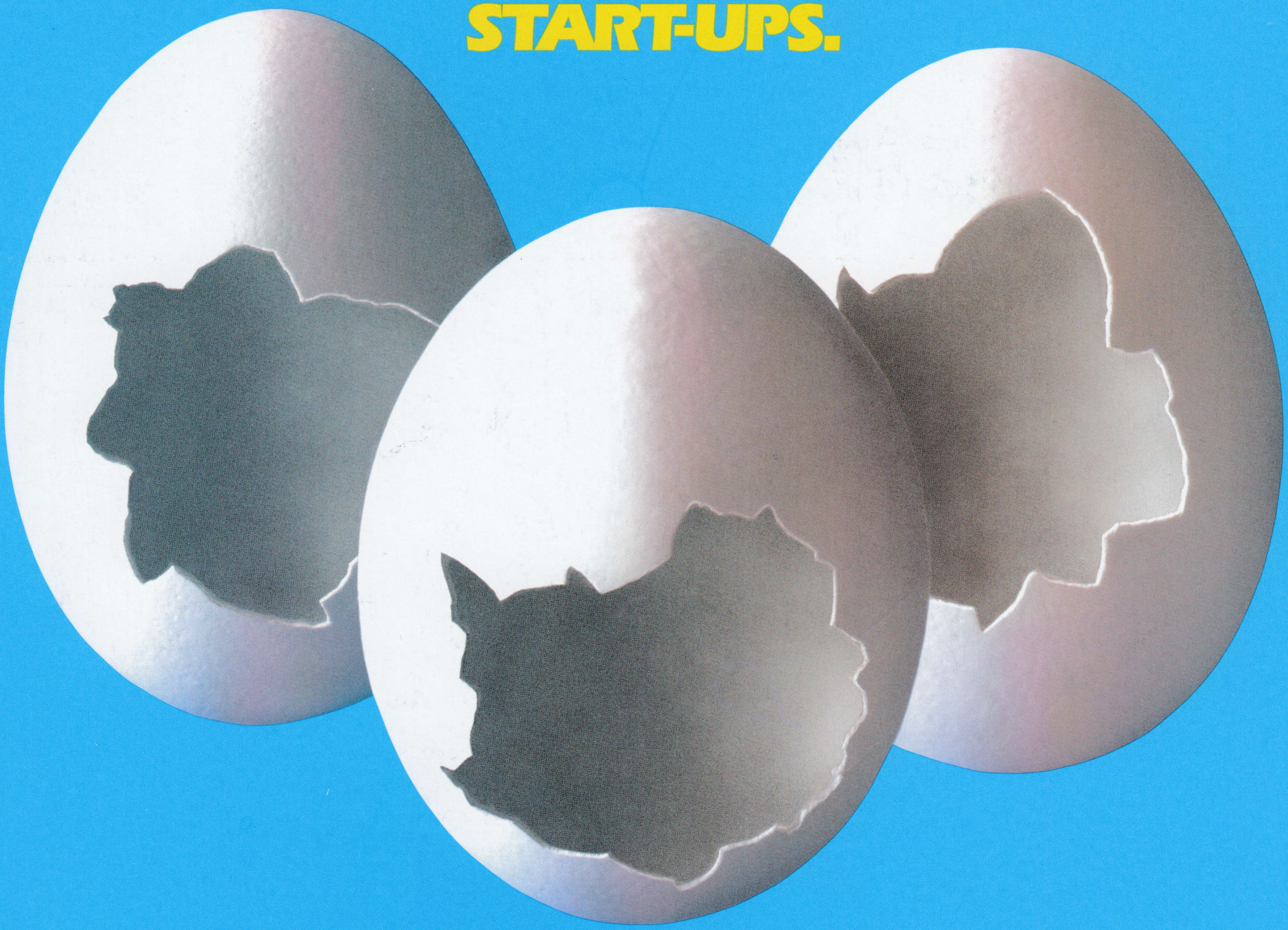
AT&T

1995 ANNUAL REPORT

# WE'RE HATCHING THREE UNUSUAL START-UPS.




THEY'RE GLOBAL.
THEY'RE FOCUSED.
THEY'RE HUNGRY.

We are dedicated to being the world's best at bringing people together – giving them easy access to each other and to the information and services they want and need – anytime, anywhere.

The current integrated AT&T provides communications services and products, as well as network equipment and computer systems, to businesses, consumers, communications services providers and government agencies. Our Worldwide Intelligent Network carries more than 200 million voice, data, video and facsimile messages every business day. AT&T Bell Laboratories engages in basic research as well as product and service development. AT&T also offers a general-purpose credit card and financial and leasing services. We do business in some 200 countries.

## 1995 Financial Highlights

**REVENUES WERE AT RECORD LEVELS FOR 1995.**

**RESTRUCTURING AND OTHER CHARGES REDUCED NET INCOME BY $5 BILLION.**

**WE MADE STRATEGIC INVESTMENTS IN OUR FUTURE.**

| DOLLARS IN MILLIONS ( EXCEPT PER SHARE AMOUNTS ) | 1995 | 1994 | PERCENT CHANGE |
|---|---|---|---|
| **REVENUES** | | | |
| Telecommunications services | **$ 47,277** | $ 44,600 | 6.0 % |
| Products and systems | **22,412** | 21,161 | 5.9 |
| Rentals and other services | **6,189** | 6,216 | (0.4) |
| Financial services and leasing | **3,731** | 3,117 | 19.7 |
| Total revenues | **$ 79,609** | $ 75,094 | 6.0 % |
| **INCOME** | | | |
| Operating income | **$ 1,215** | $ 7,949 | (84.7)% |
| Net income | **139** | 4,710 | (97.1) |
| **PER COMMON SHARE** | | | |
| Net income | **$ .09** | $ 3.01 | (97.0)% |
| Dividends declared | **1.32** | 1.32 | - |
| Stock price at end of year | **64.75** | 50.25 | 28.9 |
| **OTHER INFORMATION** | | | |
| Cash provided by operations | **$ 9,690** | $ 9,046 | 7.1 % |
| Cash used for investing activities | **11,953** | 9,845 | 21.4 |
| Total assets at year-end | **88,884** | 79,262 | 12.1 |
| Total employees at year-end | **299,300** | 304,500 | (1.7) |

## Contents

# AT&T will separate into three stand-alone companies

**each focused on a major segment of the growing global information industry. This restructuring is designed to make our businesses more responsive to customers and more agile competitors in their markets.**

### THE NEW AT&T

Consumer services

Business services

Wireless services

On-line services

International services

AT&T Laboratories

### LUCENT TECHNOLOGIES

Network systems

Microelectronics

Business communications systems

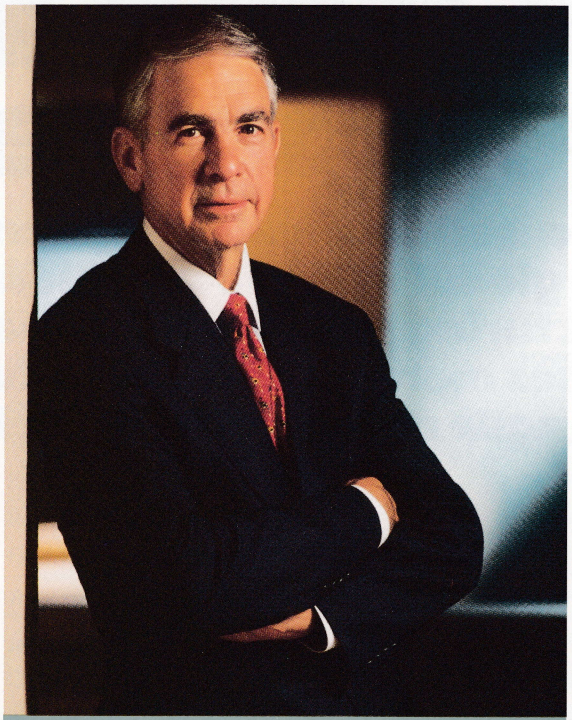
Consumer products

Bell Laboratories

### NCR

Computer systems and services

# It's a new world.



"Plans in themselves don't create value. Action does. So we're moving quickly to put our restructuring plan into effect."

ROBERT E. ALLEN, CHAIRMAN

It was a year of record sales. It was also a year when we took $5 billion in charges against earnings to prepare ourselves for the future.

It was a year that saw AT&T reap the benefits of the McCaw merger with a 39 percent increase in cellular customers and acquisition of key personal communications services licenses.

It was a year that saw us make the first forays into the $90 billion U.S. local services market and a year when we entered previously closed domestic service markets in the United Kingdom and India.

It was a year when we continued to globalize the business through communications infrastructure sales in China, the Philippines, Saudi Arabia and other countries.

It was a year when we opened a vital new dimension of our business by launching a series of Internet-based services.

But more than anything else, 1995 will be remembered for an announcement we made early on the morning of September 20.

That was the day we announced plans to separate AT&T into three independent, publicly held corporations.

The new AT&T will be focused on our core strength of communications services. The second company, Lucent Technologies, will offer communications systems and technology, and the third, NCR, will offer computer systems and services. We also announced our intent to sell AT&T Capital Corp., our financing and leasing arm.

Our decision to go this route reflects our determination to shape and lead the dramatic changes that have already begun in the worldwide market for communications and information services – a market that promises to double in size before we ring in the new century. It was, as well, a determination to act while our position is strong.

We operate in a global information industry grown used to a diet of constant change, where multibillion-dollar deals between once unthinkable partners have become almost commonplace. But on September 20, even the most knowledgeable business journalists and financial analysts allowed themselves a moment of stunned surprise.

**1995 will be remembered for an announcement we made September 20.**

Then they got down to looking at the details of what we were doing and why.

# We're reinventing AT&T... again.

By the close of that business day the financial markets had delivered an initial endorsement. AT&T's stock price jumped from $57-5/8 to $63-3/4. In other words, the stock market value of your company increased by $10 billion in one day. Thanks to a strong stock market and our initiative, our stock price closed at $64-3/4 as the year ended.

This investor reaction reflects confidence in the strategic thinking behind this restructuring. Three independent corporations will be able to go after the exploding opportunities of the industry faster than they could as parts of a much larger corporation.

The three new companies we'll launch at the end of the year will be free to pursue the best interests of their customers without bumping into each other in the marketplace. They are designed to be fast and focused, with a capital structure suited to their individual industries.

But let me reassure you, neither your board of directors nor I has lost sight of the fact that Wall Street's enthusiasm is for a plan. And plans in themselves don't create value. Action does. So we're moving quickly to put our restructuring plan into effect. Our actions are motivated by the creation of long-term value, not short-term surges in value.

We intend to do all of this in only 15 months. I am immensely proud of the job AT&T people are doing in keeping to a rigorous schedule as they move this complex process along. They understand that the changes we're making must be transparent to our customers. We cannot and will not in any way let up on our customer commitments or financial targets.

**The value of your company increased by $10 billion in one day.**

But our speed in moving ahead reflects the realities of a fast-changing world that won't wait for any company to catch up. Our decision to restructure was driven by seismic shifts in customer needs, technology and public policy.

Make no mistake about it, these are fundamental changes. They offer unprecedented new opportunities for us, but they also carry the threat of washing away any company that chooses to cling to the status quo and ignore the power of these changing conditions.

Technology is rapidly driving down the cost of basic communications and opening the door for widespread use of advanced information services, increasingly making use of the Internet. It's driving the need for new global alliances as well, putting us in direct competition with companies we barely knew about 10 years ago.

**The new companies will be free to pursue the best interests of their customers.**

Changes in public policy are beginning to open up monopoly telecommunications markets to competition, in the United States and many other parts of the world.

The cause of competition turned a major corner in February 1996 when the U.S. Congress passed its long-awaited telecommunications reform bill. This ends the local telephone companies' legally protected monopolies in local service and frees AT&T to enter the enormous, untapped local exchange markets. Conversely, Bell companies will be able to offer long distance service in their home territories when – and only when – their local monopolies are open to genuine competition. We'll be working closely with national and state regulatory agencies as they set rules for implementing the new law.

By prying open the local monopolies, this public policy change creates a competitive market for end-to-end services. Customers can choose winners and losers based on who offers the best services and prices. In that kind of arena, we're confident of our success.

Customers, large and small, will increasingly expect communications companies to provide combinations of services tailored to their individual needs at competitive prices. Those services will range from familiar long distance and local service to wireless communications, advanced information services and electronic commerce. We're preparing to be the leader in making this happen.

Each of the new companies we're creating will start life with the size and market presence to be a leader in this swirling information marketplace.

# We've journeyed from the pioneering days of telephony...

The new AT&T communications services company represents a business with annual sales of about $51 billion. It will include all of our services businesses and be the world market leader on its first day in business.

Lucent Technologies, the new systems and technology company, includes Network Systems, Bell Labs and most of our equipment business.

It expects to have $21 billion a year in sales to start. Details on the systems and technology company are contained in a registration statement filed February 5, 1996 with respect to the planned initial public offering of shares in that company.

The new computer company will be a trimmed down version of our current computer business. We've just changed the name back to NCR to capitalize on the global customer recognition that name holds. NCR can use that recognition to its advantage after the spin-off is complete.

Like many others in the computer industry, NCR has had some hard sledding over the past few years and I'm disappointed that we haven't been able to make this merger work. But this business, with $8 billion a year in sales, has an ambitious turnaround plan in place. It's our intention to spin this company off to our shareowners at the end of this year after taking appropriate steps to move NCR into a position of profitability.

We also plan to sell off our remaining interest in AT&T Capital Corporation. That company today is the largest publicly owned equipment leasing and financing company in the U.S. and is building a worldwide presence. We plan to continue to use AT&T Capital as a preferred supplier, as do the other new companies, but we'll use the proceeds from the sale to retire debt and otherwise invest in all three companies.

You'll find profiles of each of the three new companies inside this annual report. I encourage you to take time to read them.

**Each will start life with the size and market presence to be a leader.**

These companies will differ. But they will share a common heritage. Each company inherits a legacy of values from the AT&T we've all known over the years. Those values include a deep commitment to customers and dedication to quality principles.

We have always been committed to supporting our communities, as well. For example, we announced we would spend $150 million over the next five years to help America's schools make better use of information technology. The AT&T Learning Network will offer Internet access to every elementary and secondary school in America along with other forms of communications technology. We will also offer teachers technology mentors and support so they can use this technology effectively in teaching children.

**The men and women of AT&T have made us the team to beat.**

Perhaps most important, the three new companies share a history of looking to the values of Our Common Bond as a guide to doing business. One of those values is Respect for Individuals. We are making an intense effort to live that value now as we go through the difficult process of reducing our skilled and capable work force by about 40,000 jobs, or about 13 percent.

Every one of our businesses looked long and hard at staffing needs for the new companies. The employment levels we decided on represent the number of people needed to win in an increasingly competitive, cost-sensitive set of businesses.

Good and talented people will be leaving us because they are not a match for our future needs and size. That can't be helped. But we are making sure that these people are treated with respect and dignity. They will also have a package of financial benefits and support services to help them into new careers.

Major change always comes with some degree of sacrifice, and AT&T has been no stranger to major change over the last 15 years. Most of that change has been overwhelmingly positive.

The restructuring we're doing now has to be seen in the context of a continuing journey for AT&T that's brought us from the pioneering days of telephony into a new world of information technology. You don't make a journey of this magnitude without hitting some bumps along the way. And you certainly don't do it without making major changes.

In the 10-plus years since divestiture, we've converted from a predominantly analog to an all-digital network primed to capitalize on the

# ...into a new world of information technology.

emerging market for advanced services. We've taken a business that was exclusively domestic and made major strides in becoming a truly global corporation.

The men and women of AT&T have embraced the lessons of competition and made us the team to beat in some of the world's most competitive markets. As the trend towards competition opens up in new areas of the global telecommunications market, AT&T people around the world are ready to move in with enthusiasm and confidence.

We know there are no more important skills for us than continuously learning and rapidly adapting in this vibrant industry. In closing, I think it's worth pointing out that investors in AT&T have done well by our decade-plus of major changes since divestiture.

When you add in dividends and stock price increases, since January 1984 the value of your investment in AT&T has grown 19 percent annually on an average compounded basis. Not bad, but we're anxious to prove what we can do in the future.

As we prepare to launch the new AT&T, the past, to borrow a phrase, is prologue. Despite the pride we take in where we've been, our excitement comes from where we're going.

Robert E. Allen
Chairman
February 11, 1996

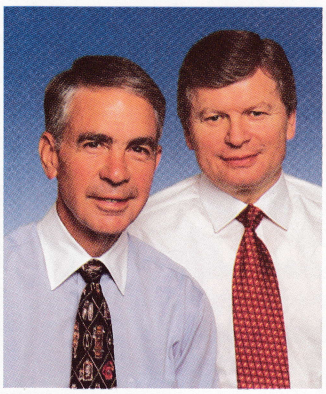
## What to expect as an AT&T shareowner

■ As each of the new companies is spun off from AT&T you'll receive shares in that company. The companies are likely to be spun off at different points late in 1996. The number of shares you'll receive for each AT&T share you own has not yet been determined. Your current AT&T shares will then represent shares in the "new AT&T."

■ After the companies separate, future dividends will be declared by each company's board of directors. No one can predict their actions or commit them to a dividend policy. However, we understand your expectations as a shareowner and the importance of the dividend to you.

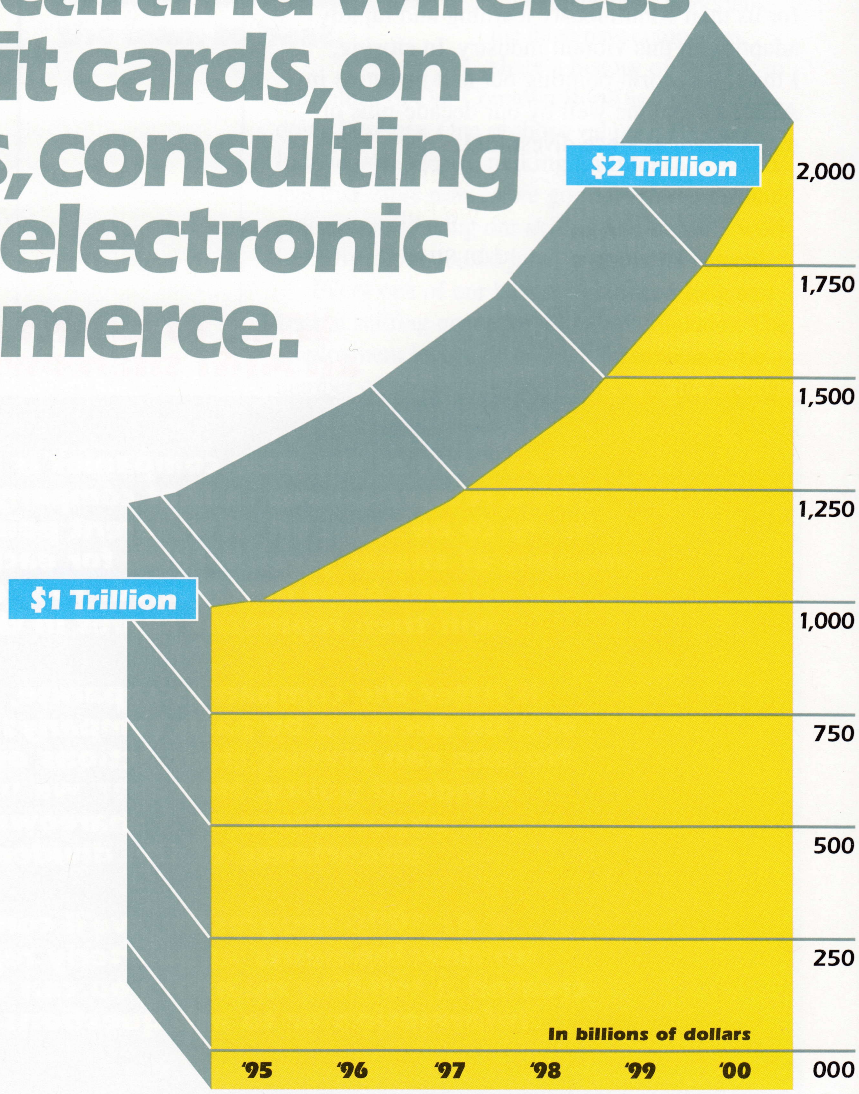
■ As 1996 progresses, we'll continue to report on developments in quarterly reports. We've also created a toll-free number you can call to hear updated information or to ask questions: 800 756-8500.

# Our future is a long distance from long distance. We're moving to a full menu of communications and information services including local and wireless calling, credit cards, on-line services, consulting and electronic commerce.



**BOB ALLEN,**
**CHAIRMAN AND**
**CHIEF EXECUTIVE OFFICER**
**(LEFT)**

**ALEX MANDL,**
**PRESIDENT AND**
**CHIEF OPERATING OFFICER**




**Growth of the global communications and information services market: Estimated at $1 trillion in 1995, growing to $2 trillion by the year 2000.**

**1995**
**THE NEW AT&T***

| | |
|---|---|
| Revenues | $51 billion |
| Assets | $56 billion |
| Employees | 127,000 |

*Revenues, assets and employees represent those the company would have shown at year-end had it existed as a separate company (see the Financial Review section for more details). The number of employees listed does not reflect the total impact of previously announced work force reductions.*

## KEY ASSETS

### The world's most sophisticated network.

We continue to set – and quickly break – records for the number of calls handled by our network, and we complete those calls with better sound quality than anyone else. Our network is getting more useful to customers every day as we build in features like Internet access, dial-up videoconferencing and business collaboration tools.

### A widely recognized and trusted brand.

AT&T tops *Advertising Age's* most recent list of the Top 200 Brands in the U.S. and leads the list of the 20 best companies identified by U.S. consumers in a recent Harris Poll. Recognition outside the U.S. is climbing steadily as we expand our presence.

### A base of more than 90 million customers.

As we expand into new services like cellular and paging, electronic commerce and information access, we have the customer relationships, marketing channels and customer service capabilities to grow revenues cost-effectively.

