1997 AT&T Annual Report

sampling of industry news reports from 1997: "The Telecommunications Act of 1996 says everyone in the country is supposed to have a choice of local phone
ted a sweeping overhaul of phone markets, paving the way for local and long-distance carriers to invade each other's turf. But long-distance companies ha
, year ago Congress passed landmark telecommunications deregulation that was supposed to launch a tidal wave of technological benefits. But consumers
ices, **more choice** and better service, especially after federal and state regulators complete the job of opening the local telephone markets to competition"
rices have fallen and the range of products and services available has grown dramatically" >> "FCC Chairman Reed Hundt called Monday for a task force to i
o slowly, he said after reviewing petitions by AT&T and MCI" >> "Competition is so far off for residential phone users that many telecommunications analysts
at it isn't even possible for the local telephone market to function in anything other than a monopoly environment" >> "No local Bell telephone company has
xt year" >> "If you thought competition in the telephone business was supposed to improve service such as directory assistance, you thought wrong. The pro
nes" >> "Some 21 months after Congress passed the Telecom act, the long-distance, Internet and cellular markets are bursting with **competition** – but the p
sweeping the industry" >> "Until recently, it paid to be a 'spinner' – industry jargon for a customer who switches back and forth trying to capture the best
tion, the FCC has become perhaps the most prominent regulatory panel in Washington" >> "Senators, frustrated that their vision of telecommunications c
stomers – but still preserve the system of subsidies that assures affordable phone rates" >> "For the first time nationwide, pay-phone providers will be ab
merica's $200 billion telecommunications market to foreign competition, hoping to lower international calling rates for consumers and bolster opportunitie
zation agreement to liberalize **international** telecommunications" >> "Today the Internet is being called the biggest revolution since the printing press, an
peak in a particular person's voice" >> "Just as everybody was beginning to understand the benefits of having more than one provider and more than one se
the continuing battle for long-distance dollars is an often misleading adverting blitz 'dial around and save' " >> "As corporations slip the bonds of national
usiness" >> "It is no coincidence that over the last year the **Internet** has become the number one technology for gaining competitive advantage" >> "There
0,000 employees to give them unprecedented competitive advantage in the tough telecommunications market" >> "The U.S. has achieved an important brea
untries are close to reaching an agreement on opening up government-protected telecommunication monopolies to competition" >> "The FCC is expected
uld shake up the system governing the pricing of international phone calls by requiring U.S. carriers to negotiate lower access charges with foreign phone c
aries, the economic edifice built on Bell's magnificent invention is beginning to crack. Here is what the industry must look forward to in the next five years:
rks" >> "Millions of people now regularly use the Internet and commercial on-line services" >> "Competitive local exchange carriers are part of a regu-
tory maze that the courts are just starting to decipher" >> "There are about 520 small long-distance carriers in the market, according to the FCC. And the
ures does not include so-called dial-around carriers, which offer consumers discounts if they bypass their long-distance company by typing in an access
de before making their calls" >> "Telecommunications services are taking the place of roads and railroads as the **essential infrastructure**" >> "Califor-
a regulators gave approval to SBC's $17 billion purchase of Pacific Telesis Group, a deal reuniting two pieces of the Bell System" >> "New York State
gulators approved the $23 billion merger of NYNEX and Bell Atlantic" >> "Congress ordered the FCC to complete a new plan for universal service" >>

and a pattern begins to

The wireless industry is exploding with new products and services aimed at mainstream consumers, and Americans are signing up faster than ever
efore" >> "Competition in the $90 billion local telephone market could be significantly delayed by a court ruling that sharply limits the ability of feder-
regulators to set terms on prices and connections to the local phone networks. The harshly written ruling issued Friday by the U.S. appeals court in St.
uis threw out FCC rules governing how local phone companies must open their networks to rivals" >> "If the circuit court's ruling stands, companies
at want to offer **local** telephone service across the country will have to negotiate a potential hodgepodge of regulatory environments rather than follow
single national strategy" >> "Just when people were getting used to major long-distance carriers dueling for their business, a phenomenon called dial-
round services muddled things further" >> "Small, nimble newcomers are increasingly setting the terms of competition" >> "Long-distance companies
> "Long-distance companies have complained that the regional Bell companies have dragged their feet on opening up their markets" >> "**Electronic** **com**
rrester Research, a computer industry analyst group" >> "To be one of the top **global** companies, it's essential to offer communications services anywhe
d Japan's Kokusai Denshin Denwa said they will offer business customers **high-speed data** over private lines between the United States and Japan. The
lls" >> "The Internet promises to evolve into a mass-market telecommunications network, offering global connections at bargain-basement prices" >> "A
y in U.S. taking cues from across the Atlantic. In Europe, cell phone users don't pay to receive calls, phones last days between charge
ant the same services at home and around town. Wireless telecommunications is moving quickly down the path from an expensive novelty to a mainstay of
to one pro ? If you believe the promotions, the answer is PCS, a new kind of mobile phone service" >> "The wave of the future, i
on Multiple eans that the service contains dual circuitry: analog and digital. Translation: The user can operate the phone anywhe
xcellent tec consistently ve a telecommunications company with a range of services, again AT&T got the nod
esses are they at's what Textron, Inc., decided when it awarded AT&T **Solutions** a contract in late 199
urt agre 996 Tele communications companies in limbo until next year, when the court is expecte
their networks before letting long-distance erican people will reap **benefits of competition** much sooner if the Supreme
to make this move" >> "Consumers will lose in savings if the regional Bells are allowed into the long-distance phone marke
ires to wireless" >> "AT&T plans to aggressively expand the high-speed network for its new local service partner, Teleport, to carry more voice and dat
ying new ways to help the Baby Bells enter the long-distance telephone business as political pressure increases for more phone competition" >> "It is a

Table of Contents

service. Yet only about 1 percent of local phone lines have been switched to another carrier, and most of those are business lines, the FCC says" >> "Congre
ave been frustrated in their attempts to get direct local connections into homes and businesses" >> "What consumers really want is **one-stop shopping**" >
and businesses are still waiting to catch the wave" >> "The Telecommunications Act represented a victory for American consumers. And it will lead to low
" >> "The customer is emerging as the undisputed winner from the maelstrom of privatization and liberalization that is today's telecommunication industr
investigate allegations that local phone companies are thwarting competition. Access to the $100 billion local market by long-distance providers is developi
believe it won't happen for decades, if at all. Others go so far as to question whether the whole bold scheme of competition was an idea hatched out of naive
been cleared by the FCC to provide long-distance service to its own states" >> "In the U.S. the market for **Internet telephony** is expected to reach $30 milli
blem: As local phone companies begin to compete against long-distance carriers and each other, many are refusing to share updated lists of customers' pho
hrase 'competition in the local market' remains an oxymoron. Yet in spite of all that, winning in the local market is the driving force behind the merger fre
t rates and perks" >> "In the wake of the Telecommunications Act of 1996, which was meant to open most parts of the communications industry to comp
deregulation has been clouded by mergers and price increases, pressed the would-be chief of the FCC to bring the benefits of competition to U.S. telepho
ble to charge whatever they want for a local call" >> "There is a huge demand for **toll-free service**" >> "Federal regulators plan to take a major step to op
s for American communications companies elsewhere in the world. The five-member FCC will vote to approve rules carrying out February's World Trade Org
nd kids are among the 'Net's heaviest and most enthusiastic users" >> "Researchers are developing electronic impersonators – computer systems that c
t of rates to choose from and of not being tied to one company for both local and long-distance service, the pieces started recombining" >> "The latest sal
identity, they are demanding **globally integrated** communications services" >> "Now, many have caught the Internet fever and are hoping it can expand the
e is a demand out there to provide reliable access to the Internet" >> "In the U.S., AT&T is building an internal Amazon Internet system that will be used
akthrough in its effort to cut the inflated rates foreign phone companies charge for completing international calls" >> "Trade negotiators from more than 1
to vote today on a measure that would push down international calling rates, saving U.S. consumers billions of dollars a year on overseas calls. The measur
companies for the calls the foreign companies complete in the U.S." >> "As more and more of the world's phone companies add 'competition' to their voca
: It has to install a billion phone lines worldwide. Most daunting of all, it has to feed the world's voracious appetite for **data** by completely revamping its n

accuse regional Bells of stalling other's entry into local phone service by filing lawsuits and taking advantage of rivals' need to connect to their net-wor
mmerce is expected to be worth nearly $200 billion by 2000, with business-to-business shopping accounting for about one-third of the total, according
ere in the world; bill companies in whichever language, currency and detail they choose; and provide one point of contact to service the account" >> "AT
service will allow companies to send and receive information at 155 megabits a second, about the capacity needed to transmit 2,000 simultaneous voi
As the U.S. **wireless** industry rolls out a new $50 billion digital cellular system, the FCC calls it the largest peacetime investment in any consumer techn
es and people can be reached almost anywhere across the continent " >> "AT&T is betting that once consumers become **untethered** in the workplace, they
f the way people communicate" >> "Take a cellular phone, a pager, a telephone answering machine, a fax machine and a personal computer, mix them all
PCS, is a sophisticated package of personal communications features that is offered in the latest cellular technology" >> "AT&T PCS service uses Time Di
ere in the United States and in some European countries. No more dead signals in rural areas" >> "When asked to name a telecommunications company wi
d" >> "Computers, telephones and the networks that link them are indispensable tools of commerce these days – so indispensable, in fact, that many bu
96 to upgrade and take over management of its **worldwide** computer and communications network. *And some news reports from early 1998,* The Suprem
ed to make its decision" >> "The Supreme Court also will review a part of one lower-court ruling that lets the Bell companies disconnect some elemen
Court upholds the interpretation of the Telecommunications Act" >> "AT&T said that it would acquire Teleport for $11.3 billion in stock" >> "AT&T nee
t before their local markets are open to competitors, the Consumer Federation of America says" >> "The company wants to move its customers m **fro**
a traffic" >> "The Telecommunications Act doesn't need revisiting; what's needed is for the Bells to obey the law, not fight it" >> "Federal regulators a
strategy of growth, becoming 'the low-cost provider' using a **'future-proof' network** that inoculates AT&T against sudden shifts in technology"

Financial Highlights

Dollars in Millions (except per share amounts)	1997	1996
Revenues	$51,319	$50,546
Income		
Operating income	$ 6,968	$ 8,763
Income from continuing operations	4,472	5,573
Net income	4,638	5,908
Per Common Share – Diluted:		
Income from Continuing Operations		
Core	$ 3.69	$ 4.04
Initiatives	(.95)	(.59)
Total	$ 2.74	$ 3.45
Net income	2.84	3.66
Other Information		
Cash flow from operations	$ 8,437	$ 7,875
Gross capital expenditures	$ 7,213	$ 6,776

AT&T is the world's premier voice and data communications company, serving more than 90 million customers, including consumers, businesses and government. With annual revenues of more than $51 billion and some 128,000 employees, AT&T provides services to more than 250 countries and territories around the world.

AT&T runs the world's largest, most powerful long-distance network and the largest digital wireless network in North America. The company is a leading supplier of data and Internet services for businesses as well.

AT&T provides outsourcing, consulting and networking-integration services to large businesses. And the company offers outbound local calling to businesses in 49 states and remains committed, as conditions permit, to delivering local telephone service to consumers.

AT&T's businesses are backed by the research and development capabilities of AT&T Labs, which is working to create the information services and communications network of tomorrow.

C. Michael Armstrong, Chairman and CEO (right)
John D. Zeglis, President

Dear Shareowners

This is a remarkable time

for your company and its people.

Some tough work is behind us with much more ahead. We've set a new direction and seen it endorsed by our owners and customers. But the anticipation around AT&T these days centers on what we will deliver.

This may have been how Winston Churchill felt back in 1942, after the British victory at El Alamein in North Africa. "This is not the end," he said. "This is not even the beginning of the end. But it is perhaps the end of the beginning."

For AT&T, 1997 was indeed "the end of the beginning." We'd completed the large task of trivestiture. The job before us in our first full year as the new AT&T was both ambitious and necessary. We set out to redefine ourselves as a company, to position ourselves strategically and financially, and to demonstrate to the world in clear and tangible ways that we were capable of doing what we said we would.

Not surprisingly, the road wasn't always smooth. Pressure on earnings was intense due to both a dynamic competitive marketplace and a cost structure that was far too high. AT&T's second-quarter financial results were a low-water mark, as unacceptable to us as to you. But as the year went on and we got our "sea legs," the picture began to change.

We continued to divest nonessential assets and businesses. We launched an attack on our costs and continued to focus and redirect our investment in strategic growth initiatives. Earnings improved steadily through the last two quarters of the year as cost reductions began to take hold. Our debt-to-equity ratio is at an all-time low.

With "the end of the beginning" finally behind us, where do we go from here? We decided to let our customers answer that question.

Customers have been clear about what they want from AT&T: simplicity, practical solutions, value for their money. They want technology to give them more control over their lives, not additional complications. And they want the benefits of competitive choice in local calling, as well as in long distance.

Listening to them has defined our vision: *Build shareowner value by providing "universal communications services" that put our customers in touch with the people or information they need, whenever they want, wherever they are, in the form most useful to them, and at a competitive price.*

Guided by that vision, we focused on three priorities: **1.** Competitive costs; **2.** Invest for growth in five areas – local services, wireless services, Internet services, outsourcing and networking integration, and global markets; **3.** Implement a future-proof network architecture. (A detailed discussion of our priorities and how we're addressing them begins on page 20.)

To shape our strategy, AT&T's new leadership team came together with determination, renewed energy and a shared sense of purpose. Whether we were addressing where we were, or where we had to be, we quickly found common ground.

Achieving AT&T's vision on behalf of our customers and shareowners will take sustained focus, strength, execution and balance.

Focus means picking the right opportunities, **identifying the right problems to solve and having the discipline to stay the course.**

It means that we tie our energy, our resources and our near-term objectives to those critical few priorities, and we deliver on our commitments.

Strength means moving decisively **to be competitive in everything we do.**

No company can continue to invest and grow unless it's cost-competitive. Recently, we announced an aggressive plan to achieve a competitive cost position through further targeted expense reductions, improved cycle time and workforce downsizings – with 25 percent fewer corporate officers, accompanied by a salary freeze for senior executives. We intend to reduce selling, general and administrative expenses from 29 percent of revenues in 1997 to 22 percent of revenues by year-end 1999. This represents a reduction of $1.6 billion this year alone.

Execution means everything **from delivering the most reliable network in the world to superior customer care to effective communication with shareowners and employees.**

It means meeting our commitments and surpassing customer expectations. Executing to meet all of our customers' communications needs is *what we are.*

Balance means making the right trade-offs **between investment and earnings.**

We can – and will – sustain both value and growth. With a strong balance sheet, executed and pending divestments expected to generate about $6.7 billion in cash, and a double "A" credit rating, we have the financial depth to invest for growth. In addition, with a competitive cost structure, we will be able to add value, through improving earnings per share and cash flow.

As we were preparing to enter local markets this year – as enabled by the Telecommunications Act of 1996 – the Regional Bell Operating Companies decided to take local competition out of the marketplace and into the courtroom. They are challenging the constitutionality of the Telecom Act and its authority to establish national communications policy.

The intent of Congress and the Act will be either confirmed or redefined by this litigation, but it will delay our entry into local services, as well as the Bell Companies' entry into long distance. The only activity we expect in 1998 is on a state-by-state basis, and we will compete state by state if and where the economics permit us.

The issue – whether state-by-state or national – is the "one and only wire" that connects consumers to the telephone system. To implement large-scale local telephone competition in America, that wire must be shared and sold on an economically viable basis to justify local investment.

The economically viable resale of AT&T's long-distance wires was the basis of long-distance deregulation and competition some 15 years ago. And it worked. Today there are 500 companies providing long-distance service, and AT&T's market share has dropped from virtually 100 percent to approximately 50 percent.

In the long-distance market, competitors buy wholesale service for resale at discounts of 50-60 percent. However, the Bell Companies offer an average discount of only 22 percent for so-called "Total Service Resale." This 22 percent discount for local wire resale is far short of what's needed to justify investment for local competition. So no one is investing today. As a result, the incumbents' share of the local exchange market remained virtually unchanged throughout 1997.

To have local competition, there must be an economically fair playing field. This can only be achieved and sustained if all players operate off the same wholesale cost basis. Anything else will be either inadequate to attract investment, or temporary.

When and where we have an economically fair playing field, AT&T will invest and compete for local exchange opportunities. In the near term, our efforts for residential customers will focus on leasing and reusing elements of the local companies' networks – if these companies will price those elements fairly, as the Telecom Act requires. We'll also continue to explore exciting alternative technologies such as wireless and broadband.

But the longer the benefits of the Telecom Act are delayed, the longer the American consumer will pay the price. Exorbitant access charges are just one form that price takes.

Access charges are the fees the incumbents levy to carry our long-distance calls over that one wire into the home. They account for about 30 percent of the average customer's long-distance bill.

One benefit of the Act was to reduce those charges through competition, bringing them closer in line with the incumbents' actual costs of providing access. AT&T will work with regulatory and legislative authorities to deliver lower consumer prices through access charge reduction as soon as possible.

Business customers, too, want the benefits of a competitive marketplace. Here, there are some opportunities to deliver choice through wires other than the incumbents'. Earlier this year, we signed a definitive merger agreement with Teleport Communications Group, Inc. (TCG), one of this country's premier competitive local services companies. In TCG, AT&T found a great strategic match. TCG has local networks in 66 major cities; it has more fiber route

C. Michael Armstrong, Chairman and CEO (left)
Robert E. Allen, Former Chairman and CEO

This annual report would not be complete without acknowledging the contributions of Robert E. Allen, who retired as chairman and CEO November 1, 1997, after almost a decade of leadership.

Bob will always stand tall as a leader whose personal integrity and commitment to AT&T knew no limits.

Indiana-bred, he went to work for AT&T the same month he graduated from Wabash College, June 1957. After working 25 years in the AT&T of the old Bell System, Bob spent the rest of his career moving the company into the new world of global competition that opened up as AT&T left the regulated utility world of the Bell System behind.

History handed Bob Allen a challenge, and he never looked back. He leaves AT&T with our deep respect and gratitude.

miles and serves more businesses in more cities than any other competitive local services company. Joining forces will speed our entry into the local business market, reduce our costs and bring thousands more American businesses the “any-distance” services they’ve been asking for.

We’ll continue working to build a marketplace that delivers the benefits of local competition to business customers, consumers and shareowners alike. But, in the meantime, we aren’t standing still.

We know customers want simple, low-cost alternatives for voice phone calls, so we’re developing innovations like AT&T WorldNet® Voice. Starting later this year, customers will be able to make voice calls over AT&T’s Internet backbone network. They’ll get basic, reliable Internet-based telephony at a very competitive price of less than 10 cents a minute, and they can use the familiar telephone – instead of a computer – to do it.

Customers tell us they want to simplify the way they do business with us, so we introduced AT&T One Rate℠ Online. Customers who sign up for AT&T long-distance services using our Web site and agree to receive their bills online, will pay a low monthly fee and enjoy a flat rate on direct-dialed state-to-state calls made from home.

And customers want wireless service they can depend on 24 hours a day. By the end of the year, we’ll offer a battery that has a two-week digital standby life and an option that allows the caller – not the recipient – to pay for wireless calls, just as in the wired world. Customers also want user-friendly Internet access service, solutions to their complex business network management problems, and global service that’s as flexible and reliable as the service they enjoy in the U.S. And to do all that, they’ll need the best communications network that consistently extends their business around the world. We intend to be the best at providing all this.

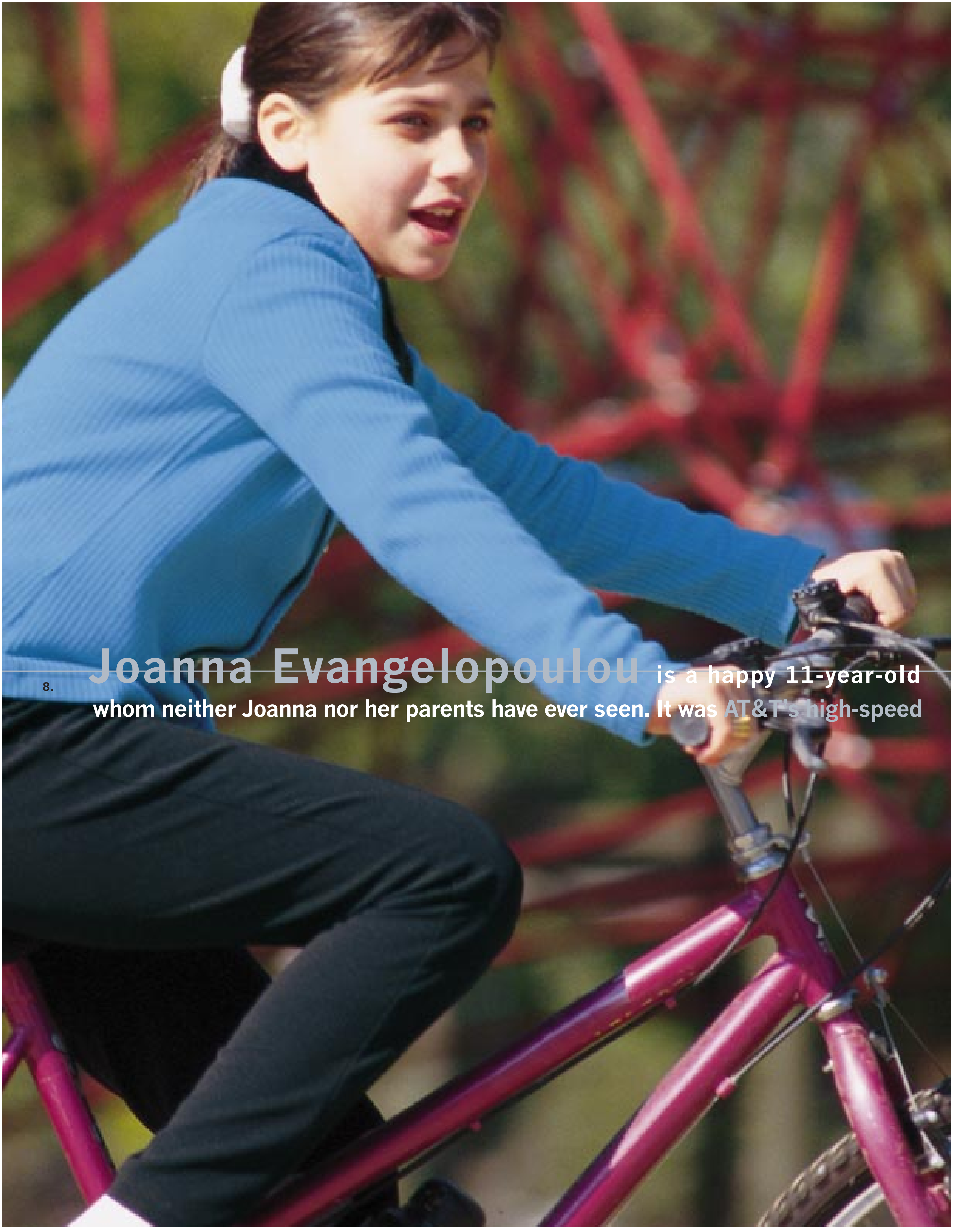
In 1997, we marked the end of the beginning. In 1998 – the 150th anniversary of Alexander Graham Bell’s birth – we’re excited about redefining the greatest communications company on earth. We’re building a customer-driven, commitment-driven company – one where change is a motivator, and nothing is worse than being left behind. We’re on the offense, and it’s the right place to be.

