Law Offices
HOLLAND & KNIGHT LLP

315 South Calhoun Street
Suite 600
P.O. Drawer 810 (ZIP 32302-0810)
Tallahassee, Florida 32301

850-224-7000
FAX 850-224-8832
www.hklaw.com

Atlanta, Boca Raton, Boston, Fort Lauderdale, Jacksonville, Lakeland, Melbourne, Mexico City, Miami, New York, Northern Virginia, Orlando, Providence, San Francisco, St. Petersburg, Tampa, Washington, D.C., West Palm Beach

D. BRUCE MAY, JR.
904-425-5607

Internet Address
dbmay@hklaw.com

April 16, 1999

RECEIVED-FPSC
99 APR 16 AM 11:10
RECORDS AND REPORTING

VIA HAND DELIVERY

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: In re: Application for Certificate to provide alternative local exchange telecommunications service by SBC National, Inc.

Dear Ms. Bayo:

Enclosed for filing are the original and 6 copies of the SBC National, Inc. ("SBC") Application for Authority to Provide Alternative Local Exchange Telecommunications Service Within the State of Florida. Also enclosed is a check in the amount of $250.00 for payment of the application fee.

Please acknowledge your receipt of this filing on the enclosed copy of this letter. Thank you for your consideration in this matter.

Sincerely,

HOLLAND & KNIGHT LLP

D. Bruce May

Initials of person who forwarded check: W.S.

Enclosures
DBM/kjg

DOCUMENT NUMBER-DATE
04871 APR 16 99
FPSC-RECORDS/REPORTING

cc: William Adams, Esq.
Edward Eckhart, Esq.

TAL-151082.1

****FLORIDA PUBLIC SERVICE COMMISSION****

DIVISION OF COMMUNICATIONS
BUREAU OF SERVICE EVALUATION

APPLICATION FORM
for
AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE WITHIN THE STATE OF FLORIDA

Instructions

- This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Appendix A).

- Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

- Use a separate sheet for each answer which will not fit the allocated space.

- Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **$250.00** to:

  Florida Public Service Commission
  Division of Records and Reporting
  2540 Shumard Oak Boulevard
  Tallahassee, Florida 32399-0850
  (850) 413-6770

- If you have any questions about completing the form, contact:

  Florida Public Service Commission
  Division of Communications
  Bureau of Certification and Evaluation
  2540 Shumard Oak Boulevard
  Tallahassee, Florida 32399-0850
  (850) 413-6600

FORM PSC/CMU 8 (ALEC) (6/98)
Required by Commission Rule Nos. 25-24.805, 25-24.810, and 25-24.815

DOCUMENT NUMBER-DATE
04871 APR 16 [illegible]
FPSC-RECORDS/REPORTING

1. This is an application for √ (check one):

(✓) **Original certificate** (new company)

( ) **Approval of transfer of existing certificate:**
Example, a non-certificated company purchases an existing company and desires to retain the original certificate authority.

( ) **Approval of assignment of existing certificate:**
Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

( ) **Approval for transfer of control:**
Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

SBC National, Inc. ("SBC National")

3. Name under which the applicant will do business (fictitious name, etc.):

Not applicable

4. Official mailing address (including street name & number, post office box, city, state, zip code):

David R. Lopez
Vice President, National-Local Regulatory
SBC National, Inc.
175 E. Houston Street, Room 4-A-60
San Antonio, Texas 78205

5. Florida address (including street name & number, post office box, city, state, zip code):

None at this time.

6. Structure of organization:

( ) Individual
( ) Foreign Corporation
( ) General Partnership
( ) Other, ____________________
(✓) Corporation
( ) Foreign Partnership
( ) Limited Partnership

7. **If individual**, provide:

Name: *Not applicable*

Title: ____________________

Address: ____________________

City/State/Zip: ____________________

Telephone No: __________ **Fax No.:** __________

Internet E-Mail Address: ____________________

Internet Website Address: ____________________

8. **If incorporated in Florida**, please provide proof of authority to operate in Florida:

   (a) **The Florida Secretary of State corporate registration number:**
   Not applicable

9. **If foreign corporation**, provide proof of authority to operate in Florida:

   (a) **The Florida Secretary of State corporate registration number:**
   F99000000276

10. **If using fictitious name-d/b/a**, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

   (a) **The Florida Secretary of State fictitious name registration number:**
   Not applicable

11. **<u>If a limited liability partnership</u>**, provide proof of registration to operate in Florida:

(a) **The Florida Secretary of State registration number:**

Not applicable

12. ***<u>If a partnership</u>***, provide name, title and address of all partners and a copy of the partnership agreement.

Name: *Not applicable*

Title:

Address:

City/State/Zip:

Telephone No: **Fax No.:**

Internet E-Mail Address:

Internet Website Address:

13 **<u>If a foreign limited partnership</u>**, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(a) **The Florida registration number:**

Not applicable

14. Provide **<u>F.E.I. Number</u>** (if applicable): ***74-2899863***

15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged, bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. <u>Provide explanation</u>.

Not applicable

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

Not applicable

16. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Bruce May, Esq.
HOLLAND & KNIGHT LLP
315 Calhoun Street, Suite 600
Tallahassee, FL 32301
(850) 224-7000 (telephone)
(850) 224-8832 (fax)
dbmay@hklaw.com (e-mail)

Edward L. Eckhart, Esq.
Vice President, General Counsel/Secretary
SBC National, Inc.
One Bell Plaza, Room 3611
Dallas, Texas 75202
(214) 464-5402 (telephone)
(214)464-5485 (fax)
ee9966@txmail.sbc.com (e-mail)

OF COUNSEL:
William A. Adams, Esq.
ARTER & HADDEN LLP
One Columbus
10 West Broad Street, Suite 2100
Columbus, Ohio 43215
(614) 221-3155 (telephone)
(614) 221-0479 (fax)
wadams@arterhadden.com (e-mail)

(b) Official point of contact for the ongoing operations of the company:

David R. Lopez
Vice President, National-Local Regulatory
SBC National, Inc.
175 East Houston Street, Room 4-A-60
San Antonio, TX 78205
(210)-351-2080 (telephone)
(210)-351-3339 (fax)
dlopez@corp.sbc.com (e-mail)
Internet website not presently available

(c) Complaints/Inquiries from customers:

David R. Lopez
Vice President, National-Local Regulatory
SBC National, Inc.
175 East Houston Street, Room 4-A-60
San Antonio, TX 78205
(210)-351-2080 (telephone)
(210)-351-3339 (fax)
dlopez@corp.sbc.com (e-mail)
Internet website not presently available

17. List the states in which the applicant:

(a) has operated as an alternative local exchange company:

None at this time. See Exhibit A.

(b) has applications pending to be certificated as an alternative local exchange company.

None at this time. Applicant anticipates filing alternative/competitive local exchange certification applications in many states as part of its "National-Local Strategy." See Exhibit A.

(c) is certificated to operate as an alternative local exchange company.

None at this time. See Exhibit A.

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

None

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

None

18. Submit the following:

A. Financial capability.

The application **<u>should contain</u>** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

SBC National, a wholly-owned subsidiary of SBC Communications Inc. ("SBC"), does not have audited financial statements. SBC National is relying on the strength of its parent company in beginning operations in Florida. SBC National's financial results will be reported on a consolidated basis with the financial statements of SBC.

The unaudited financial statements should be signed by the applicant's chief executed officer affirming that the financial statements are true and correct and should include:

1. the balance sheet;

See Exhibit B, Exhibit C (at 21), and Exhibit D (at 39).

2. the income statement; and

See Exhibit B, Exhibit C (at 20), and Exhibit D (at 38).

3. statement of retained earnings.

See Exhibit B, Exhibit C (at 23), and Exhibit D (at 40).

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

   SBC's and Ameritech Corporation's (hereinafter "Ameritech") 1998 Annual Reports show on a consolidated basis, assets of $75.4 billion, gross revenues of $46 billion, and net annual income of $7.6 billion. See Exhibit B.

2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.

   SBC's and Ameritech's 1998 Annual Reports show on a consolidated basis, assets of $75.4 billion, gross revenues of $46 billion, and net annual income of $7.6 billion. See Exhibit B.

3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

   SBC's and Ameritech's 1998 Annual Reports show on a consolidated basis, assets of $75.4 billion, gross revenues of $46 billion, and net annual income of $7.6 billion. See Exhibit B.

B. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

   See Exhibit E.

C. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

   See Exhibit F.

APPLICANT ACKNOWLEDGMENT STATEMENT

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

Signature

4/8/99
Date

Peter A. Ritcher
Vice President & Chief Financial Officer
SBC National, Inc.
One Bell Plaza
Room 3612
Dallas, TX 75202

(214) 464-3969 (telephone)
(214) 464-5485 (fax)

ATTACHMENTS:

A - CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
B - INTRASTATE NETWORK
C - AFFIDAVIT

APPENDIX A

CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

I, (Name) ________ ***Not applicable*** ________,

(Title)__________________________ of (Name of Company)

____

and current holder of Florida Public Service Commission Certificate Number #________

__________, have reviewed this application and join in the petitioner's request for a:

( ) sale

( ) transfer

( ) assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

______________________ Signature	______________ Date
______________________ Title	______________ Telephone No.
Address:______________________	______________ Fax No.

____

____

FORM PSC/CMU 8 (ALEC) (6/98)
Required by Commission Rule Nos. 25-24.805, 25-24.810, and 25-24.815

INTRASTATE NETWORK (if available)

SBC National intends to be a facilities-based telecommunications provider starting in Miami and then progressing into other areas of the state. Detailed planning currently is underway for the initial network deployment strategy. Since these plans have not been finalized, SBC National cannot currently provide a description of the facilities to be constructed and used. For more information, see Exhibit F, Statement of Technical Capability.

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located, and indicate if owned or leased.

   1) 2)

   3) 4)

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

   1) 2)

   3) 4)

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

	POP-to-POP	OWNERSHIP
1)		
2)		
3)		
4)		

EXHIBIT A

Other States in Which Certified

SBC National, Inc. ("SBC National"), a wholly-owned subsidiary of SBC Communications Inc. ("SBC"), has filed this application seeking authority to provide alternative local exchange service within the State of Florida. This is one of a series of applications SBC National will file across the nation to provide local exchange service in a minimum of 30 U.S. markets outside of the existing local exchange regions served by SBC and Ameritech Corporation ("Ameritech"). Specifically, SBC National intends to enter these markets as a facilities-based provider of local and data services initially to large business customers and then, using the infrastructure deployed, to smaller business and residential customers. The implementation of this strategy will provide significant benefits to the State of Florida, its economy, and its telecommunications industry, and to business and residential customers. SBC National will begin to implement this "National-Local Strategy" after SBC completes its pending merger with Ameritech.

Following completion of the Ameritech merger, SBC National will be affiliated with incumbent local exchange carriers that provide service in the following states: Arkansas, California, Connecticut, Illinois, Indiana, Kansas, Michigan, Missouri, Nevada, Ohio, Oklahoma, Texas, and Wisconsin.

EXHIBIT B

Statement of Financial Ability

Upon completion of the merger between SBC Communications Inc. ("SBC") and Ameritech Corporation ("Ameritech"), SBC National, Inc. will have the financial resources of the merged entities available to it to provide alternative local exchange service in the State of Florida and to implement its "National-Local Strategy" throughout the country. SBC's consolidated 1998 operating revenues were approximately $28.8 billion with a net income of $1.0 billion. Additional SBC financial information is contained in SBC's 1998 Annual Report, which is attached as Exhibit C. Ameritech's consolidated 1998 operating revenues were approximately $17.2 billion with a net income of $3.6 billion. Additional financial information regarding Ameritech is contained in Ameritech's 1998 Annual Report, which is attached as Exhibit D.

EXHIBIT C

SBC Communications Inc.'s 1998 Annual Report

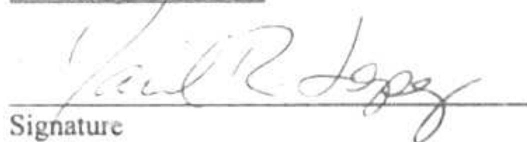
(See attached)

AFFIDAVIT

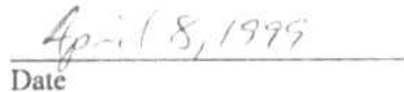
By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in section 775.082 and section 775.083".

UTILITY OFFICIAL:



Signature



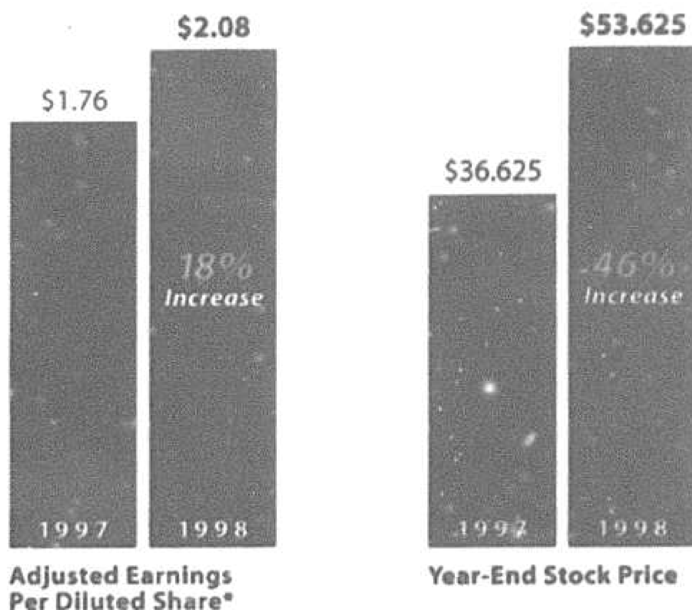
Date

David R. Lopez
Vice President, National-Local Regulatory
SBC National, Inc.
175 East Houston Street, Room 4-A-60
San Antonio, TX 78205

(210)-351-2080 (telephone)
(210)-351-3339 (fax)

SBC Communications Inc.

1998 ANNUAL REPORT



Nineteen ninety-eight was a year of exceptional progress for SBC Communications, as we strengthened our leadership in telecommunications and continued to shape our future as an integrated, full-service, global competitor...

Amid dynamic industry change, we remain focused on providing our customers a seamless range of high-quality services whenever and wherever they need them, while providing outstanding value to our shareowners.

This document reports progress on our initiatives to remain one of the world's leading telecommunications companies now and in the 21st century.

*Adjusted earnings per diluted share represent income before extraordinary loss and cumulative effect of accounting change adjusted for the following: 1998 excludes a net charge of $0.03 per diluted share principally for strategic decisions related to the merger of SBC and SNET offset by gains on the sale of certain non-core businesses; 1997 excludes a net charge of $0.91 per diluted share regarding $1.8 billion of one-time charges principally for strategic decisions related to the merger of SBC and Pacific Telesis. These adjustments are described on page 6.

1998 Progress Report

Financial information	1998	1997	Change
Reported net income	**$4,023**	$1,674	140.3%
Accounting change and Extraordinary loss – net	**$ 45**	$ —	—
Reported earnings	**$4,068**	$1,674	143.0%
Special charges	**$ 49**	$1,776	—
Adjusted earnings	**$4,117**	$3,450	19.3%

Adjusted earnings for 1998 exclude $49 million for net charges principally for strategic decisions related to the merger of SBC and SNET offset by gains on the sales of certain non-core businesses. Adjusted earnings for 1997 exclude $1.8 billion of one-time net charges principally for strategic decisions related to the merger of SBC and Pacific Telesis. These adjustments are described on page 6.

Per Share of Common Stock	1998	1997	Change
Adjusted earnings per diluted share	**$ 2.08**	$ 1.76	18.2%
Dividend	**$ 0.935**	$ 0.895	4.5%
Year-end stock price	**$53.625**	$36.625	46.4%

HIGHLIGHTS

- **SBC advances its global strategy** by announcing plans to merge with Ameritech and then expand to 30 markets beyond the new company's combined region. The merger will provide increased scale and geographic scope, enabling the company to provide high-quality, competitive services to customers in the nation's 50 largest markets.
- **SBC acquires Southern New England Telecommunications (SNET),** gaining another great brand, strong wireline and complementary wireless businesses, long-distance experience and expanded presence in the Northeastern United States.
- **Synergies from the Pacific Telesis merger are ahead of schedule** to add $1 billion in net income by next year.
- **In January 1999, SBC launches the nation's largest rollout of Asymmetrical Digital Subscriber Line (ADSL)** — a high-speed Internet access service — at affordable prices, capitalizing on opportunities in the rapidly growing data market.
- **The February 1999 alliance with Williams Communications** provides SBC with a high-quality fiber-based broadband network for long-distance service.

DEAR FELLOW INVESTOR:

Nineteen ninety-eight was an **excellent year** for SBC Communications. It was, first and foremost, a year in which your company delivered **strong earnings growth.** We also took **strategic steps** to ensure that, as our industry continues to evolve, SBC will continue to create outstanding value for you well into the future.

In 1998, our adjusted earnings rose by 19.3 percent. Accounting for our February 1998 two-for-one stock split, SBC's diluted earnings per share were $2.08, up 18.2 percent over 1997.

Including stock price appreciation and reinvested dividends, total shareowner return in 1998 was 49.72 percent. This brings our total compounded annual return since 1984 — when we became an independent company — to 23.15 percent. That result exceeds a combined return during the same period of 22.04 percent for our telecommunications peers, and 17.84 percent for the Standard & Poor's 500.

We are pleased but not satisfied. To ensure that we continue delivering excellent performance in 1999 and beyond, the SBC team moved forward in 1998 on four strategic fronts:

Continuing to maximize growth in our core businesses. Over the years, SBC has established a solid record for making the most of our core wireline and wireless businesses by increasing revenues while controlling expenses. Nineteen ninety-eight was no exception.

- Revenues were $28.8 billion, up 7.9 percent over the previous year.
- Access line growth remained impressive in 1998, with a 4.1 percent increase in residential lines. Meanwhile, our business line growth was 15.6 percent, including both voice lines and data circuits.
- We achieved outstanding sales of additional calling features. Pacific Bell, for example, ended the year with more than 1.5 million Caller ID customers, and increased the penetration of features for residential customers by more than 44 percent to 1.26 vertical features per line.
- Southwestern Bell achieved an industry-leading residential Caller ID penetration rate of more than 50 percent.

The company's wireless operations also performed well in 1998. Our new Personal Communications Services (PCS) offering in California and Nevada, in particular, experienced exceptional growth. Across all of our markets, including Southwestern Bell, Pacific Bell, and Cellular One, we increased our number of subscribers to 6.9 million and added digital service to meet the demands of high-use customers. This includes the half million subscribers we serve through the acquisition of Southern New England Telecommunications (SNET) that further increased our wireless customer base. In January 1999, we agreed to acquire Comcast Cellular Corporation, which has cellular properties in Pennsylvania, New Jersey and Delaware, subject to regulatory approval. With these significant acquisitions, we are confident of our ability to grow our wireless base — and maintain healthy margins — despite fierce competition.

We also accelerated the process of value creation from the Pacific Telesis merger. Thanks to the hard work and dedication of our merger integration teams, we took full advantage of the best practices of both companies through operational initiatives that are ahead of schedule in adding $1 billion to our annual income by the end of 2000. Equally important, the completion of our merger with Southern New England Telecommunications established SNET as a solid anchor for our expansion in the Northeast.

Aggressively expanding our data capabilities. To remain a communications industry leader, SBC must be a data communications leader. Our 1998 data service revenues increased 32 percent over 1997, as demand for data services continued to expand rapidly.

We made major strides in meeting that demand. We introduced industry-leading, high-speed Asymmetrical Digital Subscriber Line (ADSL) services in California, a flexible offering that will provide customers with much faster Internet access to move integrated packages of voice, data and video quickly and securely.

Developing national and international reach. As the telecommunications industry evolves, we believe two types of companies will emerge. A small group of full-service, global carriers will offer customers what they increasingly demand — integrated services, including local, long distance, wireless, and high-speed data communications. A second, larger group will consist of smaller, narrowly focused regional providers. SBC intends to be a global competitor. Only by doing so can we provide the financial returns you expect well into the future.

As a result, we decided in 1998 to expand our resources and geographic reach, gaining size and scope to provide our customers a seamless range of high-quality services whenever and wherever they need them. Our planned merger with Ameritech, which has received overwhelming approval from the shareowners of both companies, is a critical step in this direction.

Based on both companies' combined 1998 revenues, the Ameritech merger will create a powerful competitor, with more than $45 billion in revenues and some 200,000 of the best employees in our business. Our combined territories will include the headquarters of almost half of the *Fortune* 500 companies, and we will have a presence in 20 of the top 50 markets in the country. But what really sets this merger apart is the role it plays in our becoming a global company.

Our merged company will move aggressively to enter the top 30 markets outside our combined territories. We plan to provide residential and business customers in those markets with one-stop shopping for their telecommunications needs. As we build a competitive presence in the nation's top 50 markets, we plan to develop a state-of-the-art voice and data network that will carry our customers' voice and data traffic anywhere in the world. Our ability to do just that took a major step forward in February 1999, when we announced an alliance with Williams Communications. This agreement gives us access to one of the industry's highest quality data and voice broadband networks, while enabling us to have a voice in the future expansion and development of that network around the needs of our customers.

We expect to complete the Ameritech merger in the second half of 1999, then move quickly to integrate Ameritech's operations into SBC, as we did with Pacific Telesis and are doing with SNET.

Providing long-distance services. To be a true full service provider, SBC must have the freedom to offer long-distance service to all our customers, wherever they live or work. In 1998, we moved closer to securing that capability by continuing to open our local markets to competitors. And we are working closely with regulators to gain their support for our long-distance entry. While we are disappointed that the process has taken so long, our alliance with Williams ensures that, as soon as we receive regulatory approval to offer long distance, we can move immediately to add this critical offering to our range of services.

SBC entered 1998 strongly positioned to build value for our shareowners, with great markets, great businesses and a proven ability to execute our plans. During the year, we expanded those markets, strengthened our businesses and enhanced our reputation for superior execution.

More important, by refining our strategies and taking decisive steps to become an integrated, worldwide competitor, we are guiding SBC toward a clearly defined objective — becoming a global enterprise with the resources and flexibility to take advantage of the most promising growth opportunities.

That is where SBC's focus has always been. And, despite the changes ahead, that is where it will stay — on building value for our owners.

We will keep you informed as we move ahead in 1999. In the meantime, thank you for your continued confidence and support.

Edward E. Whitacre Jr.

Edward E. Whitacre Jr.
Chairman and Chief Executive Officer
February 12, 1999

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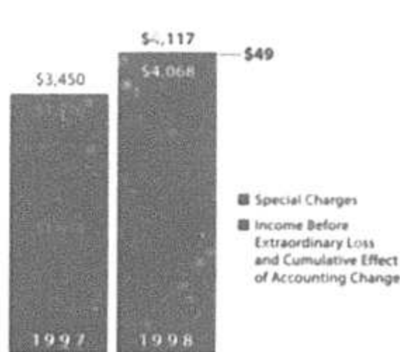
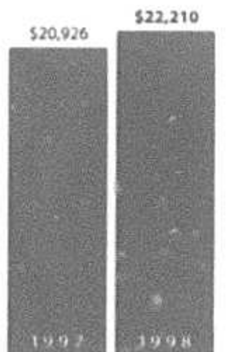
41 **Shareowner Information**

SELECTED FINANCIAL HIGHLIGHTS

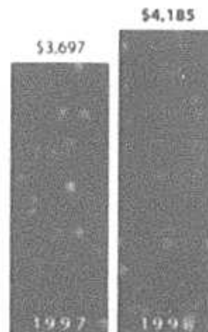
Dollars in millions except per share amounts, as of or for the year ended December 31



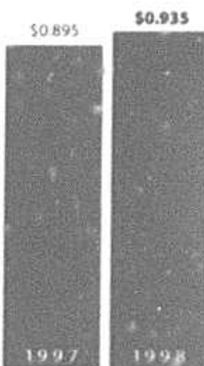
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change
Results for 1998 and 1997 were adjusted for special charges



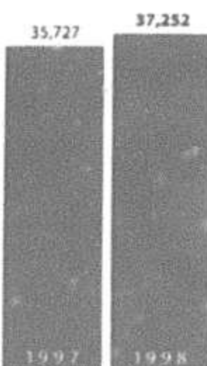
Wireline Operating Revenues
Results for 1998 and 1997 were adjusted for special charges



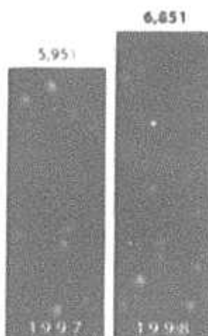
Wireless Operating Revenues



Dividends Declared Per Common Share



Access Lines*



Wireless Customers*

*in thousands

SELECTED FINANCIAL AND OPERATING DATA

Dollars in millions except per share amounts

At December 31 or for the year ended:	1998[1]	1997[2]	1996	1995	1994
Financial Data					
Operating revenues	**$28,777**	$26,681	$25,202	$23,356	$22,555
Operating expenses	**$21,891**	$23,103	$18,976	$17,878	$17,216
Operating income	**$ 6,886**	$ 3,578	$ 6,226	$ 5,478	$ 5,339
Interest expense	**$ 993**	$ 1,043	$ 901	$ 1,043	$ 1,010
Equity in net income of affiliates	**$ 236**	$ 201	$ 207	$ 120	$ 226
Income taxes	**$ 2,306**	$ 984	$ 2,070	$ 1,632	$ 1,575
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes[3]	**$ 4,068**	$ 1,674	$ 3,387	$ 3,132	$ 2,962
Net income (loss)	**$ 4,023**	$ 1,674	$ 3,477	$ (3,577)	$ 2,985
Earnings per common share:					
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes[3]	**$ 2.08**	$ 0.86	$ 1.73	$ 1.60	$ 1.53
Net income (loss)	**$ 2.06**	$ 0.86	$ 1.78	$ (1.83)	$ 1.54
Earnings per common share – Assuming Dilution:					
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes[3]	**$ 2.05**	$ 0.85	$ 1.72	$ 1.60	$ 1.53
Net income (loss)	**$ 2.03**	$ 0.85	$ 1.77	$ (1.82)	$ 1.54
Total assets	**$45,066**	$44,836	$42,057	$40,361	$49,525
Long-term debt	**$11,612**	$13,176	$12,100	$11,592	$11,698
Construction and capital expenditures	**$ 5,927**	$ 6,230	$ 5,855	$ 4,729	$ 4,262
Free cash flow[4]	**$ 2,454**	$ 1,366	$ 2,046	$ 2,572	$ 3,058
Dividends declared per common share[5]	**$ 0.935**	$ 0.895	$ 0.86	$ 0.825	$ 0.79
Book value per common share	**$ 6.52**	$ 5.38	$ 5.22	$ 4.50	$ 7.36
Ratio of earnings to fixed charges	**5.89**	2.77	5.22	5.12	4.99
Debt ratio	**48.86%**	57.07%	56.83%	63.04%	48.71%
Weighted Average Common Shares Outstanding (000,000)	**1,957**	1,945	1,956	1,955	1,936
Weighted Average Common Shares Outstanding With Dilution (000,000)	**1,984**	1,962	1,967	1,963	1,940
End of Period Common Shares Outstanding (000,000)	**1,959**	1,954	1,942	1,960	1,952
Operating Data					
Network access lines in service (000)	**37,252**	35,727	34,003	32,385	31,173
Access minutes of use (000,000)	**148,560**	139,470	128,716	112,874	100,800
Wireless customers (000)	**6,851**	5,951	4,827	3,995	3,158
Number of employees	**129,850**	128,100	119,270	117,260	120,140

[1] As detailed in management's discussion and analysis of Results of Operations, 1998 results include charges for strategic initiatives related to the merger with Southern New England Telecommunications Corporation (SNET) and gains on sales of certain non-core businesses. Excluding these items, SBC reported an adjusted income from continuing operations before extraordinary loss and cumulative effect of accounting change of $4,117 and an adjusted net income of $4,072 for 1998.

[2] As detailed in management's discussion and analysis of Results of Operations, 1997 results include charges for several items including strategic initiatives and ongoing merger integration costs, gain on the sale of SBC's interests in Bell Communications Research, Inc. and a first quarter after tax settlement gain. Excluding these items, SBC reported an adjusted net income of $3,450 for 1997.

[3] 1998, Early retirement of debt and Change in directory accounting; 1996, Change in directory accounting; 1995, Discontinuance of Regulatory Accounting; and 1994, Income from spun-off operations.

[4] Free cash flow is net cash provided by operating activities less construction and capital expenditures.

[5] Dividends declared by SBC's Board of Directors; these amounts do not include dividends declared and paid by Pacific Telesis Group and SNET prior to their respective mergers.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Dollars in millions except per share amounts

SBC Communications Inc. (SBC) is a holding company whose subsidiaries and affiliates operate predominantly in the communications services industry. SBC's subsidiaries and affiliates provide landline and wireless telecommunications services as well as equipment and directory advertising both domestically and worldwide.

The consolidated financial results reflect SBC's mergers with Southern New England Telecommunications Corporation (SNET) in 1998 and Pacific Telesis Group (PAC) in 1997 as pooling of interests (see Note 2 of Notes to Consolidated Financial Statements).

SBC's principal wireline subsidiaries are Southwestern Bell Telephone Company (SWBell), providing telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area), Pacific Bell (PacBell, which also includes Pacific Bell Information Services), The Southern New England Telephone Company (SNETel) and Nevada Bell (collectively referred to as the Telephone Companies). SBC's principal wireless subsidiaries are Southwestern Bell Mobile Systems, Inc. (Mobile Systems), Pacific Bell Mobile Services (PBMS) and SNET Cellular, Inc. SBC's principal directory subsidiaries are Southwestern Bell Yellow Pages, Inc (SWBYP), Pacific Bell Directory (PB Directory) and SNET Information Services, Inc. The Telephone Companies are subject to regulation by each of the states in which they operate and by the Federal Communications Commission (FCC).

This discussion should be read in conjunction with the consolidated financial statements and the accompanying notes.

RESULTS OF OPERATIONS

Summary

Financial results, including percentage changes from the prior year, are summarized as follows:

				Percent Change	
	1998	1997	1996	**1998 vs. 1997**	1997 vs. 1996
Operating revenues	**$28,777**	$26,681	$25,202	**7.9%**	5.9%
Operating expenses	**$21,891**	$23,103	$18,976	**(5.2)%**	21.7%
Income before extraordinary loss and cumulative effect of accounting change	**$ 4,068**	$ 1,674	$ 3,387	—	—
Extraordinary loss	**$ (60)**	—	—	—	—
Cumulative effect of accounting change	**$ 15**	—	$ 90	—	—
Net income	**$ 4,023**	$ 1,674	$ 3,477	—	—

In 1998 and 1996, SBC reflected a cumulative effect of accounting change related to accounting for directory revenues and expenses (see Note 1 of Notes to Consolidated Financial Statements). In 1998, SBC incurred an extraordinary loss related to the early retirement of debt at PacBell (see Note 10 of Notes to Consolidated Financial Statements).

Results for 1998 and 1997 also include several items that SBC normalizes for management purposes. For 1998, normalizing items included $219 of gains on sales of certain non-core businesses, principally the required disposition of SBC's interest in Mobile Telephone Networks (MTN), a South African national cellular company, due to SBC's investment in Telkom SA Limited (Telkom), and $268 of charges related to strategic initiatives resulting from the merger integration process with SNET. For 1997, normalizing items included $1,899 of costs related to strategic initiatives resulting from the merger integration process with PAC, the impact of several second quarter 1997 regulatory rulings and charges for ongoing merger integration costs (see Note 2 of Notes to Consolidated Financial Statements for further discussion of merger integration costs), as well as $33 of gain on the sale of the Telephone Companies' interests in Bell Communications Research, Inc. (Bellcore) and $90 of first quarter 1997 settlement gain at PAC associated with lump-sum pension payments that exceeded the projected service and interest costs for 1996 retirements. Collectively these items decreased income before extraordinary loss and cumulative effect of accounting change by $49 and $1,776 in 1998 and 1997. Excluding these items, 1998 income before extraordinary loss and cumulative effect of accounting change would have been $4,117, or 19.3% higher than 1997 earnings of $3,450. The corresponding diluted per share amounts would be $2.08 in 1998, or 18.2% higher than $1.76 in 1997.

Excluding these items, the 1998 increase in income before extraordinary loss and cumulative effect of accounting change was due primarily to broad-based growth in demand for SBC's Wireline, Wireless and Directory operations. Results for 1998 also reflect reduced dilution from Personal Communications Services (PCS) operations in California and Nevada. Demand growth was also the primary factor contributing to the 1997 increases, partially offset by a high level of expenses for the introduction of PCS in California and Nevada.

Segment Results

SBC has four reportable segments: Wireline, Wireless, Directory and Other. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Directory segment sells advertising for and publication of yellow pages and white pages directories and electronic publishing. The Other segment includes SBC's international investments

and other domestic operating subsidiaries. (See Note 9 of Notes to Consolidated Financial Statements.)

SBC evaluates performance of these segments based on income before income taxes, adjusted for normalizing items. Normalizing items for 1998 and 1997 are described above. There were no normalizing items for 1996.

Collectively, these normalizing items had the effect of reducing operating revenues in 1998 and 1997 by $8 and $188 and increasing operating expenses in 1998 and 1997 by $422 and $2,550, as well as affecting non-operating income and expenses. If all of the normalizing items were included in their respective segments, the effect would be to increase (reduce) each segment's income before income tax in 1998 and 1997 as follows: Wireline $(306) and $(2,007); Wireless $(49) and $(100); Directory $12 and $(75); and Other $268 and $0. The following sections will discuss SBC's operations excluding these normalizing items.

Operating Revenues

Following are SBC's normalized operating revenues, including segment totals and percentage changes from the prior year (reductions of $8 in 1998 and $188 in 1997 are excluded):

				Percent Change	
	1998	1997	1996	**1998 vs. 1997**	1997 vs. 1996
Wireline	**$22,210**	$20,926	$19,919	**6.1%**	5.1%
Wireless	**4,185**	3,697	3,137	**13.2**	17.9
Directory	**2,393**	2,286	2,145	**4.7**	6.6
Other	**85**	57	43	**49.1**	32.6
Corporate, adjustments & eliminations	**(88)**	(97)	(42)	**(9.3)**	—
Total Normalized Operating Revenues	**$28,785**	$26,869	$25,202	**7.1%**	6.6%

Wireline

Wireline operating revenues increased $1,284, or 6.1%, in 1998 and $1,007, or 5.1%, in 1997. Components of Wireline operating revenues, including percentage changes from the prior year, are as follows:

				Percent Change	
	1998	1997	1996	**1998 vs. 1997**	1997 vs. 1996
Local service	**$11,154**	$10,434	$ 9,513	**6.9%**	9.7%
Network access:					
Interstate	**4,612**	4,494	4,354	**2.6**	3.2
Intrastate	**1,917**	1,884	1,851	**1.8**	1.8
Long distance service	**2,353**	2,351	2,523	**0.1**	(6.8)
Other	**2,174**	1,763	1,678	**23.3**	5.1
Total Wireline	**$22,210**	$20,926	$19,919	**6.1%**	5.1%

Local Service revenues increased $720, or 6.9%, in 1998 and $921, or 9.7%, in 1997 due primarily to increases in demand which totaled $656 and $799 in 1998 and 1997, including increases in access lines and vertical services revenues. The number of access lines increased by 4.3% and 5.1% in 1998 and 1997. Approximately 40% and 31% of access line growth in 1998 and 1997 was due to sales of additional access lines to existing residential customers. In both years, approximately 46% of the access line growth was in California and 32% was in Texas. Access lines in Texas and California account for approximately 75% of the Telephone Companies' access lines. Vertical services revenues, which include custom calling options, Caller ID, voice mail and other enhanced services, increased by approximately 20% in both years and totaled approximately $1,892 and $1,582 in 1998 and 1997.

