



DIVISION OF
CORPORATION FINANCE

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549-4561

April 2, 2010

Connie S. Stamets
Bracewell & Giuliani LLP
1445 Ross Avenue
Suite 3800
Dallas, TX 75202-2711

Re: Chesapeake Energy Corporation
Incoming letter dated February 8, 2010

Dear Ms. Stamets:

This is in response to your letters dated February 8, 2010 and March 5, 2010 concerning the shareholder proposal submitted to Chesapeake by the California State Teachers' Retirement System. We also have received letters on the proponent's behalf dated February 22, 2010 and March 10, 2010. Our response is attached to the enclosed photocopy of your correspondence. By doing this, we avoid having to recite or summarize the facts set forth in the correspondence. Copies of all of the correspondence also will be provided to the proponent.

In connection with this matter, your attention is directed to the enclosure, which sets forth a brief discussion of the Division's informal procedures regarding shareholder proposals.

Sincerely,

Heather L. Maples
Senior Special Counsel

Enclosures

cc: Michael J. Barry
Grant & Eisenhofer P.A.
Chase Manhattan Centre
1201 North Market Street
Wilmington, DE 19801

April 2, 2010

Response of the Office of Chief Counsel
Division of Corporation Finance

Re: Chesapeake Energy Corporation
Incoming letter dated February 8, 2010

The proposal requests that the board of directors issue a sustainability report describing the company's short- and long-term responses to environmental, social and governance-related issues, including greenhouse gas emissions data and plans to manage emissions.

We are unable to concur in your view that Chesapeake may exclude the proposal under rule 14a-8(i)(3). Based on the arguments you have presented, we are unable to conclude that the proposal is so inherently vague or indefinite that neither the shareholders voting on the proposal, nor the company in implementing the proposal, would be able to determine with any reasonable certainty exactly what actions or measures the proposal requires. Accordingly, we do not believe that Chesapeake may omit the proposal from its proxy materials in reliance on rule 14a-8(i)(3).

We are unable to concur in your view that Chesapeake may exclude the proposal under rule 14a-8(i)(7) because it requires an evaluation of risk. In our view, the proposal focuses primarily on sustainability and does not seek to micromanage the company to such a degree that exclusion of the proposal would be appropriate. Accordingly, we do not believe that Chesapeake may omit the proposal from its proxy materials in reliance on rule 14a-8(i)(7).

Sincerely,

Michael J. Reedich
Special Counsel

DIVISION OF CORPORATION FINANCE INFORMAL PROCEDURES REGARDING SHAREHOLDER PROPOSALS

The Division of Corporation Finance believes that its responsibility with respect to matters arising under Rule 14a-8 [17 CFR 240.14a-8], as with other matters under the proxy rules, is to aid those who must comply with the rule by offering informal advice and suggestions and to determine, initially, whether or not it may be appropriate in a particular matter to recommend enforcement action to the Commission. In connection with a shareholder proposal under Rule 14a-8, the Division's staff considers the information furnished to it by the Company in support of its intention to exclude the proposals from the Company's proxy materials, as well as any information furnished by the proponent or the proponent's representative.

Although Rule 14a-8(k) does not require any communications from shareholders to the Commission's staff, the staff will always consider information concerning alleged violations of the statutes administered by the Commission, including argument as to whether or not activities proposed to be taken would be violative of the statute or rule involved. The receipt by the staff of such information, however, should not be construed as changing the staff's informal procedures and proxy review into a formal or adversary procedure.

It is important to note that the staff's and Commission's no-action responses to Rule 14a-8(j) submissions reflect only informal views. The determinations reached in these no-action letters do not and cannot adjudicate the merits of a company's position with respect to the proposal. Only a court such as a U.S. District Court can decide whether a company is obligated to include shareholder proposals in its proxy materials. Accordingly a discretionary determination not to recommend or take Commission enforcement action, does not preclude a proponent, or any shareholder of a company, from pursuing any rights he or she may have against the company in court, should the management omit the proposal from the company's proxy material.



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March 10, 2010

VIA EMAIL (shareholderproposals@sec.gov)

Office of the Chief Counsel
Division of Corporation Finance
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Chesapeake Energy Corporation--Shareholder Proposal of California State Teachers' Retirement System

Ladies and Gentlemen:

On behalf of California State Teachers' Retirement System ("CalSTRS"), we respond to Chesapeake Energy Corporation's ("CEC" or the "Company") letter to the Staff of the Division of Corporation Finance ("Staff") dated March 5, 2010 ("March 5, 2010 Letter") seeking to exclude the shareholder proposal ("Proposal") that CalSTRS submitted to the Company for inclusion in the Company's 2010 proxy statement.

The March 5, 2010 Letter cites the wrong standard in arguing that the Proposal is excludable under Rule 14a-8(i)(3) and fails to distinguish the Proposal from similar proposals requesting that a company draft a sustainability report that were deemed not excludable by the Staff under Rule 14a-8(i)(7).

The Proposal Is Not Vague

CEC argues that the Proposal does not "state as clearly as possible the course of action that [CalSTRS] believe[s] the company should follow." March 5, 2010 Letter at 2 (quoting Rule 14a-8(a)). To exclude a proposal as being vague under Rule 14a-8(i)(3), however, CEC must demonstrate that "the language of the proposal or the supporting statement render the proposal so vague and indefinite that neither the stockholders voting on the proposal, nor the company in implementing the proposal (if adopted), would be able to determine with any reasonable

certainty exactly what actions or measures the proposal requires.” Staff Legal Bulletin 14B. Thus, the burden that CEC must meet to exclude the Proposal under Rule 14a-8(i)(3) is much more stringent than CEC articulates.

It is unclear exactly what CEC finds vague about the Proposal, which requests “the Board of Directors issue a sustainability report describing the company’s short- and long-term responses to [environmental, social, and governance]-related issues.” CEC concedes that requests to issue “sustainability reports are not excludable” as vague. March 5, 2010 Letter at 2. Furthermore, CEC concedes that the words “environmental”, “social,” and “governance” are not vague. *See id.* Finally, CEC concedes that a number of companies issue sustainability reports that discuss environmental, social, and governance issues. *See id.* at 1-2. In light of these concessions, CEC’s contention that the Proposal “provides little, if any, guidance to shareholders and the Company as to the action contemplated therein” is absurd.

CEC argues that the Proposal is vague because the sustainability report will encompass “several diverse topics.” Yet, CEC does not distinguish the Proposal from the proposal at issue in *SunTrust Banks, Inc.*, 2010 SEC No-Act. LEXIS 34 (Jan. 13, 2010), which requested a sustainability report “describing strategies to address the environmental and social impacts of SunTrust’s business.” *See also Texas Industries, Inc.*, 2007 SEC No-Act. LEXIS 541 (July 27, 2007) (finding no basis to exclude proposal under Rule 14a-8(i)(3) that requested the company draft a sustainability report that discussed the company’s “economic, environmental, and social performance”); *Terex Corporation*, 2005 SEC No-Act. LEXIS 436 (March 18, 2005) (finding no basis to exclude proposal under Rule 14a-8(i)(3) that requested “that Terex disclose its social, environmental and economic performance by issuing annual sustainability reports”). These No Action Letters demonstrate that a proposal requesting a sustainability report that encompasses diverse topics are not excludable under Rule 14a-8(i)(3).

CEC argues that the Proposal’s recital and resolution lack “continuity.” March 5, 2010 Letter at 2. This is simply not true. The recital discusses why issuing a sustainability report on ESG-related issues will benefit the Company and identifies the Company’s carbon emissions as a crucial environmental concern. The resolution requests that the Company issue a sustainability report that includes a discussion of the Company’s “greenhouse gas emissions data and plans to manage emissions.”

The Proposal Does Not Relate To CEC’s Ordinary Business Operations

CEC’s attempt to distinguish the Proposal from the proposal in *SunTrust Banks* fails. *See* March 5, 2010 Letter at 2-3. As CEC concedes, the Staff found no basis to exclude the proposal in *SunTrust Banks* under Rule 14a-8(i)(7) because it “‘focus[ed] on climate change and sustainability.’” March 5, 2010 Letter at 3 (quoting *SunTrust Banks, Inc.*, 2010 SEC No-Act. LEXIS 34). Similarly, the Proposal requests a sustainability report “describing the company’s short- and long-term responses to ESG-related issues.” CEC does not attempt to describe how the Proposal relates to anything else other than sustainability and climate change.

Instead, CEC argues that the Proposal does not give the Company sufficient guidance on the contents of the sustainability report. Yet, the Staff has found no basis to exclude proposals

calling for a sustainability report under Rule 14a-8(i)(7), even where the proposals give the company latitude to define sustainability. *See, e.g., Wendy's International, Inc.*, 2005 SEC No-Act. LEXIS 221 (Feb. 10, 2005) (finding no basis to exclude a proposal under Rule 14a-8(i)(7) that stated, "The report should include Wendy's definition of sustainability").

The fact that the sustainability report may discuss issues relating to sustainability beyond the Company's carbon emissions is not a basis to exclude the Proposal, as CEC argues. *See* March 5, 2010 Letter at 3. As the Staff held in *SunTrust Banks*, proposals focusing on sustainability are not excludable under Rule 14a-8(i)(7). *SunTrust Banks, Inc.*, 2010 SEC No-Act. LEXIS 34. The issue of sustainability concerns important societal issues that transcend the day-to-day business operations of a company and, as discussed above, may concern a number of diverse topics.

Finally, CEC argues that because it is "engaged primarily in the discovery and production of natural resources," issuing a sustainability report on plans to manage emissions will require an "internal assessment of the economic and financial risks and liabilities of the Company's ordinary business operations." March 5, 2010 Letter at 3. The Staff has rejected similar arguments made by energy companies seeking to exclude proposals requesting reports concerning the company's carbon emissions. *See, e.g., OGE Energy Corp.*, 2008 SEC No-Act. LEXIS 225 (Feb. 27, 2008); *Exxon Mobil Corporation*, 2007 SEC No-Act. LEXIS 391 (March 23, 2007).

CONCLUSION

For the reason set forth in this letter and CalSTRS' letter to the Staff dated February 22, 2010, CalSTRS respectfully requests that the Staff decline to concur in CEC's view that it may exclude the Proposal under Rule 14a-8(i)(3) and Rule 14a-8(i)(7).

Please do not hesitate to contact the undersigned at 302-622-7065 should you have any questions concerning this matter or should you require any additional information.

Sincerely,



Michael J. Barry

MJB/rm
cc: Connie S. Stamets, Esquire

March 5, 2010

BY ELECTRONIC MAIL (shareholderproposals@sec.gov)

Securities and Exchange Commission
Division of Corporation Finance
Office of Chief Counsel
100 F Street, N.E.
Washington, D.C. 20549

Re: Chesapeake Energy Corporation: Shareholder Proposal from California State Teachers' Retirement System

Ladies and Gentlemen:

On behalf of Chesapeake Energy Corporation (the "Company"), we submit this letter in response to the letter dated February 22, 2010 (the "Response Letter") to the Office of the Chief Counsel of the Division of Corporation Finance (the "Staff") from Grant & Eisenhofer P.A., submitted on behalf of California State Teachers' Retirement System (the "Proponent"), concerning the no-action request by the Company dated February 8, 2010 (the "No-Action Request"). The No-Action Request seeks the Staff's concurrence that the Company need not include the Proponent's proposal (the "Proposal") in the proxy materials for the Company's 2010 annual meeting of shareholders. The Proposal requests that the Company's Board of Directors "issue a sustainability report describing the company's short- and long-term responses to ESG-related issues, including greenhouse gas emissions data and plans to manage emissions." Without waiving any of the arguments set forth in the No-Action Request, we wish to clarify our position with regard to certain points of discussion in the Response Letter.

I. The Proposal is impermissibly vague and indefinite.

The Proposal's lack of theme, vague language and substantial inconsistencies between the resolution and the recitals cause such uncertainty as to the action requested of the Company that the Proposal is excludable under Rule 14a-8(i)(3) as vague and indefinite.

In tacit recognition that the Proposal provides insufficient guidance by itself, the Response Letter turns to external sources to clarify the action requested of the Company. Rather than attempt to explain why the Proposal is not vague and indefinite, the Response Letter attaches full or partial sustainability reports by 3M Co., Ford Motor Co., PepsiCo, Inc. and AT&T Inc. and concludes that "in light of the fact that some of the largest companies in the United States issue

sustainability reports similar to the one described in the Proposal, [the Company's] argument the Proposal is vague rings hollow."¹ Interesting as they are, the attached reports, a total of 151 pages and all by companies in dissimilar industries to the Company, cannot save the Proposal from the defects we identified in the No-Action Request.

The Response Letter also cites favorably shareholder proposals submitted to Chevron Corporation and Intel Corporation in 2009.² However, the *Chevron* and *Intel* shareholder proposals focused narrowly on the action requested of the companies and, for each proposal, there is an obvious continuity among the recitals, resolution and supporting statement. For example, the *Chevron* proposal concerned Chevron's assessment of host country laws with respect to their adequacy to protect health, the environment and the company's reputation. Each paragraph of the proposal discusses a specific Chevron operation, corporate policy, liability or event, all of which relate directly to the action requested in the resolution. The *Intel* proposal requested that the company adopt a comprehensive policy articulating its commitment to the "Human Right to Water." Each paragraph of the proposal discussed Intel's extensive water use, corporate policies or access to water issues that were directly relevant to the action requested in the resolution.

Unlike the *Chevron* and *Intel* proposals, the Proposal asks generally for a sustainability report on the Company's responses to "ESG-related issues" and almost as an afterthought throws in "including greenhouse gas emissions data and plans to manage emissions." The full text of the Proposal meanders among several diverse topics and provides little, if any, guidance to shareholders and the Company as to the action contemplated therein.

Additionally, the Response Letter incorrectly asserts that the Company's "argument has been flatly rejected by the Staff" because the "Staff has found proposals requesting sustainability reports using similar language are not excludable under Rule 14a-8(i)(3)."³ Of course, we agree that the Staff has in the past concluded that certain proposals requesting sustainability reports are not excludable, but the only similarity between these proposals and the Proposal is the use of a few common words, such as *environmental*, *social*, *sustainability* and, in some instances, *governance* and *economic*. The Staff's review of proposals is more rigorous than looking for key words that have been present in prior acceptable proposals. Unlike the proposals referenced by the Response Letter, the Proposal is poorly drafted and unclear in purpose and scope.

Rule 14a-8(a) states that a proposal is a "recommendation or requirement that the company and or its board of directors take action" and that a proposal "should state as clearly as possible the course of action that you believe the company should follow." The Proposal fails to clearly state the intended course of action, and the Response Letter's references to external sources, such as sustainability reports by other companies and other proponents' shareholder proposals, do not provide adequate guidance for interpreting the Proposal. The Company continues to believe the Proposal is excludable under Rule 14a-8(i)(3) as vague and indefinite.

¹ Response Letter at 4.

² *Chevron Corporation* (March 12, 2009); *Intel Corporation* (March 13, 2009)

³ Response Letter at 5 (referencing several "sustainability reports using similar language").

II. The Proposal relates to the ordinary business operations of the Company.

The Proposal requests that the Company engage in an evaluation of risk and does not present a significant policy issue. Accordingly, the Proposal relates to the ordinary business of the Company and may be excluded pursuant to Rule 14a-8(i)(7).

The Response Letter compares the Proposal to the shareholder proposal in *SunTrust*, which requested that the Board of Directors of SunTrust "prepare a sustainability report describing strategies to address the environmental and social impacts of SunTrust's business, including strategies to address climate change."⁴ In *SunTrust*, the Staff did not allow exclusion under Rule 14a-8(i)(7) because "the proposal focuses primarily on climate change and sustainability."⁵ We disagree that the Proposal is sufficiently comparable to the proposal in *SunTrust* as to require the same conclusion. The *SunTrust* proposal: (i) issued an unambiguous directive to the company regarding the actions to be taken and the substance of the contemplated report; (ii) provided detailed discussion of the contents of the contemplated report in the supporting statement, including guidelines and examples specific to the company; and (iii) used climate change language consistently throughout the recitals, the resolution and the supporting statement.

The Company is engaged primarily in the discovery and production of natural resources in several states and is presently subject to myriad environmental regulations at the federal, state and local levels in the areas in which it operates. SunTrust, on the other hand, is a financial institution. The Proposal's emphasis on strategic business considerations but without additional, specific guidance for the sustainability report has the effect of requesting that the Company engage in an internal assessment of the economic and financial risks and liabilities of the Company's ordinary business operations. This risk analysis is necessarily more integral to the Company's operations than it would be for other companies whose operations do not implicate a complex and extensive body of environmental regulatory law. Therefore, even if it would not constitute ordinary business for other companies, such as financial institutions, the risk analysis contemplated by the Proposal is an ordinary business item for the Company.

The recent Staff Legal Bulletin No. 14E (CF), Shareholder Proposals (October 27, 2009), reiterated that the Staff will focus on the "subject matter to which the risk pertains or that gives rise to the risk" in determining whether a proposal's underlying subject matter "transcends" the company's ordinary business and raises significant policy issues. The Proposal does not request that the Company evaluate or address any particular social policy issue. In the Response Letter, the Proponent asserts that the Proposal specifically requests the Company to address its plan to manage greenhouse gas emissions and notes that "just as in *Exxon*⁶, the Proposal requests a report focusing on what the Company can do to manage its emissions of greenhouse gases."⁷ We

⁴ *SunTrust Banks Inc.* (January 13, 2010).

⁵ *Id.*

⁶ "RESOLVED: shareholders request that the Board of Directors adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company's products and operations; and that the Company report to shareholders by September 30, 2007, on its plans to achieve these goals. Such a report will omit proprietary information and be prepared at reasonable cost." *ExxonMobil Corporation* (March 23, 2007).

⁷ Response Letter at 9.

disagree. If the Proponent intended to request a report on the Company's plan to manage greenhouse gases, the Proponent could have used language substantially similar to the language in the *Exxon* proposal, as the Proponent has done in past submissions to other companies.⁸ We must conclude that the Proponent made a deliberate choice not to use specific language regarding a report on the Company's management of greenhouse gas emissions in the Proposal. The Response Letter's attempt to manufacture a substantial policy issue to avoid exclusion under Rule 14a-8(i)(7) does not change the fact that the Proposal refers to greenhouse gas emissions once in the resolution and not at all in the recitals.

Based on the foregoing analysis and the additional analysis contained in the No-Action Request, we respectfully request that the Staff concur in the Company's opinion that the Proposal may be properly excluded from its 2010 proxy materials. We are submitting this letter to the Commission via e-mail to shareholderproposals@sec.gov and will concurrently email and mail a copy to the Proponent. Please transmit your response by fax to me at 214-758-8321, and contact information for the Proponent is provided below. Please call me at 214-758-1622 if we may be of any further assistance.

Very truly yours,



Connie S. Stamets

cc: **Proponent:**

Anne Sheehan, Director, Corporate Governance
California State Teachers' Retirement System Investments
Telephone: 916-414-7410; Fax: 916-414-7442
via email at asheehan@calstrs.com and mail

⁸ "RESOLVED: Shareholders request that the Board of Directors prepare a report concerning the feasibility of adopting quantitative goals, based on current and emerging technologies, for reducing total greenhouse gas emissions from the company's operations; and that the company should submit this report to shareholders by December 31, 2008. Such a report will omit proprietary information and be prepared at reasonable cost." *ONEOK, Inc.* (February 25, 2008); see also *Spectra Energy Corp.* (March 2, 2009).



Grant & Eisenhofer P.A.

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February 22, 2010

Via Email (shareholderproposals@sec.gov)

Office of the Chief Counsel
Division of Corporation Finance
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Chesapeake Energy Corporation--Shareholder Proposal of California State Teachers' Retirement System

Ladies and Gentlemen:

We have been asked by California State Teachers' Retirement System ("CalSTRS") to respond to Chesapeake Energy Corporation's ("CEC" or the "Company") February 8, 2010 letter ("No-Action Request") to the Staff of the Division of Corporation Finance (the "Staff") concerning a shareholder proposal (the "Proposal") that CalSTRS submitted to the Company for inclusion in the proxy statement and form of proxy for its 2010 Annual Meeting of Shareholders (the "Proxy Materials"). The Proposal requests that CEC prepare a "sustainability report describing the company's short- and long-term responses to ESG-related [environmental, social, and governance] issues, including greenhouse gas emissions and plans to manage emissions."

CEC argues that the proposal is excludable under Rule 14a-8(i)(3) because it is unduly vague. *See* No Action Request at 2-4. This argument is without merit as CalSTRS' request is unambiguous and numerous companies have published similar sustainability reports relating to ESG factors.

CEC also argues that the Proposal is excludable under Rule 14a-8(i)(7) because it relates to an evaluation of risk and seeks to micro-manage the Company. *See* No Action Request at 4-7. Because the Proposal focuses on significant policy issues that transcend day-to-day business matters, the Proposal is not excludable under Rule 14a-8(i)(7). Furthermore, merely requesting that CEC write a sustainability report is not an attempt to micro-manage how the Company conducts its business.



The Proposal states:

WHEREAS:

We believe that sustainability reporting on environmental, social and governance (ESG) business practices makes a company more responsive to the global business environment, an environment with finite natural resources, evolving legislation, and increasing public expectations of corporate behavior. Reporting also helps companies better integrate and gain strategic value from existing corporate social responsibility efforts, identify gaps and opportunities, develop company-wide communications, publicize innovative practices and receive feedback.

Many companies are preparing sustainability reports which provide disclosure on how they are positioning themselves to be viable long-term investments. According to a 2008 KPMG report on sustainability reporting, of the 250 Global Fortune companies, 79% produce reports compared to 52% in 2005. Of the 100 top U.S. companies by revenue, 73% produce reports compared to 32% in 2005. Increasingly, companies are identifying ESG factors relevant to their business and addressing them strategically through sustainability programs and reports.

Transparency on climate change is particularly crucial as it is one of the most financially significant environmental issues currently facing investors. The Intergovernmental Panel on Climate Change's 2007 report observed that, "taken as a whole, the range of published evidence indicates that the net damage costs of climate change are likely to be significant and increase over time."

The Carbon Disclosure Project (CDP), representing 475 institutional investors globally with \$55 trillion in assets, annually requests disclosure from companies on their climate change management programs. Companies are increasingly providing this climate change disclosure. The response rate to the 2009 CDP for the S&P 500 was 66%, compared to a response rate of 47% to the 2006 survey.

Chesapeake Energy has not prepared a sustainability report and did not respond to the questions presented in the 2009 CDP survey, instead providing limited information on the company's climate change management efforts.

According to Chesapeake Energy's 2009 annual report, the company acknowledges that natural gas and oil drilling and producing operations can be hazardous and may expose the Company to environmental liabilities. The 2009 annual report also states that climate-related legislation and other regulatory initiatives may result in compliance obligations with respect to the release, capture and use of carbon dioxide that could have an adverse effect on Company operations.

In a recent Newsweek analysis assessing the environmental performance of companies, Chesapeake Energy ranked 402 out of 500 companies that were considered and ranked 27 out of 31 oil and gas companies that were considered.

RESOLVED

Shareholders request that the Board of Directors issue a sustainability report describing the company's short- and long-term responses to ESG-related issues, including greenhouse gas emissions data and plans to manage emissions. The sustainability report should also include a company-wide review of policies, practices, and metrics related to ESG issues. The report should be prepared at reasonable cost, omitting proprietary information, and made available to shareholders by November 30, 2010.

DISCUSSION

I. The Proposal is Not Excludable Under Rule 14a-8(i)(3) Because It Clearly Requests CEC To Draft A Sustainability Report Describing The Company's Response To Environmental, Social, And Governance Issues

CEC may not exclude the Proposal under Rule 14a-8(i)(3) for being vague and indefinite. Companies may only exclude a shareholder proposal for vagueness under Rule 14a-8(i)(3) where "the resolution contained in the proposal is so inherently vague or indefinite that neither the stockholders voting on the proposal, nor the company in implementing the proposal (if adopted), would be able to determine with any reasonable certainty exactly what actions or measures the proposal requires— this objection also may be appropriate where the proposal and the supporting statement, when read together, have the same result." Staff Legal Bulletin 14B.

The Proposal calls for a sustainability report describing the Company's "policies, practices, and metrics related to ESG issues." The language in the Proposal should not perplex either shareholders or the Company as the request is entirely clear. Indeed, many companies issue sustainability reports similar to the one described in the Proposal that discuss ESG issues. Below are excerpts from a few examples of such sustainability reports:

3M Co, 2009 Sustainability Progress at 2 (attached as Exhibit A):

3M's sustainability policies and practices are directly linked to our fundamental corporate values:

- Act with uncompromising honesty and integrity in everything we do.
- Satisfy our customers with innovative technology and superior quality, value and service.
- Provide our investors an attractive return through sustainable, global growth.

- Respect our social and physical environment around the world.
- Value and develop our employees' diverse talents, initiative and leadership.
- Earn the trust and admiration of all those associated with 3M worldwide.

Ford Motor Co., 2008/9 Blueprint for Sustainability: Our Future Works at 1 (attached as Exhibit B):

[O]ur blueprint for sustainability and our commitment to pursuing it have not changed. Our vision is to provide sustainable transportation that is affordable in every sense of the word: socially, environmentally and economically.

PepsiCo, Inc., Performance with Purpose, PepsiCo Corporate Citizenship Report 2008 at inside cover (attached as Exhibit C):

As one of the world's largest food and beverage companies, we recognize our responsibility to help make a positive contribution in a world that continues to experience unprecedented economic, environmental, and social challenges. In this overview, we share our progress in addressing these challenges, identify where we believe we can have the most impact, and acknowledge our opportunities for continued improvement.

AT&T Inc., AT&T Citizenship and Sustainability Report 2008, Connecting for a Sustainable Future at 42 (attached as Exhibit D):

Corporate Governance: Our ability to "connect people with their world" is based on many factors, including cutting-edge technology, great service and the hard work of skilled employees. But one of the most important factors is trust – the confidence to do business with AT&T, knowing we always adhere to the highest ethical standards.

In light of the fact that some of the largest companies in the United States issue sustainability reports similar to the one described in the Proposal, CEC's argument that the Proposal is vague rings hollow. Indeed, CEC concedes, as it must, that the Staff has found that a request to issue a sustainability report is not vague or misleading. *See* No Action Request at 3 (citing *Chevron Corp.*, 2009 SEC No-Act. LEXIS 281 (March 24, 2009) (finding no basis to exclude a proposal "requesting a report on the policies and procedures that guide Chevron's assessment of host country laws and regulations with respect to their adequacy to protect human health, the environment and the company's reputation"); *Intel Corp.*, 2009 SEC No-Act. LEXIS 611 (March 13, 2009) (finding no basis to exclude a proposal requesting "that the board create a comprehensive policy articulating the company's respect for and commitment to the Human Right to Water"))).

CEC nevertheless argues that the Proposal is vague because the term "ESG Issues" without additional context or further elaboration make the Proposal so inherently vague and

indefinite as to be subject to myriad and varying interpretations . . .” As an initial matter, “ESG issues” is clearly defined in the proposal to signify environmental, social, and governance issues. The Staff has found proposals requesting sustainability reports using similar language are not excludable under Rule 14a-8(i)(3). *See, e.g., SunTrust Banks, Inc.*, 2010 SEC No-Act. LEXIS 34 (Jan. 13, 2010) (requesting report on “long-term *social* and *environmental* sustainability” that should contain “*governance* practices related to climate change and sustainability”) (emphasis added) (“*SunTrust*”); *Texas Industries, Inc.*, 2007 SEC No-Act. LEXIS 541 (July 27, 2007) (finding no basis to exclude proposal under Rule 14a-8(i)(3) that requested the company issue a sustainability report, which the supporting statement defined as “disclosing an organization’s *economic, environmental, and social performance*”) (emphasis added); *The Kroger Co.*, 2006 SEC No-Act. LEXIS 405 (March 26, 2006) (finding no basis to exclude a proposal under Rule 14a-8(i)(3) that requested the company prepare a sustainability report that provided a “review of current company policies and practices related to *social, environmental, and economic* sustainability”); *Terex Corporation*, 2005 SEC No-Act. LEXIS 436 (March 18, 2005) (finding no basis to exclude proposal under Rule 14a-8(i)(3) that requested “that Terex disclose its *social, environmental and economic performance* by issuing annual sustainability reports”) (emphasis added). Thus, CEC’s argument that the language of the Proposal is too vague for the Company to implement has been flatly rejected by the Staff.

CEC attempts to save its argument by stating the proposal is vague because “the greenhouse gas (“GHG”) emissions language in the resolution is not in the recitals of the Proposal.” No Action Request at 3. However both the Proposal’s resolution and “whereas” clause – which states that CEC did not respond to a Carbon Disclosure Project questionnaire and that CEC may be subject to regulation concerning the capture, release, and use of carbon dioxide – reference greenhouse gases. There is no ambiguity here; CalSTRS requests that the sustainability report contain a discussion of CEC’s “greenhouse gas emissions data and plans to manage emissions.”

The Proposal is materially different from the proposal in *Wendy’s International, Inc.*, 2006 SEC No-Act. LEXIS 244 (Feb. 24, 2006) (cited in the No Action Request at 4) that called for the board of Wendy’s to “issue interim reports to shareholders that detail the progress made toward ‘accelerating development’ of controlled-atmosphere killing (“CAK”),” a humane way to kill chickens. Wendy’s argued that the proposal was vague because it was unclear how the company could accelerate development of CAK, given that the company “does not raise, transport, or slaughter animals.” *Id.* at *23. In *Bank of America Corp.*, 2008 SEC No-Act. LEXIS 295 (Feb 25, 2008) (cited in the No Action Request at 3-4), the staff deemed a proposal requesting the company to “amend its greenhouse gas emissions policies to observe a moratorium on all financing, investment, and further involvement in activities that support MTR [mountaintop removal coal mining] coal mining or the construction of new coal-burning power plants that emit carbon dioxide.” Bank of America argued that the proposal was vague because it could not determine the necessary steps to observe such a moratorium. *See id.* at *55-56. The company questioned whether it could, for example, cash a check from an MTR mining company or do business with a utility company that had a coal burning plant. *See id.* There is no similar ambiguity with the Proposal. It merely requests that CEC issue a sustainability report as many other companies’ already do.

II. The Proposal Is Not Excludable Under Rule 14a-8(i)(7) Because The Underlying Subject Matter Of The Proposal Raises Significant Policy Issues

Rule 14a-8(i)(7) allows companies to exclude shareholder proposals that “deal[] with a matter relating to the company’s ordinary business operations.” The Staff recently clarified its position on Rule 14a-8(i)(7) in SLB 14E.

Prior to SLB 14E, the Staff applied the following analytical framework to determine whether or not to exclude a proposal under Rule 14a-8(i)(7):

To the extent that a proposal and supporting statement have focused on a company engaging in an internal assessment of the risks and liabilities that the company faces as a result of its operations, we have permitted companies to exclude these proposals under Rule 14a-8(i)(7) as relating to an evaluation of risk. To the extent that a proposal and supporting statement have focused on a company minimizing or eliminating operations that may adversely affect the environment or the public’s health, we have not permitted companies to exclude these proposals under Rule 14a-8(i)(7).

In SLB 14E, however, the Staff noted that it was “concerned that [its] application of the analytical framework . . . may have resulted in the unwarranted exclusion of proposals that relate to the evaluation of risk but that focus on significant policy issues.” Instead of focusing on whether a proposal requires an evaluation of risk, the Staff “will instead focus on the subject matter to which the risk pertains or that gives rise to the risk.” SLB No. 14E. The Staff stated:

In . . . cases in which a proposal’s underlying subject matter transcends the day-to-day business matters of the company and raises policy issues so significant that it would be appropriate for a shareholder vote, the proposal generally will not be excludable

Thus, the mere fact that a “proposal and supporting statement relates to the company engaging in an evaluation of risk” is not sufficient to exclude a proposal that deals with significant policy issues. However, where “a proposal’s underlying subject matter involves an ordinary business matter to the company,” it is generally excludable under Rule 14a-8(i)(7).

Furthermore, a company may exclude a “proposal [that] seeks to ‘micro-manage’ the company by probing too deeply into matters of a complex nature upon which shareholders, as a group, would not be in a position to make an informed judgment.” Exchange Act Release No. 34-40018 (May 21, 1998).

A. A Request To Draft A Sustainability Report On ESG-Related Issues Was Recently Deemed Not Excludable Under Rule 14a-8(i)(7) By The Staff

In *Sun Trust*, the proponent submitted a shareholder proposal similar to CalSTRS’ Proposal, which stated: “Shareholders request that the Board of Directors prepare a sustainability report describing strategies to address the environmental and social impacts of SunTrust’s

business, including strategies to address climate change.” *Sun Trust*, 2010 SEC No-Act. LEXIS 34, at *23. It further stated: “The report should include the company’s definition of sustainability and a company-wide review of policies, practices, and metrics related to long-term social and environmental sustainability.” Concerning governance, the proposal in *Sun Trust* stated: “Examples of topics that should be reviewed in the report include . . . governance practices related to climate change and sustainability[.]”

Similar to CEC (No Action Request at 5), Sun Trust argued that the proposal focused on business and competition issues, not on broader environmental and social concerns, and was therefore excludable. *See id.* at 19. The *Sun Trust* proposal stated:

- “Current and pending climate-related public policies present important new business risks and opportunities for SunTrust.”
- “SunTrusts’s industry peers are implementing substantial new policies, programs, and objectives related to climate change and reducing their direct and indirect GHG emissions.”

Id. at *21-22.

Nevertheless, the Staff found no basis to exclude the proposal under Rule 14a-8(i)(7), stating: “[W]e are unable to agree with your assertion that the proposal focuses on business and competitive issues. In our view, the proposal focuses primarily on climate change and sustainability.” *Id.* at *22.

Similar to the proposal in *Sun Trust*, CalSTRS’ Proposal requests that the Company draft a “sustainability report” detailing the “[C]ompany’s short- and long-term responses to ESG-related issues, including greenhouse gas emissions data and plans to manage emissions.” Thus, like the proposal in *Sun Trust*, the Proposal focuses on sustainability and climate change not on business risks.

B. A Request To Issue A Sustainability Report Deals Primarily With Significant Policy Issues, Not Ordinary Business Matters

Ignoring *Sun Trust*, CEC argues that the Proposal “fundamentally requests that the Company undertake an internal assessment of the economic and financial risks and liabilities of the Company’s ordinary business operations.” No Action Letter at 5. It bears repeating, the Proposal merely requests the “Board of Directors issue a sustainability report describing the company’s short- and long-term responses to ESG-related issues, including greenhouse gas emissions data and plans to manage emissions.” Such sustainability reports are not excludable under Rule 14a-8(i)(7). *See e.g., Lehman Brothers Holdings Inc.*, 2008 SEC No-Act. LEXIS 57 (Jan. 29, 2008) (finding no basis to exclude under Rule 14a-8(i)(7) a proposal that “requests that the board of directors prepare an environmental sustainability report.”); *Dean Foods Company*, 2005 SEC No-Act. LEXIS 479 (March 25, 2005) (finding no basis to exclude under Rule 14a-8(i)(7) a proposal that “requests that Dean disclose its social, environmental and economic performance by issuing annual sustainability reports”).

