

# AT&T midyear report



to our shareowners

For the Six Months Ended June 30, 1997

**Focus on growing  
shareowner  
value is stronger  
than ever**

Dear Shareowner,

**I**n the fast-changing global communications industry, the ability to make difficult decisions quickly is part of the price of leadership.

On July 16, AT&T's Board of Directors made a decisive change in the business. They informed John Walter, who joined AT&T as president and chief operating officer last November, that they were not ready to elect him CEO in January, as originally intended when he joined AT&T. John then resigned, as was his right under his employment contract with AT&T. He leaves with our appreciation for his high-energy contributions to AT&T while he was with us.

A committee of independent board members has begun a search for a CEO candidate whom they will recommend to the entire board as my successor.

Vice Chairman John Zeglis will lead the company's operations, heading a six-member Operations Team that includes Frank Ianna, executive vice president, network and computing services; Gail McGovern, executive vice president, consumer markets; John Petrillo, executive vice president, corporate strategy and business development; Dan Somers, senior executive vice president and chief financial officer; and Jeff Weitzen, executive vice president, business markets.

We have one of the strongest leadership teams in the industry.



**Dan Somers (left), senior executive vice president and chief financial officer, joined AT&T on May 12, having served most recently as chairman and chief executive officer of Bell Cablemedia, plc, of London. Somers is a member of AT&T's Office of the Chairman, along with Vice Chairman John Zeglis (center), who leads the company's Operations Team, and Chairman Bob Allen.**

## AT&T *sets course for evolving industry*

**T**hrough word and deed, AT&T laid important groundwork during the first half of 1997 to meet the evolving opportunities and challenges of our industry. Our work includes three key elements.

**Commitment:** In March we set a number of specific, measurable goals, including a commitment to deliver earnings per share of \$5 to \$6 in just five years.

**Strategy:** The first half of 1997 saw us fully chart a sharply focused three-part strategy: expand from long distance to anytime, anywhere, any distance communications; differentiate AT&T on the basis of features and applications; and broaden and deepen our global reach.

**Execution:** In this quickly changing industry, execution is critical. Beginning on page 2, we provide some highlights, through customer examples, of the progress we're making in implementing our strategy.

*Continued on page 6*



# Executing AT&T's



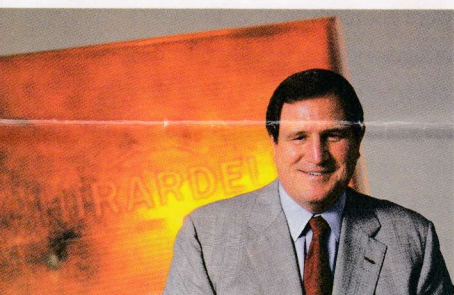
**E**xtend from long distance into anytime, anywhere, any distance service

## AT&T Adds *Local Service Choice* for Consumers and Small Businesses

**T**he minute we could switch to AT&T local service, we did," says Gilbert Yuen, a partner in Golden State Instruments in San Leandro, Calif. Yuen, who is able

to take advantage of choice in the local service market provided by AT&T, adds, "We like having a single point of contact for all our telecommunications needs."

**Competitive Edge:** We continue to make progress in local markets despite roadblocks to full and fair competition posed by the Bell companies. By midyear, AT&T was providing local phone service to consumers and small businesses in six states — California, Connecticut, Georgia, Illinois, Michigan and Texas.

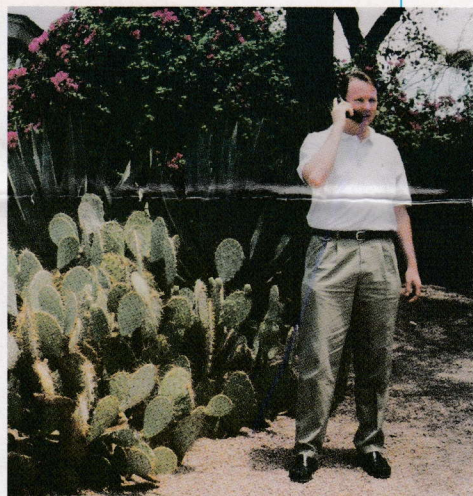


## *Ghirardelli Chocolate* Connects With **AT&T** *Digital Link Service*

**J**ohn J. (Jack) Anton, CEO of Ghirardelli Chocolate Co., headquartered in the San Francisco Bay area, is one of

several thousand large business customers of AT&T Digital Link outbound local calling service. "The service lets us place outbound local calls and have them billed and discounted as part of our long-distance contract," says Anton, who adds that Ghirardelli uses sophisticated technological support as part of its efforts to sustain rapid sales growth.

