AT&T

1992 Annual Report

Anytime

Anywhere

The magic

# of networks

1992 Highlights

Dollars in millions except per share amounts		1992	1991	Percent Change
Revenues	Telecommunications Services	**$39,580**	$38,805	2.0%
	Sales of Products and Systems	**16,473**	15,941	3.3
	Rentals and Other Services	**6,957**	6,959	–
	Financial Services and Leasing	**1,894**	1,384	36.8
	Total Revenues	**$64,904**	$63,089	2.9%
Income	Operating Income	**$6,269**	$1,358	361.7%
	Net Income	**3,807**	522	629.7
	Earnings Per Share	**2.86**	.40	608.3
Cash Flows	Net Cash Provided by Operating Activities	**$7,874**	$6,015	30.9%
	Net Cash Used in Investing Activities	**8,192**	6,399	28.0
	Net Cash Provided by Financing Activities	**(546)**	676	NA
Other Information (at year-end)	Total Assets	**$57,188**	$53,355	7.2%
	Total Shareowners' Equity	**18,921**	16,228	16.6
	Total Employees	**312,700**	317,100	(1.4)
	Stock Price	**$51**	$39 1/8	30.4

Revenues and earnings hit new highs. Despite worldwide economic weakness, our long distance services and product sales increased, and financial services showed vigorous growth.

Operating income increased sharply. The $4.5 billion of business restructuring and other charges in 1991, plus other actions to reduce costs and expenses, helped our 1992 cost structure.

Strong operating cash flows supported our growth. Capital expenditures for our network and our increasing investment in credit card and other finance receivables made up most of the asset increase.

AT&T stock advanced 30.4 percent in 1992, once again outperforming the Dow Jones Industrial Average.

Annual Report Photography:
AT&T Chairman Bob Allen and models illustrate some of the ways in which the lives of AT&T customers all over the world are made easier by the magic of networks.

Inside you'll find:

AT&T had a banner year. We face a future bright with promise.

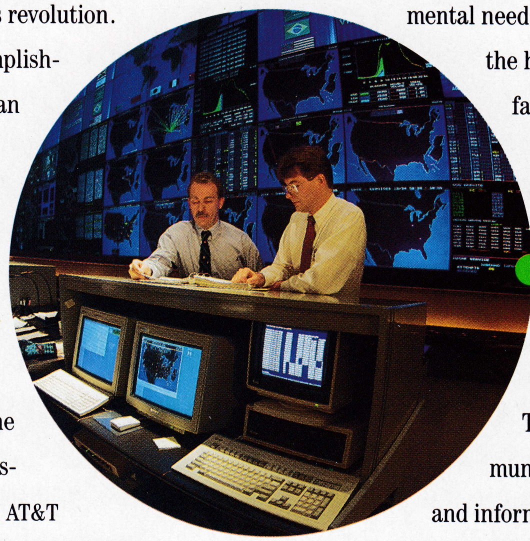
Dear Shareowner: AT&T had a banner year in 1992. Record earnings of $2.86 per share. Solid growth in revenue despite a worldwide economic slump. And our stock traded at post-divestiture highs, increasing AT&T's market value by more than $17 billion.

We're optimistic about 1993. We expect the progress we made throughout the company in 1992 to continue. We're committed to growth in revenues, improved productivity and better value for our customers. And our objective remains average annual earnings growth of at least 10 percent.

Our optimism is based on AT&T's unique strength: our global networking capabilities. Our strategy is to continuously enhance both our own global network and the networks of other service providers, such as telephone companies around the world, in order to make communications more useful to customers. We will build on that strength through innovative products and systems that, profitable in their own right, add value to our network services. This, in turn, will generate greater and more profitable network usage, whether we are serving consumers, small businesses, or large organizations that require integrated, end-to-end network solutions.

Our plan to invest $3.8 billion in McCaw Cellular Communications reflects this strategy. This proposed alliance with the world's largest cellular services company will expand our networking capability to the advantage of our customers. It signals our intent to be a leader in the wireless communications revolution.

Our 1992 accomplishments were more than financial. We were the first company ever to receive two Malcolm Baldrige National Quality Awards. The winners were the people of AT&T Transmission Systems and AT&T Universal Card Services. But similar efforts are under way throughout AT&T, as our people avidly pursue quality and its continuous improvement. Another quality milestone was a three-year labor agreement with the Communications Workers of America and the International Brotherhood of Electrical Workers (which represent some 125,000 AT&T people). We reached a new level of cooperation that meets the need for more career security and the need for more competitive flexibility.


The AT&T Network Operations Center, Bedminster, N.J.

A work in progress. The pages that follow reflect the outstanding achievements of AT&T people in the year 1992. As rich as those achievements were, they can best be described as work in progress, leading to fulfillment of AT&T's mission:
We are dedicated to being the world's best at bringing people together – giving them easy access to each other and to the information and services they want and need – anytime, anywhere.

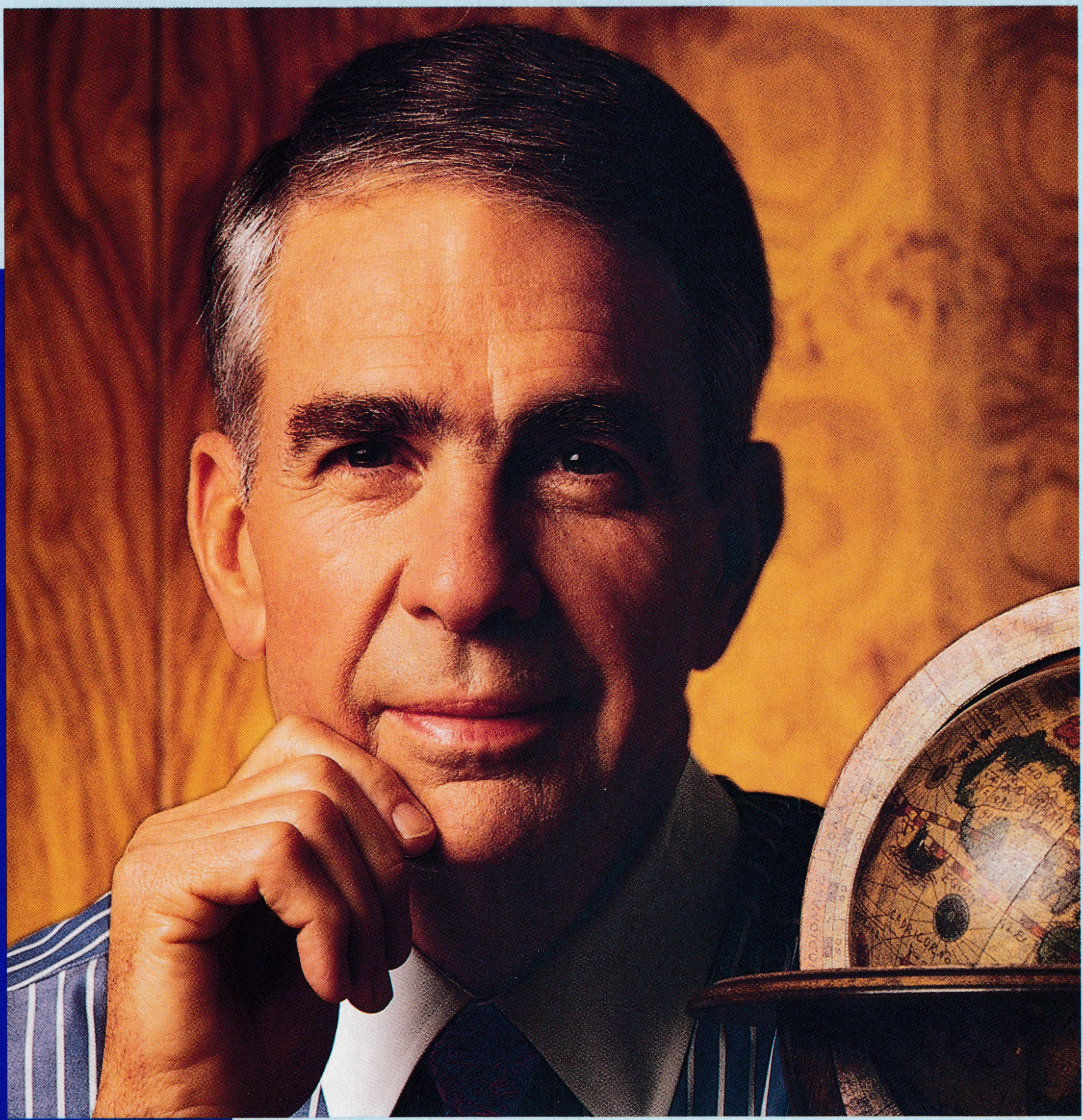
This is the mission that unites all the people of AT&T. It is grand in its scale; bold in its ambition; and brimming with the promise of technology that can help make people's work and personal lives easier, more productive, and more fulfilling.

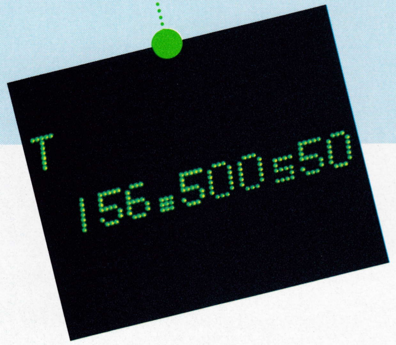
AT&T is a business that serves a fundamental need – fundamental to the human family and the family of nations; to the work and leisure of society – from commerce, government and education to arts and entertainment. That need is to communicate – to share ideas and information, feelings and emotions.

In the early days of this industry, people were stunned by the magic of telephony – the ability to speak with a distant person over a slender pair of wires. As the telephone industry in the United States laced the nation with telephone wire, linking hamlets and cities and, eventually, coast with coast, human isolation began to give way. And the telephone was transformed from a magical novelty to a virtual necessity. Unlike most goods, the telephone's value lay not in its scarcity but in its abundance. A single phone had no value. A phone connected, able to reach multitudes, grew in value as more phones were added to the network. And through switching technology, the network was able, on demand, to piece together a communications path from the calling to the called telephone. >

Spanning the globe

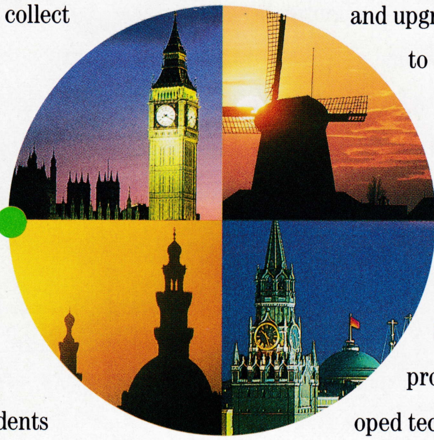
It takes nimbleness, flexibility and responsiveness to succeed in the global marketplace. Networking delivers. Timely and reliable data, carried by superior communications and information networks, is the lifeblood of international competitiveness. Executives like Bob Allen meet by videoconference with colleagues continents away to negotiate deals and discuss issues. Electronic mail encourages fast, frequent exchange of ideas and opinions, unrestrained by time zones. Family ties, too, get a boost from technology. Globe-trotting business people stay in touch with easy-to-use phone and fax services. And now there's the capability of video calls home so travelers can see, as well as hear, loved ones.





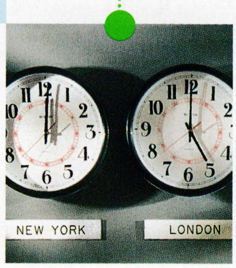
Richer communications. We have come a long way from the simple telephone and the voice-only communications network of the past. Today, intelligent terminals connect with intelligent networks that are wired and wireless, local and global. Together, they enable people and machines to communicate and share information in an increasingly rich variety of forms: voice, handwriting, video, data, print or image.

Networks that never sleep can track you down and deliver a message; move trillions of dollars of capital across the global banking system; let multinational companies hold videoconferences with offices around the world, using computer-generated charts, graphs and data for all to see. Networks that never sleep let computers collect and disburse information throughout worldwide organizations, track satellites in space or put armies on alert. Networks that never sleep let distant designers collaborate on computer-simulated models and students delve into electronic libraries a continent away. Networks that never sleep let separated lovers share a whisper or a smile, and parents show off their newborn to grandparents hundreds of miles away. This is the magic of networks!



Productivity and social progress. As we approach the new millennium, the power of technology is indeed bringing people together and giving them access to each other and the information they want and need, anytime, anywhere – in ever new and useful ways. Communications will be increasingly harnessed to computing. By making those technologies easy to use, we can bring new capabilities to more and more people. This promises grand opportunities for human progress in all its dimensions.

Today, nations throughout the world, developed and developing, recognize that their social and economic futures are linked to their communication and information infrastructures. They are expanding and upgrading these capabilities to ensure that they can thrive and compete in the global markets of the next century.



This is no less important in the United States, despite its relative prosperity and highly developed technology. The U.S. faces serious economic and social issues that computing and communications networks can help address. Through imaginative and innovative applications these technologies can help business and industry increase their effectiveness and enhance their ability to compete worldwide. Imaginative and innovative applications of these technologies hold the promise of lowering the costs and revolutionizing the delivery of educational, health care and social services. Our industry *can* help America and other nations realize their dreams of a better future. And AT&T intends to be the leader.

AT&T's heritage and past achievements make me proud. But it is the achievements in prospect that drive and excite us at AT&T. From a business point of view, the opportunities are boundless. I hope that you share our enthusiasm for being part of a business so in tune with the future, whose products and services promise to be in such demand. It is exhilarating (and sobering) to be in a business upon which so many individuals, businesses and other institutions depend every day, and which can contribute so much to the well-being of society in the future.

The path for AT&T is not without hazards. Our managerial and innovative skills will be severely tested by competitors. We will need to constantly improve the quality of our own operations and our responsiveness to customers. We will need to work harder to support each other so that everyone at AT&T can contribute his or her very best efforts.

And we will need the kind of government policies that will enable us to compete freely and provide our customers our very best products and services. We will work, for example, to eliminate regulatory restrictions unnecessary in a highly competitive long distance marketplace. And we will once again strongly support legislation that makes local exchange competition a condition for the Regional Bell companies entering the long distance or manufacturing business.

Those challenges notwithstanding, I see AT&T ready as never before to face a future that was never brighter. More than anything else, my confidence is based on the talent, the diversity, the enthusiasm and the energy of AT&T people. They are responsible for our past achievements. And I trust them with our future.

Bob Allen

Robert E. Allen
Chairman
February 9, 1993

About AT&T

AT&T is a global company that provides communications services and products, as well as network equipment and computer systems, to businesses, consumers, telecommunications service providers and government agencies. Our worldwide intelligent network carries more than 140 million voice, data, video and facsimile messages every business day. AT&T Bell Laboratories engages in basic research as well as product and service development. AT&T also offers a general-purpose credit card and financial and leasing services. AT&T people work in more than 120 countries.

AT&T's business units are clustered in five groups.

Communications Services Group

Markets global long distance and electronic messaging services for business and residential customers. Manages the AT&T Worldwide Intelligent Network and private corporate networks. Installs undersea fiber-optic cable systems. Services include operator, directory and interpretation assistance; voice and electronic mail; teleconferencing; telephone-based marketing; and a consumer credit card.

Some familiar offerings: AT&T 800 Service, USA Direct®, Reach Out® World, AT&T Language Line® Service, AT&T Mail, AT&T Enhanced FAX Service and the AT&T Universal Card.

Communications Products Group

Develops, manufactures, markets and services telecommunications products for consumers, businesses and government entities around the world. Establishes businesses based on AT&T technology applications beyond the scope of existing business units. Products include corded, cordless and cellular phones; a videophone and a personal communicator; facsimile machines; answering systems; home security systems; modems, multiplexers and other data communications devices; business telephone systems; voice processing systems; and videoconferencing products.

Some familiar names: AT&T Phone Centers, Trimline® telephones, AT&T VideoPhone 2500™, Definity® communications systems, Audix® voice messaging and Conversant® voice response systems, Partner® communications systems, Comsphere® data communications products.

Network Systems Group

Develops, manufactures, markets and services network software and equipment for telephone companies, governments, private network operators, cable television operators and wireless service providers. Offers cable, switching, operations, transmission and wireless systems; and provides the engineering, installation and support services needed to build and operate networks. Develops and markets advanced microelectronic and photonic components and power supplies.

Some familiar products: 5ESS® switching systems, Systimax® premises distribution systems, AccuRibbon® fiber-optic cable, Autoplex® wireless communications systems, and Hobbit™ microprocessors.

NCR

Develops, manufactures, markets and services enterprise-wide information systems for customers worldwide. Links departments, buildings, campuses and global locations through servers and client computers – from pen-based notepad computers to massively parallel systems. Also offers hardware, software and services for networking; imaging systems that convert paper-based information into electronic form; and industry-specific solutions for retail, financial, commercial, industrial, medical and educational institutions, and for government and the telecommunications industry.

Some familiar offerings: NCR System 3000 computers; WaveLAN and StarLAN networking systems; COOPERATION® software; NCR Document Management System™ and NCR automated teller machines and point-of-service terminals.

AT&T Capital Corporation

Provides commercial customers with leasing and financing services for a broad range of AT&T and non-AT&T products and services, including telecommunications equipment, complex computer systems, office and manufacturing equipment, automobiles and general business equipment.

Some familiar names: AT&T Capital Corporation, AT&T Credit Corporation, NCR CreditCorp.