The No-Action Request, however, takes issue with the following statements in the Proposal, arguing that they request that the Company engage in an assessment of risk of ordinary business operations:

- We believe that sustainability reporting on environmental, social and governance (ESG) business practices makes a company more responsive to the global business environment.
- Reporting also helps companies better integrate and gain strategic value from existing corporate social responsibility efforts, identify gaps and opportunities, develop company-wide communications, publicize innovative practices and receive feedback.
- Transparency on climate change is particularly crucial as it is one of the most financially significant environmental issues currently facing investors. The Intergovernmental Panel on Climate Change's 2007 report observed that, "taken as a whole, the range of published evidence indicates that the net damage costs of climate change are likely to be significant and increase over time."

As an initial matter, these statements do not request that the Company do anything, never mind engage in an assessment of risk. Each of these statements describes potential benefits of issuing a sustainability report. As *Sun Trust* made clear, the fact that the Proposal explains that issuing a sustainability report may create long-term shareholder value does not change the nature of the Proposal to require an evaluation of risk. In another similar case, *Wendy's International Inc.*, 2006 SEC No-Act. LEXIS 217, at *86-87 (Feb. 21, 2006) the proponent requested the company adopt a sustainability report that stated:

- Investors increasingly seek disclosure of companies' social and environmental practices in the belief that they impact shareholder value. Many investors believe companies that are good employers, environmental stewards, and corporate citizens are more likely to be accepted in their communities and to prosper long-term.
- McDonald's states that reporting its social and environmental performance helps to maintain its customers' trust, and that "companies that lose the trust of their customers lose those customers' business forever." McDonald's describes this trust as one of their greatest competitive advantages.

The Staff was unable to concur with Wendy's that the proposal could be excluded under Rule 14a-8(i)(7). Thus, in *Sun Trust* and *Wendy's*, the Staff has made clear that a proposal stating why issuing a sustainability report benefits a company is not excludable under Rule 14a-8(i)(7).

The Proposal is clearly distinguishable from proposals in No Action Letters cited by CEC that requested companies to evaluate risk, including the risks of increasing regulation. See No Action Request at 6 (citing *CONSOL Energy Inc.*, 2009 SEC No-Act. LEXIS 174 (Feb. 23,

2009) (finding a basis to exclude under Rule 14a-8(i)(7) a proposal that requested “a report on how the company is responding to rising regulatory and public pressure to significantly reduce the social and environmental harm associated with carbon dioxide emissions from the company’s operations”); *General Electric Co.*, (Jan. 9, 2009) (finding a basis to exclude under Rule 14a-8(i)(7) a proposal that requested the company “to prepare a report addressing the potential costs and benefits to the company of divesting its nuclear energy investment in the near future, and of investing instead in renewable energy”); *Foundation Coal Holdings, Inc.*, 2009 SEC No-Act. LEXIS 224 (March 11, 2009) (finding a basis to exclude under Rule 14a-8(i)(7) a proposal that requested the company to issue a report “on how the company is responding to rising regulatory and public pressure to significantly reduce the social and environmental harm associated with carbon dioxide emissions from the company’s operations and from the use of its primary products”); *Arch Coal, Inc.*, 2008 SEC No-Act. LEXIS 205 (Jan. 17, 2008) (finding a basis to exclude under Rule 14a-8(i)(7) a proposal that requested the company to issue a report “on how the company is responding to rising regulatory, competitive, and public pressure to significantly reduce carbon dioxide emissions from the company’s operations and from the use of its primary product.”)). Furthermore, to the extent that the Staff excluded these proposals solely because they required an evaluation of risk without analyzing whether the subject matter of the proposals “transcends the day-to-day business matters of the company,” such proposals may no longer be deemed excludable. *See* SLB 14E.

The No Action Request also argues that the Proposal is excludable under Rule 14a(i)(7) because it does not “specify a single social policy issue that the Company is requested to review or address, nor does it make clear what social issues the report would remedy.” No Action Request at 8. This argument is without merit. The Staff has found no basis to exclude proposals requesting sustainability reports under Rule 14a-8(i)(7), even where the proposal gave management discretion to choose the specific topics addressed by the sustainability report. *See Sun Trust*, 2010 SEC No-Act. LEXIS 34, at *23 (proposal requesting a sustainability report stating that “[t]he report should include the company’s definition of sustainability”); *Wendy’s International, Inc.*, 2005 SEC No-Act. LEXIS 221 (Feb. 10, 2005) (same). Thus, a request to write a sustainability report transcends a company’s ordinary business even where the proposal does not specifically detail which issues the report should address.

Furthermore, contrary to CEC’s arguments, the proposal does specifically request the Company to address its plans to manage greenhouse gas emissions. Proposals that request such reports are clearly not excludable under Rule 14a-8(i)(7). *See, e.g., Exxon Mobil Corporation*, 2007 SEC No-Act. LEXIS 391 (March 23, 2007) (finding no basis to exclude under Rule 14a-8(i)(7) proposal requesting “that the board adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the company’s products and operations, and that the company report to shareholders . . . on its plans to achieve these goals”).¹

¹ CalSTRS proposal is materially different from the proposal in *OGE Energy Corp.*, 2008 SEC No-Act. LEXIS 321 (Feb 27, 2008) (cited in the No Action Request at 8), which requested that “the board provide a report describing how the company is assessing the impact of climate change on the company.” Here, just as in *Exxon*, the Proposal requests a report focusing on what the Company can do to manage its emissions of greenhouse gases. On the same day that the Staff ruled against the proponent of the OGE Energy proposal cited in the No Action Request, it found a proposal similar to CalSTRS’ Proposal was not excludable. *See OGE Energy Corp.* 2008 SEC No-Act. LEXIS 225

C. The Proposal Does Not Seek To Micro-Manage The Company

The Staff has rejected CEC's argument that requesting companies to write sustainability reports concerning the environmental impacts of its operations do not constitute micro-management. *See PPG Industries, Inc.*, 2010 SEC No-Act. LEXIS 48 (Jan. 15, 2010) (requesting "the board to prepare a report to shareholders on how the company ensures that it responsibly discloses its environmental impacts in all of the communities in which it operates"; "In our view, the proposal focuses primarily on the environmental impacts of PPG's operations and does not seek to micromanage the company to such a degree that exclusion of the proposal would be appropriate. Accordingly, we do not believe that PPG may omit the proposal from its proxy materials in reliance on rule 14a-8(i)(7)."). Indeed, CEC contends the Proposal would "leave[] it to the Company to select issues for discussion" in the sustainability report. *See No Action Request* at 7. This certainly does not sound like micro-managing.

CONCLUSION

For the forgoing reasons, CalSTRS respectfully requests that the Staff decline to concur in CEC's view that it may exclude the Proposal under Rule 14a-8(i)(3) and Rule 14a-8(i)(7).

Please do not hesitate to contact the undersigned at 302-622-7065 should you have any questions concerning this matter or should you require any additional information.

Sincerely,



Michael J. Barry

MJB/rm
Enclosure

cc: Connie S. Stamets, Esquire

(Feb. 27, 2008) (finding no basis to exclude proposal under Rule 14a-8(i)(8) requesting "that the board prepare a report concerning the feasibility of adopting quantitative goals, based on current and emerging technologies, for reducing total greenhouse gas emissions from the company's operations").

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- Exhibit A: 3M Co, 2009 Sustainability Progress
- Exhibit B: Ford Motor Co., 2008/9 Blueprint for
Sustainability: Our Future Works
- Exhibit C: PepsiCo, Inc., Performance with Purpose,
PepsiCo Corporate Citizenship Report 2008
- Exhibit D: AT&T Inc., AT&T Citizenship and Sustainability
Report 2008, Connecting for a Sustainable Future

Pages 22 through 25 redacted for the following reasons:

*** FISMA & OMB Memorandum M-07-16 ***

Solutions for Our Customers

Product Life Cycle Management

Life Cycle Management is an integral part of 3M's sustainability strategy. Instead of only focusing on the manufacturing process to control environmental, health, safety and energy effects, the spotlight is now on products throughout their entire life cycle, from manufacturing through customer use and disposal. 3M has adopted a Life Cycle Management Policy requiring all business units to conduct LCM reviews for all new products and to conduct LCM reviews on existing products on a prioritized basis.

3M Environmental Product Solutions

As 3M has reduced its environmental footprint, we now offer our customers a portfolio of products to help them reduce their impact on the environment. 3M has several catalogs showcasing 3M products designed to address environmental challenges in the following markets: cleaning and maintenance, construction and industrial production, communications, office supplies, transportation, and health care. The Environmental Solutions catalogs can be downloaded at www.3M.com/EnvSolutions.

Engaging Stakeholders

Partnering to Drive Sustainability

3M strives to maintain a continuous and open dialogue with the community, shareholders, employees, retirees and other interested parties about the environmental, social and economic

issues related to our operations including past achievements and future sustainability goals. We partner with a variety of organizations to help provide the company with a diverse set of viewpoints on sustainability, a better understanding of the positions of our stakeholders, and a mechanism to learn from the successes and failures of our peers.

Working with Suppliers

3M has a formal process as part of its Sourcing Policy that sets standards for its suppliers in the areas of environmental, health and safety, transportation, and labor and human resources. The standards apply to the selection and retention of all suppliers that provide goods or services to 3M worldwide and establish a framework that 3M considers important to a safe and healthy workplace, to the maintenance of fair and reasonable labor and human resource practices, and to the management of manufacturing and distribution operations to minimize adverse impact to the environment.

Community Giving

Because of 3M's business success, we are able to invest in innovative community programs that help make the future brighter for everyone. Community giving is an important part of 3M's sustainability strategy. 3M's philanthropy combines 3M and 3M Foundation cash gifts, donated products and volunteerism by employees and retirees. Our global Community Giving Program is decentralized with 3M subsidiaries in each country developing and administering a program that is consistent with the local culture, community needs and environment in which we operate.

3M's Key Business Strengths

Every day 3M people find new ways to make amazing things happen. Wherever they are, whatever they do, the company's customers know they can rely on 3M to help make their lives better.

Strong Technology Base: Virtually anywhere you go, 3M technologies are at work — making life easier and better for people around the world. You'll find 3M technologies and products in homes, offices, hospitals, dental offices, manufacturing facilities, cars, aircraft, traffic signs, LCD displays and countless other places. Drawing on more than 40 technology platforms, 3M employees use their imagination to develop products that transform existing industries and create entirely new ones.

Leading Market Positions: 3M is a world leader in most of its businesses. We've created many markets, frequently by developing products that fulfill unarticulated customer needs.

Healthy Mix of Businesses: 3M serves a broad array of markets, providing many avenues for growth and cushioning the company from disruptions in any single market. 3M has a worldwide presence in the following markets: consumer and office; display and graphics; electro and communications; health care; industrial and transportation; and safety, security and protection services.

Well-Known Brands: Representing quality, innovation and reliability, 3M brands earn customer loyalty, encourage repeat purchases and motivate users to try new 3M products.

Worldwide Presence: We have companies in more than 60 countries around the world, and we sell our products in nearly 200 countries. More than half of our sales are outside the United States.



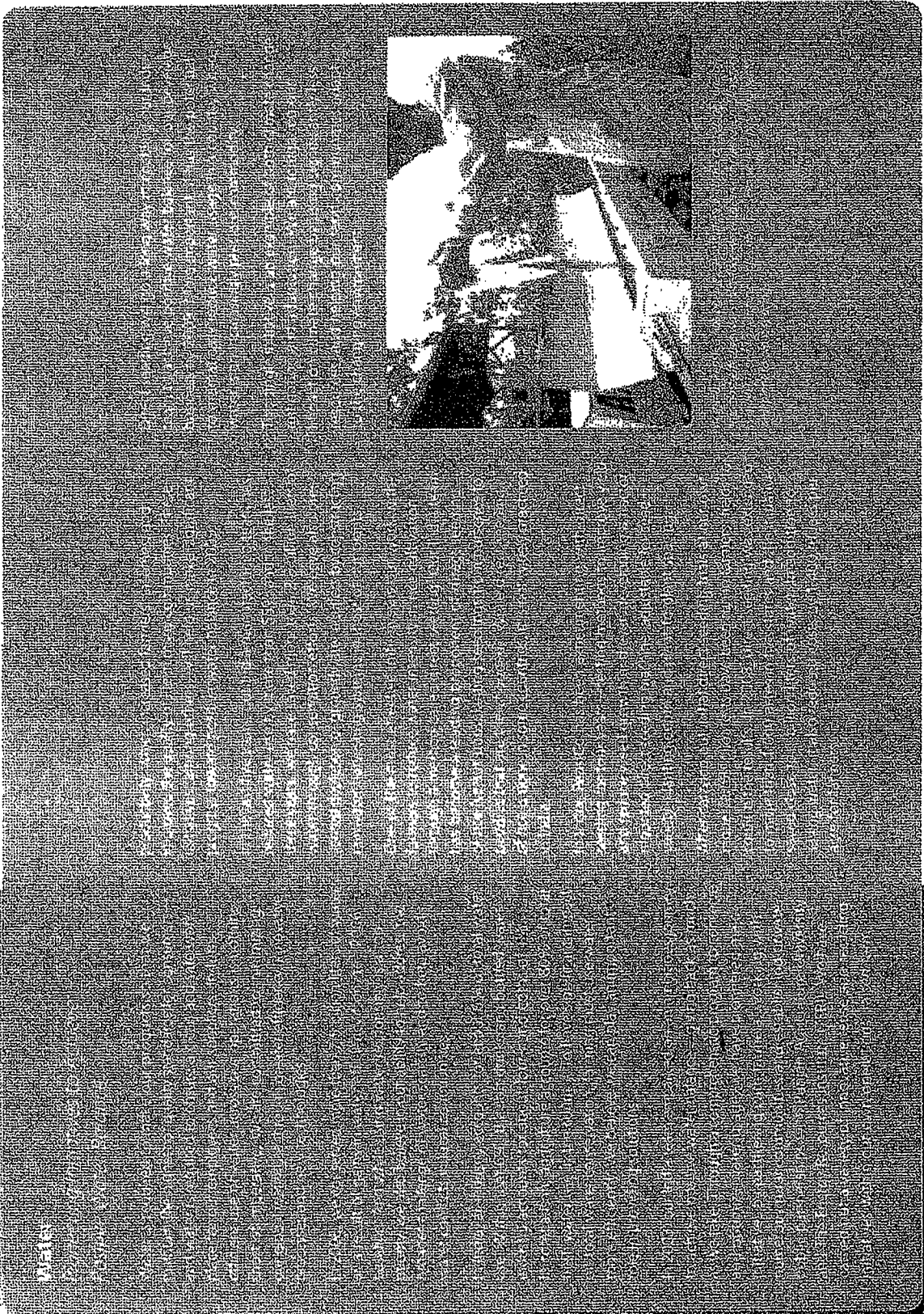
Corporate Headquarters

3M Center
St. Paul, MN 55144-1000
www.3M.com/sustainability

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Pages 27 through 48 redacted for the following reasons:

*** FISMA & OMB Memorandum M-07-16 ***



ENVIRONMENTAL SUSTAINABILITY



Agriculture

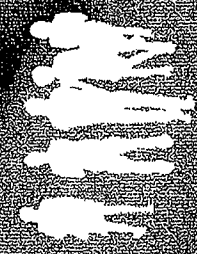
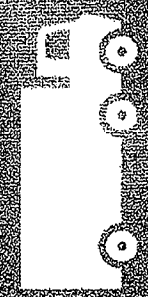
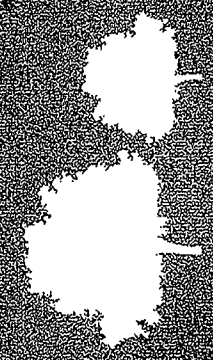
0.62kg →

Distribution

0.37kg →

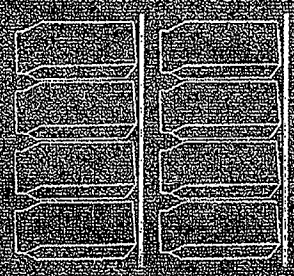
Use and Disposal

0.05kg



Including processing and packaging, the carbon footprint for a 64-ounce carton of Tropicana® Pure Premium Orange Juice

1.7kg of CO₂e



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Climate Change

Climate Change and the PepsiCo Carbon Footprint

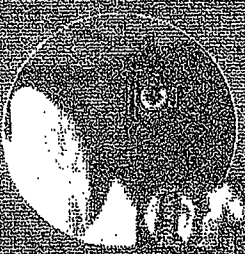
Climate change is a global environmental issue that poses significant risks to the world's population and the planet's resources. The scientific consensus is that human activities, particularly the burning of fossil fuels, are the primary drivers of climate change. The resulting increase in greenhouse gas concentrations is leading to a warming of the Earth's atmosphere, which is causing a range of adverse effects, including rising sea levels, more frequent and severe weather events, and the loss of biodiversity.

PepsiCo is committed to reducing its carbon footprint and mitigating its contribution to climate change. The company has set a goal of reducing its Scope 1 and 2 greenhouse gas emissions by 42% by 2020, compared to 2005 levels. This goal is part of the company's broader sustainability strategy, which includes initiatives to improve energy efficiency, reduce waste, and promote sustainable sourcing practices.

The following table shows the company's progress in reducing its carbon footprint over the past several years. The data is presented in terms of Scope 1 and 2 greenhouse gas emissions, measured in million metric tons of CO₂ equivalent.

Year	Scope 1 Emissions (MMT CO ₂ e)	Scope 2 Emissions (MMT CO ₂ e)	Total Emissions (MMT CO ₂ e)
2005	1,100	1,100	2,200
2006	1,050	1,050	2,100
2007	1,000	1,000	2,000
2008	950	950	1,900
2009	900	900	1,800
2010	850	850	1,700
2011	800	800	1,600
2012	750	750	1,500
2013	700	700	1,400
2014	650	650	1,300
2015	600	600	1,200
2016	550	550	1,100
2017	500	500	1,000
2018	450	450	900
2019	400	400	800
2020	350	350	700

42%



Since 2005, PepsiCo has reduced its Scope 1 and 2 greenhouse gas emissions by 42%, demonstrating its commitment to reducing its carbon footprint and mitigating its contribution to climate change.

The company's progress is a result of a combination of factors, including improved energy efficiency, reduced waste, and the use of renewable energy sources. PepsiCo continues to work on these initiatives to further reduce its carbon footprint and achieve its goal of 42% reduction by 2020.

PepsiCo is also committed to promoting sustainable sourcing practices throughout its supply chain. The company has implemented a number of initiatives to ensure that its suppliers are using sustainable practices, including the use of renewable energy, water conservation, and waste reduction.

By working together, PepsiCo and its suppliers can reduce the overall carbon footprint of the company's products and services. This will help to mitigate the risks of climate change and ensure a sustainable future for the planet and its people.

Sabtiás' participation in the Educampo program has helped drive

300%
increase in income

80%
improvement in land productivity

37,000
hours of education

Sabtiás' participation to date has helped more than

300 low-income corn producers

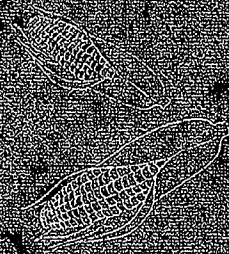
receive funding, technical support and training resulting in an estimated

9,300

tons of corn production across

2,000

hectares



Grain: our business has been committed to the development of low-income farmers' communities. Sabtiás' participation in the Educampo program has helped drive a 300% increase in income, an 80% improvement in land productivity and 37,000 hours of education.

Agriculture

At the beginning of the year, the company's focus was on the

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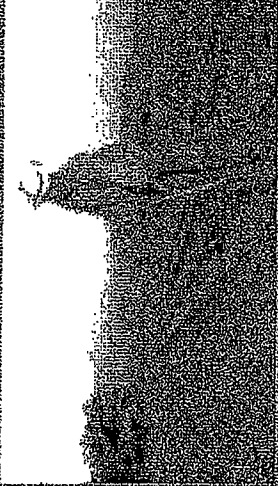
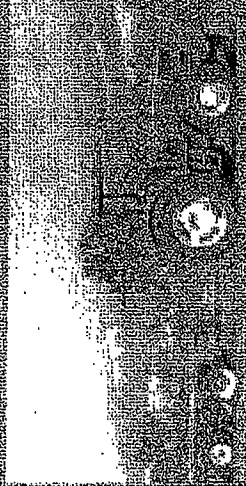
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We Recognize Our Responsibility to Take Care of Our Employees



LESLIE TELCHGRAEBER, Vice President, PepsiCo University

Now more than ever, we are sharpening our focus on the development of our employees. To build on our current marketplace success, we are committed to providing comprehensive learning opportunities to develop all employees to their fullest potential. Not only do we want to provide learning experiences, coaching and training, we also want to ensure that PepsiCo is among the top destinations for the world's best talent.

With a long-standing history of delivering leadership excellence supported by our proven development tools, we took additional steps to drive the transfer of best practices, skills, knowledge and technology across the businesses.

In 2008, we launched PepsiCo University, which offers a blended approach to learning through both classroom activities and online tools. Designed for employees at all levels of our organization, the expansive coursework helps them develop the knowledge and skills needed to drive innovation and growth for the future. PepsiCo University is available in the U.S., U.K., Mexico, Brazil, Russia, and European Union countries, among others.

Through a close working relationship with PepsiCo's operating groups, attention is given to leveraging best practice curriculums residing in the business units and scaling these programs enterprise-wide. We also offer e-learning performance support tools addressing a wide range of functional topics along with business and

management skill building. The overall curriculum is centered on building people skills, managerial skills and general business skills. One of the most successful courses is the leadership advancement transition program that prepares employees for the three key leadership milestones: the move from individual contributor to manager, from manager to leader, and from leader to senior leader. PepsiCo University will be launched in China, India and the Middle East by late 2009.

50%

people results

50%

business results

To demonstrate our commitment to values and managerial integrity, we shifted our annual performance review system to include a direct business and people results.

In an industry-leading move that demonstrates our commitment to our values and manager quality, we shifted to an equal weighting of 50% Business and 50% People results in our annual performance review system. This system includes mid-year and year-end career discussions between employees and their managers. Individual "people performance" objectives include measures relating to the *Performance with Purpose* sustainability pillars (Human, Environmental, Talent) as well as improved operating efficiencies, customer and employee satisfaction,

and the management and development of people. There are specific courses offered through PepsiCo University that provide tools for people development. This change has had a significant impact on employee perceptions of PepsiCo as an organization focused on People results.

To attract and retain the world's best talent, we must continue to build on the legacy of our learning culture to prepare and develop our diverse workforce for the future.

GREG HEASLIP, Vice President, Global Benefits

Our employee wellness program, called HealthRoads, recognizes that good health and well-being is a journey, not a destination. HealthRoads successfully motivates and enables employees to lead healthy lives by seeking preventive care, making behavioral changes to reduce health risks, and working one-on-one with a health coach to manage an existing condition.

HealthRoads is comprehensive in scope. Its primary focus is diet, exercise and nutrition. However, it enables employees around the globe to address a wide variety of potential health risks, including stress, tobacco use, sleep deprivation, diabetes, asthma, high cholesterol and high blood pressure. In addition, HealthRoads uses multiple modes (online resources, print materials, one-on-one coaching) to maximize its accessibility, reach and effectiveness with our employees.

HealthRoads is currently available in 21 countries, including the U.S., Australia and Canada. Moving forward, we're rolling out the program in additional countries, including Mexico, the European Union and the Middle East, by 2012. One of our primary challenges is engaging employees from diverse cultures, in which attitudes differ widely with respect to weight, diet and one-on-one health coaching. We're working on alternative approaches to engage our diverse population. The confidentiality and privacy of personal health information are also global concerns for our employees. Senior management has

acknowledged these concerns and there is strict rigor in protecting the confidentiality of employees' personal data.



HealthRoads, PepsiCo's employee wellness program, motivates our employees to lead better, healthier lives.

Now in the fifth year of our HealthRoads journey, we have accomplished key milestones to ensure sustainability and support of this initiative:

- Senior management support: Our leadership team champions employee wellness around the globe. Their continuing support sets the stage for grassroots acceptance and engagement.
- Worksite wellness: A key to sustaining a wellness culture is to make it relevant at the local level. HealthRoads is tailored to meet each participating site's needs by involving local employees in the design and execution of ongoing wellness activities in that particular location, within a consistent framework.
- Strong incentive program: Although good health is its own reward, incentives motivate and engage employees in the right behaviors.
- Tracking and measurement: We understand the value of data. For the past four years, we've been measuring the reduction or elimination of health risks among our

employees and the financial return on our wellness investment. Data and results are reported on an aggregate basis, not an individual basis.

HealthRoads is slowing the rate of increase in PepsiCo's medical costs and is positively impacting the health of our employees and their families. In the U.S., about two-thirds of our employees and their spouses/partners have registered for HealthRoads and 93% of them have completed the personal health assessment. More than 80% of individuals who completed a health assessment also agreed to participate in a wellness coaching program. More than 31,000 participants reduced or eliminated a health risk as a result of engaging in a wellness program. Since 2006, we have identified a return on investment of \$3.4:1 to \$5.0:1, depending on whether incentives are included.

93%

completed health assessment

In the U.S., about two-thirds of our associates and their spouses/partners have registered for HealthRoads and 93% of them have completed the personal health assessment. More than 80% of those individuals also agreed to participate in a wellness coaching program.

80%

participating in programs

HealthRoads is a catalyst for changing behaviors. It provides the resources, tools and incentives that enable our employees to lead healthier lives. We believe HealthRoads fosters a culture of well-being that can contribute toward a sustainable business.

☛ **WORLD HEADQUARTERS**

Purchase, New York, USA

☛ **BUSINESS UNIT HEADQUARTERS**

☛ **PEPSICO AMERICAS FOODS (PAF)**

Frito-Lay North America (FLNA)—Plano, Texas, USA
Quaker Foods North America (QFNA)—Chicago, Illinois, USA
South America Foods (SAF)—São Paulo, Brazil
Sabritas—Mexico City, Mexico
Garden of Eatin'—Monterrey, Mexico

☛ **PEPSICO AMERICAS BEVERAGE (PAB)**

Pepsi-Cola North America Beverages (PCNAB)—
Purchase, New York, USA
Gatorade—Chicago, Illinois, USA
Tropicana—Chicago, Illinois, USA

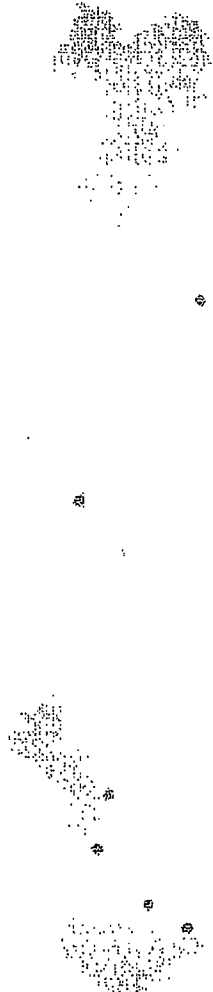
☛ **PEPSICO INTERNATIONAL (PI)**

Europe—Geneva, Switzerland
Asia, Middle East and Africa (AMEA)—
Dubai, United Arab Emirates

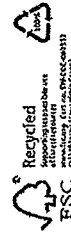
About PepsiCo

PepsiCo offers the world's largest portfolio of billion-dollar food and beverage brands, including 18 different product lines that each generate more than \$1 billion in annual retail sales. Our main businesses—Frito-Lay, Quaker, Pepsi-Cola, Tropicana and Gatorade—also make hundreds of other nourishing, tasty foods and drinks that bring joy to our consumers in over 200 countries. With more than \$43 billion in 2008 revenues, PepsiCo employs 198,000 people who

are united by our unique commitment to sustainable growth, called *Performance with Purpose*. By dedicating ourselves to offering a broad array of choices for healthy, convenient and fun nourishment, reducing our environmental impact, and fostering a diverse and inclusive workplace culture, PepsiCo balances strong financial returns with giving back to our communities worldwide.

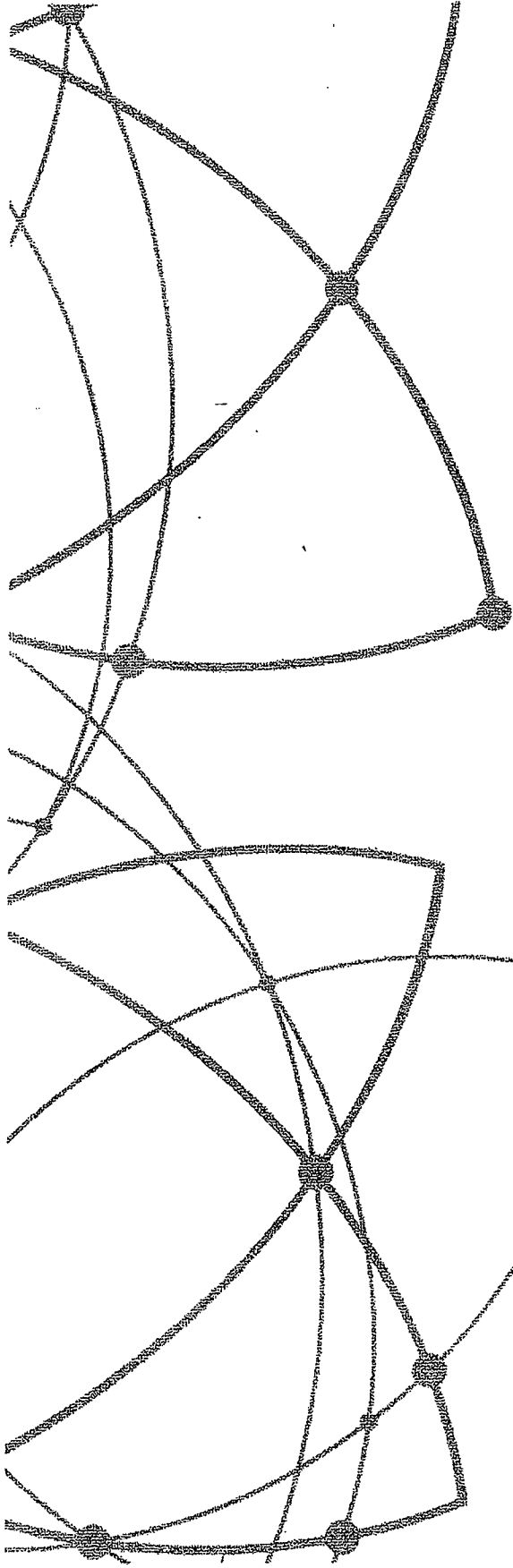


PEPSICO
2008



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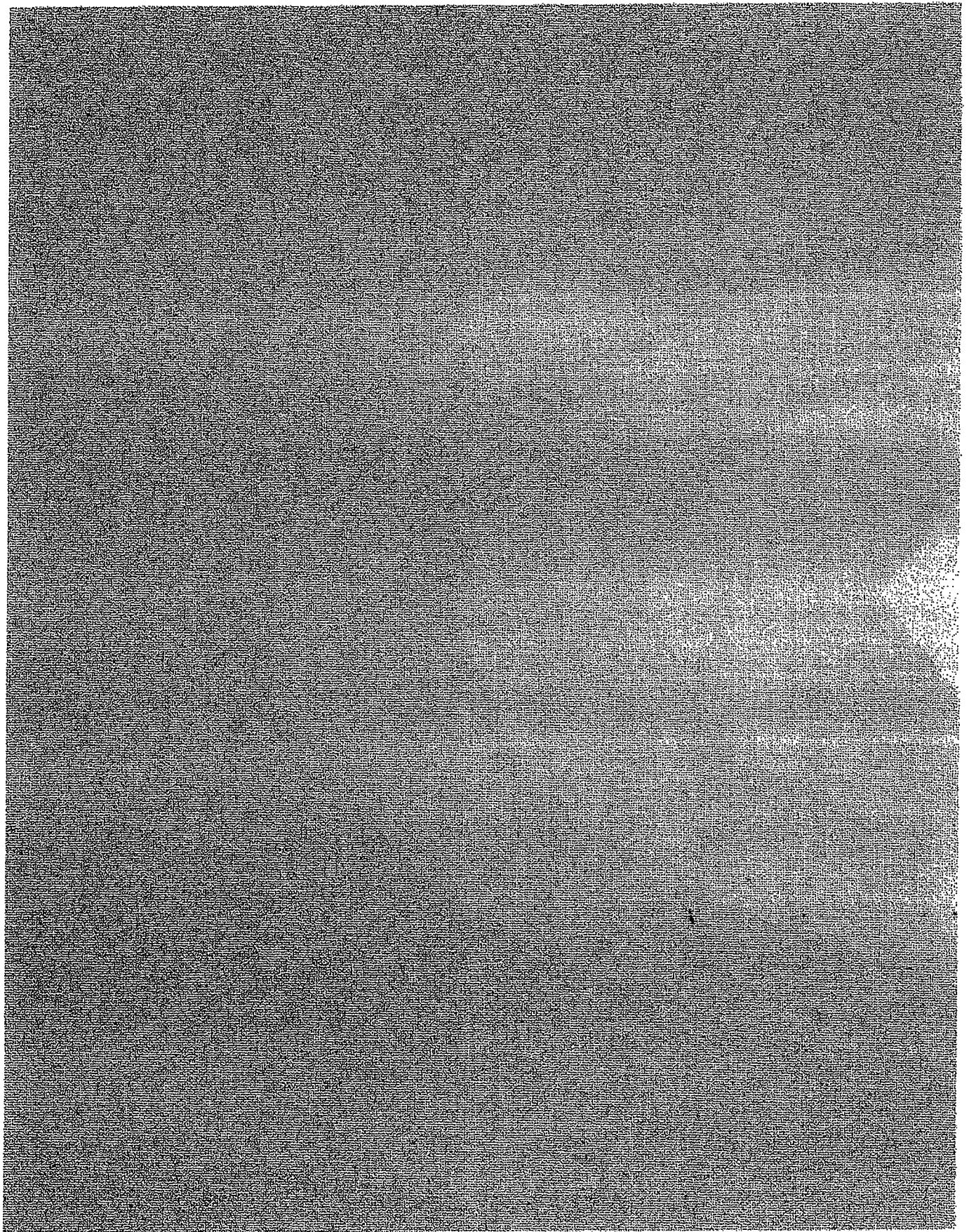
EXHIBIT D



AT&T Citizenship and Sustainability Report 2008

Connecting for a Sustainable Future





AT&T Citizenship and Sustainability Report 2008

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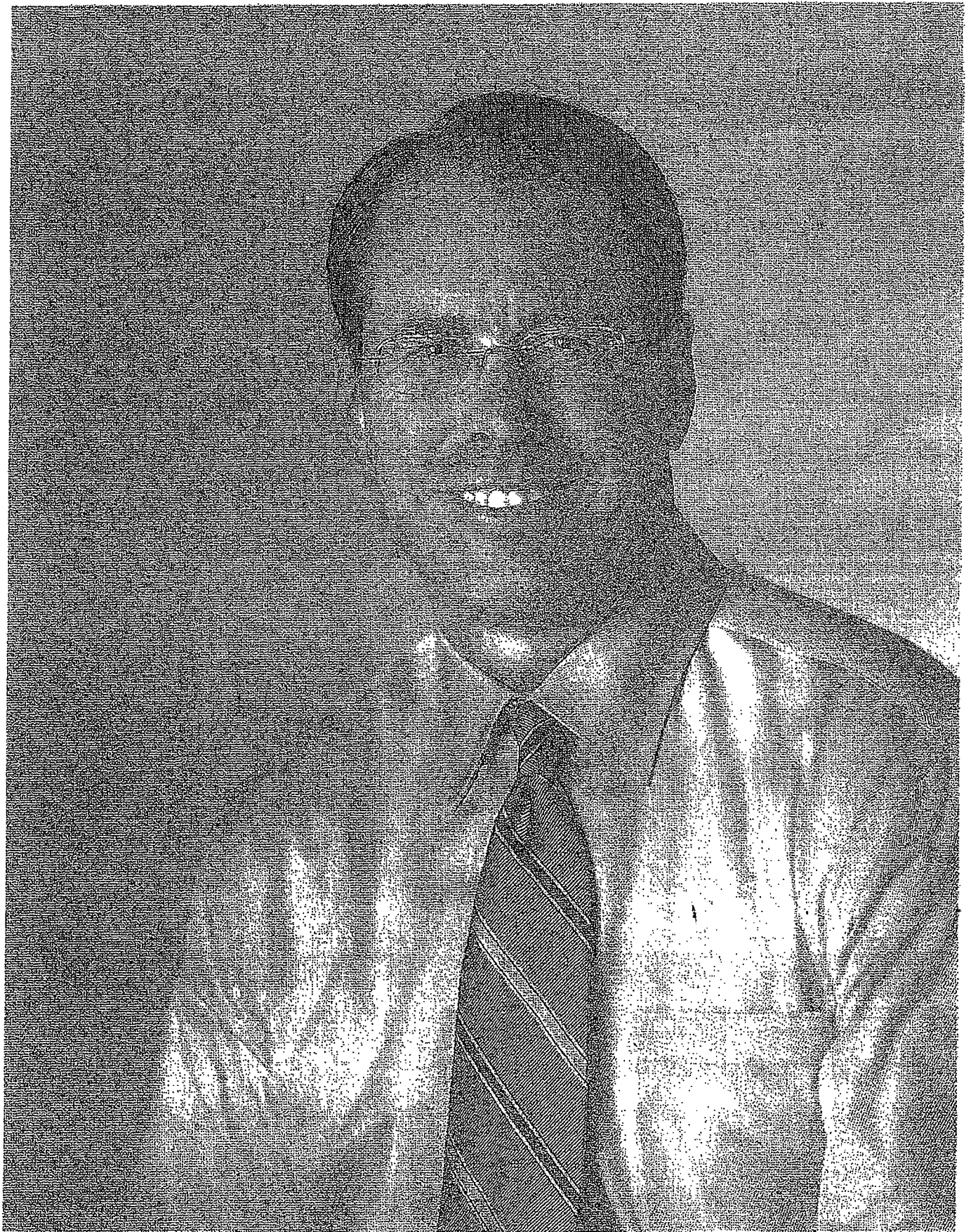
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For ease of reading, AT&T Inc. is referred to as "we," "AT&T," or the "company" throughout this report, and the names of particular subsidiaries and affiliates providing services have been omitted. AT&T Inc. is a holding company and does not provide communications services. Its subsidiaries and affiliates operate in the communications services industry both domestically and internationally. Before the Nov. 18, 2005, acquisition of AT&T Corp., the company was known as SBC Communications Inc. This report includes certain activities of AT&T Corp. prior to the acquisition.