## A SAMPLE OF OUR SERVICES

### FOR CONSUMERS

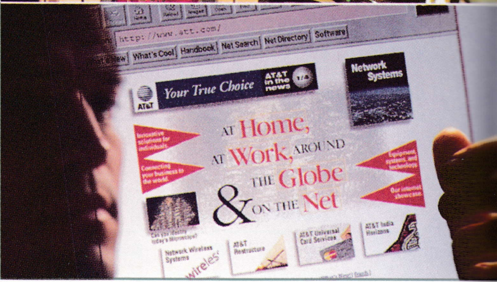
1 800 CALL ATT®
AT&T True Reach℠ International savings
AT&T True Reach℠ Savings on U.S. calling
AT&T Universal Card
Language Line® interpretation
Telecommunications Relay Service for the Deaf
True Choice® calling card
True Connections℠ 500 service
True Messages℠ voice messaging
True Ties® personal 800 service
USADirect® Service for calling back to the U.S.
World Connect® Service for travelers

### FOR BUSINESSES

ACCUNET® private line digital services
AT&T Network Notes℠ applications hosting
AT&T WorldNet℠ Internet access services
AT&T WorldSource℠ global voice and data services
EasyLink Services® family of messaging services
InterSpan® data services
Megacom® services for large volumes of incoming and outgoing calls
MultiQuest® 900 Services
NetWare Connect Service℠ for connecting local area networks
Small Business Advantage volume calling plan
TeleConferencing Service
WorldWorx℠ voice, video and data teleconferencing

AT&T

The units described in this section will retain the AT&T brand after the restructuring is completed.

| Business | Markets | |
|---|---|---|
| **Consumer services** | Provides interstate and intrastate long distance calling, voice-messaging and language translation services to 80 million U.S. consumers. The AT&T Universal Card, a combination credit and calling card, serves 22 million members. |  |
| **Business services** | Offers interstate and intrastate long distance, data services and global messaging services to small and large businesses in the U.S. AT&T Solutions unit provides consulting, systems integration and outsourcing services, targeting a $50 billion market that's growing at double-digit rates annually. |  |
| **Wireless services** | AT&T Wireless Services, formerly McCaw Cellular Communications, offers wireless telecommunications service in more than 100 cities. The unit also provides advanced messaging and wireless data services. It is expanding rapidly both in the U.S. and around the world. |  |
| **On-line services** | According to many analysts, the Internet already connects 30 million users worldwide and their ranks are increasing 10 percent a month. Selling the tools to give consumers and businesses easy access to the information, entertainment and electronic commerce opportunities it offers is expected to spawn a $13 billion industry by the year 2000. |  |
| **International services** | Offers international long distance to and from the U.S. and global communications services to travelers and multinational companies outside the U.S. Has a local presence in key markets around the world to capitalize on opportunities to provide communications services in countries that are opening their local markets to competition. |  |
| **AT&T Laboratories** | AT&T Laboratories is being formed from the portion of Bell Laboratories that performs research and development supporting communications services and brings with it a heritage of innovation. Its staff of 1,200 will focus on network-based technologies to meet current and evolving customer needs for new services. |   |

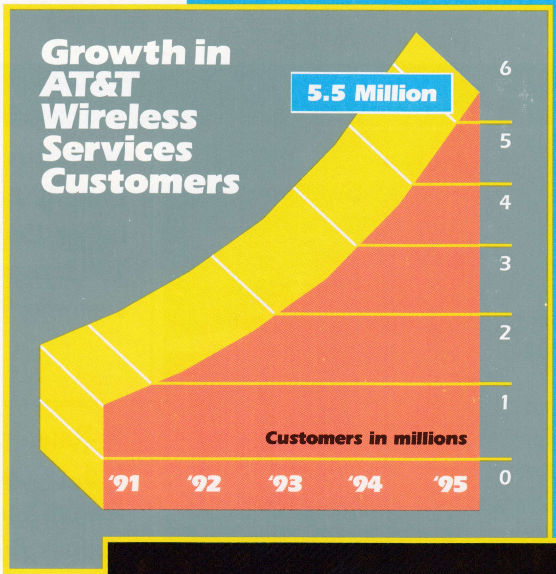
| | Competitive strengths |
|---|---|
| **Thanks to a patented Real Time Network Routing system, the AT&T network can automatically route calls around high-traffic areas or cable cuts, using any one of 134 possible routes.** | ■ Greater long distance market share than all other competitors. Long distance and credit card units won America's highest quality honor, the Malcolm Baldrige National Quality Award, in 1994 and 1992, respectively. Our highly skilled people handle four million customer interactions every day. |
| **Many of our sales representatives operate from "virtual offices" so they can serve customers anytime, anywhere.** | ■ Rated #1 in eight of 10 service categories in 1995 CIT Research Ltd. study of 1,000 communications managers. Rated #1 in leased-line and packet-switching categories in *Data Communications International* survey of 4,500 readers worldwide. |
| **Customers are calling for more wireless communications. More than 1.5 million new customers signed up for cellular and paging services from our wireless unit in 1995.** | ■ Doubled its wireless service area to more than 200 million potential customers in 1995 with acquisition of 21 personal communications services (PCS) licenses in U.S. Federal Communications Commission auction. Now covers 23 of the top 25 U.S. markets. |
| **Through the AT&T Learning Network®, we've pledged $150 million over the next five years to give U.S. schools access to the Internet and other services.** | ■ We developed much of the technology that makes the Internet possible and we're well positioned to bring its benefits to our 90 million customers. In 1995 we introduced services that offer information and entertainment content and easy dial-up and navigational tools. We can also help businesses set up electronic storefronts on the Internet. |
| **AT&T USADirect® Service gives travelers and local residents in 25 countries the ability to reach an AT&T operator who speaks their language.** | ■ International calling agreements with 200 telecommunications companies worldwide. Ability to give travelers access to AT&T's network and billing in some 100 countries. In 1995 obtained a license to offer international services to business customers in the United Kingdom. |
| **AT&T researchers have developed a system enabling people to browse the Internet's World Wide Web using spoken commands.** | ■ Focuses on basic research as well as on the application of technology to customer and business needs. Expertise spans a wide range of technologies including mathematics, computer science, software development, network analysis and design, and systems technologies that support existing and emerging services. |

## GROWTH OPPORTUNITIES

### The wireless services market is growing steadily and we rank first in market share.

The global market for wireless services is about $40 billion today and is expected to reach $125 billion over the next decade. People want to call people, not places. They want access to the information superhighway in the palms of their hands. Our acquisition this year of 21 licenses to offer personal communications services (PCS) – wireless services at yet another radio frequency – extends our potential reach to more than 80 percent of the U.S. population.

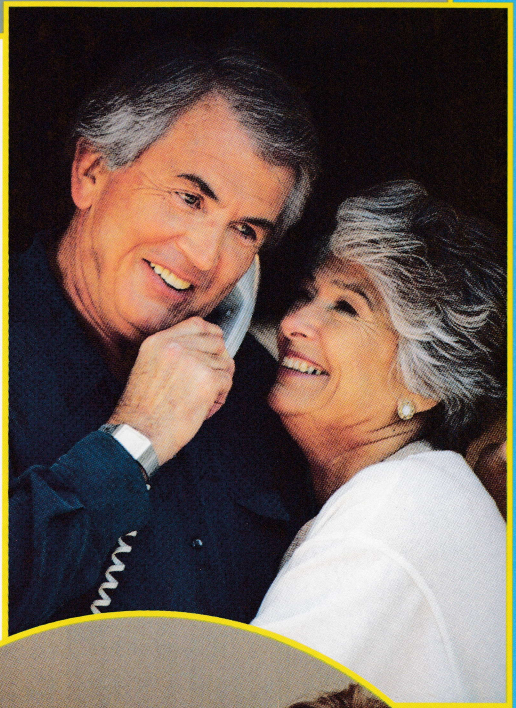
**In 1995 we began marketing the wireless capabilities we acquired from McCaw Cellular Communications under the name AT&T Wireless Services.**




### The local telephone market represents a $90 billion growth opportunity.

Before long, customers throughout the U.S. will be able to choose a company to handle their local calls just as they now select one to complete their long distance calls. Our experience during the last two years in newly opened markets for local toll calls indicates that customers welcome competition. By the end of 1995, we had captured 15 percent of the business market for such calls.

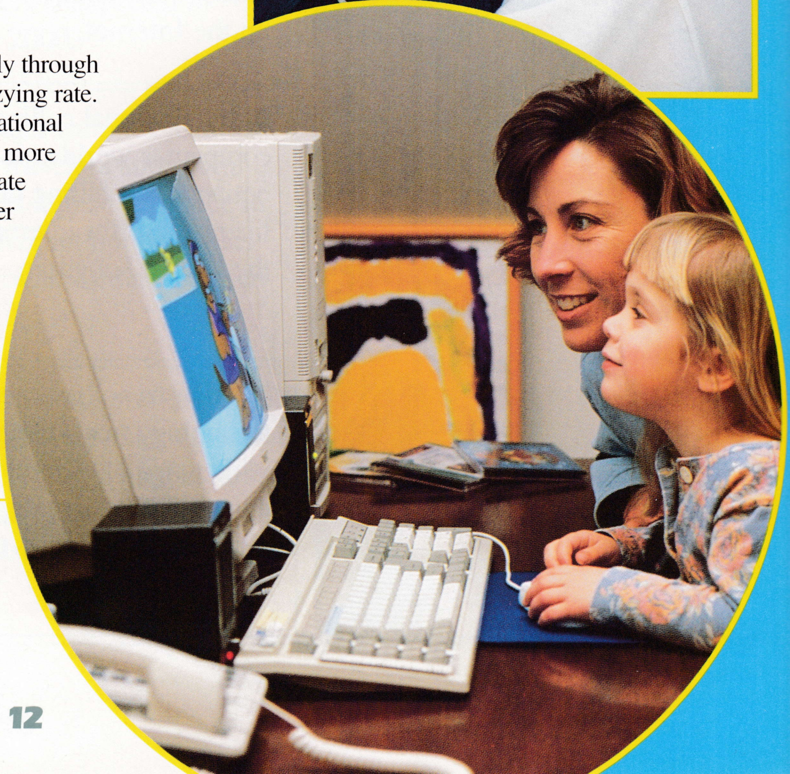
**In 1995 we announced our intent to offer local service, contingent upon the course of legislation and the economics of individual markets. We will offer local services either by reselling network capacity purchased from local providers or by building our own infrastructure.**



### We are uniquely positioned to make on-line services more accessible and useful to a wider audience.

Information and entertainment choices available electronically through the Internet and other computer networks are growing at a dizzying rate. Businesses and consumers are clamoring for time-saving navigational tools and for advancements that will make on-line information more secure and more interactive. Our technology expertise, corporate alliances and existing base of 90 million business and consumer customers position us to bring together a diversified group of information seekers and content providers.

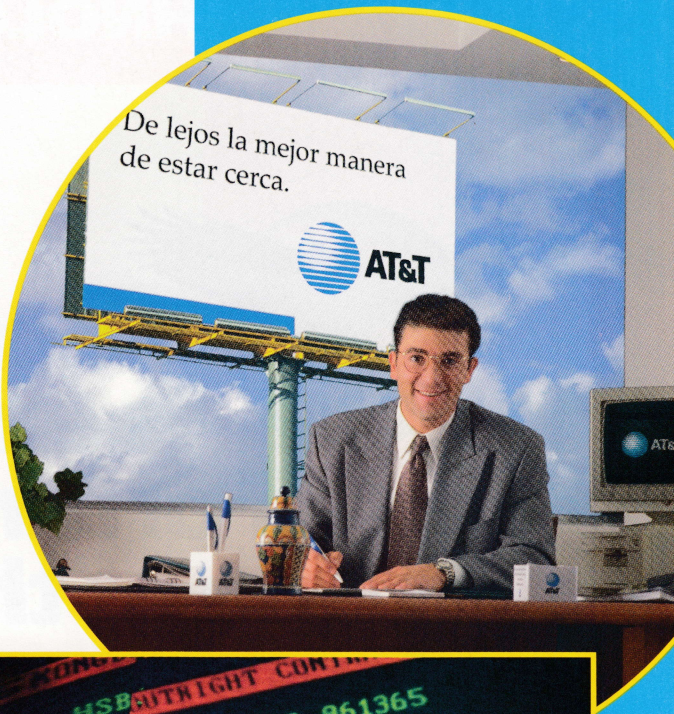
**In 1995 we launched AT&T Business Network, which serves up news and information from CNN, Dow Jones and others to small and home-based businesses; AT&T Easy World Wide Web Service, which provides hosting services; and Personal Online Services, which brings personalized and localized content services to consumers through the Internet.**



## The information services market outside the U.S. is expected to double to $2 trillion in the next 10 years.

The market for providing communications services to businesses outside the U.S. is strong and growing as multinational companies seek to do business as if all their operations resided at the same location. A number of countries are introducing competition for local services in response to customer demand for increased choices, improved quality and lower prices.

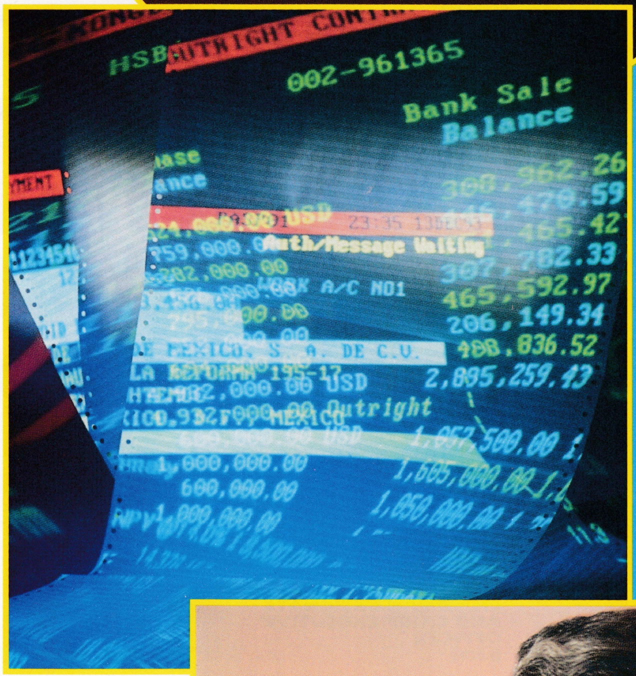
**WorldPartners, the AT&T-sponsored alliance that offers global companies seamless communications services, extended its reach to 27 countries in 1995. We also expanded our global partnerships to pursue service opportunities in Brazil, India, Canada, Russia and Mexico.**




## Electronic commerce is changing the way businesses do business.

Financial markets already move $1 trillion a day using computer networks. Electronic payments are increasing 15 to 25 percent a year and the Internet is expected to handle more than $7 billion in on-line shopping transactions annually by the year 2000. We're helping businesses use our network as a delivery channel, create virtual stores on the Internet, and manage the security, customer service and billing challenges posed by such an environment.

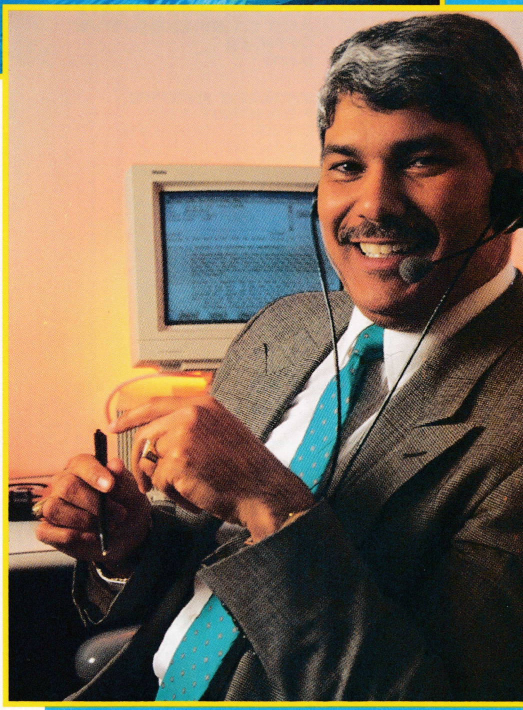
**In 1995 we introduced tools to help businesses automate everything from handling information requests to managing ordering, payment and shipping processes. AT&T Universal Card Services is a recognized leader in electronic payments processing, transaction processing and customer service.**



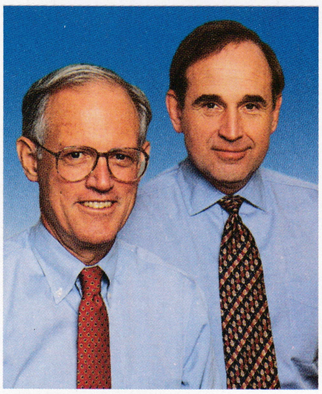

## Customers want one-stop communications shopping and we can deliver a full line of services.

Consumer research indicates people want help managing their busy lives, support as they adopt new technologies, convenience in reaching others, and easy access to information and entertainment. We've reorganized to do just that, creating teams dedicated to specific customer segments. Their charge: identify more ways customers can benefit from their relationships with AT&T. Our reward: increased customer loyalty and greater network use.

**In 1995 we introduced a new one-stop shopping service for consumers that features a single customer service number–1 800 336-TRUE–for information on a variety of offers from paging services to electronic bill payment, as well as special pricing for our long distance customers.**

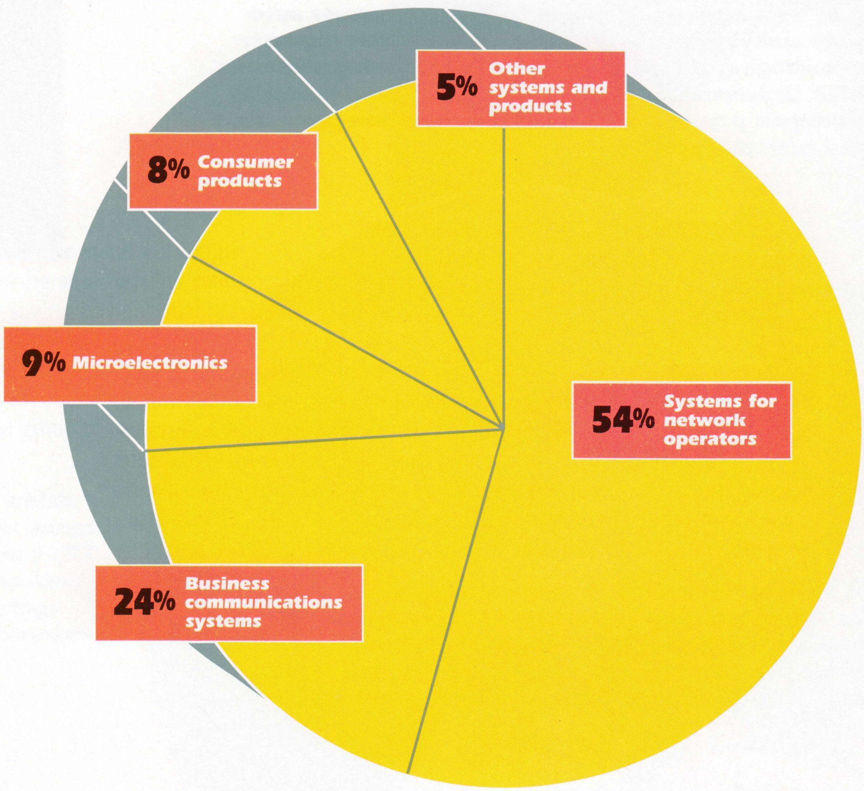


# Lucent Technologies is expected to emerge as a Fortune 40 company. It is one of the world's leading designers, developers and manufacturers of telecommunications systems, software and products.



**HENRY SCHACHT, CHAIRMAN-DESIGNATE AND CHIEF EXECUTIVE OFFICER (LEFT)**

**RICHARD McGINN, PRESIDENT AND CHIEF OPERATING OFFICER**




**Sources of 1995 revenues**

## 1995 LUCENT TECHNOLOGIES*

| | |
|---|---|
| Revenues | $21 billion |
| Assets | $20 billion |
| Employees | 131,000 |

**Revenues, assets and employees represent those the company would have shown at year-end had it existed as a separate company (see the Financial Review section for more details). The number of employees listed does not reflect the total impact of previously announced work force reductions.*

## KEY ASSETS

### Bell Laboratories, widely regarded as one of the world's foremost industrial research and development organizations.

Among its achievements since its inception in 1925: an average of one patent each business day, seven Nobel Prize winners, seven U.S. National Medals of Science and five National Medals of Technology. Its contributions include the transistor, the solar cell, the communications satellite, cellular telephony, electronic switching and the UNIX† operating system.

† Unix is a registered trademark licensed exclusively by Novell, Inc.

### A global presence.

Lucent Technologies has offices or distributors in more than 90 countries or territories. Bell Labs has a presence in 13 countries.

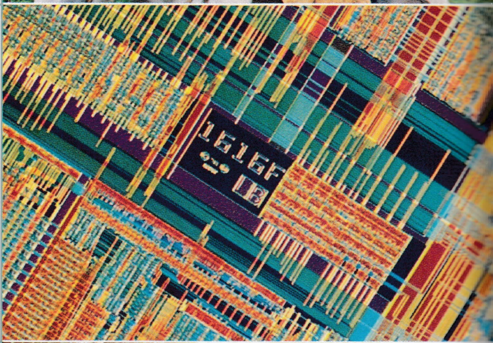
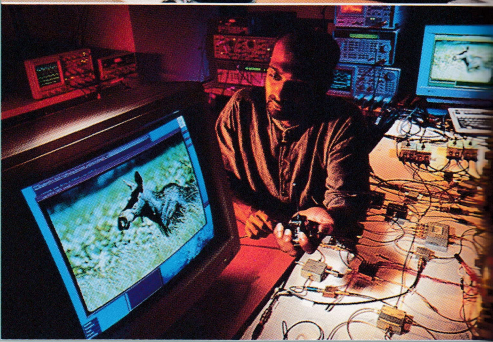
### More than a hundred years of manufacturing experience.