C. Michael Armstrong
Chairman and Chief Executive Officer

John D. Zeglis
President

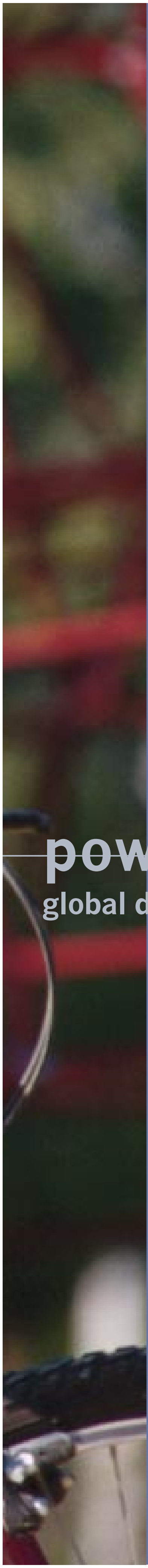
February 24, 1998

There is so much change in the communications industry lately that at times it all seems a blur. By focusing on the real needs of real people, AT&T is a **common thread** that connects the changing, sometimes confusing, elements of today's communications industry.



8.

Joanna Evangelopoulou is a happy 11-year-old whom neither Joanna nor her parents have ever seen. It was AT&T's high-speed



GLOBAL DATA. Joanna Evangelopoulou is playing, as any 11-year-old should. Others can take care of the hard stuff. Joanna had a serious heart problem, but she also had some of the world's best doctors – and AT&T communications technology – working for her, too. Surgeons at Aghia Sophia Children's Hospital in Athens used a pioneering AT&T telemedicine link to exchange scientific opinions and data with Children's Memorial Hospital in Chicago, more than 5,400 miles away. AT&T high-speed global data services allow doctors to exchange video images of sufficient clarity to make critical diagnoses on tiny hearts.

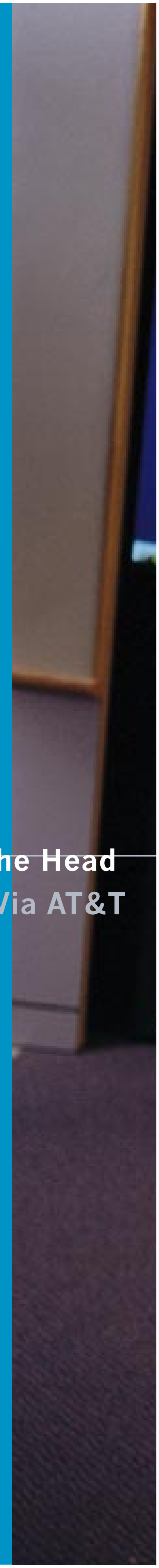
AT&T offers a wide range of data services to businesses of all sizes around the world. These services allow users to quickly transmit large volumes of data – locally and globally – that are critical to day-to-day operations. Insurance companies, financial services firms and other businesses count on AT&T's highly reliable data services around the clock for such applications as transferring files and records, holding multipoint videoconferences and conducting large-scale electronic messaging sessions.

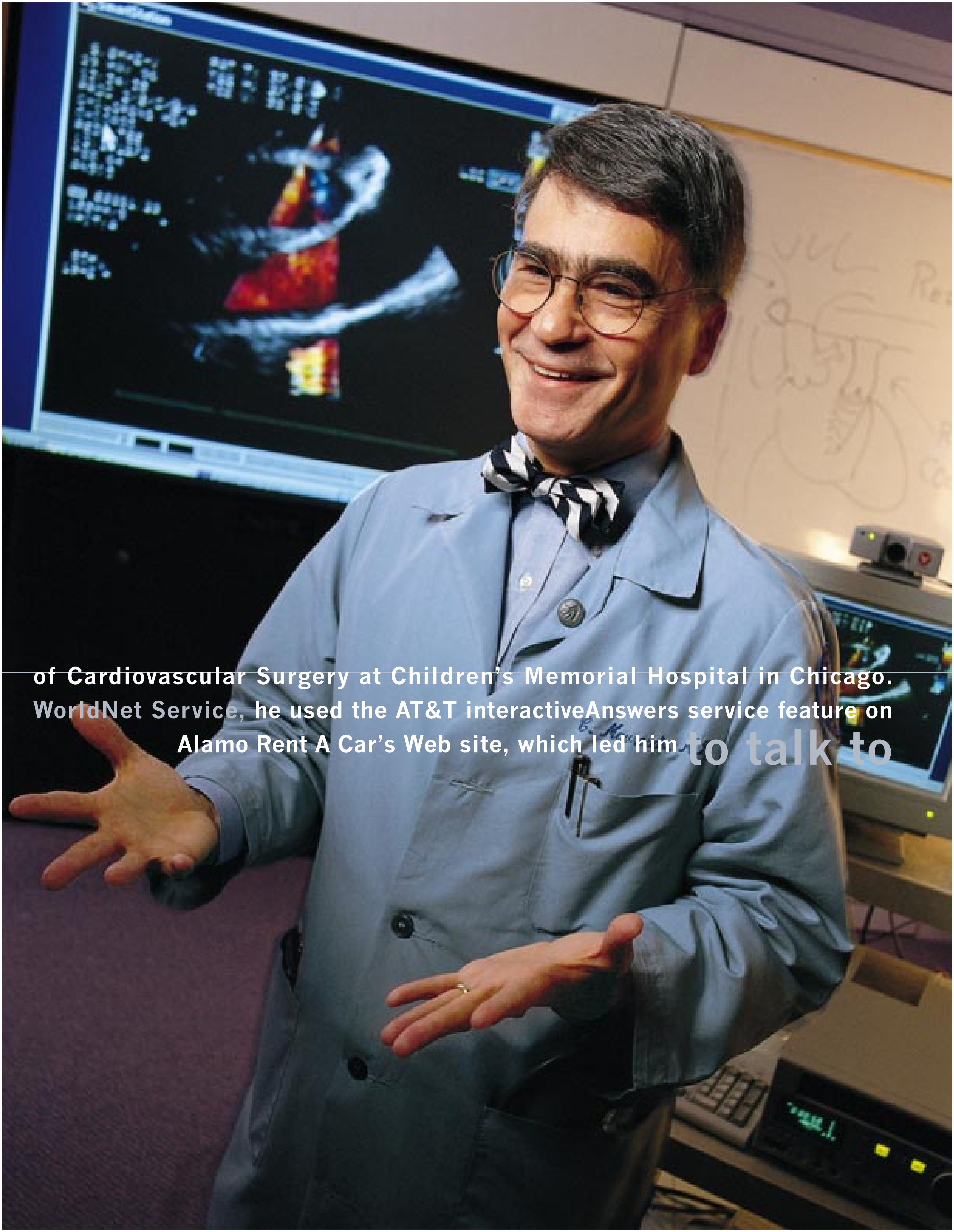
power user **whose life was saved by a team of doctors, many of**
global data services **that made it all possible for Joanna's echocardiograms to be**
diagnosed in a city **far from her home by**

INTERNET. Now on duty for an important medical consultation, Doctor Constantine Mavroudis has been busy in his off hours using the Internet to make plans for an upcoming family vacation. Linked into the Alamo Rent A Car home page, he was able to take advantage of AT&T interactiveAnswers[SM] Service. This service is a specialized part of many companies' Web sites, including not only Alamo but Weichert Realtors, 1-800-FLOWERS and others. With the interactiveAnswers feature – a technology developed by AT&T Labs – customers merely click on a computer screen icon. In a matter of seconds, the AT&T network bridges the caller with a live service agent who can answer questions and "push" additional pages of information to the caller's computer screen.

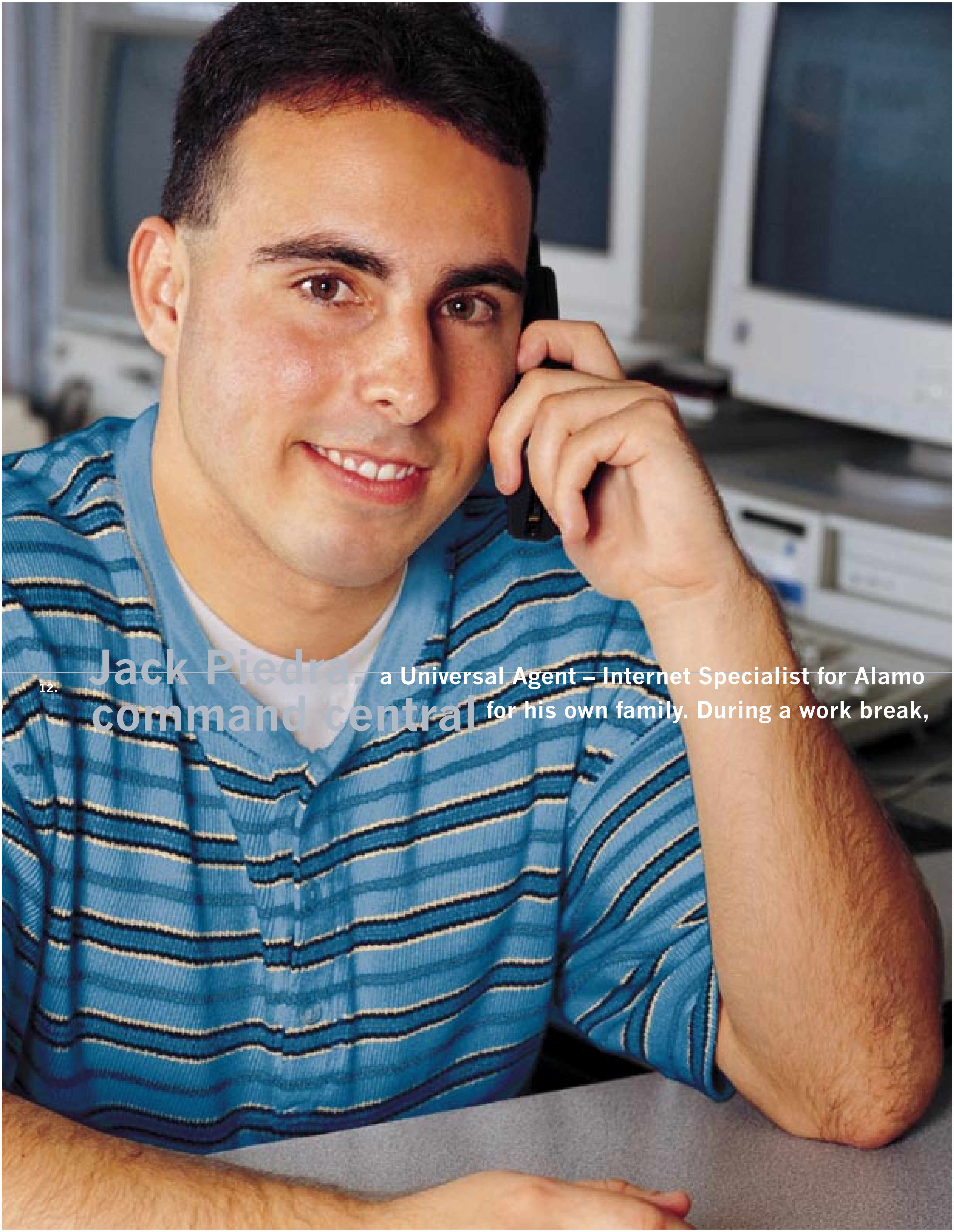
AT&T offers advanced electronic commerce solutions that simplify everyday business functions, as well as powerful Internet hosting capabilities. And AT&T WorldNet Service – our Internet access service available to both consumers and businesses – signed up its 1 millionth customer in the fourth quarter of 1997.

Dr. Constantine Mavroudis, who is the Head
Last night, though, he felt more like a travel agent. Via AT&T





of Cardiovascular Surgery at Children's Memorial Hospital in Chicago. WorldNet Service, he used the AT&T interactiveAnswers service feature on Alamo Rent A Car's Web site, which led him **to talk to**



Jack Piedra, a Universal Agent – Internet Specialist for Alamo
command central for his own family. During a work break,

WIRELESS. Since Alamo Rent A Car representative Jack Piedra spends much of his day talking on the phone, it's ironic that his break finds him on the phone again. This call, though, is different from the sort that made him one of Alamo's stand-out customer service representatives. He's using AT&T Digital PCS wireless service to get in touch with his wife. She's in New York City on business, and probably in a meeting. If she's not available when he calls, he can just leave a message on *her* Digital PCS phone. It's sure to make her smile and hit the autodial when she sees the readout on the phone's screen: "I miss you. When are you coming home?"

AT&T Digital PCS is an all-in-one personal communications service specially designed for the way people work and live. It combines voice, messaging and paging communications in a single phone. Features include caller ID, so users know who's calling; voice mail with a message-waiting indicator, so a quick glance tells users if they have messages; the ability to receive text and numeric messages on the phone from personal computers and text dispatch services, and dramatically improved battery performance. AT&T has more than 2 million digital subscribers – by far the most in the United States – and our U.S. digital footprint covers 60 percent more potential subscribers than any other company's. By the end of 1998, we will offer Digital PCS service to about half of the U.S. population, giving us one of the largest digital footprints in the world.

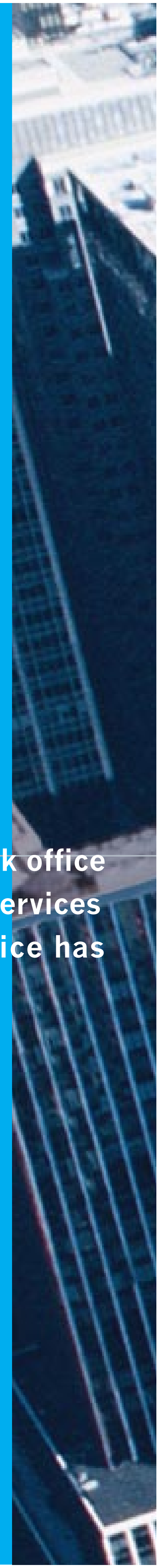
Rent A Car. Easy work for Jack, who often feels like

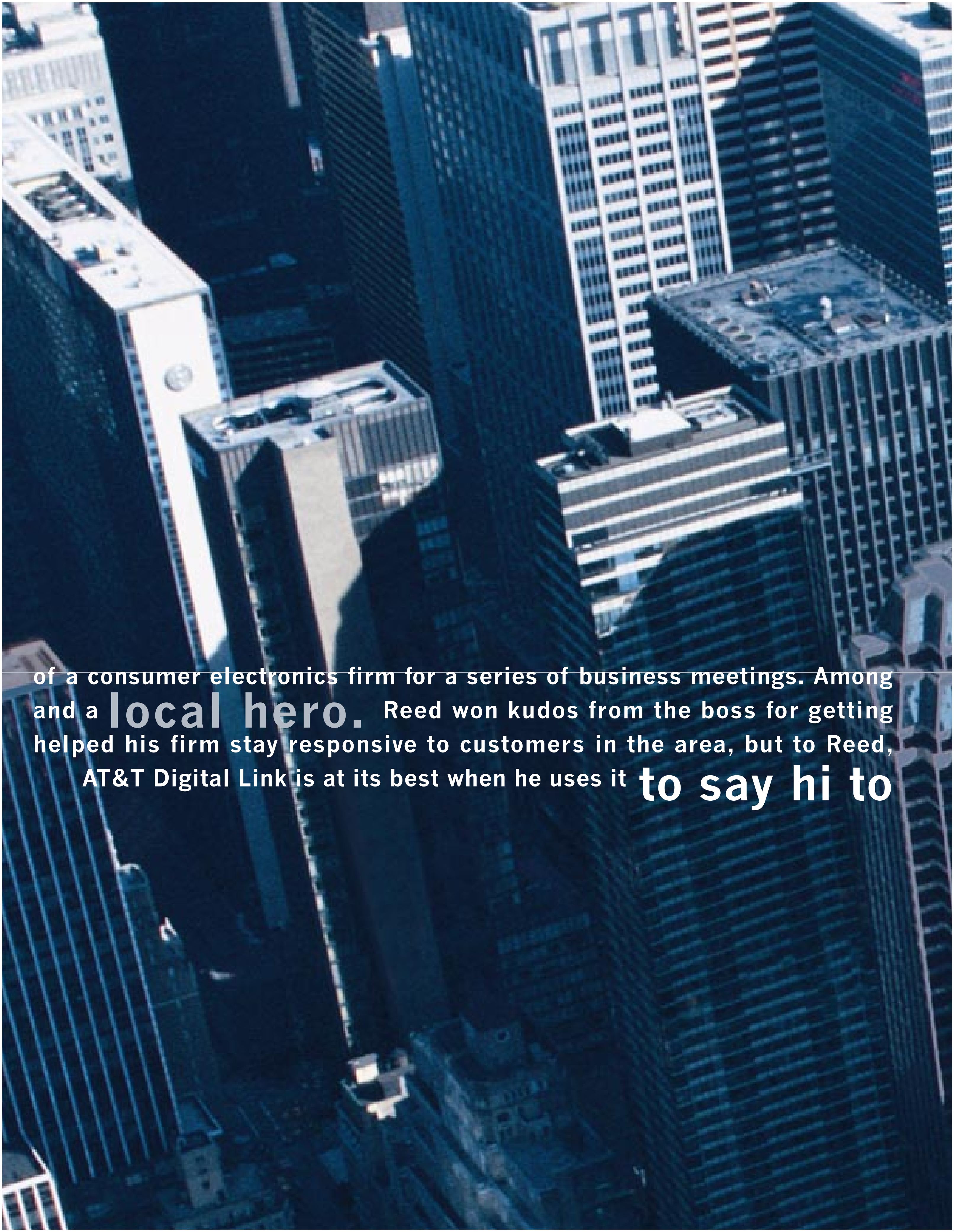
in fact, he uses his wireless phone to call

LOCAL. As Manager of Information Services, Reed J. Mac Taggart saw a great opportunity in selecting AT&T Digital Link service for his company's local calling. And he hasn't been disappointed. AT&T Digital Link adapts network switches and software to allow dedicated-access business customers to dial local calls through AT&T. The service gives customers a single point of contact for billing or service questions on local and long-distance services, and allows calls to be aggregated, billed and discounted as part of a company's long-distance services contract. Additionally, all calls are covered by the same sophisticated network management features many companies currently enjoy with their AT&T long-distance services.

AT&T local services will soon be available to thousands more American businesses as the result of AT&T's planned merger with TCG, which should be completed by mid- to late 1998. TCG will become the core of AT&T's local-business services unit, and accelerate our efforts to bring end-to-end communications services to U.S. businesses. With some 9,000 route miles of fiber-optic facilities, TCG has more fiber route miles and serves more businesses in more cities than any other competitive local exchange carrier. In fact, TCG operates high-capacity, state-of-the-art digital networks in 66 metropolitan areas, including 29 of the 30 largest. Synergies from the merger are expected to generate more than $1 billion in operating income in 1999.

