

Exhibit Index

Exhibit  
Number:

- (3)a Restated Certificate of Incorporation of the registrant filed January 10, 1989, Certificate of Correction of the registrant filed June 8, 1989, Certificate of Change of the registrant filed March 18, 1992, Certificate of Amendment of the registrant filed June 1, 1992, and Certificate of Amendment of the registrant filed April 20, 1994. (Exhibit 4 to Registration Statement No. 333-00573).
- (3)b By-Laws of the registrant, as amended January 15, 1997.
- (4) No instrument which defines the rights of holders of long term debt, of the registrant and all of its consolidated subsidiaries, is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.
- (10)(i)1 Form of Separation and Distribution Agreement by and among AT&T Corp., Lucent Technologies Inc. and NCR Corporation, dated as of February 1, 1996 and amended and restated as of March 29, 1996.
- (10)(i)2 Form of Distribution Agreement, dated as of November 20, 1996, by and between AT&T Corp. and NCR Corporation.
- (10)(i)3 Tax Sharing Agreement by and among AT&T Corp., Lucent Technologies Inc. and NCR Corporation, dated as of February 1, 1996 and amended and restated as of March 29, 1996.
- (10)(i)4 Employee Benefits Agreement by and between AT&T Corp. and Lucent Technologies Inc., dated as of February 1, 1996 and amended and restated as of March 29, 1996.
- (10)(i)5 Form of Employee Benefits Agreement, dated as of November 20, 1996, between AT&T Corp. and NCR Corporation.
- (10)(ii)(B)1 General Purchase Agreement by and between AT&T Corp. and Lucent Technologies Inc., dated February 1, 1996 and amended and restated as of March 29, 1996.
- (10)(ii)(B)2 Form of Volume Purchase Agreement, dated as of November 20, 1996, by and between AT&T Corp. and NCR Corporation.
- (10)(iii)(A)1 AT&T Short Term Incentive Plan as amended March, 1994 (Exhibit (10)(iii)(A)1 to Form 10-K for 1994, File No. 1-1105).
- (10)(iii)(A)2 AT&T 1987 Long Term Incentive Program as amended July 17, 1989 (Exhibit (10)(iii)(A)2 to Form SE dated March 24, 1993, File No. 1-1105).

- (10) (iii) (A) 3 AT&T Senior Management Individual Life Insurance Program dated January 1, 1987 (Exhibit (10) (iii) (A) 1 to Form SE, dated March 25, 1987, File No. 1-1105) and as revised December 1, 1994 (Exhibit (10) (iii) (A) 3 to Form 10-K for 1994, File No. 1-1105).
- (10) (iii) (A) 4 AT&T Senior Management Long Term Disability and Survivor Protection Plan, as amended and restated effective January 1, 1995.
- (10) (iii) (A) 5 AT&T Senior Management Financial Counseling Program dated December 29, 1994 (Exhibit (10) (iii) (A) 5 to Form 10-K for 1994, File No. 1-1105).
- (10) (iii) (A) 6 AT&T Deferred Compensation Plan for Non-Employee Directors, as amended December 15, 1993 (Exhibit (10) (iii) (A) 6 to Form 10-K for 1993, File No. 1-1105).
- (10) (iii) (A) 7 The AT&T Directors Individual Life Insurance Program dated January 1, 1987, revised December 1, 1995.
- (10) (iii) (A) 8 AT&T Plan for Non-Employee Directors' Travel Accident Insurance (Exhibit (10) (iii) (A) 8 to Form 10-K for 1990, File No. 1-1105).
- (10) (iii) (A) 9 AT&T Excess Benefit and Compensation Plan, as amended and restated effective October 1, 1996.
- (10) (iii) (A) 10 AT&T Non-Qualified Pension Plan, as amended and restated January 1, 1995.
- (10) (iii) (A) 11 AT&T Senior Management Incentive Award Deferral Plan, as amended December 20, 1995.
- (10) (iii) (A) 12 AT&T Mid-Career Hire Program revised effective January 1, 1988 (Exhibit (10) (iii) (A) 4 to Form SE, dated March 25, 1988, File No. 1-1105) including AT&T Mid-Career Pension Plan, as amended and restated October 1, 1996.
- (10) (iii) (A) 13 AT&T 1984 Stock Option Plan, as modified December 19, 1984 (Exhibit 10(t) to Form SE, dated February 27, 1985, File No. 0-13247).
- (10) (iii) (A) 14 Form of Indemnification Contract for Officers and Directors (Exhibit (10) (iii) (A) 6 to Form SE, dated March 25, 1987, File No. 1-1105).
- (10) (iii) (A) 15 Pension Plan for AT&T Non-Employee Directors revised February 20, 1989 (Exhibit (10) (iii) (A) 15 to Form 10-K for 1993, File No. 1-1105).
- (10) (iii) (A) 16 AT&T Corp. Senior Management Basic Life Insurance Program, as amended May 17, 1995.
- (10) (iii) (A) 17 Form of AT&T Benefits Protection Trust Agreement (Exhibit (10) (iii) (A) 17 to Form SE, dated March 25, 1992, File No. 1-1105).
- (10) (iii) (A) 18 Form of Employment Agreement between AT&T Corp. and John R. Walter dated October 23, 1996.
- (10) (iii) (A) 19 Employment Agreement between American Telephone and Telegraph

Company and Richard W. Miller dated August 9, 1993 (Exhibit 10(iii)(A)19 to Form 10-K for 1995, File No. 1-1105).

- (12) Computation of Ratio of Earnings to Fixed Charges.
- (13) Specified portions (pages 20 through 44 and the outside back cover) of the Company's Annual Report to security holders for the year ended December 31, 1996.
- (21) List of subsidiaries of AT&T.
- (23) Consent of Coopers & Lybrand L.L.P.
- (24) Powers of Attorney executed by officers and directors who signed this report.
- (27) Financial Data Schedule.



We aspire to be the most admired and valuable company in the world. Our goal is to improve the lives of our customers by bringing to market exciting and useful communications services, building shareowner value in the process.

Today, we operate the world's largest, most sophisticated communications network, own one of the best-known and respected brands, and serve more than 90 million business and consumer customers.

We are the world's leading provider of long distance and wireless services. We offer online services, access to home entertainment and have begun offering local telephone service in selected cities and states. We also

provide businesses with outsourcing and consulting services. We create innovative new services through AT&T Labs, our research and development group. Through AT&T Universal Card Services, we manage one of the largest credit card programs in the world. We back our services with world-class customer care and support.

AT&T has some 130,400 employees, and operates in more than 200 countries. Alliances around the world – such as Alestra in Mexico, AT&T/Unisource in Europe, Birla AT&T in India and CANTEL AT&T in Canada – are helping us reach new customers in growing markets with AT&T-branded services.