During the past five years, our manufacturing practices have earned a Malcolm Baldrige National Quality Award, a Deming Prize and two Shingo Prizes for excellence in American manufacturing.

| CORE MARKET | SHARE RANK | |
|---|---|---|
| Switching | 1 | U.S. |
| Transmission | 1 | U.S. |
| Operations support software | 1 | World |
| Wireless networks | 1 | U.S. |
| Business communications | 1 | U.S. |
| Corded and cordless phones | 1 | U.S. |
| Answering systems | 1 | U.S. |
| Power supply systems | 1 | World |
| Digital signal processor chips | 2 | World |

Lucent Technologies
Bell Labs Innovations

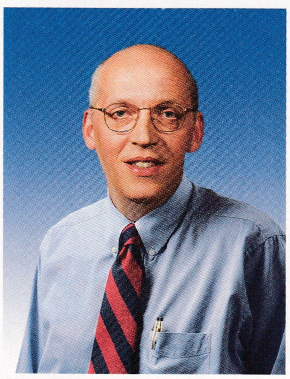
Our name was developed after extensive interviews with customers and other stakeholders. Lucent means "marked by clarity" or "glowing with light." The new logo is a bold, red, hand-drawn innovation ring.

| Business | Markets | |
|---|---|---|
| **Network systems** | ■ Supplies network telecommunications systems, software and services to telephone companies around the world, the U.S. government, private communications network operators, cable companies and wireless service providers. |  |
| **Microelectronics** | ■ Produces high-performance integrated circuits, power systems and optoelectronic components for Lucent Technologies and other leading communications and computer manufacturers. During the last five years, sales to non-AT&T customers have shown double-digit growth rates. |  |
| **Business communications systems** | ■ Designs, manufactures, installs and services business telecommunications systems, including private branch exchanges, key systems, structured cabling and voice processing systems. Has provided engineering, installation, maintenance and support services to more than 1.5 million customer locations in more than 90 countries. |  |
| **Consumer products** | ■ Sells, services and leases telephones and other telecommunications devices through retailers representing 17,000 point-of-sale locations. Was the first in the industry to offer cordless telephones with 25-channel capability, which reduces interference. Sold 2.5 million Trimline® telephones in 1995. Offers a broad line of telephone answering systems and cellular products. |  |
| **Bell Laboratories** | ■ Focuses on several core technologies: software, digital signal processing, telecommunications networking technologies, microelectronics and photonics. Emphasizes areas offering Lucent Technologies' operating units a competitive advantage, such as increased transmission capacity, faster call processing, increased reliability and reduced network costs. |  |

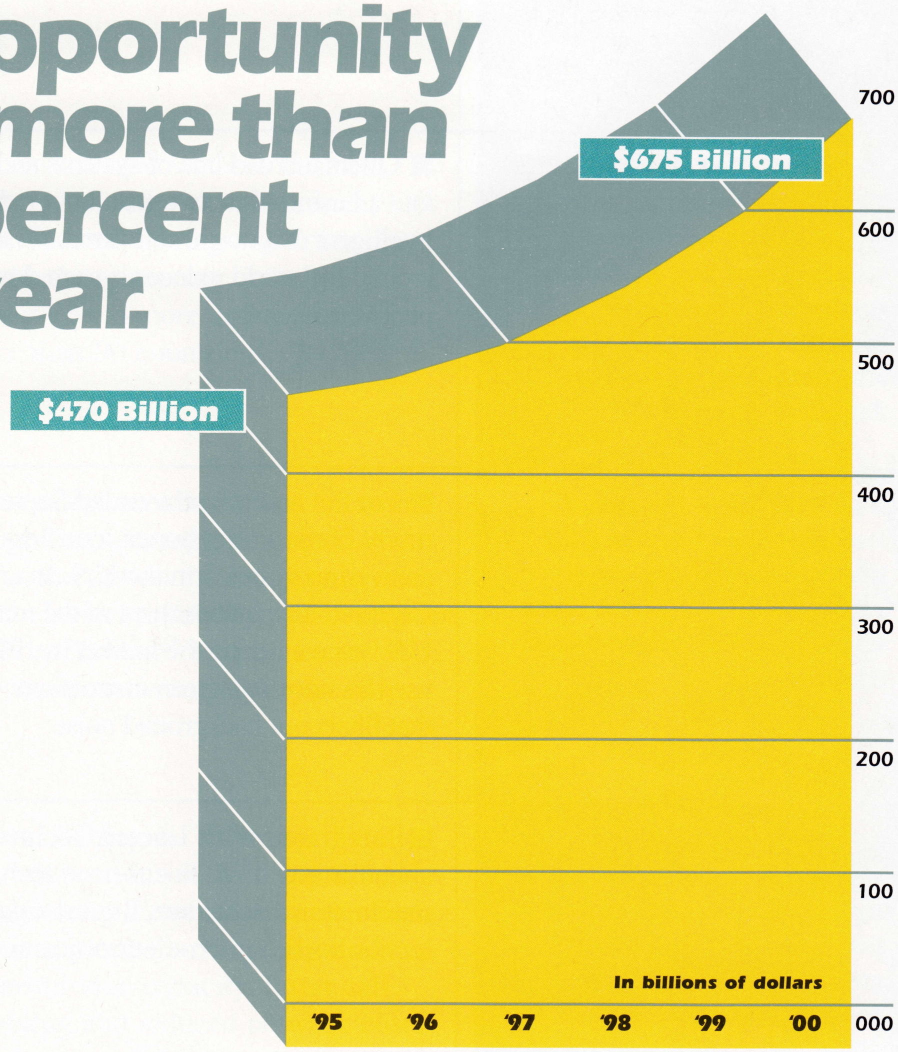
*Note: Rank orders listed refer to market share.*

| | Competitive strengths |
|---|---|
| **This gaucho in Argentina's remote ranch lands now has access to telephone service, thanks to a wireless network that Network Systems played a key role in building.** | ■ Ranks #1 in U.S. public network infrastructure market, #2 worldwide. Flagship product, the 5ESS® 2000 Switch, has been installed in 49 countries and can provide any media– digital voice, data, video and wireless communications. According to data compiled in the U.S. Federal Communications Commission's Armis Report, it is the most reliable switch in the industry. |
| **Microchips are the very heart of information age products and systems, and we offer a wide variety of standard, semi-custom and custom products.** | ■ At year-end 1995 the unit's microelectronics products were included in more than half the world's digital cellular phones. Has a research, design, manufacturing or sales presence in 15 countries to enable close design collaboration with customers. |
| **Definity® Enterprise Communications Server phones for businesses, redesigned for European technical standards and aesthetics, roll off the manufacturing line in Saumur, France.** | ■ Offers a broad line of systems and products that can be integrated into a business's network and upgraded with new software releases. Intelligent diagnostic software built into systems and service centers around the world reduces system downtime and provides a key competitive advantage. |
| **The Two-Line Personal Information Center 882 does double-duty as a phone and personal data organizer for home-based businesses.** | ■ For the nine months ended September 30, 1995, sold twice as many corded telephones, cordless telephones and telephone answering systems in the U.S. as any competitor in each category. Captured a 5 percent share of the market for cellular phones in the U.S. since entering the market in 1992 with innovations such as user-friendly, on-screen instructions, voice activation and circuitry that filters out background noise. |
| **In 1995 a Bell Labs research team devised a way to reliably transmit compressed color still images over wireless channels.** | ■ Integrated with Lucent Technologies' operating units to speed innovation. Focuses on technologies critical to telecommunications: software, digital signal processing, networking technologies, microelectronics and photonics. |

# Our restructured computer unit, after a difficult year, is trimmer, more focused and primed to take on a $470 billion market opportunity growing more than 7 percent a year.



LARS NYBERG,
CHIEF EXECUTIVE
OFFICER




Growth of global markets for NCR-related computing systems and services: Estimated at $470 billion growing to $675 billion by the year 2000.

**1995**
**NCR***

| | |
|---|---|
| Revenues | **$8 billion** |
| Assets | **$5 billion** |
| Employees | **38,000** |

*Revenues, assets and employees represent those the company would have shown at year-end had it existed as a separate company (see the Financial Review section for more details). The company had significant 1995 losses and restructuring charges. The number of employees listed does not reflect the total impact of previously announced work force reductions.*

## KEY ASSETS

### A current customer base in 191 countries.

Our businesses are headquartered in Dayton, Ohio, Atlanta, Georgia, and London, but our people are based in 130 countries, giving us the ability to market and support our products and services around the world. More than half our revenues are generated outside the U.S.

### Ability to leverage our leadership in key industries.

While we market our computer platforms across many industries, we're capitalizing on our long-standing relationships with customers in the financial, retail and communications industries. We are offering them total solutions, including a full range of professional and support services, building on our sales of automated teller machines, retail scanners, terminals and transaction-processing systems. As a result, they can better use information they collect to serve their customers.

### Access to the research capabilities of Bell Laboratories.

We've signed a multi-year commercial agreement with Bell Labs for research to support several key technology areas. We will continue to invest in research and development at levels that are at or above industry averages.

NCR

AT&T Global Information Solutions changed its name back to NCR Corporation January 10, 1996, in anticipation of becoming an independent, publicly traded company.

### A SAMPLE OF OUR CUSTOMERS

1-800-Flowers
Bank of America
Barnett Banks, Inc.

Blue Cross Blue Shield of Illinois
Commonwealth Bank of Australia
Delta Air Lines

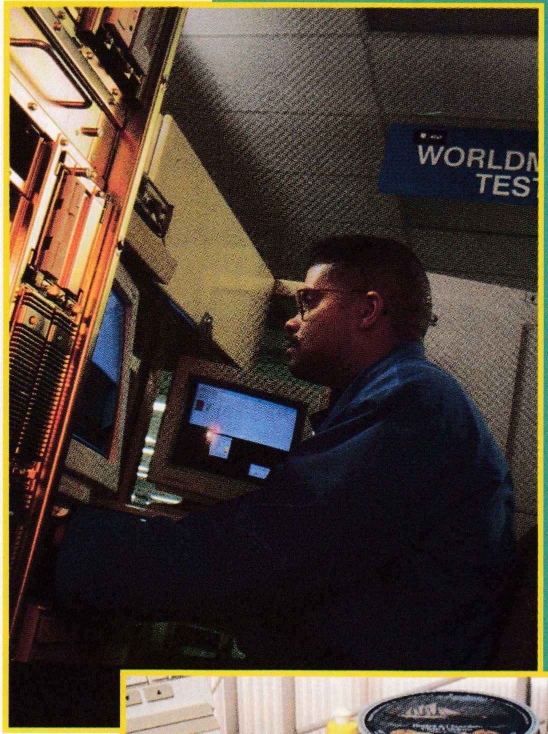
Electronic Payments Services Inc.
Fidelity Investments
JCPenney

Japan Credit Bureau
MasterCard
Meijer, Inc.

Office Depot
Sainsbury Savacentre
W H Smith Ltd.

Wachovia Banks
Wal-Mart
Wells Fargo

## GROWTH OPPORTUNITIES



### We lead the market for high-end computer systems and services for data warehousing, transaction processing and decision support.

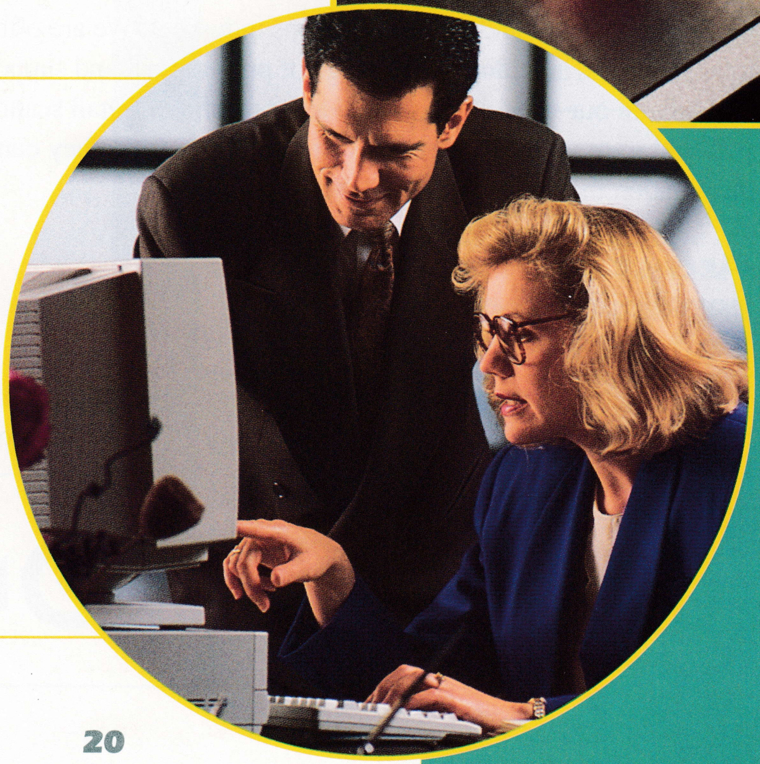
Businesses generate massive amounts of data – about customers, competitors and internal operations. We've developed the kind of sophisticated computer servers that can process large volumes of transactions and store, correlate and analyze huge amounts of information. In fact, we're the market share leader in commercial parallel processing systems that can perform many tasks simultaneously. We also rank first worldwide in data warehousing systems and UNIX commercial systems in the $100,000 to $1 million range.

**Industry analysts widely applauded our 1995 introduction of the WorldMark® line of enterprise servers, which offer affordability, expandability, performance and investment protection.**

### The retail industry is increasing its spending on information technology and we're a leader in retail systems.

Retailers are expected to increase their investment in computer systems and services more than 8 percent a year over the next three years. We have a strong presence in the industry dating back over a century to our roots as the National Cash Register Company. Our scanners check out over 270 billion items a year around the world. In 1995 our estimated share of the market for slot-type scanners was more than 40 percent, and we had more than 20 percent of the world's market share for point-of-sale terminals.

**The American Product Excellence Committee singled out our 7870 Bi-Optic Scanner/Scale for its 1995 Grand Award for Excellence in Product Design.**



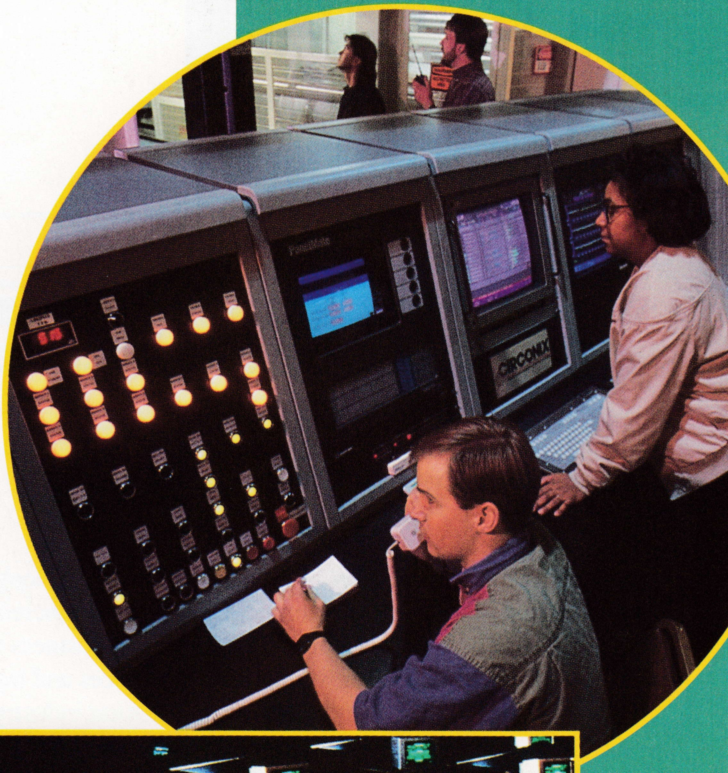
### Our services business is easily outpacing the industry's 9 percent growth rate.

We have more than 20,000 service professionals in more than 1,100 locations around the globe. They're experts in helping global companies turn their information into actionable decisions and profitable results. We're recognized as an industry leader in data warehousing services, information technology architecture, project management, and network services solutions and support services that help businesses keep critical computer systems up and running.

**In 1995 our services business grew 12 percent overall; professional services, 21 percent.**

## Our consumable media business is profitable and growing at a healthy clip.

Automated systems use huge quantities of labels, ribbons, paper rolls and custom-printed documents. Our Systemedia business operates 19 manufacturing facilities around the world that produce everything from thermal transfer ribbons and custom paper rolls to pressure-sensitive labels and ink ribbons. We're the market share leader in stock and paper rolls for point-of-sale retail terminals and automated teller machines (ATMs).




**We brought new production facilities on line in 1995 to capitalize on the growing demand for thermal transfer ribbons used to print bar code labels, a market growing 18 percent a year.**

## The communications industry is expected to spend nearly $25 billion a year on information technology by 1997.

In the fast-paced, hotly contested communications industry, understanding customers is critical. We have considerable experience in designing combinations of systems and services to meet their needs. By putting to work our expertise in massively parallel processing and data warehousing, we're helping communications companies store and use customer calling records to better serve customers and to design customer acquisition and retention programs.

**NCR teamed with Telstra, Australia's leading electronic communications and information services provider, on a system that gives customer service representatives quick access to calling, billing and service order information.**

## Financial institutions are looking for sophisticated systems to help them cut costs and enhance customer relationships, and we can fill the bill.

We're an established leader in the financial industry with a strong presence in more than 100 countries. About one-third of all automated teller machines installed throughout the world carry the company's brand. Our market share leadership in automated teller machines has served us well as we've moved into other transaction processing and commercial management areas. As banks look for creative ways to add value for consumers, we're helping them to tap into previously unmined consumer data and to design new banking services and delivery capabilities.


**Around-the-clock availability of self-service devices like this ATM in Hong Kong is vital for banks striving to meet customers' financial services needs anytime, anywhere.**

# Our strategic restructuring will launch three new customer-focused companies.

## A Discussion and Analysis of Our Results of Operations and Financial Condition

Record revenues in 1995 reflected growth in long distance and wireless communications services, increased sales of network telecommunications and business telephone systems and growth in financial services and leasing. Customer demand in the global information industry continues to rise, spurred by worldwide economic growth, technological advances and the declining relative cost of information technology.

Notwithstanding this revenue growth, after evaluating market conditions, including economic, financial, governmental and technological factors, we concluded that changes would be in the best interests of our stakeholders. On September 20, 1995 we announced our plan to separate AT&T Corp. (AT&T) into three independent, publicly held, global companies: communications services (which will retain the AT&T name), communications systems and technologies (which has been named Lucent Technologies Inc.) and transaction-intensive computing (formerly AT&T Global Information Solutions, now NCR Corporation). Our goal is to reduce the complexity of our operations making our businesses more competitive and responsive to customers by eliminating some strategic and internal conflicts. Separating into three independent companies will enhance our ability to focus on strategic businesses that add value to customers, to take advantage of new opportunities and to improve cost structures and operating efficiencies. We are planning an initial public offering of approximately 15% of Lucent Technologies Inc. (Lucent) common stock in the first half of 1996. We expect to distribute to our shareowners, subject to certain conditions, all of our remaining interest in Lucent and all of our interest in NCR Corporation (NCR) by the end of 1996. Also announced as part of the restructuring was our intent to pursue the sale of our remaining 86% interest in AT&T Capital Corporation (AT&T Capital). Our goal is to complete all of these actions by the end of 1996. However, our plan is subject to several conditions, including receipt of a favorable tax ruling, other required approvals, and the absence of events or developments that would cause the plan to have a material adverse impact on AT&T or its shareowners. We expect transactions associated with this plan to be tax-free to shareowners. Pages 31-32 of this report show summary financial information for the three separate companies.

In the fourth quarter of 1995, we recorded restructuring and other charges of approximately $6.2 billion before taxes primarily related to our plans to separate into three companies as described above. The charges reduced net income by approximately $4.2 billion, or $2.61 per share. As a result, net income for the year was $139 million, or $.09 per share. Excluding these charges, net income increased 16.6% in 1995 compared with 1994 to $5,492 million ($3.45 per share).

The charges cover plans to sell several businesses, including the AT&T Microelectronics Interconnect business and AT&T Paradyne. We also plan to close our 338 AT&T owned retail stores (the Phone Center Stores) by May 1996, to realign our consumer products distribution channels and to consolidate and reorganize corporate and business unit operations over the next two years. Accordingly, the fourth-quarter charges included separation costs for nearly 40,000 employees, of which about 24,000 were management and 16,000 were occupational. We expect 70% of all separations to be completed by the end of 1996, with the majority of the remainder being completed in 1997.

During the third quarter of 1995, we approved NCR's plans to refocus its business. The goal is to return NCR to profitability. Major aspects of the plan are to discontinue the manufacture of personal computers and their sale through reseller channels, to reduce the number of industry markets it serves and to consolidate facilities globally. NCR expects to complete these actions during 1996. As a result, in the third quarter of 1995, AT&T recorded charges of approximately $1.6 billion before taxes, which reduced net income by approximately $1.2 billion, or $0.74 per share.