Easy access to people and to information. That's what networking is all about. And AT&T is all about networking.

How do you stay in touch? Phone calls with family? Exchanging fax, voice- and electronic-mail messages with business associates? Voice or video conferences? Do you get your information from TV news? Daily newspapers? Databases and bulletin boards accessed by computer?

What about banking and shopping? Maybe you use an automatic teller machine, or transfer funds from one account to another by telephone. Your stores probably use electronic scanning devices. You may shop by catalog or television.

Networking technologies drive all these activities – and more. Electronic networks connect people to one another and to the power and intelligence of computers and databases. Machines talk to other machines, exchanging information in digital form at the speed of light.

Radio waves, satellites, glass fibers and copper wires link homes and offices around the world in an intricate high-tech web carrying voices, data, text and images. And you're in control. The magic of networks is your ability to choose when, where and in what form you send and receive information.

An incredible array of electronic gear allows you to tap into communications and information networks. Computers. Phones. Messaging systems. Fax machines. TVs. And now, very smart, very compact portable personal communicators that combine functions of home and office devices – without cords to tie you down.

One company spans the entire spectrum of these networking technologies. AT&T. No other company can match the breadth of our offerings, our expertise, and our grassroots market presence that keeps us in tune with changing lifestyles and customer needs.

Our network is the world's most extensive and most advanced.

We tailor helpful and reliable network services to the diverse needs of consumers, travelers and businesses.

We manage the complex private networks of multinational corporations.

We equip phone companies and other service providers around the world with the technology to transmit both information and entertainment.

AT&T Bell Labs researcher

We produce leading-edge products and systems – from a videophone and personal communicator to computers – that give people access to information and to each other, whenever they want, wherever they are.

Our AT&T Bell Laboratories is the world's most renowned industrial research and development institution. Bell Labs has sharpened its focus on bringing innovations to market. Yet it continues its rich tradition of basic research – research that brought the world the transistor, the laser and the optical computer.

Some 312,700 knowledgeable and skilled AT&T people around the world are dedicated to bringing the magic of networking to our customers.

We draw on all these strengths to bring customers easy-to-use networking products, services and systems that enhance their business and personal lives.

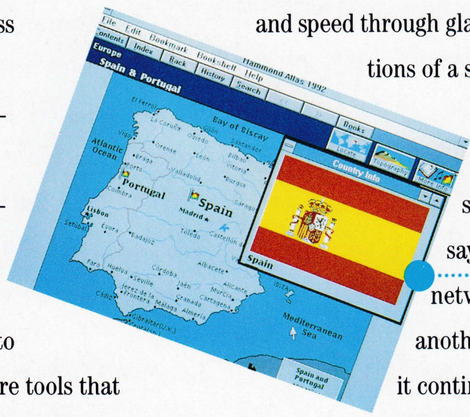
Get ready. You can expect a stream of AT&T innovations that do more than you can imagine – coming sooner than you think.

At the heart of AT&T are intelligent networks that let people choose how, when and where they communicate.

Your phone line is your personal time machine. It lets you reach across miles and time zones and extend your day beyond normal business hours.

You can shop from your easy chair at 10 p.m., using the toll-free 800 numbers (invented by AT&T) of catalog retailers. You can use a touch-tone phone and voice response technology to do your personal banking when it's convenient for you – be it 7 a.m. or midnight.

Teleconferencing reduces costs and the wear and tear of travel, allowing far-flung associates in many locations to "meet" via phone lines. Video adds the impact of pictures. Portable computers and fax machines and wireless phones increase the efficiency of traveling executives and salespeople.

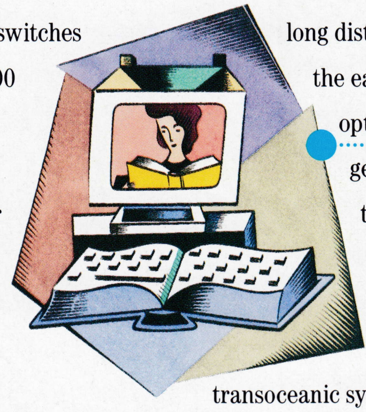


No longer just a conversation piece, the phone – and those other devices you use to tap into information networks – are tools that make life easier and more productive.

AT&T's network: big, fast and smart. Powering these tools are interconnected public networks running on common standards – a marvel of engineering and international cooperation. And the best of them is the AT&T Worldwide Intelligent Network, the largest, most technologically advanced in the world.

How big is it? From the United States you can dial more than 215 countries. With operator assistance, you can reach another 65. Our circuit miles could circle the Earth 80,000 times.

It's fast. Our 129 digital switches each can handle up to 700,000 calls an hour. Calls are completed in only 4.5 seconds on average, almost a third faster than our nearest competitor.



The AT&T network is a mammoth computer, run on sophisticated software. Voices, data and images are converted to signals that pulse through the air and speed through glass fibers in fractions of a second.

It's smart. And it's reliable. If a transmission route is blocked, say by a cable cut, the network quickly finds another path. Self-healing, it continuously monitors itself and prescribes fixes – usually before customers notice problems.

This savvy, software-run network can store and forward voice and data messages. It makes possible a variety of calling plans and billing options so customers can better manage their costs.

AT&T invests heavily to assure the reliability and to deliver the services that customers demand. Our 1992 network capital expenditures were $3 billion for such improvements as 10 new 4ESS℠ switches and FASTAR™, a computerized system that in minutes can restore to thousands of customers service threatened by a severed cable. As part of a $600 million reliability program, in 1993 we will put into service a special 4ESS switch giving AT&T the unique capability to restore service anywhere in the network in the event of a disaster.

Driven by the global economy, long distance carriers race to circle the earth with undersea fiber-optic cables to meet the burgeoning demand for international voice, data and image services. Our pace quickened in 1992 as we activated three major undersea transoceanic systems and announced two others that will link the U.S., Latin America and Europe. Our Submarine Systems unit, working with AT&T Bell Labs, is the first to market new systems able to carry more than a million calls simultaneously – 10 times current capacity. Already we have been awarded more than $1 billion in contracts for these systems.

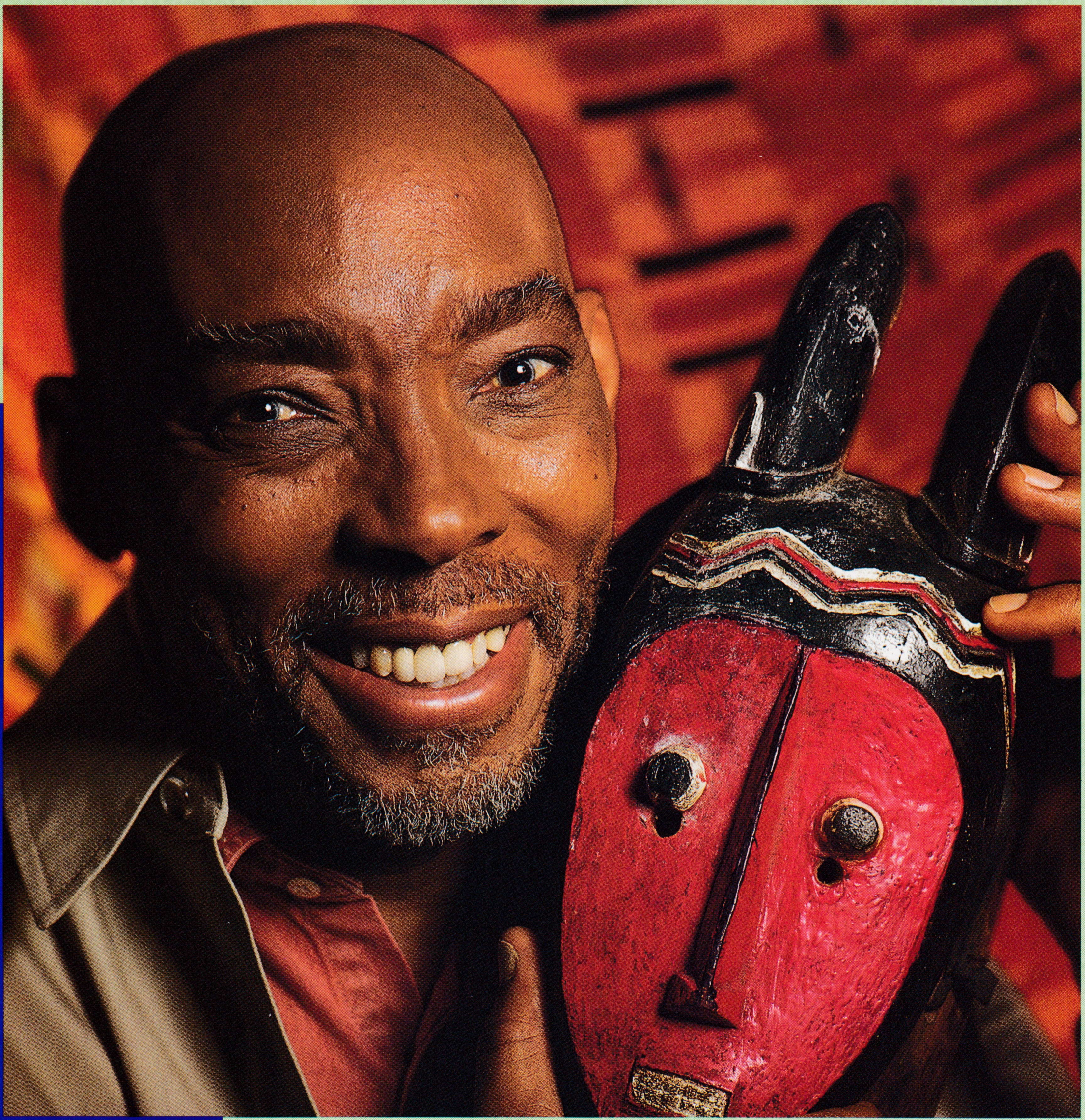
Services for 2001 and beyond. The global network is evolving into an information superhighway for the 21st century. With lightwave transmission, high-speed digital switching, dispersed intelligence and international standards, it will provide simultaneous access to voices, data, video and text.

Therein lies a sticky technical challenge. Video and multimedia signals gobble up switching and transmission capacity. AT&T Bell Labs researchers are leaders in the global push to compress signals and to pack more information into network transmissions. In tests, they've sent 6.8 billion bits of information a second over optical fibers – about two times current capabilities. The breakthrough uses different wavelengths, or colors of light, and tiny optical amplifiers made with the rare earth element erbium.

Many customers are still served by copper wire phone lines. These customers needn't wait for fiber cable to enjoy enhanced communications. Important technology developed by AT&T Paradyne and

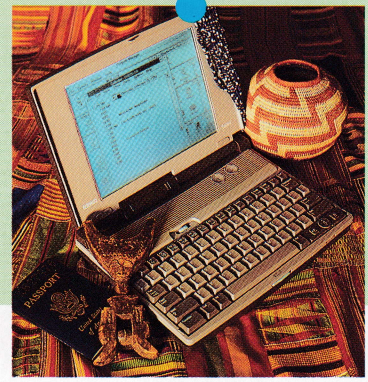
Working at home

Networks open up plenty of helpful work-at-home possibilities. A free-lance writer and work-at-home mom, for example, can research, write and send manuscripts to editors – all from a personal computer. She can call up databases to gather information on virtually anything – from the art of Barcelona to the latest medical research on leukemia. When she travels on assignment, she can call home and still tell her little girl a bedtime story. And she can dial up at-home television entertainment. Other networking capabilities, like electronic banking and cash machines, give more control to busy people juggling homes and careers.



Business safari

Thousands of businesses have started with a dream. Importing African art and objects for museum shops, for example. AT&T communications and computer solutions can help a business develop a market, serve its customers and maintain relationships with suppliers. In this case, a mail-order catalog and AT&T 800 Service create a broader consumer market. Customer orders and confirmations from African exporters keep the fax machine humming. AT&T Language Line® Service provides interpretation help. For buying trips, networking technology facilitates travel arrangements, and an NCR laptop computer is indispensable for recording orders and keeping notes.



AT&T Bell Labs makes "twisted pair" lines more powerful so phone companies can bring their customers video and other broadband signals.

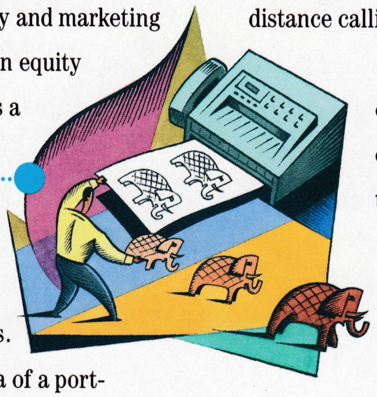
Requiring tremendous network capacity, video can be costly. So we developed microelectronic components and services that allow customers to use, and pay for, video services only when they want them. This dial-up videoconferencing capability costs a fraction of a dedicated video circuit.

An untethered future with wireless.

Traditional thinking about telephone communications is turning topsy-turvy. Phone numbers have been assigned to addresses.

Soon, people will take their numbers and portable phones with them wherever they go. Unlimited mobility is at hand via seamless, wireless networks.

This vision led us to a proposed strategic alliance with McCaw Cellular Communications, Inc., America's largest cellular service provider. AT&T created cellular technology. We're a leading supplier of equipment for the industry and we make and sell cellular phones. The proposed agreement with McCaw to cooperate in technology and marketing (and a planned $3.8 billion equity investment) will assure us a leading role in the tremendous expansion of wireless services and support the growth of our long distance business.



We advanced the idea of a portable phone number in 1992 with our AT&T EasyReach℠ 700 Service. Subscribers get a long distance number they can take with them anywhere on the U.S. mainland. They use a touch-tone phone to tell the network where to send their calls. They can choose which calls they want to receive, and whether they, or the caller, should be billed.

Facsimile service also follows customers. AT&T Fax Mailbox service stores messages and voice memos up to eight days in our network. Travelers simply use an AT&T card and an 800 number (or AT&T USADirect® Service from outside the U.S.) to get messages when and where they want.

The familiar phone keeps getting smarter, helping people tap into the power of new network services.

Much as the "talkies" revolutionized the movie world in the 1920s, pictures are transforming communications in the 1990s. Visual communications is becoming a vital business tool and adding a richer, more human dimension to long distance calling.

AT&T is at the forefront in creating the technology of visual communications and bringing it to market. In 1992 we brought the world the AT&T VideoPhone 2500™, the first full-color motion videophone that works over existing phone lines. It captured headlines and customers' fancy. Thousands have been sold in the U.S., and it's being distributed in six other countries.

Businesses appreciate our new portable system that lets users dial up a video conference as easily as they set up a voice conference call. This capability may also change the face of education. Schools can share teachers, information and limited resources, and students in rural areas can actively participate in courses offered at faraway locations.

Also on the video front, AT&T Network Systems is conducting a technical trial with Bell Atlantic and U S WEST of ISDN-based video services to the home. Participants use prototype videophones for calls over local and long distance lines equipped with Integrated Services Digital Network, an international standard for sending combined voice, data and images over regular phone lines.

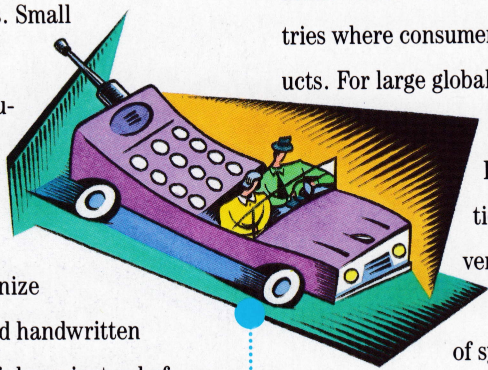
Sending moving images over standard phone lines has required some very real microchip magic. AT&T-developed chips power devices with the vast memory and speed to capture, compress and send moving pictures. Our VideoPhone 2500, for example, packs together 9.8 million bits of data per second up to 1,000 times so images can move over standard circuits.

Pursuing the power of pictures.

Technology from AT&T Bell Labs and AT&T Microelectronics, called video codec, makes it cost-effective for manufacturers to bring multimedia features to desktop PCs. Delivering video coding and compression on an unprecedented scale, these high-power, low-cost chip sets may also bring interactive, full-motion video and high-quality sound to kiosks at shopping malls and to automated teller machines.

Television itself is on the verge of a technological leap. High definition television (HDTV) will bring you movie-quality pictures and sound by the next decade. Even better, you'll be able to interact with programs via the network, which means new entertainment and information choices. We've been working on a digital HDTV system with Zenith. It features Zenith's transmission technology and AT&T's video compression technique. In 1993 the Federal Communications Commission (FCC) will select a U.S. standard from five competing systems.

An office in a box. Wireless technologies are propelling the convergence of communications and computers. Small new portable devices called personal communicators allow you to make calls, send faxes and electronic mail, take notes, organize your calendar and send handwritten messages using a special pen instead of a keyboard. These features are in the AT&T Personal Communicator 440, available later in 1993. The device is designed by California company EO, Inc., which is backed by AT&T.



This new capability is made possible by AT&T Hobbit™ microprocessors, developed by Bell Labs and produced by AT&T Microelectronics. A breakthrough technology, the Hobbit chip set has been endorsed by many manufacturers and developers, including NEC Corporation and Toshiba Corporation.

Personal communicators will revolutionize business, and eventually be as commonplace as the phone. One research firm predicts that 23 million people in the U.S. could be using personal communicators by 1997.