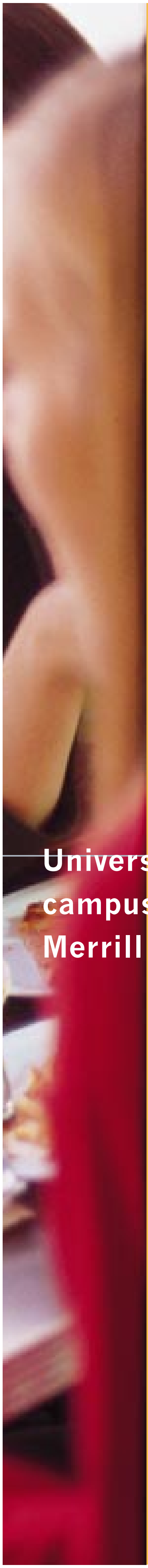
Kimberly Piedra, his wife, who's in the New York office those participating is Reed MacTaggart, Manager of Information Services the company hooked up to AT&T Digital Link service. The service has





of a consumer electronics firm for a series of business meetings. Among and a **local hero.** Reed won kudos from the boss for getting helped his firm stay responsive to customers in the area, but to Reed, AT&T Digital Link is at its best when he uses it **to say hi to**

Sarah Herrington, his niece, who's attending New York
of all that her AT&T Campus Card lets her do, from gaining access to
handy when research for a paper led Sarah to call an information line at



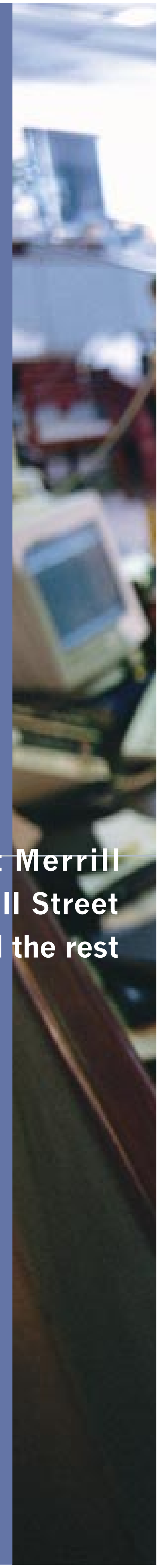
CONSUMER SERVICES. For Sarah Herrington and her friends at New York University (NYU), life is pretty much the same as at any other college. What sets them – and students at more than a half dozen other universities across the United States – apart from the rest is the technological power they hold in their hands. NYU is part of a growing group of schools to offer students the AT&T Campus Card, a credit card-sized ID card that also opens doors to campus facilities, holds cash balances for buying anything from books to pizza, and enables long-distance calling on the AT&T network. This innovative bundle of campus communications, card-access capabilities and management services uniquely meets the needs of both administrators and students.

The AT&T Campus Card is just one example of service bundling AT&T offers to consumers. In 1997, AT&T introduced almost a dozen different "value bundles," or multiple-service, single-bill offers designed and targeted for specific customer segments. Other bundles include offerings for members of the military, people with friends and relatives scattered across the United States or around the world, and a global home office package.

University. Sarah is like a systems expert at NYU because
campus buildings to buying lunch. And its calling card capability came in
Merrill Lynch, resulting in a conversation with

AT&T SOLUTIONS. Barbara S. Samuelson, a Financial Consultant and Vice President at Merrill Lynch, can remember October 27, 1997, well. The day included the largest one-session point loss in Dow Jones Industrial Average history, as well as an automatic 30-minute trading halt under rules designed to avoid panic selling. It also was the day that Barbara and her 14,000 financial consultant colleagues in some 660 Merrill Lynch offices across the United States were able to stay in touch with their customers, while many other brokerage services were in overload mode. That's because Merrill Lynch has a data transport network developed in conjunction with AT&T Labs, and provisioned and managed by AT&T Solutions. The customized service includes a platform that supports Merrill Lynch's voice and data networks and security firewalls, and a system to measure network response time that kicked in at the critical moment on October 27.

AT&T Solutions is a unit of AT&T that provides professional services around the world to Global 2000 clients through four practices: Consulting, Networking Integration, Outsourcing and Multi-Media Call Centers. Backed by AT&T Labs and other parts of AT&T, AT&T Solutions professionals conceive, plan and implement networking-based solutions that link business strategy, processes and technology to meet clients' current and future needs. Our professional services combine proven business analysis and planning skills with the research know-how and track record of AT&T in designing, building and managing robust global systems to conduct commerce in a digital world.



Barbara Samuelson, a 20-year veteran at Merrill inquiries. Barbara will never forget October 27, 1997, the day Wall Street system managed by AT&T Solutions, she and the rest

Lynch and a Financial Consultant who takes an occasional turn fielding student
had one of its biggest corrections ever. But because of the communications
of her colleagues stayed **calm, cool and collected.**

AT&T Strategy Overview

AT&T has embarked on a strategy to fulfill a distinct vision (see below). It is a strategy constructed on a unique and extraordinarily strong foundation:

- We're the world's leading long-distance provider, with some 90 million customers; more than $22 billion in 1997 business services sales, fueled in part by a booming data services business, and nearly $24 billion in 1997 consumer services revenue.
- We're the top U.S. wireless-services provider – with more than $4 billion in 1997 wireless services sales – and in the No. 1 position in total customers, digital customers, footprint (geographic coverage area) and markets served.
- We have the largest, most sophisticated communications network in the world, which handles an average of a quarter of a billion call attempts each business day.
- We have the resources of world-renowned AT&T Labs, which averages two patent filings every business day.

With this foundation as a starting point, we've established three strategic priorities to reach our vision: **1.** Achieve a competitive cost position; **2.** Invest for growth; **3.** Implement a "future-proof" network architecture.

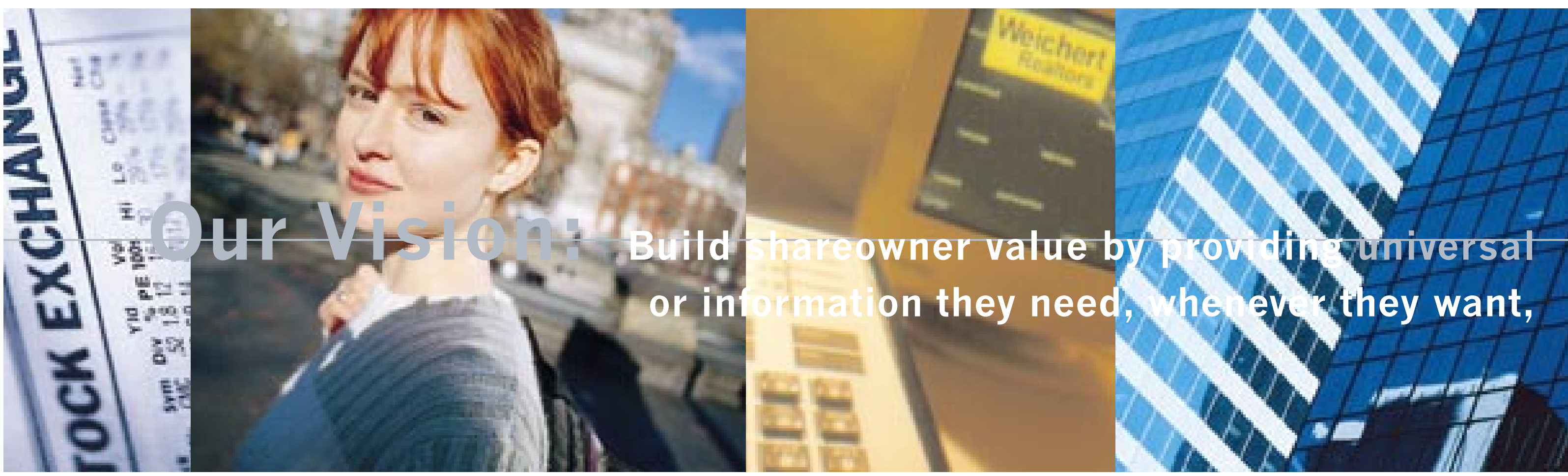
Achieve a Competitive Cost Position. We've committed to reducing selling, general and administrative (SG&A) expenses from 29 percent of revenues in 1997 to 22 percent by the end of 1999, representing a decrease of $1.6 billion in 1998 alone. A significant percentage of the savings will come by decreasing the size of the workforce in our long-distance business by 15,000 to 18,000 people over the next two years – primarily through a voluntary early retirement program for management employees. AT&T also has frozen the salaries of the company's top 450 executives and will reduce officer ranks by 25 percent.

Invest for Growth. We're investing for growth in five areas: wireless, local, Internet, AT&T Solutions and global services.

Wireless – We built 10 new digital wireless networks in 1997, so we now provide Digital PCS service in 24 of the nation's 25 top wireless markets. We can offer the industry's only tri-mode phones (850 MHz digital, analog and 1.9 GHz digital), which will allow us to provide broader digital coverage than anyone else and superior call quality. This year, we will introduce a phone with two weeks of digital standby battery life between charges. AT&T also plans to trial and implement a "caller pays" option for its customers. AT&T's Wireless Office Service (untethered communications for businesses) has been so successful, AT&T is conducting trials that will make it easier for customers to use wireless phones for all communications, beyond traditional mobility applications.

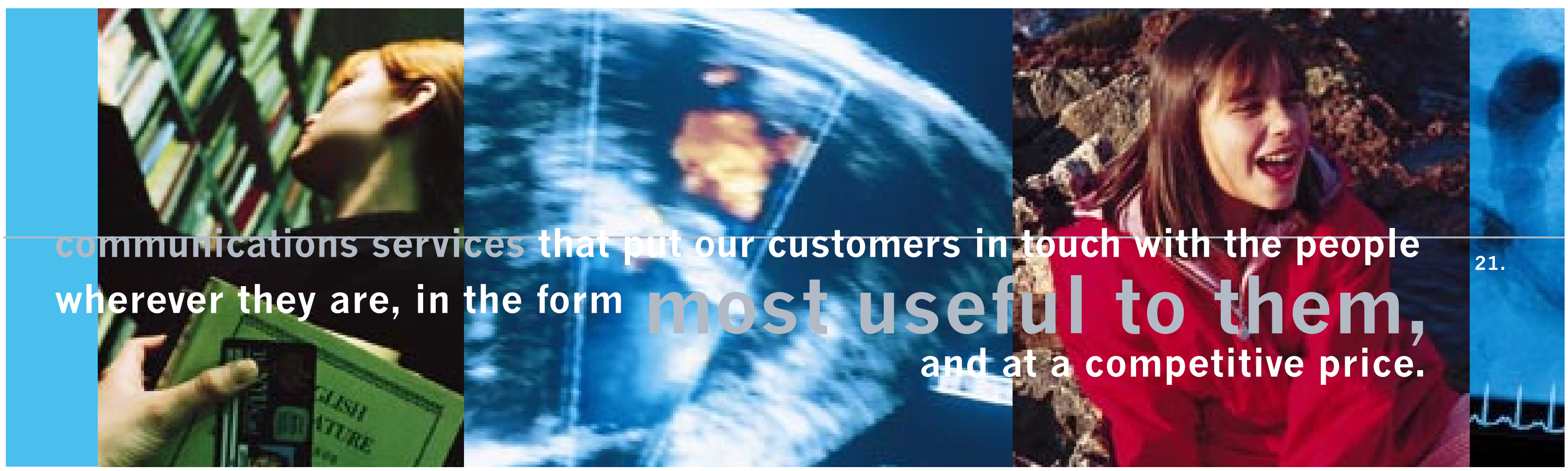
Local – For businesses, AT&T Digital Link connects customers directly to our toll switches for local calling capabilities. In 1997, AT&T Digital Link was available to customers in 49 states for outbound calling. And our entry into the business local-services market will be vastly accelerated once our pending merger with TCG is finalized in the second half of 1998.

And we remain committed to offering consumers local services when economically feasible. Our short-term efforts will focus on vigorously pressing for conditions and prices for unbundled network elements – such as the wires between people's homes and the central office. (As this annual



report goes to press, there is uncertainty because of litigation initiated by local phone companies constraining access to appropriately priced network elements.) In the longer term, we'll continue to investigate a variety of alternative technologies, including mobile spectrum, fixed wireless, broadband cable and power transmission lines.

Internet – Our new AT&T WorldNet Voice has a limited market trial set for the second quarter of 1998. This entrée into Internet telephony – supported by the work of AT&T Labs – will carry calls over AT&T's Internet backbone network, with good sound quality, at a competitive price of less than 10 cents per minute. With another new service, AT&T One Rate Online, customers who sign up for AT&T long-distance services using our Web site – http://www.att.com/ – and agree to receive their bills



online will pay a low monthly fee, and enjoy a flat rate on direct-dialed state-to-state calls made from home. Additionally, AT&T is making it easy for businesses to build intranets and extranets for reliable and secure communications with employees, customers and suppliers. And AT&T currently provides hosting services to nearly 7,500 business customers.

AT&T Solutions – AT&T Solutions provides multinational corporations linked professional services and seamless solutions that maximize the competitive advantage of networking-based electronic commerce applications. AT&T Solutions provides clients customized information technology solutions using state-of-the-art tools to operate and manage voice, data, video and Internet/intranet services, including local and wide-area networks, private branch exchanges, voice-processing systems, and voice and data terminals. AT&T Solutions has earned nearly $5 billion in long-term contracts in little more than three years of existence.

Global – AT&T continues to focus on serving multinational corporations and global travelers, creating a worldwide network and expanding its North American franchise in Canada and Mexico. AT&T's international business must provide multinational customers with the same service capabilities outside the United States as they enjoy in the U.S., including customer care, transmission rate, functionality and reliability. Our partner arrangements are doing better than competitors in this regard, but we are committed to doing even more in the global arena to deliver on the potential and meet customers' needs.

Implement a "Future-Proof" Network Architecture. We've announced dramatic plans to "future proof" our network for voice, data, image and Internet calling, and provide our network architecture with cost efficiencies and new technology.

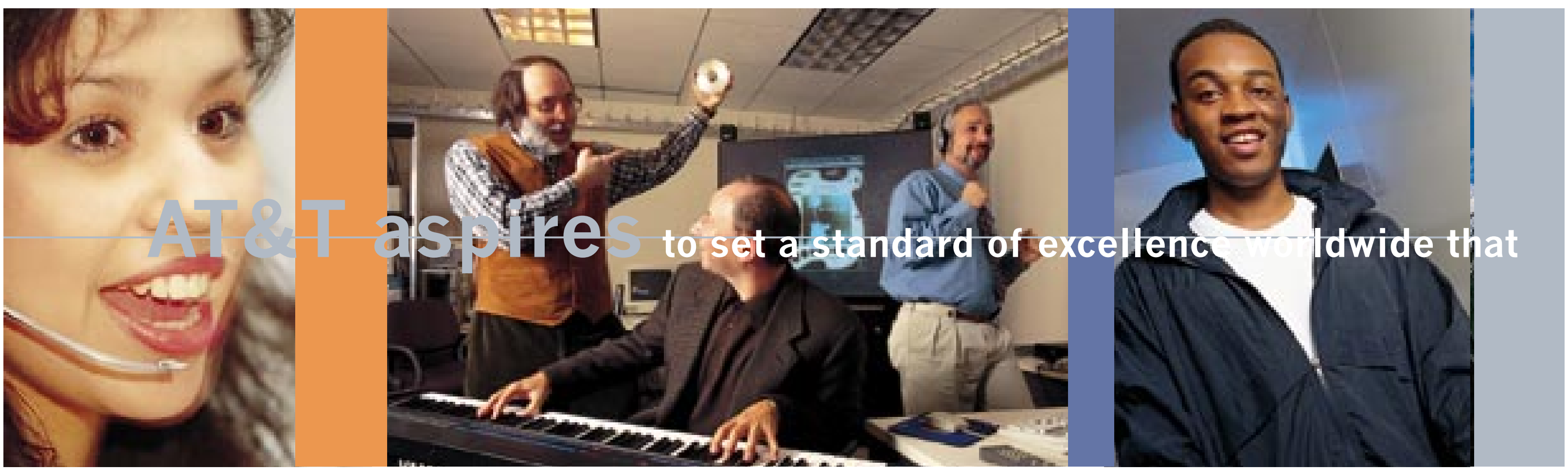
With the architecture, AT&T will be able to handle any type of traffic a customer has, in unlimited amounts, well into the next millennium. We're greatly boosting the capacity of our nearly 41,000 route miles of fiber installed in the United States through a new SONET (Synchronous Optical Network) photonics technology. The system increases the transmission capacity of our existing network by a factor of 10 without having to lay any additional fiber-optic cable.

The People of AT&T

People are the heart and soul of any company. AT&T is no exception.

But the heart and soul *of* its people does make AT&T exceptional. From ensuring that the world's most powerful network is always ready to help customers make important connections, to giving time and talent to local communities, AT&T people are truly special. Here are just some of their noteworthy accomplishments from 1997.

AT&T Network – Some 300 Network and Computing Services people last year took on the unenviable task of trying to make the best better. When network managers determined more capacity was needed to maintain AT&T's high network performance standards, people worked overtime and weekends to get the job done. Result: During 1997, AT&T added more capacity than we had in the



entire network at the end of 1991. The AT&T network handles an average of 250 million call attempts on a typical business day.

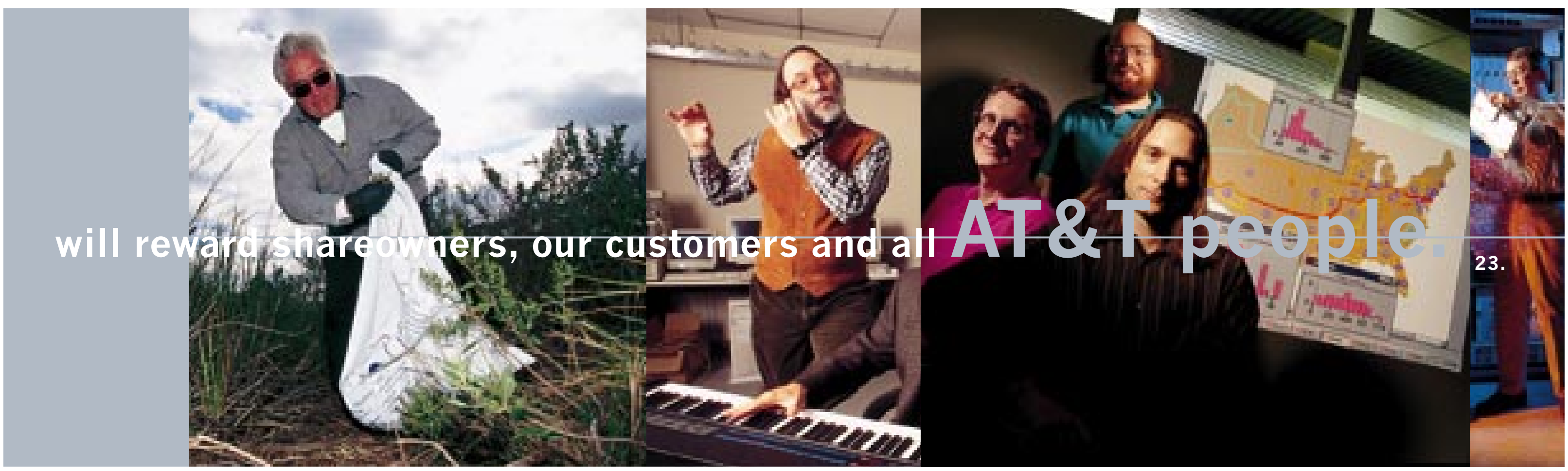
AT&T Labs – The 2,000 people of AT&T Labs are using their expertise in information processing and communications technologies to create the future for AT&T and its customers – whether that future is next week or the next millennium. For example, they're working on the network of the 21st century, combining the quality and reliability of today's phone network with the flexibility and efficiency of the Internet. They're creating new services, such as a prototype that combines telephony with the World Wide Web so that people can, for example, send and receive e-mail over the phone. And they're working on technologies that will expand the capacity of the "last mile" to the home, bringing exciting multimedia services into customers' living rooms. Late last year, Labs people debuted their new "launch and learn" mode of nurturing promising ideas and technologies by inviting the public to take part in testing them. Howie Singer, Larry Miller and a small Labs team launched a highly successful Internet music trial called "a2b Music℠" (http://www.a2bmusic.com/). In partnership with leading record label BMG, the trial lets consumers download and play CD-quality music. The trial is evaluating industry-leading technologies from Jim "JJ" Johnston, Jack Lacy and many other AT&T Labs people that may someday revolutionize the way customers buy, promote and sell soft goods on the Internet.

AT&T Customer Care – A father received a long-distance call informing him his daughter had been taken to Holy Cross Hospital following an accident. With only the first three digits of a phone number, no area code and a thought that the hospital was probably in the Baltimore area, the man would have had a problem using traditional directory assistance. But thanks to AT&T's "00" INFO (pronounced "double-oh info") service, he was able to find and check on his daughter with relative ease. Providing personalized, world-class customer care is an AT&T priority in serving both our business and consumer customers. AT&T's "00" INFO is a consumer customer care innovation unveiled last year in 23 states, as well as nationally to AT&T Calling Card customers. The service specializes in obtaining listings for customers who sometimes have sketchy information.

OWN IT! – AT&T people helped the company achieve millions of dollars in cost avoidance in 1997 through

OWN IT!, a new way of doing business at AT&T. Through individual and team efforts, people from all over the company latched on to the concept of acting like owners of the business. From the way office equipment is purchased to the way meetings are conducted, AT&T people are dedicated to finding and implementing the most efficient, cost-effective ways of doing business.

AT&T CARES – One of AT&T's finest traditions – the spirit of service – has been kept alive and shining through AT&T CARES, the most ambitious volunteer community service program ever undertaken by an American corporation. The program gives all AT&T people a paid workday in which they may volunteer in their local communities. By the time the initiative hit its one-year anniversary in November, more than 50 percent of AT&T people donated over



300,000 hours in eight countries and 43 U.S. states. They wired schools for the Internet, cleaned parks and playgrounds, built housing for the homeless and more. AT&T was one of three large corporations selected by the Points of Light Foundation for Excellence in Community Service in 1997. Thanks to the AT&T CARES program's tremendous success, it's been extended for another year.

Above and Beyond – Because of exceptionally heroic deeds, three people were recognized by AT&T in 1997 with the Vail Award, named for AT&T's first president, Theodore N. Vail.

Barbara Harrod, an AT&T associate in Orlando, Florida, risked her life to save three people involved in a head-on collision between a van and a car: a toddler and the child's mother, who were both in the van, and the driver of the car. Harrod received a Gold Vail Medal, the first awarded in 10 years.

Denis Boyle, a manager in Bridgewater, New Jersey, was awarded the Silver Vail Medal for a selfless act when, during a day at the beach, he spotted a teenage boy being dragged out into the ocean by a riptide. He enlisted the aid of a nearby swimmer while his wife alerted lifeguards. Boyle reached the boy and brought him back to shore.

