's experience, expertise and reputation. Credit Suisse First Boston is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

In connection with Credit Suisse First Boston's engagement, AT&T requested that Credit Suisse First Boston consider the fairness, from a financial point of view, of the AT&T Broadband exchange ratio provided for in the AT&T Broadband merger to the holders of AT&T Broadband common stock immediately prior to the mergers, other than Comcast and its affiliates. On December 19, 2001, at a meeting of the AT&T Board held to consider the mergers, Credit Suisse First Boston rendered to the AT&T Board an oral opinion, which opinion was confirmed by delivery of a written opinion dated December 19, 2001, to the effect that, as of that date and based on and subject to the matters described in its opinion, the AT&T Broadband exchange ratio was fair, from a financial point of view, to the holders of AT&T Broadband common stock immediately prior to the mergers, other than Comcast and its affiliates.

THE FULL TEXT OF CREDIT SUISSE FIRST BOSTON'S WRITTEN OPINION, DATED DECEMBER 19, 2001, TO THE AT&T BOARD, WHICH DESCRIBES THE PROCEDURES FOLLOWED, ASSUMPTIONS MADE, MATTERS CONSIDERED AND LIMITATIONS ON THE REVIEW UNDERTAKEN, IS ATTACHED AS ANNEX J AND IS INCORPORATED INTO THIS DOCUMENT BY REFERENCE. HOLDERS OF AT&T COMMON STOCK ARE ENCOURAGED TO READ THIS OPINION CAREFULLY IN ITS ENTIRETY. CREDIT SUISSE FIRST BOSTON'S OPINION IS ADDRESSED TO THE AT&T BOARD AND RELATES ONLY TO THE FAIRNESS, FROM A FINANCIAL POINT OF VIEW, OF THE AT&T BROADBAND EXCHANGE RATIO, AND DOES NOT ADDRESS ANY OTHER ASPECT OF THE PROPOSED MERGERS OR ANY RELATED TRANSACTIONS, INCLUDING THE AT&T BROADBAND SPIN-OFF, AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY SHAREHOLDER AS TO ANY MATTER RELATING TO THE MERGERS OR ANY RELATED TRANSACTIONS. THE SUMMARY OF CREDIT SUISSE FIRST BOSTON'S OPINION IN THIS DOCUMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE OPINION.

In arriving at its opinion, Credit Suisse First Boston reviewed:

- the merger agreement;

- the separation and distribution agreement;

- other related documents;

- publicly available business and financial information relating to AT&T Broadband and Comcast; and

- other information relating to AT&T Broadband and Comcast, including financial forecasts, in the case of Comcast, as adjusted by the management of AT&T Broadband and reviewed by AT&T and, in the case of potential cost savings and synergies, as adjusted by the managements of AT&T and AT&T Broadband, provided to or discussed with Credit Suisse First Boston by AT&T, AT&T Broadband and Comcast.

Credit Suisse First Boston also met with the managements of AT&T, AT&T Broadband and Comcast to discuss the businesses and prospects of AT&T Broadband and Comcast. Credit Suisse First Boston also considered:

- financial data of AT&T Broadband and financial and stock market data of Comcast, and compared those data with similar data for other publicly held companies in businesses similar to AT&T Broadband and Comcast;

- to the extent publicly available, the financial terms of other business combinations and other transactions announced or effected; and

- other information, financial studies, analyses and investigations and financial, economic and market criteria that it deemed relevant.

In connection with its review, Credit Suisse First Boston did not assume any responsibility for independent verification of any of the information that it reviewed or considered and relied on that information being complete and accurate in all material respects. Credit Suisse First Boston was advised, and assumed:

- with respect to the financial forecasts, including adjustments to the forecasts, and other information and data, that the forecasts were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of AT&T, AT&T Broadband and Comcast as to the future financial performance of AT&T Broadband and Comcast, the potential cost savings and synergies, including the amount, timing and achievability of the cost savings and synergies, and strategic benefits anticipated by the managements of AT&T, AT&T Broadband and Comcast to result from the mergers and related transactions and the other matters covered by the forecasts.

Credit Suisse First Boston also assumed, with AT&T's consent, that:

- in the course of obtaining the necessary regulatory and third party approvals and consents for the proposed mergers and related transactions, no modification, delay, limitation, restriction or condition will be imposed that would have an adverse effect on AT&T, AT&T Broadband or Comcast or the contemplated benefits of the proposed mergers or related transactions in any respect meaningful to its analyses;

- the mergers and related transactions, including the AT&T Broadband spin-off, will be consummated in accordance with the terms of the merger agreement, the separation and distribution agreement and related documents, without waiver, modification or amendment of any material terms, conditions or agreements, and in compliance with all applicable laws, including, in the case of the AT&T Broadband spin-off, laws relating to insolvency and fraudulent conveyance and to the payments of dividends; and

- the mergers would be treated as a tax-free exchange, and that the AT&T Broadband spin-off would qualify as a tax-free distribution, for federal income tax purposes.

Credit Suisse First Boston was not requested to make, and did not make, an independent evaluation or appraisal of the assets or liabilities, contingent or otherwise, of AT&T, AT&T Broadband or Comcast, and Credit Suisse First Boston was not furnished with any evaluations or appraisals. Credit Suisse First Boston's opinion was necessarily based on information available to it, and financial, economic, market and other conditions as they existed and could be evaluated, on the date of Credit Suisse First Boston's opinion.

Credit Suisse First Boston did not express any opinion as to:

- what the value of the securities of AT&T Broadband or AT&T Comcast actually will be when issued; or

- the prices at which the securities of AT&T Broadband or AT&T Comcast would trade at any time.

Credit Suisse First Boston's opinion did not address:

- any aspect of the mergers other than the AT&T Broadband exchange ratio to the extent specified in its opinion;

- any related transactions, including the AT&T Broadband spin-off;

- the relative merits of the mergers or any related transactions as compared to other business strategies that might have been available to AT&T or AT&T Broadband; or

- the underlying business decision of AT&T to proceed with the mergers or any related transactions.

In connection with its engagement, Credit Suisse First Boston was requested to approach, and held preliminary discussions with, third parties to solicit indications of interest in the possible acquisition of all or a part of AT&T Broadband. Although Credit Suisse First Boston evaluated the AT&T Broadband exchange ratio from a financial point of view, Credit Suisse First Boston was not requested to, and did not, recommend the specific consideration payable in the AT&T Broadband merger, which consideration was determined between AT&T and Comcast. Except as described above, AT&T imposed no other limitations on Credit Suisse First Boston with respect to the investigations made or procedures followed in rendering its opinion.

GOLDMAN SACHS' OPINION

On December 19, 2001, Goldman Sachs delivered its oral opinion, which it subsequently confirmed in writing as of the same date, to the AT&T Board that, based upon and subject to the matters described in the Goldman Sachs opinion and based upon such other matters as Goldman Sachs considered relevant, as of that date and based on the market conditions of that date, the AT&T Broadband exchange ratio, as defined in the opinion, pursuant to the merger agreement was fair from a financial point of view to the holders, other than Comcast and its affiliates, of AT&T Broadband common stock immediately prior to the mergers.

THE FULL TEXT OF GOLDMAN SACHS' WRITTEN OPINION, WHICH SETS FORTH THE ASSUMPTIONS MADE, MATTERS CONSIDERED AND LIMITATIONS ON THE REVIEW UNDERTAKEN IN CONNECTION WITH ITS OPINION, IS ATTACHED HERETO AS ANNEX K AND IS INCORPORATED HEREIN BY REFERENCE. GOLDMAN SACHS PROVIDED ITS OPINION AND ITS ADVISORY SERVICES FOR THE INFORMATION AND ASSISTANCE OF THE AT&T BOARD IN CONNECTION WITH ITS CONSIDERATION OF THE AT&T BROADBAND MERGER. GOLDMAN SACHS EXPRESSED NO

OPINION AS TO, AMONG OTHER THINGS, ANY RELATED TRANSACTION, INCLUDING THE AT&T BROADBAND SPIN-OFF, AND ITS OPINION DOES NOT CONSTITUTE A RECOMMENDATION TO ANY SHAREHOLDER AS TO ANY MATTER RELATING TO THE MERGERS OR ANY RELATED TRANSACTIONS. THE GOLDMAN SACHS OPINION IS NECESSARILY BASED UPON INFORMATION AVAILABLE TO GOLDMAN SACHS AND FINANCIAL, ECONOMIC, MARKET AND OTHER CONDITIONS AS THEY EXIST AND CAN BE EVALUATED AS OF THE DATE OF ITS OPINION, AND GOLDMAN SACHS ASSUMES NO DUTY TO UPDATE OR REVISE ITS OPINION BASED ON CIRCUMSTANCES OR EVENTS AFTER THE DATE OF THE OPINION. WE URGE YOU TO READ THE GOLDMAN SACHS OPINION IN ITS ENTIRETY.

In connection with its opinion, Goldman Sachs reviewed, among other things:

- the merger agreement;

- the separation and distribution agreement;

- annual reports to shareholders and annual reports on Form 10-K of AT&T and Comcast for the five years ended December 31, 2000;

- the preliminary proxy statement of AT&T dated July 3, 2001;

- other communications from AT&T and Comcast to their respective shareholders;

- internal financial analyses and forecasts for Comcast prepared by its management, as adjusted by AT&T Broadband management and reviewed by AT&T management;

- internal financial analyses and forecasts for AT&T Broadband prepared by AT&T Broadband management and reviewed and/or adjusted by AT&T management; and

- cost savings and operating synergies projected to result from the transactions contemplated by the merger agreement as prepared by the managements of Comcast and AT&T Broadband and as further adjusted by the managements of AT&T Broadband and AT&T.

Goldman Sachs also held discussions with members of the senior management of AT&T, AT&T Broadband and Comcast regarding their assessment of the strategic rationale for, and the potential benefits

of, the transaction contemplated by the merger agreement and the past and current business operations, financial condition and future prospects of their respective companies. In addition, Goldman Sachs:

- reviewed the reported price and trading activity for the shares of AT&T common stock, Comcast Class A common stock and Comcast Class A Special common stock;

- compared financial information for AT&T Broadband and financial and stock market information for Comcast with similar information for various other companies the securities of which are publicly traded; and

- reviewed the financial terms of various recent business combinations in the cable industry specifically and in other industries generally and performed other studies and analyses as it considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial, accounting and other information and data discussed with or reviewed by it and assumed the accuracy and completeness thereof for purposes of its opinion. In that regard, Goldman Sachs assumed, with the consent of the AT&T Board, that the forecasts and the synergies had been reasonably prepared on a basis reflecting the best currently available judgments and estimates of the managements of AT&T and AT&T Broadband. In addition, Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities of AT&T, AT&T Broadband or Comcast or any of their subsidiaries and was not furnished with any evaluation or appraisal.

For purposes of its analyses, Goldman Sachs was advised and assumed, with the consent of the AT&T Board, that:

- all governmental, regulatory or other consents and approvals necessary for the consummation of the transactions contemplated by the merger agreement and the separation and distribution agreement will be obtained without any adverse effect on AT&T, AT&T Broadband and Comcast or AT&T Comcast following the mergers or the contemplated benefits of the transactions in any respect meaningful to its analyses;

- the mergers and the other transactions contemplated by the merger agreement and the separation and distribution agreement will be consummated in accordance with the terms of these agreements, and without waiver, modification or amendment of any material terms, conditions or agreements and in compliance with all applicable laws including, in the case of the AT&T Broadband spin-off, laws relating to insolvency and fraudulent conveyance and to the payment of dividends; and

- for federal income tax purposes, the AT&T Broadband spin-off will qualify as a tax-free distribution and the mergers will be treated as a tax-free reorganization.

Goldman Sachs expressed no opinion as to:

- any aspect of the mergers other than the AT&T Broadband exchange ratio to the extent specified in its opinion;

- any related transaction, including the AT&T Broadband spin-off;

- AT&T's underlying business decision to effect the mergers or any related transactions;

- the prices at which the shares of AT&T Broadband common stock or of AT&T Comcast Class A common stock, AT&T Comcast Class A Special common stock or AT&T Comcast Class C common stock may trade at any time if and when they are issued and trade publicly; or

- the relative merits of the transactions contemplated by the merger agreement and the separation and distribution agreement as compared to any alternative business transaction that might be available to AT&T or to AT&T Broadband.

Goldman Sachs, as part of its investment banking business, is continually engaged in performing financial analyses with respect to the valuation of businesses and their securities in connection with

mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities and private placements as well as for estate, corporate and other purposes.

AT&T selected Goldman Sachs as its financial advisor because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the mergers.

FINANCIAL ANALYSES

In preparing their respective opinions to the AT&T Board, Credit Suisse First Boston and Goldman Sachs performed a variety of financial and comparative analyses, including those described below. The summary of the analyses of Credit Suisse First Boston and Goldman Sachs described below is not a complete description of the analyses underlying their opinions. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at their respective opinions, Credit Suisse First Boston and Goldman Sachs made qualitative judgments as to the significance and relevance of each analysis and factor that it considered. Accordingly, Credit Suisse First Boston and Goldman Sachs believe that their analyses must be considered as a whole and that selecting portions of their analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying their analyses and opinions.

In their analyses, Credit Suisse First Boston and Goldman Sachs considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of AT&T, AT&T Broadband and Comcast. No company, transaction or business used in Credit Suisse First Boston's and Goldman Sachs' analyses as a comparison is identical to AT&T, AT&T Broadband, Comcast or the proposed mergers, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed. The estimates contained in the analyses of Credit Suisse First Boston and Goldman Sachs and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the analyses and estimates of Credit Suisse First Boston and Goldman Sachs are inherently subject to substantial uncertainty.

The opinions of Credit Suisse First Boston and Goldman Sachs were only one of many factors considered by the AT&T Board in its evaluation of the proposed mergers and should not be viewed as determinative of the views of the AT&T Board or management with respect to the mergers or the AT&T Broadband exchange ratio.

The following is a summary of the material financial analyses underlying the opinions of Credit Suisse First Boston and Goldman Sachs delivered to the AT&T Board. THE FINANCIAL ANALYSES SUMMARIZED BELOW INCLUDE INFORMATION PRESENTED IN TABULAR FORMAT. IN ORDER TO FULLY UNDERSTAND CREDIT SUISSE FIRST BOSTON'S AND GOLDMAN SACHS' FINANCIAL ANALYSES, THE TABLES MUST BE READ TOGETHER WITH THE TEXT OF EACH SUMMARY. THE TABLES ALONE DO NOT CONSTITUTE A COMPLETE DESCRIPTION OF THE FINANCIAL ANALYSES. CONSIDERING THE DATA IN THE TABLES BELOW WITHOUT CONSIDERING THE FULL NARRATIVE DESCRIPTION OF THE FINANCIAL ANALYSES, INCLUDING THE METHODOLOGIES AND ASSUMPTIONS UNDERLYING THE ANALYSES, COULD CREATE A MISLEADING OR INCOMPLETE VIEW OF CREDIT SUISSE FIRST BOSTON'S AND GOLDMAN SACHS' FINANCIAL ANALYSES.

SELECTED COMPANIES ANALYSIS

Credit Suisse First Boston and Goldman Sachs compared financial and operating data of AT&T Broadband's core cable business, which excludes assets relating to Time Warner Entertainment and various

other cable joint ventures, referred to as AT&T Broadband Cable, to corresponding data for the following five publicly traded companies in the cable industry:

- Adelphia Communications Corporation

- Cablevision Systems Corporation

- Charter Communications, Inc.

- Comcast Corporation

- Cox Communications, Inc.

Credit Suisse First Boston and Goldman Sachs reviewed enterprise values, calculated as equity value plus net debt, as a multiple of calendar years 2002 and 2003 estimated earnings before interest, taxes, depreciation and amortization, commonly referred to as EBITDA. All multiples were based on closing stock prices on December 18, 2001. Credit Suisse First Boston and Goldman Sachs then applied a range of selected multiples derived from the selected companies of calendar years 2002 and 2003 estimated EBITDA to corresponding financial data of AT&T Broadband Cable, both with and without giving effect to, in the case of calendar year 2003, a $7.5 billion potential initial public offering of 19.0% of AT&T Broadband occurring at year-end 2002, referred to as the IPO. Credit Suisse First Boston and Goldman Sachs also applied a range of selected multiples derived from the selected companies to AT&T Broadband Cable's calendar year 2004 estimated EBITDA, after giving effect to the IPO, the result of which was then discounted to 2001 year-end present value using a discount rate of 15%. Estimated financial data for AT&T Broadband Cable were based on internal estimates of AT&T Broadband's management and estimated financial data for the selected companies were based on publicly available research analysts' estimates. This analysis indicated an implied enterprise reference range for AT&T Broadband Cable of approximately $31.0 billion to $60.0 billion. Using this enterprise reference range, Credit Suisse First Boston and Goldman Sachs then derived an implied reference range per 2001 AT&T Broadband Cable subscriber. This analysis indicated the following implied reference range per 2001 AT&T Broadband Cable subscriber, as compared to the per 2001 AT&T Broadband Cable subscriber value implied by the AT&T Broadband merger consideration attributable to AT&T Broadband Cable.

	IMPLIED REFERENCE RANGE PER 2001 AT&T BROADBAND CABLE SUBSCRIBER	PER 2001 AT&T BROADBAND CABLE SUBSCRIBER VALUE IMPLIED BY THE AT&T BROADBAND MERGER CONSIDERATION ATTRIBUTABLE TO AT&T BROADBAND CABLE
AT&T Broadband Cable...........	$2,301 - $4,380	$4,604

Credit Suisse First Boston and Goldman Sachs also reviewed the per subscriber values for the selected companies for the first three fiscal quarters of 2001 and estimated fiscal fourth quarter of 2001. Credit Suisse First Boston and Goldman Sachs then derived an implied reference range per 2001 subscriber for the selected companies. This analysis indicated the following implied reference range per 2001 subscriber for the selected companies, as compared to the per 2001 AT&T Broadband Cable subscriber value implied by the AT&T Broadband merger consideration attributable to AT&T Broadband Cable:

IMPLIED REFERENCE RANGE PER 2001 SUBSCRIBER FOR SELECTED COMPANIES	PER 2001 AT&T BROADBAND CABLE SUBSCRIBER VALUE IMPLIED BY THE AT&T BROADBAND MERGER CONSIDERATION ATTRIBUTABLE TO AT&T BROADBAND CABLE
$3,250 - $4,000	$4,604

DISCOUNTED CASH FLOW ANALYSIS

Credit Suisse First Boston and Goldman Sachs calculated the present value of the stand-alone, unlevered, after-tax free cash flows that AT&T Broadband Cable could generate for the fiscal years 2002 to 2005. Credit Suisse First Boston and Goldman Sachs performed this analysis based on four scenarios, AT&T Broadband management case I, AT&T Broadband management case II, AT&T Broadband alternate case I, and AT&T Broadband alternate case II. AT&T Broadband management case I was based

on internal estimates of AT&T Broadband's management. AT&T Broadband management case II included adjustments to AT&T Broadband management case I based on discussions with AT&T's management to reflect, among other things, the dilutive effect of various financing alternatives. AT&T Broadband alternate case I included adjustments to AT&T Broadband management case I based on discussions with AT&T's management to reflect, among other things, the potential for decreased revenue and profitability of AT&T Broadband Cable. AT&T Broadband alternate case II included adjustments to AT&T Broadband alternate case I based on discussions with AT&T's management to reflect, among other things, the dilutive effect of various financing alternatives.

Credit Suisse First Boston and Goldman Sachs calculated a range of estimated terminal values for AT&T Broadband Cable by applying selected EBITDA multiples ranging from 12.0x to 14.0x to AT&T Broadband Cable's calendar year 2005 estimated EBITDA. The estimated free cash flows and calculated terminal values were then discounted to present value using a discount rate of 11.0%.

This analysis indicated an implied enterprise reference range for AT&T Broadband Cable of approximately $49.0 billion to $68.0 billion, based on the four scenarios described above. Using this enterprise reference range, Credit Suisse First Boston and Goldman Sachs then derived an implied reference range per 2001 AT&T Broadband Cable subscriber. This analysis indicated the following implied reference range per 2001 AT&T Broadband Cable subscriber, as compared to the per 2001 AT&T Broadband Cable subscriber value implied by the AT&T Broadband merger consideration attributable to AT&T Broadband Cable:

IMPLIED REFERENCE RANGE PER 2001 AT&T BROADBAND CABLE SUBSCRIBER	PER 2001 AT&T BROADBAND CABLE SUBSCRIBER VALUE IMPLIED BY THE AT&T BROADBAND MERGER CONSIDERATION ATTRIBUTABLE TO AT&T BROADBAND CABLE

AT&T Broadband Cable............	$3,619 - $4,978	$4,604

Credit Suisse First Boston and Goldman Sachs also calculated the present value of the unlevered, after-tax free cash flows that AT&T Broadband could generate for fiscal years 2002 to 2005, on a stand-alone basis, based on AT&T Broadband management case I, and the present value of the unlevered, after-tax free cash flows that AT&T Comcast, pro forma for the mergers, could generate for fiscal years 2002 to 2005. Estimated financial data for AT&T Broadband were based on AT&T Broadband management case I. Estimated financial data for Comcast were based on internal estimates of Comcast's management, as adjusted by AT&T Broadband's management and reviewed by AT&T's management, to reflect, among other things, the potential for decreased revenue and profitability of Comcast, referred to as Comcast adjusted management case.

Credit Suisse First Boston and Goldman Sachs calculated a range of estimated terminal values for AT&T Broadband, on a stand-alone basis, and AT&T Comcast, after giving effect to the mergers, by applying an EBITDA multiple of 13.0x, the midpoint of the 12.0x to 14.0x range used in calculating the terminal values, to AT&T Broadband's and AT&T Comcast's calendar year 2005 estimated EBITDA. The estimated free cash flows and calculated terminal values were then discounted to present value using a discount rate of 11.0%.

This analysis indicated the following approximate implied per share equity values for AT&T Broadband common stock on a stand-alone basis, before and after giving effect to the dilutive effect of various financing alternatives which were based on discussions with AT&T's management, and the following implied per share equity value reference range for AT&T Comcast, before and after taking into account various levels of potential cost savings and other synergies anticipated by the managements of AT&T, AT&T Broadband and Comcast to result from the mergers:

	STAND-ALONE (WITHOUT FINANCING) IMPLIED PER SHARE EQUITY VALUE	STAND-ALONE (WITH FINANCING) IMPLIED PER SHARE EQUITY VALUE	AT&T COMCAST IMPLIED PER SHARE EQUITY VALUE REFERENCE RANGE
AT&T Broadband common stock........	$13.78	$12.09	$14.06 - $16.17

IV-18

CONTRIBUTION ANALYSIS

Credit Suisse First Boston and Goldman Sachs reviewed the relative contributions of AT&T Broadband and of Comcast to AT&T Comcast's unlevered, after-tax free cash flows for calendar years 2002 through 2005. Estimated financial data for AT&T Broadband were based on AT&T Broadband management case I, described above under the caption "Discounted Cash Flow Analysis." Estimated financial data for Comcast were based on the Comcast adjusted management case, described above under the caption "Discounted Cash Flow Analysis."

Credit Suisse First Boston and Goldman Sachs then computed the relative contribution of AT&T Broadband and of Comcast to the discounted cash flow equity reference range of AT&T Comcast. This analysis indicated the following range of contribution percentages by AT&T Broadband to AT&T Comcast's discounted cash flow equity reference range, as compared to the approximate fully diluted equity ownership percentage of AT&T Broadband's shareholders:

AT&T BROADBAND PERCENTAGE CONTRIBUTION TO DISCOUNTED CASH FLOW EQUITY REFERENCE RANGE	IMPLIED AT&T BROADBAND SHAREHOLDER OWNERSHIP PERCENTAGE FOLLOWING CONSUMMATION OF THE MERGERS
50.2%-58.1%	56.0%

If the QUIPS exchange transaction described under "Description of the AT&T Comcast Transaction Agreements -- The Exchange Agreement -- QUIPS Exchange" is completed, the ownership percentage of AT&T Comcast attributable to the AT&T Broadband shareholders immediately following the mergers would increase due to the number of AT&T Broadband shares issued to Microsoft as a result of the QUIPS exchange transaction, and the ownership attributable to AT&T Broadband shareholders implied by the contribution analysis would increase accordingly.

Credit Suisse First Boston and Goldman Sachs also reviewed the relative contributions of AT&T Broadband Cable and of Comcast to AT&T Comcast's first three fiscal quarters of 2001 EBITDA and estimated fiscal fourth quarter of 2001 EBITDA and estimated calendar years 2002 through 2004 EBITDA and to AT&T Comcast's estimated calendar year 2001 cable subscribers and number of homes capable of cable subscription, based on AT&T Broadband management case I and Comcast adjusted management case, both described above under the caption "Discounted Cash Flow Analysis." Credit Suisse First Boston and Goldman Sachs noted that this analysis indicated a range of contribution percentages by AT&T Broadband to AT&T Comcast of 37.9% to 57.0%.

OTHER FACTORS

In the course of preparing its opinion, Credit Suisse First Boston and Goldman Sachs also reviewed and considered other information and data, including:

- the enterprise reference range and reference range per 2001 AT&T Broadband Cable subscriber of AT&T Comcast, after giving effect to the mergers, implied by a range of selected EBITDA multiples for calendar years 2003 and 2004, after taking into account potential synergies anticipated by the managements of AT&T, AT&T Broadband and Comcast to result from the mergers and discounting the 2004 calendar year results to 2001 year-end present values using a discount rate of 15%;

- the estimated percentage changes in the current per share price of Comcast common stock after giving effect to the mergers, assuming a range of selected EBITDA multiples for calendar year 2003, before and after taking into account potential synergies anticipated by the managements of AT&T, AT&T Broadband and Comcast to result from the mergers; and

- the possible credit rating of AT&T Comcast, taking into account, among other things, AT&T Comcast's estimated debt to EBITDA multiple for calendar years 2002, 2003 and 2004, after taking into account potential synergies anticipated by the managements of AT&T, AT&T Broadband and Comcast to result from the mergers.

MISCELLANEOUS

AT&T has agreed to pay each of Credit Suisse First Boston and Goldman Sachs customary fees for their financial advisory services in connection with the proposed mergers. AT&T also has agreed to reimburse Credit Suisse First Boston and Goldman Sachs for their reasonable out-of-pocket expenses, including fees and expenses of legal counsel, and to indemnify Credit Suisse First Boston and Goldman Sachs and related parties against liabilities, including liabilities under the federal securities laws, arising out of their respective engagements.

Credit Suisse First Boston and its affiliates in the past have provided, and currently are providing, financial and investment banking services to AT&T and some of its affiliates, and in the past have provided financial and investment banking services to Comcast and some of its affiliates unrelated to the proposed mergers, for which services Credit Suisse First Boston and its affiliates have received, and expect to receive, compensation.

Goldman Sachs is familiar with AT&T having provided investment banking services to AT&T from time to time, including:

- having acted as financial advisor to AT&T in connection with (i) its acquisition of Teleport Communications Group Inc. in July 1998, (ii) its acquisition of Tele-Communications Inc. in March 1999, (iii) its divestiture of a 50% interest in Lenfest Communications Inc. in January 2000, (iv) its divestiture of cable assets to Cox Communications, Inc. in March 2000, (v) its acquisition of MediaOne Group in June 2000, (vi) its acquisition of assets from Cablevision Systems Corporation in January 2001, (vii) its analysis, consideration and negotiation of revisions to AT&T's put arrangements with Cox Communications, Inc. and Comcast involving At Home Corporation in May 2001, (viii) its distribution of the outstanding shares of common stock of AT&T Wireless Inc. held by AT&T to the holders of AT&T common stock in July 2001, (ix) its debt-for-equity exchange offer involving AT&T's remaining stake in AT&T Wireless in July 2001, and (x) its transaction with BT Group plc relating to the unwinding of the Concert joint venture announced in October 2001;

- having acted as joint lead arranger in connection with the loan syndication of AT&T's senior credit facility in April 1999, aggregate principal amount $30 billion, and joint lead arranger of its corporate revolving credit facility in December 2000, aggregate principal amount $25 billion, and in December 2001, aggregate principal amount $8 billion;

- having acted as joint bookrunner in connection with (i) the public offering of AT&T Wireless Group tracking stock of AT&T in April 2000, (ii) the public offering pursuant to Rule 144A of $1.65 billion aggregate principal amount of Notes of AT&T due August 2002 in August 2001, and (iii) the public offering pursuant to Rule 144A of $10.1 billion aggregate principal amount of Notes of AT&T in multiple tranches and currencies in November 2001;

- having acted as sole bookrunner in connection with the public offerings pursuant to Rule 144A of (i) $3.0 billion of aggregate principal amount of Notes of AT&T due July 2000 in July 1999 and (ii) $6.0 billion of aggregate principal amount of Notes of AT&T in multiple tranches due July 2001 in July 2000;

- having acted as dealer with respect to AT&T's commercial paper program;

- having acted as financial advisor to AT&T in connection with the restructuring announced by AT&T in 2000; and

- having acted as a financial advisor to AT&T in connection with, and having participated in some of the negotiations leading up to, the merger agreement, the separation and distribution agreement and the agreements referred to therein.

Goldman Sachs has also provided investment banking services to Comcast and its affiliates from time to time, including:

- having acted as co-manager with respect to the public offering of PHONES in March 1999, aggregate principal amount $870 million;

- having acted as joint lead agent on the $4.45 billion aggregate principal amount consent solicitation for various Comcast debt securities in July 2000; and

- having acted as co-manager with respect to the public offerings of (i) $0.5 billion aggregate principal amount of Comcast's 6.375% Senior Unsecured Notes due 2006 and $1.0 billion aggregate principal amount of Comcast's 3.75% Senior Notes due 2011 in January 2001, (ii) $0.75 billion aggregate principal amount of Comcast's 6.875% Senior Notes due 2009 in May 2001, and (iii) $0.75 billion aggregate principal amount of Comcast's 7.125% Senior Notes due 2013 in June 2001. Goldman Sachs may provide investment banking and advisory services to AT&T, Comcast and their respective affiliates in the future.

Pursuant to contracts between AT&T, a subsidiary of AT&T Broadband and affiliates of Credit Suisse First Boston, the subsidiary of AT&T Broadband is obligated to deliver to an affiliate of Credit Suisse First Boston either shares of Comcast Class A Special common stock or, following the mergers, AT&T Comcast Class A Special common stock or cash in an amount derived from the value of the shares that would otherwise be delivered. In the ordinary course of business, each of Credit Suisse First Boston and Goldman Sachs and their affiliates may actively trade securities, including derivative securities, of AT&T and Comcast and their respective affiliates and in the future may actively trade securities, including derivative securities, of AT&T Comcast and its affiliates for their own accounts and for the accounts of customers and, accordingly, may at any time hold long or short positions in those securities.

CHAPTER FIVE
DESCRIPTION OF THE AT&T COMCAST TRANSACTION AGREEMENTS

Except for the employee benefits agreement, this chapter describes the material terms of each of the AT&T Comcast transaction agreements. For a description of the material terms of the employee benefits agreement, see "Employee Benefits Matters -- Other Benefits Matters -- Employee Benefits Agreement."

THE MERGER AGREEMENT

The following summary of the merger agreement is qualified in its entirety by reference to the complete text of the merger agreement, which is incorporated by reference and attached as Annex A to this document.

STRUCTURE OF THE MERGERS

AT&T Broadband Acquisition Corp., a wholly owned subsidiary of AT&T Comcast, will merge with and into AT&T Broadband, with AT&T Broadband continuing as the surviving corporation and a wholly owned subsidiary of AT&T Comcast. This merger is referred to in this document as the "AT&T Broadband merger." At approximately the same time, Comcast Acquisition Corp., a wholly owned subsidiary of AT&T Comcast, will merge with and into Comcast, with Comcast continuing as the surviving corporation and a wholly owned subsidiary of AT&T Comcast. This merger is referred to in this document as the "Comcast merger." After completion of the mergers, the shareholders of Comcast and AT&T Broadband will be shareholders of AT&T Comcast.

TIMING OF CLOSING

The closing date for the transaction will occur as soon as practicable (and, in any event, within five business days) after satisfaction or waiver of all conditions to the mergers set forth in the merger agreement. The mergers will become effective after the separation and the AT&T Broadband spin-off on the closing date for the transaction at a time that is mutually agreeable to Comcast and AT&T.

MERGER CONSIDERATION

The Preferred Structure. If holders of Comcast Class A common stock, voting as a single class, and holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class, approve the preferred structure proposal:

- each share of AT&T Broadband common stock that is outstanding immediately prior to the completion of the mergers will be converted in the AT&T Broadband merger into the right to receive a number of shares of AT&T Comcast Class A common stock determined by a formula described under "-- Calculation of the AT&T Broadband Exchange Ratio" (if the AT&T Broadband exchange ratio were determined as of the date of this document, it would be approximately   ); and

- each share of Comcast Class A common stock, Comcast Class B common stock and Comcast Class A Special common stock that is outstanding immediately prior to the completion of the mergers will be converted in the Comcast merger into the right to receive one share of AT&T Comcast Class A common stock, AT&T Comcast Class B common stock and AT&T Comcast Class A Special common stock, respectively.

The AT&T Comcast capital structure described above is referred to in this document as the "Preferred Structure." The rights of the classes of AT&T Comcast common stock under the Preferred Structure are described under "Certain Legal Information -- Description of AT&T Comcast Capital Stock."

The Alternative Structure. If the holders of the Comcast Class A common stock, voting as a single class, or holders of Comcast Class A common stock and Comcast Class B common stock, voting together as a single class, do not approve the preferred structure proposal:

- each share of AT&T Broadband common stock that is outstanding immediately prior to the completion of the mergers will be converted in the AT&T Broadband merger into the right to receive a number of shares of AT&T Comcast Class C common stock determined by a formula described under "-- Calculation of the AT&T Broadband Exchange Ratio" (if the AT&T Broadband exchange ratio were determined as of the date of this document, it would be approximately   ); and

- each share of Comcast Class A common stock, Comcast Class B common stock and Comcast Class A Special common stock that is outstanding immediately prior to the completion of the mergers will be converted in the Comcast merger into the right to receive one share of AT&T Comcast Class A common stock, AT&T Comcast Class B common stock and AT&T Comcast Class A Special common stock, respectively.

The AT&T Comcast capital structure described above is referred to in this document as the "Alternative Structure." The rights of the classes of AT&T Comcast common stock under the Alternative Structure are described in "Certain Legal Information -- Description of AT&T Comcast Capital Stock."

Potential Additional Payments. If there is a disparity in the per share value of the class of AT&T Comcast common stock issued in the AT&T Broadband merger and the AT&T Comcast Class A Special common stock such that the shares of AT&T Comcast common stock issued to the AT&T Broadband shareholders in the AT&T Broadband merger do not have a value in excess of 50% of the total value of the shares of AT&T Comcast stock issued in the mergers, AT&T Comcast will issue a number of additional shares of AT&T Comcast stock to the same AT&T Broadband shareholders sufficient to ensure that the AT&T Broadband shareholders will hold shares of AT&T Comcast stock representing more than 50% of the value of all shares of AT&T Comcast stock issued in the mergers.

If, prior to the completion of the mergers, Standard & Poor's has not committed that the class of AT&T Comcast common stock to be issued in the AT&T Broadband merger will be included in the Standard & Poor's 500 Index immediately after completion of the mergers and during 10 trading days randomly selected from a post-closing pricing period the average trading price for such class of AT&T Comcast common stock is less than that of the AT&T Comcast Class A Special common stock, AT&T Comcast will issue additional shares of such class of AT&T Comcast common stock to the same AT&T Broadband shareholders to offset such price differential; provided that (1) AT&T Comcast will not be obligated pursuant to this provision to compensate AT&T Broadband shareholders to the extent the price differential exceeds 3% and (2) the number of shares of AT&T Comcast common stock that would otherwise be issued pursuant to this provision will be reduced by the number of shares (if any) issued by AT&T Comcast as described in the preceding paragraph. Notwithstanding the foregoing, if the class of AT&T Comcast common stock issued in the AT&T Broadband merger is included in the Standard & Poor's 500 Index prior to the close of the pricing period referred to above, AT&T Comcast will have no obligation to issue additional shares of AT&T Comcast common stock pursuant to this provision.

CALCULATION OF THE AT&T BROADBAND EXCHANGE RATIO

In connection with the transaction, AT&T Comcast will issue up to 1.235 billion shares of AT&T Comcast common stock to the AT&T shareholders who receive shares of AT&T Broadband common stock in the AT&T Broadband spin-off (not including 115 million shares of AT&T Comcast common stock issued to Microsoft as a result of the QUIPS exchange transaction). The number of shares of AT&T Comcast common stock that each holder of AT&T Broadband common stock will receive in the AT&T Broadband merger in exchange for each of such holder's shares of AT&T Broadband common stock will be determined by the following formula:

$$X = \frac{1{,}235{,}000{,}000 - (I+F)/C}{O}$$

The exchange ratio (identified as "X" above) is calculated by reference to the number of shares of AT&T Broadband common stock that is outstanding at the completion of the transaction (identified as "O" above). The merger agreement provides that this number "O" will include any outstanding restricted shares of AT&T Broadband common stock that are not forfeited upon completion of the transaction but will exclude any shares of AT&T Broadband common stock issued in the QUIPS exchange transaction, which is described under "Description of the AT&T Comcast Transaction Agreements -- The Exchange Agreement -- QUIPS Exchange" or held by a wholly owned subsidiary of AT&T Broadband and any shares of AT&T Broadband common stock that were not issued on account of the purported exercise by an AT&T shareholder of appraisal rights in connection with the AT&T Comcast transaction (unless such purported exercise has been withdrawn or such rights have been invalidated).

The exchange ratio is also calculated by reference to the cost to AT&T Comcast of assuming certain stock options and stock appreciation rights that are held by employees of AT&T Broadband and former employees of AT&T and AT&T Broadband. This latter cost is taken into account in the formula by subtracting the quantity (I+F)/C from 1.235 billion in the numerator where "I" is the value of stock options and stock appreciation rights outstanding on the day the merger agreement was signed and held by employees of AT&T Broadband immediately prior to the closing date, "F" is the value of stock options and stock appreciation rights held by former employees that are being assumed by AT&T Comcast and "C" is the market price of a share of Comcast Class A common stock immediately prior to completion of the transaction.

If the exchange ratio were determined as of the date of this document, it would be approximately [   ].

As described above, the exchange ratio is dependent on a number of factors that may change between the date of execution of the merger agreement and the date of completion of the AT&T Comcast transaction, including the number of outstanding shares of AT&T common stock, the value of options and stock appreciation rights and the price of Comcast Class A common stock. The following is solely for purposes of illustrating the effects that certain actions taken in this interim period may have on the exchange ratio. Each paragraph of the following assumes that the only variable of the exchange ratio that changes is the one listed in that paragraph:

- If AT&T issues additional shares of AT&T common stock before the record date for the AT&T Broadband spin-off, the number of shares of AT&T Broadband common stock distributed in the AT&T Broadband spin-off will increase and the exchange ratio will therefore decrease. The merger agreement requires AT&T to cause its subsidiary, TCI Pacific Communications, Inc., to call for redemption, and redeem, all of the outstanding shares of TCI Pacific Class A Senior Cumulative Exchangeable preferred stock, or the TCI Pacific preferred stock, prior to completion of the AT&T Comcast transaction. If prior to the redemption date, the holders of the TCI Pacific preferred stock elect to exchange their shares for AT&T common stock (as expected), AT&T will be required to issue an estimated 52.3 million shares of AT&T common stock. See "-- Covenants -- Redemption of TCI Pacific Preferred Stock." The exchange ratio of [   ] referred to above assumes the issuance of 52.3 million shares of AT&T common stock as discussed in the

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preceding sentence. In addition, the merger agreement permits AT&T to issue up to 275 million shares of AT&T common stock in connection with

certain transactions. If AT&T issues all 275 million shares of AT&T common stock discussed in the preceding sentence prior to completion of the AT&T Comcast transaction and the exchange ratio were determined as of the date of this document adjusted for such issuances and otherwise using then current information, the exchange ratio would be approximately [   ].

- If the stock price of AT&T immediately prior to the AT&T Broadband spin-off is less than the stock price of AT&T as of the date of execution of the merger agreement, it will cost less for AT&T Comcast to assume certain stock options and stock appreciation rights and the exchange ratio will increase.

- If the stock price of Comcast Class A common stock prior to the AT&T Broadband spin-off is less than the stock price of Comcast Class A common stock as of the date of execution of the merger agreement, the cost to AT&T Comcast of assuming certain stock options and stock appreciation rights (as expressed in terms of shares of Comcast Class A common stock) will increase and the exchange ratio will decrease.

EXCHANGE OF SHARES

AT&T and Comcast will jointly designate an exchange agent to coordinate (1) the exchange of Comcast common stock in the Comcast merger for AT&T Comcast common stock, (2) the distribution of AT&T Comcast common stock in respect of the AT&T Broadband common stock converted in the AT&T Broadband merger and (3) the payment of cash to the former holders of AT&T Broadband common stock instead of fractional shares of AT&T Comcast common stock.

As soon as reasonably practicable after completion of the mergers, the exchange agent will mail to each holder of record of a certificate that immediately prior to the completion of the mergers represented outstanding shares of Comcast common stock (1) a letter of transmittal and (2) instructions for effecting the surrender of the Comcast certificates in exchange for certificates representing shares of AT&T Comcast common stock. Holders of certificates representing shares of Comcast common stock that surrender their certificates for cancellation to the exchange agent, together with a properly completed letter of transmittal and such other documents as may reasonably be required by the exchange agent will receive the appropriate merger consideration. Holders of unexchanged shares of Comcast common stock will not be entitled to receive any dividends or other distributions payable by AT&T Comcast after the completion of the mergers until their certificates are surrendered.

AT&T will declare to holders of AT&T common stock, NYSE symbol "T," a dividend of one share of AT&T Broadband common stock for each such share of AT&T common stock immediately prior to the completion of the mergers. Certificates representing these shares of AT&T Broadband common stock will not be delivered. Instead, as soon as reasonably practicable after the completion of the mergers, the exchange agent will deliver to the holders entitled to the dividend of AT&T Broadband common stock the appropriate merger consideration payable to those holders in respect of the AT&T Broadband common stock. Those holders will not be required to deliver to the exchange agent certificates representing shares of AT&T common stock or AT&T Broadband common stock prior to receipt of certificates representing the shares of AT&T Comcast common stock into which their shares of AT&T Broadband common stock are converted in the AT&T Broadband merger. Holders of AT&T common stock, NYSE symbol "T," will continue to hold their certificates which, after completion of the AT&T Broadband spin-off, will represent an interest in AT&T's communications services business or, if AT&T Consumer Services Group tracking stock has been issued, AT&T Business Services Group (and AT&T's retained portion of the value of AT&T Consumer Services Group, if any). No distribution of AT&T Broadband common stock will be made on shares of AT&T Consumer Services Group tracking stock.

AT&T Comcast will not issue any fractional shares in the AT&T Broadband merger. Instead, as promptly as practicable after the completion of the mergers, the exchange agent will sell the "Excess Shares" of AT&T Comcast common stock at then prevailing prices on The Nasdaq Stock Market.

"Excess Shares" means (1) the number of shares of AT&T Comcast common stock delivered to the exchange agent by AT&T Comcast in respect of the AT&T Broadband merger less (2) the aggregate number of whole shares of AT&T Comcast common stock to be distributed to the holders of AT&T Broadband common stock in the AT&T Broadband merger. As soon as practicable after the determination of the amount of cash to be paid to the holders of AT&T Broadband common stock in lieu of any fractional share interests, the exchange agent will deliver such amounts to the applicable holders of AT&T Broadband common stock.

No fractional shares will be issuable in the Comcast merger because the Comcast exchange ratio is 1:1.

In the event that any additional shares of AT&T Comcast common stock will be issued as described under "-- Merger Consideration -- Potential Additional Payments," AT&T Comcast will enter into appropriate arrangements with the exchange agent providing for the delivery of such additional shares.

TREATMENT OF STOCK OPTIONS AND EQUITY-BASED AWARDS

AT&T Stock Options. Immediately prior to the AT&T Comcast transaction, as a part of the AT&T Broadband spin-off, AT&T stock options will be converted as described below pursuant to the employee benefits agreement (see "Employee Benefits Matters -- Other Benefits Matters"). In connection with the conversions, adjustments will be made to maintain the intrinsic value of the original AT&T options immediately before and after the AT&T Broadband spin-off:

- AT&T stock options held by current employees of AT&T Broadband (including any AT&T employees who become employees of AT&T Broadband in connection with the AT&T Broadband spin-off) will be converted into AT&T Broadband stock options;

- AT&T stock options held by current employees of AT&T (other than employees of AT&T Broadband) will be converted into adjusted AT&T stock options; and

- AT&T stock options held by former employees of AT&T and AT&T Broadband will be converted into (1) adjusted AT&T stock options and (2) AT&T Broadband stock options.

AT&T Broadband Stock Options. As of completion of the AT&T Comcast transaction, each outstanding AT&T Broadband stock option will be converted, on the same terms and conditions, into an option to acquire that number of shares of AT&T Comcast Indexed Stock that has the same fair market value immediately after the completion of the AT&T Comcast transaction as the aggregate fair market value of shares of AT&T common stock subject to the existing AT&T Broadband stock option prior to the AT&T Broadband spin-off less, in the case of former employees of AT&T or AT&T Broadband, the aggregate fair market value of the AT&T common stock subject to the adjusted AT&T stock option granted pursuant to the employee benefits agreement. The per share exercise price for each newly converted option will be equal to the aggregate exercise price of the applicable AT&T Broadband stock option prior to the AT&T Broadband spin-off (less, in the case of a former employee of AT&T or AT&T Broadband, the aggregate exercise price of the adjusted AT&T stock option referred to above) divided by the number of shares of AT&T Comcast Indexed Stock underlying such option. As of completion of the AT&T Comcast transaction, each AT&T Broadband stock option held by current AT&T Broadband employees (including AT&T employees who become AT&T Broadband employees in the AT&T Broadband spin-off) will have vested and will remain exercisable for the remainder of its original term (except for awards held by any AT&T executive officer who has waived rights to vesting of certain equity awards as a result of the AT&T Comcast transaction).

AT&T Restricted Stock and other AT&T Equity-Based Awards. Immediately prior to the AT&T Comcast transaction, as a part of the AT&T Broadband spin-off, AT&T restricted stock and other equity-based awards will be converted as described below, pursuant to the employee benefits agreement (see "Employee Benefits Matters -- Other Benefits Matters"). In connection with the conversions, adjustments will be made to maintain the fair market value of the original AT&T restricted stock or other equity-based award immediately before and after the AT&T Broadband spin-off:

- AT&T restricted shares held by current employees of AT&T (other than employees of AT&T Broadband) will be converted into (1) adjusted AT&T restricted shares and (2) equity-based awards based on AT&T Broadband common stock;

- AT&T restricted shares held by current employees of AT&T Broadband (including AT&T employees who become employees of AT&T Broadband in connection with the AT&T Broadband spin-off) will be converted into (1) adjusted AT&T restricted shares and (2) AT&T Broadband restricted shares; and

- Other equity-based awards based on AT&T common stock, regardless of by whom held, will be converted into (1) adjusted equity-based awards based on AT&T common stock and (2) equity-based awards based on AT&T Broadband common stock.

AT&T Broadband Restricted Stock and other AT&T Broadband Equity-Based Awards. As of the completion of the AT&T Comcast transaction, shares of AT&T Broadband restricted stock will be converted into the right to receive AT&T Comcast common stock on the terms and conditions applicable to AT&T Broadband shareholders described above under "Merger Consideration." As of the completion of the AT&T Comcast transaction, all other awards based on shares of AT&T Broadband common stock will be converted, on the same terms and conditions, into equivalent awards based on that number of shares of AT&T Comcast Indexed Stock having the same fair market value immediately after the completion of the AT&T Comcast transaction as the aggregate fair market value of shares of AT&T common stock subject to the original AT&T equity awards. As of completion of the AT&T Comcast transaction, each AT&T Broadband restricted share will have become free of restrictions and each other equity-based award (based on AT&T or AT&T Broadband common stock) held by current and former AT&T Broadband employees (including AT&T employees who become AT&T Broadband employees in the AT&T Broadband spin-off) will have vested (except for awards held by any AT&T executive officer who has waived rights to vesting of certain equity awards as a result of the AT&T Comcast transaction).

Comcast Stock Options. As of the completion of the AT&T Comcast transaction each outstanding Comcast stock option will be converted into an option to acquire, on the same terms and conditions, that number of shares of AT&T Comcast Indexed Stock that has the same fair market value immediately after the completion of the AT&T Comcast transaction as the aggregate fair market value of shares of Comcast Class A Special common stock subject to the existing Comcast stock option. The per share exercise price for each newly converted option will be equal to the aggregate exercise price of the applicable Comcast stock option divided by the number of shares of AT&T Comcast Indexed Stock underlying such option.

Comcast Restricted Stock and the Comcast Equity-Based Awards. As of the completion of the AT&T Comcast transaction, shares of Comcast restricted stock will be converted into the right to receive AT&T Comcast common stock on the terms and conditions applicable to Comcast shareholders described above under "Merger Consideration." As of the completion of the AT&T Comcast transaction, other awards based on shares of Comcast Class A Special common stock will be converted, on the same terms and conditions, into equivalent awards based on that number of shares of AT&T Comcast Indexed Stock having the same fair market value immediately after the completion of the transaction as the aggregate fair market value of shares of Comcast Class A Special common stock subject to the existing Comcast equity awards.

COVENANTS

Each of Comcast and AT&T has undertaken certain covenants in the merger agreement. The following summarizes the more significant of these covenants.

Interim Operations. Comcast and AT&T (with respect to its broadband business) have agreed to conduct their business in the ordinary course consistent with past practice and to not engage in specified material transactions, in each case prior to the completion of the transaction, without the prior written consent of the other party (which consent will not be unreasonably withheld). AT&T has also agreed not to enter into any material agreement or arrangement relating to its interest in amend or modify in any

material respect any of its existing material contracts relating to Time Warner Entertainment, acquire (other than pursuant to a cashless exercise of an option currently held by AT&T) additional interests in Time Warner Entertainment or sell any part of its interest in Time Warner Entertainment, except solely for cash or pursuant to the registration provisions of the Time Warner Entertainment partnership agreement, in each case prior to the completion of the AT&T Comcast transaction, without the prior written consent of Comcast (which consent will not be unreasonably withheld). AT&T has further agreed to run its broadband business for the benefit of the broadband business prior to the completion of the AT&T Comcast transaction.

Covenant to Obtain Regulatory Approvals. AT&T and Comcast have agreed to use their best efforts to promptly take all actions and to do all things necessary, proper or advisable under applicable laws and regulations to complete the AT&T Comcast transaction as soon as practicable. In addition, AT&T and Comcast have agreed to take all actions necessary to obtain all required FCC approvals and the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

AT&T Board's Covenant to Recommend and Hold Meeting. The AT&T Board has agreed to recommend approval and adoption of the merger agreement and the transactions contemplated by the merger agreement to AT&T shareholders. However, the AT&T Board is permitted to withdraw or modify, in a manner adverse to Comcast, this recommendation if:

- AT&T is in compliance with its obligations to notify Comcast promptly after its receipt of an Acquisition Proposal (as described below) and to keep Comcast fully informed of the status and details of any such Acquisition Proposal;

- the AT&T Board determines, after consulting with AT&T's outside legal counsel, that it must take such action to comply with its fiduciary duties under applicable law; and

- AT&T has delivered to Comcast a prior written notice advising Comcast that it intends to take such action and describing its reasons for taking such action (such notice to be delivered not less than two business days prior to the time such action is taken).

An "Acquisition Proposal" is defined in the merger agreement generally as any offer or proposal by any third party for, or any indication of interest in, certain transactions, including any transaction (1) the entering into or consummation of which would reasonably be expected to be inconsistent in any material respect with the AT&T Comcast transaction or (2) that would reasonably be expected to prevent or materially delay, impede or adversely affect the AT&T Comcast transaction (provided that certain transactions involving AT&T's communications business that might delay completion of the AT&T Comcast transaction will not be considered "Acquisition Proposals").

Subject to applicable law, AT&T is required to submit the merger agreement to AT&T shareholders at the AT&T meeting even if the AT&T Board determines at any time after the date of this document and prior to the AT&T meeting that it is no longer advisable or recommends that AT&T shareholders reject it.

No Solicitation. AT&T is prohibited from soliciting or encouraging Acquisition Proposals from third parties or from providing nonpublic information to or engaging in negotiations with any third party that has made or is known by AT&T to be considering making an Acquisition Proposal. However, AT&T may furnish nonpublic information and engage in negotiations with a third party that has made an unsolicited Acquisition Proposal if the AT&T Board determines, after consultation with its financial advisors and outside legal counsel, that such Acquisition Proposal would reasonably be expected to lead to a proposal that would be more favorable to the AT&T shareholders than the AT&T Comcast transaction; provided that prior to taking any of such actions:

- AT&T is in compliance with its obligations to notify Comcast promptly after its receipt of an Acquisition Proposal and to keep Comcast fully informed of the status and details of any such Acquisition Proposal;

- the AT&T Board determines, after consulting with AT&T's outside legal counsel, that it must take such action to comply with its fiduciary duties under applicable law; and

- such third party executes a confidentiality agreement with terms no less favorable in the aggregate to AT&T than those contained in the confidentiality agreement between AT&T and Comcast.

Comcast Board's Covenant to Recommend. The Comcast Board has agreed to recommend approval and adoption of the merger agreement and the transactions contemplated by the merger agreement to Comcast shareholders.

Interim Finance Committee. Comcast and AT&T have agreed to establish an Interim Finance Committee composed of Lawrence S. Smith, Executive Vice President of Comcast, and Charles H. Noski, Senior Executive Vice President and Chief Financial Officer of AT&T, for the purpose of engaging in financial planning for AT&T Broadband. The Interim Finance Committee will seek to arrange financing in an amount sufficient to:

- pay to AT&T at the closing of the transaction all debt owed to it by AT&T

Broadband;

- refinance certain AT&T Broadband debt that will be called for redemption on the closing date for the transaction or shortly thereafter (see "-- TOPrS Covenant"); and

- provide appropriate cash reserves to fund the operations of AT&T Broadband after the completion of the transaction.

If Comcast is unable to obtain the financing described above on the terms agreed upon by the Interim Finance Committee or the Interim Finance Committee is unable to agree on the terms of such financing, Comcast will arrange for a senior credit facility with a term not exceeding five years to provide such financing.

TOPrS Covenant. AT&T Comcast has agreed that on the closing date for the transaction, it will either call for redemption the AT&T Broadband debt known by the acronym TOPrS that is then redeemable (and which has not been redeemed prior to that date) and as to which AT&T has guaranteed certain obligations, cause AT&T to be released from any such guarantee or post a letter of credit in respect of such debt. With respect to any series of TOPrS that is not redeemable on the closing date for the transaction and as to which AT&T has guaranteed certain obligations, AT&T Comcast has agreed on the earliest date on which such series of TOPrS may be redeemed to either redeem such series of TOPrS, cause AT&T to be released from any such guarantee or post a letter of credit in respect of such debt. As of the date of this filing, AT&T has announced that approximately $1.3 billion of the outstanding TOPrS will be redeemed in February and March 2002.

QUIPS Failure. Comcast and AT&T have agreed that if on the date that would otherwise be the closing date for the AT&T Comcast transaction the QUIPS exchange transaction does not occur (the "QUIPS Failure Date"), the closing date for the AT&T Comcast transaction may be delayed for up to 180 days after the QUIPS Failure Date. During this period, AT&T and Comcast will use commercially reasonable efforts to complete the QUIPS exchange transaction or, if it appears reasonably likely that the QUIPS exchange transaction will not occur, the transfer of the obligations under the QUIPS (the "QUIPS Transfer") from AT&T to AT&T Broadband, in either case on the closing date for the AT&T Comcast transaction. If neither the QUIPS exchange transaction nor the QUIPS Transfer occurs on the closing date for the AT&T Comcast transaction during such period, AT&T Broadband will pay AT&T an additional amount at closing equal to the fair market value of the QUIPS, as determined pursuant to an appraisal process specified in the merger agreement. In such event, Comcast will be permitted to sell assets and take any other actions that are necessary or reasonably designed to enable it to provide AT&T Broadband with sufficient funds to pay AT&T the QUIPS fair market value.

Covenant Regarding Standard & Poor's 500 Index. AT&T Comcast, Comcast and AT&T have each agreed to use their reasonable best efforts to cause the AT&T Comcast common stock to be issued in the AT&T Broadband merger (i.e., AT&T Comcast Class A common stock under the Preferred Structure and AT&T Comcast Class C common stock under the Alternative Structure) to be included in the

Standard & Poor's 500 Index upon completion of the AT&T Comcast transaction or as promptly thereafter as possible.

Covenant Permitting Certain AT&T Transactions. Comcast and AT&T have agreed that AT&T may enter into an agreement relating to a transaction providing for the sale or disposition of more than 50% of AT&T's communications businesses that would delay completion of the mergers (a "Significant Excepted Transaction") if such Significant Excepted Transaction would not reasonably be expected to result in a delay in the completion of the mergers past March 1, 2003, the date on or after which Comcast or AT&T may elect to terminate the merger agreement if the mergers have not closed (the "End Date"); provided that, in such event, at the request of Comcast, the End Date will be extended by the reasonably expected period of delay in the completion of the mergers caused by such Significant Excepted Transaction up to sixty days.

Comcast and AT&T have also agreed that AT&T may enter into an agreement relating to a Significant Excepted Transaction that would reasonably be expected to result in a delay in the completion of the mergers past the End Date but which would not reasonably be expected to result in a delay in the completion of the mergers to a date that is more than sixty days after the End Date; provided that (1) Microsoft consents to extend the "end" date for the QUIPS exchange transaction to the date after the End Date (which date will be no later than sixty days after the End Date) on which it is reasonably anticipated that the mergers would be completed if the Significant Excepted Transaction were to occur, (2) the End Date is extended to the new "end" date for the QUIPS exchange transaction and (3) AT&T (and not AT&T Broadband) agrees to pay any costs, expenses or fees payable in connection with obtaining Microsoft's consent to the extension of the "end" date for the QUIPS exchange transaction.

AT&T has agreed that it will not enter into any agreement relating to a Significant Excepted Transaction that would reasonably be expected to result in a delay in the completion of the mergers to a date that is more than sixty days after the End Date.

Headquarters. Upon completion of the transaction, Comcast and AT&T have agreed that AT&T Comcast's headquarters will be in Philadelphia, Pennsylvania. Until the 2005 annual meeting of AT&T Comcast shareholders, AT&T Comcast will maintain an executive office in the New York City metropolitan area.

Alternative Structure. Comcast and AT&T have agreed that, at the request of the other party, it will consider amending the terms of the merger agreement to the extent necessary to provide for a structure or a sequencing of the mergers that is more tax efficient or otherwise more advantageous than the structure and sequencing of the mergers described in this document and is not adverse to the other party.

Shareholder Rights Plan. Comcast and AT&T have agreed to cause AT&T Comcast to adopt a shareholder rights plan upon completion of the AT&T Comcast transaction. For a description of the terms of the shareholder rights plan that AT&T Comcast will adopt, see "Certain Legal Information -- Description of AT&T Comcast Shareholder Rights Plan."

Post-Transaction Governance Arrangements. Comcast and AT&T have agreed to various governance arrangements for AT&T Comcast after the completion of the AT&T Comcast transaction. For a description of these arrangements, see "Description of Governance Arrangements Following the AT&T Comcast Transaction."

Indemnification and Insurance. Comcast and AT&T have agreed to various indemnification and insurance arrangements for officers and directors of AT&T, Comcast and their respective subsidiaries after the completion of the AT&T Comcast transaction. For a description of these arrangements, see "Employee Benefits Matters -- Interests of Directors and Officers in the AT&T Comcast Transaction -- Indemnification and Insurance."

Employee Benefits Matters. Comcast and AT&T have agreed to various employee benefits matters. For a description of these matters, see "Employee Benefits Matters."

Agreement to Vote. Comcast has agreed to vote its shares of AT&T common stock in favor of the AT&T Comcast transaction.

Covenant Regarding Comcast's AT&T Stock. Comcast and AT&T have agreed that, prior to the AT&T Broadband spin-off, Comcast will exchange all of its shares of AT&T common stock for shares of a newly created series of AT&T exchangeable preferred stock. The AT&T exchangeable preferred stock will be mandatorily exchangeable after the completion of the AT&T Comcast transaction into shares of AT&T common stock. The exchange formula included in the merger agreement will provide Comcast with an interest in the communications business of AT&T that, subject to the next sentence, is equal in value to the interest Comcast held in the combined communications and broadband business of AT&T prior to the AT&T Comcast transaction. Comcast has agreed to cap the shares of AT&T common stock (or shares of any class of AT&T stock issued as a dividend on shares of AT&T common stock) it is eligible to receive pursuant to the exchange formula included in the merger agreement at 10% of the outstanding shares of AT&T common stock (or any class of stock issued as a dividend on AT&T common stock). Comcast has also agreed that if as a result of the mandatory exchange it holds in excess of 5% of the outstanding shares of AT&T common stock (or any class of stock issued as a dividend on AT&T common stock), then (1) it will sell the excess shares within a year of the exchange and (2) prior to the sale of the excess shares it will vote them on any matter submitted to shareholders in the same proportion as all other shareholders.

Redemption of TCI Pacific Preferred Stock. AT&T has agreed that prior to the completion of the AT&T Comcast transaction, it will cause TCI Pacific (1) to call for redemption all of the outstanding shares of TCI Pacific preferred stock and (2) to the extent any of such shares are not exchanged for shares of AT&T common stock prior to the applicable redemption date, to redeem all of such shares remaining outstanding in exchange for shares of AT&T common stock.

Sural. Comcast and AT&T have agreed that Sural LLC, which is controlled by Brian L. Roberts, President of Comcast, may elect to merge with and into AT&T Comcast or one of its subsidiaries immediately prior to the mergers. If such election is made, the members of Sural LLC, in exchange for their outstanding interests in Sural LLC, would receive in the aggregate the same number of AT&T Comcast shares of each class that Sural LLC would have received in the Comcast merger had it not made such election.

REPRESENTATIONS AND WARRANTIES

The merger agreement includes substantially reciprocal representations and warranties made by Comcast and AT&T customary for a transaction similar to the AT&T Comcast transaction. The representations and warranties contained in the merger agreement will not survive the completion of the AT&T Comcast transaction or a termination of the merger agreement.

CONDITIONS TO THE COMPLETION OF THE MERGERS

Conditions to the Obligations of Comcast and AT&T. The obligations of each party to the merger agreement to complete the mergers are subject to the satisfaction or waiver (to the extent permissible) of the following conditions:

- approval of the AT&T Comcast transaction by the AT&T shareholders and the Comcast shareholders;

- expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976;

- absence of a material legal prohibition on the transaction;

- approval for the listing on The Nasdaq Stock Market of the shares of AT&T Comcast common stock to be issued in the mergers (other than the shares of AT&T Comcast Class B common stock) or to be reserved for issuance in connection with the mergers;

- receipt of all required regulatory approvals other than those the failure of which to be obtained would not reasonably be expected to have a Material Adverse Effect (as described below) on Comcast or AT&T's broadband business;

- absence of any order or statute, rule or regulation restraining or prohibiting the effective operation of the business of AT&T Comcast, AT&T Broadband or Comcast after the completion of the mergers that would reasonably be expected to have a Material Adverse Effect on Comcast or AT&T's broadband business;

- completion of the separation and the AT&T Broadband spin-off;

- execution of all of the transaction agreements described or referred to in this document;

- receipt and continuing effectiveness of an Internal Revenue Service ruling or rulings (or, if Comcast and AT&T mutually agree, an opinion from tax counsel acceptable to AT&T and Comcast) to the effect that, for U.S. federal income tax purposes, the separation and the AT&T Broadband spin-off will be tax-free, the mergers will not cause the separation and the AT&T Broadband spin-off to fail to qualify as tax-free, and the separation and the AT&T Broadband spin-off will not cause the distribution by AT&T of all of the common stock of AT&T Wireless or of Liberty Media to fail to qualify as tax-free transactions; and

- AT&T shall have obtained Note Consents, or defeased, purchased or acquired debt, in respect of series representing at least 90% in aggregate principal amount of the securities issued under the AT&T indenture, dated September 7, 1990, and outstanding as of December 19, 2001. At December 19, 2001, there was approximately $12.7 billion in aggregate principal amount subject to this condition.

Additional Conditions to the Obligations of AT&T. The obligations of AT&T to consummate the AT&T Broadband merger are also subject to the satisfaction or waiver (to the extent permissible) of the following conditions:

- material accuracy of the representations and warranties of Comcast, including with respect to the absence of a Material Adverse Effect on Comcast;

- performance by Comcast in all material respects of its obligations under the merger agreement;

- receipt by AT&T of an opinion of Wachtell, Lipton, Rosen & Katz to the effect that the combination of AT&T Broadband and Comcast will qualify as a tax-free transaction; and

- performance by Sural in all material respects of its obligations under the support agreement.

Additional Conditions to the Obligations of Comcast. The obligations of

Comcast to consummate the Comcast merger are also subject to the satisfaction or waiver (to the extent permissible) of the following conditions:

- material accuracy of the representations and warranties of AT&T, including with respect to the absence of a Material Adverse Effect on AT&T Broadband;

- performance by AT&T in all material respects of its obligations under the merger agreement; and

- receipt by Comcast of an opinion of Davis Polk & Wardwell to the effect that the combination of AT&T Broadband and Comcast will qualify as a tax-free transaction.

"Material Adverse Effect" with respect to Comcast or AT&T's broadband business means a material adverse effect on the financial condition, assets or results of operations of Comcast or AT&T's broadband business, as applicable, taken as a whole, excluding any effect resulting from or arising in connection with (1) changes or conditions generally affecting the industries in which Comcast or AT&T's broadband business, as applicable, operate, (2) changes in general economic, regulatory or political conditions or (3) the announcement of the merger agreement or of the transactions contemplated by the merger agreement.

TERMINATION OF THE MERGER AGREEMENT

The merger agreement may be terminated in any of the following circumstances:

- The merger agreement may be terminated by mutual written agreement of Comcast and AT&T.

- The merger agreement may be terminated by either Comcast or AT&T if:

  -- either party's shareholders fail to approve the transaction;

  -- the mergers have not been completed by March 1, 2003; provided that the party seeking to terminate the merger agreement pursuant to this provision has not breached any provision of the merger agreement resulting in the failure of the mergers to be completed by such date;

  -- the other party breaches the merger agreement such that the related closing conditions cannot be satisfied by March 1, 2003; or

  -- any material law or regulation makes completion of the transaction illegal or a permanent injunction prohibiting completion of the transaction is entered.

- AT&T may terminate the merger agreement if the closing date for the transaction has not occurred within 30 days of the QUIPS Failure Date; provided that AT&T may terminate the merger agreement pursuant to this provision only (1) on two business days' notice delivered to Comcast prior to the 45th day after the QUIPS Failure Date and (2) if prior to the effectiveness of the termination Comcast does not agree to close the transaction by the 60th day after the QUIPS Failure Date.

- Comcast may terminate the merger agreement if:

  -- the AT&T Board withdraws or modifies, in a manner adverse to Comcast, its recommendation of the AT&T Comcast transaction; or

-- AT&T willfully and materially breaches its obligations set forth under "-- Covenants -- AT&T Board's Covenant to Recommend and Hold Meeting" or "-- Covenants -- No Solicitation."

If the merger agreement is terminated as provided above, the merger agreement will become void without liability on the part of any party unless such party has intentionally breached a covenant or other agreement included in the merger agreement or knowingly breached a representation or warranty included in the merger agreement. However, the provisions of the merger agreement described below relating to termination fees and expenses will continue in effect after any termination of the merger agreement.

TERMINATION FEES

AT&T will pay Comcast a termination fee in the amount of $1.5 billion in cash if the merger agreement is terminated because:

- the AT&T Board withdraws or modifies, in a manner adverse to Comcast, its recommendation of the AT&T Comcast transaction; or

- AT&T willfully and materially breaches its obligations set forth under "-- Covenants -- AT&T Board's Covenant to Recommend and Hold Meeting" or "-- Covenants -- No Solicitation."

In addition, AT&T will pay Comcast the termination fee specified above if the merger agreement is terminated as a result of AT&T shareholders having failed to approve the AT&T Comcast transaction at the AT&T shareholders meeting, an Acquisition Proposal was pending at the time of the AT&T shareholders meeting and, within one year of the AT&T shareholders meeting, AT&T enters into an agreement relating to an alternative material transaction.

Comcast will pay AT&T a termination fee in the amount of $1.5 billion in cash if the merger agreement is terminated because the Comcast Board withdraws or modifies, in a manner adverse to

AT&T, its recommendation of the AT&T Comcast transaction or if Comcast shareholders fail to approve the AT&T Comcast transaction.

EXPENSES

All costs and expenses incurred in connection with the transaction will be paid by the party incurring the cost or expense; provided that (1) AT&T will pay any costs and expenses incurred by AT&T Broadband that are in excess of $120 million (exclusive of any costs and expenses incurred by AT&T Broadband as described in clauses (2), (3), (4) and (5) of this sentence), (2) AT&T Broadband will pay any costs and expenses incurred in connection with any financing arrangement entered into by AT&T Broadband as described under "Covenants -- Interim Finance Committee," (3) AT&T Broadband will pay any costs and expenses (to the extent not paid by AT&T Comcast) incurred in connection with redeeming or refinancing the TOPrS, releasing AT&T from any obligations in respect of the TOPrS or posting a letter of credit in support of such AT&T obligations, in each case as described under "-- Covenants -- TOPrS Covenant," (4) AT&T Broadband will pay 50% of any costs and expenses in excess of $50 million incurred by AT&T or any of its subsidiaries in connection with obtaining the Note Consents (through either a one-time cash payment of a consent fee or through a coupon increase or a combination thereof), and (5) AT&T (and not AT&T Broadband) and Comcast each will pay 50% of any fees and expenses, other than attorneys' and accounting fees and expenses, incurred in relation to the printing, filing and mailing of this document and the registration statement in which this document is included.

AMENDMENTS AND WAIVERS

Any provision of the merger agreement may be amended or waived prior to the completion of the mergers if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by each of the parties to the merger agreement or, in the case of a waiver, by each of the parties to the merger agreement against whom the waiver is to be effective. After the adoption of the merger agreement by the shareholders of Comcast or AT&T, no amendment or waiver of any provision of the merger agreement may be made or given that requires the approval of the shareholders of Comcast or AT&T, respectively, unless such required approval is obtained.

THE SEPARATION AND DISTRIBUTION AGREEMENT

The following summary of the separation and distribution agreement is qualified in its entirety by reference to the complete text of the separation and distribution agreement, which is incorporated by reference and attached as Annex B to this document.

THE SEPARATION

Assignment. AT&T will assign and transfer to AT&T Broadband all of AT&T's and its subsidiaries' right, title and interest in all of the assets of AT&T's broadband business which are not already held by AT&T Broadband or an AT&T Broadband subsidiary. The assets comprising AT&T's broadband business are generally determined in the following manner:

- Assets reflected in the AT&T Broadband Group balance sheet dated as of December 31, 2000 are assets of AT&T's broadband business, except as described below.

- Assets reflected in the AT&T Communications balance sheet dated as of December 31, 2000 are assets of AT&T's communications business, except as described below.

- Certain assets are specifically assigned to AT&T's broadband business regardless of whether or not they are reflected in the AT&T Broadband Group balance sheet dated as of December 31, 2000.

- Certain assets are specifically assigned to AT&T's communications business regardless of whether or not they are reflected in the AT&T Communications balance sheet dated as of December 31, 2000.

- Assets that are not reflected in the AT&T Broadband Group balance sheet or the AT&T Communications balance sheet, in each case dated as of December 31, 2000, or specifically assigned to AT&T's broadband business or AT&T's communications business are assigned to the business to which they primarily relate.

Assumption. At the same time as the assignment, AT&T Broadband will assume all of the liabilities of AT&T's broadband business that are not already liabilities of AT&T Broadband or an AT&T Broadband subsidiary. The liabilities of AT&T's broadband business are generally determined in the following manner:

- Liabilities reflected in the AT&T Broadband Group balance sheet dated as of December 31, 2000 are liabilities of AT&T's broadband business, except as described below.

- Liabilities reflected in the AT&T Communications balance sheet dated as of December 31, 2000 are liabilities of AT&T's communications business, except as described below.

- Certain liabilities are specifically assigned to AT&T's broadband business regardless of whether or not they are reflected in the AT&T Broadband Group balance sheet dated as of December 31, 2000.

- Certain liabilities are specifically assigned to AT&T's communications business regardless of whether or not they are reflected in the AT&T Communications balance sheet dated as of December 31, 2000.

- Certain liabilities such as liabilities arising out of the AT&T Comcast transaction or involving At Home or AT&T Wireless (to the extent AT&T is not indemnified by AT&T Wireless for such liabilities) are divided evenly between AT&T's broadband business and AT&T's communications business regardless of whether or not they are reflected in the AT&T Broadband Group balance sheet or the AT&T Communications balance sheet, in each case dated as of December 31, 2000.

- Liabilities that are not reflected in the AT&T Broadband Group balance sheet or the AT&T Communications balance sheet, in each case dated as of December 31, 2000, or specifically assigned to AT&T's broadband business or AT&T's communications business are assigned to the business to which they primarily relate.

THE AT&T BROADBAND SPIN-OFF

After the separation, AT&T will spin off AT&T Broadband by distributing to each holder of record of a share of AT&T common stock, NYSE symbol "T," on the record date for the AT&T Broadband spin-off, except for those holders that have purported to exercise appraisal rights under New York Law, one share of AT&T Broadband common stock for each share of AT&T common stock held. The record date for the AT&T Broadband spin-off will be the close of business on the date of completion of the mergers unless otherwise agreed by AT&T and Comcast. No distribution of AT&T Broadband common stock will be made upon AT&T Consumer Services Group tracking stock.

Since the AT&T Broadband merger will occur shortly after the AT&T Broadband spin-off, AT&T shareholders will not be sent stock certificates representing the shares of AT&T Broadband common stock distributed to them in the AT&T Broadband spin-off. Instead, AT&T will cause the distribution agent for AT&T Broadband common stock issued in the AT&T Broadband spin-off to hold AT&T Broadband common stock in trust for AT&T shareholders as of the record date pending conversion of AT&T Broadband common stock into shares of AT&T Comcast common stock pursuant to the AT&T Broadband merger. After the AT&T Broadband merger, the applicable AT&T shareholders will be mailed stock certificates representing the shares of AT&T Comcast common stock into which their shares of AT&T Broadband common stock were converted, and cash in lieu of fractional shares, as described under "The Merger Agreement -- Exchange of Shares."

TIMING OF THE SEPARATION AND THE AT&T BROADBAND SPIN-OFF

The separation and the AT&T Broadband spin-off are scheduled to occur on the closing date for the mergers. See "-- The Merger Agreement -- Timing of Closing." On the closing date, the separation will occur prior to the AT&T

Broadband spin-off which will occur prior to the mergers. With the consent of Comcast, which consent will not be unreasonably withheld, AT&T may effect the separation and the AT&T Broadband spin-off prior to the closing date for the mergers.

REPAYMENT OF INTRACOMPANY DEBT

AT&T Broadband has agreed to repay at the completion of the AT&T Comcast transaction any debt that it or any AT&T Broadband subsidiary owes to AT&T or any AT&T subsidiary (other than AT&T Broadband or any AT&T Broadband subsidiary). As described under "-- The Merger Agreement -- Covenants -- Interim Finance Committee," Comcast has agreed to arrange for the financing necessary to permit AT&T Broadband to repay debt owed by AT&T Broadband and its subsidiaries to AT&T and its subsidiaries (other than AT&T Broadband and its subsidiaries). AT&T has also agreed to repay at the completion of the AT&T Comcast transaction any debt that it or any of its subsidiaries (other than AT&T Broadband or any AT&T Broadband subsidiary) owes to AT&T Broadband or any AT&T Broadband subsidiary. As of September 30, 2001, the aggregate amount of indebtedness owed by AT&T Broadband and its subsidiaries to AT&T and its subsidiaries (other than AT&T Broadband and its subsidiaries) was $5.39 billion. Absent additional deleveraging activities, it is expected that this figure will grow to fund capital expenditures, operations and third party debt maturities and redemptions through the completion of the AT&T Comcast transaction.

POST-SPIN-OFF TRANSACTIONS

The ability of AT&T and AT&T Broadband to engage in certain acquisitions, redeem stock, issue equity securities or take any other action or actions that in the aggregate would be reasonably likely to have the effect of causing or permitting one or more persons to acquire directly or indirectly stock representing a 50% or greater interest (within the meaning of Section 355(e) of the Code) in AT&T or AT&T Broadband or otherwise jeopardize the non-recognition of taxable gain or loss for U.S. federal income tax purposes to AT&T, AT&T affiliates and AT&T shareholders in connection with the separation and the AT&T Broadband spin-off may be limited for a period of 25 months following the AT&T Broadband spin-off.

V-15

DISPOSITION OF TIME WARNER ENTERTAINMENT INTEREST

Upon any disposition of all or any portion of its interest in Time Warner Entertainment after the signing of the merger agreement, AT&T Broadband has agreed to pay AT&T 50% of the proceeds received from such disposition in excess of the threshold amount described in the next sentence reduced by taxes on 50% of such excess. The threshold amount is equal to the balance (plus 7% simple interest per annum on the balance) of $10.2 billion reduced by the aggregate proceeds of any previous dispositions of any portion of the Time Warner Entertainment interest.

If the Time Warner Entertainment interest has not been fully disposed of within 54 months of the completion of the transaction, the remaining Time Warner Entertainment interest will be appraised at fair market value. To the extent that the amount of such appraisal exceeds the threshold amount specified above, AT&T Broadband has agreed to pay AT&T 50% of such excess (on a tax-adjusted basis).

CONDITIONS TO THE COMPLETION OF THE SEPARATION AND THE AT&T BROADBAND SPIN-OFF

The obligations of AT&T to complete the separation and the AT&T Broadband spin-off are subject to the satisfaction or waiver (to the extent permissible) of certain conditions, including:

- receipt of all required regulatory approvals other than those the failure of which to be obtained would not reasonably be expected to have a Material Adverse Effect with respect to AT&T's broadband business or AT&T's communications business (as defined under "-- The Merger Agreement -- Conditions to the Completion of the Mergers" but with respect to AT&T's communications business);

- satisfaction of all conditions necessary to permit the AT&T Broadband spin-off to qualify as a tax-free distribution to AT&T, AT&T Broadband and the AT&T shareholders and absence of any condition likely to prevent the AT&T Broadband spin-off from qualifying as a tax-free distribution to AT&T, AT&T Broadband and the AT&T shareholders;

- absence of a legal prohibition on the separation or the AT&T Broadband spin-off;

- approval of the transaction by AT&T shareholders; and

- satisfaction of all of the other conditions to the mergers specified under "-- The Merger Agreement-Conditions to the Completion of the Mergers" other than the condition that the separation and the AT&T Broadband spin-off have been completed and other than the additional conditions to Comcast's obligations to effect the mergers.

MUTUAL RELEASE; INDEMNIFICATION

Mutual Release of Pre-Closing Claims. AT&T and AT&T Broadband have each agreed to release the other from any and all claims that it may have against the other party arising from any acts or events occurring or failing to occur prior to the completion of the AT&T Broadband spin-off, subject to certain exceptions specified in the separation and distribution agreement.

Indemnification by AT&T. After completion of the AT&T Broadband spin-off, AT&T will indemnify AT&T Broadband from any and all liabilities relating to, arising out of or resulting from any of the following:

- the failure of AT&T or any of its subsidiaries or any other person to pay any liabilities, or perform under any contracts, of AT&T's communications business;

- the assets or contracts of AT&T's communications business; and

- any breach of the separation and distribution agreement or any of the ancillary agreements by AT&T.

Indemnification by AT&T Broadband. After completion of the transaction, AT&T Broadband will indemnify AT&T from any and all liabilities relating to, arising out of or resulting from any of the following:

- the failure of AT&T Broadband or any of its subsidiaries or any other person to pay any liabilities, or perform under any contracts, of the AT&T Broadband business;

- the assets or contracts of AT&T's broadband business;

- any breach of the separation and distribution agreement or any of the ancillary agreements by AT&T Broadband; and

- if neither the QUIPS exchange transaction nor the QUIPS Transfer occurs, any liabilities relating to, arising out of or resulting from any action commenced by Microsoft claiming that the transaction violates the terms of the QUIPS; however, in the event that AT&T is required to repay the QUIPS as a result of such action, the indemnified liability in respect of the repayment will be reduced by the amount of the QUIPS fair market value plus any accrued interest on the QUIPS since the date of determination of the QUIPS fair market value. See "-- The Merger Agreement -- Covenants -- QUIPS Failure."

Tax Indemnification. Subject to the exceptions described below, AT&T Broadband will indemnify AT&T against 50% of the taxes and related costs assessed against AT&T resulting from the disqualification of the separation and the AT&T Broadband spin-off as tax-free transactions under Section 355 of the Code.

If such disqualification results from a transaction involving the stock or assets of AT&T Broadband occurring after the AT&T Broadband spin-off, from AT&T Broadband's failure to remain actively engaged in a trade or business or from the failure of any representation made with respect to AT&T Broadband in connection with certain tax opinions and Internal Revenue Service rulings, then AT&T Broadband will be required to indemnify AT&T against all such taxes and related costs.

If such disqualification results from a transaction involving the stock or assets of AT&T occurring after the AT&T Broadband spin-off, from AT&T's failure to remain actively engaged in a trade or business or from the failure of any representation made with respect to AT&T in connection with certain tax opinions and Internal Revenue Service rulings, then AT&T Broadband is not required to indemnify AT&T against any such taxes or related costs.

AT&T Broadband will also indemnify AT&T against 50% of the taxes and related costs resulting from the Liberty Media or AT&T Wireless spin-offs failing to be tax-free, unless either spin-off becomes taxable as a result of an action taken by AT&T or AT&T Broadband, in which case the acting party bears full responsibility for any resulting AT&T liabilities. AT&T Broadband's obligation described in the preceding sentence is reduced by AT&T Broadband's share of any indemnification that AT&T receives from Liberty Media or AT&T Wireless as a result of the relevant spin-off failing to qualify as tax-free.

Other Indemnification. AT&T and AT&T Broadband will indemnify each other for 50% of any liability resulting from any untrue statement or omission of a material fact in any registration statement relating to the AT&T Broadband spin-off or in any other filing made by AT&T or AT&T Broadband with the Securities and Exchange Commission in connection with the separation, the AT&T Broadband spin-off, the AT&T Broadband merger or any related agreements.

TERMINATION

The separation and distribution agreement may be terminated by AT&T if the merger agreement has terminated.

AMENDMENTS AND WAIVERS

Any provision of the separation and distribution agreement may be amended or waived prior to the completion of the transaction if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by AT&T, AT&T Broadband and Comcast or, in the case of a waiver, by the party to the separation and distribution agreement against whom the waiver is to be effective and Comcast.

THE SUPPORT AGREEMENT

In connection with the merger agreement, AT&T, Comcast, AT&T Comcast, Sural LLC and Brian L. Roberts have entered into a support agreement relating to the shares of Comcast voting stock held by Sural prior to the completion of the AT&T Comcast transaction and the shares of AT&T Comcast voting stock that will be held by Sural after completion of the AT&T Comcast transaction (all of such shares are referred to in this section as the "Comcast Shares"). As of the date of this document, Sural held shares of Comcast voting stock representing approximately 86.7% of Comcast's outstanding voting power. The following summary of the support agreement is qualified in its entirety by reference to the complete text of the support agreement, which is incorporated by reference and attached as an exhibit to the registration statement in which this document is included.

VOTING AGREEMENT

Sural has agreed to vote the Comcast Shares:

- in favor of adoption of the merger agreement and approval of the transactions contemplated by the merger agreement;

- against any action or agreement that would reasonably be expected to result in a breach of any covenant, representation or warranty or any other obligation or agreement of Comcast under the merger agreement or that would reasonably be expected to result in any of the conditions to the obligations of the parties under the merger agreement not being fulfilled;

- in favor of any other matter relating to the consummation of the transactions contemplated by the merger agreement with respect to which Sural may be entitled to vote; and

- against any other matter that would reasonably be expected to prevent, interfere with or delay consummation of the transactions contemplated by the merger agreement.

COVENANTS

No Inconsistent Agreements. Sural has agreed that it will not enter into any voting agreement or grant a proxy or power of attorney or take any other action with respect to the Comcast Shares which is inconsistent with the terms of the support agreement. Brian L. Roberts has agreed that he will not enter into any voting agreement or grant a proxy or power of attorney or take any other action with respect to any units of membership interests in Sural which is inconsistent with the terms of the support agreement.

Dispositions Prior to Completion of the AT&T Comcast Transaction. Sural has agreed that prior to the completion of the transaction it will not transfer ownership of any of the Comcast Shares, except to certain permitted transferees who agree to be bound by the same transfer restrictions.

Dispositions After Completion of the AT&T Comcast Transaction. Sural has agreed that from and after the completion of the AT&T Comcast transaction until the tenth anniversary of the completion of the AT&T Comcast transaction it will not transfer ownership of any of its shares of AT&T Comcast Class B common stock, except to certain permitted transferees who agree to be bound by the same transfer restrictions or in a transaction that (1) permits AT&T Comcast's other shareholders to dispose of all of their shares of AT&T Comcast stock for the same per share consideration as Sural receives for its shares of AT&T Comcast Class B common stock (or, if higher, any of its shares of any other class of AT&T Comcast common stock) and (2) is approved by the disinterested holders of AT&T Comcast's voting stock. Brian L. Roberts has also agreed that from and after the completion of the AT&T Comcast transaction until the tenth anniversary of the completion of the AT&T Comcast transaction he will not transfer ownership of any of his securities or other equity interests in Sural, except to certain permitted transferees who agree to be bound by the same transfer restrictions or in a transaction that (1) permits AT&T Comcast's other shareholders to dispose of all of their shares of AT&T Comcast stock for the same per share consideration as the effective per share consideration that Brian L. Roberts receives (as a result of his ownership interest in Sural) for each of the shares of AT&T Comcast Class B common stock held

by Sural (or, if higher, any of the shares of any other class of AT&T Comcast common stock), and (2) is approved by the disinterested holders of AT&T Comcast's voting stock. Following the tenth anniversary of the completion of the AT&T Comcast transaction, subject to applicable law, the holders of the AT&T Comcast Class B common stock will be permitted to transfer their shares of AT&T Comcast Class B common stock in a transaction in which they receive a premium that is disproportionate to the premium (if any) received by the other holders of AT&T Comcast stock for their shares of AT&T Comcast stock.

Interested Party Transactions. AT&T Comcast has agreed that, except as described in the next sentence, after the completion of the AT&T Comcast transaction neither it nor any of its subsidiaries will enter into any material transaction with Brian L. Roberts or any of his associates or any permitted transferee unless such transaction is approved by AT&T Comcast's disinterested directors. Compensation arrangements between Brian L. Roberts or any of his associates on the one hand and AT&T Comcast or any of its subsidiaries on the other hand will require the approval of the disinterested directors of the compensation committee of the AT&T Comcast Board.

Additional Voting Agreements. Sural has agreed that from and after the completion of the AT&T Comcast transaction until the 2005 annual meeting of AT&T Comcast shareholders, it will vote its shares of AT&T Comcast Class B common stock against any proposed amendment to the governance arrangements set forth in the AT&T Comcast charter. See "Description of Governance Arrangements Following the AT&T Comcast Transaction."

Sural has further agreed that if Brian L. Roberts dies or becomes incapable of performing his duties prior to the fifth anniversary of the completion of the AT&T Comcast transaction, then, unless Ralph J. Roberts has sole voting power in respect of the election of directors with respect to all outstanding shares of AT&T Comcast Class B common stock, from the date of Brian L. Roberts's death or inability to perform his duties until the fifth anniversary of the completion of the AT&T Comcast transaction, Sural will vote its shares of AT&T Comcast Class B common stock in any election of AT&T Comcast directors in the same proportion as the holders of shares of AT&T Comcast common stock (other than AT&T Comcast Class B common stock and any other voting shares of AT&T Comcast owned by Brian L. Roberts or Sural or any permitted transferee) vote in such election of directors. Each permitted transferee of any of such securities will also be required to agree, as a condition to such transfer, to the same voting obligations.

ENFORCEMENT

The support agreement provides that any determination with respect to Sural's, Brian L. Roberts's or AT&T Comcast's compliance with the support agreement or otherwise with respect to the items described in "-- Covenants," in each case after the completion of the AT&T Comcast transaction, including any determination as to the enforcement action to be taken by AT&T Comcast in connection with such determination, will be made for AT&T Comcast by the disinterested, independent persons on the AT&T Comcast Board; provided that any Comcast director designee (including any replacement Comcast director designee) or any director who was a Comcast director designee or any spouse, parent, sibling, lineal descendant, aunt, uncle, cousin, other close relative of Brian L. Roberts or their respective spouses will not be considered a disinterested, independent person.

AMENDMENTS

Any provision of the support agreement may be amended if such amendment is in writing and is signed by each of the parties to the support agreement. However, no amendment of any provision described under "-- Covenants" or "-- Enforcement" will be effective without the approval of:

- a majority of the disinterested, independent persons on the AT&T Comcast Board; provided that any Comcast director designee (including any replacement Comcast director designee) or any director who was a Comcast director designee or any spouse, parent, sibling, lineal descendant, aunt, uncle, cousin, other close relative of Brian L. Roberts or their respective spouses will not be considered disinterested, independent persons; and

- holders of a majority of the votes cast by the holders of all of the classes of AT&T Comcast capital stock entitled to vote (other than the AT&T Comcast Class B common stock and any other voting shares of AT&T Comcast owned by Brian L. Roberts, Sural or any permitted transferee).

TERMINATION

The support agreement terminates on the earlier to occur of (1) one day after the tenth anniversary of the completion of the transaction and (2) any termination of the merger agreement.

THE EXCHANGE AGREEMENT

In connection with the AT&T Comcast transaction, Comcast and Microsoft entered into an exchange agreement dated December 7, 2001. On December 19, 2001, following execution of the merger agreement, AT&T and AT&T Comcast each became a party to the exchange agreement. The following summary of the exchange agreement is qualified in its entirety by reference to the complete text of the exchange agreement, which is incorporated by reference and attached as an exhibit to the registration statement in which this document is included.

QUIPS EXCHANGE

QUIPS. Microsoft (through a wholly owned subsidiary) holds $5 billion in aggregate liquidation preference amount of 5% Convertible Quarterly Income Preferred Securities (referred to in this document by their acronym "QUIPS") of AT&T Finance Trust I, a Delaware business trust. The QUIPS are convertible into $5 billion aggregate face amount of 5% Junior Convertible Subordinated Debentures due 2029 of AT&T, which are in turn convertible into AT&T common stock.

The Exchange. In connection with the AT&T Broadband spin-off, Microsoft has agreed to exchange the QUIPS for a number of shares of AT&T Broadband common stock that will be converted in the AT&T Broadband merger into 115 million shares of AT&T Comcast Class A common stock under the Preferred Structure (or AT&T Comcast Class C common stock under the Alternative Structure). This transaction is referred to in this document as the "QUIPS exchange transaction."

INTERNET ACCESS

Until the fifth anniversary of the QUIPS exchange transaction, subject to the completion of the QUIPS exchange transaction, AT&T Comcast has agreed that if AT&T Comcast offers a high-speed Internet access agreement to any third party, then it will be obligated to offer an agreement on nondiscriminatory terms with respect to the same cable systems to Microsoft for its Internet service provider, The Microsoft Network.

COVENANTS

Each of Comcast, Microsoft, AT&T and AT&T Comcast has undertaken certain covenants in the exchange agreement. The following summarizes the more significant of these covenants.

Merger Documentation. Comcast has agreed that, without the prior written consent of Microsoft (which consent will not be unreasonably withheld), Comcast will not agree to any amendment or waiver of any provision of any of the AT&T Comcast transaction agreements that would reasonably be expected to (1) conflict with any provision of the exchange agreement, the agreements relating to the set-top box commitment described below or any access agreement entered into between Microsoft and AT&T Comcast pursuant to the most favored nation provision described above or (2) be materially adverse to Microsoft's rights under the exchange agreement or the benefits that Microsoft reasonably expects to realize from the exchange agreement, in the case of (2), to the extent that any such amendment or waiver would have an effect on Microsoft that is materially disproportionate to the effect it would have on other AT&T Broadband or AT&T Comcast shareholders.

Lockup. Prior to six months after completion of the QUIPS exchange transaction, subject to certain exceptions, Microsoft has agreed that it will not sell, or enter into any agreement, arrangement or negotiations relating to the sale of, any of the shares of AT&T Comcast common stock that it receives in connection with the QUIPS exchange transaction.

Indemnity. Comcast has agreed to indemnify Microsoft against any claim by Comcast, AT&T or any shareholder of Comcast, AT&T or AT&T Comcast for any loss arising as a result of the AT&T Broadband spin-off or the mergers failing to be tax-free, except to the extent such a failure results directly from a breach by Microsoft of its covenant described under "-- Lockup" or of the failure of a related representation and warranty made by Microsoft in the exchange agreement.

CONDITIONS TO THE COMPLETION OF THE QUIPS EXCHANGE

Conditions to the Obligations of Microsoft. The obligations of Microsoft to complete the QUIPS exchange transaction are subject to the satisfaction or waiver (to the extent permissible) of the following conditions:

- absence of a material legal prohibition on the QUIPS exchange transaction or the mergers;

- except as provided in the next bullet point, satisfaction or waiver of all conditions to the mergers and the reasonable satisfaction of Microsoft that the mergers will occur immediately following the QUIPS exchange transaction;

- satisfaction (but not waiver) of the condition to the mergers that there has been no Material Adverse Effect with respect to AT&T's broadband business;

- material accuracy of the representations and warranties of Comcast, AT&T and AT&T Comcast contained in the exchange agreement or made pursuant to the exchange agreement;

- performance by Comcast, AT&T and AT&T Comcast of all of their respective obligations under the exchange agreement;

- approval for the listing on The Nasdaq Stock Market of the shares of AT&T Comcast common stock to be issued in the mergers (other than the shares of AT&T Comcast Class B common stock);

- delivery by AT&T and Comcast of opinions of counsel relating to various corporate matters; and

- after completion of the AT&T Broadband spin-off, AT&T Broadband holds substantially all of the assets and liabilities of AT&T's broadband business.

Conditions to the Obligations of Comcast and AT&T. The obligations of Comcast and AT&T to complete the QUIPS exchange transaction are subject to the satisfaction or waiver (to the extent permissible) of the following conditions:

- satisfaction or waiver of all conditions to the mergers and the reasonable satisfaction of Comcast that the mergers will occur;

- material accuracy of the representations and warranties of Microsoft contained in the exchange agreement;

- performance by Microsoft of all of its obligations under the exchange agreement; and

- delivery by Microsoft of an opinion of counsel relating to various corporate matters.

TERMINATION

The exchange agreement may be terminated by either Comcast or Microsoft in any of the following circumstances:

- the merger agreement has been terminated;

- any law or regulation makes completion of the QUIPS exchange transaction illegal or a permanent injunction prohibiting completion of the QUIPS exchange transaction is entered; or

- the mergers have not been completed by March 1, 2003.

INTERACTIVE TECHNOLOGY AGREEMENT

In connection with the exchange agreement, Microsoft and Comcast Cable Communications, Inc. have entered into a three-year agreement pursuant to which the parties will conduct a trial during 2002 of an interactive television platform, including set-top box middleware. If the trial results meet agreed technical standards, the platform meets defined competitive requirements and a launch would meet Comcast Cable's reasonable business objectives, Comcast Cable has agreed that it will commercially launch the Microsoft platform to at least 25% of its newly installed middleware customer base.

THE TAX SHARING AGREEMENT

The following summary of the tax sharing agreement is qualified in its entirety by reference to the complete text of the tax sharing agreement, which is incorporated by reference into this document and attached as an exhibit to the registration statement in which this document is included.

IN GENERAL

AT&T Broadband is currently included in AT&T's federal consolidated income tax group and AT&T Broadband's tax liability will be included in the consolidated federal income tax liability of AT&T for 2002 until the time of the AT&T Broadband spin-off. The tax sharing agreement provides for tax sharing payments between AT&T Broadband and AT&T for periods prior to the AT&T Broadband spin-off, based on the taxes or tax benefits of hypothetical affiliated groups consisting of the businesses, assets and liabilities that make up AT&T Broadband, on the one hand, and all other businesses, assets and liabilities of AT&T, on the other hand. Each group is generally responsible for the taxes attributable to its lines of business and entities comprising its group.

AT&T and AT&T Broadband have agreed that the consolidated tax liability (before credits) of the hypothetical group will be allocated to each group based on such group's contribution to consolidated taxable income. This allocation will take into account losses, deductions and other tax attributes that are utilized by the hypothetical group even if these attributes could not be utilized on a stand-alone basis. Tax sharing payments in respect of the consolidated tax liability of the hypothetical group, after allocation of consolidated tax credits, will be made between AT&T and AT&T Broadband consistent with the allocations under the tax sharing agreement. As between AT&T and AT&T Broadband, certain tax items are specially allocated to the AT&T group and AT&T Broadband group under the tax sharing agreement.

AT&T BROADBAND SPIN-OFF

AT&T and AT&T Broadband have agreed that taxes related to intercompany transactions that are triggered by the AT&T Broadband spin-off will be generally allocated to AT&T Broadband.

NON-INCOME TAX LIABILITIES

AT&T and AT&T Broadband have agreed that joint non-income tax liabilities will generally be allocated between AT&T and AT&T Broadband based on the amount of such taxes attributable to each group's line of business. If the line of business with respect to which the liability is appropriately associated cannot be readily determined, the tax liability will be allocated to the AT&T group.

AUDIT ADJUSTMENTS

AT&T and AT&T Broadband have agreed that taxes resulting from audit adjustments will generally be allocated between the two groups based on line of business. In general, AT&T controls audits and administrative matters related to pre-spin-off periods.

POST-SPIN-OFF TAX ATTRIBUTES

Generally, AT&T Broadband may not carry back a loss, credit or other tax attribute from a post-spin-off period to a pre-spin-off period, unless AT&T Broadband obtains AT&T's consent (which, in the case of significant net operating or capital loss carrybacks, may not be unreasonably withheld) and then only to the extent permitted by applicable law.

AMENDMENTS AND WAIVERS

Any provision of the tax sharing agreement may be amended or waived prior to the completion of the transaction if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by AT&T, AT&T Broadband and Comcast or, in the case of a waiver, by the party to the tax sharing agreement against whom the waiver is to be effective and Comcast.

THE ANCILLARY AGREEMENTS

In addition to the other agreements described in this section, AT&T and AT&T Broadband have entered into various other commercial agreements in connection with the transaction. A brief summary of these agreements follows:

NETWORK SERVICE AGREEMENTS.

AT&T and AT&T Broadband have entered into four principal network service agreements as follows.

- Master Carrier Agreement. This agreement reflects the rates, terms and conditions on which AT&T's business services group will provide voice, data and Internet services to AT&T Broadband, including both wholesale services (those used as a component in AT&T Broadband's services to its customers) and "administrative" services (for internal AT&T Broadband usage). Pricing is market based, with provisions defining an ongoing process to ensure that the prices remain competitive.

- First Amended and Restated Local Network Connectivity Services Agreement. This agreement reflects the rates, terms and conditions on which AT&T's business services group will provide certain local network connectivity services to AT&T Broadband for use in providing local telephone services to AT&T Broadband's subscribers. This agreement consists of two parts:

  -- a capital lease from AT&T's business services group to AT&T Broadband of certain network switching and transport assets to be used exclusively by AT&T Broadband for a term of up to ten years (commencing January 1, 2001 for initial assets leased under the agreement); and

  -- an operating agreement for the provision of local network connectivity, management and operational services in support of AT&T Broadband's local cable telephone services, with a minimum term of five years commencing January 1, 2001.

- Master Facilities Agreement. This agreement permits AT&T or any of its subsidiaries to use existing fiber facilities owned or leased by AT&T Broadband or its controlled affiliates, together with related services. In addition, AT&T Broadband will construct and lease to AT&T new fiber facilities in the areas served by AT&T Broadband's cable systems for use in providing telecommunications services. The term of the build-out period will expire on January 8, 2012. Subject to certain termination rights specified in this agreement, the term of AT&T's right to use facilities leased under this agreement will expire on January 8, 2028, renewable at AT&T's option for successive 20-year terms in perpetuity.

- Interconnection and Intercarrier Compensation Term Sheet. This agreement, which has a five-year initial term commencing January 1, 2001, specifies the terms of interconnection of the parties' networks, and compensation for:

  -- the origination or termination of interexchange traffic for the other party; and

  -- the exchange of local traffic between the parties' local customers.

High Speed Internet Services Binding Term Sheet. This agreement reflects the rates, terms and conditions on which AT&T will provide specified processes, procedures and services to support AT&T

Broadband in its provision of broadband Internet services to AT&T Broadband subscribers. This agreement has a four-year initial term commencing December 4, 2001.

Intellectual Property Agreement. This agreement specifies the ownership and license rights granted by each party to the other in specified patents, software, copyrights and trade secrets. Among other rights granted, the effect of this agreement is to allow AT&T Broadband and AT&T to continue to have the same rights to use the intellectual property that they had at the time of the separation and AT&T Broadband spin-off.

Other Agreements to be Executed. AT&T and AT&T Comcast will enter into a corporate name agreement immediately prior to the completion of the transaction pursuant to which AT&T will grant to AT&T Comcast the right to use the term "AT&T" as part of its full corporate name, but prohibit any use of "AT&T" as a trade name, trademark, or service mark, or in a domain name other than specified domain names permitted for certain purposes. Such grant of rights will be perpetual unless terminated as a result of the Roberts family's voting power falling below 33% or pursuant to any other terms of the agreement.

Subject to the terms of the separation and distribution agreement, prior to the completion of the transaction, AT&T and AT&T Broadband may also enter into other agreements in connection with the transaction.

CHAPTER SIX
AT&T CORP. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The AT&T Corp. Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below was included in AT&T's Annual Report on Form 10-K/A for the year ended December 31, 2000, and AT&T's Current Report on Form 8-K filed on September 24, 2001 restating the company's financial results to reflect AT&T Wireless as a discontinued operation and Quarterly Report on Form 10-Q for the nine months ended September 30, 2001. The AT&T groups referred to in this joint proxy statement/prospectus differ in various financial and other respects from the segments described in this section. For financial and other information on the AT&T groups, see the information set forth elsewhere in this joint proxy statement/prospectus.