### 1996 Financial Highlights

■ *Income from continuing operations (the "new" AT&T) was \$5.6 billion, up 7 percent from 1995, excluding 1995 restructuring and other charges, in the face of preparations for extraordinary challenges and unprecedented changes in our business and our industry.*

■ *At the same time, we executed a successful divestiture, spinning off Lucent Technologies and NCR to AT&T shareowners.*

■ *We remain committed to growing our core business, investing wisely in the future and building long-term value for our owners.*

DOLLARS IN MILLIONS\*  
(EXCEPT PER SHARE AMOUNTS)

	1996	1995*
<b>REVENUES</b>		
Communications services	\$ 50,515	\$ 48,403
Financial services	1,669	2,261
<b>Total revenues</b>	<b>\$ 52,184</b>	<b>\$ 50,664</b>
<b>INCOME</b>		
Operating income	\$ 8,810	\$ 5,453
Income from continuing operations	5,608	3,205
<b>Net income</b>	<b>5,908</b>	<b>139</b>
<b>PER COMMON SHARE</b>		
Income from continuing operations	\$ 3.47	\$ 2.01
<b>Net income</b>	<b>3.66</b>	<b>0.09</b>
<b>OTHER INFORMATION</b>		
Gross capital expenditures	\$ 6,785	\$ 4,522
Debt ratio (excluding financial services)	18.7%	41.3%

\* 1995 data include restructuring and other charges. Excluding these charges, operating income was \$8,482, income from continuing operations was \$5,241, \$3.29 per share; and net income was \$5,492, \$3.45 per share.

# The Changing World of Communications

As our cover points out, 1996 was no ordinary year.

It clearly was a year of change. Sweeping, fundamental and irrevocable change. Consider:

- *The Telecommunications Act of 1996 – legislation redefining our entire industry – was signed into law in early February.*
- *We completed what many observers call the largest-ever corporate restructuring, launching as separate, global companies a “new” AT&T, Lucent Technologies and NCR.*
- *And we took bold, decisive steps to broaden and strengthen our business, positioning ourselves to maximize growth in shareowner value in the years ahead.*

These changes – combined with evolving technologies and escalating customer demands – are moving us toward a greater purpose. It is a purpose to which we believe we are uniquely suited given our people, capabilities and size.

We are in business to enrich the lives of our customers through communications, using the most powerful network on earth. Long distance calling is just one component of end-to-end capabilities that can include local, wireless, online services, access to home entertainment and many other services. We can help customers transform their businesses to be more successful. Our message to customers is that when it comes to the benefits of the communications revolution, “It’s all within your reach.”

Welcome to the new AT&T.

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BACK COVER

**I**n 1996, we took some big steps to make sure your company will be ready for the exciting years ahead.

# To all AT&T people

## – our owners and our employees

During a very brief stint as chief financial officer, I had the distinction of “closing the books” – as the accountants say – on 1983, AT&T’s last year as parent company of the old Bell System.

We thought that was historical change. And it was. But the changes underway as we close the books on 1996 and move into '97 are beyond anything we’ve seen before.

The spread of new technology is dramatically increasing the power of communications to enrich people’s lives and expand the productivity of their businesses. The public’s expectations and appetite for communications have grown in tandem with the stream of new benefits. It’s fair to say that we now operate in an industry with truly insatiable demand. Happily, AT&T has been synonymous with communications for over 100 years. Our job is to ensure that this remains the case through

the coming millennium.

That’s no small task. The definition of communications is expanding all the time, and we have to keep expanding the scope of our services.

In 1996 we took some big steps to make sure your company will be ready for the exciting years ahead. But before I look too far into the future, let’s look at the bottom line for 1996.

The new AT&T earned \$5.6 billion. Although a record, it’s also a disappointment since we expected to do better. Those lower than expected earnings reflect some rough months in the consumer long distance market as well as some major investments we made in the business. Investors were looking for better earnings growth from AT&T in '96. Nobody likes to disappoint shareowners less than I do. But if we ever needed to balance short-term earnings with long-term

investments – while also stepping up the marketing of today’s services – last year was the time.

It was the year Congress changed the rules of the game in the United States. Ultimately, the Telecommunications Act of 1996 will erase the distinction between local and long distance service. Last year was the year you couldn’t escape reading about the Internet, which has the potential to erase the distinction between voice and data networks. And as I write this, the World Trade Organization has just reached an historic agreement to open markets around the world to real competition, eventually erasing the distinction between domestic and international calls.

Last year we expanded the capabilities of the AT&T network – the world’s most powerful – by adding state-of-the-art switching and transmission capacity. We also began upgrading our billing and customer care systems to handle the complex demands of providing local service and combinations of services.

We aggressively bid on wireless spectrum licenses that in-

created our wireless footprint to reach more than 90 percent of the U.S. population, laying the groundwork for services that will offer customers universal mobility. We expanded into Internet access and creating Web sites for businesses determined to make online shopping and other forms of electronic commerce as everyday as using Automatic Teller Machines. And we began offering AT&T-branded communications services in Canada, Mexico, the United Kingdom and elsewhere around the world.

Late in the year we made another kind of investment in the future when we brought in John R. Waiter as our new president and chief operating officer. Many people were surprised that our board went outside the industry to select John, but he hit the ground running and has taken firm control of our operations. From the day he got here, John has worked with the senior leadership team to ensure that we have both an integrated strategy and focused accountability for implementing it.

In terms of shareowner value delivered in '96, the massive divestiture we completed overshadows everything else. As of the end of February, Lucent Technologies and NCR were valued at nearly \$38 billion, demonstrating the validity of our initiative to spin off each company to shareowners.

This was the biggest corporate restructuring ever. Our people completed it precisely on schedule in only 15 months, concluding with the launch of the new AT&T on January 1st. In 15 short months, we eliminated 13 years of escalating market conflicts and strategic ambivalence.

Frankly, the timing couldn't have been better.



John R. Waiter (left), president and chief operating officer and Bob Allen, chairman and chief executive officer.

Lucent Technologies can now market its equipment and systems to all the communications companies of the world – especially to the Bell companies in America – without worrying about the fact that those companies are competitors of AT&T. I'm disappointed that we weren't able to make the NCR merger work, but now NCR can concentrate on its core strengths in computing without adapting to the larger strategy of AT&T. All of you who were investors in AT&T at the time of the restructuring are sharing in the continued growth of Lucent and NCR if you retained your shares in these companies.

But what about the new AT&T?

As I said, I've seen this picture before. 1984, the year of the first break-up, was a wrenching year for your company. Professional "AT&T-watchers" were pessimistic about our prospects. They said that the Regional Bell Operating Companies had it made. All we had were competitors. And what did we know about marketing? Sound familiar?

Well, over the next 13 years, we created billions of dollars in shareowner value. Now, we have the opportunity – and the will – to do it again.

Our balance sheet is stronger than it has been in 30 years. Our

focus is laser-sharp. Our eyes and ears are attuned to customers.

The growing global communications and information services business is dead-center in our cross-hairs. That's a business we've led for generations. And while it is also a business that is changing faster than any on earth, no other company has the people, technology, brand, market presence and financial resources that we have to put those changes to work for us.

The change staring us in the face today is the new Telecommunications Act. If implemented as Congress intended, the new law will eliminate the monopolies in U.S. local phone service.

Let's keep in mind, though, that this was an act of Congress, not an act of God. No one can pry the local markets open overnight or even over one year.

We're moving into the vast local service market with a focused and deliberate strategy. To start, we're negotiating to sell the service of some local monopoly companies. We also plan to build our own facilities where and when it makes economic sense. In fact, just as this annual report was going to press, we announced an unprecedented fixed wireless technology that gives us the option of reaching local cus-

# Customers will expect us to put services and technologies together in combinations that meet their needs. We won't disappoint them.

customers over wireless connections and eventually providing consumers with advanced services like full-motion video conferencing and high-speed data applications. We have other technology and partnering options as well.

It will take time, but we are totally committed to being a leader in local service. Because local service is part of the expanded offer we want to make in the years ahead.