To AT&T Stakeholders:

The challenges facing the global economy are complex -- but for every economic downturn there's an upturn. And at AT&T, we believe American businesses can -- and will -- play a critically important role in getting our economy back on track.

AT&T's business is to connect people with their world, everywhere they live and work. We've been doing that for more than 100 years. And my job is to make sure that we're able to do it for another 100. The best way to do that is by investing in areas that drive sustainable growth -- namely our people, our infrastructure, the communities in which we live and work, and the environment.

We've always been committed to being a strong corporate citizen. But now, more than ever, we need to do even more. America's future depends on how well companies like ours invest in our people and our communities. And tough times make it even more important to look for efficient solutions. That's why we're constantly striving to take our commitment to the next level -- to steer our citizenship and sustainability efforts to the intersection of our business needs and the needs of our communities. That will help our company -- and the country -- emerge stronger.

I am proud of the progress we've made over the past year. We've appointed our company's first chief sustainability officer to drive our efforts from the very top. We announced in March 2009 one of the largest-ever commitments by an American company to purchase alternative-fuel vehicles. And we've continued working with partners and stakeholders to solve problems and inspire innovation that makes a difference.

As we navigate this economic downturn, we realize we don't have all the answers -- but we will continue to do our part. Citizenship and sustainability is a journey for AT&T, an area of continual progress. We're constantly learning and making improvements. And we'll work hard to do even more, embracing this with the same passion and leadership that we bring to every part of our business. Working together, we'll build a better company, a better world and a more sustainable future.

Sincerely,



Randall Stephenson
CHAIRMAN, CHIEF EXECUTIVE OFFICER AND PRESIDENT

"We are steadfast in our commitment
to take meaningful steps along our
citizenship and sustainability journey."



To AT&T Stakeholders:

We connect people in ways that strengthen our communities and our company. We manage for the long term, which is why our company has been around for generations. And we take this same sensible business approach to our corporate citizenship.

So what does citizenship and sustainability mean to us? It's about integrating economic, social and environmental issues – ones that affect our company and the communities in which we do business – into our business strategy to provide greater value. It's about our ability to run a successful business, in large part, because we take into account the needs of the communities where we live and work.

This approach ensures that our programs will be around for a long time. And, in this economic downturn, it makes these programs even more important. We also see the current economic climate as a new market opportunity. It's an opportunity to help our customers' businesses become more sustainable by enabling them to be more energy efficient.

This past year, AT&T accelerated its progress in citizenship and sustainability. Building off a newly established governance structure designed to manage initiatives in this area, we've worked with employees throughout our business units to set goals and to further drive our commitment into our everyday work. And we've worked with all employees to foster greater awareness of citizenship and sustainability issues and engage them in our efforts through increased communications.

In this report we highlight our priorities, discuss our accomplishments and challenges in 2008, and outline our 2009 goals across our six strategic focus areas.

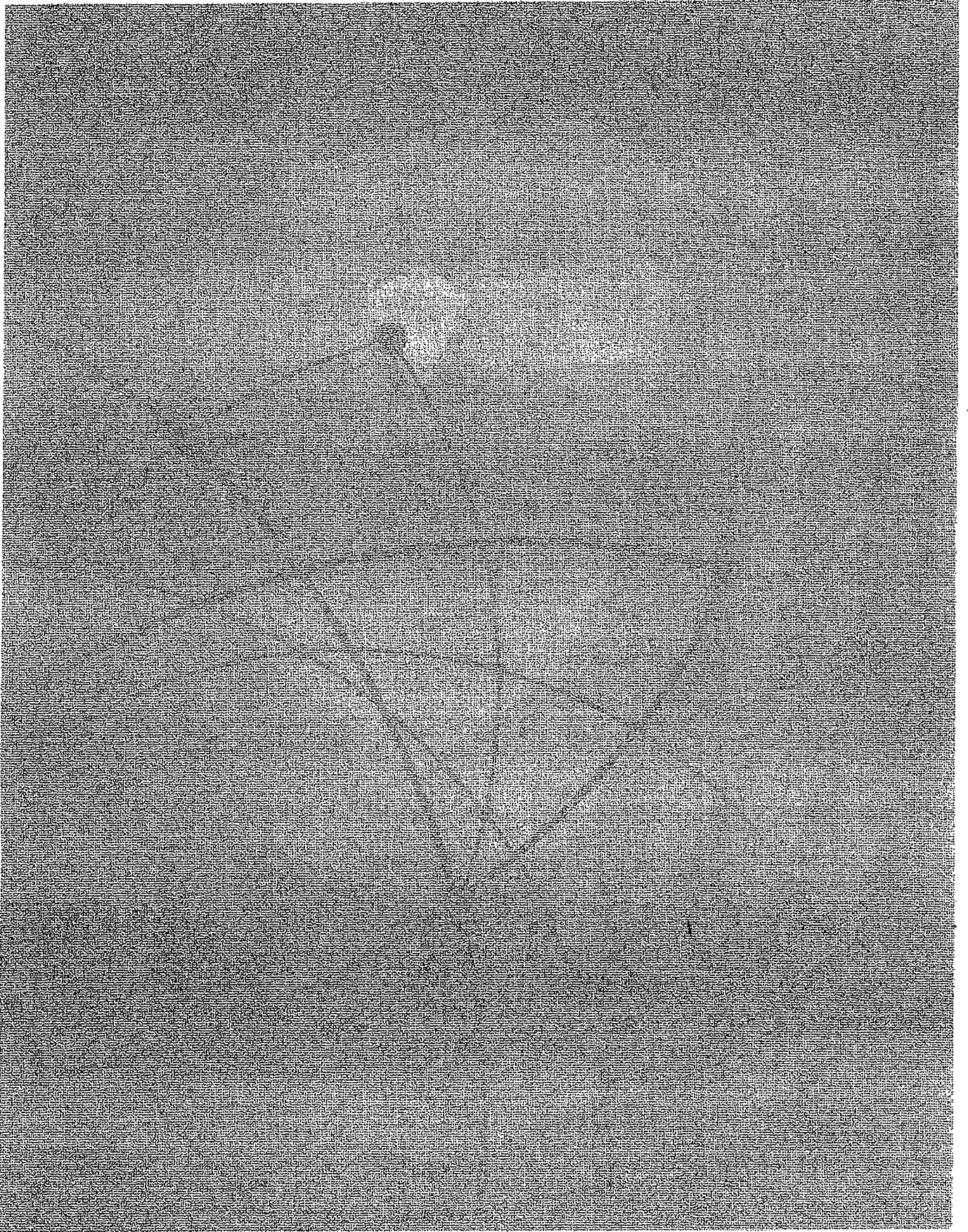
Our progress in these areas is made possible by the tireless efforts and passion of our employees and by the support and guidance of our external stakeholders. We will continue to listen and cultivate those collaborations as they challenge us to improve the way we run our business.

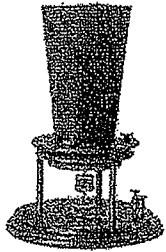
Even as we make good progress, we realize there is always room for improvement. We are steadfast in our commitment to take meaningful steps along this journey. And we look forward to reporting on our continued progress in this ever-evolving and exciting work.

Sincerely,



Charlene Lake
SENIOR VICE PRESIDENT
PUBLIC AFFAIRS AND CHIEF SUSTAINABILITY OFFICER





About AT&T

In 1876, Alexander Graham Bell sparked a movement when he invented the telephone. That was the foundation of the company that would become AT&T – a brand that is synonymous with the best, most reliable communications service in the world.

Today, AT&T Inc. is a premier communications holding company. With headquarters in Dallas, AT&T employs 294,600 people worldwide and provides services in all 50 U.S. states and more than 160 countries.

Our subsidiaries and affiliates – AT&T operating companies – are the providers of AT&T services in the United States and around the world. With a powerful array of network resources that includes the fastest 3G network in the United States, AT&T is a leading provider of wireless, Wi-Fi, high speed Internet and voice services. We offer the best wireless coverage worldwide, offering the most wireless phones that work in the most countries. We also offer advanced TV services under the AT&T U-verseSM and AT&T | DIRECTVSM brands. Our suite of IP-based business communications services is one of the most advanced in the world. In domestic markets, the AT&T Real Yellow Pages and YELLOWPAGES.COM are known for their leadership in multimedia local search solutions, including print Yellow Pages, Internet and Mobile offerings.

AT&T Inc. common stock is listed on the New York Stock Exchange. AT&T currently ranks eighth among the 2009 Fortune 500 and ranked 29th among the 2008 Global Fortune 500. AT&T's reported consolidated revenue totaled more than \$124 billion in 2008. In 2009, AT&T again ranked No. 1 in the telecommunications industry on *Fortune* magazine's list of the World's Most Admired Companies.

Citizenship & Sustainability at AT&T

Our Approach

With a company of our size, we know we have the potential to have a real impact on the communities we serve. But our movement must have purpose. In doing this, our efforts make our business a better-run, more-efficient enterprise. And we do what is good for our shareholders, customers, business associates and employees.

AT&T's citizenship and sustainability efforts target areas where the needs of our company intersect with the needs of our communities. And we've decided to focus on the issues that are important to our business and communities and that provide us with an opportunity to make the most meaningful impact.



Six Focus Areas

In 2006, we organized our citizenship and sustainability efforts into six focus areas, which reflect the issues we feel most about our citizenship and sustainability commitment. These areas are reflected in the structure and content of last year's report and this report.

1

Strengthening a community

We strengthen our communities by providing good jobs, donating our time and talents, supporting underserved populations and promoting education programs that create economic opportunity.

2

Investing in People

We strive to be a great place to work, to be respectful and supportive of our diverse workforce and inclusive culture, and to recognize the benefits of our diverse suppliers, customers and business partners.

Doing Right

We demand the highest standards of ethics, integrity and responsibility in our operations.

4

Minimizing Our Environmental Impact

We strive to minimize our environmental impact in ways that are relevant to our business and important to the communities we serve.

Connecting People and Businesses

We efficiently connect people and businesses with innovative and sustainable products and services.

6

Leading Innovation and Technology

We lead the way in innovation and technology and apply developments to make a sustainable difference in society.

Citizenship & Sustainability Milestones

AT&T has a long-standing commitment to citizenship and sustainability, which we continue to build on.

1913

AT&T BECOMES ONE OF THE FIRST MAJOR COMPANIES TO ESTABLISH A FORMAL EMPLOYEE BENEFITS PROGRAM. THE INITIAL PROGRAM INCLUDES PENSION, SICKNESS AND ACCIDENT COVERAGE, AND A DEATH BENEFIT.

1923

AT&T PRODUCES ITS FIRST TELEPHONE AMPLIFIER TO HELP PEOPLE WHO HAVE A HEARING LOSS. WITHIN A 20-YEAR PERIOD, AT&T INVENTS AND INTRODUCES THE AUDIOMETER FOR MEDICAL DIAGNOSTICS, THE ARTIFICIAL LARYNX TO RESTORE SPEECH, AND THE FIRST WEARABLE HEARING AIDS.

1940

IN ANTICIPATION OF WORLD WAR II, AT&T BEGINS AN EXTENSIVE PROGRAM TO BUILD AND OPERATE TELEPHONE-CALLING CENTERS AT MILITARY FACILITIES ACROSS THE U.S. MANY AMERICANS MAKE THEIR FIRST PERSONAL LONG-DISTANCE CALL TO SPEAK TO A SOLDIER OR SAILOR FAR FROM HOME.

1954

INVENTION OF THE FIRST SOLAR CELL.

1960

ESTABLISHED THE TALKING BOOK REPAIR PROGRAM, WHICH HAS BROUGHT THE JOY OF THE PRINTED WORD TO THOSE WHO CANNOT SEE. EACH YEAR, AT&T DONORS REFRESH MORE THAN 725,000 SPECIAL CASSETTE AND RECORD-PLAYING MACHINES.

1968

MINORITY BUSINESS ENTERPRISES (MBE) PROGRAM ESTABLISHED.

1980

WOMEN BUSINESS ENTERPRISES (WBE) PROGRAM ESTABLISHED.

THE ALLIANCE TO SAVE ENERGY AWARDS.

AT&T'S FIRST NATIONAL ENERGY EFFICIENCY AWARD.

1988

AT&T LAUNCHES ITS LEADERSHIP DEVELOPMENT PROGRAM.

1989

AT&T CREATED ONE OF THE FIRST CORPORATE-PRIME SUPPLIER PARTICIPATION PROGRAMS, REQUIRING PRIME SUPPLIERS TO SET AND MEET THEIR OWN SUPPLIER DIVERSITY SPENDING GOALS.

1993

INDUSTRIAL ECOLOGY COMPETITIVE GRANT PROGRAM LAUNCHED.

DISABLED-VETERAN BUSINESS ENTERPRISES (DVBE) PROGRAM ESTABLISHED.

1995

CHAMPIONS OF THE ENVIRONMENT PROGRAM LAUNCHED.

2001

AT&T NATURAL VOICE, TEXT-TO-SPEECH ENGINE IS USED IN FREEDOM BOX INTERNET, AN ONLINE SERVICE DESIGNED FOR PEOPLE WITH DISABILITIES, ALLOWING THEM TO ACCESS THE INTERNET AND OPERATE COMPUTERS USING ONLY VOICE COMMANDS.

2003

AT&T LAUNCHED A FULL-SERVICE SPANISH- LANGUAGE WEB SITE, WWW.LANUEVA.ATT.COM, AND IS CONSTANTLY STRIVING TO BETTER COMMUNICATE WITH THE HISPANIC COMMUNITY ONLINE.

2004

AT&T SIGNED ON TO THE INSTITUTE OF SUPPLY MANAGEMENT'S CORPORATE SOCIAL RESPONSIBILITY PRINCIPLES.

2005

BECAME FIRST TELECOMMUNICATIONS COMPANY TO FILE CARBON EMISSIONS WITH THE CALIFORNIA CLIMATE ACTION REGISTRY.

AT&T LAUNCHED WWW.ATT.COM/WORD, A WEB SITE WITH FIVE ASIAN LANGUAGES TO OFFER SELF-SERVICE CAPABILITIES TO CUSTOMERS PREFERRING TO DO BUSINESS IN CHINESE, VIETNAMESE, KOREAN, TAGALOG OR JAPANESE.

2006

AT&T WAS HONORED BY THE JOURNAL OF INDUSTRIAL ECOLOGY (JIE) FOR ITS PIVOTAL ROLE IN THE JOURNAL'S DEVELOPMENT.

2007

AT&T VICE PRESIDENT OF CITIZENSHIP & SUSTAINABILITY POSITION CREATED.

AT&T-OWNED WIRELESS STORE LOCATIONS NATIONWIDE BECAME PHONE RECYCLING DROP-OFF SITES FOR CELL PHONES FOR SOLDIERS, A CHARITABLE PROGRAM THAT BENEFITS U.S. MILITARY FAMILIES.

2008

NAMED FIRST CHIEF DIVERSITY OFFICER.

PUBLIC POLICY COMMITTEE OF THE AT&T BOARD OF DIRECTORS TAKES ON GREATER OVERSIGHT OF CITIZENSHIP AND SUSTAINABILITY.

AT&T CREATES AN OFFICER-LEVEL CITIZENSHIP AND SUSTAINABILITY STEERING COMMITTEE.

LAUNCHED AT&T ASPIRE, A \$100 MILLION HIGH SCHOOL SUCCESS AND WORKFORCE READINESS INITIATIVE.

ROLLED OUT 165 ALTERNATIVE-FUEL VEHICLES ACROSS THE COUNTRY.

MADE UNIVERSAL DESIGN POLICY AVAILABLE FOR THE FIRST TIME.

PUBLISHED CITIZENSHIP & SUSTAINABILITY PRINCIPLES OF CONDUCT FOR SUPPLIERS.

COMPLETED INTEGRATION OF NETWORK DISASTER RECOVERY ORGANIZATION - THE INDUSTRY'S LARGEST, MOST ADVANCED DISASTER RESPONSE ORGANIZATION.

AT&T MADE ITS FILING WITH THE CARBON DISCLOSURE PROJECT PUBLIC FOR THE FIRST TIME.

AT&T by the Numbers:

2008 Citizenship and Sustainability Highlights

Strengthening Communities

\$169 million

PHILANTHROPIC GIVING

325,000

EMPLOYEE AND RETIREE VOLUNTEERS

10.3 million

VOLUNTEER HOURS — WORTH MORE THAN \$202.8 MILLION

Investing in People

294,600

EMPLOYEES WORLDWIDE

\$244 million

INVESTED IN EMPLOYEE TRAINING
AND DEVELOPMENT PROGRAMS

\$5.5 billion

SPENT ANNUALLY ON HEALTH CARE FOR
1.2 MILLION EMPLOYEES, RETIREES AND DEPENDENTS

44%

PERCENT OF AT&T'S U.S. WORKFORCE THAT IS FEMALE

39%

PERCENT OF AT&T'S U.S. WORKFORCE
THAT IS PEOPLE OF COLOR

\$6 billion

SPENT WITH MINORITY-, WOMEN- AND
DISABLED VETERAN-OWNED BUSINESSES

Minimizing Our Environmental Impact

5

NUMBER OF FACILITIES
THAT RECEIVED ENERGY STAR CERTIFICATION

105+

ALTERNATIVE-FUEL VEHICLES
DEPLOYED IN MORE THAN 30 CITIES

1 megawatt

SIZE OF THE SOLAR POWER SYSTEM INSTALLED
ON OUR SAN RAMON, CALIF., FACILITY

75 million

POUNDS OF NETWORK SCRAP
MATERIALS KEPT OUT OF LANDFILLS

Connecting People and Business

15%

INCREASE IN PHONES REUSED OR RECYCLED FROM 2007
TO 2008 FOR A TOTAL OF 4.5 MILLION PHONES IN 2008

43%

INCREASE IN ACCESSORIES AND BATTERIES REUSED OR
RECYCLED FROM 2007 TO 2008 FOR A TOTAL OF 1.3 MILLION
POUNDS OF ACCESSORIES AND BATTERIES IN 2008

160

LANGUAGES IN WHICH AT&T
COMMUNICATES WITH CUSTOMERS

17 petabytes

DATA TRAFFIC TRANSMITTED
BY AT&T ON AN AVERAGE BUSINESS DAY

Leading Innovation and Technology

2

AVERAGE NUMBER OF PATENTS
AT&T RECEIVES EVERY DAY

1,300

NUMBER OF SCIENTISTS
AND ENGINEERS IN AT&T LABS

Introduction

What's New

Connecting for a sustainable future is our commitment. This report shows how we strive to lead a responsible business and hold ourselves accountable to our stakeholders. The report covers the issues we've identified as most material to our business and our stakeholders.

In this report, we capture our economic, social and environmental impacts; our activities during 2008; and our priorities for 2009 and beyond. Citizenship and sustainability highlights covered in this report include:

- > In 2008, we established six focus areas to organize our citizenship and sustainability efforts. We continued to integrate the issues into our daily business activities.
- > We extended our commitment to environmental stewardship, launching and communicating to our stakeholders on more than a dozen environmental and energy initiatives, which are detailed in this report. We also updated our policies in three areas: energy; telecommuting; and environment, health and safety.
- > In 2008, we made progress toward greater employee engagement on citizenship and sustainability issues by launching AT&T EcoSystem, a new employee Web site that provides our employees with information and resources related to our environmental sustainability efforts.
- > In corporate giving, we contributed more than \$160 million through corporate, employee and AT&T Foundation giving programs. We also launched a new \$100 million program – AT&T Aspire – to address the high school dropout crisis.
- > We expanded our voice in public policy through engagements and thought leadership efforts around encouraging the expanded use of technology to help our country become more sustainable.
- > And in responding to stakeholder feedback, we've covered additional topics as well as aligned this report to a level C, in accordance with the Global Reporting Initiative (GRI) guidelines. This step furthers our commitment to ensure accuracy, completeness and reliability of the information we provide our stakeholders.

What's Next

In late 2008, the AT&T Citizenship and Sustainability Steering Committee agreed on a set of broad goals that provide a framework for us as we develop more detailed commitments moving forward. We continue to systematically identify performance indicators and goals for each of our focus areas, and we'll provide updates on new goals and progress in future reports.

In 2007, we established a goal to begin measuring our corporate CO₂ emissions. While we have made progress on this effort, we still have work to do, and in 2009 we are continuing our effort to finalize our baseline measurement of corporate-wide emissions. We plan to disclose our domestic carbon footprint by the end of 2009.

In this report, we cover our commitments and progress to date toward sustainable business practices. We're also working to continue embedding citizenship and sustainability issues into our business strategy, improving our reporting, and further engaging our employees in these efforts. We recognize that this is an ongoing journey.

Our 2009 goals include the following:

Philanthropy:	Make a measurable impact on the educational and future economic success of at-risk youth.
Volunteerism:	Begin transforming the culture of volunteerism within the company to one of renewed engagement.
Workforce Diversity:	Be recognized as an employer of choice by fostering an inclusive work environment that successfully utilizes diversity to drive innovation, productivity and engagement.
Supplier Diversity:	Expand engagement with minority-, women-, and disabled veteran-owned business enterprises as AT&T suppliers.
Supply Chain:	All suppliers to have read AT&T's Citizenship & Sustainability Principles of Conduct for Suppliers by year-end 2009.
Ethics and Compliance:	Increase employee awareness of the Code of Business Conduct and encourage ethical leadership.
Fleet:	Over the next 10 years, replace about 8,000 gasoline-powered service vehicles with vehicles that run on compressed natural gas (CNG) and begin replacing 7,100 passenger cars with alternative-fuel models.
Energy Consumption:	Reduce the electricity consumption of our company relative to data growth on our network by 15 percent as compared with year 2008.
Social Policy:	Move the industry's approach to consumer privacy forward to a model of privacy by design: transparency, customer control, privacy protection and customer value.
Innovation:	Conduct research that improves society's understanding of and ability to deal with environmental sustainability.
Energy:	Add to the understanding of energy consumption implications of service and/or equipment platform alternatives.

STRENGTHENING COMMUNITIES

OUR COMMITMENT

We strengthen our communities by providing good jobs, donating our time and talents, supporting underserved populations and promoting education programs that create economic opportunity.

CHALLENGES

- Cleaning and maintaining green jobs
- Ensuring a well educated and diverse workforce to lead into the digital global economy
- Rebuilding employee confidence and ground education
- Strengthening network reliability and creating continued connectivity when disaster strikes

OUR OPPORTUNITIES

- Working to bring previously lost our job back to our U.S. payroll and to add new jobs in growing areas of our business
- Using the reach of our business to be a catalyst for change in addressing the high school dropout epidemic
- Creating new volunteerism and grant opportunities that meet the interests and incentive considerations of our employees
- Investing in our network to prepare for natural disasters

Introduction

Investment in people and communities is vital to America's future. This starts with creating and maintaining good jobs. And it includes the time and talents our employees invest in the communities we serve. Our economic impact also involves helping the next generation aspire to do great things: our investment in the well-educated workforce for tomorrow may be the single most important thing we can do to help America remain the leader in a digital, global economy.

This section covers our initiatives in the following areas:

- > Good Jobs
- > Philanthropy
- > Volunteerism
- > Disaster Relief

"We expect to complete our ambitious 5,000 job in-sourcing initiative by this summer, less than three years after the program was announced. These are good jobs with good wages and benefits, and we are delighted to have them back in-house and on shore."

Bill Blase
SENIOR EXECUTIVE
VICE PRESIDENT OF
HUMAN RESOURCES

Good Jobs

We constantly hire new talent as our job mix and product lines change with our ever-evolving industry. Last year, we filled thousands of positions both internally and externally.

Given the current economic pressures and the business outlook, we've had to make some adjustments in our workforce. The reduction of our workforce is tied to three primary factors:

- > A decline in customer spending driven by economic pressures.
- > A continued industrywide trend of residential customers shifting from wired voice to wireless and broadband.
- > Our streamlined organizational structure.

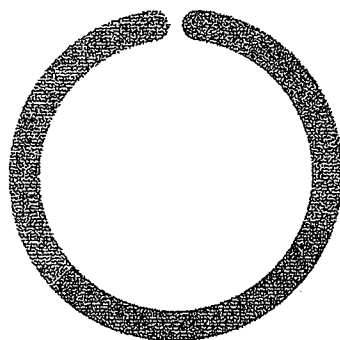
The good news is we expect to add 3,000 new jobs this year in several growth areas: wireless, video and broadband. With the addition of these new jobs, we'll fulfill a commitment we made two years ago – in partnership with the Communications Workers of America (CWA) – to bring home 5,000 previously outsourced jobs to our payroll.

We're well on the way toward achieving this goal, and many of these jobs have already been reassigned to new call centers in Florida, North Carolina, Kentucky, Indiana, Texas and Nevada. An additional 200 of these returning jobs are earmarked for the New Orleans area.

Philanthropy

AT&T invests our time and talent to advance education, strengthen communities and improve lives. Through philanthropic initiatives and collaborations, AT&T and the AT&T Foundation support projects that create opportunities, make connections and address community needs where we – and our customers – live and work. In 2008, we contributed \$169 million through corporate, employee and AT&T Foundation giving programs.

AT&T Foundation 2008 Philanthropic Giving (\$ in Millions)



\$19.54	Arts and Culture
\$55.21	Community Development
\$62.33	Education
\$30.38	Health and Human Services
\$1.54	Other
<hr/>	
\$169.02	Grand Total



AT&T Chairman and CEO Randall Stephenson and San Antonio high school senior Alex Elizardo share a laugh as part of their job shadowing experience.

Quick Facts Why AT&T Is Investing in Education

As a major U.S. corporation, we're concerned about how the dropout issue affects our nation's ability to compete in the global economy. As a corporate citizen, we're concerned that the U.S. is not realizing our human potential.

Today, we have among the communication industry's most highly skilled and talented workforce – but we're also thinking about tomorrow and the next generation of the U.S. workforce.

We need a labor force that is ready to work in a highly competitive and increasingly digital world. Tapping the potential of our next generation lays the foundation for future prosperity – not just for our country, but for all of our children.

AT&T Aspire

Each year, more than 1 million students drop out of high school. That means nearly one-third of all public high school students fail to graduate with their classmates. To do our part to address this issue, in 2008 we launched AT&T Aspire – a \$100 million philanthropic program designed to focus on the high school dropout crisis. It's the biggest and most significant investment in education in our company's history and represents a shift in our philanthropic focus and spending.

The program focuses on four key elements:

1. Grants to schools and nonprofit organizations that are focused on helping students graduate from high school and better preparing them for college and/or the workforce. In 2008, the AT&T Foundation provided \$29 million in AT&T High School Success Grants to 172 schools and nonprofit organizations nationwide.
2. A student job shadowing initiative, involving 400,000 AT&T employee hours. This will give 100,000 students a firsthand look at the skills they will need to succeed in the 21st century workforce. In fall 2008, there were 63 job shadow events in which more than 8,000 students and 4,500 employees participated.
3. The underwriting of national research that will explore the practitioner perspective (teachers, principals, superintendents, school counselors and school board members) on the high school dropout issue. AT&T is partnering with John Bridgeland of Civic Enterprises, Hart Research and America's Promise on this effort.
4. Support for 100 state and community Dropout Prevention Summits, organized by America's Promise Alliance. These summits explore the high school dropout crisis and ways to address it.

While we've already touched a number of students in the first year since we launched AT&T Aspire, in 2009 and beyond, we'll continue to work together with educators, parents, organizations and government to be a catalyst for change on this issue.

Quick Links AT&T Aspire

To learn more about our AT&T Aspire initiative, visit www.att.com/education.

AT&T is showing our
Pioneers in the private
sector the meaning of
corporate social
responsibility. Improving
our public schools and
ending the dropout crisis
is a shared responsibility.
Educators cannot solve
this problem alone.
Solutions should involve
all aspects of our
community — parents,
children and educators as
well as community, faith
and business leaders."

Reg Weaver
PRESIDENT, NATIONAL
EDUCATION ASSOCIATION

United Way/Employee Giving Campaign



Our employees are an invaluable part of our charitable giving efforts, and the annual AT&T United Way/Employee Giving Campaign highlights our employees' deep spirit of giving. In 2008, employees throughout our enterprise pledged/raised a total of \$31.9 million in contributions, increasing their giving from the previous year by an impressive 15 percent. Along with signing up for one-time or regular contributions, employees raised money through a variety of ways — from garage sales to bake sales to auctions.

Supporting the Troops

For more than 85 years, we've been dedicated to supporting active military personnel, their families and veterans through charitable contributions, event and program sponsorships, hiring of military veterans, and maintaining policies that support reservists when they are called to active duty. Some of the ways we do this include:

- > We donate free prepaid phone cards to military members and have provided nearly \$6 million in grants that support military members and related nonprofit organizations.
- > We help connect military families through a partnership with Cell Phones for Soldiers (CPFS), a nonprofit organization that uses funds from recycled cell phones to buy prepaid phone cards for active duty military personnel. We've donated 60,000 prepaid phone cards to CPFS, so they can send more cards to military members. And we currently offer all 2,000-plus company-owned wireless store locations across the country as drop-off sites to help recycle used cell phones for the program.
- > AT&T Pioneers also prepare and send thousands of care packages to troops serving overseas, greet soldiers at airports and host various events to recognize the sacrifice of military members and families.

International Giving in 2008

Canada
\$95,000

Europe
\$90,000

Japan
\$30,000

India
\$50,000

Asia Pac
\$75,000

Caribbean
and Latin
America
\$30,000

Other Global Projects - \$170,000
Total International Giving - \$481,000

Giving Back Around the World

As we continue to expand our presence in markets beyond the United States, we're committed to supporting the communities in the regions where we work. A few examples include:

Disaster Relief

Since 2003, we've made an annual contribution — including \$70,000 in 2008 — to the global charity Telecoms Sans Frontières (TSF), the first humanitarian organization specialized in providing emergency telecommunications. With a mission to leverage communications technology for those in need, TSF works to deploy telecommunications centers within 24 hours of an emergency. Since its creation in 1998, TSF has deployed to more than 50 countries and assisted almost 500 relief organizations and millions of victims.

Supporting Education

In 2008, we contributed \$30,000 to the International Center for Journalists (ICJ) to support a three-week online training program at the newly created Digital Journalism Center at the University of Guadalajara. The center is designed to educate Latin American journalists on delivering quality digital news to better serve the public interest. Our sponsorship allowed the center to launch a new course for 2009 — one that combines online and in-classroom training on how to use the latest digital tools and techniques to cover key public-interest topics such as sustainable development, education and health in Mexico and throughout the region.

AT&T Pioneers Volunteer Hours



2007	2008
10	10.3
million	million
hours	hours

Volunteerism

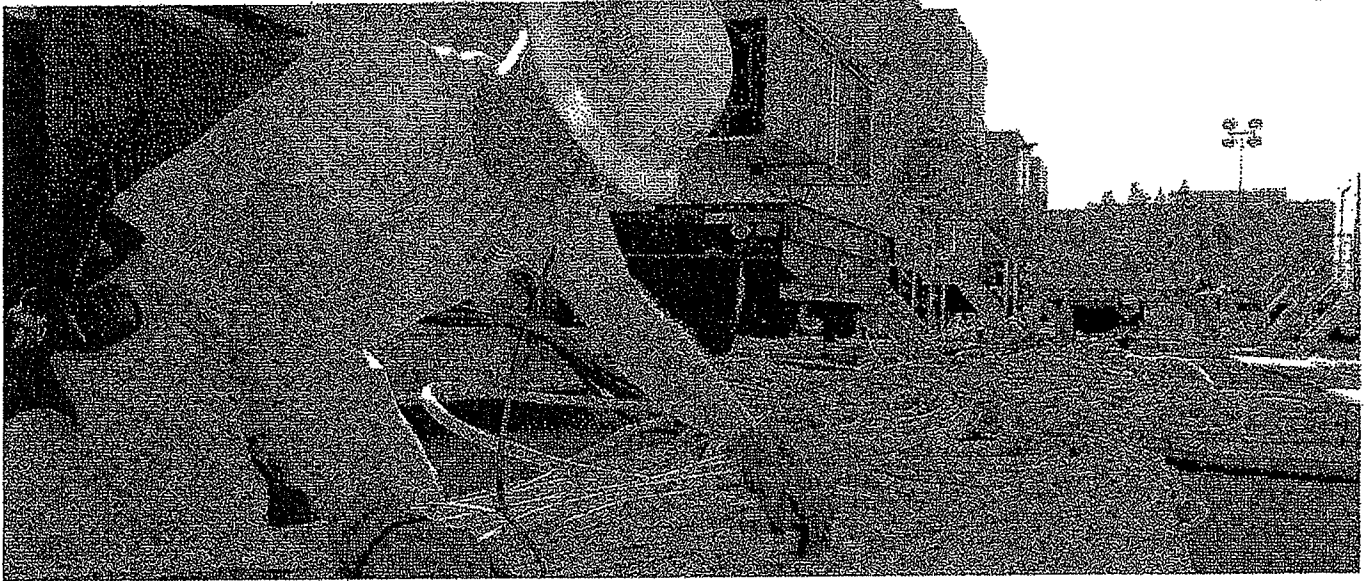
An important part of our corporate citizenship efforts is the investment of our time and talent to strengthen our communities. Each year, approximately 325,000 of our employees and retirees volunteer time to enhance their communities by taking part as AT&T Pioneers, one of the largest industry-sponsored volunteer organizations in the country. These employees and retirees are dedicated to affecting immediate, tangible change in our local communities through grassroots projects and programs. In 2008, the AT&T Pioneers donated more than 10.3 million hours of personal time to community outreach activities – worth more than \$202.8 million.