**Competitive Edge:** In June AT&T added incoming call capability to AT&T Digital Link in New York City as the first step toward deploying it throughout the country.



## **AT&T** *Digital PCS* Debuts in *Arizona*

**M**ike Hansberger, Jr., of Phoenix now enjoys access to AT&T's largest-in-the-industry U.S. wireless coverage, having joined the nearly 1 million customers that AT&T Digital PCS service has attracted since its launch late last year. AT&T Wireless Services began offering Digital PCS service in the Phoenix and Tucson areas in June.

**Competitive Edge:** We already serve more customers than any other wireless carrier in America, and this new offering marked the start of AT&T's service roll-out in markets acquired during the 1995 FCC spectrum auction.

## **AT&T WorldNet Service** Helps Subscribers Create *Personal Web Pages*

**L**ike most grandparents, Carol Bartl of Delafield, Wis., likes to brag about her grandchildren. But with help from AT&T, she's gone further than most folks by putting their photo on the Web. AT&T WorldNet



Service<sup>SM</sup> — AT&T's "Internet for everyone" service providing access to the Internet and online

services — now gives its more than 930,000 subscribers an option through which they can create, edit and publish their own personal Web pages on the Internet.

**Competitive Edge:** This new offering comes on the scene at a time when the number of personal Web sites created monthly is estimated at more than 100,000.



# three-part strategy for the Emerg

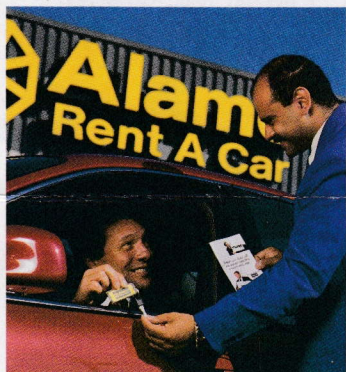
## Differentiate AT&T on the basis of features and applications

### **Kmart Selects AT&T and Gives Employees Our Calling Card**

Patricia Lewis-Davis (left) and Darlene Swanson in Bloomfield Hills, Mich., are among Kmart's 275,000 employees who can get co-branded employee discount cards that double as AT&T Calling Cards. The cards are

part of an innovative four-year agreement under which AT&T will supply the giant retailer with data, long-distance and toll-free services — replacing services previously supplied by MCI.

**Competitive Edge:** *The sale is an example of AT&T's efforts to use new channels to broaden our reach to consumers.*



### **Alamo Uses Electronic Commerce to Strengthen Customer Service**

Customers like René Pagán at Newark (N.J.) Airport, being assisted by Alamo Rent A Car representative Heriberto Ortíz, have even more reason to smile when

renting from Alamo these days. An advanced electronic commerce service from AT&T called Project iA (short for "instant Answers") helps integrate Alamo's call-center technology with the Internet (<http://www.goalamo.com>), allowing for more personalized online service.

**Competitive Edge:** *AT&T is capitalizing on its superior network, toll-free services and Web hosting services to make it easy for both businesses and consumers to do business electronically.*

### **Combined Offerings Provide Greater Value for Customers**

Students at California State University (CSU) will be able to enjoy a unique integrated package

of services this fall through an AT&T system being installed at several CSU campuses. The system provides campus communications, building access and management services, which include a multifunction campus identification card that also can be used as a calling card.