Additionally, local service revenues increased as a result of several regulatory actions that also had the effect of decreasing one or more other types of operating revenues. In 1998 and 1997, federal payphone regulation, introduction of extended area service plans and the introduction of the California High Cost Fund (CHCFB) collectively increased local service revenues by approximately $157 and $211, and decreased long distance revenue by approximately $53 and $117, interstate network access revenue by $20 and $53, intrastate network access revenue by approximately $24 and $26 and other operating revenue by approximately $7 and $0. The net effect on Wireline operating revenue was an increase of $53 and $15 in 1998 and 1997. The California Public Utilities Commission (CPUC) has stated that the CHCFB is intended to directly subsidize the provision of service to high-cost areas and allow PacBell to set competitive rates for other services.

These increases in local service revenues were partially offset by decreases of approximately $43 and $18 resulting from cellular interconnection rate reductions in 1998 and 1997. Rate reductions under CPUC price cap orders also reduced 1997 local service revenues by approximately $56.

Dollars in millions except per share amounts

Network Access Interstate network access revenues increased $118, or 2.6%, in 1998 and $140, or 3.2%, in 1997 due largely to increases in demand for access services by interexchange carriers, and growth in revenues from end-user charges attributable to an increasing access line base, which collectively resulted in an increase of approximately $420 and $361 in 1998 and 1997. Partially offsetting these increases were the effects of rate reductions of approximately $189 in 1998 and $120 in 1997 related to the FCC's productivity factor adjustment, access reform and other changes and regulatory shifts related to payphone deregulation of approximately $20 and $53 as noted in local service above. Additional decreases in 1998 totaling approximately $76 resulted from an increase in universal service fund net payments implemented in the first quarter of 1998 that exceeded the 1997 net payments of long-term support, which were designed to subsidize universal service. The net federal universal fund payments and receipts will be exogenous factors in future federal price cap filings. Interstate network access revenues in 1997 also had a net decrease of approximately $42 due to the reversal of 1996 revenue sharing and proposed 1996 tariff decrease estimates at the Telephone Companies.

Intrastate network access revenues increased $33 in both 1998 and 1997, due largely to increases in demand totaling approximately $79 and $121 in 1998 and 1997, including usage by alternative intraLATA toll carriers. These increases in 1998 and 1997 were partially offset by state regulatory rate reductions at PacBell and SWBell totaling approximately $23 and $50 and the effects of the CHCFB described above in local service totaling approximately $24 and $26.

Long Distance Service revenues were relatively unchanged in 1998 and decreased approximately $172, or 6.8%, in 1997. Long distance service revenues decreased due to the effect of the regulatory shifts discussed in local service above of approximately $53 and $117 in 1998 and 1997 related to the CHCFB, introduction of extended area service plans and payphone deregulation, price competition from alternative intraLATA toll carriers of approximately $43 and $100 in 1998 and 1997 at SWBell and SNETel and regulatory rate reductions of approximately $34 in 1997. These decreases were offset in 1998 and partially offset in 1997 by revenues from increased toll messages and demand at PacBell totaling approximately $48 and $45 in 1998 and 1997 and increased customer migration to SNET All Distance®, an interstate and intrastate toll service, of approximately $20 and $42 in 1998 and 1997. In addition, revenues in 1998 increased by approximately $22 due to the net effect of regulatory rate orders and local exchange carrier billing settlements.

Other operating revenues increased $411, or 23.3%, in 1998 and $85, or 5.1%, in 1997 due primarily to increased sales from nonregulated products and services at the Telephone Companies totaling approximately $201 and $72 in 1998 and 1997, increased equipment sales at the Telephone Companies of approximately $92 and $6 in 1998 and 1997 and revenues from new business initiatives, primarily Internet services, totaling approximately $71 and $39 in 1998 and 1997. In addition, net payments for state universal funds of approximately $15 in 1998 contributed to the increase. These increases were partially offset in 1998 by approximately $7 related to the CHCFB, discussed in local service above.

Wireless

Wireless operating revenues increased $488, or 13.2%, in 1998 and $560, or 17.9%, in 1997. Components of Wireless operating revenues, including percentage changes from the prior year, are as follows:

				Percent Change	
	1998	1997	1996	**1998 vs. 1997**	1997 vs. 1996
Subscriber	**$3,783**	$3,372	$2,907	**12.2%**	16.0%
Other	**402**	325	230	**23.7**	41.3
Total Wireless	**$4,185**	$3,697	$3,137	**13.2%**	17.9%

Subscriber revenues consist of wireless local service and long distance. Wireless subscriber revenues increased $411, or 12.2%, in 1998 and $465, or 16%, in 1997 due primarily to growth in the number of customers of 15.1% and 23.3%, partially offset by declines in average revenue per customer. Increases in 1997 wireless subscriber revenues of approximately $103 also resulted from the introduction of PCS operations in California, Nevada and Oklahoma. At December 31, 1998, SBC had 5,924,000 traditional cellular customers, 81,000 resale customers and 846,000 PCS customers. At December 31, 1997, SBC had 5,526,000 traditional cellular customers, 60,000 resale customers and 365,000 PCS customers.

Other wireless revenues increased $77, or 23.7%, in 1998 and $95, or 41.3%, in 1997 due primarily to increases in equipment revenue attributable to growth in the number of customers and conversion to digital equipment.

Directory

Directory operating revenues increased $107, or 4.7%, in 1998 and $141, or 6.6%, in 1997. Directory operating revenues, including percentage changes from the prior year, are as follows:

				Percent Change	
	1998	1997	1996	**1998 vs. 1997**	1997 vs. 1996
Total Directory	**$2,393**	$2,286	$2,145	**4.7%**	6.6%

Directory operating revenues increased in 1998 due mainly to increased demand, including benefits from merger initiatives. Also contributing to the increase was approximately $17 from directory rescheduling from the first quarter of 1999 into the fourth quarter of 1998. Directory advertising revenues increased in 1997 due mainly to increased demand and the publication of directories in 1997 that were not published in 1996 due to rescheduling.

Operating Expenses

Following are SBC's normalized operating expenses, including percentage changes from the prior year (additions of $422 in 1998 and $2,550 in 1997 are excluded):

				Percent Change	
	1998	1997	1996	**1998 vs. 1997**	1997 vs. 1996
Operations and support:					
Wireline	**$12,711**	$12,291	$11,464	**3.4%**	7.2%
Wireless	**2,786**	2,610	1,994	**6.7**	30.9
Directory	**1,227**	1,230	1,159	**(0.2)**	6.1
Other	**152**	93	46	**63.4**	—
Corporate, adjustments & eliminations	**(363)**	(368)	(153)	**(1.4)**	—
Total operations and support	**16,513**	15,856	14,510	**4.1**	9.3
Depreciation and amortization*	**4,956**	4,697	4,466	**5.5**	5.2
Total Normalized Operating Expenses	**$21,469**	$20,553	$18,976	**4.5%**	8.3%

*See Note 9 of Notes to Consolidated Financial Statements for breakdown by segment.

Wireline Operations and support expenses increased $420, or 3.4%, in 1998 and $827, or 7.2%, in 1997. Increases for 1998 include costs of approximately $262 related to progress in the merger implementation process including centralizing support functions and other merger initiatives at SWBell and PacBell. Offsetting these increased costs were reductions in 1998 primarily related to realization of merger initiative benefits that totaled approximately $317. These reductions included lower use of contract labor, primarily at PacBell, lower costs associated with customer number portability and reduced research and development costs. Operations and support expense also increased in 1998 due to costs associated with reciprocal compensation for the termination of Internet traffic of approximately $136 at the Telephone Companies (see "Federal Regulation" for further discussion about reciprocal compensation). Increased expenses in 1998 of approximately $55 related to new business initiatives, primarily voice mail, Internet, long distance and cable. Additional costs in 1998 totaling approximately $172 related to increased wages and salaries, benefits, materials and right to use fees. Comparisons to 1997 are also impacted by the absence of the recognition of 1997 pension settlement gains relating to 1997 retirees after the merger with PAC totaling approximately $136.

Increases in 1997 include costs for wages, salaries, benefits, sales commissions and contract labor totaling approximately $327. Increases in 1997 also include costs associated with customer number portability after the merger with PAC, interconnection, other regulatory mandated network enhancements and materials of approximately $414. Increased expenses in 1997 of approximately $156 related to new business initiatives, primarily voice mail, Internet, long distance and cable. These increases were partially offset by a reduction related to the recognition of pension settlement gains discussed above.

Wireless Wireless expenses increased $176, or 6.7%, in 1998 and $616, or 30.9%, in 1997 due primarily to growth in the number of customers and increased equipment sales. The large increase in 1997 expenses includes approximately $362 of expenses from the introduction of PCS operations. These increases were partially offset by decreased customer acquisition costs of 11% and 4% in 1998 and 1997.

Directory Directory expenses remained relatively unchanged in 1998 as lower costs resulting from the merger integration process, including decreased employee-related costs, were offset by expenses from increased demand and directory rescheduling discussed in directory operating revenue above. Directory

expenses increased in 1997 due mainly to increased demand and the publication of directories in 1997 that were not published in 1996 due to rescheduling.

Depreciation and Amortization expense is primarily in the Wireline and Wireless segments. In total, depreciation and amortization increased $259, or 5.5%, in 1998 due primarily to increased depreciation expense of $201 in the Wireline segment and $41 in the Wireless segment resulting from overall higher plant levels. The increase in 1998 was partially offset by reduced depreciation at PacBell related to analog switching equipment of $42. Total depreciation and amortization increased $231, or 5.2%, in 1997. The increase was due to increased depreciation expense of $193 in the Wireline segment and $141 in the Wireless segment resulting from overall higher plant levels. The Wireless increase was due primarily to the launch of PCS operations. Reduced depreciation of $107 at PacBell related to analog switching equipment partially offset the increase.

Interest Expense on a consolidated basis for 1998 decreased by $50, or 4.8%, in 1998 and increased by $142, or 15.8%, in 1997. Interest expense for 1998 includes $3 of one-time charges for SNET merger-approval costs and 1997 includes $27 associated with one-time charges, primarily interest on the PAC merger-approval costs. Excluding these charges, interest expense for 1998 decreased $26, or 2.6%, and increased $115, or 12.8%, for 1997. The 1998 decrease was due primarily to reductions in interest expense resulting from lower average debt levels and lower weighted average interest rates, partially offset by lower capitalization of interest during construction. The 1997 increase was due primarily to increased average debt levels.

Equity in Net Income of Affiliates increased $35 in 1998 and decreased $6 in 1997. The 1998 increase reflects increased equity in net income of $78 from SBC's investment in Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, SBC's May 1997 investment in Telkom and SBC's wireless operations. Also contributing to the increase were lower losses resulting from reduced involvement in Tele-TV. These increases were partially offset by a reduction of $53 in contribution from investments in Switzerland, France and Israel, primarily resulting from expenditures on long distance and wireless in Switzerland and long distance in France and Israel.

The 1997 decrease reflects decreased equity in net income of $49 from Telmex. This lower income resulted from the change in the functional currency used by SBC to record its interest in Telmex from the peso to the U.S. dollar beginning in 1997 and SBC's reduced ownership percentage after the sale of Telmex L shares. Results also reflect preoperating expenses of $32 in several international investments, including long distance in France, Switzerland and Israel and cellular communications in Taiwan, and decreased contribution of $13 from SBC's wireless operations. These decreases were mainly offset by equity in net income of $58 from Telkom and $27 in lower losses from Tele-TV.

SBC's earnings from foreign affiliates will continue to be generally sensitive to exchange rate changes in the value of the respective local currencies. SBC's foreign investments are recorded under U.S. generally accepted accounting principles, which include adjustments for the purchase method of accounting and exclude certain adjustments required for local reporting in specific countries, such as inflation adjustments.

Other Income (Expense) – Net for 1998 and 1997 includes amounts that SBC management normalized for reviewing results. Normalizing amounts for 1998 include $358 in gains on the sale of non-core businesses, primarily the required disposition of SBC's interest in MTN and the sale of SBC Media Ventures, Inc., pending from the prior year. Amounts for 1997 reflect gains of $54 from the sale of SBC's interests in Bellcore and $32 in second quarter charges related to SBC's strategic initiatives, primarily writeoffs of nonoperating plant. Absent these items, other income (expense) for 1998, 1997 and 1996 was $(113), $(100) and $(75).

During 1998, several offsetting transactions impacted other income and expense contributing to the normalized increase of net other expense of $13. SBC recognized other expense of $237 related to an impairment of an international investment and investments in certain wireless technologies, primarily wireless video. Also increasing other expense were higher minority interest, lower interest income and call premiums and unamortized discounts on early retirement of debt at SWBell that totaled $67 more than the previous year. Offsetting these decreases were other income related to a special dividend of $158 received from a software affiliate and gains of $127 recognized on the sales and the charitable contribution of SBC's available-for-sale investment in Telewest Communications plc (see Note 7 of Notes to Consolidated Financial Statements for further discussion of the gains). Movement in the market value of Telmex L shares requires a market valuation adjustment on certain SBC debt redeemable either in cash or Telmex L shares. Additionally, Telmex under their repurchase program from time to time repurchases enough shares in the market that SBC is required to sell part of its Telmex L share holdings to Telmex to remain under 10% ownership of Telmex. The net of these activities contributed $90 more to other income than in 1997. Also affecting comparisons with 1997 was approximately $64 in royalties and gains recognized in 1997.

During 1997, there were also several offsetting transactions contributing to the normalized increase in net other expense of $25. Higher minority interest, including distributions paid on an additional $500 of Trust Originated Preferred Securities (TOPrS) sold by PAC in June 1996, and lower interest income resulted in $43 more net expense than in 1996. The net activity related to market movement on Telmex L shares increased other expense by $47 more than in 1996. Partially offsetting these net other expenses were royalty payments associated with software developed by an affiliate and other investment gains totaling $64.

Income Taxes for 1998 include taxes related to the sale of certain non-core businesses discussed in other income (expense) – net and tax benefits associated with merger integration initiatives relating to SNET. Income taxes for 1997 reflect the tax effect of charges for strategic initiatives resulting from SBC's comprehensive review of operations and the impact of several regulatory rulings. Income taxes for 1997 also included taxes on the first quarter pension settlement gain discussed in operations and support. The net effective tax rate on these items was lower

as a result of non-deductible items included in the charge and valuation adjustments to certain deferred tax assets which may not be utilized due to restrictions associated with the merger. Excluding these items, income taxes for 1998 and 1997 would have been $2,332 and $1,951. Income taxes for 1998 were higher due primarily to higher income before income taxes. Income taxes for 1997, excluding the non-recurring items, were slightly lower than income taxes for 1996 of $2,070.

Extraordinary Loss In 1998, SBC recorded an extraordinary loss of $60 related to the refinancing of $684 of long-term debt at PacBell.

Cumulative Effect of Accounting Change As discussed in Note 1 of Notes to Consolidated Financial Statements, SNET Information Services, Inc. and PB Directory changed their methods of recognizing directory publishing revenues and related expenses effective January 1, 1998 and January 1, 1996, respectively. The cumulative after-tax effect of applying the new method to prior years for SNET Information Services, Inc. was recognized as of January 1, 1998 as a one-time, non-cash gain applicable to continuing operations of $15, or $0.01 per share. The gain is net of deferred taxes of $11. The one-time gain recognized as of January 1, 1996 for PB Directory was $90, net of deferred taxes of $53, or $0.05 per share. Management believes the change to the issue basis method is preferable because it is the method generally followed in the publishing industry, including SWBYP, and better reflects the operating activity of the businesses. These accounting changes are not expected to have a significant effect on net income in future periods.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

Regulatory Environment

Overview

The telecommunications industry is in a period of dynamic transition from a tightly regulated industry overseen by multiple regulatory bodies to a market-driven industry monitored by state and federal agencies. The Telephone Companies' wireline telecommunications operations remain subject to regulation by the eight state regulatory commissions for intrastate services and by the FCC for interstate services.

Consolidation of companies is occurring within the marketplace for local telephone service and across other telecommunications services, such as long distance, cellular, cable television, Internet and other data transmission services. Companies operating in some of these markets are also expanding into others, such as the provision of local service by long distance companies. Additionally, new technologies are also affecting the way people view and use communications services.

The telecommunications industry is also changing internationally, as government-owned telephone monopolies are being privatized in many countries and competitive entrants are authorized. U.S.-controlled companies may acquire or form investment, joint venture or strategic relationships with these newly privatized companies or their new competitors involving any or all of the range of telecommunications services. Foreign-controlled companies also may acquire or form such relationships with U.S. companies.

SBC is aggressively representing its interests before federal and state regulatory bodies, courts, Congress and state legislatures. SBC will continue to evaluate the increasingly competitive nature of its business, and develop appropriate competitive, legislative and regulatory strategies.

Wireline

Federal Regulation

Through affiliates, SBC offers landline interLATA long distance services to customers in selected areas outside the Telephone Companies' operating areas. Further, SBC offers interLATA long distance services to customers in Connecticut through SNET America, Inc. (SAI). Under the Telecommunications Act of 1996 (Telecom Act), before being permitted to offer landline interLATA long distance service in any state within the regulated operating areas of SWBell, PacBell and Nevada Bell, SBC must apply for and obtain state-specific approval from the FCC. The FCC's approval, which involves consultation with the United States Department of Justice and the appropriate state commission, requires favorable determinations that certain of the Telephone Companies have entered into interconnection agreement(s) that satisfy a 14-point "competitive checklist" with predominantly facilities-based carrier(s) that serve residential and business customers or, alternatively, that certain of the Telephone Companies have a statement of terms and conditions effective in that state under which they offer the "competitive checklist" items. The FCC must also make favorable public interest and structural separation determinations in connection with each application. See "State Regulation" for status of the state applications.

In December 1997, the United States District Court for the Northern District of Texas ruled that parts of the Telecom Act were unconstitutional on the grounds that they improperly discriminate against certain subsidiaries of SBC by imposing restrictions that prohibit certain of the Telephone Companies by name from offering interLATA long distance and other services that other Local Exchange Carriers (LECs) are free to provide. In September 1998, the United States Court of Appeals for the Fifth Circuit (5th Circuit) reversed this decision and ruled that the challenged provisions of the Telecom Act were constitutional. In January 1999, the United States Supreme Court (Supreme Court) declined to hear an appeal of the 5th Circuit's decision.

Interconnection In August 1996, the FCC issued rules by which competitors could connect with LECs' networks, including those of the Telephone Companies. Among other things, the rules addressed unbundling of network elements, pricing for interconnection and unbundled elements, and resale of retail telecommunications services. The FCC rules were appealed by numerous parties, including SBC.

In July 1997, the United States Court of Appeals for the Eighth Circuit (8th Circuit) held that the FCC did not have the authority to promulgate rules related to the pricing of local intrastate telecommunications and that its rules in that regard were invalid.

The 8th Circuit also overturned the FCC's rules which allowed competitors to "pick and choose" among the terms and conditions of approved interconnection agreements. In October 1997, the 8th Circuit issued a subsequent decision clarifying that the Telecom Act does not require the incumbent LECs to deliver network elements to competitors in anything other than completely unbundled form.

In September 1997, a number of parties, including SBC, filed petitions to enforce the July 1997 ruling of the 8th Circuit that the right to set local exchange prices, including the pricing methodology used, is reserved exclusively to the states. The petitions responded to the FCC's rejection of Ameritech Corporation's interLATA long distance application in Michigan, in which the FCC stated it intended to apply its own pricing standards to Regional Holding Company (RHC) interLATA applications. The petitioners asserted the FCC was violating state authority. On January 22, 1998, the 8th Circuit ordered the FCC to abide by the July 1997 ruling and reiterated that the FCC cannot use interLATA long distance applications made by SBC and other RHC wireline subsidiaries wishing to provide interLATA long distance to attempt to reimpose the pricing standards ruled invalid in July 1997 by the 8th Circuit.

In January 1999, the Supreme Court ruled on an appeal of the 8th Circuit's order. The ruling held that the Telecom Act gives the FCC the authority to set guidelines for states to follow in setting prices under the Telecom Act, and reinstated the FCC rules allowing those seeking to interconnect to "pick and choose" specific provisions from previous interconnection agreements. Because the 8th Circuit's decision did not address the lawfulness of the content of the FCC pricing guidelines, the Supreme Court remanded that issue to the 8th Circuit for further consideration. The ruling also upheld FCC rules forbidding incumbent LECs from separating already combined network elements, but remanded back to the FCC its determination of which network elements must be made available. The Supreme Court also held that, before the FCC could require telecommunications carriers to make a particular network element available to requesting carriers, the FCC must first consider as to proprietary elements, whether access to the elements was necessary and whether the failure to provide access to a particular element would impair the requesting carrier's ability to provide the service it seeks to offer. The effect of this ruling on the telecommunications industry cannot be determined at this time.

Reciprocal Compensation Reciprocal compensation is billed to SBC's subsidiaries by Competitive Local Exchange Carriers (CLECs) for the termination of certain local exchange traffic to CLEC customers. SBC believes that under the Telecom Act the state commissions have authority to order reciprocal compensation for intrastate or local traffic, while only the FCC has authority over interstate and interexchange traffic. SBC believes most Internet traffic is interexchange and interstate. Several state commissions, including the CPUC in an October 1998 order, have taken the position that Internet communications is intrastate or local traffic and ordered SBC to pay reciprocal compensation to certain CLECs pursuant to then existing contracts. State commissions in the five-state area other than Kansas have also issued orders finding that SBC is required to pay reciprocal compensation to certain CLECs. In June 1998, a U.S. District Court in Texas affirmed the Texas Public Utility Commission's (TPUC) determination and upheld payment of reciprocal compensation, holding that an Internet call is comprised of two portions, and that the TPUC has jurisdiction over the local portion of the traffic and the FCC over the Internet component. Similar decisions regarding Internet traffic have been made by other state commissions. SBC has sought review or reconsideration of these cases.

The question whether Internet communications should be classified as local/intrastate or interstate traffic for reciprocal compensation purposes is the subject of a pending FCC proceeding and the FCC is expected to rule on this issue in the near future. SBC's subsidiaries have been recording amounts sought by certain CLECs for the termination of Internet traffic to Internet Service Providers.

Asymmetrical Digital Subscriber Line (ADSL) is a high speed data service principally used for Internet access. In June 1998, SBC filed with the FCC a petition requesting relief for ADSL from pricing, unbundling and resale regulatory restrictions. The FCC denied the petition and declared that incumbents, such as the Telephone Companies, must offer such services for resale at a discount and must offer unbundled access to the equipment used in ADSL provisioning to the extent possible. SBC has filed with the FCC a petition for reconsideration of this order. The FCC sought comments on offering the incumbent LECs the option of providing deregulated advanced services through an affiliate with appropriate safeguards.

The effects of the FCC decisions on the above topics are dependent on many factors including, but not limited to, the ultimate resolution of the pending appeals; the number and nature of competitors requesting interconnection, unbundling or resale; and the results of the state regulatory commissions' review and handling of related matters within their jurisdictions. Accordingly, SBC is not able to assess the impact of the FCC orders and proposed rulemaking at this time.

State Regulation

The following provides an overview of state regulation in the eight states in which the Telephone Companies operated at December 31, 1998.

State	Alternative Regulation[1]	Dialing Parity[2]	Number of Signed Wireline Interconnection Agreements[3]	Long Distance Application Status
Arkansas	Yes, indefinite	Presently not required prior to long distance authorization	54	Decision expected in 1999[4]
California	Yes, ends 1/2002	Proceeding pending	66	Decision expected in 1999[4]
Connecticut	Yes, ends 2/2001	Dialing parity exists	13	Long distance service provided by the retail entity[5]
Kansas	Yes, indefinite	Commission ordered implementation by 2/1999; state statute presently prohibits requirement before long distance authorization	55	Decision expected in 1999[4]
Missouri	Yes, indefinite	Proceeding pending	61	Decision expected in 1999[4]
Nevada	Yes, ends 12/2002	Presently not required prior to long distance approval; proceeding pending	19	No activity
Oklahoma	Yes, ends 2/2001	Ordered by 3/1999	52	Decision expected in 1999[4]
Texas	Yes, ends 9/2001	TPUC deferred its decision pending FCC issuance of new dialing parity rules; state statute presently prohibits requirement before long distance authorization	175	Decision expected in 1999[4]

Other significant notes:

[1]Alternative regulation is other than rate of return regulation.

[2]In a January 1999 decision, the Supreme Court ruled that the FCC had the authority to issue rules implementing intrastate and intraLATA dialing parity. Several interexchange carriers are arguing in pending state proceedings that the ruling requires immediate implementation of dialing parity, preempting state requirements. The Telephone Companies take the position that dialing parity requirements should be consistent with state laws and that they should not be required to provide intraLATA toll dialing parity prior to receiving authorization to provide interLATA long distance services. In states where dialing parity exists, customers are able to subscribe to an intraLATA toll carrier just as they do for long distance services.

[3]Interconnection agreements are signed with CLECs for the purpose of allowing the CLECs to exchange local calls with the incumbent telephone company.

[4]Awaiting determination by state commissions on the Telephone Companies' compliance with the 14 point competitive checklist. FCC approval is required subsequent to state determination.

[5]SNET el is restricted from providing interLATA long distance service in any of the other Telephone Companies' operating regions.

The following presents highlights of certain regulatory developments.

California In October 1998, the CPUC issued a decision modifying the current regulatory framework for PacBell effective January 1, 1999. The decision adopted PacBell's proposal that the current cap on basic residential rates be continued for three more years, through 2001, with the CPUC retaining the ability to adjust basic telephone rates. The decision suspended earnings sharing, rate of return reviews and the use of earnings caps and floors through 2001. In addition, the decision adopted PacBell's proposal to eliminate depreciation reviews and granted PacBell the freedom to set its own depreciation rates and methodology. It also continued the suspension of the productivity factor adjustment. In addition, the CPUC decision eliminated most future exogenous cost adjustments, including the recovery of future costs related to a 1993 accounting change for postretirement benefits other than pensions. Management currently estimates the items embodied within the new regulatory framework will have the net effect of reducing annual revenue by approximately $100 from 1999 through 2004.

In July 1998, the CPUC issued a rate rebalancing decision related to its 1996 order on universal service. The CPUC's decision was implemented prospectively beginning September 1, 1998 and reduces PacBell's non-basic local service, network access and long distance service revenues by $305 annually to offset the approximately $305 annually that PacBell expects to receive from the CHCFB. Beginning in February 1997, PacBell, and all other California telecommunications carriers, began collecting funds via customer surcharges consistent with the CPUC's 1996 decision. The CPUC has yet to decide on the specific mechanism to be employed to ensure the distribution of funds collected by PacBell and other carriers from February 1997 through August 1998 is revenue neutral.

Connecticut In January 1997, SNET submitted to the Connecticut Department of Public Utility Control (DPUC) its proposal on corporate restructure. The proposal recommended that SNETel functions be split: ownership and maintenance of switching and transmission network facilities, i.e., all wholesale functions, would remain in the telephone company, SNETel, and all retail functions would go to SAI, which was the long distance subsidiary. Both would be wholly-owned by SNET. In June 1997, the DPUC granted SNET permission to restructure its telephony operations, with several DPUC-imposed modifications.

Under the plan, all retail operations (retail marketing and customer service) have been transferred to SAI, and SAI will be treated by the regulators like all other CLECs. SNET local service customers will choose their provider via a balloting process, which has been scheduled for September 1999. All wholesale services and the network infrastructure will remain with SNETel, which will be restricted to meeting the needs of CLECs, including SAI and other wholesale customers. SAI can buy its wholesale service from SNETel or any other wholesale provider. SAI has been providing interstate and international long distance service since 1993, and received certification to provide local service and intrastate toll in Connecticut in 1997.

Missouri Effective September 26, 1997, the Missouri Public Service Commission (MPSC) determined that SWBell is subject to price cap regulation. Prices in effect as of December 31, 1996 are the initial maximum allowable rates for services and cannot be adjusted until January 1, 2000 for basic and access services and on January 1, 1999 for non-basic services. On an exchange basis where a competitor began operations, the freeze on maximum allowable rates for non-basic services was removed. After January 1, 2000, caps for basic and access services may be adjusted based on one of two government indices. After January 1, 1999, caps for non-basic services may be increased up to 8% per year. In an exchange where competition for basic local service exists for five years, services will be declared competitive and subject to market pricing unless the MPSC finds effective competition does not exist. The Office of Public Counsel and MCI WorldCom, Inc. (MCI WorldCom) sought judicial review of the MPSC determination and in May 1998 the state circuit court affirmed the MPSC decision.

Texas Under the Public Utility Regulatory Act, which became effective in May 1995 (PURA), SWBell elected to move from rate of return regulation to price regulation with elimination of earnings sharing. Basic local service rates are capped at existing levels for four years following the election, i.e., until September 1999. The TPUC is prohibited from reducing switched access rates charged by LECs to interexchange carriers while rates are capped.

LECs electing price regulation are committed to network and infrastructure improvement goals, including expansion of digital switching and advanced high-speed services to qualifying public institutions, such as schools, libraries and hospitals, requesting the services. PURA also established an infrastructure grant fund for use by public institutions in upgrading their communications and computer technology. The 1997 Texas legislative session changed the funding for this infrastructure grant fund from annually collecting $150 for ten years to a fixed percentage (1.25%) applied to all telecommunications providers' sales taxable revenues. The law also provides a cap of $1,500 for the life of the fund. SWBell's annual payments were approximately $36 in 1997 and $56 in 1998. Due to the industry's growth in revenues, the fund should be completely funded before the original ten years.

PURA establishes local exchange competition by allowing companies that desire to provide local exchange services to apply for certification by the TPUC, subject to certain buildout requirements, resale restrictions and minimum service requirements. PURA provides that SWBell will remain the default carrier of "1 plus" intraLATA long distance traffic in its territory until SWBell is allowed to carry interLATA long distance. In 1996, MCI WorldCom and AT&T Corp. (AT&T) sued the state of Texas, alleging that PURA violates the Texas state constitution, and claiming that PURA establishes anticompetitive barriers designed to prevent MCI WorldCom, AT&T and Sprint Corporation (Sprint) from providing local services within Texas. The FCC, also in response to petitions filed by AT&T and MCI WorldCom, preempted and

voided portions of PURA that required certain buildout requirements. Furthermore, the FCC also preempted rules that excluded competitors from entering markets with fewer than 31,000 access lines and which made resale of Centrex phone services subject to a limited property restriction. AT&T and MCI WorldCom have dismissed their suits regarding this matter. In October 1997, SWBell filed with the FCC a petition for reconsideration regarding the preemption of the property restriction for Centrex services. This issue is still pending before the FCC.

Competition

Wireline

Competition continues to increase for telecommunications and information services. Recent changes in legislation and regulation have increased the opportunities for alternative service providers offering telecommunications services. Technological advances have expanded the types and uses of services and products available. As a result, SBC faces increasing competition as well as new opportunities in significant portions of its business.

Recent state legislative and regulatory developments allow increased competition for local exchange services. Companies wishing to provide competitive local service have filed numerous applications with each of the state commissions throughout the Telephone Companies' regulated operating areas, and the commissions of each state have been approving these applications since late 1995. Under the Telecom Act, companies seeking to interconnect to the Telephone Companies' networks and exchange local calls must enter into interconnection agreements with the Telephone Companies. These agreements are then subject to approval by the appropriate state commission. SBC has reached approximately 495 interconnection and resale agreements with competitive local service providers, and most have been approved by the relevant state commission. AT&T, MCI WorldCom and other competitors are reselling SBC local exchange services, and as of December 31, 1998, there were approximately 800,000 SBC access lines supporting services of resale competitors throughout the Telephone Companies' regulated operating areas, most of them in Texas and California. Many competitors have placed facilities in service and have begun advertising campaigns and offering services. SBC also was granted facilities-based and resale operating authority in certain territories served by other LECs and now offers local exchange service offerings to these areas.

In California, the CPUC authorized facilities-based local services competition effective January 1996 and resale competition effective March 1996. While the CPUC has established local competition rules and interim prices, several issues still remain to be resolv[illegible] including final rates for resale and LEC provisioning and pric[illegible] certain network elements to competitors. PacBell has incurred substantial costs implementing local competition and number portability. In November 1998, the CPUC issued a decision allowing PacBell to begin recovery of local competition implementation costs.

In Texas, the TPUC set rates in December 1997 that SWBell may charge for access and interconnection to its telephone network. The TPUC decision sets pricing for dozens of network components and completes a consolidated arbitration between SWBell and six of its wholesale customers, including AT&T and MCI WorldCom.

In Missouri, the MPSC issued orders on a consolidated arbitration hearing with AT&T and MCI WorldCom and on selected items with Metropolitan Fiber Systems. Among other terms, the orders established discount rates for resale of SWBell services and prices for unbundled network elements. SWBell appealed the interconnection agreement resulting from the first arbitration proceeding on November 5, 1997; a decision is still pending. A second arbitration process to address other interconnection issues with AT&T has concluded, and the MPSC ordered that a conforming interconnection agreement be filed. SWBell appealed this order in April 1998.

The Telephone Companies expect increased competitive pressure in 1999 and beyond from multiple providers in various markets, including facilities-based CLECs, interexchange carriers and resellers. At this time, management is unable to assess the effect of competition on the industry as a whole, or financially on SBC, but expects both losses of market share in local service and gains resulting from new business initiatives, vertical services and new service areas. Competition also continues to intensify in the Telephone Companies' intraLATA long distance markets. For example, it is estimated that providers other than PacBell now serve more than half of the business intraLATA long distance customers in PacBell's service areas. In addition, if intraLATA toll dialing parity is required, competition in intraLATA long distance markets is expected to increase.