The pretax total of the third and fourth quarter 1995 charges was recorded as $670 million in costs of telecommunications services, $1,676 million in costs of products and systems, $717 million in costs of rentals and other services, $6 million in costs of financial services

# ELEVEN-YEAR SUMMARY OF SELECTED FINANCIAL DATA

AT&T Corp. and Subsidiaries (unaudited)

DOLLARS IN MILLIONS (EXCEPT PER SHARE AMOUNTS)

| | **1995*** | 1994 | 1993* | 1992 | 1991* | 1990 | 1989 | 1988* | 1987 | 1986* | 1985 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Results of Operations** | | | | | | | | | | | |
| Total revenues | **$79,609** | $75,094 | $69,351 | $66,647 | $64,455 | $63,228 | $61,604 | $62,067 | $60,726 | $61,975 | $63,159 |
| Research and development expenses | **3,718** | 3,110 | 3,111 | 2,924 | 3,114 | 2,935 | 3,098 | 2,988 | 2,810 | 2,599 | 2,527 |
| Operating income (loss) | **1,215** | 7,949 | 6,498 | 6,529 | 1,428 | 5,358 | 4,751 | (2,500) | 4,071 | 974 | 3,561 |
| Income (loss) before extraordinary item and cumulative effects of accounting changes | **139** | 4,710 | 3,702 | 3,442 | 171 | 3,475 | 2,820 | (1,527) | 2,374 | 609 | 1,856 |
| Net income (loss) | **139** | 4,710 | (5,906) | 3,442 | 171 | 3,666 | 2,820 | (1,527) | 2,374 | 434 | 1,856 |
| Earnings (loss) per common share before extraordinary item and cumulative effects of accounting changes | **0.09** | 3.01 | 2.39 | 2.27 | 0.12 | 2.38 | 1.95 | (1.06) | 1.61 | 0.36 | 1.21 |
| Earnings (loss) per common share | **0.09** | 3.01 | (3.82) | 2.27 | 0.12 | 2.51 | 1.95 | (1.06) | 1.61 | 0.24 | 1.21 |
| Dividends declared per common share | **1.32** | 1.32 | 1.32 | 1.32 | 1.32 | 1.32 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |
| **Assets and Capital** | | | | | | | | | | | |
| Property, plant and equipment – net | **$22,264** | $21,279 | $20,434 | $20,209 | $19,286 | $18,906 | $17,362 | $16,793 | $22,124 | $22,247 | $23,182 |
| Total assets | **88,884** | 79,262 | 69,393 | 66,104 | 62,071 | 57,036 | 45,228 | 41,945 | 45,583 | 44,305 | 44,824 |
| Long-term debt including capital leases | **11,635** | 11,358 | 11,802 | 14,166 | 13,682 | 14,579 | 10,116 | 10,172 | 9,060 | 8,234 | 8,104 |
| Common shareowners' equity | **17,274** | 17,921 | 13,374 | 20,313 | 17,973 | 17,928 | 15,727 | 13,694 | 16,913 | 15,849 | 16,945 |
| Net capital expenditures | **5,997** | 4,572 | 4,142 | 4,043 | 4,086 | 4,120 | 3,959 | 4,453 | 3,885 | 3,977 | 4,303 |
| **Other Information** | | | | | | | | | | | |
| Operating income (loss) as a percentage of revenues | **1.5%** | 10.6% | 9.4% | 9.8% | 2.2% | 8.5% | 7.7% | (4.0)% | 6.7% | 1.6% | 5.6% |
| Net income (loss) as a percentage of revenues | **0.2%** | 6.3% | (8.5)% | 5.2% | 0.3% | 5.8% | 4.6% | (2.5)% | 3.9% | 0.7% | 2.9% |
| Return on average common equity | **0.7%** | 29.5% | (47.1)% | 17.6% | 0.9% | 21.2% | 19.1% | (8.9)% | 14.3% | 2.0% | 10.6% |
| Data at year-end: | | | | | | | | | | | |
| Stock price per share | **$64.75** | $50.25 | $52.50 | $51.00 | $39.125 | $30.125 | $45.50 | $28.75 | $27.00 | $25.00 | $25.00 |
| Book value per common share | **$10.82** | $11.42 | $ 8.65 | $13.31 | $12.05 | $12.33 | $10.92 | $ 9.57 | $11.87 | $11.04 | $11.73 |
| Debt ratio | **62.0%** | 58.3% | 64.4% | 53.1% | 54.8% | 53.5% | 45.0% | 45.8% | 38.4% | 39.6% | 39.9% |
| Debt ratio excluding financial services | **44.3%** | 34.1% | 49.1% | 40.8% | 46.0% | 47.6% | 39.3% | 42.2% | 35.2% | 37.6% | 38.4% |
| Employees | **299,300** | 304,500 | 317,700 | 319,000 | 322,300 | 333,400 | 343,000 | 367,400 | 366,200 | 379,900 | 400,400 |

*1995 DATA REFLECT $7.8 BILLION OF PRETAX BUSINESS RESTRUCTURING AND OTHER CHARGES.
1993 DATA REFLECT A $9.6 BILLION NET CHARGE FOR THREE ACCOUNTING CHANGES.
1991 DATA REFLECT $4.5 BILLION OF PRETAX BUSINESS RESTRUCTURING AND OTHER CHARGES.
1988 DATA REFLECT A $6.7 BILLION PRETAX CHARGE DUE TO ACCELERATED DIGITIZATION OF THE LONG DISTANCE NETWORK.
1986 DATA REFLECT $3.2 BILLION OF PRETAX CHARGES FOR BUSINESS RESTRUCTURING, AN ACCOUNTING CHANGE AND OTHER ITEMS.

and leasing, $4,359 million in selling, general and administrative expenses and $417 million in research and development expenses. If viewed by type of cost, the pretax charges reflect $3,417 million for employee separations and other related costs, $2,533 million for asset write-downs, $895 million for closing, selling and consolidating facilities and $1,000 million for other items. (See also Note 8 to the consolidated financial statements.)

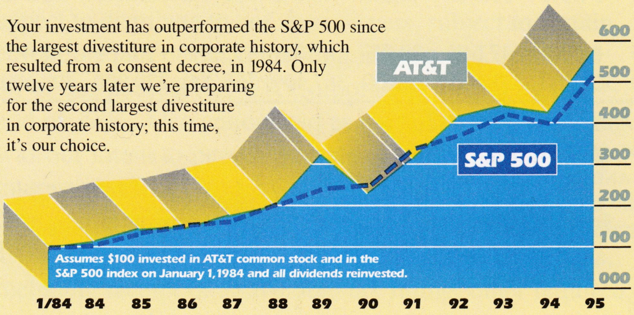
In 1993 we provided $498 million before taxes for restructuring activities. These charges covered actions at NCR to reduce its workforce through early retirement and voluntary separation programs, actions at our telecommunications services units to centralize support services, actions to close plants that manufactured telecommunications network systems and actions to restructure operations that serviced the U.S. federal government. If viewed by type of cost, the charges reflect $235 million for employee separations and other related matters, $171 million for facility closings and $92 million for other related items. These charges were recorded as $13 million in costs of products and systems, $90 million in costs of other services, $373 million in selling, general and administrative expenses and $22 million in research and development expenses.

All parts of our business face substantial and intensifying competition. Product pricing and technology are under continual competitive pressure, and business and market conditions are changing rapidly. Our business leaders must continuously reassess their resource needs and redirect them as necessary to address market conditions and to reduce costs. Such steps can include the expansion of service offerings to provide larger bundles of services sought by customers. They can also include closing and consolidating facilities, disposing of assets, reducing the workforce or withdrawing from markets. Actions to enhance efficiency through continuous improvement are part of our commitment to quality.

The sections that follow describe our main revenue streams. Within these sections we describe the main service and product lines of the public companies that will emerge from our strategic restructuring.

**AT&T versus S&P 500**

**Total shareowner return assuming reinvestment of dividends**




## Telecommunications Services

These revenues, which include traditional long distance, wireless services and other communications services, grew 6.0% in 1995 and 4.3% in 1994. The gains were mostly due to higher volumes, as the AT&T network handled a record 61.6 billion calls in 1995. Billed minutes for traditional, time-billed long distance services rose nearly 9.0% in 1995, compared with an increase of more than 7.5% in 1994 and about 5.5% in 1993. In particular, we saw volume growth in calling card, business inbound services and consumer international services.

Volume growth exceeds revenue growth because more customers are taking advantage of our many calling plans and promotions. However, the gap between revenues and volume growth narrowed in 1995 to 4%. This narrowing reflected less movement among calling plans by both business and residential customers and some targeted pricing actions.

The merger of AT&T and McCaw Cellular Communications, Inc. (McCaw) in 1994 and the acquisition of personal communications services (PCS) licenses in 1995 strengthened the competitive position of our communications services business. These initiatives will create new bundled offering opportunities, thereby enhancing our prospects for growth in revenues and earnings. The purchase of the minority owners' stake in LIN Broadcasting Corporation (LIN) in October 1995 gave us increased control of important cellular markets. AT&T now has the right to provide cellular services or PCS in 23 of the nation's top 25 markets. AT&T Wireless Services, formerly McCaw, is the leading U.S. provider of wireless communications services.

Total revenues from wireless services, which include cellular and messaging services, grew 28.3% to $2,926 million in 1995, from $2,280 million in 1994 and $1,760 million in 1993, mainly due to additional cellular service subscribers. Having met government conditions, in 1995 we were allowed to begin to jointly market long distance and cellular services. Thus far we've had a favorable response to this promotion. Cellular customers, reported on the same basis as consolidated wireless services revenues, increased to 3.9 million at year-end 1995, from 2.8 million in 1994 and 1.9 million in 1993. Cellular customers served by companies in which AT&T has or shares a controlling interest increased to 5.5 million at year-end 1995, from 4.0 million in 1994 and 3.0 million in 1993. Average revenue per subscriber declined in 1995 reflecting pricing pressures experienced by all cellular service providers, as well as lower average usage per subscriber atttributed to growth in subscribers for emergency and other personal use.

We also furthered our strategy of providing a broad package of telecommunications services by launching

AT&T branded on-line services, such as the AT&T Learning Network, the AT&T Business Network, AT&T Easy World Wide Web Service and Personal Online Services. These services provide dial-up and dedicated internet access, navigational tools and information directories, hosting and transaction services, and content.

In February 1996, the Telecommunications Act of 1996 (the "Telecommunications Act") became law. The Telecommunications Act preempts state and local requirements which prohibit or have the effect of prohibiting an entity from providing telecommunications services. In addition, the Telecommunications Act requires incumbent local exchange carriers (LECs), including the Regional Bell Operating Companies (RBOCs), to implement a checklist of conditions that are designed to foster local exchange competition. Although the Telecommunications Act permits interexchange carriers and others to begin providing local exchange service at any time, negotiations with LECs over access and interconnection agreements and the adoption of implementing rules and regulations will be necessary before effective local exchange competition commences.

The Telecommunications Act permits immediate RBOC provision of interexchange services outside of their home service areas and certain incidental interexchange services in their home service areas, such as those provided in conjunction with commercial mobile and cellular services. In addition, an RBOC is permitted to provide interexchange services originating in any state in its region upon receiving FCC approval, which is subject to a number of conditions, including that the RBOC has implemented the Telecommunications Act checklist of conditions throughout such state and, generally has entered into an interconnection agreement with a facilities-based competitor upon request. Once approved to provide interexchange services in a single in-region state, an RBOC is also permitted to begin manufacturing telecommunications equipment.

AT&T believes that the Telecommunications Act's provisions for the opening of local exchange markets to competitive entry are significant and that the restrictions placed on RBOC entry into in-region interexchange services should promote service competition in the RBOC's monopoly markets before RBOC provision of in-region interexchange services. Nonetheless, there is no assurance that, in the administration of the Telecommunications Act, the rules and regulations to be adopted will result in meaningful facilities-based competition prior to RBOC provision of in-region interexchange service.

To the extent that such implementing rules and regulations do not contain adequate provision for facilities-based local exchange competition, there is a substantial risk that AT&T and other interexchange service providers would be at a disadvantage to the RBOCs in the provision of local exchange services. In addition, regardless of provisions for facilities-based local exchange competition, the simultaneous entrance of seven RBOC competitors for interexchange services is likely to adversely affect AT&T's long-distance revenues and could adversely affect earnings. There is still a significant amount of uncertainty as to the extent, timing and impact on AT&T of the RBOCs entrance into interexchange services.

Similarly, the impact of AT&T's entrance into local services cannot reasonably be predicted. Notwithstanding the strong local entry provisions contained in the Telecommunications Act, various factors, including start-up costs associated with entering new markets, local conditions and obstacles and the final form of implementing rules and regulations, could adversely affect future revenues and earnings. Nevertheless, the legislation, plus other public policy and technological changes, will likely open new markets for AT&T in different areas of communications services. AT&T's competitive strategy includes using its networking capabilities, respected brand name and other resources to take advantage of these new opportunities as they arise.

## The Pace of Change in the Global Information Industry

**We must anticipate and react quickly to continuous and rapid changes in our markets. Technological developments create new markets, shorten product life cycles and hasten the convergence of different areas of the global information industry. The rapid growth, enormous size and global scope of this industry attract new entrants and encourage existing competitors to broaden their offerings. Alliances, joint ventures, mergers and acquisitions between market participants and regulatory and legislative decisions that affect these markets, further alter the competitive landscape.**

**Current and potential competitors in telecommunications services include local telephone companies, other long distance carriers, cable companies, internet service providers, wireless service providers and other companies that offer network services. Other entrants from adjacent segments of the communications and information services industries, include providers of business information systems, systems integrators and companies outside the U.S. seeking to expand their markets. Some of these companies already have a strong market presence, brand recognition and existing direct customer relationships. All of these conditions contribute to substantial and intensifying competition.**

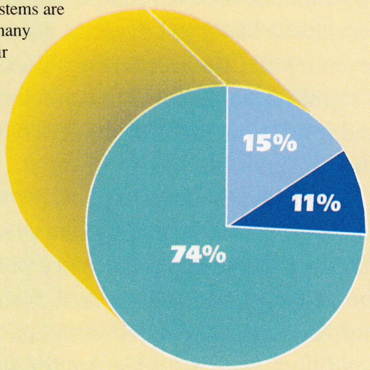
**Public policy changes including the Telecommunications Act are likely to bring not only increased competitive pressures, but may also open new markets to AT&T. Our strategy is to use our strong networking capabilities, a well-known and respected brand name and other strengths to capitalize on opportunities that arise.**

Costs of telecommunications services include $670 million of restructuring and other charges in 1995. Excluding these charges, the gross margin percentage on telecommunications services rose to 44.9% in 1995 from 42.4% in 1994 and 39.9% in 1993. This upward trend is mainly the result of lower per-minute access costs – costs for reaching customers through local networks. The Federal Communications Commission (FCC) approved changes to the price-setting methodology for access costs, effective August 1995. These changes included a reduction in the maximum prices (price caps) local telephone companies can charge for connections. These price caps will be adjusted annually for inflation and changes in productivity. Additionally, the local telephone companies are required to use higher productivity factors in the future, which should lead to lower charges.

### 1995 Sources of Revenues

**As percentages of total revenue**

The markets for our products and systems are growing fastest outside the U.S. as many countries expand and modernize their telecommunications infrastructure. Global competition in telecommunications services is developing now and will likely accelerate.




**International Revenues** From operations located in other countries.

**International Revenues** From U.S.operations (international telecommunications services and exports)

**U.S. Revenues**

## Products and Systems

Products and systems sales climbed 5.9% in 1995 and 18.1% in 1994, reflecting continued growth in sales both inside and outside of the United States.

### Products and Systems

| Dollars in millions | **1995** | 1994 | 1993 |
|---|---|---|---|
| **Revenues** | | | |
| Telecommunications network products and systems | **$10,665** | $ 9,785 | $ 8,345 |
| Communications products and systems | **4,899** | 4,494 | 3,692 |
| Microelectronics products and other* | **2,798** | 2,674 | 2,418 |
| Computer products and systems | **4,050** | 4,208 | 3,470 |
| Products and systems | **$22,412** | $21,161 | $17,925 |
| Gross margin percentage | **28.4%** | 37.3% | 38.8% |

*Other product revenues are mainly from computing media that customers use with automated teller machines and retail scanning equipment, and business forms.

Most of the revenues from telecommunications network products and systems, communications products and systems, and microelectronics products are from units that will be a part of Lucent.

Revenues from telecommunications network products and systems rose 9.0% in 1995 and 17.3% in 1994. In both years we had higher sales both inside and outside of the United States. The growth outside of the U.S. was due primarily to increased sales to service providers. In the U.S. sales increased to independent telephone companies, cable companies and competitive access providers. About $243 million of the 1994 increase in revenues came from consolidating AG Communications Systems Corporation when we raised our ownership to 80%. Sales of switching and transmission equipment to local telephone companies declined in 1995. We believe that was due to delays in spending by those customers and recent legislative initiatives which caused reluctance to purchase from a potential competitor.

Sales outside of the U.S. of telecommunications network products and systems rose $730 million or 27.2% in 1995, led by strong sales in Saudi Arabia and China. Most systems and equipment for telecommunications networks are sold under contracts that produce revenues for several years. In 1994 we were awarded a $4 billion contract to build a fully digital communications network in Saudi Arabia. This contract will launch AT&T's GSM (global systems for mobile communications) offerings and is expected to be completed by the beginning of the next decade.

Revenues from sales of business communications products and systems rose 9.0% in 1995 and 21.7% in 1994. Sales of business communications equipment grew both inside and outside of the U.S. the last two years. In 1995 U.S. growth was largely due to increased sales of private branch exchanges (PBXs), including Definity® products and voice-processing systems. Sales of business communications products outside of the U.S. increased $89 million or 26.5% in 1995, led by increases in the United Kingdom, Canada and France. In 1994 we also had higher sales of Definity PBX products, partly reflecting upgrades to accommodate changes in the North American Numbering Plan and sales of Conversant® voice-processing products. Growth in sales outside the U.S. in 1994 reflected acquisitions in Europe and Latin America as well as higher demand.

Revenues from sales of consumer communications products declined in 1995 mainly because of competitive pricing pressures and an increasing proportion of lower-margin products. The decline was due to lower sales of corded telephones and telephone answering machines which was partially offset by higher sales of cordless and cellular phones. In 1994 revenues rose again primarily because of strong consumer sales of cellular and cordless phones. In 1995 we introduced three pagers, the first in a line that will include alphanumeric models in early 1996 and two-way pagers designed for eventual use with PCS. In January 1996 we announced our intention to close the 338 AT&T Phone Center Stores most of which will be closed by May 1996.

AT&T Submarine Systems, Inc. (Submarine Systems) supplies and constructs submarine cable systems and is a part of the communications services units. Revenues from these systems fall within the communications products and systems category. This unit had revenues of almost $900 million in 1995 which reflected growth of more than 14% over 1994. Revenues in 1994 increased almost 12% compared with 1993.

Revenues from sales of microelectronics components (including integrated circuits, digital signal processors and power systems) and other products grew 4.6% in 1995 and 10.6% in 1994. The growth occurred despite the sale of the NCR microelectronics unit in early 1995, which had 1994 revenues of $383 million. Most of the revenue increase in microelectronic components reflected increased sales of integrated circuits, both inside and outside of the United States.

NCR is responsible for the majority of our sales of computer products and systems. Revenues from these sales declined 3.7% in 1995 after rising 21.3% in 1994. The decline in revenues was primarily due to lower sales of personal computers and large systems. Price competition for personal computers was severe. Most personal computers from different manufacturers use the same or comparable microprocessors and software, leading customers to focus increasingly on price. This is one of the reasons that NCR is discontinuing the manufacture of personal computers. In 1994 we changed the end of the fiscal year from November to December for NCR operations outside of the United States. This was done to report essentially all of our operations on a calendar year. This change added $223 million in revenues ($113 million of product sales) and a marginal loss in 1994.

Cost of products and systems included $1,676 million in provisions for business restructuring and other charges in 1995 and $13 million in 1993. Apart from these provisions, the rise in cost of products and systems is mainly associated with the higher sales volumes. Excluding the charges, the gross margin percentage on products was 35.9% in 1995, compared with 37.3% in 1994 and 38.9% in 1993. The rising proportion of lower-margin products in the sales mix led to the margin decline in both years.

## Rentals and Other Services

Revenues from rentals and other services for computer products and systems come primarily from NCR. The services are mainly professional services – such as designing solutions and systems for customers – and maintenance contracts.

**Rentals and Other Services**

| Dollars in millions | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Revenues** | | | |
| Computer products and systems | $2,841 | $ 2,818 | $ 2,641 |
| Communications products and systems services | 1,755 | 1,680 | 1,457 |
| Communications products and systems rentals | 795 | 955 | 1,174 |
| Other* | 798 | 763 | 871 |
| Rentals and other services | $6,189 | $ 6,216 | $ 6,143 |
| Gross margin percentage | 33.8% | 47.1% | 46.0% |

*Other revenues are mainly from telemarketing services, information technology services, facility rentals and licenses and royalties.

Revenues from maintenance contracts for communications products grew as a result of increases in related sales. Rental revenues – from renting telephone sets or answering machines to consumers and PBX equipment to businesses – continued to decline and are expected to continue to decline in future years.

"Other" revenues are mainly from the activities of units that will remain with AT&T after our reorganization. An example is telemarketing services provided by AT&T American Transtech.

Provisions for business restructuring and other charges added $717 million to cost of rentals and other services in 1995 and $90 million in 1993. Excluding these charges, the gross margin percentage was 45.4% in 1995, compared with 47.1% in 1994 and 47.4% in 1993. This decline was due mainly to the shifting mix of revenues, particularly the declining proportion of high-margin rentals.

## Financial Services and Leasing

These revenues come mainly from AT&T Universal Card Services (Universal Card) and AT&T Capital. As previously announced, AT&T intends to pursue the sale of AT&T Capital. Both revenues and earnings for these two companies continued to grow over the past two years because of their continued earning asset growth.

**Financial Services and Leasing**

| Dollars in millions | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Revenues** | | | |
| AT&T Capital | $ 1,577 | $ 1,384 | $ 1,360 |
| Universal Card | 2,250 | 1,782 | 1,228 |
| Eliminations, adjustments and other* | (96) | (49) | (84) |
| Financial services and leasing | $ 3,731 | $ 3,117 | $ 2,504 |
| Gross margin percentage | 29.1% | 31.0% | 31.7% |
| Universal Card Information: | | | |
| Total book and managed finance receivables | $14,118 | $12,380 | $ 9,154 |
| Accounts in millions | 17.6 | 15.1 | 11.7 |

*Other revenues are mainly from lease finance assets that AT&T retained when AT&T Capital was reorganized in 1993 as well as the elimination of lease revenues from AT&T affiliates.

The gross margin percentage for these services declined in 1995 due to competitive pricing pressures and to higher credit losses and fraud at Universal Card. In 1994 rising interest rates narrowed margins. Both Universal Card and AT&T Capital set reserves for losses based on experience, current delinquencies and the outlook for the economy.

The continuing growth of Universal Card is illustrated by its receivables and number of customer accounts. Universal Card's "book" and managed receivables, which include the $3.5 billion securitized in 1995, were $14.1 billion at December 31, 1995, up 14.0% from year-end 1994. Universal Card will retain the servicing and customer relationships of the credit card accounts that were securitized. Universal Card did not securitize receivables before 1995.

The intent to pursue the sale of AT&T Capital does not affect AT&T Capital's role as a provider of AT&T's customer financing pursuant to an operating agreement between AT&T and AT&T Capital. We expect that at the completion of the restructuring, AT&T Capital will retain its current operating agreements regarding its leasing arrangements with AT&T, Lucent and NCR. The sale of AT&T Capital also will not affect AT&T's unconditional guarantee of all of the AT&T Capital outstanding debt at the end of March 1993. The guaranteed debt amounted to $417 million at the end of 1995. AT&T Capital's debt issued subsequent to March 1993 relies on its own credit.

## Operating Expenses

Selling, general and administrative expenses included $4,359 million of restructuring and other charges in 1995, $246 million of merger-related expenses in 1994 and $373 million of restructuring and other charges in 1993. Excluding these charges, such expenses were 26.1% of total revenues in 1995, compared with 25.8% in 1994 and 25.5% in 1993. Part of the 1995 increase was related to our response to competitive conditions and to our increased global presence, resulting in increased spending on sales and sales support efforts. We focused advertising expenditures on retaining and winning back residential customers of traditional long distance services and acquiring new cellular subscribers.

In 1994 expenses of $246 million related to the merger of AT&T and McCaw reduced net income by $187 million, or $0.12 per share. We accounted for the merger with McCaw as a pooling of interests. Therefore, we restated AT&T's financial statements to include McCaw's results in all periods before the merger.