OVERVIEW

AT&T Corp. (AT&T) is among the world's communications leaders, providing voice, data, video and broadband telecommunications services to large and small businesses, consumers and government agencies. AT&T provides domestic and international long distance; regional and local communications services; cable television and Internet communications services. AT&T also provides directory and calling-card services to support its communications business.

MERGER WITH MEDIAONE GROUP, INC.

AT&T completed the merger with MediaOne Group, Inc. (MediaOne) on June 15, 2000, in a cash and stock transaction valued at approximately $45 billion. AT&T issued approximately 603 million shares, of which 60 million were treasury shares, and made cash payments of approximately $24 billion.

The merger was recorded under the purchase method of accounting, and accordingly, the results of MediaOne have been included with the financial results of AT&T, within its Broadband segment, since the date of acquisition. Periods prior to the merger were not restated to include the results of MediaOne.

TRACKING STOCKS

On April 27, 2000, AT&T issued a new class of stock to track the performance of AT&T Wireless Group. AT&T sold 360 million shares of AT&T Wireless Group tracking shares at a price of $29.50 per share. The 360 million shares tracked approximately 16% of the financial performance of AT&T Wireless Group.

In addition, in connection with the 1999 acquisition of Tele-Communications, Inc. (TCI), renamed AT&T Broadband (Broadband), AT&T issued a separate tracking stock to reflect the financial performance of Liberty Media Group (LMG), TCI's former programming and technology investment businesses. The outstanding Liberty Media Group tracking stock tracks 100% of the financial performance of LMG.

AT&T Wireless and Liberty Media Group were split off on July 9, 2001 and August 10, 2001, respectively.

The remaining results of operations of AT&T, including the financial performance of AT&T Wireless Group not represented by the tracking stock, are referred to as the AT&T Common Stock Group and are represented by AT&T common stock. The results of AT&T Wireless Group, both the financial performance reflected in the AWE tracking stock and the financial performance reflected in AT&T common stock, are reported as income (loss) from discontinued operations in AT&T's Consolidated Statements of Income.

A tracking stock is designed to provide financial returns to its holders based on the financial performance and economic value of the assets it tracks. Ownership of shares of AT&T common stock, AT&T Wireless Group tracking stock or Liberty Media Class A or B tracking stock did not represent a

direct legal interest in the assets and liabilities of any of the groups, but an ownership of AT&T in total. The specific shares represented an interest in the economic performance of the net assets of each of the groups. AT&T Wireless and Liberty Media Group were split off on July 9, 2001 and August 10, 2001, respectively.

The earnings attributable to AT&T Wireless Group are excluded from the earnings available to AT&T Common Stock Group and are reflected as earnings from discontinued operations of AT&T Wireless group. Similarly, the earnings and losses related to LMG are excluded from the earnings available to AT&T Common Stock Group.

AT&T did not have a controlling financial interest in LMG for financial accounting purposes; therefore, AT&T's ownership in LMG is reflected as an investment accounted for under the equity method in AT&T's consolidated financial statements. The amounts attributable to LMG are reflected in the accompanying consolidated financial statements as "Equity earnings (losses) from Liberty Media Group" and "Investment in Liberty Media Group and related receivables, net."

AT&T Wireless Group was an integrated business of AT&T and Liberty Media Group was a combination of certain assets and businesses of AT&T, neither of which was a stand-alone entity. As AT&T Wireless Group and Liberty Media Group were tracking stocks of AT&T, separate financial statements are not required to be filed. The tracking stocks were governed by a common board of directors, the AT&T board of directors could make operational and financial decisions or implement policies that affect disproportionately the businesses of any group. For example, AT&T's board of directors may decide to transfer funds or to reallocate assets, liabilities, revenue, expenses and cash flows among groups, without the consent of shareholders. All actions by the board of directors are subject to the board members' fiduciary duties to all shareholders of AT&T as a group and not just to holders of a particular class of tracking stock and to AT&T's charter, policy statements, by-laws and inter-company agreements.

AT&T's board of directors may change or supplement the policies set forth in the tracking stock policy statements and AT&T's by-laws in the sole discretion of AT&T's board of directors, subject to the provisions of any inter-group agreement but without approval of AT&T's shareholders. In addition, the fact that AT&T has separate classes of common stock could give rise to occasions when the interests of the holders of AT&T common stock, AT&T Wireless Group common stock and Liberty Media Group tracking stock diverge, conflict or appear to diverge or conflict. AT&T's board of directors would make any change or addition to the policies set forth in the tracking stock policy statements or AT&T's by-laws, and would respond to any actual or apparent divergence of interest among AT&T's groups, in a manner consistent with its fiduciary duties to AT&T and all of its shareholders after giving consideration to the potentially divergent interests and all other relevant interests of the holders of the separate classes of AT&T's shares.

You should consider that as a result of the flexibility provided to AT&T's board of directors, it may be difficult for investors to assess the future prospects of a tracking stock group based on that group's past performance.

RESTRUCTURING OF AT&T

On October 25, 2000, AT&T announced a restructuring plan designed to fully separate or issue separately tracked stocks intended to reflect the financial performance and economic value of each of AT&T's four major operating units.

On December 19, 2001, AT&T and Comcast Corporation announced an agreement to combine AT&T Broadband with Comcast in a transaction valuing AT&T Broadband. Under the terms of the agreement, AT&T will spin-off AT&T Broadband and simultaneously merge it with Comcast, forming a new company to be called AT&T Comcast Corporation. AT&T shareholders will receive a number of shares of AT&T Comcast common stock calculated pursuant to a formula specified in the merger agreement. If determined as of the date of the merger agreement, the exchange ratio would have been approximately .34, assuming the AT&T shares held by

Comcast are included in the number of shares of

AT&T common stock outstanding. Assuming Comcast retains its AT&T shares and converts them into exchangeable preferred stock of AT&T as contemplated by the merger agreement, the exchange ratio would be approximately 0.35 as of the date of the execution of the merger agreement. AT&T shareowners will own a 56% economic stake and have a 66% voting interest in the new company, calculated as of the date of the merger agreement. The merger remains subject to regulatory review, shareholder approval by both companies and certain other conditions and is expected to close by the end of 2002. AT&T also reaffirmed its commitment to create a tracking stock designed to reflect the economic value and financial performance of its AT&T Consumer business. The tracking stock is expected to be distributed to AT&T shareholders following shareholder approval in 2002.

AT&T's restructuring plan is complicated and involves a substantial number of steps and transactions, including obtaining various conditions, such as Internal Revenue Service rulings. AT&T expects that the transactions associated with AT&T's restructuring plan will be tax-free to U.S. shareowners. Future financial conditions, superior alternatives or other factors may arise or occur that make it inadvisable to proceed with part or all of AT&T's restructuring plans. Any or all of the elements of AT&T's restructuring plan may not occur as AT&T currently expects or in the time frames that AT&T currently contemplates, or at all. Alternative forms of restructuring, including sales of interests in these businesses, would reduce what is available for distribution to shareowners in the restructuring.

On May 25, 2001, AT&T completed an exchange offer of AT&T common stock for AT&T Wireless stock. Under the terms of the exchange offer, AT&T issued 1.176 shares of AT&T Wireless Group tracking stock in exchange for each share of AT&T common stock validly tendered. A total of 372.2 million shares of AT&T common stock were tendered in exchange for 437.7 million shares of AT&T Wireless Group tracking stock.

On July 9, 2001, AT&T completed the split-off of AT&T Wireless as a separate, independently traded company. All AT&T Wireless tracking stock was converted into AT&T Wireless common stock on a one-for-one basis and 1,136 million shares of AT&T Wireless common stock, held by AT&T, were distributed to AT&T common shareowners on a basis of 0.3218 of a share of AT&T Wireless for each AT&T share outstanding. AT&T common shareowners received whole shares of AT&T Wireless and cash payments for fractional shares. The Internal Revenue Service (IRS) ruled that the transaction qualified as tax-free for AT&T and its shareowners for U.S. federal income tax purposes, with the exception of cash received for fractional shares. For accounting purposes, the deemed effective split-off date is June 30, 2001. AT&T retained approximately $3 billion, or 7.3%, of AT&T Wireless common stock, about half of which was used in a debt-for-equity exchange in July and approximately $1.3 billion was monetized in the fourth quarter of 2001. The split-off of AT&T Wireless resulted in a noncash tax-free gain of $13,503 million, which represents the difference between the fair value of the Wireless tracking stock at the date of the split-off and AT&T's book value in AT&T Wireless Services. This gain was recorded in the third quarter of 2001 as a "Gain on disposition of discontinued operations."

On August 10, 2001, AT&T completed the split-off of Liberty Media Corporation as an independent, publicly-traded company. AT&T redeemed each outstanding share of Class A and Class B Liberty Media Group (LMG) tracking stock for one share of Liberty Media Corporation's Series A and Series B common stock, respectively. In the redemption, shares of Liberty Media Corporation were issued to former holders of Liberty Media Group tracking stock in exchange for their shares of Liberty Media Group tracking stock. The IRS ruled that the split-off of Liberty Media Corporation qualified as a tax-free transaction for AT&T, Liberty Media and their shareowners. For accounting purposes, the deemed effective split-off date is July 31, 2001.

FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements with respect to AT&T's restructuring plan, financial condition, results of operations, cash flows, dividends, financing plans, business strategies, operating efficiencies or synergies, budgets, capital and other expenditures, network build out and upgrade, competitive positions, availability of capital, growth opportunities for existing products, benefits from new

technologies, availability and deployment of new technologies, plans and objectives of management, and other matters.

These forward-looking statements, including, without limitation, those relating to the future business prospects, revenue, working capital, liquidity, capital needs, network build out, interest costs and income, are necessarily estimates reflecting the best judgment of senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements including, without limitation:

- the risks associated with the implementation of AT&T's restructuring plan and the AT&T Comcast transaction, which are complicated and involve a substantial number of different transactions each with separate conditions, any or all of which may not occur as AT&T currently intends, or which may not occur in the timeframe AT&T currently expects,

- the risks associated with each of AT&T's main business units, operating as independent entities as opposed to as part of an integrated telecommunications provider following completion of AT&T's restructuring plan, including the inability of these groups to rely on the financial and operational resources of the combined company and these groups having to provide services that were previously provided by a different part of the combined company,

- the impact of existing and new competitors in the markets in which these groups compete, including competitors that may offer less expensive products and services, desirable or innovative products, technological substitutes, or have extensive resources or better financing,

- the impact of oversupply of capacity resulting from excessive deployment of network capacity,

- the ongoing global and domestic trend towards consolidation in the telecommunications industry, which may have the effect of making the competitors of these entities larger and better financed and afford these competitors with extensive resources and greater geographic reach, allowing them to compete more effectively,

- the effects of vigorous competition in the markets in which the company operates, which may decrease prices charged, increase churn and change customer mix, profitability and average revenue per user,

- the ability to enter into agreements to provide, and the cost of entering new markets necessary to provide, services,

- the ability to establish a significant market presence in new geographic and service markets,

- the availability and cost of capital and the consequences of increased leverage,

- the successful execution of plans to dispose of non-strategic assets as part of an overall corporate deleveraging plan,

- the impact of any unusual items resulting from ongoing evaluations of the business strategies of the company,

- the requirements imposed on the company or latitude allowed to competitors by the Federal Communications Commission (FCC) or state regulatory commissions under the Telecommunications Act of 1996 or other applicable laws and regulations,

- the risks associated with technological requirements, technology substitution and changes and other technological developments,

- the results of litigation filed or to be filed against the company,

- the possibility of one or more of the markets in which the company competes being impacted by changes in political, economic or other factors, such as monetary policy, legal and regulatory changes or other external factors over which these groups have no control, and

- the risks related to AT&T's joint ventures.

The words "estimate," "project," "intend," "expect," "believe," "plan" and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. Moreover, in the future, AT&T, through its senior management, may make forward-looking statements about the matters described in this document or other matters concerning AT&T.

The discussion and analysis that follows provides information management believes is relevant to an assessment and understanding of AT&T's consolidated results of operations and financial condition.

CONSOLIDATED RESULTS OF OPERATIONS

The comparison of third quarter and year-to-date 2001 results with the corresponding periods in 2000 was impacted by events, such as acquisitions and dispositions, that occurred during these two years. For example, on June 15, 2000, AT&T acquired MediaOne, which was included in AT&T's year-to-date 2001 results, but was only included in AT&T's prior year results since the date of acquisition.

Year-over-year comparison was also impacted by the consolidation of At Home Corporation (Excite@Home) beginning September 1, 2000, due to corporate-governance changes, which gave AT&T a controlling interest. On September 30, 2001, AT&T had an approximate 23% economic interest and 74% voting interest in Excite@Home. The consolidation of Excite@Home resulted in the inclusion of 100% of its results in each line item of AT&T's Consolidated Statement of Operations for the three and nine months ended September 30, 2001 and for the one month ended September 30, 2000. Losses attributable to the other shareholders of Excite@Home were reflected within "Minority Interest Income (Expense)" in the Consolidated Statement of Operations and "Minority Interest" in the Consolidated Balance Sheet. As a result of the significant losses incurred by Excite@Home, the minority interest balance was fully utilized, therefore, in the third quarter of 2001 AT&T recognized more than its 23% of the losses of Excite@Home. On September 28, 2001, Excite@Home filed for Chapter 11 bankruptcy protection. As a result, AT&T no longer consolidated Excite@Home's results in AT&T's Consolidated Balance Sheet as of September 30, 2001.

Effective July 1, 2000, the Federal Communication Commission (FCC) eliminated Primary Interexchange Carrier Charges (PICC or per-line charges) that AT&T pays for residential and single-line businesses. The elimination of these per-line charges resulted in lower access expense as well as lower revenue, since AT&T has historically billed its customers for these charges.

The comparison of 2000 results with 1999 was also impacted by events, such as acquisitions and dispositions that occurred during these two years. In 2000 AT&T acquired MediaOne, which was included in AT&T's 2000 results for part of the year, but was not in 1999 results. In 1999, AT&T acquired TCI and the IBM Global Network (now AT&T Global Network Services, or AGNS). These businesses were included in 2000 results for a full year, but only a part of 1999 (since their respective dates of acquisition). Further, AT&T disposed of certain international businesses during 1999 and 2000. The results of businesses sold in 1999 were included in 1999 results for part of the year, and were not in 2000 results. Likewise, businesses sold in 2000 were included in 1999 results for the full year and in 2000 results for part of the year.

On January 5, 2000, AT&T launched Concert, its global joint venture with British Telecommunications plc (BT). AT&T contributed all of its international gateway-to-gateway assets and the economic value of approximately 270 multinational customers specifically targeted for direct sales by Concert. As a result, 2000 results do not include the revenue and expenses associated with these customers and businesses, while 1999 does, and 2000 results include AT&T's proportionate share of Concert's earnings in "Net losses from other equity investments."

The comparison of 2000 results with 1999 was also impacted by the elimination of Primary Interexchange Carrier Charges (PICC or per-line charges) that AT&T pays for residential and single-line business customers.

The comparison of 1999 results with 1998 was also impacted by the 1999 acquisitions of TCI and AGNS, since 1999 results include these businesses for part of the year, while 1998 does not include them. This comparison is also impacted by the 1999 dispositions of international businesses, which were included in 1999 results for part of the year, but were in 1998 results for the full year.

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED WITH THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2000

REVENUE

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MON ENDED SEPTEMBER	
	2001	2000	2001	200

	(DOLLARS IN MILLIONS)			
AT&T Business	$ 6,885	$ 7,222	$21,147	$21,7
AT&T Consumer	3,822	4,651	11,614	14,6
AT&T Broadband	2,393	2,420	7,423	5,6
Corporate and Other	(13)	(117)	(220)	(4
Total revenue	$13,087	$14,176	$39,964	$41,6

Total revenue for the three months ended September 30, 2001 decreased 7.7%, or $1.1 billion, compared with the corresponding prior year period. The decline was primarily driven by lower revenue resulting from accelerating declines in long distance voice revenue of approximately $1.5 billion and decreased revenue of approximately $0.3 billion primarily due to the impact of net dispositions and the consolidation of Excite@Home. Partially offsetting the decrease was increased revenue primarily from telephony and high speed data at AT&T Broadband and increased revenue primarily from data and Internet protocol (IP) services within AT&T Business.

Total revenue for the nine months ended September 30, 2001 decreased 4.0%, or $1.7 billion, compared with the corresponding prior year period. The decline was largely driven by accelerating declines in long distance voice revenue of approximately $4.4 billion. Partially offsetting the decline was growth primarily from data and Internet protocol (IP) within AT&T Business and increased revenue primarily from telephony and high speed data at AT&T Broadband. Also offsetting the decline was revenue of approximately $0.9 billion largely due to net acquisitions, primarily MediaOne, the consolidation of Excite@Home and the elimination of PICC.

AT&T expects long distance revenue to continue to be negatively impacted by ongoing competition and product substitution.

Revenue by segment is discussed in more detail in the segment results section.

OPERATING EXPENSES

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONT ENDED SEPTEMBER 3	
	2001	2000	2001	200
	(DOLLARS IN MILLIONS)			
Costs of services and products	$3,476	$3,282	$10,458	$9,2

Costs of services and products increased $0.2 billion, or 5.9%, in the third quarter of 2001 compared with the third quarter of 2000. Approximately $0.4 billion of the increase was due to higher costs associated with AT&T's growth businesses, primarily data/IP, local voice services and broadband services, and a higher pension credit in 2000, primarily driven by a higher pension trust asset base resulting from increased investment returns. Partially offsetting the increase was $0.2 billion of lower costs associated with

lower revenue, primarily long distance voice and $0.1 billion due to the net impact of net dispositions and the consolidation of Excite@Home.

Costs of services and products increased $1.2 billion, or 13.1%, for the nine months ended September 30, 2001 compared with the same period in 2000. Approximately $0.9 billion of the increase was driven by the net acquisitions, primarily MediaOne and the consolidation of Excite@Home. Also contributing to the increase was approximately $0.8 billion of higher costs associated with AT&T's growth businesses, primarily at AT&T Broadband and AT&T's outsourcing business, as well as a higher pension credit in 2000. Partially offsetting these increases were $0.3 billion of lower costs associated with lower volumes, primarily from AT&T's international ventures, AT&T Consumer long distance and lower payphone compensation costs, $0.1 billion of lower costs associated with lower long distance revenue from AT&T Business and $0.1 billion of AT&T's reduction efforts.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONT ENDED SEPTEMBER 3	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Access and other connection..........................	$3,033	$3,147	$9,289	$10,1

Access and other connection expenses decreased 3.6% in the third quarter of 2001 compared with the third quarter of 2000. Approximately $0.2 billion of this reduction was due to lower international connection rates, per-line charges for multi-line business customers and per minute access rates. These reductions were partially offset by a $0.1 billion increase due to overall volume growth primarily related to local service.

Access and other connection expenses decreased 8.8% for the nine months ended September 30, 2001, compared with the same period in 2000. Approximately $1.3 billion of the decrease was due to lower per-line charges and mandated reductions in per minute access rates. In July 2000 per line charges that AT&T paid for residential and single-line business customers were eliminated by the FCC. These reductions were offset by a $0.4 billion increase due to overall volume growth primarily related to local service and higher universal service fund contributions.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Selling, general and administrative.................	$2,540	$2,461	$8,144	$7,366

Selling, general and administrative (SG&A) expenses increased $0.1 billion, or 3.2%, in the third quarter of 2001, compared with the third quarter of 2000. Increased customer care, advertising, sales and other general and administrative expenses in support of growth businesses, primarily data/IP, local voice and broadband services drove approximately $0.2 billion of the increase. Lower pension credit resulting from decreased return on plan assets accounted for approximately $0.1 billion of the increase. Partially offsetting these increases were lower costs associated with the impact of decreased long distance voice volume and cost control efforts of approximately $0.3 billion primarily from AT&T Consumer and AT&T Broadband.

Selling, general and administrative (SG&A) expenses increased $0.8 billion, or 10.5%, for the nine months ended September 30, 2001 as compared with the corresponding prior year period. Approximately $0.3 billion of the increase was due to net acquisitions, primarily MediaOne and the consolidation of Excite@Home. Increased customer care, sales, advertising and other general and administrative expenses in support of growth businesses, primarily data/IP, local voice and broadband services drove approximately $0.5 billion of the increase. In addition, costs associated with the exchange offer of AT&T common stock for AT&T Wireless stock, combined with a lower pension credit resulting from decreased return on plan assets accounted for approximately $0.3 billion of the increase. Partially offsetting these increases were lower costs associated with the impact of decreased long distance voice volume and cost control efforts of approximately $0.5 billion primarily from AT&T Consumer and AT&T Broadband.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Depreciation and other amortization.................	$1,682	$1,568	$5,116	$4,204

Depreciation and other amortization expenses increased $0.1 billion, or 7.3%, in the third quarter of 2001 compared with the corresponding prior year period. The increase was largely due to a higher asset base primarily resulting from infrastructure investment in 2000 and 2001, as well as the consolidation of Excite@Home, partially offset by cable system dispositions. Capital expenditures were $1.7 billion and $2.7 billion for the third quarter of 2001 and 2000, respectively. The primary focus of capital spending continues to be on the growth areas of broadband, data and IP, and local.

Depreciation and other amortization expenses increased $0.9 billion, or 21.7%, for the nine months ended September 30, 2001 compared with the corresponding prior year period. Approximately one-half of the increase was due to the acquisition of MediaOne. The remaining increase was largely due to a higher asset base primarily resulting from infrastructure investment in 2000 and 2001, as well as the consolidation of Excite@Home. Capital expenditures were $6.0 billion and $7.0 billion for the nine months ended September 30, 2001 and 2000, respectively. The primary focus for capital expenditures continues to be on the growth areas of broadband, data and IP, and local.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONT ENDED SEPTEMBER 3	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Amortization of goodwill, franchise costs and other				

purchased intangibles..............................	$592	$787	$1,920	$1,43

Amortization of goodwill, franchise costs and other purchased intangibles decreased $0.2 billion, or 24.7%, in the third quarter of 2001 compared with the corresponding prior year period. This decrease was primarily due to lower goodwill associated with Excite@Home resulting from an impairment of goodwill recorded subsequent to September 30, 2000.

Amortization of goodwill, franchise costs and other purchased intangibles increased $0.5 billion, or 34.0%, for the nine months ended September 30, 2001 compared with the nine months ended September 30, 2000. This increase was primarily due to the acquisition of MediaOne.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MON ENDED SEPTEMBER	
	2001	2000	2001	2
	(DOLLARS IN MILLIONS)			
Net restructuring and other charges...................	$399	$24	$1,494	$

During the third quarter of 2001, $399 million of net restructuring and other charges were recorded by Excite@Home. Included in these charges were $376 million of asset impairment charges and $23 million of restructuring and exit costs, primarily due to continued weakness in the on-line media market and the recent bankruptcy filing. These charges included the write-off of goodwill and other intangible assets, warrants granted in connection with distributing the @Home service and fixed assets. The restructuring and exits costs, consisted of $4 million for severance costs, $14 million related to facility closings and $5 million primarily related to termination of contractual obligations. The severance costs, for approximately 860 employees, primarily resulted from continued cost reduction efforts by Excite@Home. Since AT&T consolidates, but only owns approximately 23% of Excite@Home, a portion of the charges recorded by Excite@Home was not included as a reduction to AT&T's net income, but rather eliminated in AT&T's September 30, 2001 Consolidated Statement of Operations as a component of "Minority interest income (expense)."

Net restructuring and other charges for the nine months ended September 30, 2001, totaled $1,494 million. The charge includes $1,171 million of asset impairment charges related to Excite@Home,

$323 million for restructuring and exit costs which consisted of $151 million for severance costs, $156 million for facility closings and $16 million primarily related to termination of contractual obligations.

The asset impairment charges recorded during the nine months ended September 30, 2001 included $1,032 million recorded by Excite@Home primarily due to continued weakness in the on-line media market and the recent bankruptcy filing. These charges included the write-down of goodwill and other intangible assets related to various acquisitions, primarily Excite, warrants granted in connection with distributing the @Home service, and fixed assets. In addition, AT&T recorded a related goodwill impairment charge of $139 million associated with its acquisition goodwill of Excite@Home. Since AT&T consolidates, but only own approximately 23% of Excite@Home, a portion of the charges recorded by

Excite@Home was not included as a reduction to AT&T's net income, but rather eliminated in its September 30, 2001 Consolidated Statement of Operations as a component of "Minority interest income (expense)."

The severance costs, for approximately 7,700 employees, primarily resulted from synergies created by the MediaOne merger as well as continued cost reduction efforts by Excite@Home. Approximately 36% of the affected employees are management employees and 64% are non-management employees.

This restructuring initiative is projected to yield cash savings of approximately $1 million in 2001 (net of severance benefit pay-outs of approximately $151 million) and approximately $260 million per year thereafter. The initiative will yield no EBIT savings, net of restructuring charges in 2001, and is projected to yield approximately $260 million per year thereafter. The cost savings, primarily attributable to reduced personnel-related expenses, will be realized in costs of services and products and SG&A expenses.

During the third quarter of 2000, AT&T recorded $24 million of net restructuring and other charges. The charge resulted from synergies associated with the MediaOne merger and related to cash termination benefits associated with the involuntary separation of approximately 490 employees. Approximately one-half of the individuals were management employees and one-half were non-management employees.

During the nine months ended September 30, 2000, AT&T recorded $797 million of net restructuring and other charges, which included $706 million of restructuring and exit costs primarily associated with AT&T's initiative to reduce costs by the end of 2000, and $91 million related to the government-mandated disposition of AT&T Communications (U.K.) Ltd., which would have competed directly with Concert.

The charge for the nine months ended September 30, 2000 included cash termination benefits of $482 million associated with the involuntary separation of approximately 6,700 employees. Approximately one-half of the individuals were management employees and one-half were non-management employees.

The charge also included $62 million of network lease and other contract termination costs associated with penalties incurred as part of notifying vendors of the termination of these contracts during the first quarter 2000 and $144 million of benefit curtailment costs associated with employee separations as part of these exit plans.

During the nine months ended September 30, 2000, AT&T also recorded an asset impairment charge of $18 million related to the write-down of unrecoverable assets in certain businesses in which the carrying value was no longer supported by estimated future cash flows.

As a result of AT&T's commitment to managing and reducing costs across all areas of the business to remain cost competitive, AT&T expects to record a restructuring charge in the fourth quarter of 2001. This restructuring charge is primarily associated with a series of cost-control initiatives being undertaken largely in AT&T Business.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTH ENDED SEPTEMBER 30	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			

Operating income	$1,365	$2,907	$3,543	$8,394

Operating income decreased $1.5 billion, or 53.0%, in the third quarter of 2001 compared with the third quarter of 2000. Approximately $0.2 billion of the third quarter decrease was due to the consolidation of Excite@Home and the impact of net dispositions. The remaining decrease largely reflects declines in long distance voice revenue and spending in growth areas as well as higher restructuring and other charges recorded by Excite@Home. The decrease was partially offset by lower amortization of goodwill and lower access and connection rates AT&T paid to connect domestic calls on the facilities of other service providers. A portion of the impact of the operating loss generated by Excite@Home was offset in minority interest income (expense), reflecting the interest of Excite@Home AT&T does not own.

Operating income decreased $4.9 billion, or 57.8%, for the nine months ended September 30, 2001, compared with the same period in 2000. Approximately $2.0 billion of the decrease was due to the consolidation of Excite@Home, and the impact of net acquisitions, primarily MediaOne. The remaining decrease reflects declines in long distance voice business and spending in growth areas. The decrease was partially offset by the impact of lower access and connection rates, lower restructuring and other charges and lower amortization of goodwill. A majority of the impact of the operating loss generated by Excite@Home was offset in minority interest income (expense), reflecting the portion of Excite@Home AT&T does not own.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONT ENDED SEPTEMBER 3	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Other (expense) income	$(4,966)	$365	$(7,195)	$1,35

Other (expense) income for the third quarter of 2001 was an expense of $5.0 billion, an increase in expense of $5.3 billion from the third quarter of 2000. The increase in expense was primarily driven by a charge of $3.5 billion related to the discontinuation of Concert, AT&T's global joint venture with BT, including approximately $0.6 billion associated with an agreement with BT in which AT&T will assume BT's ownership in AT&T Canada and certain other obligations. In addition, AT&T recorded a $1.8 billion charge related to the estimated loss on AT&T's commitment to purchase the remaining public shares of AT&T Canada. Also contributing to the higher expense was a $0.4 billion mark-to-market loss on Vodaphone ADRs, which were used to settle exchangeable notes that matured during the third quarter of 2001. These expenses were partially offset by a $0.5 billion tax-free gain associated with the disposal of a portion of AT&T's retained interest in AT&T Wireless in a debt-for-equity exchange.

Other (expense) income for the nine months ended September 30, 2001 was an expense of $7.2 billion, an increase in expense of $8.6 billion compared with the same period in 2000. The higher expense was in part driven by $5.3 billion of charges associated with the discontinuation of Concert and AT&T's obligation to purchase the public shares of AT&T Canada and impairment charges of approximately $1.3 billion primarily relating to AT&T's investment in Net2Phone.

In addition, effective January 1, 2001, in conjunction with the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," AT&T reclassified certain investment securities, which support debt that is indexed to those securities, from "available-for-sale" to "trading." As a result, AT&T recorded a charge of $0.8 billion reflecting the initial reclassification impact of the adoption of SFAS No. 133 as well as the ongoing investment and derivative revaluation. Also contributing to the higher expense was a $0.8 billion loss on the Excite@Home put obligation settlement with Cox and Comcast and $0.2 billion of lower net gains on the sales and dispositions of businesses and investments.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONT ENDED SEPTEMBER 3	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Interest expense......................................	$786	$896	$2,426	$2,00

Interest expense decreased 12.2%, or $0.1 billion, in the third quarter of 2001 compared with the same period in 2000. The decrease was primarily due to the lower average debt balance reflecting the Company's debt reduction efforts in 2001.

Interest expense increased 21.3%, or $0.4 billion, for the nine months ended September 30, 2001, compared with the same period in 2000. The increase was largely due to the higher average debt balance primarily as a result of AT&T's June 2000 acquisition of MediaOne, including outstanding debt of MediaOne and debt issued to fund the MediaOne acquisition. The impact of MediaOne was partially offset by the Company's debt reduction efforts in 2001. Also contributing to the increase was the higher average interest rate for the nine months ended September 30, 2001 versus the same period in 2000.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONT ENDED SEPTEMBER 3	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
(Benefit) provision for income taxes..................	$(2,092)	$939	$(2,746)	$2,53

The provision for income taxes decreased $3.0 billion to a benefit of $2.1 billion in the third quarter of 2001 compared with a provision of $0.9 billion in the third quarter of 2000. The decrease was primarily due to a loss before income taxes in the third quarter of 2001, compared with earnings before income taxes in the third quarter of 2000. The effective tax rate for the third quarter of 2001 was 47.7%, compared with 39.5% for the prior year third quarter. The third quarter effective tax benefit rate was favorably impacted by a significant net tax benefit related to Excite@Home, including a benefit from the deconsolidation, partially offset by the prior consolidation of its operating losses, for which the company was unable to record tax benefits. Also favorably impacting the effective tax benefit rate was the tax-free gain associated with the disposal of a portion of AT&T's retained interest in AT&T Wireless in a debt-for-equity exchange.

The provision for income taxes decreased $5.3 billion, or 208.5%, to a benefit of $2.7 billion for the nine months ended September 30, 2001 compared with a provision of $2.5 billion for the same period in 2000. The decrease was primarily due to a loss before income taxes for the nine months ended September 30, 2001, compared with earnings before income taxes for the same prior year period. The effective tax rate for the nine months ended September 30, 2001 was 45.2%, compared with 32.7% for the same period in 2000. The 2001 effective tax rate was favorably impacted by a significant net tax benefit related to Excite@Home, including a benefit from the deconsolidation and the put obligation settlement with Cox and Comcast, partially offset by the prior consolidation of its operating losses, for which the company was unable to record tax benefits. Also favorably impacting the effective tax benefit rate was the redemption of AT&T stock held by Comcast in exchange for certain cable systems and the tax-free gain associated with the disposal of a portion of AT&T's retained interest in AT&T Wireless in a debt-for-equity exchange. These impacts were partially offset by higher non tax-deductible goodwill amortization. The 2000 effective tax rate was positively impacted by a tax-free gain resulting from an exchange of AT&T stock for an entity owning certain cable systems and other assets with Cox and the benefit of the write-off of the related deferred tax liability.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONT ENDED SEPTEMBER 3	
	2001	2000	2001	200
	(DOLLARS IN MILLIONS)			
Minority interest income (expense)....................	$177	$103	$1,015	$1

Minority interest income, which is recorded net of income taxes, represents an adjustment to AT&T's income to reflect the less than 100% ownership of consolidated subsidiaries as well as dividends on preferred stock issued by subsidiaries of AT&T. The Company recorded $0.2 billion of minority interest income in the third quarter of 2001 and $0.1 billion of minority interest expense in the third quarter of 2000. Minority interest income was $1.0 billion of income for the nine months ended September 30, 2001 and $11 million of income for the nine months ended September 30, 2000. The increase in both periods is primarily due to the consolidation of Excite@Home effective September 1, 2000. The minority interest income in both periods primarily reflects a loss generated by Excite@Home, including business restructuring and asset impairment charges, that were attributable to the other shareholders of Excite@Home. The income tax benefit recorded on minority interest income was $6 million and $39

million for the third quarter of 2001 and 2000, respectively. The income tax benefit recorded on minority interest income was $93 million and $98 million for the nine months ended September 30, 2001 and September 30, 2000, respectively.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	FOR THE NINE MONT ENDED SEPTEMBER 3

	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Equity earnings (losses) from Liberty Media Group......	$111	$1,756	$(2,711)	$2,96

Equity earnings (losses) from Liberty Media Group (LMG), which is recorded net of income taxes, decreased $1.6 billion for the third quarter of 2001 compared with the third quarter of 2000. The decrease largely reflects lower gains on dispositions in the third quarter of 2001, partially offset by earnings of affiliates in 2001 compared with losses in 2000 as well as the write-down of impaired investments in 2000.

Equity earnings (losses) from LMG, which is recorded net of income taxes, decreased $5.7 billion for the year-to-date period through July 31, 2001, compared with the year-to-date period ended September 30, 2000. The decrease largely reflects lower gains on dispositions, higher losses of affiliates and higher unrealized losses on financial instruments of LMG.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONT ENDED SEPTEMBER 3	
	2001	2000	2001	20
	(DOLLARS IN MILLIONS)			
Net losses from other equity investments.............	$88	$222	$423	$6

Net losses from other equity investments, recorded net of income taxes, were $0.1 billion in the third quarter of 2001 and $0.2 billion for the same period of 2000, a decrease of 60.3%. The decrease in losses is primarily due to lower losses related to Time Warner Entertainment (TWE) and Cablevision Systems Corporation (Cablevision) as a result of these investments being accounted for under the equity method in third quarter of 2000 and the cost method in the third quarter of 2001. TWE was reclassified to an asset held for sale in the fourth quarter of 2000, and accordingly earnings or losses, including amortization of goodwill, were no longer recorded. Likewise, in the second quarter of 2001, AT&T began accounting for its investment in Cablevision as a cost method investment as a result of AT&T no longer having representation on the board of directors. In addition, Excite@Home also contributed to the decrease. These decreases were partially offset by higher losses related to Concert. The income tax benefit recorded on net losses from other equity investments was $136 million and $152 million for the third quarter of 2001 and 2000, respectively. Also included in this line is amortization of goodwill associated with non-consolidated investments. This totaled $23 million and $233 million for the third quarter of 2001 and 2000, respectively.

Net losses from other equity investments were $0.4 billion for the nine months ended September 30, 2001, a decrease of $0.2 billion, or 31.3%, compared with the same period of 2000. This decrease was primarily due to the consolidation of Excite@Home and higher earnings relating to Cablevision, primarily reflecting a gain associated with the sale of cable properties. In addition, the change in accounting treatment for TWE from an equity method investment to a cost method investment also contributed to the decrease. These decreases were partially offset by higher equity losses from Concert and Net2Phone. The income tax benefit recorded on net losses from other equity investments for the first nine months of 2001 was $302 million and $419 million for the same period of 2000. Amortization of goodwill associated with non-consolidated investments, recorded as a reduction of income, totaled $179 million and $458 million for the nine months ended September 30, 2001 and 2000, respectively.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MON ENDED SEPTEMBER	
	2001	2000	2001	20
	(DOLLARS IN MILLIONS)			
Gain on disposition of discontinued operations.........	$13,503	$--	$13,503	$

The gain on disposition of discontinued operations represents the difference between the fair value of the Wireless tracking stock on July 9, 2001, the date of the split-off, and AT&T's book value in AT&T Wireless Services.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MON ENDED SEPTEMBER	
	2001	2000	2001	2
	(DOLLARS IN MILLIONS)			
Cumulative effect of accounting change................	$--	$--	$904	

Cumulative effect of accounting change, net of applicable income taxes, is comprised of $0.4 billion for AT&T Group (other than LMG) and $0.5 billion for LMG for the nine months ended September 30, 2001. The $0.4 billion recorded by AT&T, excluding LMG represents fair value adjustments of debt instruments including those acquired in conjunction with the MediaOne merger, as well as to AT&T's warrant portfolio due to the adoption of SFAS No. 133.

The $0.5 billion recorded by Liberty Media Group represents the impact of separately recording the embedded call option obligations associated with LMG's senior exchangeable debentures due to the adoption of SFAS No. 133.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MON ENDED SEPTEMBER	
	2001	2000	2001	2
	(DOLLARS IN MILLIONS)			
Dividend requirements of preferred stock...............	$235	$--	$652	

Dividend requirements of preferred stock were $0.2 billion in the third quarter of 2001 and $0.7 billion for the nine months ended September 30, 2001. The preferred stock dividend represented interest in connection with convertible preferred stock issued to NTT DoCoMo in January of 2001 as well as accretion of the beneficial conversion feature. On July 9, 2001, in conjunction with the split-off of AT&T Wireless Group, these preferred shares were converted into AT&T Wireless common stock. As a result, AT&T fully amortized, in the third quarter, the remaining beneficial conversion feature balance of $0.2 billion.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MON ENDED SEPTEMBER	
	2001	2000	2001	20
	(DOLLARS IN MILLIONS)			
Premium on wireless tracking stock exchange...........	$--	$--	$80	$

VI-13

The premium on the wireless tracking stock exchange was $80 million for the nine months ended September 30, 2001. The premium represents the excess of fair value of the Wireless tracking stock issued over the fair value of the AT&T common stock exchanged and was calculated based on the closing share prices of AT&T common stock and AT&T Wireless tracking stock on May 25, 2001.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE MONTHS E SEPTEMBE
	2001	2000	2001
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE		
AT&T Common Stock Group -- per basic share:			
(Loss) earnings -- continuing operations................	$(0.69)	$ 0.35	$(0.94)
Earnings -- discontinued operations.....................	--	--	0.03
Gain on disposition of discontinued operations..........	3.82	--	3.67
Cumulative effect of accounting change..................	--	--	0.10
AT&T Common Stock Group earnings........................	$ 3.13	$ 0.35	$ 2.86
AT&T Common Stock Group -- per diluted share:			
(Loss) earnings -- continuing operations................	$(0.69)	$ 0.35	$(0.94)
Earnings -- discontinued operations.....................	--	--	0.03
Gain on disposition of discontinued operations..........	3.82	--	3.67
Cumulative effect of accounting change..................	--	--	0.10
AT&T Common Stock Group earnings........................	$ 3.13	$ 0.35	$ 2.86
AT&T Wireless Group -- per basic and diluted share:			
Earnings (loss) from discontinued operations............	$ --	$(0.01)	$ 0.08
Liberty Media Group -- per basic and diluted share:			
Earnings (loss) -- before cumulative effect of accounting change..................................	$ 0.04	$ 0.68	$(1.05)
Cumulative effect of accounting change..................	--	--	0.21
Liberty Media Group earnings (loss).....................	$ 0.04	$ 0.68	$(0.84)

The loss from continuing operations per diluted share attributable to the

AT&T Common Stock Group was $0.69 in the third quarter of 2001 compared with earnings per share (EPS) on a diluted basis of $0.35 in the third quarter of 2000. The year over year decline was largely driven by charges recorded in conjunction with AT&T's agreement to unwind its Concert joint venture and AT&T's obligation to purchase the public shares of AT&T Canada. Also contributing to the decline was lower operating income, the acceleration of the amortization of the beneficial conversion feature associated with conversion of NTT DoCoMo preferred stock, as well as a mark-to-market loss recorded in conjunction with the settlement of certain exchangeable notes that matured during the quarter. These losses were partially offset by a tax free gain associated with the disposal of a portion of AT&T's retained interest in AT&T Wireless Services and the net impact of the deconsolidation of Excite@Home.

The loss from continuing operations per diluted share attributable to the AT&T Common Stock Group was $0.94 for the nine months ended September 30, 2001 compared with earnings per diluted share of $1.35 for the nine months ended September 30, 2000. The year over year loss was primarily driven by lower operating income, charges relating to the agreement to unwind AT&T's Concert joint venture and AT&T's obligation to purchase the public shares of AT&T Canada. In addition, the decline reflects an impairment charge reflecting an other than temporary decline on AT&T's investment in Net2Phone, a charge relating to the initial reclassification impact of the adoption of SFAS No. 133 which revalued certain securities reclassified from "available-for-sale" to "trading," and dividends and associated amortization of the beneficial conversion feature on NTT DoCoMo preferred stock, partially offset by the net impact of the deconsolidation of Excite@Home.

The Consolidated Financial Statements of AT&T reflect AT&T Wireless as a discontinued operation. Accordingly, for periods prior to the split-off of AT&T Wireless, revenue, costs and expenses of AT&T Wireless have been excluded from the respective captions in the Consolidated Statements of Operations, and have been reported as "Income from discontinued operations" for all periods presented. Earnings from discontinued operations per diluted share attributable to the AT&T Common Stock Group were $0.03 for the year-to-date period through June 30, 2001, the deemed effective AT&T Wireless split-off date for accounting purposes and $0.06 for the nine months ended September 30, 2000. Upon the split-off of AT&T Wireless Group in the third quarter 2001, AT&T recorded $13.5 billion, or $3.82 per diluted share, as "Gain on the disposition of discontinued operations."

The earnings (loss) per share from discontinued operations attributable to AT&T Wireless Group for the year-to-date period through June 30, 2001, the deemed effective AT&T Wireless group split-off date for accounting purposes, the third quarter of 2000 and from April 27, 2000, the date of the stock offering, through September 30, 2000, were $0.08, $(0.01) and $0.05, respectively.

The earnings (loss) per diluted share attributable to Liberty Media Group (LMG) were earnings of $0.04 and a loss of $0.84 for the third quarter and year to date periods through July 31, 2001, the deemed effective LMG split-off date for accounting purposes, respectively. This compares with earnings of $0.68 and $1.15 in the third quarter and nine months ended September 30, 2000, respectively.

SEGMENT RESULTS

In support of the services AT&T provides, AT&T segments its results by the business units that support its primary lines of business: AT&T Business, AT&T Consumer and AT&T Broadband. The balance of AT&T's continuing operations, excluding LMG is included in a Corporate and Other category. Although not a segment, AT&T also discusses the results of LMG prior to its split-off as an independent company.

EBIT is the primary measure used by AT&T's chief operating decision makers to measure AT&T's operating results and to measure segment profitability and performance. AT&T calculates EBIT as operating (loss) income plus net pretax losses from equity investments, pretax minority interest income (expense) and other income. In addition, AT&T management also uses EBITDA as a measure of segment profitability and performance, and is defined as EBIT, excluding minority interest (expense) income other than Excite@Home's minority interest (expense) income, plus depreciation and amortization. Interest and taxes are not factored into the segment profitability measure used by the chief operating decision makers; therefore, trends for these items are discussed on a consolidated basis. AT&T management believes EBIT and EBITDA are meaningful to investors because they provide analysis of operating results using the same measures used by AT&T's chief operating decision makers. In addition, AT&T believes that both EBIT and EBITDA allow investors a means to evaluate the financial results of each segment in relation to total AT&T. EBIT for AT&T was a deficit of $3,654 million and earnings of $2,962 million, and EBITDA was a deficit of $1,347 million and earnings of $5,430 million for the three months ended September 30, 2001 and 2000, respectively. EBIT was a deficit of $3,455 million and earnings of $8,631 million, and EBITDA was earnings of $3,705 million and $14,757 million for the first nine months of 2001 and 2000, respectively. EBIT for AT&T was $8,364 million, $10,881 million and $8,266 million for the years ended December 31, 2000, 1999 and 1998, respectively. EBITDA for AT&T was $17,075 million, $17,724 million and $11,844 million for the years ended December 31, 2000, 1999 and 1998, respectively. AT&T's calculation of EBIT and EBITDA may or may not be consistent with the calculation of these measures by other public companies. EBIT and EBITDA should not be viewed by investors as an alternative to generally accepted accounting principles (GAAP) measures of income as a measure of performance or to cash flows from operating, investing and financing activities as a measure of liquidity. In addition, EBITDA does not take into account changes in certain assets and liabilities as well as interest and taxes which can affect cash flow.

The discussion of segment results includes revenue, EBIT, EBITDA, total assets and capital additions. The discussion of EBITDA for AT&T Broadband is modified to exclude other income and net

losses from equity investments. Total assets for each segment includes all assets, except intercompany receivables. Prepaid pension assets and corporate-owned or leased real estate are generally held at the corporate level, and therefore are included in the Corporate and Other group. Capital additions for each segment include capital expenditures for property, plant and equipment, additions to nonconsolidated investments, increases in franchise costs and additions to internal-use software.

In connection with AT&T's corporate restructuring program set forth in late 2000, AT&T's existing segments reflect certain managerial changes since the publication of AT&T's 2000 annual report. The changes are as follows: AT&T Business was expanded to include the results of international operations and ventures. In addition, certain corporate costs that were previously recorded within the Corporate and Other Group have been allocated to the respective segments in an effort to ultimately have the results of these businesses reflect all direct corporate costs as well as overhead for shared services. All prior period results have been restated to reflect these changes.

Reflecting the dynamics of AT&T's business, AT&T continuously reviews its management model and structure, which may result in additional adjustments to its operating segments in the future.

AT&T BUSINESS

AT&T Business offers a variety of global communications services, including long distance, local, and data and IP networking to small and medium-sized businesses, large domestic and multinational businesses and government agencies. AT&T Business is also a provider of voice, data and IP transport to service resellers (wholesale services).

AT&T Business includes AT&T Solutions, the company's professional-services outsourcing business, which provides seamless solutions that maximize the competitive advantage of networking-based electronic applications for global clients. AT&T Business also includes the results of International ventures and operations.

	THREE MONTHS ENDED SEPTEMBER 30, 2001	THREE MONTHS ENDED SEPTEMBER 30, 2000	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000
	(DOLLARS IN MILLIONS)			
External revenue	$ 6,750	$7,022	$20,550	$21,172
Internal revenue	135	200	597	529
Total revenue	6,885	$7,222	21,147	$21,701
EBIT	(4,377)	1,690	(1,933)	4,428
EBITDA	(3,352)	2,737	1,145	7,548
OTHER ITEMS				
Capital additions	$ 1,105	$1,821	$ 3,808	$ 4,642

	AT SEPTEMBER 30, 2001	AT DECEMBER 31,
Total assets	$40,236	$42,747

REVENUE

AT&T Business revenue decreased $0.3 billion, or 4.7%, in the third quarter of 2001, and declined $0.6 billion, or 2.5%, for the nine months ended September 30, 2001, compared with the same periods in 2000. The decreases were primarily due to a decline in long distance voice revenue of approximately $0.6 billion and $1.6 billion in the third quarter of 2001 and the first nine months of 2001, respectively. The decreases were partially offset by growth in data/IP of approximately $0.2 billion and $0.9 billion for the third quarter of 2001 and the first nine months of 2001, respectively.

Long distance voice services revenue decreased at a mid-teen percentage rate in the third quarter of 2001 and a low-teen percentage for the nine months ended September 30, 2001. These declines were due to a declining average price per minute reflecting the competitive forces within the industry that are expected to continue. Long distance voice minute volumes were relatively flat for the third quarter of 2001 and grew at a low single-digit percentage for the nine months ended September 30, 2001, compared to the corresponding prior year periods.

Data services, which represent the transportation of data, rather than voice, along AT&T's network, grew at a high single-digit percentage rate in the third quarter of 2001 and nearly 14% for the nine months ended September 30, 2001. Growth was led by the strength of packet services, which includes frame relay, IP and Asynchronous Transfer Mode (ATM) services during both of these periods. In addition, data services revenue during the nine months ended September 30, 2001, was positively impacted by growth in high-speed private line services.

Local voice services revenue grew at a high-teen percentage rate in the third quarter of 2001 and a low-20 percentage rate in the nine months ended September 30, 2001, compared with the same prior year periods. The prior year-to-date period included an unfavorable adjustment related to legal rulings concerning compensation payable to other carriers for call completion; excluding this adjustment, local voice grew approximately 18%. AT&T added approximately 170,000 and over 450,000 access lines for the quarter and year-to-date periods, respectively, bringing total access lines in service as of September 30, 2001 to over 2.7 million, an increase of 29.9% compared with September 30, 2000. AT&T served nearly 6,300 buildings on-net at September 30, 2001, representing a 2.0% increase compared with September 30, 2000.

AT&T Business Services internal revenue decreased $65 million, or 32.6%, for the third quarter of 2001 and increased $68 million, or 12.8%, for the year-to-date period compared with the same periods in 2000. The decrease for the quarter was due to the split-off of AT&T Wireless on July 9, 2001, as these sales are now reported as external revenue, partially offset by greater sales of services to other AT&T units that resell such services to their external customers, primarily AT&T Broadband. The increase for the year-to-date period was due to greater sales of services to other AT&T units, primarily AT&T Broadband and Excite@Home, partially offset by lower internal revenue, primarily from AT&T Wireless, as a result of the split-off.

EBIT/EBITDA

EBIT declined $6.1 billion, or 359.0%, in the third quarter of 2001 and $6.4 billion, or 143.7%, for the nine months ended September 30, 2001, compared with the same periods in 2000. EBITDA declined $6.1 billion, or 222.5%, and $6.4 billion, or 84.8%, respectively, in the third quarter and the first nine months of 2001. These declines primarily reflect the $5.3 billion of charges recorded during the third quarter of 2001 related to Concert and AT&T Canada. These declines also reflect the impact of pricing pressure within the long distance voice business as well as the shift from higher margin long distance services to lower margin growth services and the impact of higher equity losses recorded for Concert. Partially offsetting the year-to-date EBIT decline was a gain of approximately $0.5 billion recorded on the sale of AT&T's stake in Japan Telecom in the second quarter of 2001. Additionally, the year-to-date comparisons also reflect restructuring charges of $0.4 billion recorded in the first quarter of 2000.

OTHER ITEMS

Capital additions decreased 39.3% in the third quarter of 2001 and 18.0% in the first nine months of 2001, compared with the same prior year periods. These decreases reflect lower capital expenditures for network assets that support all services provided by AT&T Business.

Total assets decreased $2.5 billion, or 5.9%, at September 30, 2001, compared with December 31, 2000. The decrease reflects lower other investments and related advances resulting from the write-down of AT&T Business' investment in Concert, higher equity losses from Concert and the sale of Japan Telecom.

AT&T CONSUMER

AT&T Consumer provides a variety of communications services including long distance, local toll (intrastate calls outside the immediate local area) and Internet access to residential customers. In addition, AT&T Consumer provides transaction services, such as prepaid calling card and operator-handled calling services. Local phone service is also provided in certain areas.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Revenue	$3,822	$4,651	$11,614	$14,651
EBIT	1,282	1,806	3,817	5,271
EBITDA	1,331	1,849	3,962	5,394
OTHER ITEMS				
Capital additions	$ 43	$ 41	$ 96	$ 104

	AT SEPTEMBER 30, 2001	AT DECEMBER 31,
Total assets	$2,555	$3,150

REVENUE

AT&T Consumer revenue declined 17.8%, or $0.8 billion, in the third quarter of 2001 and declined 20.7%, or $3.0 billion, for the first nine months of 2001 compared with the corresponding periods in 2000. The revenue decline in both periods reflects the impacts of volume reductions, primarily in traditional voice services due to the acceleration of wireless and e-mail substitution, the impacts of ongoing competition and the continued migration of customers to lower-priced products and optional calling plans. The revenue decline in the third quarter of 2001 was slightly offset by an increase in the level of call volumes related to the events of September 11th. Long distance calling volumes declined at a low double-digit rate in both the third quarter and the first nine months of 2001. In addition, the revenue decline for the nine months ended September 30, 2001, reflects the elimination of per-line charges in July 2000 of approximately $0.5 billion.

EBIT/EBITDA

EBIT and EBITDA declined 29.0% and 28.0%, respectively, in the third quarter of 2001 compared with the prior year quarter. EBIT and EBITDA declined 27.6% and 26.5%, respectively, for the first nine months of 2001 compared with the same period in 2000. The decline in both periods was primarily driven by the impact of the revenue declines partially offset by cost-control initiatives. With impact of wireless and e-mail substitution continuing to increase and as the local exchange carriers continue their entry into the Consumer Long Distance business, EBIT and EBITDA are likely to continue to decline.

EBIT and EBITDA margins were 33.5% and 34.8%, respectively, for the third quarter of 2001 and were 38.8% and 39.7%, respectively, for the third quarter of 2000. EBIT and EBITDA margins were 32.9% and 34.1%, respectively, and 36.0% and 36.8%, respectively, for the nine months ended September 30, 2001 and 2000.

OTHER ITEMS

Capital additions were about the same in the third quarter of 2001 compared with the third quarter of 2000 and decreased slightly for the first nine months of 2001 compared with the corresponding period in 2000.

Total assets declined $0.6 billion to $2.6 billion at September 30, 2001 compared to $3.2 billion at December 31, 2000. The decline was primarily driven by lower receivables, reflecting lower revenue.

AT&T BROADBAND

AT&T Broadband offers a variety of services through its cable broadband network, including traditional analog video and advanced services such as digital video service, high-speed data service and broadband telephony service.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Revenue	$2,393	$2,420	$7,423	$5,693
EBIT	(538)	(640)	(1,834)	(771
EBITDA excluding other income*	602	498	1,496	1,196
OTHER ITEMS				
Capital additions	$ 782	$1,252	$2,641	$3,586

	AT SEPTEMBER 30, 2001	AT DECEMBER 31,
Total assets	$104,054	$114,848

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* EBITDA for AT&T Broadband excludes net losses from equity investments and other income

The results of operations for the three and nine months ended September 30, 2001 and the three months ended September 30, 2000 include a full period of MediaOne operations, while the nine months ended September 30, 2000, includes only 3 months and two weeks of operations for MediaOne.

REVENUE

Broadband revenue declined $27 million, or 1.1%, for the three months ended September 30, 2001 compared with the corresponding prior year period. This decrease in revenue was impacted by the net dispositions of cable systems of approximately $0.3 billion, almost entirely offset by revenue growth from new services (broadband telephony and high-speed data) of approximately $0.2 billion and revenue growth from other video services, primarily expanded basic cable and digital video, of approximately $0.1 billion. AT&T Broadband revenue grew $1.7 billion, or 30.4%, for the nine months ended September 30, 2001, compared with the corresponding prior year period. Approximately $1.0 billion of the increase was due to the acquisition of MediaOne offset by the net dispositions of cable systems. In addition, the increase was attributable to revenue growth from new services of approximately $0.4 billion and growth in other video services, primarily expanded basic cable and digital video, of approximately $0.2 billion.

At September 30, 2001, Broadband serviced approximately 13.7 million basic cable customers, passing approximately 24.6 million homes, compared with 16.1 million basic cable customers, passing approximately 28.0 million homes at September 30, 2000. At September 30, 2001, Broadband provided digital video service to approximately 3.2 million customers, high-speed data service to approximately 1.4 million customers and broadband telephony service to approximately 0.9 million customers. This compares with 2.5 million digital-video customers, approximately 0.9 million high-speed data customers, and 0.3 million broadband telephony customers at September 30, 2000.

EBIT/EBITDA

EBIT for the third quarter of 2001 was a deficit of $0.5 billion, an improvement of $0.1 billion from the comparable prior year period. This improvement was primarily due to the impacts associated with the growth in new services of approximately $0.1 billion, growth in other video services, primarily expanded basic cable and digital video, of approximately $0.1 billion and lower pretax equity losses of $0.1 billion. Partially offsetting this increased EBIT was the impacts of net dispositions of cable systems of approximately $0.1 billion and $0.1 billion of higher net loss on the sales of businesses and investments.

The EBIT deficit for the nine months ended September 30, 2001 increased $1.1 billion from the comparable prior year period deficit of $0.8 billion. This increase was largely due to the impacts of the acquisition of MediaOne and the net dispositions of cable systems of approximately $0.7 billion as well as higher restructuring and other charges and increased depreciation and amortization, programming and advertising expenses of approximately $0.7 billion. In addition, the increase was attributable to $0.5 billion of lower net gains on sales of businesses and investments. These increases were offset by $0.4 billion of lower pretax equity losses, impacts associated with the growth in new services of approximately $0.2 billion and growth in other video services, primarily expanded basic cable and digital video, of approximately $0.2 billion.

EBITDA, which excludes net losses from equity investments and other income, was $0.6 billion for the three months ended September 30, 2001, an improvement of $0.1 billion, or 20.9%, from the comparable prior year period. This improvement was primarily due to the impacts associated with the growth in new services of approximately $0.1 billion and growth in other video services, primarily expanded basic cable and digital video, of approximately $0.1 billion. Partially offsetting this increased EBITDA were the impacts of net dispositions of cable systems of approximately $0.1 billion.

EBITDA, for the nine months ended September 30, 2001 was $1.5 billion, an improvement of $0.3 billion, or 25.1%, from $1.2 billion in the comparable prior year period. This improvement was primarily due to the acquisition of MediaOne of $0.4 billion and the impacts associated with the growth in new services of approximately $0.2 billion and growth in other video services, primarily expanded basic cable and digital video, of approximately $0.2 billion. Partially offsetting this improvement was increased programming and advertising expenses of $0.2 billion, the impact of net dispositions of cable systems of $0.2 billion and higher restructuring and other charges of $0.1 billion.

OTHER ITEMS

Capital additions decreased 37.5% to $0.8 billion for the three months ended September 30, 2001 from $1.3 billion for the comparable prior year period. This decrease was primarily driven by reductions in plant upgrades and launches of advanced services. Capital additions decreased 26.3% to $2.6 billion for the nine months ended September 30, 2001 from $3.6 billion for the comparable prior year period. This decrease was primarily driven by a $0.5 billion decrease in contributions to various non-consolidated investments.

Total assets at September 30, 2001, were $104.1 billion compared with $114.8 billion at December 31, 2000. The decrease in total assets at September 30, 2001 is primarily due to cable-system sales.

CORPORATE AND OTHER

This group reflects the results of corporate staff functions, the elimination of transactions between segments, as well as the results of Excite@Home.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Revenue	$(13)	$ (117)	$ (220)	$ (422)
EBIT	(21)	106	(3,505)	(297)
EBITDA	118	338	(3,019)	225
OTHER ITEMS				
Capital additions	$ 50	$1,489	$ 303	$1,573

	AT SEPTEMBER 30, 2001	AT DECEMBER 31,
Total assets	$13,204	$12,101

REVENUE

Revenue for corporate and other for the third quarter of 2001 primarily includes the elimination of intercompany revenue of negative $171 million (a $39 million decrease from prior year) and revenue from Excite@Home of $140 million (a $61 million increase from prior year). Revenue for corporate and other for the first nine months of 2001 primarily includes the elimination of intercompany revenue of negative $696 million ($155 million increase from prior year) and revenue from Excite@Home of $418 million (a $339 million increase from prior year). The increase was primarily driven by the consolidation of Excite@Home, partially offset by decline in Excite@Home revenue in September 2001 and lower elimination of internal revenue as a result of the split-off of AT&T Wireless on July 9, 2001, which was partially offset by increased sales from Excite@Home to AT&T Broadband and from AT&T Business Services to AT&T Broadband.

EBIT/EBITDA

EBIT and EBITDA declined $0.1 billion and $0.2 billion, respectively, to a deficit of $21 million and income of $0.1 billion, respectively, in the third quarter of 2001 compared with the third quarter of 2000. The decline was primarily due to a $0.4 billion mark-to-market loss on Vodaphone ADRs, which were used to settle exchangeable notes that matured during the third quarter of 2001 and $0.1 billion lower gains on sales of various other investments. Also contributing to the decline was lower investment-related income of $0.1 billion, higher Excite@Home loss of $0.1 billion and a lower pension credit of $0.1 billion, primarily due to unfavorable investment performance. These declines were partially offset by a $0.5 billion tax-free gain associated with the disposal of a portion of AT&T's retained interest in AT&T Wireless in a debt-for-equity exchange and a $0.1 billion gain for the ongoing investment and derivative revaluation.

EBIT and EBITDA declined $3.2 billion to deficits of $3.5 billion and $3.0 billion, respectively, for nine months ended September 30, 2001, compared with the same prior year period. The decline was primarily due to a $1.1 billion investment impairment charge related to Net2Phone and a $0.8 billion loss on the Excite@Home put obligation settlement with Cox Communications, Inc. and Comcast Corporation. Also contributing to the decline was $0.8 billion loss associated with the adoption of SFAS No. 133 as well as the related ongoing investment revaluation. The decline was also driven by lower investment-related income of $0.2 billion, lower pension credit of $0.1 billion, primarily due to unfavorable investment performance, higher costs associated with the AT&T Wireless stock exchange offer of $0.1 billion and lower gains on sales of investments of $0.1 billion. These were partially offset by lower net restructuring and other charges of $0.3 billion.

OTHER ITEMS

Capital additions declined $1.4 billion, or 96.6%, in the third quarter of 2001 compared with the third quarter of 2000. Capital additions declined $1.3 billion, or 80.7%, in the first nine months of 2001 compared with the same period in 2000. The decline in both periods was primarily driven by AT&T's investment in Net2Phone made in the third quarter of 2000.

Total assets increased $1.1 billion, to $13.2 billion at September 30, 2001. The increase was primarily driven by a higher cash balance held at September 30, 2001, AT&T's retained interest in AT&T Wireless and higher deferred tax assets as a result of the unwind of AT&T's Concert joint venture and settlement of exchangeable notes. These increases were partially offset by the deconsolidation of Excite@Home, the write-down of AT&T's investment in Net2Phone and the transfer of a loan to Concert to the AT&T Business segment, which was written off in the third quarter of 2001.

LIBERTY MEDIA GROUP RESULTS

Liberty Media Group (LMG) produces, acquires and distributes entertainment, educational and informational programming services through all available formats and media. LMG is also engaged in electronic retailing services, direct marketing services, advertising sales relating to programming services, infomercials and transaction processing. LMG was split off from AT&T on August 10, 2001. The

operating results of LMG for the third quarter and year-to-date period ended July 31, 2001 (the deemed effective LMG split-off date for accounting purposes) and three and nine months ended September 30, 2000, were reflected as "Equity earnings (losses) from Liberty Media Group" in the accompanying Consolidated Statements of Operations. The investment in LMG was no longer included in AT&T's Consolidated Balance Sheet at September 30, 2001. Equity earnings (losses) from LMG decreased $1.6 billion for the third quarter of 2001 compared with the third quarter of 2000. The decrease largely reflects lower gains on dispositions in the third quarter of 2001, partially offset by earnings of affiliates in 2001 compared with losses in 2000 as well as the write-down of impaired investments in 2000. Equity earnings (losses) from LMG decreased $5.7 billion for the year-to-date period through July 31, 2001, compared with the year-to-date period ended September 30, 2000. The decrease largely reflects lower gains on dispositions, higher losses of affiliates and higher unrealized losses on financial instruments of LMG.

THREE YEARS ENDED DECEMBER 31, 2000

REVENUE

	FOR THE YEARS ENDED DECEMB	
	2000	1999
		(DOLLARS IN MILLIONS
Business Services..........................	$28,900	$28,692
Consumer Services..........................	18,894	21,753
Broadband..................................	8,226	5,070
Other and Corporate........................	(487)	(542)
Total Revenue..............................	$55,533	$54,973

Total revenue increased 1.0%, or $0.6 billion, in 2000 compared with the prior year primarily driven by a growing demand for AT&T's Internet protocol (IP) products and outsourcing and broadband services of approximately $2.2 billion and the impact of acquisitions and the consolidation of Excite@Home, offset by the impact of Concert, dispositions and the elimination of PICC of approximately $1.5 billion. These revenue increases were offset by continued declines in long distance voice revenue of approximately $2.9 billion. AT&T expects long distance revenue to continue to be negatively impacted by ongoing competition and product substitution.

Total revenue in 1999 increased $7.2 billion, or 15.0%, compared with 1998. Approximately $6.5 billion of the increase was due to acquisitions, net of dispositions. The remaining increase was fueled by growth in business data, business long distance voice and outsourcing revenue, partially offset by the continued decline of consumer long distance voice revenue.

Revenue by segment is discussed in greater detail in the segment results section.

	FOR THE YEARS ENDED DECEMB	
	2000	1999
	(DOLLARS IN MILLIONS	
Access and other connection................	$13,140	$14,439

Access and other connection expenses decreased 9.0%, to $13.1 billion in 2000, compared with $14.4 billion in 1999. Included within access and other connection expenses are costs that AT&T pays to connect domestic calls on the facilities of other service providers. Mandated reductions in per-minute access costs and decreased per-line charges resulted in lower costs of approximately $1.5 billion. Also contributing to the decrease was more efficient network usage. These decreases were partially offset by approximately $0.6 billion of higher costs due to volume increases, and $0.5 billion as a result of higher Universal Service Fund contributions. Since most of these charges are passed through to the customer, the per-minute access-rate and per-line charge reductions and the increased Universal Service Fund contributions have generally resulted in a corresponding impact on revenue.

Costs paid to telephone companies outside of the United States to connect calls made to countries outside of the United States (international settlements) are also included within access and other connection expenses. These costs decreased approximately $0.5 billion in 2000, as result of the commencement of operations of Concert. Concert now incurs most of AT&T's international settlements as well as earns most of AT&T's foreign-billed revenue, previously incurred and earned directly by AT&T. In 2000, Concert billed AT&T a net expense composed of international settlement (interconnection) expense and foreign-billed revenue. The amount charged by Concert in 2000 was lower than interconnection expense incurred in 1999, since AT&T recorded these transactions as revenue and expense, as applicable. Partially offsetting the decline were costs incurred related to Concert products that AT&T now sells to its customers.

Access and other connection expenses declined $0.7 billion, or 4.5%, in 1999 compared with the prior year. This decline resulted from $0.9 billion of mandated reductions in per-minute access rates in 1999 and 1998, and $0.6 billion of lower international settlement rates resulting from AT&T's negotiations with international carriers. Additionally, AT&T continues to manage these costs through more efficient network usage. These reductions were partially offset by $0.8 billion of higher costs due to volume growth, and $0.3 billion as a result of increased per-line charges and Universal Service Fund contributions.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Costs of services and products............................	$12,795	$11,013	$8,285

Costs of services and products include the costs of operating and maintaining AT&T's networks, costs to support AT&T's outsourcing contracts, programming and licensing costs for cable services, the provision for uncollectible receivables and other service-related costs.

These costs increased $1.8 billion, or 16.2%, in 2000 compared with 1999. Nearly $1.9 billion of the increase was due to acquisitions and the impact of consolidating Excite@Home, net of the impact of Concert and divestments of international businesses. Expense also increased due to higher costs associated with new outsourcing contracts of approximately $0.5 billion and approximately $0.3 billion of higher video-programming costs principally due to rate increases and higher costs associated with new broadband services. These increases were partially offset by approximately $0.9 billion of costs savings from continued cost control initiatives and a higher pension credit in 2000, primarily driven by a higher pension trust asset base, resulting from increased investment returns.

Costs of services and products rose $2.7 billion, or 32.9%, in 1999 compared with 1998, primarily due to acquisitions, net of dispositions, which accounted for approximately $3.6 billion of the increase. The higher costs associated with new outsourcing contracts increased expenses by approximately $0.2 billion. Partially offsetting the 1999 increases were network cost-control initiatives of approximately $0.4 billion, and approximately $0.3 billion of lower expenses in Business Services related to per-call compensation expense, provision for uncollectible receivables and gross receipts and property taxes.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Selling, general and administrative........................	$9,752	$10,894	$10,693

Selling, general and administrative (SG&A) expenses decreased $1.1 billion, or 10.5%, in 2000 compared with 1999. Approximately $2.0 billion of the decrease was due to savings from continued cost-control initiatives and a higher pension credit in 2000, primarily driven by a higher pension trust asset base, resulting from increased investment returns. Partially offsetting this decrease was approximately $0.5 billion of higher expenses associated with AT&T's growing broadband business, and nearly $0.5 billion of expenses associated with acquisitions and the consolidation of Excite@Home, net of the impact of Concert and dispositions.

VI-23

SG&A expenses increased $0.2 billion, or 1.9%, in 1999 compared with 1998. This increase was primarily due to acquisitions, net of dispositions, which resulted in an increase in SG&A expenses of approximately $1.2 billion. Largely offsetting this increase were AT&T's continued efforts to control costs on a companywide basis, which resulted in lower SG&A expenses of approximately $0.9 billion, including lower spending for consumer long distance acquisition-programs.

FOR THE YEARS ENDED DECEMBER 31,

	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Depreciation and other amortization	$5,924	$5,137	$3,533

Depreciation and other amortization expenses rose $0.8 billion, or 15.3%, in 2000 compared with 1999 and increased $1.6 billion, or 45.4%, in 1999 compared with 1998. Approximately $0.5 billion of the increase in 2000 compared with 1999 and $0.9 billion of the increase in 1999 compared with 1998, respectively was due to acquisitions and the consolidation of Excite@Home, net of dispositions and the impact of Concert, as applicable. The remaining increase was primarily due to a higher asset base resulting from continued infrastructure investment. Total capital expenditures for 2000, 1999 and 1998 were $10.4 billion, $11.2 billion and $6.9 billion, respectively. AT&T continues to focus the vast majority of its capital spending on its growth businesses of broadband, data and IP and local.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Amortization of goodwill, franchise costs and other purchased intangibles	$2,665	$1,057	$44

Amortization of goodwill, franchise costs and other purchased intangibles increased $1.6 billion, or 152.3%, in 2000 compared with the prior year. This increase was largely attributable to the consolidation of Excite@Home, as well as acquisitions, primarily MediaOne and TCI. Franchise costs represent the value attributable to agreements with local authorities that allow access to homes in Broadband's service areas. Other purchased intangibles arising from business combinations primarily included customer relationships.

Amortization of goodwill, franchise costs and other purchased intangibles increased $1.0 billion in 1999 compared with 1998 due primarily to the acquisition of TCI and, to a lesser extent, AGNS.

As a result of AT&T's evaluation of recent changes in its industry and the views of regulatory authorities, AT&T expects that the amortization period for all licensing costs, franchise costs, and goodwill associated with newly acquired telecommunications and cable operations will not exceed 25 years.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Net restructuring and other charges	$7,029	$975	$2,514

During 2000, AT&T recorded $7.0 billion of net restructuring and other charges, which had an approximate $0.90 earnings per diluted share impact to the AT&T Common Stock Group. The 2000 charge included $6.2 billion of asset impairment charges related to Excite@Home, $759 million for restructuring and exit costs associated with AT&T's initiative to reduce costs, and $91 million related to the government-mandated disposition of AT&T Communications (U.K.) Ltd., which would have competed directly with Concert.

The asset impairment charges related to Excite@Home resulted from the deterioration of the market conditions and market valuations of Internet-related companies during the fourth quarter of 2000, which caused Excite@Home to conclude that intangible assets related to their acquisitions of Internet-related companies may not be recoverable. Accordingly, Excite@Home conducted a detailed assessment of the recoverability of the carrying amounts of acquired intangible assets. This assessment resulted in a determination that certain acquired intangible assets, including goodwill, related to these acquisitions, including Excite, were impaired as of December 31, 2000. As a result, Excite@Home recorded

impairment charges of $4.6 billion in December 2000, representing the excess of the carrying amount of the impaired assets over their fair value.

The impairment was allocated to each asset group based on a comparison of carrying values and fair values. The impairment write-down within each asset group was allocated first to goodwill, and if goodwill was reduced to zero, to identifiable intangible assets in proportion to carrying values.

Since AT&T owns approximately 23% of Excite@Home, 77% of the charge recorded by Excite@Home was not included as a reduction to AT&T's net income, but rather was eliminated in AT&T's 2000 Consolidated Statement of Income as "Minority interest income (expense)."

Also as a result of the foregoing, AT&T recorded a goodwill and acquisition-related impairment charge of $1.6 billion associated with the acquisition of its investment in Excite@Home. The write-down of AT&T's investment to fair value was determined utilizing discounted expected future cash flows.

The $759 million charge for restructuring and exit plans was primarily due to headcount reductions, mainly in network operations and Business Services, including the consolidation of customer-care and call centers, as well as synergies created by the MediaOne merger.

Included in exit costs was $503 million of cash termination benefits associated with the separation of approximately 7,300 employees as part of voluntary and involuntary termination plans. Approximately one-half of the separations were management employees and one-half were nonmanagement employees. Approximately 6,700 employee separations were related to involuntary terminations and approximately 600 to voluntary terminations.

AT&T also recorded $62 million of network lease and other contract termination costs associated with penalties incurred as part of notifying vendors of the termination of these contracts during the year, and net losses of $32 million related to the disposition of facilities primarily due to synergies created by the MediaOne merger.

Also included in restructuring and exit costs in 2000 was $144 million of benefit plan curtailment costs associated with employee separations as part of these exit plans. Further, AT&T recorded an asset impairment charge of $18 million related to the write-down of unrecoverable assets in certain businesses where the carrying value was no longer supported by estimated future cash flows.

The 2000 restructuring initiatives are projected to yield cash savings of approximately $690 million per year, as well as EBIT (earnings before interest and taxes, including pretax minority interest and net pretax losses from other equity investments) savings of approximately $700 million per year. AT&T expects increased spending in growth businesses will largely offset these cash and EBIT savings. The EBIT savings, primarily attributable to reduced personnel-related expenses, will be realized in SG&A expenses and costs of services and products.

During 1999, AT&T recorded $1.0 billion of net restructuring and other charges, which had an approximate $0.27 earnings per diluted share impact to the AT&T Common Stock Group.

A $594 million in-process research and development charge was recorded reflecting the estimated fair value of research and development projects at TCI, as of the date of the acquisition, which had not yet reached technological feasibility or had no alternative future use. The projects identified related to efforts to offer voice over IP, product-integration efforts for advanced set-top devices, cost-savings efforts for broadband-telephony implementation, and in-process research and development related to Excite@Home. AT&T estimated the fair value of in-process research and development for each project using an income approach, which was adjusted to allocate fair value based on the project's percentage of completion. Under this approach, the present value of the anticipated future benefits of the projects was determined using a discount rate of 17%. For each project, the resulting net present value was multiplied by a percentage of completion based on effort expended to date versus projected costs to complete.

The charge associated with voice-over-IP technology, which allows voice telephony traffic to be digitized and transmitted in IP data packets, was $225 million as of the date of acquisition. Current voice-

over-IP equipment does not yet support many of the features required to connect customer premises equipment to traditional phone networks. Further technical development is also needed to ensure voice quality that is comparable to conventional circuit-switched telephony and to reduce the power consumption of the IP-telephony equipment. AT&T started testing IP-telephony equipment in the field in late-2000 and will continue tests throughout 2001.

The charge associated with product-integration efforts for advanced set-top devices, which will enable AT&T to offer next-generation digital services, was $114 million as of the acquisition date. The associated technology consists of the development and integration work needed to provide a suite of software tools to run on the digital set-top box hardware platform. It is anticipated that field trials will begin in late-2001 for next-generation digital services.

The charge associated with cost-savings efforts for broadband-telephony implementation was $101 million as of the date of acquisition. Telephony cost reductions primarily consist of cost savings from the development of a "line of power switch," which allows AT&T to cost effectively provide power for customer telephony equipment through the cable plant. This device will allow AT&T to provide line-powered telephony without burying the cable line to each house. Trials related to AT&T's telephony cost reductions are complete, and implementation has begun in certain markets.

Additionally, the in-process research and development charge related to Excite@Home was valued at $154 million. This charge related to projects to allow for self-provisioning of devices and the development of next-generation client software, network and back-office infrastructure to enable a variety of network devices beyond personal computers and improved design for the regional data centers' infrastructure.

Although there are technological issues to overcome to successfully complete the acquired in-process research and development, AT&T expects successful completion. AT&T estimates the costs to complete the identified projects will not have a material impact on AT&T's results of operations. If, however, AT&T is unable to establish technological feasibility and produce commercially viable products/services, anticipated incremental future cash flows attributable to expected profits from such new products/services may not be realized.

Also in 1999, a $145 million charge for restructuring and exit costs was recorded as part of AT&T's initiative to reduce costs. The restructuring and exit plans primarily focused on the maximization of synergies through headcount reductions in Business Services and network operations, including the consolidation of customer-care and call centers.

Included in exit costs was $142 million of cash termination benefits associated with the separation of approximately 2,800 employees as part of voluntary and involuntary termination plans. Approximately one-half of the separations were management employees and one-half were nonmanagement employees. Approximately 1,700 employee separations were related to involuntary terminations and approximately 1,100 to voluntary terminations.

The 1999 restructuring initiatives are projected to yield cash savings of approximately $250 million per year. This restructuring yielded EBIT savings of approximately $260 million in 2000, and is expected to save nearly $260 million per year thereafter. AT&T expects increased spending in growth businesses will largely offset these cash and EBIT savings. The EBIT savings, primarily attributable to reduced personnel-related expenses, will be realized in SG&A expenses and costs of services and products.

AT&T also recorded net losses of $307 million related to the government-mandated disposition of certain international businesses that would have competed directly with Concert, and $50 million related to a contribution agreement Broadband entered into with Phoenixstar, Inc. That agreement requires Broadband to satisfy certain liabilities owed by Phoenixstar and its subsidiaries. The remaining obligation under this contribution agreement and an agreement that MediaOne had is $57 million, which was fully accrued for at December 31, 2000. In addition, AT&T recorded benefits of $121 million related to the settlement of pension obligations for former employees who accepted AT&T's 1998 voluntary retirement incentive program (VRIP) offer.

During 1998, AT&T recorded $2.5 billion of net restructuring and other charges, which had an approximate $0.59 earnings per diluted share impact to the AT&T Common Stock Group. The bulk of the charge was associated with AT&T's overall cost-reduction program and the approximately 15,300 management employees who accepted the VRIP offer. A restructuring charge of $2,724 million was composed of $2,254 million and $169 million for pension and postretirement special-termination benefits, respectively, $263 million of benefit plan curtailment losses and $38 million of other administrative costs. AT&T also recorded charges of $125 million for related facility costs and $150 million for executive-separation costs. These charges were partially offset by benefits of $940 million as AT&T settled pension benefit obligations for 13,700 of the total VRIP employees. In addition, the VRIP charges were partially offset by the reversal of $256 million of 1995 business restructuring reserves primarily resulting from the overlap of VRIP on certain 1995 projects.

Also included in the 1998 net restructuring and other charges were asset impairment charges totaling $718 million, of which $633 million was related to AT&T's decision not to pursue Total Service Resale (TSR) as a local-service strategy. AT&T also recorded an $85 million asset impairment charge related to the write-down of unrecoverable assets in certain international operations where the carrying value was no longer supported by future cash flows. This charge was made in connection with the review of certain operations that would have competed directly with Concert.

Additionally, $85 million of merger-related expenses were recorded in 1998 in connection with the Teleport Communications Group Inc. (TCG) merger, which was accounted for as a pooling of interests. Partially offsetting these charges was a $92 million reversal of the 1995 restructuring reserve. This reversal reflected reserves no longer deemed necessary. The reversal primarily included separation costs attributed to projects completed at a cost lower than originally anticipated. Consistent with the three-year plan, the 1995 restructuring initiatives were substantially completed by the end of 1998.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Operating income...	$4,228	$11,458	$7,632

Operating income decreased $7.2 billion, or 63.1%, in 2000 compared with 1999. The decrease was primarily due to higher net restructuring and other charges of $6.1 billion. Also contributing to the decrease was the impact of the acquisition of MediaOne and the consolidation of Excite@Home, which lowered operating income by $1.5 billion. A majority of the impact of operating losses and the restructuring charge generated by Excite@Home was offset in minority interest income (expense), reflecting the approximate 77% of Excite@Home AT&T does not own. Partially offsetting these decreases were cost-control initiatives and a larger pension credit associated with AT&T's mature long distance businesses and related support groups, partially offset by lower long distance revenue.

Operating income rose $3.8 billion, or 50.1%, in 1999 compared with 1998. The increase was driven by approximately $2.2 billion of operating income improvements in Business Services and Consumer Services, reflecting operating expense efficiencies, partially offset by higher restructuring charges for these units. Also contributing to the increase was $1.9 billion of lower net restructuring and other charges for all other units.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Other income...	$1,150	$826	$812

Other income increased $0.3 billion, or 39.3%, in 2000 compared with 1999. This increase was primarily due to greater net gains on sales of businesses and investments of approximately $0.7 billion, and higher investment-related income of approximately $0.3 billion. The higher gains on sales were driven by significant gains associated with the swap of cable properties with Comcast Corporation (Comcast) and Cox Communications, Inc. (Cox), the sale of AT&T's investment in Lenfest Communications, Inc. (Lenfest) and related transactions. These gains aggregated approximately $0.5 billion and had an

approximate $0.21 earnings per diluted share impact to the AT&T Common Stock Group. In 1999, AT&T recorded significant gains associated with the sale of AT&T's Language Line Services business and a portion of AT&T's ownership interest in AT&T Canada which aggregated approximately $0.3 billion and had an approximate $0.05 earnings per diluted share impact to the AT&T Common Stock Group. Offsetting the increases to other income in 2000 was an approximate $0.5 billion charge reflecting the increase in the fair value of put options held by Comcast and Cox related to Excite@Home stock, and approximately $0.2 billion of higher investment impairment charges.

Other income increased $14 million, or 1.8%, in 1999 compared with 1998. The increase was primarily due to higher net gains on sales of businesses and investments of approximately $0.2 billion offset by lower investment-related income of approximately $0.2 billion. In 1999, AT&T recorded significant gains associated with the sale of its Language Line Services business and a portion of its ownership interest in AT&T Canada which aggregated approximately $0.3 billion and had an approximate $0.05 earnings per diluted share impact to the AT&T Common Stock Group. In 1998, AT&T recorded a significant gain associated with the sale of AT&T Solutions Customer Care of approximately $0.4 billion and had an approximate $0.08 earnings per diluted share impact to the AT&T Common Stock Group.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Interest expense	$2,964	$1,503	$293

Interest expense increased 97.2%, or $1.5 billion, in 2000 compared with 1999. The increase was primarily due to a higher average debt balance as a result of AT&T's June 2000 acquisition of MediaOne, including outstanding debt of MediaOne and debt issued to fund the MediaOne acquisition, and AT&T's March 1999 acquisition of TCI.

Interest expense increased $1.2 billion in 1999 compared with 1998, due to a higher average debt balance associated with AT&T's acquisitions, including debt outstanding of TCI at the date of acquisition.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Provision for income taxes	$3,284	$4,016	$2,989

The effective income tax rate is the provision for income taxes as a percent of income from continuing operations before income taxes. The effective income tax rate was 136.1% in 2000, 37.3% in 1999 and 36.7% in 1998. In 2000, the effective tax rate was negatively impacted by Excite@Home, which is unable to record tax benefits associated with its pretax losses. Therefore the $4.6 billion restructuring charges taken by Excite@Home in 2000 had no associated tax benefit. The 2000 effective tax rate was positively impacted by a tax-free gain resulting from an exchange of AT&T stock for an entity owning certain cable systems and other assets with Cox and the benefit of the write-off of the related deferred tax liability. The 1999 effective tax rate was negatively impacted by a non-tax-deductible research and development charge, but positively impacted by a change in the net operating loss utilization tax rules that resulted in a reduction in the valuation allowance and the income tax provision.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Minority interest income (expense).........................	$4,103	$(126)	$(1)

Minority interest income (expense), which is recorded net of income taxes, represents an adjustment to AT&T's income to reflect the less than 100% ownership of consolidated subsidiaries as well as dividends on preferred stock issued by subsidiaries of AT&T. The $4.2 billion increase in minority interest in 2000 resulted from the consolidation of Excite@Home effective September 1, 2000. The minority interest income in 2000 primarily reflects losses generated by Excite@Home, including the goodwill impairment charge, that were attributable to the approximate 77% of Excite@Home not owned by AT&T. The

decrease in minority interest in 1999 compared with 1998 was primarily due to dividends on preferred securities issued by a subsidiary trust of AT&T in 1999.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Equity earnings (losses) from Liberty Media Group...........	$1,488	$(2,022)	--

Equity earnings from LMG, which are recorded net of income taxes, were $1.5 billion in 2000, compared with losses of $2.0 billion in 1999. The increase was primarily due to gains on dispositions, including gains associated with the mergers of various companies that LMG had investments in. Gains were recorded for the difference between the carrying value of LMG's interest in the acquired company and the fair value of securities received in the merger. In addition, lower stock compensation expense in 2000 compared with 1999 contributed to the increase. These were partially offset by impairment charges recorded on LMG's investments to reflect other than temporary declines in value and higher losses relating to LMG's equity affiliates.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Net losses from other equity investments..................	$588	$756	$109

Net losses from other equity investments, which are recorded net of income taxes, were $0.6 billion in 2000, a 22.2% improvement compared with 1999. This improvement was primarily a result of higher earnings from AT&T's investment in Cablevision Systems Corp. (Cablevision) of approximately $0.2 billion due to gains from cable-system sales. Offsetting this increase were losses from AT&T's stake in Time Warner Entertainment Company, L.P. (TWE) which AT&T acquired in connection with the MediaOne merger and greater equity losses from Excite@Home, which aggregated approximately $0.1 billion.

Net losses from other equity investments were $0.8 billion in 1999 compared with $0.1 billion in 1998, primarily due to losses AT&T recorded on investments it acquired through TCI, largely Cablevision and Excite@Home.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
AT&T Common Stock Group:			
Income from continuing operations........................	$2,645	$ 5,883	$5,052
Income (loss) from discontinued operations...............	460	(433)	193
Gain on sale of discontinued operations..................	--	--	1,290
Earnings from continuing operations per share:			
Basic...	0.76	1.91	1.89
Diluted...	0.75	1.87	1.87
Earnings (loss) from discontinued operations per share:			
Basic...	0.13	(0.14)	0.07
Diluted...	0.13	(0.13)	0.07
Gain on sale of discontinued operations -- basic and diluted..	--	--	0.48
AT&T Wireless Group:			
Income from discontinued operations......................	$ 76	--	--
Earnings from discontinued operations per share:			
Basic and diluted...................................	0.21	--	--
Liberty Media Group:			
Income (loss)..	$1,488	$(2,022)	--
Earnings (loss) per share:			
Basic and diluted...................................	0.58	(0.80)	--

Earnings per diluted share (EPS) attributable to continuing operations of the AT&T Common Stock Group were $0.75 in 2000 compared with $1.87 in 1999, a decrease of 59.9%. The decrease was primarily due to higher restructuring and asset impairment charges and the MediaOne acquisition, including the impact of shares issued, operating losses of MediaOne and additional interest expense. Also contributing to the decrease was the impact of Excite@Home, including the mark-to-market adjustment related to the put options held by Comcast and Cox. These were partially offset by an increase in other income, primarily associated with higher net gains on sales of businesses and investments, and higher investment-related income, and lower losses from equity investments. Also impacting EPS was higher operating income associated with AT&T's mature long distance businesses.

EPS from continuing operations attributable to the AT&T Common Stock Group on a diluted basis were $1.87 in both 1999 and 1998. EPS increased primarily due to increased income from AT&T's Business and Consumer operations due to revenue growth and operating expense efficiencies, as well as lower net restructuring and other charges. Offsetting these increases was the impact of the TCI and AGNS acquisitions, including the impact of shares issued and equity losses of Excite@Home and Cablevision.

EPS for Liberty Media Group was $0.58 in 2000, compared with a loss of $0.80 per share for 1999. The increase in EPS was primarily due to gains on dispositions, including gains associated with the mergers of various companies that LMG had investments in. Gains were recorded for the difference between the carrying value of LMG's interest in the acquired company and the fair value of securities received in the merger. In addition, lower stock compensation expense in 2000 compared with 1999 contributed to the increase. These were partially offset by impairment charges recorded on LMG's

investments to reflect other than temporary declines in value and higher losses relating to LMG's equity affiliates.

DISCONTINUED OPERATIONS

Pursuant to Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," the consolidated financial statements of AT&T reflect the disposition of AT&T Universal Card Services (UCS), which was sold on April 2, 1998, and AT&T Wireless, which was split-off from AT&T on July 9, 2001, as discontinued operations. Accordingly, the revenue, costs and expenses, and cash flows of UCS, through the date of disposition, and AT&T Wireless have been excluded from the respective captions in the 2000, 1999 and 1998 Consolidated Statements of Income and Consolidated Statements of Cash Flows and have been reported as "Income from discontinued operations," net of applicable income taxes; and as "Net cash provided by discontinued operations." The assets and liabilities of AT&T Wireless have been excluded from the respective captions in the December 31, 2000 and 1999 Consolidated Balance Sheets and are reported as "Net assets of discontinued operations." The gain associated with the sale of UCS is recorded as "Gain on sale of discontinued operations," net of applicable income taxes in the 1998 Consolidated Statement of Income.

EXTRAORDINARY ITEMS

In August 1998, AT&T extinguished approximately $1.0 billion of TCG's debt. The $217 million pretax loss on the early extinguishment of debt was recorded as an extraordinary loss. The after-tax impact was $137 million, or $0.05 per diluted share.

SEGMENT RESULTS

BUSINESS SERVICES

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
External revenue	$28,157	$28,087	$25,001
Internal revenue	743	605	356
Total revenue	28,900	28,692	25,357
EBIT	5,990	5,248	4,017
EBITDA	10,200	9,468	7,376
Capital additions	6,839	9,091	6,773

	AT DECEMBER 31,	
	2000	1999
Total assets	$42,747	$37,974

REVENUE

In 2000, Business Services revenue grew $0.2 billion, or 0.7%, compared with 1999. Strength in data and IP services as well as growth in AT&T's outsourcing business contributed $1.8 billion to the increase. This growth was largely offset by an approximate $0.9 billion decline in long distance voice services as a result of continued pricing pressures in the industry and approximately $0.5 billion due to the net impacts of Concert, international dispositions and acquisitions.

Revenue in 1999 grew $3.3 billion, or 13.2%. The acquisition of AGNS contributed approximately $1.1 billion to the growth. Data, IP and outsourcing services grew approximately $1.5 billion in 1999 compared with 1998, while long distance voice services and local services contributed approximately $0.6 billion to the revenue increase.

Data services, which represent the transportation of data, rather than voice, along AT&T's network, was impacted by acquisitions and the formation of Concert. Excluding these impacts, data services grew at a high-teens percentage rate in 2000. Growth was led by the continued strength of frame relay services; IP services, which include IP-connectivity services and virtual private network (VPN) services; and high-speed private-line services. Excluding the impact of AGNS, data services grew at a high-teens percentage rate in 1999, led by strength in frame relay and high-speed private-line services.

AT&T Solutions outsourcing revenue grew 47.9% in 2000 and 146.0% in 1999. More than one-half of the 2000 growth and approximately 65% of the 1999 growth was driven by AT&T's acquisition of AGNS. The remaining growth in both years was primarily due to growth from new contract signings and add-on business from existing clients.

Excluding the impact of Concert, long distance voice services revenue declined at a mid single-digit percentage rate in 2000 due to a declining average price per minute reflecting the competitive forces within the industry which are expected to continue. Partially offsetting this decline was a high single-digit percentage growth rate in minutes. In 1999, long distance voice revenue grew at a low single-digit percentage rate, as volumes grew at a high-teens percentage rate, which was largely offset by a declining average rate per minute.

Local voice services revenue grew nearly 20% in 2000 and more than 50% in 1999. During 2000, AT&T added more than 867,000 access lines, with the total reaching nearly 2.3 million at the end of the year. During 1999, AT&T added more than 719,000 access lines. Access lines enable AT&T to provide local service to customers by allowing direct connection from customer equipment to the AT&T network. AT&T serves more than 6,000 buildings on-network (buildings where AT&T owns the fiber that runs into the building), representing an increase of approximately 3.5% over 1999. At the end of 1999, AT&T served just over 5,800 buildings on-network compared with approximately 5,200 buildings at the end of 1998.

Business Services internal revenue increased $138 million, or 22.7%, in 2000 and $249 million, or 70.0%, in 1999. The increase in 2000 was the result of greater sales of business long distance services to other AT&T units that resell such services to their external customers, primarily Broadband and Wireless Services. In 1999, the increase in internal revenue was primarily due to greater sales of long distance services to Wireless Services.

EBIT/EBITDA

EBIT improved $0.7 billion, or 14.2%, and EBITDA improved $0.7 billion, or 7.7%, in 2000 compared with 1999. This improvement reflects an increase in revenue and lower costs as a result of AT&T's continued cost-control efforts, partially offset by the formation of Concert and the acquisition of AGNS.

In 1999, EBIT improved $1.2 billion, or 30.6%, and EBITDA improved $2.1 billion, or 28.4%, compared with 1998. These increases were driven by revenue growth combined with margin improvement resulting from ongoing cost-control initiatives. The increase in EBIT was offset somewhat by increased depreciation and amortization expenses resulting from increased capital expenditures aimed at data, IP and local services.

OTHER ITEMS

Capital additions decreased $2.3 billion in 2000, and increased $2.3 billion in 1999. In 2000, the decrease was a result of lower spending for AT&T's long distance network (including the data network) and lower investment in nonconsolidated international investments. In 1999, the increase was primarily due to additional spending for the build out of AT&T's local services SONET transport network and increased nonconsolidated international investments that support AT&T's global strategy.

Total assets increased $4.8 billion, or 12.6%, at December 31, 2000, compared with December 31, 1999. The increase was primarily due to net increases in property, plant and equipment as a result of capital additions, as well as receivables from Concert, and higher goodwill due to AT&T Latin America.

CONSUMER SERVICES

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Revenue	$18,894	$21,753	$22,763
EBIT	6,893	7,619	6,289
EBITDA	7,060	7,803	6,406
Capital additions	148	299	99

	AT DECEMBER 31,	
	2000	1999
Total assets	$3,150	$3,781

REVENUE

Consumer Services revenue declined 13.1%, or $2.9 billion, in 2000 compared with 1999. Approximately $0.9 billion of the decline was due to the elimination of per-line charges in 2000 and the impact of Concert. The remainder of the decline was primarily due to a decline in traditional voice services, such as Domestic Dial 1, reflecting the ongoing competitive nature of the consumer long distance industry, which has resulted in pricing pressures and a loss of market share. Also negatively impacting revenue was product substitution and market migration away from direct-dial wireline and higher-priced calling-card services to the rapidly growing wireless services and lower-priced prepaid-card services. As a result, calling volumes declined at a mid single-digit percentage rate in 2000. AT&T expects competition and product substitution to continue to negatively impact Consumer Services revenue.

In August 1999, AT&T introduced AT&T One Rate, which allows customers to make long distance calls, 24 hours a day, seven days a week, for the same rate. These One Rate offers continue to be well received in the market with more than 12 million customers enrolled since the plan's introduction. In addition, AT&T has been successful in packaging services in the consumer market by giving customers the option of intraLATA service with its One Rate offers. More than 60% of the customers enrolled in One Rate have chosen AT&T as their intraLATA provider.

AT&T's any distance New York Local One Rate offer, which combines both local and long distance service, has experienced high customer acceptance. AT&T ended the year with nearly 760,000 customers under this plan.

In 1999, Consumer Services revenue decreased $1.0 billion, or 4.4%, on a mid single-digit percentage decline in volumes. The 1999 decline reflects the ongoing competitive nature of the consumer long distance industry, as well as product substitution and market migration away from direct dial and higher-priced calling-card services to rapidly growing wireless services and lower-priced prepaid-card services.

EBIT/EBITDA

EBIT declined $0.7 billion, or 9.5%, and EBITDA declined $0.7 billion, or 9.5%, in 2000 compared with 1999. The declines in EBIT and EBITDA primarily reflect the decline in the long distance business, offset somewhat by cost-control initiatives. In addition, the declines reflect $0.2 billion of lower gains on sales of businesses, primarily the 1999 sale of Language Line Services, and higher restructuring charges. Reflecting AT&T's cost-control initiatives, EBIT and EBITDA margins in 2000 improved to 36.5% and 37.4%, respectively, compared with 35.0% and 35.9%, respectively, in 1999.

EBIT grew $1.3 billion, or 21.1%, and EBITDA grew $1.4 billion, or 21.8%, in 1999. The EBIT margin improved to 35.0% in 1999 (excluding the gain on the sale of Language Line Services, the 1999 EBIT margin was 34.3%) from 27.6% in the prior year. The EBIT and EBITDA growth for 1999 reflects ongoing cost-reduction efforts, particularly in marketing spending, as well as lower negotiated international settlement rates.

OTHER ITEMS

Capital additions decreased $0.2 billion, or 50.6%, in 2000 as a result of a planned reduction in spending on the voice network and reduced spending on internal-use software as most of the functionality upgrades were completed in 1999. In 1999, capital additions increased $0.2 billion, or 201.9%, primarily due to increased spending on internal-use software to add more functionality to AT&T's services and in support of AT&T WorldNet Services subscriber growth.

Total assets declined $0.6 billion, or 16.7%, during 2000. The decline was primarily due to assets transferred to Concert during 2000, as well as lower accounts receivable, reflecting lower revenue.

BROADBAND

	FOR THE YEARS ENDED DECEMBER 31,	
	2000	1999
	(DOLLARS IN MILLIONS)	
Revenue	$ 8,226	$ 5,070
EBIT	(1,240)	(1,545)
EBITDA*	1,639	733
Capital additions	4,968	4,759

	AT DECEMBER 31,	
	2000	1999
Total assets	$114,848	$53,810

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* EBITDA for Broadband excludes net losses from equity investments and other income.

Results of operations for the year ended December 31, 2000, include the results of MediaOne since its acquisition on June 15, 2000, while the year ended December 31, 1999, does not include any results of MediaOne. Additionally, the results of operations for the year ended December 31, 1999, include 10 months of TCI's results, reflecting its acquisition in March 1999, while 2000 includes a full 12 months of TCI's results.

REVENUE

Broadband revenue grew $3.2 billion in 2000, or 62.3%, compared with 1999. Approximately $2.8 billion of the increase in revenue was due to the acquisition of MediaOne in 2000 and TCI in 1999. In addition, revenue from new services (digital video, high-speed data, and broadband telephony) and a basic-cable rate increase contributed approximately $0.4 billion to the revenue increase.

At December 31, 2000, Broadband serviced approximately 16.0 million basic-cable customers, passing approximately 28.3 million homes, compared with 11.4 million basic-cable customers, passing approximately 19.7 million homes at December 31, 1999. The increase reflects the acquisition of MediaOne. At December 31, 2000, Broadband provided digital video service to approximately 2.8 million customers, high-speed data service to approximately 1.1 million customers, and broadband telephony service to approximately 547,000 customers. This compares with approximately 1.8 million digital-video customers, approximately 207,000 high-speed data customers, and nearly 8,300 broadband telephony customers at the end of 1999.

EBIT/EBITDA

EBIT in 2000 was a deficit of $1.2 billion, an improvement of $0.3 billion, or 19.7%. This improvement was due to approximately $0.5 billion of higher gains on sales of businesses and investments, primarily gains on the swap of cable properties with Cox and Comcast and the sale of AT&T's investment in Lenfest, and $0.4 billion lower restructuring charges primarily associated with an in-process research and development charge recorded in connection with the 1999 acquisition of TCI. Also contributing to the improvement were lower pretax losses from equity investments of $0.5 billion, due in part to a $0.3 billion improvement from AT&T's investment in Cablevision due to gains from cable-system sales. These improvements were largely offset by the impact of the acquisition of MediaOne as well as TCI of approximately $0.5 billion and higher expenses associated with high-speed data and broadband telephony services of approximately $0.4 billion.

EBITDA, which excludes net losses from equity investments and other income, was $1.6 billion in 2000, an improvement of $0.9 billion compared with 1999. This improvement was due to the impact of the MediaOne and TCI acquisitions of $0.7 billion and lower restructuring charges of $0.4 billion. Higher expenses associated with high-speed data and broadband telephony of approximately $0.2 billion offset these increases.

OTHER ITEMS

Capital additions increased 4.4% to approximately $5.0 billion in 2000, from $4.8 billion in 1999. The increase was due to higher capital expenditures of $0.8 billion primarily due to MediaOne, which was almost entirely offset by decreased contributions to various nonconsolidated investments of $0.7 billion. In 1999, spending was largely directed toward cable-distribution systems, focusing on the upgrade of cable plant-assets, as well as equity infusions into various investments.

Total assets at December 31, 2000, were $114.8 billion compared with $53.8

billion at December 31, 1999. The increase in total assets was primarily due to the MediaOne acquisition and an increase in property, plant and equipment as a result of capital expenditures, net of depreciation expense. These increases were partially offset by a decrease in the mark-to-market valuation of certain investments.

CORPORATE AND OTHER

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Revenue	$ (487)	$(542)	$ (303)
EBIT	(3,279)	(441)	(2,040)
EBITDA	(2,382)	37	(1,938)
Capital additions	1,683	271	310

	AT DECEMBER 31,	
	2000	1999
Total assets	$12,101	$12,069

REVENUE

Revenue for corporate and other primarily includes the elimination of intercompany revenue of negative $0.8 billion (an increase of $0.1 billion from 1999)and revenue from Excite@Home of $0.2 billion (which was consolidated beginning on September 1, 2000).

For 1999, revenue decreased $0.2 billion, or 78.6%. The decline was driven by an increase in the elimination of intercompany revenue and the sale of AT&T Solutions Customer Care (ASCC) in 1998.