In the international arena, Telmex was granted a concession in 1990, which expired in August 1996, as the sole provider of long distance services in Mexico. Several large competitors have received licenses to compete with Telmex and have begun operations. As of December 31, 1998, Telmex has retained approximately 75% of its long distance customers. Telmex's share of international long distance traffic is expected to decline significantly when the proportional return mechanism, which guarantees Telmex the same percentage of incoming traffic as outgoing traffic, expires at the end of 1999. Aggressive local competition is expected in 1999, primarily in the business segment.

Wireless

In 1993, the FCC adopted an order allocating radio spectrum and licenses for PCS. PCS utilizes wireless telecommunications digital technology at a higher frequency radio spectrum than cellular. Like cellular, it is designed to permit access to a variety of communications services regardless of subscriber location. In an FCC auction, which concluded in March 1995, PCS licenses were awarded in 51 major markets. SBC or affiliates acquired PCS licenses in the Major Trading Areas of Los Angeles-San Diego, California; San Francisco-Oakland-San Jose, California; Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma. The California licenses cover substantially all of California and Nevada. SBC is currently operational in all of its major California-Nevada markets and Tulsa, Oklahoma. During 1996, SBC received several

AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis, Tennessee, and Little Rock, Arkansas, and other consideration.

PCS service was formally launched in all the major California and Nevada markets at different times throughout 1997, with the buildout to other areas continuing. The network incorporates the Global System for Mobile Communications standard, which is widely used in Europe. PBMS is selling PCS as an off-the-shelf product in retail stores, through exclusive agents and in company-owned stores across California and Nevada. Significant competition exists, particularly from the two established cellular companies in each market.

In an FCC auction that concluded in January 1997, SBC acquired eight additional PCS licenses for Basic Trading Areas that are within the five-state area.

SBC also has state-approved interconnection agreements to receive reciprocal compensation from interexchange carriers and other local service providers accessing its wireless networks in all states where it provides wireless services.

Companies that were granted licenses in areas where SBC also provides wireless service include subsidiaries and affiliates of AT&T, Sprint and other RHCs. Significant competition from PCS providers exists in SBC's major markets. Competition has been based upon both price and service packaging, such as unlimited calling plans, and has contributed to SBC's decline in average subscriber revenue per wireless customer.

Under the Telecom Act of 1996, SBC may offer interLATA long distance over its wireless network both inside and outside the regulated operating areas. SBC has entered the wireless long distance markets, and offers wireless long distance service in all of its wireless service areas.

Directory

SWBYP, PB Directory and SNET Information Services, Inc. face competition from over 100 publishers of printed directories in their operating areas. Direct and indirect competition also exists from other advertising media, including newspapers, radio, television and direct mail providers, as well as from directories offered over the Internet.

OTHER BUSINESS MATTERS

New Accounting Standards In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), which will require all derivatives to be recorded on the balance sheet at fair value, and will require changes in the fair value of the derivatives to be recorded in net income or comprehensive income. FAS 133 must be adopted for years beginning after June 15, 1999, with earlier adoption permitted. Management is currently evaluating the impact of the change in accounting required by FAS 133, but is not able to quantify the effect at this time.

See Note 1 of Notes to Consolidated Financial Statements for a discussion of the new accounting standard on software costs.

Wireless Acquisition See Note 17 of Notes to Consolidated Financial Statements for a discussion of the acquisition of Comcast Cellular Corporation.

Long Distance Agreement On February 8, 1999, SBC announced an agreement with Williams Communications (Williams), a subsidiary of Williams Cos., Inc., under which Williams will serve as SBC's long distance provider. As part of this agreement, SBC plans to acquire 10% of the common stock of Williams. This investment will occur simultaneously with an initial public offering of common stock by Williams, scheduled for the second quarter of 1999.

Merger See Note 3 of Notes to Consolidated Financial Statements for a discussion of the merger agreement with Ameritech Corporation.

SBC's Year 2000 Project SBC operates numerous date-sensitive computer applications and systems throughout its businesses. Since 1996, SBC has been working to upgrade its networks and computer systems to properly recognize the Year 2000 and continue to process critical operational and financial information. Companywide teams are in place to address and resolve Year 2000 issues and processes are under way to evaluate and manage the risks and costs associated with preparing SBC's date-impacted systems and networks for the new millennium.

SBC is using a four-step methodology to address the issue. The methodology consists of inventory and assessment, hardware and software fixes, testing and deployment. SBC measures its progress by tracking the number of completed hardware and software applications, network components, personal computers and building facilities that can correctly process Year 2000 dates.

Inventory and assessment is estimated to require 20% of the overall effort and includes the identification of items (i.e., line-by-line review of software code, switch generics, vendor products, etc.) that could be impacted by the Year 2000 and the determination of the work effort required to ensure compliance. The inventory and assessment phase has been completed. This process involved reviewing over 340 million lines of software code, 1,200 central office switches, 7,000 company buildings, conducting an inventory and assessment of 117,000 personal computers, and coordinating with 1,300 suppliers of 14,000 products to obtain adequate assurance they will be Year 2000 compliant or determine and address any appropriate contingency plans or backup systems.

Making the hardware and software fixes is the second phase of the process and is estimated to require 25% of the overall effort. This activity involves modifying program code, upgrading computer software and upgrading or replacing hardware. As of December 31, 1998, the hardware and software fixes were substantially complete.

Testing involves ensuring that hardware and software fixes will work properly in 1999 and beyond and occurs both before and after deployment. Testing is estimated to comprise 45% of the overall effort. Testing began early in 1998, is more than two-thirds complete, and will continue through 1999 to allow for thorough testing before the Year 2000. Contingency plans and backup systems are currently being written.

Deployment involves placing the "fixed" systems into a live environment to ensure they are working properly. Additional testing is done after deployment as well. Deployment is estimated to require 10% of the overall effort. More than half of the deployment phase was completed as of December 31, 1998.

SBC expects to spend approximately $265 on the entire project, with approximately $140 spent through December 31, 1998. As testing and hardware and software fixes are estimated to require most of the expenditures, there is not a strict correlation between expenditures and project completion.

The activities involved in SBC's Year 2000 project necessarily require estimates and projections, as described above, of activities and resources that will be required in the future. These estimates and projections could change as work progresses on the project.

LIQUIDITY AND CAPITAL RESOURCES

SBC had $460 of cash and cash equivalents available at December 31, 1998. Commercial paper borrowings as of December 31, 1998 totaled $1,044. SBC has entered into agreements with several banks for lines of credit totaling $1,460, all of which may be used to support commercial paper borrowings (see Note 10 of Notes to Consolidated Financial Statements). SBC had no borrowings outstanding under these lines of credit as of December 31, 1998.

Cash from Operating Activities

During 1998, as in 1997 and 1996, SBC's primary source of funds continued to be cash generated from operations, as shown in the Consolidated Statements of Cash Flows. Net cash provided by operating activities exceeded SBC's construction and capital expenditures during 1998, as in 1997 and 1996; this excess is referred to as free cash flow, a supplemental measure of liquidity. SBC generated free cash flow of $2,454, $1,366 and $2,046 in 1998, 1997 and 1996.

Cash from Investing Activities

To provide high-quality communications services to its customers, SBC, particularly its Wireline and Wireless operations, must make significant investments in property, plant and equipment. The amount of capital investment is influenced by demand for services and products, continued growth and regulatory commitments.

SBC's capital expenditures totaled $5,927, $6,230 and $5,855 for 1998, 1997 and 1996. Capital expenditures in the Wireline segment were relatively unchanged in 1998 compared to 1997. The Wireline segment's capital expenditures increased 12% in 1997 due primarily to demand-related growth, network upgrades, customer-contracted requirements, ISDN projects and SWBell's regulatory commitments. The Wireless segment's capital expenditures decreased 17% and 23% in 1998 and 1997 due primarily to expenditures for initial buildout of the PCS network and conversion of SBC's largest cellular markets to digital during 1997 and 1996.

In 1999, management expects total capital spending to be between $6,400 and $6,800. Capital expenditures in 1999 will relate primarily to the continued evolution of the Telephone Companies' networks, including amounts agreed to under regulation plans at SWBell, and continued buildout of Mobile Systems' markets and PBMS. SBC expects to fund ongoing capital expenditures with cash provided by operations.

SWBell has substantially completed the additional network and infrastructure improvements to be made over periods ranging through 2001 to satisfy regulatory commitments.

Cash from Financing Activities

Dividends declared by the Board of Directors of SBC were $0.935 per share in 1998, $0.895 per share in 1997, and $0.86 per share in 1996. These per share amounts do not include dividends declared and paid by PAC and SNET prior to their respective mergers. The total dividends paid by SBC, PAC and SNET were $1,836 in 1998, $1,755 in 1997 and $1,795 in 1996. Pursuant to the terms of the merger agreement, PAC reduced its dividend beginning in the second quarter of 1996. The lower second and third quarter dividends paid in 1996 improved 1996 cash flow by approximately $195. SBC's dividend policy considers both the expectations and requirements of shareowners, internal requirements of SBC and long-term growth opportunities.

In February 1998, SBC called $630 of long-term debt for retirement, including $175 at PacBell and $425 at SWBell, and issued approximately $200 in debentures at PacBell due February 2008 and approximately $200 in debentures at SWBell due March 2048. In September 1998, SBC called $175 of long-term debt for retirement, all at SWBell. In October 1998, PacBell repurchased $684 of debentures.

Total debt increased during 1997 due primarily to the issuance of medium-term notes and debentures at the Telephone Companies and debt redeemable either in cash or Telmex L shares.

During 1996 PAC issued $1,000 of TOPrS, $500 at 7.56% in January 1996 and $500 at 8.5% in June 1996 (see Note 11 of Notes to Consolidated Financial Statements). The proceeds were used to retire outstanding short-term debt, primarily commercial paper that had increased significantly during 1995.

SBC's total capital consists of debt (long-term debt and debt maturing within one year), TOPrS and shareowners' equity. Total capital increased $108 in 1998 and $1,056 in 1997. The increase in 1998 was due to 1998 earnings, partially offset by lower debt levels. The increase in 1997 was primarily due to higher debt levels and 1997 earnings.

SBC's debt ratio was 48.9%, 57.1% and 56.8% at December 31, 1998, 1997 and 1996. The debt ratio is affected by the same factors that affect total capital.

MARKET RISK

SBC's capital costs are directly linked to financial and business risks. SBC seeks to manage the potential negative effects from market volatility and market risk. Certain financial instruments used to obtain capital are subject to market risks from fluctuations in market interest rates. The majority of SBC's financial instruments are medium- and long-term fixed rate notes and debentures. Fluctuations in market interest rates can lead to

significant fluctuations in the fair value of these notes and debentures. It is the policy of SBC to manage its debt structure and foreign exchange exposure in order to manage capital costs, control financial risks and maintain financial flexibility over the long term. Where appropriate, SBC will take actions to limit the negative effect of interest and foreign exchange rates, liquidity and counterparty risks on shareowner value.

Quantitative Information about Market Risk

Foreign Exchange Risk Sensitivity Analysis

December 31, 1998	U.S. Dollar Value of Net Foreign Exchange Contracts	Net Underlying Foreign Currency Transaction Exposures
Swiss Franc	$ 24	$ 24
Japanese Yen	142	142
French Franc	37	37
Chilean Peso	32	32
Total Exposure	$235	$235

Note: There is no net exposed long/short currency position and no foreign exchange loss from a 10% depreciation of the U.S. dollar.

The preceding table describes the effects of a change in the value of the Swiss franc, Japanese yen, Chilean peso and French franc given a hypothetical 10% depreciation of the U.S. dollar. Since the identified exposure is fully covered with forward contracts, changes in the value of the U.S. dollar which affect the value of the underlying foreign currency commitment are fully offset by changes in the value of the foreign currency contract. If the underlying currency transaction exposure changed, the resulting mismatch would expose the company to currency risk of the foreign exchange contract. For this reason, all contracts are related to firm commitments and matched by maturity and currency.

Equity Price Risk Sensitivity Analysis

SBC is exposed to equity price risk related to the change in the price of AirTouch Communications, Inc. (AirTouch) common stock related to the settlement of employee stock options. At December 31, 1998, the net appreciated value of the equity swap contract entered in 1994 was $26, while the value of the underlying employee stock option exposures for AirTouch common stock was $25, leaving a net exposed long equity position of $1. If the value of AirTouch common stock increased by 26%, the net exposed long equity position would increase by $1 to $2. Since January 1, 1995, the average yearly share price of AirTouch common stock has increased 26%. The equity swap contract expires April 1999 and the last option grant expires January 2003. (See Note 11 of Notes to Consolidated Financial Statements.) In February 1999, management evaluated the exposure to future appreciation of AirTouch common stock and the benefit to "unwinding" the swap. As a result, SBC began exiting the equity swap contract, receiving cash for the appreciated value of the contract and recognizing a minimal gain. Once exited, SBC will record in other income (expense) – net future changes in the value of the underlying employee stock option exposure. If the value of AirTouch common stock were to increase by an additional 26% from mid-February 1999, SBC would record additional expense of approximately $8.

Interest Rate Sensitivity

The principal amount by expected maturity, average interest rate and fair value of SBC's liabilities that are exposed to interest rate risk are described in Notes 10 and 11 of Notes to Consolidated Financial Statements. Following are SBC's interest rate derivatives subject to interest rate risk (none of these derivatives mature in 2000 through 2003):

	Maturity			
	1999	After 2003	Total	Fair Value 12/31/98
Interest Rate Derivatives				
Interest Rate Swaps				
Receive Variable/Pay Fixed Notional Amount[1]	$50	—	$50	$(1)
Fixed Rate Payable	7.2%	—		
Weighted Average Variable Rate Receivable[2]	5.1%	—		
Receive Variable/Pay Fixed Notional Amount[3]	—	$13	$13	$(1)
Fixed Rate Payable	6.7%	6.7%		
Weighted Average Variable Rate Receivable[4]	5.0%	5.5%		

[1]Receive Variable/Pay Fixed amount is offset equally by $50 in Variable Rate Debt maturing in 1999 with an average interest rate of 4.5% and a fair value of $50.

[2]Weighted Average Variable Rate Receivable based on current and the implied forward rates in the yield curve at the reporting date for Constant Maturity Treasury minus 20 basis points.

[3]Receive Variable/Pay Fixed amount offsets $13 in lease obligation due after 2003 with an average interest rate of 5.8% and a fair value of $13.

[4]Weighted Average Variable Rate Receivable based on current and the implied forward rates in the yield curve at the reporting date for One Month LIBOR.

As a result of interest rate fluctuations, if SBC were to terminate the contracts, it would be required to pay $2 to replace the fixed rate flows or "unwind" the interest swaps. SBC does not intend to terminate the $50 contract as it is linked to the variable rate debt issued by SBC that also matures in 1999.

There has been no material change in the updated market risks since December 31, 1997.

Qualitative Information about Market Risk

Foreign Exchange Risk

From time to time SBC makes investments in operations in foreign countries, is paid dividends, receives proceeds from sales or borrows funds in foreign currency. Before making an investment, or in anticipation of a foreign currency receipt, SBC will often enter into forward foreign exchange contracts. The contracts are used to provide currency at a fixed rate. SBC's policy is to measure the risk of adverse currency fluctuations by calculating the potential dollar losses resulting from changes in exchange rates that have a reasonable probability of occurring. SBC covers the exposure that results from changes that exceed acceptable amounts. SBC does not speculate in foreign exchange markets.

Equity Risk

SBC has exposure to risk of market changes related to its recorded liability for outstanding employee stock options for common stock of AirTouch (spun-off operations). SBC plans to make open market purchases of the stock of spun-off operations to satisfy its obligation for options that are exercised. Off-balance-sheet risk exists to the extent the market price of AirTouch rises in value. As discussed in "Equity Price Risk Sensitivity Analysis" above, SBC evaluated the exposure to future appreciation of AirTouch common stock and is exiting a swap contract related to the options by April 1999.

Interest Rate Risk

SBC issues debt in fixed and floating rate instruments. Interest rate swaps are used for the purpose of controlling interest expense by fixing the interest rate of floating rate debt. When market conditions favor issuing debt in floating rate instruments, and SBC prefers not to take the risk of floating rates, SBC will enter interest rate swap contracts to obtain floating rate payments to service the debt in exchange for paying a fixed rate. SBC does not seek to make a profit from changes in interest rates. SBC manages interest rate sensitivity by measuring potential increases in interest expense that would result from a probable change in interest rates. When the potential increase in interest expense exceeds an acceptable amount, SBC reduces risk through the issuance of fixed rate instruments and purchasing derivatives.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties. SBC claims the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause SBC's future results to differ materially from those expressed in the forward-looking statements: (1) adverse economic changes in the markets served by SBC or changes in available technology; (2) the final outcome of various FCC rulemakings and judicial review, if any, of such rulemakings; (3) the final outcome of various state regulatory proceedings in SBC's eight-state area, and judicial review, if any, of such proceedings; and (4) the timing of entry and the extent of competition in the local and intraLATA toll markets in SBC's eight-state area. Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially impact SBC's future earnings.

CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts

	1998	1997	1996
Operating Revenues			
Landline local service	**$11,100**	$10,334	$ 9,465
Wireless subscriber	**3,783**	3,372	2,907
Network access	**6,512**	6,215	6,203
Long distance service	**2,355**	2,352	2,523
Directory advertising	**2,420**	2,280	2,156
Other	**2,607**	2,128	1,948
Total operating revenues	**28,777**	26,681	25,202
Operating Expenses			
Operations and support	**16,714**	17,802	14,510
Depreciation and amortization	**5,177**	5,301	4,466
Total operating expenses	**21,891**	23,103	18,976
Operating Income	**6,886**	3,578	6,226
Other Income (Expense)			
Interest expense	**(993)**	(1,043)	(901)
Equity in net income of affiliates	**236**	201	207
Other income (expense) – net	**245**	(78)	(75)
Total other income (expense)	**(512)**	(920)	(769)
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Change	**6,374**	2,658	5,457
Income taxes	**2,306**	984	2,070
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	**4,068**	1,674	3,387
Extraordinary Loss from Early Extinguishment of Debt, net of tax	**(60)**	—	—
Cumulative Effect of Accounting Change, net of tax	**15**	—	90
Net Income	**$ 4,023**	$ 1,674	$ 3,477
Earnings Per Common Share:			
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	**$ 2.08**	$ 0.86	$ 1.73
Net Income	**$ 2.06**	$ 0.86	$ 1.78
Earnings Per Common Share – Assuming Dilution:			
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	**$ 2.05**	$ 0.85	$ 1.72
Net Income	**$ 2.03**	$ 0.85	$ 1.77

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	December 31,	
	1998	1997
Assets		
Current Assets		
Cash and cash equivalents	**$ 460**	$ 410
Short-term cash investments	**6**	320
Accounts receivable – net of allowances for uncollectibles of $472 and $430	**5,790**	5,344
Prepaid expenses	**414**	357
Deferred income taxes	**489**	660
Other current assets	**379**	426
Total current assets	**7,538**	7,517
Property, Plant and Equipment – Net	**29,920**	29,068
Intangible Assets – Net of Accumulated Amortization of $741 and $1,047	**3,087**	3,663
Investments in Equity Affiliates	**2,514**	2,740
Other Assets	**2,007**	1,848
Total Assets	**$45,066**	$44,836
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	**$ 1,551**	$ 2,139
Accounts payable and accrued liabilities	**7,980**	8,330
Dividends payable	**458**	441
Total current liabilities	**9,989**	10,910
Long-Term Debt	**11,612**	13,176
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,990**	1,569
Postemployment benefit obligation	**5,220**	5,200
Unamortized investment tax credits	**359**	431
Other noncurrent liabilities	**2,116**	2,030
Total deferred credits and other noncurrent liabilities	**9,685**	9,230
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts*	**1,000**	1,000
Shareowners' Equity		
Preferred shares ($1 par value, 10,000,000 authorized: none issued)	**—**	—
Common shares ($1 par value, 7,000,000,000 authorized: issued 1,987,532,349 at December 31, 1998 and 1,984,141,868 at December 31, 1997)	**1,988**	992
Capital in excess of par value	**9,139**	9,966
Retained earnings	**3,396**	1,204
Guaranteed obligations of employee stock ownership plans (ESOP)	**(147)**	(219)
Deferred compensation – leveraged ESOP (LESOP)	**(82)**	(119)
Treasury shares (28,217,018 at December 31, 1998 and 29,741,356 at December 31, 1997, at cost)	**(882)**	(730)
Accumulated other comprehensive income	**(632)**	(574)
Total shareowners' equity	**12,780**	10,520
Total Liabilities and Shareowners' Equity	**$45,066**	$44,836

*The trusts contain assets of $1,030 in principal amount of the Subordinated Debentures of Pacific Telesis Group

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in millions, increase (decrease) in cash and cash equivalents

	1998	1997	1996
Operating Activities			
Net income	**$ 4,023**	$ 1,674	$ 3,477
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	**5,177**	5,301	4,466
Undistributed earnings from investments in equity affiliates	**(56)**	(100)	(138)
Provision for uncollectible accounts	**513**	566	438
Amortization of investment tax credits	**(72)**	(82)	(82)
Deferred income tax expense	**533**	239	485
Extraordinary loss, net of tax	**60**	—	—
Cumulative effect of accounting change, net of tax	**(15)**	—	(90)
Changes in operating assets and liabilities:			
Accounts receivable	**(959)**	(902)	(1,097)
Other current assets	**(8)**	(56)	301
Accounts payable and accrued liabilities	**(187)**	1,431	591
Other – net	**(628)**	(475)	(450)
Total adjustments	**4,358**	5,922	4,424
Net Cash Provided by Operating Activities	**8,381**	7,596	7,901
Investing Activities			
Construction and capital expenditures	**(5,927)**	(6,230)	(5,855)
Investments in affiliates	**(85)**	(26)	(74)
Purchase of short-term investments	**(42)**	(916)	(1,005)
Proceeds from short-term investments	**355**	1,029	816
Dispositions	**1,140**	578	96
Acquisitions	—	(1,118)	(442)
Other	**11**	13	19
Net Cash Used in Investing Activities	**(4,548)**	(6,670)	(6,445)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**(367)**	(563)	(974)
Issuance of other short-term borrowings	**2**	1,079	209
Repayment of other short-term borrowings	**(8)**	(805)	(134)
Issuance of long-term debt	**413**	1,597	988
Repayment of long-term debt	**(1,121)**	(602)	(443)
Early extinguishment of debt and related call premiums	**(765)**	(6)	—
Issuance of trust originated preferred securities	—	—	1,000
Purchase of fractional shares	—	(15)	—
Issuance of common shares	**64**	—	111
Purchase of treasury shares	**(498)**	(87)	(650)
Issuance of treasury shares	**308**	293	52
Dividends paid	**(1,811)**	(1,724)	(1,765)
Other	—	(7)	(103)
Net Cash Used in Financing Activities	**(3,783)**	(840)	(1,709)
Net increase (decrease) in cash and cash equivalents	**50**	86	(253)
Cash and cash equivalents beginning of year	**410**	324	577
Cash and Cash Equivalents End of Year	**$ 460**	$ 410	$ 324

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

Dollars and shares in millions except per share amounts

	Common Shares		Capital in Excess of Par Value	Retained Earnings (Deficit)	Guaranteed Obligations of ESOP	Deferred Compensation LESOP	Accumulated Other Comprehensive Income	Treasury Shares		Total Comprehensive Income
	Shares	Amount						Shares	Amount	
Balance, December 31, 1995	991	$ 991	$10,002	$ (546)	$ (331)	$ (242)	$ (578)	(11)	$ (481)	$
Net income for the year ($1.78 per share)	—	—	—	3,477	—	—	—	—	—	3,477
Other comprehensive income, net of tax:										
Foreign currency translation adjustment, net of income tax benefit of $28	—	—	—	—	—	—	(59)	—	—	(59)
Total Comprehensive Income										3,418
Dividends to shareowners ($0.86 per share)	—	—	(115)	(1,680)	—	—	—	—	—	—
Reduction of debt associated with ESOP	—	—	—	—	55	—	—	—	—	—
Cost of LESOP trust shares allocated to employee accounts	—	—	—	—	—	81	—	—	—	—
Issuance of common shares	—	—	20	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	—	—	—	(13)	(650)	—
Issuance of treasury shares	—	—	21	—	—	—	—	4	146	—
Other	—	—	3	14	—	—	—	—	—	—
Balance, December 31, 1996	991	991	9,931	1,265	(276)	(161)	(637)	(20)	(985)	3,418
Net income for the year ($0.86 per share)	—	—	—	1,674	—	—	—	—	—	1,674
Other comprehensive income, net of tax:										
Foreign currency translation adjustment, net of income tax expense of $38	—	—	—	—	—	—	63	—	—	63
Total Comprehensive Income										1,737
Dividends to shareowners ($0.895 per share)	—	—	—	(1,755)	—	—	—	—	—	—
Reduction of debt associated with ESOP	—	—	—	—	57	—	—	—	—	—
Cost of LESOP trust shares allocated to employee accounts	—	—	—	—	—	42	—	—	—	—
Issuance of common shares	1	1	39	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	—	—	—	(2)	(87)	—
Issuance of treasury shares	—	—	(38)	—	—	—	—	7	335	—
Other	—	—	34	20	—	—	—	—	7	—
Balance, December 31, 1997	992	992	9,966	1,204	(219)	(119)	(574)	(15)	(730)	1,737
Net income for the year ($2.06 per share)	—	—	—	4,023	—	—	—	—	—	4,023
Other comprehensive income, net of tax:										
Foreign currency translation adjustment, net of income tax benefit of $37	—	—	—	—	—	—	(58)	—	—	(58)
Unrealized gain on available-for-sale securities	—	—	—	—	—	—	60	—	—	60
Less: reclassification adjustment for gains included in net income	—	—	—	—	—	—	(60)	—	—	(60)
Total Comprehensive Income										3,965
Dividends to shareowners ($0.935 per share)	—	—	—	(1,836)	—	—	—	—	—	—
Two-for-one stock split	993	993	(993)	—	—	—	—	(15)	—	—
Reduction of debt associated with ESOP	—	—	—	—	72	—	—	—	—	—
Cost of LESOP trust shares allocated to employee accounts	—	—	—	—	—	37	—	—	—	—
Issuance of common shares	3	3	74	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	—	—	—	(12)	(498)	—
Issuance of treasury shares	—	—	(33)	—	—	—	—	14	346	—
Other	—	—	125	5	—	—	—	—	—	—
Balance, December 31, 1998	**1,988**	**$1,988**	**$9,139**	**$3,396**	**$(147)**	**$ (82)**	**$(632)**	**(28)**	**$(882)**	**$3,965**

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The consolidated financial statements include the accounts of SBC Communications Inc. and its majority owned subsidiaries (SBC). The statements reflect SBC's mergers with Pacific Telesis Group (PAC) and Southern New England Telecommunications Corporation (SNET) as pooling of interests (see Note 2). SBC's subsidiaries and affiliates operate predominantly in the communications services industry, providing landline and wireless telecommunications services and equipment and directory advertising both domestically and worldwide.

SBC's principal wireline subsidiaries are Southwestern Bell Telephone Company (SWBell), providing telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas, Pacific Bell (PacBell, which also includes Pacific Bell Information Services), The Southern New England Telephone Company and Nevada Bell (collectively referred to as the Telephone Companies). SBC's principal wireless subsidiaries are Southwestern Bell Mobile Systems, Inc., Pacific Bell Mobile Services and SNET Cellular, Inc. SBC's principal directory subsidiaries are Southwestern Bell Yellow Pages, Inc. (SWBYP), Pacific Bell Directory (PB Directory) and SNET Information Services, Inc.

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships, joint ventures and less than majority-owned subsidiaries are principally accounted for under the equity method. Earnings from certain foreign investments accounted for under the equity method are included for periods ended within three months of SBC's year end.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain amounts in prior period financial statements have been reclassified to conform to the current year's presentation.

Income Taxes – Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Investment tax credits earned prior to their repeal by the Tax Reform Act of 1986 are amortized as reductions in income tax expense over the lives of the assets which gave rise to the credits.

Cash Equivalents – Cash equivalents include all highly liquid investments with original maturities of three months or less.

Deferred Charges – Directory advertising costs are deferred until the directory is published and advertising revenues related to these costs are recognized.

Revenue Recognition/Cumulative Effect of Accounting Change – SBC recognizes revenues as earned. Amounts billed in advance of the period in which service is rendered are recorded as a liability.

SNET Information Services, Inc. prior to January 1, 1998, and PB Directory, prior to January 1, 1996, recognized revenues and expenses related to publishing directories using the "amortization" method, under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective January 1, 1998, for SNET Information Services, Inc. and January 1, 1996, for PB Directory, the accounting was changed to the "issue basis" method of accounting, which recognizes the revenues and expenses at the time the related directory is published. The change in methodology was made because the issue basis method is generally followed in the publishing industry, including SWBYP, and better reflects the operating activity of the business.

The cumulative after-tax effect of applying the changes in method to prior years was recognized as of January 1, 1998 and 1996 as one-time, non-cash gains of $15, or $0.01 per share and $90, or $0.05 per share. The gains are net of deferred taxes of $11 and $53. Had the current method been applied during prior periods, income before extraordinary loss and cumulative effect of accounting change would not have been materially affected.

Property, Plant and Equipment – Property, plant and equipment is stated at cost. The cost of additions and substantial betterments of property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment is depreciated using straight-line methods over their estimated economic lives, generally ranging from 3 to 50 years. In accordance with composite group depreciation methodology, when a portion of the Telephone Companies' depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation; no gain or loss is recognized on the disposition of this plant.

Intangible Assets – Intangible assets consist primarily of wireless cellular and Personal Communications Services (PCS) licenses, customer lists and the excess of consideration paid over net assets acquired in business combinations. These assets are being amortized using the straight-line method, over periods generally ranging from 5 to 40 years. At December 31, 1998 and 1997, amounts included in net intangible assets for licenses were $2,141 and $2,261. Management periodically reviews the carrying value and lives of all intangible assets based on expected future cash flows.

Software Costs – The costs of computer software purchased or developed for internal use are expensed as incurred. However, initial operating system software costs are capitalized and amortized over the estimated economic lives of the associated hardware. The American Institute of Certified Public Accountants has issued a Statement of Position (SOP) that requires capitalization of certain computer software expenditures beginning in 1999.

Management continues to evaluate the impact of the change in accounting required by the SOP and anticipates that it will increase net income by less than $200 in 1999. With comparable levels of software expenditures, the SOP would tend to increase net income in comparison with SBC's current method of accounting for software costs. However, the increases would be largest in the year of adoption with diminishing levels of increases compared with current accounting throughout the amortization period. Consequently, given otherwise comparable income levels excluding software, and otherwise comparable software expenditures, the

effect of the SOP would be to increase income in the first year and decrease income in each subsequent year until the number of years affected by the SOP equals the amortization period.

Advertising Costs – Costs for advertising products and services or corporate image are expensed as incurred (see Note 18).

Foreign Currency Translation – Local currencies are generally considered the functional currency for SBC's share of foreign operations, except in countries considered highly inflationary. SBC translates its share of foreign assets and liabilities at current exchange rates. Revenues and expenses are translated using average rates during the year. The ensuing foreign currency translation adjustments are recorded as a separate component of shareowners' equity. Other transaction gains and losses resulting from exchange rate changes on transactions denominated in a currency other than the local currency are included in earnings as incurred.

Derivative Financial Instruments – SBC does not invest in any derivatives for trading purposes. From time to time as part of its risk management strategy, SBC uses immaterial amounts of derivative financial instruments including interest rate swaps to hedge exposures to interest rate risk on debt obligations, and foreign currency forward exchange contracts to hedge exposures to changes in foreign currency rates for transactions related to its foreign investments. Derivative contracts are entered into for hedging of firm commitments only. SBC currently does not recognize the fair values of these derivative financial investments or their changes in fair value in its financial statements. Interest rate swap settlements are recognized as adjustments to interest expense in the consolidated statements of income when paid or received. Foreign currency forward exchange contracts are set up to coincide with firm commitments. Gains and losses are deferred until the underlying transaction being hedged occurs, and then are recognized as part of that transaction. PAC entered into an equity swap contract to hedge exposure to risk associated with its recorded liability for certain outstanding employee stock options relating to stock of AirTouch Communications Inc. (AirTouch) (see Note 15). The equity swap contract and its liability are recorded at fair value in the balance sheet as other assets or liabilities. Equity swap settlements are recorded in interest expense in the consolidated statements of income when paid or received.

NOTE 2. MERGERS WITH SNET AND PAC

On April 1, 1997, SBC and PAC completed the merger of an SBC subsidiary with PAC, in a transaction in which each outstanding share of PAC common stock was exchanged for 1.4629 shares of SBC common stock (equivalent to approximately 626 million shares). With the merger, PAC became a wholly-owned subsidiary of SBC. The transaction has been accounted for as a pooling of interests and a tax-free reorganization.

Transaction costs and one-time charges relating to the closing of the merger were $359 ($215 net of tax) including, among other items, the present value of amounts to be returned to California ratepayers as a condition of the merger and expenses for investment banker and professional fees. Of this total, $287 ($180 net of tax) is included in expenses in 1997, and $72 ($35 net of tax) in 1996. The amounts due to ratepayers are being paid out over five years, from 1998 to 2002.

On October 26, 1998, SBC and SNET completed the merger of an SBC subsidiary with SNET, in a transaction in which each share of SNET common stock was exchanged for 1.7568 shares of SBC common stock (equivalent to approximately 120 million shares). SNET became a wholly-owned subsidiary of SBC effective with the merger and the transaction has been accounted for as a pooling of interests and a tax-free reorganization. Financial statements for prior periods have been restated to include the accounts of SNET. Transaction costs related to the merger were $40 ($26 net of tax).

Operating revenues, income before extraordinary loss and cumulative effect of accounting change and net income of the separate companies for the pre-merger periods of the last three periods were as follows:

	Nine Months Ended September 30,	Year Ended December 31,	
	1998	1997	1996
Operating revenues:			
SBC	**$19,495**	$24,659	$23,260
SNET	**1,606**	2,022	1,942
Combined	**$21,101**	$26,681	$25,202
Income before extraordinary loss and cumulative effect of accounting change:			
SBC	**$ 3,085**	$ 1,474	$ 3,189
SNET	**164**	198	193
Adjustments	**3**	2	5
Combined	**$ 3,252**	$ 1,674	$ 3,387
Net income:			
SBC	**$ 3,085**	$ 1,474	$ 3,279
SNET	**179**	194	193
Adjustments	**3**	6	5
Combined	**$ 3,267**	$ 1,674	$ 3,477

The combined results include the effect of changes applied retroactively to conform the accounting methodologies between SNET and SBC for pension and postemployment benefits. SBC believes the new method is more prevalent and better reflects the operations of the business.