Research and development expenditures are mainly for work on wireless systems technology, advanced communications services devices, and projects aimed at international growth. These expenses included $417 million of restructuring and other charges in 1995 and $22 million of such charges in 1993. Excluding those charges, research and development expenses were 4.1% of total revenues in 1995 and 4.1% in 1994 compared with 4.5% in 1993.

As required by changes in accounting standards, we adopted new methods of accounting for retiree benefits, postemployment benefits and income taxes in 1993. We recorded cumulative effects of accounting changes to reflect our financial statements at the position they would have been in if we had always used the new methods. As a result, we took a $9.6 billion after-tax charge which caused a reported net loss in 1993. The accounting changes did not affect cash flows.

Similar to other manufacturers, we use, dispose of and remove substances regulated under environmental protection laws. We have been named a potentially responsible party (PRP) at a number of Superfund sites. At most of these sites, our share of the costs is limited and other PRPs are expected to contribute to the cleanup costs. We regularly review potential cleanup costs and costs of compliance with environmental laws and regulations. We provide reserves for these potential costs and routinely review their adequacy. In addition, we forecast our expenses and capital expenditures for existing and planned compliance programs as part of our regular corporate planning process. We believe that cleanup costs and costs related to environmental proceedings and ongoing compliance with present laws will not have a material effect on our future expenditures, annual consolidated financial statements or competitive position beyond that provided for at year-end.

In October 1995 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." This standard establishes a fair value method for accounting for stock-based compensation plans either through recognition or disclosure. Upon adoption, which is required in 1996, we intend to disclose rather than record these computations. Adopting this standard will not affect our reported earnings, financial condition or cash flows.

In March 1995 the FASB issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of." Although the standard does not require adoption until fiscal year 1996, we implemented it effective October 1, 1995. Under this standard, we consider whether we can recover our costs for impaired assets whenever events or changes in circumstances call that recovery into question. The adoption of this standard did not materially affect our reported earnings, financial condition or cash flows because this was essentially the same method we used in the past to measure and record asset impairments.

Our 1995 restructuring and other charges included recognition of asset impairments.

## Other Income Statement Items

The majority of other income – net is from transactions, such as sales of assets, that are individually immaterial. In 1995 it reflects gains from selling the NCR microelectronics unit and several other properties. We also sold properties and recognized gains in 1994 but these were partially offset by losses on the shutdown of a subsidiary, EO Inc., and on the uninsured portion of a lost satellite. In 1993 we had a $217 million gain from exchanging our remaining 77% interest in UNIX System Laboratories, Inc. for stock in Novell, Inc. We subsequently recognized declines in the value of the Novell stock.

Also included in other income are earnings and losses from investments, increases in value of corporate-owned life insurance policies on officers, and minority owners' interests in the earnings or losses of subsidiaries. Before we redeemed the preferred stock of a subsidiary in mid-1994, we recorded the dividends on those shares as a charge against other income – net.

Interest expense increased slightly in 1995 compared with 1994 despite higher levels of average debt. This was due to lower average rates on long-term debt in 1995. The decline in interest expense in 1994 was mainly due to refinancing long-term debt at more favorable rates.

The effective income tax rate is the provision for income taxes as a percentage of income before taxes and cumulative effects of accounting changes. The effective tax rate of 85.1% for 1995 was impacted by the restructuring and other charges recognized. Excluding business restructuring and other charges, such as merger-related expenses from all three years, our effective tax rate was 37.5% in 1995, compared with 37.9% and 38.3%, in 1994 and 1993, respectively. The decline in 1994 compared with 1993 was mainly due to credits for foreign tax payments and the deferred tax effects of redeeming preferred stock. The effective tax rate in 1995 remained at essentially the same level as 1994 primarily due to lower state tax rates.

## Cash Flows

Operating cash flow increased in both 1995 and 1994, mainly because of higher income before restructuring and other charges. About $160 million of the 1995 pretax charges for business restructuring and other related items required cash payments during the year. Another $4.4 billion of the pretax charges will also require future cash payments primarily in 1996 and 1997.

Most of our capital expenditures support telecommunications network services, providing for growth in calling volumes, the introduction of new technology and enhanced reliability.

Another large part of our investing activities is purchasing finance assets. Our investments in finance assets, which include credit card receivables, leases and equipment for rentals, fuel the growth in revenues and earnings from AT&T Capital and Universal Card.

The $1.68 billion purchase of PCS licenses in 1995 is intended to permit us to offer broadband PCS in 21 major trading areas. Additionally, in 1995 we completed the $3.3 billion acquisition of the minority owners' stake in LIN, a subsidiary of AT&T Wireless Services.

We will continue to make substantial investments in our communications services business. Notable plans include the buildout of PCS sites, preparing to provide local services in the U.S. and funding a variety of projects and joint ventures to offer telecommunications services in other countries.

We intend to conclude an agreement for 49% of a joint venture with Grupo Alfa to offer services in Mexico when that country opens to competition in 1997. We will supply our share of the investment up to $1 billion over the next four to six years. We also have a 40% stake in UniWorld, a joint venture with Unisource, that began operations in January 1996, providing services to multinational business customers in Europe. The venture was formed initially with about $200 million in assets, but may expand, partly because of possible entry into other markets.

Investing activities at Lucent focus on manufacturing and research and development. In 1995, we agreed to purchase part of the public network assets of N.V. Philips' Communications Systems division for approximately $260 million. This acquisition would give us products and an employee base to improve our access to cellular equipment markets in Europe, South America and Southeast Asia.

Competition in communications and computing is global and increasingly involves multinational firms and partners from different nations. We believe commitments of resources to expand globally are necessary for future growth. Although we reported operating losses for the past three years in our units outside of the U.S., we continue to believe that these operations and markets provide excellent opportunities for future revenues and earnings.

For all three years, operating cash flows covered capital expenditures and dividend payments. Operating cash also helped fund other investing activities such as our purchases of PCS licenses and the remaining 48% of LIN in 1995. We expect operating cash will continue covering capital expenditures and dividends in 1996.

The ratio of total debt to total capital (debt plus equity) increased to 62.0% at December 31, 1995, compared with 58.3% at December 31, 1994, mainly because of lower equity caused by the 1995 charges and the increase in debt associated with acquiring PCS licenses and the remaining interest in LIN. Most of our debt supports financial services and leasing operations. Excluding financial services and leasing operations and the impact of the restructuring and other charges taken in 1995, our debt ratio would have been 44.3% at December 31, 1995, compared with 34.1% at December 31, 1994.

AT&T has raised all necessary external financing through issuances of commercial paper and long-term debt, as well as asset-backed securities and equity. Additionally, we have unused available lines of credit totaling approximately $12.4 billion at December 31, 1995. We expect to be able to arrange any future needed financing using these same sources, with the timing of issue, principal amount and form depending on our needs and the prevailing market and economic conditions. Under a Master Trust, $3.5 billion of notes backed by Universal Card receivables were issued in 1995.

In 1995 our debt issuances were primarily to support our financial services and leasing businesses. Much of the financing activity in 1993 and 1994 was refinancing, generally to get lower rates, but sometimes to change maturities. In each of the past three years, we issued new shares of common stock in our shareowner and employee purchase plans. The dilution in earnings per share from new issuances for these plans was not material.

Our asset and liability management strategy for our financial services business is to match the average maturities of our borrowings with the average cash flows of our portfolio assets and to match floating-rate assets with floating-rate debt and fixed-rate assets with fixed-rate debt. Cash flow projections are based on assumptions about customer prepayments, refinancings and charge-offs that are derived from our past experience as well as current customer preferences, competitive market conditions, portfolio growth rates and our portfolio mix. We issue commercial paper and long-term notes and use interest rate swaps to achieve a matched portfolio position in our finance assets.

Foreign currency contracts and options are used to limit risks due to changing currency exchange rates. We do not speculate on interest rates or foreign currency rates. Instead, we seek to reduce the possible effects of fluctuations in these rates. This leads to more stable earnings in periods when these rates are changing.

The notional amounts of derivative contracts do not represent direct credit exposure or future cash requirements. Credit exposure is determined by the market value of derivative contracts that are in a gain position as well as the ability of the counterparties to perform its payment obligations under the agreements. We control credit risk of our derivative contracts through credit approvals, exposure limits and other monitoring procedures. There were no past due amounts related to our derivative contracts at December 31, 1995, nor have there been any charge-offs during the three years ended December 31, 1995.

We sell equity interests in AT&T subsidiaries only when opportunities or circumstances warrant. We have no current plans to sell material interests in subsidiaries beyond those announced and described previously.

## Financial Condition, Including Liquidity

Our cash account includes funds to finance the day-to-day business and funds for pending transactions.

We turned over our inventory 3.1 times in 1995, compared with 3.2 times in 1994. This slight decline reflects higher levels of shipped but not invoiced inventory due to terms and conditions of large network contracts. Accounts receivable turned over an average of 5.7 times in 1995, compared with 6.0 times in 1994. The decrease in 1995 relates to lower turnover levels in our computer business, where revenues have been declining at a greater rate than the related receivables, as well as the impacts of some billing takebacks from the local telephone service carriers for our long distance service business.

The fair value of our pension plan assets is greater than our projected pension obligations. We record pension income when our expected return on plan assets plus amortization of the transition asset (created by our 1986 adoption of the current standard for pension accounting) is greater than the interest cost on our projected benefit obligation plus service cost for the year. Consequently, we continued to have pension income that added to our prepaid pension costs in 1995.

Higher payroll and benefit related liabilities and other liabilities are associated with the restructuring and other charges recorded in 1995.

Other aspects of our financial condition that relate closely to our investing and financing activities – such as finance receivables, plant, licensing costs and debt – have been discussed in the section on cash flows.

## Strategic Restructuring

As announced in September 1995 and discussed elsewhere in this report, AT&T intends to implement a strategic restructuring to separate AT&T into three independent, publicly held, global companies. Our plans are subject to several conditions, including receipt of a favorable tax ruling, other required approvals, and the absence of events or developments that would have a material adverse impact on AT&T or its shareowners.

We plan an initial public offering of approximately a 15% interest in Lucent in the first half of 1996. By the end of 1996, AT&T intends, subject to certain conditions, to distribute its remaining interest in Lucent and its interest in NCR to AT&T's shareowners.

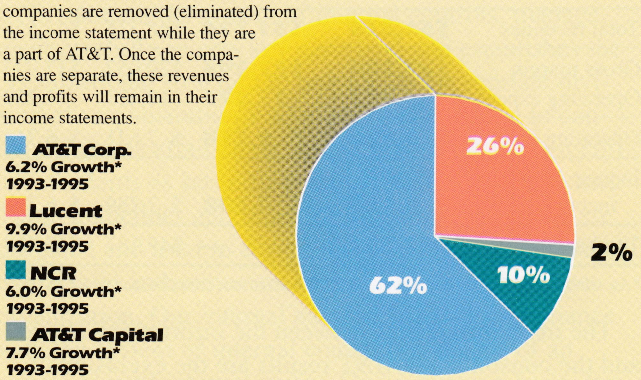
The following financial information for Lucent and NCR reflects those entities as if they had been operating as stand-alone companies in the periods presented. For example, sales to other entities of AT&T are included in revenues. Therefore, the sum of the entities' amounts do not equal consolidated AT&T's results of operations or financial condition.

The "As Adjusted" column for 1995, excludes the restructuring and other charges recorded in 1995 as discussed previously.

**1995 Revenues for the four companies**

**Shown in percentages of the $82.8 billion total before eliminations**

Revenues and profits from transactions between companies are removed (eliminated) from the income statement while they are a part of AT&T. Once the companies are separate, these revenues and profits will remain in their income statements.




*Compounded annual growth rate

## Lucent Technologies Inc.

Lucent includes our businesses that develop, manufacture and service systems and software for telecommunications applications within the global telecommunications networking industry. These integrated systems enable network operators and business enterprises to connect, route, manage and store information between and within locations. They range in size from large global public telephone networks to small-business communications systems and support functions ranging from simple voice-only applications to complex multifunctional service offerings. Additionally, substantially all of Bell Laboratories is a part of this company.

The following table provides summary financial information for Lucent. It reflects the results of operations of the businesses transferred to Lucent from AT&T. As a result, the financial information has been derived from the financial statements of AT&T using the historical results of operations and historical basis of assets and liabilities of such businesses. Additionally, it includes certain assets, liabilities and expenses that were not historically recorded at the level of, but are primarily associated with, this business. We believe the assumptions underlying the financial information to be reasonable. However, the financial information may not necessarily reflect the results of operations or financial position of Lucent in the future, or what the results of operations or financial position would have been had Lucent been a separate, stand-alone entity during the periods presented.

**Lucent Technologies Inc.**

| Dollars in millions | 1995 | 1995 As Adjusted* | 1994 | 1993 |
|---|---|---|---|---|
| External revenues | $19,294 | $19,294 | $17,628 | $15,767 |
| Internal revenues | 2,119 | 2,119 | 2,137 | 1,967 |
| Total revenues | $21,413 | $21,413 | $19,765 | $17,734 |
| Gross margin | $ 8,468 | $ 9,360 | $ 8,428 | $ 7,646 |
| Operating expenses | 9,468 | 7,559 | 7,457 | 6,977 |
| Operating income | $ (1,000) | $ 1,801 | $ 971 | $ 669 |
| Income before income taxes | $ (1,116) | $ 1,685 | $ 854 | $ 666 |
| Total assets | $19,722 | — | $17,340 | $17,109 |

*As adjusted excludes the restructuring and other charges recorded in 1995.

The "internal revenues" in this table represent sales to other units of AT&T and its affiliates. They do not include any revenues from sales between operating units of Lucent, which will continue to be eliminated in consolidation. Most internal revenues are for network equipment sold to AT&T for the construction and maintenance of the AT&T Worldwide Intelligent Network, which will remain at AT&T.

As part of AT&T's strategic restructuring, Lucent underwent a comprehensive review of its operations. Approximately 23,000 of the total positions to be eliminated come from Lucent. Lucent intends to focus its investments on its core technologies, primarily through expanded and targeted research and development efforts. Consequently, Lucent will exit tangential product lines and markets, including AT&T Paradyne which manufactures certain data communications equipment and AT&T Microelectronics Interconnect products business which manufactures backplanes and printed circuit boards. Lucent's reorganization efforts also include plans to close all of its 338 Phone Center Stores, most of which will be closed by May 1996. As a result, Lucent recorded restructuring and other charges in 1995 of $2,801 million ($1,847 million after taxes). The pretax charges included $1,509 million for employee separations and other related items, $627 million for asset write-downs, $202 million for closing, selling and consolidating facilities and $463 million for other items.

## NCR Corporation

We plan to make NCR a stand-alone business focused on transaction-intensive computing. The new strategy centers around more profitable products such as massively parallel computer processors, automated teller machines and retail scanning equipment. This direction also enhances the company's primary strategy which is to help businesses use new technology to collect and use information to enhance customer service. Although NCR is ceasing the manufacture of personal computers, it will continue to offer personal computers manufactured by others as part of its total solutions approach.

The following table provides summary financial information for NCR. It reflects the results of operations of the businesses to be transferred to NCR from AT&T. As a result, the financial information has been derived from the financial statements of AT&T using the historical results of operations and historical basis of assets and liabilities of such businesses. Additionally, it includes certain assets, liabilities and expenses that were not historically recorded at the level of, but are primarily associated with, this business. We believe the assumptions underlying the financial information to be reasonable. However, the financial information may not necessarily reflect the results of operations or financial position of NCR in the future, or what the results of operations or financial position would have been had NCR been a separate, stand-alone entity during the periods presented.

### NCR Corporation

| Dollars in millions | 1995 | 1995 As Adjusted* | 1994 | 1993 |
|---|---|---|---|---|
| External revenues | **$ 7,531** | **$7,531** | $7,939 | $6,879 |
| Internal revenues | **631** | **631** | 522 | 386 |
| Total revenues | **$ 8,162** | **$8,162** | $8,461 | $7,265 |
| Gross margin | **$ 973** | **$1,904** | $2,671 | $2,524 |
| Operating expenses | **3,344** | **2,624** | 2,773 | 2,805 |
| Operating loss | **$(2,371)** | **$ (720)** | $ (102) | $ (281) |
| Income (loss) before income taxes | **$(2,354)** | **$ (703)** | $ 3 | $ (264) |
| Total assets | **$ 5,181** | — | $6,006 | $5,207 |

*As adjusted excludes the restructuring and other charges recorded in 1995.

The "internal revenues" in this table primarily represent sales of computer products to other units of AT&T and its affiliates.

NCR, as a result of continuing operating losses, has taken decisive action in 1995 to create a smaller, more focused business, concentrating on the three industries in which it has a leading position – retailing, financial and communications.

This resulted in restructuring and other charges in the third quarter of 1995, of approximately $1.6 billion before taxes ($1.2 billion after taxes). The pretax charges reflect $698 million for employee separations and other related costs, $564 million for asset write-downs, $196 million for closing, selling and consolidating facilities and $191 million for other items.

## Ongoing AT&T

The ongoing business of AT&T will include communications services, wireless services, AT&T Solutions consulting services and our Universal Card business. Building on the skills from Bell Laboratories, we will also create an AT&T Laboratories unit that will continue research and development for the ongoing AT&T.

The following table provides summary financial information for the operations of AT&T that will remain with AT&T.

### AT&T without Lucent, NCR and AT&T Capital

| Dollars in millions | 1995 | 1995 As Adjusted* | 1994 | 1993 |
|---|---|---|---|---|
| Total revenues | **$51,374** | **$51,374** | $48,315 | $45,556 |
| Gross margin | **$21,305** | **$22,395** | $20,052 | $17,973 |
| Operating expenses | **15,927** | **13,877** | 12,421 | 11,259 |
| Operating income | **$ 5,378** | **$ 8,518** | $ 7,631 | $ 6,714 |
| Income before income taxes | **$ 5,168** | **$ 8,308** | $ 7,289 | $ 6,398 |
| Total assets | **$55,603** | — | $49,167 | $42,724 |

*As adjusted excludes the restructuring and other charges recorded in 1995.

The main differences between the information above and the consolidated AT&T results are the exclusion of Lucent, NCR and AT&T's interest in AT&T Capital.

The businesses that are part of the ongoing AT&T recorded restructuring and other charges of $3,140 million ($2,104 after taxes) in 1995 related to AT&T's plans to separate into three companies. The pretax charges cover consolidating and reorganizing numerous corporate and business unit operations during the next two years including force reductions of 17,000 positions as well as the write-down in value of some unnecessary network facilities, of nonstrategic wireless assets and some investments. The pretax charges cover $956 million for employee separations and other related items, $1,342 million for asset write-downs, $497 million for closing, selling and consolidating facilities and $345 million for other items. In connection with the plan to separate into three companies, AT&T, Lucent and NCR have entered into various agreements. These agreements generally provide for the separation and distribution of the operating assets and liabilities, and pension plan assets and liabilities, as well as tax sharing and allocation. Additionally, various interim services agreements provide for certain data processing services, telecommunications services and certain support services on specified terms.

In accordance with SEC rules and regulations, as uncertainties surrounding our plan to separate are cleared, we will provide more financial information. If you are interested in directly receiving this information as it is made public, it will be available by calling AT&T Shareowner Services toll-free at 1 800 348-8288.

## Report of Management

Management is responsible for the preparation, integrity and objectivity of the financial statements and all other financial information included in this report. Management is also responsible for maintaining a system of internal controls as a fundamental requirement for the operational and financial integrity of results.

The financial statements which reflect the consolidated accounts of AT&T and subsidiaries and other financial information shown, were prepared in conformity with generally accepted accounting principles. Estimates included in the financial statements were based on judgments of qualified personnel.

To maintain its system of internal controls, management carefully selects key personnel and establishes the organizational structure to provide an appropriate division of responsibility. We believe it is essential to conduct business affairs in accordance with the highest ethical standards as set forth in the AT&T Code of Conduct. These guidelines and other informational programs are designed and used to ensure that policies, standards and managerial authorities are understood throughout the organization. Our internal auditors monitor compliance with the system of internal controls by means of an annual plan of internal audits. On an ongoing basis, the system of internal controls is reviewed, evaluated and revised as necessary in light of the results of constant management oversight, internal and independent audits, changes in AT&T's business and other conditions.

Management believes that the system of internal controls, taken as a whole, provides reasonable assurance that (1) financial records are adequate and can be relied upon to permit the preparation of financial statements in conformity with generally accepted accounting principles, and (2) access to assets occurs only in accordance with management's authorizations.

The Audit Committee of the Board of Directors, which is composed of directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups of individuals are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Periodically, both the internal auditors and the independent auditors meet privately with the Audit Committee. These auditors also have access to the Audit Committee and its individual members at any time.

The financial statements in this annual report have been audited by Coopers & Lybrand L.L.P., Independent Auditors. Their audits were conducted in accordance with generally accepted auditing standards and include consideration of the internal control structure and selective tests of transactions. Their report follows.

Richard W. Miller
Executive Vice President,
Chief Financial Officer

Robert E. Allen
Chairman of the Board,
Chief Executive Officer

## Report of Independent Auditors

To the Shareowners of AT&T Corp.:

We have audited the consolidated balance sheets of AT&T Corp. and subsidiaries (AT&T) at December 31, 1995 and 1994, and the related consolidated statements of income, changes in shareowners' equity, and cash flows for the years ended December 31, 1995, 1994 and 1993. These financial statements are the responsibility of AT&T's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AT&T at December 31, 1995 and 1994, and the consolidated results of their operations, changes in their shareowners' equity and their cash flows for the years ended December 31, 1995, 1994 and 1993, in conformity with generally accepted accounting principles.

As discussed in Note 3 to the financial statements, in 1993 AT&T changed its methods of accounting for postretirement benefits, postemployment benefits and income taxes.