Carla Leyva, a bilingual operator from an AT&T Call Servicing Center in Odessa, Texas, received a Silver Vail Medal for her bravery and quick thinking when she encountered a young woman on the ground in a local park, struggling with a man armed with a knife and gun. Leyva started shouting and was able to scare the man away before the victim sustained serious injuries.

A cash award accompanies the medal – $5,000 for bronze, $10,000 for silver and $20,000 for gold.

Our Common Bond — We commit to these values to guide our decisions and behavior:

- Respect for Individuals
- Dedication to Helping Customers
- Highest Standards of Integrity
- Innovation
- Teamwork

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.

Financial Prologue

In 1997, we defined AT&T's direction and focused on the growth opportunities that would build shareowner value in the short and long term.

Our financial philosophy was simple and direct: build on our strengths.

We defined and examined our core businesses. We invested in the assets that would help our branded core businesses grow. And, we began to use our assets as competitively as possible by establishing best-in-class cost structure targets.

As we focused on strengthening the core, we also continued our program to sell the businesses that we determined were "non-mission critical." We divested these non-strategic assets to give management the time and energy to focus on growth and execute the strategy.

And, we supported our long-term strategy by investing in nontraditional business initiatives to respond to customer demand for "universal" communications and our owners' expectation for growth.

What follows is the financial review of a company with strong fundamentals: $51 billion in sales; earnings before interest, taxes, depreciation and amortization (EBITDA) of $11 billion; operating income of $7 billion; net income of $5 billion; $8 billion in operating cash flow, and our strongest balance sheet in decades. It shows our work-in-progress to redefine the greatest communications company in the world.

Dan Somers
Chief Financial Officer
February 24, 1998

What it all means: In reporting our 1997 operating results we employed certain conventions in order to assist readers in understanding the key drivers of our business. First, in order to distinguish the performance of AT&T's established businesses from the dilutive impacts of investments in new business areas, we present certain information in terms of "core" businesses and "initiatives." Core businesses include: business and consumer long-distance services, wireless voice services in existing 850 MHz markets, messaging, air-to-ground services and wireless product sales. Initiatives include: local service; wireless service in new 1.9 GHz markets; wireless data services; online services such as AT&T WorldNet®; the AT&T Solutions outsourcing, consulting and networking integration professional services business, and international markets (excluding bilateral traffic). Note that all financial data presented on a "core" and "initiatives" basis should be considered approximate. Data on initiatives include costs and expenses on an incremental basis and require certain estimates and allocations that management believes provide a reasonable basis on which to present such information.

Also, as required by generally accepted accounting principles, our financial statements include only the results of "continuing operations." The results of certain businesses AT&T has divested and AT&T Universal Card Services, Inc. (UCS), which in the fourth quarter we agreed to sell to Citicorp (Citibank), are represented as "Income from discontinued operations" (net of applicable taxes), "Net assets of discontinued operations," and "Net cash used in discontinued operations." In 1997 discontinued operations included the results of UCS**.** The results of AT&T's former submarine systems business, sold to Tyco International Ltd. in July, are also included in discontinued operations. In 1996 and 1995 discontinued operations included Lucent Technologies Inc. (Lucent), AT&T Capital Corporation (AT&T Capital), NCR Corporation (NCR) and other businesses.

Financial Section Index

January 1, 1997, marked a beginning for AT&T. The challenge of completing the "trivestiture" was behind us and we entered the new year as a new company – one better focused and prepared to face the increasingly competitive and dynamic telecommunications industry. As our experience in 1997 proved, however, the most challenging period in this company's history did not end with trivestiture. Rather, we had *just begun* the work needed to position ourselves strategically and financially in order to grow profitably in the years to come.

Change and complexity characterized the industry in 1997. New services continued to emerge – services like voice over the Internet and Internet Protocol (IP) networks. Digital technology continued to revolutionize the wireless communications business. Demand for data transmission services such as frame relay multiplied, and corporations demanded help managing their ever more complex, more global telecommunications needs. The maze of regulatory issues impacting our business grew more and more intricate. Even the very structure of the industry changed as companies from all parts of the industry looked for partners to help them become providers of complete offerings of telecommunications services.

As if all this wasn't challenging enough in 1997, competition intensified in our long-distance and wireless businesses where we faced some of the stiffest competitive conditions around. Aggressive industry pricing practices put pressure on our margins in long-distance services for businesses. The competition used price and innumerable other tactics to attack our residential base and new competitors entered wireless markets all over the country with aggressive offers.

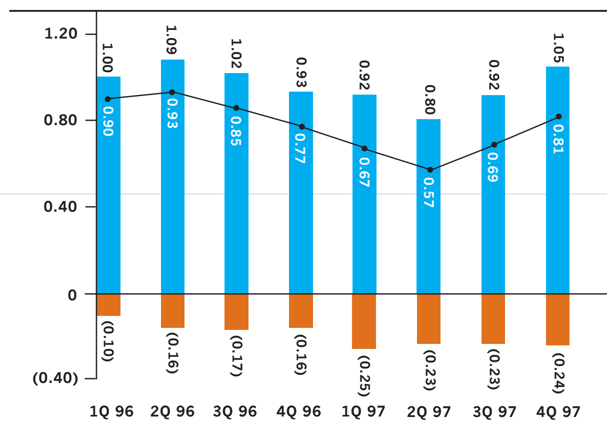
Our mission for 1997 was to take the critical actions needed to prepare AT&T for the future. Our ultimate ability to deliver shareowner value depends on the strategic position and the financial strength and flexibility that we create for ourselves today. But we also understand the need to balance concern for the future with our investors' expectations for solid financial performance in the present.

So in 1997, we did invest for the future. We invested in our local service initiative which reduced earnings before interest and taxes (EBIT), including other income, and earnings before interest, taxes, depreciation and amortization (EBITDA), including other income, by over $900 million each and reduced earnings per share by about $0.37. We did not get the return we wanted on this investment, so we made the important economic decision to discontinue our efforts to sell local service to residential customers on a total services resale basis. We remain committed to providing local service to our residential customers, but only when an economically viable means of doing so can be developed. On the business side, we accelerated our local entry in January 1998 when we executed a merger agreement with Teleport Communications Group, Inc. (TCG), the largest competitive local exchange carrier. TCG brings to AT&T local facilities in 66 of the top U.S. markets, along with the management expertise we need to win in the business local market. The TCG deal, valued at about $11 billion, is expected to generate over $1 billion in synergies in 1999, growing to $2.2 – $2.5 billion in 2002. Under the agreement each share of TCG will be exchanged for .943 of an AT&T share. The merger, which remains subject to regulatory approval and certain other conditions, is expected to close in the second half of 1998.

We also continued to develop businesses that are important to our long-term success. These businesses include international markets (excluding bilateral traffic), AT&T Solutions – our outsourcing, consulting and networking integration professional services business; AT&T WorldNet – our Internet access service for homes and businesses, and wireless service in new 1.9 GHz markets. We invested heavily in these businesses in 1997; they further reduced AT&T's EBIT by over $1.5 billion, EBITDA by more than $1.2 billion and earnings per share by about $0.58 for the year.

AT&T Two-Year EPS* Trend

Dollars

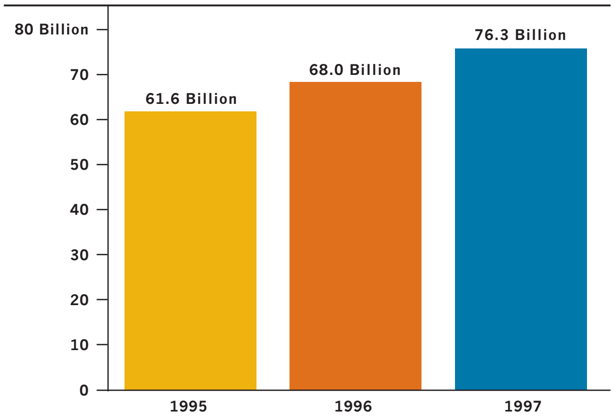


	Core	Inits	Total
1996	4.04	(0.59)	3.45
1997	3.69	(0.95)	2.74

* All earnings per share information in this discussion is presented on a diluted basis, meaning that the share balance used in the calculation includes shares outstanding plus shares that may be issued as a result of the exercise of options.

We continued to invest in our core long-distance business as well. The AT&T network handled a record volume of traffic in 1997, including a new one-day record of 319 million calls on the Monday after Thanksgiving. Approximately 99.96% of these calls were completed on the first try. In order to maintain this level of capacity and reliability, as well as respond to new demands, we invested the majority of our capital spending in 1997 in the long-distance network, deploying Synchronous Optical Network (SONET) technology rings across the country and increasing the capacity of our data networks.

Number of Calls on the Network



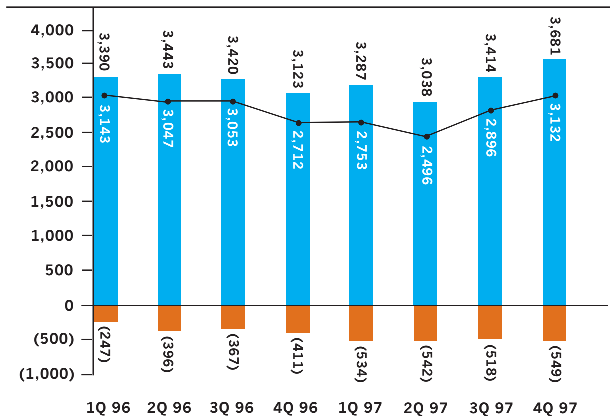
All this investment, plus the effects of competition on our core long-distance and wireless businesses, put a strain on our financial performance. As a result, our 1997 earnings were down from the prior year, as explained below in the discussion of our financial results for the year. But again, we recognize the need to balance investment with current earnings and to have maximum financial flexibility in this growing industry. Therefore, we moved aggressively to shore up our financial position and stabilize our earnings. We continued to divest assets and businesses not critical to our long-term strategy. We completed the sales of AT&T Tridom, AT&T Skynet, our submarine systems business and our investment in DirecTV. We reached agreements to sell UCS, AT&T Solutions Customer Care, and our holdings of LIN Television Corporation and WOOD-TV. We also reduced our strategic investment in SmarTone Communications. All told, we expect these transactions to generate about $6.7 billion in cash for AT&T (pretax). As a result, our already solid balance sheet will become even stronger.

In order to deliver on the earnings expectations of our investors and to position ourselves for the future, we attacked our cost structure aggressively in 1997 and intend to do a lot more in 1998 and beyond. As a result of our cost reduction efforts, our selling, general and administrative (SG&A) expenses declined in the fourth quarter of 1997. Our earnings, after hitting the low-water mark in the second quarter, showed sequential improvement in the third and fourth quarters. EBITDA also trended upward in the second half, as the chart at the right shows. Further, we expect to reduce SG&A by $1.6 billion in 1998 and our goal is to achieve a level of SG&A expenses equal to 22% of revenues by the end of 1999.

On January 26, 1998, we announced a voluntary retirement incentive program to be offered to managers during the second quarter of 1998. The expected acceptance rate of 10,000 to 11,000 employees for the voluntary retirement incentive offer may impact the utilization of the remaining 1995 restructuring reserve balance. Another 5,000 to 7,000 employees will leave through a combination of managed attrition and previously announced workforce reductions.

AT&T Two-Year EBITDA Trend

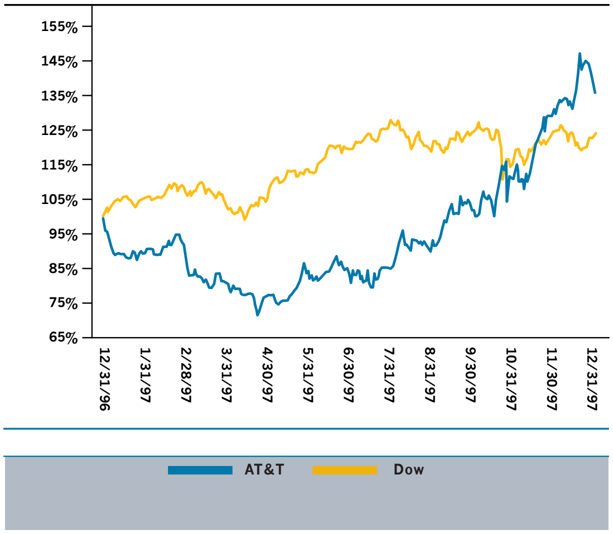
Dollars in Millions



	Core	Inits	Total
1996	13,376	(1,421)	11,955
1997	13,420	(2,143)	11,277

Shareowners recognized our efforts in 1997. AT&T was the top performing stock in the Dow Jones Industrial Average (DJIA) for the six months ending December 31, 1997, and had the seventh-highest appreciation among the Dow stocks for the full year. Our stock generated a total return, including dividends, of over 53% in 1997. We hope to continue to produce a high return in 1998 and beyond by delivering earnings growth.

AT&T Performance vs. DJIA in 1997



Operating Results

Our income from continuing operations decreased $1,101 million, or 19.8%, in 1997 and increased $506 million, or 10.0%, in 1996. Lower earnings from the core business and increased dilution from investment in initiatives contributed almost equally to the decline in earnings in 1997. Core earnings were lower due primarily to higher depreciation and amortization expenses driven by higher levels of capital investment. In 1997 we invested $7.2 billion in capital, the majority of which was directed toward increasing the capacity and technology of our long-distance and wireless networks, including the installation of SONET facilities. We expect to complete our SONET program in 1998 with a total of 52 rings providing coast-to-coast connectivity. Our local service efforts and our expansion into new wireless markets were the primary drivers of the increase in dilution from initiatives in 1997.

In 1995 our core business recorded pretax charges of $3,023 million of restructuring and other charges. The charges covered consolidating and reorganizing numerous corporate and business units over several years. The total pretax charge was recorded as $844 million in network and other communications services expenses, $934 million in depreciation and amortization expenses, and $1,245 million in selling, general and administrative expenses. The tax benefit associated with the charges was $991 million. The total impact on income from continuing operations was $2,032 million, or $1.28 per share. The impact on income from discontinued operations was $3,321 million, or $2.08 per share. The impact on net income was $5,353 million, or $3.36 per share. Discussions presented here exclude the impact of these charges unless noted.

For the Years Ended December 31	1997	1996	1995*
Dollars in Millions			
Income from Continuing Operations	$ 4,472	$ 5,573	$ 5,067
Income from Discontinued Operations	100	173	425
Gain on Sale of Discontinued Operations	66	162	–
Net Income	$ 4,638	$ 5,908	$ 5,492
Earnings Per Share – Diluted:			
Income from Continuing Operations	$ 2.74	$ 3.45	$ 3.19
Income from Discontinued Operations	0.06	0.11	0.26
Gain on Sale of Discontinued Operations	0.04	0.10	–
Net Income	$ 2.84	$ 3.66	$ 3.45
Earnings Per Share – Diluted:			
Core	$ 3.69	$ 4.04	$ 3.40
Initiatives	(0.95)	(0.59)	(0.21)
Total Continuing Operations	$ 2.74	$ 3.45	$ 3.19

* Excludes restructuring and other charges

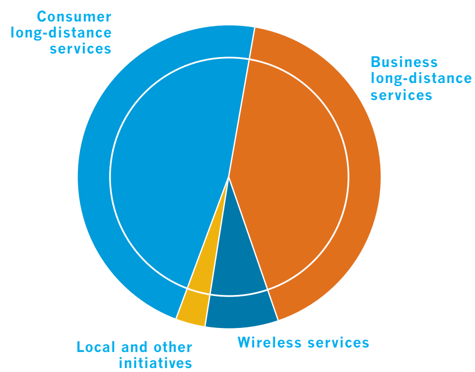
Income related to discontinued operations, including gains on disposals, was $166 million in 1997 and $335 million in 1996. As of December 31, 1997, UCS is the only business remaining in discontinued operations. We completed the sale of our submarine systems business in the third quarter of 1997, and in 1996 we successfully divested Lucent, NCR, AT&T Capital and other businesses.

Revenues

We reported our 1997 revenues in five categories: business and consumer long-distance services, wireless services, local and other initiatives, and other and eliminations. Total revenues grew $773 million, or 1.5%, in 1997 and $2,101 million, or 4.3%, in 1996.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Business long-distance services	$ 22,212	$ 21,591	$ 20,496
Consumer long-distance services	23,962	24,650	24,299
Wireless services	4,337	3,931	3,368
Local and other initiatives	2,226	1,569	1,393
Other and eliminations	(1,418)	(1,195)	(1,111)
Total revenues	$ 51,319	$ 50,546	$ 48,445

AT&T 1997 External Revenue by Category



Business long-distance services revenue, made up primarily of revenue from voice and data services, and related products sales, increased $621 million, or 2.9%, in 1997 and $1,095 million, or 5.4%, in 1996. Adjusted for the sales of AT&T Skynet and AT&T Tridom, business revenue grew 3.5% in 1997. Strong growth in revenue from data services – frame relay and other emerging services as well as private line – drove the increase in business revenue. Revenue growth from voice services was hampered by pricing pressure brought on by a number of factors. Many voice service contracts were renegotiated during the year, encouraged by uncertainty surrounding the possibility of detariffing. Competitive pressure caused many of these contracts to be renegotiated at lower rates. Also, reductions in access costs were passed to customers in the form of lower rates, further pressuring revenue growth. Revenue growth in 1996 was fueled by both strong growth in business inbound (toll-free 800 and 888 services) and data services.

Calling volume, or billed minutes, in business long-distance services grew in the mid-teens in both 1997 and 1996, both led by strong volume growth in inbound services as well as growth in outbound services and government markets. Despite very competitive conditions, we held our market position in business services with such major contract wins as American Express, Prudential, CVS, American Home Products and the State of Florida. Again, lower price levels on voice contracts substantially offset the growth in calling volume though the pricing environment began to show signs of stabilization in the fourth quarter of 1997.

Consumer long-distance services revenue declined $688 million, or 2.8%, in 1997 and increased $351 million, or 1.4%, in 1996. However, our 1997 revenue growth was impacted by a number of strategic choices intended to improve profitability. For instance, we accelerated the use of free minutes as a customer incentive in 1997, increasingly using them in place of checks. Since free minutes are presented as contra-revenue on the income statement while checks are classified as expense, our move toward free minutes served to reduce revenue growth. This shift, plus the effects of flowing savings from access reform through to customers resulting in lower prices, accounted for 2 percentage points of the 2.8% decline in revenue. The remaining decline was primarily due to another move designed to improve long-term profitability – the migration of customers to more favorable optional calling plans. This is a key element in our strategy to retain our most profitable customers. Partially offsetting the declines was growth in intraLATA, or local-toll services. Presubscription processes allowing customers to choose AT&T as their preferred local-toll carrier helped revenue from these services grow substantially in 1997. In 1996 the increase in consumer revenue was driven by price increases instituted throughout the year.

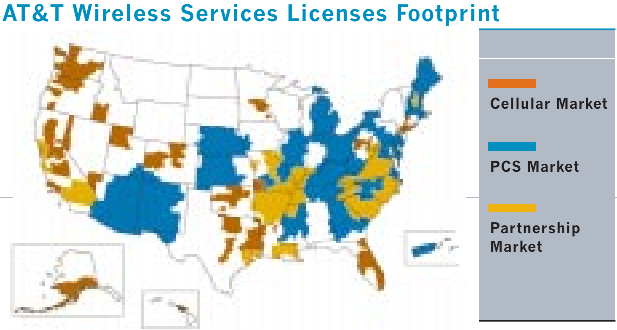
Another element in our strategy to attract and retain the most profitable residential customers and to improve our bottom line was to refine our marketing efforts in the second half of the year so that the customer base we targeted for acquisition would not include customers who are not profitable to us. While not having a material impact on consumer revenue or volume for the full year 1997, this strategic shift may cause further pressure on these measures in the future.

Consumer calling volume increased by a low-single-digit percentage in 1997 compared with a decrease of a similar magnitude in 1996. The increase was due to strong growth in intraLATA volume, again as a result of capturing the opportunity offered by local-toll presubscription, while in 1996 declines in domestic volumes were partially offset by growth in international volumes.

Total long-distance services revenues – the sum of the business and consumer categories – was $46,174 million in 1997, essentially flat compared to $46,241 million in 1996. Volume increased 8.7% for the year. In 1996 long-distance revenues increased $1,446 million, or 3.2%, on a volume increase of 5.9%. The gap between volume and revenue growth widened to 8.8% in 1997 due to the revenue factors mentioned above, including the flow-through of access-charge reductions, and also due to the growth in lower-priced services such as intraLATA. The 1996 gap reflected the impact of promotional discounts, increased movement of customers to optimal calling plans and increased discounts given to large accounts. In addition, international volumes increased in 1996 while international revenue remained relatively flat.

Wireless services revenue, which includes wireless voice and data, messaging, air-to-ground services and product sales, increased $406 million, or 10.3%, in 1997. Revenue from AT&T's new 1.9 GHz markets is included in this figure, although its impact on the annual growth rate was minimal. Adjusted for the impact of wireless properties disposed of in December 1996, the 1997 revenue growth rate would have been 12.9%. The revenue growth was driven by consolidated subscriber growth of 15.7% (18.3% adjusted) in 1997. In 1996 wireless revenue increased $563 million, or 16.7%, on a 31.7% increase in subscribers. The slower rates of growth in 1997 reflect the increased competition that characterized the wireless industry in 1997. Competition was particularly fierce in the southwestern and western areas of the U.S. where the introductory offers of new market entrants were often met with equally competitive offers from incumbent cellular competitors. The lower growth rates also reflect the fact that while new competitors have had a significant impact in many of our cellular (850 MHz) markets, we are just beginning to penetrate new markets with AT&T Digital PCS service on the 1.9 GHz spectrum. Finally, similar to our consumer strategy, toward the end of 1997 we began focusing our efforts on targeting high-value wireless customers and reducing sales to lower-end subscribers. While this strategic move impacted both revenue and subscriber growth rates in 1997, and will continue to impact these growth rates in 1998, it is designed to improve the profitability of the wireless business.