Supporting AT&T's Aspire initiative, the AT&T Pioneers lead the local implementation of the AT&T/Junior Achievement Worldwide Job Shadow Initiative. This involves 400,000 employee hours for 100,000 students throughout five years. Through this program, our employees are able to give those students an opportunity to see, firsthand, the types of job skills they will need to be successful in the future.

In addition to AT&T Aspire, Pioneers support the advancement of education through other projects including:

- > The Dictionary Project, which distributes thousands of dictionaries to students.
- > Project: Connect, which provides teachers with online video games that enable students to have fun while learning about technologies such as e-mail, compression, fiber optics, cable, satellite, cellular and VoIP.
- > Power Up to Read, which delivers an engaging multimedia reading program to help students improve reading comprehension, build enthusiasm for reading and develop essential technology skills.

In 2009, we're working to renew employee engagement around volunteerism. We're building on our long-standing legacy and creating new volunteerism engagement opportunities relevant for today's volunteer. That's why we're undertaking a revitalization effort of the AT&T Pioneers and volunteerism, launching a new platform that will include a variety of volunteer options that fit with varied community service interests and lifestyle considerations of our employees today.



Disaster Relief

When disaster strikes, AT&T employees assist victims and affected communities through corporate giving and assistance, employee support, volunteerism and network preparedness and response.

Corporate and Employee Support

In 2008, we donated \$200,000 to the American Red Cross for emergency relief as part of a five-year, \$1 million commitment. We also encouraged our wireless customers to donate \$5 to the Red Cross Disaster Relief Fund through a text messaging campaign. The donations provided food, shelter and assistance to hurricane evacuees and victims. AT&T Pioneers also volunteer in local communities when additional support is needed.

Ensuring Connectivity for Customers

We are committed to delivering the highest levels of service, quality and reliability for customers under all circumstances. That's why we've invested billions of dollars in our networks to prepare for natural disasters. And that's how we ensure customers have continued connectivity to stay informed, remain safe and in touch with family and friends.

A critical element of our efforts to maximize network reliability is our ability to swiftly respond when disaster strikes. Through our newly consolidated Network Disaster Recovery (NDR) organization, we bring unmatched resources to help ensure the flow of both wireless and wired communications during times of need, all backed by centralized command and control to ensure maximum effectiveness and efficiency.

We've also invested more than \$500 million in our NDR function, which includes more than 150 technology and equipment trailers that can be quickly deployed anywhere in the United States or worldwide in response to a disaster situation. We monitor and maintain our networks 24/7 and conduct several readiness drills throughout the year to ensure that our networks and personnel are prepared to respond in a moment's notice.

When disaster does strike, AT&T technicians and employees work around the clock to keep the network up and running. Following hurricanes Gustav and Ike in September 2008, our NDR team played a key role in restoring and maintaining wireless and wired communications. All told, AT&T invested \$145 million in recovery and restoration efforts related to the 2008 hurricanes.



Rebuilding Greensburg GreenTown

Two years ago, one of the most devastating tornadoes in U.S. history nearly wiped a small, south-central Kansas town — Greensburg — off the map. In the immediate aftermath of the destruction, courageous individual attention and determined teamwork quickly became the defining elements of the town's restoration story.

Among the first responders were AT&T's two Greensburg employees, Ed Staath, a customer services technician, and Melissa Lucht, a communications technician. Their actions to restore customer service to the battered town won them our company's first Whitacre Award. That award is our highest internal service honor for employees who go to heroic lengths and make personal sacrifices to provide outstanding service in response to an extreme situation.

Today, AT&T's "Team Greensburg" remains instrumental to the town's remarkable recovery on many levels. Our team has done more than just restore the telecommunications infrastructure, assist fundraising efforts and contribute hundreds of volunteer hours and resources. We've also bolstered Greensburg's stature as a municipal model in the nation's environmental movement.

As they considered their future, Greensburg officials and citizens agreed to a grand experiment: to rebuild Greensburg as the "greenest" city in America. In September 2008, AT&T announced a collaboration with Greensburg GreenTown, the nonprofit organization working to rebuild Greensburg as the country's first model green town.

As an anchor corporate sponsor of the organization's The Chain of Eco-Homes project, we donated \$50,000 to help start the movement toward eco-friendly homes that will demonstrate the latest residential building technology and green living.

"We're very grateful to AT&T for its commitment to our Chain of Eco-Homes project. These homes have the potential to serve as a model for communities across the country. AT&T's donation has taken what was just an idea on paper and made it real." — Daniel Wallach, executive director and founder of Greensburg GreenTown

Moving Forward: 2009 Goals

- ✓ Make a measurable impact on the educational and future economic success of at-risk youth.
- ✓ Begin transforming the culture of volunteerism within the company to one of renewed engagement.

VALUES IN ACTION

OUR COMMITMENT

We strive to be a good place to work, to be respectful and supportive of our diverse workforce and inclusive culture, and to recognize the benefits of our diverse suppliers, customers and business partners.

OUR EMPLOYEES

- Expanding the offering of meaningful benefits including competitive health care coverage in the face of rising health care costs
- Ensuring that all employees feel valued and committed to the business
- Taking our supplier diversity leadership to the next level by keeping our program relevant and innovative

OUR OPPORTUNITIES

- Finding new ways to keep our employees' health care costs down while continuing to provide access to quality care
- Ensuring a diverse and inclusive workplace that improves our ability to attract talent, develop products and services for the marketplace
- Increasing corporate spending with diverse suppliers

Introduction

Our vision is to connect people with their world. And ensuring that every employee feels valued and connected to our business makes that vision possible. We also recognize diversity as a business imperative and an investment in our future. We celebrate and respect the rich culture of our employees, customers, business partners and communities.

This section covers our initiatives in the following areas:

- > Supporting Our People
- > Supporting Diversity and Inclusion

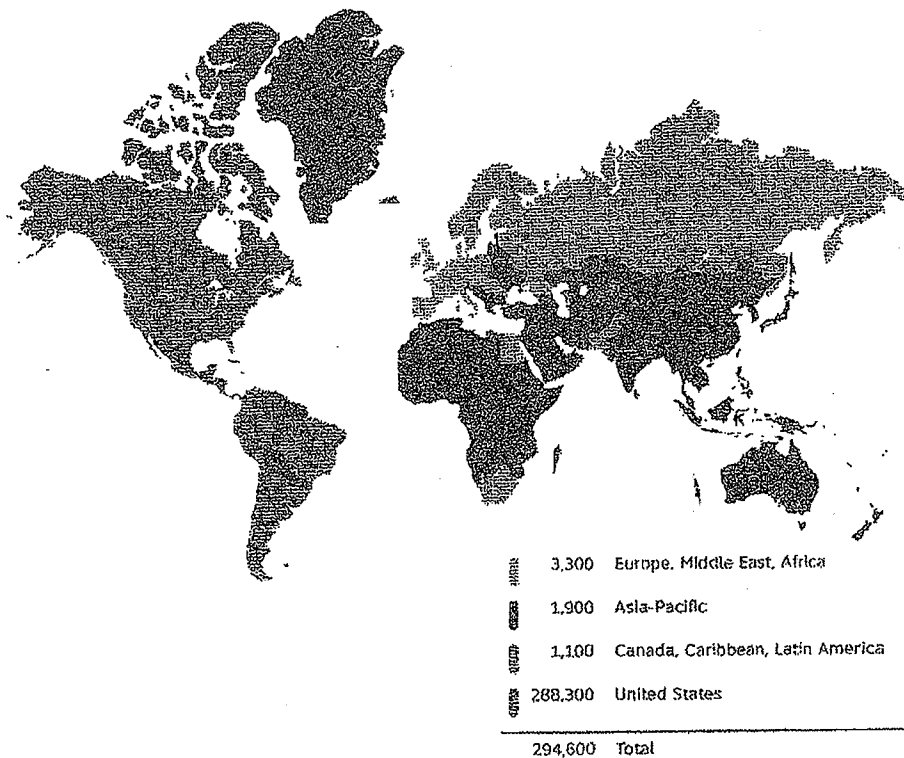
Supporting Our People

At AT&T, our passion to serve our customers begins with our employees. Our people have helped make us the No. 1 communications company in the world, and in return, we strive to be the industry's employer of choice. We're investing in our people by creating and preserving high-tech jobs that pay well, offering good benefits, and providing opportunities for training and advancement.

AT&T Employees Around the World

Our jobs are vital to the communities we serve. The vast majority of our 294,600 employees are based in the United States – and we have employees in every one of the 50 states. We also continue to grow and develop a presence globally, and now have AT&T employees in more than 60 countries.

AT&T Employees Around the World



Good Wages, Good Benefits

Talented, dedicated people are key to our company's success. To attract and retain a highly qualified workforce, we offer industry-leading pay and a competitive benefits package - providing our employees with security and value across the country and around the globe. For example, we stand committed to employee health care and last year dedicated approximately \$5.5 billion to cover 1.2 million employees, retirees and their dependents.

AT&T offers some of the most competitive benefits in the industry for our U.S.-based employees.

- > In addition to medical, dental and vision coverage, we also help employees reach their long-term financial goals by offering company-funded pension programs to most employees and 401(k) savings plans with matching company funds.
- > For many employees, we offer flexible spending accounts that allow employees to pay for out-of-pocket medical and dependent-care costs with funds not subject to federal taxes.
- > We offer a broad selection of benefits geared toward certain life events, including adoption, tuition aid, long-term care and the treatment of serious medical conditions not covered by traditional health plans.
- > Our employees are also eligible for employee discounts on AT&T-branded products and services, where available.

Union Relationships

With about 60 percent union-represented employees, we have the largest full-time union workforce of any company in America – more than the steel or airline industries and more than the Big Three automakers combined. We're proud of the strong relationships we've built with our unions over the years.

We've built cooperative relationships with our unions – primarily the Communications Workers of America (CWA) and the International Brotherhood of Electrical Workers. We work diligently with our unions to create competitive contracts that provide good wages and benefits for our employees.

AT&T and our unions work closely for the success of our company. For example, we're working closely with the CWA and others as part of the Better Health Care Together Coalition to pursue national health care policy changes that support working families and their communities.

Health and Safety

Our goal is to provide a safe and healthful workplace for all employees – it's an essential aspect of our Environment, Health and Safety (EH&S) policy. We work diligently to protect our employees through the prevention of occupational injuries, illnesses and workplace incidents.

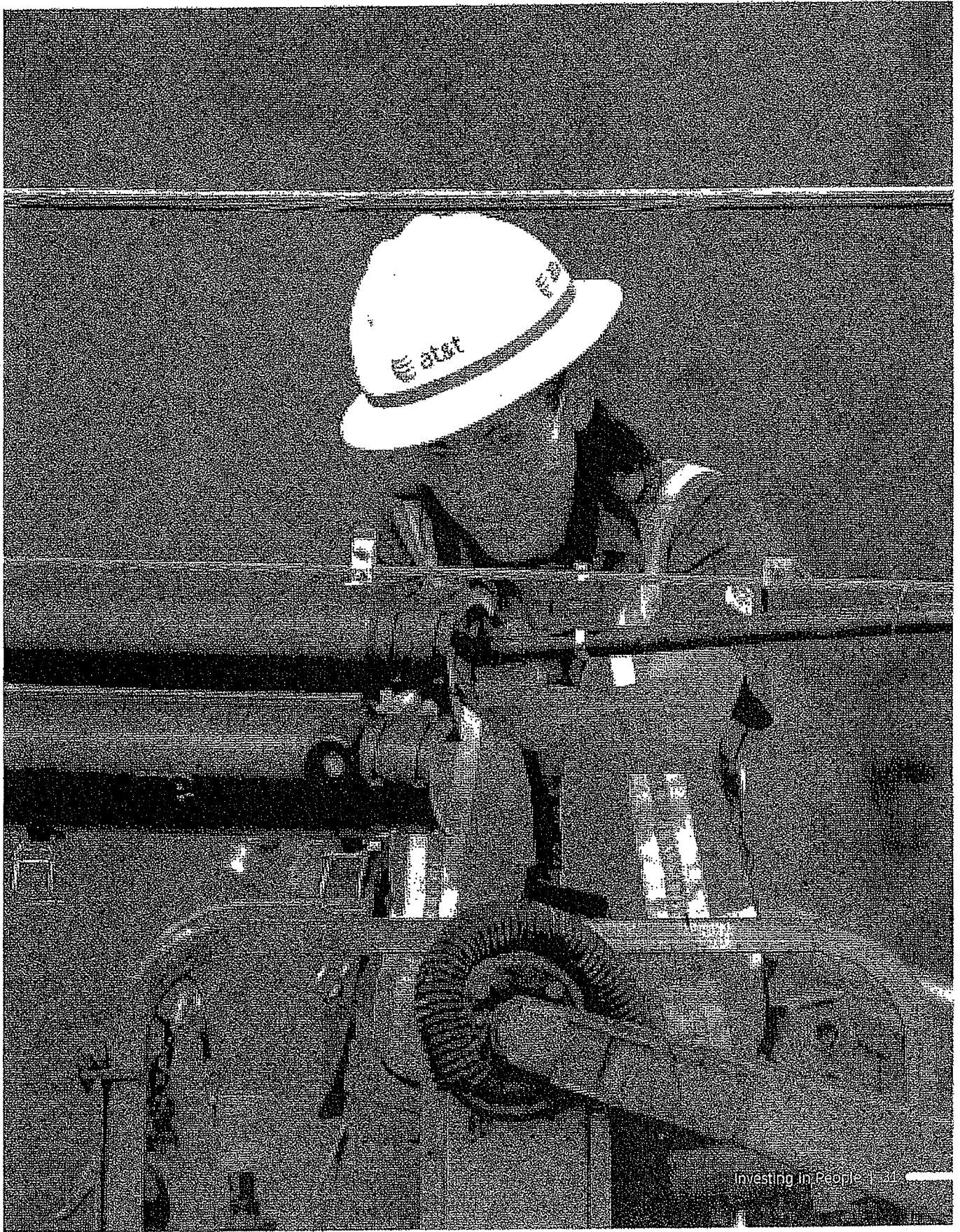
Environment, Health & Safety Training

We provide comprehensive, job-specific EH&S training to all employees based on established guidelines. Successfully completed courses are automatically recorded in the employee's electronic training record.

Injury Rate

In the event an accident does occur, it is our policy to respond swiftly and effectively to protect our employees, neighbors and the environment. We actively track and analyze accidents, and we put in place action plans to address areas needing improvement.

AT&T complies with the requirement to record and report Occupational Safety and Health Administration (OSHA) recordable incidents. For U.S. operations in 2008, AT&T's OSHA total recordable occupational injury and illness rate was 2.08 per 100 employees.



Training and Development

In 2008, we invested \$244 million in employee training and development programs and an additional \$25 million on tuition reimbursement for employees. And 100 percent of our employees receive regular performance and career development reviews. We strive to provide existing employees with continued opportunities to grow and develop in their careers.

Average hours of training* per year per employee by employee category

Management Training Hours

49.81

Non-Management Training Hours

7.96

Total Employee Training Hours by Total Headcount

63.34

We encourage management and non-management employees to improve themselves through job-based training, tuition aid and various training and retraining programs. We also make specific investments in programs that help veterans transition to the private sector workforce and programs that help union members develop their skills to be better prepared for emerging jobs.

AT&T offers several additional programs:

- > **AT&T University** – All managers have an opportunity to build critical leadership skills both online and in learning centers through our AT&T University program. Since the opening of AT&T University, more than 100,000 managers have participated in a robust blend of learning opportunities including e-learning and virtual and traditional classroom training.
- > **AT&T Self-Development Resource Center** – All employees have access to a range of self-development resources available through this virtual resource center. Services include résumé writing and interview workbooks, skill-building tools, test preparation material, career-related workshops, mentoring material and an extensive library of developmental resources. A section of the library is dedicated to diversity awareness and education. Employees access the Self Development Resource Center Web site on average 45,000 times per month.
- > **Career Movement** – Management and occupational employees can nominate themselves for job openings throughout the company. Hiring managers are provided with a diversified pool of qualified job candidates.
- > **Continuing Skills Training** – As new technologies are introduced, employees are provided updated training to ensure their technical knowledge and abilities remain current.
- > **Tuition Reimbursement Program** – Financial assistance is provided to management and non-management employees pursuing academic degrees that benefit both the employee and the company. In 2008, AT&T's tuition program assisted more than 9,800 candidates; 52 percent were women and 54 percent were people of color.

* Includes leadership development training and technical training.



"An organization as big as ours may can be greater than the sum of its parts. By leveraging our diversity, we can create new services and strategies that strengthen our bottom line. By embracing and promoting our differences, we open up new opportunities to deliver growth -- for our shareowners and for each of us as individuals."

Cindy Brinkley
CHIEF DIVERSITY OFFICER

Leadership Development Program

Designed for recent college graduates, our Leadership Development Program (LDP) is a unique, two-and-a-half-year rotational program that builds strong and diverse leadership across our company. Participants complete three distinct work assignments in various locations and departments. The goal of the LDP is to develop competitive leaders with the skills and experience to perform well in various positions and organizations across the company, rather than focusing on one specific function.

Since 1988, hundreds of employees have successfully completed the program. Nearly half the participants have been women, and nearly half have been people of color -- demonstrating AT&T's commitment to diversity.

Accelerated Development Program

The AT&T Accelerated Development Program (ADP) is a new management development program designed to increase the knowledge and skill of high-potential second-level managers who have not participated in the LDP. The ADP is designed to better prepare managers for additional leadership responsibilities. Around half of the participants are women and a third are people of color, further signifying our commitment to diversity.

Supporting Diversity and Inclusion

AT&T's commitment to diversity and inclusion is so deeply engrained in our culture that it's part of our DNA. Diversity and inclusion are not add-ons; they are cornerstones of our business strategy and integral to our success. By fostering a diverse and inclusive work environment, we improve our ability to design useful and relevant products and services for our customers.

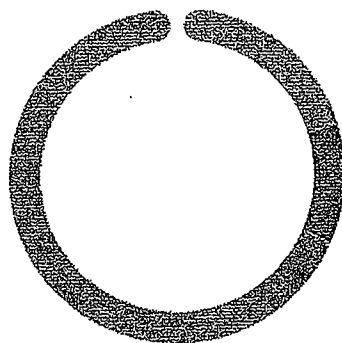
Our employees have understood for more than a century that a genuine appreciation of differences contributes not only to our culture but to our bottom line, whether we are talking about our employees, our suppliers or our customers.

Workforce Diversity

Our diverse workforce is an asset to the company and a result of our commitment to recruit and hire the very best talent. Today, AT&T's 50-state workforce is 44 percent female and 39 percent people of color.

Women also make up 41 percent of AT&T's managers – above the average for most Fortune 500 companies. People of color make up 30 percent of our managers, while nationally people of color make up only 12 percent of managers, professionals and related occupations, according to the U.S. census:

AT&T Workforce Composition



20.3%	African American
11.5%	Hispanic/Latino
0.6%	Native American
4.7%	Asian
0.1%	Native Hawaiian or Other Pacific Islander
0.4%	Two or More Races
62.4%	White

Data as of EOY 2008

HACEMOS National High Technology Day

Every year, we celebrate National High Technology Day, a nationwide initiative hosted by the Hispanic/Latino Employee Association of AT&T (HACEMOS). During this event, we work to inspire minority students to finish high school and pursue rewarding careers in technology fields.

All across the country, National High Technology Day allows low-income and at-risk students to experience a "day in the life" of HACEMOS professionals, tour AT&T facilities, and participate in hands-on activities and interactive workshops related to careers in technology.

In 2008, the initiative reached more than 900 students from 33 different schools who participated in 12 cities via video conference. Since the event was launched in 1998, more than 10,000 students have benefited from the program.

HACEMOS National High Technology Day is designed to support the underserved. Members of HACEMOS play an integral role in the development of America's youth by introducing Hispanic/Latino students and students of color to the engineering and technical fields. By reaching out to these students now, we strengthen our ability to attract and recruit the very best future employees.

AT&T Employee Resource Groups

AT&T Employee Resource Groups (ERGs) are affinity groups open to all employees. The ERGs support our commitment to diversity and inclusion through efforts in the workplace, the marketplace, and the community. We're proud to work with these groups to further the goals, values, and interests of both our employees and our company. We currently have 10 ERGs:

1. APCA – Asian Pacific Islanders for Professional and Community Advancement
2. AT&T Veterans – Veterans
3. Community Network – African American Telecommunications Professionals of AT&T
4. FACES – Filipino American Communications Employees of AT&T
5. HACEMOS – The Hispanic/Latino Employee Association of AT&T
6. ICAB – Inter-Tribal Council of AT&T Employees
7. IDEAL – Individuals with Disabilities Enabling Advocacy Link
8. LEAGUE – Lesbian, Gay, Bisexual and Transgendered United Employees of AT&T
9. OASIS – Organization of Asian Indians at AT&T
10. WDA – Women of AT&T

LEAGUE

LEAGUE – The Lesbian, Gay, Bisexual and Transgendered United Employees of AT&T (LEAGUE) is one of the 10 ERGs open to all employees. LEAGUE provides a safe environment for employees and a place to share ideas, concerns, and experiences. LEAGUE is a community of support and advocacy for all employees, including those in our offices across the United States.

LEAGUE is a place where employees can share their experiences, concerns, and ideas. LEAGUE is a place where employees can share their experiences, concerns, and ideas. LEAGUE is a place where employees can share their experiences, concerns, and ideas.

In addition to working with our company, LEAGUE is also involved in community activities. LEAGUE has been involved in many community activities, including the annual "Pride" event. LEAGUE is a place where employees can share their experiences, concerns, and ideas.

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Quick Facts AT&T Advisory Panel on Access & Aging

AT&T's Advisory Panel on Access & Aging (AAPAA) is composed of national leaders in assistive technology, aging and cross-disability issues. It provides advice and counsel to AT&T's subsidiaries, affiliates and leadership teams regarding issues of mutual interest. AAPAA meets quarterly to discuss a specific area of the business with guest speakers and corporate subject matter experts.

Accessibility

We strive to keep all employees and members of the community connected with their world, including those who have communications challenges and disabilities.

In our own workplace, our Integrated Disability Service Center helps employees perform essential workplace functions. And our Job Accommodation process helps employees with disabilities in areas such as requesting arrangements for temporary or permanent work restrictions, and obtaining reasonable accommodations to assist them in the performance of their jobs.

IDEAL (Individuals with Disabilities: Enabling Advocacy Link) is the employee resource group that works closely with AT&T in raising sensitivity, awareness and support for people with disabilities. IDEAL members frequently collaborate with other organizations, working with the AT&T Veterans employee resource group to assist veterans with service-related disabilities who are returning to work. The group also works closely with AT&T's Advisory Panel on Access & Aging (AAPAA) and assists AT&T with the recruiting and hiring of people with disabilities. Members have helped AT&T and Career Opportunities for Students with Disabilities (COSD) by presenting panel discussions to highlight our employment opportunities.

AT&T's diversity leadership for employees, customers and the business community sets an example for companies throughout America. What's especially significant is that our centennial corporate campaign will be chaired by the same company that led our first such campaign 35 years ago."

Ben Jealous
CEO OF THE NAACP

Engaging Employees

Every year, our U.S.-based managers set a diversity goal as part of our company's Achievement and Development (A&D) process. Diversity goals are important – they point to behaviors and actions managers can take to foster a positive, inclusive work environment, which leads to enhanced performance and increased profitability for our company.

AT&T's diversity and inclusion strategy is aligned with the company's business goals and leadership priorities in key areas including workforce diversity and employee development, strategic relationships and reputation management, customers and community, and supplier diversity. As part of their individual commitment to supporting AT&T's inclusion strategy, our managers can set diversity goals that positively affect a number of these areas. Senior leadership also has diversity tied to compensation.

Our Commitment to Diverse Communities

As part of our commitment to improving education and our passion to help make a difference, our chairman has stepped up to lead the NAACP's Centennial Corporate Campaign. To kick off the fundraising drive, we donated \$500,000.

The NAACP plays an important role in improving education in communities throughout the country. The association funds education initiatives and offers community programs geared toward keeping children in school and training an educated workforce.

We strongly believe that the NAACP's education mission runs parallel with our efforts to support America's youth. To help address the fact that nearly one-third of U.S. high school students drop out before graduating, last year we launched AT&T Aspire, a \$100 million philanthropic program to strengthen student success and workforce readiness. For more on this program, see the Strengthening Communities section in this report.



Quick Links

Check out a video featuring Kenya Lowe, AT&T manager, Customer Information Services, explaining what it's like to be a deaf employee at AT&T.

Supplier Diversity

The diversity of our supply chain is one of the strengths of our company. For more than 40 years, we have been a leader in supplier diversity. These suppliers bring value to our company, help us meet our customers' needs and improve our position in the communications marketplace.

Our world-class supplier diversity programs are a critical component of our business strategy and integral to the way we do business. As one of the first companies to initiate a formal corporate-wide supplier diversity program back in 1968, we're proud that we've achieved some of the highest supplier diversity spending results in the country.

In 2008, AT&T spent more than \$6 billion with minority, women and disabled veterans business enterprises, representing 12 percent of our total procurement. In the past 10 years, AT&T has spent \$32 billion dollars with diversity-owned companies, representing 15 percent of our total procurement budget.

Despite our strong results, we strive to do better. Annually, our company goal is to spend 15 percent of our purchasing dollars with minority business enterprises, an additional 5 percent with women business enterprises and another 1.5 percent with disabled veteran business enterprises. That adds up to 21.5 percent of our total company spend.

By the Numbers: Our Supplier Diversity Programs

Program	Year Established	2008 Results	2008 Results	Goal
Minority Business Enterprises (MBE)	1968	\$4 billion	8%	15%
Women Business Enterprises (WBE)	1980	\$2 billion	4%	5%
Disabled-Veteran Business Enterprises (DVBE)	1993	\$74 million	14%	1.5%
Totals		\$6 billion	12%	21.5%

Moving Forward: 2009 Goals

- Strive to be recognized as an employer of choice by fostering an inclusive work environment that successfully utilizes diversity to drive innovation, productivity and engagement.
- Expand engagement with minority-, women-, and disabled veteran-owned business enterprises as AT&T suppliers.

LEADING WITH INTEGRITY

OUR COMMITMENT

We demand the highest standards of ethics, integrity and responsibility in our operations.

OUR CHALLENGES

- Upholding the highest standards of ethics and corporate governance
- Responding to internal and external needs for a corporate wide understanding of sustainability governance structure
- Promoting sustainable business practices among our suppliers

OUR OPPORTUNITIES

- Integrating codes of conduct to provide more consistent standards for all employees
- Improving our governance of citizenship and sustainability issues
- Integrating our supply chain into our citizenship and sustainability approach

Introduction

AT&T operates with a steadfast dedication to the highest standards of ethics, integrity and accountability. Along with a strict adherence to the laws and regulations that govern our business, this has helped us retain the public's trust and confidence.

In keeping with this commitment, we've adopted a number of processes and policies to help our employees and suppliers uphold a reputation for excellence in their everyday work.

This section covers our initiatives in the following areas:

- > Corporate Governance
- > Citizenship and Sustainability Governance
- > Engaging Our Supply Chain,

Quick Facts
**Our Code
of Ethics**

The Code of Ethics is
available to the public
on our Investor Relations
page.

**Our Corporate
Governance
Structure**

Details on our corporate
governance structure are
available on our Investor
Relations page.

Corporate Governance

Our ability to "connect people with their world" is based on many factors, including cutting-edge technology, great service and the hard work of skilled employees. But one of the most important factors is trust -- the confidence to do business with AT&T, knowing we always adhere to the highest ethical standards.

Code of Business Conduct

These standards are grounded in the AT&T Code of Business Conduct. The code addresses common ethical and compliance issues and covers a range of topics. Everything from diversity and non-discrimination to computer use and electronic security to conflicts of interest and relationships with vendors.

Each employee -- from our part-time workers to our chairman -- is responsible for reviewing the code and understanding its provisions completely. Employees must review the code annually.

Training is also vital. One hundred percent of AT&T's security personnel and more than 97 percent of AT&T employees have taken our Code of Business Conduct training, which incorporates human rights and anti-corruption topics.

In addition to our own employees, AT&T expects and requires our suppliers to embrace and share our commitment to integrity, ethics and compliance.

"AT&T's vision –
'connect people
with their world,
everywhere they live
and work, and do it
better than anyone
else' – assumes
integrity, and that's
why we need to make
compliance simple,
seamless and fully
integrated into our
work every day"

Carol Tacker
CHIEF COMPLIANCE
OFFICER

Ethics

AT&T also maintains a separate Code of Ethics that applies to all employees and officers, as well as our board of directors. It affirms our expectation that all directors, officers and employees will act with integrity, observe both the form and spirit of laws and governmental regulations, and adhere to a high standard of business ethics.

Compliance

AT&T offers many resources to employees who have questions about the laws, regulations and policies affecting our business. Our Corporate Compliance organization promotes compliance with the law, our Code of Business Conduct and other policies. In addition, Corporate Compliance ensures appropriate measures are taken in response to identified compliance concerns.

Employees who seek compliance guidance or wish to raise a concern have access to a variety of sources:

- > A supervisor or anyone in the employee's reporting chain.
- > A functional expert in our Legal department, Internal Audit department, Corporate Compliance organization, Human Resources department or Chief Security Office.
- > AT&T's Ethics Office.
- > Our Asset Protection organization.
- > Or, the AT&T Code of Business Conduct Hotline – 1-888-871-COBC (2622). Employees calling this hotline can remain anonymous.

Any employee who in good faith seeks advice, raises a concern or reports misconduct is following our code – and doing the right thing. AT&T does not tolerate retaliation against such a person. Allegations of retaliation will be investigated and appropriate action will be taken.

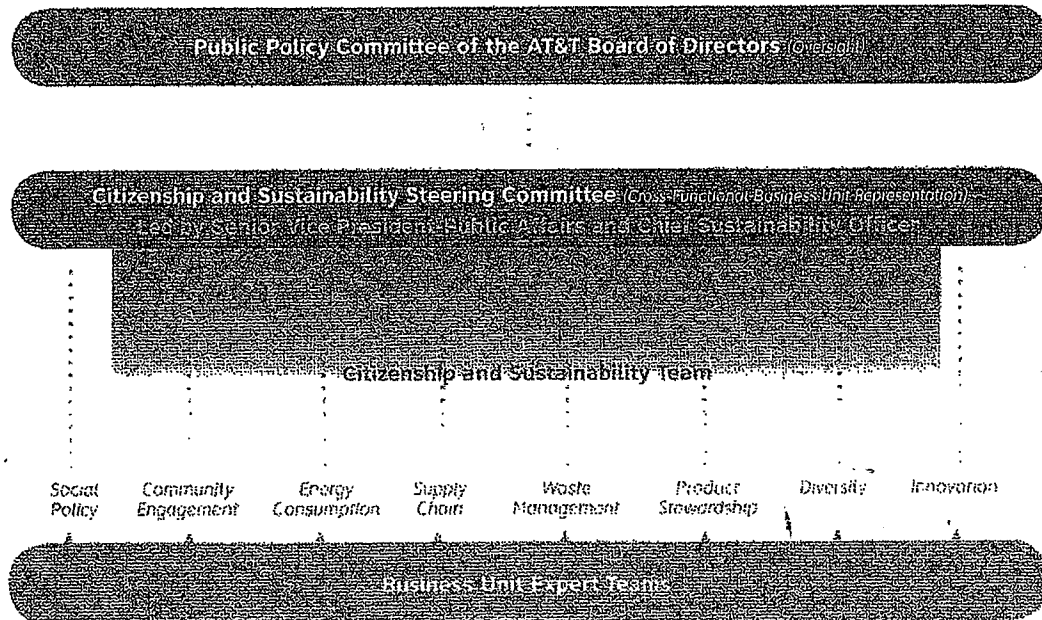
In addition to upholding our Codes of Business Conduct, our Corporate Compliance Organization seeks to maintain an open dialogue about compliance issues.

- > We communicate with employees on a regular basis through e-mail, news stories on our main employee home page, and posters or other written communications in our workplaces. We offer regular training on subjects ranging from antitrust and trade regulation to sales ethics. While some training is mandatory, we offer additional optional training to those employees wishing to gain greater understanding of specific topics. Our training can involve hypothetical compliance situations, role-playing and other techniques to get our employees fully engaged.
- > We also use statistics from calls to our hotline and other reporting mechanisms to determine if additional training or communications are needed.

Citizenship & Sustainability Governance

Our commitment to citizenship and sustainability reaches the very highest levels of our company. In 2008, we created and mobilized a new structure to govern our citizenship and sustainability program. The AT&T board of directors expanded the responsibility of its Public Policy Committee to include oversight in this area. And during the first quarter of 2008, we appointed a senior executive and established a supporting Citizenship and Sustainability Team to create strategy and facilitate efforts throughout the company. The executive and team work with an officer-level Citizenship and Sustainability Steering Committee, as well as expert teams across our business.