EBIT/EBITDA

EBIT and EBITDA deficits in 2000 increased $2.8 billion and $2.4 billion to $3.3 billion and $2.4 billion, respectively. The increases in the deficits were largely related to Excite@Home. In 2000, restructuring and other charges, net of minority interest, were $2.9 billion higher primarily due to goodwill impairment charges recorded by Excite@Home and AT&T related to Excite@Home. Other impacts included a charge of approximately $0.5 billion for the fair market value increase of put options held by Comcast and Cox related to Excite@Home, and operating losses from Excite@Home. Partially offsetting these declines were an increase in the pension credit due to a higher pension trust asset base resulting from increased investment returns, and lower expenses associated with AT&T's continued efforts to reduce costs, which aggregated approximately $0.6 billion. In addition, higher net gains on sales of investments and an increase in interest income increased EBIT and EBITDA by approximately $0.6 billion.

In 1999, EBIT and EBITDA improved $1.6 billion and $2.0 billion to a deficit of $0.4 billion and earnings of $37 million, respectively. The improvements were driven by $2.4 billion of lower net restructuring and other charges in 1999 compared with 1998, partially offset by higher net losses from other equity investments, lower gains on the sales of businesses and lower interest income, which negatively impacted EBIT and EBITDA by $0.6 billion. Additionally, EBIT was impacted by dividends on trust preferred securities. In 1998, AT&T recorded a gain on the sale of ASCC.

OTHER ITEMS

Capital additions increased $1.4 billion in 2000. The increase was driven by AT&T's investment in 2000 in Net2Phone, Inc. (Net2Phone). 1999 Capital additions were essentially flat when compared to 1998.

Total assets were consistent at December 31, 2000 and December 31, 1999.

LIBERTY MEDIA GROUP

Earnings from LMG were $1.5 billion in 2000 compared with losses of $2.0 billion from the date of acquisition through December 31, 1999. The increase was primarily due to gains on dispositions, including gains associated with the mergers of various companies that LMG had investments in. Gains were recorded for the difference between the carrying value of LMG's interest in the acquired company and the fair value of securities received in the merger. In addition, lower stock compensation expense in 2000 compared with 1999 contributed to the increase. These were partially offset by impairment charges recorded on LMG's investments to reflect other than temporary declines in value and higher losses relating to LMG's equity affiliates.

LIQUIDITY

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	(DOLLARS IN MILLIONS)	
CASH FLOWS:		
Provided by operating activities........................	$6,741	$ 8,114
Used in investing activities............................	(35)	(26,436)
Provided by financing activities........................	(7,432)	23,301
Provided by (used in) discontinued operations............	4,860	(5,686)

Net cash provided by operating activities of $6.7 billion for the nine months ended September 30, 2001 was primarily due to the loss from continuing operations, excluding non-cash income items and the adjustment for net gains on sales of businesses and investments, of $8.7 billion, partially offset by net changes in other operating assets and liabilities of $1.1 billion and a decrease in accounts payable of $0.8 billion. Net cash provided by operating activities of $8.1 billion for the nine months ended

September 30, 2000 was primarily due to income from continuing operations, excluding non-cash income items and the adjustment for net gains on sales of businesses and investments, of $11.6 billion, partially offset by an increase in accounts receivable of $2.1 billion and a decrease in accounts payable of $1.4 billion.

AT&T's investing activities resulted in a net use of cash of $35 million for the nine months ended September 30, 2001, compared with $26.4 billion for the comparable period in 2000. For the nine months ended September 30, 2001, AT&T spent $6.5 billion on capital expenditures and received approximately $4.8 billion, primarily from the net dispositions of cable systems, and approximately $1.8 billion from the sale of investments. For the nine months ended September 30, 2000, AT&T spent approximately $16.6 billion for acquisitions of businesses, primarily MediaOne, $7.8 billion on capital expenditures, $2.4 billion for non-consolidated investments, including Net2Phone and infusions into existing cable investments, and loaned $1.0 billion to Concert. In addition, AT&T received approximately $0.8 billion primarily from the sale of investments.

For the nine months ended September 30, 2001, net cash used in financing activities was $7.4 billion, compared with net cash provided by financing activities of $23.3 billion for the nine months ended September 30, 2000. During the nine months ended September 30, 2001, AT&T made net payments of $11.0 billion to reduce debt, paid AT&T Wireless $5.8 billion to settle an intercompany loan in conjunction with its split-off from AT&T and paid dividends of $0.4 billion. In addition, AT&T received $9.8 billion from the issuance of convertible preferred stock to NTT DoCoMo. During the nine months ended September 30, 2000, AT&T received $16.1 billion from the net issuance of debt and $10.3 billion from the AT&T Wireless tracking stock offering. In addition, AT&T paid dividends of $2.2 billion and $0.6 billion for net acquisitions of treasury shares and redeemed securities for $0.2 billion.

For the nine months ended September 30, 2001, net cash provided by discontinued operations was $4.9 billion, compared with a net use of cash of $5.7 billion during the nine months ended September 30, 2000. During the nine months ended September 30, 2001, AT&T Wireless issued $6.5 billion of bonds, partially offset by spending of $2.3 billion on capital expenditures, and was split-off from AT&T on July 9, 2001. For the nine months ended September 30, 2000, AT&T Wireless made net expenditures of $3.2 billion to acquire businesses and spent $3.0 billion on capital expenditures.

At September 30, 2001, AT&T had current assets of $16.5 billion and current liabilities of $32.0 billion. The current assets were primarily comprised of trade and other receivables of $10.0 billion and cash of $4.2 billion. A significant portion of the current liabilities, $18.4 billion, related to short-term notes, the majority of which were commercial paper or debt with an original maturity of one year or less.

AT&T expects that it will retire a portion of the short-term debt with other financing arrangements, including the monetization of publicly-held securities and sales of certain non-strategic assets and investments.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
CASH FLOWS:			
Provided by operating activities of continuing operations	$11,665	$10,509	$ 9,944
(Used in) provided by investing activities of continuing operations	(30,045)	(23,884)	4,135
Provided by (used in) financing activities of continuing			

operations..	25,732	13,854	(11,051)
Used in discontinued operations..........................	(8,306)	(2,594)	(207)

In 2000, net cash provided by operating activities of continuing operations increased $1.2 billion. The increase was primarily driven by increased other assets and liabilities and an increase in net income excluding the noncash impact of depreciation and amortization, net restructuring and other charges, minority interest income (expense) and the impact of earnings and losses from equity investments, and increased gains on sales of businesses and investments, partially offset by decreased accounts payable. In 1999, net cash provided by operating activities of continuing operations increased $0.6 billion, primarily

due to an increase in net income excluding the noncash impact of depreciation and amortization, net restructuring and other charges and the impact of earnings and losses from equity investments, mostly offset by decreased other assets and liabilities and increased accounts receivable, due primarily to higher revenue, and an increase in tax payments from the gain on the 1998 sale of UCS.

AT&T's investing activities resulted in a net use of cash of $30.0 billion in 2000, compared with a net use of cash of $23.9 billion in 1999. During 2000, AT&T used approximately $16.7 billion for acquisitions of businesses, primarily MediaOne, and spent $11.5 billion on capital expenditures. During 1999, AT&T spent approximately $11.9 billion on capital expenditures, approximately $6.0 billion on acquisitions of businesses, primarily AGNS, and contributed $5.5 billion of cash to LMG. During 1998, AT&T received $10.6 billion related to the sales of businesses, including receivables from UCS, partially offset by capital expenditures of $6.8 billion.

During 2000, net cash provided by financing activities was $25.7 billion, compared with $13.9 billion in 1999. In 2000, AT&T received $10.3 billion from the AT&T Wireless Group tracking stock offering and borrowed an additional $17.0 billion of short-term debt and $2.5 billion of net long-term debt. These were partially offset by the payment of $3.0 billion in dividends. In 1999, AT&T received $10.2 billion from the issuance of commercial paper and short-term debt, $6.1 billion from the net issuance of long-term debt and $4.6 billion from the issuance of redeemable preferred securities. These sources of cash were partially offset by the acquisition of treasury shares of $4.6 billion and the payment of dividends of $2.7 billion. Cash used in financing activities in 1998 primarily related to repayment of long-term and short-term debt, the acquisition of treasury shares and dividends paid on common stock.

At December 31, 2000, AT&T had current assets of $14.7 billion and current liabilities of $48.0 billion. A significant portion of the current liabilities, $31.8 billion, relates to short-term notes, the majority of which were commercial paper or debt with an original maturity of one year or less. AT&T expects that it will retire a portion of the short-term debt with other financing arrangements, including the monetization of publicly-held securities, sales of certain non-strategic assets and investments, and securitization of certain accounts receivable. At December 31, 2000, AT&T had a current liability of $2.6 billion, reflecting AT&T's obligation under put options held by Comcast and Cox. In January 2001, Comcast and Cox exercised their rights under the put options and elected to receive AT&T stock in lieu of cash.

On February 28, 2001, AT&T exercised its registration rights in TWE and formally requested TWE to begin the process of converting the limited partnership into a corporation with registered equity securities. On May 14, 2001, AT&T named Credit Suisse First Boston as its investment banker for the registration process under the TWE partnership agreement.

In October 2001, AT&T sold 19.2 million shares of Cablevision NY Group Class A common stock and, through a trust, 26.9 million shares of a mandatorily exchangeable trust security that will be exchangeable into up to 26.9 million shares of Cablevision NY Group Class A common stock at maturity in three years. The offering generated approximately $1.4 billion of pretax net proceeds.

In connection with the split-off of AT&T Wireless on July 9, 2001, AT&T retained approximately 185 million shares of AT&T Wireless Services valued at approximately $3.0 billion and immediately exchanged $1.6 billion of those shares to retire debt. In October of 2001, AT&T monetized a portion of its remaining interest in AT&T Wireless and received approximately $600 million in proceeds.

Since the announced restructuring plans to create four new businesses, AT&T's debt ratings have been under review by the applicable rating agencies. As a result of this review, AT&T's long-term and short-term ratings have been downgraded and the long-term ratings put on credit watch with a negative outlook. These actions will result in an increased cost of future borrowings and will limit AT&T's access to the capital markets.

AT&T is pursuing various measures to reduce its debt level. However, there can be no assurance that AT&T will be able to obtain financing on terms that are acceptable to it. If these efforts cannot be completed successfully or on terms and within the timeframe contemplated, AT&T's financial condition

would be materially adversely affected. Some of these adverse conditions include AT&T's ability to pursue acquisitions or make capital expenditures to expand its network and cable plant, or pay dividends.

On December 28, 2000, AT&T entered into a 364-day, $25 billion revolving-credit facility syndicated to 39 banks which has subsequently been reduced to $14.3 billion as a result of the NTT DoCoMo investment, the AT&T Wireless bond offering, the sale of Japan Telecom and the sale of various cable-systems and the sale of Cablevision common stock. At September 30, 2001, the revolving-credit facility was unused.

On October 31, 2001, AT&T's Board of Directors approved the sale of senior notes for private placement, the proceeds of which will be utilized to retire short-term indebtedness and for general corporate purposes.

Also in connection with AT&T's restructuring, it has reviewed its dividend policy as it relates to each of the new businesses. On December 20, 2000, AT&T announced that the board of directors reduced AT&T's quarterly dividend to $0.0375 per share, from $0.22 per share.

AT&T's board of directors has the power to make determinations that may impact the financial and liquidity position of each of the tracking stock groups. This power includes the ability to set priorities for use of capital and debt capacity, to determine cash management policies and to make decisions regarding whether to make capital expenditures and as to the timing and amount of any capital expenditures. All actions by the board of directors are subject to the board members' fiduciary duties to all shareholders of AT&T as a group and not just to holders of a particular class of tracking stock and to AT&T's policy statements, by-laws and inter-company agreements. As a result of this discretion of AT&T's board of directors, it may be difficult for investors to assess each group's liquidity and capital resource needs and in turn the future prospects of each group based on past performance.

FINANCIAL CONDITION

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	(DOLLARS IN MILLIONS)	
Total assets	$160,049	$234,360
Total liabilities	99,511	121,611
Total shareowners' equity	52,198	103,198

Total assets decreased $74.3 billion, or 31.7%, to $160.0 billion at September 30, 2001 from $234.4 billion at December 31, 2000. This decrease was primarily due to the split-off of Liberty Media Group in August 2001 and AT&T Wireless in July 2001. In addition, the decrease was due to lower investments and related advances resulting from the write-down of Concert and Net2Phone, and unfavorable mark-to-market adjustments on certain investments as well as the sale of other investments; lower franchise costs as a result of the net disposition of cable systems and amortization; lower investments from the exchange of AT&T's investment in Vodaphone for the settlement of debt. Partially offsetting these decreases was a higher cash balance.

Total liabilities decreased $22.1 billion, or 18.2%, to $99.5 billion at September 30, 2001 from $121.6 billion at December 31, 2000. This decrease was primarily a result of the repayment of debt, a reduction in deferred income taxes, primarily resulting from deferred tax assets from the write-down of Concert and Net2Phone and the recording of AT&T's obligation to purchase all of the outstanding shares of AT&T Canada, as well as the deconsolidation of Excite@Home. Partially offsetting this decrease was an increase in other long-term liabilities and deferred credits primarily associated with AT&T's obligation to purchase all of the outstanding shares of AT&T Canada.

Minority interest decreased $1.2 billion, or 25.2%, to $3.6 billion at September 30, 2001 from $4.8 billion at December 31, 2000. This decrease was primarily due to Excite@Home.

Total Shareowners' Equity decreased $51.0 billion, or 49.4%, to $52.2 billion at September 30, 2001 from $103.2 billion at December 31, 2000. This decrease is primarily due to the split-off of Liberty Media Group, the impacts of the split-off of AT&T Wireless and net losses from continuing operations. The decrease was partially offset by the issuance of stock to settle the Excite@Home put obligation with Cox and Comcast. In September 2001, when AT&T declared its quarterly dividend to the AT&T Common Stock Group shareowners of $133 million, the company was in an accumulated deficit position primarily as a result of the split-off of AT&T Wireless. As a result, the company reduced additional paid-in capital for the entire amount of the dividend declared.

Net debt-to-annualized EBITDA for AT&T's continuing operations was 6.25x at September 30, 2001 as compared with 3.80x at December 31, 2000, reflecting lower EBITDA partially offset by lower debt, primarily the result of the company's debt reduction efforts.

The debt ratio for AT&T's continuing operations (debt of continuing operations divided by total debt of continuing operations and equity excluding discontinued operations) was 45.1% at September 30, 2001 as compared with 57.2% at December 31, 2000. For purposes of this calculation, equity includes the convertible quarterly trust preferred securities and redeemable preferred stock of subsidiary and excludes the equity of discontinued operations at December 31, 2000. This decrease was primarily driven by the repayment of debt as well as increased equity.

In addition, included in debt of continuing operations are approximately $5.8 billion of notes, which are exchangeable into or collateralized by securities AT&T owns. Excluding this debt, the debt ratio for AT&T's continuing operations at September 30, 2001 was 42.0%.

	AT DECEMBER 31	
	2000	1999
	(DOLLARS IN MILLIONS)	
Total assets	$234,360	$163,457
Total liabilities	121,611	77,458
Total shareowners' equity	103,198	78,927

Total assets increased $70.9 billion, or 43.4%, at December 31, 2000, primarily due to the impact of the MediaOne acquisition, which resulted in increased goodwill, franchise costs, other investments including TWE and Vodafone Group plc; and the addition of property, plant and equipment. Property, plant and equipment also increased due to capital expenditures made during the year, net of depreciation expense and equipment contributed to Concert. This equipment contribution, as well as a $1.0 billion loan to Concert, and AT&T's investment in Net2Phone are reflected as an increase to other investments. Additionally, other receivables increased due to Concert.

Total liabilities at December 31, 2000, increased $44.2 billion, or 57.0%, primarily due to the impact of the MediaOne acquisition, including debt of MediaOne and borrowings to fund the acquisition, as well as the consolidation of Excite@Home. In addition, total debt increased due to the monetization of AT&T's investments in Microsoft Corporation and Comcast.

Minority interest increased $2.5 billion to $4.9 billion, primarily reflecting the minority interest of AT&T's ownership of Excite@Home resulting from the consolidation of Excite@Home beginning September 1, 2000, and the preferred stock outstanding of a MediaOne subsidiary.

Total shareowners' equity was $103.2 billion at December 31, 2000, an increase of 30.8% from December 31, 1999. This increase was primarily due to the issuance of AT&T common stock for the MediaOne acquisition as well as the issuance of AT&T Wireless Group tracking stock.

The ratio of total debt to total capital for AT&T's continuing operations, excluding LMG (debt of continuing operations divided by total debt of continuing operations and equity excluding discontinued operations and LMG) was 57.2% at December 31, 2000, compared with 54.3% at December 31, 1999. The equity portion of this calculation includes convertible trust preferred securities, as well as subsidiary redeemable preferred stock and excludes the equity of discontinued operations and LMG. The increase

was primarily driven by higher debt associated with the MediaOne merger, largely offset by a higher equity base associated with the MediaOne merger and the AT&T

Wireless Group tracking stock offering. The ratio of debt (net of cash) to EBITDA was 3.80X at December 31, 2000, compared with 1.96X at December 31, 1999, reflecting additional debt associated with the MediaOne merger. Included in debt was approximately $8.7 billion of notes, which are exchangeable into or collateralized by securities AT&T owns. Excluding this debt, the ratio of net-debt-to-EBITDA at December 31, 2000, was 3.29X.

RISK MANAGEMENT

AT&T is exposed to market risk from changes in interest and foreign exchange rates, as well as changes in equity prices associated with affiliate companies. In addition, AT&T is exposed to market risk from fluctuations in the prices of securities which AT&T monetized through the issuance of debt. On a limited basis, AT&T uses certain derivative financial instruments, including interest rate swaps, options, forwards, equity hedges and other derivative contracts, to manage these risks. AT&T does not use financial instruments for trading or speculative purposes. All financial instruments are used in accordance with board-approved policies.

AT&T uses interest rate swaps to manage the impact of interest rate changes on earnings and cash flows and also to lower its overall borrowing costs. AT&T monitors its interest rate risk on the basis of changes in fair value. Assuming a 10% downward shift in interest rates at September 30, 2001, the fair value of unhedged debt would have decreased by approximately $1.4 billion. Assuming a 10% downward shift in interest rates, the fair value of interest rate swaps and the underlying hedged debt would have changed by $10 million and $3 million at December 31, 2000 and 1999, respectively. In 2000, AT&T entered into a combined interest rate, forward contract to hedge foreign-currency-denominated debt. Assuming a 10% downward shift in both interest rates and the foreign currency, the fair value of the contract and the underlying hedged debt would have changed by $88 million. In addition, certain debt is indexed to the market prices of securities AT&T owns. Changes in the market prices of these securities result in changes in the fair value of this debt. Assuming a 10% downward change in the market price of these securities, the fair value of the underlying debt and securities would have decreased by $534 million at December 31, 2000. Assuming a 10% downward shift in interest rates at December 31, 2000 and 1999, the fair value of unhedged debt would have increased by $1.2 billion and $938 million, respectively.

AT&T uses forward and option contracts to reduce its exposure to the risk of adverse changes in currency exchange rates. AT&T is subject to foreign exchange risk for foreign-currency-denominated transactions, such as debt issued. In addition, in 1999 AT&T was subject to foreign exchange risk related to reimbursements to foreign telephone companies for their portion of the revenue billed by AT&T for calls placed in the United States to a foreign country. AT&T monitors its foreign exchange rate risk on the basis of changes in fair value. Assuming a 10% appreciation in the U.S. dollar at December 31, 2000 and 1999, the fair value of these contracts would have resulted in additional unrealized losses of $6 million and $29 million, respectively. Because these contracts are entered into for hedging purposes, AT&T believes that these losses would be largely offset by gains on the underlying firmly committed or anticipated transactions.

AT&T uses equity hedges to manage its exposure to changes in equity prices associated with stock appreciation rights (SARs) of affiliated companies. Assuming a 10% decrease in equity prices of affiliated companies, the fair value of the equity hedges would have decreased by $29 million and $81 million at December 31, 2000 and 1999, respectively. Because these contracts are entered into for hedging purposes, AT&T believes that the decrease in fair value would be largely offset by gains on the underlying transaction.

In order to determine the changes in fair value of AT&T's various financial instruments, AT&T uses certain modeling techniques, namely Black-Scholes, for its SARs and equity collars. AT&T applies rate sensitivity changes directly to its interest rate swap transactions and forward rate sensitivity to its foreign currency forward contracts.

The changes in fair value, as discussed above, assume the occurrence of certain adverse market conditions. They do not consider the potential effect of favorable changes in market factors and do not represent projected losses in fair value that AT&T expects to incur. Future impacts would be based on actual developments in global financial markets. AT&T does not foresee any significant changes in the strategies used to manage interest rate risk, foreign currency rate risk or equity price risk in the near future.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," which supercedes Accounting Principles Board (APB) Opinion No. 16. SFAS No. 141 requires all business combinations initiated after June 30, 2001 be accounted for under the purchase method. In addition, SFAS No. 141 establishes criteria for the recognition of intangible assets separately from goodwill. These requirements are effective for fiscal years beginning after December 15, 2001, which for AT&T means January 1, 2002. AT&T does not expect that the adoption of SFAS No. 141 will have a material effect on AT&T's results of operations, financial position or cash flows.

Also in June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which supercedes APB Opinion No. 17. Under SFAS No. 142, goodwill and indefinite lived intangible assets will no longer be amortized, but rather will be tested for impairment upon adoption and at least annually thereafter. In addition, the amortization period of intangible assets with finite lives will no longer be limited to 40 years. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, which for AT&T means the standard will be adopted on January 1, 2002. In connection with the adoption of this standard, AT&T's unamortized goodwill balance will no longer be amortized, but will continue to be tested for impairment. Therefore, AT&T expects that this standard will have a significant impact on AT&T's future operating results. AT&T is assessing the impact of the standard on other indefinite lived assets and the total impact, including adoption impairment impacts, if any, of such standard on AT&T's results of operations.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard requires that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. Upon initially recognizing a liability for an asset retirement obligation, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. Over time, this liability is accreted to its present value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002, which for AT&T means the standard will be adopted on January 1, 2003. AT&T does not expect that the adoption of this statement will have a material impact on AT&T's results of operations, financial position or cash flows.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to

Be Disposed Of." SFAS No. 144 applies to all long-lived assets, including discontinued operations, and consequently amends APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Based on SFAS No. 121, SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale, as well as addresses the principal implementation issues. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, which for AT&T means the standard will be adopted

on January 1, 2002. AT&T does not expect that the adoption of SFAS No. 144 will have a material impact on AT&T's results of operations, financial position or cash flows.

SUBSEQUENT EVENTS

On October 23, 2001, AT&T sold approximately 19.2 million shares of Cablevision NY Group Class A common stock and, through a trust, 23.4 million shares of a mandatorily exchangeable trust security that will be exchangeable into up to 23.4 million shares of Cablevision NY Group Class A common stock at maturity in three years. The offering price was $36.05 per share for both the common shares and the exchangeable securities. The offerings generated approximately $1.3 billion of pretax proceeds, net of underwriting fees. The sale resulted in a pretax loss of approximately $0.2 billion. In addition, the underwriters have exercised a portion of their over-allotment options, which resulted in the sale of an additional 3.5 million shares of the exchangeable securities through the trust. AT&T received additional proceeds of approximately $0.1 billion from this transaction.

In October 2001, AT&T completed the disposition of 45 million shares of AT&T Wireless generating proceeds of approximately $600 million. In December of 2001, AT&T completed the disposition of its remaining interest in AT&T Wireless through the monetization of 45.8 million AT&T Wireless shares generating proceeds of approximately $660 million.

On November 21, 2001 AT&T closed a $10.1 billion global bond offering consisting of five tranches: $1.5 billion in five-year notes; $2.75 billion in ten-year notes; $2.75 billion in 30-year notes; 1.5 billion euros of two-year notes; and 2.0 billion euros of five-year notes. The proceeds from the offering will primarily be used to retire short-term debt.

On December 14, 2001, AT&T entered into a 364-day, $8 billion syndicated revolving-credit facility.

On December 18, 2001, AT&T sold 14.7 million shares of Rainbow Media Group Class A tracking stock and 9.8 million shares of a trust security that will be exchangeable into up to 9.8 million shares of Rainbow Media Group Class A tracking stock at maturity in approximately three years. The offerings generated approximately $487 million of pretax net proceeds.

In January and February of 2002, AT&T announced that it will redeem $1,312 million of trust preferred securities in February and March of 2002. These amounts are classified as long-term debt in the accompanying consolidated balance sheets.

In January 2002, AT&T Corp. entered into a $2.6 billion five-year agreement with Accenture Ltd. for Accenture to provide management, new technology and training for AT&T Consumer Services. Under the terms of the agreement, Accenture will be responsible for providing new technology development and ongoing management direction to improve AT&T Consumer Services' customer care operations, with goals of reducing costs, raising productivity, and improving sales and customer service. AT&T Consumer Services will continue to develop and implement its overall business and marketing strategies and new product offerings.

In connection with the adoption of SFAS No. 142, AT&T believes that franchise cost represents an indefinite-lived asset as defined in SFAS No. 142. Accordingly, effective January 1, 2002, AT&T will no longer amortize franchise costs, but will test the asset for impairment. As of September 30, 2001, AT&T had franchise costs of $43.3 billion and goodwill of $24.8 billion, both of which will no longer be amortized. For the nine months ended September 30, 2001, amortization of these intangible assets was $1,636 million. In addition, AT&T had excess basis related to AT&T's equity method investment of $8.6 billion at September 30, 2001, with related amortization of $179 million for the nine months ended September 30, 2001. In accordance with this statement these costs will no longer be amortized beginning January 1, 2002. AT&T is continuing to assess the adoption impairment impacts of such standard on AT&T's results of operations.

CHAPTER SEVEN
AT&T BROADBAND GROUP

DESCRIPTION OF AT&T BROADBAND GROUP

OVERVIEW

AT&T Broadband Group is one of the nation's largest broadband communications businesses based on customers served as of September 30, 2001, providing cable television, high-speed cable Internet services and telephone services. AT&T Broadband Group's business consists primarily of the combined assets and business of TCI, acquired by AT&T on March 9, 1999, and MediaOne, acquired by AT&T on June 15, 2000. As of September 30, 2001, AT&T Broadband owned and operated cable systems in 13 of the 20 largest Designated Marketing Areas, which represented 82% of AT&T Broadband Group's total subscribers. AT&T Broadband Group's broadband networks passed approximately 24.6 million homes and served approximately 13.75 million video customers as of September 30, 2001. AT&T Broadband Group continues to upgrade its systems, 74% of which were upgraded to a capacity equal to or greater than 550 MHz and 77% of which were two-way capable as of September 30, 2001.

AT&T Broadband Group's broadband networks enable it to deliver a suite of advanced entertainment, information and communications services, including its digital cable, high-speed cable Internet and broadband telephone services. As of September 30, 2001, AT&T Broadband Group provided a variety of advanced services, including:

- digital cable, with over 3.16 million digital cable subscribers or 23.0% of AT&T Broadband Group's basic subscribers,

- high-speed cable Internet service, with approximately 1.39 million high-speed cable Internet service subscribers or 9.6% of marketable homes, and

- broadband telephone service, with approximately 924,000 local telephone subscribers or 14.8% of marketable homes.

In addition to fees from residential customers for the services AT&T Broadband Group offers, AT&T Broadband Group also derives revenues from the sale of advertising time on satellite-delivered program services, such as ESPN, MTV and CNN, and on local cable channels, as well as the payment of license and/or launch fees by certain program services.

As of September 30, 2001:

- AT&T Broadband Group had 13.75 million basic subscribers, 94% of whom were concentrated in AT&T Broadband Group's 20 largest markets,

- 40% of AT&T Broadband Group's subscribers were located in its three largest markets: Boston, San Francisco and Chicago, and

- 10.84 million, or 79% of AT&T Broadband's subscribers, were in markets where AT&T Broadband Group had more than 500,000 customers.

In addition to AT&T Broadband Group's wholly owned cable systems, AT&T Broadband Group also owns a number of investments in companies, joint ventures and partnerships, the most significant of which are:

- Time Warner Entertainment Company, L.P., which owns and operates the business of Warner Bros., Inc. and HBO and cable systems serving approximately 11 million subscribers, and manages cable systems owned by AOL Time Warner serving approximately 1.8 million subscribers;

- Insight Midwest, which owns and operates cable systems that serve approximately 1.2 million subscribers in Indiana, Kentucky, Illinois and Ohio; and

- Texas Cable Partners, which owns and operates cable systems that serve approximately 1.1 million subscribers in Texas.

AT&T Broadband Corp. is a Delaware corporation that was organized in 2001, with its principal executive offices at 188 Inverness Drive West, Englewood, CO 80112. Its telephone number is (303) 858-3000 and primary Internet site is http://www.attbroadband.com.

For financial information about AT&T Broadband Group, see "Selected Financial Information -- AT&T Broadband Group" and the combined financial statements of AT&T Broadband Group, which are included in Annex L to this document.

INDUSTRY OVERVIEW

AT&T Broadband Group operates in the communications industry, offering cable television services (both analog and digital), high-speed cable Internet services and telephone service, in each case primarily to residential and small business customers. AT&T Broadband Group also is pursuing other additional services, including video on demand and interactive television that take advantage of its broadband network.

Cable television is a service that delivers multiple channels of video and audio programming to subscribers that pay a monthly fee for the services they receive. Cable television systems receive video, audio and data signals transmitted by nearby television broadcast stations, terrestrial microwave relay services and communications satellites. These signals then are amplified and distributed by coaxial cable and optical fiber to the premises of customers that pay a fee for the service. In many cases, cable television systems also originate and distribute local programming. Cable television systems typically are constructed and operated pursuant to nonexclusive franchises awarded by local franchising authorities for specified periods of time.

Cable television systems offer varying levels of service, which may include, among other programming, local broadcast network affiliates and independent television stations, other news, information and entertainment channels, such as CNN, CNBC, ESPN and MTV, and selected premium services, such as HBO, Showtime, The Movie Channel, Starz and Cinemax.

Cable television revenues principally are derived from monthly fees paid by subscribers, sales of pay-per-view movies and events, sale or advertising time on advertiser supported programming, and installation charges.

High-speed cable Internet services deliver typical internet service provider, or ISP, services, such as e-mail, instant messaging, personal webspace management and personalized home pages, and content. In some cases, AT&T Broadband Group provides distinct localized content in addition to national content. Subscribers pay a monthly fee for the services they receive, including access to public areas on the Internet. Other revenue streams may be derived from sales of premium content and services, advertising spots, premium placement of media/service providers within the service, and installation service.

Cable telephone service is a technology that allows cable operators to offer telephone service over the same hybrid fiber/coaxial network that supplies television service. Cable telephone service systems have three basic components -- a headend unit, a customer premise unit and a management interface. Cable operators connect to the public switched telephone network through an interface on the headend unit that conforms to one of several standards. At the customer premise unit, voice transmission is separated from the coaxial drop and routed to a twisted copper pair connected to the customer's existing inside telephone wiring.

AT&T Broadband Group is in the process of developing, testing or offering on a limited basis a variety of new or expanded services, including video on demand, interactive television, targeted advertising, multiple service tiers of high-speed cable Internet service, home networking, multiple ISP offerings and a

set of communications services that are designed to work seamlessly over all television, computer and telephone platforms.

TECHNICAL OVERVIEW

As of September 30, 2001, AT&T Broadband Group's systems were comprised of approximately 250,000 miles of network passing approximately 24.6 million homes, resulting in a density of slightly less than 100 homes per mile. As of that date, AT&T Broadband Group's systems were made up of an aggregate of 41 headends in its top 20 markets. As of September 30, 2001, approximately 61% of AT&T Broadband Group's network was equal to or greater than 750 MHz, approximately 13% of its network was greater than or equal to 550 MHz and less than 750 MHz and approximately 26% of its network was less than 550 MHz.

AT&T Broadband Group's network design calls for a digital two-way active network with a fiber optic trunk system carrying signals to nodes within its customers' neighborhoods. The signals are transferred to a coaxial network at the node for delivery to its customers. AT&T Broadband Group has designed the fiber system to be capable of subdividing the nodes if traffic on the network requires additional capacity. AT&T Broadband Group's design allows its systems to have the capability to run multiple separate channel lineups from a single headend and to insert targeted advertisements into specific neighborhoods based on node location.

The following chart outlines the status of the capacities of AT&T Broadband Group's cable systems, historically and as of September 30, 2001:

	PERCENT OF NETWORK MILES			
	LESS THAN 550 MHZ	GREATER THAN OR EQUAL TO 550 MHZ AND LESS THAN 750 MHZ	750 OR GREATER MHZ	PERCENT OF NETWORK TWO-WAY CAPABLE
As of December 31, 1999..........	28%	22%	50%	55%
As of December 31, 2000..........	21%	16%	63%	75%
As of September 30, 2001.........	26%	13%	61%	77%

SERVICES

Cable Television Service. AT&T Broadband Group offer its customers a wide array of traditional cable television services and programming offerings. AT&T Broadband Group offers a basic level of service which typically includes from 15 to 25 channels of television programming. As of September 30, 2001, approximately 89% of AT&T Broadband Group's customers elected to pay an additional amount to receive additional channels under its expanded basic service, which AT&T Broadband Group calls its Standard Cable package. Premium channels, which AT&T Broadband Group offers individually or in packages of several channels, are optional add-ons to its basic service.

AT&T Broadband's cable television services include the following:

- Basic Service. All of AT&T Broadband Group's customers receive its basic level of service, which generally consists of local broadcast television and local community programming, including public, educational or governmental, or PEG, programming, and may include a limited number of satellite-delivered channels.

- Standard Cable. AT&T Broadband Group's Standard Cable package includes basic service, plus expanded basic. This level of service includes a group of satellite-delivered and non-broadcast channels such as ESPN, CNN, Discovery Channel and Lifetime.

- Premium Channels. These channels provide unedited, commercial-free movies, sports and other special event entertainment programming. AT&T Broadband Group offers subscriptions to numerous premium channels, including HBO, Cinemax, Starz!, Showtime and The Movie Channel, individually or in packages.

- Pay-Per-View. These channels allow customers with addressable set-top boxes to pay to view a single showing of a recently released movie or a one-time special sporting event or music concert on an unedited, commercial-free basis.

Through AT&T Digital Cable, AT&T Broadband Group also offers additional special interest networks, premium channels, pay-per-view, digital music and an interactive on-screen guide, as described under "-- Advanced Services."

AT&T Broadband Group's service basic subscribers, including its digital cable customers, are served as follows:

	DECEMBER 31,			SEPTEMBER 30,
	1998	1999	2000	2001
	(IN MILLIONS)			
Managed through AT&T Broadband Group's operating divisions	11.4	11.3	15.9	13.65
Other non-managed subsidiaries of AT&T Broadband Group	0.5	0.1	0.1	0.1
Total	11.9	11.4	16.0	13.75

In addition to the above, the FCC currently attributes AT&T Broadband Group with the subscribers of various other entities as a consequence of AT&T Broadband Group's investments in those entities.

The following table sets forth selected statistical data regarding AT&T Broadband Group's cable television operations:

	DECEMBER 31,		SEPTEMBER 30,	
	1998	1999	2000	2001
Homes passed by cable(1)(3)	19,889,000	19,668,000	28,031,000	24,623,000
Basic service subscribers(3)	11,948,000	11,408,000	16,090,000	13,750,000
Basic service subscribers as a percentage of homes passed	59%	57%	58%	56%
Average monthly revenue per basic service subscriber(2)(3)	$ 32.24	$ 42.97	$ 46.28	$ 48.71

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(1) Homes passed is based on homes actually marketed and does not include multiple dwelling units passed by the cable plant that are not connected to it.

(2) Based on video service revenues for the last month of the period, including installation charges and certain other nonrecurring revenues, such as pay-per-view, advertising and home shopping revenues.

(3) Year-end statistics regarding AT&T Broadband Group's subscribers and homes passed by cable are materially affected by AT&T Broadband Group's acquisition and divestiture program discussed under "-- Acquisitions and Divestitures." Notable variations arose during 1998, when AT&T Broadband Group contributed cable systems serving approximately 2,700,000 customers to

other persons, and during 2000, when AT&T Broadband Group acquired approximately 5,000,000 customers from MediaOne.

Advanced Services. As network upgrades are activated, AT&T Broadband Group offers new and advanced services, including interactive digital cable and high-speed cable Internet service. In addition, AT&T Broadband Group offers all-distance telephone services in selected markets.

Digital Cable. AT&T Broadband Group offers digital cable service, which includes additional channels on its existing service tiers, the creation of new service tiers and the introduction of multiple packages of premium services. AT&T Broadband Group's digital cable service also includes an electronic program guide, on demand pay-per-view and up to 30 channels of digital music. In addition, AT&T Broadband Group offers more premium and special interest networks. AT&T Broadband Group's

interactive digital cable service also allows it to offer TV-formatted information to its customers that has local content and is targeted to a specific system or community. For example, through this service AT&T Broadband Group offers local weather, sports, news and dining information.

Below is a summary of operating statistics for digital cable services:

	DECEMBER 31,		SEPTEMBER 30,
	1999	2000	2001
Digital cable customers	1,800,000	2,815,000	3,165,000
Digital penetration as a percentage of basic service subscribers	15.8%	17.5%	23.0%

AT&T Broadband Group offers its customers four digital packages -- Bronze, Silver, Gold and Platinum. These packages allow viewers to select the level of services they receive to fit their individual interests.

High-Speed Cable Internet. AT&T Broadband Group offers high-speed cable Internet service for personal computers over its networks in all of its upgraded systems.

Below is a summary of AT&T Broadband Group's high-speed cable Internet service operating statistics:

	DECEMBER 31,		SEPTEMBER 30,
	1999	2000	2001
Data marketable homes passed	4,974,000	14,523,000	14,482,000
Customers	207,000	1,060,000	1,387,000
Penetration	4.2%	7.3%	9.6%

AT&T Broadband Group's high-speed cable Internet service enables data to be transmitted substantially faster than through conventional telephone modem technologies, and the cable connection does not interfere with normal telephone activity or usage. AT&T Broadband Group's high-speed cable Internet service offers unlimited access to public areas on the Internet.

Until recently, AT&T Broadband Group and At Home Corporation were parties to a master distribution agreement pursuant to which At Home provided AT&T Broadband Group with broadband network services and content aggregation necessary for the delivery of high-speed cable Internet services to AT&T Broadband Group's customers. On September 28, 2001, At Home and its U.S. subsidiaries filed for protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of California. On November 30, 2001, the bankruptcy court granted a motion made by At Home for authority to reject the master distribution agreement and other similar agreements with other customers of At Home, thereby giving At Home the authority to terminate service to AT&T Broadband Group and other customers at any time. As a result, on December 1, 2001, At Home terminated service to AT&T Broadband Group and, in response, AT&T Broadband Group converted the majority of its customers to a new AT&T-managed network during the first week of December. AT&T Broadband Group currently provides "AT&T Broadband Internet" branded high speed cable Internet service to its customers pursuant to an agreement with AT&T to provide certain network and backbone support services to AT&T Broadband Group.

Broadband Telephone Service. AT&T Broadband Group currently offers broadband telephone services to customers in 16 markets using AT&T Broadband Group's systems' direct, two-way connections to homes. AT&T Broadband Group utilizes its broadband network to provide local telephone services and resell AT&T long distance services.

Below is a summary of AT&T Broadband Group's operating statistics for broadband telephone services:

	DECEMBER 31, 1999	DECEMBER 31, 2000	SEPTEMBER 30, 2001
Telephone-ready homes passed......................	721,000	6,103,000	6,258,000
Customers...	8,000	547,000	924,000
Penetration.......................................	1.1%	9.0%	14.8%

AT&T Broadband Group's broadband telephone service initiatives progressed substantially in 2000. During 2000, AT&T Broadband Group increased the number of markets in which it offers telephone service from ten to 16, and increased its customer base from 8,000 to 547,000. As of September 30, 2001, AT&T Broadband Group offered broadband telephone services in: Atlanta, Boston, the San Francisco Bay Area, Chicago, Dallas, Denver, Hartford, Jacksonville, Twin Cities, Pittsburgh, Richmond, Seattle, Salt Lake City, St. Louis, Southern California and Portland, Oregon. AT&T Broadband Group offers a variety of options and calling plans with various price points. These options and calling plans range from basic one line service to multiple lines with full feature functionality.

Advertising. AT&T Broadband Group sells advertising time on satellite-delivered program services such as CNN, Discovery, ESPN and Lifetime, and on local channels. In addition to the sale of advertising time to local and regional advertisers, AT&T Broadband Group participates in the national spot advertising marketplace through its sales representation arrangement with and investment in National Cable Communications, LLC, a partnership that represents cable systems in the sale of time to national spot advertisers.

STRATEGY

AT&T Broadband Group's strategy is to utilize the technological capabilities of its broadband cable systems to be a full-service provider of entertainment, information and communications services in the markets it serves. To implement this strategy, AT&T Broadband Group continues to upgrade its cable systems to allow it to deliver more information and entertainment services and to provide for two-way communications capability. Continuing the upgrade of its cable systems is expected to enhance AT&T Broadband Group's ability to increase penetration of advanced services, including digital cable, high-speed cable Internet service and all-distance telephone service. Providing quality customer service also is a key element of AT&T Broadband Group's strategy. Throughout its operations, AT&T Broadband Group focuses on achieving reliable customer service with financial results comparable to the overall cable industry.

ACQUISITIONS AND DIVESTITURES

AT&T Broadband Group has sought to improve the geographic footprint of its cable systems by selectively exchanging its cable systems for systems of other cable operators or acquiring systems in close proximity to its systems. In this regard, AT&T Broadband Group completed a significant number of transactions in 2000 and the first nine months of 2001 that substantially changed the size and profile of its cable system network, and had signed agreements as of September 30, 2001 for additional system sales. The principal transactions are described below:

- In January 2000, a subsidiary of AT&T Broadband Group sold its entire 50% interest in Lenfest to a subsidiary of Comcast. In consideration for its 50% interest, AT&T Broadband Group received 47,289,843 shares of Comcast Special Class A common stock.

- In February 2000, AT&T Broadband Group redeemed a portion of its interest in Bresnan Communications Group LLC for $285 million in cash. AT&T Broadband Group then contributed its remaining interest in Bresnan to CC VIII, LLC, in exchange for a preferred ownership interest.

- In March 2000, AT&T Broadband Group redeemed approximately 50.3 million shares of AT&T common stock held by Cox in exchange for stock of a subsidiary of AT&T Broadband Group owning cable television systems serving approximately 312,000 customers, AT&T Broadband Group's interest of $1,088 million in certain investments, $878 million of franchise costs and $503 million of other net assets.

- In April 2000, AT&T Broadband Group contributed 103,000 subscribers into a joint venture with Midcontinent Media, Inc. in exchange for a 50% interest in Midcontinent Communications, a general partnership.

- In June 2000, MediaOne merged into a subsidiary of AT&T, whereby AT&T Broadband Group acquired approximately 5 million basic cable subscribers, 0.2 million digital video subscribers, 0.3 million high-speed cable Internet service subscribers and 0.1 million broadband telephone service subscribers.

- Effective December 31, 2000, AT&T Broadband Group transferred systems serving approximately 770,000 subscribers primarily located in Washington D.C., Florida, Georgia, Michigan, New Jersey and Pennsylvania to Comcast in exchange for systems serving approximately 700,000 subscribers primarily located in Sacramento, California, Longmont, Colorado, Florida, Georgia and Chicago, Illinois.

- In January 2001, AT&T Broadband Group transferred 98,400 subscribers to Insight Communications Company, Inc. In a subsequent transaction, AT&T Broadband Group contributed 247,500 additional subscribers in the Illinois markets to Insight Midwest, a partnership owned 50% by AT&T Broadband Group and 50% by Insight Communications, and Insight Communications also contributed additional subscribers to the partnership. The expanded joint venture continues to be managed by Insight Communications.

- In January 2001, AT&T Broadband Group acquired 358,000 subscribers in the Boston metropolitan area from Cablevision and transferred 130,000 New York subscribers, 44 million shares of AT&T common stock valued at approximately $871 million and approximately $204 million in cash to Cablevision.

- On January 5, 2001, AT&T Broadband completed an exchange whereby AT&T Broadband contributed approximately 82,000 subscribers in the Corpus Christi, TX area to Texas Cable Partners, L.P. (a partnership in which AT&T Broadband holds a 50% partnership interest); and AT&T Broadband received from Texas Cable Partners, L.P. approximately 97,000 subscribers in areas surrounding the Dallas metro, TX area.

- On March 1, 2001, AT&T Broadband completed an exchange with CableOne, Inc. whereby AT&T Broadband received approximately 105,000 subscribers in the Santa Rosa/Modesta, CA area from CableOne, Inc.; and AT&T Broadband transferred approximately 149,000 subscribers in ID, OR, and WA to CableOne, Inc.

- On April 30, 2001, a subsidiary of AT&T sold to Comcast certain cable systems attributed to AT&T Broadband Group serving approximately 590,000 subscribers in Delaware, New Mexico, Maryland, New Jersey, Pennsylvania and Tennessee in exchange for 63.9 million shares of AT&T common stock valued at $1,423 million.

- On June 29, 2001, a subsidiary of AT&T sold to MediaCom Communications Corporation cable systems attributed to AT&T Broadband Group serving approximately 94,000 customers in Missouri for approximately $295 million in net cash.

- Effective June 30, 2001, a subsidiary of AT&T transferred to Charter cable systems attributed to AT&T Broadband serving approximately 563,000 customers in Alabama, California, Illinois, Missouri and Nevada. AT&T Broadband Group, through its attributed entities, received $1,497 million in net cash, $222 million in cash restricted for future acquisitions of cable systems, and a cable system in Florida serving 9,000 customers.

- Effective June 30, 2001, AT&T, together with certain subsidiaries attributed to AT&T Broadband Group transferred its 99.75% interest in an entity owning the Baltimore, Maryland cable television system, serving approximately 115,000 customers, to Comcast for approximately $510 million.

- On July 18, 2001, a subsidiary of AT&T sold to MediaCom cable systems attributed to AT&T Broadband Group serving approximately 710,000 customers in Georgia, Iowa and Illinois for approximately $1,724 million in net cash.

- On October 25, 2001, a subsidiary of AT&T and Universal Cable Communications, Inc. (also known as Classic Cable) signed a definitive agreement and simultaneously closed a transaction in which cable systems located in the Town of Breckenridge, Colorado and unincorporated Summit County, Colorado serving approximately 4,400 customers were sold to the subsidiary of AT&T for approximately $16.3 million.

- On December 17, 2001, a subsidiary of AT&T and Adelphia closed a transaction in which certain cable systems attributable to AT&T Broadband Group serving approximately 128,000 customers in central Pennsylvania and Ohio were sold to Adelphia for approximately $245 million in cash and Adelphia Class A Common stock valued at approximately $73 million.

- On December 19, 2001, a subsidiary of AT&T and USA Media Group LLC closed a transaction whereby cable systems located in Half Moon Bay, California and unincorporated San Mateo County, California serving approximately 7,400 customers were sold to the subsidiary of AT&T for approximately $23.2 million.

- On December 20, 2001, a subsidiary of AT&T and Northland Cable Television, Inc. closed a transaction whereby cable systems located in Bainbridge Island, Washington and unincorporated Kitsap County, Washington serving approximately 6,500 customers were sold to the subsidiary of AT&T for approximately $19.7 million.

Total managed basic service customers declined between 1997 and 1998 as a result of certain contribution transactions entered into in 1998. In the most significant of these transactions, on March 4, 1998, AT&T Broadband Group contributed to Cablevision certain of its cable television systems serving approximately 830,000 customers in exchange for approximately 48.9 million newly issued Cablevision Class A common shares and the assumption of indebtedness.

In addition to the Cablevision transaction discussed in the paragraph above, during 1998 AT&T Broadband Group also completed eight transactions whereby AT&T Broadband Group contributed cable television systems serving in the aggregate approximately 1,924,000 customers to eight separate joint ventures in exchange for non-controlling ownership interests in each of the joint ventures, and the assumption and repayment by these joint ventures of indebtedness.

SALES AND MARKETING

AT&T Broadband Group's marketing programs and campaigns offer a variety of services packaged and tailored to its markets. AT&T Broadband Group markets its services through promotional campaigns and local media and newspaper advertising, through telemarketing, direct mail advertising, online selling and in person selling. In addition, AT&T Broadband Group reserves a portion of its inventory of locally inserted cable television advertising to market its services.

PROGRAMMING SUPPLIERS

AT&T Broadband Group has various contracts to obtain basic and premium programming from program suppliers whose compensation is typically based on a fixed fee per customer or a percentage of its gross receipts for the particular service. AT&T Broadband Group has entered into long-term agreements with several programming suppliers, including ABC/Disney, AOL Time Warner, CBS/Viacom, NBC, News Corp. and Starz! Encore. Generally these agreements provide for fees based on the number of subscribers. However, certain of these agreements provide for a flat fee or guaranteed payment obligation

regardless of subscriber levels. AT&T Broadband Group's programming contracts are generally for a fixed period of time and are subject to negotiated renewal. Some program suppliers provide volume discount pricing structures or offer marketing support to AT&T Broadband Group.

AT&T Broadband Group's programming costs have increased substantially in recent years due to additional programming being provided to its customers, increased costs to produce or purchase programming, inflationary increases and other factors affecting the cable television industry.

AT&T Broadband Group also has various retransmission consent arrangements with commercial broadcast stations, which expire at various times over the next ten years, with a significant portion expiring prior to December 31, 2002. None of these consent arrangements requires payment of fees for carriage. However, AT&T Broadband Group does provide non-cash consideration, including entering into agreements with certain broadcast networks to carry satellite delivered cable programming, which is associated with the network carried by such stations.

AGREEMENTS WITH LIBERTY MEDIA

AT&T Broadband Group is a party to various arrangements with Liberty Media. Effective August 2001, Liberty Media was split off from AT&T and is no longer an affiliate of AT&T Broadband Group.

Preferred Vendor Status. AT&T Broadband Group has granted Liberty Media preferred vendor status with respect to access, timing and placement of new programming services. This means that AT&T Broadband Group must use its reasonable efforts to provide digital basic distribution of new services created by Liberty Media and its affiliates, on mutual "most favored nation" terms and conditions and otherwise consistent with industry practices, subject to the programming meeting standards that are consistent with the type, quality and character of AT&T Broadband Group's cable services as they may evolve over time.

Extension of Term of Affiliation Agreements. AT&T Broadband Group has agreed to extend any existing affiliation agreement of Liberty Media and its affiliates that expires on or before March 9, 2004, to a date not before March 9, 2009, if most favored nation terms are offered and the arrangements are consistent with industry practice.

Interactive Video Services. AT&T Broadband Group has agreed to enter into arrangements with Liberty Media for interactive video services under one of the following two arrangements, which will be at the election of AT&T Broadband Group:

- Pursuant to a five-year arrangement, renewable for an additional four-year period on then-current most favored nation terms, AT&T Broadband Group will make available to Liberty Media capacity equal to one 6 MHz channel (in digital form and including interactive enablement, first screen access and hot links to relevant web sites -- all to the extent implemented by AT&T Broadband Group cable systems) to be used for interactive, category-specific video channels that will provide entertainment, information and merchandising programming. The foregoing, however, will not compel AT&T Broadband Group to disrupt other programming or other channel arrangements. The interactive video services are to be accessible through advanced set-top boxes deployed by AT&T

Broadband Group, except that, unless specifically addressed in a mutually acceptable manner, AT&T Broadband Group will have no obligation to deploy set-top boxes of a type, design or cost materially different from that it would otherwise have deployed. The content categories may include, among others, music, travel, health, sports, books, personal finance, automotive, home video sales and games.

- AT&T Broadband Group may enter into one or more mutually agreeable ventures with Liberty Media for interactive, category-specific video channels that will provide entertainment, information and merchandising programming. Each venture will be structured as a 50/50 venture for a reasonable commercial term, and will provide that Liberty Media and AT&T Broadband Group will not provide interactive services in the category(s) of interactive video services provided through the venture for the duration of such term other than the joint venture services in the applicable

categories. When the distribution of interactive video services occurs through a venture arrangement, AT&T Broadband will share in the revenue and expense of the provision of the interactive services pro rata to its ownership interest in lieu of the commercial arrangements described in the preceding paragraph. At the third anniversary of the formulation of any such venture, AT&T Broadband Group may elect to purchase Liberty Media's ownership interest in the venture at fair market value. Liberty Media and AT&T Broadband Group have agreed to endeavor to make any such transaction tax efficient to Liberty Media.

At the date of this document, AT&T Broadband Group has not entered into any further agreements with Liberty Media regarding the distribution of specific interactive television channels. As a result, the exact terms under which AT&T Broadband Group may provide carriage of these channels has not been determined, and AT&T Broadband Group has not made any elections between the alternative carriage arrangements described above. Although AT&T Broadband Group will continue to endeavor to negotiate agreements with Liberty Media concerning distribution of interactive channels within the framework of the above arrangement, there can be no assurance that AT&T Broadband Group will be able to conclude any such agreement on acceptable terms.

Affiliation Agreements. AT&T Broadband Group is party to affiliation agreements pursuant to which it purchases programming from Liberty Media's subsidiaries and affiliates. Some of these agreements provide for penalties and charges in the event the supplier's programming is not carried on AT&T Broadband Group's cable systems or not delivered to a contractually specified number of customers. Charges to AT&T Broadband Group for such programming are generally based upon customary rates and often provide for payments to AT&T Broadband Group by Liberty Media's subsidiaries and business affiliates for marketing support.

In July 1997, AT&T Broadband Group's predecessor, TCI, entered into a 25-year affiliation term sheet with Starz Encore Group (formerly Encore Media Group) pursuant to which AT&T Broadband Group may be obligated to pay monthly fixed amounts in exchange for unlimited access to Encore and Starz! programming. The commitment increases annually from $288 million in 2001 to $315 million in 2003, and will increase annually through 2022 with inflation. The affiliation term sheet further provides that to the extent Starz Encore Group's programming costs increase above certain levels, AT&T Broadband Group's payments under the term sheet will be increased in proportion to the excess. Starz Encore Group has requested payment from AT&T Broadband Group of amounts it contends are AT&T Broadband Group's proportionate share of Starz Encore Group's excess programming costs during the first quarter of 2001 (which amount, approximately $40 million, Starz Encore Group indicated it expects to represent the bulk of what it considers AT&T Broadband Group's proportionate share of excess programming costs Starz Encore Group considers to be payable for the year 2001). Excess programming costs payable by AT&T Broadband Group for the balance of 2001 and in future years are not presently estimable, and could be significantly larger or smaller than the amount requested for the first quarter of 2001. By letter dated May 29, 2001, AT&T Broadband Group indicated that in its view the Starz Encore term sheet as a whole is unenforceable and reserved its right to terminate the term sheet. AT&T Broadband Group indicated to Starz Encore Group that it would not pay the excess programming costs requested to date and disputed the enforceability of the excess programming costs pass through provisions of the term sheet, among other provisions. In July 2001, Starz Encore Group filed suit seeking payment of the 2001 excess programming costs and a declaration that the term sheet is a binding and enforceable contract. In October 2001, AT&T Broadband Group and Starz Encore Group agreed to stay the litigation until August 31, 2002 to allow the parties time to continue negotiations toward a potential business resolution of this dispute.

OTHER ASSETS

Joint Ventures. AT&T Broadband Group possesses a number of investments in companies, joint ventures and partnerships, the most significant of which are Time Warner Entertainment, Insight Midwest and Texas Cable Partners.

Time Warner Entertainment. Time Warner Entertainment is a Delaware limited partnership that was formed in 1992 to own and operate substantially all of the business of Warner Bros., HBO and the cable television businesses owned and operated by Time Warner prior to that time. AT&T Broadband Group's current interest in Time Warner Entertainment was acquired by AT&T Broadband Group in connection with the MediaOne acquisition. Currently, AT&T Broadband Group, through its wholly owned subsidiaries, owns limited partnership interests representing 25.51% of the pro rata priority (Series A) capital and residual equity capital of Time Warner Entertainment. The remaining 74.49% limited partnership interests in the Series A capital and residual capital of Time Warner Entertainment, as well as 100% of the junior priority (Series B) capital of Time Warner Entertainment, are held by subsidiaries of AOL Time Warner. AT&T has an option, which we refer to as the "TWE option", to increase its Series A priority capital and residual capital interests of Time Warner Entertainment by up to 8.5% in certain events. Subsidiaries of AOL Time Warner act as the general partners of Time Warner Entertainment, and AT&T is not involved in the management of the partnership or its business but has certain protective governance rights pertaining to certain limited significant matters relating to Time Warner Entertainment such as the dissolution or merger or voluntary bankruptcy of Time Warner Entertainment.

On February 28, 2001, AT&T submitted a request to Time Warner Entertainment, pursuant to the Time Warner Entertainment partnership agreement, that Time Warner Entertainment reconstitute itself as a corporation and register for sale in an initial public offering an amount of partnership interests held by AT&T Broadband Group (up to the full amount held by AT&T Broadband Group) determined by an independent investment banking firm so as to provide sufficient trading liquidity and minimize any initial public offering discount. Under the Time Warner Entertainment partnership agreement, upon this request, AT&T Broadband Group and Time Warner are to cause an independent investment banker to determine both such registrable amount of partnership interests and the price at which the registrable amount could be sold in a public offering. The partnership agreement provides that, upon determination of the registrable amount and the appraised value of the registrable amount, Time Warner Entertainment may elect not to register these interests, but instead to allow AT&T Broadband Group the option to require that Time Warner Entertainment purchase the registrable amount at the appraised value, subject to certain adjustments. If AT&T Broadband Group does put the registrable amount to Time Warner Entertainment under such circumstances, Time Warner Entertainment may call the remainder of AT&T Broadband Group's interest in Time Warner Entertainment at a price described in the Time Warner Entertainment partnership agreement. If Time Warner Entertainment elects to register the interests, then Time Warner Entertainment must promptly use its best efforts to cause the partnership to be in a position to be reconstituted as a corporation and to effect an initial public offering. However, Time Warner Entertainment may have an option to purchase these interests immediately prior to the time the public offering would otherwise have been declared effective by the SEC at the proposed public offering price less underwriting fees and discounts if the proposed public offering price (as determined by the managing underwriter) is less than 92.5% of the appraised value. If, at the conclusion of this process, AT&T Broadband Group has any remaining interests in Time Warner Entertainment, AT&T Broadband Group will have the right to request registration of those interests for public sale after July 1, 2002 (if no public offering of Time Warner Entertainment shall have taken place, or 18 months after a public offering pursuant to AT&T Broadband's request).

On February 28, 2001, AT&T Broadband Group also commenced the process of obtaining an appraisal of Time Warner Entertainment in order to enable it to exercise the Time Warner Entertainment option. At that time, AT&T Broadband Group agreed to suspend the registration rights process and the Time Warner Entertainment option appraisal process until March 15, 2001. Since then, AT&T Broadband Group and AOL Time Warner have been engaged in discussions regarding the retention of a mutually satisfactory investment banker to perform the appraisals of Time Warner Entertainment under the Time Warner Entertainment partnership agreement and the Time Warner Entertainment option.

If the procedures described above do not result in the disposition by AT&T Broadband Group of its entire interest in Time Warner Entertainment, then under the terms of the Time Warner Entertainment

VII-11

partnership agreement, AT&T may be required to offer Time Warner Entertainment the opportunity to repurchase the remaining interest in the partnership before the AT&T Comcast Transaction may be completed in its current form.

Insight Midwest, L.P. Insight Midwest is a Delaware limited partnership formed in 1999 to own and operate certain cable systems in Indiana. AT&T Broadband Group holds a 50% limited partnership interest and Insight holds a 50% general partnership interest in Insight Midwest. The business of the partnership is managed by Insight Communications, as the general partner, although certain matters also require the approval of AT&T Broadband Group. Insight Midwest currently has approximately 1.2 million cable video subscribers.

Texas Cable Partners, L.P. Texas Cable Partners is a Delaware limited partnership formed in December 1998 to own and operate certain cable systems in Texas. The partnership is owned 50% by AT&T Broadband Group and 50% by the Time Warner Entertainment-Advance/Newhouse Partnership, approximately two-thirds of which is owned by Time Warner Entertainment. The general manager of Texas Cable Partners is Time Warner Cable, a division of Time Warner Entertainment, although certain governance matters require the approval of the management committee on which the Time Warner Entertainment- Advance/Newhouse Partnership and AT&T Broadband Group have equal representation. Texas Cable Partners currently has approximately 1.1 million cable video subscribers.

Other Investments. AT&T Broadband Group has interests in a number of different joint ventures and companies.

COMPETITION

Cable television competes for customers in local markets with other providers of entertainment, news and information. The competitors in these markets include direct broadcast satellite service, broadcast television and radio, satellite master antenna television systems, wireless cable providers, newspapers, magazines and other printed material, motion picture theatres, video cassettes, DVDs and other sources of information and entertainment, including directly competitive cable television operations and ISPs. The Cable Television Consumer Protection and Competition Act of 1992, or the 1992 Cable Act, and the Telecommunications Act are designed to increase competition in the cable television industry.

Additionally, AT&T Broadband Group faces significant competition from both local telephone companies and new providers of services such as Internet service and telephone services. Providers of competitive high-speed data offerings include fixed wireless companies, direct broadcast satellite companies and DSL providers.

There are alternative methods of distributing the same or similar services offered by cable television systems. Further, these technologies have been encouraged by the U.S. Congress and the FCC to offer services in direct competition with existing cable systems.

Direct Broadcast Satellite. Direct broadcast satellite has emerged as significant competition to cable systems. The direct broadcast satellite industry has grown rapidly over the last several years, far exceeding the growth rate of the cable television industry, and now serves approximately 17.2 million subscribers nationwide. Direct broadcast satellite service allows a subscriber to receive video (as well as non-video) services directly via satellite using a relatively small dish antenna. Moreover, video compression technology allows direct broadcast satellite providers to offer more than 400 digital channels, thereby surpassing the typical analog or hybrid analog-digital cable system. Direct broadcast satellite companies historically were prohibited from retransmitting popular local broadcast programming, but a change to the existing copyright laws in November 1999 eliminated this legal impediment. Direct broadcast satellite companies now need to secure retransmission consent from the popular broadcast stations they wish to carry, and now face mandatory carriage obligations of less popular broadcast stations as of January 2002. These new "must carry" rules require satellite companies to carry all local broadcast stations in a local market where they carry any such station pursuant to a new compulsory copyright license. In response to the legislation, DirecTV, Inc. and EchoStar Communications Corporation already have begun carrying the major network

stations in the nation's top television markets. The direct broadcast satellite industry initiated a judicial challenge to the statutory requirement mandating carriage of less popular broadcast stations. This lawsuit alleges that the must-carry requirement (similar to the requirement already applicable to cable systems, and discussed under "-- Cable Regulation and Legislation -- Must Carry/Retransmission Consent") is unconstitutional. The Court of Appeals for the Fourth Circuit recently upheld the constitutionality of these rules. Direct broadcast satellite companies also have begun offering Internet services. EchoStar began providing high-speed Internet service in late 2000, and DirecTV, which has partnered with AOL Time Warner, reports that it will begin providing its own version of high-speed Internet service shortly. Further, in October 2001

EchoStar entered into an agreement to acquire DirecTV. These developments will provide significant new competition to AT&T Broadband Group's offering of video programming and high-speed cable Internet service.

Broadcast Television. Cable television has long competed with broadcast television, which consists of television signals that the viewer is able to receive without charge using an "off-air" antenna. The extent of this competition (which is for both the acquisition and delivery of programming, as well as for advertising) is dependent upon the quality and quantity of broadcast signals available through off-air reception compared to the services provided by the local cable system. The recent licensing of digital spectrum by the FCC will provide incumbent television licensees with the ability to deliver high definition television pictures and multiple digital-quality program streams, as well as advanced digital services, such as subscription video.

DSL. The deployment of DSL technology allows the provision of Internet services to subscribers at data transmission speeds greater than available over conventional telephone lines. In addition, DSL providers offer voice services including via offerings that divide up a phone line into several voice channels and an always-on data line. All significant local telephone companies and certain other telecommunications companies have launched DSL service. The FCC has a policy of encouraging the deployment of DSL and similar technologies, both by incumbent telephone companies and new, competing telephone companies. The FCC's regulations in this area are subject to change. The development and deployment of DSL technology by local telephone companies provides substantial competition to AT&T Broadband Group's high-speed cable Internet services and cable telephone services.

Private Cable. AT&T Broadband Group also competes with Satellite Master Antenna Television systems, which provide multichannel program services and high-speed Internet services directly to hotel, motel, apartment, condominium and similar multi-unit complexes within a cable television system's franchise area, generally free of any regulation by federal, state and local government authorities and sometimes on an exclusive basis. FCC rules restrict the ability of cable operators to maintain ownership of cable wiring inside multi-unit buildings, thereby making it less expensive for Satellite Master Antenna Television competitors (as well as other competitors that are increasingly targeting multi-unit building subscribers such as direct broadcast satellite) to reach those customers. The FCC also has ruled that private cable operators can lease video distribution capacity from local telephone companies and, thereby, distribute cable programming services over the public rights-of-way without obtaining a franchise. In 1999, both the Fifth and Seventh Circuit Courts of Appeal upheld this FCC policy. This could provide a significant regulatory advantage for private cable operators in the future. The 1992 Cable Act ensures that Satellite Master Antenna Television Systems (as well as other providers of multichannel video programming to end users) will have access to most of the significant cable television programming services at nondiscriminatory rates.

Cable System Overbuilds. Cable operators may compete with other cable operators or new entities seeking franchises for competing cable television systems at any time during the terms of existing franchises. The 1992 Cable Act promotes the granting of competitive franchises and AT&T Broadband Group systems operate under nonexclusive franchises. Several years ago, there was a significant increase in the number of cities that constructed their own cable television systems in a manner similar to city-provided utility services. These systems typically compete directly with the existing cable operator without the burdens of franchise fees or other local regulation. The total number of municipal overbuild cable systems remains relatively small. Additionally, several years ago there was a significant increase in investments in private company overbuilders of cable systems. If this trend were to resume, AT&T Broadband Group cable systems could face an increasing number of markets in which a second cable system will be competing directly with AT&T Broadband Group system, providing video, audio, interactive television, high-speed Internet and telephone services. To date, overbuilds have not had a material impact on AT&T Broadband Group's results.

Telephone Company Entry. The Telecommunications Act eliminated the statutory and regulatory restrictions that prevented local telephone companies from competing with cable operators in the provision of video services. The Telecommunications Act allows local telephone companies, including regional phone companies, to compete with cable television operators both inside and outside their telephone service areas. AT&T Broadband Group expects that it could face competition from telephone companies for the provision of video services, whether it is through wireless cable or through upgraded telephone networks. AT&T Broadband Group assumes that all major telephone companies already have entered or may enter the business of providing video services. Although enthusiasm on the part of local exchange carriers appears to be waning, AT&T Broadband Group is aware that telephone companies have already built, or are in the process of building, competing cable system facilities in a number of AT&T Broadband Group's franchise areas. As AT&T Broadband Group continues to expand its offerings to include Internet and other telecommunications services, it will be subject to competition from the local telephone companies and other telecommunications providers. The telecommunications industry is highly competitive, and includes competitors with substantial financial and personnel resources, brand name recognition and long-standing relationships with regulatory authorities.

Utility Company Entry. The Telecommunications Act eliminated certain U.S. federal restrictions on utility holding companies and thus frees all utility companies to provide cable television services. AT&T Broadband Group expects this could result in another source of competition in the delivery of video, telephone and high-speed Internet services.

MMDS. Another alternative method of distribution is multichannel, multi-point distribution systems, or MMDS, which deliver programming services over microwave channels to customers equipped with special antennas. MMDSs are less capital intensive, are not required to obtain local franchises or pay franchise fees, and are subject to fewer regulatory requirements than cable television systems.

Local Voice. AT&T Broadband Group's cable telephone service competes against incumbent local exchange carriers and competitive local exchange carriers in the provision of local voice services. Moreover, many of these carriers are expanding their offerings to include Internet service. The incumbent local exchange carriers have very substantial capital and other resources, longstanding customer relationships and extensive existing facilities and network rights-of-way. A few competitive local exchange carriers also have existing local networks and significant financial resources.

Fixed Wireless. Fixed wireless technologies compete with AT&T Broadband Group in the provision of Internet and voice services. Fixed wireless providers serve the same functions as a wireline provider, by interconnecting private networks, bypassing a local exchange carrier or connecting to the Internet. The technology involved in point-to-point microwave connections has advanced, allowing the use of higher frequencies, and thus smaller antennas, resulting in lower costs and easier-to-deploy systems for private use and encouraging the use of such technology by carriers. Fixed wireless systems are designed to emulate cable connections, and they use the same interfaces and protocols, such as T1, frame relay, Ethernet and ATM. Fixed wireless systems also match the service parameters of cable systems, and consequently any application that operates over a cable should be able to operate over a fixed wireless system.

Resellers. Among AT&T Broadband Group's competitors in the areas of voice and Internet services are resellers. Resellers typically are low-cost aggregators that serve price-conscious market segments and value-added resellers that target customers with special needs.

IP Telephone. IP telephone providers compete directly against AT&T Broadband Group's cable telephone service. IP telephone providers derive most of their revenues from per-minute charges, but they also offer other services including voicemail and IP telephone equipment. The leading IP telephone

company is Net2Phone, Inc., which derived approximately 85% of its 2000 revenue from per-minute charges, and approximately 34% of its 2000 revenue from international customers. Although the offerings of IP telephone providers are limited mostly to voice services, these companies seek to expand to other areas of the telecommunications industry, and may succeed in doing so in the future.

General. In addition to competition for customers, the cable television industry competes with broadcast television, radio, print media and other sources of information and entertainment for advertising revenue. As the cable television industry has developed additional programming, its advertising revenue has increased. Cable operators sell advertising spots primarily to local and regional advertisers.

AT&T Broadband Group has no basis upon which to estimate the number of cable television companies and other entities with which it competes or may potentially compete. The full extent to which other media or home delivery services will compete with cable television systems may not be known for some time, and there can be no assurance that existing, proposed or as yet undeveloped technologies will not become dominant in the future.

EMPLOYEES

At September 30, 2001, AT&T Broadband Group employed approximately 41,000 individuals in its operations, virtually all of whom are located in the United States. Approximately 2,000 of these employees are represented by the Communications Workers of America or the International Brotherhood of Electrical Workers, both of which are affiliated with the AFL-CIO.

LEGAL PROCEEDINGS

In the normal course of business, AT&T Broadband Group is subject to proceedings, lawsuits and other claims, including proceedings under government laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, AT&T Broadband Group is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at September 30, 2001. While these matters could affect operating results of any one quarter when resolved in future periods, it is management's opinion that after final disposition, any monetary liability or financial impact to AT&T Broadband Group beyond that provided for at year-end would not be material to AT&T Broadband Group's annual consolidated financial position or results of operations.

At Home Corporation was formerly a provider of broadband internet access to various cable companies, including AT&T Broadband and Comcast, and of internet portal services. Through a subsidiary, AT&T owns approximately 23% of the outstanding common stock and 74% of the voting power of the outstanding common stock of At Home Corporation. Until shortly after At Home's bankruptcy filing, AT&T appointed a majority of At Home's directors and it now appoints none. In addition, AT&T has had various commercial relationships with At Home over time, principally as a provider of internet backbone services to At Home, and as party to a master distribution agreement pursuant to which At Home provided broadband internet access to customers of AT&T Broadband, Comcast and Cox Communications, Inc. On September 28, 2001, At Home and its U.S. subsidiaries filed for protection under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of California after having earlier that day entered into an asset purchase agreement with AT&T under which, subject to various conditions, AT&T would have acquired the internet access business of At Home through the bankruptcy proceedings.

On November 30, 2001, the bankruptcy court granted a motion made by At Home for authority to reject the master distribution agreement and other similar agreements with other customers of At Home. Early in the morning of December 1, 2001, At Home terminated its internet access service to AT&T Broadband customers and, in response, AT&T Broadband transitioned its customers to a proprietary broadband access service. Subsequently, AT&T terminated the asset purchase agreement with At Home due to the termination of service and other breaches of the agreement by At Home. At Home has

announced that it will shut down the entirety of its access operations for all its remaining cable customers, including Comcast, on February 28, 2002.

In 1997, AT&T Broadband Group's predecessor, TCI, entered into a 25-year affiliation term sheet with Starz Encore Group pursuant to which AT&T Broadband Group may be obligated to pay fixed monthly amounts in exchange for unlimited access to all of the existing Encore and STARZ! programming. The commitment increases annually from $288 million in 2001 to $315 million in 2003, and will increase annually through 2022 with inflation. The affiliation term sheet further provides that to the extent Starz Encore Group's programming costs increase above certain levels, AT&T Broadband Group's payments under the Starz Encore term sheet will be increased in proportion to the excess. Starz Encore Group has requested payment from AT&T Broadband Group of amounts it contends are AT&T Broadband Group's proportionate share of Starz Encore Group's excess programming costs during the first quarter of 2001 (which amount, approximately $40 million, Starz Encore Group indicated it expects to represent the bulk of what it considers AT&T Broadband Group's proportionate share of excess programming for year 2001). Excess programming costs payable by AT&T Broadband Group for the balance of 2001 and in future years are not presently estimable and could be significantly larger or smaller than the amount requested for the first quarter of 2001. By letter dated May 29, 2001, AT&T Broadband Group indicated that in its view the Starz Encore term sheet as a whole is unenforceable and reserved its right to terminate the term sheet. AT&T Broadband Group indicated to Starz Encore Group that it would not pay the excess programming costs requested to date and disputed the enforceability of the excess programming costs pass through provisions of the term sheet, among other provisions. On July 10, 2001, Starz Encore Group initiated a lawsuit against AT&T Broadband Group and Satellite Services, Inc., a subsidiary of AT&T Broadband Group that is also a party to the term sheet, in Arapahoe County District Court, Colorado, seeking payment of the 2001 excess programming costs and a declaration that the term sheet is a binding and enforceable contract. In November 2001, AT&T Broadband Group and Starz Encore Group agreed to stay the litigation until August 31, 2002 to allow the parties time to continue negotiations toward a potential business resolution of this dispute.

CABLE REGULATION AND LEGISLATION

The operation of cable television systems is extensively regulated by the FCC, some state governments and most local governments. The Telecommunications Act altered the regulatory structure governing the nation's telecommunications providers. It removed barriers to competition in both the cable television market and the local telephone market. Among other things, it reduced the scope of cable rate regulation.

The Telecommunications Act required the FCC to implement numerous rulemakings, some of which are still subject to court challenges. Moreover, Congress and the FCC have frequently revisited the subject of cable television regulation and may do so again. Future legislative and regulatory changes could adversely affect AT&T Broadband Group's operations. This section briefly summarizes key laws and regulations currently affecting the growth and operation of AT&T Broadband Group's cable systems.

Cable Rate Regulation. The 1992 Cable Act imposed an extensive rate regulation regime on the cable television industry, which regulation limited the ability of cable companies to increase subscriber fees. Under that regime, all cable systems were subjected to rate regulation, unless they faced effective competition in their local franchise area. U.S. federal law now defines "effective competition" on a community-specific basis as requiring satisfaction of various conditions, such as the penetration of competitive video services to 15% of the households in a cable system's franchise area.

Although the FCC establishes all cable rate rules, local government units (commonly referred to as local franchising authorities) are primarily responsible for administering the regulation of the lowest level of cable service -- the basic service tier, which typically contains local broadcast stations and PEG access channels. Before a local franchising authority begins basic service tier rate regulation, it must certify to the FCC that it will follow applicable U.S. federal rules, and many local franchising authorities have voluntarily declined to exercise this authority. Local franchising authorities also have primary responsibility

for regulating cable equipment rates. Under U.S. federal law, charges for various types of cable equipment must be unbundled from each other and from monthly charges for programming services, and priced no higher than the operator's actual cost, plus an 11.25% rate of return.

The FCC historically administered rate regulation of any cable programming service tiers (i.e., all tiers other than the basic service tier), which typically contain satellite-delivered programming. Under the Telecommunications Act, however, the FCC's authority to regulate cable programming service tier rates ended on March 31, 1999.

Cable Entry into Telecommunications. The Telecommunications Act provides that no state or local laws or regulations may prohibit or have the effect of prohibiting any entity from providing any interstate or intrastate telecommunications service. States are authorized, however, to impose "competitively neutral" requirements regarding universal service, public safety and welfare, service quality and consumer protection. State and local governments also retain their authority to manage the public rights-of-way. Although the Telecommunications Act clarifies that traditional cable franchise fees may be based only on revenues related to the provision of cable television services, it also provides that local franchising authorities may require reasonable, competitively neutral compensation for management of the public rights-of-way when cable operators provide telecommunications service. The Telecommunications Act prohibits local franchising authorities from requiring cable operators to provide telecommunications service or facilities as a condition of a franchise grant, renewal or transfer, except that local franchising authorities argue they can seek "institutional networks" as part of these franchise negotiations.

In particular, cable operators that provide telecommunications services and cannot reach agreement with local utilities over pole attachment rates in states that do not regulate pole attachment rates will be subject to a methodology prescribed by the FCC for determining the rates. These rates may be higher than those paid by cable operators that do not provide telecommunications services.

The favorable pole attachment rates afforded cable operators under U.S. federal law can be increased by utility companies owning the poles during a five-year phase-in period beginning in 2001 if the cable operator provides telecommunications service as well as cable service over its plant. The FCC clarified that a cable operator's provision of cable Internet service does not affect the favorable pole rates, but a recent decision by the Eleventh Circuit Court of Appeals disagreed. In January 2002, the U.S. Supreme Court overturned the Eleventh Circuit decision and upheld the applicability of the more favorable FCC -- prescribed pole rates regardless of the delivery of Internet services.

Cable entry into telecommunications will be affected by the regulatory landscape now being fashioned by the FCC and state regulators. One critical component of the Telecommunications Act intended to facilitate the entry of new telecommunications providers (including cable operators) is the interconnection obligation imposed on all telecommunications carriers. This requires, for example, that the incumbent local exchange carrier must allow new competing telecommunications providers to connect to the local telephone distribution system. A number of implementation details are subject to ongoing regulatory and judicial review, but the basic requirement is now well established. At the same time, incumbent local exchange carriers continue to make it difficult for competitors to lease and use parts of their network in order to provide competing services. Although local exchange carriers and cable operators can now expand their offerings across traditional service boundaries, the general prohibitions remain on local exchange carrier buyouts (i.e., any ownership interest exceeding 10%) of co-located cable systems, cable operator buyouts of co-located local exchange carrier systems, and joint ventures among cable operators and local exchange carriers in the same market. The Telecommunications Act provides a few limited exceptions to this buyout prohibition.

Cable Systems Providing Internet Service. Although there is at present no significant U.S. federal regulation of cable system delivery of Internet services, and the FCC recently issued several reports finding no immediate need to impose this regulation, this situation may change as cable systems expand their broadband delivery of Internet services. In particular, proposals have been advanced at the FCC and Congress that would require cable operators to provide "open access" to unaffiliated ISPs and on-line service providers. The Federal Trade Commission and the FCC recently imposed certain open access

requirements on Time Warner and AOL in connection with their merger, but those requirements are not applicable to other cable operators. Some states and local franchising authorities may seek to impose franchise conditions related to Internet access as part of cable franchise renewals or transfers. In June 2000, the Ninth Circuit Court of Appeals rejected an attempt by the City of Portland, Oregon to impose mandatory Internet access requirements on the local cable operator. AT&T Broadband Group has completed a technical and operational trial to test how multiple ISPs can offer high-speed, always-on cable Internet service over a hybrid fiber/coaxial network.

Cable Television Ownership Restrictions. Pursuant to the 1992 Cable Act, the FCC adopted regulations establishing a 30% limit on the number of multichannel video subscribers (including cable, direct broadcast satellite, Satellite Master Antenna Television, MMDS and other subscribers) nationwide that a cable operator may reach through cable systems in which it holds an attributable interest, with an increase to 35% if the additional cable systems are minority controlled. The FCC stayed the effectiveness of its ownership limits pending judicial review.

The FCC directly addressed the 30% ownership rule (and the applicable ownership attribution standards) in its June 2000 ruling on the MediaOne acquisition. The FCC allowed the MediaOne acquisition to go forward, but required AT&T to elect one of three divestiture options to come into compliance with the 30% ownership cap. Specifically, AT&T was required to either (1) divest its interest in Time Warner Entertainment, (2) terminate its involvement in Time Warner Entertainment's video programming activities, which would require divestiture of substantially all of AT&T's video programming interests, including its interest in Liberty Media, or (3) divest interests in cable systems. Compliance (or arrangements for compliance) was required by May 2001. The FCC order also established safeguards restricting AT&T Broadband Group's communication with Time Warner Entertainment, as well as its communication with, and participation in, Time Warner Entertainment Board meetings for iN DEMAND and certain other video programming services.

The FCC previously adopted regulations limiting carriage by a cable operator of national programming services in which that operator holds an attributable interest to 40% of the activated channels on each of the cable operator's systems. The rules provide for the use of two additional channels or a 45% limit, whichever is greater, provided that the additional channels carry minority controlled programming services. The regulations also grandfather existing carriage arrangements that exceed the channel limits, but require new channel capacity to be devoted to unaffiliated programming services until the system achieves compliance with the regulations. These channel occupancy limits apply only up to 75 activated channels on the cable system, and the rules do not apply to local or regional programming services.

In March 2001, the D.C. Circuit Court of Appeals struck down the rules adopted by the FCC pertaining to ownership and programming carriage and remanded the issues back to the FCC for further review. Following this decision, the FCC suspended the compliance deadlines initially provided in its order related to the MediaOne acquisition to afford the FCC an opportunity to determine the relationship, if any, between the court decision and the conditions required in the MediaOne order. The duration of such suspension and the ultimate actions of the FCC cannot be determined at this time.

The Telecommunications Act eliminates statutory restrictions on broadcast/cable cross-ownership (including broadcast network/cable restrictions), but leaves in place existing FCC regulations prohibiting local cross-ownership between television stations and cable systems. The broadcast/cable cross ownership restriction currently is subject to a court challenge on First Amendment and other grounds. The Telecommunications Act leaves in place existing restrictions on cable cross-ownership with Satellite Master Antenna Television and MMDS facilities, but lifts those restrictions where the cable operator is subject to effective competition. In January 1995, however, the FCC adopted regulations that permit cable operators to own and operate Satellite Master Antenna Television systems within their franchise area, provided that this operation is consistent with local cable franchise requirements.

Must Carry/Retransmission Consent. The 1992 Cable Act contains broadcast signal carriage requirements that allow local commercial television broadcast stations to elect once every three years between requiring a cable system to carry the station, i.e., must carry, or negotiating for payments for granting permission to the cable operator to carry the station, i.e., retransmission consent. Less popular stations typically elect must carry, and more popular stations typically elect retransmission consent. Must carry requests can dilute the appeal of a cable system's programming offerings, and retransmission consent demands may require substantial payments or other concessions (e.g., a requirement that the cable system also carry the local broadcaster's affiliated cable programming service). Either option has a potentially adverse effect on AT&T Broadband Group's business. The burden associated with must carry obligations could dramatically increase if television broadcast stations proceed with planned conversions to digital transmissions and if the FCC determines that cable systems must carry simultaneously all analog and digital services transmitted by the television stations (or, alternatively, all of the multicast services in a broadcaster's digital feed, as opposed to just the "primary video" service) during the multi-year transition in which a single broadcast licensee is authorized to transmit both an analog and a digital signal. The FCC tentatively decided against imposition of dual digital and analog must carry in a January 2001 ruling, and also decided that only the broadcaster's primary video service must be carried by the cable operator. At the same time, however, it initiated further fact gathering, which, ultimately, could lead to a reconsideration of these conclusions.

Access Channels. Local franchising authorities can include franchise provisions requiring cable operators to set aside certain channels for non-commercial PEG access programming. U.S. federal law also requires a cable system with 36 or more channels to designate a portion of its activated channel capacity (up to 15%) for commercial leased access by unaffiliated third parties. The FCC has adopted rules regulating the terms, conditions and maximum rates a cable operator may charge for use of this designated channel capacity, but use of commercial leased access channels has been relatively limited.

"Anti-Buy Through" Provisions. U.S. federal law requires each cable system to permit customers to purchase premium services or pay-per-view video programming offered by the operator on a per-channel or a per-program basis without the necessity of subscribing to any tier of service (other than the basic service tier) unless the system's lack of addressable converter boxes or other technological limitation does not permit it to do so. The statutory exemption for cable systems that do not have the technological capability to comply expires in October 2002, but the FCC may extend that period on a case-by-case basis if deemed necessary pursuant to a specific waiver petition.

Access to Programming. To spur the development of independent cable programmers and competition to incumbent cable operators, the 1992 Cable Act imposed restrictions on the dealings between cable operators and cable programmers. Of special significance from a competitive business posture, the 1992 Cable Act precludes satellite video programmers affiliated with cable operators from favoring cable operators over competing multichannel video programming distributors (such as direct broadcast satellite and MMDS distributors). This provision limits the ability of vertically integrated satellite cable programmers to offer exclusive programming arrangements to AT&T Broadband Group. Both Congress and the FCC have considered proposals that would expand the program access rights of cable's competitors, including the possibility of subjecting both terrestrially delivered video programming and video programmers that are not affiliated with cable operators to all program access requirements. Pursuant to the Satellite Home Viewer Improvement Act, the FCC has adopted regulations governing retransmission consent negotiations between broadcasters and all multichannel video programming distributors, including cable and direct broadcast satellite.

Inside Wiring; Subscriber Access. FCC rules require an incumbent cable operator, upon expiration of a multiple dwelling unit service contract, to sell, abandon or remove "home run" wiring that was installed by the cable operator in the multiple dwelling unit building. These inside wiring rules are expected to assist building owners in their attempts to replace existing cable operators with new programming providers that are willing to pay the building owner a higher fee, where a higher fee is permissible. The FCC also has proposed abrogating or severely restricting all existing and future exclusive multiple dwelling unit service agreements held by incumbent cable operators, but allowing these contracts when held by new entrants. In another proceeding, the FCC has preempted restrictions on the deployment of private antennae on rental property within the exclusive use of a tenant, such as balconies and patios. This FCC ruling may limit the extent to which multiple dwelling unit owners may enforce certain aspects of multiple

dwelling unit agreements that otherwise prohibit, for example, placement of digital broadcast satellite receiver antennae in multiple dwelling unit areas under the exclusive occupancy of a renter. These developments may make it more difficult for AT&T Broadband Group to provide service in multiple dwelling unit complexes.

Customer Equipment Regulation. As noted, cable customer equipment is subject to rate regulation unless the cable system is deemed by the FCC to face effective competition. In addition, the FCC ruled that cable customers must be allowed to purchase cable converters and other such navigation device equipment from third parties, such as retailers, and established a multi-year phase-in during which security functions, which would remain in the operator's exclusive control, would be unbundled from non-security functions, which then could be satisfied by third-party vendors. The first phase implementation date was July 1, 2000. Compliance was technically and operationally difficult in some locations, so AT&T Broadband Group and several other cable operators filed a request at the FCC that the requirement be waived in those systems. The request resulted in a temporary deferral of the compliance deadline for those systems.

The separate security module requirement applies to all digital and "hybrid" devices (i.e., devices that access both analog and digital services), but not to analog-only devices. So long as multichannel video providers subject to the rules comply with the separate security module requirement, they may continue to provide "integrated devices" (i.e., navigation devices containing both embedded security and non-security functions) to their customers until January 1, 2005, at which time they will be barred from placing these devices in service. AT&T Broadband Group has advocated the elimination of this "integrated box ban."

Other Regulations of the FCC. In addition to the FCC regulations noted above, there are other regulations of the FCC covering such areas as:

- equal employment opportunity (currently suspended as a result of a judicial ruling, although the FCC recently has sought to reimpose a subset of these rules);

- subscriber privacy;

- programming practices, including, among other things,

  -- syndicated program exclusivity, which requires a cable system to delete particular programming offered by a distant broadcast signal carried on the system that duplicates the programming for which a local broadcast station has secured exclusive distribution rights,

-- network program nonduplication,

-- local sports blackouts,

-- indecent programming,

-- lottery programming,

-- political programming,

-- sponsorship identification,

-- children's programming advertisements,

-- closed captioning; and

-- video description;

- registration of cable systems and facilities licensing;

- maintenance of various records and public inspection files;

- aeronautical frequency usage;

- lockbox availability;

- antenna structure notification;

- tower marking and lighting;

- consumer protection and customer service standards;

- technical standards;

- consumer electronics equipment compatibility; and

- emergency alert systems.

The FCC recently initiated an inquiry to determine whether the cable industry's future provision of interactive services should be subject to regulations ensuring equal access and competition among service vendors. The inquiry, which grew out of the FCC's review of the AOL/Time Warner merger, is in its earliest stages.

The FCC has the authority to enforce its regulations through the imposition of substantial fines, the issuance of cease and desist orders and/or the imposition of other administrative sanctions, such as the revocation of FCC licenses needed to operate certain transmission facilities used in connection with cable operations.

Copyright. Cable television systems are subject to U.S. federal copyright licensing covering carriage of television and radio broadcast signals. In exchange for filing certain reports and contributing a percentage of their revenue to a U.S. federal copyright royalty pool (this percentage varies depending on the size of the system and the number of distant broadcast television signals carried), cable operators can obtain blanket permission to retransmit copyrighted material on broadcast signals. The possible modification or elimination of this compulsory copyright license is subject to continuing review and could adversely affect AT&T Broadband Group's ability to obtain desired broadcast programming. In addition, the cable industry pays music licensing fees to Broadcast Music, Inc. and the American Society of Composers, Authors and Publishers. Copyright clearances for nonbroadcast programming services are arranged through private negotiations.

State and Local Regulation. Cable television systems generally are operated pursuant to nonexclusive franchises granted by a municipality or other state or local government entity. The Telecommunications Act clarified that the need for an entity providing cable services to obtain a local franchise depends solely on whether the entity crosses public rights-of-way. U.S. federal law now prohibits franchise authorities from granting exclusive franchises or from unreasonably refusing to award additional franchises covering an existing cable system's service area. Cable franchises generally are granted for fixed terms, and in many cases are terminable if the franchisee fails to comply with material provisions. Noncompliance by the cable operator with franchise provisions also may result in monetary penalties.

The terms and conditions of franchises vary materially from jurisdiction to jurisdiction. Each franchise generally contains provisions governing cable operations, service rates, franchise fees, system construction and maintenance obligations, system channel capacity, design and technical performance, customer service standards, and indemnification protections. A number of states subject cable television systems to the jurisdiction of centralized state governmental agencies. Although local franchising authorities have considerable discretion in establishing franchise terms, there are certain U.S. federal limitations. For example, local franchising authorities cannot insist on franchise fees exceeding 5% of the system's gross revenues from the provision of cable services, cannot dictate the particular technology used by the system, and cannot specify video programming other than identifying broad categories of programming.

U.S. federal law contains renewal procedures designed to protect incumbent franchisees against arbitrary denials of renewal. Even if a franchise is renewed, the franchise authority may seek to impose new and more onerous requirements, such as significant upgrades in facilities and services or increased franchise fees and funding for PEG access channels as a condition of renewal. Similarly, if a franchise authority's consent is required for the purchase or sale of a cable system or franchise, this authority may attempt to impose more burdensome or onerous franchise requirements in connection with a request for

VII-21

consent. Historically, franchises have been renewed for cable operators that have provided satisfactory services and have complied with the terms of their franchises. Since the 1992 adoption of the Cable Act, AT&T Broadband Group has never had a final determination or denial of one of its franchises.

Proposed Changes in Regulation. The regulation of cable television systems at the U.S. federal, state and local levels is subject to the political process and has been in constant flux over the past decade. Material changes in the law and regulatory requirements must be anticipated, and there can be no assurance that AT&T Broadband Group's business will not be affected adversely by future legislation, new regulations or by deregulation of AT&T Broadband Group's competitors.

VII-22

AT&T BROADBAND GROUP MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

To understand and place in context AT&T Broadband Group Management's Discussion and Analysis, we urge you to read the AT&T Corp. Management's Discussion and Analysis on page .

OVERVIEW

Currently, AT&T Broadband Group is an integrated business of AT&T Corp. and not a stand-alone entity. AT&T will assign and transfer substantially all of the assets, liabilities and business of AT&T Broadband Group to AT&T Broadband Corp., a newly formed holding company for AT&T's broadband business, which will be subsequently merged with Comcast as discussed below. AT&T Broadband Group consists primarily of the assets, liabilities and business of AT&T Broadband, LLC (formerly TCI), acquired by AT&T on March 9, 1999 in the TCI merger and MediaOne Group, Inc. ("MediaOne") acquired by AT&T on June 15, 2000 in the MediaOne acquisition. AT&T Broadband Group is one of the nation's largest broadband communications providers, providing cable television, high-speed cable Internet and broadband telephone services.

Comcast and AT&T have agreed to a merger of Comcast and AT&T Broadband Corp. The AT&T Comcast transaction is pursuant to, and subject to the terms and conditions set forth in the Agreement and Plan of Merger, dated as of December 19, 2001. The AT&T Comcast transaction will occur in several steps, which are expected to occur on the closing date of the AT&T Comcast transaction. First, AT&T will assign and transfer to AT&T Broadband Corp., substantially all of the assets and liabilities of AT&T's broadband business. Following the transfer, AT&T will spin off AT&T Broadband Corp. to AT&T shareholders by distributing one share of AT&T Broadband Corp. common stock for each share of AT&T common stock, NYSE symbol "T", outstanding as of the close of business on the record date for the AT&T Broadband Corp. spin-off. Immediately following the AT&T Broadband spin-off, AT&T Broadband Corp. will merge with AT&T Broadband Acquisition Corp., a newly formed, wholly owned subsidiary of AT&T Comcast, with AT&T Broadband Corp. continuing as the surviving corporation. At approximately the same time, Comcast will merge with Comcast Acquisition Corp., a newly formed, wholly owned shell subsidiary of AT&T Comcast, with Comcast continuing as the surviving entity. As a result of these mergers, AT&T Comcast will become the parent company of both AT&T Broadband Corp. and Comcast.

Consummation of the AT&T Comcast transaction is subject to the satisfaction or wavier of several conditions, including but not limited to, approval by the shareholders of AT&T and Comcast and receipt of all necessary governmental consents and approvals. As a result, there can be no assurance that the AT&T Comcast transaction will be consummated, or if the AT&T Comcast transaction is consummated, as to the date of such consummation.

AT&T Broadband Group's revenue is derived primarily from the provision of analog and digital video services, high-speed cable Internet services and broadband telephone services. AT&T Broadband Group also charges customers for installation of equipment into their homes. Additionally, AT&T Broadband Group derives revenue from the sale of advertising time via ad avails on certain cable networks. AT&T Broadband Group sells its services on an individual basis as well as through packages or on a bundled basis. AT&T Broadband Group expects revenue will continue to increase in the future as a result of increases in customers for its various services as well as rate increases. AT&T Broadband Group anticipates that the mix of its customers will change over time as the number of customers receiving advanced services increases. Accordingly, AT&T Broadband expects revenue from advanced services to increase as a percentage of total revenue over time.

Operating expenses consist of service costs and selling, general and administrative expenses attributable to management of its customer base. Service costs include fees paid to programming suppliers, expenses related to copyright fees, wages and salaries of technical personnel, franchise fees, plant operating costs, high-speed data network transport and internet service costs, access and interconnection costs and local and long-distance wholesale costs. Programming fees have increased at a higher rate than inflation. AT&T Broadband Group expects video programming costs will continue to increase. Competitive factors

may limit AT&T Broadband Group's ability to recover increases in programming costs through rate increases to video customers. Selling, general and administrative expenses directly attributable to AT&T Broadband Group's cable television systems include wages and salaries for customer service and administrative personnel, and expenses related to billing, marketing, advertising sales and office administration.

AT&T Broadband Group's operations have been dependent on cash infusions from AT&T in order for AT&T Broadband Group to operate and execute on its business and growth strategies. If, for any reason, AT&T is unwilling or cannot provide the level of financing necessary to fund future operations, AT&T Broadband Group will need to seek additional financing from third parties.

Debt attributed to AT&T Broadband Group includes the third party obligations of AT&T Broadband, LLC (formerly TCI) and MediaOne and monetization debt backed by assets held by AT&T Broadband Group. Additional intercompany debt has been allocated to AT&T Broadband Group to achieve a total debt level based on several factors, including prospective financing requirements, desired stand-alone credit profile, working capital and capital expenditure requirements, expected sources of future deleveraging, and comparable company profiles. Changes in historical intercompany debt are based on historical cash flows. Such cash flows include capital expenditures, operating activities, and investments in cable companies. The historical interest expense on the allocated intercompany debt was calculated based on a rate intended to be equivalent to the rate AT&T Broadband Group would receive if it were a stand-alone entity. AT&T's expected deleveraging activities that relate to AT&T Broadband Group include, but may not be limited to, the following: proceeds that may result from the exercise of AT&T's registration rights in Time Warner Entertainment ("TWE"); proceeds from the sale and monetization of shares of Cablevision Systems Corporation ("Cablevision") and Rainbow Media Group which occurred in the fourth quarter of 2001; and continued evaluation and sale of non-strategic cable systems.

OPERATING RESULTS

The results of operations for AT&T Broadband Group begin on March 1, 1999, the effective date of the TCI merger for accounting purposes. Accordingly, AT&T Broadband Group's results of operations for 1999 include 10 months of operations compared to 12 months of operations in 2000.

The comparison of the quarter and nine months ended September 30, 2001 results with the corresponding prior year periods and the comparison of the year ended December 31, 2000 with the ten months ended December 31, 1999 were significantly impacted by events, such as acquisitions and dispositions, that occurred during 2000 and 2001. Effective June 15, 2000, AT&T completed the acquisition of MediaOne. In addition AT&T Broadband Group completed dispositions and exchanges that in the aggregate affect the comparability of financial results between periods.

The comparison of third quarter and year-to-date 2001 results with the corresponding periods in 2000 was also impacted by the consolidation by AT&T Broadband Group of At Home Corporation ("Excite@Home") beginning September 1, 2000. The consolidation of Excite@Home was due to corporate-governance changes, which gave AT&T a controlling interest. The consolidation of Excite@Home resulted in the inclusion of 100% of its results in each line item of AT&T Broadband Group's combined statement of operations for the three and nine months ended September 30, 2001 and for the month of September 2000. Losses attributable to the other shareholders of Excite@Home have been reflected within minority interest income (expense) in the combined statement of operations and minority interest in the combined balance sheet since September 1, 2000. As a result of the significant losses incurred by Excite@Home, the minority interest balance has been fully utilized, therefore, in the third quarter of 2001 AT&T Broadband Group recognized more than its 23% of the losses of Excite@Home. On September 28, 2001, Excite@Home filed for bankruptcy under Chapter 11 in the U.S. Bankruptcy Court, for the Northern District of California. Excite@Home's results remained consolidated in AT&T Broadband Group's statements of operations and cash flows for the three and nine months ended September 30, 2001, however, the assets and liabilities of Excite@Home were deconsolidated from AT&T Broadband Group's balance sheet as of September 30, 2001 because of the bankruptcy filing.

FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED WITH THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2000

Revenue. Revenue for the third quarter 2001 of $2,500 million remained relatively consistent as compared to the third quarter of 2000. However, revenue increased primarily as a result of increased revenue from advanced services (broadband telephone and high-speed cable Internet) of $203 million, the consolidation of Excite@Home of $34 million and an increase in basic-cable and digital video revenue of approximately $73 million. Such increases were primarily offset by a decrease in revenue of $343 million due to net dispositions.

Revenue increased $1,990 million, or 35%, for the nine months ended September 30, 2001 compared to the corresponding prior year period. This increase was due in large part to the impact of the MediaOne acquisition of $1,500 million and the consolidation of Excite@Home of $259 million. Also contributing to the revenue increase was higher revenue from advanced services (broadband telephone and high-speed cable Internet) of $446 million and an increase in basic-cable and digital video revenue of approximately $233 million. Such increases were partially offset by a decrease in revenue of $506 million due to net dispositions.

At September 30, 2001, AT&T Broadband Group served approximately 13.7 million basic cable customers, passing approximately 24.6 million homes, compared with 16.1 million basic cable customers, passing approximately 28.0 million homes at September 30, 2000. AT&T Broadband Group provided digital video service to approximately 3.2 million customers, high-speed cable Internet service to approximately 1.4 million customers, and broadband telephone service to approximately 0.9 million customers at September 30, 2001. This compares with approximately 2.5 million digital video customers, approximately 0.9 million high-speed cable Internet service customers, and nearly 0.3 million broadband telephone customers at September 30, 2000.

Cost of Services. Cost of services remained relatively consistent as compared to the third quarter of 2000. Cost of services increased due to the consolidation of Excite@Home of $67 million. Cost of services also increased as a result of an increase of $71 million due to growth in broadband telephone and high-speed cable Internet services, and an increase of $53 million in programming costs associated with basic cable and digital video services. Such increases were offset by a decrease in costs of $163 million due to net dispositions.

Cost of services increased $1,140 million, or 37%, for the nine months ended September 30, 2001 compared to the corresponding prior year period. This increase was primarily due to the impact of the MediaOne acquisition of $782 million and the consolidation of Excite@Home of $268 million. The remaining increase was primarily a result of an increase of $230 million in costs associated with broadband telephone and high-speed cable Internet services due to growth in these services and an increase of $142 million in programming costs associated with basic cable and digital video services. Such increases were partially offset by a decrease in costs of $236 million due to net dispositions.

Selling, General and Administrative. Selling, general and administrative expenses decreased $60 million, or 9% for the third quarter of 2001 compared to the third quarter of 2000. The decrease was primarily a result of the impact of net dispositions of $43 million and cost control efforts partially offset by a $27 million increase in advertising and marketing costs.

Selling, general and administrative expenses increased $497 million, or 34% for the nine months ended September 30, 2001 compared to the corresponding prior year period. This increase was primarily due to the impact of the MediaOne acquisition of $264 million, an increase in video costs for advertising and customer care of $174 million, an increase in expenses related to high-speed cable internet and broadband telephone of $70 million due to growth in these services and the consolidation of Excite@Home of $60 million. Such increases were partially offset by the impact of net dispositions of $66 million and cost control efforts.