Customers will expect us to put services and technologies together in combinations that meet their needs. We won't disappoint them. We are moving into a future of "all-distance" communications — global end-to-end communications that make no distinction between local and long distance, wireless or wired. It's a future where we will see the true convergence of voice and data networks. People will count on universal mobility, electronic commerce and applications of our services nobody's even thought of yet.

In this future, as in the past, AT&T will differentiate itself from the competition by the quality of our services and by our execution. We will win customers' loyalty by understanding their needs better than any other company. We'll meet their needs by delivering applications that enrich their personal lives and make their businesses more successful.

As exciting as it is to speculate on the future, no one is ignoring the here-and-now, especially in our core long distance business.

The business services side of long distance had one of its strongest years ever in 1996 and the majority of its customers are now buying a much broader range of services from AT&T.

On the consumer side, we began offering a range of new services — from new Digital PCS wireless service and innovations in online services to DIRECTV. We also launched the industry's first truly simple calling plan — AT&T One Rate — which now has more than 3 million customers.

As you would expect, there's abundant evidence of change all over AT&T within these pages. But some things about the new AT&T are familiar by choice. We still use the values of Our Common Bond (see back cover) as the guideposts for our behavior. We still value diversity as a business asset. We still support the communities where we live and work.

These are values we take with us into the future.

I intend to do everything in my power to ensure that your company is poised to exploit the opportunities of this changing industry. We intend to build market share as we expand the scope of what this industry can offer.

That means becoming the cost

leader in our industry. It means out-innovating our best competitors, who will likely include some of the world's most successful software companies. It means growing our traditional strengths at the same time that we become even more creative and performance-driven.

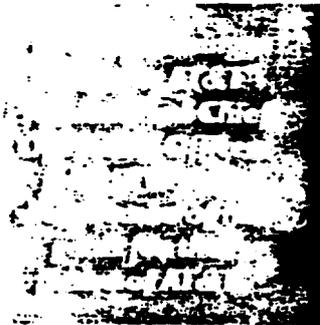
I'm not naive. Many of our former operating companies, as entrenched as ever in their local markets, will be coming after us in the years ahead. The new trade agreement opens opportunities for us, but it also gives well-heeled foreign companies a hunting license on our front lawn — the richest communications services market in the world. In short, we have to leap some tall buildings to keep our leadership position in this dynamic industry.

But I know one thing for sure. This I believe to my core: AT&T people can and will do it.



Robert E. Allen,  
Chairman and CEO  
February 28, 1997

# Meet Our New President



**Q** What do you see as the strengths and weaknesses of AT&T?

**A** Well, there's no question that we have both. But the weaknesses aren't anything that other corporations haven't seen. Like most large companies, we need to make decisions and execute faster. And we certainly have to focus more on costs. But these issues can be corrected. I'm more impressed with AT&T's strengths, especially our people, the depth of our technology, the power of the AT&T brand, our financial strength and that unmatched base of 90 million customers.

**Q** Is your lack of experience in telecommunications a problem in learning the ropes of the new job?

**A** Bob is pressing AT&T to adapt and take advantage of the fast-breaking changes in the communications industry. I think I'm in a good position to help accelerate positive change because I'm not tied to anything simply because it was done in the past. And, of course, I'm working with a superb management team that has unmatched knowledge and experience in the communications industry. No one person could possibly have all the answers, but together there's no limit to what we can do.

**Q** What can you tell us about AT&T's plans to compete in local service?

**A** We're committed to be a major player, but local service is not an end in itself. It's part of the total value offer we want to make to customers.

**Q** What will that offer include?

**A** AT&T will be an end-to-end provider of communications and information services. We'll provide customers with "all-distance" service that makes no distinction among local and long distance, wired, wireless or fixed wireless. We'll build on our lead in wireless services to offer the universal mobility that fits so many lifestyles today. We'll continue to expand globally – often through partnerships and alliances – to meet the needs of businesses and global travelers. At the same time, we will redefine what people think of as "communications services." We're already creating new applications that change the way people shop, manage their finances or use information. That's the way the industry is moving, and we intend to lead the way. It's also important to note that we're going to shift our focus from acquiring – and often reacquiring – customers to building the kind of customer relationships that foster loyalty.

**Q** What does AT&T have to do to deliver on its plans?

**A** The emphasis has to be on the quality of our execution. To begin with, that means all of our people acting like owners of the business. A sense of ownership goes hand in hand with feeling a sense of personal accountability for delivering measurable results. Owners have a sense of urgency for meeting customers' needs.



Every move we make has to reflect a deep understanding of customer needs. It should show in the benefits people get from our communications services, in the way we deal with our customers and in the innovations that come out of AT&T Labs. AT&T must be more than a technology leader. We need to be an outstanding marketing company as well. We need to organize our businesses around our customers and go to market as a team so they get the full benefit of all our resources. The AT&T brand, after all, represents our promise to our customers. Everything we do should reflect that promise and give our customers another reason to believe it.

**Q** Is there anything in particular you'd like to say to AT&T's investors?

**A** I'd like to assure investors that all of our plans and all of our actions are designed to grow shareowner value – long-term and short-term. The fundamental changes underway in the communications industry create substantial new opportunities, and we're determined to use those opportunities to create profitable growth for AT&T. That's a commitment shared by our entire management team.

## INTO THE NEXT CENTURY

*John R. Walter (right) became AT&T's president and chief operating officer November 1, 1996. In announcing Walter's appointment, Chairman Bob Allen said the board anticipates that Walter will become CEO at the beginning of 1998 and succeed Allen as chairman when Allen retires later that year. Walter, who just turned 50, came to AT&T from R.R. Donnelley & Sons, the world's largest commercial printer, where he had worked all his career, becoming chairman in 1989.*



Location, Location, Location. It's the classic response from a real estate agent who's asked to name the three most important considerations in buying property.

But to Seattle-based agent Jean Carlson, location doesn't mean a thing – her location, anyway.

Jean is with Windermere Real Estate, the Pacific Northwest's largest agency. She hooked into AT&T Digital PCS in October, right after we scooped the entire industry by being the first to bring the capabilities of PCS communications – a powerful combination of features such as caller ID, message-waiting indicator, extended battery life, short messaging, increased privacy and fraud protection, all in a single phone – to market on a national scale.

## Since then, Jean has spent more time concentrating on closing sales

and less on finding pay phones and checking messages.

**Situation:** Trying to show a property to a client on a tight schedule, Jean finds the address on the print out is wrong. No problem: AT&T Digital PCS is a phone on the spot that lets her call back to the office for the right address.

**Situation:** Jean's phone is turned off when a caller is trying to get through. No problem: Without having to carry a beeper, Jean gets a message on the AT&T Digital PCS display screen as soon as she turns on her phone.

**Situation:** Jean's husband was recuperating from surgery during a week she was on jury duty. No problem: During breaks, Jean was able to use the AT&T Digital PCS voice mail feature to see if there were messages from her husband – or office.

"I love the long-life battery," Jean adds. "One less thing to fuss with."

And now her son who lives on the East Coast can track Jean down from 3,000 miles away. She can be found whether she's riding the ferry on Puget Sound, if she is traveling outside of Seattle (thanks to the service's roaming feature), or even if she's just at home – where the land line is likely to be busy anyway. Location, location, location



In this fast-changing industry, one thing remains clear: consumers have confidence in AT&T.