Citizenship and Sustainability Governance Structure



The steering committee – made up of officers from across our company – meets quarterly to set goals, discuss progress and provide direction for our citizenship and sustainability efforts. Current committee members are:

William Archer
CHIEF MARKETING OFFICER
BUSINESS

Henry Arnold
VICE PRESIDENT
OPERATIONS, ADVERTISING SOLUTIONS

Dorothy Attwood
SENIOR VICE PRESIDENT
PUBLIC POLICY AND CHIEF PRIVACY OFFICER

Jeff Bradley
SENIOR VICE PRESIDENT
DEVICES

Cindy Brinkley
SENIOR VICE PRESIDENT
TALENT DEVELOPMENT AND CHIEF DIVERSITY OFFICER

Keith Cambron
PRESIDENT AND CHIEF EXECUTIVE OFFICER
AT&T LABS

Rick Felts
SENIOR VICE PRESIDENT
INFORMATION TECHNOLOGY OPERATIONS

Tim Harden
PRESIDENT
SUPPLY CHAIN AND FLEET OPERATIONS

Randall Hargraves
VICE PRESIDENT
GLOBAL INTERNET DATA CENTER OPERATIONS

Bill Hogg
SENIOR VICE PRESIDENT
NETWORK PLANNING & ENGINEERING
AND MOBILITY NETWORK OPERATIONS

Charlene Lake
SENIOR VICE PRESIDENT
PUBLIC AFFAIRS AND CHIEF SUSTAINABILITY OFFICER

Paul Mancini
SENIOR VICE PRESIDENT AND ASSISTANT
GENERAL COUNSEL

Brooks McCordle
SENIOR VICE PRESIDENT
INVESTOR RELATIONS

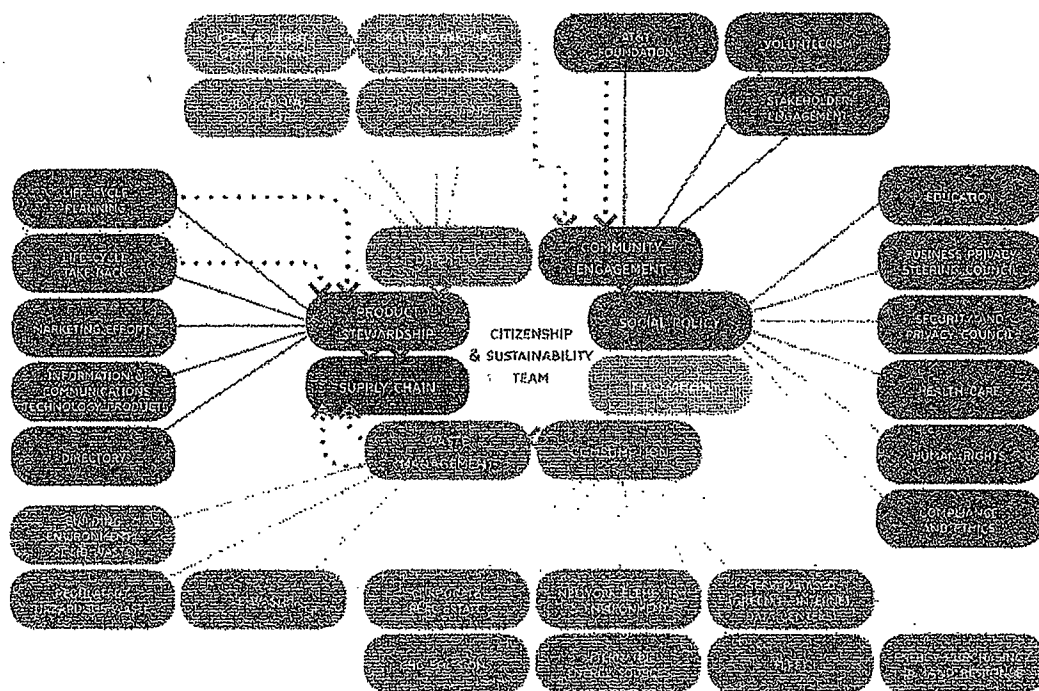
Shawn McKenzie
SENIOR VICE PRESIDENT
CORPORATE REAL ESTATE

Larry Solomon
SENIOR VICE PRESIDENT
CORPORATE COMMUNICATIONS

Debbie Storey
SENIOR VICE PRESIDENT
CENTER'S SUPPORT

Carol Tacker
CHIEF COMPLIANCE OFFICER

Expert teams, based around issues material to our business, manage specific citizenship and sustainability initiatives on a daily basis. They report regularly to steering committee members on accomplishments, challenges and ongoing progress.



Engaging Our Supply Chain

AT&T has a long history of working closely with our suppliers to expand our impact. Our 40-plus-year history of ensuring supplier diversity is just one example. We know that – just as we're responsible for our own operations, products and services – we also have a responsibility to use our size and purchasing power to promote ethical and sustainable business practices in our supply chain.

AT&T requires suppliers to comply with all applicable laws and regulations, both domestic and foreign. In December 2008, we built on that foundation by publishing a comprehensive set of Citizenship & Sustainability Principles of Conduct for Suppliers. These principles acknowledge that suppliers are an important part of our business and therefore must be an important part of our approach to citizenship and sustainability.

"Our suppliers help us succeed by providing products and services that bring competitive advantage through innovation, performance, quality and cost efficiency," wrote Tim Harden, president of AT&T supply chain and fleet operations, in a letter informing our suppliers of the new principles. "As important as those attributes are, how they are delivered is just as important."

In addition to observing these guidelines in their dealings with AT&T, we also expect suppliers to support the guidelines within their own supply chains. Principles address topics including:

- > Sustainable business practices
- > Environment, health and safety
- > Supplier diversity
- > Ethics
- > Conflicts of interest
- > Freedom of association
- > Labor rights
- > Treatment of people with respect and dignity
- > Confidential information and privacy

The full version of our supplier principles is available at www.attsuppliers.com.

"An unswerving commitment to integrity and ethics, diversity and sustainable practices is a foundation for the long-term success of our company and our supply chain."

Tim Harden,
PRESIDENT,
AT&T SUPPLY CHAIN AND
FLEET OPERATIONS

While we expect suppliers to respect our values, we also respect our relationship as a collaborative process through which we can enact meaningful change. And when our suppliers make improvements that reduce energy use, waste or other environmental impact, it benefits not just AT&T but every other customer who purchases from them.

As part of this ongoing relationship, we plan to launch the initial phase of a supplier self-assessment survey in 2009. We hope this will help our suppliers take stock of their current sustainability practices and in turn help us determine a baseline of where our suppliers stand in this area. This will allow us to identify the risk of noncompliance. We plan to launch the survey with an initial group of about 100 suppliers. We'll then gather feedback and modify the program as needed before expanding it to a larger group.

CH2M HILL SUSTAINABLE SUPPLIER AWARD

Each year, AT&T recognizes a small group of suppliers who have contributed to AT&T's success by providing outstanding products, service and performance. The criteria for these awards include elements such as product/service excellence, customer service, supplier diversity, teamwork or creative cost-management solutions. We choose award recipients from more than 5,000 of our major suppliers.

In 2008, we honored the outstanding work of CH2M HILL, a global leader in full-service engineering, construction and operations solutions.

In 2006 and 2007, CH2M HILL helped us perform a national energy audit in more than 140 of our buildings, using an

engineering scorecard to help identify areas of savings that are still paying off today. As a leader in the design and implementation of sustainable energy solutions, CH2M HILL also worked in 2008 to determine the initial scope and feasibility of our San Ramon, Calif., solar power system. The firm provided critical guidance during development and implementation of the project, a 1-megawatt system expected to provide up to 25 percent of peak power for the facility.

Today, CH2M HILL continues to help us take a holistic approach to strategic energy management by examining various utility energy-efficiency programs, integrated technology solutions and economic incentives for renewable energy.

Moving Forward: 2009 Goals

- > Increase employee awareness of the Code of Business Conduct, and encourage ethical leadership.
- > All suppliers to have read AT&T's Citizenship & Sustainability Principles of Conduct for Suppliers by year-end 2009.

MINIMIZING OUR ENVIRONMENTAL IMPACT

OUR COMMITMENT

We strive to minimize our environmental impact in ways that are relevant to our business and important to the communities we serve.

OUR EFFORTS

- Improving energy efficiency and reducing greenhouse gas emissions
- Reducing and managing waste from our operations
- Minimizing the environmental impact of our products through their entire life cycle

OUR OPPORTUNITIES

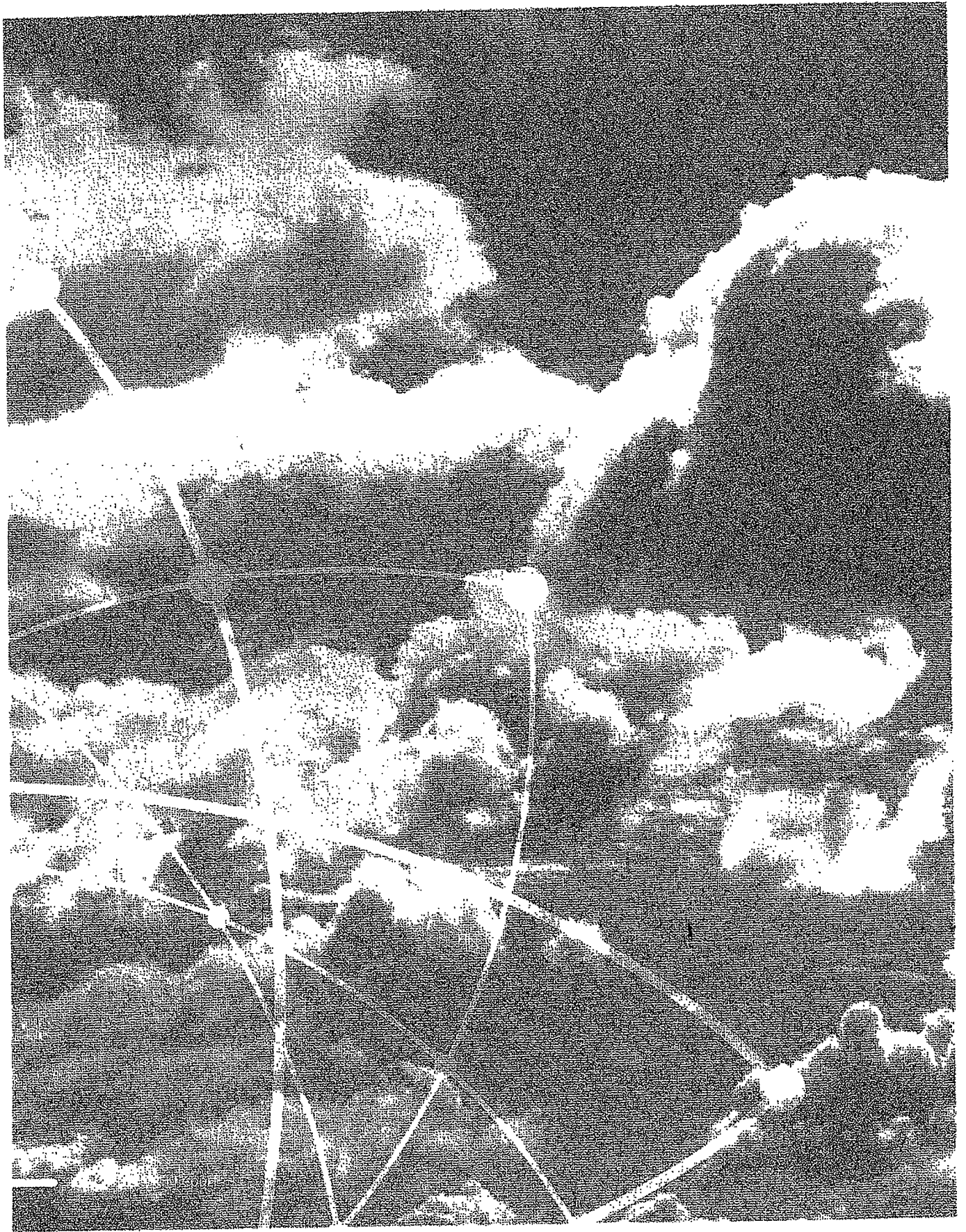
- Managing energy use and developing strategies to improve our efficiency
- Expanding waste reduction efforts
- Engaging our customers and employees in online, reuse and recycling programs

Introduction

We're deeply committed to environmental sustainability. By harnessing the scale of our network to deliver more sustainable solutions, we connect people and businesses seamlessly. That increases efficiency, reduces environmental impact and strengthens our connection to the world we all share. We're committed to taking meaningful steps to become more energy efficient and to engage our employees in helping us reduce our environmental impact.

This section covers our initiatives in the following areas:

- > Measuring Our Carbon Footprint
- > Managing Energy, Improving Efficiency
- > Alternative Energy
- > Environmental Compliance
- > Reducing Waste
- > Engaging Employees



Measuring Our Carbon Footprint

Globally, we are beginning to transition to a lower-carbon, more energy-efficient economy. And the current state of the global economy makes this transition more important than ever.

We recognize the significant impact we can make by reducing our reliance on carbon-intensive energy sources. That's why we've been paying particular attention to our energy consumption and CO₂ emissions in the last year.

While we have measured the carbon footprint for certain areas of our business in 2008, we began the extensive process of measuring our corporate-wide CO₂ emissions and determining base lines. Bringing together four distinctly different operating companies with the mergers of SBC, AT&T, BellSouth and Cingular brought with it the challenge of integrating many different data systems that provide the inputs to an accurately calculated corporate carbon footprint. And so we have focused on integrating these separate systems to ensure data integrity. We're confident this process will allow us to do three important things: accurately report our company's carbon footprint, better understand how to reduce our consumption in the most cost-effective manner and position our company for the future.

While we have made progress in our effort to measure our corporate emissions, we still have work to do, and in 2009 we continue our effort to finalize our base line measurement of corporate-wide emissions. We plan to disclose our domestic carbon footprint by the end of 2009.

Managing Energy, Improving Efficiency

We connect more than 300 million people a day, and every day those connections increasingly carry with them more voice, data and video content. That increased amount of data and content means more capacity, and thus more power, is required to run the network.

The rising cost of energy obviously impacts our business. Because electricity and fuel are key inputs to the connectivity services that AT&T provides, our cost structure is potentially adversely affected by the rising energy costs that the external market demands.

We're taking meaningful steps to run an efficient network and explore alternative energy, and we have established a metric for our energy use that measures our electricity usage intensity to the area that is linked both to our growth and to our energy usage – the total amount of information transmitted over our network, including our global backbone IP network, voice and video traffic. For 2008, we utilized 654 kilowatt hours per terabyte of data carried on our network. For 2009, we have set a goal to reduce that intensity by 15 percent.

Network Initiatives

In 2008 we undertook several initiatives targeted at improving our network energy use:

Equipment Turn Down: We actively work to retire, rearrange, remove, reuse, redeploy, reconfigure and recycle old network equipment. One initiative – our “Lights Out” program – is a business practice that continuously reduces building load by turning down network equipment components that are no longer required, have reduced need or are obsolete.

Cell Sites: As the pace of technology change becomes more rapid, one of our challenges is to continue to drive innovation while making our network as efficient as possible – which means not running dual networks when we can replace older systems. As an example, we started adding GSM equipment to our TDMA sites in 2002. As GSM use increased, we reached a point in 2008 where we could turn down the TDMA network without negatively impacting our customers. This effort reduced cell site electricity consumption by 289 million kilowatt hours and saved 207,549 metric tons of CO₂ emissions in 2008, according to the U.S. Environmental Protection Agency (EPA) Greenhouse Gas Equivalencies Calculator.

Central Office Switches: In 2008, we successfully trialed a method to make central office switches smaller by consolidating to free up spare equipment and shut off electricity where no longer needed. Approximately 188 central office switches across our footprint have been identified as candidates for this consolidation improvement, due to low utilization. This effort has the potential to save millions in energy dollars annually. In fact, we may be able to realize energy savings of 49 million kilowatt hours per year.

Lighting: Sometimes even upgrading the most mundane components can lead to savings. We're planning to swap out tower light controllers and incandescent bulbs at approximately 3,447 cell sites. Existing incandescent and strobe lights require significantly more maintenance and electricity than light emitting diode (LED) solutions. LEDs typically operate maintenance-free for 10 years and require about one-tenth the power to operate.

Economizers: In 2008 we also introduced the use of economizers, systems that circulate ambient air and can be used in most climates for secondary and even primary cooling. The low energy consumption of economizers keeps sites cool in the event of an extended outage when operating on fuel cell power if used in conjunction with an inverter and DC-powered fans.

Data Center Initiatives

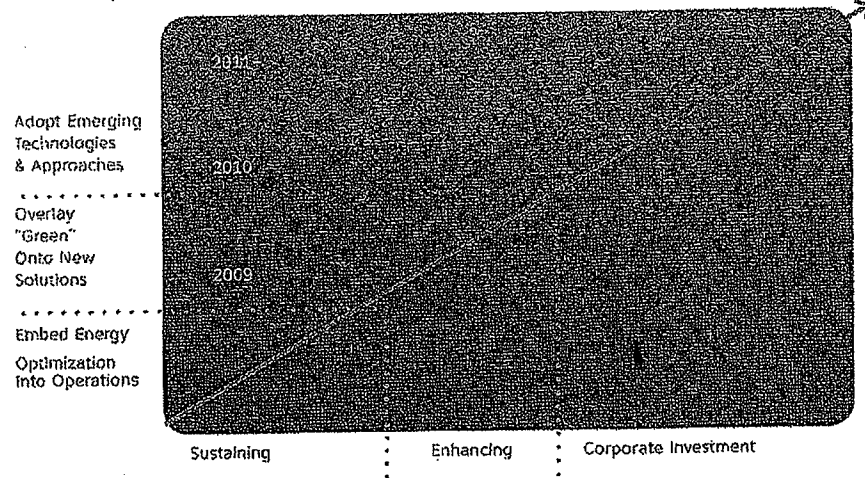
We currently maintain 26 Enterprise Data Centers (EDCs) supporting our internal IT services, and 38 Internet Data Centers (IDCs) that comprise our hosting and co-location facilities worldwide. The energy efficiency of these facilities represents a constant challenge to our business. Companywide, IT and Internet data centers account for about 8 percent of our overall power expenses.

Our data center energy efficiency and sustainability strategy focuses on five areas:

- > Consolidation
- > Optimization
- > Application Rationalization
- > Supplier/Partner Integration
- > Industry and Government Collaboration

In 2008, we developed a specific, three-year target execution plan for our data center facilities that is represented by the diagram below:

Our IT Approach to Sustainability



In 2008, we initiated a series of data center initiatives aimed at improving our energy efficiency. When these initiatives are fully implemented, we expect to realize 96.4 megawatt hours in annualized energy savings, reducing our CO₂ emissions by 69,231 metric tons annually. This is equivalent to the electricity use of approximately 9,602 households, according to the U.S. Environmental Protection Agency (EPA) Greenhouse Gas Equivalencies Calculator.

2008 Data Center Initiatives and Expected Energy Savings

Program	Description	Expected Annual Energy Savings (in megawatt hours)
Data Center Energy Programs	Programs to improve efficiency in data centers, such as air-flow improvement technologies and temperature improvement programs.	46.2 MWh
Variable Frequency Drives (VFD) for Computer Room Air Conditioners (CRAC) Fan Motors and Air Conditioning Chillers	To provide more efficient use of energy through variable load-based CRAC fan motor and chiller drives.	35 MWh
Retired In-Place Equipment Removal Program	To identify and remove retired, unused or unpowered equipment.	4.3 MWh
Server Virtualization	To accelerate efforts to move new and existing physical servers to virtual machines.	2.5 MWh
Application Rationalization	To streamline and retire IT applications, reduce costs and improve market responsiveness.	3 MWh
Data Center Optimization Program	To develop new data center use methods and technologies.	5.4 MWh

"Smart American companies can be green and profitable. They don't have to trade one for the other. AT&T is to be commended for its efforts and the example they are setting for the rest of the country."

T. Boone Pickens

Transportation Initiatives

AT&T operates one of the largest commercial fleets in the United States with about 85,000 vehicles. We recognize the economic and environmental implications of maintaining a fleet that size – which is why reducing fuel consumption and emissions is an ongoing priority and challenge for us.

Exploring Alternative-Fuel Technologies

Finding cleaner, more efficient methods of powering our fleet is one of the most important steps we can take. That's why we've done a lot of homework – including a pilot program to determine which mix of alternative-fuel vehicles (AFVs) is right for our company. After careful research of available technologies, we selected three types of AFVs to try in 2008: compressed natural gas (CNG) vans, electric hybrid conversion work trucks and electric hybrid OEM vehicles.

Over the course of 2008, we rolled out 105 AFVs in more than 30 cities across 17 states – and the experience has been invaluable. In fact, that deployment of vehicles helped us conserve nearly 34,395 gallons of fuel in 2008, reducing our CO₂ emissions by more than 300 metric tons, according to the U.S. EPA Greenhouse Gas Equivalencies Calculator.

Building on the knowledge we gained in 2008, we've created a long-term goal – announced earlier this year – to expand our alternative-fuel fleet to more than 15,000 vehicles.

With this action, we hope to help spark demand for alternative-fuel technologies. Rather than waiting for the production of vehicles to become standard, we're teaming up with domestic suppliers to meet the needs of our business now. We also hope that our investment in CNG technology will help update our country's transportation infrastructure and create new jobs.

Daily Fleet Management

Making real changes to our fleet means more than just putting cleaner vehicles on the road. It also means optimizing our fleet operations. We use best practices to efficiently manage our fleet every day, and we continue to explore new ways to reduce fuel use and drive fewer miles. For example we:

- > Encourage our drivers to avoid fast acceleration and hard braking, to keep tires properly inflated by checking them frequently, to reduce the weight of loads carried and to avoid unnecessary idling.
- > We've equipped many – approximately 56,000 – of our technician vehicles with GPS capabilities. Use of this technology has provided increased visibility into business operations and allowed us to uncover opportunities to improve efficiency and reduce costs.

In response to relevant regulations, we've also developed an idling reduction policy. Excessive idling wastes fuel, adversely affecting the environment and the company bottom line.

AT&T by the Numbers

Investing in Alternative-Fuel Vehicles

\$565
million

AMOUNT AT&T PLANS TO INVEST
OVER THE NEXT 10 YEARS ON
ALTERNATIVE-FUEL VEHICLES

15,000

NUMBER OF VEHICLES
AT&T PLANS TO ROLL OUT

8,000

NUMBER OF VEHICLES
THAT WILL RUN ON CNG

7,100

NUMBER OF PASSENGER CARS TO
BE REPLACED WITH HYBRID MODELS

800

THE NUMBER OF HYBRID AND CNG
VEHICLES AT&T PLANS TO ROLL OUT
IN 2009 ALONE

49 million

NUMBER OF GALLONS OF GASOLINE
WE EXPECT TO SAVE OVER THE NEXT
10 YEARS

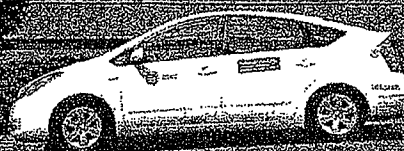
211,000

THE NUMBER IN METRIC TONS OF CO₂
EMISSIONS THAT WE'LL REDUCE OVER
THE NEXT 10 YEARS

1,000

NUMBER OF JOBS CREATED OR
SAVED EACH YEAR FOR FIVE YEARS

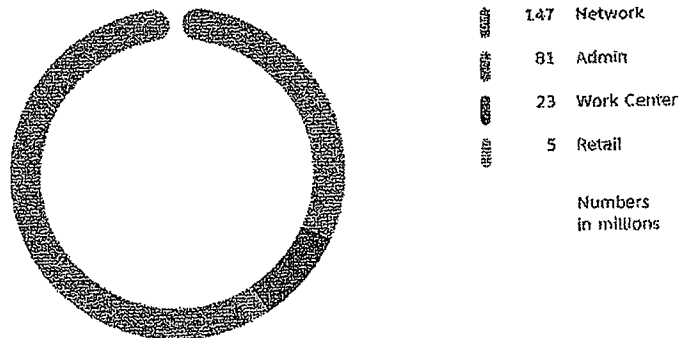
SAVINGS BASED ON CENTER FOR
AUTOMOTIVE RESEARCH ESTIMATES



Facility Initiatives

For a business our size, the scope of our corporate real estate portfolio is extensive. We operate 40,000 properties in more than 60 countries to house 294,600 employees. We also manage 43,000 towers in the United States and hold numerous rights of way and easements above and below ground to operate our expansive wireless services and network.

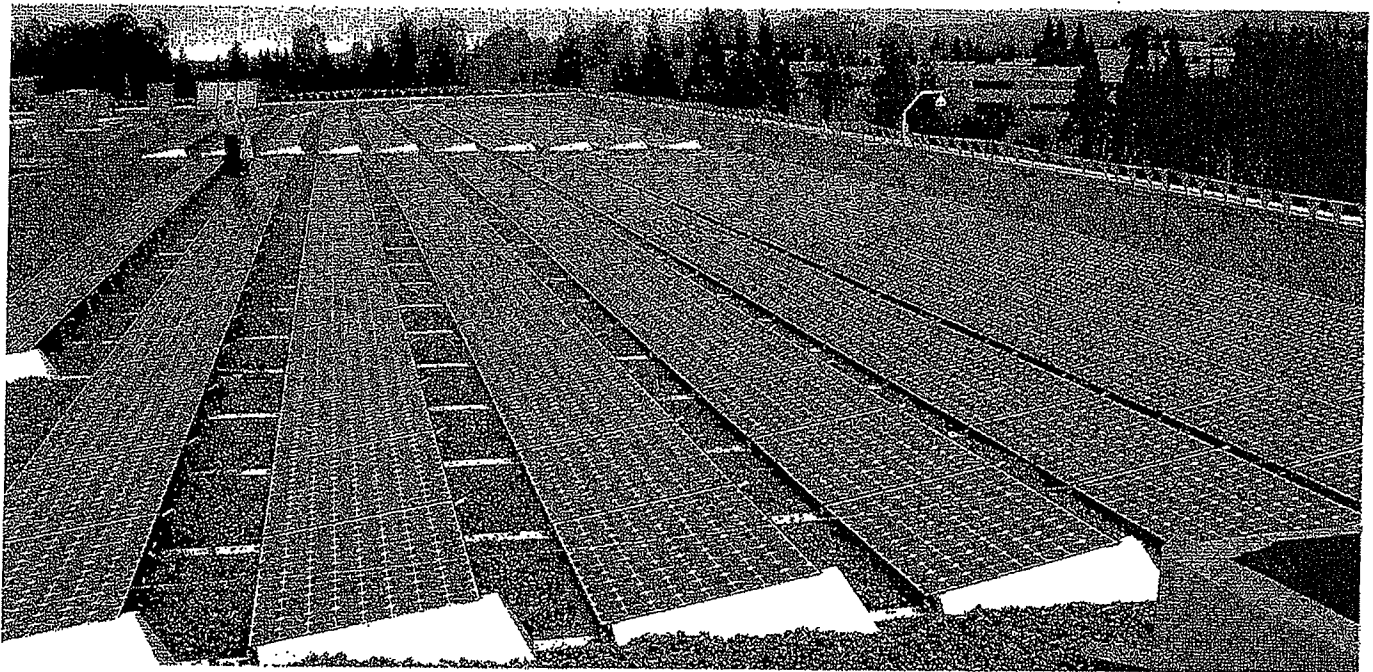
AT&T Real Estate Portfolio (in square feet)



Given the breadth of our real estate holdings and the associated impact our buildings have on energy consumption and emissions, we're working to optimize the energy use of managed property closely. These efforts allow us to not only reduce our impact on the environment but also to find important opportunities to cut operating costs.

We implemented a number of initiatives in 2008 to reduce our building energy consumption. Among them:

- > We reduced our real estate square footage. In 2008, we vacated 259 facilities or 3 million square feet of space. Through portfolio square footage consolidation and other energy saving actions we took in our corporate real estate portfolio in 2008, we expect to realize annualized savings of 79.3 million kilowatt hours. This is equivalent to the electricity use of approximately 7,899 households, according to the U.S. Environmental Protection Agency (EPA) Greenhouse Gas Equivalencies Calculator.
- > We completed 16 lighting retrofit projects. These projects reduced 1.7 million kilowatt hours of electricity and 1,221 tons of CO₂ emissions, equivalent to the electricity required to power approximately 169 households, according to the U.S. EPA Greenhouse Gas Equivalencies Calculator.
- > We participated in the EPA's ENERGY STAR program and sought opportunities to receive ENERGY STAR certifications. ENERGY STAR buildings use 35 percent less energy than average buildings. Five of our facilities received ENERGY STAR certification in 2008:
 - One Telecom, Richardson, Texas
 - Tennessee Headquarters Building, Nashville, Tenn.
 - Alabama Area Operations Center, Birmingham, Ala.
 - AT&T City Center, Birmingham, Ala.
 - Lenox Lakeside Building A, Atlanta
- > We started rolling out 1E's NightWatchman, an energy-saving software product that turns off company desktops and laptop PCs that are connected to the network each night, across our U.S. operations. We expect to complete the software rollout by the end of 2009. NightWatchman will be deployed on 310,000 computers, saving us an estimated 135 million kilowatt hours of electricity and 123,941 tons of carbon dioxide emissions a year, according to 1E. That's equivalent to the electricity required to power 14,892 homes.
- > We're developing energy-reduction strategies for our cell sites. This includes locking the thermostats to keep temperature settings at optimum levels. Installing technologies on the cooling equipment will help cycle the equipment on and off and reduce run time and peak demand. And equipping light switches with an occupancy sensor allows lights to shut off if no one is in the space. We are also testing small wind- and solar-powered technologies for use at our cell sites.



Industry and Government Collaboration

We are actively involved in collaborative industry efforts to promote and advance energy-efficient solutions. Some of our collaborations in 2008 included:

- > We began working with The Green Grid, a global consortium dedicated to advancing energy efficiency in data centers and business computing ecosystems.
- > We signed on to help the EPA in developing a new ENERGY STAR rating for data center infrastructure. As part of our participation in this effort, we are monitoring and collecting performance data for four of our data centers to submit to the EPA.
- > We also continue to be an active chair and member of the Alliance for Telecommunication Industry Solutions (ATIS), the North American telecommunications standards development organization. AT&T initiated and chairs the Telecommunications Energy Efficiency (TEE) committee, which has developed a methodology for measuring and reporting the energy efficiency of telecommunications equipment. This methodology is being applied to new standards for specific equipment types.

Alternative Energy

In 2008, we announced two important alternative energy efforts. Through Austin Energy's GreenChoice renewable energy program, we began purchasing wind power for 10 percent of our electricity consumption in all AT&T facilities in Austin, Texas. This effort promises to help us avoid 7.2 million kilowatt hours of fossil-generated electricity each year.

We also installed a 1-megawatt solar power system on our facility in San Ramon, Calif. The 3,700 solar panels will generate more than 1.6 million kilowatt hours of electricity a year and reduce the building's normal power consumption by more than 4,300 kilowatt hours per day.

Our goal is to learn from these pilot efforts and determine the suitability of wind and solar projects for additional locations in the future. Our energy teams are currently evaluating potential opportunities for renewable energy deployments in 2009.

Environmental Compliance

We are committed to complying with all applicable environment, health and safety laws and regulations and maintaining and improving management systems throughout the company to meet our compliance obligations. AT&T's operating companies had no significant enforcement actions (defined as those resulting in sanctions equal to or exceeding \$100,000) in 2008. However, Pacific Bell Telephone Company (d/b/a AT&T California) made a payment of just more than \$4 million in 2008 related to a consent judgment with the state of California entered in 2006.

Reducing Waste

In 2008, AT&T managed more than 25,000 tons of regulated waste (universal, hazardous, exempt and special waste, as well as non-hazardous waste) through the AT&T Resource Recovery Center. The 25,000 tons does not include normal refuse handled by solid waste vendors or municipal waste disposal, however, it does include retired utility poles and water removed and managed from underground vaults.

From e-waste to copper telecommunications wire to office supplies, we're working diligently to expand our waste management and reduction efforts so we can make a real impact.

E-waste

As electronics become ever more important in our daily lives, the amount of electronic waste (e-waste) also grows – as does the importance of disposing of it in a responsible manner. We take our commitment to ensuring such waste is properly cared for seriously, as it can contain toxic metals and other hazardous materials.

In 2008, we consolidated several legacy e-waste systems brought together after our 2006 merger. The pre-merger companies spanned various states and regions, with each bringing their own protocol and processes for handling e-waste. In 2009, we are seeking to meld these legacy systems into a single companywide program that incorporates best practices and complies with all regulations affecting AT&T.

Also in 2008, we developed an enterprise-wide reporting system to capture the electronics we are donating, recycling or reusing. Last year, this comprised almost 68,000 computers, monitors, servers and other equipment, including:

- > More than 19,000 desktop computers
- > More than 3,800 laptop computers
- > Nearly 37,000 monitors

It's important to identify and send these materials to suppliers who can find alternate uses for them. But as recent news coverage has shown, it's also imperative to ensure that such material is reaching its intended destination, rather than winding up in the hands of unregulated companies that might not deal with e-waste in an environmentally responsible manner.



While we currently maintain an auditing program with our cell phone recycling vendors, we want to work with a broader range of our e-waste suppliers to expand the system, which will include a more formalized auditing process and schedule. We worked to lay the foundation of this program in 2008, and we hope to implement it in 2009.

Solid Waste and Recycling

We recognize the importance of recycling in our buildings, which is why we currently maintain paper or cardboard recycling at more than 300 locations, and we recycled more than 10 million pounds of material in 2008.

We are actively working to expand recycling at AT&T. To help bring cohesion to our practices, we worked in 2008 to lay the foundation of a broader, consistent recycling program. We hope to implement its initial phase in 2009 at our sites with the greatest opportunity for waste diversion. This, in turn, should allow us to gather meaningful data, benchmark our efforts and apply lessons as we expand the program further in our real estate portfolio.

Beyond traditional recycling such as paper and cans, we maintain a robust program to reclaim network resources such as copper telecommunications wire and central office exchange equipment. The AT&T Investment Recovery group works in our 22-state landline footprint to reuse and recycle materials, sell or return products, and trade or donate components.

In 2008, we kept more than 75 million pounds of such "scrap" from landfills, including:

- > Copper and copper cable: 35.7 million pounds
- > Lead and lead-acid batteries: 11 million pounds
- > Central office equipment: 6 million pounds
- > Steel: 6.9 million pounds
- > Plastic: 1.4 million pounds
- > Aluminum: 596,000 pounds

In 2009, we will seek ways to expand this Investment Recovery program to parts of our wireless business, as well as other areas outside of our landline region.

AT&T Print 360

Print 360

In 2008, we began a relationship with Xerox Corporation to help us complete a Print 360 review in our office buildings. During this review, we're collecting data about our current printing practices and finding ways we can use the fewest possible resources without negatively affecting our printing capacities. As part of this exercise, we're consolidating and replacing devices such as:

- > Network and personal printers
- > Copiers
- > Network multifunction printers (which also act as fax machines, scanners and copiers)

We expect this to help us save energy, reduce printer emissions and decrease our toner and ink usage as we bring in fewer and more efficient printers. By the time the program is fully implemented, we think we can save more than 40 percent in total energy use, greenhouse gas emissions and solid waste by weight from our printing.

Office Supplies

We seek to provide our employees with sustainable office supply options – because when added together, even small purchases can make a big difference.

For example, AT&T uses letterhead paper and business card stock made from 80 percent post-consumer waste. These products carry certification from both the Forest Stewardship Council, a group that encourages responsible management of woodlands, and Green Seal, a nonprofit that promotes the manufacturing and use of environmentally responsible products. All told, about 75 percent of our business card and stationery spending covers sustainable papers.

Our employees can order other office supplies through an online system, eliminating the need for paper orders. Office supply options include more than 1,800 products made from recycled materials, which are easily identifiable. In 2008, we spent more than \$3.8 million on recycled office supply products.

Turning Good Ideas Into Dollars

Thanks to the patience, planning and performance of two employees in our corporate real-estate organization in San Antonio – project managers John Keane and Markel Gasch – a good idea was translated into major savings for our company. Major, as in: almost \$100,000.

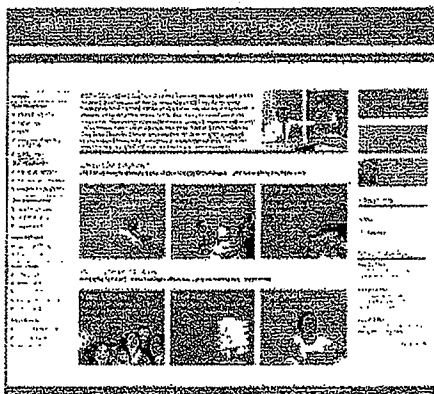
In 2003, a natural spring under our San Antonio call center required the installation of a sump pump to carry the water to the San Antonio River in order to prevent significant damage to our building. Rather than pumping water into the river, Keane and Gasch devised a plan to divert the

water into the building's sanitation, heating/cooling and landscaping water supply system. This will result in an annual projected savings of 80 percent – or 5.5 million gallons – of the 6.5 million gallons of water used annually at the facility.

The San Antonio Water System (SAWS) heard of the project and proactively reached out to us to encourage AT&T to apply for their SAWS energy rebate. We applied and received a one-time energy rebate of \$66,000, and we'll enjoy a long-term cost savings of about \$25,000 annually.