Post-merger initiatives – During the second quarter of 1997, SBC announced after-tax charges of $1.6 billion related to several strategic decisions resulting from the merger integration process that began with the April 1, 1997 closing of its merger with PAC, which included $165 ($101 after tax) of charges related to several regulatory rulings during the second quarter of 1997 and $281 ($176 after tax) for merger approval costs. The decisions resulted from an extensive review of operations throughout the merged company and include significant integration of operations and consolidation of some administrative and support functions.

During the fourth quarter of 1998, SBC again performed a complete review of all operations affected by the merger with SNET to determine the impact on ongoing merger integration processes. Review teams examined operational functions and evaluated all strategic initiatives. As a result of this review, SBC announced net after-tax charges of $268 related to strategic decisions arising from the review and expensing of merger-related costs incurred by SNET.

One-time charges related to the strategic decisions reached by the review teams totaled $403 ($249 after tax) in the fourth quarter of 1998 and $2 billion ($1.3 billion after tax) in the second quarter of 1997. At December 31, 1998 and 1997, remaining accruals for anticipated cash expenditures related to these decisions were approximately $323 and $432.

Reorganization – SBC is centralizing several key functions that will support the operations of the Telephone Companies, including network planning, strategic marketing and procurement. It is also consolidating a number of corporate-wide support activities, including research and development, information technology, financial transaction processing and real estate management. The Telephone Companies will continue as separate legal entities. These initiatives continue to result in the creation of some jobs and the elimination and realignment of others, with many of the affected employees changing job responsibilities and in some cases assuming positions in other locations.

SBC recognized charges of approximately $82 ($50 net of tax) during the fourth quarter of 1998 and $338 ($213 net of tax) during the second quarter of 1997 in connection with these initiatives. The charges were comprised mainly of postemployment benefits, primarily related to severance, and costs associated with closing down duplicate operations, primarily contract cancellations. Other charges arising out of the mergers related to relocation, retraining and other effects of consolidating certain operations are being recognized in the periods those charges are incurred. The initial integration process subsequent to the PAC merger resulted in SBC incurring expenses for these merger-related items in advance of any substantial synergistic benefits. During the second half of 1997, these merger-related charges totaled $501 ($304 net of tax).

Impairments/asset valuation – As a result of SBC's merger integration plans, strategic review of domestic operations and organizational alignments, SBC reviewed the carrying values of related long-lived assets in the fourth quarter of 1998 and the second quarter of 1997. The reviews were conducted companywide, although the fourth quarter 1998 review focused primarily on SNET. These reviews included estimating remaining useful lives and cash flows and identifying assets to be abandoned. Where this review indicated impairment, discounted cash flows related to those assets were analyzed to determine the amount of the impairment. As a result of these reviews, SBC wrote off some assets and recognized impairments to the value of other assets, recording a combined charge of $321 ($199 after tax) in the fourth quarter of 1998 and $965 ($667 after tax) in the second quarter of 1997.

The 1998 impairments and writeoffs primarily related to recognition of an impairment of the assets supporting SNET's video and telephony operations, and also included charges for required changes in wireless equipment, inventory and sites. The 1997 impairments and writeoffs related primarily to the wireless digital TV operations in southern California, certain analog switching equipment in California, certain rural and other telecommunications equipment in Nevada, selected wireless equipment, duplicate or obsolete equipment, cable within commercial buildings in California, certain nonoperating plant and other assets.

Pacific and Southwestern video curtailment/purchase commitments – SBC also announced in 1997 that it was scaling back its limited direct investment in video services in the areas also served by PacBell and SWBell. As a result of this curtailment, SBC halted construction on the Advanced Communications Network (ACN) in California. As part of an agreement with the ACN vendor, SBC paid the liabilities of the ACN trust that owned and financed ACN construction, incurred costs to shut down all construction previously conducted under the trust and received certain consideration from the vendor. In the second quarter of 1997, SBC recognized net expense of $553 ($346 after tax) associated with these activities. During the third quarter of 1997, SBC recorded the corresponding short-term debt of $610 previously incurred by the ACN trust on its balance sheet. Additionally, SBC curtailed certain other video-related activities including discontinuing its broadband network video trials in Richardson, Texas, and San Jose, California, substantially scaling back its involvement in the Tele-TV joint venture and withdrawing its operations in territory served by SWBell from the Americast venture. Americast partners are disputing the withdrawal in arbitration and litigation, the outcome of which cannot be predicted, but is not expected to have a material impact on SBC's financial condition or results of operations. The collective impact of these decisions and actions by SBC resulted in a charge of $145 ($92 after tax) in the second quarter of 1997.

NOTE 3. MERGER AGREEMENT WITH AMERITECH CORPORATION

On May 11, 1998, SBC announced a definitive agreement to merge an SBC subsidiary with Ameritech Corporation (Ameritech) in a transaction in which each share of Ameritech common stock will be converted into and exchanged for 1.316 shares of SBC common stock (equivalent to approximately 1,450 million shares). After the merger, Ameritech will be a wholly-owned subsidiary of SBC. The transaction, which has been approved by the board of directors and shareowners of each company, is intended to be accounted for as a pooling of interests and to be a tax-free reorganization. The merger is subject to certain regulatory approvals, including the Federal Communications Commission (FCC) and state commissions in Ohio and Illinois. If approvals are granted, the transaction is expected to close in 1999.

SBC and Ameritech own competing cellular licenses in several markets, including, but not limited to, Chicago, Illinois, and St. Louis, Missouri (Overlapping Cellular Licenses). In an effort to comply with the FCC's rules and regulations and certain provisions of the Merger Agreement, SBC and Ameritech expect to be required by the FCC to divest one of the Overlapping Cellular Licenses in each market and are attempting to determine the manner in which an Overlapping Cellular License in each market should be divested.

The pro forma effect on SBC's consolidated statements of income had the merger occurred on January 1, 1996 is as follows:

Pro Forma (unaudited):	1998	1997	1996
Operating revenues	**$45,931**	$42,679	$40,119
Income before extraordinary loss and cumulative effect of accounting change	**$ 7,674**	$ 3,970	$ 5,521
Net income	**$ 7,629**	$ 3,970	$ 5,611
Basic earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$ 2.25**	$ 1.17	$ 1.62
Net income	**$ 2.24**	$ 1.17	$ 1.65
Diluted earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$ 2.23**	$ 1.16	$ 1.61
Net income	**$ 2.21**	$ 1.16	$ 1.64

This pro forma information does not include the effect of changes, which will be applied retroactively, to conform accounting methodologies between SBC and Ameritech. Based on information currently available, management estimates the conforming changes will not materially affect the pro forma operating revenues or income before extraordinary loss and cumulative effect of accounting change. Additionally, the pro forma information also does not include any potential cost savings which may result from the integration of SBC's and Ameritech's operations or future transaction costs relating to the merger (which are estimated to be less than $90), nor does it consider any reorganization costs or costs associated with the disposition of the Overlapping Cellular Licenses that may be required. Management is unable to quantify the potential cost savings that may result from the integration of SBC and Ameritech. The financial impact of the reorganization costs or costs associated with the disposition of the Overlapping Cellular Licenses cannot be determined pending the resolution of the disposal.

NOTE 4. PACIFIC TELESIS GROUP FINANCIAL INFORMATION

The following table presents summarized financial information for PAC at December 31, or for the year then ended:

	1998	1997	1996
Balance Sheets			
Current assets	**$ 3,037**	$ 2,835	$ 2,474
Noncurrent assets	**15,428**	14,150	14,134
Current liabilities	**5,278**	4,513	3,527
Noncurrent liabilities	**10,482**	10,413	10,308
Income Statements			
Operating revenues	**$11,302**	$10,101	$ 9,588
Operating income (loss)	**2,612**	(156)	2,198
Income (loss) before extraordinary loss and cumulative effect of accounting changes	**1,240**	(546)	1,057
Net income (loss)	**1,180**	(224)	1,142

SBC has not provided separate financial statements and other disclosures for PAC as management has determined that such information is not material to the holders of the Trust Originated Preferred Securities (TOPrS) (see Note 11), which have been guaranteed by SBC. This information is provided as a supplement only.

NOTE 5. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before extraordinary loss and cumulative effect of accounting change for the years ended December 31, 1998, 1997 and 1996 are shown in the table below.

Year Ended December 31	1998	1997	1996
Numerators			
Numerator for basic earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$4,068**	$1,674	$3,387
Dilutive potential common shares:			
Other stock-based compensation	**4**	3	2
Numerator for diluted earnings per share	**$4,072**	$1,677	$3,389
Denominators			
Denominator for basic earnings per share:			
Weighted average number of common shares outstanding (000)	**1,956,610**	1,944,617	1,956,200
Dilutive potential common shares (000):			
Stock options	**21,701**	12,926	7,385
Other stock-based compensation	**5,542**	4,388	3,410
Denominator for diluted earnings per share	**1,983,853**	1,961,931	1,966,995
Basic earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$ 2.08**	$ 0.86	$ 1.73
Extraordinary loss	**(0.03)**	—	—
Cumulative effect of accounting change	**0.01**	—	0.05
Net income	**$ 2.06**	$ 0.86	$ 1.78
Diluted earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$ 2.05**	$ 0.85	$ 1.72
Extraordinary loss	**(0.03)**	—	—
Cumulative effect of accounting change	**0.01**	—	0.05
Net income	**$ 2.03**	$ 0.85	$ 1.77

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows at December 31:

	1998	1997
Land	$ 442	$ 434
Buildings	6,842	6,502
Central office equipment	28,019	25,864
Cable, wiring and conduit	30,916	29,943
Other equipment	5,897	5,926
Under construction	1,350	1,546
	73,466	70,215
Accumulated depreciation and amortization	43,546	41,147
Property, plant and equipment – net	$29,920	$29,068

SBC's depreciation expense as a percentage of average depreciable plant was 7.2%, 7.4% and 6.9% for 1998, 1997 and 1996.

Certain facilities and equipment used in operations are under operating or capital leases. Rental expenses under operating leases for 1998, 1997 and 1996 were $440, $386 and $346. At December 31, 1998, the future minimum rental payments under noncancelable operating leases for the years 1999 through 2003 were $1,817, $2,652, $2,519, $2,553 and $2,508 and $7,096 thereafter. Capital leases are not significant.

NOTE 7. INVESTMENT IN TELEWEST COMMUNICATIONS PLC

During 1998, SBC owned up to 15% of Telewest Communications plc (Telewest), the largest cable television operator in the United Kingdom. Due to restrictions existing on the sale of SBC's interest in Telewest, SBC accounted for its investment using the cost method of accounting. During the third quarter of 1998, as a result of Telewest's merger with General Cable, Telewest entered into a new agreement with its key shareholders, including SBC, which lifted those restrictions. SBC was then required to account for its investment in Telewest as available-for-sale securities pursuant to Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115). Under FAS 115, available-for-sale securities are measured at fair value in the statement of financial position, and unrealized holding gains and losses are excluded from earnings and reported as a net amount in a separate component of shareowners' equity until realized. During 1998, SBC sold approximately 90% of its Telewest investment for $425 and made a charitable contribution of the remainder. The net effect from Telewest transactions for the year ended December 31, 1998 was to increase net income by $60.

NOTE 8. EQUITY INVESTMENTS

Investments in affiliates accounted for under the equity method include SBC's investment in Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company. SBC is a member of a consortium that holds all of the AA shares of Telmex stock, representing voting control of the company. Another member of the consortium, Carso Global Telecom, S.A. de C.V., has the right to appoint a majority of the directors of Telmex. SBC also owns L shares which have limited voting rights. Throughout 1998, SBC sold portions of its L shares in response to open market share repurchases by Telmex, so that its total equity investment remained below 10% of Telmex's total equity capitalization.

Other major equity investments held by SBC include a 1997 investment of approximately $760 in Telkom SA Limited (Telkom), the state-owned telecommunications company of South Africa (see Note 17), an indirect 15% ownership in Cegetel, a joint venture providing a broad range of telecommunications offerings in France, investments in Chilean telecommunications operations and minority ownership of several domestic wireless properties.

The following table is a reconciliation of SBC's investments in equity affiliates:

	1998	1997	1996
Beginning of year	$2,740	$1,964	$1,616
Additional investments	55	1,076	337
Equity in net income	236	201	207
Dividends received	(167)	(90)	(70)
Currency translation adjustments	(110)	(135)	(94)
Reclassifications and other adjustments	(240)	(276)	(32)
End of year	$2,514	$2,740	$1,964

The currency translation adjustment for 1998 primarily reflects the effect of exchange rate fluctuations on SBC's investment in South Africa. Other adjustments for 1998 reflect a write-down of an international investment and the sale of portions of SBC's Telmex L shares.

Currency translation adjustments for 1997 primarily reflect the effect of the exchange rate fluctuations on SBC's investments in South African and French telecommunications companies. Other adjustments for 1997 reflect the sale of portions of SBC's Telmex L shares and the change to the cost method of accounting in 1997 for SBC's 1995 investment in South African wireless operations which were sold during the third quarter of 1998 (see Note 17).

Undistributed earnings from equity affiliates were $918 and $862 at December 31, 1998 and 1997.

NOTE 9. SEGMENT INFORMATION

SBC has four reportable segments: Wireline, Wireless, Directory and Other. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Directory segment sells advertising for and publication of yellow pages and white pages directories and electronic publishing. The Other segment includes SBC's international investments and other domestic operating subsidiaries.

These segments are strategic business units that offer different products and services and are managed accordingly. SBC evaluates performance based on income before income taxes, adjusted for normalizing items. For 1998, normalizing items included gains on sales of certain non-core businesses, principally the required disposition of SBC's interest in Mobile Telephone Networks (MTN), a South African national cellular company, due to SBC's investment in Telkom, and charges related to strategic initiatives resulting from the merger integration process with SNET. For 1997, normalizing items included the costs related to strategic initiatives resulting from the merger integration process with PAC, the impact of several second quarter 1997 regulatory rulings and charges for ongoing merger integration costs (see Note 2), as well as the gain on the sale of the Telephone Companies' interest in Bell Communications Research, Inc. (Bellcore) and the first quarter 1997 settlement gain at PAC associated with lump-sum pension payments that exceeded the projected service and interest costs for 1996 retirements. The effect of any normalizing adjustments is shown separately in the table below. The accounting policies of the segments are the same as those described in Note 1. Transactions between segments are reported at fair value.

Corporate, adjustments and eliminations include corporate activities, the elimination of intersegment transactions, and other adjustments. Included in other adjustments are differences in accounting between subsidiary and consolidated financial statements for postretirement benefits at PacBell and the treatment of conforming accounting adjustments arising out of the pooling of interests with SNET and PAC that were required to be treated as changes in accounting principles by the subsidiaries.

At December 31, 1998 or for the year ended	Wireline	Wireless	Directory	Other	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	**$22,097**	**$4,184**	**$2,320**	**$ 82**	**$ 102**	**$ (8)**	**$28,777**
Intersegment revenues	**113**	**1**	**73**	**3**	**(190)**	—	—
Depreciation and amortization	**4,265**	**583**	**31**	—	**77**	**221**	**5,177**
Equity in net income of affiliates	—	**25**	—	**211**	—	—	**236**
Interest expense	**861**	**179**	**11**	**37**	**(98)**	**3**	**993**
Income before income taxes	**4,364**	**490**	**1,131**	**269**	**195**	**(75)**	**6,374**
Segment assets	**33,427**	**7,161**	**1,385**	**2,854**	**239**	—	**45,066**
Investment in equity method investees	**34**	**232**	—	**2,274**	**(26)**	—	**2,514**
Expenditures for additions to long-lived assets	**5,178**	**644**	**30**	**11**	**64**	—	**5,927**

At December 31, 1997 or for the year ended	Wireline	Wireless	Directory	Other	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	$20,718	$3,696	$2,197	$ 57	$ 201	$ (188)	$26,681
Intersegment revenues	208	1	89	—	(298)	—	—
Depreciation and amortization	4,095	491	28	—	83	604	5,301
Equity in net income of affiliates	(5)	9	—	206	(9)	—	201
Interest expense	837	152	4	25	(2)	27	1,043
Income before income taxes	3,736	355	1,043	192	75	(2,743)	2,658
Segment assets	32,018	7,071	1,227	3,398	1,122	—	44,836
Investment in equity method investees	34	229	—	2,503	(26)	—	2,740
Expenditures for additions to long-lived assets	5,275	776	38	—	141	—	6,230

At December 31, 1996 or for the year ended	Wireline	Wireless	Directory	Other	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	$19,751	$3,137	$2,077	$ 34	$ 203	$ —	$25,202
Intersegment revenues	168	—	68	9	(245)	—	—
Depreciation and amortization	3,954	397	28	1	86	—	4,466
Equity in net income of affiliates	(5)	22	—	226	(36)	—	207
Interest expense	766	107	5	34	(11)	—	901
Income before income taxes	3,789	567	970	178	(47)	—	5,457
Expenditures for additions to long-lived assets	4,712	1,006	32	5	100	—	5,855

Geographic Information

SBC's investments outside of the United States are primarily accounted for under the equity method of accounting and do not record in operating revenues and expenses the revenues and expenses of the individual companies in which SBC invests. Long-lived assets consist primarily of the book value of these investments.

Year Ended December 31,	1998	1997	1996
Revenues:			
United States	**$28,692**	$26,624	$25,168
Mexico	**15**	21	25
South Africa	**48**	22	3
France	**4**	5	3
Chile	**1**	2	2
Other foreign	**17**	7	1
Total	**$28,777**	$26,681	$25,202

December 31,	1998	1997
Long-Lived Assets:		
United States	**$31,135**	$30,229
Mexico	**836**	733
South Africa	**694**	837
France	**557**	543
United Kingdom	—	339
Chile	**59**	295
Other foreign	**214**	234
Total	**$33,495**	$33,210

NOTE 10. DEBT

Long-term debt, including interest rates and maturities, is summarized as follows at December 31:

		1998	1997
SWBell			
Debentures			
5.38%-5.88%	2003-2006	**$ 500**	$ 500
6.13%-6.88%	2000-2048	**1,750**	1,550
7.00%-7.75%	2009-2027	**1,150**	1,750
		3,400	3,800
Unamortized discount – net of premium		**(38)**	(36)
Total debentures		**3,362**	3,764
Notes			
5.04%-7.67%	1998-2010	**1,063**	1,236
Unamortized discount		**(5)**	(6)
Total notes		**1,058**	1,230
PacBell			
Debentures			
4.62%-5.88%	1999-2006	**475**	475
6.00%-6.88%	2002-2034	**1,194**	1,194
7.12%-7.75%	2008-2043	**1,587**	2,250
8.50%	2031	**29**	225
		3,285	4,144
Unamortized discount – net of premium		**(65)**	(89)
Total debentures		**3,220**	4,055
Notes			
6.12%-8.70%	2001-2009	**1,500**	1,300
Unamortized discount		**(18)**	(18)
Total notes		**1,482**	1,282
Other notes and debentures			
4.37%-6.98%	1998-2007	**501**	633
7.00%-10.50%	1998-2033	**2,048**	2,033
		2,549	2,666
Unamortized premium – net of discount		**61**	65
Total other notes and debentures		**2,610**	2,731
Guaranteed obligations of ESOP[1]			
8.41%-9.40%	2000	**127**	198
Capitalized leases		**260**	294
Total long-term debt, including current maturities		**12,119**	13,554
Current maturities		**(507)**	(378)
Total long-term debt		**$11,612**	$13,176

[1]See Note 14

In February and September 1998, SBC called $805 of long-term debt for retirement. SBC recognized after-tax charges of $11 associated with the calling of this debt.

In October 1998, PacBell repurchased $684 of long-term debt. The repurchases resulted in a $60 after-tax extraordinary loss, net of taxes of $42.

At December 31, 1998, the aggregate principal amounts of long-term debt and average interest rate scheduled for repayment for the years 1999 through 2003 were $507 (6.6%),

$574 ([illegible]%), $1,034 (7.5%), $980 (6.7%), $749 (6.3%) with $8,406 (6.9%) due thereafter. As of December 31, 1998, SBC was in compliance with all covenants and conditions of instruments governing its debt.

Debt maturing within one year consists of the following at December 31:

	1998	1997
Commercial paper	**$1,044**	$1,412
Current maturities of long-term debt	**507**	378
Other short-term debt	**—**	349
Total	**$1,551**	$2,139

The weighted average interest rate on commercial paper debt at December 31, 1998 and 1997 was 5.49% and 6.02%. SBC has entered into agreements with several banks for compensated lines of credit totaling $655 and uncompensated lines of credit totaling $805, thus total lines of credit available are $1,460, all of which may be used to support commercial paper borrowings. SBC had no borrowings outstanding under these lines of credit as of December 31, 1998 or 1997.

NOTE 11. FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of SBC's long-term debt, including current maturities and other financial instruments, are summarized as follows at December 31:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
SWBell debentures	**$3,362**	**$3,531**	$3,764	$3,828
SWBell notes	**1,058**	**1,129**	1,230	1,271
PacBell debentures	**3,220**	**3,463**	4,055	4,337
PacBell notes	**1,482**	**1,590**	1,282	1,342
Other notes and debentures	**2,610**	**2,725**	2,731	2,947
TOPrS	**1,000**	**1,029**	1,000	1,034
Guaranteed obligations of ESOP[1]	**127**	**132**	198	207

[1] See Note 14

The fair values of SBC's long-term debt were estimated based on quoted market prices, where available, or on the net present value method of expected future cash flows using current interest rates. The fair value of the TOPrS was estimated based on quoted market prices. The carrying amounts of commercial paper debt approximate fair values.

SBC does not hold or issue any financial instruments for trading purposes. SBC's cash equivalents and short-term investments are recorded at amortized cost. The carrying amounts of cash and cash equivalents and short-term investments and customer deposits approximate fair values.

Pacific Telesis Financing I and II (the Trusts) were formed for the exclusive purpose of issuing preferred and common securities representing undivided beneficial interests in the Trusts and investing the proceeds from the sales of TOPrS in unsecured subordinated debt securities of PAC. Under certain circumstances, dividends on TOPrS could be deferred for up to a period of five years. PAC sold $1 billion of TOPrS, $500 at 7.56% in January 1996 through Pacific Telesis Financing I and $500 at 8.5% in June 1996 through Pacific Telesis Financing II. As of December 31, 1998, the Trusts held subordinated debt securities of PAC in principal amounts of $516 and $514 with interest rates of 7.56% and 8.5%. Both issues of TOPrS were priced at $25 per share, have an original 30-year maturity that may be extended up to 49 years, are callable five years after date of sale at par and are included on the balance sheet as corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts. The proceeds were used to retire short-term indebtedness, primarily commercial paper. SBC has guaranteed payment of the obligations of the TOPrS.

Derivatives

SBC entered into an equity swap contract to hedge exposure to risk of market changes related to its recorded liability for outstanding employee stock options for common stock of AirTouch (spun-off operations) and associated stock appreciation rights (SARs) (see Note 15). In February 1999, SBC began exiting the equity swap contract, receiving cash for the appreciated value of the contract and recognizing a minimal gain. Once exited, SBC will record in other income (expense) - net future changes in the value of the underlying employee stock option exposure. SBC plans to make open-market purchases of the stock of spun-off operations to satisfy its obligation for options that are exercised. Off-balance-sheet risk exists to the extent the market price of the stock of spun-off operations rises above the market price reflected in the liability's current carrying value. The equity swap hedged this exposure and minimized the impact of market fluctuations. The contract entitled SBC to receive settlement payments to the extent the price of the common stock of spun-off operations rose above the notional value of $23.74 per share, but imposed an obligation to make payments to the extent the price declined below this level. The swap also obligated SBC to make a monthly payment of a fee based on LIBOR. The total notional amount of the contract, $13 and $19 as of December 31, 1998 and 1997, covered the approximate number of the outstanding options and SARs of spun off operations on that date. SBC periodically adjusted downward the outstanding notional amount as the options and SARs were exercised.

Both the equity swap and SBC's liability for the stock options and SARs of spun-off operations are carried in the balance sheet at their market values, which were immaterial as of December 31, 1998 and 1997. Gains and losses from quarterly market adjustments of the carrying amounts were substantially offsetting. As of December 31, 1998 and 1997, the accounting loss that would have been incurred from nonperformance by the counterparty to the equity swap was $26 and $14.

NOTE 12. INCOME TAXES

Significant components of SBC's deferred tax liabilities and assets are as follows at December 31:

	1998	1997
Depreciation and amortization	**$3,959**	$3,679
Equity in foreign subsidiaries	**357**	253
Other	**355**	2,052
Deferred tax liabilities	**4,671**	5,984
Employee benefits	**1,707**	2,528
Unamortized investment tax credits	**91**	174
Currency translation adjustments	**333**	303
Other	**1,244**	2,140
Deferred tax assets	**3,375**	5,145
Deferred tax assets valuation allowance	**36**	70
Net deferred tax liabilities	**$1,332**	$ 909

The decrease in the valuation allowance is the result of an evaluation of the uncertainty associated with the realization of certain deferred tax assets. The valuation allowance is maintained in deferred tax assets for certain unused federal and state loss carryforwards.

The components of income tax expense are as follows:

	1998	1997	1996
Federal:			
Current	**$1,583**	$786	$1,443
Deferred - net	**437**	76	364
Amortization of investment tax credits	**(72)**	(82)	(82)
	1,948	780	1,725
State and local:			
Current	**262**	41	224
Deferred - net	**96**	163	121
	358	204	345
Total	**$2,306**	$984	$2,070

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes, extraordinary loss and cumulative effect of accounting change is as follows:

	1998	1997	1996
Taxes computed at federal statutory rate	**$2,231**	$930	$1,910
Increases (decreases) in income taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits	**(47)**	(53)	(53)
State and local income taxes - net of federal income tax benefit	**233**	133	224
Other - net	**(111)**	(26)	(11)
Total	**$2,306**	$984	$2,070

NOTE 13. EMPLOYEE BENEFITS

Pensions - Substantially all employees of SBC are covered by one of various noncontributory pension and death benefit plans. The pension benefit formula used in the determination of pension cost for nonmanagement employees is based on a flat dollar amount per year of service according to job classification. For PAC managers, benefits accrue in separate account balances based on a fixed percentage of each employee's monthly salary with interest. For all other managers, benefits accrue in separate account balances based on a fixed percentage of each employee's monthly salary plus interest or are determined based upon a stated percentage of adjusted career income. Both the bargaining-unit and management employees of SNET have a cash balance pension plan. Accordingly, pension benefits are determined as a single account balance and grow each year with pay and interest credits.

SBC's objective in funding the plans, in combination with the standards of the Employee Retirement Income Security Act of 1974 (as amended), is to accumulate funds sufficient to meet its benefit obligations to employees upon their retirement. Contributions to the plans are made to a trust for the benefit of plan participants. Plan assets consist primarily of stocks, U.S. government and domestic corporate bonds, index funds and real estate.

The following table presents the change in the pension plan benefit obligation for the years ended December 31:

	1998	1997
Benefit obligation at beginning of the year	**$18,116**	$16,330
Service cost - benefits earned during the period	**339**	300
Interest cost on projected benefit obligation	**1,265**	1,237
Amendments	**254**	402
Actuarial gain	**566**	1,398
Special termination benefits	**53**	—
Benefits paid	**(1,723)**	(1,5[illegible])
Benefit obligation at end of year	**$18,870**	$18,116

The following table presents the change in pension plan assets for the years ended December 31 and the pension plans' funded status at December 31:

	1998	1997
Fair value of plan assets at beginning of the year	**$24,998**	$22,428
Actual return on plan assets	**3,753**	4,111
Benefits paid	**(1,720)**	(1,541)
Fair value of plan assets at end of year	**$27,031**	$24,998
Funded status	**$ 8,161**	$ 6,882
Unrecognized prior service cost	**1,312**	1,221
Unrecognized net gain	**(8,327)**	(7,081)
Unamortized transition asset	**(759)**	(895)
Prepaid pension cost	**$ 387**	$ 127

The following table presents amounts recognized in SBC's Consolidated Balance Sheets at December 31:

	1998	1997
Prepaid pension cost	**$ 819**	$ 545
Accrued pension liability	**(432)**	(418)
Net amount recognized	**$ 387**	$ 127

Net pension cost is composed of the following:

	1998	1997	1996
Service cost - benefits earned during the period	**$ 339**	$ 300	$ 317
Interest cost on projected benefit obligation	**1,265**	1,237	1,226
Expected return on plan assets	**(1,771)**	(1,640)	(1,664)
Amortization of prior service cost	**27**	15	(19)
Recognized actuarial gain	**(99)**	(115)	(92)
Net pension benefit	**$ (239)**	$ (203)	$ (232)

Significant weighted average assumptions used in developing pension information include:

	1998	1997	1996
Discount rate for determining projected benefit obligation	**7.0%**	7.25%	7.5%
Long-term rate of return on plan assets	**8.5%**	8.5%	8.5%
Composite rate of compensation increase	**4.3%**	4.3%	4.3%

The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to previously rendered employee service. It is measured based on assumptions concerning future interest rates and employee compensation levels. Should actual experience differ from the actuarial assumptions, the benefit obligation will be affected.

In April 1997, management amended the pension plan for non-PAC managers to a cash balance pension plan effective June 1, 1997. Under the new plan, participants accrue benefits based on a percentage of pay plus interest. In addition, a transition benefit is phased in over five years. The new plan also requires computation of a grandfathered benefit using the old formula for five years. Participants receive the greater of the cash balance benefit or the grandfathered benefit. The new cash balance plan allows lump sum benefit payments in addition to annuities. This change did not have a significant impact on SBC's net income for 1997.

In March 1996, management amended the pension plan for PAC managers from a final pay plan to a cash balance plan effective July 1, 1996. An enhanced transition benefit, based on frozen pay and service as of June 30, 1996, was established to preserve benefits already accrued by salaried employees under the final pay plan and resulted in an increase in earned benefits for most employees. SBC also updated the actuarial assumptions used in valuing the PAC plans to reflect changes in market interest rates and recent experience, including a change in its assumption concerning future ad hoc increases in pension benefits. Taken together, these changes increased net income by approximately $125 during 1996.

Approximately 4,200 employees left PacBell during 1996 under retirement or voluntary and involuntary severance programs and received special pension benefits and cash incentives in connection with the PacBell restructuring and related force reduction programs. Annual pension cost excludes $64 of additional pension benefits charged to PacBell's restructuring reserve in 1996.

During 1997, a significant amount of lump sum pension payments resulted in a partial settlement of PAC's pension plans. Therefore, net settlement gains in the amount of $299 were recognized in 1997. Of this amount, $152 was recognized in the first quarter of 1997 and related primarily to managers who terminated employment in 1996. These gains are not included in the net pension cost shown in the preceding table.

In connection with a voluntary early-out offer that provided enhanced pension benefits, approximately 1,135 employees left SNET during 1996. Annual pension cost excludes $65 of net settlement gains charged to SNET's restructuring reserve in 1[illegible]

Supplemental Retirement Plans - SBC also provides s[illegible] or and middle management employees with nonqualified, unfunded supplemental retirement and savings plans. These plans include supplemental defined pension benefits as well as compensation deferral plans, some of which include a corresponding match by SBC based on a percentage of the compensation deferral. Expenses related to these plans were $105, $90 and $90 in 1998, 1997 and 1996. Liabilities of $1,008 and $897 related to these plans have been included in other noncurrent liabilities in SBC's Consolidated Balance Sheets at December 31, 1998 and 1997.

Postretirement Benefits - SBC provides certain medical, dental and life insurance benefits to substantially all retired employees under various plans and accrues actuarially determined postretirement benefit costs as active employees earn these benefits. Employees retiring after certain dates will pay a share of the costs of medical coverage that exceed a defined dollar medical cap. Such future cost-sharing provisions have been reflected in determining SBC's postretirement benefit costs. SBC maintains Voluntary Employee Beneficiary Association trusts to fund postretirement benefits. Assets consist principally of stocks and U.S. government and corporate bonds.

The following table sets forth the change in the benefit obligation for the years ended December 31:

	1998	1997
Benefit obligation at beginning of the year	**$7,701**	$7,112
Service cost - benefits earned during the period	**109**	106
Interest cost on projected benefit obligation	**537**	516
Amendments	**363**	(48)
Actuarial gain	**(220)**	397
Benefits paid	**(410)**	(382)
Benefit obligation at end of year	**$8,080**	$7,701

The following table sets forth the change in plan assets for the years ended December 31 and the plans' funded status at December 31:

	1998	1997
Fair value of plan assets at beginning of the year	**$ 3,826**	$ 2,926
Actual return on plan assets	**847**	677
Employer contribution	**354**	462
Benefits paid	**(248)**	(239)
Fair value of plan assets at end of year	**$ 4,779**	$ 3,826
Funded status	**$(3,301)**	$(3,875)
Unrecognized prior service cost	**286**	(13)
Unrecognized net gain	**(1,912)**	(1,175)
Accrued postretirement benefit obligation	**$(4,927)**	$(5,063)

Postretirement benefit cost is composed of the following:

	1998	1997	1996
Service cost – benefits earned during the period	**$ 109**	$ 106	$ 105
Interest cost on accumulated postretirement benefit obligation (APBO)	**537**	516	512
Expected return on assets	**(272)**	(220)	(181)
Other – net	**6**	(14)	5
Postretirement benefit cost	**$ 380**	$ 388	$ 441

The fair value of plan assets restricted to the payment of life insurance benefits was $844 and $987 at December 31, 1998 and 1997. At December 31, 1998 and 1997, the accrued life insurance benefits included in the APBO benefit obligation were $367 and $93.

The assumed medical cost trend rate in 1999 is 7.0%, decreasing linearly to 5.5% in 2002, prior to adjustment for cost-sharing provisions of the medical and dental plans for active and certain recently retired employees. The assumed dental cost trend rate in 1999 is 5.75%, reducing to 5.0% in 2002. Raising the annual medical and dental cost trend rates by one percentage point increases the APBO as of December 31, 1998 by $488 and increases the aggregate service and interest cost components of the net periodic postretirement benefit cost for 1998 by approximately $34. Decreasing the annual medical and dental cost trend rates by one percentage point decreases the APBO as of December 31, 1998 by $408 and decreases the aggregate service and interest cost components of the net periodic postretirement benefit cost for 1998 by approximately $27. Significant assumptions for the discount rate, long-term rate of return on plan assets and composite rate of compensation increase used in developing the APBO and related postretirement benefit costs were the same as those used in developing the pension information.

NOTE 14. OTHER EMPLOYEE BENEFITS

Employee Stock Ownership Plans – SBC maintains contributory savings plans which cover substantially all employees. Under the savings plans, SBC matches a stated percentage of eligible employee contributions, subject to a specified ceiling.

SBC has four leveraged ESOPs as part of the existing savings plans. Two of the ESOPs were funded with notes issued by the savings plans to various lenders, the proceeds of which were used to purchase shares of SBC's common stock in the open market. These notes are unconditionally guaranteed by SBC and therefore presented as a reduction to shareowners' equity and an increase in long-term debt. They will be repaid with SBC contributions to the savings plans, dividends paid on SBC shares and interest earned on funds held by the ESOPs.