**Competitive Edge:** *This kind of value bundle illustrates AT&T's growing efforts to build customized solutions around specific types of customers in order to meet unique needs.*

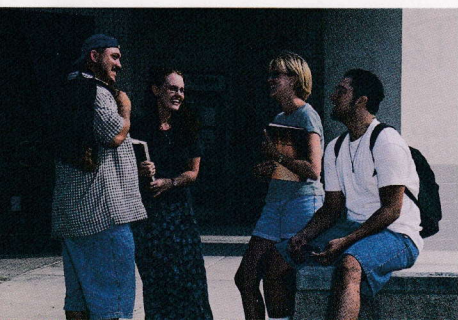
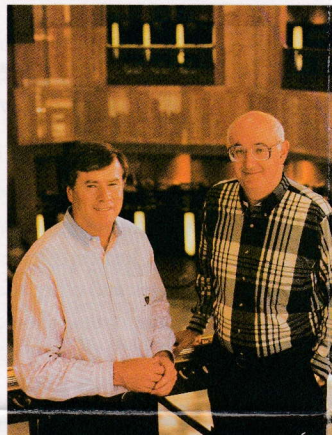
### **AT&T Solutions Partners with Norwest on Service Strategy**

Dan Saklad (right) and Scott Kisting, executive vice presidents in Minneapolis for Norwest Corporation — the financial services company —

are part of the senior team that recently asked AT&T Solutions to help develop a strategy that integrates Norwest's banking

store, phone, personal computer, kiosk and other channels used for customer sales and service.

**Competitive Edge:** *AT&T Solutions' 13,000 professionals around the globe are dedicated to helping the world's largest multinational corporations, known as the Global 2000, identify and capture new sources of value from customer relationships.*





# ing Communications Industry

**B**roaden and deepen our global reach

## AT&T's Alestra Venture in Mexico Emerges as Dominant Newcomer



The AT&T-led Alestra joint venture has made the most of its opportunities since these Alestra technicians helped get the operation launched by placing fiber-

optic cable below the streets of Monterrey, Mexico. Alestra has by far been the No. 1 new entrant in Mexico's telecommunications market that opened to full competition on Jan. 1, obtaining over 34 percent more lines than the next-leading competitor during long-distance presubscription.

**Competitive Edge:** Mexico represents a \$7 billion telecommunications market, and is second only to Canada in international markets generating traffic on the AT&T network.

## Agreements Bolster Capabilities for Multinational Companies

"A good partner for us means quality, professionalism and global reach," says Dr. Luigi Frigerio, managing director for Hoechst's information services company in Frankfurt, Germany. "That's why we established a partnership agreement with AT&T." Indeed, AT&T continually seeks to enhance its global network capa-

## With AT&T, Bank of Japan Harnesses Power of Internet

These traders on the Tokyo Foreign Exchange Market are among those who are benefiting from the Bank of Japan's World Wide Web site created as part of AT&T's Internet service for businesses in Japan. The Web site helps speed delivery of the Bank of Japan's economic forecasts and other data that



sometimes causes financial markets to fluctuate.

**Competitive Edge:** AT&T's evolving Internet offerings are designed to meet specific customer needs in the highly competitive Japanese Internet services market.

## AT&T Helps Paul McCartney Establish E-Mail Record

Sir Paul McCartney has established a new record with the help of AT&T. It was not a music disc, but what is believed to be the largest number of e-mail messages to one person. In anticipation of a live TV show in May — which was simultaneously broadcast over the Internet

— some 3 million people from around the world sent e-mail to the former Beatle. AT&T provided the network systems necessary for the satellite TV transmission in Europe and the United States and the Internet "Webcast."

**Competitive Edge:** As art, commerce and communications continue to merge on an international scale, AT&T expects to remain in the forefront thanks to this and other successes.

bilities. Recent examples: TELEBRAS (Telecomunicacoes Brasileiras S.A.), the largest global carrier in Latin America, joined WorldPartners, an alliance of leading global telecommunications carriers that AT&T helped found in 1993. And AT&T, Italy's STET/Telecom Italia and the pan-European alliance Unisource NV recently announced far-reaching partnership agreements for the joint provision of international telecommunications services.

**Competitive Edge:** Such agreements help AT&T cost-effectively expand its ability to provide a portfolio of seamless, value-added international voice, data and messaging services for global companies.