Engaging Employees

At AT&T, our sustainability commitment reaches across the company. We know employees enjoy working for a company that is a responsible steward of the environment – and we recognize that the dedication, passion and support of our nearly 300,000 employees are what make our sustainability efforts possible. That's why, in our 2007/2008 report, we made a commitment to continue engaging our employees around our citizenship and sustainability efforts. And we've spent the past year working hard toward this goal.



Our EcoSystem Site

As a first step, we worked to develop a comprehensive employee engagement program to make our sustainability communication relevant, frequent and easily accessible. Our goal was to communicate with our employees on a regular basis and involve them on a personal and professional level.

A key milestone toward this commitment was the launch in late 2008 of an employee Web site, specifically focused on our environmental sustainability efforts. The site provides our employees with a resource to help them stay connected to our latest initiatives. The site invites employees to join the conversation by sharing questions and suggestions with our team of sustainability experts. Employees can also check out hints for sustainable living or learn about colleagues who are already making a real difference, at work and in their communities.

Champions of the Environment

Across the country, our employees are doing their part to contribute to a cleaner environment, and their efforts haven't gone unnoticed. In addition to engaging – and recognizing – employees via the interactive components of our sustainability Web site, we also highlight their effort through the annual AT&T Champions of the Environment program.

Now in its 15th year, the Champions program honors individuals and teams who've made noteworthy environmental contributions in their communities and at AT&T in the last five years. Each year, we select five community winners for their efforts to become more environmentally sustainable and five winners for environmental projects undertaken in the workplace.

In 2008, winning projects included an employee who makes her own biodiesel fuel and another who installed a windmill generator in his backyard. Team winners included a low-flow toilet installation project in San Antonio that is expected to save the company nearly 1.3 million gallons of water and \$52,000 each year. Another award went to a team that developed ways to reduce annual paper use by 15 tons. All winning projects receive a \$1,000 donation to the environmental nonprofit of the winner's choice.



AT&T Pioneers

We also involve our employees in our environmental efforts through our volunteer organization, the AT&T Pioneers. With approximately 325,000 members participating in 31 chapters across the country, the AT&T Pioneers is one of the nation's largest industry-sponsored volunteer organizations. While our Pioneers devote hours of their time and talents to a variety of causes, many of our chapters undertake specific projects to help the environment. Some initiatives in 2008 included:

- > AT&T Pioneers in Mississippi celebrated Arbor Day by planting magnolias -- the state tree -- in communities across the state. These Pioneers took the opportunity to educate communities about the origins of Arbor Day, the value of such plantings and what it means to give back.
- > In Florida, Pioneers worked with a local school, staff and parents to build an outdoor learning center -- a lush botanical garden with a fish pond and waterfall.
- > Pioneers in Alabama created a "3 R's Challenge" and essay contest to tap into the imaginations of sixth-grade students and get them thinking about preserving and protecting our planet.

Across the country, Pioneers also participate in park, river, street and beach cleanup and beautification projects. And our volunteers are integral in our support of the charity Cell Phones for Soldiers by leading community cell phone recycling drives. In 2008, AT&T Pioneers brought in more than 25,000 devices through such drives.

Moving Forward: 2009 Goals

- ✓ Reduce the electricity consumption of our company relative to data growth on our network by 15 percent as compared with 2008.
- ✓ Over the next 10 years, replace about 8,000 gasoline-powered service vehicles with vehicles that run on compressed natural gas (CNG) and begin replacing 7,100 passenger cars with alternative-fuel models.

CONNECTING PEOPLE AND BUSINESSES

OUR COMMITMENT

We efficiently connect people and businesses with innovative and sustainable products and services.

CHALLENGES

- Demonstrating the impact of innovation and communication technology (ICT) in contributing to a more sustainable economy
- Increasing economic awareness and participation in our corporate responsibility agenda
- Anticipating and meeting the communication needs of our customers with diligence
- Maintaining the high level of security and privacy we demand for ourselves and that our customers deserve as technology continues to change at rapid speed

OPPORTUNITIES

- Engaging policymakers and collaborating with industry groups to promote investment and innovation in ICT
- Empowering customers on privacy: when they can take control of their personal information is removed, online cell phone recording
- Working with vendors and external stakeholders to increase the number of innovative and accessible products and services for customers with disabilities
- Educating and empowering our customers on use of technology
- Increasing consumer awareness of privacy issues on the Internet

Introduction

Making connections is our business. Positively affecting our communities and the environment, while helping our customers do the same, is our responsibility and opportunity as a good corporate citizen. Every day, we're challenging ourselves to find new ways to help the world communicate efficiently, sustainably and safely.

This section covers our initiatives in the following areas:

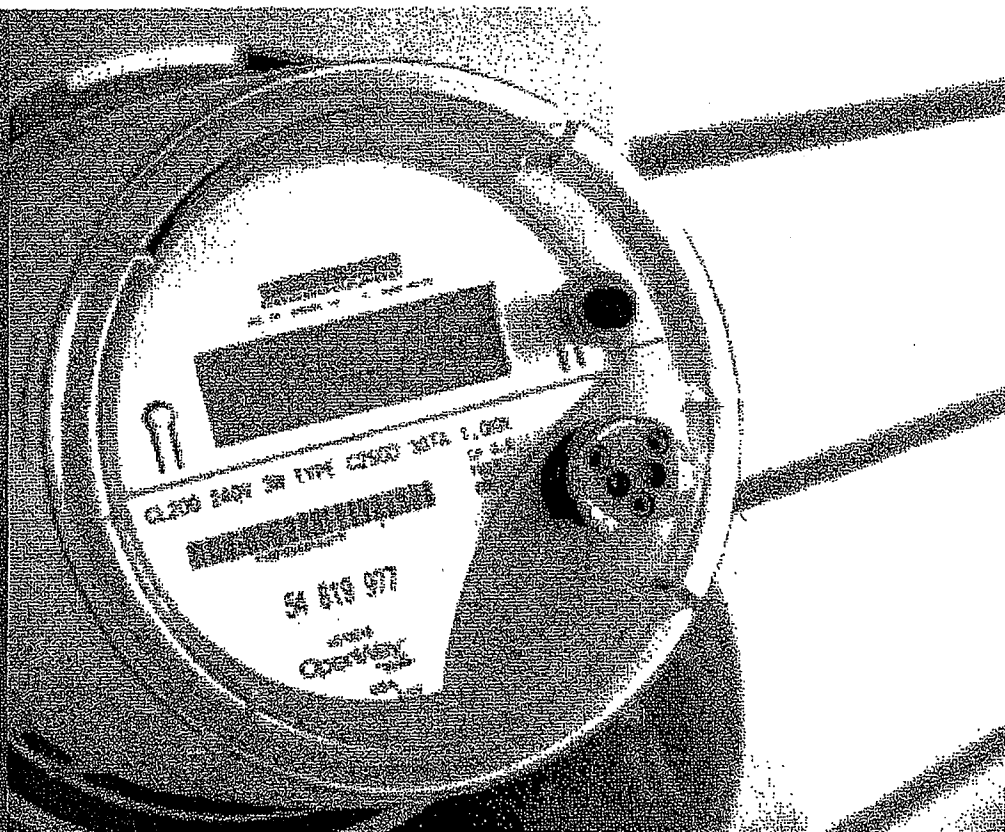
- > The Power of ICT
- > Delivering Sustainability Through ICT Solutions
- > Delivering Sustainability Through Accessibility
- > Our Product Stewardship
- > Empowering and Protecting Our Customers

Quick Facts ICT Defined

The Digital Energy Solutions Campaign defines information and communication technology (ICT) as the full suite of hardware, software, and broadband technologies that can increase the energy efficiency of society.

Quick Links The Smart 2020 Report

View the full GeSI Smart 2020 Report and the U.S. Addendum at www.smart2020.org.



The Power of ICT

ICT delivers some of the world's most advanced technological innovations – from cell phones and the Internet to satellite communications – that change the way we live, work and play.

Today, ICT products and services have the potential to help create a more sustainable future, enabling people and businesses to make more energy-efficient choices and reduce their own environmental impact, through things like:

- > Moving work to people rather than people to work.
- > Connecting rather than traveling.
- > Managing business remotely and in realtime.
- > Improving transportation and distribution systems.

We are just beginning to quantify and measure the specific impact ICT can have. As an industry, we know we need to better measure the degree to which we can help others increase energy efficiency and reduce CO₂ emissions.

AT&T products and services align business needs with environmental needs. That's why we've welcomed the opportunity to collaborate with government, policymakers, businesses and other stakeholders to explore and develop new approaches that will help address rising energy costs and carbon emissions.

Engaging In Public Policy

Public policy plays an important role in fostering a sustainable future and maximizing the potential of ICT. We hope to accelerate the pace of change by taking an active part in initiatives and strategic alliances aimed at encouraging the use of ICT for greater energy savings and efficiency.

Global e-Sustainability Initiative

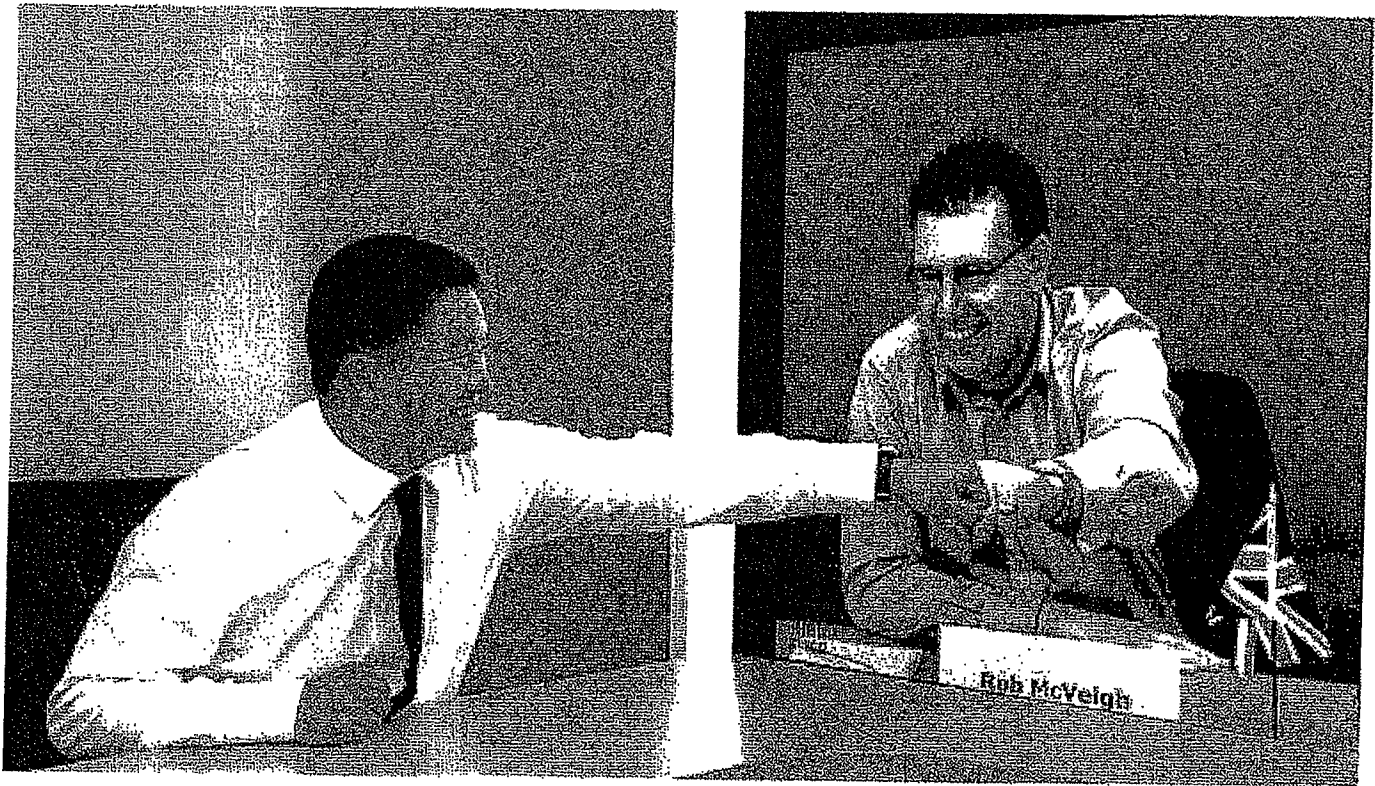
AT&T participates in the Global e-Sustainability Initiative (GeSI), an effort to foster open cooperation across international boundaries to improve sustainability in our own industry and to promote ICT solutions as a way for others to decrease CO₂ emissions.

In 2008, AT&T helped sponsor the U.S. Addendum to the GeSI sponsored study, entitled *SMART 2020: Enabling the Low Carbon Economy in the Information Age*. The study estimated that ICT-enabled solutions could cut annual CO₂ emissions in the U.S. by up to 22 percent in 2020. This translates to gross energy and fuel savings of as much as \$240 billion annually.

Digital Energy Solutions Campaign

As a member of Digital Energy Solutions Campaign (DESC) – a coalition of technology companies and environmental nongovernmental organizations (NGOs) working to educate policymakers about the role of ICT in our shift to a low-carbon economy – we're collaborating on public policies that encourage businesses, utility companies and communities to use ICT to address energy challenges. Our ultimate goal is to use technology to improve energy efficiency while decreasing CO₂ emissions – all while promoting a strong economy.

DESC members include Dell, Hewlett-Packard, Infineon, Intel, Sun Microsystems and Texas Instruments. DESC also works with organizations such as The Climate Group, the World Wildlife Fund and the Alliance to Save Energy.



Offering Assistance to the EPA

In late 2008, AT&T offered assistance to the U.S. Environmental Protection Agency (EPA) as part of its process to evaluate provisions of the Clean Air Act related to greenhouse gas regulation. In our filing with the EPA, we advised federal regulators on the potential for AT&T – and the ICT Industry at large – to help limit emissions while expanding the potential for economic growth.

In our filing, we specified numerous opportunities for ICT. Some examples include:

- > Decreasing energy-intensive travel through telecommuting, teleconferencing and other services.
- > Providing centralized data management, Internet, communications and software service for customers.
- > Dematerializing public and commercial activities through electronic billing; online provision of governmental services; and online delivery of goods and services, such as education, libraries, research, medicine, videos and music.
- > Rationalizing transportation and distribution systems using next-generation dispatching and planning software combined with satellite-based GPS systems.
- > Improving energy efficiency in commercial and residential buildings through more sophisticated monitoring and dispatching systems for more accurate control and delivery of energy.

Delivering Environmental Sustainability Through ICT Solutions

Our nationwide broadband, communications and data management services allow our customers to be more efficient and productive, while doing their part for the environment.

Working Smarter

Unified Communications (UC) is quickly becoming essential for business customers coping with competition, a challenging economy and increasing energy costs. With AT&T UC solutions – audio, video and Web conferencing – our customers can reduce energy costs associated with travel, while improving business outcomes in a more sustainable manner. Customers can also replace inefficient legacy equipment and consolidate redundant solutions. The result: lower organizational costs associated with facilities, power, cooling, equipment, travel costs and IT.

The AT&T Telepresence Solution is a great example. It combines innovative video, audio and interactive elements to create a unique, virtual presence over the network – giving users an immersive, “in-person experience.”

Launched in 2008, it combines Cisco TelePresence equipment with AT&T’s IP network and Virtual Private Network (VPN) capabilities and enables companies to collaborate and conduct global business across industries. It delivers life-size images via full-HD video and spatial audio within a specially designed environment – creating the experience of being in the same room with remote participants, whether they are down the street or on the other side of the world.

The AT&T Telepresence Solution:

- > Increases employee productivity.
- > Enables ability to scale scarce resources and expertise.
- > Facilitates accelerated decision making, accelerating time to market for products or campaigns.
- > Enables tighter relationships with suppliers and customers.
- > Enables increased collaboration and innovation.
- > Reduces dependency on physical travel, allowing for fewer CO₂ emissions.

AT&T uses Telepresence in our own business. In fact, we’ve estimated that our deployment of up to 50 rooms will reduce CO₂ emissions by approximately 31,000 metric tons over the next six years – an amount roughly equal to the emissions generated by 5,732 passenger vehicles for a year.

Quick Links
AT&T
Telepresence
Solution in
Action

www.att.com/telepresence



Driving Smarter

AT&T offers leading fleet management solutions, and we can also deliver dozens of solutions from AT&T business partners. These vehicle-based products combine the latest advances in GPS, wireless and Web technologies to make mobile workforce and fleet management an affordable reality for businesses of all sizes.

TeleNav Vehicle Tracker

In 2008, AT&T began offering TeleNav Vehicle Tracker, a GPS tracking and management solution hard-wired or embedded into a vehicle. It is accompanied by TeleNav's secure, password-protected and Web-based management console. Managers can log onto the site and view the location of each vehicle in their fleet. The solution also can track mileage, speed and the amount of time a vehicle is stopped; if a vehicle's engine is turned on; or even if its doors are open.

Nearly all of AT&T's technician vehicles are equipped with similar GPS capabilities. For our company, these products provide:

- > Better management of miles driven per day by technicians.
- > Improved processes in place for vehicle returns to the work center.
- > Improved inventory management.
- > Reduced travel time and costs with real-time dispatching.

Operating Smarter

A number of our data solutions enable customers to significantly reduce their physical servers, power and cooling needs. In some cases, they also allow them to close existing data centers.

Server Virtualization

AT&T's Server Virtualization product provides customers with a dedicated managed virtual infrastructure consisting of servers, storage and network located in AT&T's Internet Data Centers. By relying on us for centralized and virtual computing, our customers have been able to remove aging servers and, in some cases, close data center facilities.

Quick provisioning capabilities inherent in virtualization solutions provide greater flexibility. Traditionally, an end-user request to the IT organization for a new server took considerable time and expense. Our capabilities allow preconfigured virtualization machines to come online in minutes versus having to make physical changes that could take days.

Cloud Computing

One of the primary reasons for the trend toward "cloud computing" is its ability to reduce power and cooling requirements, which makes cloud computing part of a more sustainable IT infrastructure model.

AT&T continues to innovate and mature our cloud-based computing solutions. We are expanding our ability to assist customers through the use of combined, cloud-based solutions with five "super Internet Data Centers" in the United States, Europe and Asia and 38 data centers in our global IP network. This enables customers to relocate the burden of deployment and support of applications to AT&T, allowing our customers to reduce power and cooling requirements in their data centers.

AT&T Synaptic Hosting* provides business customers with control over the storage, distribution and retrieval of their data from any location, anytime, using any Web-enabled device. It is a good solution for customers facing a server hardware technology refresh, where the servers are five to eight years old or where available space in their existing data center poses a challenge. AT&T Synaptic Hosting delivers value to customers in three primary areas:

- > Compliance
- > Security
- > Support

Smarter Energy Grids

Smart energy grids allow for two-way communication between the energy provider and the home or business. Once energy grids become intelligent, they enable:

- > Electric companies to read meters remotely without sending technicians.
- > Energy grids to more quickly and easily identify outages, or to correct problems before they lead to outages.
- > Customers to receive real-time usage information and adjust their energy use accordingly, saving customers money and allowing the grid to reduce usage during peak times.

AT&T is helping modernize the nation's electric grid by combining the same broadband and wireless communication technology we use to connect people with their world every day with additional virtual networking and security features. Smart grids depend on secure, two-way communications between virtually all devices producing, distributing and consuming electricity. AT&T has teamed up with two companies over the past year to provide this two-way connectivity:

- > Itron OpenWay® Solution: allows utilities to read electric meters remotely, ensuring more accurate billing and efficient use of energy.
- > SmartSynch Solution®: relying on AT&T's wireless spectrum, uses point-to-point configuration to serve residential customers – AT&T provides a direct link from smart meter to the utility using a SIM card in every smart meter, just like a cell phone.

Helping Make Important Connections

When Accent Engineering owner Tommy Martin invented the SmartCrop system – a series of sensors that collect data on plants and determine when they need to be watered – he knew he was helping farmers save thousands of dollars a year on their water bills. However, the one thing holding him back was that he couldn't sell the product until he found a way to transmit data wirelessly from the sensors in the field to a farmer's laptop.

Tommy turned to his AT&T small business representative for help. Now, two years later, Tommy is gearing up to

sell the SmartCrop product all over the world to farmers interested in determining the optimum temperature of their crops for watering. AT&T's wireless network will transmit the information collected from the field to a modem in a computer, where it can be downloaded into graphs and easily interpreted by the farmer.

The SmartCrop system became available for widespread distribution for the 2008 growing season. The fields in which it's already being tested have been thriving, with farmers saving up to \$3,000 per year on their water bills.

"As a senior, I appreciate AT&T's efforts to design and market products and services to the aging community. It seems fundamental to serve the fastest-growing segment of the population, but I am not aware of any other company that strives to get it right the way AT&T does. Most of us, if we live long enough, will benefit from the work of AAPAA."

Alfred Moya
BOARD OF DIRECTORS,
SENIORNET

"AT&T has the longest engagement with issues of aging and disability of all companies I'm aware of. AT&T is aware of and responsive to all the hundreds of issues that arise from having a complex portfolio of products and services, over more than 30 years. AT&T's staff has been consistently honest, helpful and open - I only wish that its model were replicated elsewhere in the industry."

Jim Tobias
PRESIDENT, INCLUSIVE
TECHNOLOGIES

Delivering Sustainability Through Accessibility

At AT&T, accessibility is more than a word. It's a commitment to provide the products and services our customers with disabilities need and to anticipate and meet their communication needs. We work with vendors and AT&T's Advisory Panel on Access and Aging (AAPAA) on accessibility solutions, and we provide specialized customer care for those with disabilities. We're committed to helping all AT&T customers communicate everywhere they live and work.

Between innovations such as the iPhone and software that reads information aloud on wireless devices, Alexander Graham Bell might have a hard time recognizing today's AT&T. But one thing hasn't changed: our company's unfailing dedication and commitment to people with disabilities, in the workplace and the community at large.

Today's iPhone lets people who are deaf or hard of hearing or who have speech difficulties tap out their communications using our Text Accessibility Plan (TAP) for the iPhone, with its unlimited text messaging, Web browsing and easy access to e-mail.

AT&T encourages application developers and handset manufacturers to consider the needs of seniors and customers with disabilities when designing innovative products and services by following Universal Design Principles. In fact, AT&T made its Universal Design methodology available on our Web site, hoping to increase the number of innovative and accessible products and services for these customers.

We stay close to the needs of customers with disabilities through the AT&T AAPAA. Made up of prominent national leaders of organizations focused on aging consumers and consumers with disabilities, the AAPAA meets quarterly with business unit leaders to provide counsel on issues related to products and services, marketing, customer relations and the employment of these individuals. Read more about the AAPAA [here](#).

We also offer TTY, Internet Protocol and Video Relay services, which combine technology with a dedicated team of employees who offer 24/7 assistance for people who are deaf, have a hearing loss or have a speech challenge. In this way, we provide a bridge to people with communication barriers so they can communicate with others in the home, the workplace and the community.

"Students, parents and educators need to understand the importance of privacy and reputation in today's rapidly changing digital world. Guidance counselors especially need to understand that the rules applied to the offline world also apply to the online world when it comes to future academic and employment opportunities. AT&T has played an integral role in helping to provide school, parents and students with important information and necessary tools to keep them up to speed on what kids are doing online. We are thrilled to work with AT&T on this initiative."

Marsali Hancock,
PRESIDENT OF IKEEPSAFE

Empowering and Protecting Our Customers

Promoting Safety

Consumers rely on their communications and entertainment services more than ever before to stay connected to their world. But with technology evolving so rapidly, keeping abreast of the latest safety features, tools and information can be a challenge.

As the nation's largest broadband provider and a leading wireless provider, we consider it our responsibility to create a safe environment for all consumers. We focus on educating and empowering our customers to use technology wisely.

Some examples of our efforts include:

- > **AT&T Smart Limits:** Parental controls are vital in safeguarding families, while tips on the latest safety issues help raise awareness. AT&T Smart Limits brings together information concerning parental control features across AT&T's wireless, home phone, Internet and TV services. Learn more about the consumer safety information we provide on each of our services at www.att.com/safety.
- > **Driving Safety:** Be Safe, Be Sensible is our public safety campaign that encourages driving safety and wireless courtesy.
- > **Connecting With Communities:** We collaborate with multiple nonprofit organizations to promote Internet safety through studies and education programs for customers of all ages, especially youth and seniors. We have current relationships with Project Online Safety, Family Online Safety Institute, Enough Is Enough, Internet Keep Safe Coalition (iKeepSafe) and OASIS.

Protecting Online Privacy

In an effort to increase consumer awareness of privacy issues on the Internet, AT&T is working with iKeepSafe to launch The Privacy and Online Reputation Project. This is a new pilot program in Florida where school counselors will receive handbooks on how to educate students on privacy issues. We'll work with iKeepSafe and the Florida School Guidance Counselor Association to provide a handbook to school counselors that gives an overview of what students are posting on the Internet and bring school counselors up to date on existing cyber ethics tools for social networking.

Protecting Privacy

AT&T takes customer privacy very seriously. Our customers told us they want to see clear, easy-to-read information about our privacy commitments and policies. We listened, and we made our privacy policies easier to find and easier to read.

Our privacy commitments are fundamental to the way we do business every day. The following applies to everyone who has a relationship with AT&T – including customers and Web site visitors.

- > We will protect your privacy and keep your personal information safe. We use powerful encryption and other security safeguards to protect customer data.
- > We will not sell your personal information to anyone, for any purpose. Period.
- > We will fully disclose our privacy policies in plain language, and make our policies easily accessible to you.
- > We will notify you of any revisions to our privacy policy, in advance. No surprises.
- > You have choices about how AT&T uses your information for marketing purposes. Customers are in control.
- > We're listening. You can send us questions or feedback on any of our privacy policies.

For more information on the AT&T privacy policy, visit www.att.com/privacy.

Our Product Stewardship

AT&T focuses on meeting our customers' needs while reducing unnecessary waste associated with our products and services. We aim to consume less and help our customers dispose of our products in sustainable ways.

Cell Phone Recycling

The EPA estimates that nationally less than 10 percent of retired phones are recycled or reused.

Instead, when upgrading to a newer model, customers often toss old phones into a drawer or in the trash, despite the fact that they have potential for a whole new life.

This is problematic for both environmental and economic reasons. First, many electronic devices contain substances that can become hazardous if not disposed of properly. Second, phones in good condition can be reused, and raw materials from non-operational phones – such as silver, platinum, copper and gold – can be extracted and turned into anything from automotive parts to jewelry to license plate frames. The United States Geological Survey estimates that, as of 2005, there were already more than half a billion old phones sitting in American drawers, adding up to more than \$300 million worth of precious metals.

To keep cell phones out of landfills, we provide recycling collection points for any brand of cell phones, PDAs and other accessories at AT&T-operated stores and participating authorized dealer stores across the country. We also collect phones through employees, retirees, resellers and an exchange-by-mail handset warranty program. And we're a proud member of the EPA's Plug-In To eCycling program.

"At AT&T, we know that if we make wireless recycling even easier for our customers -- and all wireless users -- they can do more of it."

Ralph de la Vega
AT&T MOBILITY
PRESIDENT AND CHIEF
EXECUTIVE OFFICER

In 2008, we reused or recycled an estimated 4.5 million phones and more than 1.3 million pounds of accessories and batteries, showing an increase from 2007 of 15 percent for phones and 43 percent for accessories. For 2009, we plan to help consumers recycle even more by expanding our recycling options and increasing the visibility of our program.

Directory Recycling

AT&T Real Yellow Pages telephone directories are an essential resource for millions of consumers. We actively work to reduce the environmental impact of our paper sourcing, production and distribution, and we promote the recycling of AT&T Real Yellow Pages and AT&T Real White Pages directories. We require our suppliers to practice renewable, sustainable resource management of the forests they use, including the identification and protection of forestry areas of high conservation value.

AT&T Real Yellow Pages directories are recyclable. The phone book paper is made from recycled paper waste and wood fiber waste. Recycled phone books can be made into useful products such as animal bedding, home insulation, bathroom tissue, cereal boxes, roofing shingles and new phone books.

To find out where to recycle outdated phone books, customers in many communities can call the AT&T Real Yellow Pages Project ReDirectory help line, listed on the directory cover and available online at www.yellowpages.com/recycle. In 2008, we sponsored and managed more than 50 recycling drives across the country.

Cell Phones For Soldiers Earth Day Challenge

On Earth Day 2008, AT&T volunteers committed to help Cell Phones for Soldiers (CPFS) bring in more than 1.8 million devices by Earth Day 2009 -- double the number it had collected the year before. The nonprofit uses funds from recycled cell phones to buy prepaid phone cards for active-duty military members, allowing them to keep in touch with their families.

With the help of our wireless customers, AT&T and the charity recycled more than 2.5 million wireless devices, beating the Earth Day 2009 goal by more than 700,000 phones. The charity estimates the proceeds enabled the purchase of more than 250,000 prepaid phone cards for the troops, helping to fulfill the average 7,000 requests per week it receives from military members and their loved ones.

To help reach this goal, the AT&T Pioneers, a group of 325,000 active and retired employees, worked across the United States to host cell phone donation drives for the charity, bringing in more than 25,000 devices. And we joined CPFS to provide a free "starter kit" at www.att.com/recyclewireless, so consumers can conduct their own drives.

The nonprofit's recycling partner, ReCellular, estimates that recycling 2.5 million phones has prevented more than 153 tons of e-waste from entering landfills, the environmental equivalent of:

- > Saving enough energy to power nearly 7,709 U.S. households for a year.
- > Avoiding the same amount of greenhouse gas emissions as removing more than 5,546 passenger cars from the roads for a year.
- > And keeping more than 4 tons of toxic materials out of landfills.

"We started this charity to help the soldiers, and that's always going to be our mission," said CPFS co-founder Brittany Bergquist. "But what we've learned along the way -- by working with AT&T -- is that we're also helping the world in another way: by fighting e-waste."

AT&T Paperless Billing

We closely monitor the quantity of directories we print to avoid excess production. In addition, we provide electronic alternatives such as YELLOWPAGES.COM, RealPagesLive.com and CD-ROMs, further reducing the total number of printed directories. AT&T Interactive is also developing new online and mobile search applications intended to make consumers' lives easier, while helping businesses to grow.

White Pages Consumer Choice Program

Usage statistics indicate consumers use residential White Pages listings less often than our other directories. That's why, rather than automatically receiving a printed residential White Pages directory, consumers in some markets can obtain free residential White Pages listings from several AT&T-provided alternatives.

AT&T provides information with, and in, the business White Pages and AT&T Real Yellow Pages directories, on consumers' options for receiving residential White Pages listings under the White Pages Consumer Choice Program. Consumers may obtain residential White Pages listings from RealPagesLive.com and YELLOWPAGES.COM, or by calling a region-specific toll-free number to obtain a free print copy or CD-ROM of the book serving that area. AT&T mails the printed directory or CD-ROM at no charge to the requesting consumer or business. Not only are printed residential White Pages directories available to consumers who prefer that option, but now listing information is available to everyone in the world with access to an Internet connection.

Paperless Billing and Mailing Practices

We're educating our customers about the environmental benefits of choosing electronic payment options, using sites such as www.att.com/actgreen. Customers can pay their bills in seconds, maintain more up-to-date control over their accounts and reduce unnecessary paper. At the end of 2008, more than 8.2 million of our customers suppressed their paper bills for a variety of our products, including landline phone service, broadband, wireless service and our cutting-edge video service, AT&T U-verseSM TV. We estimate that this saved 200 million pieces of paper last year.

We also encourage our business customers to use alternative media for billing records, and we use e-mail, automated calls and text messages when possible. Our printed communications often include reminders that point customers to the Web.

For customers who continue to choose paper, we made improvements based on customer focus group results. Our customers ask for "simple and concise" information that makes bills easier to read and understand and also reduces the use of paper. As we've rolled out a new billing format across the wireline base, we have consistently reduced paper consumption by more than 50 percent.

However, as we continue to promote paperless billing, we still face customers who are uncomfortable with an electronic system. To help address these issues, we're making our system as easy to use as possible, strengthening our information protection to safeguard our customer information, and continuing to promote our paperless options.

Currently 17 percent of our wireless customers have gone completely paperless.

Aside from switching to electronic communications, we also seek to reduce the size of our mail in general. Our Marketing, Print and Production specialists look at each piece of mail to minimize its size and weight. We currently have teams across the company looking at ways we can converge communications pieces when it makes sense – for instance, consolidating the mail we send to customers who use both our wireless and landline phone products.

When we do have mail to send, we work to ensure we have the most current addresses on our mailing lists to minimize the amount of mail that is undeliverable and must be returned.

"EPA, through the ENERGY STAR program, helps consumers identify energy-smart products to help our environment. We're pleased to be working with AT&T on energy-efficient set-top boxes. These boxes help consumers reduce energy consumption, greenhouse gas emissions and costs."

Kathleen Hogan,
DIRECTOR OF THE EPA'S
CLIMATE PROTECTION
PARTNERSHIPS DIVISION

ENERGY STAR Efficient Set-Top Boxes

AT&T U-verse™ TV is a good choice for TV viewers who want to minimize their environmental impact – and save on energy costs.



With AT&T U-verse TV, consumers are using the most energy-efficient choice in set-top boxes. We were one of the first video service providers to receive the U.S. Environmental Protection Agency's (EPA) ENERGY STAR certification for set-top boxes. Every AT&T U-verse TV receiver is ENERGY STAR certified and meets or exceeds the ENERGY STAR efficiency requirements.

We were the first video service provider to commit to deploying set-top boxes that meet the stringent ENERGY STAR standards in May 2008. AT&T U-verse receivers conform to energy-efficiency requirements 36 percent more stringent than cable set-top box requirements. The improved efficiency is achieved, in part, because IP-based receivers don't have tuners.

Undeliverable Mail

At AT&T, we're focusing on ways to reduce the impact of our own mailing efforts – but we're also guiding a larger effort that could help the entire U.S. mailing system.

AT&T is leading a group of large first-class mailers, mailing service industry firms and the Major Mailers Association (MMA) to find a new approach to dispose of mail that is undeliverable as addressed. Figures show the United States Postal Service spends more than \$727 million a year to return such undeliverable mail.

Recently the Postal Service instituted a new Intelligent Mail barcode system. Using this barcode, the service will offer to destroy undeliverable mail and provide an electronic notification to senders, rather than physically returning it – saving time, energy and miles needed to handle and transport the correspondence back to its original senders. However, the current destruction process doesn't include a certified security process.

Starting in 2008, AT&T has worked with the U.S. Postal Service and other interested parties to develop a certified, secure destruction process to ensure the safety of our customers' information – and we're pushing for this process to include recycling. A secure destruction system would allow more mailers to take advantage of undeliverable mail destruction and promote more consistent recycling across the industry. And the price to the U.S. Postal Service to securely destroy and recycle undeliverable mail should be dramatically less costly than the current returned-mail process. In fact, the service thinks this process could avoid sending back as many as 468 million pieces of mail annually.

Moving Forward: 2009 Goals

- > Move the industry's approach to consumer privacy forward to a model of Privacy by Design: Transparency, Customer Control, Privacy Protection and Customer Value.

LEADING IN INNOVATION AND TECHNOLOGY

OUR COMMITMENT

We lead the way in innovation and technology and apply developments to make a sustainable difference in society.

OUR CHALLENGES

Addressing environmental and social challenges through technological innovation.

Balancing the experimental nature of research and development with the desire for material, concrete application.

Advancing telemedicine solutions while being conscious about privacy of medical information.