The third ESOP purchased PAC treasury shares in exchange for a promissory note from the plan to PAC. Since PAC is the lender, this note is not reflected as a liability and the remaining cost of unallocated trust shares is carried as a reduction of shareowners' equity. Principal and interest on the note are paid from employer contributions and dividends received by the trust. All PAC shares were exchanged for SBC shares effective with the merger April 1, 1997. The provisions of the ESOP were unaffected by this exchange.

The fourth ESOP acquired SNET shares with the proceeds of notes issued by the savings plans, which SNET guaranteed, through a third party. The SNET common stock was acquired through open market purchases, in exchange for a promissory note from the plan to SNET. SNET periodically makes cash payments to the ESOP that, together with dividends received on shares held by the ESOP, are used to make interest and principal payments on both loans. All SNET shares were exchanged for SBC shares effective with the merger October 26, 1998. The provisions of the ESOP were unaffected by this exchange.

SBC's match of employee contributions to the savings plans is fulfilled with shares of stock allocated from the ESOPs and with purchases of SBC's stock in the open market. Shares held by the ESOPs are released for allocation to the accounts of employees as employer matching contributions are earned. Benefit cost is based on a combination of the contributions to the savings plans and the cost of shares allocated to participating employees' accounts. Both benefit cost and interest expense on the notes are reduced by dividends on SBC's shares held by the ESOPs and interest earned on the ESOPs' funds.

Information related to the ESOPs and the savings plans is summarized below:

	1998	1997	1996
Benefit expense – net of dividends and interest income	$ 55	$ 59	$ 76
Interest expense – net of dividends and interest income	16	21	30
Total expense	$ 71	$ 80	$106
Company contributions for ESOPs	$110	$112	$121
Dividends and interest income for debt service	$ 58	$ 63	$ 67

SBC shares held by the ESOPs are summarized as follows at December 31:

	1998	1997
Unallocated	11,505,123	17,210,803
Committed to be allocated	1,245,335	282,388
Allocated to participants	47,425,671	45,966,307
Total	60,176,129	63,459,498

NOTE 15. STOCK-BASED COMPENSATION

Under various SBC plans, senior and other management employees and non-employee directors have received stock options, SARs, performance shares and nonvested stock units to purchase shares of SBC common stock. Options issued through December 31, 1998 carry exercise prices equal to the market price of the stock at the date of grant and have maximum terms ranging from five to ten years. Depending upon the grant, vesting of options may occur up to four years from the date of grant. Performance shares are granted to key employees in the form of common stock and/or in cash based upon the price of common stock at date of grant and are awarded at the end of a two- or three-year period, subject to the achievement of certain performance goals. Nonvested stock units also are valued at market price of the stock at date of grant and vest over a three-year period. Up to 206 million shares may be issued under these plans.

In 1996, SBC elected to continue measuring compensation cost for these plans using the intrinsic value-based method of accounting prescribed in Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). Accordingly, no compensation cost for SBC's stock option plans has been recognized. The compensation cost that has been charged against income for SBC's other stock-based compensation plans, primarily SARs and nonvested stock units, totaled $45, $43 and $22 for 1998, 1997 and 1996. Had compensation cost for stock option plans been recognized using the fair value based method of accounting at the date of grant for awards in 1998, 1997 and 1996 as defined by FAS 123, SBC's net income would have been $3,921, $1,597 and $3,445, and basic net income per share would have been $2.00, $0.82 and $1.76.

Options and SARs held by the continuing employees of PAC at the time of the AirTouch spin-off were supplemented with an equal number of options and SARs for common shares of spun-off operations. The exercise prices for outstanding options and SARs held by continuing employees of PAC were adjusted downward to reflect the value of the supplemental spun-off operations' options and SARs. The balance sheet reflects a related liability equal to the difference between the current market price of spun-off operations stock and the exercise prices of the supplemental options outstanding (see Note 11). As of December 31, 1998, 459,916 supplemental spun-off operations options and SARs were outstanding with expiration dates ranging from 1999 to 2003. Outstanding options and SARs that were held by employees of the wireless operations at the spin-off date were replaced by options and SARs for common shares of spun-off operations. The spun-off operations assumed liability for these replacement options and SARs.

For purposes of these pro forma disclosures, the estimated fair value of the options granted after 1994 is amortized to expense over the options' vesting period. Because most employee options vest over a two- to four-year period, these disclosures will not be indicative of future pro forma amounts until the FAS 123 rules are applied to all outstanding non-vested awards. The fair value for these options was estimated at the date of grant, using a Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1998, 1997 and 1996: risk-free interest rate of 5.72%, 6.56% and 6.25%; dividend yield of 2.21%, 3.07% and 4.91%; expected volatility factor of 15%, 15% and 18%; and expected option life of 5.3, 5.8 and 4.7 years.

Information related to options and SARs is summarized below:

	Number	Weighted Average Exercise Price
Outstanding at January 1, 1996	60,648,949	$20.89
Granted	25,035,921	23.00
Exercised	(3,979,290)	18.73
Forfeited/Expired	(2,159,301)	21.59
Outstanding at December 31, 1996 (35,522,826 exercisable at weighted average price of $20.13)	79,546,279	21.64
Granted	33,560,019	27.28
Exercised	(17,548,592)	20.51
Forfeited/Expired	(4,817,751)	25.16
Outstanding at December 31, 1997 (40,802,392 exercisable at weighted average price of $21.02)	90,739,955	23.76
Granted	21,756,535	42.51
Exercised	(16,853,425)	22.13
Forfeited/Expired	(4,591,616)	31.08
Outstanding at December 31, 1998 (47,493,729 exercisable at weighted average price of $22.31)	**91,051,449**	**$28.17**

Information related to options and SARs outstanding at December 31, 1998:

Exercise Price Range	$13.50 - $17.49	$17.50 - $25.99	$26.00 - $33.99	$34.00 - $43.00
Number of options and SARs:				
Outstanding	3,492,843	41,277,620	[illegible]5,901,002	20,379,984
Exercisable	3,492,843	41,277,620	2,639,149	84,117
Weighted average exercise price:				
Outstanding	$16.51	$22.39	$27.60	$42.59
Exercisable	$16.51	$22.39	$28.21	$42.00
Weighted average remaining contractual life	3.43 years	6.38 years	8.31 years	5.97 years

The weighted-average, grant-date fair value of each option granted during 1998, 1997 and 1996 was $8.62, $5.57 and $3.47.

NOTE 16. SHAREOWNERS' EQUITY

Common Stock Split – On January 30, 1998, the Board of Directors of SBC declared a two-for-one stock split, effected in the form of a stock dividend, on the shares of SBC's common stock. Each shareholder of record on February 20, 1998 received an additional share of common stock for each share of common stock then held. The stock was issued March 19, 1998. SBC retained the current par value of $1.00 per share for all shares of common stock.

NOTE 17. ACQUISITIONS AND DISPOSITIONS

During the third quarter of 1998, SBC sold its interest in MTN to the remaining shareholders of MTN for $337. The sale fulfilled SBC's obligation to divest MTN as a requirement of the acquisition of Telkom. The effect on other income (expense) – net and net income from the sale of MTN was $250 and $162. See Note 7 for the disposition of SBC's interest in Telewest.

In May 1997, a consortium made up of SBC and Telekom Malaysia Berhad, 60% owned by SBC, completed the purchase of 30% of Telkom. SBC invested approximately $760, approximately $600 of which will remain in Telkom.

During 1996, SBC received several AT&T Corp. cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis and Little Rock and other consideration.

These acquisitions were primarily accounted for under the purchase method of accounting. The purchase prices in excess of the underlying fair value of identifiable net assets acquired are being amortized over periods not to exceed 40 years. Results of operations of the properties acquired have been included in the consolidated financial statements from their respective dates of acquisition.

The above developments did not have a significant impact on consolidated results of operations for 1998, 1997 or 1996, nor would they had they occurred on January 1 of the respective periods.

On January 20, 1999, SBC announced it has agreed to acquire Comcast Cellular Corporation (Comcast Cellular), the wireless subsidiary of Comcast Corporation, in a transaction valued at $1,674. Under the terms of the agreement, SBC will pay $400 in cash and assume Comcast Cellular's current debt of $1,274. The transaction will be accounted for through the purchase accounting method. Comcast Cellular offers analog and digital wireless services to more than 800,000 subscribers in Pennsylvania, Delaware, New Jersey and Illinois. The largest market in which Comcast Cellular operates is Philadelphia, Pennsylvania. SBC for several years has been operating the Illinois properties it is purchasing under a previous agreement between the two companies. The transaction, which is subject to regulatory approvals, is expected to be completed by the end of 1999.

NOTE 18. ADDITIONAL FINANCIAL INFORMATION

	December 31,	
Balance Sheets	**1998**	1997
Accounts payable and accrued liabilities:		
Accounts payable	**$2,865**	$3,115
Accrued taxes	**1,206**	1,118
Advance billing and customer deposits	**855**	764
Compensated future absences	**568**	558
Accrued interest	**249**	326
Accrued payroll	**338**	315
Other	**1,899**	2,134
Total	**$7,980**	$8,330

Statements of Income	**1998**	1997	1996
Advertising expense	**$ 594**	$ 558	$ 400
Interest expense incurred	**$1,052**	$ 1,168	$1,043
Capitalized interest	**(59)**	(125)	(142)
Total interest expense	**$ 993**	$ 1,043	$ 901

Statements of Cash Flows	**1998**	1997	1996
Cash paid during the year for:			
Interest	**$1,070**	$ 1,014	$ 888
Income taxes, net of refunds	**$1,721**	$ 489	$1,367

No customer accounted for more than 10% of consolidated revenues in 1998, 1997 or 1996.

Several subsidiaries of SBC have negotiated contracts with the Communications Workers of America (CWA), none of which is subject to renegotiation in 1999. Approximately two-thirds of SBC's employees are represented by the CWA.

NOTE 19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Calendar Quarter	Total Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Basic Earnings (Loss) Per Common Share	Stock Price		
					High	Low	Close
1998							
First[1]	$ 6,855	$1,775	$ 985	$0.50	$46.563	$35.375	$43.375
Second	7,030	1,817	1,020	0.52	44.938	37.125	40.000
Third[2]	7,216	1,903	1,262	0.65	44.875	35.000	44.375
Fourth[1,2]	7,676	1,391	756	0.39	54.875	41.125	53.625
Annual[1,2]	$28,777	$6,886	$4,023	$2.06			
1997[3]							
First	$ 6,405	$ 1,685	$ 901	$ 0.46	$ 29.125	$ 24.813	$ 26.250
Second	6,372	(831)	(736)	(0.38)	30.938	24.625	30.938
Third	6,790	1,573	867	0.45	31.125	26.781	30.719
Fourth	7,114	1,151	642	0.33	38.063	30.000	36.625
Annual	$ 26,681	$ 3,578	$ 1,674	$ 0.86			

[1]Net Income and Earnings per Common Share reflect a cumulative effect of accounting change of $15, or $0.01 per share in the first quarter from a change in accounting for directory operations and an extraordinary loss on retirement of debt of $60, or $0.03 per share in the fourth quarter.

[2]Net income in the third quarter includes after-tax gains of $219 for gains on sales of certain non-core businesses, principally the required disposition of MTN due to SBC's investment in Telkom. Net income in the fourth quarter also includes $268 of charges related to strategic initiatives resulting from the merger integration process with SNET.

[3]Net income (loss) includes $90 in first quarter pension settlement gain for 1996 retirements (see Note 13), $1.6 billion in second quarter charges related to post merger initiatives (see Note 2), $10 and $294 in third and fourth quarter merger integration costs and $33 in fourth quarter gain on sale of SBC's interests in Bellcore.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareowners
SBC Communications Inc.

We have audited the accompanying consolidated balance sheets of SBC Communications Inc. (the Company) as of December 31, 1998 and 1997, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 1996 financial statements of Pacific Telesis Group, a wholly-owned subsidiary, which statements reflect total operating revenues constituting approximately 38% of the Company's related consolidated financial statement total for the year ended December 31, 1996. Those statements were audited by other auditors whose report, which has been furnished to us, included an explanatory paragraph that describes the change in its method of recognizing directory publishing revenues and related expenses. Our opinion, insofar as it relates to the 1996 data included for Pacific Telesis Group, is based solely on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and, for 1996, the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SBC Communications Inc. at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

San Antonio, Texas
February 12, 1999

REPORT OF MANAGEMENT

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility of management, as is all other information included in the Annual Report, unless otherwise indicated.

The financial statements of SBC Communications Inc. (SBC) have been audited by Ernst & Young LLP, independent auditors. Management has made available to Ernst & Young LLP all of SBC's financial records and related data, as well as the minutes of shareowners' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

Management has established and maintains a system of internal accounting controls that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The concept of reasonable assurance recognizes that the costs of an internal accounting controls system should not exceed, in management's judgment, the benefits to be derived.

Management also seeks to ensure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at ensuring that its policies, standards and managerial authorities are understood throughout the organization. Management continually monitors the system of internal accounting controls for compliance. SBC maintains an internal auditing program that independently assesses the effectiveness of the internal accounting controls and recommends improvements thereto.

The Audit Committee of the Board of Directors, which consists of eight directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which they are performing their responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

Edward E. Whitacre Jr.

Edward E. Whitacre Jr.
Chairman of the Board and
Chief Executive Officer

Donald E. Kiernan

Donald E. Kiernan
Senior Vice President, Treasurer
and Chief Financial Officer

SBC BOARD OF DIRECTORS

Edward E. Whitacre Jr., 57[2,4,5]

Chairman of the Board and Chief Executive Officer
SBC Communications Inc
San Antonio, Texas
SBC Director since October 1986
Background: Telecommunications

Gilbert F. Amelio, Ph.D., 56[3]

Partner
The Parkside Group, LLC
Principal
Aircraft Ventures, LLC
San Francisco, California
Advisory Director since April 1997
PTG Director 1995-1997
Background: Technology, electronics engineering

Clarence C. Barksdale, 66[1,3]

Vice Chairman, Board of Trustees
Washington University
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1982-1983
Background: Banking

James E. Barnes, 65

Chairman of the Board, President and Chief Executive Officer (Retired)
MAPCO Inc
Tulsa, Oklahoma
SBC Director since November 1990
Background: Diversified energy

August A. Busch III, 61

Chairman of the Board and President
Anheuser-Busch Companies, Inc
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1980-1983
Background: Brewing, family entertainment, transportation, manufacturer of aluminum beverage containers

Royce S. Caldwell, 60

President-SBC Operations
SBC Communications Inc
San Antonio, Texas
SBC Director since April 1997
Background: Telecommunications

Ruben R. Cardenas, 68[1,3]

Partner
Cardenas, Whitis & Stephen, L.L.P.
McAllen, Texas
SBC Director since October 1983
SWBT Director 1975-1983
Background: Law

The Honorable William P. Clark, 67[2,3]

Chief Executive Officer
Clark Company
Senior Counsel
Clark, Cali and Negranti
Paso Robles, California
SBC Director since April 1997
PTG Director 1985-1997
Background: Law, ranching

Martin K. Eby, Jr., 64[1,5]

Chairman of the Board and Chief Executive Officer
The Eby Corporation
Wichita, Kansas
SBC Director since June 1992
Background: General building construction

Herman E. Gallegos, 68[1,3]

Independent Management Consultant
Brisbane, California
SBC Director since April 1997
PTG Director 1983-1997
Background: Management consulting

Jess T. Hay, 68[1,6]

Chairman
Texas Foundation for Higher Education
Chairman
HCB Enterprises Inc
Dallas, Texas
SBC Director since April 1986
Background: Financial services

Admiral Bobby R. Inman, 67[5,6]

United States Navy, Retired
Austin, Texas
SBC Director since March 1985
Background: Private investment

Charles F. Knight, 63[2,4,5]

Chairman and Chief Executive Officer
Emerson Electric Co
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1974-1983
Background: Electrical manufacturing

Mary S. Metz, Ph.D., 61

President
S.H. Cowell Foundation
San Francisco, California
SBC Director since April 1997
PTG Director 1986-1997
Background: Education, administration

Dr. Haskell M. Monroe, Jr., 67[3,5]

Dean of Faculties Emeritus and Director of the A&M Heritage Preservation Program
Texas A&M University
College Station, Texas
SBC Director since October 1983
SWBT Director 1982-1983
Background: Education, administration

Toni Rembe, Esq., 62

Partner
Pillsbury Madison & Sutro LLP
San Francisco, California
SBC Director since January 1998
Advisory Director 1997-1998
PTG Director 1991-1997
Background: Law

S. Donley Ritchey, 65

Managing Partner
Alpine Partners
Chairman and Chief Executive Officer (Retired)
Lucky Stores, Inc
Danville, California
SBC Director since April 1997
PTG Director 1984-1997
Background: Diversified retail

Joyce M. Roché, 51

Independent Consultant
Savannah, Georgia
SBC Director since October 1998
SNET Director 1997-1998
Background: Manufacturing and marketing of personal care products

Richard M. Rosenberg, 68

Chairman and Chief Executive Officer (Retired)
BankAmerica Corporation
San Francisco, California
SBC Director since April 1997
PTG Director 1994-1997
Background: Banking

Ing. Carlos Slim Helu, 59

Chairman of the Board
Teléfonos de México, S.A. de C.V.
Chairman Emeritus
Grupo Carso, S.A. de C.V.
Mexico City, Mexico
SBC Director since September 1993
Background: Telecommunications, consumer goods, automobile parts, construction, retailing

Patricia P. Upton, 60

President and Chief Executive Officer
Aromatique, Inc
Heber Springs, Arkansas
SBC Director since June 1993
Background: Manufacturing and marketing of decorative home fragrances

Committees of the Board:
(1) Audit
(2) Corporate Development
(3) Corporate Public Policy and Environmental Affairs
(4) Executive
(5) Finance/Pension
(6) Human Resources

EXECUTIVES OF SBC AND ITS SUBSIDIARIES

SBC Senior Executives

Edward E. Whitacre Jr., 57
Chairman & CEO
SBC Communications Inc

Royce S. Caldwell, 60
President-SBC Operations
SBC Communications Inc

Cassandra C. Carr, 54
Sr Executive Vice President
External Affairs
SBC Communications Inc.

J. Cliff Eason, 51
President SBC International
SBC Communications Inc

James D. Ellis, 55
Sr Executive Vice President &
General Counsel
SBC Communications Inc

Charles E. Foster, 62
Group President-SBC
SBC Communications Inc

Karen E. Jennings, 48
Sr Vice President-Human Resources
SBC Communications Inc

James S. Kahan, 51
Sr Vice President-Corporate
Development
SBC Communications Inc.

Donald E. Kiernan, 58
Sr Vice President, Treasurer & CFO
SBC Communications Inc

Linda S. Mills, 47
Sr Vice President
Corporate Communications
SBC Communications Inc

Stanley T. Sigman, 51
President & CEO
SBC Wireless Inc

Other Executives

Wayne S. Alexander, 50
President Asia Pacific
SBC Operations Inc

John H. Atterbury, 51
President & CEO
Southwestern Bell Telephone Company

Terry D. Bailey, 43
President-Oklahoma
Southwestern Bell Telephone Company

Thomas M. Barry, 54
President-SBCI (Telkom South Africa)
SBC International, Inc

William A. Blase, 43
Vice President Regulatory
Pacific Telesis

Rickford D. Bradley, 47
President
SBC Center for Learning

Blaine Bull, 41
Sr Vice President Public Affairs
SBC Communications Inc

James W. Callaway, 52
President-California
Pacific Telesis

Stephen M. Carter, 45
President Stragetic Markets
SBC Operations Inc

Lea Ann Champion, 40
President-Consumer Communications
Services
Southwestern Bell Telephone Company

David A. Cole, 50
President-Texas
Southwestern Bell Telephone Company

Liam S. Coonan, 63
Sr. Vice President & Asst. General Counsel
SBC Communications Inc

Wilbur Crossley, 55
Vice President-Network (Telkom
South Africa)
SBC International, Inc

Patricia Diaz Dennis, 52
Sr. Vice President-Regulatory &
Public Affairs
SBC Communications Inc

Richard C. Dietz, 52
President-SBCI (Mexico)
SBC International, Inc

Kathy L. Dowling, 43
Regional President-Northeast Wireless
Cellular One

Melanie S. Fannin, 48
Vice Pres. & Gen. Counsel-External
Affairs-TX
Southwestern Bell Telephone Company

Robert Ferguson, 39
Sr. Vice President-Federal Relations
SBC Telecommunications, Inc

James D. Gallemore, 47
Executive Vice President-Strategic
Marketing
SBC Operations Inc.

Michael N. Gilliam, 46
Vice President-Year 2000 Project &
Gatekeeper
SBC Services, Inc

Edward L. Glotzbach, 50
Executive Vice Pres. & Chief Information
Officer
SBC Services, Inc

William J. Hannigan, 39
President-Business Communications
Services
Southwestern Bell Telephone Company

Timothy S. Harden, 45
Vice President & General Manager
Operations
SBC Operations Inc

Priscilla Hill-Ardoin, 47
President-Missouri
Southwestern Bell Telephone Company

Ross K. Ireland, 51
Vice President-Network Planning &
Engineering
Pacific Telesis

Ronald M. Jennings, 57
Vice Pres. & Gen. Mgr.-Pub.
Communications
SBC Telecommunications, Inc

Martin A. Kaplan, 61
Executive Vice President-SBC
SBC Communications Inc

Michael Kaufman, 53
President-Consumer Markets Group
Pacific Bell

Sandy Kinney, 51
President-Industry Markets
SBC Telecommunications Inc

Jonathan P. Klug, 42
President-Arkansas
Southwestern Bell Telephone Company

Richard G. Lindner, 44
Vice President & CFO
Southwestern Bell Telephone Company

David R. Lopez, 47
Vice President-National/Local Regulatory
SBC Operations Inc

Gary W. Lucas, 54
Vice President-Labor Relations
Southwestern Bell Telephone Company

Robert M. Lynch, 48
Sr Vice Pres. & Gen. Counsel
External Affairs
SBC Telecommunications Inc

Robin MacGillivray, 43
Vice Pres.-Business Communications
Services
Pacific Bell

Mary T. Manning, 48
Vice President-Corporate Real Estate
SBC Services, Inc

Norma Martinez Lozano, 42
Vice Pres. & Gen. Manager
Operator Services
SBC Telecommunications Inc

Wayne D. Masters, 53
Vice President-Business Planning
SBC Operations Inc

William B. McCullough, 47
President & CEO SWB Wireless
Southwestern Bell Wireless

Shawn M. McKenzie, 40
President-Kansas
Southwestern Bell Telephone Company

Forrest E. Miller, 46
President & CEO
SBC Directory Operations

Tom E. Morgan, 51
President & CEO
Southern New England Telephone Co

Thomas O. Moulton, Jr., 52
Regional President-Northern &
Central California
Pacific Telesis

Edward A. Mueller, 51
President & CEO
Pacific Bell

Carmen P. Nava, 36
Regional President-Los Angeles
Pacific Telesis

Robert J. Nelson, 40
Regional President-Great Lakes Region
Cellular One

David C. Nichols, 41
Regional President-San Diego
Pacific Telesis

Thomas A. Pall, 59
Vice President-Sales
SBC Directory Operations

T. Michael Payne, 48
Sr Vice President, General Counsel &
Secretary
Pacific Telesis

Robert B. Pickering, 40
Vice President & CFO
Pacific Bell

Alfred G. Richter, Jr., 48
Sr Vice Pres. & General Counsel
Operations
SBC Telecommunications, Inc

A. Dale Robertson, 50
Sr Vice President-FCC
SBC Telecommunications Inc

Michael A. Rodriguez, 48
Vice President-Labor Relations
Pacific Telesis

Charles J. Roesslein, 50
President & CEO
SBC Technology Resources, Inc

Drew A. Roy, 52
President-SBCI (Europe & Middle East)
SBC International, Inc

Judith M. Sahm, 53
Vice President & Secretary
SBC Communications Inc

Robert W. Shaner, 50
President & CEO
Pacific Bell Mobile Services

James B. Shelley, 45
President-Texas Regulatory
Southwestern Bell Telephone Company

Charles H. Smith, 55
President-Network Services
Pacific Bell

Donna L. Snyder, 47
Sr Vice Pres., General Counsel & Secretary
Southwestern Bell Telephone Company

Randall Stephenson, 38
Vice President & Controller
SBC Communications Inc

Joyce M. Taylor, 41
Regional President-Bay Area
Pacific Telesis

Van H. Taylor, 50
Regional President-Network Services
(Midwest)
Southwestern Bell Telephone Company

J. Michael Turner, 49
Exec. Vice Pres.-Corp. Planning &
Capital Mgmt.
SBC Operations Inc

Joe W. Walkoviak, 51
President-Network Services
Southwestern Bell Telephone Company

Lora K. Watts, 41
President-Nevada
Nevada Bell

Stephen G. Welch, 55
President-Corporate & Administrative
Services
Pacific Telesis

Horace Wilkins Jr., 48
President-Special Markets
SBC Operations Inc

Rayford Wilkins Jr., 47
President-Business Communications
Services
Pacific Bell

SHAREOWNER INFORMATION

Toll-Free Shareowner Hotline
Call us at 1-800-351-7221 between 9 a.m. and 8 p.m. Eastern Time Monday through Friday
TDD 1-888-269-5221
We can help with:
- account inquiries
- requests for assistance, including stock transfers
- information on the SBC Direct Stock Purchase and Reinvestment Plan

Written Requests
Please mail all account inquiries and other requests for assistance with regard to your stock ownership to:

SBC Communications Inc.
c/o First Chicago Trust Division of EquiServe
P.O. Box 2508
Jersey City, New Jersey 07303-2508

Please mail requests for transactions involving stock transfers or account changes to:

SBC Communications Inc.
c/o First Chicago Trust Division of EquiServe
P.O. Box 2589
Jersey City, New Jersey 07303-2589

You also may reach First Chicago Trust Company, the Transfer Agent for SBC, at our e-mail address:
sbcfct@em.fcnbd.com

SBC Direct Stock Purchase and Reinvestment Plan (SBC Direct)
SBC Direct allows current shareowners to purchase additional SBC stock with a minimum investment of **$50.** Other persons may also take advantage of this feature with a minimum initial investment of **$500.** SBC Direct has many other convenient features including automatic monthly investments, dividend reinvestment, direct deposit of dividends and an Individual Retirement Account.

For more information or a prospectus, call 1-800-351-7221.

Send optional cash investments to:

SBC Direct
c/o First Chicago Trust Division of EquiServe
P.O. Box 13531
Newark, New Jersey 17188-0001

Stock Trading Information
SBC is listed on the New York, Chicago and Pacific stock exchanges and The Swiss Exchange. SBC is traded on the London Stock Exchange through the SEAQ International Markets facility.

Ticker symbol (NYSE): SBC

Newspaper stock listing: SBC or SBC Comm

Information on the Internet
Information about SBC is available on the Internet. Visit our home page on the World Wide Web: http://www.sbc.com

Annual Meeting
The annual meeting of shareowners will be held at 9:00 a.m. Friday, April 30, 1999, at:

Alzafar Shrine Temple
901 North Loop 1604 West
San Antonio, Texas 78216

Independent Auditors
Ernst & Young LLP
1900 Frost Bank Tower
100 W. Houston
San Antonio, Texas 78205

Requests for 10-K
The SBC, Southwestern Bell Telephone Company and Pacific Bell Forms 10-K, filed with the Securities and Exchange Commission, are available on request.

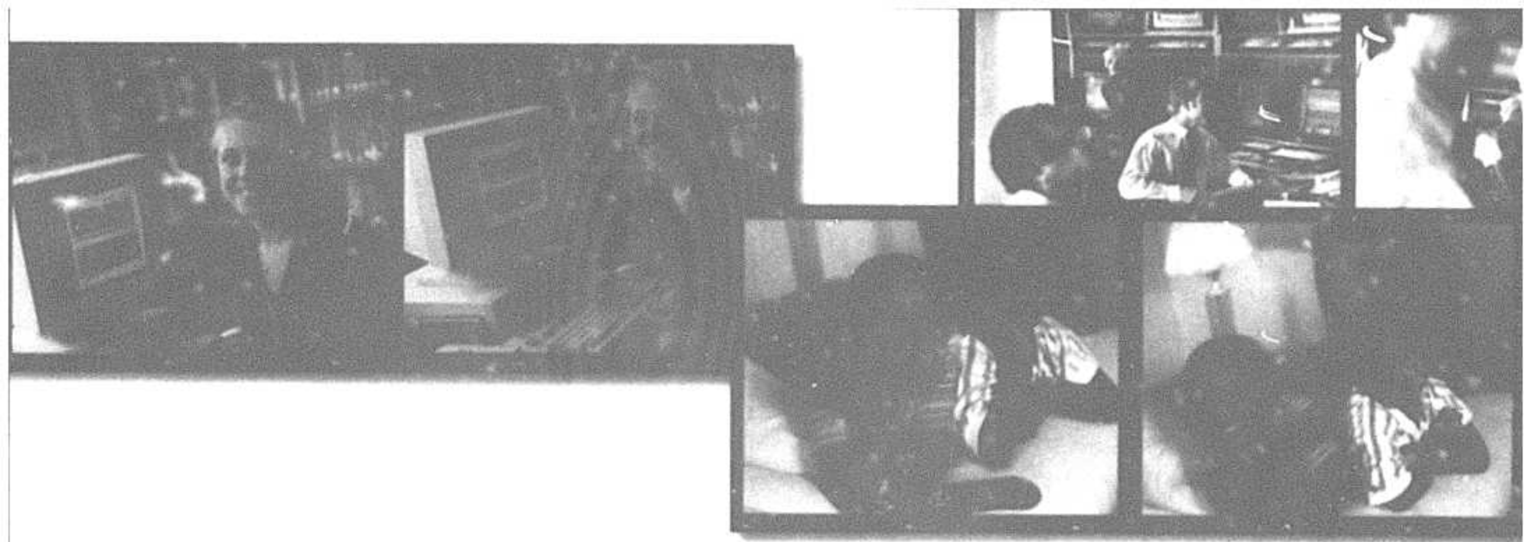
Investor Relations
Security analysts and other members of the professional financial community may call the Investor Relations Hotline: 210-351-2044

General Information — Corporate Offices
SBC Communications Inc.
175 E. Houston
P.O. Box 2933
San Antonio, Texas 78299-2933
210-821-4105

Printed on recycled paper

Hello, future.

Ameritech



Communications is th
explosive growth indu
Ameritech, at the cent
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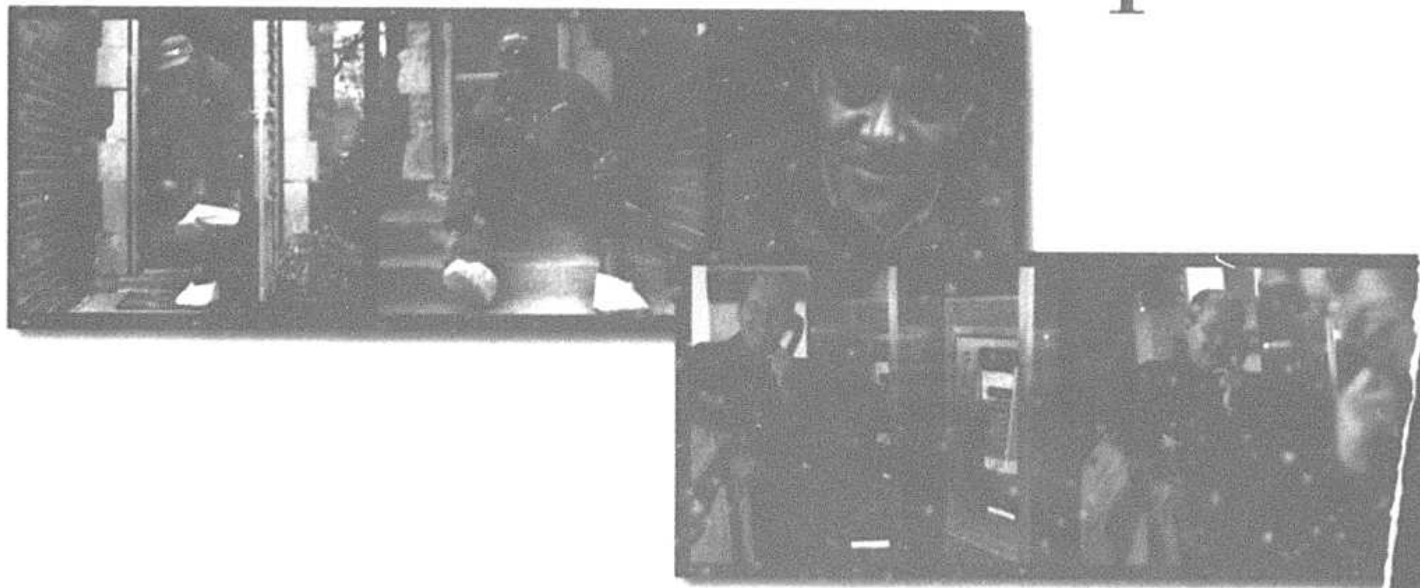

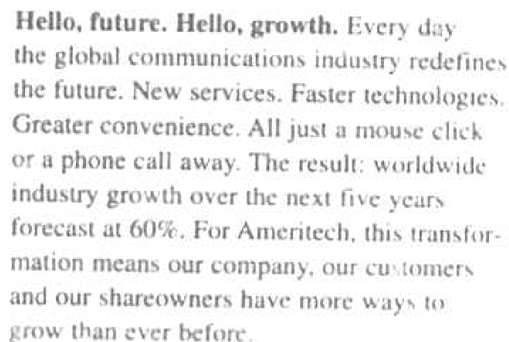

Hello, future. Hello, growth. Every day the global communications industry redefines the future. New services. Faster technologies. Greater convenience. All just a mouse click or a phone call away. The result: worldwide industry growth over the next five years forecast at 60%. For Ameritech, this transformation means our company, our customers and our shareowners have more ways to grow than ever before.