# Feeling at Home



## CREDIT DUE

*Sandra Perez of AT&T Universal Card Services knows first hand the value of good customer service. Through a series of phone conversations, Sandra helped a customer with a solution that kept the customer's good credit standing intact while an account payment from a third party was delayed. The customer told Sandra that because of her helpful attitude and professionalism, she was declining a competitor's lower interest rate offer. "We all strive for excellence," Sandra says, "and it's gratifying when customers feel we've gone above and beyond for them."*

When a recent Harris poll asked 1,000 adults for two choices of "really good companies," the top answer was "AT&T"—for the second year in a row. And in a recent nationwide survey of more than 1,300 consumers conducted by Hart/Luntz Research, AT&T emerged as the clear leader for the company people trust to help them use rapidly changing communications technology to simplify their lives.

It's little wonder that for some 80 million consumers, the power of communicating comes from AT&T. And as the new AT&T, we're providing more complete solutions to their across-the-board communications needs. Here are some examples.

## CONSUMER SERVICES

We're the long distance market share leader, and a wide variety of services and features make it easier than ever to stay in touch. And we back these services with world-class customer care.

**Talking on the Competition**  
AT&T last year began introduction of a combined offer for residential long distance and wireless customers that has an option of a single, integrated bill and gives just a single number to call for service. This offer is laying the groundwork for more valuable, integrated services. Also in 1996, we became the first national communications company to offer access to home entertainment through our equity interest in DIRECTV®.

## WIRELESS

With a customer base that grew by more than 30 percent in 1996, AT&T Wireless Services and its partner companies now have more than 7 million subscribers in the United States. AT&T Wireless Services also offers wireless data and messaging services, and is one of the leaders in air-to-ground communications.

**Talking on the Competition**  
In 1996, AT&T became the first company to offer the next generation of digital wireless

technology—AT&T Digital PCS—which combines voice, messaging and paging communications in a single hand-held device.

## ONLINE

AT&T is winning online customers with outstanding service. And "Internet for everyone" is the ease-of-use goal of AT&T WorldNet Service™. Although new to the industry in 1996, we had the best scores for call completion rates, as well as time required to log in, according to an Inverse Network Technologies study involving nearly a dozen of the largest service providers.

**Talking on the Competition**  
AT&T WorldNet Service went from being a start-up in March to become a leading provider of online services, with more than 560,000 subscribers by year end. The service garnered PC Magazine's 1996 "Most Valuable Product Award" for Internet service providers.

# with AT&T

## LOCAL

Aggressive activity following enactment of the Telecommunications Act of 1996 led to a phased consumer local service introduction in California in December, with plans to enter other markets in 1997.



## LOCAL CALLING

For Pardeep and Nilda Aulakh, AT&T's introduction of local service in Sacramento, Calif., in December offers many benefits, including the convenience of writing a single check for their long distance and local telephone charges.

## Taking on the Competition

As we enter the local service marketplace, we're committed to extending the hallmark traits of our long distance service, including our communications expertise, world-class customer care and competitive prices.

## AT&T

### UNIVERSAL CARD

AT&T Universal Card Services – which provides a credit, cash and AT&T Calling Card, all in one – manages one of the largest credit card programs in the world, with some 18 million accounts.

## Taking on the Competition

In 1996, the AT&T Universal Card was ranked best for customer satisfaction among general feature gold and standard credit cards by J.D. Power and Associates.\*\*

## INTERNATIONAL

AT&T Direct® Service makes it quick and easy to call the United States and many other countries from virtually anywhere in the world.

## Taking on the Competition

In early balloting in the Mexican long distance market that opened to competition on January 1, 1997, for more customers chose service from our Alestra joint venture than the service offered by any of its competitors.



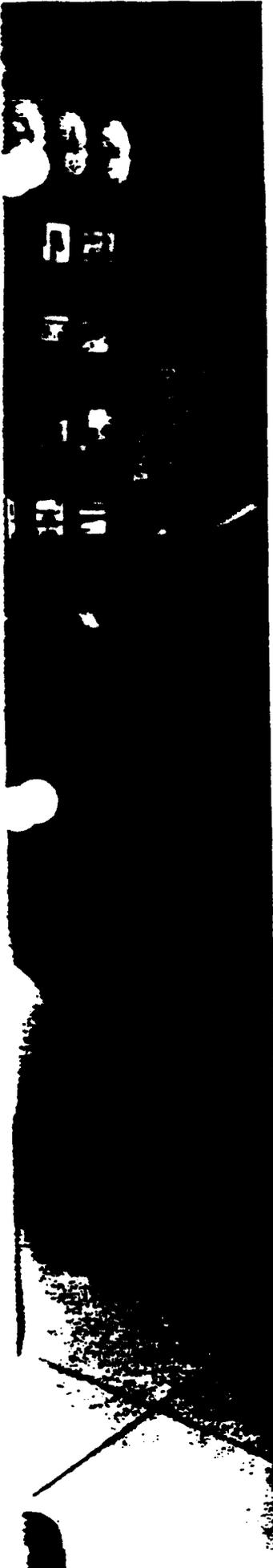
## CALLING FOR HELP

Giving a 3-year-old the power to help a heart attack victim isn't exactly routine. But AT&T operator Brian Harmon insists, "I was just doing my job." On March 17, 1996, Brian found himself on the line with a child who kept repeating, "Daddy's sick; Daddy fell down." With the aid of a 911 operator, Brian kept the youngster on the line and notified police. Police and paramedics located the house, and the father was taken to the hospital and treated for what turned out to be a minor heart attack. Both father and son are fine. As for Brian, he credits his cool-headed handling of the call to the training he and all operators receive when they join AT&T Operator Services. "It's a matter of being trained to be calm, and help people quickly."

\* DIRECTV is a registered service mark of DIRECTV, Inc., a unit of Hughes Electronics Corp.

\*\* Results are from the J.D. Power 1996 Comprehensive Credit Cardholder Satisfaction Study of 19,171 cardholders.





Humanity United. It's been the lofty – and as yet unattainable – goal of many noble people around the world.

Every four years, though, the Olympic Games come close to uniting humanity. It's a brief glimpse into what could be. It's a brief time when politics are replaced by the simple Olympic credo of "swifter, higher, stronger." And the world wants to watch.

In 1996, the world *did* get to watch the Centennial Olympic Games in Atlanta – in record numbers. People around the world witnessed the pageantry, the sorrow and the joy, the solemnity and the celebration. The broadcasting expertise came from NBC and Atlanta Olympic Broadcasting. And the partner they chose to provide transmission expertise was AT&T.

## We provided a long distance fiber-optic network

supported by a 50-plus-person AT&T "Dream Team" of technicians and customer care people led by manager Willie Hart (opposite page).

The team was responsible for operating 640 video circuits for 17 days straight (perspective: a political convention only requires 100 video circuits for five days, and the Super Bowl needs just 30 for a single day).

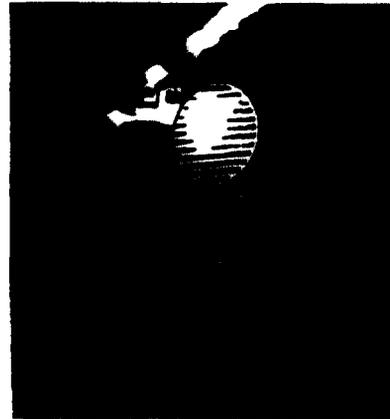
Via the circuits, we created a "virtual broadcast center" that linked NBC's facilities in Atlanta and New York, saving the network millions of dollars by allowing it to handle much of the production work in its New York control room.