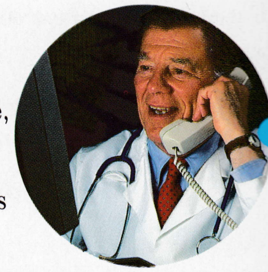
Another wireless innovation is the NCR notepad computer, which makes collecting and organizing information as easy as jotting notes on paper. The clipboard-size computer frees people who work on the go, like salespeople and service providers, from being tied to an office.

Our innovative products for consumers and businesses are increasingly found around the world. Germany and Italy have been added to the list of more than 30 other countries where consumers can buy AT&T products. For large global business customers, a new release of our Definity® communications system with universal software allows improved networking of systems throughout the world. Corporate customers outside of the U.S. also can now enjoy the benefits of an AT&T voice-messaging and processing system available in 13 languages.

AT&T systems and expertise enable phone companies around the world to deliver advanced capabilities to customers.

Much of the software and hardware that puts the "work" in networks comes from AT&T Network Systems. Besides equipping our own network, we offer local phone companies, private systems, wireless and cable television system operators, and governments around the world just about everything needed to build and operate their networks.

Customers look to us not only for state-of-the-art systems and installation, but also for our expertise in network operations and management. This one-two punch has helped us win major contracts in the U.S., Europe, Asia and Latin America. Countries throughout the world call on AT&T to help them build communications infrastructure as a way to improve their economic well-being.



Calling revenues fund modernization. In Eastern Europe, where the need for better telephone systems is great but the ability to finance them is limited, international and business networks using AT&T equipment generate hard currency. Revenues from AT&T international gateway switches in Poland and Armenia help those countries continue their modernization. Approaches like this also have brought improved services to the Czech and Slovak republics, Russia, Ukraine and Kazakhstan – places where as few as one person in 100 has a phone.

Latin America, with growing economies and pent-up demand (an average of six phones per 100 people), is also a booming market. Our network equipment sales there have doubled every year since 1989 and are expected to continue strong growth.

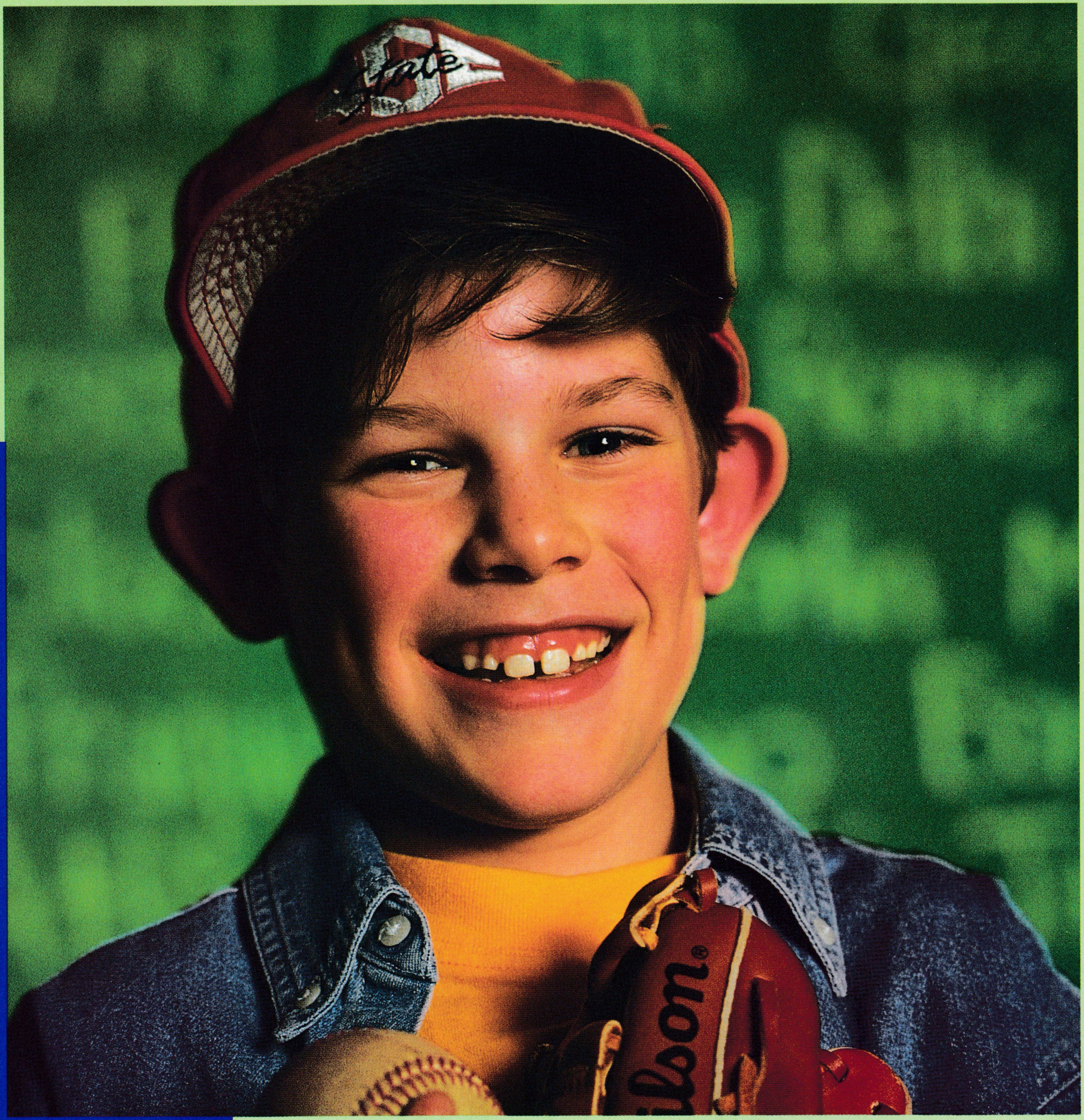
Switching machines in Mexico... fiber-optic cables in Chile... wireless systems in Brazil... switching equipment and cable in

Guatemala…and a 10,000-line phone system for Managua, Nicaragua: AT&T systems are encouraging economic development and improving people's lives.

The story is similar in Asia, where we put into service a modern cellular system in Xian, China, and we're supplying an extensive cellular network in Korea. In Japan, where telecommunications is already advanced, we won a contract valued at $110 million from Nippon Telegraph and Telephone (NTT). An AT&T operations system will enhance NTT's ability to manage the growing calling volume and improve customer service.

Peace of mind

Many retirees are busier than ever. Volunteer work. Visiting children and grandchildren. Keeping fit. Staying in touch with family is a concern. AT&T EasyReach 700 Service lets subscribers take their AT&T long distance number with them anywhere on the U.S. mainland. And with the AT&T VideoPhone, faraway grandmothers can experience the joy of seeing grandchildren grow. Managing finances is eased by AT&T services and products. Networking advances in health care also mean more peace of mind. Family doctors can share test results while they confer with specialists in other cities. Patients get another opinion without having to travel.



Long-distance learning

Boys and baseball. Students in the U.S., Germany and Japan can share information on their nations' favorite sports and collaborate on school projects through the AT&T Learning Network. Using classroom computers, they exchange electronic mail messages with their Learning Circle partners. Today's kids are at home with computer technology. They still trade baseball cards, but they are just as likely to keep baseball stats on a computer. For them, the world is a phone call away, whether it's calling Grandma across the ocean or pizza delivery across town. Their imaginations will drive the next generation of communications technology.

Ten years after we introduced the 5ESS® switch, it's serving some 50 million lines in more than 30 countries. The next generation of this workhorse, announced in 1992, delivers up to 30 times more capacity and the software that will enable phone companies to offer their customers advanced 21st century services.

Working with our biggest customers. The Regional Bell Operating Companies and U.S. independent phone companies continue to be important and valued customers. With them we head an industry effort to bring the benefits of digital services to end users.

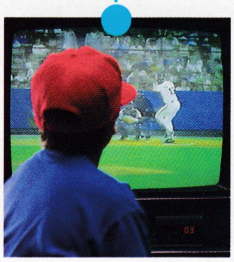
Coast-to-coast computer links and video conferences become as easy to set up as making a phone call with the introduction of National ISDN-1, a standard for achieving end-to-end digital service using switches and terminal equipment from many vendors. Spearheading this historical industry effort, we delivered the first such switch to Bell Atlantic.

You can enjoy improved cable TV service, too, because of AT&T technology and offerings for cable TV providers. We developed digital-compression technology and equipment that boosts the capacity of cable systems up to 13 times. It gives cable customers more control over what they see and when they choose to see it. Tele-Communications Inc., the largest cable company in the U.S., will use the digital compression standard developed by AT&T and General Instruments.

AT&T networking skills and a new way of computing team up for creative customer solutions.

The 1991 merger of AT&T and NCR Corporation married AT&T's networking expertise to NCR's open systems approach to computing. Networked computing provides business people rapid access to the information they require so they can make better, faster decisions.

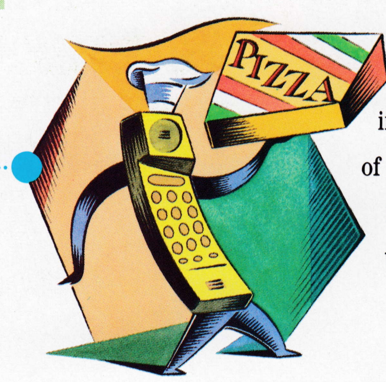
Security of an individual's financial transactions will be aided by a new NCR automated teller machine (ATM) application.



The ATM uses an AT&T Smart Card to verify a cardholder's voice print. If the print stored on the card doesn't match the voice of the person at the ATM, account access is denied. Smart cards look like bank cards but have microprocessors and memory chips laminated within their plastic shells. They can contain the equivalent of several pages of personalized data.

Offering computer solutions with communications know-how helped NCR win a bid to provide systems, software and satellite links for the Slovakian savings bank and its 650 branches. When completed in the mid-'90s, this will be one of the world's most advanced banking systems.

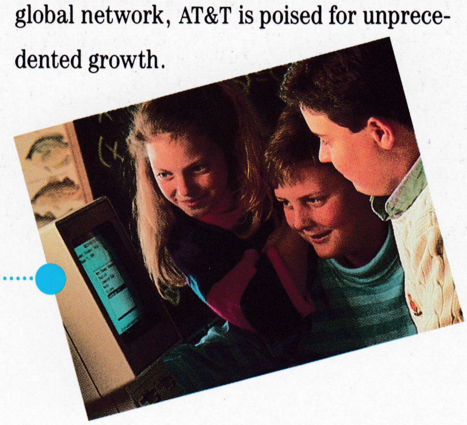
Managing the complex private networks large companies use to transmit financial and operating information between computers is a growth industry. And AT&T's expertise comes into play in the U.S. and Europe, where we opened a Global Network Management Center in the United Kingdom. One of our first major customers was J.P. Morgan and Co., for whom we united 14 computer networks on four continents into one large local area network. Such a far-reaching solution is possible because of the combined strength of AT&T ISTEL in Britain and our NCR locations in Europe.



Networking to the head of the class. Networked computing is aiding business education at Indiana University in Bloomington. Students use a classroom equipped with 30 NCR System 3000 desktop computers tied together in a high-speed wireless local-area network. They use the computers and university-developed software to brainstorm, organize and comment on ideas, and evaluate business case alternatives.

AT&T networking solutions are enhancing education across America. With Pacific Bell and California State University, we're connecting state schools in a learning network that incorporates voice, data and video. At North Carolina's Appalachian State University, we're working with Southern Bell to provide an ISDN-based distance learning network over existing phone lines. Classroom walls disappear as the region's public school teachers and students gain access to the university's resources.

A future bright with promise. This report covers just some of the ways networking and AT&T people, products and services are making magic all over the world. Guided by a mission grand in scope, powered by a set of businesses honed in on customer needs, and with the competitive advantage of our global network, AT&T is poised for unprecedented growth.



Respect for the environment guides our actions on all fronts.

AT&T people are solidly behind our environmental efforts. Since 1987, we've cut toxic air emissions by 73 percent as we work toward a goal of a 95 percent reduction by 1995. We also lead global efforts to eliminate CFC (chlorofluorocarbon) solvent emissions from manufacturing. Our own plants in Singapore and Mexico, among others, are CFC-free, and some 30 companies around the world are using a technology we developed as an alternative to CFC use.

Recycling is a way of life. In 1992, AT&T's wastepaper recycling program kept about 45 million pounds of paper out of landfills. More than 12 million business customer bills and virtually all our promotional mailings are now printed on recycled paper.

On the energy front, our Columbus, Ohio, plant uses methane gas from an old municipal landfill to heat its two-million-square-foot facility. Energy consumption, air pollution and traffic congestion are all lessened by telecommuting – working from home instead of commuting to an office. In a pilot program in Phoenix, which won a national award in 1992, AT&T people drove 97,000 fewer miles and avoided about two tons of air pollution.

We apply our talents, our technology and our resources to help meet social needs.

In 1992, AT&T people, the AT&T Foundation, and our vital products and services helped rebuild lives and businesses disrupted by disaster. We're in South Central Los Angeles, working to encourage economic development and heal a devastated community. We provided aid in Guadalajara, Mexico (where we have a factory), after a deadly gas explosion. In hurricane-ravaged Florida, Louisiana and Hawaii, AT&T people and service have been lifelines to recovery.

Children and families: They are at the heart of our philanthropic and human resources philosophy. We fund programs that help parents cope and support at-risk teenagers and families in need. Recognizing that care of children and elderly parents is of growing concern to our work force, AT&T in 1992 joined other businesses and organizations in committing $25.4 million to improve family care programs across the U.S.

Education: Among our initiatives are a three-year program to better prepare teachers for urban school assignments, and 1992 grants of $19.5 million to strengthen science and engineering programs and to encourage minorities to enter these professions. Our funding bolsters disciplines that contribute to manufacturing productivity and industrial competitiveness, provides Ph.D. scholarships in technical fields, and places AT&T scientists as visiting professors at predominantly African-American and Hispanic universities.

The Arts: Our support spans theater, opera, dance, music and the visual arts. Our thrust: innovation, diversity of expression and building cross-cultural respect and understanding by making the arts more available to a wide audience.

In 1992, AT&T contributed $33 million in cash and $16 million of in-kind gifts and sponsorships for nonprofit organizations.

New computers are part of an AT&T gift of $750,000 in cash and equipment for Gallaudet University in Washington, D.C., the world's only four-year liberal arts university for deaf and hard-of-hearing students.

1992 in Review: innovation, strategic steps, awards, international growth.

1st Quarter

Announcement of the AT&T VideoPhone 2500™, the world's first full-color motion videophone that works over regular phone lines, makes a big splash.

•

Our powerful new Definity® G3 Communications System gives large and small businesses the same easy-to-use features, doubles call-handling capacity and lets them connect with other systems anywhere in the world.

•

We head a venture to build a $17 million undersea fiber-optic cable system in the Caribbean, using new cable designed especially by AT&T Bell Labs to link islands and coastal cities.

•

NCR merges with Teradata Corporation, a leader in commercial massively parallel processing.

•

Our new Merlin PFC® combines the functions of a phone, fax and copier in one compact and economical desktop unit.

•

We purchase Dataid, a French software and information-services company, and CAB, a German computer software company, both of which will be managed by AT&T ISTEL of the U.K.

•

The first AT&T 5ESS® switch in Japan will make possible a next-generation digital mobile telephone system.

•

AT&T is part of ventures to provide digital transmission equipment in Russia and to modernize and operate international and domestic long distance networks in Ukraine.

•

New voice-recognition technology begins automating calls that previously required operator assistance. Customers can still talk to one of our superbly trained people by saying "operator."

•

TAT-9, an undersea fiber-optic cable system linking the U.S. and Canada with the U.K., France and Spain, begins service.

•

GTE selects AT&T as "Vendor of the Year" for the outstanding quality of our consumer products and customer service.

2nd Quarter

EasyReach℠ 700 Service offers subscribers a 10-digit phone number that can follow them for life.

•

Video codec technology from AT&T Microelectronics will bring videoconferencing and full-motion color video to desktop PCs, video telephones and self-service kiosks.

AT&T Paradyne introduces the Keep in Touch™ credit-card-sized modem for high-speed data transmission via laptop computers.

•

World Connect℠ service allows Americans traveling or living abroad to place calls to and from 50 countries using their AT&T Calling Card or AT&T Universal Card.

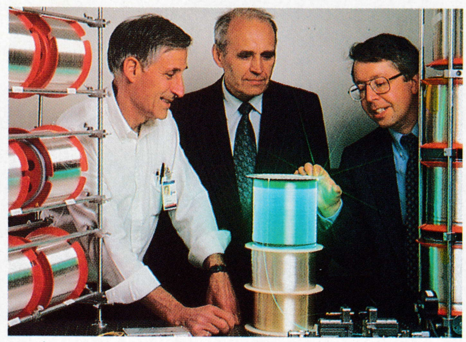
•

With USADirect In-Language Services, callers in select countries can place calls through U.S. operators who speak their languages.

•

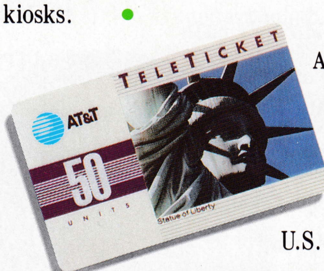
With Lockheed Corp., AT&T will develop intelligent transportation systems using AT&T Smart Cards to speed toll collections and ease traffic congestion.

•



AT&T Bell Labs contracts with 100 scientists and technicians from Russia's General Physics Institute to perform fiber-optic research.