Depreciation and Other Amortization. Depreciation and other amortization expense increased $119 million, or 23%, for the third quarter of 2001 compared to the third quarter of 2000. This increase was

primarily due to the consolidation of Excite@Home of $41 million. The remaining increase was primarily due to a higher asset base resulting from continued infrastructure investment partially offset by the sale of cable systems. Total capital expenditures for the third quarter of 2001 and 2000 were $746 million and $1,238 million, respectively.

Depreciation and other amortization expense increased $879 million, or 82%, for the nine months ended September 30, 2001 compared to the corresponding prior year period. This increase was due in large part to the impact of the MediaOne acquisition of $417 million and the consolidation of Excite@Home of $177 million. The remaining increase was primarily due to a higher asset base resulting from continued infrastructure investment. Total capital expenditures for the nine months ended September 30, 2001 and 2000 were $2,521 million and $3,067 million, respectively.

Amortization of Goodwill, Franchise Costs and Other Purchased Intangibles. Amortization expense decreased $204 million, or 28%, for the third quarter of 2001 compared to the third quarter of 2000. This decrease was primarily due to lower goodwill associated with Excite@Home resulting from an impairment of goodwill recorded subsequent to September 30, 2000.

Amortization expense increased $455 million, or 37%, for the nine months ended September 30, 2001 compared to the corresponding prior year period. This increase was primarily due to the MediaOne acquisition. Such increase was partially offset by lower goodwill associated with Excite@Home.

Asset Impairment, Restructuring and Other Charges. During the third quarter of 2001, $399 million of asset impairment, restructuring and other charges were recorded related to Excite@Home. Included in these charges were $376 million of asset impairment charges and $23 million of restructuring and exit costs, primarily due to continued weakness in the on-line media market and the recent bankruptcy filing of Excite@Home. These charges included the write-off of goodwill and other intangible assets, warrants granted in connection with distributing the @Home service and property, plant and equipment. Restructuring and exit costs consisted of $4 million for severance costs, $14 million related to facility closings and $5 million related to termination costs of contractual obligations. Since AT&T Broadband Group consolidated Excite@Home through September 30, 2001, but only owned approximately 23% of Excite@Home, a portion of the charges recorded by Excite@Home has been eliminated in the September 30, 2001 statement of operations as a component of minority interest income (expense).

Asset impairment, restructuring and other charges for the nine months ended September 30, 2001, totaled $1,494 million. This charge includes $1,171 million of asset impairment charges related to Excite@Home and $323 million for restructuring and exit costs, which consisted of $151 million for severance costs, $156 million for facilities closing and $16 million related to termination costs of contractual obligations.

The asset impairment charges recorded during the nine months ended September 30, 2001 included $1,032 million due to the write down of goodwill and other intangible assets related to Excite@Home, warrants granted in connection with distributing the @Home service, and property, plant and equipment of Excite@Home. These write downs are primarily due to the continued weakness in the online media market and the recent bankruptcy filing of Excite@Home. In addition, AT&T Broadband Group recorded a related goodwill impairment charge of $139 million associated with its acquisition goodwill of Excite@Home. Since AT&T Broadband Group consolidated Excite@Home but only owned approximately 23% of Excite@Home, a portion of the charges recorded by Excite@Home has been eliminated in the statement of operations as minority interest income (expense).

The severance costs of $151 million, for approximately 7,700 employees, resulted from synergies created by the MediaOne acquisition as well as cost reduction efforts by Excite@Home. Approximately 36% of the affected employees are management employees and 64% are non-management employees.

The restructuring initiative is projected to yield cash savings of approximately $1 million in 2001 (net of severance benefit pay-outs of approximately $151 million) and approximately $260 million per year thereafter. The initiative will yield no operating expense savings, net of restructuring charges in 2001, and is projected to yield approximately $260 million per year thereafter. The cost savings, primarily attributable

to reduced personnel-related expenses, will be realized in cost of services and selling, general and administrative expenses.

During the third quarter of 2000, AT&T Broadband Group recorded $24 million of asset impairment, restructuring and other charges. This charge resulted from synergies associated with the MediaOne acquisition and related to cash termination benefits associated with the involuntary separation of approximately 490 employees. Approximately one-half of the individuals were management employees and one-half were non-management employees.

During the nine months ended September 30, 2000, AT&T Broadband Group recorded $40 million of asset impairment, restructuring and other charges, related to restructuring and exit costs resulting from synergies created by the MediaOne acquisition and cost reduction efforts. The charge for the nine months ended September 30, 2000 included cash termination benefits of $40 million associated with the involuntary separation of approximately 525 employees. Approximately half of the individuals were management employees and half were non-management employees.

Other (Expense) Income. Other (expense) income changed from income of $67 million for the third quarter of 2000 to expense of $252 million for the third quarter of 2001. The third quarter expense of $252 million was primarily driven by a $392 million mark-to-market loss on Vodafone ADRs, which were used to settle exchangeable notes that matured during the third quarter of 2001. This loss was partially offset by net gains of $141 million related to ongoing fair value adjustments of derivatives and "trading" securities. The income for the third quarter of 2000 resulted primarily from the amortization of the premium on collars associated with exchangeable notes acquired in the MediaOne acquisition.

Other (expense) income for the nine months ended September 30, 2001 was an expense of $2,156 million compared to income of $547 million for the same period in 2000. Effective January 1, 2001, in conjunction with the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," AT&T Broadband Group reclassified certain investment securities, which support debt that is indexed to those securities, from "available-for-sale" to "trading." As a result, AT&T Broadband Group recorded a pre-tax loss of $1,154 million reflecting the initial reclassification impact of the adoption of SFAS No. 133. Also contributing to the change was a $838 million loss on the Excite@Home put obligation settlement with Cox and Comcast, $512 million unfavorable change in (losses) gains on sales of businesses and other investments, a $392 million mark-to-market loss on Vodafone ADRs which were used to settle exchangeable notes that matured during the third quarter of 2001 and net gains of $230 million related to ongoing investment and derivative revaluations under SFAS No. 133.

Interest Expense. Interest expense remained relatively consistent for the third quarter of 2001 compared to the third quarter of 2000.

Interest expense increased $438 million to $1,347 million for the nine months ended September 30, 2001 compared to the corresponding prior year period. This increase was a result of an increase in debt due primarily to the MediaOne acquisition and the monetization of investments in Microsoft and Comcast.

Benefit for Income Taxes. The benefit for income taxes for the third quarter of 2001 was $1,036 million, compared with a benefit of $247 million for the third quarter of 2000. The effective income tax rate for the third quarter of 2001 was 64.3%, compared to 23.5% for the third quarter of 2000. The third quarter 2001 effective tax rate was positively impacted by a net tax benefit related to Excite@Home, including a benefit from deconsolidation, partially offset by the prior consolidation of its operating losses, for which the company was unable to record tax benefits. Such positive impacts were partially offset by the amortization of non tax-deductible goodwill. The third quarter 2000 effective tax rate was negatively impacted by the non tax-deductible goodwill.

The benefit for income taxes for the nine months ended September 30, 2001, was $3,214 million, compared with a benefit of $845 million for the corresponding prior year period. The effective income tax rate for the nine months ended September 30, 2001 was 45.5% compared to 56.6% for the corresponding prior year. The 2001 effective tax rate was positively impacted by a significant tax benefit related to

Excite@Home, including a benefit from deconsolidation and the put obligation settlement with Cox and Comcast, partially offset by the prior consolidation of its operating losses for which the company was unable to record tax benefits. The effective tax rate was also positively impacted by a tax-free gain resulting from an exchange of AT&T stock for an entity owning certain cable systems and other assets with Comcast. Such positive impacts were partially offset by the amortization of non tax-deductible goodwill. The 2000 effective tax rate was positively impacted by a tax-free gain resulting from an exchange of AT&T stock for an entity owning certain cable systems and other assets with Cox. The 2000 effective tax rate is negatively impacted by non tax-deductible goodwill and non tax-deductible losses from Excite@Home.

Net Losses from Equity Investments. Net losses from equity investments which are recorded net of income taxes, decreased from $219 million for the third quarter of 2000 to $53 million for the third quarter of 2001. The decrease in losses is primarily due to lower losses related to TWE and Cablevision as a result of these investments being accounted for under the equity method in the third quarter 2000 and the cost method in the third quarter of 2001. TWE was reclassified to an asset held for sale in the fourth quarter of 2000, and accordingly earnings or losses including amortization of excess basis, were no longer recorded. Likewise, in the second quarter of 2001, AT&T Broadband Group began accounting for its investment in Cablevision as a cost method investment as a result of its loss of representation on the board of directors of Cablevision. The consolidation of Excite@Home in September 2000 also contributed to the decrease. Also included in net losses from equity investments is amortization of goodwill associated with non-consolidated investments. This amortization totaled $19 million and $217 million for the third quarter of 2001 and 2000, respectively. The income tax (provision) benefit recorded on net losses from equity investments for the third quarter of 2001 and 2000 was $(25) million and $136 million, respectively.

Net losses from equity investments which are recorded net of income taxes, decreased from $636 million for the nine months ended September 30, 2000 to $37 million for the nine months ended September 30, 2001. This decrease was primarily due to the consolidation of Excite@Home and impacts associated with AT&T Broadband Group's investment in Cablevision. Cablevision's earnings were higher in 2001 as a result of a gain associated with the sale of cable properties. In addition, in the second quarter of 2001, AT&T Broadband Group began accounting for its investment in Cablevision as a cost method investment as a result of its loss of representation on the board of directors of Cablevision. The change in accounting treatment for TWE from an equity method investment to a cost investment also contributed to the decrease. Amortization of goodwill associated with non-consolidated investments totaled $120 million and $428 million for the nine months ended September 30, 2001 and 2000, respectively. The income tax (provision) benefit recorded on net losses from equity investments was $(5) million and $394 million, for the nine months ended September 30, 2001 and 2000, respectively.

Minority Interest Income (Expense). Minority interest income (expense), which is recorded net of income taxes, represents an adjustment to AT&T Broadband Group's net loss to reflect the less than 100% ownership of entities attributed to AT&T Broadband Group as well as dividends on preferred stock issued by subsidiaries of AT&T which have been attributed to AT&T Broadband Group. AT&T Broadband Group recorded $169 million of minority interest income in the third quarter of 2001 and $83 million in the third quarter of 2000. AT&T Broadband Group recorded minority interest income of $905 million for the nine months ended September 30, 2001 and minority interest expense of $21 million for the nine months ended September 30, 2000. The changes primarily resulted from the consolidation of Excite@Home effective September 1, 2000. The income tax benefit recorded on minority interest income (expense) was $25 million for both the third quarters of 2001 and 2000 and $75 million for both the nine months ended September 30, 2001 and 2000.

Cumulative Effect of Accounting Change. Cumulative effect of accounting change, net of applicable income taxes, was $229 million and recorded in the first quarter of 2001. Such amount represents fair value adjustments of derivative instruments as well as to the warrant portfolio, and the reclassification of related securities to "trading" due to the adoption of SFAS No. 133.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH THE TEN MONTHS ENDED DECEMBER 31, 1999

Revenue. Revenue increased $3,365 million, or 66%, in 2000 compared to 1999. This increase was due to the impact of the MediaOne acquisition of $1,730 million, an additional two months of revenue in 2000 of $1,035 million, and the consolidation of Excite@Home of $248 million. The remaining increase was primarily a result of an increase in basic cable and digital video revenue of approximately $268 million and increased revenue from advanced services (high-speed cable Internet service and broadband telephone) of $169 million. Cable revenue increased primarily as a result of rate increases. Such increases were partially offset by a decrease in revenue of $104 million due to the Cox disposition.

At December 31, 2000, AT&T Broadband Group served approximately 16.0 million basic cable customers, while passing approximately 28.3 million homes, compared with 11.4 million basic cable customers, while passing approximately 19.7 million homes at December 31, 1999. AT&T Broadband Group acquired systems passing approximately 8.7 million homes with approximately 5.0 million basic cable customers in the MediaOne acquisition. At December 31, 2000, AT&T Broadband Group provided digital video service to approximately 2.8 million customers, high-speed cable Internet service to approximately 1.1 million customers, and broadband telephone service to approximately 547,000 customers. This compares with approximately 1.8 million digital video customers, approximately 207,000 high-speed cable Internet service customers, and nearly 8,300 cable telephone customers at December 31, 1999. The MediaOne acquisition added 0.2 million digital video service customers, 0.3 million high-speed cable Internet customers and 0.1 million cable telephone customers.

Cost of Services. Cost of services increased $1,914 million, or 71%, in 2000 compared with 1999. This increase was primarily due to the impact of the MediaOne acquisition of $833 million, an additional two months of costs in 2000 of $576 million and the consolidation of Excite@Home of $195 million. The remaining increase primarily is a result of $180 million of programming costs, an increase of $142 million associated with high-speed cable Internet and broadband telephone services and an increase in salary expense and other basic cable costs of $138 million due to growth in business. Such increases were offset by a decrease in costs of $48 million due to the Cox disposition.

Selling, General and Administrative. Selling, general and administrative expenses increased $927 million, or 74%, in 2000 compared to 1999. This increase was primarily due to the impact of the MediaOne acquisition of $458 million, an additional two months in 2000 of $210 million, an increase in expenses related to high-speed cable Internet and broadband telephone service of $232 million and the consolidation of Excite@Home of $56 million.

Depreciation and Other Amortization. Depreciation and other amortization increased $869 million, or 108%, in 2000 compared to 1999. The increase was primarily due to the impact of the MediaOne acquisition of $473 million, the consolidation of Excite@Home of $80 million, an additional two months in 2000 of $157 million and a higher asset base resulting from continued infrastructure investment. Total capital expenditures for 2000 and 1999 were $4,426 million and $3,161 million, respectively.

Amortization of Goodwill, Franchise Costs and Other Purchased Intangibles. Amortization increased $1,508 million, or 174%, in 2000 compared to 1999. The increase was primarily due to the impact of the MediaOne acquisition of $515 million, the consolidation of Excite@Home of $911 million, and an additional two months in 2000 of $161 million.

Asset Impairment, Restructuring and Other Charges. Asset impairment, restructuring and other charges increased $5,626 million in 2000 to $6,270 million. For the year ended 2000, the charge included $6,179 million of asset impairment charges related to Excite@Home and $91 million related to restructuring and exit costs.

The charges related to Excite@Home include $4,609 million of asset impairment charges recorded by Excite@Home associated with the impairment of goodwill from various acquisitions and a related goodwill impairment charge of $1,570 million recorded by AT&T Broadband Group associated with goodwill from the acquisition of its investment in Excite@Home. The impairments resulted from a decision by Excite@Home to exit certain businesses, as well as significant changes to the dynamics of the online

media market that Excite@Home operates in, which necessitated a general impairment review of Excite@Home's intangible assets. Since AT&T Broadband Group, through AT&T Broadband, LLC, owned approximately 23% of Excite@Home, 77% of the charge recorded by Excite@Home was not included as an increase of net loss, but rather was eliminated through minority interest income (expense) in the combined statements of operations.

The $91 million charge for restructuring and exit plans was primarily due to headcount reductions as part of the integration of MediaOne, the centralization of certain functions, and the consolidation of call center facilities. This charge included $61 million of cash termination benefits associated with the involuntary separation of 1,060 employees. Approximately 25% of the employees were management while 75% were non-management employees. Approximately 74% of the affected employees had left their positions as of December 31, 2000. The $91 million charge also included a loss of $30 million recognized on the disposition of facilities as a result of synergies created by the MediaOne acquisition.

The 2000 restructuring initiatives are projected to yield cash savings of approximately $80 million per year. It is expected that increased spending in growth services will largely offset these cash and earnings before interest and taxes, or operating expense savings of approximately $50 million. The operating expense savings, primarily attributable to reduced personnel related expenses, will be realized in cost of services and selling, general and administrative expenses.

During 1999, AT&T Broadband Group recorded $644 million of asset impairment, restructuring and other charges. This included an in-process research and development charge of $594 million reflecting the estimated fair value of research and development projects, as of the date of the TCI merger, which had not yet reached technological feasibility or had alternative future use. The projects identified related to efforts to offer voice-over-IP, product integration efforts for advanced set-top devices, cost-savings efforts for broadband telephone implementation, and in-process research and development related to Excite@Home. The fair value of in-process research and development was estimated for each project using an income approach, which was adjusted to allocate fair value based on the project's percentage of completion. Under this approach, the present value of the anticipated future benefits of the projects was determined using a discount rate of 17%. For each project, the resulting net present value was multiplied by a percentage of completion based on effort expended to date versus projected costs to complete.

The charge associated with the voice-over-IP technology, which allows voice telephone traffic to be digitalized and transmitted in IP data packets, was $225 million as of the date of the TCI merger. Current voice-over-IP equipment does not yet support many of the features required to connect customer premises equipment to traditional phone networks. Further technical development is also needed to ensure voice quality that is comparable to conventional circuit-switched telephone services and to reduce the power consumption of the IP telephone services equipment. Testing of IP telephone services equipment in the field was started in late 2000 and will continue throughout 2001.

The charge associated with product integration efforts for advanced set-top devices, which will enable AT&T Broadband Group to offer next-generation digital services, was $114 million as of the date of the TCI merger. The associated technology consists of the development and integration work needed to provide a suite of software tools to run on the digital set-top box hardware platform. It is anticipated that field trials will begin in late 2001 for next generation digital services.

The charge associated with cost-savings efforts for broadband telephone services implementation was $101 million as of the date of the TCI merger. Telephone services cost reductions primarily consist of cost savings from the development of a "line of power switch," which allows cost effective power for customer telephone equipment through the cable plant. This device will allow AT&T Broadband Group to provide line-powered telephone service without burying the cable line to each house. Trials related to the telephone services cost reductions are complete and implementation has begun in certain markets.

Additionally, the in-process research and development charge related to Excite@Home was valued at $154 million. This charge related to projects to allow for self-provisioning of devices and the development of next-generation client software, network and back-office infrastructure to enable a variety of network devices beyond personal computers and improved design for the regional data centers' infrastructure.

Although there are technological issues to overcome to complete successfully the acquired in-process research and development, successful completion is expected. The costs to complete the identified projects will not have a material impact on the results of operations. If, however, management of AT&T Broadband Group is unable to establish technological feasibility and produce commercially viable products/services, anticipated incremental cash flows attributed to expected profits from such new products/services may not be realized.

Also in 1999, the asset impairment, restructuring and other charges included a $50 million loss related to a contribution agreement TCI entered into with Phoenixstar, Inc. This agreement requires AT&T Broadband Group to satisfy certain liabilities owed by Phoenixstar and its subsidiaries. The remaining obligation under this contribution agreement and an agreement that MediaOne has is $57 million, which was fully accrued at December 31, 2000.

Other (Expense) Income. Other (expense) income decreased from income of $50 million in 1999 to expense of $39 million for 2000. Such decrease was primarily a result of a $537 million charge resulting from the increase in the fair value of the put options held by Comcast and Cox related to Excite@Home stock and investment impairment charges of $240 million. This was offset by an increase in gains on sales of businesses and investments of $577 million, including the swap of cable systems with Comcast and Cox and the sale of the investment in Lenfest, and an increase of $69 million in interest and dividend income.

Interest Expense. Interest expense increased $618 million in 2000 to $1,323 million compared to 1999. The increase was a result of an increase in debt of $13.5 billion due primarily to the MediaOne acquisition and the monetization of investments in Microsoft and Comcast. The remaining increase was due to two additional months of interest in 2000 and an increase in the interest rate charged from AT&T for intercompany debt.

Benefit for Income Taxes. The benefit for income taxes for the year ended December 31, 2000, was $1,183 million, compared with a benefit of $465 million for the ten months ended December 31, 1999. The effective income tax rate for the year ended December 31, 2000 was 11.8%, compared to 25.3% for the ten months ended December 31, 1999. The effective income tax rate for 2000 was impacted by the inclusion of Excite@Home as a consolidated entity, and the Cox disposition. The 1999 effective income tax rate was impacted by the non tax-deductible write-off of in-process research and development.

Net Losses from Equity Investments. Net losses from equity investments which are recorded net of income taxes decreased $110 million compared to 1999. The decrease was due in part to a $185 million improvement in Cablevision's results which was partially offset by additional equity losses of $64 million from amortization of excess basis of equity investments acquired in the MediaOne acquisition. The improvement in Cablevision's results is primarily due to gains from cable system sales. The income tax benefit recorded on net losses from equity investments was $370 million for the year ended December 31, 2000, and $438 million for the ten months ended December 31, 1999. Amortization of goodwill associated with non-consolidated investments totaled $485 million and $476 million for the year ended December 31, 2000 and the ten months ended December 31, 1999, respectively.

Minority Interest Income (Expense). Minority interest income (expense), which is recorded net of income taxes, represents an adjustment to AT&T Broadband Group's net loss to reflect the less than 100% ownership of entities attributed to AT&T Broadband Group as well as dividends on preferred stock issued by subsidiaries of AT&T which have been attributed to AT&T Broadband Group. The increase of $4,188 million in 2000 primarily resulted from the consolidation of Excite@Home effective September 1, 2000. The minority interest in 2000 primarily reflects the losses generated by Excite@Home, including the goodwill impairment charge, that were attributed to the approximate 77% of Excite@Home not owned by AT&T Broadband Group. The income tax benefit recorded on minority interest income (expense) was $100 million for the year ended December 31, 2000 and $54 million for the ten months ended December 31, 1999.

LIQUIDITY AND CAPITAL RESOURCES

AT&T Broadband Group has funded its operations through internally generated funds, asset sales, capital contributions from AT&T and intercompany borrowings from AT&T. Capital contributions from

AT&T include acquisitions made by AT&T that have been attributed to AT&T Broadband Group which are treated as non-cash.

Currently, financing activities for AT&T Broadband Group are managed by AT&T on a centralized basis. Sources for AT&T Broadband Group's future financing requirements may include borrowing of funds, including additional debt from AT&T

and/or third party debt. Loans from AT&T to any member of AT&T Broadband Group have been made at interest rates and on other terms and conditions intended to be substantially equivalent to the interest rates and other terms and conditions that AT&T Broadband Group would be able to obtain from third parties, including the public markets, as a non-affiliate of AT&T without the benefit of any guaranty by AT&T.

AT&T performs cash management functions on behalf of AT&T Broadband Group. Substantially all of AT&T Broadband Group's cash balances are swept to AT&T on a daily basis, where they are managed and invested by AT&T. Transfers of cash to and from AT&T, after giving consideration to the debt allocation methodology, are reflected as a component of combined attributed net assets.

Net cash used in operating activities for the nine months ended September 30, 2001 was $779 million compared with cash provided by operations of $421 million for the nine months ended September 30, 2000. Net cash used in operating activities for the nine months ended September 30, 2001 was due to net income of $179 million, exclusive of non-cash items including adjustments for net losses on sales of businesses and investments, offset by changes in other operating assets and liabilities of $958 million. Net cash provided by operating activities for the nine months ended September 30, 2000 was due to net income of $1,251 million, exclusive of non-cash items including adjustments for net gains on sales of businesses and investments, offset by net changes in other operating assets and liabilities of $830 million.

Net cash provided by investing activities for the nine months ended September 30, 2001 was $2,328 million compared with $3,208 million of cash used in investing activities for the nine months ended September 30, 2000. For the nine months ended September 30, 2001, AT&T Broadband Group's cash provided by investing activities primarily resulted from $4,812 million cash received from net acquisitions and dispositions of businesses offset by capital expended for property and equipment, net of disposals, of $2,521 million. For the nine months ended September 30, 2000, AT&T Broadband Group's cash used in investing activities primarily resulted from capital expended for property and equipment, net of proceeds from disposals of $3,067 million and $83 million of cash paid for net acquisitions and dispositions.

Net cash used in financing activities for the nine months ended September 30, 2001 was $1,357 million compared to net cash provided by financing activities for the nine months ended September 30, 2000 of $2,963 million. For the nine months ended September 30, 2001, AT&T Broadband Group used cash of $807 million to retire long-term debt, net of proceeds, $190 million to pay dividends on preferred securities, and $360 million to reduce short-term debt, net of cash transfers from AT&T. Net proceeds from dispositions were used to reduce debt levels. For the nine months ended September 30, 2000, AT&T Broadband Group used cash of $1,422 million to retire long-term debt and redeemable securities, $399 million to pay other financing activities, and $147 million to pay dividends on preferred securities. For the nine months ended September 30, 2000, AT&T Broadband Group received $4,931 million in short-term debt and transfers from AT&T. Funding from AT&T was received to cover capital expenditures and other investing activities and the retirement of long-term debt and other financing activities.

Net cash provided by operating activities for the year ended December 31, 2000 was $802 million, compared with $1,380 million for the ten months ended December 31, 1999. Net cash provided by operating activities for the year ended December 31, 2000 was due to net income of $1,260 million, exclusive of non-cash items including adjustments for net gains on sales of businesses and investments, offset by a change in other operating assets and liabilities of $458 million. Net cash provided by operating activities for the ten months ended December 31, 1999 was due to net income of $1,007 million, exclusive of non-cash items including adjustments for net gains on sales of businesses and investments, and a change in other operating assets and liabilities of $373 million.

Net cash used in investing activities for the year ended December 31, 2000 was $4,511 million compared with $2,915 million for the ten months ended December 31, 1999. For the year ended December 31, 2000, AT&T Broadband Group's cash used in investing activities resulted from capital expended for property and equipment, net of proceeds from disposals, of $4,426 million and $85 million used in other investing activities. For the ten months ended December 31, 1999, AT&T Broadband Group's cash used in investing activities resulted from capital expended for property and equipment, net of proceeds from disposals of $3,161 million offset by $246 million provided by other investing activities. Capital expenditures are primarily due to the continued expansion and upgrade of the network to provide advanced services, including high-speed cable Internet service and broadband telephone services.

Net cash provided by financing activities for the year ended December 31, 2000 was $3,770 million compared with $1,535 million for the ten months ended December 31, 1999. For the year ended December 31, 2000, AT&T Broadband Group received proceeds from the issuance of long-term debt, net of retirement of long-term debt and redeemable securities, of $2,281 million and net cash from AT&T through transfers and short-term debt borrowings of $2,298 million. This was offset by $294 million of dividends paid on redeemable securities and $515 million of other financing activities. For the ten months ended December 31, 1999, AT&T Broadband Group received proceeds from the issuance of convertible securities, net of retirements of long-term debt, of $2,607 million. This was offset by cash transfers to AT&T, net of borrowings from AT&T, of $937 million and $135 million of dividends paid on redeemable securities. The increase in cash from financing activities was primarily due to the additional funding needed for increased capital expenditures.

The continued expansion and upgrade of AT&T Broadband Group's network to provide advanced services, including high-speed cable Internet service and broadband telephone service will continue to require substantial capital. AT&T Broadband Group anticipates that it will spend approximately $4.2 billion in 2002 primarily to expand and upgrade its network for the provision of advanced services and to add new customers. AT&T has provided and it is anticipated that AT&T will continue to provide funding to AT&T Broadband Group for capital expenditures.

At September 30, 2001, AT&T Broadband Group had current assets of $1,427 million and current liabilities of $8,883 million. A significant portion of the current liabilities, $5,962 million, relates to short-term debt of which $5,390 million was due to AT&T.

As of September 30, 2001, total debt was $23,274 million of which $5,760 million was monetized by investments, where such investments can be delivered in full satisfaction of the underlying debt at the time of maturity. In January and February 2002, AT&T announced that it will redeem $1,312 million of trust preferred securities in February and March of 2002. These amounts are classified as long-term debt in the combined balance sheet.

AT&T Broadband Group expects that it will retire a portion of the short-term debt with other financing arrangements, including the monetization of publicly-held securities and the sales of certain non-strategic assets and investments.

In October 2001, AT&T Broadband Group sold 19.2 million shares of Cablevision NY Group Class A common stock and, through a trust, 26.9 million shares of a mandatorily exchangeable trust security that will be exchangeable into up to 26.9 million shares of Cablevision NY Group Class A common stock at maturity in three years. The offering generated approximately $1,422 million of pretax net cash proceeds.

In December 2001, AT&T Broadband Group sold 14.7 million shares of Cablevision's Rainbow Media Group Class A tracking stock and, through a trust, 9.8 million shares of a mandatorily exchangeable trust security that will be exchangeable into up to 9.8 million shares of Rainbow Media Group Class A tracking stock at maturity in three years. The offering generated approximately $487 million of pretax net cash proceeds.

In addition, AT&T has exercised its registration rights in TWE and formally requested TWE to begin the process of converting the limited partnership into a corporation with registered equity securities. In

May 2001, AT&T named Credit Suisse First Boston as its investment banker for the registration process under the TWE partnership agreement.

AT&T Broadband Group has other commitments and contractual obligations that will also impact its cash needs. AT&T Broadband Group's more significant commitments and contractual obligations are as follows:

- In July 1997, AT&T Broadband LLC's predecessor, TCI, and AT&T Broadband LLC's subsidiary, Satellite Services, Inc., entered into a 25 year affiliation term sheet with Starz Encore Group (formerly Encore Media Group) pursuant to which AT&T Broadband Group may be obligated to make fixed monthly payments in exchange for unlimited access to Encore and Starz! programming. Starz Encore Group is a subsidiary of Liberty Media Group, a former subsidiary of AT&T. The commitment increases annually from $288 million in 2001 to $315 million in 2003, and will increase annually through 2022 with inflation. The affiliation term sheet further provides that to the extent Starz Encore Group's programming costs increase above certain levels, AT&T Broadband Group's payments under the term sheet will be increased in proportion to the excess. Starz Encore Group requested payment from AT&T Broadband Group of amounts it contends are AT&T Broadband Group's proportionate share of what Starz Encore Group reported as its excess programming costs during the first quarter of 2001 (which amount, approximately $40 million, Starz Encore Group indicated it expected to represent the bulk of what it considered AT&T Broadband Group's proportionate share of excess programming costs Starz Encore Group considers to be payable for the year 2001). Excess programming costs Starz Encore Group is expected to contend to be payable by AT&T Broadband Group in future years are not presently estimable, and could be significantly larger. By letter dated May 29, 2001, AT&T Broadband Group disputed the enforceability of the excess programming pass through provisions of the term sheet and questioned the validity of the term sheet as a whole. AT&T Broadband Group also has raised certain issues concerning the uncertainty of the provisions of the term sheet and the contractual interpretation and application of certain of its provisions to, among other things, the acquisition and disposition of cable systems. In July 2001, Starz Encore Group filed suit seeking payment of the 2001 excess programming costs and a declaration that the term sheet is a binding and enforceable contract. In October 2001, AT&T Broadband Group and Starz Encore Group agreed to stay the litigation until August 31, 2002 to allow the parties time to continue negotiations toward a potential business resolution of this dispute. The Court granted the stay on October 30, 2001. The terms of the stay order allow either party to petition the Court to lift the stay after April 30, 2002 and to proceed with the litigation.

- AT&T Broadband Group is party to an agreement under which it purchases certain billing services from an unaffiliated third party. Unless terminated by either party pursuant to the terms of the agreement, the agreement expires on December 31, 2012. The agreement calls for monthly payments. Such payments are subject to adjustments and conditions pursuant to the terms of the underlying agreement. Amounts included in selling, general and administrative expenses that were incurred in connection with these arrangements were approximately $143 million for the year ended December 31, 2000.

- From time to time, AT&T Broadband, LLC and MediaOne may guarantee the debt of their subsidiaries and certain unconsolidated joint ventures. AT&T Broadband, LLC has taken certain steps to support debt compliance with respect to obligations aggregating $1,461 million at December 31, 2000 of certain cable television partnerships in which AT&T Broadband, LLC has a non-controlling ownership interest and which have been attributed to AT&T Broadband Group. All guarantees of AT&T Broadband Group totaled $1,486 million at December 31, 2000. Although there can be no assurances, management believes that it will not be required to meet its obligations under such guarantees.

FINANCIAL CONDITION

Total assets were $104,261 million as of September 30, 2001, which represented a decrease of $13,273 million compared to December 31, 2000. The decrease primarily resulted from the net disposition of cable systems during 2001. Additional decreases resulted from the deconsolidation of Excite@Home; the exchange of an investment in Vodafone Group plc for the settlement of exchangeable notes; the transfer of investments to ATT the unfavorable mark-to-market adjustments on investments and amortization of franchise costs and goodwill. Such decrease was partially offset by capital expenditures, net of depreciation.

Total liabilities were $52,828 million as of September 30, 2001, representing a decrease of $12,258 million compared to December 31, 2000. The decrease was due primarily to the dispositions and exchanges of cable systems; the settlement of the Excite@Home put options; the deconsolidation of Excite@Home; the settlement of exchangeable notes and other retirements of long-term debt.

Minority interest decreased $1,102 million to $3,319 million at September 30, 2001 as compared to December 31, 2000. The decrease was primarily due to Excite@Home. On September 28, 2001, Excite@Home filed for bankruptcy under Chapter 11 in the U.S. Bankruptcy Court for the Northern District of California. As a result, AT&T Broadband Group deconsolidated Excite@Home effective September 30, 2001.

Combined attributed net assets were $43,396 million as of September 30, 2001, which represented an increase of $79 million compared to December 31, 2000. The increase was primarily due to contributions from AT&T and an increase in accumulated other comprehensive income due to the adoption of SFAS No. 133. Such increases were partially offset by the net loss for the nine months ended September 30, 2001.

AT&T, Comcast and AT&T Comcast have entered into an agreement with Microsoft pursuant to which at the time of the AT&T Broadband spin-off, Microsoft will exchange the $5 billion company-obligated convertible quarterly income preferred securities for shares of AT&T Broadband Corp. common stock that will be converted into, subject to adjustments, 115 million shares of AT&T Comcast common stock in the AT&T Comcast transaction.

Total assets were $117,534 million as of December 31, 2000, which increased $59,306 million compared to December 31, 1999. The increase was primarily due to the impact of the MediaOne acquisition, which resulted in increased goodwill, franchise costs, and investments including Time Warner Entertainment and Vodafone Group plc and the impact of the consolidation of Excite@Home. Additional increases resulted from capital expenditures, net of depreciation. Such increases were partially offset by a decrease in the mark-to-market valuation of certain investments.

Total liabilities were $65,086 million as of December 31, 2000, which increased $28,774 million compared to December 31, 1999 primarily due to the impact of the MediaOne acquisition, including the debt and deferred taxes, as well as the consolidation of Excite@Home. Total debt also increased due to the monetization of investments in Microsoft and Comcast. At December 31, 2000, $8.7 billion of total debt was monetized investments, where such investments can be delivered in full satisfaction of the underlying debt at the time of maturity.

Minority interest increased $2,094 million to $4,421 million at December 31, 2000, primarily reflecting the minority interest in Excite@Home resulting from the consolidation of Excite@Home beginning September 1, 2000 and the outstanding preferred stock of a MediaOne subsidiary.

Combined attributed net assets were $43,317 million as of December 31, 2000, an increase of $28,428 million compared to December 31, 1999. The increase was primarily due to the net transfers from AT&T for the MediaOne acquisition and net transfers from AT&T to fund capital expenditures.

RISK MANAGEMENT

AT&T Broadband Group is exposed to market risk from changes in interest rates, as well as changes in equity prices associated with affiliated companies. In addition, AT&T Broadband Group is exposed to

market risk from fluctuations in the prices of securities which have been monetized through the issuance of debt. On a limited basis, certain derivative financial instruments, including interest rate swaps and options are used to manage these risks. Financial instruments are not used for trading or speculative purposes. All financial instruments are used in accordance with AT&T board-approved policies.

Interest rate swaps are used to manage the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. Option contracts are used to reduce exposure to the risk of fluctuations in the prices of securities that have been monetized. Interest rate risk is monitored on the basis of changes in fair value. Assuming a 10% downward shift in interest rates, the fair value of interest rate swaps and the underlying hedged debt would have changed by $15 million and $1 million at December 31, 2000 and 1999, respectively. In addition, certain debt is indexed to the market prices of certain securities owned. Changes in the market price of these securities result in changes in the fair value of this debt. Assuming a 10% downward change in the market price of the securities, the fair value of the underlying debt and securities would have decreased by $534 million at December 31, 2000. Assuming a 10% downward shift in interest rates at December 31, 2000 and 1999, the fair value of unhedged debt would have increased by $563 million and $288 million, respectively.

Equity hedges are used to manage exposure to changes in equity prices associated with stock appreciation rights, or SARs. Assuming a 10% decrease in equity prices of affiliated companies, the fair value of equity hedges would have decreased by $29 million and $75 million at December 31, 2000 and 1999, respectively. Because these contracts are entered into for hedging purposes, it's believed that the decrease in fair value would be largely offset by gains on the underlying transaction.

In order to determine the changes in fair value of the various financial instruments, certain modeling techniques, namely Black-Scholes, are used for the SARs and equity collars. Rate sensitivity changes are directly applied to interest rate swap transactions.

The changes in fair value, as discussed above, assume the occurrence of certain adverse market conditions. They do not consider the potential effect of favorable changes in market factors and do not represent projected losses in fair value expected to incur. Future impacts would be based on actual developments in global financial markets. There are no significant foreseen changes in the strategies used to manage interest rate risk or equity price risk in the near future.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting standard No. 141, "Business Combinations," which supercedes Accounting Principles Board ("APB") Opinion No. 16. SFAS No. 141 requires all business combinations initiated after June 30, 2001 be accounted for under the purchase method. In addition, SFAS No. 141 establishes criteria for the recognition of intangible assets separately from goodwill. These requirements are effective for fiscal years beginning after December 15, 2001, which for AT&T Broadband Group means January 1, 2002. AT&T Broadband Group does not expect the adoption of SFAS No. 141 will have a material effect on AT&T Broadband Group's results of operations, financial position or cash flow.

Also in June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which supercedes APB Opinion No. 17. Under SFAS No. 142 goodwill and indefinite lived intangible assets will no longer be amortized, but rather will be tested for impairment upon adoption and at least annually thereafter. In addition, the amortization period of intangible assets with finite lives will no longer be limited to 40 years. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, which for AT&T Broadband Group means the standard will be adopted on January 1, 2002. In connection with the adoption of this standard, AT&T Broadband Group's unamortized goodwill balance will no longer be amortized, but will continue to be tested for impairment. The goodwill balance as of September 30, 2001 was $19.4 billion with related amortization expense for the nine months ended September 30, 2001 of $534 million. The excess basis related to AT&T Broadband Group's equity method investments as of September 30, 2001 was $8.6 billion with related amortization of $120 million. In accordance with this statement these costs will no longer be amortized beginning January 1, 2002. In addition, AT&T

VII-36

Broadband Group has determined that franchise costs are indefinite lived assets and therefore, as of January 1, 2002 will no longer be subject to amortization, but will continue to be tested for impairment. The franchise cost balance as of September 30, 2001 was $43.3 billion with related amortization expense for the nine months ended September 30, 2001 of $929 million. AT&T Broadband Group is continuing to assess the adoption impairment impacts of such standard on AT&T Broadband Group's results of operations.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard requires that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. Upon initially recognizing a liability for an asset retirement obligation, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. Over time, this liability is accreted to its present value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002, which for AT&T Broadband Group means the standard will be adopted on January 1, 2003. AT&T Broadband Group does not expect that the adoption of this statement will have a material impact on AT&T Broadband Group's results of operations, financial position or cash flows.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 applies to all long-lived assets, including discontinued operations, and consequently amends APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Based on SFAS No. 121, SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale, as well as addresses the principal implementation issues. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, which for AT&T Broadband Group means the standard will be adopted on January 1, 2002. AT&T Broadband Group does not expect that the adoption of SFAS No. 144 will have a material impact on AT&T Broadband Group's results of operations, financial position or cash flows.

SUBSEQUENT EVENTS

In October 2001, AT&T Broadband Group sold approximately 19.2 million shares of Cablevision NY Group Class A common stock and, through a trust, 23.4 million shares of a mandatorily exchangeable trust security that will be exchangeable into up to 23.4 million shares of Cablevision NY Group Class A common stock at maturity in three years. The offering price was $36.05 per share for both the common shares and the exchangeable securities. The offerings generated approximately $1,323 million of pretax cash proceeds, net of underwriting fees. The sale resulted in a pretax loss of approximately $271 million. In addition, the underwriters have exercised a portion of their over-allotment options, which resulted in the sale of an additional 3.5 million shares of the exchangeable securities through the trust. AT&T Broadband Group received additional cash proceeds of approximately $99 million from this transaction.

In December 2001, AT&T Broadband Group sold approximately 12.8 million shares of Cablevision's Rainbow Media Group Class A tracking stock and, through a trust, 8.5 million shares of a mandatorily exchangeable trust security that will be exchangeable into up to 8.5 million shares of Rainbow Media Group Class

A tracking stock at maturity in three years. The offering price was $22.50 per share for both the tracking stock shares and the exchangeable trust securities. The offerings generated approximately $424 million of pretax cash proceeds, net of underwriting fees. The sale resulted in a pretax gain of

approximately $66 million. In addition, the underwriters have exercised their over-allotment options, which resulted in the sale of an additional 1.9 million tracking stock shares and, through the trust, 1.3 million shares of the exchangeable securities. AT&T Broadband Group received additional proceeds of approximately $63 million.

During the fourth quarter of 2001, AT&T Broadband Group recorded an impairment charge of $450 million. The impairment charge primarily resulted from management's conclusion that declines in market value were not temporary or the investment could not be held for a period of time to allow for recoverability of fair value as in the case of exchangeable notes due in late 2002 that can be settled with shares of Vodafone ADRs.

In January and February 2002, AT&T announced that it will redeem $1,312 million of trust preferred securities in February and March of 2002. These amounts are classified as long-term debt in the combined balance sheets.

CHAPTER EIGHT
DESCRIPTION OF GOVERNANCE ARRANGEMENTS FOLLOWING THE AT&T COMCAST TRANSACTION

AT&T COMCAST BOARD OF DIRECTORS

Upon completion of the transaction, the initial AT&T Comcast Board will have twelve members, five of whom will be designated by Comcast from the existing Comcast Board, five of whom will be designated by AT&T from the existing AT&T Board and two of whom will be jointly designated by Comcast and AT&T and will be independent persons. At all times, the AT&T Comcast Board will consist of a majority of independent persons. Except for pre-approved designees, the individuals designated by each of Comcast and AT&T will be mutually agreed upon by Comcast and AT&T. Ralph J. Roberts, Brian L. Roberts, Sheldon M. Bonovitz, Julian A. Brodsky and Decker Anstrom are pre-approved Comcast director designees and C. Michael Armstrong is a pre-approved AT&T director designee. All of the initial director designees will hold office until the 2005 annual meeting of AT&T Comcast shareholders, or the "Initial Term," which will be held in April 2005. After the Initial Term, the entire AT&T Comcast Board will be elected annually.

During the Initial Term, vacancies on the AT&T Comcast Board left by a Comcast director designee will be filled by a majority of the remaining Comcast director designees (provided that, at all times, one of the Comcast director designees must be an independent person), vacancies on the AT&T Comcast Board left by an AT&T director designee will be filled by a majority of the remaining AT&T director designees and, subject to the prior approval of the AT&T Comcast Board, vacancies on the AT&T Comcast Board left by a Comcast/AT&T joint director designee will be filled by the remaining Comcast/AT&T joint director designee (provided that any such replacement joint director designee must be an independent person). After the Initial Term, the AT&T Comcast Board will fill any vacancies on the AT&T Comcast Board that may arise.

For information concerning each of the pre-approved Comcast director designees, see Comcast's proxy statement for its 2002 annual meeting of shareholders. For information concerning the pre-approved AT&T director designee, see "Information about the AT&T Annual Meeting and Voting -- Election of Directors."

DIRECTORS NOMINATING COMMITTEE

Upon completion of the transaction, AT&T Comcast will have a Directors Nominating Committee that will have the power to nominate individuals for election as AT&T Comcast directors at the 2005 annual meeting of shareholders and thereafter. The composition of the Directors Nominating Committee will depend on whether Brian L. Roberts is the Chairman of the Board or CEO of AT&T Comcast. During the Initial Term, if Brian L. Roberts is the Chairman of the Board or the CEO, the Directors Nominating Committee will consist of Brian L. Roberts, one Comcast director designee who is an independent person selected by the Comcast director designees and three independent persons who are selected by the Comcast director designees from the AT&T director designees and the Comcast/AT&T joint director designees. During the Initial Term, if Brian L. Roberts is not the Chairman of the Board or the CEO, the Directors Nominating Committee will consist of two Comcast director designees (one of whom shall be an independent person) who are selected by the Comcast director designees and three independent persons who are selected by the Comcast director designees from the AT&T director designees and the Comcast/AT&T joint director designees.

After the Initial Term, the Directors Nominating Committee will consist of Brian L. Roberts, if he is the Chairman of the Board or the CEO, and four directors who are independent persons selected by Brian L. Roberts; provided that no director who was a Comcast director designee may be selected by Brian L. Roberts as a member of the Directors Nominating Committee prior to the seventh anniversary of the date that such director was initially elected to the AT&T Comcast Board. After the Initial Term, if Brian L. Roberts is not the Chairman of the Board or the CEO, the AT&T Comcast Board will determine

the composition of the Directors Nominating Committee. At any time that Brian L. Roberts is a member of the Directors Nominating Committee, he will be the chairman of that committee. Nominations of the Directors Nominating Committee will be submitted directly to the AT&T Comcast shareholders without any requirement of AT&T Comcast Board approval or ratification.

MANAGEMENT

Chairman of the Board. Upon the completion of the transaction, C. Michael Armstrong, AT&T's Chairman of the Board, will be Chairman of the Board of AT&T Comcast. C. Michael Armstrong will serve as Chairman of the Board until the 2005 annual meeting of AT&T Comcast shareholders, but he will serve as non-executive Chairman of the Board after April 1, 2004. After the 2005 annual meeting of AT&T Comcast shareholders, or if C. Michael Armstrong ceases to serve as Chairman of the Board prior to that date, Brian L. Roberts will be the Chairman of the Board.

The Chairman of the Board will preside at all meetings of the AT&T Comcast shareholders and of the AT&T Comcast Board and will have the authority to call special meetings of the AT&T Comcast Board. Removal of the Chairman of the Board will require the vote of at least 75% of the entire AT&T Comcast Board until the earlier to occur of (1) the date on which neither C. Michael Armstrong nor Brian L. Roberts is Chairman of the Board and (2) the fifth anniversary of the 2005 annual meeting of AT&T Comcast shareholders.

Chief Executive Officer and President. Upon completion of the transaction, Brian L. Roberts, Comcast's President, will be the CEO of AT&T Comcast. Brian L. Roberts will also be President for as long as he is the CEO. The CEO's powers and responsibilities will include:

- the supervision and management of AT&T Comcast's business and operations,

- all matters related to officers and employees, including hiring and termination,

- all rights and powers typically exercised by a corporation's chief executive officer and president, and

- the authority to call special meetings of the AT&T Comcast Board.

Removal of the CEO will require the vote of at least 75% of the entire AT&T Comcast Board until the earlier to occur of (1) the date on which Brian L. Roberts ceases to be the CEO and (2) the fifth anniversary of the 2005 annual meeting of AT&T Comcast shareholders.

Senior Management. The CEO will select the initial senior management of AT&T Comcast in consultation with the Chairman of the Board.

OFFICE OF THE CHAIRMAN

Upon completion of the transaction, AT&T Comcast will have an Office of the Chairman comprised of the Chairman of the Board and the CEO from the completion of the transaction until the earlier to occur of (1) the 2005 annual meeting of AT&T Comcast shareholders and (2) the date on which C. Michael Armstrong ceases to be the Chairman of the Board. The Office of the Chairman will be AT&T Comcast's principal executive deliberative body with responsibility for corporate strategy, policy and direction, governmental affairs and other significant matters. While the Office of the Chairman is in effect, the Chairman of the Board and the CEO will advise and consult with each other with respect to those matters.

AMENDMENT AND TERMINATION

The AT&T Comcast charter provisions that implement the foregoing governance arrangements may not be amended or changed except with the approval of 75% of the entire AT&T Comcast Board until the

earlier to occur of (1) the date on which Brian L. Roberts is no longer serving as Chairman of the Board or CEO and (2) the fifth anniversary of the 2005 annual meeting of AT&T Comcast shareholders. If Brian L. Roberts is no longer serving as either Chairman of the Board or CEO, with the exception of the provisions regarding the Directors Nominating Committee and the requirement that the AT&T Comcast Board be comprised of a majority of independent persons, the governance arrangements described above will automatically terminate. Notwithstanding the foregoing, if Brian L. Roberts ceases to serve as Chairman of the Board or CEO prior to the 2005 annual meeting of AT&T Comcast shareholders, the provisions relating to the AT&T Comcast Board, the Office of the Chairman, the Chairman of the Board (other than the requirement that a removal of the Chairman of the Board occur only with the approval of 75% of the entire AT&T Comcast Board) and the Directors Nominating Committee will survive through the close of that meeting.

CHAPTER NINE
EMPLOYEE BENEFITS MATTERS

INTERESTS OF DIRECTORS AND OFFICERS IN THE AT&T COMCAST TRANSACTION

GENERAL

In considering the respective recommendations of the Comcast Board and the AT&T Board with regard to the AT&T Comcast transaction, you should be aware that, as described below, several members of the respective managements and boards of directors of Comcast and AT&T may have interests in the AT&T Comcast transaction that are different from, or in addition to, your interests. The Comcast Board and the AT&T Board were each aware of such interests and considered them, among other matters, when voting to approve the AT&T Comcast transaction.

COMCAST

Governance Structure and Management Positions. Pursuant to the terms of the merger agreement, upon completion of the AT&T Comcast transaction:

- The AT&T Comcast Board will initially be comprised of twelve individuals, five of whom will be existing Comcast directors designated by Comcast, five of whom will be existing AT&T directors designated by AT&T and two of whom will be independent persons jointly designated by Comcast and ATT

- Brian L. Roberts, President of Comcast, will serve as CEO and President of AT&T Comcast. Removal of the CEO requires the vote of at least 75% of the entire AT&T Comcast Board until the earlier of the date when Brian L. Roberts is not the CEO and the fifth anniversary of the 2005 annual meeting of shareholders;

- The initial senior officers of AT&T Comcast will be designated by Brian L. Roberts in consultation with C. Michael Armstrong; and

- Sural LLC will hold shares of AT&T Comcast Class B common stock constituting 33 1/3% of the combined voting power of AT&T Comcast common stock. Brian L. Roberts has sole voting power over stock representing a majority of the voting power of all Sural LLC stock.

Employment Agreements. Pursuant to the terms of the merger agreement, AT&T Comcast will offer to enter into employment agreements, effective as of the completion of the AT&T Comcast transaction, with Brian L. Roberts (pursuant to which he will serve as CEO and President of AT&T Comcast) and with Ralph J. Roberts. Each of these employment agreements will have terms ending no earlier than the date of the 2005 annual meeting of AT&T Comcast shareholders. Each of these employment agreements will be on substantially the same terms as the existing applicable employment agreement with Comcast. If the AT&T Comcast Board establishes an Executive Committee, Ralph J. Roberts, Chairman of the Board of Comcast, will serve as the Chairman of this committee.

Brian L. Roberts's existing employment agreement with Comcast provides for the payment of base salary and an annual bonus of up to 150% of base salary for the applicable year. Upon termination of his employment, Brian L. Roberts is entitled to certain benefits as described in his agreement. Certain benefits resulting from the occurrence of a change in control are described below. Under his current agreement, he has agreed not to compete with Comcast during his employment and for two years after any termination of his employment other than a termination following a change in control.

Ralph J. Roberts's existing employment agreement with Comcast provides for the payment of base salary and an annual bonus of up to 50% of base salary for the applicable year. It also provides for maintenance of split-dollar life insurance and the payment of a supplemental death benefit to the personal representatives of Ralph J. Roberts within six months of his death. Upon termination of his employment, Ralph J. Roberts is entitled to certain benefits as described in his agreement. Certain benefits resulting from the occurrence of a change in control are described below. Under his current agreement, he has

agreed not to compete with Comcast during his employment and for five years after termination of his employment. The employment agreement also provides that Ralph J. Roberts may at any time, upon 30 days' notice to Comcast, elect to change his position from that of an executive to that of a consultant. In such event, he shall continue to receive all of the compensation provided under his employment agreement, other than his annual bonus. If he elects to become a consultant, his entitlement to retirement benefits under Comcast's supplemental executive retirement plan will be adjusted annually to reflect 150% of his base salary as consultant, but his benefits under such plan will not in any event exceed the bonus he could have received under his employment agreement had he continued to work as an executive. If you are interested in further information about either of these agreements, see section [   ] of Comcast's proxy statement used in connection with its 2002 annual meeting of shareholders.

Under each of the existing employment agreements with Brian L. Roberts and Ralph J. Roberts, Comcast must establish and fund a grantor trust for each individual prior to a change in control (as defined in such agreements). It is anticipated that the AT&T Comcast transaction will constitute a change in control under these agreements. With respect to Brian L. Roberts, the trust will be established and funded for purposes of paying all deferred compensation, retirement benefits and term life insurance premiums and bonuses then applicable for Brian L. Roberts. With respect to Ralph J. Roberts, the trust will be established and funded for purposes of paying all deferred compensation, nonqualified retirement benefits and split-dollar term life insurance premiums and bonuses then applicable for Ralph J. Roberts. The amount required to fund such trusts is not expected to exceed $150 million. Upon a change in control, each trust must become irrevocable and Comcast must continue to make payments into each trust to maintain sufficient amounts in the trusts to fund all benefits subject to the trusts.

Equity Awards. None of the stock-based awards granted under any of the equity-based plans maintained by Comcast will vest as a result of the AT&T Comcast transaction. For the treatment of Comcast stock options and equity awards in the AT&T Comcast transaction, see "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement."

Security Ownership of Officers and Directors. For information concerning security ownership of directors and certain officers of Comcast, see Comcast's proxy statement used in connection with its 2002 annual meeting of shareholders, the relevant portions of which are incorporated by reference in this joint document from Comcast's annual report on Form 10-K for the fiscal year ended December 31, 2001.

AT&T

Governance Structure and Management Positions. Pursuant to the terms of the merger agreement, upon completion of the AT&T Comcast transaction:

- The AT&T Comcast Board will initially be comprised of twelve individuals, five of whom will be existing AT&T directors designated by AT&T, five of whom will be existing Comcast directors designated by Comcast and two of whom will be independent persons jointly designated by Comcast and ATT and

- C. Michael Armstrong, Chairman of the Board and Chief Executive Officer of AT&T, will serve as the Chairman of the Board of AT&T Comcast. C. Michael Armstrong will serve as chairman of the Board until the 2005 annual meeting of AT&T Comcast shareholders, but he will serve as non-executive Chairman of the Board after April 1, 2004. Removal of the Chairman of the Board requires the approval of at least 75% of the entire AT&T Comcast Board until the earlier of the date that neither C. Michael Armstrong nor Brian L. Roberts is Chairman of the Board and the fifth anniversary of the 2005 annual meeting of shareholders.

Employment Agreements. Pursuant to the employee benefits agreement and in connection with the AT&T Broadband spin-off, AT&T Broadband will assume C. Michael Armstrong's current employment agreement with AT&T and William T. Schleyer's current employment agreement with AT&T.

Pursuant to the terms of the merger agreement, AT&T Comcast will offer to enter into an employment agreement, effective as of the completion of the AT&T Comcast transaction, with C. Michael

Armstrong to serve as Chairman of the Board of AT&T Comcast. The term of this employment agreement will end no earlier than the date of the 2005 annual meeting of AT&T Comcast shareholders. This employment agreement will be on substantially the same terms as C. Michael Armstrong's existing employment agreement with AT&T.

See page [ ] of this document for a description of C. Michael Armstrong's current employment agreement with AT&T and page [ ] of this document for a description of William T. Schleyer's current employment agreement with AT&T.

Severance Plan. Each AT&T executive officer who becomes employed by AT&T Broadband prior to the completion of the AT&T Comcast transaction will be entitled to receive the greater of the severance under his employment agreement, if any, or the severance benefits under the terms of the applicable AT&T Broadband severance plan if terminated as described below. Upon termination of employment by AT&T Broadband without cause or for good reason within two years following a change in control of AT&T Broadband (as such terms are defined in the applicable plan), members of senior management will be eligible to receive, in a lump sum payment, three times the sum of (1) annual base salary, (2) short-term incentive (payable at 100% of target), and (3) in the case of senior officers, the performance share target for the year in which the AT&T Comcast transaction occurs, plus the amount necessary to compensate for any excise tax due on any amounts payable under the plan. Upon a termination of employment without cause or for good reason within the two years following a change in control of AT&T Broadband, other participants in the plan are eligible to receive benefits ranging from 12 weeks of base salary to 2 years of base salary and 2 years of short term incentives (payable at 100% of target), depending on job level and years of service, plus the amount necessary to compensate for any excise tax due on any amounts payable under the plan. In addition, individuals who terminate employment under the terms of the applicable plan will be entitled to certain other post-termination benefits, including payment of the cost of COBRA benefits for 12 months, subsidized health care coverage for six months, and continuation of life insurance for 12 months post-termination. The AT&T Comcast transaction will constitute a change in control under the applicable

AT&T Broadband severance plans.

Based on currently available information, if all executive officers of AT&T expected to become employees of AT&T Broadband prior to completion of the AT&T Comcast transaction were terminated without cause immediately following completion of the AT&T Comcast transaction, such executive officers would receive under their employment agreements or the applicable AT&T Broadband severance plan, as applicable, severance payments approximately equal in the aggregate to $[   ].

Equity Awards. Immediately prior to the AT&T Comcast transaction, as a part of the AT&T Broadband spin-off, AT&T restricted stock and other equity-based awards will be converted as described below. In connection with the conversions, adjustments will be made to maintain the intrinsic value of the original AT&T options and the fair market value of the original AT&T restricted stock or other equity-based award immediately before and after the AT&T Broadband spin-off:

- AT&T stock options held by current employees of AT&T (other than employees of AT&T Broadband) will be converted into adjusted AT&T stock options;

- AT&T restricted shares held by current employees of AT&T (other than employees of AT&T Broadband) will be converted into (1) adjusted AT&T restricted shares and (2) equity-based awards based on AT&T Broadband common stock;

- AT&T stock options held by current employees of AT&T Broadband (including any AT&T employees who become employees of AT&T Broadband in connection with the AT&T Broadband spin-off) will be converted into AT&T Broadband stock options;

- AT&T restricted shares held by current employees of AT&T Broadband (including AT&T employees who become employees of AT&T Broadband in connection with the AT&T Broadband spin-off) will be converted into (1) adjusted AT&T restricted shares and (2) AT&T Broadband restricted shares;

IX-3

- AT&T stock options held by former employees of AT&T and AT&T Broadband will be converted into (1) adjusted AT&T stock options and (2) AT&T Broadband stock options; and

- Other equity-based awards based on AT&T common stock, regardless of by whom held, will be converted into (1) adjusted equity-based awards based on AT&T common stock and (2) equity-based awards based on AT&T Broadband common stock.

As of the completion of the AT&T Comcast transaction, all outstanding AT&T Broadband stock options held by current AT&T Broadband employees (including AT&T executive officers who become employees of AT&T Broadband in connection with the AT&T Broadband spin-off) will, by their terms, have vested and become fully exercisable through the remainder of the original option period (except for awards held by any AT&T executive officer who has waived rights to vesting of certain equity awards as a result of the AT&T Comcast transaction) and will be converted into AT&T Comcast stock options pursuant to the merger agreement. In addition, all restricted shares and other equity-based awards based on either AT&T or AT&T Broadband stock held by current and former employees of AT&T Broadband (including any AT&T executive officer who becomes an employee of AT&T Broadband in connection with the AT&T Broadband spin-off) will, by their terms, have fully vested (except for awards held by any AT&T executive officer who has waived rights to vesting of certain equity awards as a result of the AT&T Comcast transaction). AT&T Broadband stock options, restricted shares and other equity-based awards based on AT&T Broadband stock will be converted into AT&T Comcast stock options, restricted shares and other equity-based awards based on AT&T Comcast stock pursuant to the merger agreement. For the treatment of AT&T Broadband stock options and equity awards in the AT&T Comcast transaction, see "Description of the AT&T Comcast Transaction Agreements -- The Merger Agreement."

As of [ ], 2002, the number of shares underlying unvested AT&T stock options and shares of restricted AT&T common stock held by directors and executive officers of AT&T currently expected to become employees of AT&T Broadband in the AT&T Broadband spin-off totaled [ ]. AT&T executive officers currently expected to become employees of AT&T Broadband (other than any executive officer who has waived rights to vesting of certain equity awards as a result of the AT&T Comcast transaction) are expected to hold, based on certain assumptions and currently available information, (a) unvested AT&T Broadband stock options that will have become vested as of the completion of the AT&T Comcast transaction with an aggregate in-the-money value of $[ ], (b) shares of AT&T and AT&T Broadband restricted stock that will become unrestricted as a result of the AT&T Comcast transaction with an aggregate value of $[ ], and (c) other equity-based awards (based on AT&T or based on AT&T Broadband stock) that will vest as a result of the AT&T Comcast transaction with an aggregate value of $[ ], in each case, based on an AT&T common stock price of $[ ] (the closing price of a share of AT&T common stock on [ ]).

In addition, after conversion of their original AT&T equity awards in the AT&T Broadband spin-off, directors and officers of AT&T who do not become employed by AT&T Broadband in the AT&T Broadband spin-off will hold in the aggregate equity-based awards denominated with respect to [ ] shares of AT&T Broadband common stock. These awards will not vest as a result of the AT&T Comcast transaction, but will vest according to their original terms. See "Employee Benefits Matters."

Security Ownership of Officers and Directors. For information concerning security ownership of directors and certain officers of AT&T, see [ ].

Other Executive Benefit Plans. Each executive officer of AT&T who becomes employed by AT&T Broadband prior to the completion of the AT&T Comcast transaction, including C. Michael Armstrong and William T. Schleyer, will participate in benefit plans maintained by AT&T Broadband. These plans contain provisions relating to a change in control, as summarized below:

- AT&T Broadband Pension Plan. Upon completion of the AT&T Comcast transaction, the plan cannot be amended to reduce change in control benefits for two years, and, if a participant's employment is terminated either without cause by AT&T Broadband or for good reason by the

participant within two years after the AT&T Comcast transaction, such participant will be fully vested in his or her account, will have his or her service bridged, and will be entitled to a special pension enhancement payment.

- AT&T Broadband Nonqualified Pension Plan. Upon completion of the AT&T Comcast transaction, the plan cannot be amended to reduce change in control benefits for two years, the present value of the benefits under the plan will be funded in trust, and, if a participant's employment is terminated without cause by AT&T Broadband or for good reason by the participant within two years after the AT&T Comcast transaction, such participant will be fully vested in his or her account, and will have his or her service bridged.

- AT&T Broadband Deferred Compensation Plan. Upon completion of the AT&T Comcast transaction, the plan cannot be adversely amended or terminated for three years, the present value of the benefits of the plan will be funded in trust, participants in the plan will be completely vested in their accounts, and the interest rates applied to participants' accounts cannot be decreased for three years below the level they are at prior to completion of the AT&T Comcast transaction.

- AT&T Broadband Long Term Savings Plan. Upon completion of the AT&T Comcast transaction, participants in the plan will be fully vested in their company matching contribution accounts and the plan cannot be amended to reduce change in control benefits for two years.

INDEMNIFICATION AND INSURANCE

- AT&T Comcast has agreed to indemnify the present and former officers and directors of AT&T, the AT&T subsidiaries, AT&T Broadband, the AT&T Broadband subsidiaries, Comcast and the Comcast subsidiaries, and each individual who prior to the completion of the transaction becomes such an officer or director, from their acts or omissions in those capacities occurring at or prior to the completion of the transaction to the maximum extent permitted by law; provided, however, no such indemnification will be required for officers or directors acting in a capacity for AT&T and its subsidiaries other than in connection with either AT&T's broadband business or the merger agreement and the transactions contemplated by the merger agreement.

- AT&T (and not AT&T Broadband) will indemnify and hold harmless AT&T Comcast for 50% of any losses described in the preceding paragraph arising out of acts or omissions of the AT&T officers and directors in connection with the merger agreement and the transactions contemplated by the merger agreement.

- For six years after completion of the transaction, AT&T Comcast will provide, or cause to be provided, officers' and directors' liability insurance in respect of acts or omissions occurring prior to completion of the transaction, covering each officer and director identified in the first bullet point above (for officers and directors of AT&T and its subsidiaries, only for acts or omissions of such person acting in connection with AT&T's broadband business or the merger agreement and the transactions contemplated by the merger agreement) currently covered by the officers' and directors' liability insurance policy of AT&T or Comcast, as the case may be, on terms no less favorable than those of such policy in effect on December 19, 2001, except that AT&T Comcast will only be obligated to pay up to 300% of the annual premium paid for such insurance by either AT&T or Comcast as of December 19, 2001.

COMPENSATION OF DIRECTORS

In accordance with the existing practice of Comcast and AT&T, it is expected that directors of AT&T Comcast who are not employees of AT&T Comcast will receive compensation for service on the AT&T Comcast Board.

COMPENSATION OF EXECUTIVE OFFICERS

AT&T Comcast has not yet paid any compensation to any other person expected to become an executive officer of AT&T Comcast. The form and amount of compensation to be paid to each of AT&T Comcast's executive officers in any future period will be determined by the Chief Executive Officer in consultation with the Chairman of the Board, the AT&T Comcast Board or a committee of the AT&T Comcast Board.

For information concerning the compensation paid to, and the employment agreements with, the President of Comcast and the four most highly compensated executive officers of Comcast (other than the President) for the 2001 fiscal year, see Comcast's proxy statement used in connection with its 2002 annual meeting of shareholders, the relevant portions of which are incorporated by reference in this document from Comcast's annual report on Form 10-K for the fiscal year ended December 31, 2001.

For information concerning the compensation paid to, and the employment agreements with, the CEO of AT&T and the four most highly compensated executive officers of AT&T (other than the CEO) for the 2001 fiscal year, see [   ].

OTHER BENEFITS MATTERS

Maintenance of Benefits for AT&T Broadband Employees. In the merger agreement, AT&T Comcast has agreed to honor the terms of all AT&T Broadband employee benefit plans and arrangements and to pay and provide the benefits required thereunder, recognizing that the AT&T Comcast transaction is a change in control under the plans, and to provide, until December 31, 2003, to employees (other than those subject to collective bargaining obligations or agreements) of AT&T Broadband and its subsidiaries aggregate employee benefits and compensation that are substantially comparable in the aggregate to those provided by AT&T Broadband and its subsidiaries as of the completion of the AT&T Comcast transaction, other than benefits provided under severance or separation plans of AT&T Broadband or its subsidiaries. Until December 31, 2003, AT&T Comcast has agreed to continue certain severance plans of AT&T Broadband and its subsidiaries without adverse change. If employees of AT&T Broadband or its subsidiaries are included in any employee benefit plan sponsored by AT&T Comcast, they will receive credit for past service and for deductible, co-insurance and out-of-pocket expenses incurred prior to the AT&T Comcast transaction, and shall waive all pre-existing condition, limitations or other requirements. As soon as practicable after December 31, 2003, eligible AT&T Broadband employees shall be allowed to participate in any retirement, medical or life insurance benefit plan sponsored by AT&T Comcast or one of its subsidiaries. With respect to AT&T Broadband employees who are subject to collective bargaining obligations or agreements, their benefits will be governed by the terms of such obligations or agreements.

One-Time Stock Option Grant. In the merger agreement, AT&T Comcast has agreed to offer to each of its or any of its subsidiaries' full-time employees a one-time grant of options to purchase a number of shares of AT&T Comcast common stock equal to 300 multiplied by the AT&T Broadband exchange ratio. This grant will be made as soon as practicable after the completion of the AT&T Comcast transaction.

AT&T Stock Options. In the merger agreement, AT&T has agreed that, with respect to AT&T stock options or other equity awards based on AT&T common stock granted in the period beginning on the date the merger agreement was signed and ending at the completion of the AT&T Comcast transaction, the AT&T Comcast transaction will not constitute a "change in control" for purposes of accelerating the vesting of such awards; provided that upon certain terminations of employment following the completion of the AT&T Comcast transaction awards will become fully vested upon termination and will remain exercisable for the full extent of the original term of the award.

Employee Benefits Agreement. In connection with the AT&T Broadband spin-off, AT&T and AT&T Broadband entered into an employee benefits agreement dated as of December 19, 2001. The following summary of the employee benefits agreement is qualified in its entirety by reference to the complete text of the employee benefits agreement, which is attached as an exhibit to the registration statement in which this

document is included and is incorporated by reference in this document. The employee benefits agreement covers a wide range of compensation and benefits issues. In general, after the AT&T Broadband spin-off, AT&T Broadband will be responsible for all obligations and liabilities relating to current and former employees of AT&T Broadband and its subsidiaries and their dependents and beneficiaries and AT&T will be responsible for all obligations and liabilities relating to current and former employees of AT&T and its subsidiaries (other than AT&T Broadband and its subsidiaries) and their dependents and beneficiaries. Employees of AT&T Broadband or any of its subsidiaries are referred to in this document as "AT&T Broadband employees." Employees of AT&T who are transferred to AT&T Broadband prior to the AT&T Broadband spin-off are referred to in this document as "AT&T Broadband transferees." Employees of AT&T or any of its subsidiaries (other than AT&T Broadband employees or AT&T Broadband transferees) are referred to in this document as "AT&T employees."

As of the date of the AT&T Broadband spin-off, all AT&T Broadband employees and AT&T Broadband transferees will continue to be or be, as the case may be, employed by AT&T Broadband or its subsidiaries. If any AT&T Broadband transferee is on an approved leave of absence on the date of the AT&T Broadband spin-off, this employee will become an employee of AT&T Broadband or one of its subsidiaries upon return to active service.

As of the date of the AT&T Broadband spin-off, AT&T Broadband and its subsidiaries will cease to participate in any benefit plan or trust under any such plan sponsored or maintained by AT&T or its subsidiaries (other than AT&T Broadband) and AT&T will cease to participate in any benefit plan or trust under any such plan sponsored or maintained by AT&T Broadband or its subsidiaries. With respect to employees who are transferred to or from AT&T or AT&T Broadband, AT&T and AT&T Broadband will mutually recognize and credit service with the other employer, except for purposes of benefit accruals under defined benefit pension plans. Account balances of AT&T employees (excluding AT&T Broadband transferees) in the 401(k) plan maintained by AT&T Broadband will vest as of the date of the AT&T Broadband spin-off and account balances of AT&T Broadband employees and AT&T Broadband transferees in the 401(k) plans maintained by AT&T will vest as of the date of the AT&T Broadband spin-off. Each AT&T Broadband employee and AT&T Broadband transferee will be allowed to make an election to transfer his or her account to the 401(k) plan maintained by AT&T Broadband and each AT&T employee will be allowed to make an election to transfer his or her account to the 401(k) plans maintained by AT&T. AT&T shall provide Broadband transferees with lost matching contributions for the year of the AT&T Comcast transaction. Each AT&T Broadband employee and AT&T Broadband transferee will vest in his or her accrued benefit under the AT&T pension plans as of the date of the AT&T Broadband spin-off and each AT&T employee will vest in his or her accrued benefit under the AT&T Broadband pension plans as of the date of the AT&T Broadband spin-off, and will respectively be entitled to commence pension under such plans. AT&T Broadband employees and AT&T Broadband transferees will also be entitled to a distribution of their accounts under the AT&T Employee Stock Purchase Plan.

If terminated during the one-year period after the AT&T Broadband spin-off, AT&T Broadband transferees will be entitled to receive the greater of severance under the applicable AT&T severance plan or, the applicable AT&T Broadband severance plan. A Broadband transferee, however, may be entitled to greater severance under the terms of his or her applicable employment agreement.

As a part of the AT&T Broadband spin-off, AT&T restricted stock and other equity-based awards will be converted as described below. In connection with the conversions, adjustments will be made to maintain the intrinsic value of the original AT&T options and the fair market value of the original AT&T restricted stock or other equity-based award immediately before and after the AT&T Broadband spin-off:

- AT&T stock options held by AT&T employees will be converted into adjusted AT&T stock options;

- AT&T restricted shares held by AT&T employees will be converted into (1) adjusted AT&T restricted shares and (2) equity-based awards based on AT&T Broadband common stock;

- AT&T stock options held by AT&T Broadband employees and AT&T Broadband transferees will be converted into AT&T Broadband stock options;

- AT&T restricted shares held by AT&T Broadband employees and AT&T Broadband transferees will be converted into (1) adjusted AT&T restricted shares and (2) AT&T Broadband restricted shares;

- AT&T stock options held by former AT&T employees and former AT&T Broadband employees will be converted into (1) adjusted AT&T stock options and (2) AT&T Broadband stock options; and

- Other equity-based awards based on AT&T common stock, regardless of by whom held, will be converted into (1) adjusted equity-based awards based on AT&T common stock and (2) equity-based awards based on AT&T Broadband common stock.

Each adjusted AT&T stock option and AT&T Broadband stock option will generally be subject to the same terms and conditions as set forth in the original AT&T stock options, provided that, AT&T Broadband stock options held by AT&T Broadband employees and AT&T Broadband transferees (except for any AT&T executive officer who has waived rights to vesting of certain equity awards as a result of the AT&T Comcast transaction) will have vested as of the completion of the AT&T Comcast transaction and will remain exercisable through the remainder of their original terms (except for options granted after the merger agreement was signed). As of completion of the AT&T Comcast transaction, each AT&T Broadband restricted share will have become free of restrictions and each equity-based award (based on AT&T or AT&T Broadband common stock) held by current and former AT&T Broadband employees (including AT&T Broadband transferees) will have vested (in each case, except for awards held by any AT&T executive officer who has waived rights to vesting of certain equity awards as a result of the AT&T Comcast transaction).

CHAPTER TEN
AT&T CONSUMER SERVICES GROUP TRACKING STOCK

THE CONSUMER SERVICES CHARTER AMENDMENT PROPOSAL

AT&T urges all AT&T shareholders to read the form of proposed charter amendment, a copy of which we have attached as Annex M to this document.

GENERAL

AT&T is proposing the following amendment to its charter, which we refer to as the Consumer Services charter amendment proposal:

> Consumer Services Group tracking stock amendment -- an amendment to create a new class of common stock called Consumer Services Group common stock, par value $1.00 per share, intended to reflect the financial performance and economic value of AT&T's Consumer Services business. We refer to this stock as "AT&T Consumer Services Group tracking stock."

Approval of the Consumer Services charter amendment proposal requires a majority of the voting power of all outstanding shares of AT&T common stock to vote in its favor. THE AT&T BOARD RECOMMENDS THAT AT&T SHAREHOLDERS VOTE FOR APPROVAL. Any shares of AT&T common stock not voted, whether by abstention, broker non-vote or otherwise, have the effect of a vote against the Consumer Services charter amendment proposal.

CONSUMER SERVICES GROUP TRACKING STOCK AMENDMENT

The Consumer Services Group tracking stock amendment would, among other things:

- Define "AT&T Consumer Services Group," the financial performance and economic value of which is intended to be reflected in AT&T Consumer Services Group tracking stock. AT&T Consumer Services Group will consist of the assets and liabilities shown in the combined balance sheets of AT&T Consumer Services Group and will include:

  - all Consumer Services long distance customers;

  - all Consumer Services non-network support infrastructure, including ordering, provisioning, billing and care; and

  - all Consumer Services marketing operations.

- Establish the terms of AT&T Consumer Services Group tracking stock, consisting of [   ] authorized shares and entitling the holders of AT&T Consumer Services Group tracking stock to [   ] of a vote per share, voting as one class with all other classes and series of common stock and preferred stock of AT&T with respect to all matters to be voted upon by AT&T shareholders, except as otherwise required by the New York Business Corporation Law or by the terms of any other class or series of AT&T's capital stock.

A more complete description of AT&T Consumer Services Group tracking stock is included under "-- Terms of the Consumer Services Group Tracking Stock Amendment."

RECOMMENDATION OF THE AT&T BOARD

THE AT&T BOARD HAS APPROVED THE CONSUMER SERVICES CHARTER AMENDMENT PROPOSAL AND RECOMMENDS THAT AT&T SHAREHOLDERS VOTE FOR THE CONSUMER SERVICES CHARTER AMENDMENT PROPOSAL.

TERMS OF THE CONSUMER SERVICES GROUP TRACKING STOCK AMENDMENT

GENERAL

If the Consumer Services Group tracking stock amendment is adopted, AT&T will amend its charter to authorize [ ] shares of AT&T Consumer Services Group tracking stock. Approval of the Consumer Services charter amendment proposal will also allow the AT&T Board to amend AT&T's charter to eliminate all references to AT&T Wireless Group tracking stock, Class A Liberty Media Group common stock, Class B Liberty Media Group common stock, and AT&T Wireless Group preferred tracking stock and to redesignate such series as shares of common stock or preferred stock, as applicable, which would be available for issuance. Currently, 16.5 billion shares of AT&T capital stock are authorized, consisting of 100 million shares of preferred stock and 16.4 billion shares of common stock. If the Consumer Services charter amendment proposal is approved, the total number of authorized shares of AT&T common stock will be [ ] billion, of which [ ] will be designated AT&T Consumer Services Group tracking stock. As of [ ], 2002, AT&T had outstanding [ ] shares of AT&T common stock. As of [ ], 2002, [ ] shares of a series of preferred stock of AT&T were held by subsidiaries of AT&T.

AT&T CONSUMER SERVICES GROUP

AT&T intends AT&T Consumer Services Group tracking stock to reflect the financial performance and economic value of AT&T Consumer Services Group. The Consumer Services Group tracking stock amendment defines "AT&T Consumer Services Group" generally as the interest of AT&T or any of its subsidiaries in all of the businesses, assets and liabilities reflected in the unaudited combined financial statements of AT&T Consumer Services Group, dated , , as included in this document, including any successor to AT&T Consumer Services Group by merger, consolidation or sale of all or substantially all of its assets. The Consumer Services Group tracking stock amendment contains adjustments to the definition of "AT&T Consumer Services Group" to reflect, among other things, related assets and liabilities (including contingent liabilities), net income and net losses arising after the date of these financial statements, contributions and allocations of assets, liabilities and businesses between the AT&T groups and acquisitions and dispositions.

AT&T Consumer Services Group is not a stand-alone entity, and in considering the Consumer Services charter amendment proposal, AT&T shareholders should keep in mind:

- the AT&T Board will govern AT&T Consumer Services Group and could make operational and financial decisions or implement policies that disproportionately affect the businesses of AT&T Consumer Services Group;

- the AT&T Board may transfer funds or reallocate assets, liabilities, revenue, expenses and cash flows to or from AT&T Consumer Services Group without the consent of shareholders;

- the Consumer Services Group tracking stock amendment provides that AT&T Consumer Services Group allocation fraction may be adjusted by the AT&T Board as it deems appropriate to reflect contributions or allocations from AT&T Consumer Services Group to AT&T Business Services Group, or vice versa;

- all actions by the AT&T Board are subject to the board members' fiduciary duties under New York law to all AT&T shareholders as a group, not just to holders of a particular class of tracking stock, and to AT&T's charter, policy statements, bylaws and inter-company agreements; and

- the AT&T Board may redeem AT&T Consumer Services Group tracking stock without the consent of any holder.

Any retained portion of the value of AT&T Consumer Services Group represented by AT&T common stock will be included in AT&T Business Services Group. See "-- AT&T Consumer Services Group Allocation Fraction."

AT&T CONSUMER SERVICES GROUP ALLOCATION FRACTION

Operation of the Allocation Fraction. If AT&T distributes to the public shares of AT&T Consumer Services Group tracking stock intended to represent all of AT&T Consumer Services Group, AT&T will not initially have any retained portion of that group and the fraction discussed in this section will initially equal one.

AT&T Consumer Services Group tracking stock issued to the public may not represent all of the interest in the financial performance and economic value of AT&T Consumer Services Group. The Consumer Services Group tracking stock amendment defines the "AT&T Consumer Services Group allocation fraction" to represent the interest in the financial performance and economic value of AT&T Consumer Services Group reflected by AT&T Consumer Services Group tracking stock distributed to the public.

To the extent that AT&T Consumer Services Group tracking stock issued to the public does not represent all of the interest in the financial performance and economic value of AT&T Consumer Services Group, the remaining interest in the financial performance and economic value of AT&T Consumer Services Group will be allocated to AT&T. If AT&T is allocated an interest in the financial performance and economic value of AT&T Consumer Services Group, AT&T will have the right to participate in any dividend, distribution or liquidation made to holders of AT&T Consumer Services Group tracking stock. This right to participate is AT&T's retained portion of value of AT&T Consumer Services Group. If all of the interest in the financial performance and economic value of AT&T Consumer Services Group is intended to be fully reflected by AT&T Consumer Services Group tracking stock held by the public, none will be allocated to AT&T and this fraction will equal one.

Adjustments. Because the AT&T Consumer Services Group allocation fraction determines the relative percentage interest in AT&T Consumer Services Group of public holders of AT&T Consumer Services Group tracking stock, on the one hand, and AT&T, on the other hand, the AT&T Consumer Services Group allocation fraction may be adjusted from time to time as the AT&T Board deems appropriate for a number of reasons, including:

- to reflect the fair market value of contributions or allocations by AT&T of cash, property or other assets or liabilities from AT&T or AT&T Business Services Group to AT&T Consumer Services Group (or vice versa);

- to reflect the fair market value of contributions or allocations by AT&T of cash, property or other assets or liabilities of AT&T or AT&T Business Services Group to, or for the benefit of, employees of AT&T Consumer Services Group in connection with employee benefit plans or arrangements of AT&T or any of its subsidiaries (or vice versa);

- to reflect the number of shares of AT&T capital stock contributed to, or for the benefit of, employees of AT&T Consumer Services Group in connection with benefit plans or arrangements of AT&T or any of its subsidiaries;

- to reflect repurchases by AT&T of shares of AT&T Consumer Services Group tracking stock for the account of AT&T Consumer Services Group;

- to reflect issuances of AT&T Consumer Services Group tracking stock for the account of AT&T Consumer Services Group;

- to reflect dividends or other distributions to holders of AT&T Consumer Services Group tracking stock, to the extent no required payment is made to ATT

- to reflect subdivisions and combinations of AT&T Consumer Services Group tracking stock and stock dividends payable in shares of AT&T Consumer Services Group tracking stock; and

- under other circumstances as the AT&T Board determines appropriate to reflect the economic substance of any other event or circumstance.

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In addition, in determining the percentage interest of holders of AT&T Consumer Services Group tracking stock in any particular dividend or other distribution, AT&T will reduce the economic interest of holders of AT&T Consumer Services Group tracking stock to reflect dilution arising from shares of AT&T Consumer Services Group tracking stock reserved for issuance upon conversion, exercise or exchange of other securities that are entitled to participate in this dividend or other distribution.

The Consumer Services Group tracking stock amendment provides that any adjustment of this kind must be made in a manner that the AT&T Board determines to be fair and equitable to holders of AT&T common stock and AT&T Consumer Services Group tracking stock. In the event that any assets or other property are acquired by AT&T or AT&T Business Services Group and allocated or contributed to AT&T Consumer Services Group, the consideration paid by AT&T or AT&T Business Services Group to acquire these assets or other property will be presumed to be its "fair market value" as of its acquisition. Any adjustment to the AT&T Consumer Services Group allocation fraction made by the AT&T Board in good faith in accordance with these principles will be at the sole discretion of the AT&T Board, and this good faith determination of the AT&T Board will be final and binding on all AT&T shareholders.

VOTING RIGHTS

Currently, holders of AT&T common stock have one vote per share. Each outstanding share of AT&T Consumer Services Group tracking stock initially will have [   ] of a vote. The voting rights of AT&T Consumer Services Group tracking stock will be subject to adjustments to reflect stock splits, reverse stock splits, stock dividends or certain stock distributions with respect to AT&T common stock, AT&T Consumer Services Group tracking stock or any other class of AT&T common shares.

Except as otherwise required by New York law or any special voting rights of any class or series of AT&T preferred stock or any other class of AT&T common shares, holders of shares of AT&T common stock, AT&T Consumer Services Group tracking stock, each other class of AT&T common shares, if any, that is entitled to vote, and holders of shares of each class or series of AT&T preferred stock, if any, that is entitled to vote, will vote as one class with respect to all matters to be voted on by AT&T shareholders. No separate class vote of AT&T Consumer Services Group tracking stock will be required, except as required by the New York Business Corporation Law.

DIVIDENDS

General. Following any issuance of AT&T Consumer Services Group tracking stock, it is currently expected that one-third of the current dividend payable on AT&T common stock will be allocated to AT&T common stock and that two-thirds of the dividend will be allocated to AT&T Consumer Services Group tracking stock. In that event, the aggregate dividend payable to holders of AT&T common stock and holders of AT&T Consumer Services Group tracking stock would be the same as that payable to holders of AT&T common stock before the issuance of AT&T Consumer Services Group tracking stock. The declaration of dividends by AT&T and the amount thereof will, however, be in the discretion of the AT&T Board and will depend upon each AT&T group's financial performance, the dividend policies and capital structures of comparable companies, each AT&T group's ongoing capital needs, and AT&T's results of operations, financial condition, cash requirements and future prospects and other factors deemed relevant by the AT&T Board. Payment of dividends also may be restricted by loan agreements, indentures and other transactions that AT&T enters into from time to time.

Provided that AT&T has sufficient assets to pay a dividend under applicable law, the Consumer Services Group tracking stock amendment provides that dividends on AT&T Consumer Services Group tracking stock are limited to an available dividend amount that is designed to be equivalent to the amount that would legally be available for dividends on that stock if AT&T Consumer Services Group were a stand-alone entity. Dividends on AT&T common stock are limited to the amount of legally available funds for all of AT&T less the sum of the available dividend amount for AT&T Consumer Services Group tracking stock.

Discrimination among classes of common shares. The Consumer Services Group tracking stock amendment does not provide for mandatory dividends. The AT&T Board will have the sole authority and discretion to declare and pay dividends (or to refrain from declaring or paying dividends), in equal or unequal amounts, on AT&T common stock, AT&T Consumer Services Group tracking stock, any other class of AT&T common shares or any two or more of these classes. Subject to not exceeding the applicable available dividend amount, the AT&T Board has this power regardless of the relative available dividend amounts, prior dividend amounts declared, liquidation rights or any other factor.

SHARE DISTRIBUTIONS

AT&T may declare and pay a distribution consisting of shares of AT&T common stock, AT&T Consumer Services Group tracking stock or any other securities of AT&T, any subsidiary of AT&T or any other person to holders of AT&T common stock or AT&T Consumer Services Group tracking stock in accordance with the provisions described below. We refer to this type of distribution as a "share distribution."

Distributions on AT&T common stock or AT&T Consumer Services Group tracking stock. AT&T may declare and pay a share distribution to holders of AT&T common stock, AT&T Consumer Services Group tracking stock or any other class of AT&T common shares consisting of any securities of AT&T, any subsidiary of AT&T, or any other person. However, securities attributable to an AT&T group may be distributed to holders of another AT&T group only for consideration. In the case of shares of AT&T Consumer Services Group tracking stock distributed to holders of AT&T common stock, the consideration may consist, in whole or in part, of a decrease in the retained portion of the value, if any, held by AT&T in AT&T Consumer Services Group.

Discrimination among classes of AT&T common shares. The Consumer Services Group tracking stock amendment does not provide for mandatory share distributions. The AT&T Board will have the sole authority and discretion to declare and pay share distributions (or to refrain from declaring or paying share distributions), in equal or unequal amounts, on AT&T common stock, AT&T Consumer Services Group tracking stock, any other class of AT&T common shares or any two or more of these classes. Subject to not exceeding the applicable available dividend amounts, the AT&T Board has this power regardless of the relative available dividend amounts, prior share distributions amounts declared, liquidation rights or any other factor.

REDEMPTION

As described in this section, there are a number of different redemption alternatives, more than one of which may be available at a given time or in connection with a particular transaction. Holders could receive very different treatment depending on which alternative the AT&T Board selects. The AT&T Board is under no obligation to select the alternative that will treat holders of AT&T Consumer Services Group tracking stock most favorably.

Redemption in exchange for shares of a new tracking stock of another company. At any time, the AT&T Board may redeem all outstanding shares of AT&T Consumer Services Group tracking stock for a new tracking stock of another entity that owns, holds or is subject to, directly or indirectly, all or substantially all of the assets and liabilities of AT&T Consumer Services Group as of immediately prior to the time of the redemption. In order to effect a redemption of this type, the new tracking stock must have substantially the same terms as those governing AT&T Consumer Services Group tracking stock (except as may result due to different law governing the other entity or as a result of provisions of the other entity's governing documents that are generally applicable to all classes of common stock), including with regard to the definition of "AT&T Consumer Services Group." Also, the number of shares of the new tracking stock issued per share of AT&T Consumer Services Group tracking stock must be intended to represent the same proportionate interest in AT&T Consumer Services Group as a share of AT&T Consumer Services Group tracking stock. In the event of a redemption of this type, the voting rights of the new tracking stock will be set based on the ratio, over a fixed measurement period, of the initial

trading prices of the new tracking stock to trading prices of the other common stock of the entity issuing the new tracking stock.

Redemption in exchange for shares of AT&T common stock. At any time, the AT&T Board, in its sole discretion, may redeem all outstanding shares of AT&T Consumer Services Group tracking stock for shares of AT&T common stock. In this event, each share of AT&T Consumer Services Group tracking stock will be redeemed in exchange for that number of shares of AT&T common stock, calculated to the nearest 1/10,000, equal to [   ]% of the ratio of the average market price per share of AT&T Consumer Services Group tracking stock to the average market price per share of AT&T common stock.

Redemption in exchange for stock of subsidiaries in connection with a spin-off of AT&T Consumer Services Group. The Consumer Services Group tracking stock amendment also provides that AT&T may, at any time, redeem all outstanding shares of AT&T Consumer Services Group tracking stock in exchange for a specified number of outstanding shares of common stock of a subsidiary of AT&T that satisfies certain requirements under the Code and that holds all of the assets and liabilities of AT&T Consumer Services Group. We refer to a subsidiary that satisfies these requirements as a "qualifying subsidiary." This type of redemption only may be made on a pro rata basis, and must be tax free to the holders of AT&T Consumer Services Group tracking stock, except with respect to any cash that holders receive in lieu of fractional shares.

In this case, AT&T would exchange each share of AT&T Consumer Services Group tracking stock, on a pro rata basis, for an aggregate number of shares of common stock of the qualifying subsidiary equal to the number of outstanding shares of common stock of the qualifying subsidiary held by AT&T (or the number of shares of such qualifying subsidiary as is proportionate to the portion of the financial performance and economic value of AT&T Consumer Services Group intended to be represented by AT&T Consumer Services Group tracking stock if the AT&T Consumer Services Group allocation fraction is less than one).

Redemption in connection with significant dispositions. In the event of a sale, transfer, assignment or other disposition by AT&T in a transaction or series of related transactions, of all or substantially all of the properties and assets of AT&T Consumer Services Group, AT&T generally is required to take one of the following actions, which action will be selected in the sole discretion of the AT&T Board:

- AT&T may redeem each outstanding share of AT&T Consumer Services Group tracking stock in exchange for a number of shares of AT&T common stock (calculated to the nearest 1/10,000) equal to [ ]% of the ratio of the average market price per share of AT&T Consumer Services Group tracking stock to the average market price per share of AT&T common stock.

- Subject to limitations, AT&T may declare and pay a dividend in cash and/or in securities (other than AT&T common stock) or other property to holders of the outstanding shares of AT&T Consumer Services Group tracking stock equally on a share-for-share basis in an aggregate amount equal to the after-tax net proceeds of the disposition allocable to AT&T Consumer Services Group tracking stock.

- Subject to limitations, if the disposition involves the disposition of all, not merely substantially all, of the properties and assets of AT&T Consumer Services Group, AT&T may redeem all outstanding shares of AT&T Consumer Services Group tracking stock in exchange for cash and/or securities or other property in an aggregate amount equal to the net proceeds of the disposition allocable to AT&T Consumer Services Group tracking stock.

- Subject to limitations, if the disposition involves substantially all, but not all, of the properties and assets of AT&T Consumer Services Group, AT&T may redeem a number of outstanding shares of AT&T Consumer Services Group tracking stock in exchange for a redemption price equal to the net proceeds of that disposition. The number of shares of AT&T Consumer Services Group tracking stock to be redeemed would be equal to the lesser of (1) a number determined by dividing the aggregate amount allocated to the redemption of these shares by the average market value of one share of AT&T Consumer Services Group tracking stock during the ten trading-day period

beginning on the 15th trading day following the completion of that disposition and (2) the total number of outstanding shares of AT&T Consumer Services Group tracking stock.

- Subject to limitations, AT&T may take a combination of the actions described in the preceding bullets whereby AT&T may redeem some shares of AT&T Consumer Services Group tracking stock in exchange for shares of AT&T common stock at the exchange rate described in the first bullet above, and use an amount equal to a portion of the net proceeds of the disposition allocable to AT&T Consumer Services Group tracking stock to either (1) declare and pay a dividend as described in the second bullet above, or (2) redeem part or all of the remaining shares of AT&T Consumer Services Group tracking stock as described in the third or fourth bullet above.

For purposes of these provisions, "substantially all of the properties and assets" of AT&T Consumer Services Group as of any date means a portion of these properties and assets that represents at least 80% of the fair value of the properties and assets attributed to AT&T Consumer Services Group as of that date.

Exceptions. The provisions described under "-- Redemption in connection with significant dispositions" will not apply, and AT&T will not be required to redeem any securities or make any dividend or other distribution it would otherwise be required to make, in some circumstances, including the following:

- if, in connection with the underlying transaction, the AT&T Board redeems all outstanding shares of AT&T Consumer Services Group tracking stock for a new tracking stock of another entity that owns all of the material assets and liabilities of AT&T Consumer Services Group pursuant to "-- Redemption in exchange for shares of new tracking stock of new company;"

- if the underlying disposition is conditioned upon the affirmative vote of a majority of holders of AT&T Consumer Services Group tracking stock, voting as a separate class;

- if the disposition is in connection with a liquidation of ATT

- if the disposition is to a person or group of which AT&T is the majority owner and AT&T Consumer Services Group receives in exchange primarily equity securities of that person or group as consideration;

- if the disposition results in AT&T or its successor continuing to hold directly or indirectly all or substantially all of the properties and assets of AT&T Consumer Services Group;

- in connection with a spin-off or similar distribution of AT&T's entire interest in AT&T Consumer Services Group to the holders of AT&T Consumer Services Group tracking stock, including a distribution that is made in connection with a mandatory redemption as described under "-- Redemption in exchange for stock of subsidiaries in connection with a spin-off of AT&T Consumer Services Group"; and

- in connection with a "related business transaction," which generally means a disposition of all or substantially all of the assets attributed to AT&T Consumer Services Group in which AT&T receives equity securities of an entity that engages or proposes to engage primarily in one or more businesses similar or complementary to the businesses conducted by AT&T Consumer Services Group prior to that transaction.

Additionally, the provisions described under "-- Redemption in connection with significant dispositions" will not apply with respect to any merger, consolidation, sale of assets or stock, recapitalization or any other transaction or series of transactions in which all or substantially all of the properties and assets of AT&T are transferred to an entity not directly controlled by AT&T or AT&T shareholders, if in such transaction or series of transactions, each share of AT&T Consumer Services Group tracking stock is entitled to receive the same consideration (both in type and amount) as such share of AT&T Consumer Services Group tracking stock would have been entitled to receive had it been redeemed.

GENERAL PROCEDURES

Conditions. With regard to any redemption at the discretion of the AT&T Board, the AT&T Board may, in its discretion, condition such redemption on the occurrence or failure to occur of any events set forth in the applicable notice of redemption. The AT&T Board will have the right to waive any of these conditions in its sole discretion.

Public announcements; notices. The Consumer Services Group tracking stock amendment provides that, in the case of specified dispositions or a redemption, AT&T will publicly announce or otherwise provide specified information to holders of AT&T Consumer Services Group tracking stock and, in the case of redemption at the discretion of the AT&T Board, give the notice of redemption no less than 15 days nor more than 90 days prior to the date of redemption. The redemption date may be a specified date or a date determined by reference to the occurrence of events.

Fractional shares. The AT&T Board will not have to issue or deliver any fractional shares to any holder of AT&T Consumer Services Group tracking stock upon any redemption, dividend or other distribution under the provisions described under "-- Redemption." Instead of issuing fractional shares, AT&T will pay cash for the fractional share in an amount equal to the fair market value of the fractional share, without interest.

No adjustments for dividends or other distributions. No adjustments for dividends will be made upon the exchange of any shares of AT&T Consumer Services Group tracking stock; except that, if a redemption date with respect to AT&T Consumer Services Group tracking stock comes after the record date for the payment of a dividend or other distribution to be paid on AT&T Consumer Services Group tracking stock but before the payment or distribution, the registered holders of those shares of AT&T Consumer Services Group tracking stock at the close of business on that record date will be entitled to receive the dividend or other distribution on the payment date, notwithstanding the redemption of those shares of stock or AT&T's default in payment of the dividend or distribution.

Payment of taxes. If any person exchanging a certificate representing shares of AT&T Consumer Services Group tracking stock wants AT&T to issue a certificate in a different name than the registered name on the old certificate, that person must pay any transfer or other taxes required by reason of the issuance of the certificate in another name, or establish, to the satisfaction of AT&T or its agent, that the tax has been paid or is not applicable.

LIQUIDATION RIGHTS

In the event of a liquidation, dissolution or winding up of AT&T, whether voluntary or involuntary, AT&T will first pay or provide for payment of debts and other liabilities of AT&T, including the liquidation preferences of any class or series of AT&T preferred stock. Thereafter, holders of the shares of AT&T common stock, AT&T Consumer Services Group tracking stock and any other class of AT&T common shares will share in the funds of AT&T remaining for distribution to its common shareholders in proportion to the aggregate market capitalization of the outstanding shares of each class of stock, as applicable, to the aggregate market capitalization of all the classes of AT&T common shares. AT&T will calculate the market capitalizations based on the 20 trading-day period ending on the trading day prior to the date of the public announcement of the liquidation, dissolution or winding up of AT&T.

None of the following, by itself, will constitute a liquidation, dissolution or winding up of AT&T:

- the consolidation or merger of AT&T with or into any other corporation or corporations or the sale, transfer or lease of all or substantially all of the assets of ATT or

- any transaction or series of related transactions that results in all of the assets and liabilities included in AT&T Consumer Services Group being held by one or more AT&T Consumer Services Group subsidiaries and the distribution of AT&T Consumer Services Group subsidiaries, and no other material assets or liabilities, to the holders of the outstanding AT&T Consumer Services Group tracking stock.

DETERMINATIONS BY THE AT&T BOARD

Any determinations made by the AT&T Board under any provision described in this section "-- Terms of the Consumer Services Group Tracking Stock Amendment" will be final and binding on all AT&T shareholders, except as may otherwise be required by law. AT&T will prepare a statement of any determination by the AT&T Board respecting the fair market value of any properties, assets or securities, and will file the statement with AT&T's Corporate Secretary. To the maximum extent permitted by law:

- the terms of AT&T Consumer Services Group tracking stock grant to the AT&T Board discretion to select among different exchange, redemption or other options, more than one of which may be available at a particular time or in connection with a particular transaction,

- the selection of an alternative, if any, will be a matter solely within the discretion of the AT&T Board and that the AT&T Board has no duty to select the alternative that will result in the best economic treatment for holders of either AT&T Consumer Services Group tracking stock or the AT&T common stock, and

- no holder of any shares of AT&T Consumer Services Group tracking stock or AT&T common stock will have any claim based on which alternative the AT&T Board may elect, even if the holders of the classes of stock are not treated equally.

NO PREEMPTIVE RIGHTS

Holders of AT&T common stock or AT&T Consumer Services Group tracking stock do not have any preemptive rights to subscribe for any additional shares of capital stock or other obligations convertible into or exercisable for shares of capital stock that may hereafter be issued by AT&T.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

Subject to the discussion under this section, neither the adoption of the Consumer Services Group tracking stock amendment nor the distribution of AT&T Consumer Services Group tracking stock to holders of AT&T common stock will be taxable to AT&T or holders of AT&T common stock.

Holders of AT&T common stock who receive AT&T Consumer Services tracking stock in a pro rata distribution will allocate their tax basis in AT&T common stock between AT&T common stock and AT&T Consumer Services Group tracking stock in accordance with the relative fair market values of such stocks on the date on which AT&T Consumer Services Group tracking stock is distributed. A holder's holding period for AT&T Consumer Services Group tracking stock will include such holder's holding period of AT&T common stock with respect to which AT&T Consumer Services Group tracking stock is distributed.

The conclusions in the two preceding paragraphs are not free from doubt. These conclusions assume that AT&T Consumer Services Group tracking stock is treated as a class of common stock of AT&T. The filing of consolidated income tax returns by AT&T together with AT&T Consumer Services Group also assumes that AT&T Consumer Services Group tracking stock is treated as a class of common stock of AT&T. While AT&T believes that, under current law, AT&T Consumer Services Group tracking stock will be treated as common stock of AT&T, there are no authorities directly on point nor will AT&T receive an advance ruling from the Internal Revenue Service. There is a risk that the Internal Revenue Service could assert that AT&T Consumer Services Group tracking stock is property other than common stock of AT&T. AT&T believes it is unlikely the Internal Revenue Service would prevail on that view, but no assurance can be given that the views expressed in the two preceding paragraphs, if contested, would be sustained by a court.

The foregoing discussion under this section "-- Material Federal Income Tax Consequences" is only a general summary of the material U.S. federal income tax consequences of the issuance and distribution of AT&T Consumer Services Group tracking stock. It is not a complete analysis of all potential tax effects relevant to the issuance or distribution of AT&T Consumer Services Group tracking stock. The discussion

does not address consequences that may be relevant to a particular AT&T common stock holder in light of this particular circumstances or to holders subject to special treatment under U.S. federal income tax laws (such as dealers in securities, banks, insurance companies, tax-exempt organizations, non-U.S. persons, holders that acquired their AT&T common stock pursuant to the exercise of options or otherwise as compensation and holders that do not hold such shares as capital assets), nor any consequences arising under the laws of any state, local or foreign jurisdiction. The discussion is based on the Code, Treasury Regulations promulgated thereunder, judicial opinions, published positions of the Internal Revenue Service, and all other applicable authorities as of the date of this document, all of which are subject to change (possibly with retroactive effect).

AT&T URGES AT&T SHAREHOLDERS TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE AND LOCAL, AND FOREIGN TAX CONSEQUENCES OF THE ISSUANCE AND DISTRIBUTION OF AT&T CONSUMER SERVICES GROUP TRACKING STOCK TO THEM.