OUR OPPORTUNITIES

Continuing to identify innovations that have sustainability application.

Facilitating the deployment of health care IT innovations.

Combining our strengths to be industry leaders and device makers to ensure safety of medical information.

Introduction

At AT&T, we're always looking ahead, committed to developing innovations that can make a sustainable difference in our local communities and around the world.

This section covers our initiatives in the following areas:

- > Celebrating Innovation and Collaboration
- > Adapting Technology for People Instead of Making People Adapt to Technology
- > Applying Innovation to Address Environmental Sustainability Challenges
- > Applying Innovation to Address Social Challenges
- > Fostering Innovation at Leading Universities

Recognizing Innovation

Each year AT&T internally recognizes the accomplishments of employees in its technical community by bestowing AT&T Fellows Honors and Science and Technology Medals. Individuals are honored for sustained, outstanding and unique contributions to the company and the world through their technical and scientific achievements.

Celebrating Innovation and Collaboration

AT&T helped introduce the telephone to the masses – and we've been driving communications innovation ever since. From Alexander Graham Bell's historic call to Watson to creating the nation's fastest 3G network, our technologies have changed the way people live, work and play. As the innovation engine behind AT&T's world-class technology, the scientists and engineers of AT&T Labs continue to develop promising new products and services.

Our founders understood that for our technology to truly succeed, they needed to develop a sustained research and development organization. In this spirit, AT&T Labs was born. Today, AT&T Labs enjoys a storied history of innovation and is credited with the introduction of revolutionary technologies such as the telephone, the transistor and the solar cell.

A Culture of Innovation

The more than 1,300 scientists and engineers of AT&T Labs continue to build on this legacy by pioneering new technologies. Distinguished by professional associations and leading academic institutions around the world, it's no surprise that we attract some of the world's greatest scientists, engineers and developers. The members of this brain trust are part of a heritage that boasts seven Nobel Prizes and launched new industries.

Every day, our award-winning teams are working to deliver innovative applications and services that will automate and streamline the way customers connect to and interact with the world.



AT&T Labs by the Numbers

1,300

NUMBER OF SCIENTISTS AND ENGINEERS AT THE AT&T LABS

80

PERCENTAGE OF AT&T LABS RESEARCHERS WITH A PH.D.

2

AVERAGE NUMBER OF PATENTS AT&T RECEIVES EACH DAY

Adapting Technology for People Instead of Making People Adapt to Technology

For us, there's no such thing as a typical customer. People are different and their needs and uses of our products and services vary. Innovation is key to staying competitive and to meeting the evolving needs of our diverse customers.

That's why the AT&T Labs' Human Factors Group's work is tremendously significant for our company and our customers. AT&T is committed to great customer service, and one way we're able to maintain that is with the knowledge and understanding of customers gained through the Human Factors Group. The fundamental goal of the Human Factors Group is to do our learning in the lab, rather than after the service is deployed to tens of millions of customers. In fact, sometimes the learning occurs years before a product is offered to customers.

A part of AT&T Labs, our Human Factors Group includes 19 technical staff members who specialize in human factors engineering and conduct customer research, analysis, design and usability testing. Their goal is to help make AT&T products and services both useful for and usable by all of our customers.

As an example, with AT&T's U-verse TV service, we needed to build a new network to provide advanced TV and very high speed Internet services. Instead of building the most expensive network possible or building a network and then offering whatever services would work on it, AT&T started with the customer. Human Factors conducted studies with hundreds of customers to find out how they perceived the picture quality of different levels of video compression. Based on these results, we were able to pick the right picture quality based on what actual customers said they wanted to see and then design a network over which to provide TV service.

Applying Innovation to Address Environmental Sustainability Challenges

AT&T Labs has always had its eye on the future. And it's with this forward-looking focus that we're working to create a cleaner, more sustainable tomorrow. We're committed to applying our investments, research and innovation to pressing environmental issues.

Exploring Data Center Energy Consumption

AT&T Labs has been at the forefront of the technological revolution. But with the explosive growth of the communications frontier, we recognize that growing demand for our products makes data center efficiency a major challenge. We continue to develop new and better approaches to better manage our energy consumption while continuing to expand processing power, speed and storage capacity.

Innovating for a Better World

Today, AT&T Labs is working closely with many of the world's leading universities and technical teams to bring new ideas to life. Once proven, these ideas will result in new generations of network and communications services and in new products and applications that can be used to save energy. Here are two examples:

Energy Optimization Using CPU Frequency Gradient

AT&T Labs is using a network of wireless sensors to experiment with strategies for reducing energy use in our network and computer centers. One of the early experiments is related to the manipulation of CPU frequencies

When working with computers, frequency scaling is a well-known technique for saving energy. Basically, frequency scaling slows down the central processing unit (CPU) of a computer when it is lightly loaded, such as when it is running few applications. However, many computer systems – such as those that execute multitier services for e-commerce Web sites – require multiple CPUs connected by networks, each running a different part of the overall application and subject to a different load. Under these circumstances, predicting energy-saving effects can be complicated, and the impact of individual CPU frequency scaling on the system's response time and energy consumption are hard

to determine. This is especially important because such systems account for a majority of the electricity consumption attributable to information technology in the United States.

To address this problem, AT&T Labs is working on a CPU frequency gradient metric to precisely capture the impact of change on CPU frequency on a system's end-to-end response time. Low-overhead runtime techniques being developed for measuring CPU frequency gradients can be used to minimize energy consumption while simultaneously satisfying service level objectives (e.g., response time and throughput) under constantly changing conditions. With CPU gradients, significant energy savings can be realized in data centers that execute complex multitier enterprise services and applications.

3-D Video

AT&T Labs is also working on 3-D video communication. 3-D video has the potential to be far more compelling than standard 2-D video, primarily because it conveys an explicit sense of depth to the viewer. Modern autostereoscopic display technology presents the viewer with a 3-D experience without the need for special viewing glasses. Other 3-D display technologies are being actively researched worldwide. 3-D video can be extremely useful in a variety of applications, including videoconferencing, entertainment, remote collaboration and telemedicine.

Widespread research has examined ways to better use IT assets and conserve energy — without compromising computer performance or customer needs. The majority of this research has focused on the physical infrastructure of the data center, such as rack arrangements and power distribution. While this research will likely lead to significant energy improvements, AT&T Labs researchers are also working on a more comprehensive approach to data center efficiency, looking not only at the physical components but also at the ways IT assets can be optimized at the system level to be more energy efficient.

Nearly a quarter of the total power consumption of a data center is directly related to the internal computer system components that make up the hosted application environment. Because computers run the application software, our research is aimed at understanding what can be done to gain efficiencies in how the operating system and application software affect the computer they run on. By understanding the cause-and-effect relationship of how application software interacts and influences the operating system and the hardware, we hope to write more energy-efficient applications that don't create high power and cooling demands, or at least create more even and predictable power and cooling curves.

The importance of this research is not limited to large-scale data centers. By understanding what functions are the most expensive in terms of energy consumption and heat dissipation, AT&T Labs aims to create best practices for the development of energy-efficient software, especially the kind that may not just run on big servers in a highly conditioned data center. These findings may be applicable to other devices and appliances, such as hand-held devices like the iPhone, where energy-efficient application software will help deliver faster execution while preserving battery life.

Applying Innovation to Address Social Challenges

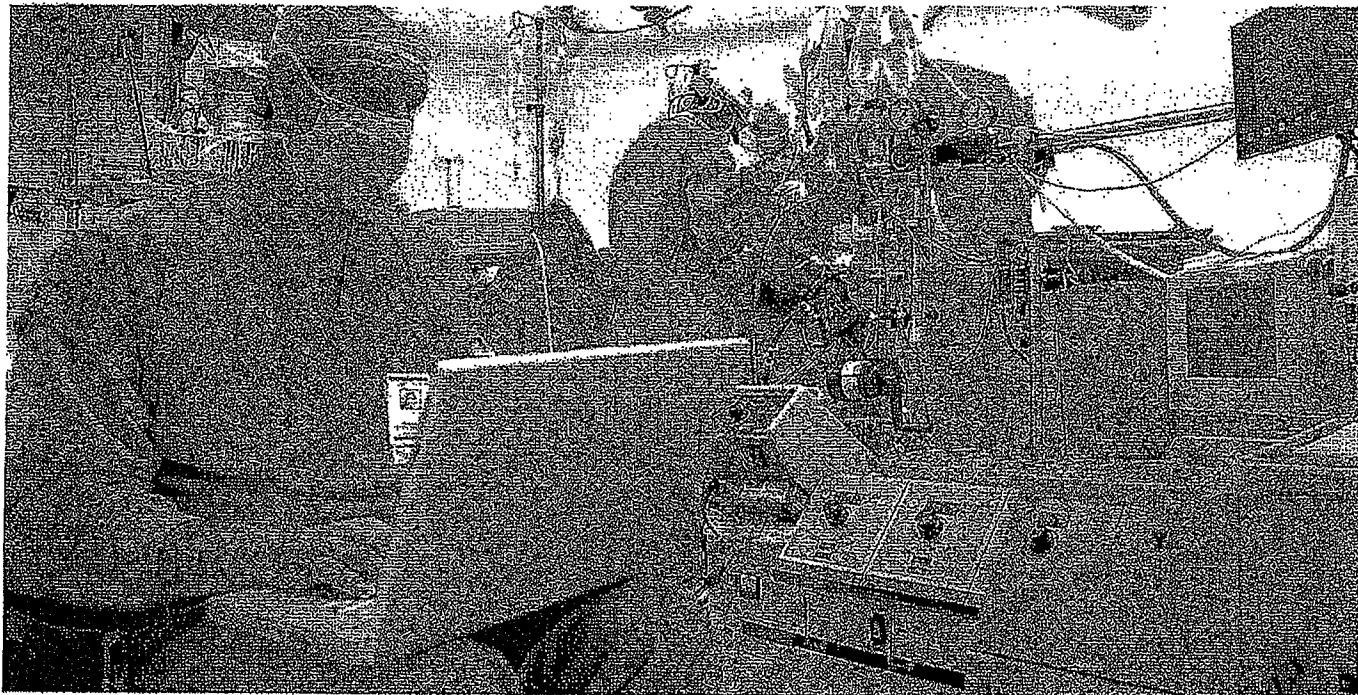
At AT&T, we're constantly looking for opportunities to apply our research and technological advancements to better society. This is particularly true in the area of health care – increasing access to health care and improving quality of patient care, while also cutting costs. This is important not only from a citizenship perspective but also for the sake of our business. We're one of the nation's largest providers of employee and retiree health care coverage. In fact, we spend approximately \$5.5 billion on health care each year.

Although the field of medicine is rapidly improving, rising costs and access issues keep quality health care out of reach for many Americans. According to the U.S. Centers for Medicare and Medicaid Services, the United States spent nearly \$2.2 trillion on health care in 2007. This number is expected to almost double by 2017 if we don't take action.

Expanded availability of high speed Internet access, coupled with the ability of secure virtual networks to address the different performance needs of medical applications, will fundamentally change how medical care is delivered. The prospect: better health care for more people delivered at a lower cost.

AT&T is committed to driving innovations in health care technology. And we're not alone in our efforts. As a member of the Continua Health Alliance, we've joined forces with companies such as Bayer, Cisco, GE, IBM and Novartis to bring down the cost of health care. We're also a founding member of Better Health Care Together Coalition with the CWA and other major companies and employee unions.

Our telemedicine advancements are connecting patients to world-class health care right in their own homes or small towns, allowing them to receive medical results faster and with more accuracy and security. By increasing access to previously underserved populations, telemedicine has the potential to dramatically reduce health care disparities. That's why we're working hard to enhance America's communications networks and to design the specialized information technology infrastructure and applications that can deliver health care across the country and around the globe.



Innovation in Connectivity for Doctors, Hospitals and Patients

Through research, philanthropic support and products and services, we've brought technology solutions and strong, dependable information networks to the nation's health care providers. We're also enabling the conversion to electronic health records, which can make health care more efficient and reduce errors. Electronic health records also enable greater collaboration among caregivers and allow doctors to treat patients more holistically and better track medical outcomes to ensure the best and most cost-effective treatments for patients.

A Virtual Private Network (VPN)-based portal, AT&T Healthcare Community Online (HCO) is founded on two AT&T patents that enable electronic health care data exchange among existing systems of health care providers and physicians. AT&T HCO offers managed services, applications and authentication services and promotes the widespread adoption of health-information technology by providing authorized doctors, hospitals, pharmacies, labs and patients with access to test results, prescription records, best practices and medical histories.

AT&T Remote Monitoring services are another way we're improving patient care. We're currently trialling wireless devices that record a patient's health information – from the comfort of their home – and send the data to their doctor, regardless of location. Remote monitoring provides an innovative way to use our communications backbone to help families monitor older relatives or family members with chronic illnesses who are living alone.

Current AT&T in-home monitoring initiatives include:

- > AT&T Labs is working with the ZigBee Alliance to develop a more sophisticated emergency pendant system, giving more control to seniors living at home and making more information available to their families and medical personnel.
- > AT&T Labs is also collaborating with several technology companies to develop prototype devices and systems to provide this information.
- > AT&T has begun a trial project in Texas at an independent living facility, using several lab research centers, to develop even more effective products.

"AT&T is committed to applying technology that will transform the delivery of health care, enhance operational efficiencies and, ultimately, improve the quality of life. We're proud to be working to help enhance the health care experience, offering anytime anywhere delivery of care and medical information."

Roman Pacewicz
SENIOR VICE PRESIDENT,
REGIONAL BUSINESS
MARKETING FOR AT&T

We've also teamed up with Covisint, a subsidiary of Compuware Corp., and Microsoft Corp. on a major eHealth initiative – a nationwide information exchange – to enhance the health care experience for patients and practitioners alike. The new eHealth information exchange is a revolutionary approach designed to reduce costs and improve the quality of care while putting patients in control of their electronic health records. It allows consumers using Microsoft HealthVault a software- and service-based platform for storing and accessing personal health information to share information with authorized physicians and health care providers connected to AT&T Healthcare Community Online.

HealthVault is designed to put people in control of their health data. It helps them collect, store and share health information with authorized family members and participating health care providers, and it provides people with a choice of third-party applications and devices to help them manage things such as fitness, diet and health. HealthVault also provides a privacy- and security-enhanced foundation on which a broad ecosystem of providers – from medical providers and health and wellness device manufacturers to health associations – can build innovative new health and wellness solutions to help put people in control of their and their family's health.

Technological Innovations for the Elderly

AT&T Labs is working to apply our innovation to help elderly individuals who may live alone. As muscle strength and balance begin to weaken because of age, falls become an increasing concern. In managed care as well as home settings, injuries resulting from falls can make it difficult if not impossible to call for help or seek emergency treatment. Resulting bone fractures can require lengthy and costly treatment and severely affect quality of life.

To address this problem, AT&T Labs has been working with industry, hospital and university partners to research methods of using wireless monitoring technology to detect – and perhaps prevent – falls. To accomplish this, research is

continuing to understand how position, acceleration and pressure measurements on areas of the foot could be used with signal processing to identify "signatures" representing either a fall or unsteadiness that could lead to one. One such example is a wireless device that can be inserted into an individual's footwear. A trial for this "smart" insole is in the planning phase, but researchers hope it will help demonstrate the potential of remote telehealth monitoring to reduce the time it takes for caregivers to react to falls – and potentially avert them before they happen.

Fostering Innovation at Leading Universities

We know that we don't have all the answers. But we believe that collaborating with some of the brightest minds in academia will get us closer. That's why, for more than 100 years, we've been teaming up with research teams from some of the world's leading universities.

We magnify our impact and inspire our teams by actively collaborating with faculty and students at universities around the country to create the new knowledge that enables innovation. AT&T's investment in the creation of new knowledge has paid dividends to our customers, shareholders and the broader global community by stimulating the development of new technologies and services that improve people's lives.

We are actively working with researchers at more than 29 top universities, including Carnegie Mellon University, Rensselaer Polytechnic Institute and Georgia Institute of Technology, on joint research ventures. Through our Virtual University Research Initiative, we fund educational expenses of students working on their Ph.D. dissertations in areas of interest to AT&T. And for more than 35 years, the AT&T Labs Fellowship Program and its precursors have supported under-represented minority and women doctoral students in key disciplines.

We know that collaboration is vital to our success. We highlight this with the annual AT&T Labs University Collaborations Symposium. Here, AT&T Labs researchers, university professors and interns gather to share current joint research projects, discuss progress and make plans for future endeavors.

We also foster innovation at leading universities by supporting environmental research. For the past 15 years, we've teamed up with universities to encourage research in industrial ecology— a multidisciplinary science that investigates how the economy and the environment can coexist. The AT&T Industrial Ecology Faculty Fellowship provides annual awards of \$25,000 to each of three academic research teams at universities across the country. These grants help faculty and students contribute to solving global and regional environmental problems and help shape environmentally and economically efficient strategies.

2008 Industrial Ecology Grant Recipients

SCHOOL	PROJECT TITLE	PROJECT DESCRIPTION
Carnegie Mellon University	"The Role of Information and Communications Technology in Carbon Risk Management"	To analyze the impact of ICT in helping other industries manage risk of CO ₂ emissions
Arizona State University	"Virtual Activity Fulfillment: Mapping Ex-Shift from Transport to ICT Infrastructure" "Multiple Functionality and Personal Digital Infrastructure Substitution Versus Complementarities"	To study how expanded ICT/Virtual reality realm is changing the way commerce is conducted, how workplaces function and how public infrastructure systems are used. To research the environmental implications associated with growth of multifunctional electronic devices, such as accumulation of e-waste, and how the telecommunications industry can help address those implications.
Green Mountain University, Clark University and Oregon State University	"Understanding Business and Environmental Value Opportunities in the Global Supply Chain of China's Information and Technology Industry"	To investigate and document how the ICT sector can achieve business and environmental value opportunities within a changing policy landscape in China.

Moving Forward: 2009 Goals

- > Conduct research that improves society's understanding of and ability to deal with environmental sustainability.
- > Add to the understanding of energy consumption implications of service and/or equipment platform alternatives.

Included on the following socially responsible investment funds: FTSE 4Good Index and ECPI Ethical Index Global

Included as a Leader in Calvert's new investment portfolio, the Calvert Global Sustainability Strategy, for strong environmental, social and governance policies

Awardee of the 2008 GreenSource

Awarded the Commissioner's Statewide Award of Distinction by the Florida Department of Education for generous support of educational initiatives and programs in Florida

Awarded South East Michigan Area 2008 Catalyst Award, an economic development award for the Calvert's region for employee hiring efforts

Awarded the Biscayne National Parks "Take Pride in America" award for AT&T Pioneers' contribution of 2,000 hours toward beautification of the Florida park

Awarded the distinction of Volunteer of the Year by Cleveland Food Bank for the many AT&T Pioneers who help sort food at the food bank

Awarded the American Red Cross President's Volunteer Service Award for sponsorship of blood drives at the Salt Spring Club, Macomb for more than 10 years to help create adequate blood supply for local hospitals

Recognized as a "Climate Action Leader" by the California Climate Action Registry

Awarded the Environmental Stewardship Recognition for voluntary and proactive measures taken to go beyond compliance in an effort to improve the environment and ensure a sustainable future by the New Jersey Department of Environmental Protection

Awarded the Energy Audit Energy Award by the Sacramento and Humboldt County Board for efforts to curtail energy usage, improve air quality and reduce the amount of energy that must be generated for the region

Awarded the 2008 Executive Award for outstanding commitment to employee health and safety by the California Department of Industrial Relations

Awarded Volunteer of the Year for a special effort in Atlanta by GreenSource

Diversity in the Workplace

Among the "Best Places to Launch a Career" by *BusinessWeek* magazine

Among the "Best Places to Work" by the Human Rights Campaign, receiving a perfect score on the Corporate Equality Index for its fair treatment of LGBT employees

Among the "100 Best Companies to Diversity" by *Black Enterprise* magazine

Among the "Diversity 100" by *Hispanic Business* magazine

Among the "50 Best Places for Latinos to Work" for 13 consecutive years and named the 2006 "Company of the Year" by *Latina Style* magazine

Among the "100 Best Companies for Diversity" by *DiversityInc.* for the company's diversity and inclusion initiatives and a member of the *DiversityInc.* Hall of Fame

Among the "Corporate Diversity Leaders" by *Urban Savage* magazine

Among *DiversityInc.*'s "Top 10 Companies for Supplier Diversity"

Ranked No. 1 for their corporate diversity as the "Top Organization for Multicultural Business Opportunities" by *DiversityMatters.com*

Among the "Top Corporations for Women's Business Enterprises" by *Women's Business Enterprise National Council*

Among the "Ten Best Corporations for Veteran-Owned Businesses" by the National Veteran-Owned Business Association

Public Market Access Hall of Fame's "Advocate Award" from the National Association of Registered Public Commissioners

A Company Founder's Award by *Minority Business USA*



For a complete historical listing of such recognitions, please visit www.ecpi.com

About This Report

Scope

The information included in this report is for AT&T's U.S. operations. At this time, our system for collecting and reporting reliable performance data and anecdotal information is still in development and does not encompass our global operations. We're exploring ways to expand the scope of our reporting and plan to include more global data in future reports.

This publication covers 2008 initiatives and accomplishments. Performance data are primarily for 2008, unless otherwise noted. We continue to work to develop metrics to more meaningfully report on our performance. Given the need to unite different data collection processes from our pre-merger companies into one, this is a challenging endeavor. But we believe this will ultimately allow us to collect information that will better demonstrate our progress for our stakeholders. Our next report will begin to include these specific metrics.

Reporting Standards and Assurance

The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines provide a framework for organizations to report on their social, environmental and economic performance. We have aligned this report with the GRI G3 Guidelines and self-declare the report to application level C. For more information about these guidelines and application levels, visit www.globalreporting.org.

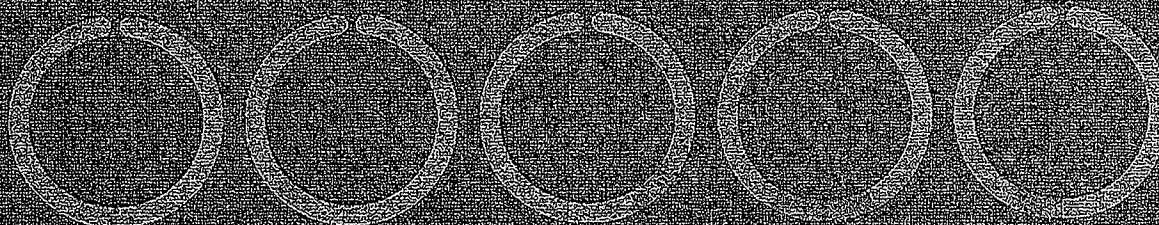
While we did not seek third-party assurance of this report, we will consider doing so for future reports. The report received extensive internal review by subject-matter experts, the Citizenship and Sustainability Steering Committee, our chief sustainability officer and our chairman. Business for Social Responsibility also provided counsel on the report content.

Stakeholder Engagement

AT&T values open and ongoing dialogue with our stakeholders. Learning about and listening to our stakeholders' concerns, issues and perspectives helps improve our citizenship and sustainability programs and reporting. In 2008, AT&T communicated with a diverse range of stakeholders, including:

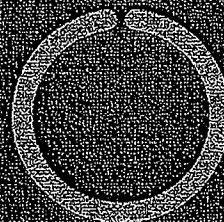
- > Nongovernmental organizations
- > Environmental groups
- > Governmental representatives
- > Industry and financial analysts
- > Customers
- > Suppliers
- > Investors
- > Media
- > Employees

In conjunction with the launch of our 2007-2008 report, October 2008, we also provided an anonymous online survey to encourage stakeholder feedback on our reporting. Key results from this survey are below.



Content	Credibility	Readability	Thoroughness	Format
<div><div></div></div> 50% Excellent	<div><div></div></div> 42% Excellent	<div><div></div></div> 58% Excellent	<div><div></div></div> 42% Excellent	<div><div></div></div> 42% Excellent
<div><div></div></div> 50% Good	<div><div></div></div> 58% Good	<div><div></div></div> 34% Good	<div><div></div></div> 42% Good	<div><div></div></div> 50% Good
		<div><div></div></div> 8% Average	<div><div></div></div> 16% Average	<div><div></div></div> 8% Average

Based on what I've read in this report, I would rate AT&T as a company committed to global citizenship and sustainability.



58% Strongly Agree
 42% Agree

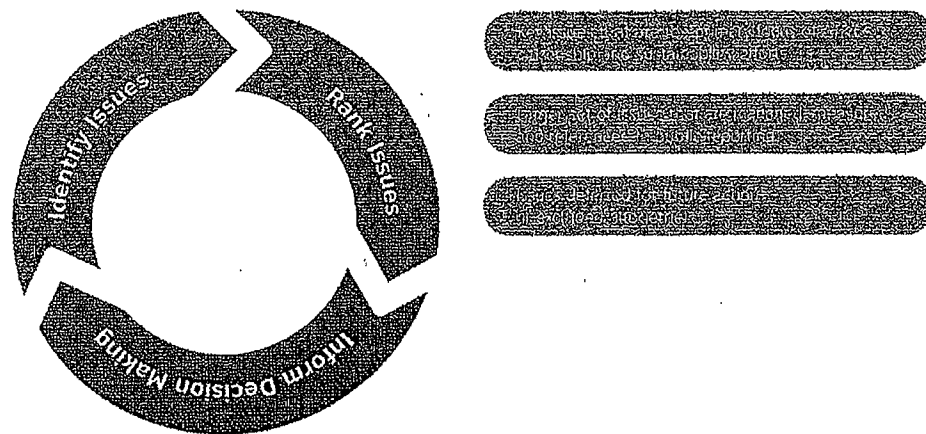
What information would you like to see in future reports?

- > Good jobs
- > You should use the Global Reporting Initiative as your framework benchmark
- > More about real estate holdings
- > Day-to-day endeavors to clean up our workplace

Based on feedback from this survey, we've aligned this report with the GRI Guidelines and included more information on our real estate holdings and daily workplace environmental efforts.

Materiality

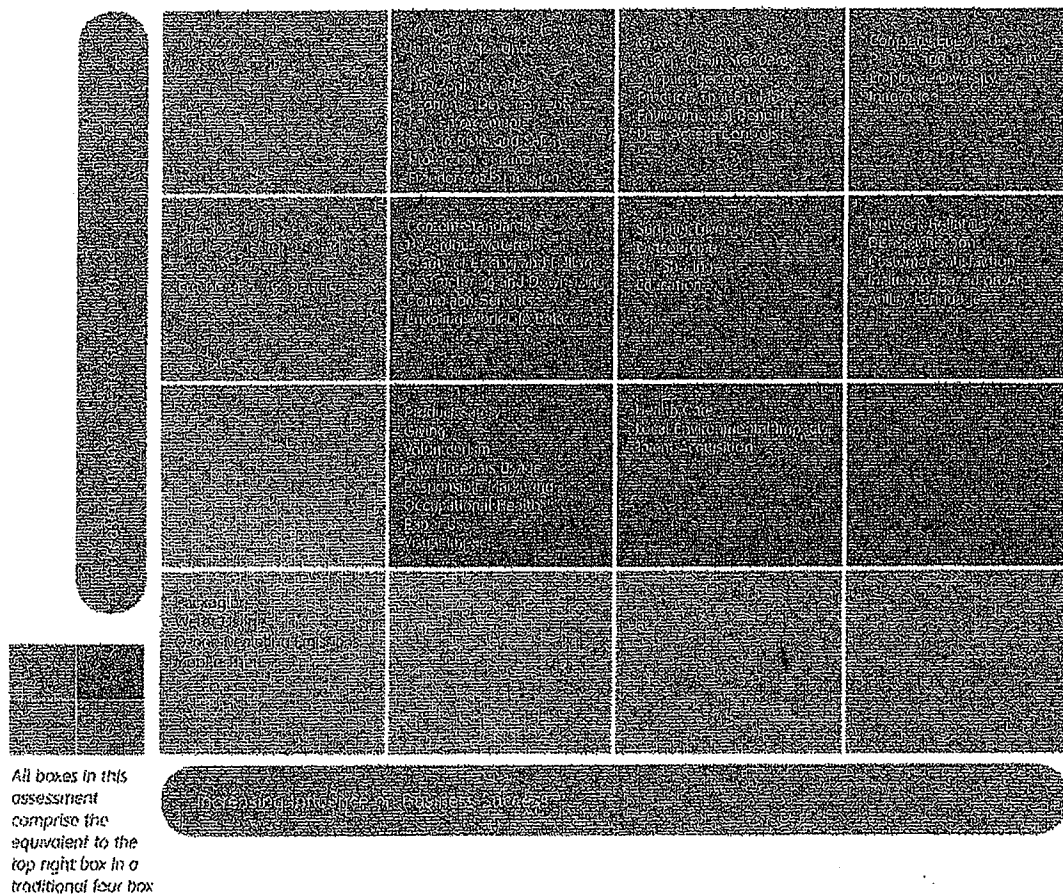
Given the myriad issues, even within our six focus areas, it is important for us to decide where we can direct our attention and resources to realize maximum benefit for our communities. As we referenced in our previous report, we embarked on a process in 2008 to identify the most material, or important, citizenship and sustainability issues to our company. Working with a nonprofit organization, Business for Social Responsibility, we undertook a materiality* analysis, which still guides our thinking.

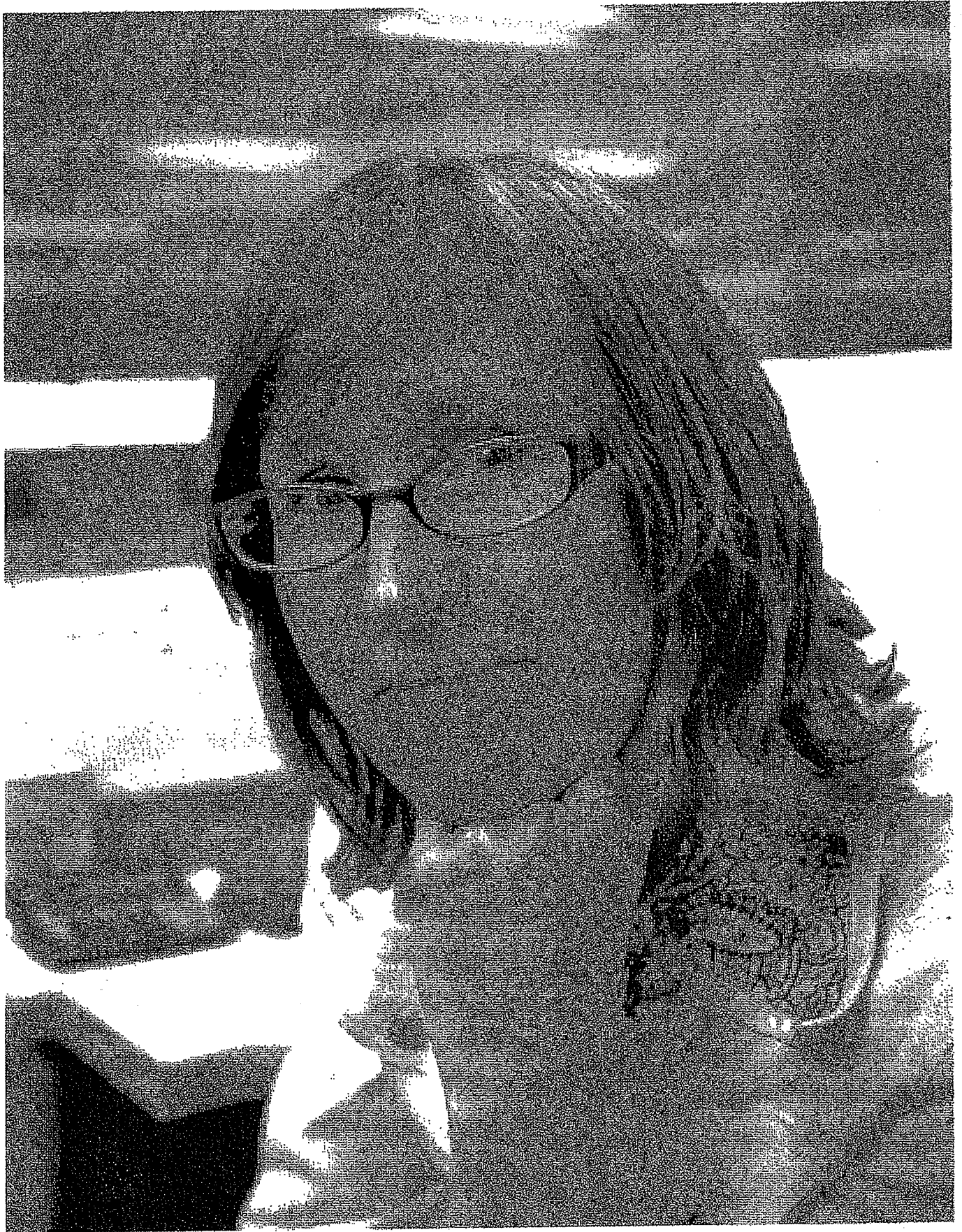


*Materiality as used in this report refers to the principle set forth in the Global Reporting Initiative (GRI) Guidelines and not to the legal concept of 'materiality' used in the Federal securities laws.

The issues that ranked as being most material through this analysis were those that received high scores on three criteria: significant impact on our company, significant concern to stakeholders and our ability to act in a meaningful way. The key material issues resulting from our materiality analysis are plotted in the matrix below. All issues charted are important; those issues in the upper right of the matrix represent the issues we've identified as the most material in importance to our business and stakeholders.

Materiality Matrix





Future Reporting

This report is an annual review of our citizenship and sustainability progress and performance. Future reports will continue to cover our progress in all six of our strategic areas of focus. We're committed to continuous improvement and increased transparency in our reporting. We are continuing our work to develop key performance metrics and goals that are most relevant to our business and stakeholders. We'll define those metrics and goals and track our progress against them as our reporting evolves.

Feedback

We're proud of the initiatives contained in this publication. But we realize that being a responsible corporate citizen is an ongoing and evolving process. In this spirit, we're constantly looking for ideas on how to continue to improve our programs and reporting. We welcome your feedback on this report through our online survey.