AT&T Wireless Services Licenses Footprint



Please note: This graphic has been updated to correct a color key error made in the print version of the 1997 AT&T annual report.

This strategic shift, if successful, will help support our average revenue per user (ARPU) over time. In 1997 the impact of industry-wide competitive pricing pressure, along with increased "convenience" usage of wireless phones, overcame any benefit from our high-value strategy. ARPU in our existing cellular markets fell to $54 per month from approximately $60 in 1996 and $69 in 1995.

Wireless customers, or subscribers, in markets where AT&T owns a majority interest (consolidated markets), stood at 6.0 million at December 31, 1997. This included over sixty thousand subscribers in our new 1.9 GHz markets. Cellular subscribers at December 31, 1996, and 1995 were 5.2 million and 3.9 million, respectively. Cellular subscribers in markets in which we have or share a controlling interest were 8.2 million at December 31, 1997, up 14.7% from 7.1 million at December 31, 1996. Cellular customers on this basis were 5.5 million at December 31, 1995.

Revenue for local and other initiatives increased $657 million, or 42.0%, in 1997 and $176 million, or 12.6%, in 1996. The 1997 increase resulted primarily from increases in outsourcing revenue at AT&T Solutions, as well as revenue from international markets, AT&T WorldNet and local service. Outsourcing revenue and revenue from AT&T WorldNet drove the increase in 1996, partially offset by a decline in revenue from international markets.

Other and eliminations revenue primarily reflects the elimination of revenues for services sold between categories (e.g., sales of business long-distance services to other AT&T units).

Operating Expenses

For the year, operating expenses totaled $44,351 million, an increase of 6.1% from $41,783 million in 1996. In 1996 expenses increased 3.8% from $40,238 million.

For the Years Ended December 31		1996	1995
Dollars in Millions			
Access and other interconnection		$ 16,332	$ 17,618

Access and other interconnection expenses are the charges that we pay to connect calls on the facilities of local exchange carriers and other domestic service providers, and fees that we pay foreign telephone companies (settlements) to connect calls made to and from foreign countries on our behalf. These charges are designed to reimburse these carriers for the common and dedicated facilities and switching equipment used to connect our network with theirs. These costs remained essentially flat in 1997 as lower per-minute access costs were offset by solid volume growth and a beneficial second quarter 1996 accounting adjustment of previously estimated accruals to reflect actual billing. The lower per-minute access costs are primarily the result of declines in international settlement rates and access charge reform mandated by the Federal Communications Commission (FCC) effective for the second half of 1997. Interstate and intrastate tariff reductions, changes in traffic mix and network planning also contributed to the lower per-minute access costs.

In 1996 access costs declined $1,286 million, or 7.3%, again due to lower per-minute access costs. This resulted from changes in the price-setting methodology approved by the FCC effective in the second half of 1995, and also from improvements in our infrastructure and reduced international settlements payments. The beneficial accounting adjustment mentioned above also contributed to the reduction.

Access and other interconnection expenses were 31.8% of revenues in 1997, 32.3% in 1996 and 36.4% in 1995. We expect this percentage to continue to decline over time as we realize synergies from our pending merger with TCG.

For the Years Ended December 31		1996	1995*
Dollars in Millions			
Network and other communications services		$ 7,918	$ 6,913

* Excludes restructuring and other charges of $844

Network and other communications services expenses include the costs of operating and maintaining our network, operator services, nonincome taxes, the provision for uncollectible receivables and compensation to payphone operators. More than half of the $1,398 million, or 17.6%, increase in 1997 was due to higher costs for initiatives, particularly AT&T Solutions, AT&T WorldNet and local service. The remaining increase was primarily driven by FCC-mandated compensation to payphone operators and higher expenses for operating and maintaining our network. Expenses for operating and maintaining our network increased due to higher costs for purchases from Lucent at retail and otherwise remained essentially unchanged despite increased calling volumes and the increased complexity of our service offerings.

Growth in payphone compensation expense decelerated in the fourth quarter when the FCC agreed to a reduction in the per-call rate from $0.350 to $0.284. As a result of this action, AT&T was able to reverse some of the expense previously accrued in 1997. We are currently asking for further relief from this expense as we believe that the $0.284 per call rate remains above the actual cost to payphone operators of providing services.

Network and other communications services expenses increased $1,005 million, or 14.5%, in 1996. The increase was due to increased costs from our expansion into new initiatives, enhancements made in customer care facilities and a higher provision for uncollectibles.

For the Years Ended December 31	1997	1996	1995*
Dollars in Millions			
Depreciation and amortization	$ 3,827	$ 2,740	$ 2,586

* Excludes restructuring and other charges of $934

Depreciation and amortization expenses increased $1,087 million, or 39.6%, in 1997. The increase was driven by higher levels of capital expenditures which totaled $3.0 billion in the fourth quarter of 1996 and $7.2 billion in 1997. In addition to higher volumes of purchases, the impact of purchasing assets at retail from Lucent also contributed to the higher level of capital spending. The 1997 expenditures were primarily for our long-distance and wireless networks, including the deployment of SONET. We also invested substantial capital in building our capability for local and WorldNet services. These capital investments were required to provide for growth in calling volumes, to increase capability, to introduce new technology, to enhance reliability, to expand our wireless footprint and to establish a local presence. We expect depreciation and amortization expenses to increase further in 1998 as we continue to expand and enhance our network.

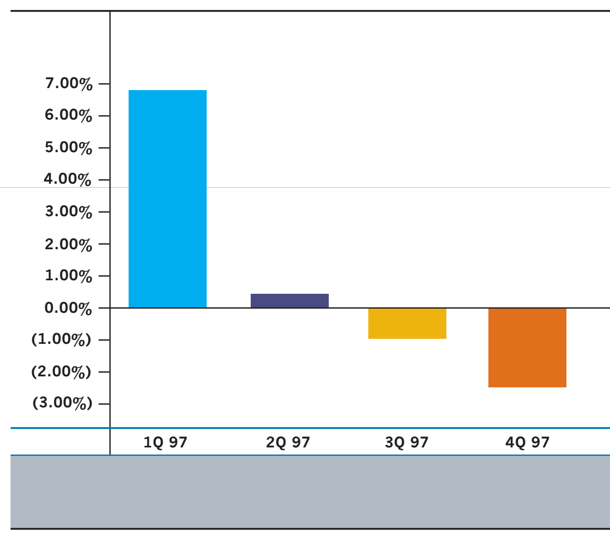
Depreciation and amortization increased $154 million, or 6.0%, in 1996. The increase was primarily the result of investment in the network partially offset by the impact of asset write-downs at the end of 1995.

For the Years Ended December 31	1997	1996	1995*
Dollars in Millions			
Selling, general and administrative	$ 14,902	$ 14,793	$ 13,121

* Excludes restructuring and other charges of $1,245

Selling, general and administrative expenses increased $109 million, or 0.7%, in 1997. SG&A expenses were 29.0% of revenues in 1997, 29.3% in 1996 and 27.1% in 1995. While investment in initiatives and spending on transitory projects, such as preparation of our systems for the year 2000 ($113 million), put upward pressure on SG&A expenses in 1997, core SG&A spending declined for the year as a result of our efforts to achieve a competitive cost structure. The decline in core SG&A expenses came primarily from lower advertising expenses across the company, lower acquisition costs in consumer markets – primarily a reduction in the use of checks to acquire customers, and lower marketing and sales expenses in business markets. As the chart shows, our year-over-year growth in SG&A declined each quarter in 1997.

SG&A Expenses Year-over-Year Growth



Partially offsetting our savings were higher retention and acquisition costs in wireless markets. AT&T Wireless Services invested heavily in migrating customers to digital service in 1997, which lowers costs over time. These migration costs plus the costs of servicing a growing customer base caused the increase in overall customer costs in wireless. However, cost per customer acquisition in cellular markets was 6.1% lower in 1997 than in 1996 as a result of our focus on less expensive distribution channels.

Selling, general and administrative expenses increased $1,672 million, or 12.7%, in 1996 due to expenditures for new initiatives, higher marketing and sales expenses, and enhancements to customer care facilities. Our initiatives represented about 30% of our increase in 1996.

We have established processes for evaluating and managing the risks and costs associated with preparing our systems, global networks and applications for the year 2000. We expect to incur internal staff costs as well as consulting and other expenses related to the conversion and testing of our systems, global networks and applications. We expect the cost of this project to be approximately $350 million in 1998. Slightly more than half of these costs represent internal information technology resources that have been redeployed from other projects and are expected to return to these projects upon completion. We plan on having substantially all modifications completed by the end of 1998, leaving a full year for testing. We are still assessing the impact to us, if any, in 1999.

Also included in SG&A expenses were $829 million, $822 million and $732 million of research and development expenses in 1997, 1996 and 1995, respectively. Research and development expenditures are mainly for work on advanced communications services and projects aimed at IP services. These expenses included $6 million of restructuring and other charges in 1995.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Other income – net	$ 416	$ 390	$ 284

Other income – net in 1997 included the gain on the sale of AT&T Skynet ($97 million), gains and losses on sales of cellular investments, increases in the value of corporate-owned life insurance policies on officers, net equity earnings from investments and other miscellaneous transactions, none of which are individually significant.

In 1996 other income – net included sales and exchanges of cellular properties, increases in the value of corporate-owned life insurance policies on officers, net equity earnings from investments and other miscellaneous transactions. In addition, other income for 1996 included a loss on our investment in Novell, Inc.

EBIT

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Total AT&T*	$ 7,384	$ 9,153	$ 8,491
Wireless services	$ 271	$ 600	$ 406

* Excludes restructuring and other charges of $3,023 in 1995

EBIT decreased $1,769 million, or 19.3%, in 1997 primarily as a result of increases in network and other communications services expenses and depreciation and amortization expenses partially offset by increased revenues. As discussed above, the higher depreciation expense relates primarily to our core business, while investment in initiatives drove the increased network and other communications services expenses. The $662 million, or 7.8%, increase in 1996 was primarily due to an increase in revenues and a decrease in access and other interconnection expenses partially offset by increases in both SG&A expenses and network and other communications services expenses.

Wireless services EBIT in 1997 contained a $160 million charge to exit the two-way messaging business as well as increased dilution from wireless initiatives. EBIT for wireless services for 1996 contained a gain on the exchange of several wireless properties.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Interest expense	$ 191	$ 343	$ 490

Interest expense decreased $152 million, or 44.1%, in 1997 due to lower levels of average debt and a higher proportion of capitalized interest. Average debt was higher in 1996 due to the additional debt associated with Lucent. We capitalized a greater proportion of our interest expense in 1997 primarily due to higher qualifying assets for our local initiative.

Interest expense decreased $147 million, or 30.1%, in 1996 compared with 1995 due to lower levels of average debt, which were primarily attributable to the assignment of debt to Lucent and the application of the proceeds from the sale of AT&T Capital.

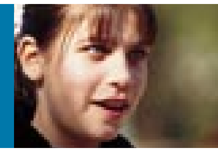
For the Years Ended December 31	1997	1996	1995*
Dollars in Millions			
Provision for income taxes	$ 2,721	$ 3,237	$ 2,934

* Excludes restructuring and other charges of $991

The effective income tax rate is the provision for income taxes as a percentage of income from continuing operations before income taxes. The effective income tax rate was 37.8% in 1997 and 36.7% in both 1996 and 1995. The effective tax rate in 1997 was impacted by investment dispositions announced in 1997. The 1996 effective income tax rate was reduced by tax benefits associated with various legal entity restructurings while the 1995 rate was favorably impacted by lower state tax rates and higher research credits. The 1995 effective tax rate including restructuring and other charges was 39.0%.

Growth Initiatives

We have undertaken a number of initiatives in order to ensure that we have a complete portfolio of services that customers demand. While these initiatives currently have a dilutive impact on our earnings, they are expected to contribute significantly to our future earnings and revenue growth. The following are summaries of these initiatives and their impacts on our earnings for the last three years. Data on initiatives include costs and expenses on an incremental basis and require certain estimates and



allocations that management believes provide a reasonable basis on which to present such information. Accordingly, all data presented represent approximate amounts.

Local Services Initiative

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
EBIT	$ (987)	$ (467)	$ (155)
EBITDA	$ (916)	$ (457)	$ (155)
Capital Expenditures	$ 853	$ 775	$ 353

We continue to work to provide local service to business and residential customers across the country. In 1997 we introduced AT&T Digital Link local service for medium- and large-sized businesses. At the end of 1997 AT&T Digital Link service was available in 49 states for outbound local calling. Inbound capability, however, was and remains delayed by the lack of local number portability and other factors. Our pending merger with TCG is an aggressive move to expand our reach and propel our entry into the market for business local service and dedicated access.

In residential markets at the end of 1997 we offered resold local service in seven states. However, in spite of strong demand, in the fourth quarter we stopped actively marketing resold local service to residential and small business customers in most of these areas because of the limitations on local exchange carriers' ability to handle anticipated demand and because the discounts we receive from the local exchange carriers on the sale of these services are insufficient to make resale a viable long-term method of offering service. The economic conditions of the total services resale approach simply do not allow us to provide local service profitably. Nevertheless, despite the difficulty of the regulatory environment, local service is a key growth opportunity and we will continue to work to develop alternative methods of local entry.

Wireless Initiatives

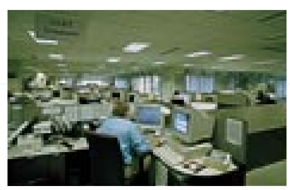
For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
EBIT	$ (432)	$ (95)	$ –
EBITDA	$ (310)	$ (76)	$ –
Capital Expenditures	$ 823	$ 659	$ –

Our wireless initiatives include wireless service in new markets, wireless data services and international expansion. Our primary wireless initiative is to provide services in new markets on the 1.9 GHz spectrum purchased in the FCC's "A and B Block" auction in 1996. During 1997 we activated nine systems: Phoenix/Tucson in the second quarter; Atlanta and Chicago in the third quarter, and Philadelphia, Washington D.C./Baltimore, Cleveland, Charlotte, St. Louis and Detroit in the fourth quarter. In addition, we activated our system in Boston in January 1998. These markets extend the availability of AT&T Digital PCS, which has already been introduced in AT&T's 850 MHz markets, and extends into Canada through our partnership with Cantel. Also, in order to extend the reach of AT&T's digital wireless services, we have announced a number of partnerships with other wireless carriers. Through February 1998 we had announced agreements with Triton PCS, Telecorp and Cincinnati Bell, as well as an interoperability agreement with Dobson Communications. These agreements will allow us to achieve a build-out of certain license areas with minimal capital investment.

The increased EBIT dilution from wireless initiatives in 1997 primarily relates to a $160 million charge to exit the two-way messaging business, as well as expenses related to the activation of the new 1.9 GHz markets.

Other Initiatives

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
EBIT	$ (1,097)	$ (975)	$ (392)
EBITDA	$ (917)	$ (888)	$ (283)
Capital Expenditures	$ 308	$ 245	$ 159



Other initiatives include AT&T Solutions, AT&T WorldNet and other online services, and international markets (excluding bilateral traffic). AT&T Solutions continued to grow and made progress in 1997 toward achieving profitability. We expect AT&T Solutions to turn profitable in 1998. In 1997 AT&T Solutions won contracts with such companies as 1-800-FLOWERS, Bear Stearns, Hallmark, Royal Bank of Canada, Chung Hwa Telecommunications, PT Telkom, Norwest Bank, Best Buy and United Airlines. EBIT dilution from AT&T Solutions decreased 53% in 1997 and increased 4% in 1996.

In 1997 we continued to develop our presence in the Internet access and electronic commerce businesses through our online services such as AT&T WorldNet and electronic commerce businesses. AT&T WorldNet signed up its one-millionth customer in the fourth quarter of 1997 and finished the year with 1.01 million Internet access customers. This represents an increase of 443,000 subscribers for the year. As AT&T WorldNet's initial promotional activity began to expire in 1997, subscriber growth slowed as many customers who were receiving the free promo-

tion deactivated service. We continue to explore ways of growing the Internet access business and realizing synergies between it and other AT&T businesses. For example, in January 1998 we announced a long-distance offer targeting Internet access customers. Beginning in March 1998 AT&T WorldNet customers can sign up for long-distance services via AT&T's Web site and receive a rate of nine cents per minute.

Globally, we focused our strategy on serving multinational corporations and global travelers and expanding our North American franchise in Canada and Mexico. Alestra, our Mexican joint venture with Grupo Alfa and VISA-Bancomer, had over one million lines presubscribed in 1997, leading all of the other carriers competing against the former monopoly carrier, TelMex. However, equity losses from Alestra exceeded our expectations in 1997. In 1997 we also announced a proposed alliance with Telecom Italia that we believe will enhance our ability to serve multinational customers in Europe and Latin America. Telecom Italia will join the AT&T-Unisource joint venture in Europe. In addition, we plan to form a joint venture with Telecom Italia to serve customers in Latin America.

Cash Flows

EBITDA

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Total AT&T*	$ 11,277	$ 11,955	$ 11,127
Wireless services	$ 1,237	$ 1,332	$ 971

* Excludes restructuring and other charges of $2,089 in 1995

EBITDA is a measure of our ability to generate cash flow and should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with generally accepted accounting principles. The decrease of $678 million, or 5.7%, in 1997 was due primarily to an increase in network and other communications services expenses partially offset by increased revenues. The 1996 increase of $828 million, or 7.4%, was primarily due to an increase in revenues and a decrease in access and other interconnection expenses partially offset by increases in both SG&A expenses and network and other communications services expenses.

Wireless services EBITDA in 1997 contained an $80 million charge to exit the two-way messaging business and also reflected increased dilution from initiatives. EBITDA for wireless services for 1996 contained a gain on the exchange of several wireless properties.

All cash flow discussions pertain to cash flows from continuing operations.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Cash flows from operating activities	$ 8,437	$ 7,875	$ 8,198

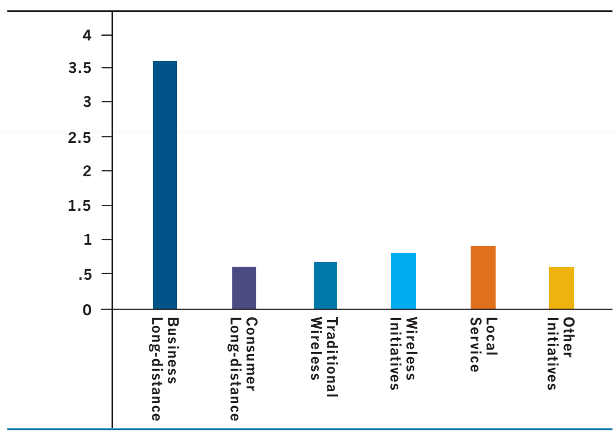
Cash flow from operations increased $562 million, or 7.1%, in 1997 and decreased $323 million, or 3.9%, in 1996. A number of factors drove the increase in 1997 including the collection of employee-benefit-related receivables from Lucent in 1997 and improved customer cash collections across the company. In addition, 1996 cash flow from operations included a $500 million prepayment to Lucent.

The decrease in 1996 related mainly to required cash payments for restructuring and other charges amounting to $471 million.

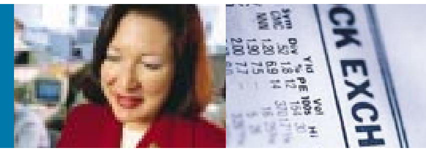
For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Cash flows used in investing activities	$(6,407)	$ (975)	$(8,163)

1997 Capital Expenditures by Category

Dollars in Billions



Included in 1997 investing activities were net capital expenditures, the net funding requirements for UCS, acquisitions of licenses and proceeds received from divestments. While we have agreed to sell UCS, we continue to fund its operations. Our assets, therefore, include short- and long-term notes receivable from UCS, and our debt includes external debt used to fund UCS. In accordance with the purchase agreement, at the time of sale in 1998 we will receive cash from Citibank for



the notes receivable from UCS. Cash used in investing activities increased significantly in 1997 compared with 1996 primarily as a result of the lower level of credit card receivables securitized in 1997 by UCS ($1 billion) versus receivables securitized in 1996 ($3 billion). Due to the significant cash generated from the 1996 securitizations, UCS lowered its debt requirements and subsequently repaid $3,360 million of its notes payable to us. In 1997, with reduced securitizations and a growing portfolio, UCS increased its notes payable to us.

Capital expenditures, acquisitions of investments, licenses and businesses amounted to $7,648 million in 1997, $7,183 million in 1996 and $9,888 million in 1995. This resulted in net cash outlays for these categories in 1997, 1996 and 1995 of $7,578 million, $6,741 million and $9,981 million, respectively.

We expect our 1998 capital expenditures to be about $7 billion; in addition, TCG anticipates 1998 capital expenditures of $1 billion. These expenditures include the completion of our three-year program of SONET deployment as well as additional capital to meet our customers' needs for new technology and increased capacity in long-distance, wireless, WorldNet and local services.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Cash flows from financing activities	$ (1,801)	$ (5,380)	$ 1,457

In 1997 we raised all necessary external financing through issuances of commercial paper. We expect to be able to arrange any necessary future financing using issuances of commercial paper, long-term debt and equity, with the timing of issue, principal amount and form depending on our needs and the prevailing market and economic conditions. We do not anticipate requiring additional external financing in 1998 to fund capital expenditures and dividend payments.

During 1997 we retired long-term debt of $662 million and increased short-term borrowings by $1,114 million. The increase in short-term debt was primarily due to increased funding requirements of UCS.