This was in addition to other technology AT&T supplied to the Games, including: the AT&T Global Olympic Network, which provided global calling capabilities for the entire Olympic family, and carried nearly 9 million minutes of traffic during the Games; and 15 AT&T Centennial Olympic Games Calling Centers, which included availability of AT&T Language Line<sup>®</sup> over-the-phone interpretation service in any of 140 languages.

As for the customer's view of the broadcast network, "AT&T put its engineering and design expertise to work to develop a customized digital video and data service that provided the high network reliability we required," says David Mazza, director, NBC Olympic Engineering.

One reason for the praise: in 103,000 hours of transmission, the only interruption lasted just 40 millionths of a second. The viewers never noticed.

But they did notice they were part of the world's united humanity – however briefly. And maybe they grew a little more hopeful because of it.





When it comes to customer care, companies clearly have a communications partner of choice.

# Inspiring the Trust



## FLYING HIGH

*When United Airlines began to explore new electronic distribution channels to provide customers with instant access to travel information, the airline turned to AT&T Solutions. Working with AT&T Labs, AT&T Solutions evaluated new technologies that would enable United Airlines to offer this capability. "AT&T Solutions brought together the right combination of business strategy and technical skills that will allow us to meet our customers' needs," says Andy Studdert, chief information officer at United Airlines (above). "This work has opened the door to a new level of partnership with AT&T."*

In *Billing World* magazine's most recent business customer care survey, AT&T was tops, with 84 percent of the large businesses polled rating AT&T's customer care as good or excellent. *Data Communications* magazine put AT&T in the No. 1 spot for the third year in a row in customer service. And AT&T scored best on a recent customer satisfaction survey conducted by *Computerworld* magazine regarding wide-area network transmission services.

To many businesses, service and reliability are paramount issues. So AT&T is continually looking for new ways to bring added value.

## BUSINESS SERVICES

AT&T provides businesses with advanced voice, data and video services. For small- and medium-sized businesses, we can bundle these services and provide billing plans tailored to individual needs.

For large, multinational businesses, we offer advanced networked solutions that can give them a competitive advantage in their industries.

*Talking on the Competition* Businesses now can gain more simplicity and flexibility in managing their telecommunications with AT&TALL™, a new platform that provides integrated billing and customer care for local, long distance, Internet access, messaging and wireless services.

## WIRELESS

AT&T Wireless Services lets companies integrate high-productivity features into their specialized business services from AT&T, giving them single-source convenience.

*Talking on the Competition* We've included AT&T Digital PCS enhancements in our Wireless Office Service product, a sophisticated telecommunications service that allows one phone number to reach a person almost anywhere, combining wireless and wired networks.

## ONLINE

AT&T has unveiled the industry's most comprehensive set of services aimed at stimulating electronic commerce, extending AT&T's transaction expertise to the Internet. AT&T EasyCommerce Services enables businesses to reach more of their customers through electronic catalogs, guarantees their Internet transactions are secure, and provides electronic mail and enhanced fax capabilities.

*Talking on the Competition* AT&T's Web Site Services is ranked among the top 1 percent of all hosting providers. AT&T EasyCommerce... offerings helped Com...

# of Businesses

tions Week magazine readers to rate AT&T the No. 1 company to watch in 1997.

## LOCAL

In early 1997, AT&T unveiled two local service offerings geared to businesses. The first, business local service, is a full-featured offering initially available in California, with roll-out in other states planned for later this year. The second, AT&T Digital Link, is an outbound facilities-based local service available in 45 states that's targeted at businesses with dedicated links to the AT&T network.

## AT&T LABS INNOVATION

AT&T Labs helped give our customers a new tool in 1996 with AT&T Personal Reach™ Service (PRS). Developed by the Labs' New Concepts Organization, PRS is an easy-to-use "meet-me-in-the-network" service that assures subscribers they won't miss a call – unless, of course, they want to.

For more than 120 years, AT&T innovations have laid the foundations of the world's communications services and systems. AT&T Labs' distinguished staff includes some of the best minds in mathematics, communications services, and computer and information sciences.

Taking on the Competition Business local service features competitive pricing, "one call does it all" customer care, and a single bill that includes local and long distance charges, and other AT&T services. AT&T Digital Link outbound calls, though local, are billed and discounted as part of a customer's long distance contract.

## AT&T SOLUTIONS

AT&T Solutions provides strategic services to clients to help them identify and realize new sources of value through the power of network-intensive solutions. In 1996, AT&T American Transtech joined



## FINDING CHILDREN

When a 9-year-old was abducted in front of a Hillsborough, Calif., school in December, she became one of more than 2,400 children who disappear every day in the United States. But a high-tech solution managed by the nonprofit organization SocialTech that gets thousands of high-quality fliers out in minutes via fax-broadcast capabilities from AT&T EasyCommerce™ Services kept at least this one girl from becoming another tragic statistic. The information explosion made the girl "too hot to handle," say local police, and she was released unharmed less than two hours after a flier appeared on the evening news. In addition to our providing SocialTech enhanced fax service, AT&T Easy World Wide Web™ Services has developed and is hosting a Web site ([www.TRAK.org](http://www.TRAK.org)), representing a whole new way to distribute this vital information. Shown operating the system are Kimbra Sellers of AT&T and Lt. Stephen Lowe, Daly City, Calif., Police Dept.

the team of consulting, systems integration and outsourcing professionals and became AT&T Solutions' fourth practice area – customer care.

Taking on the Competition In 1996, AT&T Solutions won almost \$2.9 billion worth of outsourcing contracts for periods of up to 10 years from such clients as Textron, MasterCard International, Merrill Lynch, J.P. Morgan and United HealthCare Corp.

## INTERNATIONAL

As a founding member of the WorldPartners alliance, we offer multinational companies one-stop shopping for seamless services to more than 30 countries. In Europe, we've joined forces with Unisource, the joint venture of Dutch, Swedish, Swiss and Spanish phone companies.

Taking on the Competition Yankee Group's 1996 survey of the 200 top multinationals rated WorldPartners No. 1 in global networking across the board.





Fish snared by a net? An old story.

How about fish snared by "the 'Net"—the Internet, that is?

Well, *that's* a story bound to be of interest to pet fish enthusiast Bill Hartman, anyway. Bill takes his watery hobby seriously enough to have a custom-made 125-gallon show tank built into the study wall of his Montville, N.J., home.

After 12 years of freshwater fish, Bill's fancy turned to the saltwater variety about a year ago. Problem is, they require a lot more TLC to survive — and information on just how to do that is scarce.

Enter Miami, Fla.-based Aquatic Connection. The folks there ship live tropical fish worldwide. And they turned to AT&T EasyCommerce Web Site Services to

## help people snare fish on the 'Net.

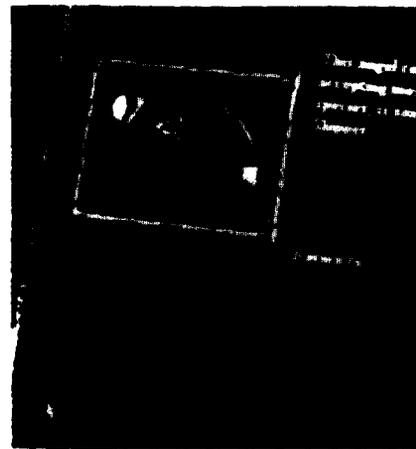
Through the Aquatic Connection site handled by AT&T, people like Bill can see pictures of fish through an online color catalog, place an order over the Internet, and even learn all sorts of helpful information about the fish through an interactive Q&A data base.