**AT&T Reports  
Second-Quarter  
Profits of  
59 Cents a Share**

**A**T&T reported income from continuing operations of \$959 million, or 59 cents a share, for the quarter ended June 30, compared with year-ago profits of \$1.538 billion or 95 cents a share.

Revenues from continuing operations in the quarter rose 2.4 percent to \$13.173 billion, compared with \$12.868 billion in the 1996 second quarter.

The revenue increase was driven by growth in business long-distance services, wireless services and AT&T Solutions, partially offset by declines in financial services revenues.

For the first six months of 1997, the company's income from continuing operations was \$2.081 billion, or \$1.28 a share, on revenues of \$26.221 billion. For the same period last year, income from continuing operations was \$3.007 billion, or \$1.87 a share, on revenues of \$25.718 billion.

The year-over-year decline in earnings per share reflects the expected higher level of network and other communications services expenses and depreciation and amortization expenses, including increased investment in growth initiatives as well as the impact from last year's second quarter favorable access accounting adjustment.

**AT&T Consolidated Statements of Income**  
(Preliminary and Unaudited)

Dollars in millions except per share amounts	For the Three Months Ended June 30		For the Six Months Ended June 30	
	1997	1996(a)	1997	1996(a)
<b>SALES AND REVENUES</b>				
Communications services	\$12,822	\$12,449	\$25,480	\$24,819
Financial services	351	419	741	899
<b>Total Revenues</b>	<b>13,173</b>	<b>12,868</b>	<b>26,221</b>	<b>25,718</b>
<b>OPERATING EXPENSES</b>				
Access and other interconnection	4,237	3,852	8,489	8,020
Network and other communications services	2,371	1,897	4,622	3,724
Depreciation and amortization	911	655	1,841	1,310
Selling, general and administrative	3,794	3,779	7,381	7,136
Total communications services expenses	11,313	10,183	22,333	20,190
Financial services expenses	301	366	639	796
<b>Total Operating Expenses</b>	<b>11,614</b>	<b>10,549</b>	<b>22,972</b>	<b>20,986</b>
<b>OPERATING INCOME</b>	<b>1,559</b>	<b>2,319</b>	<b>3,249</b>	<b>4,732</b>
Other income - net	57	102	227	207
Interest expense	56	97	105	220
Income from continuing operations before income taxes	1,560	2,324	3,371	4,719
Provision for income taxes	601	786	1,290	1,712
Income from continuing operations	959	1,538	2,081	3,007
Income (loss) from discontinued operations (Net of taxes of (\$56) in 2Q 1996, \$3 ytd 1997 and (\$372) ytd 1996)	—	(47)	4	(154)
<b>Net Income</b>	<b>\$ 959</b>	<b>\$ 1,491</b>	<b>\$ 2,085</b>	<b>\$ 2,853</b>
Weighted average common shares outstanding (millions)	1,627	1,614	1,628	1,611
<b>PER COMMON SHARE</b>				
Income from continuing operations	\$ 0.59	\$ 0.95	\$ 1.28	\$ 1.87
Income (loss) from discontinued operations	\$ —	\$ (0.03)	\$ —	\$ (0.10)
<b>Net income</b>	<b>\$ 0.59</b>	<b>\$ 0.92</b>	<b>\$ 1.28</b>	<b>\$ 1.77</b>
Dividends declared per common share	\$ 0.33	\$ 0.33	\$ 0.66	\$ 0.66

(a) Prior period amounts have been reclassified to conform to the current presentation

## Owners Vote Their Shares

In this year's Annual Meeting balloting, shareowners voted to:

- Elect the slate of 10 management nominees for the Board of Directors.
- Approve the 1997 Long Term Incentive Program, which includes stock options for employees.
- Defeat five shareowner proposals on the issues of political contributions, operations in China and former Soviet Union, directors' personal statements of belief, executive compensation review and non-cash compensation of managers leaving before retirement. However, the last two proposals may be resubmitted in the future.

The 1997 Annual Meeting was held May 21 at the Meadowlands Exposition Center in Secaucus, N.J. About 1,675 shareowners attended the meeting.