In 1996 we retired long-term debt of $1,236 million and decreased short-term debt by $5,301 million. The changes in debt reflected the use of alternative sources of funding, such as securitization, as well as Lucent's use of its own external financing in 1996. Additionally, the cash collection of the $2.0 billion in accounts receivable retained by AT&T continuing operations as part of the restructuring plan and the proceeds of $1.8 billion from the sale of AT&T Capital were used to pay down our debt. During 1995 we retired $2,137 million of long-term debt, but borrowed an additional $2,392 million of long-term debt and $1,976 million of short-term debt.

In 1997 we obtained substantially all of the stock for our shareowner and employee benefit stock-ownership plans in the open market rather than issuing new shares. This required us to use the cash received from shareowners and employees to purchase the shares, resulting in a cash payment of $163 million. In 1996 and 1995 the stock used in our shareowner and employee benefit stock-ownership plans was issued from unissued or treasury shares. Accordingly, during those years we kept the more than $1.2 billion of cash received from shareowners and employees for the issuances of shares. We paid dividends of $2,142 million in 1997, $2,122 million in 1996 and $2,088 million in 1995. As we issue shares in 1998, as in connection with the TCG merger and a proposed cross-shareholding arrangement with Telecom Italia, dividend payments will increase, assuming that the company's dividend policy remains the same. To support potential future needs, our Board of Directors has proposed an increase in the number of authorized shares from 2 billion to 6 billion.

Risk Management

We are exposed to market risk from changes in interest and foreign exchange rates. On a limited basis we use certain derivative financial instruments including interest rate swaps, options, forwards and other derivative contracts to manage these risks. We do not use financial instruments for trading or speculative purposes. All financial instruments are used in accordance with board-approved policies.

We use interest rate swaps to manage the impact of interest rate changes on earnings and cash flows and also to lower our overall borrowing costs. We monitor our interest rate risk on the basis of changes in fair value. Assuming a 10% downward shift in interest rates at December 31, 1997, the potential loss in the net change in the fair value of interest rate swaps and the underlying hedged debt would have been $3 million. Assuming a 10% downward shift in interest rates at December 31, 1997, the potential loss in the net change in fair value of unhedged debt would have been $311 million.

We use forward and option contracts to reduce our exposure to the risk of adverse changes in currency exchange rates. We are subject to foreign exchange risk related to reimbursements to foreign telephone companies for their portion of the revenues billed by AT&T for calls placed in the U.S. to a foreign country. In addition, we are also subject to foreign exchange risk related to other foreign-currency-denominated transactions. As of December 31, 1997, there was a net unrealized loss on forward contracts of $30 million, calculated based on the difference between the contract rate and the rate available to terminate the contracts. We monitor our foreign exchange rate risk on the basis of changes in fair value. Additional potential losses in the net fair value of these contracts, assuming a 10% appreciation in the U.S. dollar at December 31, 1997, would have been $6 million. Because these contacts are entered into for hedging purposes, we believe that these losses would be largely offset by gains on the underlying firmly committed or anticipated transactions.

The estimated potential losses, as discussed above, assume the occurrence of certain adverse market conditions. They do not consider the potential effect of favorable changes in market factors and do not represent projected losses in fair value that we expect to incur. Future impacts would be based on actual developments in global financial markets. Our management does not foresee any significant changes in the strategies used to manage interest rate risk or foreign currency rate risk in the near future.

Financial Condition

At December 31	1997	1996
Dollars in Millions		
Total assets	$ 58,635	$ 55,382
Total assets from continuing operations	$ 57,534	$ 53,872

Total assets from continuing operations increased $3,662 million, or 6.8%, in 1997 primarily due to increases in property, plant and equipment and long-term receivables, partially offset by decreases in other receivables and accounts receivable. The increase in property, plant and equipment resulted from investment in the network, while both the increase in long-term receivables and the decrease in other receivables are related to notes receivable from UCS. As a result of UCS becoming a discontinued operation, our balance sheet for continuing operations now reflects the receivable from UCS that is expected to be paid by Citibank as well as the external debt associated with procuring debt on behalf of UCS. In total, the receivable from UCS increased $441 million. The decrease in accounts receivable was primarily a result of our lower fourth-quarter consumer revenue.

At December 31	1997	1996
Dollars in Millions		
Total liabilities	$ 35,988	$ 35,087

Total liabilities increased $901 million, or 2.6%, in 1997 primarily as a result of increases in both deferred income taxes and total outstanding debt. The increase in deferred income taxes was mainly a result of the difference in book and tax basis for our property, plant and equipment, while debt increased due to increased funding requirements for UCS.

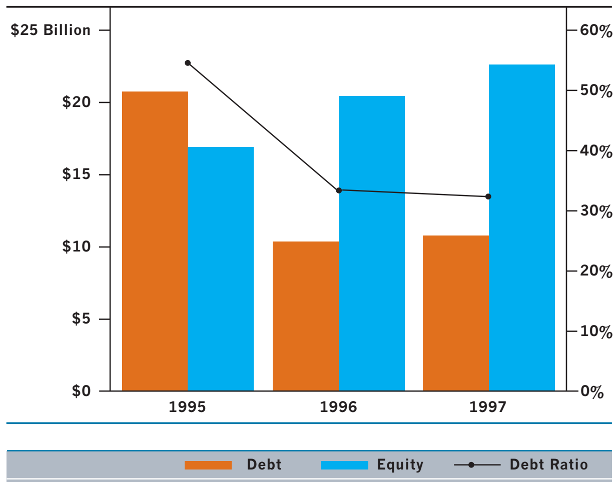
At December 31	1997	1996
Dollars in Millions		
Total shareowners' equity	$ 22,647	$ 20,295

Shareowners' equity increased $2,352 million, or 11.6%, in 1997. The increase was driven by net income, partially offset by 1997 dividends.

At December 31	1997	1996
Debt ratio	32.3 %	33.7 %

Our debt ratio declined slightly in 1997 due to the increase in shareowners' equity as discussed above. In 1998 we expect our debt ratio to decrease further as we utilize expected cash proceeds from our pending asset dispositions to retire a certain amount of outstanding debt.

AT&T Capitalization Chart



	Debt	Equity	Debt Ratio
1995	$20,709	$17,274	54.5%
1996	$10,332	$20,295	33.7%
1997	$10,824	$22,647	32.3%

Legislative and Regulatory Developments

The Telecommunications Act of 1996 was designed to foster local exchange competition by establishing a regulatory framework to govern new competitive entry in local and long-distance telecommunications services. The Telecommunications Act also permits Regional Bell Operating Companies (RBOCs) to provide interexchange services originating in any state in its region after demonstrating to the FCC that such provision is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act.

A number of court decisions have severely restricted implementation of the Telecommunications Act and delayed local service competition. In July 1997 the United States Court of Appeals for the Eighth Circuit vacated the pricing rules that the FCC had adopted to implement the sections of the local competition provisions of the Telecommunications Act applicable to interconnection with local exchange carrier (LEC) networks and the purchase of unbundled network elements and wholesale services from LECs. In October 1997 the Eighth Circuit vacated an FCC Rule that had prohibited incumbent LECs from separating network elements that are combined in the LECs' network, except at the request of the competitor purchasing the elements. These decisions

increased the difficulty and costs of providing competitive local service through resale or the use of unbundled network elements purchased from the incumbent LECs.

On January 26, 1998, the United States Supreme Court agreed to review the aforementioned decisions of the Eighth Circuit Court of Appeals. Under the normal procedures of the Court, arguments are expected to be heard in October 1998 and a decision is expected sometime in the first half of 1999.

On December 31, 1997, the U.S. District Court for the Northern District of Texas issued a memorandum opinion and order holding that the Telecommunications Act's restrictions on the provision of in-region, interLATA service by the RBOCs are unconstitutional. AT&T and other carriers (collectively, "Intervenors") have filed an appeal with the United States Court of Appeals for the Fifth Circuit, and the FCC is expected to do the same. On February 11, 1998, the District Court suspended the effectiveness of its December 31 memorandum opinion and order pending appeal. If the memorandum opinion and order is permitted to take effect, the Telecommunications Act's restrictions on the provisions of in-region, interLATA services will no longer apply to the plaintiffs in the case, SBC Communications, Inc., US West, Inc. and Bell Atlantic Corporation.

Competition

AT&T currently faces significant competition and expects that the level of competition will continue to increase. The Telecommunications Act permits RBOCs to provide interLATA interexchange services after demonstrating to the FCC that such provision is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act. Three RBOCs have petitioned the FCC for permission to provide interLATA interexchange services in one or more states within their home market; to date the FCC has not granted any such petition. To the extent that the RBOCs obtain in-region interLATA authority before the Telecommunications Act's checklist of conditions have been fully or satisfactorily implemented and adequate facilities-based local exchange competition exists, there is a substantial risk that AT&T and other interexchange service providers would be at a disadvantage to the RBOCs in providing both local service and combined service packages. Because it is widely anticipated that substantial numbers of long-distance customers will seek to purchase local, interexchange and other services from a single carrier as part of a combined or full service package, any competitive disadvantage, inability to profitably provide local service at competitive rates, or delays or limitations in providing local service or combined service packages is likely to adversely affect AT&T's future revenues and earnings. In addition, the simultaneous entrance of numerous new competitors for interexchange and combined service packages is likely to adversely affect AT&T's long-distance revenues and could adversely affect earnings.

Recent Pronouncements

Effective with the first quarter 1998 reporting we will adopt Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes the standards for reporting and displaying comprehensive income and its components (revenues, expenses, gains and losses) as part of a full set of financial statements. This statement requires that all elements of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Since this standard applies only to the presentation of comprehensive income, it will not have any impact on AT&T's results of operations, financial position or cash flows.

Beginning with the 1998 annual report we will also adopt SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes the standards for the manner in which public enterprises are required to report financial and descriptive information about their operating segments. The standard defines operating segments as components of an enterprise for which separate financial information is available and evaluated regularly as a means for assessing segment performance and allocating resources to segments. A measure of profit or loss, total assets and other related information are required to be disclosed for each operating segment. In addition, this standard requires the annual disclosure of: information concerning revenues derived from the enterprise's products or services; countries in which it earns revenues or holds assets, and major customers.

Forward Looking Statements

Except for the historical statements and discussions contained herein, statements contained in this report constitute "forward looking statements" within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward looking statements rely on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside our control, that could cause actual results to differ materially from such statements.

Readers are cautioned not to put undue reliance on such forward looking statements. These factors and uncertainties include the adoption of balanced and effective rules and regulations by the state public regulatory agencies, our ability to achieve a significant market penetration in new markets and the related costs thereof, and competitive pressures. Shareowners may view our reports filed with the Securities and Exchange Commission for a more detailed description of the uncertainties and other factors that could cause actual results to differ materially from such forward looking statements. We disclaim any intention or obligation to update or revise forward looking statements, whether as a result of new information, future events or otherwise.

Seven-Year Summary of Selected Financial Data (Unaudited)

AT&T Corp. and Subsidiaries

Dollars in Millions (except per share amounts)	1997	1996	1995*	1994	1993*	1992	1991*
Results of Operations							
Revenues	$ 51,319	$ 50,546	$ 48,445	$ 46,000	$ 43,780	$ 42,960	$ 41,842
Operating income	6,968	8,763	5,184	7,409	6,577	6,246	2,681
Income from continuing operations before cumulative effects of accounting changes	4,472	5,573	3,035	4,260	3,786	3,233	1,199
Income before cumulative effects of accounting changes	4,638	5,908	139	4,710	3,702	3,442	171
Net income(loss)	4,638	5,908	139	4,710	(5,906)	3,442	171
Earnings per common share – basic:							
Income from continuing operations before cumulative effects of accounting changes	$ 2.75	$ 3.46	$ 1.92	$ 2.74	$ 2.46	$ 2.14	$ 0.82
Income before cumulative effects of accounting changes	2.85	3.67	0.09	3.03	2.41	2.28	0.12
Net income(loss)	2.85	3.67	0.09	3.03	(3.84)	2.28	0.12
Earnings per common share – diluted:							
Income from continuing operations before cumulative effects of accounting changes	2.74	3.45	1.91	2.72	2.45	2.13	0.81
Income before cumulative effects of accounting changes	2.84	3.66	0.09	3.01	2.39	2.27	0.12
Net income(loss)	2.84	3.66	0.09	3.01	(3.82)	2.27	0.12
Dividends declared per common share	1.32	1.32	1.32	1.32	1.32	1.32	1.32
Assets and Capital							
Property, plant and equipment – net	$ 22,710	$ 19,736	$ 16,021	$ 14,377	$ 13,653	$ 13,590	$ 13,058
Total assets – continuing operations	57,534	53,872	53,726	47,439	41,353	40,124	37,172
Total assets	58,635	55,382	62,228	57,330	50,023	50,521	48,695
Long-term debt	6,826	7,883	8,545	8,938	10,287	12,210	12,167
Total debt	10,824	10,332	20,709	18,492	18,185	17,120	16,756
Shareowners' equity	22,647	20,295	17,274	17,921	13,374	20,313	17,973
Gross capital expenditures	7,213	6,776	4,504	3,361	2,537	2,293	2,424
Employees – continuing operations	127,800	126,600	124,600	115,300	118,100	118,200	115,300
Other Information							
Operating income as a percentage of revenues	13.6 %	17.3%	10.7 %	16.1 %	15.0 %	14.5 %	6.4 %
Income from continuing operations as a percentage of revenues	8.7 %	11.0%	6.3 %	9.3 %	8.6 %	7.5 %	2.9 %
Return on average common equity	21.5 %	28.0%	0.7 %	29.5 %	(47.1)%	17.6 %	0.9 %
Data at year-end:							
Stock price per share**	$ 61.31	$ 41.31	$ 44.40	$ 34.46	$ 36.00	$ 34.97	$ 26.83
Book value per common share	$ 13.94	$ 12.50	$ 10.82	$ 11.42	$ 8.65	$ 13.31	$ 12.05
Debt ratio	32.3 %	33.7%	54.5 %	50.8 %	57.6 %	45.7 %	48.2 %

* 1995 continuing operations data reflect $3.0 billion of pretax business restructuring and other charges. 1993 net income reflects a $9.6 billion net charge for three accounting changes. 1991 continuing operations data reflect $3.5 billion of pretax business restructuring and other charges.

** Stock prices for 1991 – 1996 have been restated to reflect the spin-offs of Lucent and NCR.

AT&T Corp. and Subsidiaries

Report of Management

Management is responsible for the preparation, integrity and objectivity of the consolidated 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 Corp. and subsidiaries (AT&T) 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 accountants 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 accountants meet privately with the Audit Committee. These accountants also have access to the Audit Committee and its individual members at any time.

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

Daniel E. Somers
Senior Executive Vice President,
Chief Financial Officer

C. Michael Armstrong
Chairman of the Board,
Chief Executive Officer

Report of Independent Accountants

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, 1997 and 1996, and the related consolidated statements of income, changes in shareowners' equity and cash flows for the years ended December 31, 1997, 1996 and 1995. 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, 1997 and 1996, and the consolidated results of their operations and their cash flows for the years ended December 31, 1997, 1996 and 1995, in conformity with generally accepted accounting principles.

Coopers & Lybrand LLP

Coopers & Lybrand L.L.P.
1301 Avenue of the Americas
New York, New York
January 26, 1998

Consolidated Statements of Income

AT&T Corp. and Subsidiaries

For the Years Ended December 31 Dollars in Millions (except per share amounts)	1997	1996	1995
Revenues	$ 51,319	$ 50,546	$ 48,445
Operating Expenses			
Access and other interconnection	16,306	16,332	17,618
Network and other communications services	9,316	7,918	7,757
Depreciation and amortization	3,827	2,740	3,520
Selling, general and administrative	14,902	14,793	14,366
Total operating expenses	44,351	41,783	43,261
Operating income	6,968	8,763	5,184
Other income – net	416	390	284
Interest expense	191	343	490
Income from continuing operations before income taxes	7,193	8,810	4,978
Provision for income taxes	2,721	3,237	1,943
Income from continuing operations	4,472	5,573	3,035
Discontinued Operations			
Income(loss) from discontinued operations (net of taxes of $50 in 1997, $(353) in 1996 and $(1,147) in 1995)	100	173	(2,896)
Gain on sale of discontinued operations (net of taxes of $43 in 1997 and $138 in 1996)	66	162	–
Net income	$ 4,638	$ 5,908	$ 139
Weighted-average common shares and potential common shares (millions)*	1,630	1,616	1,592
Per Common Share – Basic:			
Income from continuing operations	$ 2.75	$ 3.46	$ 1.92
Income(loss) from discontinued operations	0.06	0.11	(1.83)
Gain on sale of discontinued operations	0.04	0.10	–
Net income	$ 2.85	$ 3.67	$ 0.09
Per Common Share – Diluted:			
Income from continuing operations	$ 2.74	$ 3.45	$ 1.91
Income(loss) from discontinued operations	0.06	0.11	(1.82)
Gain on sale of discontinued operations	0.04	0.10	–
Net income	$ 2.84	$ 3.66	$ 0.09

* Amounts represent the weighted-average shares assuming dilution from the potential exercise of outstanding stock options. Amounts are reduced by 5 million, 6 million and 8 million shares for 1997, 1996 and 1995, respectively, assuming no dilution.

The notes on pages 44 through 55 are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

AT&T Corp. and Subsidiaries

At December 31 Dollars in Millions	1997	1996
Assets		
Cash and cash equivalents	$ 145	$ –
Receivables, less allowances of $977 and $942		
Accounts receivable	8,573	8,969
Other receivables	5,684	6,140
Deferred income taxes	1,252	1,266
Other current assets	525	698
Total current assets	16,179	17,073
Property, plant and equipment – net	22,710	19,736
Licensing costs, net of accumulated amortization of $1,076 and $913	8,329	8,071
Investments	3,857	3,875
Long-term receivables	1,794	872
Prepaid pension costs	2,156	1,933
Other assets	2,509	2,312
Net assets of discontinued operations	1,101	1,510
Total assets	$ 58,635	$ 55,382
Liabilities		
Accounts payable	$ 6,243	$ 6,157
Payroll and benefit-related liabilities	2,348	2,614
Debt maturing within one year	3,998	2,449
Dividends payable	538	536
Other current liabilities	3,815	4,395
Total current liabilities	16,942	16,151
Long-term debt	6,826	7,883
Long-term benefit-related liabilities	3,142	3,037
Deferred income taxes	5,711	4,827
Other long-term liabilities and deferred credits	3,367	3,189
Total liabilities	35,988	35,087
Shareowners' Equity		
Common shares, par value $1 per share	1,624	1,623
Authorized shares: 2,000,000,000		
Outstanding shares: 1,624,213,505 at December 31, 1997; 1,623,487,646 at December 31, 1996		
Additional paid-in capital	15,751	15,697
Guaranteed ESOP obligation	(70)	(96)
Foreign currency translation adjustments	(28)	(7)
Retained earnings	5,370	3,078
Total shareowners' equity	22,647	20,295
Total liabilities and shareowners' equity	$ 58,635	$ 55,382

The notes on pages 44 through 55 are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Shareowners' Equity

AT&T Corp. and Subsidiaries

For the Years Ended December 31 Dollars in Millions	1997	1996	1995
Common Shares			
Balance at beginning of year	$ 1,623	$ 1,596	$ 1,569
Shares issued, net:			
Under employee plans	1	19	13
Under shareowner plans	–	8	13
Other	–	–	1
Balance at end of year	1,624	1,623	1,596
Additional Paid-In Capital			
Balance at beginning of year	15,697	16,614	15,825
Shares issued(acquired), net:			
Under employee plans	(24)	975	598
Under shareowner plans	9	434	687
Other	69	–	31
Dividends declared	–	–	(527)
Spin-offs of Lucent and NCR	–	(2,326)	–
Balance at end of year	15,751	15,697	16,614
Guaranteed ESOP Obligation			
Balance at beginning of year	(96)	(254)	(305)
Amortization	26	52	51
Assumption by Lucent	–	106	–
Balance at end of year	(70)	(96)	(254)
Foreign Currency Translation Adjustments			
Balance at beginning of year	(7)	5	145
Translation adjustments	(21)	(33)	(140)
Spin-offs of Lucent and NCR	–	21	–
Balance at end of year	(28)	(7)	5
Retained Earnings(Deficit)			
Balance at beginning of year	3,078	(687)	687
Net income	4,638	5,908	139
Dividends declared	(2,145)	(2,132)	(1,570)
Treasury shares issued at less than cost	(187)	–	–
Other changes	(14)	(11)	57
Balance at end of year	5,370	3,078	(687)
Total shareowners' equity	$ 22,647	$ 20,295	$ 17,274

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.

The notes on pages 44 through 55 are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

AT&T Corp. and Subsidiaries

For the Years Ended December 31 Dollars in Millions	1997	1996	1995
Operating Activities			
Net income	$ 4,638	$ 5,908	$ 139
Add: (Income)loss from discontinued operations	(100)	(173)	2,896
Gain on sale of discontinued operations	(66)	(162)	–
Income from continuing operations	4,472	5,573	3,035
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Restructuring and other charges	–	–	3,023
Depreciation and amortization	3,827	2,740	2,586
Provision for uncollectibles	1,957	1,938	1,613
Increase in accounts receivable	(1,431)	(2,165)	(2,220)
Increase in accounts payable	16	513	872
Net increase in other operating assets and liabilities	(787)	(1,079)	(87)
Other adjustments for noncash items – net	383	355	(624)
Net cash provided by operating activities of continuing operations	8,437	7,875	8,198
Investing Activities			
Capital expenditures	(7,143)	(6,334)	(4,597)
Proceeds from sale or disposal of property, plant and equipment	169	145	204
(Increase)decrease in finance assets	(465)	3,499	1,845
Acquisitions of licenses	(435)	(267)	(1,978)
Net decrease(increase) in investments	109	(140)	9
Dispositions(acquisitions), net of cash acquired	1,513	2,145	(3,406)
Other investing activities – net	(155)	(23)	(240)
Net cash used in investing activities of continuing operations	(6,407)	(975)	(8,163)
Financing Activities			
Proceeds from long-term debt issuances	–	–	2,392
Retirements of long-term debt	(662)	(1,236)	(2,137)
(Acquisition)issuance of common shares	(163)	1,293	1,214
Dividends paid	(2,142)	(2,122)	(2,088)
Increase(decrease) in short-term borrowings – net	1,114	(5,301)	1,976
Other financing activities – net	52	1,986	100
Net cash (used in)provided by financing activities of continuing operations	(1,801)	(5,380)	1,457
Net cash used in discontinued operations	(84)	(1,595)	(1,544)
Net increase(decrease) in cash and cash equivalents	145	(75)	(52)
Cash and cash equivalents at beginning of year	–	75	127
Cash and cash equivalents at end of year	$ 145	$ –	$ 75

The notes on pages 44 through 55 are an integral part of the consolidated financial statements.