REASONS FOR AT&T CONSUMER SERVICES GROUP TRACKING STOCK

The AT&T Board recommends the Consumer Services charter amendment proposal based on its view that the Consumer Services charter amendment proposal will promote greater market recognition of the value of the various AT&T businesses. The AT&T Board considered the following factors among others in approving and recommending that AT&T shareholders approve the Consumer Services charter amendment proposal.

GREATER MARKET RECOGNITION OF VALUE

AT&T believes that issuing securities intended to reflect the separate performance of AT&T Consumer Services Group will result in greater market recognition and realization of the value of AT&T and the distinct lines of business represented by each of AT&T Consumer Services Group and AT&T Business Services Group and allow the market to evaluate each of AT&T Consumer Services

Group's and AT&T Business Services Group's results against those of its competitors.

GREATER FINANCIAL AND STRATEGIC FLEXIBILITY

AT&T believes that the creation of AT&T Consumer Services Group tracking stock will provide AT&T with greater financial flexibility. AT&T expects that AT&T Consumer Services Group tracking stock may assist AT&T in meeting its capital needs by creating an additional publicly traded equity security that it can use to raise capital. In addition, the creation of AT&T Consumer Services Group tracking stock prior to the AT&T Comcast transaction will allow AT&T to issue AT&T Consumer Services Group tracking stock in potential group-specific acquisitions and investments. This would allow shareholders of an entity that AT&T Consumer Services Group acquires the opportunity to participate more directly in the success of the business in which that entity engages, rather than participating in the larger and more diversified AT&T enterprise.

INCREASED SHAREHOLDER CHOICE

A corporation typically uses tracking stocks in situations where the corporation has two or more businesses that have different investor profiles. In this case, AT&T Consumer Services Group offers a particular set of services and targets a particular type of customer, distinct from AT&T Business Services Group. AT&T believes that the creation and issuance of AT&T Consumer Services Group tracking stock will provide investors with greater choice among the different types of investment currently embedded in AT&T.

MORE FOCUSED AND FLEXIBLE MANAGEMENT TEAMS

AT&T believes that if the Consumer Services charter amendment proposal is approved and implemented, management of each of AT&T Consumer Services Group and AT&T Business Services Group would have a greater ability to focus on the execution of strategic objectives in its particular business and on reacting to changes in its competitive environment. AT&T believes that each of the AT&T groups would be a smaller, but more focused and flexible, business unit, in a better position to implement its respective business strategy and serve its customers more effectively through quicker decision making, more efficient deployment of resources, increased operational agility, and enhanced responsiveness to customers and markets and technological changes.

MANAGEMENT INCENTIVES

AT&T believes the existence of AT&T Consumer Services Group tracking stock will permit the creation of more effective management incentive and retention programs. In particular, AT&T will be able to grant stock options and other incentive awards to employees of each of AT&T Consumer Services Group and AT&T Business Services Group that are tied more directly to the performance of each respective AT&T group. AT&T will seek to develop compensation plans to incent the delivery of services to benefit both groups.

TAX CONSIDERATIONS

In addition, the AT&T Board considered that AT&T expects that implementation of the Consumer Services charter amendment will not be taxable for U.S. federal income tax purposes to AT&T or to AT&T shareholders.

POTENTIAL NEGATIVE CONSEQUENCES OF THE PROPOSALS

The AT&T Board also considered the following potential adverse consequences of the creation of AT&T Consumer Services Group tracking stock, including the following:

- the market price of AT&T Consumer Services Group tracking stock may not reflect the separate performance of AT&T Consumer Services Group,

- holders of AT&T common stock and of AT&T Consumer Services Group tracking stock will continue to bear the risks associated with an investment in a single corporation and all of AT&T's businesses, assets and liabilities, and

- managing relationships between the groups may be more difficult than has historically been the case as a result of potential conflicts between the groups.

The AT&T Board also considered the risk factors related to the creation of AT&T Consumer Services Group tracking stock, described under "Summary and Overview -- Risk Factors Relating to AT&T Consumer Services Group Tracking Stock."

The AT&T Board believes, however, that, on balance, the positive aspects of AT&T Consumer Services Group tracking stock outweigh any potentially adverse consequences.

RECOMMENDATION OF THE AT&T BOARD

The AT&T Board has approved the Consumer Services charter amendment proposal and recommends that AT&T shareholders vote FOR the Consumer Services charter amendment proposal.

DESCRIPTION OF AT&T CONSUMER SERVICES GROUP

OVERVIEW

AT&T Consumer Services Group is the leading provider of domestic and international long distance and transaction based services to residential consumers in the United States with approximately 60 million customer relationships. AT&T Consumer Services Group provides interstate and intrastate long distance communications services throughout the continental United States, and provides, or joins in providing with other carriers, communications services to and from Alaska, Hawaii, Puerto Rico and the Virgin Islands and international communications services to and from virtually all nations and territories around the world.

AT&T Consumer Services Group provides a broad range of communications services to consumers individually and in combination with other services, including:

- inbound and outbound domestic and international long distance;

- transaction-based long distance services, such as operator-assisted calling services and prepaid phone cards;

- local calling offers through an unbundled network elements platform; and

- dial-up Internet service through AT&T WorldNet Service.

In addition, AT&T Consumer Services Group offers combined long distance and local services in selected locations and is developing a multi-service platform, the AT&T Worldnet High Speed Service, based upon DSL technology for combined voice, data and other broadband services.

For the nine-month period ended September 30, 2001, AT&T Consumer Services Group had combined revenue of approximately $11.6 billion and combined EBITDA of approximately $3.9 billion.

AT&T CONSUMER SERVICES GROUP

AT&T Consumer Services Group tracking stock is designed to reflect the economic performance of AT&T Consumer Services Group, which includes the assets and liabilities shown in the combined balance sheets of AT&T Consumer Services Group. If AT&T acquires interests in other businesses, AT&T intends to attribute those assets and any related liabilities to AT&T Consumer Services Group or to AT&T Business Services Group in accordance with the AT&T Groups policy statement. All net income and cash flows generated by the assets attributed to AT&T Consumer Services Group will be attributed to AT&T Consumer Services Group and all net proceeds from any disposition of these assets also will be attributed to AT&T Consumer Services Group.

Except as described elsewhere in this document AT&T attributes all of AT&T's current Consumer Services operations to AT&T Consumer Services Group, including:

- all Consumer Services wireline long distance and local customers and AT&T WorldNet Service consumer customers;

- all Consumer Services support non-network infrastructure, including ordering, provisioning, billing and care; and

- all Consumer Services marketing operations.

AT&T Consumer Services Group does not include any network plant, nodes, routing, switching or other transport infrastructure.

AGREEMENTS BETWEEN AT&T GROUPS

The AT&T Groups policy statement provides that AT&T will seek to manage the AT&T Groups in a manner designed to give due consideration to the operations of both of the AT&T Groups. Following the

issuance of AT&T Consumer Services Group tracking stock, AT&T Consumer Services Group will be able to:

- use the AT&T brand name in accordance with a brand agreement with AT&T,

- use AT&T's extensive network assets including its DSL assets in accordance with a master carrier agreement,

- use AT&T's intellectual property and technology in accordance with an intellectual property agreement, and

- participate in AT&T's purchasing contracts with major suppliers.

The relationship between AT&T Business Services Group and AT&T Consumer Services Group will be governed by the AT&T Groups policy statement, including the process of fair dealing described under "-- Relationship between the AT&T Groups -- The AT&T Groups Policy Statement -- General Policy." Although the AT&T Board has no present intention to do so, it may modify, suspend or rescind the policies set forth in the AT&T Groups policy statement, adopt additional policies or make exceptions to existing polices, at any time, without the approval of AT&T shareholders, subject to limitations we describe under "Relationship between the AT&T Groups -- The AT&T Groups Policy Statement" the AT&T Board's fiduciary duties.

If AT&T Consumer Services Group tracking stock is issued prior to the AT&T Broadband spin-off or if the spin-off does not occur, AT&T will include the business and operations of AT&T Broadband Group.

STRATEGY

AT&T Consumer Services Group's goal is to maintain a leadership position in the long distance market and develop complementary products and services to maximize cash flow. Key strategic elements include:

Attract and retain high value customers. AT&T Consumer Services Group focuses on acquiring and maintaining high value long distance customers with targeted offers and solicitations. AT&T Consumer Services Group believes that high value customers use AT&T's services more frequently and are more likely to use multiple service offerings such as local toll, calling card, international plans, AT&T WorldNet Service, local services and the AT&T Worldnet High Speed Service. Through the greater utilization of services, high value customers generate greater margins and hasten recuperation of marketing, sales and provisioning expenses.

Increase operating efficiencies and reduce operating costs. AT&T Consumer Services Group seeks to maximize the utilization of its assets and reduce operating costs. In the three year period ended September 30, 2001, aggregate selling, general and administrative expenses have been reduced by over $1 billion and overall costs and expenses have decreased by nearly $5 billion. AT&T Consumer Services Group expects it will continue to reduce operating costs through further outsourcing of care and billing functions.

Broaden its service lines. AT&T Consumer Services Group believes it can generate additional revenue by bundling AT&T long distance with other communications services including local services, AT&T WorldNet Services and high-speed data services. By bundling value-added services, AT&T Consumer Services Group believes it will substantially enhance its customers' reliance on its services, improve customer satisfaction and retention levels and increase sales of more profitable services.

In addition, AT&T Consumer Services Group continues to evaluate new growth businesses that would provide additional services complementary to its current suite of product offerings. AT&T Consumer Services Group believes additional high value product offerings better enable it to attract new customers, migrate existing customers to more profitable product offerings and better satisfy the overall needs of its

customers. New product and service offerings are evaluated and implemented in a manner designed to be consistent with AT&T Consumer Services Group's overall goal of maximizing cash flow.

Leverage the AT&T brand to attract new customers. AT&T Consumer Services Group believes that the AT&T brand is very influential in consumers' purchasing decisions and positively impacts consumer awareness of, and confidence in, AT&T Consumer Services Group's products and services, as well as providing for an enhanced ability to cross-sell consumer services with other AT&T services. In addition, AT&T Consumer Services Group believes that its efforts to bundle products and services will help to further strengthen the AT&T brand by providing consumers with exposure to a broader range of AT&T Consumer Services Group's services and an improved overall consumer experience.

Enhance customer satisfaction and loyalty. AT&T Consumer Services Group believes that achieving a high level of customer satisfaction is critical to successfully acquiring new customers and increasing retention of its existing customer base. AT&T Consumer Services Group has historically strived to maintain a high level of customer satisfaction through a portfolio of loyalty programs such as its spot loyalty bonus program, its Continental Airlines rewards program and its UPromise college education savings plan. AT&T Consumer Services Group will continue to focus on improving the customer care experience through various service enhancement initiatives including the introduction of convenience features such as e-payment of bills as well as increasing its portfolio of loyalty plans.

INDUSTRY OVERVIEW

The communications services industry continues to change competitively and technologically both domestically and internationally, providing significant opportunities and risks to the participants in these markets. In the United States, the Telecommunications Act has had a significant impact on AT&T Consumer Services Group's business by establishing a statutory framework for opening the local service markets to competition and by allowing regional phone companies to provide in-region long distance services bundled with their existing local franchise. In addition, prices for long distance minutes and other basic communications services have declined as a result of competitive pressures, excess capacity as a result of substantial network build-out, the introduction of more efficient networks and advanced technologies, product substitution, and deregulation. In particular, consumer long distance voice usage is declining as a result of substitution of wireless services, Internet access and e-mail/instant messaging services. Competition in the provision of basic communications services to consumers is based more on price and less on other differentiating factors that appeal to the larger business market customers, such as the range of services offered, bundling of products, customer service, and communication quality, reliability and availability.

The consumer long distance market is characterized by rapid deregulation and intense competition among long distance providers, and, more recently, incumbent local exchange carriers. Under the Telecommunications Act, a regional phone company may offer long distance services in a state within its region if the FCC finds, first, that the regional phone company's service territory within the state has been sufficiently opened to local competition, and second, that allowing the regional phone company to provide these services is in the public interest. As of January 30, 2002, regional phone companies have received approval to offer long distance in nine states and AT&T Consumer Services Group expects that regional phone companies will be successful in obtaining approval to offer long distance in the majority of the remaining states by the end of 2002. The incumbent local exchange carriers presently have numerous advantages as a result of their historic monopoly control over local exchanges. While these dynamics are creating downward pressure on stand-alone long distance, new opportunities are being created in the consumer industry, including local, data and bundled offers.

The local voice market is currently dominated by the incumbent local exchange carriers. The Telecommunications Act has established a statutory framework for opening the local service markets to competition. AT&T Consumer Services Group has already entered the local voice business in selected markets and expects to expand its presence in this area.

The data services market in the consumer segment is comprised primarily of Internet access, utilizing either dial-up or high speed access technologies, such as DSL and cable modems. Currently, AT&T Consumer Services Group offers products in both narrowband and broadband data segments. Both narrowband and broadband data services represent substantial revenue growth opportunities for AT&T Consumer Services Group.

SERVICES AND PRODUCTS

LONG DISTANCE

AT&T Consumer Services Group provides interstate and intrastate long distance telecommunications services throughout the continental United States and provides, or joins in providing with other carriers, telecommunications services to and from Alaska, Hawaii, Puerto Rico and the Virgin Islands and international telecommunications services to and from virtually all nations and territories around the world. Consumers can use AT&T Consumer Services Group's domestic and international long distance services through traditional "one plus" dialing of the desired call destination, through dial-up access or through use of AT&T calling cards.

In the continental United States, AT&T Consumer Services Group provides long distance telecommunications services over AT&T Business Services' backbone network.

CALLING CARD

AT&T Consumer Services Group provides a vehicle for placing all "away from home" calls. The AT&T calling card can be used to place domestic and international calls in the U.S. and Canada by accessing 1-800CALLATT, 10-10-288 or 0+ the number dialed. Features include purchase limits, geographic restrictions, native language preference, voice messaging and sequence dialing. Customers can place calls over the AT&T network by using any of the following options: AT&T calling cards, local exchange carrier cards and commercial credit cards.

TRANSACTION-BASED SERVICES

AT&T Consumer Services Group offers a variety of transaction-based services that are designed to provide customers with an alternative to access long distance services as well as to provide assistance in completing long distance communications.

Operator Services. Operator-assisted calling services include traditional collect calls, third party billing, person to person and long distance pay phone service.

Directory Assistance. Directory Assistance is provided to customers both domestically and internationally, with an option to complete the call for a nominal extra charge.

AT&T Direct Services. AT&T Consumer Services Group provides customers with the ability to reach the AT&T network from outside the U.S. By dialing the access code associated with the country of origin, customers can receive all the benefits of AT&T Consumer Services Group's calling card and operator-assisted calling services.

AT&T True Messages. AT&T True Messages is a voice store and forward service. Using this service, callers can record a message in their own voice and have it delivered to a telephone number that they called or they can access AT&T True Messages directly and send a message.

Accessible Communication Service. AT&T Consumer Services Group provides Telecommunications Relay Service for the deaf and hearing-impaired customers to help them communicate with anyone in the world on the phone.

1-800CALLATT (Collect). 1-800CALLATT for collect calls continues to be AT&T Consumer Services Group's lead discounted collect calling offer in the operator services portfolio. 1-800CALLATT is a domestic, automated, flat-rate collect calling service. The service is targeted at price conscious

consumers and advertised nationally through multiple media channels. Optional collect messaging capabilities exist as well.

AT&T PrePaid Card. AT&T PrePaid cards provide local, long distance and international calls charged to an AT&T PrePaid card account maintained on AT&T's PrePaid platform. The AT&T PrePaid card service is available 24 hours a day, 7 days a week. Currently, AT&T PrePaid cards are available in over 60,000 retail locations of various types including grocery, drug, convenience, mass merchandise, wholesale clubs, electronics/office and military/government.

10-10-345. 10-10-345 is a non-AT&T-branded dial-around service that allows customers an alternative way to make a long distance call. The service is targeted at price-sensitive dial-around and other common carriers' users completing domestic and/or international calls from home. When customers dial 10-10-345, they pay a competitive per-minute rate, 24 hours a day, 7 days a week with a minimal surcharge per call. Charges made for calls using 10-10-345 are billed through the local exchange carrier.

AT&T WORLDNET HIGH SPEED SERVICE

AT&T Consumer Services Group is currently developing and testing an offer that bundles AT&T long distance with local services (using incumbent local exchange carrier network combinations), AT&T Worldnet Services and high-speed Internet access services, which AT&T Consumer Services Group delivers using DSL technology. The AT&T Worldnet High Speed Service would broaden AT&T Consumer Services Group's franchise from long distance to a portfolio of voice, Internet, high speed data, e-mail and messaging. In addition, AT&T Consumer Services Group would offer competitively priced local and long distance packages to customers with features such as voice mail and call waiting.

The AT&T Worldnet High Speed Service would be provided over traditional telephone "twisted pair" copper lines leased from local exchange carriers. Using electronics attached to a typical telephone line both at the customer premises (through a modem) and at a point in the AT&T network, the AT&T Worldnet High Speed Service provides customers with a continuous connection to the Internet, featuring AT&T Worldnet Service. The typical residential offering would feature connection speeds up to 12 times faster than 56k modem technology.

COMBINED LOCAL AND LONG DISTANCE

AT&T Consumer Services Group offers customers combined local (via unbundled network elements platform) and long distance service in New York and Texas. AT&T Consumer Services Group handles all aspects of the phone service for the customer, including ordering, customer service, billing and inside wiring. AT&T Consumer Services Group also offers many of the same local calling features as the incumbent local exchange carriers, such as call waiting and caller ID.

AT&T WORLDNET SERVICE

AT&T offers dial-up Internet access to consumers through its AT&T WorldNet Service, a leading provider of Internet access service in the United States. AT&T WorldNet Service currently has dial-up subscribers that use IP communication services within the AT&T WorldNet Service offer, such as e-mail, calendar and alerting. AT&T Consumer Services Group's objective is to increase usage by the long distance customer base of AT&T Consumer Services Group's IP-based services and then migrate those customers to more advanced IP-based services, such as voice mail.

MARKETING, SALES AND CUSTOMER CARE

AT&T Consumer Services Group develops customer awareness through its marketing and promotion efforts. AT&T Consumer Services Group markets its products and services to a broad spectrum of customers seeking to communicate locally or globally. AT&T Consumer Services Group markets under the AT&T brand, with the exception of its 10-10-345 service and certain prepaid card offerings, and strives to provide superior customer care. AT&T Consumer Services Group extensively utilizes direct marketing

channels, including the Internet, direct mail, mass media, probe and transfer, and outbound telemarketing to communicate with its existing customer base as well as to market to prospective customers regarding the breadth of services available to them. AT&T Consumer Services Group's marketing efforts focus on offering its services to its customers based on their needs. These efforts involve the selling of stand-alone services, such as long distance, local and AT&T WorldNet Service, as well as bundled service offerings including long distance/AT&T WorldNet Service, long distance/local, and long distance/calling card.

AT&T Consumer Services Group relies on an integrated sales and service team to solicit and handle customer contact opportunities. The customer care centers consist of a network of internal and external vendors. The breadth of support provided by the centers ranges from universal sales and service to specialized services based on functional area or customer needs. AT&T Consumer Services Group generally pays its vendors based on a contracted hourly rate and some on a pay-for-performance scale methodology. AT&T Consumer Services Group has 22 service centers, of which ten are operated by AT&T and 12 are outsourced to outside vendors. These service centers handle 9 million calls per month in 12 different languages.

AT&T Consumer Services Group also has begun to implement various initiatives aimed at improving the overall quality of its sales channels as well as lowering its costs of adding new subscribers. Recent initiatives targeted at reducing costs and enhancing channel efficiencies have included the expansion of AT&T Consumer Services Group's on-line capacity and capabilities (including billing, sales and service) and the increased use of interactive voice response technology.

AT&T Consumer Services Group is pursuing an e-enabling strategy designed to create a more convenient, interactive relationship with the consumer, while streamlining its existing processes and reducing the costs of providing services. AT&T Consumer Services Group's electronic consumer strategy embodies the entire business process from advertising and marketing through sales, ordering, billing, fulfillment, customer service, and after-sales support. AT&T Consumer Services Group is supplying a range of product information, bill management utilities and customer care capabilities designed to attract and retain its most valuable customers. AT&T Consumer Services Group's on-line billing infrastructure enables customers to view, sort, adjust, investigate and resolve questions regarding their billing statements. To further the relationship with specific customer segments, AT&T Consumer Services Group provides access to information in five languages other than English. These transactions are designed to increase consumer satisfaction by providing a new level of control and, in many cases, reduce time-consuming contacts with AT&T Consumer Services Group's care and sales channels.

In January 2002, AT&T entered into a $2.6 billion, five-year agreement with Accenture Ltd., for Accenture to provide management, new technology and training for AT&T Consumer Services Group. Under the terms of the agreement, Accenture will be responsible for providing new technology development and ongoing management direction to improve AT&T Consumer Services Group's customer care operations, with goals of reducing costs, raising productivity, and improving sales and customer service. AT&T Consumer Services Group will continue to develop and implement its overall business and marketing strategies and new product offerings.

CUSTOMER OFFERS

AT&T Consumer Services Group offers long distance customers a family of calling plans. These calling plans are simple and are consistently offered on the web and over the telephone. Further, these plans offer customers a broad choice of price points designed to meet their needs. Currently, the lead long distance offer is the AT&T One Rate 7c Plan. For a monthly plan fee of $3.95, customers pay 7c per minute for direct dialed state-to-state long distance calls from home, at all times.

AT&T Consumer Services Group also offers various reward and partnership programs for higher spending long distance customers. For example, customers enrolled in AT&T rewards receive redemption options every six months based on their long distance spending. AT&T Consumer Services Group relationships with companies such as Continental Airlines, Inc., Starwood Hotels & Resorts Worldwide Inc. and Cablevision, among others, provide customers with options ranging from airline miles to hotel

nights to premium cable channel upgrades. Recently, market research has indicated consumer interest in college investment funds. Through an agreement announced in January 2001 with UPromise Inc., a customer can receive a contribution equal to 4% of the cost of residential long distance calls made into a UPromise savings account to be used for college education. Consumers can also invite family and friends to participate in collectively building the UPromise savings account.

AT&T WorldNet Service seeks to build brand recognition and customer loyalty and to make it easy for consumers to remain with AT&T WorldNet Service. In addition to direct marketing through brand name mass advertising, direct mail and magazine insert promotions and bundling offers, AT&T WorldNet Service maintains a large indirect channel marketing effort. Through this indirect channel, AT&T WorldNet Service software is bundled in new computers produced by major manufacturers and is included in millions of copies of software titles published by independent software vendors. AT&T WorldNet Service also has a co-branded ISP offer that enables businesses to offer customers their own branded, full-featured Internet access in affiliation with AT&T. AT&T WorldNet Service currently offers AT&T WorldNet Service Plus for $16.95 per month, which includes 150 hours of monthly usage (with additional hours billed at $.99/hour), video e-mail, and live technical support.

RATES AND BILLING

AT&T Consumer Services Group generally continues to charge long distance customers for jurisdictionally intrastate services based on applicable tariffs filed with various individual states. However, effective as of August 1, 2001, the rates for state-to-state and international calls are now generally set by contract rather than by FCC tariffs as a result of an FCC de-tariffing order. Customers select different services and various rate plans, which determine the price per minute that customers pay on their long distance calls. Rates typically vary based on a variety of factors, particularly the volume of usage and the day and time that calls are made.

AT&T Consumer Services Group long distance charges may include fees per minute for transporting a call, per call or per minute surcharges, monthly recurring charges, minimums and price structures that offer a fixed number of minutes each month for a specific price. The fees per minute for transporting a call may vary by time of day or length of call and by whether the call is domestic or international. Within the United States, in-state rates may vary from interstate rates. These rate structures apply to customer dialed calls, calling card calls, directory assistance calls, operator-assisted calls and certain miscellaneous services. Customers also may be assessed a percentage of revenue, or a fixed monthly fee, to satisfy AT&T Consumer Services Group's obligations to recover U.S. federal- and state-mandated assessments and access surcharges.

Customers for combined long distance and local services are charged a flat rate per month for local service and usage fees for long distance. AT&T WorldNet Service offers a variety of pricing plan options. Generally, customers are charged a flat rate for a certain number of hours with charges for each additional hour of usage. AT&T WorldNet Service also offers a plan without a usage restriction. The AT&T WorldNet High Speed Service will offer integrated high speed data combined with comprehensive voice services for one flat rate each month, billed electronically to a credit card or through electronic funds transfers.

AT&T Consumer Services Group generally provides billing via traditional paper copy or on-line billing. The traditional paper bills provide call details and are sent directly by AT&T or indirectly through local exchange carriers. An additional fee is charged for customers receiving their bills through local exchange carriers. In the case of on-line billing, the charges are billed to a credit card or directly debited from a checking account; call details are available via the AT&T website.

COMPETITION

Competition in communications services is based on price and pricing plans, types of services offered, customer service, access to customer premises and communications quality, reliability and availability. AT&T Consumer Services Group's principal competitors include the MCI Group of Worldcom, Inc.,

X-18

Sprint Corporation and regional phone companies. AT&T also experiences significant competition in long distance from dial-around resellers. In addition, long distance telecommunications providers have been facing competition from non-traditional sources, including as a result of technological substitutions, such as Internet telephony, high speed cable Internet service, e-mail and wireless services. Providers of competitive high-speed data offerings include cable television companies, fixed wireless companies, direct broadcast satellite companies and DSL resellers.

Incumbent local exchange carriers own the only universal telephone connection to the home, have very substantial capital and other resources, long-standing customer relationships and extensive existing facilities and network rights-of-way, and are AT&T Consumer Services Group's primary competitors in the local services market. In addition, it is anticipated that a number of long distance telecommunication, wireless and cable service providers and others have entered or will enter the local services market in competition with AT&T Consumer Services Group. Some of these potential competitors have substantial financial and other resources. AT&T Consumer Services Group also competes in the local services market with a number of competitive local exchange carriers, a few of which have existing local networks and significant financial resources. See "Summary and Overview of the Transactions -- Risk Factors -- Risk Factors Relating to AT&T Consumer Services Group and AT&T Business Services Group -- AT&T Consumer Services Group and AT&T Business Services Group face substantial competition that may materially adversely impact both market share and margins."

AT&T Consumer Services Group currently faces significant competition and expects that the level of competition will continue to increase. As competitive, regulatory and technological changes occur, including those occasioned by the Telecommunications Act described under "-- Legislative and Regulatory Developments -- Telecommunications Act of 1996," AT&T Consumer Services Group anticipates that new and different competitors will enter and expand their position in the communications services markets. These will include regional phone company competitors in existing states and new states plus entrants from other segments of the communications and information services industry or global competitors seeking to expand their market opportunities. Many of these new competitors are likely to enter with a strong market presence, well-recognized names and pre-existing direct customer relationships.

The Telecommunications Act already has affected the competitive environment. Anticipating changes in the industry, non-regional phone company local exchange carriers, which are not required to implement the Telecommunications Act's competitive checklist prior to offering long distance in their home markets, have integrated their local service offerings with long distance offerings in advance of AT&T Consumer Services Group offering combined local and long distance service in these areas, adversely affecting AT&T Consumer Services Group's revenues and earnings in these service regions.

In addition, the Telecommunications Act permits regional phone companies to provide in-region interLATA interexchange services after demonstrating to the FCC that providing these services is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act. See "-- Legislative and Regulatory Developments -- Telecommunications Act of 1996." Regional phone companies have petitioned the FCC for permission to provide interLATA interexchange services in one or more states within their home markets. In December 1999, Verizon became the first regional phone company to obtain approval to provide long distance in a state within its home territory, in New York, and was granted authorization to provide long distance service in Massachusetts in April 2001, in Connecticut in July 2001 and in Pennsylvania in September 2001. SBC was granted authorization to provide long distance service in Texas in April 2000, in Kansas and Oklahoma in January 2001, and, more recently, in Missouri and Arkansas. Applications are currently pending with the FCC for the states of New Jersey, Rhode Island and Vermont, and additional applications are expected to be filed in the future.

To the extent that regional phone companies obtain in-region interLATA authority before the Telecommunications Act's checklist of conditions have been fully or satisfactorily implemented and adequate facilities-based local exchange competition exists, or before there is an ability to resell at fair and competitive rates there is a substantial risk that AT&T Consumer Services Group and other interexchange service providers, will be at a disadvantage to regional phone companies in providing both local service and combined service packages. Because it is widely anticipated that substantial numbers of long distance customers will seek to purchase local, interexchange and other services from a single carrier as part of a combined or full service package, any competitive disadvantage, inability to profitably provide local service at competitive rates or delays or limitations in providing local service or combined service packages could materially adversely affect AT&T Consumer Services Group's future revenue and earnings. In any event, the simultaneous entrance of numerous new competitors for interexchange and combined service packages is likely to materially adversely affect AT&T Consumer Services Group's future long distance revenue and could affect materially adversely future earnings.

In addition to the matters referred to above, various other factors, including technological hurdles, market acceptance, start-up and ongoing costs associated with the provision of new services and local conditions and obstacles, could materially adversely affect the timing and success of AT&T Consumer Services Group's entrance into the local exchange services market and AT&T Consumer Services Group's ability to offer combined service packages that include local service.

EMPLOYEES

At September 30, 2001, AT&T Consumer Services Group employed approximately 15,000 individuals in its operations, virtually all of whom are located in the United States. About 76% of the domestically located employees of AT&T Consumer Services Group are represented by unions. Of those represented by unions, about 96% are represented by the Communications Workers of America and about 4% are represented by the International Brotherhood of Electrical Workers, both of which are affiliated with the AFL-CIO. Labor agreements with most of these unions extend through May 2002.

LEGAL PROCEEDINGS

In the normal course of business, AT&T Consumer Services Group is subject to proceedings, lawsuits and other claims, including proceedings under government laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, AT&T Consumer Services Group is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 2000. While these matters could affect operating results of any one quarter when resolved in future periods, it is management's opinion that after final disposition, any monetary liability or financial impact to AT&T Consumer Services Group beyond that provided for at year-end would not be material to AT&T Consumer Services Group's annual combined financial statements.

For additional information on legal proceedings, please see the discussion on legal proceedings under "Legal Proceedings" contained in AT&T's Annual Report on Form 10-K, as amended, for the year ended December 31, 2000, which is incorporated by reference in this document. See "Additional Information for Shareholders -- Where You Can Find More Information."

LEGISLATIVE AND REGULATORY DEVELOPMENTS

Telecommunications Act of 1996. In February 1996, the Telecommunications Act became law. The Telecommunications Act, among other things, was designed to foster local exchange competition by establishing a regulatory framework to govern new competitive entry in local and long distance telecommunications services. The Telecommunications Act permits a regional phone company to provide interexchange services originating in any state in its region after it demonstrates to the FCC that this provision is in the public interest and it satisfies the conditions for developing local competition established by the Telecommunications Act.

In August 1996, the FCC adopted rules and regulations, including pricing rules, to implement the local competition provisions of the Telecommunications Act, including with respect to the terms and conditions of interconnection with local exchange carrier networks and the standards governing the purchase of unbundled network elements and wholesale services from local exchange carriers. These rules

and regulations rely on state public utility commissions, or PUCs, to develop the specific rates and procedures applicable to particular states within the framework prescribed by the FCC.

On July 18, 1997, the Eighth Circuit Court of Appeals issued a decision holding that the FCC lacked authority to establish pricing rules to implement the sections of the local competition provisions of the Telecommunications Act applicable to interconnection with incumbent local exchange carrier networks and the purchase of unbundled network elements and wholesale services from incumbent local exchange carriers. Accordingly, the Eighth Circuit Court of Appeals vacated the rules that the FCC had adopted in August 1996, and that had been stayed by the Court since September 1996. On October 14, 1997, the Eighth Circuit Court of Appeals vacated an FCC rule that prohibited incumbent local exchange carriers from separating network elements that are combined in an incumbent local exchange carrier's network, except at the request of the competitor purchasing the elements. This decision increased the difficulty and cost of providing competitive local service through the use of unbundled network elements purchased from incumbent local exchange carriers.

On January 25, 1999, the Supreme Court issued a decision reversing the Eighth Circuit Court of Appeals' holding that the FCC lacks jurisdiction to establish pricing rules applicable to interconnection and the purchase of unbundled network elements, and the Eighth Circuit Court of Appeals' decision to vacate the FCC's rule prohibiting incumbent local exchange carriers from separating network elements that are combined in an incumbent local exchange carrier's network. The effect of the Supreme Court's decision was to reinstate the FCC's rules governing pricing and the separation of unbundled network elements. The pricing issues were then remanded to the Eighth Circuit Court of Appeals to consider the incumbent local exchange carriers' claims that, although the FCC has jurisdiction to adopt pricing rules, the rules it adopted are not consistent with the applicable provisions of the Telecommunications Act. The Supreme Court also vacated the FCC's rule identifying and defining the unbundled network elements that incumbent local exchange carriers are required to make available to new entrants, and directed the FCC to reexamine this issue in light of the standards mandated by the Telecommunications Act.

In response to the Supreme Court's decision, in November 1999, the FCC completed its reexamination of, and released an order identifying and defining, the unbundled network elements that incumbent local exchange carriers are required to make available to new entrants. That order re-adopted the original list of elements, with certain limited exceptions. An association of incumbent local exchange carriers has appealed the FCC's order to the District of Columbia Circuit Court of Appeals, and has asked this Court to hear the appeal on an expedited basis. A number of parties, including AT&T and other incumbent local exchange carriers, have petitioned the FCC to reconsider and/or clarify its order. The FCC has moved to hold the appeal in abeyance pending its disposition of the reconsideration petitions. In addition, in December 2001 the FCC opened a proceeding in which it proposes to review the availability of unbundled network elements based on current market conditions. The FCC has proposed to respond to issues raised in the earlier reconsideration petitions in this new docket.

In July 2000, the Eighth Circuit Court of Appeals issued a decision addressing the incumbent local exchange carriers' claims that the FCC's pricing rules are not consistent with the applicable provisions of the Telecommunications Act. It rejected the incumbent local exchange carriers' claims that the prices for network elements must be based on their "historical costs" rather than, as the FCC had held, their "forward-looking" costs. It also held, however, that the FCC rule providing that forward-looking costs should be calculated on the basis of the cost of the most efficient alternatives was contrary to the Telecommunications Act. The Eighth Circuit Court of Appeals then stayed this ruling to enable the parties to seek review before the Supreme Court, so the FCC's rules remain in effect until the Supreme Court decides the case. The Supreme Court agreed to review the Eighth Circuit Court of Appeals' decision, and a decision by the Supreme Court is anticipated by the end of June 2002. The Supreme Court will be considering the claims of AT&T, the FCC and others that the Eighth Circuit Court of Appeals erred by invalidating the FCC rule, and the claim by the incumbent local exchange carriers that the Eighth Circuit Court of Appeals erred by not requiring prices to be based on their historical cost. The Supreme Court is also considering the Eighth Circuit's decision that incumbent local exchange carriers are not required to provide competitors with "new" combinations of unbundled network elements.

X-21

The Eighth Circuit Court of Appeals also invalidated the FCC's rules setting the pricing methodology for resold local services. That aspect of its decision was not stayed and will not be reviewed by the Supreme Court.

In view of the proceedings pending before the Supreme Court, the District of Columbia Circuit Court of Appeals, the FCC and state PUCs and possible legislation, there can be no assurance that the prices and other conditions established in each state will provide for effective local service entry and competition or provide AT&T Consumer Services Group with new market opportunities. The effect of the most recent decision by the Eighth Circuit Court of Appeals is to increase the risks, costs, difficulties, and uncertainty of entering local markets through using the incumbent local exchange carriers' facilities and services.

Regulation of Rates. AT&T Consumer Services Group is subject to the jurisdiction of the FCC with respect to interstate and international rates, lines and services, and other matters. From July 1989 to October 1995, the FCC regulated AT&T Consumer Services Group under a system known as "price caps" whereby AT&T Consumer Services Group's prices, rather than its earnings, were limited. On October 12, 1995, recognizing a decade of enormous change in the long distance market and finding that AT&T lacked market power in the interstate long distance market, the FCC reclassified AT&T as a "non-dominant" carrier for its domestic interstate services. Subsequently, the FCC determined that AT&T Consumer Services Group's international services were also non-dominant. As a result, AT&T Consumer Services Group became subject to the same regulations as its long distance competitors for these services. Thus, AT&T Consumer Services Group was no longer subject to price cap regulation for these services, was able to file tariffs that are presumed lawful on one day's notice, and was free of other regulations and reporting requirements that apply only to dominant carriers.

In subsequent orders, the FCC decided to exercise its authority to forbear from requiring non-dominant carriers to file tariffs for their services; first for domestic interstate services and then for international services. As a result, non-dominant carriers, including AT&T Consumer Services Group, have implemented mechanisms other than tariffs to establish the terms and conditions that apply both to domestic, interstate telecommunications services and international services, effective August 1, 2001. Accordingly these mechanisms apply to virtually all of AT&T Consumer Services Group's interstate and international telecommunications services.

In May 1997, the FCC adopted orders relating to price caps, access reform and universal service that substantially revised the level and structure of access charges that AT&T Consumer Services Group, as a long distance carrier, pays to incumbent local exchange carriers. Under the price cap order, local exchange carriers were required to reduce their price cap indices by 6.5% annually, less an adjustment for inflation, which has resulted in significant reductions in access charges that long distance companies pay to local exchange carriers. The access reform order permitted increased flat-rate assessments to multiline business customers and to residential customers other than for the primary telephone line. AT&T Consumer Services Group has agreed to pass through to consumers any savings to AT&T Consumer Services Group as a result of these access charge reforms. Consequently, AT&T Consumer Services Group's results after June 1997 reflect lower revenue per minute of usage and lower access and other interconnection costs per minute of usage.

In May 2000, the FCC adopted the CALLS order for the price cap local exchange carriers, which made additional significant access and price cap changes. The CALLS order reduced by $3.2 billion during 2000 the interstate access charges that AT&T Consumer Services Group and other long distance carriers paid to these local exchange carriers for access to their networks, and established target access rates for the long distance carriers companies, which, over the next two years, will result in further reductions, albeit of a much smaller magnitude. Once the target rates are reached, the annual price reductions required by the price cap order no longer apply. In addition, the CALLS order removed implicit subsidies from access charges and converted them into an explicit, portable subsidy administered as part of the universal service program described below. Also, under the CALLS order, the caps on certain line-based costs that do not vary with usage have been increased so that these costs increasingly are recovered from end user customers. These restructurings allowed the reduction in access charges assessed on long distance carriers on a usage basis. As part of the CALLS order, AT&T Consumer Services Group agreed to pass through to customers access charge reductions over the

five-year life of the CALLS order and made certain other commitments regarding the rate structure of certain residential long distance offerings. The FCC CALLS order was recently reversed and remanded in part, and is the subject of ongoing remand proceedings before the FCC.

Under the August 1999 local exchange carrier pricing flexibility order, which was affirmed by the District of Columbia Circuit Court of Appeals in February 2001, the FCC established certain triggers that enable the price cap local exchange carriers to obtain pricing flexibility for their interstate access services, including Phase II relief that permits them to remove these services from price cap regulation. Although these triggers purportedly indicate a competitive presence, they may allow for premature deregulation that could force access rates upwards.

Finally, in the universal service order, the FCC adopted a new mechanism for funding universal service, which includes programs that defray the costs of telephone service in high-cost areas, for low-income consumers, and for schools, libraries and rural health care providers. Specifically, the FCC expanded the set of carriers that must contribute to support universal service from solely long distance carriers to all carriers, including local exchange carriers, that provide interstate telecommunications services. Similarly, the set of carriers eligible for the universal service support has been expanded from only local exchange carriers to any eligible carrier providing local service to a customer, including AT&T Consumer Services Group as a new entrant in local markets. The universal service order also adopted measures to provide discounts on telecommunications services, Internet access and inside wiring for eligible schools and libraries and on telecommunications services only for rural health care providers.

AT&T Consumer Services Group remains subject to the statutory requirements of Title II of the Communications Act of 1934, as amended. AT&T Consumer Services Group must offer service under rates, terms and conditions that are just, reasonable and not unreasonably discriminatory. It also is subject to the FCC's complaint process, and it must give notice to the FCC and affected customers prior to discontinuance, reduction or impairment of service.

In addition, legislation is currently pending before the United States House of Representatives that would permit the regional phone companies to provide certain long distance services without satisfying the Telecommunications Act's checklist of conditions and also would substantially reduce the regional phone companies' obligations to provide AT&T Consumer Services Group and other local competitors with the faculties needed to provide competitive local services, particularly high speed data services. Additionally, the Federal Communications Commission proceeding referenced could limit the regional phone companies obligations to provide facilities to AT&T Consumer Services Group and other local competitors, and could accelerate the regional phone companies' ability to provide long distance services.

In addition to the matters described above with respect to the Telecommunications Act, PUCs or similar authorities having regulatory power over intrastate rates, lines and services and other matters regulate AT&T Consumer Services Group's local and intrastate communications services. The system of regulation applied to AT&T Consumer Services Group's intrastate and local communications services varies from state to state and generally includes various forms of pricing flexibility rules. AT&T Consumer Services Group's services are not regulated in the states through rate of return regulation.

AT&T CONSUMER SERVICES GROUP
(AN INTEGRATED BUSINESS OF AT&T)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

To understand and place in context AT&T Consumer Services Group Management's Discussion and Analysis, we urge you to read the AT&T Corp. Management's Discussion and Analysis on page .

OVERVIEW

AT&T Consumer Services Group is an integrated business of AT&T and is not a stand-alone entity. The combined financial statements included herein reflect the results of the proposed AT&T Consumer Services Group tracking stock. Separate financial statements are not required to be filed for tracking stocks. However, AT&T Consumer Services Group has provided the financial statements as an exhibit to this document to provide additional disclosures to investors to allow them to assess the financial performance of AT&T Consumer Services Group. Presenting separate financial statements for AT&T Consumer Services Group does not indicate that AT&T has changed title to any assets or responsibility for any liabilities, and does not purport to affect the rights of any of AT&T's creditors. Holders of AT&T Consumer Services Group tracking stock do not have claims against the assets of AT&T Consumer Services Group. Instead, AT&T Consumer Services Group shareholders own a separate class of AT&T common stock that is intended to reflect the financial performance and economic value of AT&T's consumer services businesses. Since the tracking stocks are governed by a common board of directors, AT&T's board of directors could make operational and financial decisions or implement policies that affect disproportionately the businesses of any group. For example, AT&T's board of directors may decide to transfer funds or to reallocate assets, liabilities, revenue, expenses and cash flows among groups, without the consent of shareholders. All actions by the board of directors are subject to the board members' fiduciary duties to all shareholders of AT&T as a group, not just to holders of a particular class of tracking stock, and to AT&T's charter, policy statements, by-laws and inter-company agreements.

AT&T's board of directors may change or supplement the policies set forth in the tracking stock policy statements and AT&T's by-laws at the sole discretion of AT&T's board of directors, subject to the provisions of any inter-group agreement but without approval of AT&T's shareholders. In addition, the fact that AT&T has separate classes of common stock could give rise to occasions when the interests of the holders of the various classes of stock diverge, conflict or appear to diverge or conflict. AT&T's board of directors would make any change or addition to the policies set forth in the tracking stock policy statements or AT&T's by-laws, and would respond to any actual or apparent divergence of interest among AT&T's groups, in a manner consistent with its fiduciary duties to AT&T and all of AT&T's shareholders after giving consideration to the potentially divergent interests and all other relevant interests of the holders of the separate classes of AT&T shares.

YOU SHOULD CONSIDER THAT AS A RESULT OF THE FLEXIBILITY PROVIDED TO AT&T'S BOARD OF DIRECTORS, IT MAY BE DIFFICULT FOR INVESTORS TO ASSESS THE FUTURE PROSPECTS OF A TRACKING STOCK GROUP BASED ON THAT GROUP'S PAST PERFORMANCE.

AT&T Consumer Services Group is a leading provider of domestic and international long distance and transaction based services to residential consumers in the United States with approximately 60 million customer relationships. AT&T Consumer Services Group provides interstate and intrastate long distance communications services throughout the continental United States and provides, or joins in providing with other carriers, communications services to and from Alaska, Hawaii, Puerto Rico and the Virgin Islands and international communications services to and from virtually all nations and territories around the world.

AT&T Consumer Services Group provides a broad range of communications services to consumers individually and in combination with other services, including: inbound and outbound domestic and international long distance through the traditional "one plus" dialing of the desired call destination; local toll calling; transaction-based long distance services such as calling cards and prepaid phone cards; local

calling through unbundled network elements platform resale service offers; and dial-up Internet service through AT&T WorldNet Service.

On October 25, 2000, AT&T announced a restructuring plan designed to fully separate or issue separately tracked stocks intended to reflect the financial performance and economic value of each of AT&T's four major operating units. On December 19, 2001 AT&T reaffirmed its commitment to creating a tracking stock designed to reflect the financial performance and economic value of AT&T Consumer Services Group. If the Consumer Services charter amendment proposal is approved, AT&T expects to distribute some or all of the tracking stock to AT&T

shareholders in 2002.

Debt has been allocated to AT&T Consumer Services Group based on AT&T's future view of AT&T's debt position after taking into account the significant deleveraging activities of AT&T. This allocation took into account the following factors: prospective financing requirements, working capital and capital expenditure requirements and comparable company profiles. Increases in historical debt levels are based, in general, on historical cash flows generated by AT&T Consumer Services Group in relation to total AT&T. Such cash outflows include acquisitions, dividend payments and capital expenditures partially offset by cash flow from operations. For purposes of this allocation, certain "corporate" activities were deemed to be partially funded by this entity by contributing proceeds to the parent for these activities. These activities included the repurchase of common shares by AT&T and cash payments associated with the TCI merger and the MediaOne acquisition. The interest expense on the allocated debt was calculated based on a rate intended to be equivalent to the rate AT&T Consumer Services Group would have received if it were a stand-alone entity. Due to the expected positive operating cash flow of AT&T Consumer Services Group, the level of debt of AT&T Consumer Services Group in the future is expected to be significantly lower than the level at September 30, 2001.

COMBINED RESULTS OF OPERATIONS

The comparison of 2001 results with 2000 was impacted by events that occurred during these two periods. For example, effective July 1, 2000, the FCC eliminated Primary Interexchange Carrier Charges, or per-line charges, that AT&T Consumer Services Group pays for residential and single-line businesses. The elimination of these per-line charges resulted in lower access expense as well as lower revenue, since AT&T Consumer Services Group has historically billed its customers for these charges.

The comparison of 2000 results with 1999 was impacted by events that occurred during these two years. For example, on January 5, 2000, AT&T launched Concert, its global joint venture with BT. AT&T contributed all of its international cross-border network facilities and the economic value of approximately 270 AT&T Business Services Group multinational customers specifically targeted for direct sales by Concert and substantially all international traffic of AT&T Consumer Services Group. As a result, AT&T Consumer Services Group's 2000 results do not include the revenue and expenses associated with international traffic contributed to Concert.

In addition, comparison of 2000 results with 1999 was impacted by the elimination of Primary Interexchange Carrier Charges.

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED WITH THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2000

Revenue

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Revenue	$3,822	$4,651	$11,614	$14,651

AT&T Consumer Services Group revenue declined 17.8%, or $829 million, in the third quarter of 2001 and declined 20.7%, or $3,037 million, for the first nine months of 2001 compared with the

corresponding periods in 2000. The revenue decline in both periods reflects the impacts of volume reductions, primarily in traditional voice services due to the acceleration of wireless and e-mail substitution, the impacts of ongoing competition and the continued migration of customers to lower-priced products and optional calling plans. The revenue decline in the third quarter of 2001 was slightly offset by an increase in the level of call volumes related to the events of September 11, 2001. In addition, the revenue decline for the nine months ended September 30, 2001, reflects the elimination of per-line charges in July 2000 of approximately $496 million.

The calling volume declined at a low double-digit percentage rate in both the third quarter of 2001 and the nine months ended September 30, 2001, primarily due to product substitution and competition in the long distance industry, which AT&T Consumer Services Group expects will continue to negatively impact AT&T Consumer Services Group's revenue.

Operating Expenses

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Access and other connection......................	$1,014	$1,185	$3,112	$4,126

Access and other connection expenses decreased 14.4%, or $171 million, in the third quarter of 2001, compared with the third quarter of 2000. Included within access and other connection expenses are costs that AT&T Consumer Services Group pays to connect calls on the facilities of other service providers. Approximately $129 million of the decrease was due to lower international connection rates and lower per minute access rates and approximately $96 million was due to lower volumes. Partially offsetting this decline was an increase in local connectivity expense of $43 million primarily due to the expansion of local service in New York and Texas.

Access and other connection expenses decreased 24.6%, or $1,014 million, for the nine months ended September 30, 2001, compared with the same period in 2000. Approximately $911 million of the decrease was due to lower per-line charges, mandated reductions in per minute access rates and lower international connection rates. In July 2000 per line charges that AT&T paid for residential customers were eliminated by the FCC. Also contributing to the decrease was $296 million due to lower volumes. Partially offsetting these declines was higher local connectivity expense of $177 million primarily due to the expansion of local service in New York and Texas.

	FOR THE THREE MONTHS ENDED	FOR THE NINE MONTHS ENDED

	SEPTEMBER 30, 2001	SEPTEMBER 30, 2000	SEPTEMBER 30, 2001	SEPTEMBER 30, 2000
	(DOLLARS IN MILLIONS)			
Selling, general and administrative..................	$913	$979	$2,855	$3,195

Selling, general and administrative (SG&A) expenses decreased 6.7%, or $66 million, in the third quarter of 2001, compared with the third quarter of 2000. SG&A expenses decreased 10.6%, or $340 million, for the nine months ended September 30, 2001, compared with the same period in 2000. The decline in both periods was primarily due to lower costs associated with customer care and billing expenses and cost management efforts.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Costs of services and products.......................	$590	$661	$1,758	$1,957

Costs of services and products decreased 10.7%, or $71 million, in the third quarter of 2001, compared with the third quarter of 2000. Approximately $58 million of the decrease was due to lower costs for

X-26

utilizing AT&T's network, primarily as a result of lower volumes. An additional $14 million of the decrease was due to lower operator services costs, also related to lower volumes.

Costs of services and products decreased 10.2%, or $199 million, for the nine months ended September 30, 2001, compared with the same period in 2000. Approximately $142 million of the decrease was due to lower costs for utilizing AT&T's network, primarily as a result of lower volumes. An additional $52 million of the decrease was due to lower operator services costs, also related to lower volumes.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Depreciation and amortization..........................	$49	$43	$145	$123

Depreciation and amortization expenses increased 14.0%, or $6 million, compared with the third quarter of 2000. Depreciation and amortization expenses increased 17.9%, or $22 million, for the nine months ended September 30, 2001 compared with the corresponding prior-year period. Capital expenditures and additions to internal use software for the nine months ended September 30, 2001 and 2000 were $96 million and $104 million, respectively.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Net Restructuring & Other Charges........................	$--	$--	$--	$97

During the first quarter of 2000, AT&T Consumer Services Group recorded $97 million of net restructuring and other charges, which included $79 million for restructuring and exit costs associated with AT&T's initiative to reduce costs by the end of 2000.

Also included in restructuring and other charges was an asset impairment charge of $18 million related to the write-down of unrecoverable assets in certain businesses in which the carrying value was no longer supported by future cash flows.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Operating income................................	$1,256	$1,783	$3,744	$5,153

Operating income decreased 29.6%, or $527 million, in the third quarter of 2001, compared with the same period in 2000. Operating income decreased 27.3%, or $1,409 million, for the nine months ended September 30, 2001 compared with the corresponding prior year period. The decrease in both periods was primarily due to revenue declines partially offset by reductions in operating expenses. Operating income margin (operating income as a percent of revenue) was 32.9% and 38.3% for the three months ended September 30, 2001 and 2000, respectively, and 32.2% and 35.2% for the nine months ended September 30, 2001 and 2000, respectively.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Interest expense..	$28	$76	$134	$98

Interest expense decreased 63.2%, or $48 million, in third quarter of 2001 compared with the same period in 2000. The decrease was attributable to a decrease in long-term debt due to AT&T.

Interest expense increased 36.7%, or $36 million, in the nine month period ended September 30, 2001 compared with the corresponding prior year period. The increase was attributable to an increase in the average long-term debt balance due to AT&T.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Provision for income taxes...........................	$473	$655	$1,389	$1,957

The provision for income taxes decreased 27.8%, or $182 million, in the third quarter of 2001, compared with the third quarter of 2000. The provision for income taxes decreased 29.0%, or $568 million, in the nine month period ended September 30, 2001 compared with the corresponding prior year period. The decrease in both periods was primarily due to lower income before income taxes. The effective tax rate for third quarter of 2001 was 38.3% compared with 38.2% in the third quarter of 2000. The effective tax rate for the nine months ended September 30, 2001 and 2000 was 38.2% for both periods. The effective tax rate is higher than the 35% statutory federal tax rate principally due to state income taxes, net of federal benefits.

THREE YEARS ENDED DECEMBER 31, 2000

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Revenue...	$18,894	$21,753	$22,763

In 2000, AT&T Consumer Services Group's revenue decreased $2,859 million or 13.1%, on a mid-single-digit decline in volumes. Revenue in 1999 fell $1,010 million, or 4.4%, on a mid-single-digit decline in volumes. In 2000, approximately $884 million of this decline was due to the elimination of per-line charges and the impact of Concert. The remaining decline in both years reflects the ongoing competitive nature of the consumer long distance industry, which has resulted in pricing pressures and a loss of customers, which is expected to continue. Also negatively impacting revenue growth was product substitution and market migration away from direct dial wireline and higher-priced calling card services to rapidly growing wireless services and lower-priced prepaid card services. During 2000, the New York and Texas long distance markets were opened up to competition by the RBOCs. The continued entry of the RBOCs into the long distance market is expected to increase competitive pressures in 2001.

AT&T Consumer Services Group has continued to focus on providing customers with choice, simplicity and competitive rates. AT&T Consumer Services Group's One Rate plans, which allow customers to make long distance calls 24 hours a day, seven days a week for the same rate, have continued to be well received. As of December 31, 2000, over 12 million customers were enrolled in these plans, with more than 60% of those customers electing to bundle their long distance with local toll (intraLATA) service. Over one-half of the customers enrolled in the One Rate plans were new long distance customers.

AT&T WorldNet Service revenue increased 5.9% to $319 million in 2000, and 41.2% to $301 million in 1999. The increase in 2000 is due to stronger subscription revenue in the first half of 2000 as well as increased advertising revenue. Growth in 1999 was higher primarily due to increased marketing efforts and the introduction of the premium $21.95 unlimited access price plan. Competition within the ISP industry has recently increased. AT&T WorldNet Service has remained competitive with the industry, and launched their i495 plan in July 2000, which provides up to 150 hours of Internet service for $4.95 per month.

AT&T WorldNet Service served 1.42 million residential customers as of December 31, 2000, a decrease of 3.8% over 1999, due to the competitive nature of the industry. At December 31, 1999, AT&T WorldNet Service served 1.48 million residential customers, an increase of 29.5% over 1998.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Access and other connection..........................	$5,204	$6,223	$7,453

Access and other connection expenses declined $1,019 million, or 16.4%, in 2000 compared with 1999. Included within access and other connection expenses are costs paid to connect domestic calls on the facilities of other service providers. Approximately $932 million of this decline was driven by mandated reductions in per-minute access rates in 2000 and decreased per-line charges. Approximately $295 million of this decline was driven by volume declines in 2000. These decreases were partially offset by an increase in Universal Service Fund contributions of $224 million. Since most of these charges are passed through to the customer, the per-minute access-rate, the per-line charge reductions and the increased Universal Service Fund contributions have generally resulted in a corresponding impact on revenue. In addition, local connectivity charges increased $173 million, reflecting growth in the local business.

Costs paid to telephone companies outside of the United States to connect calls made to countries outside of the United States (international settlements) also are included within access and other connection expenses. These costs decreased $193 million in 2000, as a result of the commencement of operations of Concert. Concert now incurs most of AT&T's international settlements as well as earns most of AT&T's foreign-billed revenue, previously incurred and earned directly by AT&T Consumer Services Group. In 2000, Concert billed AT&T Consumer Services Group a net expense composed of international settlement (interconnection) expense, administrative fees, and foreign-billed revenue. The amount charged by Concert in 2000 was lower than interconnection expense incurred in 1999, since AT&T Consumer Services Group recorded these transactions as revenue and expense, as applicable.

Access and other connection expenses declined $1,230 million, or 16.5%, in 1999 compared with the prior year. Approximately $960 million of this decline resulted from mandated reductions in per-minute access rates and lower international settlement rates resulting from AT&T's negotiations with international carriers. Approximately $236 million of this decline was driven by volume declines in 1999. These reductions were partially offset by increased per-line charges and Universal Service Fund contributions in the amount of $172 million.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Selling, general and administrative.....................	$4,128	$4,688	$5,453

Selling, general and administrative, or SG&A, expenses decreased $560 million, or 11.9%, in 2000 compared with 1999. These reductions were primarily attributed to cost control efforts such as targeted marketing, consolidation of functions and reduction of support and corporate staff headcounts.

In 1999, SG&A expenses decreased $765 million, or 14.0% compared with the prior year. This decrease was primarily due to AT&T Consumer Services Group's focus on high-value customers, which led to lower spending on customer-acquisition and retention programs.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Costs of services and products.........................	$2,557	$3,316	$3,656

Costs of services and products expenses include such costs as the transport costs for utilizing AT&T's network, operator service costs, and the provision for uncollectible receivables. These costs decreased $759

million, or 22.9%, in 2000 and $340 million, or 9.3%, in 1999 compared with the prior year. These declines are largely due to volume declines and network cost-control initiatives, and the lower provision for uncollectible receivables.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Depreciation and amortization.............................	$167	$184	$116

Depreciation and amortization expenses decreased $17 million, or 9.2%, in 2000. Depreciation and amortization expenses increased $68 million, or 58.6%, in 1999 compared with 1998. Total capital expenditures for 2000, 1999 and 1998 were $148 million, $300 million and $98 million, respectively.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Net restructuring and other charges........................	$97	$7	$(19)

During 2000, AT&T Consumer Services Group recorded $97 million of net restructuring and other charges. The charge for restructuring and exit plans was primarily due to headcount reductions, including the consolidation of customer care and call centers. Included in exit costs was $79 million of cash termination benefits associated with the involuntary separation of about 1,300 employees. Approximately 65% of the individuals were management employees and 35% were non-management employees.

AT&T Consumer Services Group also recorded an asset impairment charge of $18 million related to the write-down of unrecoverable assets in certain businesses where the carrying value was no longer supported by estimated future cash flows.

During 1999, AT&T Consumer Services Group recorded $7 million of net restructuring and other charges. This $7 million charge for restructuring and exit costs was recorded in conjunction with AT&T's initiative to reduce costs. The restructuring and exit plans primarily focused on the maximization of synergies through headcount reductions, including the consolidation of customer-care and call centers.

The exit costs represent cash termination benefits associated with the separation of approximately 164 employees as part of voluntary termination plans. All of the terminations were nonmanagement employees.

During 1998, AT&T Consumer Services Group recorded a $19 million benefit to net restructuring and other charges. This benefit represents the reversal of 1995 business restructuring reserves primarily resulting from the overlap of AT&T's 1998 voluntary retirement incentive program, or VRIP, on certain 1995 projects.

FOR THE YEARS ENDED

	DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Operating income	$6,741	$7,335	$6,104

Operating income decreased 8.1% in 2000 compared with 1999. These results primarily reflect a decline in revenues, partially offset by cost reductions, primarily in SG&A, and costs of services and products. The decrease was also attributed to higher net restructuring and other charges in 2000 of $90 million. Operating income margin (operating income as a percent of revenue) was 35.7% in 2000 compared with 33.7% in 1999. Increased competition and migration of customers to products which may have a lower margin will negatively impact operating margins in the future.

In 1999, operating income increased 20.2% compared to the prior year. This increase was primarily driven by reduced SG&A expenses, largely due to AT&T Consumer Services Group's focus on high-value customers, which led to lower spending on customer-acquisition and retention programs.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Other income, net	$81	$208	$86

Other income decreased $127 million or 61.1% in 2000 compared with 1999. Other income increased $122 million or 141.9% in 1999 compared with the prior year. These results are primarily due to the 1999 sale of AT&T Consumer Services Group's Language Line Services business, which resulted in a gain of $153 million.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Interest expense	$164	$41	$27

In 2000, interest expense was $164 million compared to interest expense of $41 million in 1999. This interest expense is primarily due to an increase in long-term debt from AT&T.

In 1999, interest expense increased $14 million versus the prior year. This is primarily due to the increase in long-term debt in 1999.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
Provision for income taxes	$2,546	$2,869	$2,356

The effective income tax rate is the provision for income taxes as a percent of income from continuing operations before income taxes. The effective income tax rate for AT&T Consumer Services Group was 38.24%, 38.24%, and 38.22%, in 2000, 1999, and 1998, respectively.

LIQUIDITY

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	(DOLLARS IN MILLIONS)	
Cash flows:		
Provided by operating activities	$ 3,099	$ 3,636
Used in investing activities	(96)	(104)
Used in financing activities	(3,002)	(3,537)

For the nine months ended September 30, 2001, net cash provided by operating activities decreased $537 million, compared with the prior year period. This decrease was primarily due to decreases in net income and accounts payable, partially offset by an increase in income taxes payable and lower accounts receivable.

Investing activities of $96 million in 2001 and $104 million in 2000 represented capital expenditures and other additions including internal use software.

For the nine months ended September 30, 2001, net cash used in financing activities decreased by $535 million over the same prior year period. This decrease was due to lower contributions to AT&T as well as lower dividend payments due to the reductions in the AT&T annual dividend rate from $0.88 per share to $0.15 per share, two-thirds of which is funded by AT&T Consumer Services Group. These decreases were partially offset by repayments of long-term debt due to AT&T.

Due to the expected positive operating cash flow of AT&T Consumer Services Group, the level of debt of AT&T Consumer Services Group in the future is expected to be significantly lower than the level at September 30, 2001. Accordingly, the interest payments on the debt are expected to significantly decline.

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
CASH FLOWS:			
Provided by operating activities	$ 4,787	$ 4,350	$ 4,141
(Used in)/provided by investing activities	(132)	1,398	(1,641)
Used in financing activities	(4,661)	(5,742)	(2,500)

In 2000, net cash provided by operating activities increased $437 million. This increase is primarily due to changes in accounts receivable and accounts payable. These increases in net cash were partially offset by a decrease in net income, excluding the noncash impacts of depreciation and amortization, net restructuring and other charges and provision for uncollectibles. The increase in net cash provided by operating activities in 1999 compared with 1998 was primarily due to an increase in net income.

Investing activities resulted in a net use of cash of $132 million for 2000. The primary use of cash in 2000 was for capital expenditures.

Net cash provided by investing activities in 1999 was $1,398 million, compared with a net use of cash in 1998 of $1,641 million. In 1998, AT&T Consumer Services Group made a short term loan to ATT this receivable was collected in 1999.

In 2000, net cash used in financing activities decreased by $1,081 million. This decrease is primarily due to an increase in long term debt due to AT&T, partially offset by a higher transfer to AT&T and dividend payment in 2000.

In 1999, net cash used in financing activities increased $3,242 million. This increase is primarily due to an increase in transfers to AT&T.

AT&T'S BOARD OF DIRECTORS HAS THE POWER TO MAKE DETERMINATIONS THAT MAY IMPACT THE FINANCIAL AND LIQUIDITY POSITION OF EACH OF ITS TRACKING STOCK GROUPS. THIS POWER INCLUDES THE ABILITY TO SET PRIORITIES FOR USE OF CAPITAL AND DEBT CAPACITY, TO DETERMINE CASH MANAGEMENT POLICIES AND TO MAKE DECISIONS REGARDING WHETHER TO MAKE CAPITAL EXPENDITURES AND AS TO THE TIMING AND AMOUNT OF ANY CAPITAL EXPENDITURES. ALL ACTIONS BY THE BOARD OF DIRECTORS ARE SUBJECT TO THE BOARD MEMBERS FIDUCIARY DUTIES TO ALL SHAREHOLDERS OF AT&T AS A GROUP, NOT JUST TO HOLDERS OF A PARTICULAR CLASS OF TRACKING STOCK, TO AT&T'S POLICY STATEMENTS, BY-LAWS AND INTER-COMPANY AGREEMENTS. AS A RESULT OF THIS DISCRETION OF AT&T'S BOARD OF DIRECTORS, IT MAY BE DIFFICULT FOR INVESTORS TO ASSESS EACH GROUP'S LIQUIDITY AND CAPITAL RESOURCE NEEDS AND IN TURN THE FUTURE PROSPECTS OF EACH GROUP BASED ON PAST PERFORMANCE.

FINANCIAL CONDITION

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	(DOLLARS IN MILLIONS)	
Total assets	$2,833	$ 3,543
Total liabilities	3,659	6,084

Combined attributed net liabilities..................	(826)	(2,541)

Total assets decreased $710 million, or 20.0%, at September 30, 2001, primarily due to lower receivables as a result of lower revenue.

Total liabilities decreased $2,425 million, or 39.9%, at September 30, 2001. This decrease primarily resulted from a decrease in debt due to AT&T and a decrease in accounts payable, partially offset by an increase in income taxes payable due to the timing of the tax payments.

Total combined attributed net liabilities decreased $1,715 million, or 67.5%, at September 30, 2001, primarily due to net income partially offset by dividends declared to AT&T and contributions to AT&T.

	AT DECEMBER 31,	
	2000	1999
	(DOLLARS IN MILLIONS)	
Total assets...	$ 3,543	$4,072
Total liabilities..	6,084	3,002
Combined attributed net (liabilities) assets................	(2,541)	1,070

Total assets decreased $529 million, or 13.0%, during 2000. The decrease in total assets was primarily associated with a decrease in accounts receivable, reflecting lower revenue.

Total liabilities at December 31, 2000 increased $3,082 million or 102.7% during 2000. This increase is primarily due to an increase in long-term debt due to AT&T.

Total combined attributed net (liabilities) assets at December 31, 2000, decreased $3,611 million from the previous year, reflecting dividends and transfers to AT&T of $7.7 billion, partially offset by net income of $4.1 billion.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," which supercedes Accounting Principles Board (APB) Opinion No. 16. SFAS No. 141 requires all business combinations initiated after June 30, 2001 be accounted for under the purchase method. In addition, SFAS No. 141 establishes criteria for the recognition of intangible assets separately from goodwill. These requirements are effective for fiscal years beginning after December 15, 2001, which for AT&T Consumer Services Group means January 1, 2002. AT&T Consumer Services Group does not expect that the adoption of SFAS No. 141 will have a material effect on AT&T Consumer Services Group's results of operations, financial position or cash flows.

Also in June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which supercedes APB Opinion No. 17. Under SFAS No. 142 goodwill and indefinite lived intangible assets will no longer be amortized, but rather will be tested for impairment upon adoption and at least annually thereafter. In addition, the amortization period of intangible assets with finite lives will no longer be limited to 40 years. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, which for AT&T Consumer Services Group means the standard will be adopted on January 1, 2002. In connection with the adoption of this standard, AT&T Consumer Services Group's unamortized goodwill balance will no longer be amortized, but will continue to be tested for impairment. AT&T Consumer Services Group does not expect that the adoption of SFAS No. 142 will have a material effect on AT&T Consumer Services Group's results of operations, financial position or cash flows.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard requires that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. Upon initially recognizing a liability for an asset retirement obligation, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. Over time, this liability is accreted to its present value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002, which for AT&T Consumer Services Group means the standard will be adopted on January 1, 2003. AT&T Consumer Services Group does not

expect that the adoption of this statement will have a material impact on AT&T Consumer Services Group's results of operations, financial position or cash flows.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 144 applies to all long-lived assets, including discontinued operations, and consequently amends APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Based on SFAS No. 121, SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale, as well as addresses the principal implementation issues. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, which for AT&T Consumer Services Group means the standard will be adopted on January 1, 2002. AT&T Consumer Services Group does not expect that the adoption of SFAS No. 144 will have a material impact on AT&T Consumer Services Group's results of operations, financial position or cash flows.

SUBSEQUENT EVENTS

On October 16, 2001, AT&T announced a decision to unwind Concert, its global venture with British Telecommunications plc. Currently, Concert incurs most of AT&T's international settlements and bills AT&T Consumer Services Group a net expense composed of international settlement (interconnection) expense and foreign-billed revenue to settle calls completed outside of the United States. In conjunction with the unwinding of Concert, AT&T Consumer Services Group will record both foreign-billed revenue and interconnection expense for these transactions.

In January 2002, AT&T entered into a $2.6 billion five-year agreement with Accenture Ltd. for Accenture to provide management, new technology and training for AT&T Consumer Services Group. Under the terms of the agreement, Accenture will be responsible for providing new technology development and ongoing management direction to improve AT&T Consumer Services Group customer care operations, with goals of reducing costs, raising productivity, and improving sales and customer service. AT&T Consumer Services Group will continue to develop and implement its overall business and marketing strategies and new product offerings.

X-34

RELATIONSHIP BETWEEN THE AT&T GROUPS

AT&T shareholders should read the by-law amendment relating to the AT&T Groups capital stock committee and the AT&T Groups policy statement, copies of which are attached as Annexes N and O, respectively, to this document.

THE AT&T GROUPS CAPITAL STOCK COMMITTEE

Upon creation and issuance of AT&T Consumer Services Group tracking stock, AT&T will amend AT&T's by-laws to establish an AT&T Groups capital stock committee of the AT&T Board to oversee the interaction among the businesses of the AT&T groups. The members of the AT&T Groups capital stock committee will be independent directors selected by the AT&T Board. The by-law amendment provides that the AT&T Board will delegate to the AT&T Groups capital stock committee authority to:

- interpret, make determinations under and oversee the implementation of the policies described in the Policy Statement Regarding AT&T Groups Tracking Stock Matters described under "-- The AT&T Groups Policy Statement;"

- review the policies, programs and practices of AT&T relating to:

  -- business and financial relationships of the AT&T groups, and

  -- any matters arising in connection with any of the foregoing, all to the extent the AT&T Groups capital stock committee may deem appropriate; and

- recommend changes in the policies, programs and practices that the AT&T Groups capital stock committee may deem appropriate.

The AT&T Groups capital stock committee will have and may exercise other powers, authority and responsibilities as the AT&T Board may determine from time to time.

However, there will not be a separate board of directors for AT&T Consumer Services Group and the AT&T Groups capital stock committee will not function as a board of directors for AT&T Consumer Services Group tracking stock. Under existing law, neither the AT&T Board nor the AT&T Groups capital stock committee owes a separate fiduciary duty to the holders of AT&T Consumer Services Group tracking stock apart from the general duty that is owed to all AT&T shareholders.

Although the AT&T Board has no present intention to do so, it may modify, suspend or rescind the by-law amendment or adopt additional by-laws, at any time, without the approval of AT&T shareholders, subject to the AT&T Board's fiduciary duties.

THE AT&T GROUPS POLICY STATEMENT

In connection with the creation and issuance of AT&T Consumer Services Group tracking stock, AT&T will, effective upon issuance of AT&T Consumer Services Group tracking stock, adopt the AT&T Groups policy statement.

GENERAL POLICY

The AT&T Board has determined that all material matters in which holders of AT&T common stock and AT&T Consumer Services Group tracking stock may have divergent interests generally will be resolved in a manner that is in the best interests of AT&T and all AT&T common shareholders as a whole after giving fair consideration to the potentially divergent interests and all other relevant interests of the holders of the separate classes of AT&T common shares. Under the AT&T Groups policy statement, the relationships between AT&T groups and the means by which the terms of any material transactions among them will be determined will be governed by a process of fair dealing.

RELATIONSHIP BETWEEN AT&T GROUPS

The AT&T Groups policy statement provides that AT&T will seek to manage AT&T groups in a manner that maximizes the operational performance and value of all AT&T groups taken as a whole, even though in certain circumstances actions could disproportionately impact an individual group; provided, however, that such disproportionate actions will not, in the aggregate, have an adverse material impact on the results of operations or financial position of either group.

General. Subject to special arrangements or existing commercial arrangements in effect at the time the AT&T Groups policy statement is adopted, the AT&T Groups policy statement provides that, except as otherwise provided in the AT&T Groups policy statement (and renewals or extensions thereof), all material commercial transactions among the AT&T groups will be on commercially reasonable terms taken as a whole, and will be subject to the review and approval of the AT&T Groups capital stock committee.

The AT&T groups may make loans to each other on terms and conditions substantially equivalent to the interest rates and terms and conditions that the AT&T groups would be able to obtain from third parties without the benefit of support or guarantee by AT&T. AT&T expects that AT&T Consumer Services Group will make such loans from time to time to AT&T Business Services Group. For example, AT&T Consumer Services Group may loan funds to AT&T Business Services Group to continue to upgrade its network and make new functions and features available on the network.

For shared corporate services that arise as a result of being part of a combined entity, including securities filing and financial reporting services, costs relating to these services will be:

- allocated directly to the AT&T group utilizing those services, and

- if not directly allocable to an AT&T group, allocated between the AT&T groups on a fair and reasonable basis as the AT&T Board determines.

For other support services, the AT&T Groups policy statement provides that the AT&T groups will seek to achieve enterprise efficiencies to reduce the aggregate costs incurred by the AT&T groups on a combined basis.

CORPORATE OPPORTUNITIES

The AT&T Groups policy statement provides that the AT&T Board will allocate any business opportunities and operations, any acquired assets and businesses and any assumed liabilities between the AT&T groups, in whole or in part, as it considers to be in the best interests of AT&T and AT&T shareholders as a whole and as contemplated by the other provisions of the AT&T Groups policy statement. If a business opportunity or operation, an acquired asset or business, or an assumed liability would be suitable to be undertaken by or allocated to more than one AT&T group, the AT&T Board will allocate it using its business judgment or in accordance with procedures that the AT&T Board adopts from time to time to ensure that decisions will be made in the best interests of AT&T and AT&T shareholders as a whole. Any allocation of this type may involve the consideration of a number of factors that the AT&T Board determines to be relevant, including, without limitation, whether the business opportunity or operation, the acquired asset or business, or the assumed liability is principally within the existing scope of an AT&T group's business and whether an AT&T group is comparatively better positioned to undertake or have allocated to it the business opportunity or operation, acquired asset or business or assumed liability.

Except under the AT&T Groups policy statement and any other policies adopted by the AT&T Board, and except as may arise under branding agreements and arrangements, neither AT&T group will have any duty, responsibility or obligation to refrain from:

- engaging in the same or similar activities or lines of business as any member of the other AT&T group;

- doing business with any potential or actual supplier, competitor or customer of any member of the other AT&T group; or

- engaging in, or refraining from, any other activities whatsoever relating to any of the potential or actual suppliers or customers of any member of the other AT&T group.

In addition, except under the AT&T Groups policy statement and any other policies adopted by the AT&T Board, neither AT&T group will have any duty, responsibility or obligation:

- to communicate or offer any business or other corporate opportunity to any other person, including any business or other corporate opportunity that may arise that more than one AT&T group may be financially able to undertake, and that is, from its nature, in the line of more than one AT&T group's business and is of practical advantage to more than one AT&T group;

- to provide financial support to the other AT&T group, or any member of the other AT&T group, except as described under "-- Relationships with AT&T Business Services Group -- Financing Arrangements;" or

- otherwise to assist the other AT&T group.

Under no circumstances will any members of either AT&T group be prevented from entering into written agreements with the other AT&T group to define or restrict any aspect of the relationship between the AT&T groups.

DIVIDEND POLICY

The AT&T Groups policy statement provides that, subject to the limitations on dividends set forth in AT&T's charter, including any preferential rights of any series of AT&T preferred stock, and to the limitations of applicable law, holders of shares of any class of AT&T common stock will be entitled to receive dividends on that AT&T stock when, as and if the AT&T Board authorizes and declares dividends on that AT&T stock. The payment of dividends on any class of AT&T common stock will be a business decision that the AT&T Board makes from time to time based on the results of operations, financial condition, cash requirements and future prospects of AT&T and other factors that the AT&T Board considers relevant. Payment of dividends on any class of AT&T common stock also may be restricted by loan agreements, indentures and other transactions that AT&T enters into from time to time.

Following any issuance of AT&T Consumer Services Group tracking stock, it is currently expected that one-third of the current dividend payable on AT&T common stock will be allocated to AT&T common stock and that two-thirds will be allocated to AT&T Consumer Services Group tracking stock in a manner to be determined by the AT&T Board. The declaration of dividends by AT&T and the amount of that dividend will, however, be in the discretion of the AT&T Board, and will depend upon the AT&T groups' financial performance, the dividend policies and capital structures of comparable companies and each AT&T group's ongoing capital needs. If and when the AT&T Board determines to pay any dividends on shares of AT&T Consumer Services Group tracking stock, the AT&T Groups policy statement provides that this determination also will be subject to factors similar to those described above with respect to the payment of dividends on each class of AT&T common stock.

AT&T GROUPS CAPITAL STOCK COMMITTEE

AT&T's bylaws will provide for the AT&T Groups capital stock committee of the AT&T Board. In making determinations in connection with the policies set forth in the AT&T Groups policy statement, the members of the AT&T Board and the AT&T Groups capital stock committee will act in a fiduciary capacity and in accordance with legal guidance concerning their respective obligations under applicable law. The delegation of responsibilities to the AT&T Groups capital stock committee will be subject to changes the AT&T Board may determine.

X-37

AMENDMENT AND MODIFICATION TO THE AT&T GROUPS POLICY STATEMENT

The AT&T Board may modify, suspend or rescind the policies set forth in the AT&T Groups policy statement, including any resolution implementing the provisions of the AT&T Groups policy statement. The AT&T Board also may adopt additional or other policies or make exceptions with respect to the application of the policies described in the AT&T Groups policy statement in connection with particular facts and circumstances, all as the AT&T Board may determine, consistent with its fiduciary duties to AT&T and AT&T shareholders as a whole.

RELATIONSHIP WITH AT&T BUSINESS SERVICES GROUP

BRANDING

AT&T will continue to own and manage all AT&T brands, and AT&T Consumer Services Group will have the right, on a royalty-free basis, to continue to use certain of the AT&T brands, including the AT&T globe design and the AT&T trade dress, which we collectively refer to as "AT&T Consumer Services brands," in accordance with a brand agreement. Under the brand agreement, AT&T Consumer Services Group will be entitled to use AT&T Consumer Services brands for the provision of stand-alone residential long distance services, prepaid consumer calling card services, consumer calling card services, operator-assisted international telephone services for consumer travelers, certain DSL-based communications services, residential local telephony services, consumer dial-up narrow-band Internet access services and consumer high-speed Internet access services, and certain portals, content, equipment and software, and for bundles of the foregoing offered by AT&T Consumer Services Group. The rights of AT&T Consumer Services Group under the brand agreement will remain in effect while AT&T Consumer Services Group tracking stock remains outstanding.

Under the brand agreement, AT&T Consumer Services Group's rights to use the AT&T Consumer Services brands in connection with the foregoing services provided (directly or indirectly) and billed to consumers will be exclusive domestically (subject to preexisting agreements, AT&T's right to use the brand with all customers in Alaska, and any applicable legal requirements) and nonexclusive internationally. The agreement will establish principles to delineate whether particular customers for certain services are within the brand scope of AT&T Business Services Group or AT&T Consumer Services Group.

The territory of the brand agreement generally will be worldwide, with exceptions where AT&T already has granted brand license agreements or where another AT&T unit has exclusive brand rights for competing services. Subject to certain conditions set forth in the brand agreement, AT&T Consumer Services Group also may extend certain rights to use the AT&T Consumer Services brands to authorized dealers of AT&T Consumer Services Group's services. The brand agreement will provide that AT&T Consumer Services Group must comply with specified quality, customer care, graphics and marketing standards and guidelines to avoid confusion in connection with the use of the AT&T Consumer Services brands. It also will provide that, for so long as AT&T Consumer Services Group uses the AT&T Consumer Services brands, it will pay AT&T a brand maintenance fee for the administration, protection and promotion of the AT&T Consumer Services brands.

INTELLECTUAL PROPERTY

Intellectual property will generally continue to be managed by the AT&T group that has managed it historically. Each AT&T group will have the right to use certain intellectual property managed by the other AT&T group, or with respect to which either AT&T group has the power to grant these rights, in accordance with an intellectual property agreement. Rights under future intellectual property will be governed by sponsored development agreements that may, or may not, be entered into by the AT&T groups. Pursuant to any sponsored development agreement, the AT&T group that performed the work would own the newly developed intellectual property and the funding group would be granted perpetual, paid-up rights necessary to use the development on a worldwide basis as well as certain rights designed to secure a competitive advantage.

X-38

The intellectual property agreement to be entered into by AT&T Consumer Services Group will specify the ownership and license rights in existing patents, patents that may result from pending patent applications, software, copyrights and trade secrets. AT&T Consumer Services Group will have a nonexclusive, fully paid-up, worldwide, perpetual license under such patents to make, use and sell all products and services in the conduct of its present and future business. AT&T Consumer Services Group also will have special rights under those patents, for defensive protection, special affiliate licensing and supplier licensing. Each AT&T group will own all of the software, trade secrets and copyrights that it created prior to the effective date of the intellectual property agreement. Each AT&T group will grant to the other AT&T group a nonexclusive, fully paid-up, worldwide, perpetual license to use the AT&T group's software, trade secrets (excluding customer information and other commercial information that relates solely to one of the units) and copyrights that the other AT&T group possesses as of the effective date of the intellectual property agreement. Proprietary information related to an AT&T group's customers will receive special protection under the intellectual property agreement.

COMMERCIAL TRANSACTIONS BETWEEN AT&T GROUPS

AT&T intends that, except as otherwise provided in the AT&T Groups policy statement, all commercial transactions between the AT&T groups will be on commercially reasonable terms taken as a whole. AT&T expects the AT&T groups will negotiate and develop their arrangements over time, and that these arrangements will be subject to the review and approval of the AT&T Groups capital stock committee, either at the time of execution or as part of periodic reviews.

There will be two network agreements between AT&T Consumer Services Group and AT&T.

- Master Carrier Agreement. The master carrier agreement will specify the rates, terms and conditions on which Network Services within AT&T Business Services Group will provide voice, data, IP dial-up access and other services to AT&T Consumer Services Group, both for internal corporate purposes and for resale to other customers. AT&T Consumer Services Group will procure all of its telecommunications needs during the multi-year term of the agreement directly from Network Services within AT&T Business Services Group. Pricing of such services will be based on the costs to Network Services of providing those services, unless otherwise agreed, and the agreement will contain provisions assuring that AT&T Consumer Services Group is treated no less favorably than AT&T Business Services Group with respect to the allocation of costs between the units, including a fair allocation of any low cost capacity that Network Services provides or obtains. In addition, in those circumstances where substantial new investment is required, the agreements will contain provisions covering the responsibility for deploying assets and the mechanisms for recovering that investment.

- Intercarrier Compensation Agreement. The intercarrier compensation agreement will specify the terms (including whether there shall be any compensation) under which AT&T Business Services Group and AT&T Consumer Services Group will provide each other services:

  -- the originate and terminate interexchange traffic, and

  -- exchange local traffic between each other's local customers.

In addition, there will be a number of other agreements governing the provision of other services between AT&T Consumer Services Group and AT&T Business Services Group.

REALLOCATION OF ASSETS AND LIABILITIES

AT&T may reallocate assets and liabilities between the AT&T groups in exchange for an increase or decrease in the retained portion of value held by AT&T Business Services Group. Any reallocations of assets and liabilities between the AT&T groups that do not result in this adjustment, other than

reallocations made under a contract for the provision of goods or services between the AT&T groups, will be accompanied by:

- the reallocation by one AT&T group to the other AT&T group of other assets, liabilities or consideration,

- the creation of inter-group debt owed by one AT&T group to the other AT&T group, or

- the reduction of inter-group debt owed by one AT&T group to the other AT&T group,

in each case, in an amount having a fair market value, in the judgment of the AT&T Board, equivalent to the fair market value of the assets or liabilities, as applicable, reallocated.

FINANCING ARRANGEMENTS

Loans between AT&T groups will be made at interest rates and on other terms and conditions designed to be substantially equivalent to the interest rates and other terms and conditions that the borrowing AT&T group would be able to obtain from third parties, including the public markets, as a non-affiliate of AT&T without the benefit of any guaranty by AT&T or any member of either AT&T group. This policy contemplates that these loans will be made on the basis set forth above, regardless of the interest rates and other terms and conditions on which AT&T or members of any AT&T group may have acquired the funds. If, however, an AT&T group incurs any fees or charges in order to keep available funds for use by the other AT&T group, those fees or charges will be allocated to the borrowing AT&T group.

In the case of AT&T Consumer Services Group, the financial statements included elsewhere in this document make no distinction between the inter-group rate and the cost at which AT&T historically was able to raise funds in the external market. AT&T believes that the inter-group rate is a reasonable estimate of the rate of borrowing in the external market. However, in the future, AT&T Consumer Services Group may be charged interest at a rate higher or lower than its current rate. The actual rates of interest charged or paid by AT&T Consumer Services Group in the future is uncertain, and will depend on a variety of factors, including the credit profile of AT&T Consumer Services Group and market conditions. As a result, future interest rates charged or paid by AT&T Consumer Services Group may materially exceed those reflected in the financial statements included elsewhere in this document.

Although AT&T may borrow funds and provide the proceeds to AT&T Consumer Services Group on the terms and conditions described above, AT&T expects that AT&T Consumer Services Group will from time to time loan or otherwise make available funds to AT&T Business Services Group, on commercially reasonable terms. AT&T expects that AT&T Business Services Group will use these funds to repay debt and for other general corporate purposes, including to continue to upgrade its network and make new features and functions available on the network. To the extent that any of the cash flow of AT&T Consumer Services Group is loaned or otherwise made available to AT&T Business Services Group, fewer funds may be immediately available to support new activities of AT&T Consumer Services Group.

ACCOUNTING MATTERS

Following the issuance of shares of AT&T Consumer Services Group tracking stock, AT&T will continue to prepare financial statements in accordance with generally accepted accounting principles, consistently applied, for AT&T Consumer Services Group, as well as full consolidated financial statements of AT&T. The financial statements and information for each of the AT&T groups principally will reflect the financial position, results of operations and cash flows of the businesses included in those AT&T groups, respectively. Notwithstanding any allocation of assets or liabilities for dividend purposes or the purpose of preparing AT&T group financial statements, holders of AT&T common stock and holders of AT&T Consumer Services tracking stock will continue to be subject to risks associated with an investment in a single corporation and all of AT&T's businesses, assets and liabilities.

TAX SHARING AGREEMENT

Prior to issuance of any shares of AT&T Consumer Services Group tracking stock, AT&T Consumer Services Group and AT&T Business Services Group will enter into a tax sharing agreement that will provide for tax sharing payments between AT&T Consumer Services Group and AT&T Business Services Group based on the taxes or tax benefits of a hypothetical affiliated group consisting of AT&T Consumer Services Group and AT&T Business Services Group. Each of AT&T Consumer Services Group and AT&T Business Services Group shall generally be responsible for the taxes attributable to its lines of business and entities comprising its group as of such date.

Under the tax sharing agreement between AT&T Consumer Services Group and AT&T Business Services Group, the consolidated tax liability before credits of the hypothetical group will be allocated to each of AT&T Consumer Services Group and AT&T Business Services Group and based on each of AT&T Consumer Services Group's and AT&T Business Services Group's contribution to consolidated taxable income of the hypothetical group. This allocation will take into account losses, deductions and other tax attributes, such as capital losses or charitable deductions, that are utilized by the hypothetical group, even if these attributes could not be utilized on a stand-alone basis. Tax sharing payments in respect of the consolidated tax liability of the hypothetical group, after allocation of consolidated tax credits, will be made between AT&T Consumer Services Group and AT&T Business Services Group consistent with the allocations under the tax sharing agreement. In addition, under the tax sharing agreement, AT&T Consumer Services Group will be responsible for all tax items (and benefits from all tax benefits) resulting from the attribution of assets or interests to AT&T Consumer Services Group, or transfer to a legal entity that is a member of such group of assets, as well as any tax items and benefits resulting from the distribution of the stock of any company the assets of which are tracked by AT&T Consumer Services Group tracking stock. Tax items or tax benefits arising from or related to assets or interests that are not tracked by AT&T Consumer Services Group tracking stock will be for the account of AT&T Business Services Group.

The tax sharing payments under the tax sharing agreement assume that the members of AT&T Consumer Services Group and AT&T Business Services Group are members of the same affiliated, consolidated, combined or unitary group for the relevant U.S. federal, state or local or foreign income tax purposes with respect to taxable periods ending after the issuance of the shares of AT&T Consumer Services Group tracking stock. It is possible, however, that the Internal Revenue Service may assert that AT&T Consumer Services Group tracking stock is not stock of AT&T, in which case each of AT&T Consumer Services Group and AT&T Business Services Group may not be members of the same U.S. federal income tax affiliated group filing consolidated returns. AT&T believes that it is unlikely that the Internal Revenue Service would prevail on that view, but no assurance can be given in that regard. AT&T Consumer Services Group will be responsible, under the tax sharing agreement, for any corporate-level taxes resulting from the treatment of AT&T Consumer Services Group tracking stock as not stock of AT&T, and any corporate-level taxes on the actual or deemed disposition of assets caused by the issuance of AT&T Consumer Services Group tracking stock.

Non-income tax liabilities generally will be allocated based on line of business as of the issue date. As between AT&T Consumer Services Group and AT&T

Business Services Group, if the tax liability is associated with a particular line of business, but the portion of the tax liability associated with the line of business is not readily determinable, then the tax liability will be shared between the businesses based on an allocation formula.

With respect to taxes resulting from audit adjustments, other than those relating to characterization of tracking stock as not stock of AT&T, tax liabilities generally will be allocated among AT&T Consumer Services Group and AT&T Business Services Group based on line of business.

THE INCENTIVE PLAN PROPOSAL

GENERAL

AT&T currently issues stock-based awards to its employees and non-employee directors under the AT&T 1997 Long Term Incentive Program. AT&T shareholders approved this plan in 1997 and approved amendments to the plan in 1999 and 2000. As of , 2002, this plan authorized a total of approximately million shares of AT&T common stock for stock-based awards consisting of:

- stock options, including incentive stock options, or ISOs, under the Code,
- stock appreciation rights, or SARs, in tandem with stock options or free-standing,
- restricted stock,
- performance shares and performance units conditioned upon meeting performance criteria, and
- other awards of stock or awards valued, in whole or in part, by reference to, or otherwise based on, stock or other property of AT&T, or other stock unit awards.

In connection with any award or any deferred award, payments also may be made representing dividends or their equivalent.

In anticipation of the issuance of AT&T Consumer Services Group tracking stock, the AT&T Board will approve the adoption of the AT&T Consumer Services Group 2002 Long Term Incentive Program, or Consumer Services incentive plan, subject to the approval of AT&T shareholders.

Approval of the Consumer Services incentive plan requires a majority of the votes cast by all outstanding shares of AT&T common stock to vote in its favor. THE AT&T BOARD RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE CONSUMER SERVICES INCENTIVE PLAN. Any shares not voted, whether by abstention, broker non-vote or otherwise, will have no effect on the approval of the Incentive Plan proposal.

The AT&T Board will not implement the Consumer Services incentive plan unless its shareholders approve the corresponding Consumer Services charter amendment proposal.

The 1997 incentive plan, and a number of additional compensation plans, under which stock-based awards with respect to AT&T common stock are outstanding, are administered by the Compensation and Employee Benefits Committee of the AT&T Board, subject to delegations by the Compensation and Employee Benefits Committee to AT&T's Chairman and Chief Executive Officer, committees comprised of other AT&T senior officers or other compensation committees that may be designated in the additional plans. If approved, the Consumer Services incentive plan is expected to be administered in the same manner.

DESCRIPTION OF THE CONSUMER SERVICES INCENTIVE PLAN

Administration and Eligibility. The Consumer Services incentive plan will be administered by a committee, each of the members of which is a "non-employee director" as defined in the Securities Exchange Act of 1934, as amended, and an "outside director" as defined in the Code. Under the Consumer Services incentive plan, the committee has the authority to select employees to whom awards are granted, to determine the types of awards and the number of shares covered, and to set the terms, conditions, and provisions of these awards and to cancel or suspend awards. In each case, the committee is authorized to interpret the incentive plan and to establish, amend, and rescind any rules and regulations relating to the incentive plan, to determine the terms and provisions of any agreements entered into under the incentive plan, and to make all other determinations which may be necessary or advisable for the administration of the plan. Prospectively, all active employees and non-employee directors and certain former employees and former non-employee directors of AT&T and its subsidiaries and other affiliates are eligible to be participants in the Consumer Services incentive plan.

Shares Subject to Plan. Subject to adjustment as described below, the following shares will be available for awards granted under the Consumer Services incentive plan during its term:

- [ ]% of the total number of outstanding shares of AT&T Consumer Services Group tracking stock.

- [ ]% of the total number of shares available for awards under the plan will be reserved for adjustment awards to former employees and former non-employee directors of AT&T who hold equity awards with respect to AT&T common stock.

As defined in the plan, the term "outstanding" includes:

- the total issued and outstanding shares of AT&T Consumer Services Group tracking stock, plus

- the number of shares of AT&T Consumer Services Group tracking stock represented by the retained portion of the interest held by AT&T on the particular reference date.

If another company is acquired by AT&T, or combines with AT&T, any shares of AT&T Consumer Services Group tracking stock issued or reserved for issuance as a result of the assumption or substitution of outstanding grants of the acquired company would not be deemed issued under the incentive plan and would not be subtracted from the shares of AT&T Consumer Services Group tracking stock available for grant under the incentive plan. If any shares subject to any award under the Consumer Services incentive plan are forfeited, or such award is settled for cash, or expires, or is otherwise terminated without issuance of shares, the shares subject to such award will again be available for grant under that incentive plan. The number of shares available for awards under the Consumer Services incentive plan will also increase by the number of shares AT&T withholds or tenders in connection with the payment of the exercise price of an option or other award under the Consumer Services incentive plan or the satisfaction of tax withholding obligations. The shares of stock deliverable under the Consumer Services incentive plan may consist in whole or in part of authorized and unissued shares, treasury shares, or shares purchased in the open market, or otherwise.

Stock Options. The price per share of stock purchasable under any stock option will be determined by a committee, but will not be less than 100% of the fair market value of the stock on the date of the grant of such option. The term of each option will be fixed by the committee. Options will be exercisable at such time or times as determined by the committee, but no stock option will be exercisable after the expiration of ten years from the date the option is granted.

Stock Appreciation Rights. An SAR may be granted free-standing or in tandem with new options or after the grant of a related option that is not an ISO. Upon exercise of an SAR, the holder of that SAR is entitled to receive the excess of the fair market value of the shares for which the right is exercised, calculated as of the exercise date or, if the committee shall so determine in the case of any SAR, not related to an ISO, as of any time during a specified period before the exercise date, over the grant price of the SAR. The grant price, which will not be less than the fair market value of the shares on the date of grant, and other terms of the SAR will be determined by the committee. Payment by AT&T upon exercise of an SAR will be in cash, stock, other property or any combination, as the committee determines. Unless otherwise determined by the committee, any related option will no longer be exercisable to the extent the SAR has been exercised and the exercise of an option will cancel the related SAR to the extent of the exercise.

Restricted Stock. Restricted stock may not be disposed of by the recipient until restrictions established by the committee lapse. Recipients of restricted stock are not required to provide consideration other than the rendering of services or the payment of any minimum amount required by law. The participant will have, with respect to restricted stock, all of the rights of a shareholder of AT&T, including the right to vote the shares, and the right to receive any cash dividends, unless the committee determines otherwise. Upon termination of employment during the restriction period, all restricted stock shall be forfeited, subject to such exceptions, if any, as are authorized by the committee.

Performance Awards. From time to time, the committee may select a period during which performance criteria determined by the committee are measured for the purpose of determining the extent to which a performance award has been earned. Performance awards may be in the form of performance shares, which are units valued by reference to shares of stock, or performance units, which are units valued by reference to cash or property other than stock. Performance awards may be paid in cash, stock, other property, or a combination thereof. Recipients of performance awards are not required to provide consideration other than the rendering of service or the payment of any minimum amount required by law.

Other Stock Unit Awards. The committee is authorized to grant other stock unit awards to participants, either alone or in addition to other awards granted under the Consumer Services incentive plan. Other stock unit awards may be paid in tracking stock, cash, or any other form of property as the committee determines.

Performance Accelerated Restricted Stock Awards. The committee may grant awards that combine the characteristics of restricted stock or other stock unit awards with those of performance awards, for example by providing that the vesting of a restricted stock unit award could be accelerated if specified performance criteria determined by the committee are met.

Nonassignability of Awards. Unless the committee determines otherwise at the time of an award, no award granted under the Consumer Services incentive plan may be assigned, transferred, pledged or otherwise encumbered by a participant, other than by will, by designation of a beneficiary after death, or by the laws of descent and distribution. Each award will be exercisable, during the participant's lifetime, only by the participant, or, if permissible under applicable law, by the participant's guardian or legal representative.

Deferrals of Awards. The committee may permit participants to defer the distribution of all or part of the specified stock, cash or other consideration in accordance with the terms and conditions as the committee shall establish.

Adjustments. In the event of any change affecting the shares of AT&T Consumer Services Group tracking stock subject to the Consumer Services incentive plan by reason of any stock dividend or split, recapitalization, reorganization, merger, consolidation, spin-off, combination, or exchange of shares or other corporate change, or any distributions to common shareholders other than cash dividends, the committee will substitute or adjust the aggregate number or class of shares that may be distributed under the Consumer Services incentive plan (including the substitution of similar options to purchase shares of, or other awards denominated in shares of, another company) and substitute or adjust the number, class, and option price or other price of shares subject to the outstanding awards granted under the Consumer Services incentive plan as the committee deems to be appropriate to maintain the purpose of the original grant.

The committee will be authorized to make adjustments in performance award criteria or in the terms and conditions of other awards in recognition of unusual or nonrecurring events affecting AT&T or AT&T's financial statements or changes in applicable laws, regulations or accounting principles. The committee may correct any defect, supply any omission or reconcile any inconsistency in the Consumer Services incentive plan or any award in the manner and to the extent it shall deem desirable to carry the incentive plan into effect.

Amendment and Termination. The AT&T Board may assume responsibilities otherwise assigned to the committee under the Consumer Services incentive plan and may amend, alter, or discontinue the Consumer Services incentive plan or any portion of the Consumer Services incentive plan at any time. The committee may amend the terms of any award granted under the Consumer Services incentive plan, prospectively or retroactively.

Term. No awards will be granted under the Consumer Services incentive plan after   , 2011.

Plan Benefits. Because the Consumer Services incentive plan is discretionary and based on AT&T's financial performance, it is not possible to determine or to estimate the benefits or amounts that will be received in the future by individual employees or groups of employees under the Consumer Services incentive plan.

X-44

Section 162(m) of the Internal Revenue Code Performance-Based Compensation. If the committee determines at the time restricted stock, a performance award, or other stock unit award is granted under the Consumer Services incentive plan to a participant who is, or is likely to be, as of the end of the tax year in which AT&T would claim a tax deduction in connection with such award, a "covered employee" under Section 162(m) of the Code, then the committee may provide as to such award that the lapsing of restrictions thereon and the distribution of cash, shares, or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the committee, which will be based on the achievement of specified levels of one or any combination of the following: net cash provided by operating activities, earnings per share from continuing operations, operating income, revenues, cash flow, return on investment, gross margin, return on operating assets, return on equity, economic value added, stock price appreciation, total shareholder return, or cost control of AT&T or the affiliate or division of AT&T for or within which the participant is primarily employed. Performance goals also may be based on achievement of specified levels of AT&T performance, or performance of the applicable affiliate or division of AT&T, including of AT&T Consumer Services Group, under one or more of the measures described above relative to the performance of other corporations.

The Consumer Services incentive plan provides that, subject to any adjustments described above, no participant may be granted options and/or SARs in any -calendar-year period with respect to more than million shares of AT&T Consumer Services Group tracking stock, and that the maximum dollar value payable with respect to other performance units or other stock unit awards that are valued with reference to property other than shares of AT&T Consumer Services Group tracking stock, and granted to any participant in any one calendar year is .

Change of Control. The Consumer Services incentive plan will contain provisions requiring or permitting the vesting of awards or the acceleration of options and similar adjustments in the event of a change of control of AT&T.

Tax Aspects of the Consumer Services Incentive Plan. AT&T believes that under present law, the following are the federal tax consequences generally arising with respect to awards granted under the Consumer Services incentive plan. The grant of an option or SAR will create no tax consequences for an employee or AT&T. The employee will have no taxable income upon exercising an ISO (except that the alternative minimum tax may apply), and AT&T will receive no deduction when an ISO is exercised. Upon exercising an SAR or an option other than an ISO, the employee must recognize ordinary income equal to the difference between the exercise price and the fair market value of the stock on the date of exercise; AT&T will be entitled to a deduction for the same amount. The treatment to an employee of a disposition of shares acquired through the exercise of an option depends on how long the shares have been held and if such shares were acquired by exercising an ISO or by exercising an option other than an ISO. Generally, there will be no tax consequence to AT&T in connection with a disposition of shares acquired under an option, except that AT&T may be entitled to a deduction in the case of a disposition of shares acquired under an ISO before the applicable ISO holding periods have been satisfied.

With respect to other awards granted under the Consumer Services incentive plan that are settled either in cash or in stock or other property that is either transferable or not subject to substantial risk of forfeiture, the participant must recognize ordinary income equal to the cash or the fair market value of shares or other property received; AT&T will generally be entitled to a deduction for the same amount. With respect to awards that are settled in stock or other property that is restricted as to transferability and subject to substantial risk of forfeiture, the participant must recognize ordinary income equal to the fair market value of the shares or other property received at the first time the shares or other property become transferable or not subject to substantial risk of forfeiture, whichever occurs earlier; AT&T will generally be entitled to a deduction for the same amount.

RECOMMENDATION OF THE AT&T BOARD

THE AT&T BOARD HAS APPROVED THE INCENTIVE PLAN PROPOSAL AND RECOMMENDS THAT YOU VOTE FOR THE INCENTIVE PLAN PROPOSAL.