•



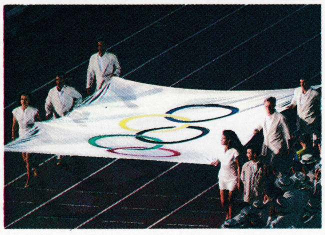
AT&T TeleTicket℠ Service is offered in nine languages and allows visitors to the U.S. to prepay for news and travel information services and for long distance calls.

We establish direct-dial service to the 15 former Soviet republics and to Cambodia.

•

Callers seeking discount air fares help push AT&T call volumes to a one-day record of 177.4 million calls. Over 11 days, our network carries more than 1.6 billion calls.

•



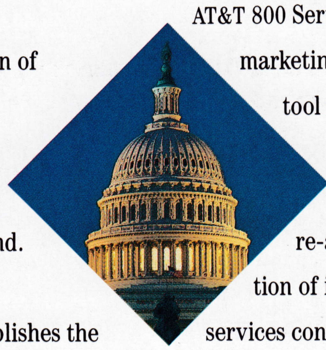
A real-time English/Spanish computer translator, developed by AT&T Bell Labs and Telefónica de España, helps visitors at the Olympics.

•

Our UNIX System Laboratories, Inc. unveils a strategy to bring the power and advanced capabilities of the UNIX® Operating System to networks of desktop computers.

•

BellSouth completes installation of AT&T's FT-2000 transmission system, the world's first fiber-optic system to move information at 2.5 billion bits per second.



•

AT&T Capital Corporation establishes the AT&T Small Business Lending Corporation, one of 14 non-bank lenders licensed by the U.S. Small Business Administration.

•

AT&T EasyLink Services and Microsoft Corp. will integrate their public and local-area messaging products, thereby expanding the use and reach of electronic mail.

3rd Quarter

AT&T and its two unions agree on a three-year labor contract, establishing a new level of union-management cooperation.

•

AT&T ISTEL opens a Global Network Management Center in the U.K.

•

We provide technology, equipment and long distance services to the Democratic National Convention in New York City and the Republican National Convention in Houston. Democratic delegates cast votes with NCR touchscreen electronic voting systems.

•

AT&T 800 Service, which has become a vital marketing and customer-service tool for business, is 25 years old.

•

The federal government re-awards AT&T the 60-percent portion of its FTS2000 long distance services contract.

•

Undersea fiber-optic systems TAT-10, linking the U.S. with Germany and the Netherlands, and TPC-4, linking the U.S. and Canada with Japan, begin service.

AT&T Cable Ship Global Link

AT&T's network withstands Hurricane Andrew in Florida and Louisiana. We provide emergency services and ongoing help for consumers, businesses and our employees and assist BellSouth in restoring local phone service.

•

NCR donates its 100,000th automated teller machine to NationsBank, the fourth largest banking company in the U.S., for use by the Atlanta Committee for the Olympic Games.

•

We introduce an accurate, low-cost voice-activated dialer incorporating a customized AT&T chip set. Customers can program their cellular car phones to dial persons at their voice commands.

•

Merging of our small and large business telephone systems units creates a strengthened organization to meet needs of business customers worldwide.

•

At a White House ceremony, Chairman Robert Allen accepts the 1992 National Medal of Arts presented to AT&T by President Bush.

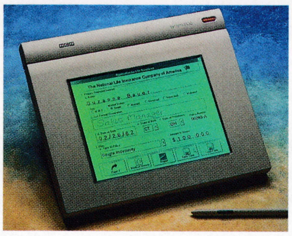
•

AT&T and 10 other large companies organize a major initiative to commit $25.4 million to increase the supply and enhance the quality of child- and elder-care programs available to their employees.

•

AT&T American Transtech focuses on providing information, marketing and employee services for AT&T and other companies, and will no longer provide shareowner services for AT&T and the Regional Bell Operating Companies.

4th Quarter



NCR introduces the mobile pen-based 3130 NotePad computer, a new desktop workstation, and a low-cost personal computer.

New AT&T microprocessors, named "Hobbit," will power a new class of devices called personal communicators. The AT&T Personal Communicator 440 will be available later in 1993.

NEC and AT&T create a joint venture to market semiconductors in Japan.

NCR forms a strategic alliance with American Business Computer and AT&T EasyLink Services to provide retailers with a comprehensive Electronic Data Interchange solution.

Our next-generation 5ESS-2000 digital switch for international markets paves the way for new wideband communications services and can economically carry digital phone service to rural areas.

Our Global Software-Defined Network Service connects to 17 virtual private networks in 14 countries, making us a leader in providing multinational firms this economical alternative to dedicated lines.

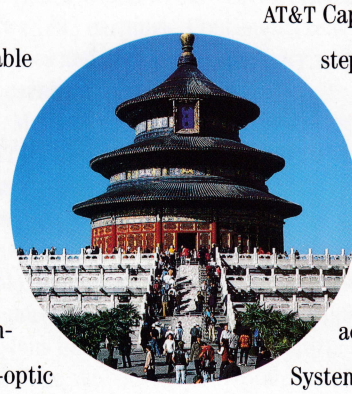
AT&T Paradyne introduces a system that allows customers to send high-speed, high-volume data from an IBM mainframe computer to printers and other peripheral devices anywhere in the world.

The interactive voice response technology of our Conversant® voice processing system is used by precinct officials to report national election results so broadcast networks can give timely coverage.

A new, all-digital public network – National ISDN-1 – is launched, giving customers the ability to convey data, images and video over standard copper telephone wires. Fourteen digital AT&T 5ESS switches are involved.

Among the "Best of What's New for 1992" named by *Popular Science* are the NCR 3170 Notebook Computer, the AT&T VideoPhone 2500, and a revolutionary data storage technique from AT&T Bell Labs.

AT&T of Beijing Fiber Optic Cable Co. Ltd., a new joint venture, will produce advanced fiber optic cable for use in China.



With a 25 percent stake, AT&T is the largest investor in Columbus II, the first undersea fiber-optic system that will connect the U.S., Europe and Latin America.

AT&T Paradyne develops a modem offering the world's fastest data transmission speeds – double current capabilities – over standard phone lines.

AT&T Network Systems International's purchase of an 80 percent stake of Polish telecommunications manufacturer Telfa positions us to be a primary supplier to the rapidly growing Polish market.

We announce negotiations with McCaw Cellular to form a strategic alliance involving marketing and technological cooperation, with AT&T to become a one-third owner of the cellular service company.

At a White House ceremony, President Bush presents the prestigious Malcolm Baldrige National Quality Award to AT&T Transmission Systems and AT&T Universal Card Services. It's the first time one company wins two awards.

AT&T Capital Corporation takes steps to become more financially independent, including a possible public stock offering.

AT&T and Novell, Inc. announce plans for Novell to acquire AT&T subsidiary UNIX System Laboratories. USL's commitment to open access to UNIX technology will not change.

Financial Section

Creating Shareowner Value

In 1992 we began measuring the performance of each of our units with an important new management tool called "Economic Value Added" – "EVA" for short. In financial shorthand, EVA measures returns in excess of the cost of capital. That is how we create value for you, the owners of our business.

- Investors provide us money by purchasing AT&T debt and stock. We use that money to purchase equipment, to make investments, and for a variety of other needs. Our balance sheet might be viewed as a status report on the uses we made of that money.
- In exchange for the use of their money, investors expect a return on investment. Bondholders expect interest payments, and shareowners expect dividend payments and a rising stock price. The return these investors expect depends on market conditions – such as the levels of interest rates and stock prices – and their views about the riskiness of investing in AT&T's future performance.
- With our targeted mix of debt and equity financing, our cost of meeting investor expectations – our "cost of capital" – generally ranges between 11 and 14 percent of the money investors have supplied. The EVA for each of our management units is the dollar amount by which its after-tax operating profit exceeds its cost of capital.
- Shareowners can judge for themselves whether or not AT&T is creating shareowner value by keeping track of their total return on investment over time. EVA gives our managers a way to also track the creation of shareowner value in individual AT&T units.

EVA is truly a system of measurement. It supplements traditional accounting measures of performance, giving us additional insight into our business and helping us to identify the factors that affect our performance. We have made it the centerpiece of our "value-based planning" process. And we are linking a portion of our managers' incentive compensation to performance against EVA targets for 1993.

In summary, our performance planning, measurement and reward programs are now fully aligned with the interests of shareowners. And I believe what gets measured gets done.

Alex J. Mandl
Chief Financial Officer
and Group Executive

Management's Discussion and Analysis

We reported record earnings of $3.807 billion or $2.86 per share in 1992, up from $522 million or $.40 per share in 1991 and $3.104 billion or $2.42 per share in 1990. The improvement reflected growth in revenues and reduction and control of costs and expenses. Total revenues rose to $64.904 billion in 1992, compared with $63.089 billion in 1991 and $62.191 billion in 1990.

An eventful 1991 set the stage for 1992

The 1991 results included business restructuring and other charges of approximately $4.5 billion, primarily for changes in our computer and business equipment operations, and in our use of leased and owned space. The changes in our computer operations were associated with the 1991 merger of AT&T and NCR Corporation (NCR). We also had gains in 1991 from selling our investment in Sun Microsystems, Inc. (Sun) and a portion of our ownership in UNIX System Laboratories, Inc. (USL), a subsidiary. Excluding these charges and gains, earnings were $2.51 per share in 1991.

AT&T and NCR merged on September 19, 1991. That $7.5 billion transaction was consummated by exchanging approximately 203 million shares of AT&T common stock for the outstanding shares of NCR common stock. AT&T and NCR are an excellent combination, offering a broader array of products and services, greater networking capabilities, and a wider market presence worldwide than either company could offer alone. We accounted for the merger as a pooling of interests. That means we combined the pre-merger earnings, assets, liabilities and equity of the two companies, and became one company. The financial statements and all related financial information, discussions and analyses reflect the combined AT&T and NCR amounts as if we had always been one company. (See also Note C.)

Where we stand now

AT&T's core business is to provide customers – individuals, businesses and governments – with products, systems and services that integrate communications and computing capabilities. We build and use networks as solutions to our customers' information movement and management needs. Networks provide the ability to receive, transmit, switch and process information – in the form of voice, data, image or facsimile – between and among a variety of devices and users. The revenues and costs for our core business operations are displayed on our income statement in three categories: telecommunications services, products and systems, and rentals and other services.

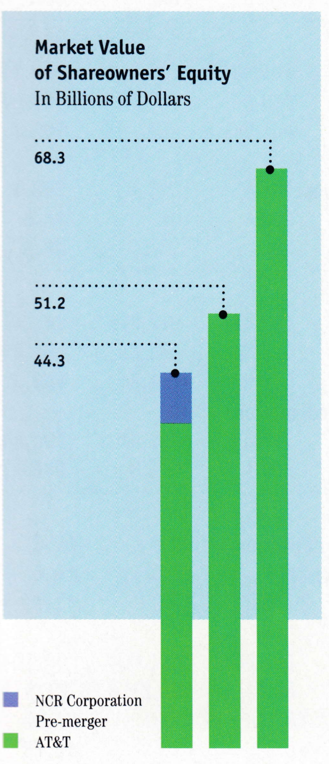
Our AT&T Capital Corporation (AT&T Capital) and AT&T Universal Card Services Corp. (Universal Card) units are partners with our core business units and are also able to take advantage of clear financial and market opportunities. AT&T Capital offers a wide variety of programs to help our customers with their purchases or rentals of our products. It also provides these same services for the products of other companies, which has become the major portion of its business. Universal Card offers a consumer credit card that can also be used to bill telephone calls on our network. The credit card business is a very transaction-intensive business, making it a logical extension of AT&T's networking capabilities. The revenues and costs for these financial services and leasing operations are displayed as a separate category on the income statement.

In November 1992, we announced jointly with McCaw Cellular Communications, Inc. (McCaw) that we are negotiating a strategic alliance involving broad marketing and technological cooperation in wireless communications. Under the proposed agreement, we would purchase a 33 percent interest in McCaw and an option to acquire voting control. This alliance would help speed the development of the first seamless wireless communications network to operate nationwide. McCaw and AT&T would combine strengths to offer personal communications services that reach people, not places, with information when and where customers want it. In addition, we would grant McCaw a long-term license to use the AT&T brand name in marketing wireless and other telecommunications services in North America. We expect to make this investment in 1993. However, the potential transactions are still in negotiation and there is no assurance that the parties will reach final agreement. Any agreement is subject to negotiation of final terms and approval by McCaw's and AT&T's boards of directors, as well as by appropriate government agencies. (See also Note J.)

We have announced several other strategic alliances, agreements or initiatives related to the development of technology, products and services for personal communications integrated with computing capabilities. And we are also developing video technology, products and services. We believe these are fundamental directions in our industry and that we are positioned to remain an industry leader as the technology is introduced.

The Regional Bell Operating Companies (RBOCs) that were divested in 1984 are our valued customers. We devote more resources than any other supplier to serving their needs, and we have no plans to change that. However, we will compete with them to provide customers with cellular, personal and video communications services. In summary, the RBOCs and AT&T will be customers, suppliers and competitors all at the same time. But we are opposed to any loosening of the restrictions imposed on their activities in manufacturing and long distance services by the 1982 Consent Decree so long as they remain monopoly suppliers of local exchange services with substantial power to disrupt competitive conditions in these markets. Because of the increasing competition with the RBOCs and the possibility of legislation that alters restrictions on their activities, our business relationships are subject to potentially rapid change.

In the following sections, we discuss and analyze our results of operations and financial condition in more detail. We explain the trends in our business and we also identify factors that may affect our future results.



AT&T's total market value topped $68 billion in 1992, following a 30% rise in AT&T's stock price during the year.

Results of Operations

Despite weak economic conditions worldwide, our total revenues increased 2.9 percent in 1992 and 1.4 percent in 1991. The resiliency of our core business is fundamentally a result of the expanding role of electronic communications and computing in daily life. To share in that industry growth, we remain an innovator in new products and services, and work to enhance our reputation for quality and value. The robust growth in our financial services and leasing business was fueled by Universal Card taking substantial market share from its competitors.

Consolidated Income Statement Information

Dollars in millions	1992	1991	1990
Total revenues	**$64,904**	$63,089	$62,191
Total costs	**39,710**	38,825	38,883
Gross margin	**25,194**	24,264	23,308
Total operating expenses	**18,925**	22,906	17,812
Operating income	**$ 6,269**	$ 1,358	$ 5,496
Gross margin percentage	**38.8%**	38.5%	37.5%
Operating margin percentage	**9.7%**	2.2%	8.8%

Improvement in our cost structure was a significant factor in our higher 1992 earnings. Continuous reduction and control of costs and expenses and gains in productivity will remain critical to achieving our earnings targets.

Many of our employees are represented by unions. In 1992, AT&T management and union bargainers negotiated innovative, new labor agreements with provisions for employees' career security and personal well-being as well as higher wages and increased employee ownership of the business. Under the wage portion of the agreements, employees at the top of each wage schedule receive increases of 4 percent in 1992, 3.9 percent in 1993 and 3.9 percent in 1994. Pensions increase by 13 percent for those who retire after May 31, 1992. The agreements also retain flexibility for management to react to business conditions while enhancing the availability of education, training and redeployment opportunities for employees.

The decline in total operating expenses between 1991 and 1992 mainly reflects the 1991 restructuring and other charges of $4.5 billion. The charges were taken as a $3.6 billion provision for business restructuring and $900 million of other costs and expenses, including other income-net. The provision for business restructuring covers estimated costs for reducing force, relocating employees, eliminating excess capacity and space, fulfilling contractual obligations, and other restructuring activities. The provision also covers the elimination of future subsidies to an Alaskan long distance company. Amounts recorded in other costs and expenses are primarily for expenses related to the restructuring activities, for writing down the value of assets, and for expenses related to the merger between AT&T and NCR.

Absent the 1991 charges, total operating expenses increased in 1992, but at a lower rate than the increase in revenues. Over the last two years, we have increased spending in newer businesses and overseas, and on sales and customer support efforts.

We must adopt a new accounting standard for postretirement benefits, effective January 1, 1993. The standard requires us to accrue postretirement benefit expenses during the years employees are working and earning benefits for retirement. At the same time, we will recognize a liability for our future obligations to share in the postretirement benefit expenses of employees who retired from the Bell System prior to divestiture in 1984. Through 1992, we expensed these benefits as the claims were incurred. We will take a one-time charge, reducing net income by approximately $7 billion, to recognize the cumulative prior years' effect of this accounting change in the first quarter of 1993. Based on current assumptions, after we take this charge, the annual impact on net income of changing to the new accounting method for postretirement benefit expenses will be negligible. (See also Notes B and O.)

To control these costs and expenses, we placed upper limits on our contributions towards health care coverage for some retirees. The caps were established in 1989 and will go into effect on July 1, 1995 for all future retirees and all employees who retired on or after March 1, 1990. These caps do not limit the payments made in the event of a claim; rather, they will result in retirees sharing in the cost of providing health care coverage.

No later than January 1994, we must also change our accounting for the disability and other benefits provided to employees after their AT&T employment has ended. A new accounting standard requires us to accrue for the estimated future costs of these postemployment benefits during the years when employees are working. Because the standard was only recently issued, we have not decided whether to adopt the standard in 1993 or 1994, and we are unable to reasonably estimate its financial impact.