Coopers & Lybrand LLP

Coopers & Lybrand L.L.P.
1301 Avenue of the Americas
New York, New York
January 25, 1996

# CONSOLIDATED STATEMENTS OF INCOME

AT&T Corp. and Subsidiaries, Years Ended December 31

| DOLLARS IN MILLIONS (EXCEPT PER SHARE AMOUNTS) | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Sales and Revenues** | | | |
| Telecommunications services | $47,277 | $44,600 | $42,779 |
| Products and systems | 22,412 | 21,161 | 17,925 |
| Rentals and other services | 6,189 | 6,216 | 6,143 |
| Financial services and leasing | 3,731 | 3,117 | 2,504 |
| **Total revenues** | 79,609 | 75,094 | 69,351 |
| **Costs** | | | |
| Telecommunications services | | | |
| Access and other interconnection costs | 17,618 | 17,797 | 17,772 |
| Other costs | 9,123 | 7,873 | 7,937 |
| Total telecommunications services | 26,741 | 25,670 | 25,709 |
| Products and systems | 16,045 | 13,273 | 10,966 |
| Rentals and other services | 4,098 | 3,287 | 3,319 |
| Financial services and leasing | 2,646 | 2,152 | 1,711 |
| **Total costs** | 49,530 | 44,382 | 41,705 |
| **Gross margin** | 30,079 | 30,712 | 27,646 |
| **Operating Expenses** | | | |
| Selling, general and administrative expenses | 25,146 | 19,653 | 18,037 |
| Research and development expenses | 3,718 | 3,110 | 3,111 |
| **Total operating expenses** | 28,864 | 22,763 | 21,148 |
| **Operating income** | 1,215 | 7,949 | 6,498 |
| Other income – net | 458 | 293 | 546 |
| Loss on sale of stock by subsidiary | — | — | 9 |
| Interest expense | 738 | 724 | 1,032 |
| **Income before income taxes and cumulative effects of accounting changes** | 935 | 7,518 | 6,003 |
| Provision for income taxes | 796 | 2,808 | 2,301 |
| Income before cumulative effects of accounting changes | 139 | 4,710 | 3,702 |
| Cumulative effects on prior years of changes in accounting for: | | | |
| Postretirement benefits (net of income tax benefit of $4,294) | — | — | (7,023) |
| Postemployment benefits (net of income tax benefit of $681) | — | — | (1,128) |
| Income taxes | — | — | (1,457) |
| Cumulative effects of accounting changes | — | — | (9,608) |
| **Net Income (Loss)** | $ 139 | $ 4,710 | $ (5,906) |
| Weighted average common shares outstanding (millions) | 1,592 | 1,564 | 1,547 |
| **Per Common Share:** | | | |
| Income before cumulative effects of accounting changes | $ 0.09 | $ 3.01 | $ 2.39 |
| Cumulative effects of accounting changes | — | — | (6.21) |
| **Net Income (Loss)** | $ 0.09 | $ 3.01 | $ (3.82) |

THE NOTES ON PAGES 38 THROUGH 50 ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY

AT&T Corp. and Subsidiaries, Years Ended December 31

| DOLLARS IN MILLIONS | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Common shares** | | | |
| Balance at beginning of year | $ 1,569 | $ 1,547 | $ 1,526 |
| Shares issued: | | | |
| Under employee plans | 13 | 11 | 6 |
| Under shareowner plans | 13 | 8 | 8 |
| Other | 1 | 3 | 7 |
| **Balance at end of year** | 1,596 | 1,569 | 1,547 |
| **Additional paid-in capital** | | | |
| Balance at beginning of year | 15,825 | 14,324 | 13,485 |
| Shares issued: | | | |
| Under employee plans | 602 | 538 | 183 |
| Under shareowner plans | 687 | 424 | 450 |
| Other | 31 | 133 | 208 |
| Shares repurchased | (4) | (2) | (4) |
| Preferred stock redemption | — | 408 | — |
| Dividends declared | (527) | — | — |
| Other changes | — | — | 2 |
| **Balance at end of year** | 16,614 | 15,825 | 14,324 |
| **Guaranteed ESOP obligation** | | | |
| Balance at beginning of year | (305) | (355) | (407) |
| Amortization | 51 | 50 | 52 |
| **Balance at end of year** | (254) | (305) | (355) |
| **Foreign currency translation adjustments** | | | |
| Balance at beginning of year | 145 | (32) | 65 |
| Translation adjustments | (140) | 177 | (97) |
| **Balance at end of year** | 5 | 145 | (32) |
| **Retained earnings (deficit)** | | | |
| Balance at beginning of year | 687 | (2,110) | 5,644 |
| Net income | 139 | 4,710 | (5,906) |
| Dividends paid | (1,570) | (1,940) | (1,780) |
| Other changes | 57 | 27 | (68) |
| **Balance at end of year** | (687) | 687 | (2,110) |
| **Total Shareowners' Equity** | $17,274 | $17,921 | $13,374 |

THE NOTES ON PAGES 38 THROUGH 50 ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

In March 1990 we issued 13.4 million new shares of common stock in connection with the establishment of an ESOP feature for the nonmanagement savings plan. The shares are being allocated to plan participants over ten years commencing in July 1990 as contributions are made to the plan.

We have 100 million authorized shares of preferred stock at $1 par value. No preferred stock is currently issued or outstanding.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

AT&T Corp. and Subsidiaries, Years Ended December 31

| DOLLARS IN MILLIONS | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income (loss) | $ 139 | $ 4,710 | $(5,906) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Restructuring and other charges | 7,685 | — | 498 |
| Cumulative effects of accounting changes | — | — | 9,608 |
| Depreciation and amortization | 4,845 | 4,633 | 4,702 |
| Provision for uncollectibles | 2,378 | 1,929 | 1,665 |
| Increase in accounts receivable | (3,386) | (2,673) | (2,211) |
| Increase in inventories | (1,206) | (394) | (594) |
| Increase (decrease) in accounts payable | 1,043 | 1,125 | (295) |
| Net decrease (increase) in other operating assets and liabilities | 366 | (793) | (1,579) |
| Other adjustments for noncash items – net | (2,174) | 509 | 1,505 |
| **Net cash provided by operating activities** | 9,690 | 9,046 | 7,393 |
| **Investing Activities** | | | |
| Capital expenditures, net of proceeds from sale or disposal of property, plant and equipment of $414, $354 and $198 | (5,997) | (4,572) | (4,142) |
| Increase in finance assets, net of lease-related repayments of $3,960, $3,760 and $3,703 | (3,785) | (5,315) | (4,222) |
| Cash proceeds from securitizations of finance receivables | 3,747 | 303 | 586 |
| Additions to licensing costs | (1,978) | (293) | (89) |
| Net increase in investments | (228) | (165) | (453) |
| (Acquisitions) dispositions, net of cash acquired | (3,355) | 144 | (228) |
| Other investing activities – net | (357) | 53 | (86) |
| **Net cash used in investing activities** | (11,953) | (9,845) | (8,634) |
| **Financing Activities** | | | |
| Proceeds from long-term debt issuances | 5,504 | 6,134 | 4,386 |
| Retirements of long-term debt | (4,519) | (5,637) | (5,879) |
| Issuance of common shares | 1,214 | 973 | 1,053 |
| Dividends paid | (2,088) | (1,870) | (1,774) |
| Increase in short-term borrowings – net | 1,760 | 1,746 | 2,586 |
| Other financing activities – net | 87 | (32) | 25 |
| **Net cash provided by financing activities** | 1,958 | 1,314 | 397 |
| Effect of exchange rate changes on cash | 5 | 22 | 3 |
| Net increase (decrease) in cash and temporary cash investments | (300) | 537 | (841) |
| **Cash and temporary cash investments at beginning of year** | 1,208 | 671 | 1,512 |
| **Cash and temporary cash investments at end of year** | $ 908 | $ 1,208 | $ 671 |

THE NOTES ON PAGES 38 THROUGH 50 ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

AT&T Corp. and Subsidiaries (AT&T)
(Dollars in Millions, except per share amounts)

## 1. Summary of Significant Accounting Policies

### Consolidation

The consolidated financial statements include all majority-owned subsidiaries. Investments in which we exercise significant influence but which we do not control (generally a 20% – 50% ownership interest) are accounted for under the equity method of accounting. Generally, investments in which we have a less than 20% ownership interest are accounted for under the cost method of accounting. The fiscal year of most AT&T operations ends December 31.

### Currency Translation

For operations outside of the U.S. that prepare financial statements in currencies other than the U.S. dollar, we translate income statement amounts at average exchange rates for the year, and we translate assets and liabilities at year-end exchange rates. We present these translation adjustments as a separate component of shareowners' equity.

### Revenue Recognition

| Revenue from | Basis of recognition |
|---|---|
| Telecommunications Services | Minutes of traffic processed and contracted fees |
| Products and Systems | Percentage-of-completion method for most long-term contracts; upon performance of contractual obligations for others |
| Rentals and Other Services | Proportionately over contract periods or as services are performed |
| Financial Services and Leasing | Over the life of the finance receivables using the interest method, or straight-line over life of operating leases |

### Software Production Costs

Until technological feasibility is established, we expense the costs of developing computer software that we plan to sell, lease or otherwise market, as incurred. After that time, we capitalize the remaining software production costs and amortize them to costs over the estimated period of sales and revenues.

### Advertising Costs

We expense costs of advertising as incurred. Advertising expense was $2,265, $2,219 and $1,665 in 1995, 1994 and 1993, respectively.

### Investment Tax Credits

We amortize investment tax credits as a reduction to the provision for income taxes over the useful lives of the property that produced the credits.

### Earnings Per Share

We use the weighted average number of shares of common stock and common stock equivalents outstanding during each period to compute earnings per common share. Common stock equivalents are stock options that we assume to be exercised for the purposes of this computation.

### Temporary Cash Investments

We consider all highly liquid investments with original maturities of generally three months or less to be temporary cash investments.

### Inventories

We state inventories at the lower of cost or market (i.e., net realizable value or replacement cost). Cost includes material, labor and manufacturing overhead. We determine cost principally on a first-in, first-out (FIFO) basis.

### Property, Plant and Equipment

We state property, plant and equipment at cost and determine depreciation using either the group or unit method. The unit method is used primarily for laboratory equipment, large computer systems, and certain international earth stations and submarine cables. When we sell assets that were depreciated using the unit method, we include the gains or losses in operating results. The group method is used for most other depreciable assets. When we sell or retire plant that was depreciated using the group method, we deduct the original cost from the plant account and from accumulated depreciation.

We use accelerated depreciation methods for factory facilities and digital equipment used in the telecommunications network, except switching equipment placed in service before 1989 and certain high technology computer processing equipment. All other plant and equipment is depreciated on a straight-line basis.

### Licensing Costs

Licensing costs are costs incurred to develop or acquire cellular, personal communication services (PCS) and messaging licenses. Generally, amortization begins with the commencement of service to customers and is computed using the straight-line method over a period of 40 years.

### Goodwill

Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations treated as purchases. We amortize goodwill on a straight-line basis over the periods benefited, principally in the range of 10 to 40 years. Goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future cash flows is less than the carrying amount of the asset, a loss is recognized.

### Derivative Financial Instruments

We use various financial instruments, including derivative financial instruments, for purposes other than trading. We do not use derivative financial instruments for speculative purposes. Derivatives, used as part of our risk management strategy, must be designated at inception as a hedge and measured for effectiveness both at inception and on an ongoing basis. Gains and losses that do not qualify as hedges are recognized in other income or expense.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for long-term contracts, allowance for doubtful accounts, inventory obsolescence, product warranty reserves, depreciation and amortization, employee benefit plans, taxes, restructuring reserves and contingencies.

### Reclassifications

We reclassified certain amounts for previous years to conform with the 1995 presentation.

## 2. Restructuring of AT&T

On September 20, 1995, we announced a plan to separate AT&T into three independent, publicly held, global companies that will each focus on serving certain core businesses: communications services (AT&T), communications systems and technology (Lucent Technologies Inc.) and transaction-intensive computing (NCR Corporation). We are planning an initial public offering of approximately 15% of Lucent Technologies Inc. (Lucent) common stock in the first half of 1996 with our remaining interest in Lucent and NCR Corporation (NCR) being spun off to AT&T shareowners by the end of 1996. The plan also includes our intention to pursue the sale of our remaining interest in AT&T Capital Corporation (AT&T Capital) in 1996. Our plan is subject to several conditions, including receipt of a favorable tax ruling and other approvals, and the absence of events or developments that would have a material adverse impact on AT&T or its shareowners. In connection with the plan AT&T, Lucent and NCR have entered into various agreements. These agreements generally provide for the separation and distribution of the operating assets and liabilities and pension plan assets and liabilities, as well as tax sharing and allocation. Additionally, various interim service agreements provide for certain data processing services, telecommunication services and certain support services on specified terms.

## 3. Changes in Accounting Principles

### Impairment of Long-Lived Assets

Effective October 1, 1995, we adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of." This standard requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of this standard did not materially affect our reported earnings, financial condition or cash flows because this was essentially the same method we used in the past to measure and record asset impairments. Our 1995 restructuring and other charges included recognition of asset impairments.

### Postretirement Benefits

We adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1993. This standard requires us to accrue estimated future retiree benefits during the years employees are working and accumulating these benefits. Previously, we expensed health care benefits as claims were incurred and life insurance benefits as plans were funded.

In 1993, we recorded a one-time pretax charge for the unfunded portions of these liabilities of $11,317 ($7,023, or $4.54 per share, after taxes). Apart from these cumulative effects on prior years of the accounting change, this change in accounting had no material effect on net income and it does not affect cash flows.

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Other income – net** | | | |
| Interest income | **$101** | $ 72 | $141 |
| Royalties and dividends | **74** | 30 | 59 |
| Minority interests in earnings of subsidiaries | **(73)** | (64) | (9) |
| Miscellaneous – net | **356** | 255 | 355 |
| Total other income – net | **$458** | $293 | $546 |

In June 1993, we sold our remaining 77% interest in UNIX System Laboratories, Inc. to Novell, Inc. (Novell) in exchange for approximately 3% of Novell's common stock. Our gain on the sale was $217. Between 1995 and 1994 we subsequently recognized a cumulative decline of $107 in the value of the stock of Novell.

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Deducted from interest expense** | | | |
| Capitalized interest | **$121** | $47 | $72 |

### Supplementary Balance Sheet Information

| At December 31 | 1995 | 1994 |
|---|---|---|
| **Inventories** | | |
| Completed goods | **$ 2,293** | $ 2,022 |
| Work in process and raw materials | **1,781** | 1,611 |
| Total inventories | **$ 4,074** | $ 3,633 |
| **Property, plant and equipment** | | |
| Land and improvements | **$ 772** | $ 761 |
| Buildings and improvements | **9,562** | 9,240 |
| Machinery, electronic and other equipment | **38,729** | 34,797 |
| Total property, plant and equipment | **49,063** | 44,798 |
| Accumulated depreciation | **(26,799)** | (23,519) |
| Property, plant and equipment – net | **$22,264** | $21,279 |
| **Investments** | | |
| Accounted for by the equity method | **$ 3,329** | $ 2,314 |
| Stated at cost or fair value | **556** | 394 |
| Total investments | **$ 3,885** | $ 2,708 |
| **Other assets** | | |
| Unamortized software production costs | **$ 489** | $ 483 |
| Unamortized goodwill | **1,735** | 1,007 |
| Deferred charges | **378** | 746 |
| Other | **1,627** | 1,757 |
| Total other assets | **$ 4,229** | $ 3,993 |

### Supplementary Cash Flow Information

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| Interest payments net of amounts capitalized | **$1,691** | $1,445 | $1,728 |
| Income tax payments | **1,893** | 2,047 | 1,733 |

The following table displays the noncash items excluded from the consolidated statements of cash flows:

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| Machinery and equipment acquired under capital lease obligations | **$ 41** | $ 13 | $ 15 |
| **Exchange of stock** | | | |
| Net assets | **$ —** | $ 2 | $ (43) |
| Investments | **—** | — | 260 |
| Licenses | **32** | 134 | 96 |
| Total | **$ 32** | $136 | $ 313 |
| **Acquisition/Disposition activities** | | | |
| Net receivables | **$ (46)** | $ 24 | $ (19) |
| Inventories | **72** | (10) | (1) |
| Property, plant and equipment | **(106)** | 3 | (132) |
| Licensing costs | **(1,960)** | (79) | 5 |
| Accounts payable | **1** | (8) | 7 |
| Short-term and long-term debt | **(450)** | 47 | 3 |
| Other operating assets and liabilities – net | **(866)** | 167 | (91) |
| Net noncash items consolidated | **(3,355)** | 144 | (228) |
| Net cash (used for) received from acquisitions/dispositions | **$(3,355)** | $144 | $(228) |

## 8. Business Restructuring and Other Charges

In the fourth quarter of 1995, we recorded a pretax charge of $6,248 to cover restructuring costs of $5,336 and asset impairments and other charges of $912. Our fourth quarter charges include plans to restructure our consumer products business to implement major process improvements in how it designs, manufactures and distributes those products; consolidating and reorganizing numerous corporate and business unit operations during the next two years; and selling the AT&T Microelectronics Interconnect business and AT&T Paradyne. Accordingly, the fourth quarter restructure charge of $5,336 included the separation costs for nearly 40,000 employees, of which about 24,000 were management and 16,000 were occupational. As of December 31, 1995, approximately 7,400 management employees have accepted a voluntary severance package and will leave in early 1996. We expect 70% of all separations to be completed by the end of 1996 with the majority of the remaining separations being completed during 1997. The force reductions include about 10,000 corporate-wide staff jobs in functions such as information systems, human resources, financial operations, legal and public relations. The remaining separations will occur within the operating units of the ongoing AT&T and Lucent. The restructuring charge also included costs associated with early termination of building leases and asset write-downs as part of our plan to sell certain businesses and to restructure our operations.

In the third quarter of 1995, we approved the restructuring plans of NCR and recorded a pretax charge totaling $1,597 to cover restructuring costs of $1,547 and other charges of $50. NCR's plans include discontinuing the manufacture of personal computers, consolidating facilities globally, reducing industry markets served, as well as separating about 7,200 employees, including 3,200 in foreign locations. We expect to complete all NCR's restructuring plans by the end of 1996. As of December 31, 1995, about 4,900 employees have left NCR and the remainder will leave in 1996.

In 1993 we recorded a $498 pretax provision for business restructuring. Of the total provision, $227 was related to costs at NCR and $215 was for restructuring customer support functions for telecommunications services. The remainder of the provision consisted of $23 related to closing plants and $33 related to operations that service the U.S. federal government. The total 1993 provision of $498 was recorded as $13 in costs of products and systems, $90 in costs of other services, $373 in selling, general and administrative expenses and $22 in research and development expenses.

The following table displays a rollforward of the liabilities for business restructuring from December 31, 1993 to December 31, 1995:

| Type of Cost | Dec. 31, 1993 Balance | 1994 Additions | 1994 Other | 1994 Payments | Dec. 31, 1994 Balance |
|---|---|---|---|---|---|
| Employee separations | $ 356 | $ 5 | $ (52) | $(265) | $ 44 |
| Facility closings | 788 | 21 | 4 | (172) | 641 |
| Other | 296 | 8 | (67) | (28) | 209 |
| Total | $1,440 | $34 | $(115) | $(465) | $894 |

| Type of Cost | Dec. 31, 1994 Balance | 1995 Additions | 1995 Other | 1995 Payments | Dec. 31, 1995 Balance |
|---|---|---|---|---|---|
| Employee separations | $ 44 | **$2,712** | **$(22)** | **$(165)** | **$2,569** |
| Facility closings | 641 | **895** | **(51)** | **(227)** | **1,258** |
| Other | 209 | **837** | **(10)** | **(86)** | **950** |
| Total | $894 | **$4,444** | **$(83)** | **$(478)** | **$4,777** |

Other represents reversals of business restructuring reserves no longer required.

The December 31, 1993 business restructuring balance included reserves primarily for real estate, NCR and reengineering operator services. As of December 31, 1995, $469 of the $1,440 December 31, 1993 balance remained. This balance is related to excess space at some locations and is expected to be fully utilized over the remaining terms of the leases.

We believe that the liabilities for business restructuring of $4,777 at December 31, 1995 are adequate to complete our plans.

In 1995 in addition to recording restructuring liabilities of $4,444, asset impairments of $1,734 (which were credited directly to the related asset balances) and $705 of benefit plan losses were included in the total restructure costs of $6,883. Benefit plan losses relate to our pension and other employee benefit plans and primarily represent losses in the current year for actuarial changes that otherwise might have been amortized over future periods.

The fourth quarter charge also included $799 for writing down certain impaired assets, including the write-down in the value of some unnecessary network facilities, the write-down of nonstrategic wireless assets and the reduction in value of some investments. There were no assets to be disposed of or sold included in these write-downs. The third and fourth quarter charges also included $163 of other items, none of which individually exceed 1% of the total charge.

The pretax total of the third and fourth quarter charges of $7,845 for 1995 was recorded as $670 in costs of telecommunications services, $1,676 in costs of products and systems, $717 in costs of rentals and other services, $6 in costs of financial services and leasing, $4,359 in selling, general and administrative expenses and $417 in research and development expenses. If viewed by type of cost, the combined charges reflect $3,417 for employee separations and other related items; $2,533 for asset write-downs; $895 for closing, selling and consolidating facilities; and $1,000 for other items. The total combined charges reduced net income by $5,353 or $3.36 per share. Of the total combined charges, we have made cash payments of $160 as of December 31, 1995 and approximately $4.4 billion will result in payment of cash in the future. Approximately $3.3 billion related to noncash items.

## 9. Income Taxes

The following table shows the principal reasons for the difference between the effective tax rate and the United States federal statutory income tax rate:

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| U.S. federal statutory income tax rate | **35%** | 35% | 35% |
| Federal income tax at statutory rate | **$327** | $2,631 | $2,101 |
| Amortization of investment tax credits | **(36)** | (33) | (92) |
| State and local income taxes, net of federal income tax effect | **120** | 296 | 287 |
| Amortization of intangibles | **94** | 20 | 24 |
| Foreign rate differential | **106** | 36 | 45 |
| Taxes on repatriated and accumulated foreign income, net of tax credits | **194** | (71) | (20) |
| Research credits | **(58)** | (66) | (47) |
| Effect of tax rate change on deferred tax assets | **—** | — | (23) |
| Other differences – net | **49** | (5) | 26 |
| Provision for income taxes | **$796** | $2,808 | $2,301 |
| Effective income tax rate | **85.1%** | 37.4% | 38.3% |

The 1995 effective tax rate is high primarily due to the foreign tax effects associated with the restructuring and other charges.