X-45

THE EMPLOYEE STOCK PURCHASE PLAN PROPOSAL

GENERAL

AT&T's 1996 Employee Stock Purchase Plan was initially adopted in 1996 and authorized the issuance of 50,000,000 shares of AT&T common stock (which was later adjusted for AT&T's three-for-two stock split paid on April 15, 1999). The employee stock purchase plan was restated effective July 1, 2001 authorizing an additional 30,000,000 shares for issuance under this plan. The AT&T Board has approved, subject to the approval of the AT&T shareholders, an AT&T Amended 1996 Employee Stock Purchase Plan. If approved by AT&T shareholders this plan will provide eligible employees with an opportunity to purchase AT&T common stock, and effective [January 1, 2003,] AT&T Consumer Services Group tracking stock, through payroll deductions. This plan is intended to assist eligible employees in acquiring a stock ownership interest in AT&T pursuant to a plan that is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code. This plan also includes a component not intended to qualify under Section 423 of the Code, or the "Non-423 Component," which will permit participation by certain eligible employees based outside the United States. A description of this plan is outlined below.

SHARES RESERVED FOR THIS PLAN

The aggregate number of shares of AT&T common stock, which may be purchased under the plan during the period from July 1, 2001 through June 30, 2006, will not exceed 30 million, subject to adjustment. Additionally, any shares remaining as of June 30, 2001 of the shares previously reserved to the AT&T 1996 Employee Stock Purchase Plan will continue to be available for issuance under this plan through June 30, 2006. On January 1, 2001, 18,474,247 shares remained available for issuance under the AT&T 1996 Employee Stock Purchase Plan. Of the 30 million shares that were newly authorized effective July 1, 2001, one million are reserved for the Non-423 Component.

The aggregate number of shares of AT&T Consumer Services Group tracking stock that may be purchased under the plan during the period of [January 1, 2003] through June 30, 2006, will not exceed [   ] million shares per year. Of the newly authorized shares of AT&T Consumer Services Group tracking stock, [ ] are reserved for the Non-423 Component.

Shares issued under this plan may consist, in whole or in part, of authorized and unissued shares, treasury shares, or shares bought on the market.

ELIGIBLE PARTICIPANTS

All employees of AT&T (and those of a subsidiary designated by AT&T) are eligible if they meet certain conditions. To be eligible, the employee must have completed one month of continuous employment. Part-time employees are eligible to participate.

Approximately 160,000 employees would have been eligible to participate as of December 31, 2000.

On the first day of each month beginning [July 1, 2002,] except as otherwise determined by the committee, AT&T will grant options as permitted under this plan. The term of each option will end on the last day of the month containing the date on which the option was granted.

Each eligible employee on a date of exercise will be entitled to purchase shares of common stock at a purchase price equal to 85% of the average of the reported highest and lowest sale prices of shares of common stock on the NYSE on the applicable date of exercise. Dates of exercise will take place on the last day of each month common stock is traded on the NYSE during the applicable option period. The eligible employee will elect the allocation of AT&T common stock and AT&T Consumer Services Group tracking stock to be purchased.

Payment for shares of common stock purchased under this plan will be made by authorized payroll deductions from an eligible employee's total regular compensation payable from AT&T or a participating

subsidiary of AT&T during an option period or, when authorized by the Committee, an eligible employee may pay an equivalent amount for such shares.

Eligible employees who elect to participate in this plan will designate a stated whole percentage equaling at least 1%, but no more than 10% of their eligible compensation, to be deposited into a periodic deposit account. On each date of exercise, the entire periodic deposit account of each participant in the plan is used to purchase whole and/or fractional shares of common stock. AT&T will maintain a stock purchase account for each participant to reflect the shares of common stock purchased under the plan by each participant. No participant in this plan is permitted to purchase common stock under this plan at a rate that exceeds $25,000 in fair market value of common stock, determined at the time options are granted, for each calendar year. For purposes of making this determination, all of the AT&T common stock and AT&T Consumer Services Group tracking stock purchased by a participant will be aggregated.

All funds received by AT&T from the sale of common stock under this plan may be used for any corporate purpose.

NEW PLAN BENEFITS

It is not possible to determine how many eligible employees will participate in this plan in the future. Therefore, it is not possible to determine with certainty the dollar value or number of shares of common stock that will be distributed under this plan. On the average, approximately 5 million shares of AT&T common stock have been distributed annually during the prior five-year term of this plan.

The following table sets forth certain information with respect to shares purchased under the 1996 AT&T Employee Stock Purchase Plan during 2000 by all current executive officers as a group, and all employees as a group (excluding executive officers):

NAME AND POSITION	DOLLAR VALUE(1)	NUMBER OF SHARES PURCHASED
All current executive officers as a group............	$ 38,120.32	2,246.336
All employees as a group (excluding current executive officers)...	$84,874,074.73	5,001,418.664

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(1) Based upon $16.97 per share, the fair value of AT&T common stock on December 29, 2000.

TAX TREATMENT

This plan (other than the Non-423 Component) is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Code. Under the Code, an employee who elects to participate in an offering under this plan will not realize income at the time the offering commences or when the shares purchased under this plan are transferred to him or her. If an employee disposes of such shares after two years from the date the offering of such shares commences and after one year from the date of the transfer of such shares to him or her, the employee will be required to include in income, as compensation for the year in which such disposition occurs, an amount equal to the lesser of (1) the excess of the fair market value of such shares at the time of disposition over the purchase price, or (2) 15% of the fair market value of such shares at the time the offering commenced. The employee's basis in the shares disposed of will be increased by an amount equal to the amount so includable in his or her income as compensation, and any gain or loss computed with reference to such adjusted basis which is recognized at the time of the disposition will be a capital gain or loss, either short-term or long-term, depending on the holding period for such shares. In such event, AT&T (or the subsidiary by which the employee is employed) will not be entitled to any tax deduction from income.

If any employee disposed of the shares purchased under this plan within such two-year or one-year period, the employee will be required to include in income, as compensation for the year in which such disposition occurs, an amount equal to the excess of the fair market value of such shares on the date of purchase over the purchase price. The employee's basis in such shares disposed of will be increased by an

X-47

amount equal to the amount includable in his or her income as compensation, and any gain or loss computed with reference to such adjusted basis which is recognized at the time of disposition will be a capital gain or loss, either short-term or long-term, depending on the holding period for such shares. In the event of a disposition within such two-year or one-year period, AT&T (or the subsidiary by which the employee is employed) will be entitled to a tax deduction from income equal to the amount the employee is required to include in income as a result of such disposition.

An AT&T employee who is a non-resident of the United States will generally not be subject to the U.S. federal income tax rules described above with respect to the shares of common stock purchased under this plan.

PLAN ADMINISTRATION AND TERMINATION

The AT&T Board, or its delegate, will appoint a committee, which will be composed of one or more employees, to administer the plan on behalf of AT&T. This committee may delegate any or all of the administrative functions under the plan to such individuals, subcommittees, or entities, as the committee considers appropriate. The committee may adopt rules and procedures not inconsistent with the provisions of this plan for its administration. The committee's interpretation and construction of this plan is final and conclusive.

The AT&T Board may at any time, or from time to time, alter or amend this plan in any respect, except that, without approval of the AT&T shareholders, no amendment may increase the number of shares reserved for purchase, or reduce the purchase price per share under this plan, other than as described above.

The AT&T Board will have the right to terminate this plan or any offering at any time for any reason. The plan may continue in effect through June 30, 2006.

RECOMMENDATION OF THE AT&T BOARD

THE AT&T BOARD RECOMMENDS A VOTE FOR THE ADOPTION OF THE AT&T AMENDED 1996 EMPLOYEE STOCK PURCHASE PLAN.

X-48

CHAPTER ELEVEN
DESCRIPTION OF AT&T BUSINESS SERVICES GROUP

OVERVIEW

AT&T Business Services is one of the nation's largest business services communications providers, offering a variety of global communications services to over 4 million customers, including large domestic and multinational businesses, small and medium-sized businesses and government agencies. AT&T Business Services operates one of the largest telecommunications networks in the United States and, through AT&T's Global Network Services and other investments and affiliates, provides an array of services and customized solutions in 60 countries and 850 cities worldwide.

AT&T Business Services provides a broad range of communications services and customized solutions, including:

- long distance, international and toll-free voice services;

- local services, including private line, local data and special access services;

- data and IP services, including frame relay and ATM;

- managed networking services and outsourcing solutions; and

- wholesale transport services.

STRATEGY

AT&T Business Services intends to leverage its existing leadership position in communications connectivity and substantial customer base to become a leading provider of value-added managed communications services and outsourcing solutions. The following strategic objectives are critical to this transformation:

Offer comprehensive enterprise networking solutions to large business customers. AT&T Business Services provides integrated communications services to enterprise customers, bundling an array of communications and data services to create customized end-to-end solutions. AT&T Business Services offers large domestic and U.S.-based multinational corporations solutions comprised of local voice and data, long-distance voice and data, IP, virtual private networks, hosting and managed network services. AT&T Business Services believes it has a well-established reputation for reliability, restoration and overall customer satisfaction, and that this provides it with critical competitive advantages in offering enterprise networking solutions.

Increase sales of new services. AT&T Business Services focuses on increasing sales of high-growth communications services, including local voice and data, IP connectivity and managed services. AT&T Business Services is focused on increasing sales on its extensive existing local, long distance and IP networks. With substantial infrastructure already in place, AT&T Business

Services believes that future capital expenditures will be focused primarily on meeting specific customer demands for incremental capabilities and capacity. AT&T Business Services believes that increased sales of high-growth services will help increase asset utilization and expand operating margins for these new services.

Lower operating costs and increase efficiencies. AT&T Business Services believes it is imperative to maintain a cost leadership position. AT&T Business Services continuously evaluates its operations on an ongoing basis to streamline core processes and reduce costs, focusing on key operational areas including access, network operations, provisioning, billing, customer care and sales. In particular, AT&T focuses on providing its customers direct access to its network to enhance service quality and to reduce AT&T's access charge cost. AT&T Business Services routinely evaluates its performance relative to competitors through benchmarking studies. AT&T Business Services also reviews best-of-class companies across all industries to identify new process improvements and additional cost reduction opportunities.

XI-1

Improve asset utilization. AT&T Business Services plans to continue to improve network asset utilization. AT&T Business Services has invested substantial capital to create an end-to-end network that supports next-generation communication services, such as IP-enabled virtual private networks. AT&T Business Services will selectively invest as market demand and asset utilization levels warrant in order to achieve competitive returns on capital.

Develop and offer new innovative customer solutions. AT&T Business Services believes its market and technological leadership positions enable it to develop and offer new advanced communications services and managed service solutions. AT&T Business Services evaluates and launches new products and services on an ongoing basis to accelerate bundling of transport and connectivity services with other communications products, such as managed network services and outsourcing solutions. AT&T Business Services aims to develop and integrate new advanced applications in a manner that ensures effortless customer migration; for example, to transition from voice private networks to IP-enabled virtual private networks that support voice as an application. AT&T Business Services believes its leadership in voice services coupled with the technological leadership of AT&T Labs in developing IP and enterprise networking solutions will help attract new enterprise network customers and generate incremental revenue among AT&T's existing enterprise customers while increasing network utilization and improving margins.

INDUSTRY OVERVIEW

The communications services industry continues to evolve, both domestically and internationally, providing significant opportunities and risks to the participants in these markets. Factors that have been driving this change include:

- entry of new competitors and investment of substantial capital in existing and new services, resulting in significant price competition;

- technological advances resulting in a proliferation of new services and products and rapid increases in network capacity;

- the Telecommunications Act; and

- deregulation of communications services markets in selected countries around the world.

One factor affecting the communications services industry is the rapid development of data services. The development of frame relay, ATM and IP networks as modes of transmitting information electronically has dramatically transformed the array and breadth of services offered by telecommunications carriers.

Use of the Internet, including intranets and extranets, has grown rapidly in recent years. This growth has been driven by a number of factors, including the large and growing installed base of personal computers, improvements in network architectures, increasing numbers of network-enabled applications, emergence of compelling content and commerce-enabling technologies, and easier, faster and cheaper Internet access. Consequently, the Internet has become an important new global communications and commerce medium. The Internet represents an opportunity for enterprises to interact in new and different ways with both existing and prospective customers, employees, suppliers and partners. Enterprises are responding to this opportunity by substantially increasing their investment in Internet connectivity and services to enhance internal voice and data networks.

In the United States, the Telecommunications Act has had a significant impact on AT&T Business Services' business by establishing a statutory framework for opening the local service markets to competition and by allowing regional phone companies to provide in-region long distance services. In addition, prices for long distance minutes and other basic communications services have declined as a result of increased competitive pressures, governmental deregulation, introduction of more efficient networks and advanced technologies, and product substitution. Competition in these basic communications services segments has more recently been based more on price and less on other differentiating factors that

appeal to the larger business market customers, including range of services offered, bundling of products, customer service, and communications quality, reliability and availability.

SERVICES AND PRODUCTS

VOICE SERVICES

Long Distance Voice Services. AT&T Business Services' long distance voice communication offerings include the traditional "one plus" dialing of domestic and international long distance for customers that select AT&T Business Services as their primary long distance carrier.

AT&T Business Services offers toll-free (for example, 800, 888 or 877) inbound services, where the receiving party pays for the call. These services are used in a wide variety of applications, including sales, reservation centers or customer service centers. AT&T Business Services also offers a variety of value-added features to enhance customers' toll-free services, including call routing by origination point and time-of-day routing. In addition, AT&T Business Services provides virtual private network applications, including dedicated outbound facilities.

AT&T Business Services also offers audio and video teleconferencing services, as well as web-based video conferencing. These services offer customers the ability to establish automated teleconference lines, as well as teleconferences moderated by an AT&T representative. Customers can also establish a dedicated audio conference number that can be used at any time without the necessity of a reservation.

AT&T Business Services also offers a variety of calling cards that allow the user to place calls from virtually anywhere in the world. Additional features include prepaid phone cards, conference calling, international origination, information service access (such as weather or stock quotes), speed dialing and voice messaging.

Business Local Services. AT&T Business Local provides a wide range of local voice and data telecommunications services in major metropolitan markets throughout the United States. Services include basic local exchange service, Centrex, exchange access, private line, high speed data and video services. AT&T Business Local typically offers local service as part of a package of services that can include any combination of other AT&T Business Services offerings.

Integrated Voice/Data/IP Offers. AT&T Business Services provides a variety of integrated service offers targeted at business customers. For small businesses, AT&T's All in One service offering provides both local and long distance services through a single bill, providing discounts based on volume and term commitments. The AT&T Business Network service offers a wide range of voice and data services through a single service package. Among the features of the integrated services offering is the ability to enable customers to electronically order new services, perform maintenance and manage administrative functions.

AT&T also has a number of integrated voice and data services, such as Integrated Network Connections, that provide customers the ability to integrate access for their voice and data services and thereby qualify for lower prices.

DATA AND INTERNET SERVICES

Private Line Services. AT&T Business Services' data services include private line and special access services that use high-capacity digital circuits to carry voice, data and video (or multimedia) transmission from point-to-point in multiple configurations. These services provide high-volume customers with a direct connection to an AT&T Business Services switch instead of switched access shared by many users. These services permit customers to create internal computer networks and to access external computer networks and the Internet, thereby reducing originating access costs.

Packet Services. Packet services consist of data networks utilizing packet switching and transmission technologies. Packet services include frame relay, ATM and IP connectivity services. Packet services enable customers to transmit large volumes of data economically and securely. Packet services are utilized

for local area network interconnection, remote site, point of sale and branch office communications solutions. While frame relay and ATM Services are widely deployed as private data networks, AT&T Business Services offers customers the ability to connect these networks to the Internet through services such as IP-enabled frame relay. High speed packet services, including IP-enabled frame relay service, are utilized extensively by enterprise customers for an expanding range of applications.

AT&T Business Internet Services. AT&T Business Services provides IP connectivity and managed IP services, messaging, and electronic commerce services to businesses. AT&T offers managed Internet services, which give customers dedicated, high-speed access to the Internet for business applications at a variety of speeds and types of access, as well as business dial service, a dial-up version of Internet access designed to meet the needs of small- and medium-sized businesses. AT&T's web services consist of a family of hosting and transactional services and platforms serving the web needs of thousands of businesses; these offers include AT&T Small Business Hosting Services.

MANAGED SERVICES AND OUTSOURCING SOLUTIONS

AT&T Business Services provides clients with an array of managed networking services, professional services and outsourcing solutions intended to satisfy clients' complete networking technology needs-ranging from managing individual network components such as routers and frame relay networks to managing entire complex global networks. AT&T Business Services is engaged in: designing, developing and delivering integrated and interoperable global services, allowing enterprises to optimize networking-based mission-critical and electronic commerce applications. AT&T Business Services also works selectively with qualified partners to offer enhanced services to customers.

Enterprise Networking Services. With a global scale and reach in 60 countries and 850 different cities, AT&T Business Services' enterprise networking services strive to provide comprehensive support from network design, implementation and installation to ongoing network operations and lifecycle management of Local Area Network, Wide Area Network, and Virtual Private Network solutions. These managed enterprise networking services enable customers to accommodate specific business applications (e.g., e-mail, voice over IP, order entry systems, employee directories, human resource transaction and other database applications); to create secure remote access intranet and extranet solutions with controlled access to employees, business partners and customers; and, to use Intelligent Content Distribution Services to accelerate delivery of content to any Internet user.

Web Services. AT&T Business Services' continuum of managed web hosting services supports clients' hosted infrastructure needs from the network layer all the way up through managing the performance of their business applications. With 18 Internet Data Centers located on three continents and with a capacity of more than 1.8 million square feet of web hosting space, AT&T's hosting services provide a fully flexible, managed environment of network, server and security infrastructure as well as built-in data storage. AT&T's full suite of managed hosting services includes application performance management, database management, hardware and operating system management, intelligent content distribution services, high availability data and computing services, storage services, managed security and firewall services. AT&T's web hosting services also include a range of business tools, including client portal services that provide managed hosting customers with personalized, secure access to detailed reporting information about their infrastructure and applications.

High Availability and Security Services. AT&T Business Services' high availability and security services deliver enterprise-class, high-end integrated solutions to ensure the continuous operations of clients' critical business processes and availability of critical data by leveraging the core competencies of AT&T's end-to-end professional services; world-class global networks; global management and monitoring; Internet Data Centers and conditioned facilities. In addition, AT&T's high availability and security services include business continuity and disaster recovery services that provide core network disaster recovery, information technology, work center, and risk management/business continuity analysis, planning and operational capabilities.

Outsourcing Solutions. AT&T Business Services provides customers with outsourcing solutions designed to manage customers' highly complex voice and data networks. These services range from consulting to outsourcing and management of highly complex global data networks. AT&T Business Services designs, engineers and implements seamless solutions for clients that are designed to maximize the competitive advantage of networking-based electronic commerce applications.

Transport. AT&T Business Services considers itself one of the leaders in providing wholesale networking services to other carriers, providing both network capacity and switched services. AT&T Business Services offers a combination of high-volume transmission capacity, conventional dedicated line services and dedicated switched services on a regional and national basis to ISPs and facility-based and switchless resellers. AT&T Business Services' wholesale customers are primarily large tier-one ISPs, competitive local exchange carriers, regional phone companies, interexchange carriers, cable companies and systems integrators. AT&T Business Services focuses on ensuring optimal network utilization through the sale of off-peak capacity. Further, wholesale switched services are priced to reflect the cost of access incurred. In limited circumstances, AT&T Business Services also has sold network capacity through indefeasible rights-of-use agreements under which capacity is furnished for contract terms as long as 25 years.

SALES AND MARKETING

AT&T Business Services markets its suite of voice and data communications services through its global sales and marketing organization. The sales and marketing organization is primarily organized by customer type and targets retail, wholesale and government organizations throughout the United States and the rest of the world. AT&T Business Services' direct sales and marketing force consists of approximately 6,800 sales representatives. In addition, the sales and marketing group works in connection with several outside telemarketing firms to target small businesses in a cost efficient manner. For small businesses with more sophisticated service needs, AT&T Business Services uses a direct sales force of approximately over 450 representatives trained to market the full suite of products and services and customized services solutions. In addition, the AT&T Solution Center provides a centralized resource designed to respond rapidly to complex customer requirements. For many large and multinational clients, a senior AT&T officer is responsible for maintaining a continuous relationship with the senior management of the customer, helping to ensure a continuous and effective marketing effort.

CUSTOMER CARE AND SUPPORT

AT&T Business Services places a high priority on ensuring all customers receive the highest level of customer care, including contracting, ordering, provisioning, maintenance and collections. AT&T's customer care organization places particular emphasis on the ordering, provisioning and maintenance processes. Customer care and support group monitors these functions and responds to inbound customer inquiries in a manner intended to ensure customer orders for new services, service changes and maintenance requests are completed on-time and accurately. Customer care and support has approximately 10,000 customer care associates world-wide at 27 customer care centers, of which 24 are company-owned and three are operated by outside customer care firms.

AT&T Business Services determines the appropriate customer care program based on the size and sophistication of the customer and its communications needs. For larger and multinational customers and government agencies, AT&T Business Services provides customer care services and support through dedicated account teams designed to provide support on a rapid and personalized basis.

AT&T Business Services believes that the web has greatly enhanced AT&T Business Services' customer care programs. Through a dedicated customer care website, www.iadvantgage@att.com, customers may submit questions or initiate service requests, including ordering new services or submitting maintenance requests. Customer care delivered via the web is often quicker and more convenient for customers and reduces errors.

RATES AND BILLING

AT&T Business Services provides the majority of its services through long-term contracts. General descriptions of AT&T Business Services' services, applicable rates, warranties, limitations on liability, user requirements and other material service provisioning information are outlined in service guides that are provided directly to prospective clients or are available on AT&T's website. Clients enter into contracts, based on the service guides, detailing customer-specific terms and information, including volume discounts, service bundling, extended warranties and other customized terms. Through combined offerings, AT&T Business Services also provides customers with such features as single billing, unified services for multi-location companies and customized calling plans. Most intrastate services are provided in accordance with applicable tariffs filed with the states. Revenue subject to government tariffs accounted for approximately 25% of AT&T Business Services' 2000 revenue.

Most domestic and international switched voice services originating in the United States are billed in 1 or 6 second increments after a fixed initial period. Switched voice services originating in international markets are also billed in increments, subject to local market conditions and interconnect agreements. Switched long distance and local services are billed in arrears, with monthly billing statements itemizing date, time, duration and charges. Data services are billed generally in advance, based on a fixed circuit charge, with rates that vary according to speed of transmission and service type.

NETWORK

AT&T Business Services' U.S. network comprises 46,500 route miles of long-haul backbone fiber-optic cable, plus another 17,000 route miles of local metro fiber, capable of carrying OC-192 (10 billion bits, or 10 gigabits per second) traffic. In addition, AT&T Business Services has recently completed installation of over 10,000 new route miles of the latest generation fiber-optic cable capable of carrying OC-768 (40 gigabits per second) when that standard is ready for deployment. This new fiber capacity presently connects 22 of the largest U.S. cities, and provides AT&T substantial capacity for future growth of network traffic with minimal incremental capital expenditure requirements. AT&T Business Services was the first in the industry with a coast-to-coast OC-192 backbone, connecting Boston, New York, Chicago, St. Louis, San Francisco and Los Angeles. In addition to this state-of-the-art 10 gigabits per second backbone, AT&T Business Services also has over 400 Synchronous Optical Network points-of-presence in the continental U.S., offering high-speed data connectivity to the majority of U.S. business centers. Currently, 78 of these points-of-presence are tariffed with OC-48 service.

AT&T Business Services' network, which also supports AT&T Consumer Services Group's services, carries over 300 million voice calls every business day and more than 2,175 trillion bytes (terabytes) of data each day. AT&T Business Services carries more frame relay and ATM traffic than any other U.S. carrier. On the voice network, AT&T Business Services employs its patented Real Time Network Routing to automatically complete domestic voice calls through more than 100 possible routes. The reliability of certain portions of the network is maximized by using Synchronous Optical Network rings that can restore service on a severed fiber optic cable within 50 to 60 milliseconds by sending traffic in the other direction on the ring. On other routes, AT&T uses its patented FASTAR technology to route traffic around a cable cut by automatically transferring traffic to alternative spare capacity. AT&T Business Services stands behind its reliability claims with service level agreements. For example, on its IP backbone, AT&T Business Services guarantees business customers no more than 60 milliseconds of latency, or delay in the transmission of a packet of information, and 0.7% packet loss per month.

AT&T Business Services has been a leader in deploying Dense Wavelength Division Multiplexing, or DWDM, technology that divides an optical fiber into multiple channels, each carrying up to 10 gigabits per second of information today. When DWDM was introduced in 1996, the technology could put only eight wavelengths on a fiber strand. Today, AT&T Business Services is deploying 64-and 80-wavelength DWDM systems, as well as systems capable of carrying 160 wavelengths. When installed with OC-192 capabilities, a 160-wavelength DWDM system will enable 1.6 terabits (trillion bits per second) on a single fiber strand.

Since digital switching was introduced in the late 1970s, the heart of the AT&T voice network has been the 4ESS, a circuit switch specifically designed for long distance use, and currently AT&T Business Services has 143 of these switches in the network. AT&T Business Services has recently installed nearly 60 standard tandem switches that allow AT&T to accommodate the transition from circuit-switched to packet networks. While AT&T Business Services will continue to have both circuit and packet switching technologies for some time, significant future capital expenditures are not planned for circuit switching.

In addition to its long distance network, AT&T Business Services has an extensive local network serving business customers in 80 U.S. cities. AT&T Business Services has expanded its local network so that it now includes 118 local switches and reaches more than 6,200 buildings. This network provides voice service to business users, as well as data connections up to OC-48 capacity. In order to maximize asset utilization, AT&T's local network also handles consumer traffic, providing most of the dial-in numbers for AT&T WorldNet Service, as well as switching cable telephony calls for customers of AT&T Broadband.

AT&T Business Services also operates one of the largest IP networks in the United States. As a Tier 1 provider, AT&T has direct peering relationships with other Tier 1 providers, providing service to carriers that go through public peering sites. AT&T offers multiple access choices to the IP network, including dial-up, dedicated private line, cable modem and DSL, as well as IP-enabled access through ATM and frame relay networks.

AT&T Business Services is deploying Internet Data Centers across the U.S., offering web hosting services. Currently, AT&T Business Services has 18 Internet Data Centers, with an aggregate 1.8 million square feet of space, all directly connected to AT&T Business Services' high-speed IP backbone.

Over the next few years, AT&T Business Services plans to evolve its network to an all-optical facility. The first element of the optical network is AT&T Business Services' existing fiber-optic backbone. The next step is the Intelligent Optical Switch, which was introduced by the end of 2001. The Intelligent Optical Switch switches wavelengths of light, and can communicate and establish a connection with other switches automatically when a customer requests a new service. The third element is the Multi-Service Platform, located in either the AT&T local network or on the customer premise, that aggregates low-speed and high-speed services and sends the information to the Intelligent Optical Switch for routing.

INTERNATIONAL

AT&T Business Services has entered into a number of agreements and alliances with international communications companies, and has made strategic investments in several countries in order to provide customers end-to-end network management capabilities and highly customized solutions.

Concert. On January 5, 2000 AT&T and BT created a global venture to serve the communications needs of multinational companies and the international calling needs of businesses around the world. On October 16, 2001 AT&T and BT announced that they had reached binding agreements to unwind Concert. Under the Concert dissolution agreement with BT, AT&T will reclaim customer contracts and assets that were initially contributed to the venture, including international transport facilities and gateway assets. In addition, AT&T Business Services will obtain ownership of certain frame relay assets located in the Asia Pacific region that BT initially contributed to the venture. AT&T Business Services expects to combine these assets with its existing international networking and other assets. AT&T Business Services will honor all contracts and service level agreements that it will assume from Concert. AT&T Business Services and BT have agreed to enter into transitional commercial agreements enabling them to provide existing Concert services for a period of three years. Under these agreements, AT&T Business Services and BT will pay each other market-based prices.

AT&T Canada. On June 1, 1999, AT&T Canada Corp. merged with MetroNet Communications Corp., Canada's largest competitive local exchange carrier. Under the terms of the merger agreement, AT&T Business Services received 31% of the equity interest and 23% of the voting interest in AT&T Canada in exchange for AT&T Canada Corp. and ACC TelEnterprises Ltd. AT&T Canada is Canada's leading facilities-based end-to-end competitive carrier, covering 25 cities. AT&T Canada is focused on

serving large enterprise and international customers. AT&T Canada currently connects over 3,300 buildings, with over 510,000 local access lines in service. AT&T Canada owns over 11,500 route miles of fiber, and has six fiber interconnection points to AT&T's U.S. network at the U.S.-Canada border.

As part of the merger, AT&T agreed to purchase all of the remaining shares of AT&T Canada upon the removal of Canadian foreign ownership restrictions at the greater of the then appraised fair market value or the accreted minimum price, which initially was C$37.50 per share accreting after June 30, 2000 at a rate of 4% per quarter.

AT&T also has the right at any time to trigger the purchase of such shares. AT&T may acquire the AT&T Canada shares or designate another party to acquire such shares prior to a change in the ownership restrictions by developing a structure that addresses these ownership restrictions. If the foreign ownership restrictions have not been removed and AT&T has not triggered the purchase by June 30, 2003, those shares, along with AT&T's AT&T Canada shares, would be sold through an auction process and AT&T will make whole the other shareowners for the amount they would have been entitled to if AT&T Business Services had purchased all of the remaining shares of AT&T Canada. At its sole option, AT&T can fulfill its obligation either with cash or AT&T common stock. On August 16, 1999, AT&T completed its sale to BT of 30% of AT&T's stake in AT&T Canada. In addition, BT had agreed to purchase 30% of the shares of AT&T Canada that AT&T will be acquiring from the other shareholders, subject to BT's right to cap its purchase at C$1.65 billion. As part of the formation agreement of Concert and as a result of dissolution of Concert, AT&T will acquire BT's investment in AT&T Canada and will assume BT's obligation to purchase additional AT&T Canada shares.

AT&T currently owns approximately 21% of the outstanding equity of AT&T Canada and has the right to acquire BT's 9% interest in the outstanding equity of AT&T Canada. Accordingly, AT&T does not currently consolidate AT&T Canada into its results. AT&T has agreed to purchase all the outstanding shares of AT&T Canada that it does not own in the event that Canadian foreign ownership restrictions are removed. Prior to such removal, AT&T also has the right at any time to trigger the purchase of such shares through a structure that complies with such ownership restrictions, including designating a Canadian investor to purchase such shares. In the event AT&T acquires more than 50% of the equity interest in or the total voting power of AT&T Canada, AT&T Canada's results would be consolidated into AT&T's and AT&T Communications Services' results. At September 30, 2001, AT&T Canada had C$4.756 billion of indebtedness. Neither AT&T nor AT&T Communications Services has guaranteed any of the indebtedness of AT&T Canada.

AT&T Latin America Corp. On August 28, 2000, AT&T Business Services established AT&T Latin America in connection with the merger of Netstream, a competitive local exchange carrier in Brazil, and FirstCom Corporation. AT&T Latin America provides voice, data and Internet access services in five countries, Argentina, Brazil, Chile, Colombia and Peru. AT&T Latin America owns over 3,800 route miles of fiber connecting over 5,400 buildings. AT&T Business Services owns a 62.5% economic interest (94% voting interest) in AT&T Latin America.

Alestra. S. de R.L. de C.V. AT&T Business Services also owns a 49% economic interest in Alestra S. de R.L. de C.V., a competitive telecommunications company in Mexico. Alestra offers voice, data and Internet services throughout Mexico to residential, small business and enterprise customers. Alestra's state-of-the-art network comprises approximately 3,500 route miles, with four interconnection points to AT&T's network at the U.S.-Mexico border.

COMPETITION

AT&T Business Services faces the same competition issues applicable generally to the communications services industry that are discussed with respect to AT&T Consumer Services Group. See "AT&T Consumer Services Group Tracking Stock -- Description of AT&T Consumer Services Group -- Competition" and "Summary and Overview of the Transactions -- Risk Factors -- Risk Factors Relating to AT&T Consumer Services Group and AT&T Business Services Group -- AT&T Consumer Services

Group and AT&T Business Services Group face substantial competition that may materially adversely impact both market share and margins."

EMPLOYEES

At December 31, 2000, AT&T Business Services employed approximately 66,400 individuals in its operations. Of those employees, approximately 61,900 are located domestically. About 19,400 of the domestically located employees of AT&T Business Services are represented by unions. Of those so represented, about 94% are represented by the Communications Workers of America and about 5% are represented by the International Brotherhood of Electrical Workers, both of which are affiliated with the AFL-CIO. In addition, there is a very small remainder of domestic employees represented by other unions. Labor agreements with most of these unions extend through May 2002.

LEGAL PROCEEDINGS

In the normal course of business, AT&T Business Services is subject to proceedings, lawsuits and other claims, including proceedings under government laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, AT&T Business Services is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 2000. While these matters could affect operating results of any one quarter when resolved in future periods, it is management's opinion that after final disposition, any monetary liability or financial impact to AT&T Business Services beyond that provided for at year-end would not be material to AT&T Business Services' annual consolidated financial position or results of operations.

For additional information on legal proceedings, please see the discussion on legal proceedings under "Legal Proceedings" contained in AT&T's Annual Report on Form 10-K for the year ended December 31, 2000, which is incorporated by reference in this document. See "Additional Information for Shareholders -- Where You Can Find More Information."

AT&T LABS

AT&T Labs conducts research and development for AT&T. AT&T Labs' scientists and engineers conduct research in a variety of areas, including IP and future broadband technologies; advanced network design and architecture; network operations systems; data mining technologies and advanced speech technologies. AT&T Labs works with the other business units within AT&T to create new services and invent tools and systems to manage secure and reliable networks for AT&T and its customers. With a heritage that extends from fundamental advances such as the development of the transistor, AT&T Labs has made numerous recent advances in the areas of IP communications infrastructure, data mining and wireless networks.

PATENTS AND TRADEMARKS

AT&T actively pursues patents and trademarks to protect its intellectual property within the United States and abroad. AT&T has developed a focused law practice to prepare and prosecute its patent and trademark applications. On average, AT&T receives over 300 U.S. patents per year and maintains a portfolio of over 2,500 trademark and service mark registrations.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

Legislative and regulatory developments discussed with respect to AT&T Consumer Services Group also apply to AT&T Business Services. See "AT&T Consumer Services Group Tracking Stock -- Description of AT&T Consumer Services Group -- Legislative and Regulatory Developments."

CHAPTER TWELVE
INFORMATION ABOUT THE COMCAST SPECIAL MEETING AND VOTING

The Comcast Board is using this document to solicit proxies from the holders of Comcast common stock for use at the Comcast special meeting. Comcast is first mailing this document to Comcast shareholders, and the accompanying form of proxy to holders of Comcast Class A common stock, on or about [   ], 2002. THE INFORMATION AND INSTRUCTIONS CONTAINED IN THIS CHAPTER ARE ADDRESSED TO COMCAST SHAREHOLDERS, AND ALL REFERENCES TO "YOU" IN THIS CHAPTER SHOULD BE UNDERSTOOD TO BE ADDRESSED TO COMCAST SHAREHOLDERS.

MATTERS RELATING TO THE COMCAST SPECIAL MEETING

Date, Time and Place:	[ ], 2002 [ ] a.m. (Eastern Time) 1500 Market Street, West Tower, 9th Floor Philadelphia, Pennsylvania 19102-2148
Purpose of Special Meeting is to Vote on the Following Items:	- To approve and adopt the merger agreement and the transactions contemplated by the merger agreement - To approve and adopt an amendment to the Comcast charter to allow the implementation of the Preferre Structure - To vote on such other business which may properly c before the meeting
Record Date:	The record date for shares entitled to vote is [ ], 2002.
Outstanding Shares Held on Record Date:	As of the record date, there were outstanding approximately [ ] shares of Comcast Cla A common stock, [ ] shares of Comcast Class A Special common stock and [ ] shares of Comcast Class B common stock.
Votes Necessary to Approve the Proposals:*	The affirmative vote of a majority of the votes cast the holders of the outstanding shares of Comcast Clas common stock and Comcast Class B common stock, voting together as a single class, is required to approve th Comcast transaction proposal. Approval of this propos is assured because Sural LLC, which holds approximate 86.7% of the combined voting power of the Comcast sto has agreed in the support agreement to vote its share in favor of the Comcast transaction proposal.

	It is a condition to implementation of the Preferred Structure that a majority of the votes cast by the holders of the outstanding shares of Comcast Class A common stock, voting as a single class, and holders o outstanding shares of Comcast Class A common stock an Comcast Class B common stock, voting together as a single class, approve the preferred structure proposa If holders of Comcast Class A common stock, voting as single class, approve the preferred structure proposa the Preferred Structure will be implemented upon completion of the AT&T Comcast transaction because Su LLC which holds approximately 86.7% of the combined voting power of the Comcast Class A common stock and Comcast Class B common stock has indicated that it wi vote in favor of the preferred structure proposal thereby assuring approval of the proposal by holders Comcast Class A common stock and Comcast Class B comm stock, voting together as a single class.

	Each holder of Comcast Class B common stock is entitl to 15 votes per share, and each holder of Comcast Cla A common stock is entitled to one vote per share. The holders of the Comcast Class A Special common stock d not have any voting rights. Abstentions will have no effect on the outcome of eit of the Comcast proposals. Shares held by Comcast in its treasury are not voted.
Quorum Requirements:	A quorum of shareholders is necessary to hold a valid meeting. With respect to each of the Comcast proposals, the presence in person or by proxy at the Comcast special meeting of holders of shares representing a majority the voting power of the outstanding shares of Comcast common stock entitled to vote on such proposal is a quorum. Abstentions and broker "non-votes" count as present f establishing a quorum. Shares held by Comcast in its treasury do not count toward a quorum. A broker non-vote occurs on an item when a broker is permitted to vote on that item without instruction fr the beneficial owner of the shares and no instruction given.

Shares Beneficially Owned by Comcast Directors and Executive Officers as of the record date:	As of the record date, approximately [shares of Comcast Class A common stock and [ ] shares of Comcast Class B common stock, including exercisable options and including shares beneficially owned by Sural LLC, holder of all the outstanding Comcast Class B common stock were beneficially owned by Comcast directors and executive officers. These shares represent in total approximately [ ] of the outstanding shares of Comcast Class A common stock and [ ]% of the aggregate voting power represented by the outstanding shares of Comcast Clas common stock and Comcast Class B common stock, in eac case as of the record date. These individuals have indicated or agreed that they will vote to approve the Comcast transaction proposal and preferred structure proposal.

* Under The Nasdaq Stock Market rules, if your broker holds your shares in its name, your broker may not vote your shares absent instructions from you. Without your voting instructions, a bro non-vote will occur. However, a broker non-vote will have no effect on the outcome of the Comc proposals.

PROXIES

Voting the Comcast Proxy. You may vote in person at the Comcast special meeting or by proxy. Comcast recommends that you vote by proxy even if you plan to attend the Comcast special meeting. You can always change your vote at the Comcast special meeting.

Voting instructions are included on your proxy card. If you properly give your proxy and submit it to Comcast in time to vote, one of the individuals named as your proxy will vote your shares as you have directed. You may vote for or against any or all of the proposals submitted at the Comcast special meeting or abstain from voting.

HOW TO VOTE BY PROXY

	COMCAST SHAREHOLDERS
By Telephone:*	Call toll-free [ ] and follow the instructions. You will need to give the personal identification number contained on your proxy card.
By Internet:*	Go to http://www.[ ] and follow the instructions. You will need to give the personal identification number contained on your proxy card.
In Writing:*	Complete, sign, date and return your proxy card in the enclosed envelope.

* If you hold shares through a broker or other custodian, please check the voting form used by that firm to see if it offers telephone or Internet voting.

If you submit a proxy but do not make specific choices, your proxies will follow the Comcast Board's recommendations and vote these shares:

- "FOR" the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement

- "FOR" the approval and adoption of an amendment to the Comcast charter to allow the implementation of the Preferred Structure

- In its discretion as to any other business as may properly come before the Comcast special meeting

Revoking your proxy. You may revoke your proxy before it is voted by:

- submitting a new proxy with a later date, including a proxy given by telephone or Internet,

- notifying Comcast's Secretary in writing before the Comcast special meeting that you have revoked your proxy, or

- voting in person at the Comcast special meeting.

Voting In Person. If you plan to attend the Comcast special meeting and wish to vote in person, Comcast will give you a ballot at the Comcast special meeting. However, if your shares are held in the name of your broker, bank or other nominee, you must bring an account statement or letter from the nominee indicating that you are the beneficial owner of the shares on [ ], 2002, the record date for voting.

People With Disabilities. Comcast can provide reasonable assistance to help you participate in the Comcast special meeting if you tell Comcast about your disability and your plan to attend. Please call or write the Comcast Secretary at least two weeks before the Comcast special meeting at the number or address under "Summary and Overview of the Transactions -- Summary -- The Companies."

Confidential Voting. Independent inspectors count the votes. Each Comcast shareholder's individual vote is kept confidential from Comcast unless special circumstances exist. For example, a copy of your proxy card will be sent to Comcast, as applicable, if you write comments on the card.

Proxy Solicitation. Comcast and AT&T will equally share the expenses incurred in connection with the printing and mailing of this document. Comcast has retained Innisfree M&A Incorporated, for a fee of [ ] plus additional charges related to telephone calls and other services, to assist in the solicitation of proxies. AT&T has retained [ ], for a fee of [ ] plus additional charges related to telephone calls and other services, to assist in the solicitation of proxies. Comcast, AT&T and their respective proxy solicitors will also request banks, brokers and other intermediaries holding shares of Comcast or AT&T common stock beneficially owned by others to send this document to, and obtain proxies from, the beneficial owners and will reimburse the holders for their reasonable expenses in so doing. Solicitation of proxies by mail may be supplemented by telephone, telegram and other electronic means, advertisements and personal solicitation by the directors, officers and employees of Comcast and AT&T. No additional compensation will be paid to directors, officers or employees for such solicitation.

The extent to which these proxy soliciting efforts will be necessary depends entirely upon how promptly proxies are submitted. You should send in your proxy by mail, telephone or Internet without delay.

Stock Certificates. You should not send in any stock certificates with your proxy card. A transmittal letter with instructions for the surrender of your Comcast stock certificates will be mailed to you as soon as practicable after completion of the AT&T Comcast transaction.

Other Business; Adjournments. Comcast is not currently aware of any other business to be acted upon at the Comcast special meeting. If, however, other matters are properly brought before the meeting, or any adjourned meeting, your proxies will have discretion to vote or act on those matters according to their best judgment, including to adjourn the meeting.

Adjournments may be made for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made from time to time by approval of the holders of shares representing a majority of the votes present in person or by proxy at the Comcast special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the meeting. Comcast does not currently intend to seek an adjournment of its meeting.

CHAPTER THIRTEEN
INFORMATION ABOUT THE AT&T ANNUAL MEETING AND VOTING

This document and the accompanying AT&T proxy card were mailed to holders of voting shares of AT&T in connection with the solicitation of proxies by the AT&T Board for the 2002 Annual Meeting of Shareholders in [ ], [ ]. Proxies are solicited to give all AT&T shareholders of record at the close of business on [ ], 2002 an opportunity to vote on matters that come before the AT&T annual meeting. This procedure is necessary because AT&T shareholders live in all states and abroad and most will not be able to attend. Shares of AT&T common stock can be voted only if the shareholder is present in person or is represented by proxy.

THE INFORMATION AND INSTRUCTIONS CONTAINED IN THIS CHAPTER ARE ADDRESSED TO AT&T SHAREHOLDERS, AND ALL REFERENCES TO "YOU" IN THIS CHAPTER SHOULD BE UNDERSTOOD TO BE ADDRESSED TO AT&T SHAREHOLDERS.

Registered AT&T shareholders (those who hold AT&T shares directly or through AT&T plans rather than a bank or broker) can simplify their voting and save AT&T expense by calling 1-800-273-1174 or voting via the Internet at http://att.proxyvoting.com/. Telephone and Internet voting information is provided on the AT&T proxy card. A Control Number is designed to verify AT&T shareholders' identities and allow them to vote their shares and confirm that their voting instructions have been properly recorded. It is located above the shareholder's name and address in the lower left section of the AT&T proxy card. If an AT&T shareholder holds shares through a bank or broker, the shareholder will receive separate instructions on the form he or she receives. Although most banks and brokers now offer telephone and Internet voting, availability and specific processes will depend on their voting arrangements.

MATTERS RELATING TO THE AT&T ANNUAL MEETING

Date, Time and Place:	[ ], 2002 [Time] [Address]
Purpose of AT&T Annual Meeting is to Vote on the Following Items:	- to elect directors for the ensuing year; - to ratify the appointment of auditors to examine AT&T's accounts for the year 2002; - to approve and adopt the merger agreement between A Corp., AT&T Broadband Corp., and Comcast Corporatio and the other parties thereto, whereby AT&T Broadba a new holding company that consists of AT&T's broadband businesses, will be spun off and combined with Comcast in a new Pennsylvania corporation call AT&T Comcast Corporation, and the transactions contemplated by the merger agreement, including the AT&T Broadband spin-off; - to approve and adopt an amendment to AT&T's charter authorize the creation of AT&T Consumer Services Gr tracking stock; - to approve a new incentive plan to enable AT&T to grant incentive awards based on shares of AT&T Cons Services Group tracking stock to officers and employees of AT&T and its subsidiaries; - to approve an amendment to AT&T's employee stock purchase plan to permit the issuance of AT&T Consum Services Group tracking stock under the plan; and - to act upon such other matters as may properly come before the AT&T annual meeting or any adjournment o postponement thereof.

XIII-1

Record Date:	The record date for AT&T shares entitled to vote is [ ], 2002.
Outstanding Shares Held on Record Date	As of the record date there were outstanding approximately [ ] shares of AT&T common stock.
Votes Necessary to Approve the Proposals:*	With respect to the election of directors, the nomine who receive the most votes of holders of AT&T common stock will be elected. The affirmative vote of a majority of the outstanding shares of AT&T common stock entitled to vote at the A annual meeting is required to approve the AT&T transaction proposal and the Consumer Services charte amendment proposal. The affirmative vote of a majority of the votes cast the holders of the outstanding shares of AT&T common stock is required to approve any of the proposals to voted upon at the AT&T annual meeting other than the election of directors, the AT&T transaction proposal the Consumer Services charter amendment proposal. Each holder of AT&T common stock is entitled to one v per share on each of the AT&T proposals. An abstention with respect to the AT&T transaction proposal or the Consumer Services charter amendment proposal will have the effect of a vote against such proposal. Shares held by AT&T in its treasury are not voted.
Quorum Requirements:	A quorum of shareholders is necessary to hold a valid meeting. The presence in person or by proxy at the meeting of holders of 40% of the outstanding shares of AT&T comm stock entitled to vote at the meeting is a quorum. Abstentions and broker "non-votes" count as present f establishing a quorum. A broker non-vote occurs on an item when a broker is permitted to vote on the item without instruction fro the beneficial owner of the shares and no instruction given.
Shares Beneficially Owned by AT&T Directors and Executive Officers as of the record date:	As of the record date, approximately [ ] o the outstanding shares of AT&T common stock, includin exercisable options, were beneficially owned by AT&T directors and executive officers. These shares represent in total approximately [ ] of the outstanding shares of AT&T common stock as of record date. These individuals have indicated or agreed that they will vote to approve the AT&T transaction proposal.

* Under NYSE Rules, if your broker holds your shares in its name, your broker may not vote your shares with respect to certain types of proposals absent instructions from you. Specifically,

absent instructions from you, your broker may not vote your shares on the AT&T transaction proposal, the Consumer Services charter amendment proposal, the incentive plan proposal or the employee stock purchase plan proposal. Broker non-votes will have the effect of a vote against the AT&T transaction proposal and the Consumer Services charter amendment proposal. If you do provide instructions to your broker, the broker may still vote your shares with respect to the election of directors, the ratification of auditors and other matters that may come before the AT&T annual meeting, including shareholder proposals.

ELECTRONIC ACCESS TO AT&T PROXY MATERIALS AND ANNUAL REPORT

AT&T shareholders can access AT&T's Notice of Meeting and Proxy Statement and annual report via the Internet on the AT&T Investor Relations website at http://www.att.com/ir/. For future shareholder meetings, AT&T's registered shareholders can further save AT&T expense by consenting to access their proxy statement and annual report electronically. AT&T shareholders can choose this option by marking the "Electronic Access" box on the proxy card or by following the instructions provided when voting by telephone or via the Internet. If you choose this option, prior to each shareholder meeting you will receive in the mail your proxy card that provides a notice of meeting with a business reply envelope. You do not need to select this option each year; however, you may want to choose this option for more than one account held in your name. Your choice will remain in effect unless you revoke it by contacting AT&T's transfer agent, EquiServe, at 1-800-348-8288 or visiting the AT&T Investor Relations website at http://www.att.com/ir/.

DELIVERY OF PROXY MATERIALS TO HOUSEHOLDS

The SEC recently implemented a new rule regarding the delivery of proxy materials to households (annual reports, proxy statements, proxy statements combined with a prospectus, or any information statement to shareholders). This new method of delivery, often referred to as "householding," permits AT&T and other companies to mail a single set of proxy materials to any household in which two or more different shareholders reside and are members of the same household or in which one shareholder has multiple accounts. For voting purposes, a separate proxy card will be included for each account at the shared address.

In January 2002, AT&T mailed each registered shareholder (those who hold shares directly or through AT&T plans) at the shared address a separate notice of its intention to household proxy materials. Beneficial shareholders (those who hold shares through a bank, broker or other record holder) were notified in 2001 of the householding process. Those beneficial shareholders who are eligible and have not opted-out of the householding process will receive one set of proxy materials this year.

Registered shareholders who reside at such a household and would like to receive a separate annual report and proxy statement, or have questions regarding the householding process, may contact AT&T's transfer agent, EquiServe, by calling 1-800-348-8288, forwarding a written request addressed to EquiServe, Post Office Box 43007, Providence, RI 02940-3007, or via e-mail to att@equiserve.com. Beneficial shareholders should contact their broker or financial institution for specific information on this matter.

PROXY VOTING

AT&T shareholders who do not vote by telephone or the Internet may still return their proxy cards, properly signed, and the shares represented will be voted in accordance with their directions. AT&T shareholders can specify their choices by marking the appropriate boxes on the proxy card. IF AN AT&T PROXY CARD IS SIGNED AND RETURNED WITHOUT SPECIFYING ANY CHOICES, THE SHARES WILL BE VOTED AS RECOMMENDED BY THE AT&T BOARD. Abstentions marked on the proxy card are voted neither "for" nor "against," but are counted in the determination of a quorum for each of the proposals. IF YOU VOTE BY TELEPHONE OR THE INTERNET, IT IS NOT NECESSARY TO RETURN YOUR PROXY CARD.

If you wish to give your proxy to someone other than the AT&T Proxy Committee, all names that appear on the proxy card must be crossed out and the name of another person or persons (not more than) inserted. The signed card must be presented at the meeting by the person or persons representing you. You may revoke your proxy at any time before it is voted at the meeting by executing a later-voted proxy by telephone, the Internet, or mail, by voting by ballot at the meeting, or by filing an instrument of revocation with the inspector of election in care of the Vice President -- Law and Secretary of AT&T.

YOUR VOTE IS IMPORTANT. ACCORDINGLY, AT&T SHAREHOLDERS ARE ENCOURAGED TO VOTE BY TELEPHONE, THE INTERNET, OR BY SIGNING AND RETURNING THE ACCOMPANYING PROXY CARD WHETHER OR NOT THEY PLAN TO ATTEND THE

MEETING. If you do attend, you may vote by ballot at the AT&T annual meeting, thereby canceling any proxy previously voted.

CONFIDENTIAL VOTING

For many years, AT&T has had a confidential voting policy. AT&T has formalized its policy by amending its bylaws so that all proxies and other voting materials, including telephone and Internet voting, are kept confidential and are not disclosed to AT&T or its officers and directors, subject to standard exceptions. Such documents are available for examination only by the inspector of election and certain personnel associated with processing proxy cards and tabulating the vote. This bylaw provision cannot be amended, rescinded, or waived except by a shareholder vote. AT&T's independent inspector of election, an officer of [ ], has been appointed.

VOTING SHARES HELD IN DIVIDEND REINVESTMENT AND SAVINGS PLANS

For participants in the AT&T Shareowner Dividend Reinvestment and Stock Purchase Plan or the AT&T 1996 Employee Stock Purchase Plan, your shares will be voted as specified on your proxy card and will not be voted if the proxy card is not returned. For employee shareholders participating in the AT&T Long Term Savings Plan for Management Employees, the AT&T Long Term Savings and Security Plan, the AT&T Retirement Savings and Profit Sharing Plan, the AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees, the AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan, the Liberty Media 401(k) Savings Plan, the Liberty Media 401(k) Savings Plan of Puerto Rico, the AT&T Broadband Long Term Savings Plan, or the AT&T Wireless Services 401(k) Retirement Plan, your shares will be voted as specified on your proxy card. If the proxy cards are not returned, the Trustee of the plan will vote those shares in the same proportion as the shares for which instructions were received from all other participants in that plan. If you wish to abstain from voting on a shareholder matter, you must indicate this when you vote by telephone, the Internet or by mail.

ANNUAL MEETING ADMISSION

IF YOU ARE A REGISTERED AT&T SHAREHOLDER AND PLAN TO ATTEND THE AT&T MEETING IN PERSON, PLEASE DETACH AND RETAIN THE ADMISSION TICKET THAT IS

ATTACHED TO YOUR PROXY CARD. IF YOU WILL ATTEND THE MEETING, PLEASE BE SURE TO RESPOND TO THE "I/WE PLAN TO ATTEND THE ANNUAL MEETING" QUESTION WHEN YOU VOTE. A BENEFICIAL OWNER OF AT&T SHARES WHO PLANS TO ATTEND THE MEETING MAY OBTAIN AN ADMISSION TICKET IN ADVANCE BY SENDING A WRITTEN REQUEST, WITH PROOF OF OWNERSHIP, SUCH AS A BANK OR BROKERAGE FIRM ACCOUNT STATEMENT, TO: MANAGER -- PROXY, AT&T CORP., 295 NORTH MAPLE AVENUE, ROOM 1216L2, BASKING RIDGE, NEW JERSEY 07920-1002. ADMITTANCE TO THE ANNUAL MEETING WILL BE BASED UPON AVAILABILITY OF SEATING.

AT&T shareholders who do not present admission tickets at the meeting will be admitted upon verification of ownership at the admissions counter.

The   is fully accessible to disabled persons, and sign interpretation and wireless headsets will be available for hearing-impaired AT&T shareholders.

Highlights of the meeting will be available on the AT&T Investor Relations website at http://www.att.com/ir/ and will also be included in a midyear report to AT&T shareholders.

THE AT&T BOARD

The AT&T Board is responsible for establishing broad corporate policies and monitoring the overall performance of AT&T. However, in accordance with corporate legal principles, the AT&T Board is not involved in day-to-day operating matters. Members of the AT&T Board are kept informed of AT&T's business by participating in AT&T Board and committee meetings, by reviewing analyses and reports sent to them each month, and through discussions with the Chairman and other officers.

XIII-4

The AT&T Board held [   ] meetings and the committees held [   ] meetings in 2001. The average attendance in the aggregate of the total number of meetings of the AT&T Board and the total number of committee meetings was [   ]%.

COMMITTEES OF THE AT&T BOARD

The AT&T Board has established a number of committees, including the Audit Committee, the Compensation and Employee Benefits Committee, the Finance Committee, and the Governance and Nominating Committee, each of which is briefly described below. Another committee of the AT&T Board is the Proxy Committee (that votes the shares represented by proxies at the annual meeting of shareholders).

The Audit Committee meets with AT&T management to consider the adequacy of the internal controls and the objectivity of financial reporting. The committee also meets with the independent auditors and with appropriate AT&T financial personnel and internal auditors concerning these matters. The committee recommends to the AT&T Board the appointment of the independent auditors, subject to ratification by the shareholders at the annual meeting. Both the internal auditors and the independent auditors periodically meet alone with the committee and always have unrestricted access to the committee. The committee, which consists of   non-employee directors, met   times in 2001.

The Compensation and Employee Benefits Committee administers incentive compensation plans, including stock option plans, and keeps informed and advises the AT&T Board regarding employee benefit plans. The committee establishes the compensation structure for senior managers of AT&T and makes recommendations to the AT&T Board with respect to compensation of the officers as listed on page

. The committee, which consists of non-employee directors, met times in 2001.

The Finance Committee meets with AT&T management to review the financial policy and procedures of AT&T, including AT&T's Financing Plan, Capital and Investment Program, and Dividend Policy. The committee advises the AT&T Board on AT&T's financial condition and makes recommendations concerning the dividend policy and payments of AT&T. The committee, which consists of non-employee directors, met times in 2001.

The Governance and Nominating Committee advises and makes recommendations to the AT&T Board on all matters concerning directorship and corporate governance practices, including compensation of directors and the selection of candidates as nominees for election as directors, and it provides guidance with respect to matters of public policy. The committee, which consists of non-employee directors, met times in 2001. The committee recommended this year's director candidates at the [ ], 2002 AT&T Board Meeting.

In recommending AT&T Board candidates, the Governance and Nominating Committee seeks individuals of proven judgment and competence who are outstanding in their respective fields. The committee considers such factors as experience, education, employment history, special talents or personal attributes, anticipated participation in AT&T Board activities, and geographic and other diversity factors. Shareholders who wish to recommend qualified candidates should write to: Vice President -- Law and Secretary, AT&T Corp., 32 Avenue of the Americas, New York, New York 10013-2412, stating in detail the qualifications of such persons for consideration by the committee.

COMPENSATION OF DIRECTORS

In 2001, directors who were not AT&T employees received an annual cash retainer of $ and AT&T common stock units with a then-current market value of $, which were deferred automatically and credited to a portion of a deferred compensation account, pursuant to AT&T's Deferred Compensation Plan for Non-Employee directors. The chairpersons of the Audit Committee, Compensation and Employee Benefits Committee, and Finance Committee each received an additional annual retainer of $. The chairperson of the Governance and Nominating Committee received an additional annual retainer of $. No fees are paid for attendance at regularly scheduled AT&T Board and committee

meetings. Directors received a fee of $ for each special AT&T Board or committee meeting attended. In addition, non-employee directors received a stock option grant to purchase shares of AT&T common stock.

Directors may elect to defer the receipt of all or part of their cash retainer and other compensation into the AT&T common stock portion or the cash portion of the deferred compensation account. The AT&T common stock portion (the value of which is measured from time to time by the market value of AT&T common stock) is credited on each dividend payment date for AT&T common stock with a number of deferred shares of AT&T common stock equivalent in market value to the amount of the quarterly dividend on the shares then credited in the accounts. The cash portion of the deferred compensation account, representing amounts deferred prior to January 1, 2002, earns interest, compounded quarterly, at an annual rate equal to the average interest rate for ten-year United States Treasury Notes for the previous quarter, plus %. Thereafter, amounts deferred to the cash portion of the deferred compensation account earn interest, compounded quarterly, at an annual rate equal to the average interest rate for ten-year United States Treasury Notes for the previous quarter, plus %.

Effective December 31, 1996, AT&T terminated its Pension Plan for Non-Employee Directors. The Pension Plan now covers only those non-employee directors who retired prior to December 31, 1996. Benefits accrued for then-active directors were valued and converted into a deferred annuity. AT&T also provides non-employee directors with travel accident insurance when on AT&T business. A non-employee director may purchase life insurance sponsored by AT&T. AT&T will share the premium expense with the director; however, all AT&T contributions will be returned to AT&T at the earlier of (a) the director's death or (b) the later of age 70 or 15 years from the policy's inception. This benefit will continue after the non-employee director's retirement from the AT&T Board.

Effective December 1997, the AT&T Board adopted AT&T stock ownership targets equal to five times the total value of the annual cash retainer and annual stock unit amounts. Directors generally have five years to attain the ownership goal. of the non-employee directors have met their targets. Directors who are employees of AT&T receive no compensation for serving as directors, but also have ownership targets.

ELECTION OF DIRECTORS

(ITEM 1 ON PROXY CARD)

The AT&T Proxy Committee intends to vote for the election of the nominees listed on the following pages. These nominees have been selected by the AT&T Board on the recommendation of the Governance and Nominating Committee. If you do not wish your shares to be voted for particular nominees, please identify the exceptions in the designated space provided on the proxy card or, if you are voting by telephone or the Internet, follow the system instructions. Directors will be elected by a plurality of the votes cast. Any shares not voted (whether by abstention, broker non-vote, or otherwise) have no impact on the vote.

If at the time of the meeting one or more of the nominees have become unavailable to serve, shares represented by proxies will be voted for the remaining nominees and for any substitute nominee or nominees designated by the Governance and Nominating Committee or, if none, the size of the AT&T Board will be reduced. Except as noted below in cases of directors moving to new boards in conjunction with restructuring activities, the Governance and Nominating Committee knows of no reason why any of the nominees will be unavailable or unable to serve.

Directors elected at the AT&T annual meeting will hold office until the next annual meeting or until their successors have been elected and qualified, except as noted below for those directors moving to new boards in conjunction with restructuring activities. For each nominee there follows a brief listing of

XIII-6

principal occupation for at least the past five years, other major affiliations, and age as of [(Record Date)].

NOMINEES FOR ELECTION AS DIRECTORS

STOCK OWNERSHIP OF MANAGEMENT AND DIRECTORS

The following table sets forth information concerning the beneficial ownership of AT&T common stock as of January 1, 2002 for (a) each current director elected to the AT&T Board in 2001 and each nominee for election as a director in 2002; (b) each of the officers named in the Summary Compensation Table herein ("Named Officers") not listed as a director; and (c) directors and executive officers as a group. No director or executive officer owns any AT&T preferred shares. Except as otherwise noted, the nominee or family members had sole voting and investment power with respect to such securities.

	NUMBER OF SHARES			
NAME	BENEFICIALLY OWNED	DEFERRAL PLANS(1)	TOTAL	PER OF
(A)				
C. Michael Armstrong	--	--	--	
J. Michael Cook	--	--	--	
Kenneth T. Derr	--	--	--	
M. Kathryn Eickhoff	--	--	--	
George M. C. Fisher	--	--	--	
Amos B. Hostetter, Jr.	--	--	--	
Shirley A. Jackson	--	--	--	
Donald F. McHenry	--	--	--	
Louis A. Simpson	--	--	--	
Michael I. Sovern	--	--	--	
Sanford I. Weill	--	--	--	

NAME	BENEFICIALLY OWNED	DEFERRAL PLANS(1)	TOTAL	PER OF
(B)				

NAME	BENEFICIALLY OWNED	DEFERRAL PLANS(1)	TOTAL	PER OF
(C)				
Directors and Executive Officers as a group	--	--	--	

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* Less than one percent

FOOTNOTES

1. Share units held in deferred compensation accounts that do not constitute beneficially owned securities.

OWNERSHIP OF VOTING SECURITIES IN EXCESS OF FIVE PERCENT BY BENEFICIAL OWNERS

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires AT&T's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the SEC and the NYSE, initial reports of ownership and reports of changes in beneficial ownership of such equity securities of AT&T.

To AT&T's knowledge, based upon the reports filed and written representations that no other reports were required, during the fiscal year ended December 31, 2001, none of its directors and executive officers failed to file on a timely basis reports required by Section 16(a) with the following exceptions:

RATIFICATION OF APPOINTMENT OF AUDITORS

(ITEM 2 ON PROXY CARD)

Subject to shareholder ratification, the AT&T Board, upon recommendation of the Audit Committee, has reappointed the firm of PricewaterhouseCoopers LLP as the independent auditors to examine AT&T's financial statements for the year 2002. PricewaterhouseCoopers has audited AT&T's books for many years. THE AT&T BOARD RECOMMENDS THAT AT&T SHAREHOLDERS VOTE FOR SUCH RATIFICATION. Ratification of the appointment of auditors requires a majority of the votes cast. Any shares not voted (whether by abstention, broker non-vote, or otherwise) have no impact on the vote. If the shareholders do not ratify this appointment, other independent auditors will be considered by the AT&T Board upon recommendation of the Audit Committee.

Representatives of PricewaterhouseCoopers are expected to attend the AT&T meeting and will have the opportunity to make a statement if they desire and to respond to appropriate questions.

For the year 2001, PricewaterhouseCoopers also examined the financial statements of AT&T's subsidiaries and provided other audit services to AT&T and its subsidiaries in connection with SEC filings, review of financial statements, and audits of pension plans.

DIRECTORS' PROPOSAL TO APPROVE AND ADOPT THE MERGER AGREEMENT AMONG AT&T CORP., AT&T BROADBAND CORP., COMCAST CORPORATION AND THE OTHER PARTIES THERETO, WHEREBY AT&T BROADBAND, A NEW HOLDING COMPANY THAT CONSISTS OF AT&T'S BROADBAND BUSINESSES, WILL BE SPUN OFF AND COMBINED WITH COMCAST IN A NEW PENNSYLVANIA CORPORATION CALLED "AT&T COMCAST CORPORATION" AND THE TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT, INCLUDING THE AT&T BROADBAND SPIN-OFF

(ITEM 3 ON PROXY CARD)

For information regarding the AT&T transaction proposal, please see Chapters I-IX and Chapter XIV of this document.

DIRECTORS' PROPOSAL TO APPROVE AND ADOPT AN AMENDMENT TO AT&T'S CHARTER TO AUTHORIZE THE CREATION OF AT&T CONSUMER SERVICES GROUP TRACKING STOCK

(ITEM 4 ON PROXY CARD)

For information regarding the Consumer Services charter amendment proposal, please see Chapter I and Chapter X of this document.

DIRECTORS' PROPOSAL TO APPROVE A NEW INCENTIVE PLAN TO ENABLE AT&T TO GRANT INCENTIVE AWARDS BASED ON SHARES OF AT&T CONSUMER SERVICES GROUP TRACKING STOCK

(ITEM 5 ON PROXY CARD)

For information regarding the incentive plan proposal, please see Chapter X of this document.

DIRECTORS' PROPOSAL TO APPROVE AN AMENDMENT TO AT&T'S EMPLOYEE STOCK PURCHASE PLAN TO PERMIT THE ISSUANCE OF AT&T CONSUMER SERVICES GROUP TRACKING STOCK UNDER THE PLAN

(ITEM 6 ON PROXY CARD)

For information regarding the employee stock purchase plan proposal, please see Chapter X of this document.

XIII-8

SHAREHOLDER PROPOSALS

AT&T receives many suggestions from shareholders, some as formal shareholder proposals. All are given careful consideration and adopted, if appropriate. After discussion with AT&T representatives and clarification of AT&T's position, many proposals are withdrawn.

Proponents of shareholder proposals have stated that they intend to present the following proposals at the annual meeting. Information on the shareholdings of the proponents is available by writing to: MANAGER -- PROXY, AT&T CORP., 295 NORTH MAPLE AVENUE, ROOM 1216L2, BASKING RIDGE, NEW JERSEY 07920-1002. The proposals and supporting statements are quoted below. The AT&T Board has concluded it cannot support these proposals for the reasons given.

SHAREHOLDER PROPOSAL #1

(ITEM 7 ON PROXY CARD)

SHAREHOLDER PROPOSAL #2

(ITEM 8 ON PROXY CARD)

SHAREHOLDER PROPOSAL #3

(ITEM 9 ON PROXY CARD)

SHAREHOLDER PROPOSAL #4

(ITEM 10 ON PROXY CARD)

SUBMISSION OF SHAREHOLDER PROPOSALS

For information regarding the submission of shareholder proposals, see "Additional Information for Shareholders -- Future Shareholder Proposals -- AT&T."

ADVANCE NOTICE PROCEDURES; NOMINATION OF DIRECTORS

Under AT&T's bylaws, no nominations of individuals for election as directors or other business may be brought before an AT&T annual meeting except as specified in the notice of the meeting (which notice includes shareholder proposals that AT&T is required to set forth in its proxy statement under SEC Rule 14a-8) or as otherwise brought before the meeting by or at the direction of the AT&T Board or by a shareholder entitled to vote who has delivered written notice to AT&T (containing certain information specified in the bylaws) not less than 90 or more than 120 days prior to the first anniversary of the preceding year's annual meeting. These requirements are separate and apart from and in addition to the SEC's requirements that a shareholder must meet to have a shareholder proposal included in AT&T's proxy statement under SEC Rule 14a-8.

A copy of the full text of the bylaw provisions discussed above may be obtained by writing to AT&T's Office of the Corporate Secretary.

OTHER MATTERS TO COME BEFORE THE AT&T ANNUAL MEETING

In addition to the matters described above, there will be an address by the Chairman of the Board of AT&T and a general discussion period during which shareholders will have an opportunity to ask questions about the business. In the event that any matter not described herein may properly come before the meeting, or any adjournment thereof, the Proxy Committee will vote the shares represented by it in accordance with its best judgment. At the time this document went to press, AT&T knew of no other matters that might be presented for shareholder action at the AT&T annual meeting.

XIII-9

BOARD COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

REPORT OF THE AUDIT COMMITTEE OF THE AT&T BOARD

FIVE-YEAR PERFORMANCE COMPARISON ON AT&T COMMON STOCK

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPENSA	
					AWARDS	
NAMED OFFICERS AND PRINCIPAL POSITION(1)	YEAR	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPEN- SATION ($)	RESTRICTED STOCK AWARD(S) ($)	OPTIONS/ SARS(#)
C. Michael Armstrong.......... Chairman of the Board and CEO						

FOOTNOTES

1. Includes Chairman of the Board and Chief Executive Officer and the four other most highly compensated individuals who were executive officers of AT&T at the end of 2001, as measured by salary and bonus.

AGGREGATED OPTION/STOCK APPRECIATION RIGHTS
("SAR") EXERCISES IN 2001 AND YEAR-END VALUES

AT&T COMMON STOCK

	EXERCISABLE/UNEXERCISABL
NUMBER OF	$ VALUE

NAME(1)	SHARES ACQUIRED ON EXERCISE	$ VALUE REALIZED	UNEXERCISED OPTIONS/SARS AT YEAR END	IN-THE-MON OPTIONS/SA AT YEAR EN
C. Michael Armstrong........................				

FOOTNOTES

1. Includes Chairman of the Board and Chief Executive Officer and the four other most highly compensated individuals who were executive officers of AT&T at the end of 2001, as measured by salary and bonus.

LONG-TERM INCENTIVE PLANS -- AWARDS IN 2001

			ESTIMATED FUTURE PAYOUTS UND NON-STOCK PRICE BASED PLAN		
NAME(1)	NUMBER OF PERFORMANCE SHARES	PERFORMANCE PERIOD UNTIL MATURATION OR PAYOUT	THRESHOLD (#)	TARGET (#)	MAXIM (#)
C. Michael Armstrong.................					

FOOTNOTES

1. Includes Chairman of the Board and Chief Executive Officer and the four other most highly compensated individuals who were executive officers of AT&T at the end of 2001, as measured by salary and bonus.

XIII-10

OPTION/SAR GRANTS IN 2001

		INDIVIDUAL GRANTS			
NAME(1)	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SH)	EXPIRATION DATE	GR P VA
C. Michael Armstrong................					

FOOTNOTES

1. Includes Chairman of the Board and Chief Executive Officer and the four other most highly compensated individuals who were executive officers of AT&T at the end of 2001, as measured by salary and bonus.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT ARRANGEMENTS

AT&T entered into an employment agreement with Mr. Armstrong dated October

17, 1997. The agreement provided for an initial base salary of $1,400,000 per year. It also provided for a guaranteed annual incentive award for the 1998 performance year of no less than 100% of his then base salary, and for 1998 and 1999 performance shares/stock units granted under the 1997 LTIP, a guaranteed grant value equivalent to no less than 100% of his base salary at the time of grant. Mr. Armstrong was eligible for annual stock option awards commencing in 1998 in accordance with the Committee-approved compensation structure for such years.

To address certain forfeitures experienced when Mr. Armstrong left his previous employer, the Company paid a premium of $2,050,000 to purchase a split-dollar survivorship insurance policy insuring Mr. Armstrong and his spouse. Such policy will, upon the death of the last surviving insured, provide insurance proceeds equal to the sum of the face amount of the policy and the policy's cash value. An amount equal to the policy face amount shall be payable to Mr. Armstrong's beneficiaries or to a trust which may be established to own Mr. Armstrong's interest in such policy. The balance of the proceeds will be paid to the Company, and, from its share of the death benefit, the Company will pay a Company-paid death benefit to Mr. Armstrong's beneficiaries equal to the death benefit received by the Company, minus the Company-paid premium. The face amount of such split-dollar survivorship insurance policy will be determined in accordance with the underwriting requirements of the insurance company providing such coverage based on the Company's premium payment of $2,050,000 and additional premium payments, if any, that Mr. Armstrong may become eligible for under any similar program adopted by the Company for its senior executives and in which Mr. Armstrong elects to participate.

In accordance with his employment agreement, Mr. Armstrong was also granted AT&T restricted stock, AT&T restricted stock units, and AT&T stock options under the 1997 LTIP to replace similar grants forfeited from his prior employer and to provide strong incentives to create shareholder value for AT&T shareowners.

Details of these grants follow:

1. Mr. Armstrong was granted 142,877* shares of AT&T restricted stock. These shares vested in years 1998, 1999, 2000 and became fully vested on October 26, 2001.

2. Mr. Armstrong was also granted 446,179* AT&T restricted stock units, which vest on October 1, 2003, assuming continued employment, with a guarantee that, in the event the fair market value of the AT&T shares furnished to Mr. Armstrong on October 1, 2003 is less than $10,000,000, such shortfall will be made up in cash by the Company. In the event of (a) a Change in Control (as defined) on or before April 1, 2002 and a subsequent (within 3 years) Company-initiated termination

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* Adjusted for April 1999 3:2 stock split and July 2001 split-off of AT&T wireless.

XIII-11

for other than "cause" (as defined) or Constructive Termination Without Cause (as defined) or (b) Mr. Armstrong's death, special vesting rules apply.

3. Mr. Armstrong was granted an option to purchase, within ten years, 1,124,699* shares of AT&T common stock, with a purchase price of $22.4125* per share. These options vest one-third each on October 17, 2000, 2001, and 2002, based on continued employment.

As part of his employment agreement, the Company entered into a supplemental pension arrangement with Mr. Armstrong. Pursuant to such arrangement, Mr. Armstrong will receive an annual benefit (as defined in the employment agreement) commencing at his retirement at or after age 65. Such benefit will vest 20% per year on each of the first five anniversaries of his hire, and will be payable in actuarially-reduced amounts for retirement and commencement prior to age 65. Pension benefits payable under this arrangement will be paid out of the Company's operating income, and will be offset by (1) all amounts actually received by Mr. Armstrong under any other Company qualified or non-qualified retirement plan or arrangement, and (2) the greater of (a) $655,642 or (b) the actual pension benefits to be paid to Mr. Armstrong with respect to that year by his prior employers under their qualified and non-qualified defined benefit plans. In addition, Mr. Armstrong will be entitled to certain other post-retirement benefits that are generally made available from time to time to retired executive officers and service-pension-eligible senior managers.

Mr. Armstrong's agreement provides for certain entitlements in the event of his termination from AT&T under specified circumstances. Pursuant to his agreement, in the event of Mr. Armstrong's death, his beneficiaries or estate will be entitled to his base salary through the end of his month of death, his target annual incentive award for the year of death, a lump sum payout at target for each open long-term incentive program performance cycle, and payment of survivor benefits under his supplemental pension arrangement which vests 100% at his death. All outstanding unvested stock options will vest and together with already vested options will be exercisable for the remainder of the original term of each grant; restrictions on the restricted stock granted as part of his agreement will lapse; restricted stock units granted in his agreement will be payable in accordance with the schedule established in his Restricted Stock Unit Award Agreement (20% to 100% of units granted will be payable, depending on the date of death) in the event of his death prior to the vesting of such restricted stock units on October 1, 2003.

Mr. Armstrong's agreement also provides that in the event his employment is terminated as a result of disability (as defined), he shall be entitled to receive disability benefits in accordance with the long-term disability program then in effect for senior managers. In addition, base salary, annual incentive, stock options, restricted stock, and restricted stock units shall be treated in the same manner as described above in the case of death. Treatment of long-term incentives will be as described above in the case of death, provided, however, payment will be in accordance with the terms of the plan instead of a lump sum. Pension benefits under his supplemental pension arrangement will vest and will be offset by any Company-provided disability benefits.

In the event of a termination for "cause" (as defined) or in the event of a voluntary resignation, other than a termination due to death or disability or a Constructive Termination (as defined) without "cause" or retirement on October 31, 2003, Mr. Armstrong will forfeit all restricted stock and restricted stock units as to which restrictions have not lapsed, long-term incentives with respect to uncompleted performance cycles, outstanding stock options which are not exercisable, and any pension benefit not yet vested under his supplemental pension arrangement. He will receive base salary through his date of termination, and vested stock options shall remain exercisable for 90 days after termination or until the originally scheduled expiration date, if earlier.

In the event of a Company-initiated termination for other than "cause" or in the event of a Constructive Termination without "cause," neither of which follow within three years of a Change in Control (as defined), Mr. Armstrong will be provided the following: base salary through the date of termination, a prorated annual incentive award at target for the year of termination, a 24-month continuation of monthly base salary, or at his option, the lump-sum present value of such payments (using the short-term Treasury bill rate for the month of termination); two times the target annual incentive

award for the year of termination payable over 24 months, or at his option, the lump-sum present value of such payments (using the short-term Treasury bill rate for the month of termination); and payout at target for each open long-term incentive program performance cycle in accordance with the plan or in a lump sum as described above. In addition, all outstanding unvested stock options will vest and together with already vested options will be exercisable for the remainder of the original term of each grant; restrictions on the restricted stock granted as part of his agreement will lapse; and his supplemental pension benefit shall fully vest. For a period of 24 months following his termination, or, if earlier, until he receives equivalent coverage and benefits from another employer, Mr. Armstrong will be entitled to continued participation in AT&T's benefit plans and programs.

In the event of Mr. Armstrong's retirement as of October 31, 2003, he will be entitled to payment of his supplemental pension and will be treated in accordance with the plans, programs, and practices applicable to retired senior managers.

Mr. Armstrong's agreement provides that in the event of a Change in Control, all amounts and benefits to which he is entitled but are not yet vested (except with respect to his restricted stock unit grant which is governed by the terms of the grant agreement) shall become fully vested. In addition, in the event of a Company-initiated termination or a Constructive Termination without "cause" following a Change in Control, he shall be entitled to the benefits described above in connection with a Company-initiated termination without "cause" or a Constructive Termination without "cause" not associated with a Change in Control provided, however: (1) the number of months associated with salary, annual incentive, and benefits continuation shall be 48 months, and such amounts will be payable as a lump sum as soon as practicable after his termination; and (2) restricted stock units granted in his agreement will be payable in accordance with the schedule established in his Restricted Stock Unit Award Agreement (25% to 100% of units granted will be payable, depending on date of termination). In the event the payments in this paragraph are determined to constitute a payment under Section 280G(b)(2) of the Internal Revenue Code and such payment is subject to an excise tax under Section 4999 of the Code, the Company will provide Mr. Armstrong with a tax gross-up payment to negate the excise tax. It is not anticipated that the AT&T Comcast transaction will constitute a change in control under his agreement.

In the event of any termination described above, Mr. Armstrong or his estate shall also be entitled to the unpaid balance of any incentive awards for completed performance periods, any expense reimbursements due him, and other benefits in accordance with applicable plans and programs.

AT&T entered into an employment agreement with Mr. Schleyer dated October 25, 2001. The employment agreement provided for an initial base salary of $925,000 per year. It also provided for a guaranteed annual incentive award for the 2002 performance year of no less than 100% of his then base salary and $154,000 with respect to the 2001 calendar year. Mr. Schleyer was also provided under the AT&T 1997 Long Term Incentive Plan an option to purchase, within 10 years, 430,800 shares of AT&T common stock with a purchase price of $16.0150 per share and 114,450 AT&T restricted shares in accordance with the Committee-approved compensation structure for 2001. The stock options vest in four equal annual installments, beginning on October 25, 2001 and the AT&T restricted shares vest in three equal annual installments, beginning on October 25, 2001, in each case, based on continued employment.

To address certain forfeitures experienced when Mr. Schleyer left his previous employer and to incent him to join the Company, the employment agreement provided for (i) a special one time grant of an option to purchase, within 10 years, 277,000 shares of AT&T common stock with a purchase price of $16.0150 per share and 56,200 AT&T restricted shares. The stock options vest in three equal annual installments, beginning on October 25, 2001 and the AT&T restricted shares vest in two equal annual installments, beginning on October 25, 2001, in each case, based on continued employment.

Mr. Schleyer is entitled to participate in the benefit programs that are generally made available to other AT&T executives. Mr. Schleyer's employment agreement also provides that if AT&T separated itself from AT&T Broadband, Mr. Schleyer will cease participating in AT&T's benefit plans and will become a participant in the applicable benefit plans of AT&T Broadband.

XIII-13

Mr. Schleyer's employment agreement provides that if AT&T separates itself from AT&T Broadband, his AT&T equity awards will be treated in accordance with the plan developed and approved by AT&T's Board.

In the event of a termination of Mr. Schleyer's employment initiated by AT&T for "cause" or by Mr. Schleyer without "good reason" (as defined), he will forfeit all unvested AT&T stock options and all AT&T restricted shares as to which restrictions have not lapsed.

In the event of an AT&T-initiated termination without cause or a good reason termination, Mr. Schleyer will be provided severance benefits under the applicable AT&T Broadband severance plan. In addition, unvested AT&T contributions to its savings and pension plans on Mr. Schleyer's behalf will be paid to him after termination. In the event of an AT&T initiated termination without cause or a good reason termination within two years after a change in control of AT&T, Mr. Schleyer will be entitled to receive severance benefits under the applicable AT&T severance arrangements.

PENSION PLANS

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

OTHER INFORMATION

XIII-14

CHAPTER FOURTEEN
CERTAIN LEGAL INFORMATION

COMPARISON OF AT&T, COMCAST AND AT&T COMCAST SHAREHOLDER RIGHTS

This section of this document describes the material differences between the current rights of AT&T shareholders and Comcast shareholders, on the one hand, and the rights those shareholders are expected to have as AT&T Comcast shareholders after completion of the transaction, on the other hand. This section is limited to the changes arising in connection with the AT&T Comcast transaction and does not address AT&T Consumer Services Group tracking stock. See "AT&T Consumer Services Group Tracking Stock." As of the date of this document, the rights of Comcast shareholders are governed by Pennsylvania law, the Comcast charter and the Comcast bylaws and the rights of AT&T shareholders are governed by New York law, the AT&T charter and the AT&T bylaws. Upon completion of the transaction, Comcast shareholders will become AT&T Comcast shareholders, AT&T shareholders will become AT&T Comcast shareholders (and will also remain AT&T shareholders) and the rights of Comcast and AT&T shareholders who become AT&T Comcast shareholders will be governed by Pennsylvania law, the AT&T Comcast charter and AT&T Comcast bylaws. This section is not meant to be complete and is qualified in its entirety by reference to the relevant provisions of Pennsylvania and New York corporate law, the Comcast charter and bylaws and the AT&T charter and bylaws, in each case as currently in effect, and the AT&T Comcast charter and bylaws that will be in effect upon completion of the transaction, which are more detailed than the information provided below.

A copy of the AT&T Comcast charter that will be in effect upon completion of the transaction if the Preferred Structure is implemented is attached to this document as Annex C. A copy of the term sheet describing the differences between the AT&T Comcast charter that will be in effect upon completion of the transaction if the Preferred Structure is implemented and the AT&T Comcast charter that will be in effect upon completion of the transaction if the Alternative Structure is implemented is attached to this document as Annex D. A copy of the AT&T Comcast bylaws that will be in effect upon completion of the transaction is attached to this document as Annex F. Copies of the charter and bylaws of AT&T and the charter and bylaws of Comcast, in each case as currently in effect, will be sent to AT&T shareholders and Comcast shareholders, as applicable, upon request. See "Additional Information for Shareholders -- Where You Can Find More Information."

SUMMARY OF MATERIAL DIFFERENCES BETWEEN THE CURRENT RIGHTS OF AT&T SHAREHOLDERS AND THE RIGHTS THOSE SHAREHOLDERS WILL HAVE AS AT&T COMCAST SHAREHOLDERS FOLLOWING THE COMPLETION OF THE TRANSACTION

	AT&T SHAREHOLDER RIGHTS	AT&T COMCAST SHAREHOLDER RIGH
Authorized Capital Stock:	The authorized capital stock of AT&T consists of 16.4 billion shares of common stock and 100 million shares of preferred stock. If AT&T Consumer Services Group tracking stock is approved and issued, AT&T will have a new class of AT&T common stock. For information on this new class, see "AT&T Consumer Services Group Tracking Stock."	Under the Preferred Structure, t authorized capital stock of AT&T Comcast would consist of 7.5 bil shares of Class A common stock, billion shares of Class A Specia common stock, 75 million shares Class B common stock and 20 mill shares of preferred stock. Under the Alternative Structure, authorized capital stock of AT&T Comcast would consist of 200 mil shares of Class A common stock, billion shares of Class A Specia common stock, 75 million shares Class B common stock, 7.5 billio shares of Class C

	AT&T SHAREHOLDER RIGHTS	AT&T COMCAST SHAREHOLDER RIGH
		common stock and 20 million shar preferred stock.
Voting Rights:	AT&T common stock is the only class of AT&T capital stock with voting rights	

	(other than shares of a series of preferred stock held by subsidiaries of AT&T).	
If the Consumer Services charter amendment proposal is approved and shares of AT&T Consumer Services Group tracking stock are issued, that class would have votes per share.		
The voting interest of the AT&T common stock may be diluted by issuances of other classes of AT&T capital stock with voting rights.	AT&T Comcast Class A common stock, AT&T Comcast Class B common stock and, under the Alternative Structure, AT&T Comcast Class C common stock will initially be the only classes of AT&T Comcast capital stock with voting rights.	
	Unlike the other classes of AT&T Comcast voting stock, subject to specified exceptions, the voting interests of the AT&T Comcast Class B common stock (33 1/3%) and, under the Alternative Structure, the AT&T Comcast Class A common stock (5.14%) will not be diluted by issuances of other classes of AT&T Comcast capital stock with voting rights.	
	See "-- Description of AT&T Comcast Capital Stock."	

XIV-2

	AT&T SHAREHOLDER RIGHTS	AT&T COMCAST SHAREHOLDER RIGH
Approval Rights:	No class of AT&T capital stock has approval rights over any corporate actions, other than charter amendments and other fundamental changes, as required by law.	Under the Preferred Structure, t holders of AT&T Comcast Class B stock, voting as a single class, have approval rights over numero specified corporate actions.
		Under the Alternative

Structure, the holders of AT&T Comcast Class A common stock and AT&T Comcast Class B common stock, voting together as a single class, would have approval rights over numerous specified corporate actions. See "-- Description of AT&T Comcast Capital Stock -- AT&T Comcast Class B Common Stock -- Approval Rights."		
Conversions:	The shares of AT&T common stock are not convertible into any other class of AT&T capital stock.	Each share of AT&T Comcast Class common stock will be convertible one share of AT&T Comcast Class common stock, AT&T Comcast Class Special common stock or, under t Alternative Structure, AT&T Comc Class C common stock.
Election of Directors:	The entire AT&T Board is elected annually.	The term of the initial AT&T Com Board will expire on the date of 2005 annual meeting of AT&T Comc shareholders, which will be the annual meeting of AT&T Comcast shareholders held after completi the transaction. Thereafter, the entire AT&T Comcast Board will b elected annually. See "Descripti Governance Arrangements Followin AT&T Comcast Transaction -- AT&T Comcast Board of Directors."
Number of Directors:	The AT&T Board currently consists of 11 directors. The AT&T Board may fix the number of directors at any number between 10 and 25.	From the completion of the trans until the 2005 annual meeting of shareholders, the AT&T Comcast B will consist of 12 directors. Se "Description of Governance Arrangements Following the AT&T Comcast

XIV-3

	AT&T SHAREHOLDER RIGHTS	AT&T COMCAST SHAREHOLDER RIGH
		Transaction -- AT&T Comcast Boar Directors." Thereafter, the AT&T Comcast Board will determine the number of directors on the AT&T Comcast Board.
Vacancies:	Vacancies on the AT&T Board may be	From the completion of the trans

	filled by the remaining AT&T directors or by the AT&T shareholders.	until the 2005 annual meeting of Comcast shareholders, vacancies AT&T Comcast Board will be fille described above in "Description Governance Arrangements Followin AT&T Comcast Transaction -- AT&T Comcast Board of Directors." Aft 2005 annual meeting of AT&T Comc shareholders, vacancies on the A Comcast Board may be filled by t remaining AT&T Comcast directors the AT&T Comcast shareholders.
Nominations of Directors:	Nominations of individuals for election to the AT&T Board may be made by the AT&T Board (or a committee of the AT&T Board) or by any AT&T shareholder who is entitled to vote and follows the proper notice procedures.	Nominations of individuals for election to the AT&T Comcast Boa will be made by the Directors Nominating Committee. See "Descr of Governance Arrangements Follo the AT&T Comcast Transaction -- Directors Nominat Committee." In addition, any AT& Comcast shareholder who follows proper notice procedures will be to nominate individuals for elec to the AT&T Comcast Board.
Quorum:	The holders of 40% of the outstanding shares of AT&T common stock constitute a quorum for the transaction of business at a meeting of AT&T shareholders.	The holders of shares of AT&T Co capital stock entitled to cast a majority of the votes that all A Comcast shareholders are entitle cast will constitute a quorum fo transaction of business at a mee of AT&T Comcast shareholders.
Shareholder Approval of a Merger or Sale of All or Substantially All Assets:	Subject to certain exceptions, a merger involving AT&T or a sale of all or substantially all of AT&T's assets generally requires approval of a majority of the AT&T Board present and voting (assuming a quorum) and the holders of a majority of the outstanding shares of AT&T common stock (assuming a quorum).	Subject to certain exceptions, a merger involving AT&T Comcast or sale of all or substantially all AT&T Comcast's assets generally require the approval of a majori the AT&T Comcast Board present a voting (assuming a quorum) and t holders of a majority of the vot cast by the holders of AT&T Comc capital stock entitled to vote (assuming a quorum). In addition, subject to certain exceptions, a merger or other transaction involving AT&T Comca each case that requires AT&T Com shareholder approval, will also require the approval of (1) hold AT&T Comcast Class B common stoc voting as a single class, under Preferred Structure, and (2) hol of AT&T

	AT&T SHAREHOLDER RIGHTS	AT&T COMCAST SHAREHOLDER RIGH
		Comcast Class A common stock and Comcast Class B common stock, vo together as a single class, unde Alternative Structure. See "-- Description of AT&T Comcast Capital Stock -- AT&T Comcast Cl Common Stock -- Approval Rights. Furthermore, Sural LLC is not permitted to support a merger involving AT&T Comcast until the anniversary of the completion of transaction unless the merger is approved by disinterested AT&T C shareholders. See "Description o AT&T Comcast Transaction Agreements -- The Support Agreem Covenants."
Shareholder Notice:	An AT&T shareholder who wants to bring business before, or nominate directors for election at, an annual meeting of shareholders generally must deliver written notice to AT&T not less than 90 days but not more than 120 days prior to the first anniversary of the preceding year's annual meeting of shareholders.	An AT&T Comcast shareholder who to bring business before, or nom directors for election at, an an meeting of shareholders generall be required to deliver written n to AT&T Comcast not less than 60 but not more than 90 days prior first anniversary of the precedi year's annual meeting of shareho
Action by Written Consent:	AT&T shareholders may not act by written consent in lieu of a shareholder meeting (unless such consent is unanimous).	Except as described below, AT&T Comcast shareholders will not be to act by written consent in lie shareholder meeting. Holders of AT&T Comcast Class B stock and, under the Alternative Structure, AT&T Comcast Class A stock will be permitted to act b written consent in lieu of a shareholder meeting to exercise specific approval rights over ce matters. See "-- Description of Comcast Capital Stock."
Calling of Special Meetings of Shareholders:	The Chairman of the Board and the AT&T Board have the right to call special meetings of shareholders.	The AT&T Comcast Board will have right to call special meetings o shareholders.
Amendment of Charter and Bylaws:	The AT&T charter may be amended with the approval of a majority of the AT&T Board present and voting (assuming a quorum) and holders of a majority of the outstanding shares of AT&T common stock (assuming a quorum).	The AT&T Comcast charter will be to be amended with the approval majority of the AT&T Comcast Boa present and voting (assuming a q and the holders of a majority of votes cast by AT&T Comcast shareholders entitled to vote (assuming a quorum). However, AT Comcast charter amendments that the director, officer

	AT&T SHAREHOLDER RIGHTS	AT&T COMCAST SHAREHOLDER RIGH
	The AT&T bylaws may be amended by the AT&T Board or the AT&T shareholders.	and committee arrangements imple in connection with the AT&T Comc transaction will require the app of 75% of the entire AT&T Comcas Board until the earlier to occur (1) the date on which Brian L. R is no longer Chairman of the AT& Comcast Board or CEO of AT&T Com and (2) April 2010, as well as t shareholder approval referred to the preceding sentence.
	The AT&T Comcast bylaws will be able to be amended only by the AT&T Comcast Board or by AT&T Comcast shareholders with the approval of the AT&T Comcast Board. Notwithstanding the foregoing, AT&T Comcast charter and bylaw amendments that adversely affect the rights of the holders of the AT&T Comcast Class B common stock will require the approval of the holders of the AT&T Comcast Class B common stock, voting as a single class, under the Preferred Structure and the holders of the AT&T Comcast Class A common stock and AT&T Comcast Class B common stock, voting together as a single class, under the Alternative Structure. See "-- Description of AT&T Comcast Capital Stock -- AT&T Comcast Class B Common Stock -- Approval Rights."	
Shareholder Rights Plan:	AT&T does not have a shareholder rights plan.	AT&T Comcast will have a shareho rights plan. See "-- Description AT&T Comcast Shareholder Rights The existence of this plan may d potential acquirors from making unsolicited takeover proposal or tender offer. See "-- Descriptio AT&T Comcast Shareholder Rights Plan -- Anti-Takeover Effects."
Business Combinations Statute:	AT&T has not opted out of New York's business combinations statute, which restricts a corporation's ability to engage in certain business combinations with holders of shares of capital stock representing more than 20% of the combined voting power, in an election of directors, of a corporation's capital stock.	AT&T Comcast has opted out of Pennsylvania's business combinat statute, which restricts a corporation's ability to engage certain business combinations wi holders of shares of capital sto representing more than 20% of th combined voting power, in an ele of directors, of a corporation's capital stock.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN THE CURRENT RIGHTS OF COMCAST SHAREHOLDERS AND THE RIGHTS THOSE SHAREHOLDERS WILL HAVE AS AT&T COMCAST SHAREHOLDERS FOLLOWING THE COMPLETION OF THE TRANSACTION

	COMCAST SHAREHOLDER RIGHTS	AT&T COMCAST SHAREHOLDER RIGH
Authorized Capital Stock:	The authorized capital stock of Comcast consists of 200 million shares of Class A common stock, 2.5 billion shares of Class A Special common stock, 50 million shares of Class B common stock and 20 million shares of preferred stock.	Under the Preferred Structure, t authorized capital stock of AT&T Comcast would consist of 7.5 bil shares of Class A common stock, billion shares of Class A Specia common stock, 75 million shares Class B common stock and 20 mill shares of preferred stock. Under the Alternative Structure, authorized capital stock of AT&T Comcast would consist of 200 mil shares of Class A common stock, billion shares of Class A Specia common stock, 75 million shares Class B common stock, 7.5 billio shares of Class C common stock a million shares of preferred stoc
Voting Rights:	Comcast Class A common stock and Comcast Class B common stock are the only classes of Comcast capital stock with voting rights (1 vote per share and 15 votes per share, respectively). The voting interests of the holders of the Comcast Class A common stock and Comcast Class B common stock (currently approximately 13.4% and 86.6%, respectively) may be diluted by issuances of other classes of Comcast capital stock with voting rights.	AT&T Comcast Class A common stoc AT&T Comcast Class B common stoc under the Alternative Structure, Comcast Class C common stock wil initially be the only classes of Comcast capital stock with votin rights. Unlike the other classes of AT&T Comcast voting stock, subject to specified exceptions, the voting interests of the AT&T Comcast Cl common stock (33 1/3%) and, unde Alternative Structure, the AT&T Comcast Class A common stock (5. will not be diluted by issuances other classes of AT&T Comcast ca stock with voting rights. See "-- Description of AT&T Comc Capital Stock."
Approval Rights:	No class of Comcast capital stock has approval rights over any corporate actions, except as required by law.	Under the Preferred Structure, t holders of AT&T Comcast Class B stock, voting as a single class, have approval rights over numero specified corporate actions. Under the Alternative Structure, holders of AT&T Comcast Class A stock and AT&T Comcast Class B c stock, voting together as a sing class, would have approval right numerous specified corporate act See "-- Description of AT&T Comc

	COMCAST SHAREHOLDER RIGHTS	AT&T COMCAST SHAREHOLDER RIGH
		Capital Stock -- AT&T Comcast Cl Common Stock -- Approval Rights.
Conversions:	Each share of Comcast Class B common stock is convertible into one share of Comcast Class A common stock or Comcast Class A Special common stock.	Each share of AT&T Comcast Class common stock will be convertible one share of AT&T Comcast Class common stock, AT&T Comcast Class Special common stock or, under t Alternative Structure, AT&T Comc Class C common stock.
Election of Directors:	The entire Comcast Board is elected annually.	The term of the initial AT&T Com Board will expire on the date of 2005 annual meeting of AT&T Comc shareholders, which will be the annual meeting of AT&T Comcast shareholders held after completi the transaction. Thereafter, the entire AT&T Comcast Board will b elected annually. See "Descripti Governance Arrangements Followin AT&T Comcast Transaction -- AT&T Comcast Board of Directors."
Removal of Directors:	Comcast directors may be removed, with or without cause, by the Comcast shareholders.	AT&T Comcast directors will be a be removed only for cause by AT& Comcast shareholders.
Number of Directors:	The Comcast Board currently consists of ten directors. The Comcast Board may change the number of directors at any time.	From the completion of the trans until the 2005 annual meeting of shareholders, the AT&T Comcast B will consist of 12 directors. Se "Description of Governance Arrangements Following the AT&T Comcast Transaction -- AT&T Comc Board of Directors." Thereafter, AT&T Comcast Board will determin number of directors on the AT&T Comcast Board.
Vacancies:	Vacancies on the Comcast Board may be filled by the remaining Comcast directors or by the Comcast shareholders.	From the completion of the trans until the 2005 annual meeting of Comcast shareholders, vacancies AT&T Comcast Board will be fille described above in "Description Governance Arrangements Followin AT&T Comcast Transaction -- AT&T Comcast Board of Directors." Aft 2005 annual meeting of AT&T Comc shareholders, vacancies on the A Comcast Board may be filled by t remaining AT&T Comcast directors the AT&T Comcast shareholders.
Nominations of Directors:	Nominations of individuals for election to the Comcast Board may be made by the Comcast Board (or	Nominations of individuals for election to the AT&T Comcast Boa will be made by the Directors Nominating Committee. See

	COMCAST SHAREHOLDER RIGHTS	AT&T COMCAST SHAREHOLDER RIGH
	a committee of the Comcast Board) or by any Comcast shareholder who follows the proper notice procedures.	"Description of Governance Arrangements Following the AT&T Comcast Transaction -- Directors Nominating Committee." In additi any AT&T Comcast shareholder who follows the proper notice proced will be able to nominate individ for election to the AT&T Comcast Board.
Shareholder Approval of a Merger or Sale of All or Substantially All Assets:	Subject to certain exceptions, a merger involving Comcast or a sale of all or substantially all of Comcast's assets generally requires the approval of a majority of the Comcast Board present and voting (assuming a quorum) and the holders of a majority of the votes cast by the holders of Comcast capital stock entitled to vote (assuming a quorum).	Subject to certain exceptions, a merger involving AT&T Comcast or sale of all or substantially all AT&T Comcast's assets generally require the approval of a majori the AT&T Comcast Board present a voting (assuming a quorum) and h of a majority of the votes cast holders of AT&T Comcast capital entitled to vote (assuming a quo In addition, subject to certain exceptions, a merger or other transaction involving AT&T Comca each case that requires AT&T Com shareholder approval, will also require the approval of (1) hold AT&T Comcast Class B common stoc voting as a single class, under Preferred Structure, and (2) hol of AT&T Comcast Class A common s and AT&T Comcast Class B common voting together as a single clas under the Alternative Structure. "-- Description of AT&T Comcast Capital Stock -- AT&T Comcast Cl Common Stock -- Approval Rights. Furthermore, Sural LLC is not permitted to support a merger involving AT&T Comcast until the anniversary of the completion of transaction unless the merger is approved by disinterested AT&T C shareholders. See "-- Descriptio the AT&T Comcast Transaction Agreements -- The Support Agreem Covenants."
Action by Written Consent:	Comcast shareholders may not act by written consent in lieu of a shareholder meeting (unless such consent is unanimous).	Except as described below, AT&T Comcast shareholders will not be to act by written consent in lie shareholder meeting.

	COMCAST SHAREHOLDER RIGHTS	AT&T COMCAST SHAREHOLDER RIGH
		Holders of AT&T Comcast Class B stock and, under the Alternative Structure, AT&T Comcast Class A stock will be permitted to act b written consent in lieu of a shareholder meeting to exercise specific approval rights over ce matters. See "-- Description of Comcast Capital Stock."
Calling of Special Meetings of Shareholders:	The Chairman of the Board, the President and the Comcast Board have the right to call special meetings of shareholders.	The AT&T Comcast Board will have right to call special meetings o shareholders.
Amendment of Charter and Bylaws:	The Comcast charter may be amended with the approval of a majority of the Comcast Board present and voting (assuming a quorum) and the holders of a majority of the votes cast by the shareholders entitled to vote (assuming a quorum). The Comcast bylaws may be amended by the Comcast Board or the Comcast shareholders.	The AT&T Comcast charter will be to be amended with the approval majority of the AT&T Comcast Boa present and voting (assuming a q and the holders of a majority of votes cast by AT&T Comcast shareholders entitled to vote (assuming a quorum). However, AT Comcast charter amendments that the director, officer and commit arrangements implemented in conn with the AT&T Comcast transactio require the approval of 75% of t entire AT&T Comcast Board until earlier to occur of (1) the date which Brian L. Roberts is no lon Chairman of the AT&T Comcast Boa CEO of AT&T Comcast, and (2) Apr 2010, as well as the shareholder approval referred to in the prec sentence. The AT&T Comcast bylaws will be to be amended only by the AT&T C Board or by the AT&T Comcast shareholders with the approval o AT&T Comcast Board. Notwithstanding the foregoing, A Comcast charter and bylaw amendm that adversely affect the rights the holders of the AT&T Comcast B common stock will require the approval of the holders of the A Comcast Class B common stock, vo as a single class, under the Pre Structure and the holders of the Comcast Class A common stock and Comcast Class B common stock, vo together as a single class, unde Alternative Structure. See "-- Description of AT&T Comcast Capital Stock -- AT&T Comcast Cl Common Stock -- Approval Rights.