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How many customers?	What drives growth?	1998 growth?	What brand?	Who are our allies, our competitors?
11.1 million homes; 1 million businesses such as Kmart, ABN AMRO and Firstar; 5,000 communications/information companies	Faxes, modems, additional phone lines, data and call management features for convenience and productivity	7%[1]	Ameritech®	Competitors: competitive local phone companies plus AT&T, MCI WorldCom and others
3.6 million consumers and businesses	Mobility, convenience, productivity, safety and accessibility	13%[2]	Ameritech®	Competitors: AT&T, PCS providers and others
1.5 million consumers and businesses	Mobility, convenience and productivity	3%[2]	Ameritech®	Competitors: various
40 million directories, 440,000 advertisers, 192 million Internet hits	Business growth and expanded value	18%[1]	Ameritech® Yellow Pages, www.yellowpages.net	Competitors: various
7,000 businesses and government units	Flexibility and responsiveness	23%[1]	Ameritech® Capital Services	Competitors: various
More than 200,000	Customer demand for reliable, easy-to-use entertainment and information	71%[2]	americast®	Competitors: Time Warner, TCI and others
1.2 million homes and businesses	Need for personal and property security	13%[2]	SecurityLink® from Ameritech	Competitors: ADT and others
2.4 million cellular customers	Value added to full-service package	41%[2]	Ameritech®	Competitors: AT&T, MCI WorldCom and others
More than 700,000 ports nationwide for companies such as United Airlines and ComEd	Technology change, corporate focus on core business and cost control	39%[1]	Ameritech®	Ally: IBM Competitors: various
Start-up	Need for communication, research and entertainment	99%[2]	ameritech.net®	Competitors: AT&T, America Online and others
7,200 libraries	Need to automate access to information	5%[2]	Ameritech® Library Services	Competitors: various
3.5 million telephone lines, 995,000 cellular customers, 812,000 cable TV customers	Customer demand, expanded services and availability	14%[3]	Tele Danmark (TLD)	Competitors: various
5.1 million telephone lines, 1.2 million cellular customers	Customer demand, expanded services and availability	11%[3]	Belgacom	Allies: Tele Danmark and Singapore Telecom
2.7 million telephone lines, 640,000 cellular customers	Customer demand, expanded services and availability	69%[3]	MATÁV (MTA)	Ally: Deutsche Telekom
530,000 customers	Customer demand, expanded services and availability	27%[2]	NetCom	Allies: Singapore Telecom, Orkla and Comvik
278,000 listed companies	Convenient information and contacts for businesses	25%[2]	WIW	Competitors: various

[1] Revenues
[2] Customers
[3] Earnings

Sustained Growth

In 1998, Ameritech achieved its sixth consecutive year of double-digit profit growth.

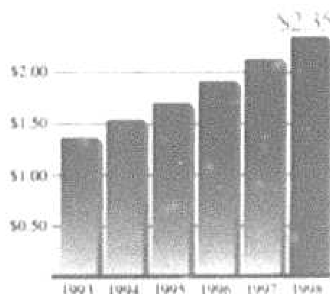
Financial Highlights

(dollars in millions, except per share amounts)	1998		1997	Percent Change
Revenues	$ 17,154	✔	$ 15,998	7.2
Income before one-time items[1]	$ 2,614	✔	$ 2,346	11.4
Net income[1]	$ 3,606	✔	$ 2,296	57.1
Diluted earnings per share before one-time items[1]	$ 2.35	✔	$ 2.12	10.8
Diluted earnings per share[1]	$ 3.25	✔	$ 2.08	56.3
Average common shares outstanding (in millions)	1,101.6		1,098.7	0.3
Dividends declared per share	$ 1.218	✔	$ 1.148	6.1
Total assets	$ 30,299	✔	$ 25,339	19.6
Long-term debt	$ 5,557		$ 4,610	20.5
Total shareowners' equity	$ 10,897	✔	$ 8,308	31.2
Book value per share	$ 9.92	✔	$ 7.57	31.0
Return on average equity	36.2%	✔	28.5%	27.0
Capital expenditures	$ 2,982	✔	$ 2,651	12.5
Net cash from operating activities	$ 4,810	✔	$ 4,510	6.7
Year-end stock price	$ 63.375	✔	$ 40.25	57.5
Year-end dividend yield	1.9%		2.8%	(32.1)
Price/earnings ratio[2]	27.0		19.0	42.1
Total return	61.3%	✔	37.3%	64.3
Number of shareowners	726,893		760,075	(4.4)
Number of employees	70,525		74,359	(5.2)

[1] Results for 1998 and 1997 include several one-time items. For a detailed discussion of these items please see Management's Discussion and Analysis on page 23.

[2] Price/earnings ratio calculated using diluted earnings excluding one-time items in both years.

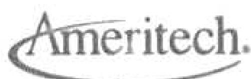
✔ All time Ameritech highs



Earnings per Share Growth

(diluted earnings per share before one-time items)

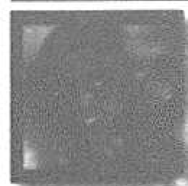
With 10.8% earnings per share growth in 1998, Ameritech has achieved the longest sustained record of double-digit profit growth among major U.S. communications companies.



Strategy 1

Speed Growth in Our Core Business

What type of service are we providing?	Where is it happening?	What is our role in this effort?
Local Phone Service	Illinois, Indiana, Michigan, Ohio and Wisconsin	Transport local voice, data and video, provide call management services — retail and wholesale
Cellular, Personal Communications Services	Illinois, Indiana, Michigan, Missouri, Ohio, Wisconsin, Kentucky and Hawaii	Provide wireless transport of voice, data and video — plus call management services
Paging	Illinois, Indiana, Michigan, Minnesota, Missouri, Ohio and Wisconsin	Transmit numeric and alphanumeric messages
Advertising	Printed directories in Illinois, Indiana, Michigan, Ohio and Wisconsin, global access to Internet Yellow Pages	Produce Yellow Pages, White Pages, Internet Yellow Pages
Capital Services	United States, Europe and Asia	Provide leasing and other equipment financing solutions



Strategy 2

Introduce New Services to Customers

What type of service are we providing?	Where is it happening?	What is our role in this effort?
Cable TV	Franchises in 95 communities with nearly 4 million total population	Create, transport and provide cable TV, broadband services
Security Services	Customers in United States, Canada and Mexico	Market, install, monitor and service security systems
Long-Distance	Cellular today, landline in Illinois, Indiana, Michigan, Ohio and Wisconsin, pending approvals	Transport voice, data and video beyond local areas
Managed Services	North America	Provide network management outsourcing for large customers' voice networks
Internet Access	Markets covering 70% of households in Ameritech's five-state region	Provide reliable access to regional information and the Internet
Library Services	United States and 56 other countries	Provide information management software solutions

Strategy 3

Connect Customers Around the World

What type of service are we providing?	Where is it happening?	What is our role in this effort?
Local Phone, Long-Distance, Cellular, Directories, Cable TV	Denmark	Strategic partner (41.6% interest)
Local Phone, Long-Distance, Cellular, Directories, Security Services	Belgium	Strategic partner (17.5% interest)
Local Phone, Long-Distance, Cellular, Directories	Hungary	Strategic partner (29.8% interest)
Cellular	Norway	Strategic partner (19.7% interest)
Business Purchasing Guides	Germany, Austria, Belgium, Switzerland, Luxembourg, Netherlands, Slovenia, Slovakia, Croatia, Czech Republic	Produce print, CD-ROM and Internet buying guides (100% owned by Ameritech)

Industry terms are defined in the Glossary on page 56

Dear Investor:

The timing couldn't be better. Just as humanity prepares to leap forward into a brand-new century, communications has emerged as the world's most dynamic industry. And as a front-runner within that industry, Ameritech is poised not only to help shape the boundless future, but also to reap its unprecedented rewards.

That's because we understood years ago that customers are in charge. In response, our employees transformed every aspect of our business to align Ameritech with the highest expectations of those we serve. And we created a solid platform for growth based on three strategies that have long delighted our shareowners: To speed growth in our core communications business. To introduce innovative new services that leverage our traditional competencies. And to export our services and communications expertise to customers around the world.

Once again in 1998, the results of that foresight spoke for themselves. Our expert work force added 555,000 new phone lines, generated 20% growth in call management services and expanded ClearPath℠ digital wireless service into three new markets. We incorporated state-of-the-art technologies to serve the data needs of our customers and, in the process, fostered impressive growth of such options as ISDN channels (+58%) and high-capacity circuits (+33%). In addition, Ameritech achieved our $300 million new-product revenue objective through aggressive service launches — launches that included Ameritech Privacy

Manager, a popular, first-in-the-nation service enhancement that deflects unwanted calls. We also completed our most ambitious international expansion with the acquisition of a 41.6% stake in Tele Danmark, making Ameritech the largest foreign investor in European telecommunications and a highly valued partner for future opportunities in the growth-oriented European market.

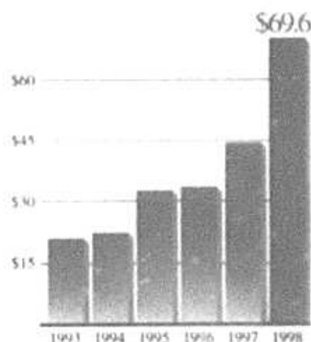
These accomplishments and many more took place within the context of Ameritech's commitment to disciplined execution and outstanding productivity. In fact, applying the industry measure, our 427 lines per employee make our work force the most productive of any local communications provider in the world.

Most importantly, our accomplishments generated the kind of results sought by our shareowners. In 1998, we celebrated our sixth straight year of double-digit profit growth, the longest sustained double-digit growth record in our peer group. We raised our quarterly dividend 5.8% — Ameritech's 15th consecutive annual increase and, for the fourth consecutive year, the largest announced by any major U.S. communications company.

In addition, we continued our outstanding tradition of shareowner value creation. In 1998, we delivered a total return to shareowners of 61%. Over the past five years, Ameritech's total return of 297% substantially exceeds both the S&P 500 and the average of our peers. And shareowners who have held shares since Ameritech began trading in 1983 have been rewarded with a total return of 2,421%, which is more than double the S&P 500 return of 1,080% and well ahead of our peers at 1,565%.

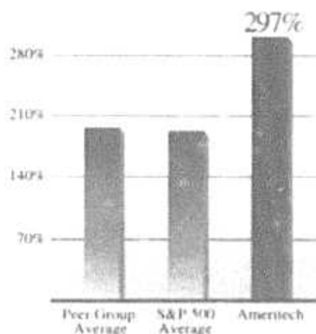
What can we do for an encore? Plenty. Not only has Ameritech's growth strategy delivered impressive results in the past, but its design uniquely positions us for success in the future. In fact, it was our pursuit of such value creation — as well as our response to customers' increasing need for a competitive, global provider — that led us to pursue a combination with SBC Communications.

As many of you know, SBC has long been Ameritech's counterpart company in the southwestern United States, a communications



Growth in Market Value
(year-end market capitalization in billions)

Over the past five years, Ameritech created $49 billion in added stock market value for shareowners. Over this period, our stock price and our market capitalization have more than tripled.



Superior Total Return
(cumulative total return, December 31, 1993, to December 31, 1998)
Ameritech delivered a total return in 1998 of 61%, the best one-year total return in our company's history. Over the past five years, our total return exceeded both the S&P 500 and the average of the major U.S. local communications companies.

provider that has more recently expanded its service area to parts of southern New England. It is a strong, successful organization, whose financial performance and strategy for the future are remarkably similar to our own — a key factor in our shareowners' overwhelming 95% vote to approve this merger.

Ameritech's merger with SBC Communications will enable us to better serve the needs of customers here in the United States and around the world. And that is precisely compatible with our decision several years ago not only to make customer needs the driver of our business decisions, but to implement those decisions in ways that maximize shareowner value.

Our commitment to that objective has never been stronger. Likewise, the marketplace of the future has never offered us such extraordinary opportunities. Last year in this space, I mentioned that the arrival of my first grandson had offered me fresh insight into the universal need to communicate. That reminded me of the vast potential this industry enjoys. In 1998, a second new grandson joined our family and, like his cousin before him, he constantly reinforces my optimistic view of the future.

We hope you will gain a similar sense of excitement and enthusiasm as you read about Ameritech's achievements and aspirations in the pages ahead. If you are one of Ameritech's valued shareowners, you'll undoubtedly be gratified by your company's 1998 performance. If you are a potential investor, you should find the information you need as you determine how Ameritech might complement your portfolio.

In either case, we are confident you'll find compelling evidence of Ameritech's rock-solid commitment to optimize our potential on your behalf.

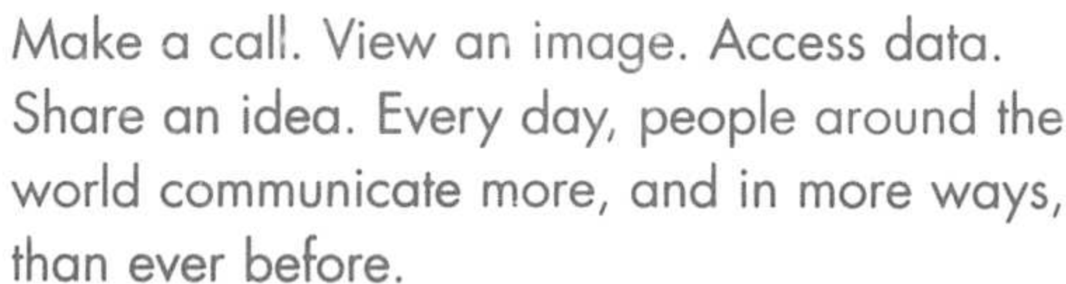
Sincerely,

Richard C. Notebaert

Richard C. Notebaert
Chairman and Chief Executive Officer
January 21, 1999

At Ameritech, we see the future through the eyes of customers.

That's how we've built our industry's most exciting platform for growth.



Make a call. View an image. Access data. Share an idea. Every day, people around the world communicate more, and in more ways, than ever before.

Over the next five years, the global communications market is forecast to expand 60% to more than $1.9 trillion. Nearly two-thirds of that growth will occur in North America and Europe, where Ameritech's operations are focused. And our planned merger with SBC Communications will expand our opportunities even further.

The pages ahead show how we capitalize on these opportunities. How we innovate. How we grow. How our customers define our five key growth areas for our future: Voice. Data. Wireless. Security. Global.

Voice

Over the next five years, local communications will provide customers expanded services and greater convenience. Ameritech leads in this growth market.

At Ameritech, we're expert at speeding growth in local communications, a market projected to grow 27% to $218 billion by 2003. Numerous forces drive this expansion, including new services and broad customer demand. Busy households and businesses use more phone lines and more services to gain access to a world of convenience — through faxes, Voice Mail and time-saving services such as Caller ID and Call Waiting. To capitalize on these growth opportunities, in 1992 Ameritech launched a series of major changes. We built a world-class marketing organization, consolidated all our operations under a single brand and expanded our product portfolio. The result: sustained growth. Over the past five years, we've added more than 3.4 million phone lines in our five-state market area, bringing our total to 21 million. In 1998, consumer additional lines grew 12%, and Caller ID customers grew 25%.

To accelerate growth, we've built a world-class brand defined by attentive customer care. Through targeted advertising and extensive customer interaction, Ameritech has built one of the communications industry's most robust brands. More than 12 million households and businesses in the Upper Midwest experience the Ameritech brand every day through advertising, on our Web sites, on our 40 million directories, on our 230,000 pay phones and through millions of person-to-person customer contacts.

Building on our success in local service, we also are developing growth opportunities in long-distance. For example, more than 2.4 million of our cellular customers have signed up for Ameritech long-distance, up 41% from a year ago. Our prepaid phone card, which can be used for local, long-distance and international calls, recorded even stronger growth. Plus, we continue to work toward full entry into our region's $10.5 billion long-distance market.

20%

Ameritech's sales of call management services such as Caller ID, Call Waiting and Voice Mail grew 20% in 1998.

Customers such as Suyun Kim (facing page) and Gerry Gosnell (inset, color) count on Ameritech for reliability and the added convenience of services such as Caller ID. More than 50,000 employees in our local phone operations deliver these services, including David Lilly (inset, black and white), installation and maintenance technician.

Data

Rapid growth in data and Internet services is transforming communications. Ameritech is shaping the future of this high-potential market.

Data communications sales in the United States are forecast to more than double over the next five years, growing to $158 billion. To capitalize on this huge potential, in 1993 we set up a new business unit to focus on data solutions. Today, 3,400 Ameritech employees are dedicated to this segment of our business. More than half of our network traffic is now data rather than voice. And our 1998 data revenues grew 32% to $1.7 billion, representing more than one-third of our total revenue growth. In recognition of our strength in data, in 1998 Ameritech was selected to operate America's international research and education Internet hub.

To speed growth, we've taken important steps to expand our data capabilities. For example, during the past year we acquired Clover Technologies, a leading network integrator and one of the largest local area network solutions providers in the United States. Also, we were the first company certified to both operate and connect suppliers to the Automotive Network eXchange® (ANX®) service, a secure, Internet protocol network that connects automakers and 4,000 suppliers.

To meet growing mass-market demand for broadband, we're deploying ADSL technology and building competitive cable TV networks, both capable of delivering the data services of the future. This past year, we launched one of the largest single commercial deployments of high-speed ADSL technology in the country — for up to 20,000 off-campus students, faculty and staff at the University of Michigan. ADSL lets users access the Internet at speeds up to 50 times faster than a standard phone line and modem. We're also building advanced cable TV networks. We have 95 cable TV franchises that cover a population of nearly 4 million in the Chicago, Detroit, Cleveland and Columbus, Ohio, markets. We're operating in 75 communities, offering more than 90 channels of programming and real-time community information to more than 200,000 *americast*® customers.

We provide advanced data services to customers at the University of Michigan such as Peter Knoop (facing page). Kuang-Yu Huang, April Shah and Ron Jackowski of Chicago Rawhide (inset, color), use the innovative network we operate for automotive suppliers. At our newly acquired Clover Technologies unit, Nicole Alexander, left, Melissa Haines and Vijay Rajhavan develop network solutions for companies across the United States.

58%

Ameritech ISDN channels grew 58% in 1998. ISDN service can carry voice, data and video simultaneously with several times the capacity of conventional phone lines.

Ameritech is one of the world's most successful cellular companies. Our broad customer base and new services point to an exciting future.

The U.S. wireless market is forecast to grow more than 50% over the next five years to $60 billion. Ameritech's position in this fast-expanding market is large and growing. We provide wireless service to more than 3.5 million customers in the Upper Midwest and cover every major market where we provide traditional wired phone service. Ameritech sells wireless service through more than 1,000 retail locations including 69 shops within Sears stores, which were added in 1998. Our results have been consistent and impressive. Over the past three years, we've added approximately 1.7 million new customers. And opportunities for continued strong growth are outstanding. Our U.S. wireless markets encompass a total population of more than 34 million.

Ameritech's wireless services generate rapid growth. We serve customers such as Marshall Dixon in the United States (facing page) and, through our partnerships, customers such as Zoltan Novak in Hungary (opposite). We market wireless services through a variety of sales channels including retail stores. Ameritech associate Kimberly Lindahl (inset, facing page) demonstrates phone features to Mimi Landsman.

To drive future growth, in 1998 Ameritech accelerated deployment of our ClearPath℠ advanced digital wireless networks in our major U.S. markets. This service gives customers added call clarity, longer talk times and a host of new features such as Caller ID and Voice Mail. Over the past two years, Ameritech launched ClearPath service in our largest markets — Chicago, Detroit, Indianapolis, St. Louis, Milwaukee, Cincinnati and Columbus, Ohio — and the service is available to 84% of our potential customers.

35%

Operating cash flow from our wireless operations increased 35% in 1998, as we recorded the best financial performance in the history of our cellular business.

Ameritech wireless leads its markets in both customer growth and customer satisfaction. Over the past three years, our number of U.S. wireless customers has nearly doubled. That growth has been driven by quality service. In 1998, Ameritech ranked number one in J.D. Power and Associates' customer satisfaction survey of wireless users in Chicago, Detroit and St. Louis — our only markets where the survey was conducted. This marks the fourth consecutive year that Ameritech has received this award in Chicago and Detroit.

Security

Through our North American security operations and innovative privacy services, we're building a new growth business in a high-potential market.

Ameritech is a leader in the North American electronic security industry, a $15 billion market forecast to grow to more than $26 billion by 2003. We are the second-largest provider of electronic security in the United States, the largest provider in Canada and one of only two companies that compete nationally in all segments of the industry. We serve 1.2 million customers and operate in 92 of the United States' largest 100 markets, which cover 72% of the country's population. This growth profile is strengthened by the business' strong value equation: a consistent, recurring revenue stream, high customer retention rates and low capital investment requirements for expansion.

Ameritech provides security monitoring for customers across North America, including Cindy Fine and son William (facing page). Skilled employees such as Terrie Snider at our SecurityLink National Accounts Center in Columbus, Ohio (opposite), serve business customers. Our new Ameritech Privacy Manager service lets customers such as Bernard Mixon (inset, below) avoid unwanted calls.

To spur continued growth, we've expanded our monitored products and services and deployed the security industry's most robust customer service platform. For example, we launched systems that automatically page customers when alarms occur or when loved ones return home. And in 1998, we consolidated our call monitoring centers into four state-of-the-art regional facilities. More than 80% of our accounts are now served by these new centers, which provide more consistent service and added efficiency.

Our Ameritech Privacy Manager service is the industry's first comprehensive solution to phone privacy concerns. Launched late in 1998, this breakthrough service gives customers choice and control over the calls that come into their homes and lets them reject unwanted calls from telemarketers and others. The service is now available to customers in three states. Initial sales are ahead of projections. And growth prospects are bright.

13%

Ameritech added 136,000 North American security customers in 1998 for a 13% growth rate

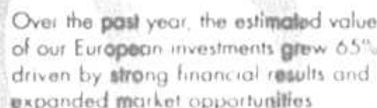
Global

In 1998, Ameritech's European investments contributed more than one-fourth of our total earnings growth. These strong results point to a future rich in opportunity.

The European communications market is forecast to grow 60% over the next five years to more than $560 billion. Powering this growth are liberalized markets, expanding economies and a large population base. To capitalize on these growth opportunities, over the past five years Ameritech has become the largest foreign investor in European communications. We have major strategic partnerships in the national, full-service communications companies Belgacom of Belgium, Tele Danmark of Denmark and MATÁV of Hungary. We are also a partner in NetCom, a fast-growing cellular company in Norway, and we own 100% of *WLW*, a successful business-to-business directory and electronic commerce firm based in Germany. Ameritech Global Gateway Services, launched in late 1997, has grown quickly and now provides wholesale long-distance transport to more than 200 countries.

Over the past few years, the value of our European investments has more than doubled, growing from our original investment of $4.7 billion to more than $10 billion. We build value by sharing skills and focusing on customers. In Hungary, for instance, our partnership in MATÁV resulted in rapid service upgrades and elimination of a 13-year waiting list for phone service. MATÁV's earnings growth has exceeded 50% and revenue growth has topped 25% four quarters in a row. In 1998, Tele Danmark launched a host of successful new services — including Duet, the world's first seamless cellular-landline single-number phone service.

Through our European partnerships, we serve customers such as Soren Bjornskov (facing page) in Denmark and Axel Joors (inset, color) in Belgium. We build value by sharing skills with international partners. For example, Ameritech manager Sue Nokes and Tele Danmark customer service agent Mette Jorgensen (inset, black and white) work together to improve customer care.



65%

Over the past year, the estimated value of our European investments grew 65%, driven by strong financial results and expanded market opportunities.

Wireless communications is a powerful growth engine in our European partnerships. For example, Belgacom's total cellular customer base grew more than 80% in 1998 to 1.2 million. MATÁV's 1998 cellular customer growth was 45%. And in late 1998, Belgacom and Tele Danmark partnered to launch an advanced nationwide wireless network in the Netherlands.

European Growth

European communications markets are poised for rapid growth. With interests in 15 countries, Ameritech is strongly positioned for the future.

Ameritech has investments and operations in many of Europe's most promising communications markets. For example, we help provide wireless services to customers in 11 countries, including Henrik Kiqerulff of Copenhagen (right).

Ameritech's European Holdings

Company	Customers	Stake	Investments	Country	Services	Market Value*
Tele Danmark	3.5 million lines, 995,000 cellular, 812,000 cable TV	**41.6%**		**Denmark**	Local phone, cellular, long-distance, security services, directories, cable TV	$ 6,110 million
			Belgacom	**Belgium**	Local phone, cellular, long-distance, security services	
			BITE GSM	**Lithuania**	Cellular	
			Comliet UAB	**Lithuania**	Cellular	
			Connect Austria	**Austria**	Cellular	
			Czech Radio	**Czech Republic**	Cellular, broadcasting	
			East-West Link	**Russia**	International cable	
			HTTC	**Hungary**	Local phone	
			InterNordia	**Sweden**	Voice and data equipment	
			NSAB	**Sweden**	Satellite services	
			Polkomtel	**Poland**	Cellular	
			Ben	**Netherlands**	Cellular	
			Sunrise	**Switzerland**	Competitive carrier	
			Talkline	**Germany**	Cellular resale, Internet and landline	
			Telenordia	**Sweden**	Business communications	
			UMC	**Ukraine**	Cellular	
MATÁV	2.7 million lines, 640,000 cellular	**29.8%**		**Hungary**	Local phone, cellular, long-distance, directories, cable TV	$ 1,845 million
Belgacom	5.1 million lines, 1.2 million cellular	**17.5%**		**Belgium**	Local phone, cellular, long-distance, security services	$ 1,800 million
			Belgacom France	**France**	Landline second carrier	
			Combellga	**Russia**	Landline	
			Ben	**Netherlands**	Cellular	
NetCom	530,000 cellular	**19.7%**		**Norway**	Cellular	$ 255 million
WLW	278,000 listed companies	**100%**		**Throughout Europe**	Business purchasing guides	$ 100 million
					TOTAL	$10,110 million

* Using actual year-end closing prices for publicly traded companies and company estimates for Belgacom and *WLW*

Pro Rata International Financials

1998	Total European Investments	Ameritech U.S.	Pro Rata Europe	Total Ameritech
Financial Data (in millions)				
Revenues	$10,851	**$ 17,154**	$ 3,017	**$ 20,171**
Operating expenses	$ 6,660	**$ 10,244**	$ 1,912	**$ 12,156**
Operating cash flow (EBITDA)	$ 4,191	**$ 6,910**	$ 1,105	**$ 8,015**
Depreciation and amortization	$ 1,584	**$ 2,717**	$ 417	**$ 3,134**
Operating income (EBIT)	$ 2,607	**$ 4,193**	$ 688	**$ 4,881**
Nonrecurring items	$	**$ (1,621)**	$	**$ (1,621)**
Other (income)/expense	$ 77	**$ 19**	$ 19	**$ 38**
Interest	$ 149	**$ 611**	$ 26	**$ 637**
Taxes	$ 746	**$ 2,031**	$ 190	**$ 2,221**
Reported net income	$ 1,635	**$ 3,153**	$ 453	**$ 3,606**
One-time items	$ (122)	**$ (945)**	$ (47)	**$ (992)**
Recurring net income	$ 1,513	**$ 2,208**	$ 406	**$ 2,614**
Average dilutive common shares (in millions)		**1,110.9**		
Recurring diluted earnings per share	$ 1.37	**$ 1.99**	$ 0.36	**$ 2.35**
EBITDA margin (before one-time items)		**40.9%**	36.6%	**40.3%**
EBIT margin (before one-time items)		**25.0%**	22.8%	**24.7%**
Net margin (before one-time items)		**12.9%**	13.5%	**13.0%**

Notes: "Ameritech U.S." column excludes international equity income from European investments. Pro rata European results are shown on a U.S. GAAP basis before Ameritech's purchase accounting adjustments.

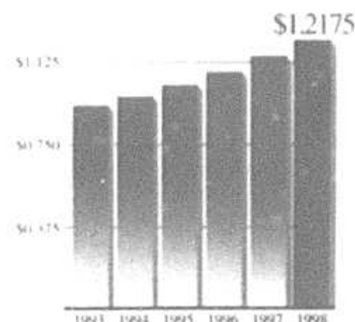
Questions & Answers

The global communications industry has entered an era of rapid expansion. And Ameritech has taken major steps to accelerate its growth strategies. Chairman and Chief Executive Officer Richard C. Notebaert answers questions investors frequently ask about Ameritech's future.

Q. In December 1998, shareowners of Ameritech and SBC Communications approved a plan to merge. What are your goals for the merger?

A. The proposed merger offers outstanding potential for us to speed growth and build value for our shareowners. Over the next few years, the communications industry will generate unprecedented opportunities. The merged company will have the scale, scope, experience and financial strength to capitalize on these opportunities and serve customers on a national and global basis.

Our combined resources will enable us to launch more new services faster than ever before. Our employees will form a world-class talent pool. And our new-business initiatives, including our planned national-local expansion into 30 U.S. markets outside our traditional regions, will spur competition and further accelerate our industry's expansion.



Dividend Growth

(dividends declared per share, adjusted for stock splits)

Ameritech's [illegible] dividend increase announced in December 1998 was the largest among major U.S. communications companies for the fourth consecutive year

In previous annual reports, I said that for any merger to make sense for Ameritech, it would have to deliver clear wins for both our customers and our shareowners. This merger will deliver these wins faster than we could achieve them on our own.

Q. What is your dividend history, and how will Ameritech's planned merger with SBC affect dividend payouts?

A. Ameritech and SBC share a strong dividend record. Both companies have raised their dividend every year they've been in business. When the merger closes, each share of Ameritech common stock will be exchanged for 1.316 shares of SBC common stock. So, we expect the transaction will have little or no impact on dividend payouts for Ameritech shareowners. Because of our strong earnings, both companies have achieved consistent dividend growth while steadily reducing payout ratios. This allows a larger portion of earnings to be retained for investment in growth opportunities.

Q. Ameritech continues to expand internationally. How do you minimize risk when making overseas investments?

A. We do three important things to ensure success in our international investments. First, we screen every country by looking at a range of quantifiable factors. These include political and economic stability, business and legal environments and education levels. Second, we evaluate every

business opportunity by applying disciplined investment models that quantify potential for growth and value creation over time. Third, we pursue strategic partnerships rather than passive investments. Partnerships allow us to learn from others while having direct input into operations, with seasoned Ameritech professionals transferring knowledge and skills critical to success.

Q. What impact will competition have on Ameritech's future?

A. Competition is a clear positive. It's good for customers. It invigorates markets. And it spurs growth. That's why Ameritech has taken the lead in pushing for more open markets, and why we continue to work to move beyond regulatory barriers and gain entry into the long-distance business. Today, more than 200 companies have been certified to provide local service in our markets, and we've completed more than 150 interconnection agreements with competitive providers.

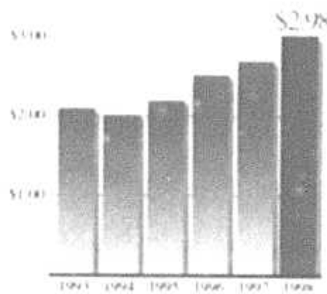
Our competitive confidence is based on proven strengths: a strong brand, a reputation for outstanding service and world-class marketing capabilities. It's also based on the success of our wholesale business. Since 1993, our wholesale unit has grown to include 1,000 employees, and today more than 5,000 network and information providers — including cellular, PCS and competing local service companies — use Ameritech services in their products.

Q. What is Ameritech doing to increase its flow of new services?

A. We created a special business unit to speed new product development. And we set stretch targets for revenues from new services. With the success of new data services and advanced calling products such as 1-800-CONFERENCE® and Ameritech Privacy Manager, in 1998 we achieved our goal and tripled our new-product revenues. Our pipeline continues to be robust, both in our core business and in new growth opportunities, such as cable TV and security services. And in the coming year, we expect to outpace our 1998 revenue gains from new products.

Q. What steps has Ameritech taken to prepare for Year 2000 computer and systems conversions?

A. We began a thorough assessment of our mission-critical systems in 1996, and we're confident we've identified and made changes to most systems in time for a full year of testing before the turn of the century. Our assessment and remediation programs will require that we spend about $250 million by the end of 2001. As part of our Year 2000 efforts, we've also developed contingency plans should disruptions to services occur. The work is conducted by centrally coordinated teams organized by business function.



Capital Expenditures
(in billions)

Capital expenditures increased $330 million in 1998 reflecting growth in our local telephone business as well as expansion of our cellular and cable TV networks.

Q. What are your plans for capital spending?

A. Our capital budget for 1999 is in line with 1998, when we invested $2.98 billion in capital projects — an increase of $330 million over 1997. Two-thirds of our 1998 capital dollars were used to expand and upgrade our local phone network. Growth in capital spending also was driven by our deployment of digital cellular networks and by continued buildout of our cable TV network.

We take a highly disciplined approach to capital investment. Regulatory requirements are one factor in our decisions. But the major driver of our capital planning is customers. We place a high priority on projects that enable us to provide customers with new products and services.

Selected Financial and Operating Data

Ameritech Corporation and Subsidiaries

As of December 31 or for the year ended
(dollars in millions, except per share amounts)

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Revenues	$17,154	$15,998	$14,917	$13,428	$12,569	$11,865	$11,285	$10,983	$10,773	$10,316	$10,014
Operating expenses[1]	12,961	12,199	11,412	10,125	10,540	9,307	8,941	9,001	8,584	8,161	7,882
Operating income	4,193	3,799	3,505	3,303	2,029	2,558	2,344	1,982	2,189	2,155	2,132
Interest expense	611	505	514	469	435	453	495	545	454	384	366
Other income, net	2,055	390	326	260	147	117	125	219	76	14	52
Income taxes	2,031	1,388	1,183	1,086	571	709	628	491	557	547	581
Income before special accounting items[2]	3,606	2,296	2,134	2,008	1,170	1,513	1,346	1,165	1,254	1,238	1,237
Special accounting items[2]	—	—	—	—	(2,234)	—	(1,746)	—	—	—	—
Net income (loss)	$ 3,606	$ 2,296	$ 2,134	$ 2,008	$ (1,064)	$ 1,513	$ (400)	$ 1,165	$ 1,254	$ 1,238	$ 1,237
Earnings (loss) per share[3]											
Income before special accounting items[2]											
Basic	$ 3.27	$ 2.09	$ 1.93	$ 1.81	$ 1.06	$ 1.39	$ 1.25	$ 1.10	$ 1.18	$ 1.15	$ 1.14
Diluted	3.25	2.08	1.92	1.81	1.06	1.39	1.25	1.10	1.18	1.15	1.14
Special accounting items[2]											
Basic	—	—	—	—	(2.03)	—	(1.62)	—	—	—	—
Diluted	—	—	—	—	(2.03)	—	(1.62)	—	—	—	—
Net income (loss)											
Basic	$ 3.27	$ 2.09	$ 1.93	$ 1.81	$ (0.97)	$ 1.39	$ (0.37)	$ 1.10	$ 1.18	$ 1.15	$ 1.14
Diluted	3.25	2.08	1.92	1.81	(0.97)	1.39	(0.37)	1.10	1.18	1.15	1.14
Dividends declared per share[3]	$ 1.218	$ 1.148	$ 1.078	$ 1.015	$ 0.97	$ 0.93	$ 0.89	$ 0.86	$ 0.81	$ 0.75	$ 0.69
Average common shares outstanding (millions)[3]	1,101.6	1,098.7	1,103.8	1,107.2	1,098.5	1,088.2	1,073.1	1,062.1	1,061.2	1,078.9	1,088.8
Total assets[4]	$30,299	$25,339	$23,707	$21,942	$19,947	$23,428	$22,818	$22,290	$21,715	$19,833	$19,163
Property, plant and equipment, net[4]	$14,305	$13,873	$13,507	$13,457	$13,455	$17,366	$17,335	$16,986	$16,652	$16,296	$16,078
Capital expenditures	$ 2,982	$ 2,651	$ 2,476	$ 2,176	$ 1,955	$ 2,108	$ 2,267	$ 2,200	$ 2,154	$ 2,015	$ 1,895
Long-term debt	$ 5,557	$ 4,610	$ 4,437	$ 4,513	$ 4,448	$ 4,090	$ 4,586	$ 4,964	$ 5,074	$ 5,069	$ 4,487
Total debt[6]	$ 8,176	$ 7,646	$ 7,592	$ 6,651	$ 6,346	$ 6,692	$ 6,704	$ 6,938	$ 6,769	$ 5,582	$ 4,942
Debt ratio	42.9%	47.9%	49.7%	48.7%	51.2%	46.0%	48.9%	46.1%	46.7%	42.1%	38.7%
Return on average equity[5]	36.2%	28.5%	28.7%	29.5%	(13.6)%	20.1%	(5.9)%	14.5%	16.3%	15.8%	15.8%
Return on average total capital[5]	22.1%	18.1%	17.1%	18.2%	(4.6)%	13.1%	0.2%	10.6%	11.8%	11.9%	12.0%
Market price per common share[3]	$ 63.38	$ 40.25	$ 30.31	$ 29.44	$ 20.19	$ 19.19	$ 17.81	$ 15.88	$ 16.69	$ 17.00	$ 11.94
Access lines (000s)	20,968	20,502	19,694	19,057	18,239	17,560	17,001	16,584	16,278	15,899	15,469
Cellular subscribers (000s)	3,577	3,177	2,512	1,891	1,299	860	586	483	326	242	146
Employees	70,525	74,359	66,128	65,345	63,594	67,192	71,300	73,967	75,780	77,326	77,334

[1] Increase in operating expenses in 1994 and 1998 was due to work force restructuring charges of $728 million and $104 million, respectively, while operating expenses in 1995 decreased due to a restructuring credit of $134 million.