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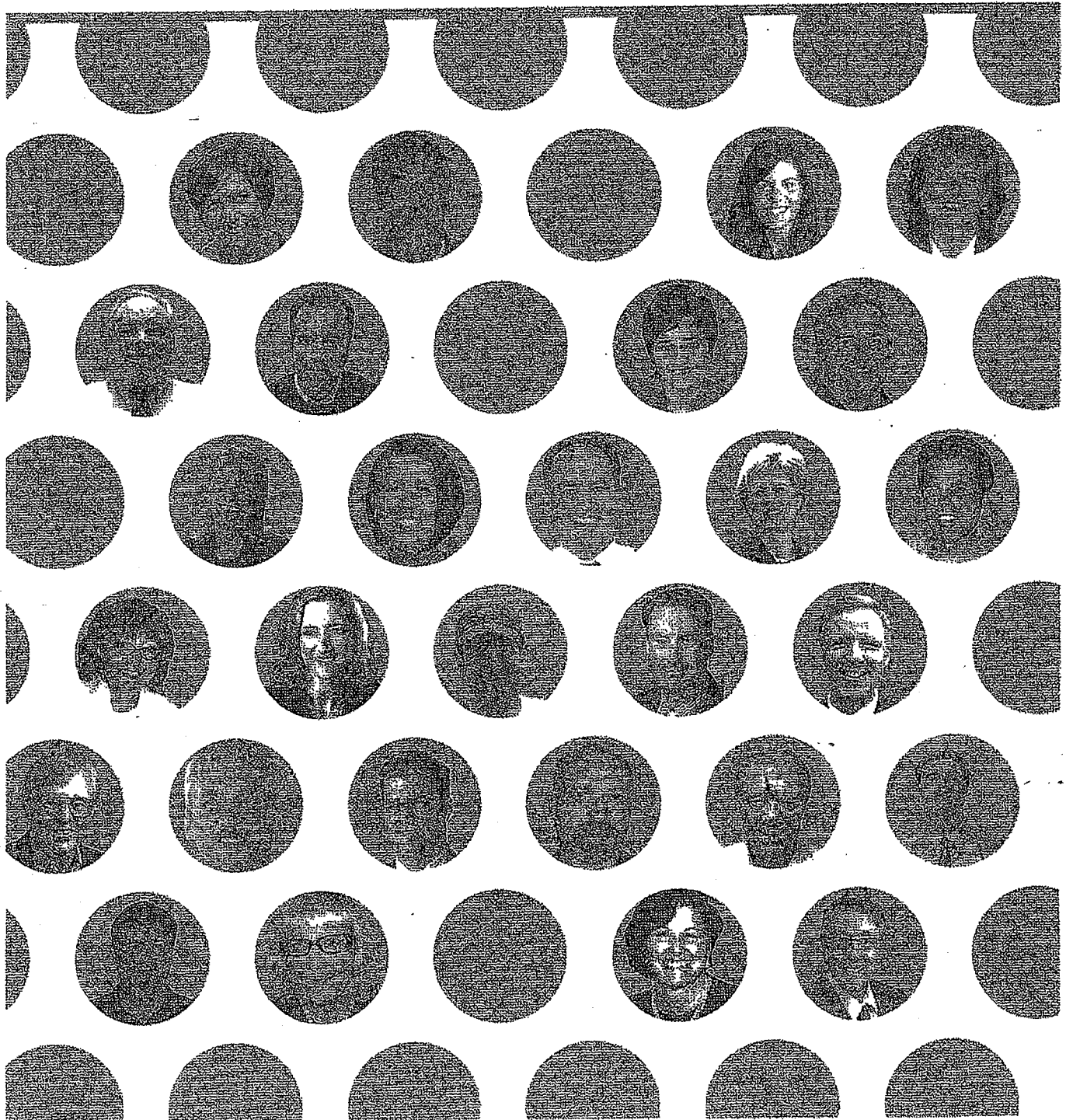
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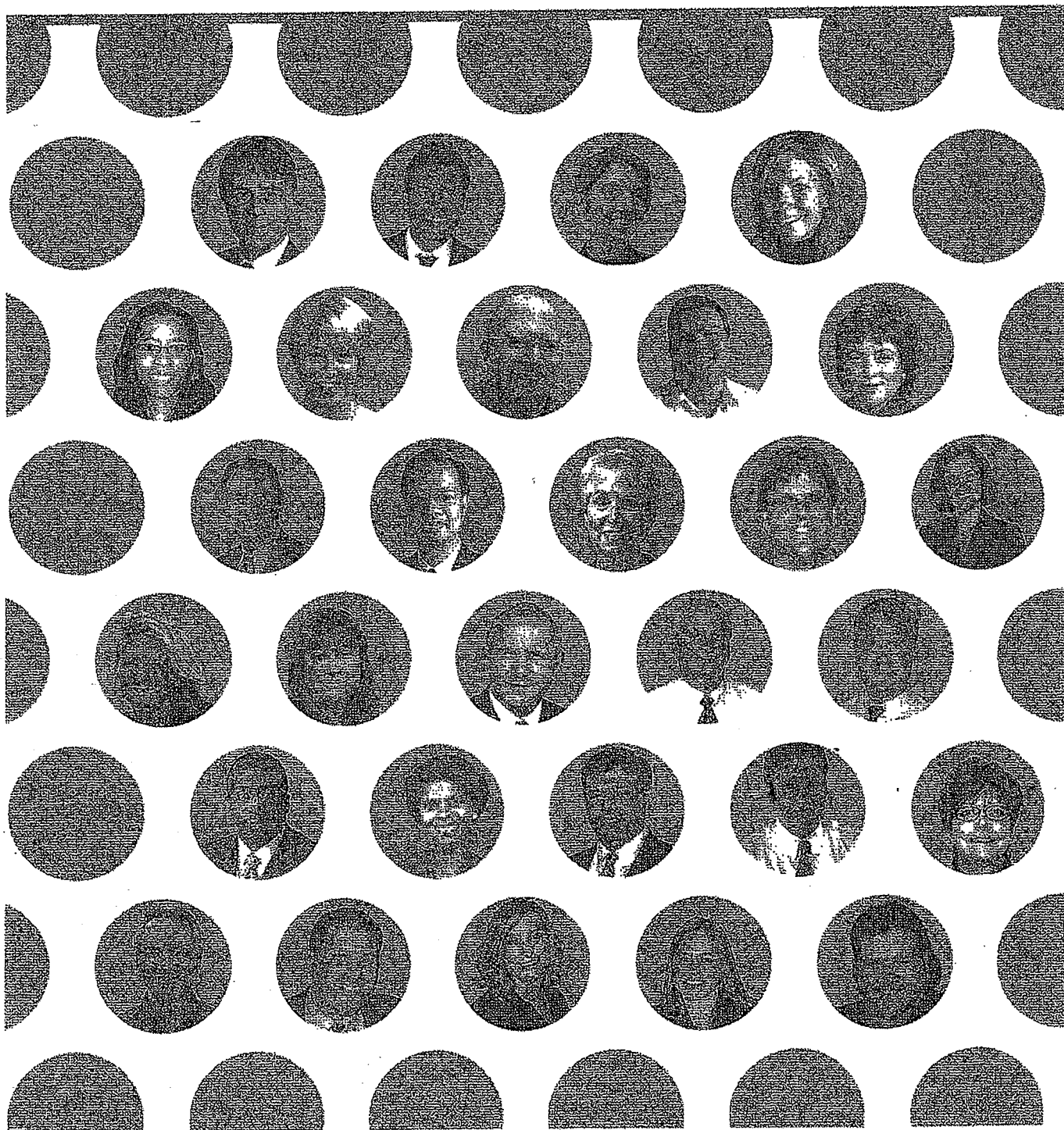
* Partially reported

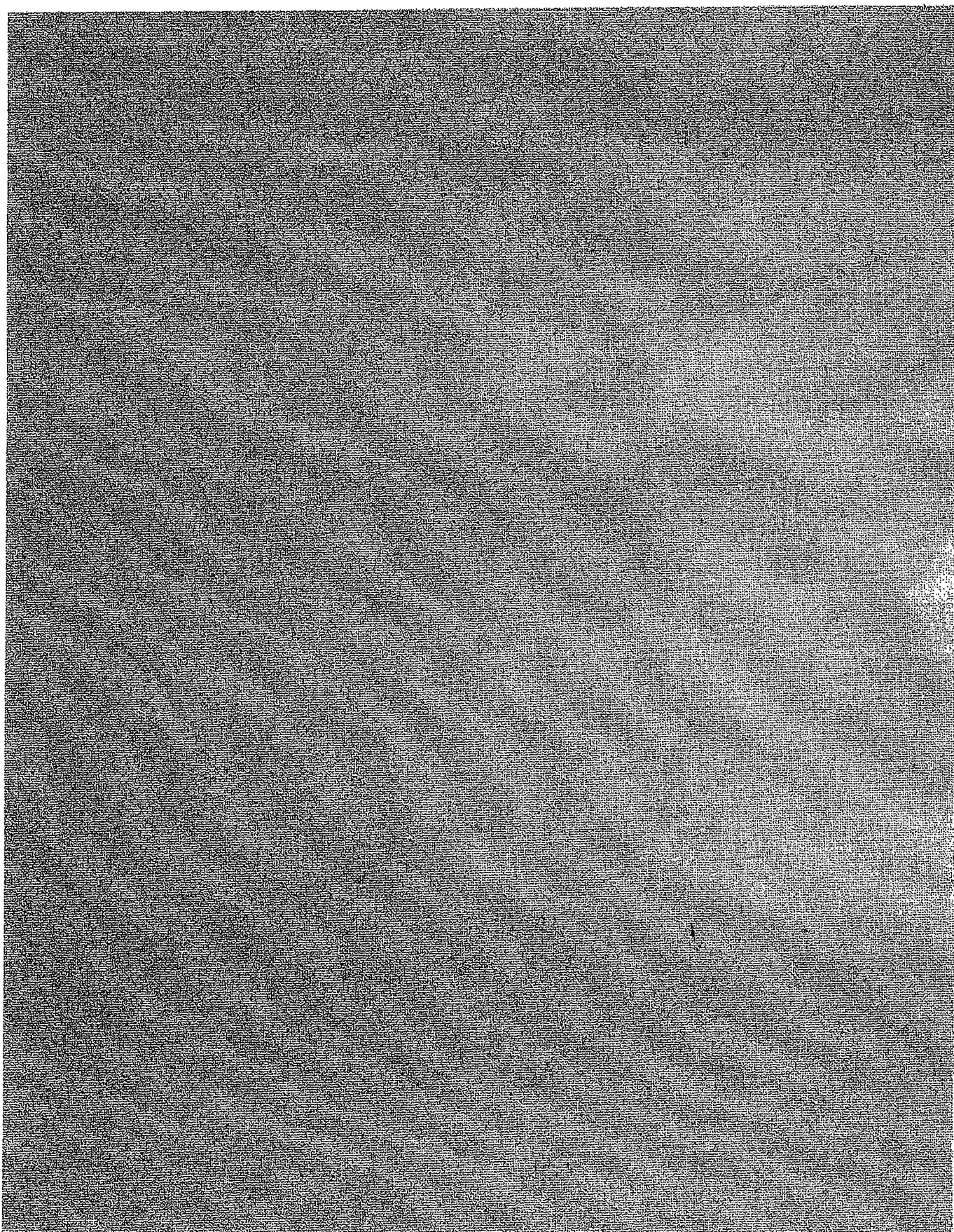
Note: Indicators not included in the table are not reported at this time.

OUR PEOPLE

Our commitment to citizenship and sustainability starts at the top of our company, including support from our board of directors, our chairman and our chief sustainability officer. But it is the nearly 300,000 employees across our global workforce who make us what we are and take us where we're going. Their tireless efforts and boundless passion to serve and deliver enable us to be part of something bigger – to tackle global challenges, to make a positive impact – whether that's delivering great customer service or reducing our environmental impact – and to grow our business. Every day, it's all made possible by our people. Our people are making the connections for our sustainable future.

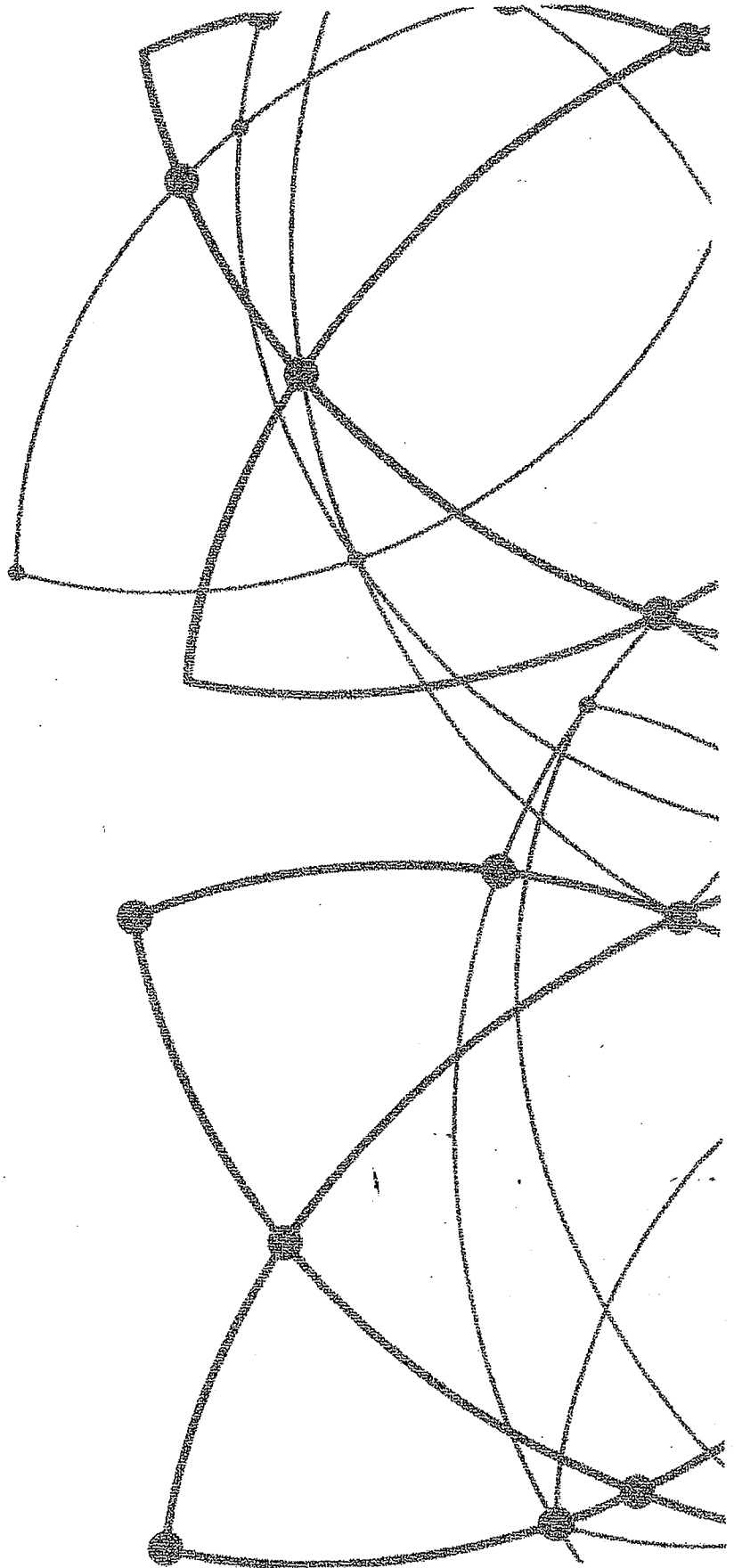






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February 8, 2010

BY ELECTRONIC MAIL (shareholderproposals@sec.gov)

Securities and Exchange Commission
Division of Corporation Finance
Office of Chief Counsel
100 F Street, N.E.
Washington, D.C. 20549

Re: Chesapeake Energy Corporation: Intention to Omit Shareholder Proposal from
CalSTRS Requesting a Sustainability Report on ESG Issues

Ladies and Gentlemen:

This letter is to inform you that Chesapeake Energy Corporation (the "Company") intends to exclude from its proxy statement and form of proxy for the Company's 2010 annual meeting of shareholders (collectively, the "2010 Proxy Materials") a shareholder proposal and statement in support thereof dated January 11, 2010 (the "Proposal") from the California State Teachers' Retirement System (the "Proponent"). The Proponent's letter setting forth the Proposal is attached hereto as Attachment A.

On behalf of the Company, we respectfully request that the Staff of the Division of Corporation Finance (the "Staff") of the Securities and Exchange Commission (the "Commission") concur with the Company's view that the Proposal may be properly excluded from the 2010 Proxy Materials for the reasons set forth below. The Company has advised us as to the factual matters set forth herein.

Pursuant to Staff Legal Bulletin No. 14D (CF), Shareholder Proposals (November 7, 2008), question C, on behalf of the Company, the undersigned hereby submits this letter and its attachments to the Commission via e-mail to shareholderproposals@sec.gov and in lieu of providing six additional copies of this letter pursuant to Rule 14a-8(j). In addition, in accordance with Rule 14a-8(j), a copy of this letter and its attachments are being emailed and mailed on this date to the Proponent, informing the Proponent of the Company's intention to exclude the Proposal from the 2010 Proxy Materials.

The Company intends to file its definitive 2010 Proxy Materials with the Commission on or about April 30, 2010. Accordingly, pursuant to Rule 14a-8(j), we submit this letter not later than 80 days before the Company intends to file its 2010 Proxy Materials.

THE PROPOSAL

The Proposal states:

RESOLVED: Shareholders request that the Board of Directors issue a sustainability report describing the company's short- and long-term responses to ESG-related issues, including greenhouse gas emissions data and plans to manage emissions. The sustainability report should also include a company-wide review of policies, practices, and metrics related to ESG issues. The report should be prepared at reasonable cost, omitting proprietary information, and made available to shareholders by November 30, 2010.

BASES FOR EXCLUSION

As discussed more fully below, we respectfully request that the Staff concur with the Company's view that the Proposal may properly be excluded from the 2010 Proxy Materials pursuant to Rule 14a-8(i)(3) and Rule 14a-8(i)(7).

I. Rule 14a-8(i)(3) – The Proposal is Impermissibly Vague and Indefinite.

The Proposal may be omitted pursuant to Rule 14a-8(i)(3) because it is impermissibly vague and indefinite.

A. Excludability Under Rule 14a-8(i)(3).

Rule 14a-8(i)(3) permits the exclusion of proposals and supporting statements that are contrary to any of the Commission's proxy rules, including Rule 14a-9, which prohibits materially false or misleading statements in proxy soliciting materials. In Staff Legal Bulletin No. 14B (CF), Shareholder Proposals (September 15, 2004), the Staff stated that a Company may seek to exclude or modify a statement if the proposal is so inherently vague or indefinite that neither the stockholders voting on the proposal, nor the company in implementing the proposal (if adopted), would be able to determine with any reasonable certainty exactly what actions or measures the proposal requires.

B. The Proposal is Inherently Vague and Indefinite.

It is the Company's belief that the Proposal is sufficiently vague and indefinite as to be misleading, and that substantial inconsistencies between the resolution and the recitals of the Proposal would cause uncertainty as to the matter being voted upon. The Proposal leaves key terms undefined and does not provide sufficient guidance to enable the Company to take the requested action without making numerous assumptions regarding the Proponent's intent.

The Proposal requests that the Company prepare a sustainability report on the Company's responses to "ESG issues," including a review of the Company's "policies, practices, and metrics" related thereto. Although the Proponent does not provide a definition for "ESG issues" in the resolution, recitals in the Proposal reference "environmental, social and governance (ESG) business practices [that make] a company more responsive to the global business environment." Reporting on such a broad subject matter would be unduly burdensome for the Company, as environmental, social and governance issues implicate virtually all of the Company's operational activities, from the manner in which the Company undertakes operations to the welfare of the communities in which the Company operates to the compensation of the Company's employees.

Unlike shareholder proposals that request sustainability reports on more narrowly-defined subjects (see, e.g., *Chevron Corporation* (March 12, 2009) (no basis for excluding as vague and indefinite a proposal requesting report on company's assessment of host country laws with respect to their adequacy to protect health, the environment and the company's reputation); *Intel Corporation* (March 13, 2009) (no basis for excluding as vague and indefinite a proposal requesting creation of comprehensive policy articulating commitment to the "Human Right to Water")), the Proposal essentially seeks a "company-wide review" of vague and indefinite aspects of the Company's operations that implicate any environmental, social or governance issues. Does the Proposal seek a review of environmental compliance generally? Would it include the Company's efforts to act as a good corporate citizen in the communities in which it operates? Does the Proponent have in mind an analysis of the economic and governance theories underlying the Company's corporate governance documents? The use and general description of the term "ESG issues" without additional context or further elaboration make the Proposal so inherently vague and indefinite as to be subject to myriad and varying interpretations by both voting shareholders and the Company.

The numerous references to climate change in the recitals of the Proposal further cloud the intended subject matter of the requested report since no language regarding climate change is in the resolution itself. Conversely, the greenhouse gas ("GHG") emissions language in the resolution is not present in the recitals of the Proposal, although there is mention of the "release, capture and use of carbon dioxide" by the Company. The inconsistencies among the various terms relating to the environment used by the Proponent and the use of certain terms in different parts of the Proposal to the exclusion of others emphasize the vagueness of the "ESG issues" that are to be included in the requested report.

In the past, the Staff has permitted the exclusion of proposals involving vague and indefinite determinations such that neither the shareholders voting on the proposal nor the company would be able to determine with reasonable certainty what measures the company would take if the proposal were approved. See *Bank of America Corp.* (February 25, 2008) (excluding a

proposal requesting a "moratorium on all financing, investment and further involvement in activities that support [mountain top removal] coal mining or the construction of new coal-burning power plants that emit carbon dioxide"); *Wendy's International, Inc.* (February 24, 2006) (excluding a proposal requesting a report on the company's progress on "accelerating development of controlled-atmosphere killing"). Additionally, when a proposal is so inherently vague and indefinite that the shareholders and the company cannot determine with specificity the action intended by the proponent, the proposal may also be misleading in that any action taken by the company in implementing the proposal may differ significantly from the action envisioned by the shareholders in approving the proposal. *Bank of America Corp.* (February 25, 2008).

In sum, the Proponent employs a variety of environmental and social policy buzzwords throughout the Proposal, but does too little to weave them together into a coherent statement or request. The Proposal is so vague and indefinite that the shareholders and the Company would be unable to determine with any certainty the intended subject matter of, and the scope of the action requested by, the Proposal.

II. Rule 14a-8(i)(7) – The Proposal Relates to the Ordinary Business Operations of the Company.

The Proposal may be omitted pursuant to Rule 14a-8(i)(7) because it relates to the Company's ordinary business operations.

A. Excludability Under Rule 14a-8(i)(7).

A proposal may be omitted under Rule 14a-8(i)(7) if it "deals with a matter relating to the company's ordinary business operations." Rule 14a-8(i)(7) is intended to exclude proposals that "involve business matters that are mundane in nature and do not involve any substantial policy or other considerations." Exchange Act Release No. 34-12999 (November 2, 1976). As the Commission has explained, the ordinary business exclusion under Rule 14a-8(i)(7) rests on two central considerations.

The first relates to the subject matter of the proposal. Certain tasks are so fundamental to management's ability to run a company on a day-to-day basis that they could not, as a practical matter, be subject to direct shareholder oversight. The second consideration relates to the degree to which the proposal seeks to "micro-manage" the company by probing too deeply into matters of a complex nature upon which shareholders, as a group, would not be in position to make an informed judgment. This consideration may come into play in a number of circumstances, such as where the proposal involves intricate detail, or seeks to impose specific timeframes or methods for implementing complex policies. Exchange Act Release No. 34-40018 (May 21, 1998).

The Staff has recently shifted its focus regarding proposals that seek to have the company engage in an internal assessment of risk. In Staff Legal Bulletin No. 14C (CF), Shareholder Proposals (June 28, 2005) ("SLB 14C"), the Staff noted that "[t]o the extent that a proposal and supporting statement focus on the company engaging in an internal assessment of the risks or liabilities that the company faces as a result of its operations that may adversely affect the environment or the public's health, we concur with the company's view that there is a basis for it to exclude the proposal under Rule 14a-8(i)(7) as relating to an evaluation of risk." In the recent Staff Legal Bulletin No. 14E (CF), Shareholder Proposals (October 27, 2009) ("SLB 14E"), the Staff stated that the focus will not be on whether the proposal calls for an assessment of risk, but rather on the "subject matter to which the risk pertains or that gives rise to the risk." In cases where the underlying subject matter involves an ordinary business matter to the company, the proposal will generally be excludable under Rule 14a-8(i)(7). However, in certain cases where a proposal's underlying subject matter "transcends" the company's ordinary business and raises significant policy issues, the proposal will not be excludable under Rule 14a-8(i)(7).

B. The Underlying Subject Matter of the Proposal Involves an Ordinary Business Matter – Evaluation of Risk.

In requesting a report of the Company's response to ESG-related issues, the Proposal requests that the Company undertake an internal assessment of risk of the type which the Staff has long viewed as a day-to-day business activity that is not properly the subject of shareholder oversight. The language used by the Proponent in the recitals of the Proposal indicates that the Proposal focuses on an evaluation of the economic and financial risks posed to the Company by ESG issues. The Proponent emphasizes business in the only defining statement regarding ESG: "environmental, social and governance (ESG) *business* practices [that make] a company more responsive to the global *business* environment" (emphasis added). Such emphasis indicates that the Proponent believes that ESG issues meriting consideration by the Company are necessarily business-related, placing them squarely within the realm of ordinary business operations. Furthermore, the Proposal seems ultimately focused on economic business decisions by its emphasis on gaining "strategic value," addressing ESG factors "strategically" and the importance of companies being "viable long-term investments." Additional language describing climate change as a "financially significant" issue and referring to the "net damage costs of climate change" over time bolster the interpretation.

The Proposal fundamentally requests that the Company undertake an internal assessment of the economic and financial risks and liabilities of the Company's ordinary business operations in the context of ESG issues. However, the Proposal does not clarify or narrow the intended meaning of ESG issues, describing them only as "environmental, social, and

governance business practices." It is the Company's belief that such a broad description encompasses substantially all of the Company's ordinary business operations. The effect of the Proposal, then, is to request that the Company undertake an assessment of the risks and liabilities associated with the operation of the Company's natural gas exploration, production, transportation and marketing businesses. While the Company constantly evaluates such risks and liabilities as part of its day-to-day business operations, the preparation of a report of the type contemplated by the Proposal would be costly and unduly burdensome. Moreover, the requested internal evaluation of the Company's ordinary business activities and associated risks is best handled by management rather than shareholders. The Commission has concurred with the exclusion of such proposals under Rule 14a-8(i)(7) in several no-action letters. *See, e.g., CONSOL Energy Inc.* (February 23, 2009) (excluding a proposal requesting a report on how the company is responding to growing pressure to reduce the social and environmental harm from carbon dioxide emissions associated with the company's operations); *General Electric Co.* (January 9, 2009) (excluding a proposal requesting the company to evaluate the costs and benefits of investing in renewable rather than nuclear energy).

The central focus of the Proposal is similar to that of a pair of shareholder proposals for which the Staff recently permitted exclusion under Rule 14a-8(i)(7). *See Foundation Coal Holding, Inc.* (March 11, 2009); *Arch Coal, Inc.* (January 17, 2008). Each proposal requested a report on the company's response to "rising regulatory and public pressure to significantly reduce the social and environmental harm associated with carbon dioxide emissions from the company's operations and the use of its primary products" that would, in effect, have required the companies to summarize their ordinary business operations of mining, processing and marketing coal. The Proposal, like the Foundation and Arch proposals, necessarily involves an internal assessment by management of risk to the Company of its day-to-day business operations, and accordingly is properly excludable under Rule 14a-8(i)(7).

C. The Proposal Seeks to Micro-Manage the Company.

To the extent that the Proposal requests that the Company compile data on greenhouse gas emissions and formulate a plan to "manage emissions," the Proposal invites shareholders to participate in a complex decision-making process that is most appropriately delegated to management. The decision of whether and how to manage GHG emissions is essentially a business decision that rests with the Company's management, and accordingly is not the proper subject of shareholder oversight. The subject of GHG emissions by the Company, and especially any policy relating to the management thereof, is a complex issue that is highly technical in nature. The Company is presently subject to myriad air pollution and related regulations at the federal, state and local levels in the areas in which it operates, and

the Company utilizes significant resources and personnel to ensure compliance with these and other environmental regulations. Although the Company is unable to predict with any certainty the requirements that future environmental regulations may impose on the Company with regard to GHG and other emissions, it is certain that management, rather than the shareholders, will be best able to evaluate, with assistance from the Company's policy and technical experts, the Company's compliance with such future laws at such time.

As with almost all industries, the Company produces GHG emissions from its day-to-day operations, primarily from the use of internal combustion engines that emit carbon dioxide and from fugitive emissions of methane. However, the entire U.S. natural gas industry, which consists of hundreds of companies providing production, processing, transmission and storage and distribution services, accounts for only 3.2% of the country's total GHG emissions.¹ As an environmentally conscious corporate citizen, the Company continuously evaluates its activities and has detailed policies, practices and procedures in place to ensure compliance with laws and regulations. Indeed, such ongoing evaluation is an integral part of the Company's day-to-day business as it endeavors to operate its facilities in a clean, safe, efficient and environmentally acceptable manner. Additionally, the Company constantly monitors the regulatory landscape for future developments that could impact the Company's operations. With respect to any future regulation of GHG emissions, the Company believes that it is well-positioned among its peers to comply with laws limiting or requiring offset of carbon dioxide emissions. Further, because natural gas is a clean-burning fuel that emits 44% less carbon dioxide than coal and 25% to 30% less carbon dioxide than oil, the Company believes that the domestic natural gas industry will be an integral part of any comprehensive plan to meaningfully reduce the country's GHG emissions.

D. The Proposal Does Not Raise Substantial Policy Issues.

The Proposal does not request that the Company evaluate or address any particular social policy issue. Instead, the Proposal requests that the Company issue a report on its responses to the ESG issues it faces, with some attention to GHG emissions. Nor does the Proposal insinuate that the production of such a report would address a significant policy issue. In fact the Proponent fails to define which "ESG issues" would merit inclusion in such a report, leaving it to the Company to select the issues for discussion. The recitals implicate climate change, but such language is absent in the text of the shareholder resolution itself. In accordance with SLB 14C, the Company seeks to exclude the Proposal as requiring that the Company engage in an "internal assessment of the risks and liabilities that the Company faces as a result of its operations that may adversely affect the environment or the public's health."

¹ Coverage of Natural Gas Emissions and Flows under a Greenhouse Gas Cap-and-Trade Program; ICF Internationals, for the Pew Center on Global Climate Change.

As noted above, the recent SLB 14E reiterated that the Staff will focus on the "subject matter to which the risk pertains or that gives rise to the risk" in determining whether the proposal's underlying subject matter "transcends" the company's ordinary business and raises significant policy issues. Rather than involving broad social and environmental policies, the Proposal merely directs the Company to undertake an extensive risk assessment and to report the findings to shareholders. The somewhat inconsistent use of terms such as "greenhouse gas emissions" and references to climate change and environmental liabilities are disjointed attempts to make the Proposal appear to involve at least one social policy issue sufficiently significant to avoid exclusion (though without conclusively indicating which one) and to mask the fact that the Proponent is actually focusing on ordinary business decisions involving risk. See *OGE Energy Corp.* (February 27, 2008) (omitting under Rule 14a-8(i)(7) proposal requesting the company issue a report setting forth its assessment of the impact of climate change on the company as relating to evaluation of risk despite veiled language). The Staff has permitted the exclusion of proposals requesting the board to issue a report disclosing the risks to the company associated with certain emissions and the benefits of committing to reduce such emissions as relating to evaluation of risk despite inclusion of social policy language. See *Xcel Energy Inc.* (April 1, 2003); *Cinergy Corp.* (February 5, 2003). As in those cases, the Proposal does not specify a single social policy issue that the Company is requested to review or address, nor does it make clear what social issues the report would remedy.

In sum, the Proposal seeks an undertaking of an internal assessment of the risks and liabilities faced by the Company in its day-to-day business operations and, as such, is fundamentally related to the Company's ordinary business operations. Accordingly, the Proposal does not rise to the level of a substantial social policy concern and may be properly excluded under Rule 14a-8(i)(7).

* * *

Securities and Exchange Commission
February 8, 2010
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CONCLUSION

Based on the foregoing, we respectfully request that the Staff concur in the Company's opinion that the Proposal may be properly excluded from its 2010 Proxy Materials. Please transmit your response by fax to the undersigned at 214-758-8321. Contact information for the Proponent and a fax number for a Company contact are provided below. Please call me at 214-758-1622 if we may be of any further assistance in this matter.

Very truly yours,



Connie S. Stamets

Enclosures

cc: **Proponent:**

Anne Sheehan
Director, Corporate Governance
California State Teachers' Retirement System Investments
100 Waterfront Place, MS-04
West Sacramento, California 95605-2807
Telephone: 916-414-7410
Fax: 916-414-7442
via email at asheehan@calstrs.com and mail

Attachment A

Shareholder Proposal from California State Teachers' Retirement System



California State Teachers'
Retirement System
Investments
100 Waterfront Place, MS-04
West Sacramento, CA 95605-2807
(916) 414-7410 Fax (916) 414-7442
asheehan@calstrs.com

January 11, 2010

Jennifer M. Grigsby,
Senior Vice President, Treasurer & Corporate Secretary
Chesapeake Energy Corporation
6100 North Western Avenue
Oklahoma City, OK 73118

Dear Jennifer M. Grigsby:

Enclosed, please find a CalSTRS shareholder proposal calling for Chesapeake Energy to prepare a sustainability report, our supporting statement, and our ownership verification letter from our custodian, State Street Bank. We are submitting this proposal to you for inclusion in the next proxy statement pursuant to Rule 14a-8 under the Securities Exchange Act of 1934.

CalSTRS is the beneficial owner of more than \$2,000 in market value of the company's stock and has held such stock continuously for over one year. Furthermore, CalSTRS intends to continue to hold the company's stock through the date of the 2010 annual meeting.

Please feel free to contact Brian Rice at (916) 414-7413 to discuss the contents of the proposal.

Sincerely,

Anne Sheehan
Director, Corporate Governance

Enclosures

cc: Aubrey K. McClendon, Chairman of the Board and Chief Executive Officer

CHESAPEAKE ENERGY SUSTAINABILITY REPORT RESOLUTION

WHEREAS:

We believe that sustainability reporting on environmental, social and governance (ESG) business practices makes a company more responsive to the global business environment, an environment with finite natural resources, evolving legislation, and increasing public expectations of corporate behavior. Reporting also helps companies better integrate and gain strategic value from existing corporate social responsibility efforts, identify gaps and opportunities, develop company-wide communications, publicize innovative practices and receive feedback.

Many companies are preparing sustainability reports which provide disclosure on how they are positioning themselves to be viable long-term investments. According to a 2008 KPMG report on sustainability reporting, of the 250 Global Fortune companies, 79% produce reports compared to 52% in 2005. Of the 100 top U.S. companies by revenue, 73% produce reports compared to 32% in 2005. Increasingly, companies are identifying ESG factors relevant to their business and addressing them strategically through sustainability programs and reports.

Transparency on climate change is particularly crucial as it is one of the most financially significant environmental issues currently facing investors. The Intergovernmental Panel on Climate Change's 2007 report observed that, "taken as a whole, the range of published evidence indicates that the net damage costs of climate change are likely to be significant and increase over time."

The Carbon Disclosure Project (CDP), representing 475 institutional investors globally with \$55 trillion in assets, annually requests disclosure from companies on their climate change management programs. Companies are increasingly providing this climate change disclosure. The response rate to the 2009 CDP for the S&P 500 was 66%, compared to a response rate of 47% to the 2006 survey.

Chesapeake Energy has not prepared a sustainability report and did not respond to the questions presented in the 2009 CDP survey, instead providing limited information on the company's climate change management efforts.

According to Chesapeake Energy's 2009 annual report, the company acknowledges that natural gas and oil drilling and producing operations can be hazardous and may expose the Company to environmental liabilities. The 2009 annual report also states that climate-related legislation and other regulatory initiatives may result in compliance obligations with respect to the release, capture and use of carbon dioxide that could have an adverse effect on Company operations.

In a recent Newsweek analysis assessing the environmental performance of companies, Chesapeake Energy ranked 402 out of 500 companies that were considered and ranked 27 out of 31 oil and gas companies that were considered.

RESOLVED

Shareholders request that the Board of Directors issue a sustainability report describing the company's short- and long-term responses to ESG-related issues, including greenhouse gas emissions data and plans to manage emissions. The sustainability report should also include a company-wide review of policies, practices, and metrics related to ESG issues. The report should be prepared at reasonable cost, omitting proprietary information, and made available to shareholders by November 30, 2010.