Ted Church, vice president and director of marketing for Aquatic Connection, is pleased because, "We've had a 300 percent increase in sales because of the Web."

Bill is pleased because he has unmatched access to information about his Emperor Angel, Aurgiga Butterfly, Panther Grouper, Ocellaris Clown or Majestic Angel fish.

Even the fish can be pleased, because being snared by the 'Net gives them a good home.

A happy ending for everybody. And that's no fish tale.



**"A**

T&T has offered to take all our children a long way down the information superhighway."

## Providing a Basis fo



### VIRTUAL CLASSROOM

*AT&T's commitment to education extends around the world. The potential for the Internet to help people cross barriers of time, geography and language is being realized by students participating in the AT&T Jans Virtual Classroom competition. During the competition, students from Japanese schools have been working with schools in Australia, Hong Kong, Canada, France, the United Kingdom and the United States to create an Internet home page, with the winner to be announced in the spring. Here, fifth-grade students at Funabashi City Ichiba Elementary School in Japan work on their project. AT&T Jans, a joint venture involving AT&T and 25 leading Japanese corporations, provides businesses with advanced communications services and was the first commercial Internet service provider in Japan.*

When Federal Communications Commission Chairman Reed Hundt made the statement noted above, he was speaking of the launch of the AT&T Learning Network<sup>®</sup>, our \$150 million commitment to help put the United States' 110,000 public and private elementary and secondary schools on the information superhighway by the year 2000.

The program represents one of the largest philanthropic commitments in corporate history – and adds to the \$500 million in support of education we've provided since 1984.

We want to use the power of communications technology to help young people build the foundation for a lifetime of learning and achievement.

With the growing wealth of information now available online, the Internet has become an effective and exciting tool in the classroom for research, communications and networking.

The AT&T Learning Network offers schools free dial-up access to the Internet through AT&T WorldNet Service (five consecutive months of free WorldNet usage followed

by discounted usage), as well as Web browser software, content access controls and navigational tools.

Through the AT&T Learning Network, students and teachers can reach people, places and information anywhere in the world, and build new learning communities. And community leaders can use the online AT&T Learning Network Community Guide to obtain success stories, presentation materials and case studies.

Other facets of the Learning Network include the following:

- A new component of the AT&T Learning Network called the AT&T Learning Points™ Program lets residential service customers earn points for qualifying AT&T calls, and direct the points to schools for equipment (see related story).
- Since AT&T believes that technology is only effective if teachers have the support they need to help kids learn, the AT&T Learning Network has a related online mentor program called AskLN™ Service. Available

## NET DAYS

AT&T people in communities around the nation recently celebrated state "Net Days" by helping to wire local schools so they can connect to the Internet. These electronic "barn raisings" gave individuals, families and communities new ways to communicate, learn and prosper. The team shown here helping wire the Brooklyn Friends School in New York includes (from left) Richard Bardet, Elizabeth Rueckert and Conway Boyce, all of AT&T, and Greg George (far right), the school's computer science instructor.



# Lifelong Learning

through AT&T WorldNet Service. AskLN Service helps teachers integrate Internet technology into the classroom, and gives them a way to share lesson plans for collaborative online projects.

- By the year 2000, 100 selected AT&T Learning Network schools across the country will be able to enjoy the freedom and mobility of wireless communications



*Seventh- and eighth-grade science teacher Terrie Gray from Chico (Calif.) Junior High School has been involved with AT&T education programs for the past four years. Here she's helping son Cameron (left) and Tara Kerstring sharpen their computer skills.*

## How Shareowners Can Get Involved

Like all consumers in the United States, shareowners can join with AT&T to help schools by supporting the new Learning Points program.

It's easy: AT&T residential service customers can earn five Learning Points for every dollar they spend on qualifying AT&T calls, and designate the points to any accredited kindergarten to grade 12 school in the United States. It doesn't cost consumers anything more, and after they sign up there's nothing more to do. Schools automatically accumulate points and can redeem them for valuable products – including free hardware, software or computers, as well as teacher support materials – contained in the Learning Points Catalog, developed with Scholastic, Inc. To register for the program, schools and consumers can call 1-800-354-8800.

through phones and services donated by AT&T Wireless Services.

- AT&T Foundation grants – \$50 million over five years – will help families, schools and communities use technology to enhance teaching and lifelong learning.
- AT&T has a long-standing commitment to the encouragement of academic pursuits, including Summer Internship, Undergraduate Research, AT&T Labs Fel-

lowship and Visiting Professors Programs.

Schools can register for the AT&T Learning Network by calling 1-800-809-1097. Additional information about many of the programs mentioned here is available by visiting the AT&T Web site <http://www.att.com/education/>.

**H**ighlights of Recent Business Successes: Beginning with our historic restructuring and running through virtually every area of the business, AT&T showed a strong ability to execute its plans and win in the marketplace – as well as position ourselves for the future. Here's an overview.

# Getting the Job Done

## AT&T Restructuring

**ACCOMPLISHMENTS** AT&T completed one of the largest-ever restructurings – with precision – following an extremely ambitious timetable in 1996. Lucent Technologies stock was traded on April 4 as part of the largest initial public offering of a U.S. company, and Lucent was spun off to AT&T shareowners Sept. 30; the spin-off of NCR to AT&T shareowners took place Dec. 31.

**FUTURE OUTLOOK** Restructuring allows each of the three companies to pursue growth in shareowner value, unfettered by strategic conflicts: AT&T in the communications and information services business, Lucent Technologies in the communications systems and technology market and NCR in transaction-intensive computing.

## AT&T Customer Care People

**ACCOMPLISHMENTS** Our customer care organization gave personal attention to millions of customers daily last year. AT&T's Web-based Knowledge Management System on the company's Intranet is a new information-access tool, which is helping an increasing number of customer care representatives provide faster, simpler and more efficient customer service.

**FUTURE OUTLOOK** In cooperation with the Communications Workers of America, we recently instituted a breakthrough pay-for-performance model for consumer customer care people that represents a triple win: for customers (better service), for the company (it's a self-funding program) and for AT&T people (the program provides a clearer path for career advancement).

## AT&T Worldwide Intelligent Network

**ACCOMPLISHMENTS** The AT&T network again set the standard for reliability in 1996. Failures within the network were rare, accounting for a mere 124.4 of every 1 million calls attempted on the AT&T network not completing on the first try. This was an 18.4 percent improvement over 1995, and amounted to a reliability rating of 99.987 percent. On Dec. 2, we set a single-day record by handling 271.1 million call attempts.

**FUTURE OUTLOOK** We continue to upgrade and enhance the network for the future. In addition to improving network reliability, AT&T last year introduced state-of-the-art technology to significantly increase transmission capacity.

## Consumer Services

**ACCOMPLISHMENTS** In 1996, we addressed the confusion of long distance pricing claims with AT&T One Rate, which provides a single rate for all direct-dialed AT&T long distance calls made from home within the U.S., 24 hours a day. More than 3 million customers have signed up, and the program is meeting our expectations for reducing customer "churn." AT&T One Rate International is the first plan from a major long distance company that offers a single flat-rate price per country for all direct-dialed international calls.

**FUTURE OUTLOOK** In our continuing effort to help people simplify their lives, we've announced that customers can now use 1-800-CALL-ATT® to place all calls – both local and long distance – when they're away from home. With this simple number, customers can always reach the AT&T Worldwide Intelligent Network, speak to an AT&T operator or reach a customer service representative.