[2] Special accounting items represent an extraordinary item for the discontinuance of FAS 71 (accounting in a regulatory environment) in 1994 and the cumulative effect of changes in accounting principles in 1992 for FAS 106 ($1,644 million) and FAS 112 ($102 million).

[3] Gives retroactive effect to all stock splits.

[4] Substantial reduction in total assets and property, plant and equipment, net in 1994 was due principally to the discontinuance of FAS 71.

[5] Return on average equity and return on average total capital are calculated using weighted average monthly amounts.

[6] Total debt excludes preferred stock issued by subsidiaries of $325 million in 1998, $250 million in 1997, $60 million in 1995 and $85 million in 1994. The 1997 and 1994 issues are subject to mandatory redemption.

Management's Discussion and Analysis of Results of Operations and Financial Condition

(dollars in millions, except per share amounts)

Overview

Ameritech is a diversified, full-service communications company providing wireline and wireless telephone service, paging, cable TV, security services, directory advertising and online services. Our five domestic landline communications subsidiaries provide local telephone service, network access and public telephone service to more than 12 million customers in Illinois, Indiana, Michigan, Ohio and Wisconsin. These subsidiaries are subject to regulation by the respective state utility commissions and by the Federal Communications Commission (FCC). In addition, we provide cellular service primarily in our five-state region and Missouri, paging services in our five-state region, Missouri and Minnesota; cable TV service in Illinois, Michigan and Ohio; and security services throughout North America.

The communications industry continued to adapt to sweeping regulatory changes, increased competition and significant new strategic initiatives in 1998. The Telecommunications Act of 1996 established a national policy that calls for competition and open markets, rather than regulatory management, as the basic industry business environment. As a result, it opened the nation's communications markets to competition from new players both within and outside the industry, potentially enabling them to become either niche or full-service providers of voice, video, data, local and long-distance services for their customers. At the same time, many communications markets in other parts of the world are in the midst of reform, resulting in privatization and deregulation of many previously nationalized communications companies.

These forces acting together create an environment for tremendous potential growth in the global communications industry. Ameritech recognized these growth opportunities several years ago, and we implemented three basic strategies to compete effectively in this new environment: speed growth in our core business, introduce new services for customers and connect customers around the world. By adhering to these strategies, we have positioned ourselves to take advantage of future market expansion and strategic growth opportunities.

On May 11, 1998, we accelerated the execution of Ameritech's strategy with the announcement of our agreement to merge with SBC Communications Inc. In the merger transaction, each share of Ameritech common stock will be converted into and exchanged for 1.316 shares of SBC common stock. After the merger, Ameritech will be a wholly owned subsidiary of SBC. The transaction was approved by the board of directors and shareowners of each company in 1998, but remains subject to various federal and state regulatory approvals. Ameritech and SBC own competing cellular licenses in several markets, including Chicago and St. Louis. Because FCC rules limit cross-ownership of cellular licenses, we expect that the FCC will require divestiture of one overlapping license in each market before granting approval of the merger.

Results of Operations

Ameritech's record of strong financial results continued in 1998. We achieved double-digit earnings growth before one-time items in each quarter of 1998 and for the year. Results were driven by solid revenue growth and by operating cost controls initiated in the first quarter of 1998. Income from international ventures in Belgium, Denmark and Hungary also contributed to earnings growth.

Consolidated results of operations for 1998 compared with the prior year were as follows:

Results of Operations

	1998	1997	Increase (Decrease)	Percent Change
Income before				
one-time items	$ 2,614	$ 2,346	$ 268	11.4
One-time items	992	(50)	1,042	n/m
Net income	3,606	2,296	1,310	57.1
EPS before one-time items				
Basic	$ 2.37	$ 2.14	$ 0.23	10.7
Diluted	2.35	2.12	0.23	10.8
Earnings per share				
Basic	$ 3.27	$ 2.09	$ 1.18	56.5
Diluted	3.25	2.08	1.17	56.3
Average common shares				
(millions)	1,101.6	1,098.7	2.9	0.3

One-time items in 1998 consisted of:

- a pretax charge of $104 million ($64 million after-tax, or $0.05 per share) for restructuring related to a cost containment program announced in March 1998;
- a pretax gain of $1,543 million ($1,012 million after-tax, or $0.91 per share) from the sale of substantially all of our shares in Telecom Corporation of New Zealand Limited (TCNZ);
- a pretax charge of $54 million ($34 million after-tax, or $0.03 per share), for a currency-related fair-value adjustment related to our Tele Danmark investment;
- a pretax gain of $170 million ($102 million after-tax, or $0.09 per share) from the sale of certain Wisconsin telephone and directory assets to Century Telephone Enterprises, Inc. (Century Telephone); and,
- a pretax charge of $38 million ($24 million after-tax, or $0.02 per share) for the costs of redeeming $1.3 billion of long-term debt.

One-time items in 1997 included:

- an after-tax charge of $87 million, or $0.08 per share, related to our share of the costs of a work force restructuring at Belgacom, the national telecommunications provider in Belgium;
- a pretax gain of $52 million ($37 million after-tax, or $0.03 per share) resulting from the sale of our 12.5% interest in Sky Network Television Limited of New Zealand (Sky TV);

- a pretax charge of $69 million ($42 million after-tax, or $0.04 per share) resulting from our agreement to settle lawsuits related to our inside wire maintenance services;
- a pretax gain of $42 million ($25 million after-tax, or $0.03 per share) resulting from the sale of our 14.3% share of Bell Communications Research (Bellcore);
- a pretax gain of $43 million ($27 million after-tax, or $0.03 per share) resulting from the sale in an initial public offering of a portion of our stake in MATÁV, the telecommunications provider in Hungary; and,
- a pretax charge of $16 million ($10 million after-tax, or $0.01 per share) resulting from a currency-related fair-value adjustment related to our Tele Danmark investment.

Including the effects of these one-time items, 1998 net income increased $1,310 million, or 57.1%, and diluted earnings per share increased $1.17, or 56.3%, over the comparable prior year period. Net income before one-time items increased $230 million, or 10.9%, in 1997, and diluted earnings per share increased $0.21, or 11.0%, over 1996 results. Results in 1996 included an after-tax gain of $18 million, or $0.02 per share, resulting from the sale of our interest in Centertel, a cellular telephone company in Poland.

Segments The following discussion makes reference to a new segment reporting concept adopted in 1998. As discussed more fully in Note 14 to the consolidated financial statements on pages 51 to 53, based on how we manage our business, we have three reportable segments. Our largest segment is communications, which provides landline telephone service, cellular telephone and paging services, as well as call management and data services to business and residential customers. Our second segment is information and entertainment, which provides printed and online directories for business and residential users, security and alarm monitoring services for homes and businesses, and cable TV services. Our third reportable segment is international, which manages our investments in foreign ventures. The international segment has no revenues, as all accounting activity is recorded using the one-line equity method of accounting. We evaluate the performance of our two revenue-producing segments on a direct margin basis, which represents total revenues of that segment less direct expenses attributed to it (excluding corporate allocations, information technology costs, interest income or expense, income taxes and certain other costs).

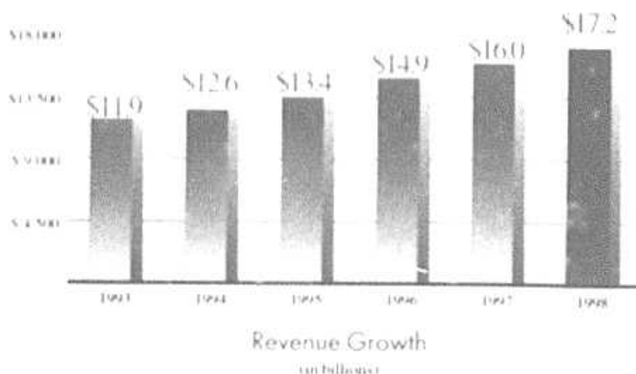
Our communications segment is characterized by stable revenue growth and solid earnings. Revenue growth in the information and entertainment segment is somewhat higher, in part due to acquisitions, but earnings growth is more modest due to the start-up nature of our cable TV operation and normal integration costs being incurred in our security services business. The international segment continues to contribute to earnings growth.

Total direct margin for reportable segments was $6,593 million in 1998, $6,049 million in 1997 and $5,332 million in 1996. Direct margin for the communications segment represented approximately 92% in 1998, 92% in 1997 and 90% in 1996, and margin from the information and entertainment segment represented the remaining 8%, 8% and 10% for those years.

Direct margin in the communications segment increased in both 1998 and 1997 due to increased profitability in the cellular business, increased revenues from high-margin call management services and steady growth in the landline communications business.

Our margins in the information and entertainment segment have been slowed by acquisitions we have made in our security services business. While these acquisitions have added to revenues, integration and consolidation of monitoring centers have impacted our margins. Further, the start-up nature of our cable TV business, which did not have any revenues until mid-1996 and now has more than 200,000 customers, has affected margins in this segment as well.

Revenues We derive most of our revenues from the provisioning of landline telephone service and supporting products, which represents approximately 75% of total revenues from operating segments. Other significant sources of revenue in 1998 included



Revenue Growth
(in billions)
Ameritech's total revenues increased 7.2% in 1998 to $17.2 billion, backed by strong customer demand and new product launches.

cellular and paging, which contributed approximately 11% of total revenues, and directory advertising, which represents approximately 8% of total revenues.

Revenues increased by 7.2% to $17.2 billion in 1998. Revenue growth resulted from strong gains in local service and data services revenues, combined with continued growth in cellular, paging and security services. Rate reductions, resulting primarily from access charge reform for landline communications services, and lower revenues from long distance services in our communications segment, partially offset the increase. Revenue growth in 1998 was 6.4% in our communications segment and 26.1% in our information and entertainment segment, due in part to asset acquisitions in the security services business.

Total revenues increased by 7.2% to $16.0 billion in 1997, driven by increased demand for a wide array of voice and data

transmission services. Rate reductions partially offset these increases. Revenue growth in 1997 was 7.6% in our communications segment and was 11.7% in our information and entertainment segment.

	1998	1997	Increase (Decrease)	Percent Change
Local service	$ 7,020	$ 6,572	$ 448	6.8

LOCAL SERVICE Local service revenues include basic monthly service fees and usage charges, fees for call management services, public phone revenues, and certain installation and connection charges. Local service rates generally have been regulated by the state public service commissions. These revenues are included in the results of our communications segment.

In the local service arena, demand for data services grew strongly in 1998, as evidenced by a 58% increase in the number of ISDN lines in service and 33% annual growth in high-capacity circuits. The proliferation of fax machines, Internet usage and computer communications resulted in data traffic exceeding voice traffic for the first time in our history. Demand for additional lines and call management services remained strong as revenues from call management services subscribed to on a monthly basis, such as Call Waiting and Caller ID, increased by 17% in 1998. Pay-per-use revenues for such services as automatic call back and three-way calling grew at a 61% annual rate. Access lines in service increased by 2.3% to 20,968,000 as of December 31, 1998, or 2.7% normalized for approximately 89,000 lines sold in November 1998 to Century Telephone.

Local service revenues increased by $397 million, or 6.4%, in 1997 due largely to increased sales of call management services. These increases resulted from growth in both the number of features in service and the number of pay-per-use activations of call management services. Access line growth, driven in part by increased demand for second lines by residential and small business customers, also contributed to the revenue increase. Access line growth in 1997 was 4.1%, including approximately 133,000 lines added on November 1, 1997, from the acquisition of certain assets from Sprint Corporation (Sprint) in the Chicago area.

	1998	1997	Increase (Decrease)	Percent Change
Network access				
Interstate access	$ 2,481	$ 2,485	$ (4)	(0.2)
Intrastate access	551	619	(68)	(11.0)

NETWORK ACCESS Network access revenues are fees charged to interexchange carriers, such as AT&T and MCI WorldCom, that use our local landline communications network to connect customers to their long-distance networks. In addition, end users pay flat rate access fees to connect to the long-distance networks. These revenues are generated from both interstate and intrastate services and are included in the results of our communications segment.

Total network access revenues decreased in 1998, due primarily to rate reductions resulting from access charge reform effective July 1, 1997, and additional reductions that took effect July 1, 1998. In addition, access charge revenues decreased due to a change in reporting classification of certain pay phone revenues from interexchange carriers for their customers' use of our pay phones. This change in classification decreased network access revenues and increased miscellaneous revenues by approximately $106 million in 1998 compared with 1997. Approximately $87 million of this decrease related to interstate network access revenues. Minutes of use increased in 1998 for both interstate and intrastate access, due primarily to growth in the number of calls handled for interexchange carriers. Growth in network usage by alternative providers of intraLATA toll service in Illinois, Michigan and Wisconsin also contributed to the intrastate access volume increase. Minutes of use increased, over the comparable prior year period, by 6.0% for interstate and 10.5% for intrastate.

Interstate network access revenues increased by $120 million, or 5.1%, in 1997 due primarily to volume increases. The volume of calls that we handled for interexchange carriers increased, and demand for dedicated services grew as Internet service providers and other high-capacity users increased their utilization of our network. Intrastate network access revenues increased by $46 million, or 8.0%, due to greater use of our network by alternative providers of intraLATA toll services in Illinois, Michigan and Wisconsin. Rate reductions for both interstate and intrastate network access, resulting primarily from access charge reforms that took effect on July 1, 1997, partially offset these increases. Minutes of use increased, over the comparable period in 1996, by 6.1% for interstate and 15.4% for intrastate.

Total cellular customers at Belgacom, one of our major European partnerships, grew 84% in 1998 to 1.2 million.

	1998	1997	Increase (Decrease)	Percent Change
Long-distance	$ 1,408	$ 1,384	$ 24	1.7

LONG-DISTANCE Our current long-distance service revenues are derived from customer calls to locations outside of the customer's local calling areas but within the same local access and transport area (LATA). These revenues also are included in the results of our communications segment.

Long-distance revenues increased in 1998, reflecting growth in dedicated services and price increases. Volume decreases, resulting from increased competition in Illinois, Michigan and Wisconsin, partially offset the increase. Customers now may use an alternative provider of their choice for intraLATA toll calls in these markets, without dialing a special access code when placing the call.

Long-distance revenues decreased by $107 million, or 7.2%, in 1997, due to a decrease in the volume of intraLATA toll calls completed. Implementation of Dial 1 + capability in the Illinois, Michigan and Wisconsin markets was substantially complete in 1997, resulting in increased competition for these toll calls.

	1998	1997	Increase (Decrease)	Percent Change
Cellular, directory and other	$ 5,694	$ 4,938	$ 756	15.3

CELLULAR, DIRECTORY AND OTHER Cellular, directory and other revenues include revenues derived from cellular communications, paging services, telephone directory publishing, cable TV, lease financing, billing and collection services, telephone equipment sales, and security installations and services. These revenues result from both our communications and information and entertainment segments, as well as from other business activities, such as lease financing, not included in the results of reportable segments.

Revenues from cellular, directory and other services increased in 1998, resulting primarily from solid growth in the number of cellular subscribers and pagers in service, as well as continued growth in our security and cable TV businesses. Revenues from Voice Mail and other nonregulated services, as well as a change in reporting classification of certain pay phone revenues, as previously discussed, also contributed to the increase. Also in 1998, we revised a partnership agreement covering the publication of directories in Illinois and northwest Indiana, resulting in increased directory advertising revenues.

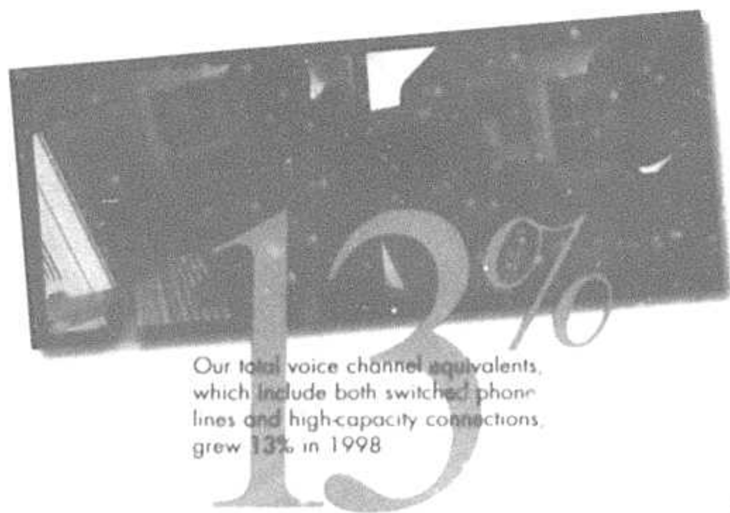
Competition from other cellular providers has intensified in our region, particularly in the Chicago market. However, the increased price competition and expanded service offerings have stimulated demand, driving additional subscriber growth. We continued to introduce our ClearPath℠ digital wireless service in cities throughout our region during 1998, offering customers enhanced call clarity, longer battery life and better call security.

Revenues from cellular, directory and other services increased by $625 million, or 14.5%, in 1997 due to strong growth in the number of cellular and paging subscribers. Introduction of ClearPath service in the Chicago and Detroit markets and successful retention of a high percentage of subscribers contributed to the revenue increase. Paging services grew at a strong rate due to increased marketing efforts and continued customer demand for added convenience. Increased revenues from equipment sales and inside wire installation and maintenance services also contributed to the increase, as did higher directory revenues, resulting primarily from volume growth and price increases.

OPERATING EXPENSES Following is a discussion of operating expenses for Ameritech on a consolidated basis. Total operating expenses increased by 6.2% to $13.0 billion in 1998. Overall business growth and network expansion drove much of the increase. Higher access charge expenses and a restructuring charge also contributed to the increase. Total operating expenses increased by 6.9% to $12.2 billion in 1997, due primarily to increased employee-related and other operating expenses resulting from overall business growth.

	1998	1997	Increase (Decrease)	Percent Change
Employee-related expenses	$ 4,169	$ 3,959	$ 210	5.3

EMPLOYEE-RELATED EXPENSES Employee-related expenses increased in 1998 due primarily to higher employee levels in the information and entertainment segment, combined with higher wage rates and overtime expenses in the communications segment. During 1998, we entered into new collective bargaining agreements with the International Brotherhood of Electrical Workers (IBEW) and the Communications Workers of America (CWA). The IBEW contract took effect on June 28, 1998, for a period of five years. The contract will be re-opened in 2001 to address certain economic wage issues for the final two years of the agreement. The CWA contract was effective August 9, 1998, and



Our total voice channel equivalents, which include both switched phone lines and high-capacity connections, grew 13% in 1998

expires on March 31, 2001. Both agreements provide for basic wage increases of 11.2% over the contract period (until 2001 for the IBEW) and also address benefits, pensions, work rules and other wage-related items. The IBEW represents approximately 12,000 employees in Illinois and northwest Indiana, while the CWA represents approximately 28,000 employees in all five states of our region.

Employee-related expenses increased by $248 million, or 6.7%, in 1997 due primarily to growth-related employee increases in the security services, cellular and cable TV businesses. Higher wage levels at the landline communications subsidiaries, partially offset by lower work force levels, also contributed to the overall increase.

	1998	1997	Increase (Decrease)	Percent Change
Depreciation and amortization	$ 2,717	$ 2,521	$ 196	7.8

DEPRECIATION AND AMORTIZATION Continued network expansion for both wireline and wireless services in the communications segment, combined with increasing investments in newer technologies that have shorter depreciable lives, contributed to an increase in depreciation and amortization expense in 1998. Higher rates resulted from the use of shorter depreciable lives for newer technologies. Higher asset balances at our security services subsidiary, combined with higher amortization of intangibles from acquisitions, also contributed to the increase.

Depreciation and amortization expense increased by $156 million, or 6.6%, in 1997 due to continued network expansion, resulting from greater demand for network services and an increase in the cellular subscriber base, and to increased intangible asset amortization.

	1998	1997	Increase (Decrease)	Percent Change
Other operating expenses	$ 5,370	$ 5,140	$ 230	4.5

OTHER OPERATING EXPENSES Other operating expenses increased in 1998 due primarily to higher access charge expenses resulting from state commission rulings (which we are contesting) that require local exchange carriers to pay reciprocal compensation for calls by their customers to the Internet via Internet service providers (ISPs) who, in turn, are customers of competing local exchange carriers. Higher cost of sales resulting from growth-related customer increases at the cellular operation, combined with increased sales of customer premises equipment, also contributed to the increase. Decreased advertising expenses, reflecting the timing of promotions and other marketing campaigns, combined with lower right-to-use fees for switching system software, partially offset the increase.

Other operating expenses increased by $397 million, or 8.4%, in 1997 due to customer increases and higher cost of sales resulting from growth in sales of customer premises equipment. A one-time charge of $69 million resulting from a litigation settlement also contributed to the increase.

In May 1996, we commenced a 10-year agreement with IBM Global Services (IBM) to perform certain information technology services previously performed by Ameritech. As a result of this agreement, contract services expenses have increased from their 1996 level, while employee-related costs and depreciation expenses related to computer assets have moderated somewhat.

	1998	1997	Increase (Decrease)	Percent Change
Restructuring	$ 104	$	$ 104	n/m

RESTRUCTURING In March 1998, we announced plans to significantly reduce future operating expenses by the end of 2002. As part of this cost containment program, we recorded a pretax restructuring charge of $104 million ($64 million after tax) to cover the costs of consolidating security monitoring centers and closing 53 company-owned cellular retail stores. The charge covers employee-related costs of approximately $54 million for termination of the employment of approximately 5,000 employees, as well as other costs of approximately $50 million related to lease terminations and asset write-downs. Approximately 10% of the charge relates to our information and entertainment segment, and the balance relates to our communications segment.

Approximately 3,200 employees whose employment relationship is to be severed work at our security services subsidiary. These employees are being displaced due primarily to the consolidation of our monitoring centers. Staffing requirements at new locations will require us to hire a significant number of new employees.

In 1998, 1,478 employees left Ameritech as part of this restructuring program.

	1998	1997	Increase (Decrease)	Percent Change
Taxes other than income taxes	$ 601	$ 579	$ 22	3.8

TAXES OTHER THAN INCOME TAXES Taxes other than income taxes consist of property taxes, gross receipts taxes and other taxes not directly related to earnings.

Taxes other than income taxes increased in 1998 primarily as a result of higher property taxes, principally in Illinois and Michigan, combined with higher gross receipts taxes, principally in Ohio and Wisconsin. Lower capital stock taxes in Illinois, as well as lower property taxes in Ohio, resulting primarily from tax reforms, partially offset the increase.

Taxes other than income taxes decreased by $14 million, or 2.4%, in 1997 primarily due to property tax decreases in Ohio and Illinois, as well as lower capital stock taxes in Illinois resulting from tax reforms. Higher gross receipts taxes resulting from overall business growth partially offset these decreases.

Other Income and Expense

	1998	1997	Increase (Decrease)	Percent Change
Interest expense	$ 611	$ 505	$ 106	21.0

Interest expense Interest expense increased in 1998 due primarily to higher overall debt balances associated with our $3.1 billion investment in Tele Danmark. We funded this investment in part by issuing $2.5 billion in long-term debt. Lower interest on short-term debt, resulting primarily from a reduction in short-term debt balances following the sale of substantially all of our TCNZ shares, partially offset these increases.

Interest expense decreased by $9 million, or 1.8%, in 1997 due primarily to increased cash flow from operations, resulting in lower average short-term debt balances. This decrease was partially offset by the effect of higher short-term interest rates. Increased interest on long-term debt, resulting from higher average long-term debt balances, also partially offset the decrease.

	1998	1997	Increase (Decrease)	Percent Change
Other income, net	$ 2,055	$ 390	$ 1,665	426.9

Other income, net Other income, net includes earnings related to Ameritech's investments (when the equity method of accounting is followed), interest income and other nonoperating items.

Other income increased in 1998 due primarily to the effects of a one-time pretax gain of $1,543 million ($1,012 million after tax) resulting from the public sale of substantially all of our stake in TCNZ, partially offset by a one-time pretax charge of $54 million ($34 million after-tax) for a currency-related fair-value adjustment related to our investment in Tele Danmark A/S, the national communications provider in Denmark. A one-time pretax gain of $170 million ($102 million after-tax) from the sale of certain telephone and directory assets to Century Telephone also contributed to the increase. Earnings from our new investment in Tele Danmark, combined with stronger earnings from our investments in Belgium and Hungary, contributed to the increase as well. Partially offsetting these increases were lower equity earnings from TCNZ, resulting from the sale of substantially all of our stake in this company in April 1998, as well as a one-time pretax charge of $38 million ($24 million after-tax) for the costs of redeeming $1.3 billion of long-term debt.

Other income increased by $64 million, or 19.6%, in 1997 primarily as the result of three one-time gains. We sold our stake in Sky TV, resulting in a pretax gain of $52 million ($37 million after-tax). We also realized a one-time pretax gain of $43 million ($27 million after-tax) related to the sale of a portion of our MATAV shares in an initial public offering, and a one-time pretax gain of $42 million ($25 million after-tax) related to the sale of our investment in Bellcore. A one-time after-tax charge of $87 million for our share of the costs of a work force restructuring at Belgacom partially offset the increase.

Our investments in international ventures are subject to certain risks related to fluctuations in foreign currency exchange rates. In 1998 and 1997, we recognized some foreign exchange transaction gains and losses and currency translation adjustments related to these investments, due to fluctuations in the value of the U.S. dollar against the respective local currencies. While future fluctuations in currency exchange rates could impact future results of operations, we expect foreign operations to continue to provide strong financial results and earnings growth.

As previously noted, our international investments represent one of our three reportable segments. Equity income from these investments after one-time items described above, was $378 million in 1998, $289 million in 1997 and $233 million in 1996. This equity income does not require a full provision for additional U.S. income taxes due to substantial available foreign income tax credits arising from these same foreign tax jurisdictions. The increase in equity income in 1998 results primarily from the addition of Tele Danmark to our portfolio, which more than offset the equity income lost from TCNZ sold in April 1998. Enhanced profitability at Belgacom and MATAV also contributed to the increase, as well as the effects of stronger local currencies. The increase in 1997 equity earnings when compared with 1996 was due to higher equity income from all of our foreign investments, but moderated due to the strength of the U.S. dollar against the local currencies.

	1998	1997	Increase (Decrease)	Percent Change
Income taxes	$ 2,031	$ 1,388	$ 643	46.3

Income taxes Income tax expense increased in 1998 due primarily to the tax impacts of gains resulting from sales of investments, including our TCNZ shares. Our effective tax rate was 36.0% in 1998 compared with 37.7% in 1997. The lower effective rate in 1998 resulted primarily from the tax basis exceeding the book basis in our TCNZ shares sold.

Income taxes increased by $205 million, or 17.3%, in 1997 due to an increase in pretax earnings, as well as the effects of a one-time after-tax charge of $87 million related to our share of the costs of a work force restructuring at Belgacom. A decrease in the amortization of investment tax credits relative to pretax income and a change in tax law in New Zealand that subjected us to a withholding tax on dividend distributions also contributed to the increase.

Financial Condition, Liquidity and Capital Resources

Ameritech continued to generate strong cash flows from operations during 1998. These cash flows, combined with capital derived from external sources, enabled us not only to fund increased capital expenditures, but also to pursue significant new investment opportunities and to increase dividends paid per share by 6.2% over the prior year period.

Cash flows from operating activities Cash flows from operations increased by $300 million to $4.8 billion in 1998, due primarily to overall business growth, combined with working capital improvements. These factors also led to an increase in cash flows from operations of $767 million to $4.5 billion in 1997.

Cash used in investing activities Although capital expenditures increased by more than $300 million in 1998, reflecting continued investment in the core communications segment and the infrastructure for new businesses, investments in other communications ventures represented the single largest use of company funds in 1998. The largest of these was our $3.1 billion investment in Tele Danmark. Following our investment and a repurchase of shares by Tele Danmark from the Kingdom of Denmark, we hold a 41.6% stake in the company. This increase in cash outflows was partially offset by the proceeds from our sale of substantially all of our TCNZ shares. This transaction was structured as an installment sale, with approximately half of the proceeds due at the time of sale in April 1998 and the other half due by March 31, 1999. The initial installment resulted in proceeds of approximately $1.1 billion, and the second installment will result in additional proceeds in 1999 of approximately $1.0 billion. Also in 1998, we received proceeds of approximately $473 million from the repayment by General Electric Company of the note related to our GEIS investment and proceeds of approximately $221 million from the sale of assets to Century Telephone.

Investments in new businesses also increased in 1997, with acquisitions totaling more than $1 billion for the year. In April and June 1997, we acquired assets of three companies engaged in security services. Consideration for these assets consisted of approximately $82 million in cash and the issuance of a total of 3,009,602 common shares with a dollar value of approximately $100 million. In October 1997, we acquired security assets of Rollins Protective Services, a division of Rollins, Inc., and security assets of Republic Security Company Holdings, a subsidiary of Republic Industries, Inc. We used approximately $800 million in cash to make these purchases.

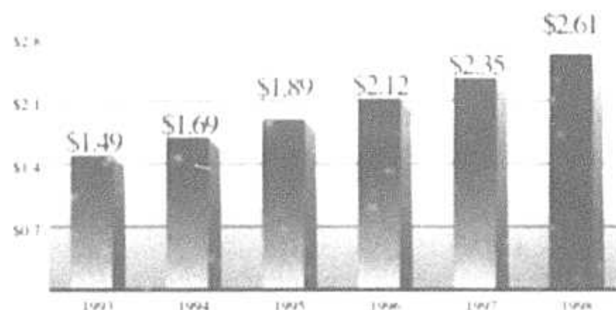
In November 1997, we acquired from Sprint the assets of its local exchange business in suburban Chicago, formerly known as Central Telephone Company of Illinois. We paid $160 million in cash.

Other investing activities in 1997 included proceeds from our sales of investments, including our stake in Bellcore, our investment in Sky TV and a portion of our stake in MATÁV through an initial public offering. In addition to these sales, we also received proceeds of approximately $152 million from a stock repurchase program at TCNZ.

Investing activities in 1996 consisted primarily of our investment with several partners in Belgacom. A consortium led by Ameritech purchased a 49.9% stake in Belgacom from the Belgian government for a purchase price of approximately $2.5 billion. Ameritech invested approximately $865 million for its 35% consortium share, representing approximately 17.5% of Belgacom. Investing activities in 1996 also included additional investments in security services assets.

Capital expenditures increased in all three years due primarily to increased spending at the landline communications subsidiaries to meet increased demand for data, custom calling and private line services and to comply with regulatory requirements. Capital spending also increased due to continued enhancement and expansion of the cellular network.

We believe that investment in the core communications segment will facilitate the introduction of new products and services, enhance our responsiveness to ever-increasing competitive challenges and increase the operating efficiency and productivity of our network. We are deploying capital based on customer demands, our business plans and regulatory commitments. We place a high priority on technologies that will enable us to provide customers with new products and services.



Earnings Growth

(in billions, before one-time items)

Ameritech's earnings climbed 11.4% in 1998 to $2.61 billion. This marked our sixth straight year of double-digit earnings growth.

Cash flows from financing activities Financing activities in 1998 included issuance of $2.5 billion of long-term debt and $325 million of preferred stock by a wholly owned subsidiary primarily to finance our investment in Tele Danmark. In January 1998, we issued $1.75 billion of long-term debt in five separate tranches through our financing subsidiary, Ameritech Capital Funding (ACF). In addition, we issued $750 million of Eurodollar notes in February 1998, due in 2003. Short-term debt decreased by $417 million, primarily reflecting the application of proceeds from our sale of TCNZ shares. In December 1998, we redeemed approximately $1.3 billion of long-term debt issued by our landline communications subsidiaries in Illinois, Michigan, Ohio and Wisconsin to take advantage of favorable market conditions. We funded these redemptions using short-term debt. Financing activities also included dividend payments and stock repurchases as discussed below.

In 1997, we issued $650 million of long-term debt through our financing subsidiary, primarily to fund our acquisitions of security assets from Rollins and Republic, and one of our wholly owned

subsidiaries issued $250 million of preferred stock in June 1997 in a private placement.

Financing activities in 1996 consisted primarily of debt issuances by two of our landline communications subsidiaries in Indiana and Wisconsin aggregating $275 million.

Stock repurchase program Our board of directors has periodically authorized management to repurchase shares of Ameritech common stock in the open market or through private transactions. During 1998, we repurchased in the open market 9.6 million shares of stock for approximately $500 million. During 1997, we repurchased 19.0 million shares of common stock for an aggregate purchase price of $602 million, and during 1996, we repurchased in the open market 17.4 million shares of common stock for an aggregate price of $492 million. As of December 31, 1998, management is authorized to make further repurchases of up to $1.5 billion; however, we have agreed with SBC in conjunction with our merger agreement to repurchase shares only in connection with share issuance requirements under certain benefit plans.