	COMCAST SHAREHOLDER RIGHTS	AT&T COMCAST SHAREHOLDER RIGH
Shareholder Rights Plan:	Comcast does not have a shareholder rights plan.	AT&T Comcast will have a shareho rights plan. See "-- Description AT&T Comcast Shareholder Rights The existence of this plan may d potential acquirors from making unsolicited takeover proposal or tender offer. See "-- Descriptio AT&T Comcast Shareholder Rights Plan -- Anti-Takeover Effects."
Business Combinations Statute:	Comcast has not opted out of Pennsylvania's business combinations statute, which restricts a corporation's ability to engage in certain business combinations with holders of shares of capital stock representing more than 20% of the combined voting power, in an election of directors, of a corporation's capital stock.	AT&T Comcast has opted out of Pennsylvania's business combinat statute, which restricts a corporation's ability to engage certain business combinations wi holders of shares of capital sto representing more than 20% of th combined voting power, in an ele of directors, of a corporation's capital stock.

DESCRIPTION OF AT&T COMCAST CAPITAL STOCK

This section of this document describes the material terms of the capital stock of AT&T Comcast that will be issued in the transaction under the charter and bylaws that will be in effect after the completion of the transaction. This section is not meant to be complete and is qualified in its entirety by reference to the AT&T Comcast charter and AT&T Comcast bylaws that will be in effect upon the completion of the transaction, which are more detailed than the information provided below. A copy of the AT&T Comcast charter that will be in effect upon completion of the transaction if the Preferred Structure is implemented is attached to this document as Annex C. A copy of the term sheet describing the differences between the AT&T Comcast charter that will be in effect upon completion of the transaction if the Preferred Structure is implemented and the AT&T Comcast charter that will be in effect upon completion of the transaction if the Alternative Structure is implemented is attached to this document as Annex D. A copy of the AT&T Comcast bylaws that will be in effect upon completion of the transaction is attached to this document as Annex F.

AUTHORIZED CAPITAL STOCK

Under the Preferred Structure, the authorized capital stock of AT&T Comcast will consist of 7.5 billion shares of Class A common stock, 7.5 billion shares of Class A Special common stock, 75 million shares of Class B common stock and 20 million shares of preferred stock.

Under the Alternative Structure, the authorized capital stock of AT&T Comcast will consist of 200 million shares of Class A common stock, 7.5 billion shares of Class A Special common stock, 75 million shares of Class B common stock, 7.5 billion shares of Class C common stock and 20 million shares of preferred stock.

AT&T COMCAST CLASS A COMMON STOCK

AT&T Comcast Class A Common Stock Outstanding. The outstanding shares of AT&T Comcast Class A common stock will be duly authorized, validly issued, fully paid and nonassessable.

Voting Rights. Under the Preferred Structure, on all matters submitted for a vote of the holders of all classes of AT&T Comcast voting stock, the holders of the AT&T Comcast Class A common stock in the aggregate will hold 66 2/3% of the combined voting power of the AT&T Comcast capital stock upon

completion of the transaction. Unlike the AT&T Comcast Class B common stock under the Preferred Structure, the aggregate voting interest of the AT&T Comcast Class A common stock under the Preferred Structure will be dilutable and will decrease upon the issuance of shares of any other class of AT&T Comcast capital stock with voting rights (other than any issuance of additional shares of AT&T Comcast Class B common stock). Based on the number of shares of AT&T Comcast Class A common stock anticipated to be outstanding upon completion of the AT&T Comcast transaction if the Preferred Structure is implemented, each share of AT&T Comcast Class A common stock will have [ ] of a vote upon completion of the AT&T Comcast transaction.

Under the Alternative Structure, subject to the following two sentences, on all matters submitted for a vote of the holders of all classes of AT&T Comcast voting stock, the holders of the AT&T Comcast Class A common stock and AT&T Comcast Class B common stock in the aggregate will hold 5.14% and 33 1/3%, respectively, of the combined voting power of the AT&T Comcast capital stock upon completion of the transaction, regardless of the number of shares of AT&T Comcast Class C common stock or any other class of AT&T Comcast capital stock outstanding at any time. If the number of shares of AT&T Comcast Class A common stock or AT&T Comcast Class B common stock outstanding upon completion of the transaction is reduced for any reason (e.g., by repurchase or, in the case of the AT&T Comcast Class B common stock only, conversion) after the completion of the transaction, the aggregate voting power of the applicable class of AT&T Comcast capital stock will be proportionately reduced. If additional shares of AT&T Comcast Class A common stock or AT&T Comcast Class B common stock are issued in disproportionate amounts after the completion of the transaction, the relative aggregate voting percentages of the two classes of AT&T Comcast common stock will change (based on the principle that each share of AT&T Comcast Class B common stock will be entitled to 15 times the vote of each share of AT&T Comcast Class A common stock) but the combined aggregate voting percentage of the two classes of stock will remain constant at approximately 38 47/100% (except to the extent there has been a reduction in the aggregate voting power of either class of stock as described in the preceding sentence). Under the Alternative Structure, each share of AT&T Comcast Class A common stock will have one vote and each share of AT&T Comcast Class B common stock will have 15 votes, in each case upon completion of the AT&T Comcast transaction.

Approval Rights. Under the Preferred Structure, except as required by law, holders of AT&T Comcast Class A common stock will have no specific approval rights over any AT&T Comcast corporate actions. Under the Alternative Structure, holders of AT&T Comcast Class A common stock and holders of AT&T Comcast Class B common stock, voting together as a single class, will have the approval rights described under "-- AT&T Comcast Class B Common Stock -- Approval Rights."

Conversion Rights. The shares of AT&T Comcast Class A common stock will not be convertible into shares of any other class of AT&T Comcast capital stock.

Preemptive Rights. The holders of AT&T Comcast Class A common stock will have no preemptive rights to purchase, subscribe for or otherwise acquire any unissued or treasury shares or other securities.

AT&T COMCAST CLASS B COMMON STOCK

AT&T Comcast Class B Common Stock Outstanding. The outstanding shares of AT&T Comcast Class B common stock will be duly authorized, validly issued, fully paid and nonassessable.

Voting Rights. Under the Preferred Structure, subject to the next sentence, on all matters submitted for a vote of holders of all classes of AT&T Comcast voting stock, holders of AT&T Comcast Class B common stock in the aggregate will hold 33 1/3% of the combined voting power of AT&T Comcast capital stock upon completion of the AT&T Comcast transaction, regardless of the number of shares of AT&T Comcast Class A common stock or any other class of AT&T Comcast capital stock outstanding at any time. If the number of shares of AT&T Comcast Class B common stock outstanding upon completion of the transaction is reduced for any reason (e.g., by repurchase or conversion) after the completion of the transaction, the aggregate voting power of the AT&T Comcast Class B common stock will be

proportionately reduced. Under the Preferred Structure, each share of AT&T Comcast Class B common stock will have 15 votes upon completion of the AT&T Comcast transaction.

Under the Alternative Structure, the voting rights of AT&T Comcast Class B common stock will be as described above in the second paragraph under "-- AT&T Comcast Class A Common Stock -- Voting Rights."

Approval Rights. Under the Preferred Structure, the holders of AT&T Comcast Class B common stock will have an approval right over (1) any merger of AT&T Comcast with another company or any other transaction, in each case that requires AT&T Comcast shareholder approval under applicable law, or any other transaction that would result in any person or group owning shares representing in excess of 10% of the combined voting power of the resulting or surviving corporation, or any issuance of securities (other than pursuant to director or officer stock option or purchase plans) requiring AT&T Comcast shareholder approval under the rules and regulations of any stock exchange or quotation system; (2) any issuance of AT&T Comcast Class B common stock or any securities exercisable or exchangeable for or convertible into AT&T Comcast Class B common stock; and (3) charter amendments (such as a charter amendment to opt in to any of the Pennsylvania antitakeover statutes) and other actions (such as the adoption, amendment or redemption of a shareholder rights plan) that limit the rights of holders of AT&T Comcast Class B common stock or any subsequent transferee of AT&T Comcast Class B common stock to transfer, vote or otherwise exercise rights with respect to AT&T Comcast capital stock.

Under the Alternative Structure, holders of AT&T Comcast Class B common stock and AT&T Comcast Class A common stock, voting together as a single class, will have the same approval rights that holders of AT&T Comcast Class B common stock have under the Preferred Structure. In addition, under the Alternative Structure, the approval of holders of AT&T Comcast Class B common stock and AT&T Comcast Class A common stock, voting together as a single class, will also be required to issue any AT&T Comcast Class A common stock or any securities exercisable or exchangeable for or convertible into AT&T Comcast Class A common stock.

Conversion Rights. Each share of AT&T Comcast Class B common stock will be convertible into one share of AT&T Comcast Class A common stock, AT&T Comcast Class A Special common stock or, under the Alternative Structure, AT&T Comcast Class C common stock.

Preemptive Rights. The holders of AT&T Comcast Class B common stock will have no preemptive rights to purchase, subscribe for or otherwise acquire any unissued or treasury shares or other securities.

AT&T COMCAST CLASS A SPECIAL COMMON STOCK

AT&T Comcast Class A Special Common Stock Outstanding. The outstanding shares of AT&T Comcast Class A Special common stock will be duly authorized, validly issued, fully paid and nonassessable.

Voting Rights. Except as required by law, the holders of AT&T Comcast Class A Special common stock will not be entitled to vote.

Approval Rights. Except as required by law, holders of AT&T Comcast Class A Special common stock will have no specific approval rights over any AT&T Comcast corporate actions.

Conversion Rights. The shares of AT&T Comcast Class A Special common stock will not be convertible into shares of any other class of AT&T Comcast capital stock.

Preemptive Rights. Holders of AT&T Comcast Class A Special common stock will have no preemptive rights to purchase, subscribe for or otherwise acquire any unissued or treasury shares or other securities.

XIV-12

AT&T COMCAST CLASS C COMMON STOCK

AT&T Comcast Class C common stock will be authorized and issued only if the Alternative Structure is implemented.

AT&T Comcast Class C Common Stock Outstanding. The outstanding shares of AT&T Comcast Class C common stock will be duly authorized, validly issued, fully paid and nonassessable.

Voting Rights. On all matters submitted for a vote of the holders of all classes of AT&T Comcast voting stock, holders of AT&T Comcast Class C common stock in the aggregate will hold approximately 61 53/100% of the combined voting power of AT&T Comcast capital stock upon completion of the transaction. Unlike AT&T Comcast Class A common stock and AT&T Comcast Class B common stock under the Alternative Structure, the aggregate voting interest of AT&T Comcast Class C common stock will be dilutable and will decrease upon the issuance of shares of any other class of AT&T Comcast capital stock with voting rights (other than any issuance of additional shares of AT&T Comcast Class A common stock or AT&T Comcast Class B common stock). Based on the number of shares of AT&T Comcast Class C common stock anticipated to be outstanding upon completion of the AT&T Comcast transaction, each share of AT&T Comcast Class C common stock will have [ ] of a vote upon completion of the AT&T Comcast transaction.

Approval Rights. Except as required by law, holders of AT&T Comcast Class C common stock will have no specific approval rights over any AT&T Comcast corporate actions.

Conversion Rights. The shares of AT&T Comcast Class C common stock will not be convertible into shares of any other class of AT&T Comcast capital stock.

Preemptive Rights. Holders of AT&T Comcast Class C common stock will have no preemptive rights to purchase, subscribe for or otherwise acquire any unissued or treasury shares or other securities.

AT&T COMCAST PREFERRED STOCK

AT&T Comcast Preferred Stock Outstanding. It is not anticipated that any shares of AT&T Comcast preferred stock will be outstanding upon completion of the transaction.

Blank Check Preferred Stock. Under the AT&T Comcast charter, the AT&T Comcast Board will have the authority, without shareholder approval, to create and issue one or more series of preferred stock, without par value, in whole or fractional shares, with full, limited, multiple, fractional, or no voting rights, and with such designations, preferences, qualifications, privileges, limitations, restrictions, options, conversion rights, and other special or relative rights as it so chooses. Acting under this authority, the AT&T Comcast Board could create and issue a class or series of preferred stock with rights, privileges or restrictions, and adopt a shareholder rights plan, having the effect of discriminating against an existing or prospective holder of securities as a result of that shareholder beneficially owning or commencing a tender offer for a substantial amount of AT&T Comcast voting capital stock. One of the effects of authorized but unissued and unreserved shares of capital stock may be to render more difficult or discourage an attempt by a potential acquiror to obtain control of AT&T Comcast by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of AT&T Comcast's management. The issuance of such shares of capital stock may have the effect of delaying, deferring or preventing a change in control of AT&T Comcast without any further action by the shareholders of AT&T Comcast.

Pursuant to the authority described in the preceding paragraph, prior to the completion of the transaction the AT&T Comcast Board will designate a series of preferred stock in connection with the adoption of the AT&T Comcast shareholder rights plan described below. See "-- Description of AT&T Comcast Shareholder Rights Plan."

DIVIDEND RIGHTS

The holders of AT&T Comcast Class A common stock, AT&T Comcast Class A Special common stock, AT&T Comcast Class B common stock and, under the Alternative Structure, AT&T Comcast

Class C common stock will be entitled to receive, from time to time, when, as and if declared, in the discretion of the AT&T Comcast Board, such cash dividends as the AT&T Comcast Board may from time to time determine, out of such funds as are legally available therefor, in proportion to the number of shares held by them, respectively, without regard to class.

The holders of AT&T Comcast Class A common stock, AT&T Comcast Class A Special common stock, AT&T Comcast Class B common stock and, under the Alternative Structure, AT&T Comcast Class C common stock will also be entitled to receive, from time to time, when, as and if declared by the AT&T Comcast Board, such dividends of stock of AT&T Comcast or other property as the AT&T Comcast Board may determine, out of such funds as are legally available therefor. However, stock dividends on, or stock splits of, any class of common stock will not be paid or issued unless paid or issued on all classes of AT&T Comcast common stock, in which case they will be paid or issued only in shares of that class; provided, however, that stock dividends on, or stock splits of, AT&T Comcast Class B common stock may also be paid or issued in shares of AT&T Comcast Class A Special common stock.

RIGHTS UPON LIQUIDATION

In the event of any liquidation, dissolution or winding up (either voluntary or involuntary) of AT&T Comcast, holders of AT&T Comcast Class A common stock, AT&T Comcast Class A Special common stock, AT&T Comcast Class B common stock and, under the Alternative Structure, AT&T Comcast Class C common stock will be entitled to receive the assets and funds of AT&T Comcast in proportion to the number of shares held by them, respectively, without regard to class.

TRANSFER AGENT AND REGISTRAR

EquiServe is the transfer agent and registrar for Comcast common stock and AT&T common stock as of the date of this document. [ ] is expected to be the transfer agent and registrar for AT&T Comcast common stock.

STOCK EXCHANGE LISTINGS

It is a condition to the mergers that the shares of AT&T Comcast Class A common stock, AT&T Comcast Class A Special common stock and, under the Alternative Structure, AT&T Comcast Class C common stock to be issued in the mergers have been approved for listing on The Nasdaq Stock Market, subject to official notice of issuance.

DESCRIPTION OF AT&T COMCAST SHAREHOLDER RIGHTS PLAN

Upon completion of the transaction, AT&T Comcast will adopt a shareholder rights plan pursuant to a rights agreement the material terms of which are set forth below.

The Rights. The AT&T Comcast rights agreement will provide for the declaration by the AT&T Comcast Board of a dividend of one preferred stock purchase right (the "Rights") for each outstanding share of AT&T Comcast Class A common stock, AT&T Comcast Class A Special common stock, AT&T Comcast Class B common stock and, under the Alternative Structure, AT&T Comcast Class C common stock. The dividend will be payable to holders of record as of the close of business on the record date selected by the AT&T Comcast Board, which date will occur no later than ten days after the closing date of the transaction.

The Rights will not entitle the holders to any rights of a shareholder of AT&T Comcast, such as voting and dividend rights, but the rights agreement will include standard antidilution provisions to protect the effectiveness of the Rights.

The transferability and exercisability of the Rights will depend on whether a "Distribution Date" has occurred. A Distribution Date generally means the earlier of (1) the tenth day after a public announcement that any person or group has become an "Acquiring Person" and (2) the tenth business day after the date of the commencement of a tender or exchange offer by any person that could result in such person becoming an Acquiring Person. An Acquiring Person generally means any person or group (other than any holder of AT&T Comcast Class B common stock or any of such holder's affiliates) who becomes the beneficial owner of AT&T Comcast voting capital stock that represents 10% or more of the total number of votes that the holders of AT&T Comcast capital stock are entitled to cast with respect to any matter presented for a shareholder vote.

Transferability. Prior to the Distribution Date, (1) the Rights will be evidenced by the certificates of the relevant underlying common stock and the registered holders of the common stock shall be deemed the registered holders of the associated Rights and (2) the Rights will be transferable only in connection with transfers of shares of the underlying common stock. After the Distribution

Date, the rights agent will mail separate certificates evidencing the Rights to each holder of the relevant underlying common stock as of the close of business on the Distribution Date. Thereafter, the Rights will be transferable separately from the common stock.

Exercisability. The Rights will not be exercisable prior to the Distribution Date. After the Distribution Date, but prior to the occurrence of an event described below under "-- 'Flip In' Feature" or "-- 'Flip Over' Feature," each Right will be exercisable to purchase for a price equal to approximately five times the market price for a share of AT&T Comcast Class A common stock (under the Preferred Structure) or AT&T Comcast Class C common stock (under the Alternative Structure) at the time of adoption of the shareholder rights plan one one-thousandth of a share of AT&T Comcast Series A Participating Cumulative Preferred Stock.

"Flip In" Feature. If any person becomes an Acquiring Person, each holder of a Right, except for the Acquiring Person or certain affiliated persons, will have the right to acquire, instead of one one-hundredth of a share of AT&T Comcast Series A Participating Cumulative Preferred Stock, a number of shares of AT&T Comcast Class A common stock (under the Preferred Structure) or AT&T Comcast Class C common stock (under the Alternative Structure), in each case having a market value equal to twice the exercise price of the Right. For example, if an initial purchase price of $200 were in effect on the date that the flip in feature of the Rights were exercised, any holder of a Right, except for the person that has become an Acquiring Person or certain affiliated persons, could exercise his or her Right by paying to AT&T Comcast $200 in order to receive shares of AT&T Comcast Class A common stock (under the Preferred Structure) or AT&T Comcast Class C common stock (under the Alternative Structure) having a value equal to $400.

"Exchange" Feature. At any time after a person becomes an Acquiring Person (but before any person becomes the beneficial owner of AT&T Comcast voting capital stock representing 50% or more of

XIV-15

the total number of votes which the holders of AT&T Comcast capital stock are entitled to cast with respect to any matter presented for a shareholder vote), the AT&T Comcast Board may exchange all or some of the Rights, except for those held by any Acquiring Person or certain affiliated persons, for AT&T Comcast Class A common stock (under the Preferred Structure) at an exchange ratio of one share of AT&T Comcast Class A common stock for each Right or for AT&T Comcast Class C common stock (under the Alternative Structure) at an exchange ratio of one share of AT&T Comcast Class C common stock for each Right. Use of this exchange feature means that eligible Rights holders would not have to pay cash before receiving shares of either AT&T Comcast Class A common stock or AT&T Comcast Class C common stock, as applicable.

"Flip Over" Feature. If, after a person becomes an Acquiring Person, (1) AT&T Comcast is involved in a merger or other business combination in which it is not the surviving corporation or any of its common stock is exchanged for other securities or assets or (2) AT&T Comcast and/or one or more of its subsidiaries sell or transfer assets or earning power aggregating 50% or more of the assets or earning power of AT&T Comcast and/or its subsidiaries, then each Right will entitle the holder, except for any Acquiring Person or certain affiliated persons, to purchase a number of shares of common stock of the other party to the transaction having a value equal to twice the exercise price of the Right.

Redemption of Rights. The AT&T Comcast Board may redeem all of the Rights at a price of $0.001 per Right at any time prior to the time that any person becomes an Acquiring Person. The right to exercise will terminate upon redemption, and at that time, the holders of the Rights will have the right to receive only the redemption price for each Right they hold.

Amendment of Rights. At any time before a person becomes an Acquiring Person, the terms of the rights agreement may be amended in any respect by AT&T Comcast without the approval of the holders of the Rights. However, after the date any person becomes an Acquiring Person, the rights agreement may not be amended in any manner that would adversely affect the interests of the holders of the Rights (other than any person who has become an Acquiring Person and certain affiliated persons) or cause the Rights to be redeemable at that time.

Expiration of Rights. If not previously exercised or redeemed, the Rights will expire on the tenth anniversary of the completion of the transaction, unless earlier exchanged or redeemed.

Anti-Takeover Effects. The Rights have anti-takeover effects. Once the Rights have become exercisable, in most cases they will cause substantial dilution to a person who attempts to acquire or merge with AT&T Comcast. Accordingly, the existence of the Rights may deter potential acquirors from making a takeover proposal or a tender offer. The Rights should not interfere with any merger or other business combination approved by the AT&T Comcast Board because the Board may either redeem the Rights or amend the rights agreement so that a transaction it approves would not cause the Rights to become exercisable.

Taxation. The dividend of the Rights will not be taxable to AT&T Comcast shareholders, but shareholders may recognize taxable income if the Rights become exercisable as set forth above.

Series A Preferred Stock. In connection with the creation of the Rights, the AT&T Comcast Board will authorize the issuance of shares of AT&T Comcast preferred stock designated as AT&T Comcast Series A Participating Cumulative Preferred Stock. AT&T Comcast will design the dividend, liquidation, voting and redemption features of the AT&T Comcast Series A Participating Cumulative Preferred Stock so that the value of one-thousandth of a share of AT&T Comcast Series A Participating Cumulative Preferred Stock approximates the value of one share of AT&T Comcast Class A common stock (under the Preferred Structure) or one share of AT&T Comcast Class C common stock (under the Alternative Structure). Shares of AT&T Comcast Series A Participating Cumulative Preferred Stock will be purchasable only after the Rights have become exercisable. The rights of the AT&T Comcast Series A Participating Cumulative Preferred Stock as to dividends, liquidation and voting, and in the event of mergers or consolidations, are protected by customary antidilution provisions.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this document referring to Comcast, AT&T and AT&T Comcast, and they may also be made a part of this document by reference to other documents filed with the SEC by Comcast and AT&T, which is known as "incorporation by reference." These statements may include statements regarding the period following completion of the transaction.

Words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and words and terms of similar substance used in connection with any discussion of future operating or financial performance, or the transaction, identify forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to the risks related to the businesses of Comcast and AT&T, the factors relating to the transaction discussed under "Summary and Overview of the Transactions -- Risk Factors," among others, could cause actual results to differ materially from those described in the forward-looking statements. Shareholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this document or as of the date of any document incorporated by reference in this document, as applicable. None of Comcast, AT&T or AT&T Comcast is under any obligation, and each expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

For additional information about factors that could cause actual results to differ materially from those described in the forward-looking statements, please see the annual reports on Form 10-K and the quarterly reports on Form 10-Q that Comcast and AT&T have filed with the SEC.

All subsequent forward-looking statements attributable to Comcast, AT&T or AT&T Comcast or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

LEGAL MATTERS

The validity of the shares of AT&T Comcast common stock to be issued to Comcast shareholders and AT&T Broadband shareholders in the mergers will be passed upon for AT&T Comcast by Wolf, Block, Schorr and Solis-Cohen LLP and Drinker Biddle & Reath LLP. Davis Polk & Wardwell, counsel for Comcast, and Wachtell, Lipton, Rosen & Katz, counsel for AT&T, will pass upon certain federal income tax consequences of the transaction for Comcast and AT&T, respectively.

EXPERTS

The financial statements and the related financial statement schedules of Comcast incorporated in this document by reference from Comcast's Annual Report on Form 10-K for the year ended December 31, 2000 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports, which are incorporated herein by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of QVC, Inc. and subsidiaries for the year ended December 31, 1998 have been audited by KPMG LLP, independent auditors, as stated in their report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The balance sheet of AT&T Comcast as of December 7, 2001 included in this document has been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, appearing herein, and is so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements of AT&T Corp. included in this Registration Statement, except as they relate to Liberty Media Group, have been audited by PricewaterhouseCoopers LLP, independent accountants, whose report thereon appears herein, and insofar as they relate to Liberty Media Group, by KPMG LLP, independent accountants, whose report thereon is incorporated by reference. Such financial statements have been so included in reliance on the reports of such independent accountants, given on the authority of such firms as experts in auditing and accounting.

The financial statements of AT&T Broadband Group as of December 31, 2000 and 1999, and for the year ended December 31, 2000 and for the ten-month period ended December 31, 1999 included in this Registration Statement have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The financial statements of AT&T Consumer Services Group as of December 31, 2000 and 1999 and for each of the three years in the period ended December 31, 2000 included in this Registration Statement have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The combined balance sheets of Liberty Media Group ("New Liberty or Successor") as of December 31, 2000 and 1999, and the related combined statements of operations and comprehensive earnings, net attributed assets, and cash flows for the year ended December 31, 2000 and for the period from March 1, 1999 to December 31, 1999 (Successor periods) and from January 1, 1999 to February 28, 1999 and for the year ended December 31, 1998 (Predecessor periods) which appear as an exhibit to the Annual Report on Form 10-K/A, dated April 17, 2001, of AT&T, have been incorporated by reference herein in reliance upon the report, dated February 26, 2001, of KPMG LLP, independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The KPMG LLP report dated February 26, 2001 refers to the fact that the financial statements should be read in conjunction with the consolidated financial statements of AT&T.

In addition, the KPMG LLP report contains an explanatory paragraph that states that, effective March 9, 1999, AT&T, the owner of the assets comprising New Liberty, acquired Tele-Communications, Inc., the owner of the assets comprising Old Liberty, in a business combination accounted for as a purchase. As a result of the acquisition, the combined financial information for the periods after the acquisition is presented on a different cost basis than that for the periods before the acquisition and, therefore, is not comparable.

The consolidated balance sheets of Tele-Communications, Inc. and its subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations and comprehensive earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, which appear in the Current Report on Form 8-K, dated March 28, 2001, of AT&T have been incorporated by reference herein in reliance upon the report dated March 9, 1999, of KPMG LLP, independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The consolidated balance sheets of MediaOne Group, Inc. as of December 31, 1999 and 1998, and the related consolidated statements of operations, shareowners' equity and cash flows for each of the three years in the period ended December 31, 1999, filed in AT&T's Form 8-K dated March 28, 2001, incorporated by reference in this registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and are incorporated by reference herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said report.

CHAPTER FIFTEEN
ADDITIONAL INFORMATION FOR SHAREHOLDERS

FUTURE SHAREHOLDER PROPOSALS

COMCAST

Comcast will hold an annual meeting of shareholders in the year 2003 only if the transaction has not already been completed. If such meeting is held, the deadline for receipt of a proposal to be considered for inclusion in Comcast's proxy statement for the 2003 annual meeting is . Notice of a proposal to be considered by shareholders at the 2003 annual meeting but not included in Comcast's proxy statement must be received between and (however, if the date of the annual meeting is more than 30 days before or after , then such notice must be received not later than ten days following the day on which notice of the date of the meeting was mailed or on which public announcement of the date of the meeting was made, whichever occurs first). Any such notice of a proposal should be directed to the attention of Stanley Wang, Executive Vice President and Secretary, Comcast Corporation, 1500 Market Street, 35th floor, Philadelphia, Pennsylvania 19102-2148.

AT&T

The deadline for receipt of a proposal to be considered for inclusion in AT&T's proxy statement for the 2003 annual meeting is . Notice of a proposal to be considered by shareholders at the 2003 annual meeting but not included in AT&T's proxy statement must be received no later than 5:00 p.m. E.S.T. on . Any such notice of a proposal should be sent via registered, certified or express mail to Vice President - Law and Secretary, AT&T Corp., 32 Avenue of the Americas, New York, New York 10013-2412.

WHERE YOU CAN FIND MORE INFORMATION

Comcast and AT&T file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information Comcast and AT&T file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Comcast's and AT&T's SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at http://www.sec.gov.

AT&T Comcast filed a registration statement on Form S-4 to register with the SEC the AT&T Comcast common stock to be issued to Comcast and AT&T Broadband shareholders in the mergers. This document is a part of that registration statement and constitutes a prospectus of AT&T Comcast in addition to being a proxy statement of Comcast and AT&T for their respective meetings. As allowed by SEC rules, this document does not contain all the information you can find in the registration statement or the exhibits to the registration statement.

The SEC allows Comcast and AT&T to "incorporate by reference" information into this document, which means that Comcast and AT&T can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this document, except for any information superseded by information in, or incorporated by reference in, this document. This document incorporates by reference the documents set forth below that Comcast and AT&T have previously filed with the SEC. These documents contain important information about the companies and their finances.

COMCAST SEC FILINGS (FILE NO. 1-15471)	PERIOD
Annual Report on Form 10-K	Year ended December 31, 2000
Quarterly Report on Form 10-Q	Quarters ended March 31, 2001, June 30, 2001 and September 30, 2001
Current Reports on Form 8-K	Filed on January 4, 2001, July 9, 2001 and December 20, 2001

AT&T SEC FILINGS (FILE NO. 1-1105)	PERIOD
Annual Report on Form 10-K	Year ended December 31, 2000
Quarterly Report on Form 10-Q	Quarters ended March 31, 2001, June 30, 2001 and September 30, 2001
Current Reports on Form 8-K	Filed on February 16, 2001, March 1, 2001, March 28, 2001, March 29, 2001 (as amended on April 11, 2001), April 19, 2001, April 27, 2001, May 22, 2001, June 19, 2001, July 19, 2001, July 24, 2001, September 24, 2001, October 23, 2001, December 21, 2001, January 4, 2002 and February 5, 2002

Comcast and AT&T are also incorporating by reference into this document additional documents that Comcast and AT&T have filed with the SEC between the date of this document and the date of the meetings.

Comcast has supplied all information contained or incorporated by reference in this document relating to Comcast and AT&T has supplied all information contained or incorporated by reference in this document relating to AT&T, AT&T Broadband or AT&T's broadband business.

If you are a shareholder, Comcast and AT&T may have sent you some of the documents incorporated by reference, but you can obtain any of them through Comcast, AT&T or the SEC. Documents incorporated by reference in this document are available from Comcast and AT&T without charge, excluding all exhibits unless Comcast and AT&T have specifically incorporated by reference an exhibit in this document. Shareholders may obtain documents incorporated by reference in this document by requesting them in writing or by telephone from the Secretary of the appropriate company at the following address:

Comcast Corporation	AT&T Corp.
1500 Market Street	32 Avenue of the Americas
Philadelphia, Pennsylvania 19102-2148	New York, New York 10013-2412
Tel: (215) 665-1700	Tel: (212) 387-5400
Attn: Office of the Corporate Secretary	Attn: Office of the Corporate Secretary

IF YOU WOULD LIKE TO REQUEST DOCUMENTS FROM COMCAST OR AT&T, PLEASE DO SO BY [ ], 2002 TO RECEIVE THEM BEFORE YOUR MEETING.

You can also get more information by visiting Comcast's web site at www.comcast.com and AT&T's web site at www.att.com. Web site materials are not part of this document.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS DOCUMENT TO VOTE ON THE TRANSACTION AT YOUR MEETING. COMCAST AND AT&T HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT FROM WHAT IS CONTAINED IN THIS DOCUMENT. THIS DOCUMENT IS DATED [ ], 2002. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS DOCUMENT IS ACCURATE AS OF ANY DATE OTHER THAN THAT DATE, AND NEITHER THE MAILING OF THIS DOCUMENT TO SHAREHOLDERS NOR THE ISSUANCE OF AT&T COMCAST COMMON STOCK IN THE MERGERS OR AT&T CONSUMER SERVICES GROUP TRACKING STOCK AS A DIVIDEND TO AT&T SHAREHOLDERS OR OTHERWISE SHALL CREATE ANY IMPLICATION TO THE CONTRARY.

ANNEXES

ANNEX A

AGREEMENT AND PLAN OF MERGER
DATED AS OF
DECEMBER 19, 2001
BY AND AMONG
AT&T CORP.,
AT&T BROADBAND CORP.,
COMCAST CORPORATION,
AT&T BROADBAND ACQUISITION CORP.,
COMCAST ACQUISITION CORP.
AND
AT&T COMCAST CORPORATION

TABLE OF CONTENTS

		PAGE
ARTICLE 1	DEFINITIONS	
Section 1.01.	Definitions	A-1
ARTICLE 2	PARENT AND MERGER SUBS	
Section 2.01.	Organization of Parent	A-15
Section 2.02.	Directors and Officers of Parent	A-15
Section 2.03.	Organization of Merger Subs	A-15
Section 2.04.	Actions of Comcast and AT&T	A-15

Section 2.05. Rights Plan.......... A-16

ARTICLE 3 THE MERGERS

Section 3.01. The AT&T Broadband Merger.......... A-16
Section 3.02. The Comcast Merger.......... A-16
Section 3.03. Certificate and Articles of Incorporation; Bylaws.......... A-16
Section 3.04. Directors and Officers of the Surviving Corporations.......... A-17
Section 3.05. Alternative Structure.......... A-17

ARTICLE 4 CONVERSION OF SECURITIES

Section 4.01. Conversion of Securities.......... A-17
Section 4.02. Exchange of Certificates.......... A-20
Section 4.03. Section 355(e) Top-up.......... A-25
Section 4.04. Additional Payment.......... A-25
Section 4.05. Additional Exchange Arrangements.......... A-26

ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF COMCAST

Section 5.01. Corporate Existence and Power.......... A-26
Section 5.02. Corporate Authorization.......... A-26
Section 5.03. Governmental Authorization.......... A-26
Section 5.04. Non-contravention.......... A-27
Section 5.05. Capitalization.......... A-27
Section 5.06. Subsidiaries.......... A-28
Section 5.07. SEC Filings.......... A-28
Section 5.08. Financial Statements.......... A-29
Section 5.09. Information Supplied.......... A-29
Section 5.10. Absence of Certain Changes.......... A-29
Section 5.11. No Undisclosed Material Liabilities.......... A-29
Section 5.12. Compliance with Laws and Court Orders.......... A-30
Section 5.13. Litigation.......... A-30
Section 5.14. Finders' Fees.......... A-30
Section 5.15. Opinion of Financial Advisor.......... A-30
Section 5.16. Taxes.......... A-30
Section 5.17. Tax Opinions.......... A-31

Section 5.18.	Employee Benefit Plans and Labor Matters	A-31
Section 5.19.	Environmental Matters	A-32
Section 5.20.	Intellectual Property	A-33

		PAGE
Section 5.21.	Contracts	A-33
Section 5.22.	Vote Required	A-34
Section 5.23.	Antitakeover Statutes; Charter and Bylaw Provisions	A-34
Section 5.24.	AT&T Securities	A-34
Section 5.25.	Transactions with Affiliates	A-34
Section 5.26.	Investments	A-34
Section 5.27.	No Approval Rights	A-34
ARTICLE 6	REPRESENTATIONS AND WARRANTIES OF AT&T	
Section 6.01.	Corporate Existence and Power	A-34
Section 6.02.	Corporate Authorization	A-35
Section 6.03.	Governmental Authorization	A-35
Section 6.04.	Non-contravention	A-36
Section 6.05.	Capitalization	A-36
Section 6.06.	AT&T Broadband and AT&T Broadband Subsidiaries	A-37
Section 6.07.	SEC Filings	A-38
Section 6.08.	Financial Statements	A-38
Section 6.09.	Information Supplied	A-38
Section 6.10.	Absence of Certain Changes	A-39
Section 6.11.	No Undisclosed Material Liabilities	A-39
Section 6.12.	Compliance with Laws and Court Orders	A-39
Section 6.13.	Litigation	A-39
Section 6.14.	Finders' Fees	A-40
Section 6.15.	Opinion of Financial Advisor	A-40

Section 6.16. Taxes.. A-40
Section 6.17. Tax Opinions... A-40
Section 6.18. Employee Benefit Plans and Labor Matters................... A-40
Section 6.19. Environmental Matters...................................... A-42
Section 6.20. Intellectual Property...................................... A-43
Section 6.21. Contracts.. A-43
Section 6.22. AT&T Shareholder Vote...................................... A-44
Section 6.23. Antitakeover Statutes...................................... A-44
Section 6.24. Comcast Securities... A-44
Section 6.25. TWE; At Home... A-44
Section 6.26. Intercompany Transactions.................................. A-45
Section 6.27. Sufficiency of Transferred Assets.......................... A-45
Section 6.28. Investments.. A-46

ARTICLE 7 COVENANTS OF COMCAST
Section 7.01. Comcast Interim Operations................................. A-46
Section 7.02. Comcast Shareholders' Meeting; Proxy Material.............. A-48
Section 7.03. Voting Agreement... A-48

ARTICLE 8 COVENANTS OF AT&T
Section 8.01. AT&T Broadband Interim Operations.......................... A-49
Section 8.02. AT&T Shareholders' Meeting; Proxy Material................. A-53
Section 8.03. No Solicitation.. A-53

PAGE

Section 8.04. Ancillary Agreements....................................... A-55
Section 8.05. Neutrality Agreement....................................... A-55
Section 8.06. Broadband Employees.. A-56
Section 8.07. AT&T Post-Signing Equity Awards............................ A-56
Section 8.08. Redemption of TCI Pacific Preferred Stock.................. A-56

Section 8.09. Note Consent Process........ A-56

ARTICLE 9 COVENANTS OF AT&T, COMCAST AND PARENT

Section 9.01. Best Efforts........ A-56
Section 9.02. Joint Proxy Statement; Registration Statement........ A-57
Section 9.03. Public Announcements........ A-58
Section 9.04. Further Assurances........ A-58
Section 9.05. Access to Information........ A-58
Section 9.06. Tax-free Transactions........ A-59
Section 9.07. Affiliates........ A-59
Section 9.08. Governance and Other Matters........ A-59
Section 9.09. Notices of Certain Events........ A-59
Section 9.10. Section 16 Matters........ A-60
Section 9.11. Director and Officer Liability........ A-60
Section 9.12. Listing of Stock........ A-61
Section 9.13. Employee Matters........ A-61
Section 9.14. Employment Agreements........ A-62
Section 9.15. Interim Finance Committee........ A-62
Section 9.16. TOPRS........ A-63
Section 9.17. Consideration........ A-63
Section 9.18. QUIPS........ A-64
Section 9.19. Index Stock........ A-66
Section 9.20. Use of Name and Logo........ A-66
Section 9.21. Exchange Agreement........ A-66
Section 9.22. Significant Excepted Transactions........ A-66
Section 9.23. Comcast's AT&T Stock........ A-67

ARTICLE 10 CONDITIONS TO THE MERGERS

Section 10.01. Conditions to the Obligations of Each Party........ A-68
Section 10.02. Conditions to the Obligations of AT&T........ A-69
Section 10.03. Conditions to the Obligations of Comcast........ A-70

ARTICLE 11 TERMINATION

Section 11.01. Termination........ A-70

Section 11.02.	Effect of Termination.....................................	A-71
Section 11.03.	Fees and Expenses...	A-72
ARTICLE 12	MISCELLANEOUS	
Section 12.01.	Notices...	A-73
Section 12.02.	Survival..	A-74
Section 12.03.	Amendments; No Waivers....................................	A-74
Section 12.04.	Successors and Assigns....................................	A-74

		PAGE
Section 12.05.	Governing Law...	A-75
Section 12.06.	Jurisdiction..	A-75
Section 12.07.	WAIVER OF JURY TRIAL......................................	A-75
Section 12.08.	Counterparts; Effectiveness...............................	A-75
Section 12.09.	Entire Agreement; No Third Party Beneficiaries.............	A-75
Section 12.10.	Severability..	A-75
Section 12.11.	Specific Performance......................................	A-75
Section 12.12.	Schedules...	A-76

EXHIBITS AND SCHEDULES

Exhibit A -- Form of Support Agreement

Exhibit B -- Form of Rule 145 Affiliate Letter

Exhibit C -- Form of Separation and Distribution Agreement

Exhibit D-1 -- Form of Parent Charter (Preferred Structure)

Exhibit D-2 -- Term Sheet for Parent Charter (Alternative Structure)
Exhibit D-3 -- Form of Parent Bylaws

Exhibit D-4 -- Form of Comcast Articles Amendment

Exhibit E -- AT&T Broadband Financial Statements (12/31/00 and 9/30/01)

Exhibit F -- Admission Agreement

AT&T Disclosure Schedule

Comcast Disclosure Schedule

A-iv

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (this "AGREEMENT"), dated as of December 19, 2001, by and among AT&T Corp., a New York corporation ("AT&T"), AT&T Broadband Corp., a Delaware corporation and a wholly owned subsidiary of AT&T ("AT&T BROADBAND"), Comcast Corporation, a Pennsylvania corporation ("COMCAST"), AT&T Comcast Corporation, a Pennsylvania corporation ("PARENT"), AT&T Broadband Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Parent ("AT&T BROADBAND MERGER SUB"), and Comcast Acquisition Corp., a Pennsylvania corporation and a wholly owned subsidiary of Parent ("COMCAST MERGER SUB").

WHEREAS, AT&T Broadband is a newly formed wholly owned subsidiary of AT&T that will hold, directly or indirectly, all of the assets and liabilities of the AT&T Broadband Group in accordance with the terms and conditions of the Separation and Distribution Agreement (as defined below);

WHEREAS, the Boards of Directors of AT&T, AT&T Broadband and Comcast and each of the other parties hereto have approved this Agreement and deem it advisable and in the best interests of their respective shareholders to consummate the transactions contemplated hereby on the terms and conditions set forth herein;

WHEREAS, immediately prior to the execution and delivery of this Agreement, as a condition and inducement to AT&T's willingness to enter into this Agreement, each of Sural LLC ("COMCAST SHAREHOLDER"), Mr. Brian L. Roberts, Comcast and Parent has executed and delivered to AT&T the support agreement, dated as of the date hereof, in the form attached as Exhibit A (the "SUPPORT AGREEMENT");

WHEREAS, it is intended that, for United States federal income tax purposes, the Mergers (as defined below) shall qualify as tax-free exchanges described in Section 351 of the Internal Revenue Code of 1986, as amended (the "CODE"), and the rules and regulations promulgated thereunder;

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth below, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

SECTION 1.01. Definitions. (a) The following terms, as used herein, have the following meanings:

"1933 ACT" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"1934 ACT" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"A SHAREHOLDER APPROVAL" means the approval, by a majority of the votes cast, of the holders of the Comcast Class A Common Stock (voting as a class at a meeting at which a quorum is present) of this Agreement and the transactions contemplated by this Agreement and the Articles Amendment.

"ADDITIONAL COMMERCIAL AGREEMENTS" has the meaning set forth in the Separation and Distribution Agreement.

"ADMISSION AGREEMENT" means the Instrument of Admission, in the form attached hereto as Exhibit F, pursuant to which AT&T and Parent will become parties to the Exchange Agreement.

"AFFILIATE" means, with respect to any Person, any other Person, directly or indirectly, controlling, controlled by, or under common control with such Person.

"AGGREGATE FORMER EMPLOYEE BROADBAND OPTION AMOUNT" means:

(a) if the AT&T Common Stock trades "ex-distribution" or "when issued (to give effect to the Distribution)" on the NYSE on or immediately prior to the Distribution Date, the excess of (i) the product of the aggregate number of shares of AT&T Broadband Common Stock subject to Broadband Options granted pursuant to Section 5.3(b) of the Employee Benefits Agreement, multiplied by the Broadband Common Stock Value (as defined in the Employee Benefits Agreement), over (ii) the aggregate exercise price of such Broadband Options; and

(b) if the AT&T Common Stock does not trade "ex-distribution" or "when issued (to give effect to the Distribution)" on the NYSE on or immediately prior to the Distribution Date, the product of

(i) a fraction, the numerator or which is the product of the Comcast Stock Price multiplied by the Preliminary Exchange Ratio, and the denominator of which is the AT&T Closing Stock Value; times

(ii) the excess of (i) the product of the aggregate number of shares of AT&T Common Stock subject to unexercised AT&T Options held by Former Employees (both as defined in the Employee Benefits Agreement) immediately prior to the Distribution Date, times the AT&T Closing Stock Value, over (ii) the aggregate exercise price of such AT&T Options.

"ANCILLARY AGREEMENTS" has the meaning set forth in the Separation and Distribution Agreement.

"AOL" means AOL Time Warner Inc., a Delaware corporation.

"ARTICLES AMENDMENT" mean the articles of amendment to the articles of incorporation of Comcast in the form attached as Exhibit D-4.

"AT HOME" means At Home Corporation, a Delaware corporation and/or its bankruptcy estate, as the case may be.

"AT&T 10-K" means AT&T's annual report on Form 10-K for the fiscal year ended December 31, 2000.

"AT&T BALANCE SHEET" means the consolidated balance sheet of AT&T and its consolidated Subsidiaries as of December 31, 2000 and the footnotes thereto, as set forth in the AT&T 10-K.

"AT&T BROADBAND ACQUISITION PROPOSAL" means any offer or proposal for, or any indication of interest in (i) a merger, consolidation, share exchange, business combination, reorganization, recapitalization or other similar transaction involving AT&T, the AT&T Broadband Group, AT&T Broadband or any AT&T

Significant Broadband Subsidiary, (ii) the acquisition, directly or indirectly, of (A) an equity interest representing greater than 25% of the voting securities of AT&T, the AT&T Broadband Group, AT&T Broadband or any AT&T Significant Broadband Subsidiary or (B) assets, securities or ownership interests representing an amount equal to or greater than 25% of the consolidated assets or EBITDA generating power of the AT&T Broadband Group, or (iii) any transaction (x) the entering into or the consummation of which would reasonably be expected to be inconsistent in any material respect with the consummation of the transactions contemplated by this Agreement and the other Transaction Agreements, on the terms set forth in this Agreement and the other Transaction Agreements, as the case may be, or (y) that would reasonably be expected to prevent or materially delay, impede or adversely affect the consummation of the transactions contemplated by this Agreement and the other Transaction Agreements other than (X) in the case of (i) or (ii), (I) the transactions contemplated by this Agreement, (II) transactions permitted pursuant to Section 8.01 or (III) transactions that would not directly or indirectly (other than indirectly by virtue of the ownership of securities of AT&T) include any of the businesses, assets or liabilities of, or materially affect the business of, AT&T (to the extent relating to the AT&T Broadband Group), the AT&T Broadband Group, AT&T Broadband or any AT&T Broadband Subsidiary and (Y) in the case of (i), (ii) or (iii), a transaction that does not involve the AT&T Broadband Group, AT&T Broadband or any AT&T Broadband Subsidiary (except to the extent

relating to (A) the transactions contemplated by this Agreement and the other Transaction Agreements or (B) a spin-off of the AT&T Broadband Group substantially pro rata to the holders of AT&T Common Stock not in connection with any other transaction involving the AT&T Broadband Group) that in any such case is consistent in all material respects with the consummation of the transactions contemplated by this Agreement and the other Transaction Agreements, on the terms set forth in this Agreement and the other Transaction Agreements, as the case may be; provided that each of the parties to such transaction agrees that AT&T and AT&T Broadband shall honor the terms and conditions of this Agreement (any transaction referred to in this clause (Y), an "EXCEPTED TRANSACTION").

"AT&T BROADBAND ASSETS" has the meaning set forth in the Separation and Distribution Agreement.

"AT&T BROADBAND BALANCE SHEET" means the unaudited combined balance sheet of the AT&T Broadband Group as of September 30, 2001 and the footnotes thereto, as attached as Exhibit E.

"AT&T BROADBAND BALANCE SHEET DATE" means September 30, 2001.

"AT&T BROADBAND BUSINESS" has the meaning set forth in the Separation and Distribution Agreement.

"AT&T BROADBAND COMMON STOCK" means the Common Stock, par value $0.01 per share, of AT&T Broadband, which, subject to the terms of the Separation and Distribution Agreement, will be distributed on a one-for-one basis on the Distribution Date to holders of shares of AT&T Common Stock.

"AT&T BROADBAND ENTITIES" has the meaning set forth in the Separation and Distribution Agreement.

"AT&T BROADBAND FINANCIAL STATEMENTS" means the unaudited combined financial statements of the AT&T Broadband Group as of and for the periods ending December 31, 2000 and September 30, 2001 and the footnotes thereto, as attached as Exhibit E.

"AT&T BROADBAND GROUP" has the meaning set forth in the Separation and Distribution Agreement.

"AT&T BROADBAND MATERIAL ADVERSE EFFECT" means a material adverse effect on the financial condition, assets or results of operations of the AT&T Broadband Group, taken as a whole, excluding any such effect resulting from or arising in connection with (i) changes or conditions generally affecting the industries in which the AT&T Broadband Group (including AT&T Broadband and all the AT&T Broadband Subsidiaries) operate, (ii) changes in general economic, regulatory or political conditions, or (iii) the announcement of this Agreement or of the transactions contemplated hereby.

"AT&T BROADBAND SUBSIDIARY" has the meaning set forth in the Separation and Distribution Agreement.

"AT&T CLOSING STOCK VALUE" has the meaning set forth in the Employee Benefits Agreement.

"AT&T COMMON STOCK" means the Common Stock, par value $1.00 per share, of AT&T.

"AT&T COMMUNICATIONS BUSINESS" has the meaning set forth in the Exchange Agreement.

"AT&T COMMUNICATIONS GROUP" has the meaning set forth in the Separation and Distribution Agreement.

"AT&T CONFIDENTIALITY AGREEMENT" means the confidentiality letter agreement, dated September 28, 2001, as amended, by and between AT&T and Comcast providing for, among other things, confidential treatment of information provided by AT&T to Comcast.

"AT&T DISCLOSURE SCHEDULE" means the AT&T disclosure schedule delivered to Comcast concurrently herewith.

"AT&T EMPLOYEES" has the meaning set forth in the Separation and Distribution Agreement.

"AT&T ESPP" means the AT&T Employee Stock Purchase Plan.

"AT&T EXCHANGEABLE PREFERRED STOCK" has the meaning set forth in the definition of Exchange Amount.

"AT&T GROUP" means AT&T together with the AT&T Subsidiaries.

"AT&T REGISTRATION RIGHTS AGREEMENT" means the Registration Rights Agreement dated as of June 11, 2001 between Comcast PC Investments Inc. and AT&T.

"AT&T SIGNIFICANT BROADBAND SUBSIDIARY" means any AT&T Broadband Subsidiary that would have constituted a "significant subsidiary" (within the meaning of Rule 1-02 of Regulation S-X of the SEC) of the AT&T Broadband Group as of December 31, 2000 if, as of such date, the AT&T Broadband Group were a reporting company under the 1934 Act; provided that for purposes hereof, the phrase "EBITDA" will be substituted for the phrase "income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle" in Rule 1-02(w)(3).

"AT&T SIGNIFICANT SUBSIDIARY" means any AT&T Subsidiary that would constitute a "significant subsidiary" (within the meaning of Rule 1-02 of Regulation S-X of the SEC) as of December 31, 2000; provided that for purposes hereof, the phrase "EBITDA" will be substituted for the phrase "income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle" in Rule 1-02(w)(3).

"AT&T SUBSIDIARY" means a Subsidiary of ATT provided that notwithstanding the Distribution, AT&T Broadband and the AT&T Broadband Subsidiaries will be treated as AT&T Subsidiaries through the Effective Time but not thereafter.

"AVERAGE CLASS A PRICE" means the average (rounded to the nearest 1/10,000) of the Trading Values for the 10 Trading Days randomly selected by lot by AT&T and Comcast from the Trading Days occurring during the Pricing Period, which 10 Trading Days shall be the same as the 10 Trading Days used to calculate the Average Class A Special Price.

"AVERAGE CLASS A SPECIAL PRICE" means the average (rounded to the nearest 1/10,000) of the Trading Values for the 10 Trading Days randomly selected by lot by AT&T and Comcast from the Trading Days occurring during the Pricing Period.

"AVERAGE CLASS C PRICE" means the average (rounded to the nearest 1/10,000) of the Trading Values for the 10 Trading Days randomly selected by lot by AT&T and Comcast from the Trading Days occurring during the Pricing Period, which 10 Trading Days shall be the same as the 10 Trading Days used to calculate the Average Class A Special Price.

"BENEFIT ARRANGEMENT" means, with respect to any Person, any employment, severance or similar contract or arrangement (whether or not written) or any plan, policy, fund, program or arrangement or contract providing for compensation, bonus, profit-sharing, stock option, or other stock-related rights or other forms of incentive or deferred compensation, vacation benefits, insurance coverage (including any self-insured arrangements), health or medical benefits, disability benefits, workers' compensation, supplemental unemployment benefits, severance benefits and post-employment or retirement benefits (including compensation, pension, health, medical or life insurance or other benefits) that (i) is not an Employee Plan, (ii) is entered into, maintained, administered or contributed to or required to be contributed to, as the case may be, by such Person or any of its Affiliates and (iii) covers any employee or former employee of such Person or any of its Subsidiaries employed in the United States.

"BROADBAND BENEFIT ARRANGEMENT" means a Benefit Arrangement that is a Broadband Benefit Plan as defined in the Employee Benefits Agreement.

"BROADBAND DEFERRED COMPENSATION PLAN" means a Deferred Compensation Plan that is a Broadband Plan as defined in the Employee Benefits Agreement.

"BROADBAND EMPLOYEE" has the meaning set forth in the Employee Benefits Agreement, except that for purposes of this Agreement, "Broadband Employee" shall include any Broadband Transferee, and for

purposes of Section 9.13, "Broadband Employee" shall not include any current or former non-employee director of AT&T Broadband with respect to service as a director.

"BROADBAND EMPLOYEE PLAN" means an Employee Plan that is a Broadband Benefit Plan as defined in the Employee Benefits Agreement.

"BROADBAND INTERNATIONAL PLAN" means an International Plan that is a Broadband Benefit Plan as defined in the Employee Benefits Agreement.

"BROADBAND OPTIONS" has the meaning set forth in the Employee Benefits Agreement.

"BROADBAND PENSION PLAN" means a Pension Plan that is a Broadband Benefit Plan as defined in the Employee Benefits Agreement.

"BROADBAND TRANSFEREE" has the meaning set forth in the Employee Benefits Agreement.

"BROADBAND VALUE" means the product of the Exchange Ratio multiplied by the average (rounded to the nearest 1/10,000) of the Trading Values of Comcast Class A Common Stock for the 10 Combined Trading Days randomly selected by lot by AT&T and Comcast from the Combined Trading Days occurring during the 20 consecutive Combined Trading Days following the Closing Date.

"BUSINESS DAY" means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

"CLASS A LIBERTY MEDIA GROUP COMMON STOCK" means the Class A Liberty Media Group Common Stock, par value $1.00 per share, of AT&T.

"CLASS B LIBERTY MEDIA GROUP COMMON STOCK" means the Class B Liberty Media Group Common Stock, par value $1.00 per share, of AT&T.

"CLOSING DATE" means the date on which the Effective Time occurs.

"COMBINED TRADING DAY" means any day which is both a Trading Day and a NYSE Trading Day.

"COMCAST 10-Q" means Comcast's annual report on Form 10-Q for the fiscal quarter ended September 30, 2001.

"COMCAST AFFILIATE" means an Affiliate of Comcast.

"COMCAST BALANCE SHEET" means the unaudited consolidated balance sheet of Comcast and its consolidated Subsidiaries as of September 30, 2001 and the footnotes thereto, as set forth in the Comcast 10-Q.

"COMCAST BALANCE SHEET DATE" means September 30, 2001.

"COMCAST BENEFIT ARRANGEMENTS" means the Benefit Arrangements of Comcast or any Comcast Subsidiary.

"COMCAST CLASS A COMMON STOCK" means the Class A Common Stock, par value $1.00 per share, of Comcast.

"COMCAST CLASS A SPECIAL COMMON STOCK" means the Class A Special Common Stock, par value $1.00 per share, of Comcast.

"COMCAST CLASS B COMMON STOCK" means the Class B Common Stock, par value $1.00 per share, of Comcast.

"COMCAST COMMON STOCK" means the Comcast Class A Common Stock, the Comcast Class A Special Common Stock and the Comcast Class B Common Stock.

"COMCAST CONFIDENTIALITY AGREEMENT" means the confidentiality letter agreement, dated September 28, 2001, as the same may be amended from time to time, by and between AT&T and

Comcast providing for, among other things, confidential treatment of information provided by Comcast to AT&T.

"COMCAST DEFERRED COMPENSATION PLAN" means a Deferred Compensation Plan of Comcast or any Comcast Affiliate for the benefit of any current or former employee or director of Comcast or any Comcast Subsidiary.

"COMCAST DISCLOSURE SCHEDULE" means the Comcast disclosure schedule delivered to AT&T concurrently herewith.

"COMCAST EMPLOYEE PLAN" means an Employee Plan of Comcast or any Comcast Subsidiary.

"COMCAST ESPP" means the Comcast Employee Stock Purchase Plan.

"COMCAST GROUP" means Comcast together with the Comcast Subsidiaries.

"COMCAST INTERNATIONAL PLAN" means an International Plan of Comcast or any Comcast Subsidiary.

"COMCAST MATERIAL ADVERSE EFFECT" means a material adverse effect on the financial condition, assets or results of operations of the Comcast Group taken as a whole, excluding any such effect resulting from or arising in connection with (i) changes or conditions generally affecting the industries in which Comcast and the Comcast Subsidiaries, operate, (ii) changes in general economic, regulatory or political conditions, or (iii) the announcement of this Agreement or of the transactions contemplated hereby.

"COMCAST PENSION PLAN" means a Pension Plan of Comcast or any of its ERISA Affiliates.

"COMCAST SIGNIFICANT SUBSIDIARY" means any Comcast Subsidiary that would constitute a "significant subsidiary" (within the meaning of Rule 1-02 of Regulation S-X of the SEC) as of December 31, 2000; provided that for purposes hereof, the phrase "EBITDA" will be substituted for the phrase "income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle" in Rule 1-02(w)(3).

"COMCAST STOCK PRICE" means the average (rounded to the nearest 1/10,000) of the Trading Values of Comcast Class A Common Stock for the five consecutive Trading Days immediately preceding the Distribution Date.

"COMCAST SUBSIDIARY" means a Subsidiary of Comcast.

"COMMUNICATIONS ACT" means the Communications Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"COMMUNICATIONS VALUE" means the average (rounded to the nearest 1/10,000) of the Trading Values of AT&T Common Stock for the 10 Combined Trading Days randomly selected by lot by AT&T and Comcast from the Combined Trading Days occurring during the 20 consecutive Combined Trading Days following the Closing Date, which shall be the same 10 Combined Trading Days as used for the calculation of Broadband Value.

"CONFIDENTIALITY AGREEMENTS" means the AT&T Confidentiality Agreement and the Comcast Confidentiality Agreement.

"DEBENTURES" means the 5% Junior Convertible Subordinated Debentures due

2029 of AT&T.

"DEFERRED COMPENSATION PLAN" means, with respect to any Person, any plan, agreement or arrangement that (i) is described under Sections 4(b)(5) or 401(a)(1) of ERISA (or similar plan covering one or more non-employee directors of a Person), (ii) is maintained, administered or contributed to or required to be contributed to or required to be contributed to by such Person or any of its Affiliates and (iii) covers any current or former employee or director of such Person or any of its Subsidiaries.

"DGCL" means the Delaware General Corporation Law.

"DISTRIBUTION" has the meaning set forth in the Separation and Distribution Agreement.

"DISTRIBUTION DATE" has the meaning set forth in the Separation and Distribution Agreement.

"DIVIDEND STOCK" has the meaning set forth in the definition of Exchange Amount.

"EBITDA" means operating income plus depreciation plus amortization, in each case as determined in accordance with GAAP.

"EMPLOYEE BENEFITS AGREEMENT" has the meaning set forth in the Separation and Distribution Agreement.

"EMPLOYEE PLAN" means, with respect to any Person, any "employee benefit plan" (as defined in Section 3(3) of ERISA) that (i) is subject to any provision of ERISA, (ii) is maintained, administered or contributed to or required to be contributed to by such Person or any of its Affiliates and (iii) covers any employee or former employee of such Person or any of its Subsidiaries.

"ENVIRONMENTAL LAWS" means any United States federal, state or local, foreign or supranational law (including common law), treaty, judicial decision, regulation, rule, judgment, order, decree, injunction, permit or governmental restriction or requirement or any agreement with any Governmental Authority or other third party, relating to human health and safety, the environment or to pollutants, contaminants, wastes or chemicals or any toxic, radioactive, ignitable, corrosive, reactive or otherwise hazardous substances, wastes or materials.

"ENVIRONMENTAL PERMITS" means, with respect to any Person, all permits, licenses, franchises, certificates, approvals and other similar authorizations of any Governmental Authority relating to or required by Environmental Laws and affecting, or relating in any way to, the business of such Person or any of its Subsidiaries as currently conducted.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

"ERISA AFFILIATE" of any Person means any other Person that, together with such Person, would be treated as a single employer under Section 414 of the Code.

"EXCEPTED TRANSACTION" has the meaning set forth in the definition of AT&T Broadband Acquisition Proposal.

"EXCHANGE AGREEMENT" means the Exchange Agreement dated as of December 7, 2001 between Comcast and Microsoft.

"EXCHANGE AMOUNT" means an amount "K" where "K" is derived from the following equation:

$$K = (Tx\ (B + C))/C$$

provided that in no event shall K exceed the product of 10.0% multiplied by the total number of shares of AT&T Common Stock that would be outstanding immediately after giving effect to the exchange of the AT&T Exchangeable Preferred Stock.

The variables used to calculate K pursuant to the foregoing formula are defined as follows:

"T" is the number of shares of AT&T Common Stock held by Comcast and any Comcast Subsidiary immediately prior to the Distribution.

"B" is the Broadband Value.

"C" is the Communications Value.

"EXCHANGE DATE" has the meaning set forth in Section 9.23.

"EXCHANGE RATIO" means the value, "X", as defined below (and rounded to the nearest 1/10,000). The purpose of the Exchange Ratio is to determine the number of shares of Parent Common Stock that will be delivered in exchange for each outstanding share of AT&T Broadband Common Stock at the

Effective Time, and to adjust for the value of certain employee options and stock appreciation rights to be assumed by Parent as of the Effective Time.

"X" is defined according to the following formula:

$$X = \frac{1{,}235{,}000{,}000 - (I + F)/C}{O}$$

The variables used in calculating X pursuant to the foregoing formula are defined as follows:

"C" is the Comcast Stock Price.

"O" is (i) the number of shares of AT&T Broadband Common Stock outstanding immediately prior to the AT&T Broadband Merger excluding any shares issued pursuant to the QUIPS Exchange and any shares held by any wholly owned AT&T Broadband Subsidiary plus (ii) the number of shares, if any, of AT&T Common Stock in respect of which rights pursuant to Section 910 of the NYBCL have purportedly been exercised and not withdrawn. For purposes of this definition and for the avoidance of doubt, any restricted shares of AT&T Broadband Common Stock that have been awarded prior to the date of this Agreement and not forfeited prior to the Closing Date shall be considered "outstanding", regardless of whether an election has been made with respect to such shares pursuant to Section 83(b) of the Code.

"I" is the aggregate "in-the-money" amount for all unexercised AT&T

Stock Options outstanding as of the date of this Agreement and held by Broadband Employees immediately prior to the Closing Date whose exercise price, as of the Closing Date, is less than the AT&T Closing Stock Value, calculated with respect to each such AT&T Stock Option as the product of:

(A) the excess of the AT&T Closing Stock Value over the exercise price, as of the Closing Date, for such option, times

(B) the number of shares of AT&T Common Stock subject to such option.

For this purpose, a stock appreciation right with respect to AT&T Common Stock shall be treated as an AT&T Stock Option. In addition, for purposes of this definition, AT&T Stock Options granted after the date hereof shall be disregarded.

"F" means the aggregate "in-the-money" amount for AT&T Stock Options held by Former Employees (as defined in the Employee Benefits Agreement) to the extent converted into options to purchase AT&T Broadband Common Stock, calculated as equal to the Aggregate Former Employee Broadband Option Amount.

"EXPENSE AGREEMENT" means the Expense Agreement dated as of June 16, 1999 between AT&T and the Issuer Trust.

"FCC" means the United States Federal Communications Commission.

"FRANCHISE" means a written "franchise" (within the meaning of Section 602(8) of the Communications Act).

"FRANCHISING AUTHORITY" means "franchising authority" (within the meaning of Section 602(9) of the Communications Act).

"GUARANTEE AGREEMENT" means the Guarantee Agreement dated as of June 16, 1999 between AT&T, as Guarantor, and The Bank of New York, as Guarantor Trustee, relating to the Issuer Trust.

"HSR ACT" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"INDEBTEDNESS" has the meaning set forth in the Separation and Distribution Agreement.

"INDENTURE" means the Indenture dated as of June 16, 1999, as amended or supplemented, between AT&T and The Bank of New York, as Trustee, relating to the Debentures.

"INDEPENDENT PERSON" has the meaning set forth in the Parent Charter.

"INDEX" means the Standard and Poors' 500 Index.

"INTERIM FINANCE COMMITTEE" means the committee described in Section 9.15.

"INTERNATIONAL PLAN" means, with respect to any Person, any employment, severance or similar contract or arrangement (whether or not written) or any plan, policy, fund, program or arrangement or contract providing for severance, insurance coverage (including any self-insured arrangements), workers' compensation, disability benefits, supplemental unemployment benefits, vacation benefits, pension or retirement benefits or for deferred compensation, profit-sharing, bonuses, stock options, stock appreciation rights or other forms of incentive compensation or post-retirement insurance, compensation or benefits that (i) is not an Employee Plan or a Benefit Arrangement, (ii) is entered into, maintained, administered or contributed to or required to be contributed to by such Person or any of its Affiliates and (iii) covers any employee or former employee of such Person or any of its Subsidiaries.

"IRS" means the United States Internal Revenue Service.

"ISSUER TRUST" means AT&T Finance Trust I, a Delaware business trust.

"K/A PRICE DIFFERENTIAL" means the number equal to the excess, if any, of (i) the quotient obtained by dividing (A) the Average Class A Special Price by (B) the Average Class A Price over (ii) 1; provided that the K/A Price Differential shall in no event be less than 0 or more than .03.

"K/C PRICE DIFFERENTIAL" means the number equal to the excess, if any, of (i) the quotient obtained by dividing (A) the Average Class A Special Price by (B) the Average Class C Price over (ii) 1; provided that the K/C Price Differential shall in no event be less than 0 or more than .03.

"KNOWLEDGE" means, with respect to any fact, the conscious awareness of such fact by an "executive officer" (as defined under the 1933 Act) of the relevant Person or, in the case of AT&T, any Person who would be considered an "executive officer" (as so defined) of the AT&T Broadband Group.

"LIEN" means, with respect to any property or asset, any mortgage, lien, pledge, charge, security interest, encumbrance or other adverse claim of any kind in respect of such property or asset. For purposes of this Agreement, a Person shall be deemed to own subject to a Lien any property or asset that it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such property or asset.

"MERGERS" means the AT&T Broadband Merger and the Comcast Merger.

"MICROSOFT" means Microsoft Corporation, a Washington corporation.

"MULTIEMPLOYER PLAN" means each Employee Plan that is a "multiemployer plan" (as defined in Section 3(37) of ERISA).

"NASDAQ" means The Nasdaq Stock Market.

"NOTE CONSENT" means, with regard to any given series of securities issued under the Notes Indenture, the receipt of the irrevocable consent to the transactions contemplated by the Separation and Distribution Agreement of the holders of at least a majority in aggregate principal amount of such series.

"NOTES INDENTURE" means the Indenture dated as of September 7, 1990, as amended or supplemented, between American Telephone & Telegraph Company and The Bank of New York, as trustee.

"NYSE" means the New York Stock Exchange.

"NYSE TRADING DAY" means any day on which securities of AT&T are traded on the NYSE.

A-9

"NYSE TRADING VALUE" means, with respect to any equity security on any given NYSE Trading Day, the volume weighted average trading price (rounded to the nearest 1/10,000) of such security on the NYSE, as reported by Bloomberg Financial Markets (or such other source as AT&T and Comcast shall agree in writing) for that NYSE Trading Day.

"NYBCL" means the New York Business Corporation Law.

"PARENT CLASS A COMMON STOCK" means the Class A Common Stock, par value $0.01 per share, of Parent.

"PARENT CLASS A SPECIAL COMMON STOCK" means the Class A Special Common Stock, par value $0.01 per share, of Parent.

"PARENT CLASS B COMMON STOCK" means the Class B Common Stock, par value $0.01 per share, of Parent.

"PARENT CLASS C COMMON STOCK" means the Class C Common Stock, par value $0.01 per share, of Parent.

"PARENT COMMON STOCK" means the Parent Class A Common Stock, the Parent Class A Special Common Stock, the Parent Class B Common Stock and the Parent Class C Common Stock.

"PARENT INDEXED STOCK" means the class of Parent Common Stock that is included in the Index on the first Trading Day after the Effective Time.

"PARENT MATERIAL ADVERSE EFFECT" means a material adverse effect on the financial condition, assets or results of operations of the AT&T Broadband Group and the Comcast Group, taken as a whole, excluding any such effect resulting from or arising in connection with (i) changes or conditions generally affecting the industries in which the AT&T Broadband Group and the Comcast Group operate, (ii) changes in general economic, regulatory or political conditions or (iii) the announcement of this Agreement or of the transactions contemplated hereby.

"PBCL" means the Pennsylvania Business Corporation Law of 1988.

"PBGC" means the Pension Benefit Guaranty Corporation.

"PENSION PLAN" means, with respect to any Person, any plan (other than a Multiemployer Plan) that is subject to Title IV of ERISA and is maintained, administered or contributed to or required to be contributed to by such Person or any of its ERISA Affiliates.

"PERSON" means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"PRELIMINARY EXCHANGE RATIO" is defined as follows:

$$X = \frac{1{,}235{,}000{,}000 - I/C}{O}$$

where "I", "C" and "O" have the same meanings as in the definition of Exchange Ratio.

"PRICING PERIOD" means the 20 consecutive Trading Days commencing on the first full Trading Day after the later to occur of (i) the fifth Trading Day after the first date on which Standard & Poors' reweights the Index in respect of the transactions contemplated hereby and (ii) the 30th calendar day after the

Closing Date; provided that in no event shall the Pricing Period commence later than the first full Trading Day occurring after the 45th calendar day after the Closing Date.

"PRIMARY COMMERCIAL AGREEMENTS" has the meaning set forth in the Separation and Distribution Agreement.

"PRIMARY TRANSACTION AGREEMENTS" has the meaning set forth in the Separation and Distribution Agreement.

"PRISMS CONTRACTS" means each of the PrISM Variable Prepaid Forward Securities Contracts dated as of December 1, 2000 among AT&T, TCI Lenfest, Inc. and Morgan Guaranty Trust Company of New York, relating to shares of Comcast Class A Special Common Stock.

"QUIPS" means the 5% Convertible Quarterly Income Preferred Securities issued pursuant to the Trust Agreement.

"QUIPS EXCHANGE" means the issuance of shares of AT&T Broadband Common Stock in exchange for the QUIPS pursuant to the Exchange Agreement.

"RECORD DATE" has the meaning set forth in the Separation and Distribution Agreement.

"REGISTRATION RIGHTS AGREEMENT" means the Registration Rights Agreement dated as of June 16, 1999 between AT&T and Microsoft.

"SAILS CONTRACTS" means the SAILS Mandatorily Exchangeable Securities Contracts dated as of October 27, 2000, November 6, 2000 and November 10, 2000 among AT&T, TCI Lenfest, Inc., Credit Suisse First Boston International and Credit Suisse First Boston Corporation, relating to shares of Comcast Class A Special Common Stock.

"SEC" means the United States Securities and Exchange Commission.

"SENIOR NOTES" means any of the securities issued pursuant to the Indenture dated as of November 21, 2001 between AT&T and The Bank of New York, as Trustee.

"SEPARATION" has the meaning set forth in the Separation and Distribution Agreement.

"SEPARATION AND DISTRIBUTION AGREEMENT" means the Separation and Distribution Agreement dated as of the date hereof by and between AT&T and AT&T Broadband, in the form attached as Exhibit C.

"SIGNIFICANT EXCEPTED TRANSACTION" means any Excepted Transaction providing for the sale or disposition of at least 50% of the AT&T Communications Group.

"SPECIFIED AT&T SEC DOCUMENTS" means each of (i) AT&T's annual report on Form 10-K for its fiscal year ended December 31, 2000, (ii) AT&T's quarterly reports on Form 10-Q filed since December 31, 2000, (iii) AT&T's periodic reports on Form 8-K filed since December 31, 2000, (iv) AT&T's proxy statement relating to its 2001 annual meeting of shareholders and (v) AT&T's preliminary proxy statement filed on July 3, 2001 regarding, among other things, the creation of a tracking stock reflecting the AT&T Broadband Group.

"SPECIFIED COMCAST SEC DOCUMENTS" means each of (i) Comcast's annual report on Form 10-K for its fiscal year ended December 31, 2000, (ii) Comcast's quarterly reports on Form 10-Q filed since December 31, 2000, (iii) Comcast's periodic reports on Form 8-K filed since December 31, 2000 and (iv) Comcast's proxy statement relating to its 2001 annual meeting of shareholders.

"SUBSIDIARY" means, with respect to any Person, any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other body performing similar functions are at any time, directly or indirectly, owned by such Person.

"SUBSIDIARY TRUSTS" means (i) TCI Communications Financing I, (ii) TCI Communications Financing II, (iii) TCI Communications Financing IV, (iv) MediaOne Finance Trust I, (v) MediaOne Finance Trust II, (vi) MediaOne Finance Trust III, (vii) MediaOne Financing A and (viii) MediaOne Financing B, each a Delaware business trust.

"SURVIVING CORPORATIONS" means the AT&T Broadband Surviving Corporation and the Comcast Surviving Corporation.

"SYSTEM" means a "cable television system" (within the meaning of Section 602(7) of the Communications Act).

"T-HOLDINGS" means AT&T Broadband T-Holdings, Inc. (f/k/a TCI Telephony Holdings, Inc), a Delaware corporation.

"TAX SHARING AGREEMENT" has the meaning set forth in the Separation and Distribution Agreement.

"TOPRS" means (i) the 8.72% Trust Originated Preferred Securities of TCI Communications Financing I; (ii) the 10% Trust Preferred Securities of TCI Communications Financing II; (iii) the 9.72% Trust Preferred Securities of TCI Communications Financing IV; (iv) the 9.50% Trust Originated Preferred Securities of MediaOne Finance Trust II; (v) the 9.04% Trust Originated Preferred Securities of MediaOne Finance Trust III; (vi) the 7.96% Trust Originated Preferred Securities of MediaOne Financing A; and (vii) the 8.25% Trust Originated Preferred Securities of MediaOne Financing B.

"TRADING DAY" means any day on which securities of Comcast or Parent are traded on Nasdaq.

"TRADING VALUE" means, with respect to any equity security on any given Trading Day, the volume weighted trading price (rounded to the nearest 1/10,000) of such security on Nasdaq, as reported by Bloomberg Financial Markets (or such other source as AT&T and Comcast shall agree in writing) for that Trading Day.

"TRANSACTION AGREEMENTS" means this Agreement, the Support Agreement and each of the Ancillary Agreements.

"TRUST AGREEMENT" means the Trust Agreement dated as of June 16, 1999 among AT&T, as Depositor, The Bank of New York, as Property Trustee, The Bank of New York (Delaware), as Delaware Trustee, and the administrative trustees named therein, relating to the Issuer Trust.

"TRUST COMMON SECURITIES" means the common securities of the Issuer Trust issued pursuant to the Trust Agreement.

"TWE" means Time Warner Entertainment Company, L.P., a Delaware limited partnership.

"TWE OPTION" means the option of MediaOne of Colorado, Inc. to purchase up to an additional 8.5% participating percentage share in TWE pursuant to the TWE

Option Agreement.

"TWE OPTION AGREEMENT" means the Option Agreement, dated as of September 15, 1993, by and between TWE and US West, Inc.

"TWE PARTNERSHIP AGREEMENT" means the Agreement of Limited Partnership dated as of October 29, 1991, as amended.

"TWE SUBSIDIARY" means a Subsidiary of TWE.

"WIRELESS GROUP COMMON STOCK" means the Wireless Group Common Stock, par value $1.00 per share, of AT&T.

(b) Each of the following additional terms is defined in the Section set forth opposite such term:

TERM	SECTION
351 Transactions...	9.06(a)
Agreement..	Preamble
AT&T...	Preamble
AT&T Broadband...	Preamble
AT&T Broadband Merger..	3.01(a)
AT&T Broadband Merger Sub....................................	Preamble
AT&T Broadband Rule 145 Affiliate............................	9.07(a)
AT&T Broadband Surviving Corporation.........................	3.01(a)

TERM	SECTION
AT&T Broadband Surviving Corporation Common Stock...........	4.01(a)
AT&T Converted SARs..	4.02(g)
AT&T Converted Stock Options.................................	4.02(g)
AT&T Converted Equity Awards.................................	4.02(g)
AT&T Equity Awards...	4.02(g)
AT&T Franchise Consents......................................	6.03
AT&T Intellectual Property...................................	6.20
AT&T License Consents..	6.03
AT&T Marks...	9.20(a)
AT&T PUC Consents..	6.03
AT&T SARs..	4.02(g)
AT&T SEC Documents...	6.07(a)
AT&T Securities..	6.05(b)
AT&T Shareholders' Approval..................................	6.22
AT&T Shareholders' Meeting...................................	5.09
AT&T Stock Options...	4.02(g)
AT&T Subsidiary Preferred Stock..............................	6.05(a)
AT&T Superior Proposal.......................................	8.03(b)
AT&T Termination Fee...	11.03(d)
Certificates...	4.02(b)
Code...	Recitals
Comcast..	Preamble
Comcast Converted Equity Awards..............................	4.02(h)

Comcast Converted Stock Options............................	4.02(h)
Comcast Equity Awards......................................	4.02(h)
Comcast Franchise Consents.................................	5.03
Comcast Intellectual Property..............................	5.20
Comcast License Consents...................................	5.03
Comcast Merger...	3.02(a)
Comcast Merger Sub...	Preamble
Comcast PUC Consents.......................................	5.03
Comcast Rule 145 Affiliate.................................	9.07(b)
Comcast SEC Documents......................................	5.07(a)
Comcast Securities...	5.05(b)
Comcast Shareholder..	Preamble
Comcast Shareholders' Approval.............................	5.22
Comcast Shareholders' Meeting..............................	5.09
Comcast Stock Options......................................	4.02(h)
Comcast Surviving Corporation..............................	3.03
Comcast Surviving Corporation Common Stock.................	4.01(b)
Comcast Termination Fee....................................	11.03(b)
Common Stock Trust...	4.02(e)
DE Certificate of Merger...................................	3.01(b)
Effective Time...	3.01(b)

TERM	SECTION
End Date...	11.01(b)
Excess Shares..	4.02(e)
Exchange Agent...	4.02(a)
Exchange Fund..	4.02(a)
Financing..	9.15
Franchise Consents...	6.03(a)
GAAP...	5.08
Governmental Authority.....................................	5.03
Indemnified Losses...	7.04(a)
Indemnified Person...	7.04(a)
Joint Proxy Statement......................................	5.09
K/A Security...	4.04(a)
K/C Security...	4.04(b)
Letter of Credit...	9.16(d)
License Consents...	6.03
Mandatory Residual Conditions..............................	8.02(a)
Neutrality Agreement.......................................	8.05
Original Award...	4.02(g)
PA Articles of Merger......................................	3.02(b)
Parent...	Preamble
Parent Charter...	2.01
PUC Consents...	6.03
Qualified Holders..	4.03(c)
QUIPS Failure Date...	9.18(a)
QUIPS Fair Market Value....................................	9.18(f)
QUIPS Transfer...	9.18(j)
Purchase Rights..	9.01(a)
Registration Statement.....................................	5.09
S-8..	4.02(g)
Series E Preferred Stock...................................	6.05(a)
Successor Plan...	9.13(b)

Support Agreement... Recitals
Tax Returns... 5.16
Taxes... 5.16
TCI Pacific Preferred Stock................................. 6.05(a)
Transferred Broadband Employees............................. 9.13(a)
Transferred Comcast Employees............................... 9.13(a)
TWE Contracts... 6.25
Warrants.. 6.05(a)
Wireless Preferred Stock.................................... 6.05(a)

(c) Interpretation. In this Agreement, unless otherwise specified or where the context otherwise requires:

(i) a reference to a Recital is to the relevant Recital to this Agreement, to a Section is to the relevant Section of this Agreement and to an Exhibit is to the relevant Exhibit to this Agreement;

(ii) words importing any gender shall include other genders;

(iii) words importing the singular only shall include the plural and vice versa;

(iv) the words "include", "includes" or "including" shall be deemed to be followed by the words "without limitation";

(v) the words "hereof", "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and Article, clause and Exhibit references are to the Articles, clauses and Exhibits to this Agreement unless otherwise specified;

(vi) references to any party hereto or any other agreement or document shall include such party's successors and permitted assigns; and

(vii) the parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party hereto by virtue of the authorship of any provisions of this Agreement.

(d) Headings. In this Agreement the headings to Sections are inserted for convenience only and shall not affect the construction of this Agreement.

ARTICLE 2

PARENT AND MERGER SUBS

SECTION 2.01. Organization of Parent. Comcast and AT&T have caused Parent to be organized under the laws of the Commonwealth of Pennsylvania. The authorized capital stock of Parent consists of 100 shares of Common Stock, par value $0.01 per share, of which one share has been issued to Comcast and one share has been issued to AT&T. Comcast and AT&T shall take, and shall cause Parent to take, all requisite action to cause (i) if the A Shareholder Approval is obtained, the articles of incorporation of Parent (the "PARENT CHARTER") to be in the form of Exhibit D-1 at the Effective Time, (ii) if the A Shareholder Approval is not obtained, the Parent Charter to be on the terms set forth in Exhibit D-2 at the Effective Time and (iii) whether or not the A Shareholder

Approval is obtained, the bylaws of Parent to be in the form of Exhibit D-3 at the Effective Time.

SECTION 2.02. Directors and Officers of Parent. Prior to the Effective Time, the directors and officers of Parent shall consist of equal numbers of representatives of Comcast and AT&T as designated and elected by Comcast and AT&T. Comcast and AT&T shall take all requisite action to cause the directors and officers of Parent as of the Effective Time to be as provided in Section 9.08.

SECTION 2.03. Organization of Merger Subs. Parent has caused AT&T Broadband Merger Sub and Comcast Merger Sub to be organized for the sole purpose of effectuating the Mergers. The authorized capital stock of AT&T Broadband Merger Sub consists of 100 shares of Common Stock, par value $0.01 per share, all of which shares have been issued to Parent at a price of $1.00 per share. The authorized capital stock of Comcast Merger Sub consists of 100 shares of Common Stock, par value $0.01 per share, all of which shares have been issued to Parent at a price of $1.00 per share.

SECTION 2.04. Actions of Comcast and AT&T. Comcast and AT&T, as the holders of all the outstanding shares of Parent capital stock, have approved and adopted this Agreement and the transactions contemplated hereby and have caused Parent, as the sole stockholder of each of the Merger Subs, to approve and adopt this Agreement and the transactions contemplated hereby. Each of Comcast and AT&T shall cause Parent to perform its obligations under this Agreement, and Parent shall cause the Merger Subs to perform their respective obligations under this Agreement.

SECTION 2.05. Rights Plan. Parent shall adopt a shareholder rights plan, effective as of the Effective Time, on the terms and conditions set forth in the Comcast Disclosure Schedule.

ARTICLE 3

THE MERGERS

SECTION 3.01. The AT&T Broadband Merger. (a) At the Effective Time, AT&T Broadband Merger Sub shall be merged with and into AT&T Broadband (the "AT&T BROADBAND MERGER") in accordance with the DGCL and upon the terms set forth in this Agreement, whereupon the separate existence of AT&T Broadband Merger Sub shall cease and AT&T Broadband shall be the surviving corporation (the "AT&T BROADBAND SURVIVING CORPORATION").

(b) As soon as practicable (and, in any event, within five Business Days) after satisfaction or, to the extent permitted hereunder, waiver of all conditions to the Mergers set forth in Article 10, other than conditions that by their nature are to be satisfied at the Effective Time and will in fact be satisfied at the Effective Time, a certificate of merger shall be duly prepared, executed and acknowledged by AT&T Broadband Merger Sub and AT&T Broadband and thereafter delivered to and filed with the Secretary of State of the State of Delaware pursuant to the DGCL (the "DE CERTIFICATE OF MERGER"). The AT&T Broadband Merger shall become effective at the Effective Time. As used herein, the term "Effective Time" means such time as is mutually agreeable to Comcast and AT&T on the date of filing of the DE Certificate of Merger, or on such other date or time as may be agreed by Comcast and AT&T. The Separation shall occur on the Closing Date prior to the Distribution which shall occur at the close of business in New York, New York on the Closing Date. With the consent of Comcast, which consent shall not be unreasonably withheld, AT&T may effect the Separation and/or the Distribution on different dates or different times than provided for in the preceding sentence.

(c) From and after the Effective Time, the AT&T Broadband Surviving Corporation shall possess all the rights, powers, privileges and franchises, and be subject to all of the obligations, liabilities, restrictions and disabilities, of AT&T Broadband Merger Sub and AT&T Broadband, all as provided under the DGCL.

SECTION 3.02. The Comcast Merger. (a) At the Effective Time, Comcast Merger Sub shall be merged with and into Comcast (the "COMCAST MERGER") in accordance with the PBCL, and upon the terms set forth in this Agreement, whereupon the separate existence of Comcast Merger Sub shall cease and Comcast shall be the surviving corporation (the "COMCAST SURVIVING CORPORATION").

(b) As soon as practicable (and, in any event, within five Business Days) after satisfaction or, to the extent permitted hereunder, waiver of all conditions to the Mergers set forth in Article 10, other than conditions that by their nature are to be satisfied at the Effective Time and will in fact be satisfied at the Effective Time, an articles of merger shall be duly prepared, executed and acknowledged by Comcast Merger Sub and Comcast and thereafter delivered to and filed with the Department of State of the Commonwealth of Pennsylvania pursuant to the PBCL (the "PA ARTICLES OF MERGER"). The Comcast Merger shall become effective at the Effective Time.

(c) From and after the Effective Time, the Comcast Surviving Corporation shall possess all the rights, powers, privileges and franchises, and be subject to all of the obligations, liabilities, restrictions and disabilities, of Comcast Merger Sub and Comcast, all as provided under the PBCL.

SECTION 3.03. Certificate and Articles of Incorporation; Bylaws. The certificate of incorporation of AT&T Broadband in effect at the Effective Time shall be the certificate of incorporation of the AT&T Broadband Surviving Corporation and the bylaws of AT&T Broadband Merger Sub in effect at the Effective Time shall be the bylaws of the AT&T Broadband Surviving Corporation, in each case, until amended in accordance with applicable law. Immediately prior to the Effective Time, if the A Shareholder Approval shall have been obtained, Comcast shall file the Articles Amendment with the Department of State of the Commonwealth of Pennsylvania pursuant to the PBCL. The articles of incorporation of

Comcast in effect at the Effective Time shall be the articles of incorporation of the Comcast Surviving Corporation and the bylaws of Comcast Merger Sub in effect at the Effective Time shall be the bylaws of the Comcast Surviving Corporation, in each case, until amended in accordance with applicable law.

SECTION 3.04. Directors and Officers of the Surviving Corporations. From and after the Effective Time, until successors are duly elected or appointed and qualified in accordance with applicable law, (a) the directors of AT&T Broadband Merger Sub at the Effective Time shall be the directors of the AT&T Broadband Surviving Corporation, (b) the officers of AT&T Broadband at the Effective Time shall be the officers of the AT&T Broadband Surviving Corporation, (c) the directors of Comcast Merger Sub at the Effective Time shall be the directors of the Comcast Surviving Corporation and (d) the officers of Comcast at the Effective Time shall be the officers of the Comcast Surviving Corporation.

SECTION 3.05. Alternative Structure. From the date hereof until the Effective Time, each of AT&T and Comcast agrees that, at the request of the other party, it will consider in good faith amending the terms of this Agreement to the extent necessary to provide for a structure or a sequencing of the

Mergers that is more tax efficient or otherwise more advantageous than the structure and sequencing provided by Articles 2 and 3 and is not adverse to the other party.

ARTICLE 4

CONVERSION OF SECURITIES

SECTION 4.01. Conversion of Securities. (a) If the A Shareholder Approval shall have been obtained, at the Effective Time, by virtue of the AT&T Broadband Merger and without any action on the part of any of the parties hereto or the holders of any of the following securities:

(i) Each issued and outstanding share of capital stock of AT&T Broadband Merger Sub shall be converted into and become one fully paid and nonassessable share of Common Stock, par value $.01 per share, of the AT&T Broadband Surviving Corporation ("AT&T BROADBAND SURVIVING CORPORATION COMMON STOCK").

(ii) Each share of AT&T Broadband Common Stock held in the treasury of AT&T Broadband immediately prior to the Effective Time shall be canceled and retired without any conversion thereof, and no payment shall be made with respect thereto.

(iii) Subject to Sections 4.02(e), 4.03(a) and 4.04(a), each issued and outstanding share of AT&T Broadband Common Stock that is issued and outstanding immediately prior to the Effective Time (excluding any shares of AT&T Broadband Common Stock canceled pursuant to Section 4.01(a)(ii)) shall be converted into the right to receive the Exchange Ratio of a fully paid and nonassessable share of Parent Class A Common Stock. As of the Effective Time, all such shares of AT&T Broadband Common Stock shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each owner of any such shares of AT&T Broadband Common Stock shall cease to have any rights with respect thereto, except the right to receive certificates representing the shares of Parent Common Stock, any cash in lieu of fractional shares of Parent Common Stock and any dividends or distributions to the extent provided in Section 4.02(c) to be issued or paid in consideration therefor, without interest.

(b) If the A Shareholder Approval shall have been obtained, at the Effective Time, by virtue of the Comcast Merger and without any action on the part of any of the parties hereto or the holders of any of the following securities:

(i) Each issued and outstanding share of capital stock of Comcast Merger Sub shall be converted into and become a number of fully paid and nonassessable shares of Common Stock, par value $.01 per share, of the Comcast Surviving Corporation ("COMCAST SURVIVING CORPORATION COMMON STOCK") such that all of such shares of Comcast Surviving Corporation Common Stock, together with the shares of Comcast Surviving Corporation Common Stock issuable upon conversion

A-17

of the shares of Comcast Common Stock held by Comcast Shareholder pursuant to Section 4.01(e), equal 100 shares of Comcast Surviving Corporation Common Stock.

(ii) Each share of Comcast Common Stock held in the treasury of Comcast immediately prior to the Effective Time shall be canceled and retired without any conversion thereof, and no payment shall be made with respect thereto.

(iii) Subject to Sections 4.01(e) and 4.02(e), each issued and outstanding share of Comcast Class A Common Stock, Comcast Class B Common Stock and Comcast Class A Special Common Stock that is issued and outstanding immediately prior to the Effective Time (excluding any of such shares of Comcast Common Stock canceled pursuant to Section 4.01(b)(ii)) shall be converted into the right to receive one fully paid and nonassessable share of Parent Class A Common Stock, Parent Class B Common Stock and Parent Class A Special Common Stock, respectively. As of the Effective Time, all such shares of Comcast Common Stock shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each holder of a Certificate representing any such shares of Comcast Common Stock shall cease to have any rights with respect thereto, except the right to receive, upon the surrender of such Certificates, certificates representing the shares of Parent Common Stock, any cash in lieu of fractional shares of Parent Common Stock and any dividends or distributions to the extent provided in Section 4.02(c) to be issued or paid in consideration therefor upon surrender of such Certificate in accordance with Section 4.02, without interest.

(c) If the A Shareholder Approval shall not have been obtained, at the Effective Time, by virtue of the AT&T Broadband Merger and without any action on the part of any of the parties hereto or the holders of any of the following securities:

(i) Each issued and outstanding share of capital stock of AT&T Broadband Merger Sub shall be converted into and become one fully paid and nonassessable share of AT&T Broadband Surviving Corporation Common Stock.

(ii) Each share of AT&T Broadband Common Stock held in the treasury of AT&T Broadband immediately prior to the Effective Time shall be canceled and retired without any conversion thereof, and no payment shall be made with respect thereto.

(iii) Subject to Sections 4.02(e), 4.03(b) and 4.04(b), each issued and outstanding share of AT&T Broadband Common Stock that is issued and outstanding immediately prior to the Effective Time (excluding any shares of AT&T Broadband Common Stock canceled pursuant to Section 4.01(c)(ii)) shall be converted into the right to receive the Exchange Ratio of a fully paid and nonassessable share of Parent Class C Common Stock. As of the Effective Time, all such shares of AT&T Broadband Common Stock shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each owner of any such shares of AT&T Broadband Common Stock shall cease to have any rights with respect thereto, except the right to receive certificates representing the shares of Parent Common Stock, any cash in lieu of fractional shares of Parent Common Stock and any dividends or distributions to the extent provided in Section 4.02(c) to be issued or paid in consideration therefor, without interest.

(d) If the A Shareholder Approval shall not have been obtained, at the Effective Time, by virtue of the Comcast Merger and without any action on the part of any of the parties hereto or the holders of any of the following securities:

(i) Each issued and outstanding share of capital stock of Comcast Merger Sub shall be converted into and become a number of fully paid and nonassessable shares of Comcast Surviving Corporation Common Stock such that all of such shares of Comcast Surviving Corporation Common Stock, together with the shares of Comcast Surviving Corporation Common Stock issuable upon conversion of the shares of Comcast Common Stock held by Comcast Shareholder pursuant to Section 4.01(e), equal 100 shares of

Comcast Surviving Corporation Common Stock.

(ii) Each share of Comcast Common Stock held in the treasury of Comcast immediately prior to the Effective Time shall be canceled and retired without any conversion thereof, and no payment shall be made with respect thereto.

(iii) Subject to Sections 4.01(e) and 4.02(e), each issued and outstanding share of Comcast Class A Common Stock, Comcast Class B Common Stock and Comcast Class A Special Common Stock that is issued and outstanding immediately prior to the Effective Time (excluding any of such shares of Comcast Common Stock canceled pursuant to Section 4.01(d)(ii)) shall be converted into the right to receive one fully paid and nonassessable share of Parent Class A Common Stock, Parent Class B Common Stock and Parent Class A Special Common Stock, respectively. As of the Effective Time, all such shares of Comcast Common Stock shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each holder of a Certificate representing any such shares of Comcast Common Stock shall cease to have any rights with respect thereto, except the right to receive, upon the surrender of such Certificates, certificates representing the shares of Parent Common Stock, any cash in lieu of fractional shares of Parent Common Stock and any dividends or distributions to the extent provided in Section 4.02(c) to be issued or paid in consideration therefor upon surrender of such Certificate in accordance with Section 4.02, without interest.

(e) In lieu of receiving the consideration payable pursuant to Section 4.01(b) or 4.01(d) upon conversion of its shares of Comcast Common Stock in the Comcast Merger, Comcast Shareholder (or any successor by merger to Comcast Shareholder) may elect to merge with Parent immediately prior to the Effective Time in a transaction in which the members of Comcast Shareholder (or such successor), in exchange for all of their outstanding membership or other equity interests in Comcast Shareholder (or such successor), would receive in the aggregate the same consideration that Comcast Shareholder (or such successor) would have received pursuant to Section 4.01(b) or 4.01(d), as the case may be, upon conversion of its shares of Comcast Common Stock in the Comcast Merger. If Comcast Shareholder (or such successor) elects to effect the foregoing merger, then at the time of such merger (i) Comcast Shareholder (or such successor) shall have no assets other than shares of Comcast Common Stock and no liabilities other than possible de minimis liabilities, (ii) each issued and outstanding share of Comcast Common Stock owned by Comcast Shareholder (or such successor) shall be converted into and become a number of fully paid and nonassessable shares of Comcast Surviving Corporation Common Stock such that all of such shares of Comcast Surviving Corporation Common Stock, together with the shares of Comcast Surviving Corporation Common Stock issuable upon conversion of the shares of Comcast Merger Sub capital stock pursuant to Section 4.01(b)(i) or 4.01(d)(i), as the case may be, equal 100 shares of Comcast Surviving Corporation Common Stock and (iii) Comcast Shareholder shall provide an indemnity that is reasonably satisfactory to AT&T and Comcast pursuant to which one or more members of Comcast Shareholder (which shall include at a minimum any member or members (on a joint and several basis) who acquire the shares of Parent Class B Common Stock pursuant to the merger contemplated by this Section 4.01(e)) agrees to indemnify Parent in respect of any liabilities (including tax liabilities) of Comcast Shareholder or arising in connection with the transactions under this Section 4.01(e).

(f) If, between the date of this Agreement and the Effective Time, the outstanding shares of Comcast Common Stock, AT&T Common Stock or AT&T Broadband Common Stock shall have been changed into a different number of shares, by reason of any stock dividend (other than to create the number of shares of AT&T Broadband Common Stock necessary to effect the Distribution and, if the QUIPS Exchange occurs, the QUIPS Exchange or otherwise as a result of the Separation and Distribution), subdivision, split or combination of shares, the consideration payable pursuant to Section 4.01 will, if appropriate, be correspondingly adjusted to reflect such stock dividend, subdivision, split or combination of shares.

(g) For purposes of Sections 4.01(a)-(d), (i) any share of Comcast Common Stock held by any Comcast Subsidiary will not be treated as a share of Comcast Common Stock held in the treasury of Comcast and (ii) any share of AT&T Broadband Common Stock held by any AT&T Broadband

Subsidiary will not be treated as a share of AT&T Broadband Common Stock held in treasury of AT&T Broadband.

SECTION 4.02. Exchange of Certificates. (a) Exchange Agent. At or prior to the Effective Time, Parent shall deposit with a bank or trust company jointly designated by AT&T and Comcast (the "EXCHANGE AGENT"), for the benefit of the holders of shares of AT&T Broadband Common Stock and Comcast Common Stock, for exchange in accordance with this Article 4, through the Exchange Agent, certificates representing the shares of Parent Common Stock (such shares of Parent Common Stock, together with any dividends or other distributions to the extent provided in Section 4.02(c), the "EXCHANGE FUND") issuable pursuant to Section 4.01 in exchange for outstanding shares of AT&T Broadband Common Stock and Comcast Common Stock.

(b) Exchange Procedures. As soon as reasonably practicable after the Effective Time, the Exchange Agent shall mail to each holder of record of a certificate or certificates that immediately prior to the Effective Time represented outstanding shares of AT&T Broadband Common Stock or Comcast Common Stock (the "CERTIFICATES"), other than shares to be canceled or retired or converted into AT&T Broadband Surviving Corporation Common stock or Comcast Surviving Corporation Common Stock in each case in accordance with Section 4.01, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent, and shall be in such form and have such other provisions as Parent may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing shares of Parent Common Stock. Upon surrender of a Certificate for cancellation to the Exchange Agent, together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor a certificate representing that number of whole shares of Parent Common Stock that such holder has the right to receive pursuant to the provisions of this Article 4, cash in lieu of any fractional shares of Parent Common Stock to the extent provided in Section 4.02(e) and any dividends or distributions to the extent provided in Section 4.02(c), and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of AT&T Broadband Common Stock or Comcast Common Stock that is not registered in the transfer records of AT&T Broadband or Comcast, as the case may be, a certificate representing the proper number of shares of Parent Common Stock may be issued to a Person other than the Person in whose name the Certificate so surrendered is registered if such Certificate shall be properly endorsed or otherwise be in proper form for transfer and the Person requesting such payment shall pay any transfer or other taxes required by reason of the issuance of shares of Parent Common Stock to a Person other than the registered holder of such Certificate or establish to the satisfaction of Parent that such tax has been paid or is not applicable. Until surrendered as contemplated by this Section 4.02, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the certificate representing the appropriate number of whole shares of Parent Common Stock, cash in lieu of any fractional shares of Parent Common Stock to the extent provided in Section 4.02(e) and any dividends and distributions to the extent provided in Section 4.02(c). No interest will be paid or will accrue on any cash payable in lieu of any fractional shares of Parent Common Stock. Any amounts payable or deliverable pursuant to this Agreement shall be subject to and made net of applicable withholding taxes to the extent such taxes are imposed under applicable law as determined by Parent in its reasonable discretion. To the extent that amounts are so withheld, those amounts shall be treated for all purposes as having been paid to the holders of AT&T Broadband Common Stock or Comcast Common Stock, as the case may be, in respect of which the deduction and withholding was made.

(c) Distributions with Respect to Unexchanged Shares. No dividends or other distributions with respect to Parent Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Parent Common Stock represented thereby, and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to Section 4.02(e) until the surrender of such Certificate in accordance with this Article 4. Subject to the effect of applicable law, following surrender of any such Certificate, there shall be paid to the holder of the

certificate representing whole shares of Parent Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of any cash payable in lieu of a fractional share of Parent Common Stock to which such holder is entitled pursuant to Section 4.02(e) and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Common Stock and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such whole shares of Parent Common Stock.

(d) No Further Ownership Rights in AT&T Broadband Common Stock or Comcast Common Stock. All shares of Parent Common Stock issued upon the surrender for exchange of Certificates in accordance with the terms of this Article 4 (including any cash paid pursuant to Section 4.02(c) or 4.02(e)) shall be deemed to have been issued (and paid) in full satisfaction of all rights pertaining to the shares of AT&T Broadband Common Stock or Comcast Common Stock, as the case may be, theretofore represented by such Certificates, and there shall be no further registration of transfers on the stock transfer books of the applicable Surviving Corporation, of the shares of AT&T Broadband Common Stock or Comcast Common Stock, as the case may be, that were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to Parent or the Exchange Agent for any reason, they shall be canceled and exchanged as provided in this Article 4, except as otherwise provided by applicable law. Certificates surrendered for exchange by any Person who is a Rule 145 Affiliate shall not be exchanged until Parent has received written undertakings from such Person in the form attached as Exhibit B.