## Business Services

**ACCOMPLISHMENTS** We enjoyed strong volume and revenue growth in business services in 1996, fueled in part by a string of multimillion-dollar contracts from such customers as McGraw-Hill, Delta Airlines, Rhone Poulenc, Hoechst AG and Choice Hotels.

**FUTURE OUTLOOK** Helping foster the success of our business services is a transformation of our sales approach – from simply selling "transport" to selling combined services that offer complete solutions. We've announced plans to extend our industry-leading toll-free (800 and 888) services to international markets.

## AT&T Wireless Services

**ACCOMPLISHMENTS** In Taiwan, along with our partner, The FarEastOne Group, we recently were awarded two of three major licenses to provide wireless services to that island nation. Birla AT&T announced its intention to build the largest wireless network in India.

**FUTURE OUTLOOK** AT&T Wireless Services and Rogers Cantel Mobile Communications – Canada's top cellular provider – are marketing their wireless services under the co-brand CANTEL AT&T. The agreement expands the seamless availability of AT&T's and Cantel's wireless services, including Digital PCS, throughout the United States and Canada.

## Local Services

Less than a month after the passage of the Telecommunications Act of 1996, we filed with state regulators in all 50 states to provide local service and entered negotiations with local phone companies. By February 1997, we engaged in 57 arbitration hearings with the RBOCs, GTE and SNET; areas where final decisions had been made represented more than 118 million access lines – 80.7 percent of the total lines in the country – representing another step toward bringing customers choice in local service.

**ACCOMPLISHMENTS** We have reached agreements with alternative access providers covering more than 70 cities. We will install high-capacity, fiber-optic transmission facilities and three switching centers to enhance our ability to offer Chicago-area customers a full range of services beginning later this year.

## Online Services

**ACCOMPLISHMENTS** As part of its efforts to help businesses harness the economic power of the Internet, AT&T offered a 27-city, six-month tour of the United States to showcase its electronic commerce products and services. We've brought the advantages of our AT&T WorldNet Managed Internet Service – which provides businesses with access to the Internet over dedicated, high-speed connections – to businesses in Asia and Europe.

**FUTURE OUTLOOK** A study on the state of electronic commerce in America that AT&T commissioned by the independent research firm Odyssey shows that nearly half the American population – 135 million people – expects to increase use of online services over the next five years for getting information about products and services.

## AT&T Solutions® Services

**ACCOMPLISHMENTS** The \$1.1 billion, 10-year contract awarded to AT&T Solutions by Textron, Inc., was one of the largest single-source outsourcing agreements to date. An agreement with United HealthCare Corp. for professional and networking services managed by AT&T Solutions is the largest of its kind in the health care industry. AT&T Solutions will provide Halla Information Systems Corp. with consulting and systems integration services for the Halla business group in Korea.

**FUTURE OUTLOOK** AT&T Solutions' new state-of-the-art Global Client Support Center in Durham, N.C., offers unique network management capabilities around-the-clock for a full suite of clients' networking needs – from multi-vendor voice and data environments to desktops, servers, and local- and wide-area networks. After the first full year of operation, our professionals now serve more than 100 of the world's largest multinational companies and are positioned in some 30 locations around the world.

## AT&T Universal Card Services

**ACCOMPLISHMENTS** In 1996, AT&T Universal Card Services launched Universal Rewards, which allows cardmembers to earn points redeemable for valuable products and services.

**FUTURE OUTLOOK** AT&T Universal Card Services (UCS) is leading AT&T into the exciting new world of electronic payments. Using its expertise in payment transactions, UCS is looking at the best new ways for consumers to make online payments using "smart" cards and other methods – a key component of the quickly growing area of electronic commerce.

## International Services

AT&T began offering business and consumer services in the United Kingdom in 1996, marking the first time we've set up shop in direct competition with an established local provider outside the U.S.; before the year was out, we were handling more than 50 million minutes of service per month. In addition, AT&T and its partners are working to create the No. 2 phone company in Germany – the largest communications market in continental Europe – through the Mannesmann Arcor alliance.

**ACCOMPLISHMENTS** AT&T is committed to being the first choice of multinational companies as they expand into different regions of the world. We seek to give travelers access to AT&T's network and billing around the globe. We will take advantage of the evolution of our industry to improve our cost structure and position AT&T for growth; serve customers by expanding local operations in priority countries; and make the most of new opportunities by developing strategic global and regional partnerships that expand the reach and scope of our network.

## Government Customers

**ACCOMPLISHMENTS** In early 1997, the Defense Information Systems Agency awarded AT&T a contract potentially worth \$5 billion over the next nine years to build a backbone network, and provide access and transmission services. In 1996, we won a multi-year \$1.5 billion contract to provide communications services to the U.S. Navy, Coast Guard and Marines.

**FUTURE OUTLOOK** AT&T Government Markets is helping usher in a new approach to Capitol Hill testimony. In the first Congressional hearing of its kind, the Joint Economic Committee held a hearing in 1996 exploring society's transition from the industrial age to the information age. Using AT&T technology, witnesses testified from Capitol Hill, as well as from video rooms in Los Angeles, Chicago, New York and London.

## Innovations from AT&T Labs

**ACCOMPLISHMENTS** In 1996, AT&T Labs was involved in development work for impressive offerings such as AT&T Digital PCS and AT&T WorldNet Service. AT&T Labs was created from Bell Laboratories as part of AT&T's division into separate companies. AT&T Labs provides research and development to support AT&T's strengths in providing communications services.

**FUTURE OUTLOOK** AT&T Labs is pioneering the development of the next generation of technology to shape the future of communications. AT&T Labs looks beyond traditional forms of telephony and explores new ideas and concepts that will lead the next communications revolution. This includes work on forward-thinking applications in network technologies, service platforms and interpersonal communications.

## Community Involvement

**ACCOMPLISHMENTS** We continued an increasing focus on grant-making and employee involvement within communities where AT&T people live and work. In the last decade, AT&T has donated almost \$700 million in grants, sponsorships and products to education, arts, health and environmental programs across the United States and around the world.

**FUTURE OUTLOOK** The 1 million hours of community service that AT&T people are expected to contribute by the end of 1997 through the AT&T CARES program have a value of about \$20 million.

# Financial Review

## 1996 was a historic year for AT&T as we successfully separated into three independent entities

**I**n 1996 we successfully completed our plan to separate into three publicly held stand-alone companies, each focused on serving certain core businesses. This began with the initial public offering (IPO) of 17.6% of Lucent Technologies Inc. (Lucent) shares in April 1996, the largest IPO in history. We distributed to our shareowners all of the shares we owned of Lucent on September 30, 1996. On October 1, 1996, we completed the sale of our majority interest in AT&T Capital Corporation (AT&T Capital) and we received \$1.8 billion in cash. Finally, on December 31, 1996 we completed our plan when we distributed to our shareowners all of our shares in NCR Corporation (NCR).

The actions taken in 1996 leave us in a strong position for the future. Our debt ratio, excluding financial services, at the end of 1996 was 18.7%, among the lowest in our industry. Our return on average assets from continuing operations was approximately 10.3%, among the highest in our industry.

1996 was a record year for us. Income from continuing operations of \$5.6 billion increased 7.0% from 1995, while earnings per share of \$3.47 increased 5.5% compared with 1995. Our operating margin also improved to 16.9% in 1996. All references to 1995 exclude restructuring and other charges.

We made significant expenditures in 1996 for strategic investments into various markets which we believe complement our core business. These include internet access, consulting and outsourcing and local expansion. In 1996 we continued our market share leadership in the consumer and business long distance markets.

