



Robert E. Allen
Chairman of the Board

295 North Maple Avenue
Basking Ridge, NJ 07920

October 20, 1997

Dear Fellow Shareowner:

I'm happy to report that the careful search for my successor has been successfully completed with the election by the Board of C. Michael Armstrong as chairman and CEO effective November 1.

As chairman and CEO of Hughes Electronics Corporation, Mike was well-recognized for taking Hughes' expertise in satellite technology and defense contracting and building that company into one of the world's leading communications equipment and services companies. His relentless focus on customers and shareowner value will bring a powerful boost to the momentum underway at AT&T.

The new chairman will have the support of John D. Zeglis, who was elected president and will remain a member of the Board. To help with the transition, I will serve as chairman of the Board's Executive Committee until my retirement at the end of February.

This change in leadership comes on the heels of a very successful third quarter. AT&T was the number one performing stock on the Dow-Jones index for the quarter. We had record revenues and solid quarter-to-quarter earnings growth that exceeded Wall Street's consensus estimate.

As welcome as all this good news is, we're not kidding ourselves about the size of the challenges ahead. But the strength of our results and Wall Street's vote of confidence in AT&T stock reflect the fact that we're delivering on our promises. Earnings and volumes are growing. We're streamlining our operations and seeing some early results from our ongoing cost-reduction efforts.

In keeping with our decision to focus on mission-critical priorities, the Board also announced our intent to sell two profitable but non-strategic businesses: AT&T Universal Card Services and the Customer Care unit (formerly known as American Transtech) of AT&T Solutions. But before we get too far into the future, let's take a look at the key third-quarter numbers.

Earnings from continuing operations in the third quarter were 71 cents a share. Including gains from the sale of our submarine systems unit to Tyco Inc., third-quarter profits were 75 cents a share. Revenues grew more than 1 percent year-over-year on communications services volumes that rose more than 10 percent. Revenue growth was tempered principally by lower consumer long distance prices reflecting lower access charges that we pledged to pass on to customers.

We told the financial community that the second quarter of '97 would be the low water mark for AT&T, with good growth expected in the following quarters. Our third quarter results backed up our words. We're more committed than ever to our goal of delivering earnings per share in the \$5 to \$6 range for the year 2001.

The future promises more competition -- and probably more surprises. But the future also offers an unprecedented opportunity for AT&T to lead the transformation now underway in the global communications industry. We'll do that by offering customers communications services over any distance, in all forms and, thanks to wireless technology, untethered to any one place.

Our people are focused on winning and more than ready to reward your continued confidence in AT&T. Michael Armstrong is more than ready to help them. And as an AT&T investor who's soon to become an AT&T retiree, I look forward to what this great company will do in the years ahead.

Sincerely,

A handwritten signature in black ink, appearing to read "R. E. Allen".