Our operations, like those of other companies in similar businesses, involve the use, disposal and cleanup of substances regulated under environmental protection laws. We have been named as a potentially responsible party at a number of Superfund sites. At most of these sites, AT&T's share is very limited and there are other potentially responsible parties who can be expected to contribute to the cleanup costs. On a regular basis, we review potential cleanup costs and costs of compliance with environmental laws and regulations. Using engineering estimates of total cleanup costs, we estimate AT&T's potential liability for all currently and previously owned properties where circumstances indicate that some cleanup may be required and at each Superfund site where we are named as a potentially responsible party. We provide reserves for those potential costs and regularly review the adequacy of these reserves. In addition, we forecast expenses and capital expenditures for existing and planned compliance programs as part of our regular corporate planning process. Even with our environmental cost reviews, it is difficult to estimate the future impact of actions regarding environmental matters, including potential liabilities to AT&T. However, we believe that cleanup costs and costs related to environmental proceedings and ongoing compliance with present laws will not have a material effect on our future expenditures, earnings or competitive position beyond that provided for at year-end.

Our efforts to penetrate new markets overseas are requiring a substantial initial investment of resources, and economic conditions were particularly weak in some key markets in 1992. As a result, our operations located outside the U.S., in total, reported a small operating loss for the year. Nevertheless, we continue to believe that these operations and markets provide us with excellent opportunities for future growth in revenues and earnings.

Nine-Year Summary of Selected Financial Data

(Unaudited)

Dollars in millions (except per share amounts)
Results of Operations
Total revenues
Total costs and operating expenses
Net income (loss)
Dividends on preferred shares
Income (loss) applicable to common shares
Earnings (loss) per common share
Dividends declared per common share
Assets and Capital
Property, plant and equipment-net
Total assets
Long-term debt including capital leases
Preferred shares subject to mandatory redemption
Common shareowners' equity
Net capital expenditures
Other Information
Operating income (loss) as a percentage of revenues
Net income (loss) as a percentage of revenues
Return on average common equity
Data at year-end except last column:
Stock price per share
Book value per common share
Debt ratio
Debt ratio excluding financial services
Employees

*1991 data reflect $4.5 billion of business restructuring and other charges.
1988 data reflect a $6.7 billion charge due to accelerated digitization of the long distance network.
1986 data reflect $3.2 billion of charges for business restructuring, an accounting change and other items.

Telecommunications Services

Revenues from telecommunications services increased 2.0 percent in 1992 and 1.4 percent in 1991. Billed minutes for total switched services increased 6 percent in 1992 and 6.5 percent in 1991, with volume gains in all major service categories both years. The strongest gains in volumes were in outbound and inbound U.S. business services (WATS and 800 service families), and in international services.

We anticipate continued growth in telecommunications services industrywide in 1993 and believe the growth in our telecommunications services revenues will approach the industry rate.

Telecommunications Services

Dollars in millions	1992	1991	1990
Total revenues	**$39,580**	$38,805	$38,263
Costs			
Access and other interconnection costs	**18,132**	18,395	18,572
Other costs	**7,135**	6,881	7,061
Total costs	**25,267**	25,276	25,633
Gross margin	**$14,313**	$13,529	$12,630
Gross margin percentage	**36.2%**	34.9%	33.0%

The gain in revenues over the last two years trailed the volume gain for switched services because of the lower-priced, higher-value services we introduced. These services pass on to customers the savings from our increased operating efficiency and enable them to tailor our services to match their individual needs. This shift in the mix of services customers demand has lowered average per-minute revenues. Otherwise, market pricing trends are relatively stable.

Although we gained market share in some service categories, our overall share of the facilities-based long distance traffic declined slightly in 1992. However, our own data and the data of the Federal Communications Commission (FCC) show that our total share of this market remains above 60 percent.

Total cost of telecommunications services in 1992 was approximately level with 1991 and declined from 1990. Despite higher volumes, total access and other interconnection costs declined both years. We actively negotiate reduced prices for connections to customers, particularly outside the United States. The increase in other costs of telecommunications services in 1992 reflected higher service volumes and a larger provision for uncollectibles due to fraud and the weak economy. The 1991 decline in other costs was primarily due to lower network operating and maintenance costs.

Telecommunications services are regulated by the FCC and by state public utility commissions, and we remain more regulated than our competitors. Because of intense competition and rapid changes in technology and customer needs, the FCC adopted "price caps" in 1989, increasing our flexibility to respond to those market conditions. The FCC is currently engaged in a three-year review of the price caps and will decide whether to renew them or to further reduce regulation of AT&T.

In November 1992, a U.S. Court of Appeals ruled that the Communications Act requires all long distance carriers to publicly file their rates. That decision, which reversed an FCC policy that had permitted our competitors to negotiate prices with customers in secret, makes the regulation of AT&T and other long distance carriers slightly less unequal.

1992	1991*	1990	1989	1988*	1987	1986*	1985	1984	Jan. 1, 1984
$64,904	$63,089	$62,191	$61,100	$61,756	$60,530	$61,906	$63,130	$60,318	
58,635	61,731	56,695	56,076	64,031	56,249	60,907	59,561	57,494	
3,807	522	3,104	3,109	(1,230)	2,463	476	1,872	1,713	
–	–	–	–	1	23	86	110	112	
3,807	522	3,104	3,109	(1,231)	2,440	390	1,762	1,601	
2.86	.40	2.42	2.40	(.94)	1.82	.29	1.31	1.23	
1.32	1.32	1.32	1.20	1.20	1.20	1.20	1.20	1.20	
$19,358	$18,689	$18,661	$17,023	$16,394	$21,866	$22,061	$23,133	$22,167	$21,416
57,188	53,355	48,322	42,187	39,869	44,014	43,617	44,683	43,418	39,156
8,604	8,484	9,354	8,377	8,350	8,027	7,789	8,026	8,943	9,462
–	–	–	–	–	82	912	1,457	1,494	1,523
18,921	16,228	15,883	14,723	13,705	16,617	15,946	16,951	15,839	14,413
3,933	3,860	4,018	3,951	4,288	3,805	3,904	4,295	3,685	
9.7%	2.2%	8.8%	8.2%	(3.7)%	7.1%	1.6%	5.7%	4.7%	
5.9%	0.8%	5.0%	5.1%	(2.0)%	4.1%	0.8%	3.0%	2.8%	
21.1%	3.1%	19.7%	21.8%	(7.2)%	15.0%	2.2%	10.7%	10.5%	
$51.00	$39.125	$30.125	$45.50	$28.75	$27.00	$25.00	$25.00	$19.50	$17.875
$14.12	$ 12.39	$ 12.46	$11.54	$10.55	$12.66	$11.91	$12.58	$12.00	$ 11.39
46.1%	48.9%	47.6%	43.0%	41.6%	36.1%	34.4%	34.5%	36.5%	40.1%
25.4%	34.7%	38.3%	36.3%	37.3%	32.5%	32.2%	32.9%	36.2%	40.1%
312,700	317,100	328,900	339,500	364,700	365,000	378,900	399,600	427,200	435,000

In January 1993, we announced an agreement to acquire a 20 percent equity interest in Unitel Communications, Inc., a Canadian long distance company, for cash and advanced telecommunications equipment valued at approximately $120 million. We negotiated this alliance, which will include joint projects and marketing efforts, as a competitive response to an alliance between MCI Communications, Inc. and a consortium of Canadian telephone companies called Stentor.

In May 1993, business customers will be able to switch between long distance companies while retaining their advertised 800 numbers as a result of technology put in place at the local telephone companies. AT&T expects to gain some customers currently using the services of our competitors and lose some customers to those competitors. Some of our customers have waived their rights to switch between companies by signing long-term contracts with us that are suited to their particular needs and circumstances.

Products and Systems

Sales of products and systems increased 3.3 percent in 1992, on the strength of a sharp rebound in the fourth quarter. Sales had declined in year-over-year comparisons for the first half of 1992 and 1.1 percent for all of 1991, primarily because of a weak global economy and price competition in most product categories. The 1992 sales increase was fueled by our continuing penetration of overseas markets. Also contributing to higher sales were several successful new product launches.

We expect improving economic conditions in 1993, particularly in the U.S., paving the way for further growth in sales of products and systems.

Products and Systems

Dollars in millions	**1992**	1991	1990
Revenues			
Telecommunications network products and systems	**$ 7,711**	$ 7,490	$ 7,303
Computer products and systems	**3,433**	3,667	4,120
Communications products and systems	**3,098**	2,852	2,837
Microelectronics products, special-design products for U.S. government, and other*	**2,231**	1,932	1,864
Sales of products and systems	**16,473**	15,941	16,124
Cost of products and systems	**9,846**	9,134	9,228
Gross margin	**$ 6,627**	$ 6,807	$ 6,896
Gross margin percentage	**40.2%**	42.7%	42.8%

*"Other" is composed of media and business forms, predominantly for use with automated teller machines and point-of-sale equipment, and sales of advanced decision support systems software.

Revenues from sales of telecommunications network products and systems increased 3.0 percent in 1992 and 2.6 percent in 1991, primarily because of double-digit growth in sales outside the U.S. This growth reflects our increasing market presence overseas, which should lead to many more sales opportunities in the years ahead. Many of the less-developed countries have plans for massive investment in their basic telecommunications infrastructures. AT&T is an attractive partner for many of these countries, offering a full range of integrated products and services and, sometimes, assistance in financing.

Sales to the Regional Bell Operating Companies were steady in 1992 after a decline in 1991. The RBOCs had reduced capital spending in a weak U.S. economy that had fewer housing starts and, consequently, slower telephone line growth. In addition, intense competition for sales to these customers created pricing pressure, reducing our revenues and margins. However, we successfully negotiated new sales contracts with several of the regional companies, and sales under those contracts contributed to strong fourth quarter 1992 sales.

Our other U.S. customers for telecommunications network products and systems include independent telephone companies, cellular service providers, building contractors and other specialized companies. Our sales of wireless products increased strongly in 1991 but declined in 1992, primarily as a result of the timing of orders under a major 1991 contract with GTE Corporation that is expected to produce $600 million in total revenues over seven years.

Revenues from sales of computer products and systems decreased 6.4 percent in 1992 and 11.0 percent in 1991. The decline in 1992 was mainly the result of the loss of sales from some of AT&T's computer products that were phased out after the merger with NCR and because of the weak economy in Europe and Japan. The 1991 decrease reflected weak demand industrywide, principally due to the economy.

NCR management smoothly handled the integration of those portions of AT&T's Computer Systems unit that were retained. They also managed a first-quarter 1992 merger with Teradata Corporation, a leader in high-performance computer systems, parallel processing technologies and large database management. (See also Note C.) Despite these tasks and an economy that hurt many other suppliers of business information processing systems, the newly constituted NCR remains an important contributor to AT&T's earnings.

Revenues from sales of communications products and systems increased 8.6 percent in 1992 and 0.5 percent in 1991. Partly reflecting gains in market share in 1991, sales grew both years for consumer-

AT&T is expanding its international presence, capitalizing on new opportunities for growth.

oriented products such as cordless telephones and telephone answering systems. Sales of AT&T's new cellular and video telephone products began in 1992. The increase in 1992 sales of business communications products and systems was due to higher sales outside the U.S., an 8 percent April price increase on systems for large businesses, and a greater sales presence after employees completed a new training program. These sales declined in 1991, primarily as a result of lower demand industrywide. In 1992, we combined the units that serve large and small businesses. We also made changes in our product line and sales and distribution processes that boosted product margins and reduced expense levels.

Sales in the microelectronics products, special-design products for the federal government, and other products and systems category increased 15.5 percent in 1992 and 3.6 percent in 1991. Sales to original equipment manufacturers of microelectronics components and power systems increased strongly both years. Sales growth was particularly strong outside the U.S. Sales of media and business forms, principally for automated teller machines and point-of-sale equipment, also increased both years. U.S. government purchases of special-design products declined in 1992 after increasing in 1991.

The cost of products and systems increased in 1992 after declining in 1991, primarily reflecting changes in the associated sales volumes. In 1991, cost of products and systems included $123 million of charges related to our restructuring activities, primarily to write down impaired assets. The decline in the gross margin percentage in 1992 was principally due to price competition.

Rentals and Other Services

Revenues from rentals and other services remained approximately level over the past two years, despite the continuing decline in rentals. Because of intense competition and aggressive pricing of products, many customers find purchases more economical than rentals of communications equipment. However, we continue to introduce new products and leasing and maintenance options to customers who prefer the flexibility and choices available through rental plans. And increases in rental prices made the decline in revenues smaller than the decline in units.

We expect revenues from rentals and other services to increase in 1993, as the anticipated increase in revenues from product-related and miscellaneous services more than offsets the continuing decline in rental revenues.

Rentals and Other Services

Dollars in millions	1992	1991	1990
Revenues			
Computer products and systems	**$2,667**	$2,676	$2,568
Communications products and systems rentals	**1,409**	1,674	2,064
Communications products and systems services	**1,375**	1,299	1,347
Other*	**1,506**	1,310	1,014
Rentals and other services	**6,957**	6,959	6,993
Cost of rentals and other services	**3,287**	3,344	3,377
Gross margin	**$3,670**	$3,615	$3,616
Gross margin percentage	**52.8%**	51.9%	51.7%

*"Other" is composed principally of global messaging and electronic mail services, telemarketing services, information technology services and facility rentals.

Revenues from computer hardware and software maintenance contracts and custom programming services were steady in 1992 and increased in 1991. Higher maintenance contract revenues were responsible for the increase in communications products and systems services revenues in 1992. The decline in 1991 was primarily due to lower sales of business systems and increased competition for both installation and maintenance services.

The increase in other rentals and services revenues over the last two years was primarily due to newer services and acquired businesses. In early 1992, our information technology services unit, AT&T ISTEL, purchased DATAID S.A., a French software and information services company. In December 1990, we purchased certain assets of the Business Services Group of Western Union Corporation, which formed the core of our AT&T Easylink Services unit, a provider of global electronic messaging services.

The improvement in the gross margin percentage for rentals and other services over the last two years reflected benefits from business restructuring activities and from technological advances, such as remote testing and diagnostics for maintenance services.

Financial Services and Leasing

Revenues from financial services and leasing increased 36.8 percent in 1992 and 70.7 percent in 1991. Universal Card and AT&T Capital reported higher revenues in both periods. We anticipate continuing strong growth in revenues from financial services and leasing in 1993.

Financial Services and Leasing

Dollars in millions	1992	1991	1990
Revenues	**$1,894**	$1,384	$811
Costs	**1,310**	1,071	645
Gross margin	**$ 584**	$ 313	$166
Gross margin percentage	**30.8%**	22.6%	20.5%

Universal Card added 2.7 million accounts during 1992, bringing the total at year-end to 10.3 million. Cardholder receivables increased $2.8 billion, reaching $6.6 billion at year-end. We successfully solicited a number of new cardholders during the year with an innovative promotion under which customers transferred balances from other credit cards. The percentage of delinquent balances continues to be significantly below industry norms. Universal Card reported its first profits in June 1992, well in advance of the expectations we announced when the card was introduced in March 1990, and was profitable for the year of 1992.

The increase in revenue at AT&T Capital over the last two years came from growth in earning assets. The majority of AT&T Capital's business is now related to non-AT&T products. In recognition of this shift and to provide more flexibility for financing of our core business, we announced that we were taking the necessary legal and financial steps to make AT&T Capital more financially independent. (See also the discussion under Financing Activities.)

The increase in cost of financial services and leasing over the last two years was due to the higher volume of financing and credit card transactions. The increase in the gross margin percentage primarily reflected maturation of the credit card receivables portfolio. Aiding the margin improvement in 1991 was a lower cost of funds due to lower interest rates.

Operating Expenses

Selling, general and administrative expenses decreased 1.7 percent in 1992, but increased 9.7 percent in 1991. The 1991 increase and the 1992 decrease were largely the result of $501 million of 1991 expenses related to restructuring activities and the merger of AT&T and NCR. Spending has increased for expansion overseas and into new markets. At the same time, we continue to protect our core revenues through increased spending on sales and support efforts. This includes billing and customer services as well as increased advertising and promotions.

Research and development expenses decreased 6.5 percent in 1992, but increased 6.1 percent in 1991. The decline reflects streamlined efforts for telecommunications network products and systems and a consolidation of research and development efforts for computer products and systems following the merger. We continue to fund research and development efforts for cellular technology, advanced communications services, new-generation computer products, and projects aimed at international growth, the principal areas of increased spending in 1991.

The provision for business restructuring in 1992 covers estimated costs for reducing the work force in our Network Systems group and AT&T ISTEL, and restructuring costs related to the implementation of voice-recognition technology for operator services in our Communications Services group. We are reducing our work force at AT&T ISTEL primarily because of the economic weakness in Europe. The reductions in our Network Systems group were in response to lower sales levels in the U.S. The 1991 provision for business restructuring was discussed on page 18 and additional information is included in Note D. Our business units and support divisions continuously strive to improve their cost structures. In some cases, this requires closing facilities, disposing of assets, reducing the work force or withdrawing from markets.

