



295 North Maple Avenue  
Basking Ridge, NJ 07920

April 21, 1997

Dear Fellow Shareowner:

In March, we laid out an aggressive plan to increase the value of your investment in AT&T. We committed to deliver earnings per share of \$5 to \$6 in five years. But we also pointed out that the investments required would reduce 1997 earnings by a range of 75 cents to \$1 a share from the \$3.45 to \$3.75 expected from our core business. For the first quarter, we projected earnings would be as much as 10 percent lower than the 76 cents reported in the fourth quarter of 1996.

AT&T's earnings for the first quarter of 1997 were 69 cents per share. That is 23 cents less than last year primarily because of investments in new initiatives such as local calling, on-line services, outsourcing, new wireless services and international expansion, as well as higher expenses and strong competition in our core businesses.

It may be helpful to review first quarter results for both core communications services and new initiatives. What follows is our best calculation of each.

#### Core Communications Services

Earnings from our core business were approximately 94 cents per share, which is about 8 cents less than last year, largely because of higher uncollectibles expense, higher depreciation, and competitive pressure in long distance. The higher depreciation results primarily from network investments necessary to keep up with customer demand for sophisticated new services. (These results also reflect about a 4 cent per share benefit from accounting changes and about a 4 cent benefit from the sale of our Skynet satellite services business.)

Overall network traffic volume grew nearly 7 percent in the first quarter. Business services volume grew at double-digit rates. Consumer volume was relatively stable compared to the first quarter of 1996. Our marketing efforts are starting to increase customer loyalty, but we still have a long, difficult road ahead of us.

Communications services revenue increased \$288 million, or 2.3 percent, compared to the first quarter of last year. Adjusted for the use of free minutes in the consumer market, overall revenue would have grown 2.8 percent. The free-minutes program is designed to acquire and retain customers, while helping reduce marketing and sales expense over time.

On the business side, data services revenue grew at double-digit rates. Solid double-digit volume growth in other business services was partially offset by competitive pricing pressures.

Our base of wireless services customers grew more than 25 percent compared to the first quarter of 1996. Net additions in this quarter, however, were lower than a year ago, reflecting the entry of additional competitors in certain markets. Wireless revenue increased nearly 14 percent compared to the same quarter last year. AT&T Digital PCS, a new generation of wireless service pioneered by AT&T and introduced just six months ago, ended the quarter with over 800,000 subscribers.

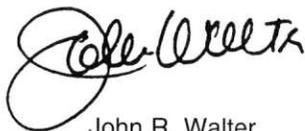
Performance of our financial services unit – primarily AT&T Universal Card – improved as operating income increased 4 percent over a year ago. This quarter's operating income benefited greatly from adoption of a new accounting standard.

### New Initiatives

Our continuing investment in new initiatives reduced core earnings by approximately 25 cents per share. (Of this, about 6 cents is a charge to exit our two-way messaging business.) However, revenue from these new businesses increased about 40 percent as we continued to gain ground in these new markets.

We began offering local service to consumers in Connecticut, Illinois, and Michigan, and we plan to be in 15 states by the end of the year. We also began offering outbound local service to medium and large-sized businesses in 45 states. AT&T WorldNet, our Internet access service, celebrated its first anniversary with more than 880,000 subscribers on its rolls. And Alestra, our joint venture in Mexico, is the clear favorite among customers choosing a new long-distance carrier in that country.

In many ways, the first quarter of 1997 was a starting point for AT&T. We are a very different company than we were just one year ago. On the other hand, some things have not changed. AT&T has been synonymous with communications for over 100 years. The investments we are making now will help ensure that AT&T remains the unquestioned leader of the communications industry well into the next millennium.



John R. Walter  
President and  
Chief Operating Officer



Robert E. Allen  
Chairman and  
Chief Executive Officer