The U.S. and foreign components of income before income taxes and the provision for income taxes are presented in this table:

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Income before income taxes** | | | |
| United States | **$ 1,799** | $6,841 | $5,705 |
| Foreign | **(864)** | 677 | 298 |
| Total | **$ 935** | $7,518 | $6,003 |
| **Provision for income taxes** | | | |
| **Current** | | | |
| Federal | **$ 1,606** | $1,618 | $ 925 |
| State and local | **390** | 300 | 206 |
| Foreign | **212** | 225 | 169 |
| | **$ 2,208** | $2,143 | $1,300 |
| **Deferred** | | | |
| Federal | **$(1,023)** | $ 488 | $ 910 |
| State and local | **(205)** | 155 | 212 |
| Foreign | **(148)** | 60 | (41) |
| | **$(1,376)** | $ 703 | $1,081 |
| Deferred investment tax credits – net* | **(36)** | (38) | (80) |
| Provision for income taxes | **$ 796** | $2,808 | $2,301 |

*Net of amortization of $36 in 1995, $33 in 1994 and $92 in 1993.

Deferred tax liabilities are taxes we expect to pay in future periods. Similarly, deferred tax assets are recorded for expected reductions in taxes payable in future periods.

Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Deferred tax liabilities and assets consist of the following:

| | 1995 | 1994 |
|---|---|---|
| **Long-term deferred income tax liabilities:** | | |
| Property, plant and equipment | **$6,981** | $5,872 |
| Investments | **792** | 343 |
| Other | **1,568** | 1,370 |
| Total long-term deferred tax liabilities | **$9,341** | $7,585 |
| **Long-term deferred income tax assets:** | | |
| Business restructuring | **$ 853** | $ 479 |
| Net operating loss/credit carryforwards | **410** | 175 |
| Employee pensions and other benefits – net | **2,353** | 2,618 |
| Reserves and allowances | **329** | 141 |
| Valuation allowance | **(293)** | (178) |
| Other | **490** | 437 |
| Total long-term deferred income tax assets | **$4,142** | $3,672 |
| Net long-term deferred income tax liabilities | **$5,199** | $3,913 |
| **Current deferred income tax liabilities:** | | |
| Total current deferred income tax liabilities | **$ 210** | $ 110 |
| **Current deferred income tax assets:** | | |
| Business restructuring | **$ 763** | $ 99 |
| Net operating loss/credit carryforwards | **61** | 99 |
| Employee pensions and other benefits | **1,546** | 1,166 |
| Reserves and allowances | **1,472** | 1,126 |
| Valuation allowance | **(61)** | — |
| Other | **889** | 650 |
| Total current deferred income tax assets | **$4,670** | $3,140 |
| Net current deferred income tax assets | **$4,460** | $3,030 |

At December 31, 1995 we had net operating loss carryforwards (tax affected) for federal and state income tax purposes of $115 and $98, respectively, expiring through 2010. We also had foreign net operating loss carryforwards (tax affected) of $192, of which $145 has no expiration date, with the balance expiring by 2002. Federal and foreign tax credit carryforwards amounting to $65 also exist. The majority of these credits are not subject to expiration. We recorded a valuation allowance to reflect the estimated amount of deferred tax assets which, more likely than not, will not be realized.

## 10. Leases

### As Lessor

We provide financing on sales of our products and those of other companies, primarily through AT&T Capital, and lease our products to customers under sales-type leases. This table displays our net investment in direct financing and sales-type leases that are primarily included in finance receivables:

| At December 31 | 1995 | 1994 |
|---|---|---|
| Minimum lease payments receivable | $ 6,699 | $5,414 |
| Estimated unguaranteed residual values | 731 | 593 |
| Unearned income | (1,189) | (1,006) |
| Allowance for credit losses | (166) | (127) |
| Net investment | $ 6,075 | $4,874 |

This table shows the scheduled maturities for our $6,699 minimum lease payments receivable on these leases at December 31, 1995:

| 1996 | 1997 | 1998 | 1999 | 2000 | Later Years |
|---|---|---|---|---|---|
| $2,574 | $1,868 | $1,164 | $637 | $254 | $202 |

We lease airplanes, energy-producing facilities and transportation equipment under leveraged leases having original terms ranging from 10 to 30 years, expiring in various years from 1996 through 2026. Leveraged leases are included in finance receivables on the balance sheet. This table shows our net investment in leveraged leases:

| At December 31 | 1995 | 1994 |
|---|---|---|
| Rentals receivable (net of principal and interest on nonrecourse notes) | $ 885 | $ 967 |
| Estimated unguaranteed residual values | 787 | 781 |
| Unearned income | (396) | (472) |
| Allowance for credit losses | (34) | (30) |
| Investment in leveraged leases | 1,242 | 1,246 |
| Deferred taxes | (1,189) | (1,066) |
| Net investment | $ 53 | $ 180 |

We lease assets to others through operating leases, the majority of which are cancelable. Assets under operating leases, other than those owned by our finance subsidiaries, are included in property, plant and equipment. This table shows our net investment in operating leases:

| At December 31 | 1995 | 1994 |
|---|---|---|
| Machinery, electronic and other equipment | $1,902 | $ 1,391 |
| Buildings and land | 800 | 738 |
| Less: Accumulated depreciation | (1,142) | (817) |
| Net investment | $1,560 | $ 1,312 |

This table shows the $1,030 of future minimum rentals receivable under noncancelable operating leases at December 31, 1995:

| 1996 | 1997 | 1998 | 1999 | 2000 | Later Years |
|---|---|---|---|---|---|
| $384 | $224 | $127 | $60 | $35 | $200 |

### As Lessee

We lease land, buildings and equipment through contracts that expire in various years through 2026. Our rental expense under operating leases was $1,088 in 1995, $1,098 in 1994 and $1,095 in 1993. The table below shows our future minimum lease payments due under noncancelable leases at December 31, 1995. Such payments total $2,796 for operating leases. The total of minimum rentals to be received in the future under noncancelable subleases related to operating leases as of December 31, 1995 was $586.

| 1996 | 1997 | 1998 | 1999 | 2000 | Later Years |
|---|---|---|---|---|---|
| $546 | $461 | $360 | $293 | $238 | $898 |

## 11. Debt Obligations

### Debt Maturing Within One Year

The following table displays the details of debt maturing within one year:

| Amount | 1995 | 1994 | 1993 |
|---|---|---|---|
| Commercial paper | $12,829 | $10,777 | $ 8,761 |
| Long-term debentures and notes | 3,236 | 2,535 | 2,019 |
| Long-term lease obligations | 36 | 30 | 52 |
| Other | 488 | 324 | 231 |
| Total debt maturing within one year | $16,589 | $13,666 | $11,063 |
| **Weighted Average Interest Rate (a)** | | | |
| Commercial paper | 6.0% | 4.7% | 3.3% |
| Long-term debt | 7.1% | 9.7% | 10.0% |
| **Average Short-Term Debt Outstanding During the Year** | | | |
| Amounts | $10,016 | $ 8,400 | $ 8,010 |
| Weighted average interest rate (a) | 6.1% | 4.6% | 3.7% |
| Maximum amount of short-term debt at any month end during the year | $13,489 | $11,357 | $ 9,959 |

(a) Computed by dividing the average face amount of debt into the aggregate related interest expense.

A consortium of lenders provides revolving credit facilities of $9.5 billion to AT&T and $2.0 billion to AT&T Capital. These credit facilities were unused at December 31, 1995. Both AT&T and AT&T Capital also maintain lines of credit with different consortiums of primarily foreign banks totaling approximately $340 and $1,035, respectively. At December 31, 1995, $304 and $638, respectively, of these foreign lines of credit were unused. The credit facilities, as described above, are intended for general corporate purposes, which include support for AT&T's and AT&T Capital's commercial paper.

### Long-term Obligations

This table shows the outstanding long-term debt obligations at December 31:

| Interest Rates (b) | Maturities | 1995 | 1994 |
|---|---|---|---|
| **Debentures** | | | |
| 4 3/8% to 4 3/4% | 1996–1999 | $ 750 | $ 750 |
| 5 1/8% to 7 1/8% | 2000–2001 | 500 | 500 |
| 8 1/8% to 9% | 1996–2031 | 1,999 | 1,700 |
| **Notes** | | | |
| 4 1/4% to 7 3/4% | 1995–2025 | 8,091 | 6,291 |
| 7 4/5% to 8 19/20% | 1995–2025 | 1,397 | 348 |
| 9% to 13% | 1995–2020 | 178 | 373 |
| Variable rate | 1995–2054 | 1,249 | 3,187 |
| | | 14,164 | 13,149 |
| Long-term lease obligations | | 166 | 105 |
| Other | | 1,140 | 1,062 |
| Less: Unamortized discount – net | | 75 | 69 |
| Total long-term obligations | | 15,395 | 14,247 |
| Less: Amounts maturing within one year | | 3,760 | 2,889 |
| Net long-term obligations | | $11,635 | $11,358 |

(b) Note that the actual interest paid on our debt obligations may have differed from the stated amount due to our entering into interest rate swap contracts to manage our exposure to interest rate risk and our strategy to reduce finance costs.

This table shows the maturities, at December 31, 1995, of the $15,395 in total long-term obligations:

| 1996 | 1997 | 1998 | 1999 | 2000 | Later Years |
|---|---|---|---|---|---|
| $3,760 | $2,071 | $1,709 | $1,527 | $779 | $5,549 |

## 12. Employee Benefit Plans

### Pension Plans

We sponsor noncontributory defined benefit plans covering the majority of our employees. Benefits for management employees are principally based on career-average pay. Benefits for occupational employees are not directly related to pay.

Pension contributions are principally determined using the aggregate cost method and are primarily made to trust funds held for the sole benefit of plan participants. We compute pension cost using the projected unit credit method and assumed a long-term rate of return on plan assets of 9.0% in 1995, 1994 and 1993.

Pension cost includes the following components:

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| Service cost – benefits earned during the period | $ 570 | $ 669 | $ 536 |
| Interest cost on projected benefit obligation | 2,551 | 2,400 | 2,294 |
| Amortization of unrecognized prior service costs | 280 | 230 | 251 |
| Credit for expected return on plan assets* | (3,318) | (3,260) | (3,110) |
| Amortization of transition asset | (500) | (501) | (500) |
| Charges for special pension options | 213 | — | 74 |
| Net pension credit | $ (204) | $ (462) | $ (455) |

*The actual return on plan assets was $9,484 in 1995, $582 in 1994 and $5,068 in 1993.

The net pension credit of $204 in 1995 was reduced by a one-time charge of $213 for early retirement options and curtailments.

This table shows the funded status of the defined benefit plans:

| At December 31 | 1995 | 1994 |
|---|---|---|
| Actuarial present value of accumulated benefit obligation, including vested benefits of $32,726 and $26,338, respectively | $36,052 | $28,801 |
| Plan assets at fair value | $47,634 | $40,131 |
| Less: Actuarial present value of projected benefit obligation | 37,989 | 30,125 |
| Excess of assets over projected benefit obligation | 9,645 | 10,006 |
| Unrecognized prior service costs | 2,297 | 2,319 |
| Unrecognized transition asset | (2,961) | (3,460) |
| Unrecognized net gain | (4,528) | (4,928) |
| Net minimum liability of nonqualified plans | (166) | (103) |
| Prepaid pension costs | $ 4,287 | $ 3,834 |

We used these rates and assumptions to calculate the projected benefit obligation:

| At December 31 | 1995 | 1994 |
|---|---|---|
| Weighted-average discount rate | 7.0% | 8.7% |
| Rate of increase in future compensation levels | 5.0% | 5.0% |

The prepaid pension costs shown above are net of pension liabilities for plans where accumulated plan benefits exceed assets. Such liabilities are included in other liabilities in the consolidated balance sheets.

We are amortizing over approximately 15.9 years the unrecognized transition asset related to our 1986 adoption of SFAS No. 87, "Employers' Accounting for Pensions." We amortize prior service costs primarily on a straight-line basis over the average remaining service period of active employees. Our plan assets consist primarily of listed stocks (including $259 and $216 of AT&T common stock at December 31, 1995 and 1994, respectively), corporate and governmental debt, real estate investments, and cash and cash equivalents.

### Savings Plans

We sponsor savings plans for the majority of our employees. The plans allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. We match a percentage of the employee contributions up to certain limits. Our contributions amounted to $408 in 1995, $357 in 1994 and $351 in 1993.

## 13. Postretirement Benefits

Our benefit plans for retirees include health care benefits, life insurance coverage and telephone concessions. This table shows the components of the net postretirement benefit cost:

| | **1995** | 1994 |
|---|---|---|
| Service cost – benefits earned during the period | **$ 98** | $ 108 |
| Interest cost on accumulated postretirement benefit obligation | **888** | 852 |
| Expected return on plan assets* | **(298)** | (243) |
| Amortization of unrecognized prior service costs | **67** | 14 |
| Amortization of net loss (gain) | **(14)** | 1 |
| Charge for special options | **11** | — |
| Net postretirement benefit cost | **$752** | $ 732 |

*The actual return on plan assets was $962 in 1995 and ($30) in 1994.

We had approximately 146,700 retirees in 1995, 144,900 in 1994 and 142,200 in 1993.

Our plan assets consist primarily of listed stocks, corporate and governmental debt, cash and cash equivalents, and life insurance contracts. The following table shows the funded status of our postretirement benefit plans reconciled with the amounts recognized in the consolidated balance sheets:

| At December 31 | **1995** | 1994 |
|---|---|---|
| Accumulated postretirement benefit obligation: | | |
| Retirees | **$ 8,250** | $ 7,476 |
| Fully eligible active plan participants | **1,453** | 822 |
| Other active plan participants | **2,869** | 1,751 |
| Accumulated postretirement benefit obligation | **12,572** | 10,049 |
| Plan assets at fair value | **4,704** | 3,291 |
| Unfunded postretirement obligation | **7,868** | 6,758 |
| Less: | | |
| Unrecognized prior service costs | **771** | (46) |
| Unrecognized net (gain) loss | **(292)** | (1,012) |
| Accrued postretirement benefit obligation | **$ 7,389** | $ 7,816 |

We made these assumptions in valuing our postretirement benefit obligation at December 31:

| | **1995** | 1994 |
|---|---|---|
| Weighted-average discount rate | **7.0%** | 8.8% |
| Expected long-term rate of return on plan assets | **9.0%** | 9.0% |
| Assumed rate of increase in the per capita cost of covered health care benefits | **6.1%** | 8.6% |

We assumed that the growth in the per capita cost of covered health care benefits (the health care cost trend rate) would gradually decline after 1995 to 4.9% by the year 2005 and then remain level. This assumption greatly affects the amounts reported. To illustrate, increasing the assumed trend rate by 1% in each year would raise our accumulated postretirement benefit obligation at December 31, 1995 by $646 and our 1995 postretirement benefit costs by $53.

## 14. Stock Options

In our Long-Term Incentive Program, we grant stock options, stock appreciation rights (SARs), either in tandem with stock options or free-standing, and other awards. On January 1 of each year, 0.6% of the outstanding shares of our common stock become available for grant. The exercise price of any stock option is equal to or greater than the stock price when the option is granted. When granted in tandem, exercise of an option or SAR cancels the other to the extent of such exercise. Before our mergers with McCaw, NCR and Teradata, and our purchase of LIN, stock options were granted under the separate stock option plans of those companies. No new options can be granted under those plans.

Option transactions are shown below:

| Number of Shares | **1995** | 1994 | 1993 |
|---|---|---|---|
| Balance at January 1 | **40,284,801** | 38,011,478 | 36,777,098 |
| Options granted | **13,276,698** | 5,803,142 | 7,261,355 |
| Options assumed in purchase of LIN | **3,381,869** | — | — |
| Options and SARs exercised | **(8,181,161)** | (2,498,132) | (5,766,132) |
| Average price | **$29.39** | $25.04 | $23.93 |
| Options forfeited | **(1,073,142)** | (1,031,687) | (260,843) |
| At December 31: | | | |
| Options outstanding | **47,689,065** | 40,284,801 | 38,011,478 |
| Average price | **$43.21** | $36.61 | $33.52 |
| Options exercisable | **28,775,262** | 28,010,381 | 24,063,837 |
| Shares available for grant | **17,524,180** | 22,014,728 | 25,264,307 |

During 1995, 154,887 SARs were exercised and no SARs were granted. At December 31, 1995, 685,897 SARs remained unexercised and all of these were exercisable.

## 15. Segment Information

### Industry Segments

Our operations in the global information movement and management industry involve providing wireline and wireless telecommunications services, business information processing systems, and other systems, products and services that combine communications and computers. Our operations in the financial services and leasing industry involve direct financing and finance leasing programs for our products and the products of other companies, leasing products to customers under operating leases and being in the general-purpose credit card business. Miscellaneous other activities, including the distribution of computer equipment through retail outlets, in the aggregate, represent less than 10% of revenues, operating income and identifiable assets and are included in the information movement and management segment. Revenues between industry segments are not material.

| | **1995** | 1994 | 1993 |
|---|---|---|---|
| **Revenues** | | | |
| Information movement and management | **$75,878** | $71,977 | $66,847 |
| Financial services and leasing | **3,731** | 3,117 | 2,504 |
| | **$79,609** | $75,094 | $69,351 |
| **Operating income (loss)** | | | |
| Information movement and management | **$ 1,519** | $ 8,107 | $ 6,769 |
| Financial services and leasing | **486** | 394 | 339 |
| Corporate and nonoperating | **(1,070)** | (983) | (1,105) |
| Income before income taxes | **$ 935** | $ 7,518 | $ 6,003 |
| **Assets** | | | |
| Information movement and management | **$66,155** | $56,551 | $51,971 |
| Financial services and leasing | **21,368** | 21,462 | 17,033 |
| Corporate assets | **1,839** | 1,714 | 1,104 |
| Eliminations | **(478)** | (465) | (715) |
| | **$88,884** | $79,262 | $69,393 |
| **Depreciation and amortization** | | | |
| Information movement and management | **$ 4,405** | $ 4,193 | $ 4,271 |
| Financial services and leasing | **440** | 440 | 431 |
| **Capital expenditures** | | | |
| Information movement and management | **$ 5,853** | $ 4,244 | $ 3,839 |
| Financial services and leasing | **144** | 328 | 303 |
| **Total liabilities** | | | |
| Financial services and leasing | **$19,072** | $19,463 | $15,329 |

### Geographic Segments

Transfers between geographic areas are on terms and conditions comparable with sales to external customers. The methods followed in developing the geographic area data require the use of estimation techniques and do not take into account the extent to which product development, manufacturing and marketing depend upon each other. Thus the information may not be indicative of results if the geographic areas were independent organizations.

| | **1995** | 1994 | 1993 |
|---|---|---|---|
| **Revenues – external customers** | | | |
| United States | **$70,896** | $67,769 | $63,775 |
| Other geographic areas | **8,713** | 7,325 | 5,576 |
| | **$79,609** | $75,094 | $69,351 |
| **Transfers between geographic areas (eliminated in consolidation)** | | | |
| United States | **$ 1,378** | $ 1,679 | $ 1,374 |
| Other geographic areas | **1,221** | 1,291 | 1,125 |
| | **$ 2,599** | $ 2,970 | $ 2,499 |
| **Operating income (loss)** | | | |
| United States | **$ 3,792** | $ 8,651 | $ 7,355 |
| Other geographic areas | **(1,787)** | (150) | (247) |
| Corporate and nonoperating | **(1,070)** | (983) | (1,105) |
| Income before income taxes | **$ 935** | $ 7,518 | $ 6,003 |
| **Assets** | | | |
| United States | **$76,624** | $69,718 | $63,194 |
| Other geographic areas | **12,085** | 9,361 | 6,901 |
| Corporate assets | **1,839** | 1,714 | 1,104 |
| Eliminations | **(1,664)** | (1,531) | (1,806) |
| | **$88,884** | $79,262 | $69,393 |

Data on other geographic areas pertain to operations that are located outside of the U.S. Our revenues from all international activities, including those in the table, international telecommunications services and exports, provided 26.2% of consolidated revenues in 1995, 25.2% in 1994 and 24.4% in 1993.

Corporate assets are principally cash and temporary cash investments.

### Concentrations

As of December 31, 1995, we are not aware of any significant concentration of business transacted with a particular customer, supplier or lender that could, if suddenly eliminated, severely impact our operations. We also do not have a concentration of available sources of supply materials, labor, services, licenses or other rights that could, if suddenly eliminated, severely impact our operations.

## 16. Contingencies

In the normal course of business we are subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 1995. These matters could affect the operating results of any one quarter when resolved in future periods. However, we believe that after final disposition, any monetary liability or financial impact to us beyond that provided for at year-end would not be material to our annual consolidated financial statements.

AT&T and Lucent have entered into an agreement pursuant to which AT&T and affiliates will purchase from Lucent products and services totaling at least $3,000 cumulatively for the calendar years 1996, 1997 and 1998.

## 17. Financial Instruments

In the normal course of business we use various financial instruments, including derivative financial instruments, for purposes other than trading. We do not use derivative financial instruments for speculative purposes. These instruments include commitments to extend credit, letters of credit, guarantees of debt, interest rate swap agreements and foreign currency exchange contracts. Interest rate swap agreements and foreign currency exchange contracts are used to mitigate interest rate and foreign currency exposures. Collateral is generally not required for these types of instruments.

By their nature all such instruments involve risk, including the credit risk of nonperformance by counterparties, and our maximum potential loss may exceed the amount recognized in our balance sheet. However, at December 31, 1995 and 1994, in management's opinion there was no significant risk of loss in the event of nonperformance of the counterparties to these financial instruments. We control our exposure to credit risk through credit approvals, credit limits and monitoring procedures and we believe that our reserves for losses are adequate. We do not have any significant exposure to any individual customer or counterparty, nor do we have any major concentration of credit risk related to any financial instruments.

### Commitments to Extend Credit

We participate in the general-purpose credit card business through AT&T Universal Card Services Corp., a wholly-owned subsidiary. We purchase essentially all cardholder receivables under an agreement with the Universal Bank, a subsidiary of Synovus Financial Corporation, which issues the cards. The unused portion of available credit was approximately $72,179 at December 31, 1995 and $75,445 at December 31, 1994. This represents the receivables we would need to purchase if all Universal Card accounts were used up to their full credit limits. The potential risk of loss associated with, and the estimated fair value of, the unused credit lines is not considered to be significant.

### Letters of Credit

Letters of credit are purchased guarantees that ensure our performance or payment to third parties in accordance with specified terms and conditions.

### Guarantees of Debt

From time to time, we guarantee the financing for product purchases by customers outside the U.S., and the debt of certain unconsolidated joint ventures.