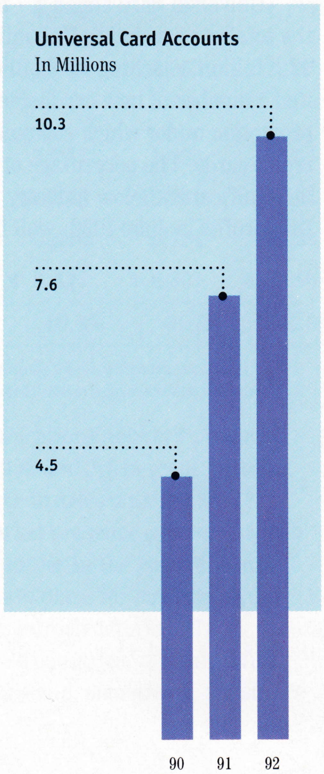
Other Income and Interest Expense

Other income - net increased in 1992 after declining in 1991. Both the increase and the decline were primarily associated with equity investments. At year-end 1992, we took a pre-tax charge of $68 million because of a further decline in the market value of our investment in Compagnie Industriali Riunite S.p.A. (CIR). CIR's value declined along with the Italian securities markets, and also because of continuing difficulties at its principal holding, Ing. C. Olivetti & C., S.p.A. (Olivetti).

In 1991, we took a pre-tax charge of $218 million to account for a reduction in the market value of our CIR investment. We acquired the investment in 1989 in exchange for our holdings in Olivetti. Those holdings were acquired in 1983 in connection with a strategic partnership that has since ended. Partly offsetting the loss on CIR was a pre-tax gain of $171 million from selling approximately 19.1 million shares of Sun, our entire equity interest. (See also Note E.)

We also recognized a $43 million pre-tax gain in 1991 when UNIX System Laboratories, Inc. sold approximately 20 percent of its stock to other companies. (See also Note F.) In December 1992, we signed a letter of intent to exchange our remaining ownership in USL for up to 12.3 million newly issued shares of Novell, Inc. (Novell) common stock. If approved, the exchange will give AT&T approximately 3 percent ownership of Novell. Novell will take responsibility for the further development of the UNIX® operating system and software. Like the 1991 sale, this exchange is intended to encourage industry commitment to open computing standards based on UNIX. We expect the exchange to result in a pre-tax gain of approximately $200 million during the first quarter of 1993.

Interest expense consists of interest on debt and other accrued liabilities. It excludes interest associated with financial services operations, which is included in costs. The decline in interest



An average of more than 300,000 new accounts per month have been added since the credit card was introduced.

expense in 1992 was about one-third due to lower interest on contingent liabilities and about two-thirds due to lower interest on debt. Some of the benefit from refinancing long-term debt at favorable rates was offset by costs – such as call premiums – related to that refinancing. The decline in interest expense in 1991 was primarily due to reversing some accruals that were no longer necessary. (See also Notes A and K.)

Provision for Income Taxes

The provision for income taxes represents the total taxes that apply to book income – the amount of income before income taxes that appears on our income statement. The provision takes into account the statutory income tax rates, permanent differences between book income and taxable income, and various tax credits. This is illustrated in a table in Note G. The effective tax rate is the ratio of the provision for income taxes to income before income taxes. The amount of income taxes paid represents actual cash payments to taxing jurisdictions during the year.

Income Taxes Information

Dollars in millions	1992	1991	1990
Income before income taxes	**$5,958**	$ 883	$4,879
Provision for income taxes	**2,151**	361	1,775
Effective income tax rate	**36.1%**	40.9%	36.4%
Income taxes paid	**$ 697**	$1,308	$1,034

The decline in income before income taxes and in the provision for income taxes in 1991 reflects the restructuring and other charges in that year. The increase in the effective tax rate in 1991 was primarily due to the tax effects of those charges, which were magnified by the reduced income before income taxes.

In 1992, the Financial Accounting Standards Board (FASB) issued an accounting standard that changes the method of accounting for income taxes. This standard requires companies to account for the deferred taxes on their balance sheets using the enacted income tax rates for future years. Currently, AT&T's deferred tax accounts reflect the rates that were in effect when we made the deferrals. Because federal corporate income tax rates are presently lower than the rates that existed before the 1986 Tax Act, we expect to record an earnings benefit of approximately $500 million when we adopt the new accounting method. That benefit will be recorded as the cumulative effect of a change in accounting in the first quarter of 1993. Once it is adopted, we do not expect any material effects on net income from the new method of accounting unless corporate income tax rates change. (See also Note B.)

Total Assets, Working Capital and Liquidity

Total assets increased $3.833 billion from year-end 1991, primarily reflecting the increases in finance receivables and in property, plant and equipment, net of accumulated depreciation. Working capital, defined as current assets less current liabilities, increased $1.506 billion during 1992. The decline in cash and temporary cash investments reflects internal financing of investing activities and the unusually high balance at year-end 1991 prior to an anticipated debt retirement.

The increase in both short-term and long-term finance receivables is an expected result of AT&T's growing credit card operations and equipment financing and leasing activities. We improved our management of both accounts receivable and inventories. Accounts receivable declined slightly from year-end 1991, despite the record revenues in the fourth quarter of 1992, and inventories declined 15 percent.

The increase in property, plant and equipment, net of accumulated depreciation, reflects additions, particularly for the long distance network. The decline in investments is largely a function of the writedown of our CIR investment and of the merger with Teradata, in which we previously had a 9 percent equity interest. Higher prepaid pension costs are the result of the net pension credit offset by the transfer of excess pension assets to fund retiree health care benefits. That funding was primarily responsible for the increase in other assets.

The increase in accounts payable is related to higher costs and expenses, exclusive of the restructuring and other charges in 1991. The increase in payroll and benefit-related liabilities is largely due to wage increases and higher benefit costs. Declines in other current liabilities and other liabilities reflect our use of the reserves for restructuring activities.

The increase in debt maturing within one year primarily reflects short-term financing for Universal Card. The increase in long-term debt primarily reflects medium-term notes issued by AT&T Capital. The increase in deferred income taxes is the result of normal timing differences in the recognition of expenses related to property, plant and equipment, employee benefits and business restructuring reserves.

The increase in minority interests reflects the sale of some interests in submarine-cable-laying ships as well as several new international joint ventures involving network systems, computing and communications products.

Net cash provided by operating activities increased to $7.874 billion in 1992, compared with $6.015 billion in 1991 and $6.435 billion in 1990. The greater cash flow in 1992 reflected a smaller increase in working capital requirements and higher earnings. The decline in cash flow in 1991 was due to higher working capital requirements and higher cash payments for interest and income taxes.

For the three years, cash flows provided by operating activities were adequate for our net capital expenditures and the payment of dividends. Our investment in finance receivables was financed externally. We expect cash flows provided by operating activities to be adequate to finance capital expenditures and to pay dividends in 1993.

Investing Activities

Net capital expenditures were $3.9 billion in 1992 and 1991, and $4.0 billion in 1990. The bulk of our capital expenditures are for the AT&T Worldwide Intelligent Network. Net expenditures for the network, at market price, were $3.0 billion in 1992, compared with $2.5 billion in 1991 and $2.7 billion in 1990. This spending was for growth, new technology and reliability enhancements. Other capital expenditures have been for equipment used in leasing operations, manufacturing facilities, and research and development equipment. Net capital expenditures for the network and in total are expected to continue increasing in 1993.

We invested heavily in finance receivables, particularly credit card receivables, over the last two years. These capital requirements are also expected to increase in 1993.

We made several minor investments in other companies in 1992. In 1991, investments in other companies were a net source of cash because of the $687 million net proceeds from the sale of our investment in Sun.

AT&T has a 49 percent interest in a joint venture with GTE, called AG Communication Systems Corporation, which is developing new technology and capabilities for GTE's digital switching systems. By agreement, AT&T's ownership will increase to 80 percent in 1994 and to 100 percent in 2004. When our ownership increases in 1994, this venture will be fully consolidated in our financial statements.

Financing Activities and Capitalization

The expansion of our financial services and leasing business over the last three years was the main reason for the increase in total debt outstanding and for most of our need for cash from financing activities. We anticipate increasing capital requirements for the continued growth of Universal Card, and we expect to meet those requirements primarily through additional debt financing. However, we are taking steps to make AT&T Capital more financially independent.

We plan to form a new subsidiary under the name of AT&T Capital that would hold substantially all of the assets of the present AT&T Capital. We would not support any future debt issued by the new AT&T Capital, although we would continue to guarantee the debt outstanding at December 31, 1992. We expect the new AT&T Capital to make an initial public offering of approximately 15 percent of its common stock in 1993, depending on market conditions. AT&T would remain an owner of no less than 80 percent of the common stock.

Other than the agreement with Novell, Inc. related to UNIX System Laboratories, Inc. and the potential sale of equity interests in AT&T Capital, we have no present plans to sell equity interests in other AT&T subsidiaries. However, our plans may change in light of new opportunities and circumstances.

In 1992 and 1991, we took advantage of favorable levels of interest rates to extend debt maturities by refinancing a substantial amount of long-term debt. Much of the financing activity shown on our statements of cash flows relates to these refinancing activities.

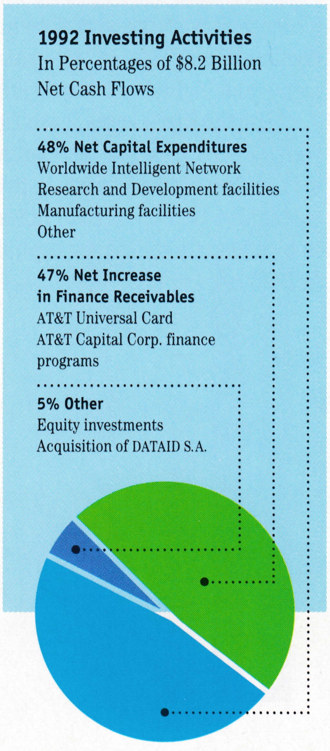
In both 1992 and 1991, we issued new shares of AT&T common stock to fulfill the requirements for share distributions under shareowner and employee plans. In 1991, in connection with the merger, NCR sold 6.3 million shares of its common stock (approximately 17.9 million shares of AT&T common stock after conversion) that had been held as treasury shares. The proceeds from these newly issued shares were used for general corporate purposes. The dilution in earnings per share from new issuances was not material.

In 1990, we established an Employee Stock Ownership Plan (ESOP) feature for our existing non-management savings and security plan. Under the ESOP feature, the plan's trust borrowed $550 million and used the proceeds to purchase approximately 13.4 million newly issued shares of AT&T common stock. The debt of the trust is guaranteed by AT&T, and the related shares are being allocated to participants over 10 years beginning in July 1990 as contributions are made to the plan.

At our annual meeting in April 1992, shareowners approved a 500 million increase in the number of authorized shares of common stock. Approval of the increase gave us additional financing flexibility, and some of these new shares may be issued in connection with the potential $3.8 billion investment in McCaw. However, we have not yet settled on a specific financing mix for that investment.

The ratio of total debt to total capital declined to 46.1 percent at December 31, 1992, compared with 48.9 percent at December 31, 1991. Excluding financial services and leasing operations, the debt ratio declined to 25.4 percent at December 31, 1992, compared with 34.7 percent at December 31, 1991.

Reflecting the earnings improvement, return on average common equity rose to 21.1 percent in 1992 from 3.1 percent in 1991. Average equity in 1992 was nearly $3 billion lower than it would have been without the 1991 restructuring and other charges. Excluding the effect of 1991 charges and gains on the beginning equity balance of 1992 and on the return on equity of 1991, the return on average common equity was approximately 18.3 percent both years.



Growth in earnings is supported by our investments in productive assets.

Consolidated Statements of Income

Years Ended December 31

Dollars in millions (except per share amounts)	1992	1991	1990
Sales and Revenues			
Telecommunications services	**$39,580**	$38,805	$38,263
Sales of products and systems	**16,473**	15,941	16,124
Rentals and other services	**6,957**	6,959	6,993
Financial services and leasing	**1,894**	1,384	811
Total revenues	**64,904**	63,089	62,191
Costs			
Telecommunications services			
Access and other interconnection costs	**18,132**	18,395	18,572
Other costs	**7,135**	6,881	7,061
Total telecommunications services	**25,267**	25,276	25,633
Products and systems	**9,846**	9,134	9,228
Rentals and other services	**3,287**	3,344	3,377
Financial services and leasing	**1,310**	1,071	645
Total costs (D)	**39,710**	38,825	38,883
Gross margin	**25,194**	24,264	23,308
Operating Expenses			
Selling, general and administrative expenses	**15,950**	16,220	14,782
Research and development expenses	**2,911**	3,114	2,935
Provision for business restructuring (D)	**64**	3,572	95
Total operating expenses (D)	**18,925**	22,906	17,812
Operating income	**6,269**	1,358	5,496
Other income – net (D, E)	**352**	208	257
Gain on sale of stock by subsidiary (F)	**–**	43	–
Interest expense (A)	**663**	726	874
Income before income taxes	**5,958**	883	4,879
Provision for income taxes (G)	**2,151**	361	1,775
Net Income	**$ 3,807**	$ 522	$ 3,104
Weighted average common shares outstanding (millions)	**1,332**	1,293	1,282
Earnings per common share	**$ 2.86**	$ .40	$ 2.42

The notes on pages 30 through 38 are an integral part of the financial statements.

Consolidated Balance Sheets

At December 31

Dollars in millions (except per share amounts)	1992	1991
Assets		
Cash and temporary cash investments	**$ 1,310**	$ 2,148
Receivables less allowances of $829 and $936		
Accounts receivable	**11,040**	11,050
Finance receivables (I)	**8,569**	5,476
Inventories (A)	**2,659**	3,125
Deferred income taxes	**2,118**	2,311
Other current assets	**818**	503
Total current assets	**26,514**	24,613
Property, plant and equipment – net (H, I)	**19,358**	18,689
Investments (J)	**864**	976
Finance receivables (I)	**3,643**	3,180
Prepaid pension costs (N)	**3,480**	3,084
Other assets (A)	**3,329**	2,813
Total Assets	**$57,188**	$53,355
Liabilities and Deferred Credits		
Accounts payable	**$ 5,045**	$ 4,989
Payroll and benefit-related liabilities	**3,336**	3,259
Debt maturing within one year (K)	**7,600**	7,053
Dividends payable	**443**	432
Other current liabilities	**4,962**	5,258
Total current liabilities	**21,386**	20,991
Long-term debt including capital leases (I, K)	**8,604**	8,484
Other liabilities	**2,634**	2,902
Deferred income taxes	**4,660**	3,426
Unamortized investment tax credits	**350**	568
Other deferred credits	**181**	339
Total liabilities and deferred credits	**37,815**	36,710
Minority interests	**452**	417
Shareowners' Equity (L, P)		
Common shares – par value $1 per share	**1,340**	1,309
Authorized shares: 2,000,000,000 at December 31, 1992; 1,500,000,000 at December 31, 1991		
Outstanding shares: 1,339,831,000 at December 31, 1992; 1,309,352,000 at December 31, 1991		
Additional paid-in capital	**11,425**	10,624
Guaranteed ESOP obligation	**(407)**	(462)
Foreign currency translation adjustments	**65**	158
Retained earnings	**6,498**	4,599
Total shareowners' equity	**18,921**	16,228
Total Liabilities and Shareowners' Equity	**$57,188**	$53,355

The notes on pages 30 through 38 are an integral part of the financial statements.

Consolidated Balance Sheets

At December 31

Dollars in millions (except per share amounts)	1992	1991
Assets		
Cash and temporary cash investments	**$ 1,310**	$ 2,148
Receivables less allowances of $829 and $936		
Accounts receivable	**11,040**	11,050
Finance receivables (I)	**8,569**	5,476
Inventories (A)	**2,659**	3,125
Deferred income taxes	**2,118**	2,311
Other current assets	**818**	503
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Total Liabilities and Shareowners' Equity	**$57,188**	$53,355

The notes on pages 30 through 38 are an integral part of the financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31

Dollars in millions	1992	1991	1990
Operating Activities			
Net income	**$ 3,807**	$ 522	$ 3,104
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**3,540**	3,568	3,721
Provision for uncollectibles	**1,945**	1,233	1,048
Provision for business restructuring	**64**	3,572	95
(Increase) in accounts receivable	**(1,489)**	(2,108)	(1,422)
Decrease (increase) in inventories	**551**	(59)	230
Increase (decrease) in accounts payable	**30**	109	(197)
Net (increase) in other operating assets and liabilities	**(701)**	(1,019)	(108)
Other adjustments for non-cash items – net	**127**	197	(36)
Net cash provided by operating activities (A, G)	**7,874**	6,015	6,435
Investing Activities			
Capital expenditures net of proceeds from sale or disposal of property, plant and equipment of $250, $119 and $97 (M)	**(3,933)**	(3,860)	(4,018)
Increase in finance receivables, net of lease-related repayments of $4,325, $3,521 and $2,952	**(3,878)**	(3,052)	(2,376)
Net (increase) decrease in investments	**(12)**	473	(342)
Acquisitions, net of cash acquired (M)	**(202)**	(29)	(776)
Other investing activities – net	**(167)**	69	(221)
Net cash used in investing activities	**(8,192)**	(6,399)	(7,733)
Financing Activities			
Proceeds from long-term debt issuance	**2,928**	1,300	1,572
Retirements of long-term debt	**(3,684)**	(1,196)	(1,159)
Issuance of common shares	**689**	1,164	726
Treasury shares acquired	**(2)**	(3)	(467)
Dividends paid	**(1,748)**	(1,563)	(1,496)
Increase in short-term borrowings – net	**1,341**	969	2,197
Other financing activities – net	**(70)**	5	(38)
Net cash (used in) provided by financing activities	**(546)**	676	1,335
Effect of exchange rate changes on cash	**26**	(19)	61
Net (decrease) increase in cash and temporary cash investments	**(838)**	273	98
Cash and temporary cash investments at beginning of year	**2,148**	1,875	1,777
Cash and temporary cash investments at end of year	**$ 1,310**	$ 2,148	$ 1,875

The notes on pages 30 through 38 are an integral part of the financial statements.