### Meeting Transcript Available

You may obtain a transcript of the Annual Meeting by sending your request to:

AT&T Office of the  
Corporate Secretary  
Room 1210P2  
295 North Maple Avenue  
Basking Ridge, NJ 07920



# Focus on shareowner value

*Continued from page 1*

And that team remains focused on aggressively moving AT&T forward. Most important, AT&T's commitment to grow shareowner value is stronger than ever.

Working toward that commitment, AT&T people kept us on strategy and on target as we hit the midyear point of 1997.

Our strategy reflects the fundamental changes sweeping through the communications industry. It calls for us to expand from long distance into anytime, anywhere, any distance service, differentiate AT&T on the basis of features and applications, and broaden and deepen our global reach.

This is the right strategy at the right time. AT&T people are focused on executing this strategy and creating value for investors and customers alike.

We produced earnings in the second quarter within the target range we set for the quarter and slightly ahead of Wall Street's expectations. While that's good

news, it's much too early for celebrations. The net result was still a year-over-year drop

in earnings, driven largely by the need to invest in the strength of our core communications businesses and in the growth of the "new initiative" businesses that represent our future growth. (See page 5.)

AT&T is committed to deliver earnings per share in the range of \$5 to \$6 in the year 2001. But we don't expect you to wait until then to see progress. We have an aggressive series of interim goals we call stakes in the ground. A quick review of how we're doing against some of these major stakes shows encouraging progress.

**Business Markets** - With data services revenues growing in double digits, we're taking advantage of new business applications that are growing faster than business voice service. Overall revenue growth exceeded 4 percent for the second quarter and we're on

target with our goal of 4 to 6 percent growth for the year.

**Consumer Markets** - We're making a strategic shift to emphasize retaining customers and building on our relationship with them. AT&T has cut back substantially on the industry practice of using checks to acquire new customers. As of the second quarter, we are making progress toward our goal of stabilizing revenues in this huge market.

**AT&T Wireless Services** - With revenue growing at 14 percent we are in an excellent position to meet our goal of growing revenue for the year at the industry rate. This is one of the fastest growing areas of the communications business, and we are building on our leadership.

**New Initiatives** - These businesses include AT&T WorldNet Service and other online services,

new wireless markets, international expansion, consulting and outsourcing, and local service. Our goal is for significant growth. However, while these businesses are growing revenue at an overall rate of 47 percent, none of the new initiatives is profitable yet.

**Local Service** - Like every other company trying to enter the local service market we've been frustrated by the foot-dragging of the local monopolies in opening up their markets. By the end of the second quarter we had launched local service offers in six states with a goal of 15 by year-end. Customer response to AT&T has been strong. Unfortunately, the local monopolists have been unable or unwilling to connect our local customers as fast as AT&T can sign them up.

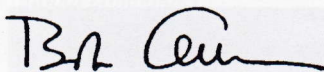
**Cost Savings** - We're on track with our goal of removing \$1 billion in costs from our core businesses this year and an addi-

***Our strategy reflects the fundamental changes sweeping through the communications industry.***

tional \$1.6 billion in 1998 as we move toward our ultimate goal of a best-in-class cost structure.

The bottom line is that our actions and our results will speak louder than our words. We have an ambitious but realistic plan that will help us take full advantage of the exciting changes underway in the communications industry. Our leadership team is focused on executing that plan. And we have no greater priority than creating new value for our shareowners.

We look forward to sharing the future with you.



Robert E. Allen  
Chairman and CEO  
July 21, 1997

## Shareowner Services Contact Information

Questions regarding your AT&T stock, including transfer requirements, lost certificates, address changes and other shareowner account issues, should be directed to AT&T's transfer agent at: **1-800-348-8288**

Outside the US: **201-324-0293**  
TDD/TTY: **1-800-822-2794**  
e-mail: **fcct@attmail.com**

**Visit us on the Web**  
**www.att.com/ir**

AT&T's Investor Relations Web site provides timely information for shareowners.

### Composite Stock Prices

First Half 1997  
NYSE High: 42<sup>3</sup>/<sub>8</sub>  
NYSE Low: 30<sup>3</sup>/<sub>4</sub>  
Midyear Close: 35<sup>1</sup>/<sub>16</sub>  
Annualized Dividend: \$1.32