We continued to provide new products and services to our customers, such as our AT&T One Rate program, a flat 15-cents-a-minute plan for consumers. Announced at the end of September, the program already had nearly 3 million subscribers at the end of December. Although the majority of One Rate customers are existing AT&T customers moving from other calling plans, One Rate has attracted a number of wins from competitors. Success in the telecommunications market is about meeting complex customer needs and providing valuable and reliable services. We are committed to meeting these needs by providing the necessary service plans and by maintaining the AT&T long distance network which has unparalleled reliability by almost any measure.

We continued to expand our relationship with our business customers from one of simply carrying voice and data traffic to playing a consultative role and becoming strategic partners. We now provide business consulting, outsourcing and electronic commerce solutions among

other services to business markets. For example, we signed a \$1.1 billion, ten-year contract with Textron, Inc. to upgrade, expand and manage their global communications infrastructure.

As a result of the strategic restructuring, some changes in our financial reporting format have been made. In order to appropriately reflect the ongoing operations of the "new" AT&T, certain reclassifications have been made to reflect the results of businesses that we have divested or plan to divest. Accordingly, the revenues and expenses, assets and liabilities and cash flows of Lucent, NCR and AT&T Capital, as well as certain other businesses, have been excluded from the respective captions in the Consolidated Statements of Income, Consolidated Balance Sheets and Consolidated Statements of Cash Flows. The net operating results of these businesses have been reported as "Income (loss) from discontinued operations," net of applicable income taxes, the net assets as "Net assets of discontinued operations" and the net cash flows as "Net cash used in discontinued operations." In addition, the consolidated results for continuing operations have been reclassified to improve comparability with the communications services industry. As a result of the spin-offs of Lucent and NCR and the sale of AT&T Capital, our Consolidated Balance Sheet at December 31, 1996 no longer includes these entities in "Net assets of discontinued operations." Additionally, the results of operations and net cash flows for Lucent and AT&T Capital are reflected in our Consolidated Statements of Income and Consolidated Statements of Cash Flows through the date these dispositions occurred.

### Restructuring and Other Charges

In the fourth quarter of 1995 we recorded a pretax charge of \$3,029 million for restructuring costs of \$2,307 million and asset impairments and other charges of \$722 million. The charges covered consolidating and reorganizing numerous corporate and business unit operations over several years. The total pretax charge was recorded as \$844 million in network and other communications services, \$934 million in depreciation and amortization, \$1,245 million in selling, general and administrative and \$6 million in financial services expenses. The tax benefit associated with the charges was \$993 million.

During 1996 we continued to implement our restructuring plans. We completed the restructuring of our proprietary network and messaging services business, closed several call servicing centers, sold certain international operations, and reorganized and reduced certain corporate support functions. As of December 31, 1996, approximately

5,000 management employees and 1,000 occupational employees have been separated. Of the 5,000 management separations, approximately 3,000 accepted voluntary separation packages. We expect the majority of our plans to be completed during 1997. However, certain severance and facility costs have payment terms extending beyond 1997. A detailed discussion of restructuring and other charges is in Note 5 to the Consolidated Financial Statements.

AT&T operates in two industry segments, the telecommunications industry and the financial services industry. Our communications services (which is part of the telecommunications industry) consists of a wide range of services to residential and business customers, including domestic and international wireline long distance voice, data and video services, wireless services, network management, business consulting, outsourcing, electronic commerce solutions and internet access service. Our financial services segment primarily consists of our AT&T Universal Card credit card business.

### Communications Services

Communications services revenues grew 4.4% in 1996 and 5.4% in 1995.

DOLLARS IN MILLIONS	1996	1995	1994
<b>Revenues</b>			
Wireline	\$45,647	\$44,226	\$42,320
Wireless	3,476	2,926	2,280
Products and other services	1,392	1,251	1,338
<b>Total communications services revenues</b>	<b>\$50,515</b>	<b>\$48,403</b>	<b>\$45,938</b>
<b>Operating income</b>	<b>\$ 8,746</b>	<b>\$ 5,159</b>	<b>\$ 7,370</b>
<b>Operating margin</b>	<b>17.3%</b>	<b>10.7%</b>	<b>16.0%</b>

Wireline services revenue, which includes traditional long distance toll calling, network management, messaging and other network-enabled services, increased 3.2% in 1996 and 4.5% in 1995. We handled a record 68 billion calls in 1996, causing conversation minutes for switched long distance services (volume) to rise 5.9%. The volume growth in 1996 slowed from the nearly 9.0% growth registered in 1995, reflecting competitive pressures from traditional sources in the consumer markets as well as nontraditional sources such as smaller telecommunications companies and dial-around resellers. This pressure was somewhat offset by strong volume growth in business inbound services, particularly toll-free 800 and 888 services.

Volume growth continued to exceed revenue growth in 1996. This reflected lower pricing from promotional discounts, increased movement of customers to optimal calling plans and increased discounts given to large accounts. As we continued to expand internationally, international volumes increased while related revenue remained relatively flat.

In 1995 we saw volume growth in calling card, business inbound services and consumer international services. Although volume growth exceeded revenue growth (due primarily to customers taking advantage of our calling plans and promotions), the gap between revenues and volumes was about 4% in 1995. This reflected movement among calling plans by both business and residential customers and some targeted price increases.

The long distance market is increasingly characterized by aggressive pricing actions, the introduction of new competitors (such as dial-around resellers) and price sensitivity on the part of consumers. As a result, revenue as well as volume growth was adversely impacted. We expect that these conditions will intensify in the future as the Regional Bell Operating Companies (RBOCs) are permitted to provide long distance services in their home regions, thereby negatively impacting our long distance volume and revenue. As the RBOCs, who currently have zero market share, begin providing long distance services, we will lose long distance market share. However, we will gain market share in the local telephone service market as we are able to enter it.

Wireless services revenue, which includes cellular, messaging services, and air-to-ground services, grew 18.8% in 1996 and 28.3% in 1995. The growth in both periods was the result of consolidated cellular subscriber growth of 31.7% in 1996 and 39.2% in 1995.

Cellular customers, reported on the same basis as consolidated wireless revenues, stood at 5.2 million at December 31, 1996 compared with 3.9 million at December 31, 1995 and 2.8 million at December 31, 1994. Cellular customers served by companies in which we have or share a controlling interest increased to 7.1 million at December 31, 1996 from 5.5 million at December 31, 1995 and 4.0 million at December 31, 1994. Cellular revenue per subscriber was approximately \$60 per month in 1996 compared with approximately \$69 in 1995 and approximately \$79 in 1994. The decline reflected industry wide pricing pressures, as well as lower average usage per subscriber as expansion included growth in subscribers who are more casual users (e.g. for emergency and other personal use). However, based on reported financial information of wireless competitors, our revenue per subscriber is above the industry average. The number of casual users is expected to continue to grow in 1997, which will likely result in lower average revenue per subscriber next year.

By combining our 800 MHz cellular and 1900 MHz personal communications services (PCS) licenses, we can eventually provide wireless telecommunication services to markets covering approximately 93% of the U.S. population. In October 1996 we launched AT&T Digital PCS service in more than 40 of our existing 800 MHz wireless markets, covering 70 million potential customers. The difference between AT&T Digital PCS and analog cellular service is in the features. AT&T Digital PCS provides longer battery life, short text messaging service, caller identification, message waiting indicator and enhanced