(e) No Fractional Shares. (i) No certificates or scrip representing fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of Certificates, and such fractional share interests shall not entitle the owner thereof to vote or to any rights of a shareholder of Parent.

(ii) As promptly as practicable following the Effective Time, the Exchange

Agent shall determine the excess of (A) the number of shares of Parent Common Stock delivered to the Exchange Agent by Parent pursuant to Section 4.02(a) over (B) the aggregate number of whole shares of Parent Common Stock to be distributed to holders of the Certificates pursuant to Section 4.02(b) (such excess, the "EXCESS SHARES"). As soon as practicable after the Effective Time, the Exchange Agent, as agent for the holders of the Certificates, shall sell the Excess Shares at then-prevailing prices on Nasdaq, all in the manner provided in Section 4.02(e)(iii).

(iii) The sale of the Excess Shares by the Exchange Agent shall be executed on Nasdaq, and shall be executed in round lots to the extent practicable. The proceeds from such sale or sales available for distribution to the holders of Certificates shall be reduced by the compensation payable to the Exchange Agent and the expenses incurred by the Exchange Agent, in each case, in connection with such sale or sales of the Excess Shares, including all related commissions, transfer taxes and other out-of-pocket transaction costs. Until the net proceeds of such sale or sales have been distributed to the holders of the Certificates, the Exchange Agent shall hold such proceeds in trust for the holders of the Certificates (the "COMMON STOCK TRUST"). The Exchange Agent shall determine the portion of the Common Stock Trust to which each holder of a Certificate shall be entitled, if any, by multiplying the amount of the aggregate net proceeds comprising the portion of the Common Stock Trust attributable to the relevant class of Parent Common Stock by a fraction, the numerator of which is the amount of the fractional share interest in such class of Parent Common Stock to which such holder of a Certificate is entitled and the denominator of which is the aggregate amount of fractional share interests to which all holders of the Certificates are entitled.

(iv) As soon as practicable after the determination of the amount of cash, if any, to be paid to holders of Certificates in lieu of any fractional share interests, the Exchange Agent shall make available such amounts, without interest, to such holders of Certificates that have surrendered their Certificates in accordance with this Article 4.

(f) Termination of Exchange Fund and Common Stock Trust. Any portion of the Exchange Fund and Common Stock Trust that remains undistributed to the holders of Certificates for one year after the

Effective Time shall be delivered to Parent, upon demand, and any holders of Certificates who have not theretofore complied with this Article 4 shall thereafter look only to Parent for payment of their claim for Parent Common Stock, any cash in lieu of fractional shares of Parent Common Stock, and any dividends or other distributions with respect to Parent Common Stock.

(g) AT&T Stock Options and Other AT&T Equity-Based Awards. (i) At the Effective Time, all options to purchase, and stock appreciation rights with respect to, shares of AT&T Broadband Common Stock ("AT&T STOCK OPTIONS" and "AT&T SARS", respectively) that are outstanding and unexercised as of the Effective Time shall cease to represent rights with respect to shares of AT&T Broadband Common Stock and shall be converted automatically into options to purchase, or stock appreciation rights with respect to, shares of Parent Indexed Stock ("AT&T CONVERTED STOCK OPTIONS" and "AT&T CONVERTED SARS", respectively) and Parent shall assume each such AT&T Converted Stock Option and AT&T Converted SAR, on the same terms and conditions as applied to such AT&T Stock Option or AT&T SAR immediately before the Effective Time (including without limitation any vesting as a result of the consummation of the transactions contemplated hereby); provided, however, that, from and after the Effective Time, (A) the number of shares of Parent Indexed Stock subject to such AT&T Converted Stock Option or AT&T Converted SAR, as applicable, shall be equal to the number of shares, rounded to the nearest whole share, of Parent Indexed Stock whose fair market value, immediately after the Effective Time, is equal to (a) minus (b), where "(a)" is the aggregate fair market value, determined immediately prior to the Distribution using the AT&T Closing Stock Value, of the AT&T Common Stock subject to the original option or stock appreciation right (the "ORIGINAL AWARD") with respect to which such AT&T Stock Option or AT&T SAR was issued pursuant to the Employee Benefits Agreement; and "(b)," in the case of a Broadband Employee, is zero, and in the case of a Former Employee is the aggregate fair market value, determined immediately after the Distribution using the AT&T Opening Stock Value (as such term is defined in the Employee Benefits Agreement), of the AT&T Common Stock subject to the "adjusted AT&T Option" into which the Original Award was partially converted pursuant to Section 5.3(b) of the Employee Benefits Agreement; and (B) the per share exercise price under such AT&T Converted Stock Option or AT&T Converted SAR, as applicable, as of the Effective Time, shall be adjusted by dividing the aggregate exercise price of the Original Award relating to such AT&T Stock Option or AT&T SAR, as applicable (less, in the case of a Former Employee, the aggregate exercise price of the relevant "adjusted AT&T Option" referred to in (A) above), by the number of shares of Parent Indexed Stock to which such AT&T Converted Stock Option or AT&T Converted SAR is subject, rounded to the nearest one-hundredth of a cent. Notwithstanding the foregoing, the number of shares and the per share exercise price of each AT&T Converted Stock Option that is, as of the Effective Time, after giving effect to any vesting as a result of the transactions contemplated hereby, an "incentive stock option" (as defined in Section 422 of the Code) and each related AT&T Converted SAR, if any, shall be adjusted in accordance with the requirements of Section 424 of the Code. Accordingly, with respect to any incentive stock options, fractional shares shall be rounded down to the nearest whole number of shares, and, where necessary, the per share exercise price shall be rounded up to the nearest cent. For purposes of this Section 4.02, the fair market value of a share of Parent Indexed Stock shall be determined using the opening per-share price of Parent Indexed Stock as listed on Nasdaq as of the opening of trading on the first Trading Day following the Effective Time; provided, however, that if the Effective Time occurs at a time when Nasdaq is open for trading, fair market value shall be determined using the price at which Parent Indexed Stock trades as of the moment immediately after the Effective Time; provided, further, that if the Effective Time occurs prior to the opening of trading on Nasdaq, the fair market value shall be determined using the price at which the Parent Indexed Stock first trades after the opening of trading on this day.

(ii) At the Effective Time, all shares of AT&T Broadband restricted stock outstanding as of the Effective Time shall be converted automatically into the right to receive Parent Common Stock on the terms and conditions set forth in the applicable sections of this Article 4 and all other equity based awards based upon shares of AT&T Broadband Common Stock (collectively, the "AT&T EQUITY AWARDS") outstanding as of the Effective Time shall be converted automatically into equivalent awards based upon shares of Parent Indexed Stock (collectively, the "AT&T CONVERTED

A-22

EQUITY AWARDS"), and on the same terms and conditions as applied to such AT&T Equity Award immediately before the Effective Time (including without limitation any vesting as a result of the consummation of the transactions contemplated hereby); provided, however, that from and after the Effective Time, the number of shares of Parent Indexed Stock subject to such AT&T Converted Equity Award shall be equal to the number of shares of Parent Indexed Stock whose fair market value, immediately after the Effective Time, is equal to the aggregate fair market value, determined immediately prior to the Distribution using the AT&T Closing Stock Value, of the AT&T Common Stock subject to the original equity based award with respect to which such AT&T Equity Award was issued pursuant to the Employee Benefits Agreement.

(iii) At or prior to the Effective Time, Parent shall reserve for issuance the number of shares of Parent Indexed Stock necessary to satisfy Parent's obligations under this Section 4.02(g). No later than five Business Days after the Effective Time, Parent shall file with the SEC a registration statement on Form S-8 (or other appropriate form) (an "S-8") under the 1933 Act with respect to the shares of Parent Indexed Stock subject to AT&T Converted Stock Options, AT&T Converted SARs and AT&T Converted Equity Awards issued pursuant to this Section 4.02(g), and shall use all reasonable best efforts to maintain the effectiveness of the applicable S-8 and current status of the prospectus related to the applicable S-8, as well as comply with any applicable state securities or "blue sky" laws, for so long as any such AT&T Converted Stock Options, AT&T Converted SARs and/or AT&T Converted Equity Awards remain outstanding.

(h) Comcast Stock Options. (i) At the Effective Time, all options to purchase shares of Comcast Class A Special Common Stock ("COMCAST STOCK OPTIONS") granted by Comcast or any Comcast Subsidiary pursuant to the terms of any stock option or incentive plan and held, as of the Effective Time, by and employee of Comcast of any Comcast Subsidiary (or any beneficiary thereof) shall cease to represent rights to purchase shares of Comcast Class A Special Common Stock and shall be converted automatically into options to purchase ("COMCAST CONVERTED STOCK OPTIONS"), on the same terms and conditions as applied to such Comcast Stock Option immediately prior to the Effective Time, that number of shares of Parent Indexed Stock, rounded to the nearest whole share, whose fair market value, immediately after the Effective Time, is equal to the aggregate fair market value, determined immediately prior to the Effective Time, of the Comcast Class A Special Common Stock subject to such Comcast Stock Option, at a per share exercise price equal to the aggregate exercise price of such Comcast Stock Option divided by the number of shares of Parent Indexed Common Stock to which such Comcast Converted Stock Option is subject. Notwithstanding the foregoing, the number of shares and the per share exercise price of each Comcast Converted Stock Option that is, as of the Effective Time, an "incentive stock option" (as defined in Section 422 of the Code) and each related Comcast Converted SAR, if any, shall be adjusted in accordance with the requirements of Section 424 of the Code. Accordingly, with respect to any incentive stock options, fractional shares shall be rounded down to the nearest whole number of shares, and, where necessary, the per share exercise price shall be rounded up to the nearest cent.

(ii) At the Effective Time, all shares of Comcast restricted stock outstanding as of the Effective Time shall be converted automatically into the right to receive Parent Common Stock on the terms and conditions set forth in the applicable sections of this Article 4 and all other equity based awards based upon shares of Comcast Class A Special Common Stock (collectively, the "COMCAST EQUITY AWARDS") shall be converted automatically into equivalent awards based upon shares of Parent Indexed Stock (collectively, the "COMCAST CONVERTED EQUITY AWARDS"), and on the same terms and conditions as applied to such Comcast Equity Award immediately prior to the Effective Time. The number of shares of Parent Indexed Stock subject to such Comcast Converted Equity Award shall be the number of shares of Parent Indexed Stock, rounded to the nearest share, whose fair market value, immediately after the Effective Time, is equal to the aggregate fair market value, determined immediately prior to the Effective Time, of the shares of Comcast Common Stock that were subject to such Comcast Equity Award.

(iii) At or prior to the Effective Time, Parent shall reserve for issuance the number of shares of Parent Indexed Stock necessary to satisfy Parent's obligations under this Section 4.02(h). No later than five Business days after the Effective Time, Parent shall file with the SEC an S-8 under the 1933 Act with respect to the shares of Parent Indexed Stock subject to the Comcast Converted Stock Options and Comcast Converted Equity Awards issued pursuant to this Section 4.02(h), and shall use reasonable best efforts to maintain the effectiveness of the applicable S-8 and current status of the prospectus related to the applicable S-8, as well as comply with any applicable state securities or "blue sky" laws, for so long as any such Comcast Converted Stock Options and/or Comcast Converted Equity Awards remain outstanding.

(i) No Liability. None of the parties hereto or the Exchange Agent shall be liable to any Person in respect of any shares of Parent Common Stock (or dividends or distributions with respect thereto) or cash from the Exchange Fund or the Common Stock Trust delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. If any Certificates shall not have been surrendered prior to any date on which any shares of Parent Common Stock, any cash in lieu of fractional shares of Parent Common Stock or any dividends or other distributions with respect to Parent Common Stock in respect of such Certificate would otherwise escheat to or become the property of any Governmental Authority, any such shares, cash, dividends or other distributions in respect of such Certificate shall, to the extent permitted by applicable law, become the property of Parent, free and clear of all claims or interest of any Person previously entitled thereto.

(j) Investment of Exchange Fund and Common Stock Trust. The Exchange Agent shall invest any cash included in the Exchange Fund and Common Stock Trust, as directed by Parent, on a daily basis; provided that no such investment or loss thereon shall affect the amounts payable or the timing of the amounts payable to AT&T Broadband or Comcast shareholders pursuant to this Article 4. Any interest and other income resulting from such investments shall be paid to Parent.

(k) Lost Certificates. If any Certificate is lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and executing an indemnity reasonably satisfactory to Parent (and, if required by Parent in the case of a Certificate representing more than 1,000 shares, the posting by such Person of a bond, in such reasonable amount as Parent may direct, as indemnity) against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue, in exchange for such lost, stolen or destroyed Certificate and in respect of the shares of AT&T Broadband Common Stock or Comcast Common Stock, as the case may be, formerly represented by such lost Certificate, a certificate representing that number of whole shares of Parent Common Stock that such holder has the right to receive pursuant to the provisions of this Article 4, cash in lieu of any fractional shares of Parent Common Stock to the extent provided in Section 4.02(e) and any dividends or distributions to the extent provided in Section 4.02(c).

(l) Notwithstanding anything to the contrary contained in Section 4.02, Comcast and AT&T shall mutually agree upon an arrangement whereby holders of shares of AT&T Broadband Common Stock shall not be required to deliver Certificates to the Exchange Agent prior to receiving a certificate representing the shares of Parent Common Stock into which their shares of AT&T Broadband Common Stock have been converted in accordance with Section 4.01, any cash in lieu of fractional shares payable to such holder pursuant to Section 4.02(e) or dividends or other distributions on their shares of Parent Common Stock. Under such arrangements, the parties shall instruct the Exchange Agent (i) not to mail to any such holder of AT&T Broadband Common Stock the transmittal materials referred to in Section 4.02(b) and (ii) to deliver the appropriate merger consideration to each such holder of AT&T Broadband Common Stock as soon as reasonably practicable after the Effective Time. The parties shall cooperate to agree upon procedures to effect book entry transfers in respect of the foregoing.

(m) If (i) any holder of AT&T Common Stock does not receive shares of AT&T Broadband Common Stock in the Distribution in respect of such holder's shares of AT&T Common Stock because such holder has purported to exercise rights pursuant to Section 910 of the NYBCL in respect of such holder's shares of AT&T Common Stock and (ii) such rights are subsequently invalidated or such holder

subsequently withdraws his purported exercise of such rights, then Parent shall deliver to such holder at such time the merger consideration payable pursuant to this Article 4 in respect of the shares of AT&T Broadband Common Stock issuable in the Distribution in respect such holder's shares of AT&T Common Stock.

SECTION 4.03. Section 355(e) Top-up. (a) In the event that the A Shareholder Approval has been obtained and if, but for a disparity in the per share value of the Parent Class A Common Stock and the Parent Class A Special Common Stock, the Qualified Holders would have received a number of shares of Parent Common Stock pursuant to Section 4.01(a)(iii) at the Effective Time that represents more than 50% of the total value of all shares of Parent Common Stock, Parent shall issue additional shares of Parent Common Stock to the same holders of record of AT&T Broadband Common Stock in an amount sufficient to ensure that Qualified Holders will be treated as holding at the Effective Time more than 50% of the value of all shares of Parent Common Stock; provided, however, that Parent shall not be obligated to issue additional shares pursuant to this Section 4.03(a) to the extent that AT&T has issued shares in breach of Section 8.01(v) of this Agreement.

(b) In the event that the A Shareholder Approval has not been obtained and if, but for a disparity in the per share value of the Parent Class C Common Stock and the Parent Class A Special Common Stock, the Qualified Holders would have received a number of shares of Parent Common Stock pursuant to Section 4.01(c)(iii) at the Effective Time that represents more than 50% of the total value of all shares of Parent Common Stock, Parent shall issue additional shares of Parent Common Stock to the same holders of record of AT&T Broadband Common Stock in an amount sufficient to ensure that Qualified Holders will be treated as holding at the Effective Time more than 50% of the value of all shares of Parent Common Stock; provided, however, that Parent shall not be obligated to issue additional shares pursuant to this Section 4.03(b) to the extent that AT&T has issued shares in breach of Section 8.01(v) of this Agreement.

(c) For purposes of this Section 4.03, (i) "QUALIFIED HOLDERS" shall mean the holders of AT&T Broadband Common Stock other than holders that receive such shares "pursuant to a plan or series of related transactions" with the Distribution (within the meaning of Section 355(e) of the Code) and (ii) the total value of all shares of Parent Common Stock shall be determined in accordance with Section 4.03 of the Comcast Disclosure Schedule.

SECTION 4.04. Additional Payment. (a) In the event that the A Shareholder Approval has been obtained and prior to the Effective Time Standard and Poors' has not committed that the Parent Class A Common Stock will be included in the Index immediately after the Effective Time, then in addition to the consideration payable pursuant to Section 4.01(a)(iii), each holder of shares of AT&T Broadband Common Stock shall be entitled to receive, in exchange for each of such holder's shares, a non-transferable security (the "K/A SECURITY") entitling the holder to the rights described in the next sentence. Each holder of a K/A Security shall be entitled to receive from Parent, in exchange for and in full satisfaction of such holder's rights under such K/A Security, a number of shares of Parent Class A Common Stock equal to the product of (i) the Exchange Ratio and (ii) the K/A Price Differential; provided that if the Parent Class A Common Stock is included in the Index at any time prior to the end of the Pricing Period, all rights under the K/A Security shall immediately terminate. The number of shares of Parent Class A Common Stock issuable pursuant to the preceding sentence (if any) in respect of each K/A Security will be reduced by the number of shares of Parent Class A Common Stock previously issued pursuant to Section 4.03(a) (if any) in respect of each share of AT&T Broadband Common Stock.

(b) In the event that the A Shareholder Approval has not been obtained and prior to the Effective Time Standard and Poors' has not committed that the Parent Class C Common Stock will be included in the Index immediately after the Effective Time, then in addition to the consideration payable pursuant to Section 4.01(c)(iii), each holder of shares of AT&T Broadband Common Stock shall be entitled to receive, in exchange for each of such holder's shares, a non-transferable security (the "K/C SECURITY") entitling the holder to the rights described in the next sentence. Each holder of a K/C Security shall be entitled to receive from Parent, in exchange for and in full satisfaction of such holder's rights under such

K/C Security, a number of shares of Parent Class C Common Stock equal to the product of (i) the Exchange Ratio and (ii) the K/C Price Differential; provided that if the Parent Class C Common Stock is included in the Index at any time prior to the end of the Pricing Period, all rights under the K/C Security shall immediately terminate. The number of shares of Parent Class C Common Stock issuable pursuant to the preceding sentence (if any) in respect of each K/C Security will be reduced by the number of shares of Parent Class C Common Stock previously issued pursuant to Section 4.03(b) (if any) in respect of each share of AT&T Broadband Common Stock.

SECTION 4.05. Additional Exchange Arrangements. In the event that any additional shares of Parent Common Stock will be issued pursuant to Section 4.03, Parent will enter into arrangements with the Exchange Agent (which arrangements will be comparable to the arrangements described in Section 4.02 and will be mutually agreed upon by Comcast and AT&T) providing for the delivery to the applicable holders of shares of Parent Common Stock of such additional shares of Parent Common Stock as soon as reasonably practicable after such additional shares become payable pursuant to Section 4.03. In the event that any K/A Securities or K/C Securities will be issued pursuant to Section 4.04, or any additional shares of Parent Common Stock will be issued in respect of any K/A Securities or K/C Securities pursuant to Section 4.04, Parent will enter into arrangements with the Exchange Agent (which arrangements will be comparable to the arrangements described in Section 4.02 and will be mutually agreed upon by Comcast and AT&T) providing for the delivery to the applicable Persons of such Securities or such additional shares of Parent Common Stock as soon as reasonably practicable after such Securities or additional shares become payable pursuant to Section 4.04.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES OF COMCAST

Except as set forth in the Comcast Disclosure Schedule, regardless of whether the relevant Section herein refers to the Comcast Disclosure Schedule, or in the Specified Comcast SEC Documents filed prior to the date hereof, Comcast represents and warrants to AT&T as follows:

SECTION 5.01. Corporate Existence and Power. Comcast is a corporation duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and has all corporate powers required to carry on its business as currently conducted. Comcast is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where such qualification is necessary, except for those jurisdictions where failure to be so qualified, individually or in the aggregate, has not had and would not reasonably be expected to have a Comcast Material Adverse Effect. Comcast has heretofore delivered or made available to AT&T true and complete copies of the articles of incorporation and bylaws of Comcast as currently in effect.

SECTION 5.02. Corporate Authorization. (a) The execution, delivery and performance by Comcast of this Agreement and the consummation by Comcast of the transactions contemplated hereby are within Comcast's corporate powers and, except for the Comcast Shareholders' Approval, have been duly authorized by all necessary corporate action on the part of Comcast. This Agreement constitutes a valid and binding agreement of Comcast, enforceable against Comcast in accordance with its terms, except (i) as the same may be limited by applicable bankruptcy, insolvency, moratorium or similar laws of general application relating to or affecting creditors' rights and (ii) for the limitations imposed by general principles of equity.

(b) At a meeting duly called and held, Comcast's Board of Directors has unanimously (i) determined that this Agreement and the transactions contemplated hereby is fair to and in the best interests of Comcast shareholders; (ii) approved and adopted this Agreement and the transactions contemplated hereby; and (iii) resolved to recommend adoption of this Agreement by Comcast shareholders.

SECTION 5.03. Governmental Authorization. The execution, delivery and performance by Comcast of this Agreement and the consummation by Comcast of the transactions contemplated hereby require no

action by or in respect of, or filing with, any United States federal, state or local, foreign or supranational governmental body, agency, official or authority (a "GOVERNMENTAL AUTHORITY"), other than (a) notices to, or consents or waivers from, the relevant Franchising Authorities in respect of the Franchises for the Systems owned and operated by Comcast or the Comcast Subsidiaries (the "COMCAST FRANCHISE CONSENTS"), and the FCC in connection with a change of control and/or assignment of the holder of the FCC licenses of Comcast and the Comcast Subsidiaries ("COMCAST LICENSE CONSENTS"); (b) notices to, consents or waivers from the state public service and public utilities commissions having jurisdiction over the assets of Comcast and the Comcast Subsidiaries ("COMCAST PUC CONSENTS"); (c) the filing of the PA Articles of Merger pursuant to the PBCL and appropriate documents with the relevant authorities of other states in which Comcast is qualified to do business; (d) compliance with any applicable requirements of the HSR Act; (e) compliance with any applicable requirements of the 1933 Act, the 1934 Act, and any other applicable securities laws, whether United States state or foreign; and (f) any actions or filings the absence of which, individually or in the aggregate, would not reasonably be expected to have a Comcast Material Adverse Effect or prohibit or materially impair or delay the ability of Comcast to consummate the transactions contemplated by this Agreement.

SECTION 5.04. Non-contravention. The execution, delivery and performance by Comcast of this Agreement and the consummation by Comcast of the transactions contemplated hereby do not and will not (a) contravene, conflict with, or result in any violation or breach of any provision of the articles of incorporation or bylaws of Comcast; (b) assuming compliance with the matters referred to in Section 5.03, contravene, conflict with or result in a violation or breach of any provision of any applicable law, statute, ordinance, rule, regulation, judgment, injunction, order, or decree; (c) assuming compliance with the matters referred to in Section 5.03, require any consent or other action by any Person under, constitute a default (or an event that, with or without notice or lapse of time or both, would constitute a default) under, or cause or permit the termination, cancellation, acceleration, triggering or other change of any right or obligation or the loss of any benefit to which Comcast or any Comcast Subsidiary is entitled under (i) any provision of any agreement or other instrument binding upon Comcast or any Comcast Subsidiary or any of their respective assets or properties or (ii) any license, franchise, permit, certificate, approval or other similar authorization held by, or affecting, or relating in any way to, the assets, properties or business of, Comcast or any Comcast Subsidiary; or (d) result in the creation or imposition of any Lien on any asset or property of Comcast or any Comcast Subsidiary, other than such exceptions in the case of clauses (b), (c) and (d) above as would not, individually or in the aggregate, reasonably be expected to have a Comcast Material Adverse Effect or prohibit or materially impair or delay the ability of Comcast to consummate the transactions contemplated hereby.

SECTION 5.05. Capitalization. (a) The authorized capital stock of Comcast consists of (i) 200,000,000 shares of Comcast Class A Common Stock, (ii) 50,000,000 shares of Comcast Class B Common Stock, (iii) 2,500,000,000 shares of Comcast Class A Special Common Stock and (iv) 20,000,000 shares of preferred stock. As of the close of business on November 30, 2001, there were outstanding (1) 21,829,422 shares of Comcast Class A Common Stock, (2) 9,444,375 shares of Comcast Class B Common Stock, (3) 913,778,527 shares of Comcast Class A Special Common Stock (inclusive of shares issued pursuant to the Comcast ESPP but exclusive of all shares of restricted stock granted under any compensatory plan or arrangements), (4) Comcast Stock Options to purchase an aggregate of 55,853,196 shares of Comcast Class A Special Common Stock (of which options to purchase an aggregate of 16,822,181 shares of Comcast Class A Special Common Stock were exercisable), (5) phantom shares, stock units, stock appreciation rights, other stock-based awards or other deferred stock awards issued under any stock option, compensation or deferred compensation plan or arrangement with respect to an aggregate of 6,808,916 shares of Comcast Class A Special Common Stock and (6) no shares of preferred stock. As of November 30, 2001, no shares of Comcast Common Stock were held in trust or in treasury. All outstanding shares of capital stock of Comcast have been, and all shares that may be issued pursuant to any compensatory plan or arrangement will be, when issued in accordance with the respective terms thereof, duly authorized, validly issued, fully paid and nonassessable.

(b) Except as set forth in this Section 5.05 and for changes since November 30, 2001 resulting from the exercise of Comcast Stock Options and the vesting of Comcast Equity Awards outstanding on such date, including, for the avoidance of doubt, options to purchase stock under the Comcast ESPP (and the grant or award of Comcast Stock Options and Comcast Equity Awards in the ordinary course of business and the exercise thereof, including, for the avoidance of doubt, options to purchase stock under the Comcast ESPP), there are no outstanding (i) shares of capital stock or voting securities of Comcast, (ii) securities of Comcast or any Comcast Subsidiary convertible into or exchangeable for shares of capital stock or voting securities of Comcast or (iii) options or other rights to acquire from Comcast or any Comcast Subsidiary, or other obligations of Comcast or any Comcast Subsidiary to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of Comcast. There are no outstanding obligations of Comcast or any Comcast Subsidiary to repurchase, redeem or otherwise acquire any of the securities referred to in clause (i), (ii) or (iii) above (collectively, the "COMCAST SECURITIES").

SECTION 5.06. Subsidiaries. (a) Each Comcast Subsidiary is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has all corporate, partnership or other similar powers required to carry on its business as currently conducted, other than such exceptions as, individually or in the aggregate, have not had and would not reasonably be expected to have a Comcast Material Adverse Effect. Each Comcast Subsidiary is duly qualified to do business as a foreign corporation or other foreign legal entity and is in good standing in each jurisdiction where such qualification is necessary, other than such exceptions as, individually or in the aggregate, have not had and would not reasonably be expected to have a Comcast Material Adverse Effect. Section 5.06(a) of the Comcast Disclosure Schedule sets forth a list of all Comcast Significant Subsidiaries and their respective jurisdictions of organization.

(b) All of the outstanding capital stock of, or other voting securities or ownership interests in, each Comcast Significant Subsidiary is owned by Comcast, directly or indirectly, free and clear of any Lien and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other voting securities or ownership interests). There are no outstanding (i) securities of Comcast or any Comcast Subsidiary convertible into or exchangeable for shares of capital stock or other voting securities or ownership interests in any Comcast Significant Subsidiary or (ii) options or other rights to acquire from Comcast or any Comcast Subsidiary, or other obligations of Comcast or any Comcast Subsidiary to issue, any capital stock, or other voting securities or ownership interests in, or any securities convertible into or exchangeable for any capital stock or other voting securities or ownership interests in, any Comcast Significant Subsidiary. There are no outstanding obligations of Comcast or any Comcast Significant Subsidiary to repurchase, redeem or otherwise acquire any of the items referred to in clauses (i) and (ii) above.

SECTION 5.07. SEC Filings. (a) Comcast has delivered or made available to AT&T (i) Comcast's annual reports on Form 10-K for its fiscal years ended December 31, 2000, 1999 and 1998, (ii) Comcast's proxy or information statements relating to meetings of, or actions taken without a meeting by, Comcast shareholders held since December 31, 1998, and (iii) all of Comcast's other reports, statements, schedules and registration statements filed with the SEC since December 31, 1998 (the documents referred to in clauses (i), (ii) and (iii) above, collectively, the "COMCAST SEC DOCUMENTS").

(b) As of its filing date (and, if amended or superceded by a filing prior to the date of this Agreement or the Effective Time, then on the date of such filing), each Comcast SEC Document complied as to form in all material respects with the applicable requirements of the 1933 Act and the 1934 Act, as the case may be.

(c) As of its filing date (and, if amended or superceded by a filing prior to the date of this Agreement or the Effective Time, then on the date of such filing), each Comcast SEC Document filed pursuant to the 1934 Act did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(d) Each Comcast SEC Document that is a registration statement, as amended or supplemented, if applicable, filed pursuant to the 1933 Act, as of the date such registration statement or amendment became effective, did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

SECTION 5.08. Financial Statements. The audited consolidated financial statements and unaudited consolidated interim financial statements of Comcast included in the Comcast SEC Documents fairly present, in all material respects, in conformity with United States generally accepted accounting principles ("GAAP") applied on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of Comcast and its consolidated Subsidiaries as of the respective dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject to normal year-end adjustments in the case of any unaudited interim financial statements).

SECTION 5.09. Information Supplied. The information supplied by Comcast for inclusion or incorporation in the registration statement on Form S-4 or any amendment or supplement thereto pursuant to which shares of Parent Common Stock (and any K/A Securities or K/C Securities) issuable in the Mergers will be registered with the SEC (the "REGISTRATION STATEMENT") shall not at the time the Registration Statement is declared effective by the SEC contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The information supplied by Comcast for inclusion in the joint proxy statement/prospectus or any amendment or supplement thereto (the "JOINT PROXY STATEMENT") to be sent to Comcast shareholders in connection with their meeting to consider this Agreement and the Comcast Merger (the "COMCAST SHAREHOLDERS' MEETING") and to be sent to AT&T shareholders in connection with their meeting to consider this Agreement and the AT&T Broadband Merger (the "AT&T SHAREHOLDERS' MEETING") shall not, on the date the Joint Proxy Statement is first mailed to the shareholders of each of Comcast and AT&T, at the time of the Comcast Shareholders' Meeting, at the time of the AT&T Shareholders' Meeting or at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

SECTION 5.10. Absence of Certain Changes. Since the Comcast Balance Sheet Date, the business of Comcast and the Comcast Subsidiaries has been conducted in the ordinary course of business consistent with past practices, and there has not been (i) any event, occurrence or development of a state of circumstances or facts that, individually or in the aggregate, has had or would reasonably be expected to have a Comcast Material Adverse Effect or (ii) any action, event, occurrence or transaction that would have been prohibited by clause (iii), (iv), (vii), (viii) or (ix) of Section 7.01 if this Agreement had been in effect at the time thereof or any agreement, arrangement or commitment in respect of any action, event, occurrence or transaction that would have been prohibited by the foregoing clauses of Section 7.01 if this Agreement had been in effect at the time thereof.

SECTION 5.11. No Undisclosed Material Liabilities. There are no liabilities or obligations of Comcast or any Comcast Subsidiary of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, and there is no existing condition, situation or set of circumstances that would reasonably be expected to result in such a liability or obligation, other than:

(a) liabilities or obligations disclosed and provided for in the Comcast Balance Sheet or in the notes thereto;

(b) liabilities or obligations incurred since the Comcast Balance Sheet Date in the ordinary course of business of the Comcast Group consistent with past practice;

(c) liabilities or obligations under commercial transactions and agreements in accordance with their terms or arising in compliance with applicable laws, statutes, ordinances, rules or regulations; or

(d) liabilities or obligations that, individually or in the aggregate, have not had and would not reasonably be expected to have a Comcast Material Adverse Effect.

SECTION 5.12. Compliance with Laws and Court Orders. Comcast and the Comcast Subsidiaries hold all licenses, franchises, certificates, consents, permits, qualifications and authorizations from all Governmental Authorities necessary for the lawful conduct of their business, except where the failure to hold any of the foregoing, individually or in the aggregate, has not had and would not reasonably be expected to have a Comcast Material Adverse Effect. Comcast and each of the Comcast Subsidiaries are, and have been in compliance with, and to the knowledge of Comcast, are not under investigation with respect to and have not been threatened to be charged with or given notice of any violation of, any such license, franchise, certificate, consent, permit, qualification or authorization, or any applicable law, statute, ordinance, rule, regulation, judgment, injunction, order or decree, except for failures to comply or violations that, individually or in the aggregate, have not had and would not reasonably be expected to have a Comcast Material Adverse Effect.

SECTION 5.13. Litigation. There is no action, suit, investigation or proceeding (or any basis therefor) pending against, or, to the knowledge of Comcast, threatened against or affecting, Comcast, any Comcast Subsidiary or any of their respective assets or properties before any court or arbitrator or before or by any other Governmental Authority, that, individually or in the aggregate, would reasonably be expected to have a Comcast Material Adverse Effect.

SECTION 5.14. Finders' Fees. Except for Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Quadrangle Group, whose fees will be paid by Comcast, there is no investment banker, broker, finder or other intermediary that has been retained by or is authorized to act on behalf of Comcast or any Comcast Subsidiary who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement and the other Transaction Agreements. A copy of Comcast's engagement agreement with each of Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Quadrangle Group has been provided to AT&T.

SECTION 5.15. Opinion of Financial Advisor. Comcast has received an opinion of each of Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, financial advisors to Comcast, to the effect that, as of the date hereof, the conversion ratios in the Comcast Merger applicable to the holders of Comcast Common Stock, in the aggregate, are fair, from a financial point of view, to the Comcast shareholders, taken together.

SECTION 5.16. Taxes. Except as would not, individually or in the aggregate, reasonably be expected to have a Comcast Material Adverse Effect, (a) all Comcast and Comcast Subsidiary Tax Returns required to be filed on or before the Effective Time with any taxing authority by, or with respect to, Comcast and the Comcast Subsidiaries have been or will be timely filed (taking into account extensions) and are or will be correct in all respects (other than with respect to Taxes for which adequate reserves are reflected on the Comcast Balance Sheet); (b) Comcast and the Comcast Subsidiaries have timely paid or will timely pay all Taxes shown as due and payable on the Comcast Tax Returns that have been or will be so filed, and, as of the time of filing, the Comcast Tax Returns correctly reflected the facts regarding the income, business, assets, operations, activities and the status of Comcast and the Comcast Subsidiaries (other than with respect to Taxes for which adequate reserves are reflected on the Comcast Balance Sheet); (c) Comcast and the Comcast Subsidiaries have made provision for all Taxes payable by Comcast and the Comcast Subsidiaries for which no Comcast Tax Return has yet been filed; (d) there is no action, suit, proceeding, audit or claim currently proposed or pending against or with respect to Comcast or any Comcast Subsidiary in respect of any Tax where there is a reasonable possibility of an adverse determination; (e) the United States federal income Tax Returns of Comcast and the Comcast Subsidiaries have been examined and settled with the IRS (or the applicable statutes of limitation for the assessment of United States federal income Taxes for such periods have expired) for all years through 1993; (f) no extension of the statute of limitations on the assessment of any Taxes has been granted by Comcast or any Comcast Subsidiary and is currently in effect; (g) except for complete and accurate copies of Tax sharing agreements and amendments thereto made available to AT&T prior to the execution of this Agreement and listed in Section 5.16 of the Comcast Disclosure Schedule, no agreements relating to the allocation or sharing of Taxes exist between Comcast and/or any of the Comcast Subsidiaries, on

the one hand, and a third party, on the other hand; and (h) there are no Liens for Taxes on any of the assets of Comcast or any Comcast Subsidiary except Liens for current Taxes not yet due and payable. "TAXES" means (i) any and all taxes, charges, fees, levies or other assessments, including all net income, gross income, gross receipts, excise, stamp, real or personal property, ad valorem, withholding, social security (or similar), unemployment, occupation, use, service, service use, license, net worth, payroll, franchise, severance, transfer, recording, employment, premium, windfall profits, environmental, customs duties, capital stock, profits, disability, sales, registration, value added, alternative or add-on minimum, estimated or other taxes, assessments or charges imposed by any Governmental Authority and any interest, penalties, or additions to tax attributable thereto, (ii) liability for the payment of any amount imposed on any Person of the type described in clause (i) as a result of being or having been before the Effective Time a member of an affiliated, consolidated, combined or unitary group and (iii) any liability for the payment of any amount imposed on any Person of the type described in (i) as a result of any existing express or implied indemnification agreement or arrangement. "TAX RETURNS" means any return, report, form or similar statement required to be filed with respect to any Tax (including any attached schedules), including any information return, claim for refund, amended return or declaration of estimated Tax.

SECTION 5.17. Tax Opinions. Neither Comcast nor any Comcast Subsidiary has taken any action or knows of any facts or circumstances relating to Comcast or any Comcast Subsidiary that would prevent (i) the ruling or opinion referred to in Section 10.01(j) from being obtained or (ii) Davis Polk & Wardwell from delivering the opinion referred to in Section 10.03(b) as of the date hereof.

SECTION 5.18. Employee Benefit Plans and Labor Matters. Except as have not had and would not reasonably be expected to have, individually or in the aggregate, a Comcast Material Adverse Effect:

(a) Section 5.18(a) of the Comcast Disclosure Schedule contains a true and complete list, as of the date hereof, of all Comcast Employee Plans and all Comcast Benefit Arrangements. Copies of each Comcast Employee Plan and each Comcast Benefit Arrangement (and, if applicable, related trust agreements) and all amendments thereto have been made available to AT&T as of the date hereof, together with the three most recent annual reports (Form 5500, including, if applicable, Schedule B thereto) and the most recent actuarial valuation report prepared in connection with any Comcast Employee Plan.

(b) Neither Comcast nor any ERISA Affiliate nor any predecessor thereof sponsors, maintains or contributes to any Comcast Employee Plan subject to Title IV of ERISA. Neither Comcast nor any ERISA Affiliate has any liability under Title IV of ERISA.

(c) As of September 30, 2001, the aggregate unfunded liability of Comcast and any Comcast Subsidiary in respect of all Comcast Deferred Compensation Plans, computed using reasonable actuarial assumptions and determined as if all benefits under such plans were vested and payable as of such date, did not exceed $180 million.

(d) Neither Comcast or any Comcast Subsidiary has any liability with respect of post-retirement health, medical or life insurance benefits for retired, former or current employees of Comcast or the Comcast Subsidiaries except as required to avoid excise tax under Section 4980B of the Code.

(e) Each Comcast Employee Plan that is intended to be qualified under Section 401(a) of the Code is so qualified and a favorable determination letter is currently in effect for each such Comcast Employee Plan. To the knowledge of Comcast, no fact or circumstance exists giving rise to a material likelihood that such Comcast Employee Plan would not be treated as qualified by the Internal Revenue Service.

(f) There is no contract, plan or arrangement (written or otherwise) covering any employee or former employee of Comcast or any Comcast Subsidiary that, individually or in the aggregate, could give rise to the payment of any amount by Comcast or any Comcast Subsidiary that would not be deductible pursuant to the terms of Sections 162(m) or 280G of the Code.

(g) Comcast has made available to AT&T, as of the date hereof, a true and complete list and copies of each material Comcast International Plan, other than plans mandated by applicable law. According to the actuarial assumptions and valuations most recently used for the purpose of funding each Comcast International Plan (or, if the same has no such assumptions and valuations or is unfunded, according to actuarial assumptions and valuations in use by the PBGC on the date hereof), as of December 31, 2000, the total amount or value of the funds available under such Comcast International Plan to pay benefits accrued thereunder or segregated in respect of such accrued benefits, together with any reserve or accrual with respect thereto, exceeded the present value of all benefits (actual or contingent) accrued as of such date of all participants and past participants therein in respect of which Comcast or any Comcast Subsidiary has or would have after the Effective Time any obligation.

(h) Each Comcast Employee Plan, Comcast Benefit Arrangement and Comcast International Plan has been maintained in compliance with its terms and with the requirements prescribed by all applicable laws, statutes, orders, rules and regulations (including any special provisions relating to registration or qualification where such plan was intended to be so registered or qualified) and has been maintained in good standing with applicable Governmental Authorities.

(i) There has been no amendment to, written interpretation or announcement (whether or not written) by Comcast or any of its Affiliates relating to, or change in employee participation coverage under, a Comcast Employee Plan, Comcast Benefit Arrangement or Comcast International Plan which would increase materially the expense of maintaining such plan above the level of expense incurred in respect thereof for the fiscal year ended December 31, 2000.

(j) No employee or former employee or independent contractor of Comcast or any Comcast Subsidiary will become entitled to any bonus, retirement, severance, job security or similar benefit or enhanced or increased such benefit (including acceleration of vesting or exercise of an incentive award) as a result of the transactions contemplated hereby (either alone or together with any other event).

(k) Section 5.18(k) of the Comcast Disclosure Schedule sets forth a list of all collective bargaining agreements to which Comcast or any of the Comcast Subsidiaries is a party. Neither Comcast nor any of the Comcast Subsidiaries is involved in or, to the knowledge of Comcast, threatened with any labor dispute, work stoppage, labor strike, slowdown or grievance. To the knowledge of Comcast, there is no organizing effort or representation question at issue with respect to any collective bargaining unit of Comcast or any of the Comcast Subsidiaries, or any employee of Comcast or any of the Comcast Subsidiaries.

(l) There are no pending or threatened claims (other than claims for benefits in the ordinary course), lawsuits or arbitrations that have been asserted or instituted, and, to the knowledge of Comcast, no set of circumstances exists that may reasonably give rise to a claim or lawsuit, against any of the Comcast Benefit Arrangements, the Comcast Employee Plans and the Comcast International Plans, any fiduciaries thereof with respect to their duties thereto or the assets of any of the trusts thereunder, that could reasonably be expected to result in any material liability of Comcast or any of the Comcast Subsidiaries to the PBGC, the United States Department of Treasury, the United States Department of Labor, any foreign governmental authority, any Multiemployer Plan, any of the Comcast Benefit Arrangements, the Comcast Employee Plans and the Comcast International Plans, any participant therein, or any other Person.

SECTION 5.19. Environmental Matters. (a) Except as have not had and would not reasonably be expected to have, individually or in the aggregate, a Comcast Material Adverse Effect:

(i) no notice, notification, demand, request for information, citation, summons or order has been received, no complaint has been filed, no penalty has been assessed, and no investigation, action, claim, suit, proceeding or review is pending or, to the knowledge of Comcast, threatened by any Governmental Authority or other Person relating to or arising out of any Environmental Law;

(ii) Comcast is and has been in compliance with all Environmental Laws and all Environmental Permits; and

(iii) there are no liabilities of Comcast or any Comcast Subsidiary of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise arising under or relating to any Environmental Law, and there are no facts, conditions, situations or set of circumstances that would reasonably be expected to result in, or be the basis for, any such liability.

(b) There have been no environmental investigations, studies, audits, tests, reviews or other analyses conducted of which Comcast has knowledge in relation to the current or prior business of Comcast or any Comcast Subsidiary or any property or facility now or previously owned or leased by Comcast or any Comcast Subsidiary that reveal matters that, individually or in the aggregate, have had, or would reasonably be expected to have, a Comcast Material Adverse Effect.

(c) For purposes of this Section 5.19, the terms "Comcast" and "Comcast Subsidiary" shall include any entity that is, in whole or in part, a predecessor of Comcast or any Comcast Subsidiary.

SECTION 5.20. Intellectual Property. With such exceptions as, individually or in the aggregate, have not had, and would not reasonably be expected to have, a Comcast Material Adverse Effect, each of Comcast and the Comcast Subsidiaries owns or has a valid license or other right to use each trademark, service mark, trade name, invention, patent, trade secret, copyright, know-how (including any registrations or applications for registration of any of the foregoing) or any other similar type of proprietary intellectual property right (collectively, the "COMCAST INTELLECTUAL PROPERTY") necessary to carry on its business substantially as currently conducted. Neither Comcast nor any Comcast Subsidiary has received any notice of infringement of or conflict with, and, to Comcast's knowledge, there are no infringements of or conflicts with, the rights of any Person with respect to the use of any Comcast Intellectual Property in the conduct of Comcast's business that, in either such case, individually or in the aggregate, have had or would reasonably be expected to have, a Comcast Material Adverse Effect.

SECTION 5.21. Contracts. Neither Comcast nor any of the Comcast Subsidiaries is a party to or bound by (a) any "material contract" (as defined in Item 601(b)(10) of Regulation S-K of the SEC) or any agreement, contract or commitment that would be such a "material contract" but for the exception for contracts entered into in the ordinary course of business or (b) any non-competition agreement or any other agreement or obligation that materially limits or will materially limit Comcast or any of the Comcast Subsidiaries (or, after the Mergers, Parent, AT&T Broadband or any of the AT&T Broadband Subsidiaries) from engaging in the business of providing telephony, data transmission services, cable television or programming content. With such exceptions as, individually or in the aggregate, have not had, and would not reasonably be expected to have, a Comcast Material Adverse Effect, (i) each of the contracts, agreements and commitments of Comcast and the Comcast Subsidiaries is valid and in full force and effect and (ii) neither Comcast nor any of the Comcast Subsidiaries has violated any provision of, or committed or failed to perform any act that, with or without notice, lapse of time, or both, would constitute a default under the provisions of any such contract, agreement or commitment. To the knowledge of Comcast, no counterparty to any such contract, agreement or commitment has violated any provision of, or committed or failed to perform any act that, with or without notice, lapse of time, or both would constitute a default or other breach under the provisions of, such contract, agreement or commitment, except for defaults or breaches that, individually or in the aggregate, have not had, and would not reasonably be expected to have, a Comcast Material Adverse Effect. Neither Comcast nor any Comcast Subsidiary is a party to, or otherwise a guarantor of or liable with respect to (including pursuant to any keepwell agreement), (i) any material interest rate, currency or other swap or derivative transaction (other than those entered into in the ordinary course of business solely for hedging purposes) or (ii) any Indebtedness of any other Person except a wholly owned Comcast Subsidiary. Neither Comcast nor any Comcast Subsidiary is a party to any joint venture or partnership agreement pursuant to which it is obligated to make capital contributions in excess of (x) $25,000,000 during the current or any succeeding calendar year or (y) $100,000,000 during the remaining term of such agreement. Subject to applicable confidentiality restrictions, Comcast has provided or made available to AT&T prior to the date hereof a copy of each agreement of the type described in clause (a) or (b) in the first sentence of this Section 5.21, in clause (i) or (ii) of the second preceding sentence of this Section 5.21 or in the immediately preceding sentence.

SECTION 5.22. Vote Required. (a) The only vote of the holders of any class or series of capital stock of Comcast necessary to approve and adopt this Agreement and the transactions contemplated hereby is the affirmative vote of the holders of shares of Comcast Common Stock representing a majority of the votes cast by such holders ("COMCAST SHAREHOLDERS' APPROVAL"), except that the A Shareholder Approval is required in order to effect the provisions hereof that are expressly subject to obtaining the A Shareholder Approval. Assuming Comcast Shareholder (or its successor) votes to approve and adopt this Agreement and the transactions contemplated hereby in accordance with the terms of the Support Agreement, no vote or consent of any other holder of any class or series of capital stock of Comcast will be required to approve and adopt this Agreement and the transactions contemplated hereby, except that the A Shareholder Approval is required in order to effect the provisions hereof that are expressly subject to obtaining the A Shareholder Approval.

SECTION 5.23. Antitakeover Statutes; Charter and Bylaw Provisions. (a) Comcast has taken all action necessary to exempt the Comcast Merger and this Agreement and the transactions contemplated hereby from the restrictions of Section 2555 of the PBCL or otherwise to make such provisions inapplicable to this Agreement and the transactions contemplated hereby, and, accordingly, neither of Section 2555 of the PBCL nor any other antitakeover or similar statute or regulation applies or purports to apply to any such transactions. No other "control share acquisition", "fair price", "moratorium" or other antitakeover laws or regulations enacted under any United States federal, state or local or foreign laws apply to this Agreement or any of the transactions contemplated hereby.

SECTION 5.24. AT&T Securities. Neither Comcast nor any Comcast Subsidiary owns any AT&T Securities.

SECTION 5.25. Transactions with Affiliates. Except as set forth in Section 5.25 of the Comcast Disclosure Schedule, none of Comcast or any Comcast Subsidiary is a party (and since December 31, 2000 none of Comcast or any Comcast Subsidiary has been a party) to any material business arrangement or business relationship with any Comcast Affiliate (other than another member of the Comcast Group), and no Comcast Affiliate (other than another member of the Comcast Group) owns (or has owned since such date) any material property or right, tangible or intangible, that is used in the business of any member of the Comcast Group.

SECTION 5.26. Investments. Section 5.26 of the Comcast Disclosure Schedule sets forth a list of each material investment of Comcast or any Comcast Subsidiary in any Person (other than a Subsidiary). Neither Comcast nor any Comcast Subsidiary has any material liability in respect of any such investment.

SECTION 5.27. No Approval Rights. Comcast has not granted any third party any right to approve any waiver that Comcast may elect to grant to AT&T under Section 8.01(xiii).

ARTICLE 6

REPRESENTATIONS AND WARRANTIES OF AT&T

Except as set forth (i) in the AT&T Disclosure Schedule, regardless of whether the relevant Section herein refers to the AT&T Disclosure Schedule, or (ii) (except with respect to Sections 6.08(c), 6.26, 6.27 and 6.28) in the

Specified AT&T SEC Documents filed prior to the date hereof (to the extent the relevance of any disclosure in any of such Specified AT&T SEC Documents to the AT&T Broadband Group is reasonably apparent on the face of such disclosure), AT&T represents and warrants to Comcast as follows:

SECTION 6.01. Corporate Existence and Power. Each of AT&T and the AT&T Subsidiaries that is or will be a party to a Transaction Agreement is a corporation or other entity duly incorporated or formed, validly existing and in good standing under the laws of the state of its incorporation or formation and has

all corporate or other powers required to carry on its business as currently conducted. Each of AT&T and the AT&T Subsidiaries that is or will be a party to a Transaction Agreement is duly qualified to do business and is in good standing in each jurisdiction where such qualification is necessary, except for those jurisdictions where failure to be so qualified, individually or in the aggregate, has not had and would not reasonably be expected to have an AT&T Broadband Material Adverse Effect. AT&T has heretofore delivered or made available to Comcast true and complete copies of the certificate of incorporation, bylaws or other organizational document of AT&T and each AT&T Subsidiary that is or will be a party to a Transaction Agreement, as currently in effect.

SECTION 6.02. Corporate Authorization. (a) The execution, delivery and performance by AT&T and the AT&T Subsidiaries of the Transaction Agreements to which they are or will be party and the consummation by AT&T and the AT&T Subsidiaries of the transactions contemplated hereby and thereby are within AT&T's and the AT&T Subsidiaries' corporate or other powers and, except for the AT&T Shareholders' Approval, have been duly authorized by all necessary corporate action on the part of AT&T and the AT&T Subsidiaries. Each Transaction Agreement to which AT&T or any AT&T Subsidiary is or will be a party constitutes or will when executed constitute a valid and binding agreement of AT&T and each AT&T Subsidiary that is a party thereto, enforceable against AT&T and each such AT&T Subsidiary in accordance with its terms, except (i) as the same may be limited by applicable bankruptcy, insolvency, moratorium or similar laws of general application relating to or affecting creditors' rights and (ii) for the limitations imposed by general principles of equity.

(b) At meetings duly called and held, AT&T's Board of Directors and AT&T Broadband's Board of Directors unanimously (i) determined that this Agreement and the transactions contemplated hereby are fair to and in the best interests of AT&T shareholders and AT&T Broadband shareholders, respectively; (ii) approved and adopted this Agreement and the transactions contemplated hereby; and (iii) resolved to recommend adoption of this Agreement by AT&T shareholders (subject to Section 8.02(b)) and AT&T Broadband shareholders, respectively.

(c) At meetings duly called and held, each of AT&T's Board of Directors and AT&T Broadband's Board of Directors unanimously approved the Separation and the Distribution pursuant to the Separation and Distribution Agreement. AT&T and AT&T Broadband have entered into the Separation and Distribution Agreement.

(d) AT&T, as sole shareholder of AT&T Broadband as of the date hereof, has adopted this Agreement and the transactions contemplated hereby, including the AT&T Broadband Merger.

SECTION 6.03. Governmental Authorization. The execution, delivery and performance by AT&T and the AT&T Subsidiaries of the Transaction Agreements to which they are or will be party and the consummation by AT&T and the AT&T Subsidiaries of the transactions contemplated hereby and thereby require no action by or in respect of, or filing with, any Governmental Authority, other than (a) notices to, consents or waivers from, the relevant Franchising Authorities in respect of the Franchises for the Systems owned and operated by AT&T or the AT&T Subsidiaries (the "AT&T FRANCHISE CONSENTS" and, together with the Comcast Franchise Consents, the "FRANCHISE CONSENTS")), and the FCC in connection with a change of control and/or assignment of the holder of the FCC licenses and social contracts of AT&T or the AT&T Subsidiaries (the "AT&T LICENSE CONSENTS" and, together with the Comcast License Consents, the "LICENSE CONSENTS"); (b) notices to, consents or waivers from the state public service and public utilities commissions having jurisdiction over the assets of AT&T and the AT&T Subsidiaries (the "AT&T PUC CONSENTS" and, together with the Comcast PUC Consents, the "PUC CONSENTS"); (c) the filing of the DE Certificate of Merger pursuant to the DGCL and appropriate documents with the relevant authorities of other states in which AT&T is qualified to do business; (d) compliance with any applicable requirements of the HSR Act; (e) compliance with any applicable requirements of the 1933 Act, the 1934 Act and any other applicable securities laws, whether United States state or foreign; (f) notices, consents, waivers, approvals and filings necessary in connection with the Separation and set forth on Section 6.03 of the AT&T Disclosure Schedule; and (g) any actions or filings the absence of which, individually or in the aggregate, would not reasonably be expected to have an AT&T Broadband Material Adverse Effect or

prohibit or materially impair or delay the ability of AT&T and the AT&T Subsidiaries to consummate the transactions contemplated by this Agreement and the other Transaction Agreements.

SECTION 6.04. Non-contravention. The execution, delivery and performance by AT&T and the AT&T Subsidiaries of the Transaction Agreements to which they are or will be party and the consummation by AT&T and the AT&T Subsidiaries of the transactions contemplated hereby and thereby do not and will not (a) contravene, conflict with, or result in any violation or breach of any provision of the certificate of incorporation, bylaws or other organizational document of AT&T or any AT&T Subsidiary; (b) assuming compliance with the matters referred to in Section 6.03, contravene, conflict with or result in a violation or breach of any provision of any applicable law, statute, ordinance, rule, regulation, judgment, injunction, order or decree; (c) assuming compliance with the matters referred to in Section 6.03, require any consent or other action by any Person under, constitute a default (or an event that, with or without notice or lapse of time or both, would constitute a default) under, or cause or permit the termination, cancellation, acceleration, triggering or other change of any right or obligation or the loss of any benefit to which AT&T or any AT&T Subsidiary is entitled under (i) any provision of any agreement or other instrument binding upon AT&T or any AT&T Subsidiary or any of their respective assets or properties or (ii) any license, franchise, permit, certificate, approval or other similar authorization held by, or affecting, or relating in any way to, the assets, properties or business of AT&T or any AT&T Subsidiary; or (d) result in the creation or imposition of any Lien on any asset or property of AT&T or any AT&T Subsidiary, other than such exceptions in the case of clauses (b), (c) and (d) above as would not, individually or in the aggregate, reasonably be expected to have an AT&T Broadband Material Adverse Effect or prohibit or materially impair or delay the ability of AT&T or any AT&T Subsidiary to consummate the transactions contemplated by any of the Transaction Agreements.

SECTION 6.05. Capitalization. (a) The authorized capital stock of AT&T consists of (i) 16,400,000,000 shares of Common Stock, of which (A) 6,000,000,000 shares have been designated AT&T Common Stock, (B) 4,000,000,000 shares have been designated Class A Liberty Media Group Common Stock, (C) 400,000,000 shares have been designated Class B Liberty Media Group Common Stock and (D) 6,000,000,000 shares have been designated Wireless Group Common Stock, and (ii) 100,000,000 shares of preferred stock, $1.00 par value per share, of which (A) 1,500,000 shares have been designated Wireless Group Preferred Tracking Stock ("WIRELESS PREFERRED STOCK"), (B) 1,000,000 shares have been designated Series E Convertible Preferred Stock ("SERIES E PREFERRED STOCK") and (C) 2,000,000 shares have been designated Subsidiary Exchangeable Preferred Stock ("AT&T SUBSIDIARY PREFERRED STOCK"). As of the close of business on November 30, 2001, there were outstanding (1) 3,540,410,643 shares of AT&T Common Stock (exclusive of all shares of restricted stock granted under any compensatory plans or arrangements), (2) no shares of Class A Liberty Media Group Common Stock, (3) no shares of Class B Liberty Media Group Common Stock, (4) no shares of Wireless Group Common Stock, (5) AT&T Stock Options to purchase an aggregate of 313,598,348 shares of AT&T Common Stock (of which options to purchase an aggregate of approximately 170,242,786 shares of AT&T Common Stock were exercisable), (6) phantom shares, stock units, stock appreciation rights or other stock-based awards issued under any stock option, compensation or deferred compensation plan or arrangement with respect to an aggregate of 12,492,305 shares of AT&T Common Stock, (7) 52,808,000 shares of AT&T Common Stock reserved for issuance under the Warrants issued pursuant to the Warrant Agreement dated as of June 16, 1999 between AT&T and The Bank of New York, as Warrant Agent (the "WARRANTS"), (8) 88,015,773 shares of AT&T Common Stock issuable upon conversion of the QUIPS, (9) 52,347,844 shares of AT&T Common Stock reserved for issuance upon exchange (and shares of AT&T Common Stock issuable upon redemption in accordance with the terms thereof) of the Class A Senior Cumulative Exchangeable Preferred Stock of TCI Pacific Communications, Inc. (the "TCI PACIFIC PREFERRED STOCK"), (10) no shares of Wireless Preferred Stock, (11) no shares of Series E Preferred Stock, (12) 759,792 shares of AT&T Subsidiary Preferred Stock held by AT&T Broadband Subsidiaries that are directly or indirectly wholly owned Subsidiaries of AT&T and (13) 94,163 shares of AT&T Subsidiary Preferred Stock held by T-Holdings and/or one of its Subsidiaries. As of November 30, 2001, 851,782,532 shares of AT&T Common Stock were held in treasury. No shares of AT&T Common Stock are held by any Subsidiary of AT&T. All outstanding shares of capital stock of AT&T have been, and all

shares that may be issued pursuant to any compensatory plan or arrangement will be, when issued in accordance with the respective terms thereof, duly authorized, validly issued, fully paid and nonassessable.

(b) Except as set forth in this Section 6.05 and for changes since November 30, 2001 resulting from the exercise of AT&T Stock Options, AT&T SARs and AT&T Equity Awards outstanding on such date, including, for the avoidance of doubt, options to purchase stock under the AT&T ESPP (and the grant or award of AT&T Stock Options, AT&T SARs and AT&T Equity Awards in the ordinary course of business and the exercise thereof, including, for the avoidance of doubt, options to purchase stock under the AT&T ESPP) or resulting from the exercise or conversion of the Warrants or the QUIPS, or the exchange or redemption of the TCI Pacific Preferred Stock, or as otherwise expressly contemplated hereby or by the Transaction Agreements, there are no outstanding (i) shares of capital stock or voting securities of AT&T, (ii) securities of AT&T or any AT&T Subsidiary convertible into or exchangeable for shares of capital stock or voting securities of AT&T or (iii) options or other rights to acquire from AT&T or any AT&T Subsidiary, or other obligations of AT&T or any AT&T Subsidiary to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of AT&T. There are no outstanding obligations of AT&T or any AT&T Subsidiary to repurchase, redeem or otherwise acquire any of the securities referred to in clause (i), (ii) or (iii) above (collectively, the "AT&T SECURITIES").

SECTION 6.06. AT&T Broadband and AT&T Broadband Subsidiaries. (a) Each of

AT&T Broadband and the AT&T Broadband Subsidiaries is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has all corporate, partnership or other similar powers required to carry on its business as currently conducted, other than such exceptions as, individually or in the aggregate, have not had and would not reasonably be expected to have an AT&T Broadband Material Adverse Effect. Each of AT&T Broadband and the AT&T Broadband Subsidiaries is duly qualified to do business as a foreign corporation or other foreign legal entity and is in good standing in each jurisdiction where such qualification is necessary, other than such exceptions as, individually or in the aggregate, have not had and would not reasonably be expected to have an AT&T Broadband Material Adverse Effect. Section 6.06(a) of the AT&T Disclosure Schedule sets forth a list of all AT&T Significant Broadband Subsidiaries and their respective jurisdictions of organization.

(b) All of the outstanding capital stock of, or other voting securities or ownership interests in, AT&T Broadband is (as of the date hereof) and will be (immediately prior to the Distribution) directly owned by AT&T, free and clear of any Lien and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other voting securities or ownership interests). All of the outstanding capital stock of, or other voting securities or ownership interests in, each AT&T Significant Broadband Subsidiary is, as of the date hereof, owned by AT&T and will, at the Effective Time, be owned by AT&T Broadband, directly or indirectly, free and clear of any Lien and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other voting securities or ownership interests). There are no outstanding (i) securities of AT&T or any AT&T Subsidiary convertible into or exchangeable for shares of capital stock or other voting securities or ownership interests in AT&T Broadband or any AT&T Significant Broadband Subsidiary or (ii) options or other rights to acquire from AT&T or any AT&T Subsidiary, or other obligations of AT&T or any AT&T Subsidiary to issue, any capital stock or other voting securities or ownership interests in, or any securities convertible into or exchangeable for any capital stock or other voting securities or ownership interests in, AT&T Broadband or any AT&T Significant Broadband Subsidiary. Except for the TCI Pacific Preferred Stock, there are no outstanding obligations of AT&T or any AT&T Subsidiary to repurchase, redeem or otherwise acquire any of the items referred to in clauses (i) and (ii) above.

(c) At the time of the Distribution, subject to Section 4.01 of the Separation and Distribution Agreement, the issued and outstanding capital stock of AT&T Broadband will consist of a number of shares of AT&T Broadband Common Stock equal to the number of then outstanding shares of AT&T Common Stock. In the Distribution, subject to Section 4.01 of the Separation and Distribution Agreement, AT&T will distribute to each holder of AT&T Common Stock one share of AT&T Broadband Common

Stock per share of AT&T Common Stock. All of the shares of AT&T Broadband Common Stock have been or will be prior to the Effective Time duly authorized and validly issued and fully paid and nonassessable. After giving effect to the Distribution, subject to Section 4.01 of the Separation and Distribution Agreement, neither AT&T nor any AT&T Subsidiary will own any shares of AT&T Broadband Common Stock or any other capital stock or other equity interest in AT&T Broadband.

SECTION 6.07. SEC Filings. (a) AT&T has delivered or made available to Comcast (i) AT&T's annual reports on Form 10-K for its fiscal years ended December 31, 2000, 1999 and 1998, (ii) AT&T's proxy or information statements relating to meetings of, or actions taken without a meeting by, AT&T shareholders held since December 31, 1998, and (iii) all of AT&T's other reports, statements, schedules and registration statements filed with the SEC since December 31, 1998 (the documents referred to in clauses (i), (ii) and (iii) above, collectively, the "AT&T SEC DOCUMENTS").

(b) As of its filing date (and, if amended or superceded by a filing prior to the date of this Agreement or the Effective Time, then on the date of such filing), each AT&T SEC Document complied as to form in all material respects with the applicable requirements of the 1933 Act and the 1934 Act, as the case may be.

(c) As of its filing date (and, if amended or superceded by a filing prior to the date of this Agreement or the Effective Time, then on the date of such filing), each AT&T SEC Document filed pursuant to the 1934 Act did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(d) Each AT&T SEC Document that is a registration statement, as amended or supplemented, if applicable, filed pursuant to the 1933 Act, as of the date such registration statement or amendment became effective, did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

SECTION 6.08. Financial Statements. (a) The audited consolidated financial statements and unaudited consolidated interim financial statements of AT&T included in the AT&T SEC Documents fairly present, in all material respects, in conformity with GAAP applied on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of AT&T and its consolidated Subsidiaries as of the respective dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject to normal year-end adjustments in the case of any unaudited interim financial statements).

(b) The unaudited combined financial statements and unaudited combined interim financial statements of the AT&T Broadband Group are attached as Exhibit E, and subject to and reflecting the assumptions set forth in the notes thereto, fairly present, in all material respects, in conformity with GAAP applied on a consistent basis (except as may be indicated in the notes thereto), the combined financial position of the AT&T Broadband Group as of the respective dates thereof and its combined results of operations and cash flows for the periods then ended (subject to normal year-end adjustments in the case of any unaudited interim financial statements).

(c) Except as set forth in Section 6.08(c) of the AT&T Disclosure Schedule, the financial statements as of and for the period ending September 30, 2001 attached as Exhibit E reflect in all material respects the transactions contemplated by the Ancillary Agreements as if such agreements had been in effect during the nine month period covered by such financial statements. Section 6.08(c) of the AT&T Disclosure Schedule describes all material allocations and charges relating to affiliated and intercompany transactions used in connection with the preparation of the financial statements attached as Exhibit E.

SECTION 6.09. Information Supplied. The information supplied by AT&T for inclusion or incorporation in the Registration Statement shall not at the time the Registration Statement is declared effective by the SEC contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The information supplied by AT&T for inclusion in the Joint Proxy Statement shall not, on the date the Joint Proxy Statement is first mailed to the shareholders of each of Comcast and AT&T, at the time of the Comcast Shareholders' Meeting, at the time of the AT&T Shareholders' Meeting or at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

SECTION 6.10. Absence of Certain Changes. Since the AT&T Broadband Balance Sheet Date, and except as expressly contemplated hereby or by the Transaction Agreements, the business of the AT&T Broadband Group, AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband and the AT&T Broadband Subsidiaries has been conducted for the benefit of the AT&T Broadband Group (it being understood that since the AT&T Broadband Balance Sheet Date the AT&T Communications Group has been conducted for the benefit of the AT&T Communications Group and that the interests of the AT&T Broadband Group and the AT&T Communications Group may not have coincided) and in the ordinary course of business consistent with past practices, and there has not been (i) any event, occurrence or development of a state of circumstances or facts that, individually or in the aggregate, has had or would reasonably be expected to have an AT&T Broadband Material Adverse Effect or (ii) any action, event, occurrence or transaction that would have been prohibited by clause (iii), (iv), (vii), (viii), (ix) or (xviii) of Section 8.01 if this Agreement had been in effect at the time thereof or any agreement, arrangement or commitment in respect of any action, event, occurrence or transaction that would have been prohibited by the foregoing clauses of Section 8.01 if this Agreement had been in effect at the time thereof.

SECTION 6.11. No Undisclosed Material Liabilities. There are no liabilities or obligations of the AT&T Broadband Group, AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband or any AT&T Broadband Subsidiary of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, and there is no existing condition, situation or set of circumstances that would reasonably be expected to result in such a liability or obligation, other than:

(a) liabilities or obligations disclosed and provided for in the AT&T Broadband Balance Sheet or in the notes thereto;

(b) liabilities or obligations incurred since the AT&T Broadband Balance Sheet Date in the ordinary course of business of the AT&T Broadband Group consistent with past practice;

(c) liabilities or obligations under commercial transactions and agreements in accordance with their terms or arising in compliance with applicable laws, statutes, ordinances, rules or regulations; or

(d) liabilities or obligations that, individually or in the aggregate, have not had and would not reasonably be expected to have an AT&T Broadband Material Adverse Effect.

SECTION 6.12. Compliance with Laws and Court Orders. Except as set forth in Section 6.12 of the AT&T Disclosure Schedule, AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband and the AT&T Broadband Subsidiaries hold all licenses, franchises, certificates, consents, permits, qualifications and authorizations from all Governmental Authorities necessary for the lawful conduct of their business, except where the failure to hold any of the foregoing, individually or in the aggregate, has not had and would not reasonably be expected to have an AT&T Broadband Material Adverse Effect. AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband and each of the AT&T Broadband Subsidiaries are, and have been in compliance with, and to the knowledge of AT&T, are not under investigation with respect to and have not been threatened to be charged with or given notice of any violation of, any such license, franchise, certificate, consent, permit, qualification or authorization or any applicable law, statute, ordinance, rule, regulation, judgment, injunction, order or decree, except for failures to comply or violations that, individually or in the aggregate, have not had and would not reasonably be expected to have an AT&T Broadband Material Adverse Effect.

SECTION 6.13. Litigation. There is no action, suit, investigation or proceeding (or any basis therefor) pending against, or, to the knowledge of AT&T, threatened against or affecting AT&T, the AT&T Broadband Group or any AT&T Subsidiary, or any of their respective assets or properties before

any court or arbitrator or before or by any other Governmental Authority, that, individually or in the aggregate, would reasonably be expected to have an AT&T Broadband Material Adverse Effect.

SECTION 6.14. Finders' Fees. Except for Credit Suisse First Boston and Goldman Sachs & Co., whose fees, subject to Section 11.03(a), will be paid by AT&T Broadband, there is no investment banker, broker, finder or other intermediary that has been retained by or is authorized to act on behalf of AT&T or any AT&T Subsidiary who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement and the other Transaction Agreements. A copy of AT&T's engagement agreement with each of Goldman Sachs & Co. and Credit Suisse First Boston have been provided to Comcast.

SECTION 6.15. Opinion of Financial Advisor. AT&T has received an opinion of each of Credit Suisse First Boston and Goldman, Sachs & Co., financial advisors to AT&T, to the effect that, as of the date hereof, the exchange ratio in the AT&T Broadband Merger is fair, from a financial point of view, to the shareholders of AT&T who will become shareholders of AT&T Broadband pursuant to the Separation and Distribution Agreement (other than Comcast and its Affiliates).

SECTION 6.16. Taxes. Except as would not, individually or in the aggregate, reasonably be expected to have an AT&T Broadband Material Adverse Effect, (a) all AT&T and AT&T Subsidiary Tax Returns required to be filed on or before the Effective Time with any taxing authority by, or with respect to, AT&T and the AT&T Subsidiaries have been or will be timely filed (taking into account extensions) and are or will be correct in all respects (other than with respect to Taxes for which adequate reserves are reflected on the AT&T Balance Sheet and, to the extent related to the AT&T Broadband Group, AT&T Broadband or an AT&T Broadband Subsidiary, on the AT&T Broadband Balance Sheet); (b) AT&T and the AT&T Subsidiaries have timely paid or will timely pay all Taxes shown as due and payable on the AT&T Tax Returns that have been or will be so filed, and, as of the time of filing, the AT&T Tax Returns correctly reflected the facts regarding the income, business, assets, operations, activities and the status of AT&T and the AT&T Subsidiaries (other than with respect to Taxes for which adequate reserves are reflected on the AT&T Balance Sheet and, to the extent related to the AT&T Broadband Group, AT&T Broadband or an AT&T Broadband Subsidiary, on the AT&T Broadband Balance Sheet); (c) AT&T and the AT&T Subsidiaries have made provision for all Taxes payable by AT&T and the AT&T Subsidiaries for which no AT&T Tax Return has yet been filed; (d) there is no action, suit, proceeding, audit or claim currently proposed or pending against or with respect to AT&T or any AT&T Subsidiary in respect of any Tax where there is a reasonable possibility of an adverse determination; (e) the United States federal income Tax Returns of AT&T and the AT&T Subsidiaries have been examined and settled with the IRS (or the applicable statutes of limitation for the assessment of United States federal income Taxes for such periods have expired) for all years through 1992; (f) no extension of the statute of limitations on the assessment of any Taxes has been granted by AT&T or any AT&T Subsidiary and is currently in effect; (g) except for complete and accurate copies of Tax sharing agreements and amendments thereto made available to Comcast prior to the execution of this Agreement and listed in Section 6.16 of the AT&T Disclosure Schedule, no agreements relating to the allocation or sharing of Taxes exist between AT&T and/or any of the AT&T Subsidiaries, on the one hand, and a third party, on the other hand; and (h) there are no Liens for Taxes on any of the assets of AT&T or any AT&T Subsidiary except Liens for current Taxes not yet due and payable.

SECTION 6.17. Tax Opinions. Neither AT&T nor any AT&T Subsidiary has taken any action or knows of any facts or circumstances relating to AT&T or any AT&T Subsidiary that would prevent (i) the ruling or opinion referred to in Section 10.01(j) from being obtained or (ii) Wachtell, Lipton, Rosen & Katz from delivering the opinion referred to in Section 10.02(b) as of the date hereof.

SECTION 6.18. Employee Benefit Plans and Labor Matters. Except as have not had and would not reasonably be expected to have, individually or in the aggregate, an AT&T Broadband Material Adverse Effect:

(a) Section 6.18(a) of the AT&T Disclosure Schedule contains a true and complete list, as of the date hereof, of all Broadband Employee Plans and all Broadband Benefit Arrangements. Copies of

each Broadband Employee Plan and Broadband Benefit Arrangement (and, if applicable, related trust agreements) and all amendments thereto have been made available to Comcast as of the date hereof, together with the three most recent annual reports (Form 5500 including, if applicable, Schedule B thereto) and the most recent actuarial valuation report prepared in connection with any Broadband Employee Plan.

(b) No "accumulated funding deficiency" (as defined in Section 412 of the Code) has been incurred with respect to any Broadband Employee Plan subject to such Section 412 of the Code, whether or not waived. No "reportable event" (within the meaning of Section 4043 of ERISA) for which the 30-day notice period has not been waived, and no event described in Section 4062 or 4063 of ERISA, has occurred in connection with any Broadband Employee Plan. Neither AT&T nor any ERISA Affiliate of AT&T has (i) engaged in, or is a successor or parent corporation to an entity that has engaged in, a transaction described in Sections 4069 or 4212(c) of ERISA or (ii) incurred, or reasonably expects to incur prior to the Effective Time, (A) any liability under Title IV of ERISA arising in connection with the termination of, or a complete or partial withdrawal from, any plan covered or previously covered by Title IV of ERISA or (B) any liability under Section 4971 of the Code that in either case could become a liability of Parent, AT&T Broadband, any AT&T Broadband Subsidiary, Comcast, any Comcast Subsidiary, or any of their respective ERISA Affiliates after the Effective Time. No Broadband Employee Plan is a Multiemployer Plan.

(c) As of June 30, 2001, the fair market value of the assets of each Broadband Pension Plan (excluding for these purposes any accrued but unpaid contributions) exceeded the present value of the pension benefit obligations accrued under such Broadband Pension Plan calculated pursuant to SFAS No. 87, "Employers' Accounting for Pensions". As of September 30, 2001, the aggregate unfunded liability of AT&T and any AT&T Subsidiary in respect of all Broadband Deferred Compensation Plans, computed using reasonable actuarial assumptions and determined as if all benefits under such plans were vested and payable as of such date, did not exceed $132 million.

(d) Neither AT&T, AT&T Broadband nor any AT&T Broadband Subsidiary has any liability with respect of post-retirement health, medical or life insurance benefits for retired, former or current Broadband Employees except as to required to avoid excise tax under Section 4980B of the Code.

(e) Each Broadband Employee Plan that is intended to be qualified under Section 401(a) of the Code is so qualified and a favorable determination letter is currently in effect for each such Broadband Employee Plan. To the knowledge of AT&T, no fact or circumstance exists giving rise to a material likelihood that such Broadband Employee Plan would not be treated as qualified by the Internal Revenue Service.

(f) There is no contract, plan or arrangement (written or otherwise) covering any Broadband Employee that, individually or in the aggregate, could give rise to the payment of any amount by AT&T Broadband or any of the AT&T Broadband Subsidiaries that would not be deductible pursuant to the terms of Sections 162(m) or 280G of the Code.

(g) AT&T has made available to Comcast, as of the date hereof, a true and complete list and copies of each material Broadband International Plan, other than plans mandated by applicable law.

(h) Each Broadband Employee Plan, Broadband Benefit Arrangement and Broadband International Plan has been maintained in compliance with its terms and with the requirements prescribed by all applicable laws, statutes, orders, rules and regulations (including any special provisions relating to registration or qualification where such plan was intended to be so registered or qualified) and has been maintained in good standing with applicable Governmental Authorities.

(i) There has been no amendment to, written interpretation or announcement (whether or not written) by AT&T or any of its Affiliates relating to, or change in employee participation coverage under, a Broadband Employee Plan, Broadband Benefit Arrangement or Broadband International Plan which would increase materially the expense of maintaining such plan above the level of expense incurred in respect thereof for the fiscal year ended December 31, 2000.

A-41

(j) No Broadband Employee, former Broadband Employee or independent contractor of AT&T Broadband or any of the AT&T Broadband Subsidiaries, will become entitled to any bonus, retirement, severance, job security or similar benefit or enhanced such benefit (including acceleration of vesting or exercise of an incentive award) as a result of the transactions contemplated hereby (either alone or together with any other event).

(k) Section 6.18(k) of the AT&T Disclosure Schedule sets forth a list of all collective bargaining agreements to which AT&T Broadband or any of the AT&T Broadband Subsidiaries is a party or otherwise covering any employee of AT&T Broadband or any of the AT&T Broadband Subsidiaries. None of AT&T, AT&T Broadband nor any of the AT&T Broadband Subsidiaries is involved in, or to the knowledge of AT&T, threatened with any labor dispute, work stoppage, labor strike, slowdown or grievance relating to the

AT&T Broadband Group. To the knowledge of AT&T, there is no organizing effort or representation question at issue with respect to any collective bargaining unit of AT&T Broadband or any of the AT&T Broadband Subsidiaries or any employee of AT&T Broadband or any of the AT&T Broadband Subsidiaries.

(l) There are no pending or threatened claims (other than claims for benefits in the ordinary course), lawsuits or arbitrations that have been asserted or instituted, and, to the knowledge of AT&T, no set of circumstances exists that may reasonably give rise to a claim or lawsuit, against any of the Broadband Benefit Arrangements, the Broadband Employee Plans and the Broadband International Plans, any fiduciaries thereof with respect to their duties thereto or the assets of any of the trusts thereunder, that could reasonably be expected to result in any material liability of AT&T or any of the AT&T Subsidiaries to the PBGC, the United States Department of Treasury, the United States Department of Labor, any foreign governmental authority, any Multiemployer Plan, any of the Broadband Benefit Arrangements, the Broadband Employee Plans and the Broadband International Plans, any participant therein, or any other Person.

SECTION 6.19. Environmental Matters. (a) Except as have not had and would not reasonably be expected to have, individually or in the aggregate, an AT&T Broadband Material Adverse Effect:

(i) no notice, notification, demand, request for information, citation, summons or order has been received, no complaint has been filed, no penalty has been assessed, and no investigation, action, claim, suit, proceeding or review is pending or, to the knowledge of AT&T, threatened by any Governmental Authority or other Person with respect to AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband, any AT&T Broadband Subsidiary or the AT&T Broadband Group relating to or arising out of any Environmental Law;

(ii) each member of AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband, the AT&T Broadband Subsidiaries and the AT&T Broadband Group is and has been in compliance with all Environmental Laws and all Environmental Permits; and

(iii) there are no liabilities of AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband, the AT&T Broadband Subsidiaries or the AT&T Broadband Group of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise arising under or relating to any Environmental Law, and there are no facts, conditions, situations or set of circumstances that would reasonably be expected to result in, or be the basis for, any such liability.

(b) There have been no environmental investigations, studies, audits, tests, reviews or other analyses conducted of which AT&T has knowledge in relation to the current or prior business of the AT&T Broadband Group, AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband or any AT&T Broadband Subsidiary or any property or facility now or previously owned or leased by the AT&T Broadband Group, AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband or any AT&T Broadband Subsidiary that reveal matters that, individually or in the aggregate, have had, or would reasonably be expected to have, an AT&T Broadband Material Adverse Effect.

(c) For purposes of this Section 6.19, the terms "AT&T Broadband Group", "AT&T (to the extent relating to the AT&T Broadband Group)", "AT&T Broadband" and "AT&T Broadband Subsidiary" shall include any entity that is, in whole or in part, a predecessor of the AT&T Broadband Group, AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband or any AT&T Broadband Subsidiary.

SECTION 6.20. Intellectual Property. The Transaction Agreements, taken as a whole, including the Separation and Distribution Agreement and the assets transferred thereby, the Intellectual Property Agreement (as defined in the Separation and Distribution Agreement) and the intellectual property licenses granted thereby and the other Ancillary Agreements and all services furnished thereby provide sufficient rights in or access to intellectual property owned by AT&T to enable the AT&T Broadband Group, without violating such AT&T intellectual property, to conduct its business immediately after the Effective Time in all material respects as that business was conducted by the AT&T Broadband Group immediately prior to the Effective Time. Neither AT&T nor any AT&T Subsidiary has received any notice of infringement of or conflict with, and, to AT&T's knowledge, there are no infringements of or conflicts with, the rights of any Person with respect to the use of any trademark, service mark, trade name, invention, patent, trade secret, copyright, know-how (including any registrations or applications for registration of any of the foregoing) or any other similar type of proprietary intellectual property right that, in either such case, individually or in the aggregate, have had or would reasonably be expected to have, an AT&T Broadband Material Adverse Effect.

SECTION 6.21. Contracts. Except as set forth in Section 6.21 of the AT&T Disclosure Schedule and except as may relate to TWE or At Home, neither AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband nor any of the AT&T Broadband Subsidiaries is a party to or bound by (a) any "material contract" (as defined in Item 601(b)(10) of Regulation S-K of the SEC) or any agreement, contract or commitment that would be such a "material contract" but for the exception for contracts entered into in the ordinary course of business, (b) any non-competition agreement or any other agreement or obligation that materially limits or will materially limit AT&T Broadband, the AT&T Broadband Group or the AT&T Broadband Subsidiaries (or, after the Mergers, Parent, Comcast or any of the Comcast Subsidiaries) from engaging in the business of providing telephony, data transmission services, cable television or programming content, or (c) any agreement, contract or commitment to which Liberty Media Corporation, AT&T Wireless or any of their respective Subsidiaries is a party that is material to or not in the ordinary course of business of the AT&T Broadband Group. With such exceptions as, individually or in the aggregate, have not had, and would not reasonably be expected to have, an AT&T Broadband Material Adverse Effect and except as may relate to TWE or At Home, (i) each of the contracts, agreements and commitments of the AT&T Broadband Group, AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband and the AT&T Broadband Subsidiaries is valid and in full force and effect and (ii) neither the AT&T Broadband Group, AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband nor any of the AT&T Broadband Subsidiaries has violated any provision of, or committed or failed to perform any act that, with or without notice, lapse of time, or both, would constitute a default under the provisions of, any such contract, agreement or commitment. To the knowledge of AT&T, no counterparty to any such contract, agreement or commitment has violated any provision of, or committed or failed to perform any act that, with or without notice, lapse of time, or both would constitute a default or other breach under the provisions of such contract, agreement or commitment, except for defaults or breaches that, individually or in the aggregate, have not had, or would not reasonably be expected to have, an AT&T Broadband Material Adverse Effect. Except as set forth in Section 6.21 of the AT&T Disclosure Schedule and except as may relate to TWE or At Home, neither AT&T (to the extent relating to the AT&T Broadband Group), the AT&T Broadband Group, AT&T Broadband nor any AT&T Broadband Subsidiary is a party to, or otherwise a guarantor of or liable with respect to (including pursuant to any keepwell agreement), (i) any material interest rate, currency or other swap or derivative transaction (other than those entered into in the ordinary course of business solely for hedging purposes) or (ii) any Indebtedness of any other Person except a wholly owned AT&T Broadband Subsidiary. Except as set forth in Section 6.21 of the AT&T Disclosure Schedule and except as may relate to TWE or At Home, neither AT&T (to the extent relating to the AT&T Broadband Group), the AT&T Broadband Group, AT&T Broadband nor any AT&T Broadband Subsidiary is a party to any joint venture or partnership agreement pursuant to which it is

obligated to make capital contributions in excess of (x) $25,000,000 during the current or any succeeding calendar year or (y) $100,000,000 during the remaining term of such agreement. Subject to applicable confidentiality restrictions, AT&T has provided or made available to Comcast prior to the date hereof a copy of each agreement of the type described in clause (a), (b) or (c) of the first sentence of this Section 6.21, in clause (i) or (ii) of the second preceding sentence of this Section 6.21 or in the immediately preceding sentence.

SECTION 6.22. AT&T Shareholder Vote. Assuming the receipt of the affirmative vote of the holders of a majority of the outstanding shares of AT&T Common Stock (the "AT&T SHAREHOLDERS' APPROVAL"), which the parties acknowledge is a condition to the obligations of the parties to effect the Separation, Distribution and Mergers, no other vote of the holders of any class or series of capital stock of AT&T will be necessary to approve and adopt this Agreement and the transactions contemplated hereby, including the Distribution. The only vote of the holders of any class or series of capital stock of any AT&T Subsidiary necessary to approve and adopt this Agreement and the transactions contemplated hereby, including the AT&T Broadband Merger, is the affirmative vote of the holders of a majority of the outstanding shares of AT&T Broadband Common Stock, which vote has previously been obtained.

SECTION 6.23. Antitakeover Statutes. AT&T Broadband has taken all action necessary to exempt the AT&T Broadband Merger and this Agreement and the transactions contemplated hereby from the restrictions of Section 203 of the DGCL or otherwise to make such provisions inapplicable to this Agreement and the transactions contemplated hereby, and, accordingly, neither Section 203 of the DGCL nor any other antitakeover or similar statute or regulation applies or purports to apply to any such transactions. No other "control share acquisition", "fair price", "moratorium" or other antitakeover laws or regulations enacted under any United States federal, state or local or foreign laws apply to this Agreement or any of the transactions contemplated hereby.

SECTION 6.24. Comcast Securities. Neither AT&T nor any of the AT&T Subsidiaries owns any Comcast Securities.

SECTION 6.25. TWE; At Home. (a) Section 6.25(a) of the AT&T Disclosure Schedule sets forth a list of each material agreement, contract or commitment to which AT&T or any AT&T Subsidiary of AT&T is a party that amends the TWE Partnership Agreement or any related agreement or that materially affects the rights or obligations of AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband, the AT&T Broadband Group or the AT&T Broadband Subsidiaries with respect to TWE or any TWE Subsidiary or that was entered into in connection with or relates to AT&T's TWE interest (the "TWE CONTRACTS"). None of AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband or any of the AT&T Broadband Subsidiaries has violated any material provision of, or committed or failed to perform any act that, with or without notice, lapse of time, or both, would constitute a default under any material provision of, any such material contract, agreement or commitment or the TWE Partnership Agreement, except for defaults or breaches that, individually or in the aggregate, have not had, or would not reasonably be expected to have, an AT&T

Broadband Material Adverse Effect. The AT&T Broadband Group owns a Class A Partnership Interest consisting of (x) a Common Sub-Account, entitling the AT&T Broadband Group to a Participating Percentage Share of 25.51% and (y) an A Sub-Account, each as described in Article VII of the TWE Partnership Agreement and as adjusted pursuant to Article VIII of the TWE Partnership Agreement (capitalized terms used in this sentence and not defined have the meanings set forth in the TWE Partnership Agreement). The registration rights provisions of Article 13 of the TWE Partnership Agreement are enforceable in accordance with their terms and subject to the conditions thereof, except (i) as the same may be limited by applicable bankruptcy, insolvency, moratorium or similar laws of general application relating to or affecting creditors' rights and (ii) for the limitations imposed by general principles of equity. AT&T has provided or made available to Comcast prior to the date hereof a copy of each TWE Contract.

(b) Section 6.25(b) of the AT&T Disclosure Schedule sets forth a list of each material agreement, contract or commitment between At Home and its Subsidiaries, on the one hand, and AT&T (to the extent relating to the AT&T Broadband Group other than At Home and its Subsidiaries), the AT&T

Broadband Group (other than At Home and its Subsidiaries), AT&T Broadband or any of the AT&T Broadband Subsidiaries (other than At Home and its Subsidiaries), on the other hand, that is not described by any of the following: (i) it has been rejected in bankruptcy proceedings, (ii) it has been filed with the SEC by At Home, AT&T or AT&T Broadband, LLC (or its predecessor) or (iii) Comcast or any of its Subsidiaries is a party thereto or to a comparable agreement, contract or commitment. None of AT&T or any of its Subsidiaries (other than At Home and its Subsidiaries) has violated any provision of, or committed or failed to perform any act that, with or without notice, lapse of time or both, would constitute a default under any provision of, any such material contract, agreement or commitment, except for defaults or breaches that, individually or in the aggregate, have not had, or would not reasonably be expected to have, an AT&T Broadband Material Adverse Effect. AT&T has provided or made available to Comcast prior to the date hereof a copy of each agreement of the type described in the first sentence of this Section 6.25(b).

SECTION 6.26. Intercompany Transactions. (a) Except as described in Section 6.26(a) of the AT&T Disclosure Schedule, since December 31, 1999 through the date hereof there have been no material transactions (including allocations) between the AT&T Broadband Group, on the one hand, and the AT&T Communications Group, on the other hand.

(b) Except as described in Section 6.26(b) of the AT&T Disclosure Schedule, since the AT&T Broadband Balance Sheet Date through the date hereof there have been no material transactions (including allocations) between any AT&T Broadband Entity, on the one hand, and any member of the AT&T Communications Group, on the other hand.

SECTION 6.27. Sufficiency of Transferred Assets. (a) Except as set forth in Section 6.27(a) of the AT&T Disclosure Schedule (and other than the Delayed Transfer Assets (as defined in the Separation and Distribution Agreement) that are AT&T Broadband Assets), as of the Effective Time, no material AT&T Broadband Assets will be owned or held by AT&T or any AT&T Subsidiary. Assuming consummation of the transactions contemplated by the Separation and Distribution Agreement and assuming the availability of any assets and services contemplated to be made available to the AT&T Broadband Group pursuant to the terms of the Ancillary Agreements, (i) the assets reflected on the unaudited combined balance sheet of the AT&T Broadband Group as of December 31, 2000 attached as Exhibit E were sufficient in all material respects to conduct the business of the AT&T Broadband Group in the manner reflected in the AT&T Broadband Financial

Statements and (ii) at the Effective Time, the AT&T Broadband Assets will be sufficient for the conduct of the business of the AT&T Broadband Group as it is being operated immediately prior to the Separation. Assuming the condition set forth in Section 10.01(l) is satisfied with respect to all outstanding Indebtedness issued under the Notes Indenture, neither Parent, nor AT&T Broadband nor any AT&T Broadband Subsidiary will be required to guarantee or otherwise become liable for any material Indebtedness or liability of AT&T (to the extent not relating to the AT&T Broadband Group) or any AT&T Subsidiary (other than AT&T Broadband or any AT&T Broadband Subsidiary) as a result of the Separation or Distribution.

(b) Since December 31, 2000, (i) no material assets have been transferred from AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband, any AT&T Broadband Subsidiary or the AT&T Broadband Group to AT&T (to the extent not relating to the AT&T Broadband Group) or any AT&T Subsidiary other than AT&T Broadband or any AT&T Broadband Subsidiary, other than the assets set forth in Section 6.27(b) of the AT&T Disclosure Schedule and (ii) no material liabilities have been assumed by AT&T (to the extent relating to the AT&T Broadband Group), AT&T Broadband, any AT&T Broadband Subsidiary or the AT&T Broadband Group from AT&T (to the extent not relating to the AT&T Broadband Group) or any AT&T Subsidiary other than AT&T Broadband or any AT&T Broadband Subsidiary, other than the liabilities set forth in Section 6.27 of the AT&T Disclosure Schedule.

(c) The investments set forth in Section 6.27(c) of the AT&T Disclosure Schedule (or the net proceeds therefrom) constitute assets of one or more of the AT&T Broadband Subsidiaries.

A-45

SECTION 6.28. Investments. Section 6.28 of the AT&T Disclosure Schedule sets forth a list of each material investment of AT&T (to the extent relating to the AT&T Broadband Group), the AT&T Broadband Group, AT&T Broadband or any AT&T Broadband Subsidiary. Neither AT&T nor any AT&T Subsidiary has any material liability in respect of any such investment.

ARTICLE 7

COVENANTS OF COMCAST

SECTION 7.01. Comcast Interim Operations. Except as set forth in the Comcast Disclosure Schedule, or as otherwise expressly contemplated hereby, from the date hereof until the Effective Time, Comcast shall, and shall cause each of the Comcast Subsidiaries to, conduct its business in all material respects in the ordinary course of business consistent with past practice and use all reasonable efforts to: (a) preserve intact its present business organization; (b) keep available the services of its key officers and key employees; (c) maintain in effect all material foreign and United States federal, state and local licenses, approvals and authorizations, including all material licenses and permits that are required for Comcast or any Comcast Subsidiary to carry on its business; and (d) preserve existing relationships with its material lenders, suppliers and others having material business relationships with it so that the business of Comcast and the Comcast Subsidiaries shall not be impaired in any material respect at the Effective Time. Without limiting the generality of the foregoing, except as set forth in the Comcast Disclosure Schedule or as otherwise expressly contemplated hereby and except as prohibited by law, from the date hereof until the Effective Time, without the prior written consent of AT&T, such consent not to be unreasonably withheld, Comcast shall not, nor shall it permit any Comcast Subsidiary to:

(i) amend its articles of incorporation or bylaws or other applicable governing instruments;

(ii) amend any material term of any of its outstanding securities;

(iii) split, combine, subdivide or reclassify any shares of its capital stock or other equity interests or declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock, or redeem, repurchase or otherwise acquire or offer to redeem, repurchase, or otherwise acquire any of its securities, except for cash dividends paid by any Comcast Subsidiary to Comcast or any wholly owned Comcast Subsidiary;

(iv) adopt a plan or agreement of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other material reorganization (other than a merger or consolidation between wholly owned Comcast Subsidiaries);

(v) issue, deliver or sell, or authorize the issuance, delivery or sale of, any shares of any class of its capital stock or other equity interests or any securities convertible into or exercisable for, or any rights, warrants or options to acquire, any such capital stock or other equity interests, other than (A) the issuance of shares of capital stock or other equity interests (or derivative securities therefor) by a Comcast Subsidiary that is not a Comcast Significant Subsidiary, (B) the issuance of shares of Comcast Common Stock upon the exercise of Comcast Stock Options or options to purchase Comcast Common Stock under the Comcast ESPP or upon the settlement of Comcast Equity Awards outstanding as of the date hereof in accordance with their current terms or (C) the granting of Comcast Stock Options, Comcast Equity Awards and options to purchase Comcast Common Stock under the Comcast ESPP in the ordinary course of business and consistent with past practices and the issuance of shares of Comcast Common Stock upon the exercise or settlement thereof;

(vi) incur any capital expenditures, except as set forth in the Comcast Disclosure Schedule;

(vii) except for capital expenditures, which shall be governed by Section 7.01(vi), acquire (by merger, consolidation, acquisition of stock or assets or otherwise), directly or indirectly, any assets, other than (A) pursuant to agreements in effect as of the date hereof, (B) assets used in the ordinary course of business of Comcast and the Comcast Subsidiaries, in a manner that is consistent with past practice, (C) assets having a fair market value not exceeding $100,000,000 in any one transaction or

series of related transactions or $500,000,000 in the aggregate, or (D) in the case of cable swaps and similar transactions where the primary consideration for the acquired assets are cable properties, assets having a fair market value not exceeding $100,000,000 in any one transaction or series of related transactions or $500,000,000 in the aggregate;

(viii) other than pursuant to agreements in effect as of the date hereof and other than in the ordinary course of business, sell, lease, license, encumber or otherwise transfer any assets other than (A) assets having a fair market value not exceeding $100,000,000 in any one transaction or series of related transactions or $500,000,000 in the aggregate, or (B) in the case of cable swaps and similar transactions where the primary consideration for the disposed of assets are cable properties, assets having a fair market value not exceeding $100,000,000 in any one transaction or series of related transactions or $500,000,000 in the aggregate;

(ix) incur, assume or guarantee any Indebtedness, other than in the ordinary course of business;

(x) make any loan, advance or capital contributions to or investment in any Person other than (A) loans, advances or capital contributions to or investments in any wholly owned Comcast Subsidiary, (B) pursuant to agreements in effect as of the date hereof or (C) loans, advances or capital contributions to joint ventures or Affiliates of Comcast or the Comcast Subsidiaries pursuant to Schedule 7.01(x) of the Comcast Disclosure Schedules or as required by agreements currently in effect relating to such joint ventures or Affiliates;

(xi) except for capital expenditures, which shall be governed by Section 7.01(vi), engage in or enter into any transaction or commitment, enter into any contract or agreement, or relinquish or amend in any material respect any contract or other right, for the provision of goods or services or the use of facilities (including any programming agreement, any agreement with any vendor for the purchase of equipment, any agreement for the provision by one or more third parties of telephone, data or other services through the facilities of one or more of the Systems of Comcast or any of the Comcast Subsidiaries or any agreement providing for access to, or the right to use, the facilities of one or more of the Systems of Comcast or any of the Comcast Subsidiaries) that is (A) material to Comcast and the Comcast Subsidiaries, taken as a whole, or (B) that provides for payments in excess of $50,000,000 per agreement (or $100,000,000 for all agreements for similar goods or services);

(xii) enter into or amend in any material respect any joint venture, partnership or other similar venture that is material to Comcast and the Comcast Subsidiaries, taken as a whole;

(xiii) enter into any agreement or arrangement that materially limits or otherwise materially restricts Comcast, any Comcast Subsidiary or any of their respective Affiliates or any successor thereto, or that could, after the Effective Time, materially limit or restrict Parent, AT&T, any AT&T Subsidiary or any of their Affiliates, from engaging in any material business;

(xiv) except as required pursuant to existing written, binding agreements or as otherwise required by law, (A) enter into any commitment to provide any severance or termination pay to (or amend any existing arrangement with) any director, officer or employee of Comcast or any Comcast Subsidiary, (B) increase the benefits payable under any existing severance or termination pay policy or employment agreement (other than as may be increased by function of the existing terms of any such policy or agreement), (C) other than in the ordinary course of business consistent with past practice, enter into any employment, deferred compensation or other similar agreement (or amend any such existing agreement) with any director or officer of Comcast or any Comcast Subsidiary, (D) establish, adopt or amend (except as required by applicable law) any collective bargaining (except to the extent it would contain economic terms that are not materially less favorable to Comcast or any Comcast Subsidiary than the terms of existing arrangements), bonus, profit-sharing, thrift, pension, retirement, deferred compensation, compensation, stock option, restricted stock or other benefit plan or arrangement covering any director, officer or employee of Comcast or any Comcast Subsidiary, except that Comcast and the Comcast Subsidiaries may amend any such existing agreement or plan or adopt a successor plan or arrangement to the extent mandated by applicable law or to the extent that such amendment would not result in a more than a de minimis increase in the costs or liabilities under such agreement or plan, (E) other than in the ordinary course of business consistent with past practice, or as required by any agreement in effect as of the date hereof, increase the compensation, bonus or other benefits payable to any director, officer or employee of Comcast or any Comcast Subsidiary or (F) amend the terms of any outstanding Comcast Stock Option, Comcast SAR or Comcast Equity Award; provided that the foregoing shall not in any way restrict Comcast or any of its Subsidiaries from taking any action (including granting any stay bonuses and paying or providing other compensation pursuant to retention plans or similar arrangements) on reasonable commercial terms that Comcast determines is reasonably necessary or desirable in order to retain or attract any officers or employees to the extent that the aggregate cost of such actions, grants or payments does not exceed the amount set forth in Section 7.01(xiv) of the Comcast Disclosure Schedule;

(xv) launch any new channels, except as necessary to comply with any requirement of any Governmental Authority and except pursuant to pending agreements in effect as of the date hereof;

(xvi) change (A) its methods of accounting or accounting practices in any material respect, except as required by changes in GAAP or by law, or (B) its fiscal year;

(xvii) settle any litigation, investigation, arbitration, proceeding or other claim if Comcast or any of the Comcast Subsidiaries would be required to pay in excess of $25,000,000 or if such settlement would otherwise be material to the Comcast Group taken as a whole;

(xviii) other than in the ordinary course of business and consistent with past practice, make any material Tax election or enter into any settlement or compromise of any material Tax liability;

(xix) (A) fail to comply with its obligations under the Exchange Agreement and the Set-Top Box Commitment (as defined in the Exchange Agreement) or (B) amend or waive any provision of the Exchange Agreement except for such amendments or waivers as would not adversely affect AT&T or delay or adversely affect consummation of the transactions contemplated hereby;

(xx) engage in any transaction of a type described in Section 5.25 or take any action that would reasonably be expected to make any representation or warranty of Comcast hereunder inaccurate in any material respect at the Effective Time;

(xxi) take any action that would, or would reasonably be expected to, prevent, impair or materially delay the ability of AT&T or Comcast or any of their respective Subsidiaries to consummate the transactions contemplated by this Agreement and the other Transaction Agreements; or

(xxii) agree or commit to do any of the foregoing; provided that the limitations set forth in Sections 7.01(i) through 7.01(xix) shall not apply to any transaction between Comcast and any wholly owned Comcast Subsidiary or between any wholly owned Comcast Subsidiaries.

SECTION 7.02. Comcast Shareholders' Meeting; Proxy Material. (a) Comcast shall cause the Comcast Shareholders' Meeting to be duly called and held as soon as reasonably practicable (taking into consideration all relevant factors, including delays due to complications of preparing required pro forma and other financial statements) for the purpose of voting on the approval and adoption of this Agreement and the transactions contemplated by this Agreement, including the Comcast Merger. In connection with the Comcast Shareholders' Meeting, Comcast will (i) use its reasonable best efforts to obtain the Comcast Shareholders' Approval and the A Shareholder Approval and (ii) otherwise comply with all legal requirements applicable to the Comcast Shareholders' Meeting.

(b) Comcast's Board of Directors shall recommend approval and adoption of this Agreement and the transactions contemplated by this Agreement, including the Comcast Merger, by Comcast shareholders.

SECTION 7.03. Voting Agreement. Comcast agrees to vote, and to cause each of the Comcast Subsidiaries to vote, any shares of AT&T Common Stock with respect to which Comcast or such Comcast

Subsidiary may have any voting power in favor of the Mergers, the Separation, the Distribution and the other transactions contemplated hereby.

ARTICLE 8

COVENANTS