Notes to Consolidated Financial Statements

Dollars in millions (except per share amounts)

A. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of American Telephone and Telegraph Company (AT&T) and majority-owned subsidiaries. Investments in 20%- to 50%-owned companies and joint ventures are accounted for using the equity method. The accounts of foreign entities are included in the consolidated financial statements on the basis of their fiscal year, ended either November 30 or December 31.

Foreign Currency Translation

For most international operations, assets and liabilities are translated at year-end exchange rates and income statement items are translated at average exchange rates for the year. Resulting translation adjustments are recorded as a separate component of shareowners' equity.

Revenue Recognition

For telecommunications services, revenues are recorded on the basis of minutes of traffic processed and contracted fees. Revenues from sales of products and systems are recognized upon performance of contractual obligations, which is generally upon installation or shipment. Revenues from rentals and other services are recognized proportionately over the contract period or as services are performed. Finance revenues are recognized over the life of the related finance receivables using the interest method.

Research and Development

Research and development expenditures are charged to expense as incurred. The development costs of software to be marketed are charged to research and development expense until technological feasibility is established. After that time, the remaining software production costs are capitalized as other assets and amortized to product costs over the estimated period of sales. Such amortization amounted to $315 in 1992, $311 in 1991 and $232 in 1990. Unamortized software production costs were $521 and $565 at December 31, 1992 and 1991, respectively.

Interest Expense

Interest expense consists of interest on short-term and long-term debt and interest on accrued liabilities. Interest expense related to financial services operations is included in costs and amounted to $485 in 1992, $445 in 1991 and $313 in 1990. AT&T capitalized interest costs of $62 in 1992, and $79 in 1991 and 1990. Cash payments for interest, net of amounts capitalized, were $1,118 in 1992, $1,058 in 1991 and $957 in 1990.

Investment Tax Credits

For financial reporting purposes, AT&T amortizes 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

Earnings per common share is computed based on the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Common stock equivalents represent stock options assumed to be exercised.

Temporary Cash Investments

Temporary cash investments are highly liquid, with original maturities generally of three months or less, and are considered to be cash equivalents for cash flow reporting purposes.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally on a first-in, first-out (FIFO) basis.

At December 31	**1992**	1991
Completed goods	**$1,689**	$1,837
Work-in-process and raw materials	**970**	1,288
Total	**$2,659**	$3,125

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated using either the group or unit method. The unit method is used primarily for factory facilities, laboratory equipment, large computer systems, and certain international earth stations and submarine cables. The group method is used for most other depreciable assets. Gains or losses on sales of assets depreciated using the unit method are included in operating results. As assets accounted for using the group method are retired, the original cost is removed from the plant account and from accumulated depreciation.

Factory facilities and digital equipment used in the telecommunications network, except switching equipment placed in service before 1989, are primarily depreciated on an accelerated basis. All other plant and equipment are depreciated on a straight-line basis.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for using the purchase method. These amounts are amortized on a straight-line basis over the periods benefited, principally in the range of 10 to 15 years. Such amortization amounted to $68 in 1992, $52 in 1991 and $50 in 1990. Goodwill, net of accumulated amortization, was $766 and $642 at December 31, 1992 and 1991, respectively.

Reclassifications

Certain amounts for previous years have been reclassified to conform with the 1992 presentation.

B. Prospective Accounting Changes

Postretirement Benefit Expenses

Effective January 1, 1993, AT&T is adopting Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This standard requires companies to accrue for estimated future postretirement benefit expenses during the years employees are working and earning benefits for retirement. Previously, AT&T expensed these benefits as claims were incurred.

Under the new standard, AT&T has an accumulated postretirement benefit obligation related to past service from current retirees and active employees. A portion of that liability will be provided for by trust funds that AT&T established and began funding in 1991.

In addition, AT&T reimburses the divested Bell System operating telephone companies for a portion of their costs to provide health care benefits and increases in pensions to pre-divestiture retirees under the terms of the Divestiture Plan of Reorganization. AT&T will recognize the liability for these postretirement benefit expenses at the time that SFAS No. 106 is adopted.

AT&T is electing to take an after-tax charge of approximately $7,000 to recognize the unfunded portion of the accumulated obligation under SFAS No. 106 and to record the postretirement liability related to the divested Bell System operating telephone companies, rather than amortizing this amount over a number of years. The charge will be recorded as the cumulative prior years' effect of an accounting change in the first quarter of 1993. Apart from this charge, management expects the change in accounting for postretirement benefit expenses to have no material effect on net income in 1993. In addition, this accounting change will not affect cash flows.

Income Taxes

Also effective January 1, 1993, AT&T is adopting SFAS No. 109, "Accounting for Income Taxes." Among other provisions, this standard requires deferred tax balances to be determined using the enacted income tax rates for the years in which the taxes will actually be paid or refunds received. At December 31, 1992, AT&T's deferred tax accounts reflect the statutory rates that were in effect when the deferrals were initiated.

AT&T will recognize a net income benefit of approximately $500 as the cumulative prior years' effect of an accounting change in the first quarter of 1993. Management does not anticipate that the new accounting method will have any material effects on net income after the standard is adopted unless statutory income tax rates are changed. This change in the accounting for income taxes has no effect on cash flows.

Postemployment Benefits

In November 1992, the Financial Accounting Standards Board issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Analogous to SFAS No. 106 for postretirement benefits, this standard requires companies to accrue for estimated future postemployment benefit expenses during the periods when employees are working. Postemployment benefits are any benefits other than retirement benefits that are provided after employment is discontinued.

This standard must be adopted for fiscal years beginning after December 15, 1993; for AT&T, that would be 1994. Management is presently reviewing the provisions of this new standard and, consequently, is unable to reasonably estimate the impact of AT&T's adoption of the standard.

C. Mergers

On February 28, 1992, AT&T merged with Teradata Corporation (Teradata). As a result, AT&T issued approximately 11 million shares of common stock in exchange for the outstanding shares of Teradata not previously owned by AT&T at an exchange ratio of .802 share of AT&T common stock for each Teradata share. The merger was accounted for as a pooling of interests; however, the consolidated financial statements of AT&T were not restated due to immateriality. The accounts and operations of Teradata are included in the consolidated financial statements as of January 1, 1992. (See also Notes L and P.)

On September 19, 1991, AT&T merged with NCR Corporation (NCR). Approximately 203 million shares of AT&T common stock were issued to complete the transaction. The merger was accounted for as a pooling of interests and, accordingly, the consolidated financial statements of AT&T were restated for all periods prior to the merger to include the accounts and operations of NCR.

D. Business Restructuring and Other Charges

In 1992, AT&T recorded a $64 provision for business restructuring, primarily for reducing the size of the work force in several business units.

In 1991, AT&T recorded approximately $4,500 of business restructuring and other charges, which reduced net income by $2,863 or $2.21 per share. The charges were incurred for changes in AT&T's computer operations, for restructuring PBX operations and product distribution processes, to consolidate operations in leased and owned buildings and to recognize costs of vacant space, to eliminate a future subsidy to an Alaskan long distance company, to write down an investment and for other restructuring activities, merger-related expenses and other charges.

The 1991 charges were recorded as a $3,572 provision for business restructuring, $501 of selling, general and administrative expenses, $123 as cost of products and systems, and the remainder as other costs and expenses, including other income – net. (See also Note E.) The provision for business restructuring includes the estimated costs associated with force reductions and relocations, facility consolidations, contractual obligations, including lease buyouts, and other restructuring activities. Charges included in other accounts were primarily for expenses related to the restructuring activities, asset impairments and merger-related expenses.

In 1990, AT&T recorded net charges of $95 for business restructuring activities. Charges of $495 were recorded primarily for restructuring operations that produce microelectronics components and systems and operations that reclaim scrap metal, and reducing the product technician work force. These charges were offset by a $400 net credit to adjust the reserves established in 1988 for costs associated with the accelerated digitization of AT&T's telecommunications network. The net credit reflects reduced costs to remove certain equipment, offset by additional costs for force reductions and facilities closings.

Management believes that the balance of reserves for all business restructuring activities, $2,006 at December 31, 1992, is adequate for the completion of these activities.

E. Other Income-Net

	1992	1991	1990
Interest income	**$149**	$170	$210
Royalties and dividends	**48**	55	47
Foreign exchange gains (losses) - net	**4**	6	(36)
Earnings applicable to minority interests	**56**	(1)	(11)
Miscellaneous - net	**95**	(22)	47
Total	**$352**	$208	$257

Interest income excludes interest associated with financial services operations, which is included in revenues.

In 1992, miscellaneous - net includes a $68 loss to further reduce the carrying value of AT&T's investment in Compagnie Industriali Riunite S.p.A. (CIR). In 1991, miscellaneous - net includes a $171 gain on the sale of AT&T's 19% equity investment in Sun Microsystems, Inc. and a $218 loss to reduce the carrying value of AT&T's investment in CIR. The losses on the CIR investment were recognized because of a sustained decline in CIR's market value.

F. Gain on Sale of Stock by Subsidiary

In 1991, a $43 gain was recognized on the issuance of stock by UNIX System Laboratories, Inc. (USL), an AT&T subsidiary. Approximately 20% ownership in USL was sold to other industry participants to encourage their commitment to open computer systems based on UNIX. Proceeds from the sale were in cash and there were no deferred taxes provided for the gain on the sale.

In December 1992, AT&T signed a letter of intent to sell its remaining ownership in USL to Novell, Inc. (Novell) in exchange for up to 12.3 million newly issued shares of Novell common stock, which would represent an approximate 3% ownership interest in Novell.

G. Income Taxes

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

	1992	1991	1990
Federal income tax at 34% statutory rate	**$2,026**	$ 300	$1,659
Amortization of investment tax credits	**(221)**	(142)	(176)
State and local income taxes, net of federal income tax effect	**230**	63	176
Foreign rate differential	**75**	54	60
Taxes on repatriated and accumulated foreign income, net of tax credits	**67**	(12)	(4)
Research credits	**(18)**	(5)	(17)
Capital loss carryforward	**(13)**	32	–
Other differences - net	**5**	71	77
Provision for income taxes	**$2,151**	$ 361	$1,775
Effective income tax rate	**36.1%**	40.9%	36.4%

The United States and foreign components of income before income taxes and the provision for income taxes are presented below:

	1992	1991	1990
Income before income taxes			
United States	**$5,628**	$ 373	$4,206
Foreign	**330**	510	673
	$5,958	$ 883	$4,879
Provision for income taxes			
Current			
Federal	**$ 503**	$ 820	$ 650
State and local	**124**	192	165
Foreign	**215**	302	315
	842	1,314	1,130
Deferred			
Federal	**1,387**	(829)	614
State and local	**225**	(96)	101
Foreign	**(85)**	140	13
	1,527	(785)	728
Deferred investment tax credits - net*	**(218)**	(168)	(83)
Provision for income taxes	**$2,151**	$ 361	$1,775

*Net of amortization of $221 in 1992, $142 in 1991 and $176 in 1990.

Deferred taxes result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. The principal sources of deferred taxes were as follows:

	1992	1991	1990
Property, plant and equipment	**$ 929**	$ 511	$ 572
Business restructuring charges	**218**	(1,103)	69
Employee pensions and other benefits	**234**	(26)	144
Reserves and allowances	**108**	(208)	(45)
Other timing differences - net	**38**	41	(12)
Total deferred income taxes	**$1,527**	$ (785)	$ 728

AT&T made income tax payments of $697 in 1992, $1,308 in 1991 and $1,034 in 1990.

H. Property, Plant and Equipment

At December 31	1992	1991
Land and improvements	**$ 690**	$ 684
Buildings and improvements	**8,243**	8,229
Machinery, electronic and other equipment	**31,117**	30,979
Total property, plant and equipment	**40,050**	39,892
Less: Accumulated depreciation	**20,692**	21,203
Property, plant and equipment - net	**$19,358**	$18,689

I. Leases

As Lessor

AT&T provides direct financing leases for its products and those of other companies and leases its products to customers under sales-type leases. AT&T's net investment in direct financing and sales-type leases was as follows:

At December 31	1992	1991
Minimum lease payments receivable	**$3,780**	$3,396
Estimated unguaranteed residual values	**484**	436
Unearned income	**(736)**	(686)
Allowance for credit losses	**(91)**	(66)
Net investment	**$3,437**	$3,080

The scheduled maturities for direct financing and sales-type lease receivables at December 31, 1992 are as follows:

1993	**$1,387**
1994	**929**
1995	**653**
1996	**444**
1997	**218**
Later years	**149**
Total minimum lease payments receivable	**$3,780**

AT&T leases airplanes, energy-producing facilities and transportation equipment under leveraged leases having original terms ranging from 3 to 30 years, expiring in various years from 1993 through 2020. AT&T's net investment in leveraged leases consisted of the following:

At December 31	1992	1991
Rentals receivable (net of principal and interest on non-recourse notes)	**$1,021**	$ 673
Estimated residual value of leased property	**784**	591
Unearned and deferred income	**(626)**	(401)
Allowance for credit losses	**(19)**	(7)
Investment in leveraged leases	**1,160**	856
Deferred taxes	**(719)**	(413)
Net investment	**$ 441**	$ 443

AT&T leases equipment to others through operating leases, the majority of which are cancelable. The net investment in equipment leased to customers under operating leases was as follows:

At December 31	1992	1991
Machinery, electronic and other equipment	**$2,839**	$2,588
Less: Accumulated depreciation	**1,364**	1,284
Net investment	**$1,475**	$1,304

Future minimum rentals receivable under noncancelable operating leases at December 31, 1992 are as follows:

1993	**$403**
1994	**282**
1995	**166**
1996	**59**
1997	**20**
Later years	**1**
Total minimum future rentals receivable	**$931**

As Lessee

AT&T leases land, buildings and equipment through contracts that expire in various years through 2008. Future minimum lease payments due under noncancelable leases at December 31, 1992 are as follows:

	Capital Leases	Operating Leases
1993	**$126**	**$ 780**
1994	**111**	**564**
1995	**66**	**447**
1996	**32**	**328**
1997	**22**	**277**
Later years	**4**	**1,280**
Total minimum lease payments	**361**	**$3,676**
Less: Estimated executory cost	**1**	
Imputed interest	**58**	
Present value of net minimum lease payments	**$302**	

Rental expense under operating leases was $1,121 in 1992, $1,461 in 1991 and $1,778 in 1990.

J. Investments

Investments accounted for by the equity method were $627 and $648 at December 31, 1992 and 1991, respectively. Investments stated at cost or at the lower of cost or market were $237 and $328 at December 31, 1992 and 1991, respectively. (See also Note E.)

On November 4, 1992, AT&T and McCaw Cellular Communications, Inc. (McCaw) announced that they were negotiating a strategic alliance in wireless communications, the purchase by AT&T of a minority interest in McCaw and the purchase by AT&T of an option to acquire voting control of McCaw. McCaw is the leading provider of cellular services in the United States and the fifth largest provider of paging services.

Under the proposed agreement, AT&T would purchase approximately 47.6 million newly issued shares of McCaw's common stock at $42 per share, for a total cost of $2,000 plus interest from December 31, 1992. That common stock would have 1 vote per share and would represent an approximate 19% ownership interest in McCaw. AT&T would also have the right to designate three members of McCaw's Board of Directors.

AT&T is also negotiating with British Telecommunications plc (British Telecom) to purchase, directly or indirectly, 22.1 million shares of McCaw's Class A common stock and 13.7 million shares of McCaw's Class B common stock, beneficially owned by British Telecom, at $49 per share, for a total cost of $1,750 plus interest from December 31, 1992. McCaw Class B common shares have 10 votes per share and Class A common shares have 1 vote per share. When these shares are combined with the newly issued shares of McCaw, AT&T's ownership of McCaw would rise to approximately 33%.

The proposed agreement would also enable AT&T to purchase an option to acquire voting control from McCaw's controlling shareowners. AT&T would pay $100 for the option and, upon exercise of the option, an additional $600 plus interest from the date of the agreement. The option, exercisable between 1 and 7 years from the date of the agreement, would give AT&T a majority of the seats on the McCaw Board.

The proposed transactions are still being negotiated and there is no assurance that a final agreement will be reached. Any final agreement is subject to approval by AT&T's Board of Directors, McCaw's Board of Directors and applicable government agencies. Financing for the approximate $3,800 in proposed transactions may include newly issued shares of AT&T common stock as well as debt.

Separately, AT&T and McCaw agreed that AT&T will purchase, at McCaw's option, approximately 14.5 million newly issued shares of McCaw's common stock at $27.625 per share, for a total cost of $400. This option is exercisable in February 1993. If this option is exercised by McCaw, then the number of shares and price per share of the common stock to be purchased under the proposed transaction with McCaw, described above, would be adjusted so that under both agreements a total of approximately 47.6 million shares would be purchased at a total cost of $2,000 plus interest from December 31, 1992.

On January 27, 1993, a petition was filed with the Federal Communications Commission (FCC) by 3 regional telephone companies requesting an investigation into AT&T's investment in McCaw. Those companies claim that an alliance between AT&T and McCaw would create a dominant, nationwide, vertically-integrated telecommunications services company. They suggest that the FCC should remove regulatory restrictions that inhibit their ability to compete with AT&T and McCaw or, if such restrictions cannot be lifted, that the FCC should impose those same restrictions on AT&T and McCaw. The matter is currently pending.