(Dollars in Millions unless otherwise noted, 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. This represents the majority of our investments. Generally, investments in which we have less than a 20% ownership interest are accounted for under the cost method of accounting.

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

We recognize wireline and wireless services revenue based upon minutes of traffic processed and contracted fees. Generally, we recognize products and other services revenue in accordance with contract terms.

Advertising and Promotional Costs

We expense costs of advertising and promotions, including checks used to acquire customers, as incurred. Advertising and promotional expenses were $1,985, $2,526 and $2,148 in 1997, 1996 and 1995, 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 calculate earnings per share in accordance with Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings Per Share." We use the weighted-average number of common shares outstanding during each period to compute basic earnings per common share. Diluted earnings per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding. Dilutive potential common shares are additional common shares assumed to be exercised.

Cash Equivalents

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

Property, Plant and Equipment

We state property, plant and equipment at cost, unless impaired, and determine depreciation based upon the assets' estimated useful lives using either the group or unit method. The group method is used for most depreciable assets. When we sell or retire assets that were depreciated using the group method, we deduct the cost from property, plant and equipment and accumulated depreciation. The unit method is used primarily for large computer systems and support assets. When we sell assets that were depreciated using the unit method, we include the related gains or losses in operating results.

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

Long-lived assets are 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 undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Licensing Costs

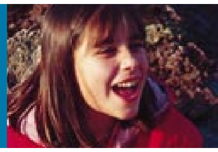
Licensing costs are costs incurred to develop or acquire cellular, personal communications services (PCS) and messaging licenses. Generally, amortization begins with the commencement of service to customers and is computed using the straight-line method over a period of 40 years.

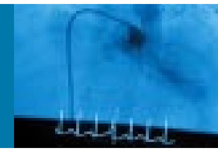
Goodwill

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

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 related to qualifying hedges of foreign currency firm commitments are deferred in other assets or liabilities and recognized as part of the





underlying transactions as they occur. All other foreign exchange contracts are marked to market on a current basis and the respective gains or losses are recognized in other income – net. Interest rate differentials associated with interest rate swaps used to hedge AT&T's debt obligations are recorded as an adjustment to interest payable or receivable with the offset to interest expense over the life of the swaps. If we terminate an interest rate 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. Cash flows from financial instruments are classified in the Consolidated Statements of Cash Flows under the same categories as the cash flows from the related assets, liabilities or anticipated transactions.

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 certain items such as long-term contracts, allowance for doubtful accounts, depreciation and amortization, employee benefit plans, taxes, restructuring reserves and contingencies.

Concentrations

As of December 31, 1997, we do not have 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 labor, services, or licenses or other rights that could, if suddenly eliminated, severely impact our operations.

Reclassifications

We reclassified certain amounts for previous years to conform with the 1997 presentation.

2. Discontinued Operations

On September 20, 1995, AT&T announced a plan, subject to certain conditions, to separate into three independent, publicly held, global companies: communications services (AT&T), communications systems and technologies (Lucent Technologies Inc., "Lucent") and transaction-intensive computing (NCR Corporation, "NCR"). In April 1996 Lucent sold 112 million shares of common stock in an initial public offering (IPO), representing 17.6% of the Lucent common stock outstanding. Because of AT&T's plan to spin off its remaining 82.4% interest in Lucent, the sale of the Lucent stock was recorded as an equity transaction, resulting in an increase in AT&T's additional paid-in capital at the time of the IPO. In addition, in connection with the restructuring, Lucent assumed $3.7 billion of AT&T debt in 1996. On September 30, 1996, AT&T distributed to AT&T shareowners of record as of September 17, 1996, the remaining Lucent common stock held by AT&T. The shares were distributed on the basis of .324084 of a share of Lucent for each AT&T share outstanding.

On October 1, 1996, AT&T sold its remaining interest in AT&T Capital for approximately $1.8 billion, resulting in a gain of $162, or $.10 per share, after taxes.

On December 31, 1996, AT&T also distributed all of the outstanding common stock of NCR to AT&T shareowners of record as of December 13, 1996. The shares were distributed on the basis of .0625 of a share of NCR for each AT&T share outstanding on the record date. As a result of the Lucent and NCR distributions, AT&T's shareowners' equity was reduced by $2.2 billion. The distributions of the Lucent and NCR common stock to AT&T shareowners were noncash transactions totaling $4.8 billion which did not affect AT&T's results of operations.

On July 1, 1997, AT&T sold its submarine systems business (SSI) to Tyco International Ltd. for approximately $850, resulting in an after-tax gain of $66, or $.04 per share.

On October 20, 1997, AT&T announced its plans to sell AT&T Universal Card Services, Inc. (UCS). On December 17, 1997, AT&T entered into an agreement with Citicorp to sell UCS for approximately $3.5 billion. In addition, the two companies signed a 10-year co-branding and joint-marketing agreement. The sale is subject to regulatory approval and is expected to be completed by the second quarter of 1998.

The consolidated financial statements of AT&T have been restated to reflect the dispositions of Lucent, NCR, AT&T Capital, SSI and other businesses as well as the pending sale of UCS as discontinued operations. Accordingly, the revenues, costs and expenses, assets and liabilities, and cash flows of these discontinued operations have been excluded from the respective captions in the Consolidated Statements of Income, Consolidated Balance Sheets and Consolidated Statements of Cash Flows, and have been reported through the dates of disposition as "Income(loss) from discontinued operations," net of applicable income taxes; as "Net assets of discontinued operations," and as "Net cash used in discontinued operations" for all periods presented.

In 1997 we adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Among other provisions, this standard requires that in connection with the transfer of financial assets, liabilities incurred should be measured at fair value and retained interests should be recorded as a portion of the original carrying amount of the transferred financial assets. This standard applies only to UCS and resulted in a substantial benefit to income from discontinued operations for the year.

Summarized financial information for the discontinued operations is as follows:

	1997	1996	1995
Revenues	$ 1,942	$ 23,979	$ 31,164
Income(loss) before income taxes	150	(180)	(4,043)
Net income(loss)	100	173	(2,896)
Current assets	7,734	7,590	
Total assets	7,808	7,979	
Current liabilities*	5,602	6,190	
Total liabilities*	6,707	6,469	
Net assets of discontinued operations	$ 1,101	$ 1,510	

* Current liabilities include $5,224 and $5,706 of debt maturing within one year and total liabilities include an additional $1,093 and $170 of long-term debt at December 31, 1997, and December 31, 1996, respectively, all of which are payable to AT&T.

The income(loss) before income taxes includes allocated interest expense of $45 and $134 in 1996 and 1995, respectively. Interest expense was allocated to discontinued operations based on a ratio of net assets of discontinued operations to total AT&T consolidated assets. No interest expense was allocated to discontinued operations in 1997 due to the immateriality of the amounts; however, UCS recorded direct interest expense of $297, $383 and $626 in 1997, 1996 and 1995, respectively, primarily related to the amounts payable to AT&T.

3. New Accounting Pronouncements

Effective with the first quarter 1998 we will adopt SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes the standards for reporting and displaying comprehensive income and its components (revenues, expenses, gains and losses) as part of a full set of financial statements. This statement requires that all elements of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Since this standard applies only to the presentation of comprehensive income, it will not have any impact on AT&T's results of operations, financial position or cash flows.

Beginning with the 1998 annual report we will also adopt SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes the standards for the manner in which public enterprises are required to report financial and descriptive information about their operating segments. This standard defines operating segments as components of an enterprise for which separate financial information is available and evaluated regularly as a means for assessing segment performance and allocating resources to segments. A measure of profit or loss, total assets and other related information are required to be disclosed for each operating segment. In addition, this standard requires the annual disclosure of: information concerning revenues derived from the enterprise's products or services; countries in which it earns revenue or holds assets, and major customers.

4. LIN Broadcasting

In 1995 we acquired the remaining 48% of LIN Broadcasting Corporation (LIN) for approximately $3.3 billion. The purchase price was allocated to the fair value of assets acquired of $4.0 billion and the fair value of liabilities assumed of $.7 billion.

On August 12, 1997, AT&T entered into an agreement to sell its 45% common share interest in LIN Television Corporation, a subsidiary of LIN, for approximately $641 to Hicks, Muse, Tate and Furst Incorporated ("Hicks Muse"). Subsequently, in response to a competitive offer, Hicks Muse increased their bid to $742. The sale is subject to various conditions, including approval by the Federal Communications Commission. If approved, the sale is expected to close in early 1998. In a separate agreement, AT&T agreed to sell WOOD-TV, its television station in Grand Rapids, Michigan, for approximately $123, subject to certain adjustments, upon the completion of the sale of its interest in LIN.

5. Supplementary Financial Information

Supplementary Income Statement Information

For the Years Ended December 31	1997	1996	1995
Included in Depreciation and Amortization			
Amortization of licensing costs	$ 163	$ 170	$ 133
Amortization of goodwill	51	52	74
Included in Selling, General and Administrative			
Research and development expenses	$ 829	$ 822	$ 732
Other Income – Net			
Interest income	$ 28	$ 18	$ 38
Minority interests in earnings of subsidiaries	(12)	(15)	(17)
Net equity earnings from investments	35	67	103
Officers' life insurance	68	74	73
Sale/exchange of cellular investments	75	158	64
Gain on sale of Skynet	97	–	–
Miscellaneous – net	125	88	23
Total other income – net	$ 416	$ 390	$ 284
Deducted from Interest Expense			
Capitalized interest	$ 254	$ 193	$ 107


Supplementary Balance Sheet Information

At December 31	1997	1996
Property, Plant and Equipment		
Machinery, electronic and other equipment	$ 37,433	$ 32,761
Buildings and improvements	6,744	6,251
Land and improvements	386	373
Total property, plant and equipment	44,563	39,385
Accumulated depreciation	(21,853)	(19,649)
Property, plant and equipment – net	$ 22,710	$ 19,736
Other Assets		
Unamortized goodwill	$ 1,277	$ 1,325
Deferred charges	724	477
Other	508	510
Total other assets	$ 2,509	$ 2,312

Supplementary Cash Flow Information

For the Years Ended December 31	1997	1996	1995
Interest payments net of amounts capitalized	$ 207	$ 364	$ 436
Income tax payments	2,414	2,136	2,016

6. Business Restructuring and Other Charges

In the fourth quarter of 1995 we recorded a pretax charge of $3,023 to cover restructuring costs of $2,301 and asset impairments and other charges of $722. This charge included plans to exit certain proprietary network and messaging services; restructure customer service organizations; consolidate call servicing centers; exit certain satellite services; reorganize corporate support functions such as information systems, human resources and financial operations, and restructure certain international operations.

As part of our plan to sell certain businesses and to restructure our operations, restructuring liabilities of $1,712 were recorded for employee separation costs, costs associated with early termination of building leases and other items. In addition, asset impairments of $567 (which directly reduced the carrying value of the related asset balances) and $22 of benefit plan losses were recorded.

The 1995 restructure charge of $2,301 included separation costs for nearly 17,000 employees, which included approximately 12,000 management and 5,000 occupational employees. As of December 31, 1997, approximately 6,800 management employees and 2,300 occupational employees have been separated. Of the 6,800 management separations, approximately 4,300 accepted voluntary severance packages.

During 1996 and 1997 we completed the restructuring of our proprietary network and messaging services business, closed several call servicing centers, consolidated customer care centers, sold certain international operations and reorganized certain corporate support functions. The implementation of certain restructuring activities are occurring at a slower pace than planned. There have been delays in exiting certain businesses and reorganizing corporate support functions, in part to ensure customer satisfaction during this transition period. However, certain facility costs have payment terms extending beyond 1998. We believe that the balance is adequate to complete these plans.

On January 26, 1998, we announced a voluntary retirement incentive program to be offered to managers during the second quarter of 1998. The expected acceptance rate of 10,000 to 11,000 employees for the voluntary retirement incentive offer may impact the utilization of the remaining 1995 restructuring reserve balance. Another 5,000 to 7,000 employees will leave through a combination of managed attrition and previously announced workforce reductions.

The following table displays a rollforward of the liabilities for business restructuring from December 31, 1995, to December 31, 1997:

Type of Cost	Dec. 31, 1995 Balance	1996 Additions	1996 Amounts Utilized	Dec. 31, 1996 Balance
Employee separations	$ 925	$ –	$ (319)	$ 606
Facility closings	761	–	(233)	528
Other	406	–	(152)	254
Total	$ 2,092	$ –	$ (704)	$ 1,388

Type of Cost	Dec. 31, 1996 Balance	1997 Additions	1997 Amounts Utilized	Dec. 31, 1997 Balance
Employee separations	$ 606	$ –	$ (193)	$ 413
Facility closings	528	–	(94)	434
Other	254	–	(194)	60
Total	$1,388	$ –	$ (481)	$ 907

1997 utilization includes $100 reversal of pre-1995 reserves. 1996 utilization includes $112 of net transfers to Lucent and NCR.

The balance at December 31, 1997, includes $180 of pre-1995 charges primarily related to excess space in various leased facilities and is expected to be fully utilized over the remaining terms of the leases.

The 1995 charge of $722 for asset impairments and other charges included $668 for writing down certain impaired assets, including the write-down in the value of some unnecessary network facilities, the write-down of non-strategic 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 charge also included $54 of other items, none of which individually exceed 1% of the total charge.

The total pretax charge of $3,023 for 1995 was recorded as $844 in network and other communications services expenses; $934 in depreciation and amortization expenses, and $1,245 in selling, general and administrative expenses. If viewed by type of cost, the combined charges reflect $950 for employee separations and other related items; $1,235 for asset write-downs; $497 for closing, selling and consolidating facilities; and $341 for other items. The total charge reduced income from continuing operations by $2,032, or diluted earnings per share by $1.28 in 1995.

In addition, charges of $1,172 (net of taxes) in the third quarter of 1995 and $2,149 (net of taxes) in the fourth quarter of 1995 are reflected in the loss from discontinued operations. These charges reduced income from discontinued operations by a total of $3,321, or diluted earnings per share by $2.08 in 1995.

7. Income Taxes

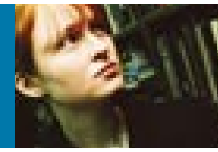
The following table shows the principal reasons for the difference between the effective income tax rate and the United States federal statutory income tax rate:

For the Years Ended December 31	1997	1996	1995
U.S. federal statutory income tax rate	35 %	35 %	35 %
Federal income tax at statutory rate	$ 2,517	$ 3,084	$ 1,743
Amortization of investment tax credits	(14)	(21)	(35)
State and local income taxes, net of federal income tax effect	182	272	179
Amortization of intangibles	20	13	62
Foreign rate differential	117	131	(11)
Taxes on repatriated and accumulated foreign income, net of tax credits	(32)	19	17
Legal entity restructuring	–	(195)	–
Research credits	(63)	(13)	(24)
Other differences – net	(6)	(53)	12
Provision for income taxes	$ 2,721	$ 3,237	$ 1,943
Effective income tax rate	37.8 %	36.7 %	39.0 %

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

For the Years Ended December 31	1997	1996	1995
Income Before Income Taxes			
United States	$ 7,311	$ 9,013	$ 5,465
Foreign	(118)	(203)	(487)
Total	$ 7,193	$ 8,810	$ 4,978
Provision for Income Taxes			
Current			
Federal	$ 1,561	$ 2,291	$ 1,922
State and local	192	397	383
Foreign	49	25	1
	$ 1,802	$ 2,713	$ 2,306
Deferred			
Federal	$ 851	$ 511	$ (221)
State and local	89	23	(108)
Foreign	(5)	11	1
	$ 935	$ 545	$ (328)
Deferred investment tax credits	(16)	(21)	(35)
Provision for income taxes	$ 2,721	$ 3,237	$ 1,943

Deferred income tax liabilities are taxes we expect to pay in future periods. Similarly, deferred income tax assets are recorded for expected reductions in taxes payable in future periods. Deferred income taxes arise because of differences in the book and tax bases of certain assets and liabilities.



Deferred income tax liabilities and assets consist of the following:

At December 31	1997	1996
Long-Term Deferred Income Tax Liabilities		
Property, plant and equipment	$ 6,204	$ 5,302
Investments	319	96
Other	1,185	1,403
Total long-term deferred income tax liabilities	$ 7,708	$ 6,801
Long-Term Deferred Income Tax Assets		
Business restructuring	$ 162	$ 195
Net operating loss/credit carryforwards	273	220
Employee pensions and other benefits – net	1,026	1,298
Reserves and allowances	93	120
Other	654	305
Valuation allowance	(211)	(164)
Total net long-term deferred income tax assets	$ 1,997	$ 1,974
Net long-term deferred income tax liabilities	$ 5,711	$ 4,827
Current Deferred Income Tax Liabilities		
Total current deferred income tax liabilities	$ 175	$ 117
Current Deferred Income Tax Assets		
Business restructuring	$ 225	$ 249
Net operating loss/credit carryforwards	5	3
Employee pensions and other benefits	304	523
Reserves and allowances	629	594
Other	264	14
Total net current deferred income tax assets	$ 1,427	$ 1,383
Net current deferred income tax assets	$ 1,252	$ 1,266

At December 31, 1997, we had net operating loss carry forwards (tax-effected) for federal and state income tax purposes of $32 and $76, respectively, expiring through 2012. We also had foreign net operating loss carryforwards (tax-effected) of $140, of which $130 has no expiration date, with the balance expiring by the year 2002 as well as federal tax credit carryforwards of $30 which 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.

8. Postretirement Benefits

Our benefit plans for retirees include health care benefits, life insurance coverage and telephone concessions. Postretirement contributions to trust funds are determined using the attained-age-normal cost method for health care benefits and the aggregate cost method for life insurance plans.

Immediately following the spin-off of Lucent on September 30, 1996, Lucent established separate postretirement benefit plans, and a share of the postretirement benefit obligations and postretirement benefit assets held in trust were transferred from AT&T to Lucent based on methods and assumptions that were agreed to by both companies. Adjustments to the estimated assets and postretirement benefit obligations that were transferred to Lucent were not material in 1997. Subsequent adjustments, if any, are also expected to be immaterial.

This table shows the components of the net postretirement benefit cost:

For the Years Ended December 31	1997	1996	1995
Service cost – benefits earned during the period	$ 56	$ 53	$ 40
Interest cost on accumulated postretirement benefit obligation	278	263	258
Expected return on plan assets*	(120)	(99)	(78)
Amortization of unrecognized prior service costs	39	39	23
Amortization of net loss(gain)	–	3	(3)
Net postretirement benefit cost	$ 253	$ 259	$ 240

* The actual return on plan assets was $358 in 1997, $313 in 1996 and $256 in 1995. The expected long-term rate of return on plan assets was 9.0% in 1997, 1996 and 1995.

Prior service costs are amortized primarily on a straight-line basis over the average remaining service period of active employees. We had approximately 40,400, 37,900 and 34,500 retirees as of December 31, 1997, 1996, and 1995, respectively.

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	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$ 2,655	$ 2,244
Fully eligible active plan participants	651	453
Other active plan participants	1,050	1,042
Total accumulated postretirement benefit obligation	4,356	3,739
Plan assets at fair value	1,969	1,566
Unfunded postretirement obligation	2,387	2,173
Less:		
Unrecognized prior service costs	166	206
Unrecognized net gain	(227)	(510)
Accrued postretirement benefit obligation	$ 2,448	$ 2,477

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

	1997	1996
Weighted-average discount rate	7.0 %	7.5 %
Assumed rate of increase in the per capita cost of covered health care benefits	5.3 %	5.6 %

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 1997 to 4.8% by the year 2008 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, 1997, by $218 and our 1997 postretirement benefit costs by $18.

9. 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.

Immediately following the spin-off of Lucent on September 30, 1996, Lucent established separate defined benefit plans, and a share of the pension obligations and pension assets held in trust were transferred from AT&T to Lucent based on methods and assumptions that were agreed to by both companies. Adjustments to the estimated asset and pension obligation amounts that were transferred to Lucent were not material in 1997. Subsequent adjustments, if any, are also expected to be immaterial.

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 1997, 1996 and 1995.

Pension cost includes the following components:

For the Years Ended December 31	1997	1996	1995
Service cost – benefits earned during the period	$ 305	$ 295	$ 200
Interest cost on projected benefit obligation	946	861	747
Amortization of unrecognized prior service costs	114	99	90
Credit for expected return on plan assets*	(1,371)	(1,195)	(1,043)
Amortization of transition asset	(181)	(183)	(193)
Charges for special pension benefits	5	–	58
Net pension credit	$ (182)	$ (123)	$ (141)

* The actual return on plan assets was $3,464 in 1997, $2,981 in 1996 and $1,044 in 1995.

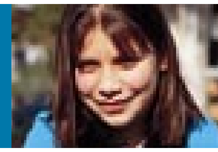
The net pension credit in 1995 includes a one-time charge of $58 for early retirement options and curtailments.