### Interest Rate Swap Agreements

We enter into interest rate swaps to manage our exposure to changes in interest rates and to lower our overall costs of financing. We enter into swap agreements to manage the fixed/floating mix of our debt portfolio in order to reduce aggregate risk to interest rate movements. Interest rate swaps also allow us to raise funds at floating rates and effectively swap them into fixed rates that are lower than those available to us if fixed-rate borrowings were made directly. These agreements involve the exchange of floating-rate for fixed-rate payments or fixed-rate for floating-rate payments without the exchange of the underlying principal amount. Fixed interest rate payments are at rates ranging from 4.68% to 11.59%. Floating-rate payments are based on rates tied to prime, LIBOR or U.S. Treasury bills. Interest rate differentials paid or received under these swap contracts are recognized over the life of the contracts as adjustments to the effective yield of the underlying debt. If we terminate a swap agreement, the gain or loss is recorded as an adjustment to the basis of the underlying asset or liability and amortized over the remaining life.

The following table indicates the types of swaps in use at December 31, 1995 and 1994 and their weighted average interest rates. Average variable rates are those in effect at the reporting date and may change significantly over the lives of the contracts.

| | 1995 | 1994 |
|---|---|---|
| Fixed to variable swaps – notional amount | $1,657 | $ 746 |
| Average receive rate | 6.46% | 6.82% |
| Average pay rate | 5.63% | 5.91% |
| Variable to fixed swaps – notional amount | $2,896 | $3,677 |
| Average pay rate | 6.23% | 5.56% |
| Average receive rate | 5.83% | 6.11% |

The weighted average remaining terms of the swap contracts are 5 years for both 1995 and 1994.

### Foreign Exchange

We enter into foreign currency exchange contracts, including forward, option and swap contracts, to manage our exposure to changes in currency exchange rates, principally Canadian dollars, Deutsche marks, pounds sterling and Japanese yen. Some of the contracts involve the exchange of two foreign currencies, according to the local needs of foreign subsidiaries. The use of these derivative financial instruments allows us to reduce our exposure to the risk that the eventual dollar net cash inflows and outflows, resulting from the sale of products to foreign customers and purchases from foreign suppliers, will be adversely affected by changes in exchange rates. Our foreign exchange contracts are designated for firmly committed or forecasted purchases and sales. These transactions are generally expected to occur in less than one year. For firmly committed sales and purchases, gains and losses are deferred in other current assets and liabilities. These deferred gains and losses are recognized as adjustments to the underlying hedged transactions when the future sales and purchases are recognized, or immediately if the commitment is cancelled. Gains or losses on foreign exchange contracts that are designated for forecasted transactions are recognized in other income as the exchange rates change. Amounts deferred relating to firm commitments at December 31, 1995 and 1994, were unrealized gains of $9 and $4, respectively, and unrealized losses of $7 and $10, respectively.

### Fair Values of Financial Instruments Including Derivative Financial Instruments

The tables below show the valuation methods and the carrying or notional amounts and estimated fair values of material financial instruments. The notional amounts represent agreed upon amounts on which calculations of dollars to be exchanged are based. They do not represent amounts exchanged by the parties and, therefore, are not a measure of our exposure. Our exposure is limited to the fair value of the contracts with a positive fair value plus interest receivable, if any, at the reporting date.

| Financial instrument | Valuation method |
|---|---|
| Universal Card finance receivables | Carrying amounts. These accrue interest at a prime-based rate. |
| Other finance receivables excluding leases | Future cash flows discounted at market rates. |
| Debt excluding capital leases | Market quotes or based on rates available to us for debt with similar terms and maturities. |
| Letters of credit | Fees paid to obtain the obligations. |
| Guarantees of debt | Costs to terminate agreements. |
| Interest rate swap agreements | Gains or losses to terminate agreements. |
| Interest rate cap agreements | Costs to obtain agreements. |
| Foreign exchange contracts | Market quotes. |

| | **1995** | | 1994 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **On balance sheet instruments** | | | | |
| Assets: | | | | |
| Finance receivables other than leases | **$12,064** | **$12,108** | $13,553 | $13,528 |
| Liabilities: | | | | |
| Debt excluding capital leases | **28,058** | **28,717** | 24,919 | 24,449 |

| | **1995** | 1994 |
|---|---|---|
| | **Contract/ Notional Amount** | Contract/ Notional Amount |
| **Derivatives and off balance sheet instruments** | | |
| Interest rate swap agreements | **$4,553** | $4,423 |
| Interest rate cap agreements | **—** | 1,333 |
| Foreign exchange: | | |
| Forward contracts | **3,260** | 3,068 |
| Swap contracts | **756** | 340 |
| Option contracts | **22** | — |
| Letters of credit | **919** | 834 |
| Guarantees of debt | **731** | 518 |

| | **1995** | | | |
|---|---|---|---|---|
| | **Carrying Amount** | | **Fair Value** | |
| | **Asset** | **Liability** | **Asset** | **Liability** |
| **Derivatives and off balance sheet instruments** | | | | |
| Interest rate swap agreements | **$12** | **$ 8** | **$65** | **$99** |
| Foreign exchange: | | | | |
| Forward contracts | **44** | **46** | **29** | **48** |
| Swap contracts | **1** | **10** | **7** | **66** |
| Letters of credit | **—** | **—** | **2** | **—** |

| | 1994 | | | |
|---|---|---|---|---|
| | Carrying Amount | | Fair Value | |
| | Asset | Liability | Asset | Liability |
| **Derivatives and off balance sheet instruments** | | | | |
| Interest rate swap agreements | $ 9 | $ 2 | $142 | $27 |
| Interest rate cap agreements | 2 | — | 2 | — |
| Foreign exchange: | | | | |
| Forward contracts | 37 | 39 | 44 | 61 |
| Swap contracts | — | 5 | 16 | 6 |
| Letters of credit | — | — | 2 | — |

### Securitization of Receivables

For the years ended December 31, 1995, 1994 and 1993, we securitized portions of our short-term and long-term finance receivable portfolios amounting to $3,575, $259 and $562, with proceeds received of $3,579, $288 and $649, respectively. We continue to service these accounts for the purchasers. At December 31, 1995 and 1994, $4,059 and $853, respectively, of receivables previously securitized remained outstanding. Our maximum exposure under limited recourse provisions, in the unlikely event that all such receivables became uncollectible, amounted to $255 at December 31, 1995 and $353 at December 31, 1994. We have recorded a liability for the amount that we expect to reimburse to the purchasers.

## 18. AT&T Credit Holdings, Inc.

In connection with a March 31, 1993 legal restructuring of AT&T Capital Holdings, Inc. (formerly AT&T Capital Corporation), we issued a direct, full and unconditional guarantee of all the outstanding public debt of AT&T Credit Holdings, Inc. (formerly AT&T Credit Corporation). At December 31, 1995, $417 of the guaranteed debt remained outstanding.

AT&T Credit Holdings, Inc. holds the majority of AT&T's investment in AT&T Capital and the lease finance assets of the former AT&T Credit Corporation. The table below shows summarized consolidated financial information for AT&T Credit Holdings, Inc. The summarized financial information includes transactions with AT&T that are eliminated in consolidation.

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| Total revenue | $ 1,762 | $1,437 | $1,432 |
| Interest expense | 422 | 302 | 284 |
| Selling, general and administrative expense | 444 | 387 | 329 |
| Income before cumulative effect of change in accounting | 119 | 92 | 70 |
| Cumulative effect on prior years of change in accounting for income taxes (SFAS No. 109) | — | — | 22 |
| Net income | $ 119 | $ 92 | $ 48 |
| Finance receivables | $ 9,111 | $7,726 | |
| Net investment in operating lease assets | 1,118 | 903 | |
| Total assets | 11,061 | 9,468 | |
| Total debt | 7,028 | 5,682 | |
| Total liabilities | 9,750 | 8,299 | |
| Minority interest | 299 | 270 | |
| Total shareowners' equity | $ 1,012 | $ 899 | |

## 19. Sale of Stock by Subsidiary

In August 1993, AT&T Capital sold 5,750,000 shares of common stock in an initial public offering and approximately 850,000 shares of common stock in a management offering. The shares sold represented approximately 14% of the shares outstanding, decreasing our ownership to 86%. The shares were sold at $21.50 per share, yielding net proceeds of $115 excluding $18 of recourse loans attributable to the management offering. Because of these loans, we recorded a $9 loss on the sale in 1993.

The plan announced on September 20, 1995 includes our intent to sell our remaining 86% interest in AT&T Capital either to another company or through a public offering. While the sale requires changes to certain existing agreements between AT&T and AT&T Capital, we expect the sale to be completed by the end of 1996. The recourse loans attributable to the management offering will become due and payable upon disposition of our remaining interest.

## 20. Quarterly Information (unaudited)

| | First | Second | Third | Fourth |
|---|---|---|---|---|
| **1995** | | | | |
| Total revenues | $18,262 | $19,512 | $19,704 | $22,131 |
| Gross margin | 7,545 | 8,144 | 7,361 | 7,029 |
| Net income (loss) | 1,198 | 1,355 | 262 | (2,676) |
| Per common share: | | | | |
| Net income (loss) | .76 | .85 | .16 | (1.67) |
| Dividends declared | .33 | .33 | .33 | .33 |
| Stock price*: | | | | |
| High | 53 1/4 | 53 3/4 | 66 3/8 | 68 1/2 |
| Low | 47 5/8 | 47 7/8 | 51 3/8 | 60 1/4 |
| Quarter-end close | 51 3/4 | 53 | 65 3/4 | 64 3/4 |
| **1994** | | | | |
| Total revenues | $17,097 | $18,238 | $18,649 | $21,110 |
| Gross margin | 6,952 | 7,390 | 7,747 | 8,623 |
| Net income | 1,074 | 1,248 | 1,050 | 1,338 |
| Per common share: | | | | |
| Net income | .69 | .80 | .67 | .85 |
| Dividends declared | .33 | .33 | .33 | .33 |
| Stock price*: | | | | |
| High | 57 1/8 | 57 1/8 | 55 7/8 | 55 1/4 |
| Low | 50 5/8 | 49 1/2 | 52 1/2 | 47 1/4 |
| Quarter-end close | 51 1/4 | 53 3/8 | 54 | 50 1/4 |

*Stock prices obtained from the Composite Tape.

In the fourth quarter of 1995, we recorded $6,248 of charges which reduced net income by $4,181 or $2.61 per share.

In the third quarter of 1995, we recorded $1,597 of charges at NCR which reduced net income by $1,172 or $0.74 per share.

In the third quarter of 1994, we recorded $227 of costs ($169 net of taxes or 11 cents per share) related to the McCaw merger primarily consisting of legal and investment banking fees and bonus pool funding.

# BOARD OF DIRECTORS

**ROBERT E. ALLEN,** 60
Chairman of the Board and Chief Executive Officer of AT&T since 1988. Director since 1984.6,8

**KENNETH T. DERR,** 59
Chairman and Chief Executive Officer of Chevron Corporation, an international oil company. Elected to Board in 1995.

**M. KATHRYN EICKHOFF,** 56
President of Eickhoff Economics Inc., a business consulting firm. Elected to Board in 1987.1,5

**WALTER Y. ELISHA,** 63
Chairman and Chief Executive Officer of Spring Industries, Inc., a textile manufacturing firm. Director since 1987.2,4,7

**PHILIP M. HAWLEY,** 70
Retired Chairman and Chief Executive Officer of Broadway Stores, Inc. (formerly Carter Hawley Hale Stores, Inc.), department stores. Director since 1982.2,3,4

**CARLA A. HILLS,*** 61
Chairman and Chief Executive Officer of Hills & Company international consulting firm and former U.S. Trade Representative. Elected to Board in 1993.1,2,5

**BELTON K. JOHNSON,** 66
Former owner of Chaparrosa Ranch. Chairman of Belton K. Johnson Interests. Director since 1974.3,5,6,8

**RALPH S. LARSEN,** 57
Chairman and Chief Executive Officer of Johnson & Johnson, a diversified health care company. Elected to Board in 1995.

**DREW LEWIS,*** 64
Chairman and Chief Executive Officer of Union Pacific Corporation, a rail transportation, natural resources and trucking company. Elected to Board in 1989.1,2,5

**ALEX J. MANDL,** 52
President and Chief Operating Officer of the new AT&T. Served as Chief Financial Officer of AT&T and Group Head of AT&T Communications Services since joining the company in 1991. Elected to Board in 1996.

**DONALD F. McHENRY,** 59
President of IRC Group, international relations consultants; educator and former U.S. Ambassador to the United Nations. Director since 1986.3,7

**VICTOR A. PELSON,** 58
Chairman of AT&T Global Operations Team and Executive Vice President of AT&T. Elected to Board in 1993.5

**DONALD S. PERKINS,*** 68
Retired Chairman, Jewel Companies, Inc. Director since 1979.2,3,6,7,8

**HENRY B. SCHACHT,**† 61
Chairman of the Executive Committee and former Chief Executive Officer of Cummins Engine Company, Inc., manufacturer of diesel engines. Elected to Board in 1981.1,5

**MICHAEL I. SOVERN,** 64
President Emeritus and Chancellor Kent Professor of Law at Columbia University. Director since 1984.1,4

**FRANKLIN A. THOMAS,*** 61
President of The Ford Foundation. Elected to Board in 1988.1,2,5

**JOSEPH D. WILLIAMS,** 69
Retired Chairman and Chief Executive Officer of Warner-Lambert Company, a pharmaceutical, health care and consumer products company. Director since 1984.4,6,7

**THOMAS H. WYMAN,** 66
Chairman of S. G. Warburg & Co. Inc., investment bankers. Director since 1981.2,4,7

*Our thanks and best wishes to Philip Hawley and Vic Pelson, who will retire March 1996.*

* Expected to join the Board of Lucent Technologies.

†Will resign to become Chairman and CEO of Lucent Technologies coincident with the company's Initial Public Offering.

1. Audit Committee
2. Committee on Directors
3. Committee on Employee Benefits
4. Compensation Committee
5. Corporate Public Policy Committee
6. Executive Committee
7. Finance Committee
8. Proxy Committee

## 1995 MANAGEMENT EXECUTIVE COMMITTEE

*The Management Executive Committee of the integrated AT&T was dissolved as 1995 ended and new leadership teams were formed. Our thanks and best wishes to those officers who went on to other assignments in the new operating units (indicated on page 52), as well as to John Mayo, who retired in February 1995 as President of AT&T Bell Laboratories; Vic Pelson, who will retire in March; and Dick Bodman, who will retire in April to become Managing General Partner of a new AT&T venture capital fund.*

# NEW LEADERSHIP TEAMS

## AT&T

**ROBERT E. ALLEN***
Chairman and Chief Executive Officer.[1,2]

**ALEX J. MANDL***
President and Chief Operating Officer.[1,2]

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**HARRY BENNETT**
Vice President and General Manager and Acting Head - Local Services

**HAROLD W. BURLINGAME***
Executive Vice President - Human Resources.[2]

**PIER CARLO FALOTTI**
President - AT&T International and AT&T Europe.[2]

**STEVEN W. HOOPER**
President and Chief Executive Officer - AT&T Wireless Services

**DAVID K. HUNT**
President and Chief Executive Officer - AT&T Universal Card Services

**FRANK IANNA**
Vice President and General Manager - Network and Computing Services Division

**MARILYN LAURIE***
Executive Vice President - Public Relations and Employee Information.[2]

**GAIL J. McGOVERN**
Executive Vice President - Business Markets Division.[2]

**VICTOR E. MILLAR**
President and Chief Executive Officer - AT&T Solutions

**RICHARD W. MILLER***
Senior Executive Vice President and Chief Financial Officer.[1,2]

**JOSEPH P. NACCHIO**
Executive Vice President - Consumer and Small Business Division.[2]

**JOHN C. PETRILLO**
Executive Vice President - Strategy and New Offer Development. [2]

**RON J. PONDER**
Executive Vice President - Operations and Service Management and Chief Information Officer.[2]

**JOHN D. ZEGLIS***
General Counsel and Senior Executive Vice President - Policy Development and Operations Support.[1,2]

*Other officers:*

**S. LAWRENCE PRENDERGAST**
Vice President and Treasurer

**MAUREEN B. TART**
Vice President and Controller

**MARILYN J. WASSER**
Vice President - Law and Secretary

1. Chairman's Office
2. Executive Policy Council

## LUCENT TECHNOLOGIES

**HENRY B. SCHACHT**
Chairman-designate and Chief Executive Officer

**RICHARD A. McGINN***
President and Chief Operating Officer and Director-designate

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**CURTIS R. ARTIS**
Senior Vice President - Human Resources

**JAMES K. BREWINGTON**
President - Network Systems Product Realization

**GERALD J. BUTTERS**
President - Network Systems North American Region

**JOSEPH S. COLSON, JR.**
President - Network Systems AT&T Customer Business Unit

**CURTIS J. CRAWFORD**
President - Microelectronics

**CARLETON S. FIORINA**
Executive Vice President - Corporate Operations

**KATHLEEN M. FITZGERALD**
Senior Vice President - Public Relations and Investor Relations

**WILLIAM B. MARX JR.***
Senior Executive Vice President

**ARUN N. NETRAVALI**
Vice President - Research, Bell Laboratories

**WILLIAM T. O'SHEA***
President - Network Systems International Regions and Professional Services

**DONALD K. PETERSON**
Executive Vice President and Chief Financial Officer

**RICHARD J. RAWSON**
Senior Vice President and General Counsel

**PATRICIA F. RUSSO**
President - Business Communications Systems

**DANIEL C. STANZIONE***
President - Bell Laboratories and President - Network Systems

## NCR

**LARS NYBERG***
Chief Executive Officer

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**RAYMOND G. CARLIN**
Senior Vice President - The Americas Region

**ROBERT R. CARPENTER**
Senior Vice President - Worldwide Services

**ROBERT A. DAVIS**
Senior Vice President - Quality and Reengineering

**WILLIAM J. EISENMAN**
Senior Vice President - Computer Systems Group

**DANIEL J. ENNEKING**
Senior Vice President - Systemedia Group

**RICHARD H. EVANS**
Senior Vice President - Global Human Resources

**ANTHONY E. FANO**
Senior Vice President - Retail Systems Group

**RONALD L. FOWINKLE**
Senior Vice President and Chief Information Officer

**JOHN L. GIERING**
Senior Vice President and Chief Financial Officer

**JONATHAN S. HOAK**
Senior Vice President and General Counsel

**PER-OLOF LOOF**
Senior Vice President - Financial Systems Group

**DENNIS A. ROBERSON**
Senior Vice President and Chief Technical Officer

**JOSE LUIS SOLLA**
Senior Vice President - Europe, Middle East/Africa Region

**HIDEAKI TAKAHASHI**
Senior Vice President - Asia/Pacific Region

**MICHAEL P. TARPEY**
Senior Vice President - Public Relations

*Former member AT&T Management Executive Committee

# INVESTOR INFORMATION

## CORPORATE HEADQUARTERS

AT&T
32 Avenue of the Americas
New York, NY 10013-2412

Internet users can access information on AT&T and its products and services at: http://www.att.com/.

## ANNUAL MEETING

The 111th Annual Shareowners Meeting will convene at 9:30 a.m. Wednesday, April 17, 1996, at the James L. Knight International Center in the Convention Center in Miami, Florida.

## SHAREOWNER SERVICES

Questions about stock-related matters should be directed to AT&T's shareowner services and transfer agent, First Chicago Trust Co. of NY:

AT&T
c/o First Chicago Trust Co. of NY
P.O. Box 2575
Jersey City, NJ 07303-2575
**800 348-8288**

Shareholders with e-mail addresses can send inquiries electronically. First Chicago Trust's Internet address is fctc@attmail.com. AT&T Mail Service subscribers should address inquiries to !fctc.

Persons outside the U.S. may call collect to 201 324-0293.

Persons using a telecommunications device for the deaf (TDD) or a teletypewriter (TTY) may call: 800 822-2794.

The First Chicago Trust address to which banks and brokers may deliver certificates for transfer is 14 Wall Street in New York City.

**To hear information or ask questions about AT&T's restructuring, call our special toll-free number: 800 756-8500.**

## DIVIDEND REINVESTMENT

The Dividend Reinvestment and Stock Purchase Plan provides owners of common stock a convenient way to purchase additional shares. You may write or call First Chicago Trust for a prospectus and enrollment form.

## STOCK DATA

AT&T (ticker symbol "T") is listed on the New York Stock Exchange, as well as on the Boston, Midwest, Pacific and Philadelphia exchanges in the U.S., and on stock exchanges in Brussels, London, Paris, Geneva and Tokyo.

Shareowners of record as of December 29, 1995: 2,190,940.

## PUBLICATIONS

AT&T's annual report to the Securities and Exchange Commission, Form 10-K, is available without charge by writing or calling First Chicago Trust Co.

The following publications are available by writing or calling the sources indicated:

AT&T Capital Corporation
Annual Report and/or Form 10-K:
Corporate Communications
44 Whippany Road
Morristown, NJ 07962-1983
800 235-4288 or 201 397-3000

AT&T Foundation Report
Room 3100
1301 Avenue of the Americas
New York, NY 10019-1035

AT&T and the Environment
Department AR
131 Morristown Road
Room B1220
Basking Ridge, NJ 07920-1650

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AT&T

32 Avenue of the Americas
New York, NY 10013-2412
212 387-5400

# Our Common Bond

## We commit to these values to guide our decisions and behavior

**Respect for Individuals**

■ We treat each other with respect and dignity, valuing individual and cultural differences. We communicate frequently and with candor, listening to each other regardless of level or position. Recognizing that exceptional quality begins with people, we give individuals the authority to use their capabilities to the fullest to satisfy their customers. Our environment supports personal growth and continuous learning for all AT&T people.

**Dedication to Helping Customers**

■ We truly care for each customer. We build enduring relationships by understanding and anticipating our customers' needs and by serving them better each time than the time before. AT&T customers can count on us to consistently deliver superior products and services that help them achieve their personal or business goals.

**Highest Standards of Integrity**

■ We are honest and ethical in all our business dealings, starting with how we treat each other. We keep our promises and admit our mistakes. Our personal conduct ensures that AT&T's name is always worthy of trust.

**Innovation**

■ We believe innovation is the engine that will keep us vital and growing. Our culture embraces creativity, seeks different perspectives and risks pursuing new opportunities. We create and rapidly convert technology into products and services, constantly searching for new ways to make technology more useful to customers.

**Teamwork**

■ We encourage and reward both individual and team achievements. We freely join with colleagues across organizational boundaries to advance the interests of customers and shareowners. Our team spirit extends to being responsible and caring partners in the communities where we live and work.

**By living these values, AT&T aspires to set a standard of excellence worldwide that will reward our shareowners, our customers, and all AT&T people.**