K. Debt Obligations

Outstanding long-term debt obligations at December 31 were as follows:

Interest Rates	Maturities	1992	1991
Debentures			
$4^3/_8$% to $4^3/_4$%	1992-1999	**$ 750**	$ 1,300
$5^1/_8$% to $7^1/_8$%	1995-2003	**1,673**	1,850
$8^1/_8$% to 9%	1992-2031	**2,576**	3,181
Notes			
$4^1/_4$% to $7^3/_4$%	1992-2014	**2,515**	1,312
$7^4/_5$% to $8^{19}/_{20}$%	1992-2015	**740**	1,033
9% to $12^7/_8$%	1992-2004	**1,036**	1,185
Variable rate	1992-1999	**191**	146
		9,481	10,007
Long-term lease obligations		**302**	292
Other		**148**	120
Less: Unamortized discount – net		**61**	41
		9,870	10,378
Less: Current portions			
Long-term debt		**1,158**	1,802
Long-term lease obligations		**108**	92
Total long-term obligations		**$8,604**	$ 8,484

The future maturities of long-term debt at December 31, 1992 are as follows:

1993	**$1,158**
1994	**1,049**
1995	**626**
1996	**454**
1997	**462**
Later years	**5,732**
Total long-term debt	**$9,481**

The remaining portion of debt maturing within one year consisted principally of commercial paper, which amounted to $6,053 and $4,775 at December 31, 1992 and 1991, respectively.

In March 1990, AT&T established an Employee Stock Ownership Plan (ESOP) feature for its existing non-management savings and security plan. Under this feature, the plan's trust borrowed $550 through a private placement for a term of 10 years at an annual interest rate of 7.43% and used the proceeds to purchase AT&T common stock. Because AT&T has guaranteed the trust's borrowings, they are reported as long-term debt of AT&T. The shares issued by AT&T to the trust are reflected in shareowners' equity, and an amount corresponding to the borrowings (the guaranteed ESOP obligation) is reported as a reduction in shareowners' equity. As the principal amount of the borrowings is repaid, the liability and the guaranteed ESOP obligation are being reduced. AT&T recognizes expense each year based on the shares allocated method. AT&T's cash contributions are determined based on the ESOP's total debt service less dividends paid on ESOP shares. (See also Note L.)

In June 1992, AT&T and AT&T Capital received a commitment from a consortium of lenders for an $8,000 competitive advance and revolving credit facility, of which $5,000 is available to AT&T Capital. The facility, which was unused at December 31, 1992, is intended for general corporate purposes, including support for AT&T's and AT&T Capital's commercial paper. (See also Note R.)

L. Shareowners' Equity

	Common Stock	Additional Paid-in Capital	Foreign Currency Translation Adjustments	Retained Earnings
At December 31, 1989	$1,276	$ 8,874	$ 71	$ 4,502
1990				
Net income	–	–	–	3,104
Dividends declared	–	–	–	(1,533)
Shares issued under employee plans	17	560	–	60
Shares issued under shareowner plans	3	87	–	–
Shares repurchased	(21)	(24)	–	(454)
Translation adjustments	–	–	(21)	–
Other changes	–	–	–	(99)
At December 31, 1990	1,275	9,497	50	5,580
1991				
Net income	–	–	–	522
Dividends declared	–	–	–	(1,612)
Shares issued under employee plans	6	120	–	34
Shares issued under shareowner plans	11	381	–	–
Shares issued in private placement	18	629	–	–
Shares repurchased	(1)	(3)	–	(20)
Translation adjustments	–	–	108	–
Other changes	–	–	–	95
At December 31, 1991	1,309	10,624	158	4,599
1992				
Net income	–	–	–	**3,807**
Dividends declared	–	–	–	**(1,759)**
Shares issued under employee plans	**10**	**298**	–	–
Shares issued under shareowner plans	**10**	**402**	–	–
Shares repurchased	–	**(2)**	–	–
Shares issued for Teradata merger	**11**	**103**	–	–
Teradata balance recorded	–	–	–	**(178)**
Translation adjustments	–	–	**(93)**	–
Other changes	–	–	–	**29**
At December 31, 1992	**$1,340**	**$11,425**	**$ 65**	**$ 6,498**

In 1992, AT&T recorded the balance of Teradata's retained earnings as of January 1, after making adjustments associated with the merger. (See also Note C.)

In September 1991, NCR issued 6.3 million shares of NCR common stock in connection with the merger with AT&T. The shares were converted into approximately 17.9 million shares of AT&T common stock upon consummation of the merger. (See also Note C.)

In March 1990, AT&T issued 13.4 million new shares of common stock in connection with the establishment of an ESOP feature for the non-management savings plan. The shares are being allocated to plan participants over 10 years commencing in July 1990 as contributions are made to the plan. (See also Note K.)

AT&T has 100,000,000 authorized shares of preferred stock at $1 par value. No preferred stock is currently outstanding.

M. Cash Flow Information

The following table displays the non-cash items excluded from the Consolidated Statements of Cash Flows:

	1992	1991	1990
Machinery and equipment acquired under capital lease obligations	**$ 60**	$114	$ 86
Non-cash items consolidated due to net acquisition activities			
Net receivables	**$130**	$ 3	$ 223
Inventories	**48**	5	(9)
Accounts payable	**(37)**	(30)	(19)
Other operating assets and liabilities – net	**154**	55	688
Short-term and long-term debt	**(93)**	(4)	(107)
Net non-cash items consolidated	**202**	29	776
Net cash used for acquisitions	**$202**	$ 29	$ 776

N. Employee Benefit Plans

Pension Plans

AT&T sponsors non-contributory defined benefit plans covering the majority of management and non-management employees. Benefits for management employees are principally based on a career average pay plan while benefits for non-management employees are based on a plan that is not directly pay-related.

Pension contributions are principally determined using the aggregate cost method and are primarily made to trust funds that are held for the sole benefit of pension plan participants. Pension cost is computed using the projected unit credit method and includes the following components:

	1992	1991	1990
Service cost – benefits earned during the period	**$ 452**	$ 303	$ 303
Interest cost on projected benefit obligation	**2,225**	2,136	2,007
Amortization of unrecognized prior service costs	**346**	310	218
Credit for expected return on plan assets*	**(2,973)**	(2,728)	(2,554)
Amortization of transition asset	**(502)**	(502)	(502)
Charges for special pension options	**11**	108	165
Net pension cost (credit)	**$ (441)**	$ (373)	$ (363)

*The actual return on plan assets was $2,274 in 1992, $6,980 in 1991 and $(226) in 1990.

The expected long-term rate of return on plan assets used in determining pension cost was 9.0% for 1992, 8.6% for 1991 and 8.5% for 1990.

	1992	1991	1990
Revenues			
Information movement and management	**$63,010**	$61,705	$61,380
Financial services and leasing	**1,894**	1,384	811
	$64,904	$63,089	$62,191
Operating income			
Information movement and management	**$ 6,531**	$ 2,008	$ 6,283
Financial services and leasing	**193**	(34)	(117)
Corporate and non-operating	**(766)**	(1,091)	(1,287)
Income before income taxes	**$ 5,958**	$ 883	$ 4,879
Assets			
Information movement and management	**$42,064**	$41,307	$38,740
Financial services and leasing	**14,003**	9,809	7,137
Corporate assets	**1,530**	2,533	2,593
Eliminations	**(409)**	(294)	(148)
	$57,188	$53,355	$48,322
Depreciation and amortization			
Information movement and management	**$ 3,543**	$ 3,852	$ 3,864
Financial services and leasing	**352**	160	100
Capital expenditures			
Information movement and management	**$ 3,347**	$ 3,372	$ 3,543
Financial services and leasing	**633**	472	462

Total liabilities for the financial services and leasing industry segment were $12,250, $8,720 and $6,239 at December 31, 1992, 1991 and 1990, respectively.

Geographic Segments

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

	1992	1991	1990
Revenues – external customers			
United States	**$59,234**	$57,647	$56,866
Foreign	**5,670**	5,442	5,325
	$64,904	$63,089	$62,191
Transfers between geographic areas (eliminated in consolidation)			
United States	**$ 1,077**	$ 870	$ 715
Foreign	**911**	884	652
	$ 1,988	$ 1,754	$ 1,367
Operating income			
United States	**$ 6,772**	$ 1,578	$ 5,675
Foreign	**(48)**	396	491
Corporate and non-operating	**(766)**	(1,091)	(1,287)
Income before income taxes	**$ 5,958**	$ 883	$ 4,879
Assets			
United States	**$51,812**	$46,863	$42,048
Foreign	**5,373**	4,931	4,444
Corporate assets	**1,530**	2,533	2,593
Eliminations	**(1,527)**	(972)	(763)
	$57,188	$53,355	$48,322

Foreign revenues in the table represent revenues from AT&T's foreign-based operations only. Revenues from all international activities, including these foreign revenues and revenues from international telecommunications services and export sales, provided 24.3% of consolidated revenues in 1992.

Business restructuring and other charges in 1991, excluding the writedown of AT&T's investment in CIR, affected only the information movement and management segment and the United States geographic segment. Corporate assets are principally cash and temporary cash investments, other short-term investments and the investment in CIR.

R. Financial Instruments

AT&T uses various financial instruments in the normal course of its business. These financial instruments include commitments to extend credit, letters of credit, guarantees of debt, interest rate swap agreements and foreign currency exchange contracts.

By their nature, all such instruments involve risk, and the maximum potential loss may exceed amounts recognized in the Consolidated Balance Sheets. As is customary for these types of financial instruments, AT&T usually does not require collateral or other security from other parties to the instruments. However, because AT&T controls the credit risk of these instruments through credit approvals, limits and monitoring procedures, management believes that reserves for losses are adequate.

The notional or contractual amounts of these commitments and other financial instruments are shown in a table on page 38.

Commitments to Extend Credit

AT&T is engaged in the general-purpose credit card business through AT&T Universal Card Services Corp., a wholly owned subsidiary. Under an agreement with the Universal Bank, a subsidiary of Synovus Financial Corporation that issues the cards, AT&T purchases essentially all cardholder receivables.

Letters of Credit

Letters of credit are purchased guarantees that ensure AT&T's performance or payment to third parties in accordance with specified terms and conditions.

Guarantees of Debt

From time to time, AT&T guarantees the debt of certain unconsolidated joint ventures, principally those engaged in real estate development and management.

Interest Rate Swap Agreements

AT&T enters into interest rate swap agreements to manage exposure to changes in interest rates by more closely matching the maturity of its debt to that of its finance asset portfolio. The agreements generally involve the exchange of fixed or floating interest payments without the exchange of the underlying principal amounts.

Foreign Exchange

AT&T enters into foreign currency exchange contracts, including forward, option and swap contracts, to reduce exposure to foreign currency exchange risk.

Fair Values of Financial Instruments

The following table shows the carrying or notional amounts and estimated fair values of material financial instruments used by AT&T in the normal course of its business.

The fair values of Universal Card finance receivables are reasonably estimated as the carrying amount. These receivables accrue interest at a prime-based rate. The fair value of all other finance receivables is estimated by discounting future cash flows using current market rates.

The fair values of debt excluding capital leases are estimated based principally on the rates currently available to AT&T for debt with similar terms and maturities. In many instances, these rates can be determined from market quotes.

The notional amount of commitments to extend credit is the amount of additional receivables AT&T would have to purchase if all Universal Card accounts were utilized to the extent of their maximum credit limits. Actual cardholder credit utilization is usually only a fraction of available credit.

The fair values of letters of credit are estimated on the basis of the fees paid to obtain the obligation.

The fair values of guarantees of debt and interest rate swap agreements are the estimated costs to terminate these agreements.

The fair values of foreign exchange contracts are estimated using market quotes.

The fair values of the off-balance sheet instruments shown in the table below are negligible.

	1992 Carrying Amount	1992 Fair Value	1991 Carrying Amount
Balance Sheet Instruments			
Finance receivables other than leases	**$ 7,983**	**$ 7,988**	$ 5,092
Debt excluding capital leases	**15,902**	**16,126**	15,245

	1992 Notional Amount	1991 Notional Amount
Off-Balance Sheet Instruments		
Commitments to extend credit	**$39,934**	$28,439
Letters of credit	**455**	290
Guarantees of debt	**271**	283
Interest rate swap agreements	**1,713**	1,511
Foreign exchange forward contracts	**972**	807
Foreign exchange swap contracts	**369**	312
Foreign exchange option contracts	**35**	404

S. Contingencies

In the normal course of business, AT&T is subject to proceedings, lawsuits and other claims, including proceedings under government laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Although the ultimate aggregate amount of monetary liability or financial impact at December 31, 1992, with respect to these matters cannot be ascertained, it is management's opinion that, after final disposition, any monetary liability or financial impact to AT&T beyond that provided at year-end would not be material to AT&T's consolidated financial position.

T. Quarterly Information (unaudited)

Quarters	First	Second	Third	Fourth
1992				
Total revenues	**$15,375**	**$15,845**	**$16,180**	**$17,504**
Gross margin	**5,912**	**6,185**	**6,269**	**6,828**
Net income	**883**	**961**	**963**	**1,000**
Per common share:				
Earnings	**.67**	**.72**	**.72**	**.75**
Dividends declared	**.33**	**.33**	**.33**	**.33**
Stock price*:				
High	**41 3/8**	**44 5/8**	**45 3/8**	**53 1/8**
Low	**36 5/8**	**40 1/8**	**42**	**40 5/8**
Quarter-end close	**40 3/4**	**43**	**43 5/8**	**51**
1991				
Total revenues	$15,274	$15,724	$15,628	$16,463
Gross margin	5,767	6,087	5,944	6,466
Net income (loss)	758	928	(1,799)	635
Per common share:				
Earnings (loss)	.59	.72	(1.40)	.48
Dividends declared	.33	.33	.33	.33
Stock price*:				
High	35 1/8	41 1/4	40 3/8	39 5/8
Low	29	33 5/8	36	35 1/8
Quarter-end close	34 1/4	38 1/4	37 1/2	39 1/8

*Stock prices obtained from the Composite Tape.

Because of changes in the weighted average number of shares outstanding each quarter, the sum of quarterly earnings per common share may not equal the earnings per share for the year and the impact of unusual items may differ from the per-share impact reported for the year.

In the second quarter of 1991, a gain on the sale of an investment increased net income by $87 or $.07 per share. Business restructuring and other charges reduced net income by $2,647 or $2.06 per share in the third quarter and $177 or $.14 per share in the fourth quarter.

Report of Management

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

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

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

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

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

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

Alex J. Mandl
Chief Financial Officer
and Group Executive

R. E. Allen

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

Report of Independent Auditors

To the Shareowners of American Telephone and Telegraph Company:

We have audited the consolidated balance sheets of American Telephone and Telegraph Company (AT&T) and subsidiaries at December 31, 1992 and 1991, and the related consolidated statements of income and cash flows for the years ended December 31, 1992, 1991 and 1990. 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 and subsidiaries at December 31, 1992 and 1991, and the consolidated results of their operations and their cash flows for the years ended December 31, 1992, 1991 and 1990, in conformity with generally accepted accounting principles.

Coopers & Lybrand

1301 Avenue of the Americas
New York, New York
January 28, 1993

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Chief Executive Officer

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Controller

S. Lawrence Prendergast
Vice President and
Treasurer

Robert E. Scannell
Vice President
Law and Secretary

*Also a member of the Operations Committee

The 13-member Management Executive Committee leads the development and implementation of AT&T's mission, values and strategic intent. The Operations Committee executes policies and strategies established by the Management Executive Committee.

Helpful Information for Investors

Shareowner Services
For help with questions about your AT&T account, records or dividend payments, call First Chicago, our shareowner services and transfer agent, toll-free at 1 800 348-8288. Persons using a telecommunications device for the deaf (TDD) or a teletypewriter (TTY) may call 1 800 822-2794. From outside the United States, call us collect at 212 791-0311.

Our mailing address is:
AT&T
c/o First Chicago Trust Co. of NY
P.O. Box 3994
New York, NY 10008-3994

The First Chicago address to which banks and brokers may deliver certificates for transfer is 30 West Broadway in New York City.

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

Street-name Accounts
Shareowners whose stock is held by banks or brokerage firms and who wish to receive AT&T quarterly reports directly from the company should contact First Chicago Trust to be placed on the mailing list.

Investor Relations
Security analysts and other members of the professional financial community are invited to contact AT&T Corporate Investor Relations with questions. Call 1 800 972-0784.

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

Shareowners of record (as of December 31, 1992): 2,418,447

1993 Annual Meeting
The 108th Annual Shareowners Meeting will be held 9:30 a.m., Wednesday, April 21, 1993, at the Hynes Veterans Memorial Convention Center in Boston.

General Information
For help with general questions or comments, write to:

Vice President-Law and Secretary
AT&T
32 Avenue of the Americas
Room 2420E
New York, NY 10013-2412

Form 10-K (AT&T's annual report to the Securities and Exchange Commission) and AT&T Capital Corporation's annual report and Form 10-K are available at no charge by writing:

Secretary's Department
AT&T Shareowner Relations
32 Avenue of the Americas
Room 2420E
New York, NY 10013-2412

A report on AT&T corporate citizenship is available from:

AT&T Foundation
Department A.R.
P.O. Box 45284
Jacksonville, FL 32232-5284

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