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

At December 31	1997	1996
Actuarial present value of accumulated benefit obligation, including vested benefits of $13,123 and $10,083	$ 14,150	$ 11,520
Plan assets at fair value	$ 20,513	$ 17,680
Less: Actuarial present value of projected benefit obligation	14,481	12,380
Excess of assets over projected benefit obligation	6,032	5,300
Unrecognized prior service costs	904	766
Unrecognized transition asset	(708)	(889)
Unrecognized net gain	(4,130)	(3,303)
Net minimum liability of nonqualified plans	(103)	(51)
Prepaid pension costs	$ 1,995	$ 1,823

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

At December 31	1997	1996
Weighted-average discount rate	7.0 %	7.5 %
Rate of increase in future compensation levels	4.5 %	5.0 %



The prepaid pension costs shown above are net of pension liabilities for plans where accumulated plan benefits exceed assets. Such liabilities, that are not material, are included in other liabilities in the Consolidated Balance Sheets.

We are amortizing over 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 $75 and $56 of AT&T common stock at December 31, 1997, and 1996, 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 $197 in 1997, $178 in 1996 and $156 in 1995.

10. Stock-Based Compensation Plans

Under the 1997 Long-Term Incentive Program, which was effective June 1, 1997, we grant stock options, performance shares, restricted stock and other awards. There are 100 million shares of common stock available for grant with a maximum of 15 million common shares that may be used for awards other than stock options. The exercise price of any stock option is equal to the stock price when the option is granted. Generally, the options vest over three years and are exercisable up to ten years from the date of grant. Under the 1987 Long-Term Incentive Program, which expired in April 1997, we granted the same awards, and on January 1 of each year 0.6% of the outstanding shares of our common stock became available for grant.

Under the 1997 Long-Term Incentive Program, performance share units are awarded to key employees in the form of either common stock or cash at the end of a three-year period based on AT&T's total shareholder return as measured against a peer group of industry competitors. Under the 1987 Long-Term Incentive Program, performance share units with the same terms were also awarded to key employees based on AT&T's return-to-equity performance compared with a target.

On August 1, 1997, substantially all of our employees were granted a stock option award to purchase 100 shares representing a total of 12.5 million shares of our common stock. The options vest after three years and are exercisable up to ten years from the grant date.

Under the AT&T 1996 Employee Stock Purchase Plan (Plan), which was effective July 1, 1996, we are authorized to issue up to 50 million shares of common stock to our eligible employees. Under the terms of the Plan, employees may have up to 10% of their earnings withheld to purchase AT&T's common stock. The purchase price of the stock on the date of exercise is 85% of the average high and low sale prices of shares on the New York Stock Exchange for that day. Under the Plan, we sold approximately 3 million shares to employees in both 1997 and 1996.

We apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for our plans. Accordingly, no compensation expense has been recognized for our stock-based compensation plans other than for our performance-based and restricted stock awards, SARs, and prior to July 1, 1996, for the stock purchase plan for former McCaw Cellular Communications, Inc. employees. Compensation costs charged against income were $94 and $40 in 1997 and 1996, respectively.

A summary of option transactions is shown below:

Shares in Thousands	1997	Weighted–Average Exercise Price	1996	Weighted–Average Exercise Price	1995
Outstanding at January 1	46,910	$ 33.89	47,689	$ 43.21	40,285
Lucent and NCR spin-off adjustments	–	–	22,678	–	–
Options granted	36,485	$ 38.81	9,132	$ 45.53	13,276
Options and SARs exercised	(10,832)	$ 24.89	(10,708)	$ 19.16	(8,181)
Average exercise price					$ 29.39
Options assumed in purchase of LIN	–	–	–	–	3,382
Options canceled or forfeited:					
Lucent and NCR spin-offs	–	–	(16,179)	$ 37.25	–
Other employee plans	(4,058)	$ 40.47	(5,702)	$ 37.12	(1,073)
At December 31:					
Options outstanding	68,505	$ 37.50	46,910	$ 33.89	47,689
Average exercise price					$ 43.21
Options exercisable	22,981	$ 33.26	28,034	$ 28.81	28,775
Shares available for grant	85,859	–	19,693	–	17,524

Effective on the dates of spin-off of Lucent and NCR, AT&T stock options held by Lucent and NCR employees were canceled. For the holders of unexercised AT&T stock options, the number of options was adjusted and all exercise prices were decreased immediately following each spin-off date to preserve the economic values of the options that existed prior to those dates.

During 1997 402,057 SARs were exercised and no SARs were granted. At December 31, 1997, 341,783 SARs remained unexercised, all of which were exercisable.

AT&T has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." If AT&T had elected to recognize compensation costs based on the fair value at the date of grant for awards in 1997, 1996 and 1995, consistent with the provisions of SFAS No. 123, AT&T's net income and earnings per common share would have been reduced to the following pro forma amounts:

For the Years Ended December 31	1997	1996	1995
Income from continuing operations	$ 4,384	$ 5,502	$ 3,022
Income(loss) from discontinued operations	99	146	(2,902)
Gain on sale of discontinued operations	66	162	–
Net income	$ 4,549	$ 5,810	$ 120
Earnings per common share – basic:			
Continuing operations	$ 2.70	$ 3.42	$ 1.91
Discontinued operations	0.06	0.09	(1.83)
Gain on sale of discontinued operations	0.04	0.10	–
Net income	$ 2.80	$ 3.61	$ 0.08
Earnings per common share – diluted:			
Continuing operations	$ 2.69	$ 3.41	$ 1.90
Discontinued operations	0.06	0.09	(1.82)
Gain on sale of discontinued operations	0.04	0.10	–
Net income	$ 2.79	$ 3.60	$ 0.08

Without the effect of pro forma costs related to the conversion of options in the Lucent and NCR spin-offs, pro forma income from continuing operations was $5,532, or $3.42 per diluted common share in 1996.

The pro forma effect on net income for 1997, 1996 and 1995 may not be representative of the pro forma effect on net income of future years because the SFAS No. 123 method of accounting for pro forma compensation expense has not been applied to options granted prior to January 1, 1995.

The weighted-average fair values at date of grant for options granted during 1997, 1996 and 1995 were $9.09, $13.12 and $14.02, respectively, and were estimated using the Black-Scholes option-pricing model. The risk-free interest rates applied for 1997, 1996 and 1995 were 6.16%, 6.11% and 6.44%, respectively. The following assumptions were applied for periods before the Lucent spin-off, subsequent to the Lucent spin-off through December 31, 1996, and for 1997, respectively: (i) expected dividend yields of 2.4%, 2.8% and 2.2%, (ii) expected volatility rates of 19.0%, 21.0% and 21.8%, and (iii) expected lives of 5.0, 4.5 and 4.5 years.

The following table summarizes information about stock options outstanding at December 31, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at Dec. 31, 1997 (in thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at Dec. 31, 1997 (in thousands)	Weighted-Average Exercise Price
$ 1.11 – $15.76	318	1.9	$ 13.64	318	$ 13.64
15.83 – 27.12	6,611	3.5	24.40	6,611	24.40
27.16 – 34.95	7,890	6.4	34.16	5,088	24.50
35.20 – 36.74	6,207	5.7	35.61	4,495	35.54
36.75	12,501	9.4	36.75	–	36.75
36.76 – 39.30	4,229	6.0	37.41	3,304	37.20
39.31	17,810	9.0	39.31	22	39.31
39.32 – 47.37	11,813	7.6	45.15	3,143	45.19
48.28 – 60.00	1,126	9.9	54.58	–	–
	68,505	7.5	$ 37.50	22,981	$ 33.26

11. Debt Obligations

Debt Maturing Within One Year

At December 31	1997	1996
Commercial paper	$ 3,113	$ 1,950
Currently maturing long-term debt	874	463
Other	11	36
Total debt maturing within one year	$ 3,998	$ 2,449
Weighted-average interest rate of short-term debt	5.8%	5.5 %

A consortium of lenders provides revolving credit facilities of $5.0 billion to AT&T. These credit facilities are intended for general corporate purposes, which include support for AT&T's commercial paper, and were unused at December 31, 1997.

Long-Term Obligations

At December 31		1997	1996
Interest Rates (a)	Maturities		
Debentures			
4 3/8% to 4 3/4%	1998-1999	$ 500	$ 500
5 1/8% to 6%	2000-2001	500	500
8 1/8% to 8 5/8%	2002-2031	1,996	1,996
Notes			
5 9/38% to 7 3/4%	1998-2025	4,000	4,341
8% to 8 17/20%	1998-2025	579	786
9 3/5% to 12 7/8%	1998-2004	30	60
Variable rate	1998-2054	67	115
Total debentures and notes		7,672	8,298
Other		83	112
Less: Unamortized discount – net		55	64
Total long-term obligations		7,700	8,346
Less: Currently maturing long-term debt		874	463
Net long-term obligations		$ 6,826	$ 7,883

(a) 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, 1997, of the $7,700 in total long-term obligations:

1998	1999	2000	2001	2002	Later Years
$ 874	$ 1,063	$ 658	$ 657	$ 504	$ 3,944

12. 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 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, 1997, and 1996, 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. 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.

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 and do not create any additional risk to AT&T.

Guarantees of Debt

From time to time we guarantee the debt of our subsidiaries and certain unconsolidated joint ventures. Additionally, in connection with restructurings of AT&T in 1996, we issued guarantees for certain debt obligations of AT&T Capital and NCR. At December 31, 1997, and 1996, respectively, the amount of guaranteed debt associated with AT&T Capital and NCR was $120 and $230.

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 at December 31, 1997, are at rates ranging from 6.96% to 7.75%. Floating-rate payments are based on rates tied to LIBOR.

The following table indicates the types of swaps in use at December 31, 1997, and 1996, 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.

	1997	1996
Fixed to variable swaps – notional amount	$ 422	$ 632
Average receive rate	7.54 %	7.55 %
Average pay rate	5.67 %	5.32 %
Variable to fixed swaps – notional amount	$ 249	$ 351
Average receive rate	5.70 %	5.77 %
Average pay rate	7.42 %	5.71 %

The weighted-average remaining terms of the swap contracts are 3 years for 1997 and 5 years for 1996.

Foreign Exchange

We enter into foreign currency exchange contracts, including forward and option contracts, to manage our exposure to changes in currency exchange rates, principally French francs, Deutsche marks, British pounds sterling and Japanese yen. The use of these derivative financial instruments allows us to reduce our exposure to the risk of adverse changes in exchange rates on the eventual reimbursement to foreign telephone companies for their portion of the revenues billed by AT&T for calls placed in the U.S. to a foreign country and other foreign currency payables and receivables. These transactions are generally expected to occur in less than one year.

Fair Values of Financial Instruments Including Derivative Financial Instruments

The following table summarizes the notional amounts 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.

Derivatives and Off Balance Sheet Instruments

	1997 Contract/ Notional Amount	1996 Contract/ Notional Amount
Interest rate swap agreements	$ 671	$ 983
Foreign exchange:		
Forward contracts	426	646
Option contracts	2	65
Letters of credit	63	264
Guarantees of debt	242	328

The tables below show the valuation methods and the carrying amounts and estimated fair values of material financial instruments.

Financial Instrument	Valuation Method
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	There are no quoted market prices for similar agreements available
Interest rate swap agreements	Market quotes obtained from dealers
Foreign exchange contracts	Market quotes

For debt excluding capital leases, the carrying amounts and fair values were $10,810 and $11,112, respectively, for 1997; and $10,319 and $10,609, respectively, for 1996.

Derivatives and Off Balance Sheet Instruments

1997	Carrying Amount		Fair Value	
	Asset	Liability	Asset	Liability
Interest rate swap agreements	$ 3	$10	$ 5	$31
Foreign exchange forward contracts	–	21	3	33

1996	Carrying Amount		Fair Value	
	Asset	Liability	Asset	Liability
Interest rate swap agreements	$ 5	$ 8	$47	$12
Foreign exchange forward contracts	6	15	7	35

13. Commitments and 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, 1997. 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.

We lease land, buildings and equipment through contracts that expire in various years through 2032. Our rental expense under operating leases was $822 in 1997, $718 in 1996 and $653 in 1995. The following table shows our future minimum lease payments due under noncancelable operating leases at December 31, 1997. Such payments total $3,384. The total of minimum rentals to be received in the future under noncancelable subleases as of December 31, 1997, was $275.

1998	1999	2000	2001	2002	Later Years
$ 652	$ 528	$ 444	$ 334	$ 249	$1,177

14. Quarterly Information (Unaudited)

	1997				1996			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Revenues	$ 12,662	$ 12,825	$ 13,004	$ 12,828	$ 12,378	$ 12,459	$ 12,837	$ 12,872
Operating income	1,639	1,511	1,775	2,043	2,369	2,273	2,211	1,910
Income from continuing operations	1,088	928	1,133	1,323	1,439	1,509	1,380	1,245
Income(loss) from discontinued operations	38	31	20	11	(77)	(18)	52	216
Gain on sale of discontinued operations	–	–	66	–	–	–	–	162
Net income	1,126	959	1,219	1,334	1,362	1,491	1,432	1,623
Income(loss) per common share – basic:								
Continuing operations	$ .67	$ .57	$ .70	$ .81	$ .90	$ .94	$ .85	$ .77
Discontinued operations	.02	.02	.01	.01	(.05)	(.01)	.04	.13
Gain on sale of discontinued operations	–	–	.04	–	–	–	–	.10
Net income	.69	.59	.75	.82	.85	.93	.89	1.00
Income(loss) per common share – diluted:								
Continuing operations	$ .67	$ .57	$ .69	$ .81	$ .90	$ .93	$ .85	$ .77
Discontinued operations	.02	.02	.02	–	(.05)	(.01)	.04	.13
Gain on sale of discontinued operations	–	–	.04	–	–	–	–	.10
Net income	.69	.59	.75	.81	.85	.92	.89	1.00
Dividends declared	$ .33	$ .33	$ .33	$ .33	$ .33	$ .33	$ .33	$ .33
Stock price*:								
High	$ 41 7/8	$ 38 1/4	$ 45 15/16	$ 63 15/16	$ 68 7/8	$ 64 7/8	$ 62 3/8	$ 44 1/2
Low	34 3/8	30 3/4	34 1/4	43 3/16	60 1/8	58	49 1/4	33 1/4
Quarter-end close	34 7/8	35 1/16	44 1/4	61 5/16	61 1/8	62	52 1/4	43 3/8

* Stock prices obtained from the Composite Tape

Stock prices on or before September 30, 1996, have not been restated to reflect the Lucent spin-off. Stock prices on or before December 31, 1996, have not been restated to reflect the NCR spin-off.

15. Subsequent Event

On January 8, 1998, AT&T signed a definitive merger agreement with Teleport Communications Group Inc. (TCG) for an all-stock transaction valued at approximately $11.3 billion. Under the agreement each TCG share will be exchanged for .943 of an AT&T share. The merger is subject to regulatory approvals and certain other conditions as well as the receipt of opinions that the merger will be tax-free to TCG shareowners. The transaction is expected to close in the second half of 1998.

Corporate Information

Corporate Headquarters

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

Shareowner Services

AT&T assists shareowners with a wide variety of stock-related matters through our transfer agent, Boston EquiServe Trust Company, N.A., including:

- Change of address
- Dividend reinvestment
- Direct deposit of dividends
- Transfer of ownership

Mailing Address:

AT&T Shareowner Services
c/o Boston EquiServe
P.O. Box 8035
Boston, MA 02266-8035

Interactive voice response system (24 hours a day, seven days a week; representatives available Monday through Friday from 8 a.m. to 7 p.m. Eastern time):

Phone: 1-800-348-8288
TDD: 1-800-822-2794
Outside the United States: Call collect at 781-575-3777

E-mail: att@equiserve.com
Fax: 781-828-8813

AT&T on the World Wide Web

The AT&T home page – **http://www.att.com/** – is your entry point for a vast array of information about AT&T, including company news and history, details on products and services, demonstrations of advanced technologies and more.

In addition, we just redesigned AT&T's Investor Relations Web site – **http://www.att.com/ir/** – giving it a new look, easier navigation and more links to other portions of AT&T's overall Web site. The site now has real-time information from events relevant to shareowners and the financial community, a more intuitive user interface, downloadable financial data and availability of online transactions, including ordering of printed information.

Stock Information

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 United States, and on stock exchanges in Brussels, London, Paris and Geneva.

As of December 31, 1997, AT&T had 1,624,213,505 outstanding shares, held by more than 3.5 million shareowners.

Annual Meeting

The 113th Annual Meeting of Shareowners will convene at 9:30 a.m. at the Meadowlands Exposition Center in Secaucus, New Jersey, on Wednesday, May 20, 1998.

Other Publications

The Form 10-K Annual Report and Form 10-Q Quarterly Reports to the Securities and Exchange Commission are available without charge by contacting Boston EquiServe and through the AT&T Investor Relations Web site (see earlier information).

Also available are:

AT&T Foundation Biennial Report
32 Avenue of the Americas
24th Floor
New York, NY 10013

AT&T Environment, Health & Safety Report
Department AR
20 Independence Blvd.
Room 4B31
Warren, NJ 07059

AT&T Foundation

In 1997, the AT&T Foundation donated nearly $40 million to nonprofit organizations in local communities to support education, health, culture and the environment. Over $10 million of these grants helped to connect elementary and secondary schools to the Information Superhighway through the AT&T Learning Network.

Telephone Pioneers of America

The Telephone Pioneers of America is a nonprofit organization of more than 800,000 active and retired employee volunteers from sponsoring companies within the telecommunications industry, including AT&T. In recent years, the Pioneers have contributed an average of 30 million hours annually and raised between $25 million and $30 million to address such needs as the environment and health and human services, with an overarching focus on education.

Minority and Women's Business Enterprise

As part of AT&T's Minority and Women's Business Enterprise (MWBE) Business Development Program, more than $1 billion of AT&T's total purchases last year were made from minority- and women-owned businesses.

Environment, Health & Safety

AT&T is dedicated to creating a safe and healthy workplace for AT&T people, supporting the business, protecting the environment and maintaining AT&T's strong reputation as one of the top corporate environmental champions. AT&T won the 1997 National Environmental Education Achievement Award in recognition of innovative and effective environmental education programs that meaningfully connect people and their environments, and support corporate profitability. More information is available online at: **http://www.att.com/ehs/**.

The text on the cover, inside front cover and page 1 of this annual report consists of excerpts from independent news reports about the communications industry from 1997 and early 1998. The statements do not necessarily reflect the views of AT&T, nor does their use represent any endorsement of AT&T products and services.

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Board of Directors and Senior Management

AT&T Board of Directors

C. Michael Armstrong, 59
Chairman of the Board and Chief Executive Officer since November 1997. 4,6

Kenneth T. Derr, 61
Chairman and Chief Executive Officer, Chevron Corporation, an international oil company. Director since 1995. 1,2

M. Kathryn Eickhoff, 58
President, Eickhoff Economics Inc., economic consultants. Elected to Board in 1987. 1,5

Walter Y. Elisha, 65
Chairman and Chief Executive Officer, Springs Industries, Inc., a textile manufacturer. Director since 1987. 3,5

George M. C. Fisher, 57
Chairman and Chief Executive Officer, Eastman Kodak Company, an imaging company. Elected to Board in 1997. 2,5

Donald V. Fites, 63
Chairman and Chief Executive Officer, Caterpillar, Inc. equipment manufacturer. Director since 1997. 3,5

Ralph S. Larsen, 59
Chairman and Chief Executive Officer, Johnson & Johnson, a pharmaceutical, medical and consumer products company. Elected to Board in 1995. 1,5

Donald F. McHenry, 61
President, IRC Group, international relations consultants, and former U.S. Ambassador to the United Nations. Director since 1986. 1,2,3,4

Michael I. Sovern, 66
President Emeritus and Chancellor Kent Professor of Law at Columbia University. Elected to Board in 1984. 1,2,4,6

Thomas H. Wyman, 68
Senior Advisor of SBC Warburg Inc., and Retired Chairman of S.G. Warburg & Co. Inc., an investment banking firm. Director since 1981. 2,3,4,6

John D. Zeglis, 50
President of AT&T. Elected to Board in 1997. 3

1. Audit Committee
2. Compensation and Employee Benefits Committee
3. Directors and Public Policy Committee
4. Executive Committee
5. Finance Committee
6. Proxy Committee

Ages are as of January 1, 1998.

AT&T Senior Management Staff

C. Michael Armstrong
Chairman of the Board and Chief Executive Officer 1

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Executive Vice President International

Harry S. Bennett
Vice President and General Manager Local Services Division

Harold W. Burlingame
Executive Vice President Human Resources

Daniel R. Hesse
Executive Vice President AT&T President and Chief Executive Officer AT&T Wireless Services

Frank Ianna
Executive Vice President Network & Computing Services & AT&T Chief Quality Officer 1

Jim G. Kilpatric*
General Counsel & Executive Vice President

Marilyn Laurie*
Executive Vice President Brand Strategy & Marketing Communications

Richard J. Martin
Executive Vice President Public Relations & Employee Communications

Gail J. McGovern
Executive Vice President Consumer Markets Division 1

David C. Nagel
President AT&T Labs

John C. Petrillo
Executive Vice President Corporate Strategy & Business Development 1

Richard R. Roscitt
Executive Vice President AT&T & President and Chief Executive Officer AT&T Solutions

Daniel E. Somers
Senior Executive Vice President & Chief Financial Officer 1

John D. Zeglis
President 1

Other Officers

Edward M. Dwyer
Vice President and Treasurer

Maureen B. Tart
Vice President and Controller

Marilyn J. Wasser
Vice President Law and Secretary

1. Member of Operations Group

* *Our special thanks and best wishes to Marilyn Laurie, who will retire in April 1998.*

It's all within your reach.

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