Dividends Ameritech paid dividends of $1,323 million in 1998. This was an increase of $81 million, or 6.5%, over 1997. In December 1998, Ameritech's board of directors approved a 5.8% increase in the quarterly dividend payable February 1, 1999. We paid dividends of $1,242 million in 1997, an increase of $71 million, or 6.1%, over 1996. Our dividend policy is consistent with the need to balance returns to shareowners and investments of capital necessary in a competitive environment.

Financing options As of December 31, 1998, we maintained available lines of credit totaling $1.8 billion, a committed credit facility of $2.0 billion and shelf registrations for issuance of up to $1.2 billion in unsecured debt securities.

In October 1998, Moody's Investor Service advised us that it had lowered the debt ratings of three of our landline communications subsidiaries from Aaa to Aa1. The change resulted not from any action taken by Ameritech or its subsidiaries, but from Moody's efforts to bring the ratings of wholly owned subsidiaries more in line with the parent holding company ratings in the telecommunications industry. The ratings of our other two landline communications subsidiaries remained at Aa1. We believe the impact of these adjustments will not be significant.

Standard & Poor's has advised us that our credit ratings may be downgraded in the event our merger with SBC is completed. Moody's has, however, reaffirmed our strong credit ratings irrespective of the merger.

Management believes that we have adequate internal and external resources available to finance our business development, network expansion, dividends, acquisitions and investments.

Other Matters

Regulatory considerations

The Telecommunications Act of 1996 In general, the Telecommunications Act of 1996 (the 1996 Act) includes provisions designed to open local exchange markets to competition and to afford the Bell operating companies (BOCs) and their affiliates the competitive opportunity to provide interLATA (long distance) services. Under the 1996 Act, the BOCs' ability to provide in-region long-distance services is dependent upon their satisfaction of, among other conditions, a 14-point "competitive checklist" of specific requirements for opening the local market to competition.

In late 1997, a U.S. District Court in Texas ruled that certain line-of-business restrictions in the 1996 Act, including the requirement in Section 271 that the BOCs must comply with the competitive checklist before being permitted to provide long distance services to local phone customers, constituted an unconstitutional bill of attainder by virtue of their exclusive applicability to the BOCs. The U.S. Court of Appeals for the Fifth Circuit reversed that decision in September 1998, and in January 1999 the U.S. Supreme Court declined to hear an appeal of the appellate court decision.

In two other cases, similar constitutional challenges were rejected by the U.S. Court of Appeals for the District of Columbia Circuit (the D.C. Circuit Court). In May 1998, the D.C. Circuit Court found that Section 274 of the 1996 Act, which covers electronic publishing activities, did not constitute an unconstitutional bill of attainder. A petition for certiorari, seeking review of that decision, is pending before the U.S. Supreme Court. In December 1998, the D.C. Circuit Court ruled against another bill of attainder constitutional challenge to the long distance provisions of Section 271 of the 1996 Act.

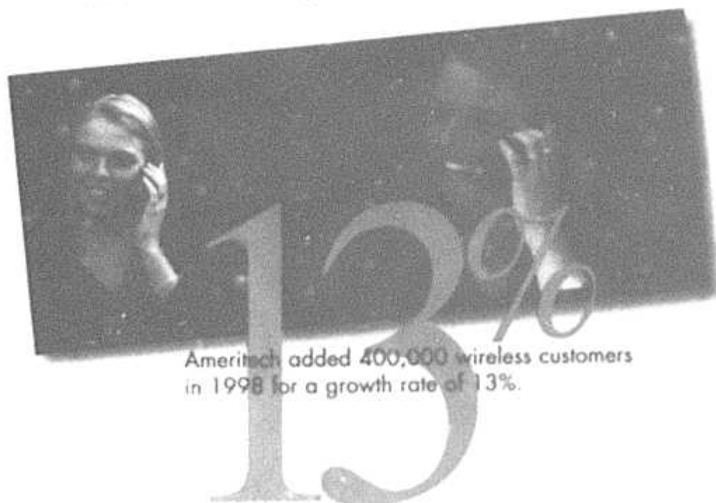
Local interconnection and unbundled access In January 1999, the U.S. Supreme Court issued its opinion on various cross appeals of the 1997 decision of the U.S. Circuit Court of Appeals for the Eighth Circuit (the Eighth Circuit Court) relating to the FCC's 1996 order on the local interconnection provisions of the 1996 Act (the Interconnection Order).

The Supreme Court reversed portions of the Eighth Circuit Court's earlier decision that had vacated several provisions of the Interconnection Order. The Court decided that the FCC has rulemaking authority to implement the local competition provisions of the 1996 Act, including pricing methodology. This overturned the Eighth Circuit Court's ruling that the states were vested with exclusive jurisdiction over the pricing for local interconnection, unbundled network elements and local service resale provided by incumbent local exchange carriers (ILECs) to competitive local exchange carriers (CLECs). The Supreme Court also reinstated the FCC's "pick and choose" rules allowing CLECs to select among individual provisions from other existing interconnection agreements.

The Supreme Court upheld the FCC's determination that the definition of a network element could include items beyond physical facilities and equipment, such as operational support systems, operator services, directory assistance and vertical services such as call forwarding and caller identification. It further ruled that the FCC could bar ILECs from separating already combined network elements. However, the Supreme Court overturned the FCC's rule identifying and requiring ILECs to offer specific network elements, finding that the FCC had not adequately considered, as required by the 1996 Act, whether those specific unbundled network elements were "necessary" or whether the failure to provide access to them might "impair" the ability of CLECs to provide competitive services. We believe that this ruling supports our view that the objectives of the 1996 Act, including development and deployment of advanced technologies desired by customers, will best be served by encouraging infrastructure investments, rather than through unlimited blanket access to all existing ILEC network elements.

Since the Eighth Circuit Court's 1997 opinion, local interconnection matters and unbundled network element pricing have been resolved primarily through negotiated interconnection agreements or state commission arbitration proceedings. The substantive validity of the FCC's pricing rules, including its total element long-run incremental cost (TELRIC) pricing methodology, was not before the Supreme Court, and will be addressed by the Eighth Circuit Court on remand. Pending judicial resolution of the appropriate pricing methodologies and a determination by the FCC of which unbundled network elements are "necessary," our landline communications subsidiaries expect to continue to negotiate and enter into interconnection agreements and pursue, through appropriate state or federal proceedings, timely recovery of their costs.

We also may seek review by the U.S. Supreme Court of the separate Eighth Circuit Court decision last year regarding shared transport. In 1998, the Eighth Circuit Court upheld the FCC's determination that "shared transport," which would include access to all of an ILEC's transport facilities, is a network element that should be made available to competitors on an unbundled basis.



Ameritech added 400,000 wireless customers in 1998 for a growth rate of 13%.

The outcome of future regulatory and judicial developments in this area is subject to continuing uncertainty. We believe that the pricing rules and methodologies generally adopted by our in-region state commissions with respect to our existing interconnection agreements should not differ materially from those that may be applied under proposed FCC pricing methodologies. We further expect that future judicial or regulatory decisions will define reasonable limiting standards, consistent with the purposes of the 1996 Act, as to which of our existing network elements must be made available to competitors. We can give no assurance, however, that future regulatory and judicial determinations may not have a material adverse effect on future revenues and margins in our communications segment.

Reciprocal compensation A number of CLECs are engaged in regulatory and judicial proceedings with various ILECs, including our landline communications subsidiaries, with respect to the payment of reciprocal compensation to the CLECs for calls originating on the ILECs' networks for dial-up connections to access the Internet via ISPs served by the CLECs' networks. The CLECs have asserted that such reciprocal compensation is provided for by interconnection agreements between the CLECs and the ILECs. Together with other ILECs, we have maintained that we are not required to make such reciprocal compensation payments pursuant to those agreements because such traffic is interstate access service, not local.

A U.S. District Court in Illinois has ruled that our Illinois landline communications subsidiary is required to make reciprocal compensation payments in these circumstances under its applicable interconnection agreements. This order is on appeal to the U.S. Court of Appeals for the Seventh Circuit. Cases that involve appeals by other subsidiaries of adverse regulatory determinations are pending in U.S. District Courts in Michigan and Wisconsin. Pending the outcome of such appeals, our Illinois, Michigan and Wisconsin landline communications subsidiaries currently are making reciprocal compensation payments, under protest, to CLECs pursuant to existing interconnection agreements. The Public Utilities Commission of Ohio also ruled that our Ohio landline communications subsidiary is required to make reciprocal compensation payment, but has stayed its order pending rehearing.

On October 30, 1998, the FCC issued a Memorandum Opinion and Order in which it found that a service offering by another ILEC, permitting ISPs to furnish their customers with high-speed access to the Internet through a dedicated connection, is an interstate service that is properly tariffed at the federal level. In so ruling, the FCC considered the totality of the communication as an end-to-end transmission between an end user and the Internet Web site accessed by the end user, and rejected the argument that such a communication should be separated into two components (consisting of an ILEC-provided intrastate telecommunications service that terminated at the ISP's local server) and an interstate

information service provided by the ISP). The FCC expressly limited its decision only to the high-speed, dedicated access connection between an end user subscriber and an ISP as described in the proposed tariff, and made no determination whether ILECs generally should be required to pay reciprocal compensation for Internet calls via ISPs. The FCC has indicated its intention to provide separate guidance in the near future on the jurisdictional nature of dial-up access via a LEC's local switch.

We believe that this recent FCC Order is consistent with our view that Internet traffic is appropriately classified as interstate and that reciprocal compensation is not required for dial-up access in the circumstances described above. We also believe that our view ultimately should be upheld in pending or future appellate judicial proceedings or through FCC determination. However, there can be no assurance as to that outcome or that our landline communications subsidiaries will not be required to begin or continue to make such reciprocal compensation payments under existing interconnection agreements. In addition to reciprocal compensation now being paid by our Illinois, Michigan and Wisconsin landline communications subsidiaries, we are making periodic accruals of amounts that may become payable in Ohio and Indiana in the event our view is not ultimately upheld.

Universal service, access charge reform and price caps In May 1997, the FCC issued three closely related orders that established rules to implement the universal service provisions of the 1996 Act (the Universal Service Order) and to revise both interstate access charge pricing (the Access Reform Order) and the price cap plan for ILECs (the Price Cap Order).

Universal service The FCC's Universal Service Order provides that all interstate telecommunications providers will be required to contribute to universal service funding, based on retail telecommunications revenues. The Universal Service Order establishes a multi-billion dollar interstate universal service fund to help link eligible schools and libraries and low-income consumers and rural health care providers to the global telecommunications network (including the Internet). The FCC directed the phase-in of these funds through 1999.

Access charge reform In its Access Reform Order, the FCC restructured interstate access pricing and adopted changes to its tariff structure that require ILECs to use rates that reflect the type of costs incurred.

In addition to the changes introduced in connection with the Access Reform Order, we have implemented state changes that mirror the federal access reform structure. Various interexchange carriers opposing such changes have filed complaints before the Illinois, Michigan and Wisconsin state commissions seeking lower access charges. The state commissions in Illinois (the Illinois Commerce Commission) and Michigan (the Michigan Public Service Commission or MPSC), in response to such a complaint, have ordered us to split the intrastate primary interexchange carrier charge (PICC) into two separate per-line components, with one-half of the total charge payable by the intraLATA toll carrier and the other half by the interLATA toll carrier. Accordingly, the revenues we receive from this charge will decrease to the extent that we are the intraLATA toll carrier. In addition, the MPSC required that these changes be made retroactive to January 1, 1998, when the initial tariffs for this charge were filed. We have appealed the MPSC's order.

Price caps Our interstate access services are subject to price cap regulation, which limits prices rather than profits. The Price Cap Order effectively reduced access charges by increasing the price cap productivity offset factor to 6.5% from the previous 5.3% and by applying this factor uniformly to all access providers. The order also required ILECs subject to price cap regulation to set their 1997 price cap index assuming that the 6.5% factor had been in effect since July 1996. Certain parties have sought judicial review of the Price Cap Order, and a decision by the D.C. Circuit Court with respect to these matters currently is pending.

We currently cannot predict the precise impact of these regulatory changes on our business, especially as their nature and timing may evolve in connection with judicial and FCC consideration of other provisions of the 1996 Act.

Number portability On May 5, 1998, the FCC entered an order to allow telecommunications carriers, such as our landline communications subsidiaries, to recover over a five-year period their carrier-specific costs of implementing long-term number portability. Long-term number portability allows customers to retain their local telephone numbers in the event they change local exchange carriers. We are completing implementation of long term number portability in compliance with an FCC-mandated schedule. Our number portability surcharge became effective on February 1, 1999.

Acquisitions of Security Services Assets by SecurityLink
On September 25, 1998, the FCC issued a Memorandum Opinion and Order on Remand and Order to Show Cause relating to an asset acquisition by our security services subsidiary (SecurityLink) in 1996. The FCC found that we had gained "financial control" over the entity from which SecurityLink acquired the security services assets, in violation of the 1996 Act, and required that, within 30 days after issuance of the Order, we show cause why the FCC should not require SecurityLink to divest the assets acquired in this transaction. Previously, the FCC had ruled that the same transaction was permissible under the 1996 Act, and the D.C. Circuit Court had vacated and remanded that decision to the FCC. On October 26, 1998, we filed our response with the FCC, contending that divestiture would not be an appropriate remedy.

Previously, on July 8, 1998, the FCC issued a Memorandum Opinion and Order and Order to Show Cause, finding that three separate asset acquisitions by SecurityLink in 1997 (made after the first FCC ruling on security services described above and before

the D.C. Circuit Court decision) violated the same provision of the 1996 Act, and ordering SecurityLink to show cause why the FCC should not require divestiture of the assets acquired in such transactions. We filed our response with the FCC on August 7, 1998, contending that divestiture would not be an appropriate remedy.

The FCC's decision on these Orders to Show Cause is pending.

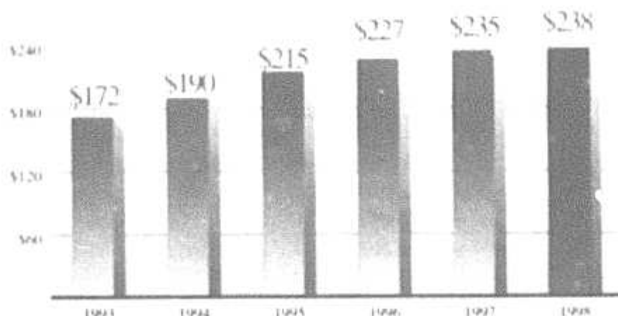
Competitive environment Technological developments, marketplace demand and legislative, regulatory and judicial actions have expanded the types of services and products available from an increasing number of companies, creating growth opportunities in the global communications industry. Our competitive strategy, including our proposed merger with SBC, is to position ourselves to take advantage of such growth opportunities by continuing to branch into new services that are logical extensions of our business and by exporting our expertise to customers around the world.

These same factors also have resulted in increasing competition in all areas of our business. In pursuing business opportunities both inside and outside the United States, we compete against other local service providers, long-distance service providers, cable TV companies, wireless and Internet service providers (including companies that provide all or some combination of these services), and other entrants from a range of industries. As we have expanded our paging and cellular services, the number and type of competitors have grown. Our telephone directory publishing business faces competition from not only other directory publishing businesses and traditional advertising media, such as television, radio, direct mail, magazines and newspapers, but also providers of new technologies, such as Internet and other online services. Many of our competitors have substantial scale and geographic scope, significant capital, technological and marketing resources, and wide-ranging service offerings.

With the passage of the 1996 Act and other regulatory initiatives, our local service markets have been more extensively opened to new competitors, many of which are believed to have initially targeted high-volume business customers in densely populated areas. Interconnection agreements with competitive service providers require our landline communications subsidiaries to provide interconnection or access to unbundled network elements at cost-based rates and telecommunications services at discounted, wholesale rates. These agreements and applicable tariffs may result in some downward pressure on local service revenues, as a portion of our revenue shifts from local service at retail prices to network access and wholesale services at lower rates and as some competitors provide services using their own networks, in whole or in part. We cannot predict with certainty the impact that these and other developments ultimately may have on our future business, results of operations or financial condition.

Year 2000 readiness The Year 2000 issue exists because many computer systems and applications, including those embedded in equipment and facilities, use two-digit rather than four-digit date fields to designate an applicable year. As a result, the systems and applications may not properly recognize the year 2000 or process data that includes it, potentially causing data miscalculations or inaccuracies or operational malfunctions or failures.

We have established a centrally managed, companywide initiative to identify, evaluate and address Year 2000 issues. Begun in May 1996, our Year 2000 effort covers our network and supporting infrastructure for our provision of local switched and data telecommunications services, cellular and paging services, cable



Productivity Gains

(revenues per employee in thousands)

Revenues per employee increased to $238,000 in 1998, representing a 38% improvement over the past five years.

TV service and security services. Also within the scope of this initiative are our operational and financial information technology (IT) systems and applications, end-user computing resources and building systems, such as security, elevator, and heating and cooling systems. In addition, the project includes a review of the Year 2000 compliance efforts of our key suppliers and other principal business partners and, as appropriate, the development of joint business support and continuity plans for Year 2000 issues. While this initiative is broad in scope, it is structured to identify and prioritize our efforts for mission-critical systems, network elements and products and key business partners.

Work is progressing in the following phases: inventory, assessment, remediation, testing, deployment and monitoring. Although the pace of the work varies among our business units and the phases often are conducted in parallel, as of December 31, 1998, the inventory and assessment phases have been substantially completed, the remediation phase is nearing completion, and the testing and deployment phases are well under way.

As of December 31, 1998, the majority of our network elements requiring corrective activity, including substantially all of our core network switches and other network components that we regard as mission critical, have been made Year 2000 ready and deployed back into production. As of December 31, 1998, more than 90% of our total identified IT applications, including substantially all that we have determined to be mission-critical, have been remediated, and a majority of all corrected applications have completed certification testing and been deployed back into production. We have

also made substantial progress in Year 2000 readiness preparations for our remaining infrastructure components (buildings and physical facilities, internal voice telephone systems, and desktop PCs), and these efforts are scheduled to be completed in mid-1999. Final integration testing for certain critical systems and processes is scheduled to be completed by the end of the third quarter of 1999.

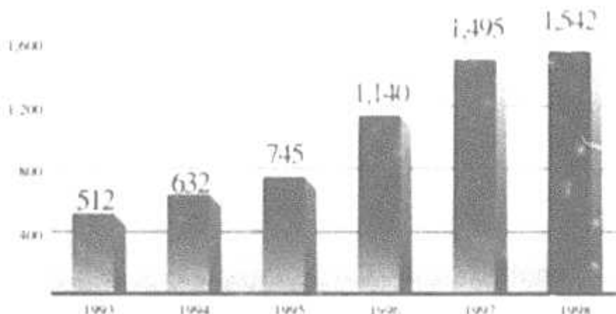
With the majority of our various systems remediated and a substantial portion of those already tested and deployed back into production, we believe we are well positioned to complete the remediation and deployment of our remaining systems, any additional testing that may be necessary, and the development of our business contingency and continuity plans in advance of the Year 2000 transition. However, our ability to meet that goal remains dependent upon a variety of factors, including the timely provision of necessary upgrades and modifications by our suppliers and contractors. In some instances, upgrades or modifications are not expected to be available until mid- or late-1999.

We have sought Year 2000 readiness information from various third-party suppliers on whom we depend for certain products or essential services (such as electric utilities, interexchange carriers, etc.), but we have no method of ensuring that these suppliers will convert their critical systems and processes in a timely manner. We are developing business contingency and continuity plans (see discussion below), and are continuing to work with our key suppliers as part of a supplier compliance program to seek to minimize such risks.

As is the case for other communications services providers, there exists a worst case scenario possibility that a failure to correct a Year 2000 program in one or more of our mission-critical network elements or IT applications could cause a significant disruption of or interruption in certain of our normal business functions. Based on our assessments and work to date, we believe that any such material disruption to our operations due to failure of an internal system is unlikely. However, due to the uncertainty inherent in Year 2000 issues generally and those that are beyond our control in particular (e.g., the final Year 2000 readiness of our suppliers, customers, utilities, interconnecting carriers, and joint venture and investment interests), there can be no assurance that one or more such failures would not have a material impact on our results of operations, liquidity or financial condition.

There also may be Year 2000 issues in customer premises equipment (CPE), including CPE that we have sold or maintained and CPE that is used in connection with 911 services. Although the customer generally is responsible for CPE, customers could attribute a Year 2000 disruption in their CPE to a malfunction of our network service. We have taken steps to encourage many of our customers potentially at risk to undertake the necessary assessment and remedial activities to avoid a Year 2000 problem with their equipment and systems.

We currently estimate that we will incur expenses of approximately $250 million through 2001 in connection with our anticipated Year 2000 efforts, of which approximately $108 million had been incurred through December 31, 1998. The timing of our expenses may vary and is not necessarily indicative of readiness efforts or progress to date. We anticipate that a portion of our Year 2000 expenses will not be incremental costs, but rather will represent the redeployment of existing IT resources. We also expect to incur certain capital improvement costs (totaling approximately $30 million) to support this project. Such capital costs ($12 million as of December 31, 1998) are being incurred sooner than originally planned but, for the most part, would have been required in the normal course of business.



Paging Growth
(pagers in service in thousands)
Ameritech's total number of pagers in service doubled over the past three years and tripled over the past five years.

We have significant minority investments in large telecommunications providers in Belgium, Denmark and Hungary. Each of those companies has plans in place and activities under way to address Year 2000 issues, and we are offering advice in these efforts as practical. Based on information reported to us, the estimated proportionate share of these companies' Year 2000 conversion costs that will flow through to our earnings is not expected to be material. As is the case for many companies outside the United States, we believe that the Year 2000 readiness efforts of these carriers has not progressed as far as our own, and we expect that the Year 2000 readiness conversion and testing activities at some of these companies will continue into late 1999.

As part of our Year 2000 initiative, we are evaluating scenarios that may occur as a result of the century change and are in the process of developing contingency and business continuity plans tailored for Year 2000-related occurrences. Contingency planning to maintain and restore service in the event of natural disasters, power failures and software-related problems has been part of our standard operation for many years, and we are working to leverage this experience in the development of contingency and continuity plans tailored to meet Year 2000-related challenges. This work is being performed through centrally managed, companywide teams organized by critical business functions (including ordering, provisioning, maintenance, billing and power). Our contingency and business continuity plans are expected to assess the potential for business disruption in various scenarios, and to provide for key operational back-up, recovery and restoration alternatives.

The above information is based on our current best estimates, which were derived using numerous assumptions of future events, including the availability and future costs of certain technological and other resources, third-party modification actions and other factors. Given the complexity of these issues and possible unidentified risks, actual results may vary materially from those anticipated and discussed above. Specific factors that might cause such differences include, among others, the availability and cost of personnel trained in this area, the ability to locate and correct all affected computer code, the timing and success of Year 2000 remedial efforts of our customers and suppliers, and similar uncertainties.

Euro conversion On January 1, 1999, 11 of the 15 member countries of the European Union formed the Economic and Monetary Union (EMU) and established fixed conversion rates between their sovereign currencies and the future European currency unit, the euro. The participating countries agreed to adopt the euro as their common legal currency on that date. The sovereign "legacy" currencies of these countries will continue in circulation within the respective countries until at least January 1, 2002, but not later than July 1, 2002. At the time of final conversion, new euro-denominated bills and coins will be used exclusively.

Our international business segment consists of several significant minority investments in Europe, including Belgacom in Belgium, Tele Danmark in Denmark and MATÁV in Hungary. Of these, only Belgium is among the countries that will convert to the euro; Tele Danmark, however, has operating affiliates in several participating countries. Management at these companies must address several issues related to the conversion, including increased price transparency, the tax treatment of conversion gain or loss, changes to business processes and modification of information systems to process euro-denominated transactions during the transition period.

Management at our European affiliates has informed us that efforts to convert computer systems and business processes are well under way and are scheduled to be complete by the time the conversion takes place. Based on information reported to us, the estimated proportionate share of euro-related costs that will flow through to our earnings is not expected to be material.

Effects of foreign currency fluctuations Our foreign operations and investments in international ventures are subject to certain risks related to fluctuation in foreign currency exchange rates. For the three years ended December 31, 1998, due to fluctuations in the U.S. dollar, we recognized some foreign exchange transaction gains and losses and currency translation adjustments related to these investments. Foreign exchange transaction gains and losses incurred by wholly owned subsidiaries affected operating income. Transaction gains and losses incurred by other international ventures (primarily equity-method investments) affected other income, net. Translation adjustments resulted in a change in the investment balance and a corresponding change in accumulated other comprehensive income on the consolidated balance sheet. While future fluctuations in currency exchange rates could impact results of operations or financial position, we expect foreign investments to continue to provide strong financial results and earnings growth.

Disclosures about market risk We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. To manage our exposure to these fluctuations, we occasionally enter into various hedging transactions that have been authorized according to documented policies and procedures. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity, and we never use leveraged derivatives.

The amounts shown below represent an estimated potential loss that we could incur from adverse changes in either interest rates or foreign exchange rates, based upon the value-at-risk estimation model. The value-at-risk model uses historical foreign exchange rates and interest rates to estimate the volatility and correlation of these rates in future periods. It estimates a loss in fair market value using the variance/co-variance statistical modeling technique. The model addresses numerous market risk exposures, but specifically excludes equity-method investments, which in our case are significant. The fair value losses shown in the table below are for a one-day time period with a confidence level of 95% (signifying our degree of confidence that actual one-day losses would not exceed such estimated losses, in each case, based on the model). Such estimated losses have no impact on our results of operations or financial condition.

	December 31	
	1998	1997
Risk category		
Interest rates	$ 39	$ 25
Foreign exchange	[illegible]	[illegible]

The value-at-risk model assumes that all movements in these rates will be adverse and disregards the possibility that interest rates and foreign currency exchange rates could move in our favor. Actual experience has shown that gains and losses tend to offset each other over time, and we believe it is unlikely that we could experience losses such as these over an extended period of time. These amounts should not be considered projections of future losses, since actual results may differ significantly depending upon activity in the global financial markets.

The fair value at risk increased in 1998 due primarily to a net increase in fixed-rate debt, and to an increase in the volatility of interest rates, mostly resulting from market activity in the third and fourth quarters of 1998. We issued $2.5 billion of fixed-rate debt in the first quarter of 1998, principally to fund our investment in Tele Danmark, and in December 1998 we redeemed $1.3 billion of fixed-rate debt issued by four of our landline communications subsidiaries. Value at risk related to foreign exchange has not changed significantly since December 31, 1997, but as previously

noted, the value-at-risk model does not consider our significant foreign equity-method investments.

New accounting pronouncements

AICPA SOP 98-1 In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP provides authoritative guidance for the capitalization of certain costs related to computer software developed or obtained for our internal applications, such as:

- external direct costs of materials and services, such as programming costs;
- payroll costs for employees devoting time to the software project; and,
- interest costs to be capitalized.

Costs incurred during the preliminary project stage, as well as training and data conversion costs, are to be expensed as incurred. The SOP is effective for fiscal years beginning after December 15, 1998. We will adopt SOP 98-1 in the first quarter of 1999 and estimate that the impact of adoption will be to decrease software-related expenses for Ameritech and all of its subsidiaries by $200 million to $250 million in the year of adoption. We have historically expensed most computer software costs as incurred and will be required to continue to expense all Year 2000 modification costs as incurred.

FAS 133 In June 1998, the Financial Accounting Standards Board (FASB) issued FAS 133, "Accounting for Derivative Instruments and Hedging Activities." This statement provides standardized accounting and disclosure guidance for derivative instruments and the derivative portion of certain similar contracts. It amends FAS 52, "Foreign Currency Translation," and FAS 107, "Disclosures about Fair Values of Financial Instruments," and it supersedes a number of other financial accounting standards.

The statement requires entities that use derivative instruments to measure these instruments at fair value and record them as assets or liabilities on the balance sheet. It also requires entities to reflect the gains or losses associated with changes in the fair value of these derivatives, either in earnings or as a separate component of comprehensive income, depending on the nature of the underlying contract or transaction.

FAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, and is to be adopted as of the beginning of the fiscal year. At the time of adoption, all derivative instruments are to be measured at fair value and recorded on the balance sheet. Any differences between fair value and carrying amount at that time will be recorded as a cumulative effect of a change in accounting principle, in either net income or other comprehensive income, as appropriate. Adoption of this statement may or may not have a material impact on our results of operations or financial position, depending on the nature and magnitude of derivative activity in which we engage and the changes in market conditions with respect to foreign currencies, interest rates or other underlying values. We have not yet quantified the impacts of the initial adoption of FAS 133 on our results of operations or financial condition, nor have we determined when we will implement the new standard.

Private securities litigation reform act safe harbor statement

Some of the information presented in, or in connection with, this report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that involve potential risks and uncertainties. Our future results could differ materially from those discussed here. Some of the factors that could cause or contribute to such differences include:

- changes in economic and market conditions that impact the demand for our products and services, or for products and services by companies in which we have substantial investments;
- the effects of vigorous competition in the local exchange, intraLATA toll, cellular, data, cable TV, directory advertising or security services markets;
- federal regulatory developments that impact the telecommunications, security services and cable TV industries, and pending regulatory issues in state jurisdictions, as well as the outcome of any related judicial reviews;
- the timing of and costs associated with entry into the interLATA long-distance market;
- the timing of, and potential regulatory or other considerations relating to, the consummation of our proposed merger with SBC;
- the potential impact of issues related to Year 2000 software compliance;
- risks inherent in international operations, including possible economic, political or monetary instability, as well as the potential impact of Year 2000 compliance and euro currency conversion issues; and,
- the impact of new technologies and the potential effect of delays in development or deployment of such technologies.

The words "expect," "believe," "anticipate," "estimate," "project," and "intend" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are found at various places throughout the Management's Discussion and Analysis and elsewhere in this report.

You should not place undue reliance on these forward-looking statements, which are applicable only as of the date hereof. We have no obligation to revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof or to reflect the occurrence of unanticipated events.

Report of Management

Shareowners, Ameritech Corporation

The consolidated financial statements were prepared in accordance with generally accepted accounting principles, which required the use of estimates and judgment. Management prepared these statements and other information in the annual report and is responsible for their integrity and objectivity.

Our consolidated financial statements have been audited by Arthur Andersen LLP. Management has made available to Arthur Andersen LLP all of our financial records and related data, as well as the minutes of meetings of shareowners and directors. We believe that all representations made to Arthur Andersen LLP were valid and appropriate.

Management maintains a system of internal control over the preparation of our published financial statements that provides reasonable assurance as to the integrity and reliability of the consolidated financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The internal control system provides appropriate division of responsibility, and written policies and procedures are communicated to employees and updated as necessary. Management is responsible for proactively fostering a strong ethical climate so that the company's affairs are conducted according to the highest standards of personal and corporate conduct.

The company maintains a strong internal auditing program to assess the effectiveness of internal controls and recommend possible improvements. As part of their audit of the consolidated financial statements, Arthur Andersen LLP considered the internal control system to determine the nature, timing and extent of necessary audit tests. Management has considered the recommendations of our internal auditors and Arthur Andersen LLP concerning the company's system of internal control, and has responded appropriately.

Management assessed the company's internal control system in relation to criteria for effective internal control. These criteria consist of five interrelated components, which are: control environment, risk assessment, control activities, information and communication, and monitoring. Based on its assessment, management believes that, as of December 31, 1998, our system of internal control has met these criteria.

The board of directors, through its audit committee which consists solely of outside directors, serves in an oversight capacity to assure the integrity and objectivity of the financial reporting process. The role of the committee includes monitoring accounting and financial controls and assuring the independence of Arthur Andersen LLP. Both the internal auditors and the independent public accountants have complete access to the committee and periodically meet with the committee, with and without management present.

Sincerely,

Richard C. Notebaert
Chairman and Chief Executive Officer
January 21, 1999

Oren G. Shaffer
Executive Vice President and
Chief Financial Officer

Report of Independent Public Accountants

Board of Directors, Ameritech Corporation

We have audited the accompanying consolidated balance sheets of Ameritech Corporation (a Delaware corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareowners' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the company'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ameritech Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP
Chicago, Illinois
January 21, 1999

Consolidated Statements of Income

Ameritech Corporation and Subsidiaries

(dollars in millions, except per share amounts)	For the year ended December 31		
	1998	1997	1996
Revenues			
Local service	$ 7,020	$ 6,572	$ 6,175
Interstate network access	2,481	2,485	2,365
Intrastate network access	551	619	573
Long-distance service	1,408	1,384	1,491
Cellular, directory and other	5,694	4,938	4,313
	17,154	15,998	14,917
Operating expenses			
Employee-related expenses	4,169	3,959	3,711
Depreciation and amortization	2,717	2,521	2,365
Other operating expenses	5,370	5,140	4,743
Restructuring	104	—	—
Taxes other than income taxes	601	579	593
	12,961	12,199	11,412
Operating income	4,193	3,799	3,505
Interest expense	611	505	514
Other income, net	2,055	390	326
Income before income taxes	5,637	3,684	3,317
Income taxes	2,031	1,388	1,183
Net income	$ 3,606	$ 2,296	$ 2,134
Earnings per common share			
Basic	$ 3.27	$ 2.09	$ 1.93
Diluted	$ 3.25	$ 2.08	$ 1.92
Average common shares outstanding (millions)	1,101.6	1,098.7	1,103.8

The accompanying notes are an integral part of the financial statements

Consolidated Balance Sheets

Ameritech Corporation and Subsidiaries

(dollars in millions)	As of December 31 1998	1997
Assets		
Current assets		
Cash and temporary cash investments	$ 139	$ 239
Receivables, less allowance for uncollectibles of $338 and $308, respectively	3,052	3,078
Installment receivable from TCNZ share sale	940	
Material and supplies	345	290
Prepaid and other	654	942
	5,130	4,549
Property, plant and equipment		
In service	35,859	34,020
Under construction	485	371
	36,344	34,391
Less, accumulated depreciation	22,039	20,518
	14,305	13,873
Investments, primarily international	4,938	1,751
Other assets and deferred charges	5,926	5,166
Total assets	$ 30,299	$ 25,339
Liabilities and shareowners' equity		
Current liabilities		
Debt maturing within one year	$ 2,619	$ 3,036
Accounts payable	1,905	1,955
Other	3,476	2,250
	8,000	7,241
Long-term debt	5,557	4,610
Deferred credits and other long-term liabilities		
Accumulated deferred income taxes	1,502	1,150
Unamortized investment tax credits	115	140
Postretirement benefits other than pensions	2,918	2,965
Other	1,310	925
	5,845	5,180
Shareowners' equity		
Common stock, par value $1; 2.4 billion shares authorized; 1,177 million issued in 1998 and 1997	1,177	1,177
Proceeds in excess of par value	5,493	5,313
Reinvested earnings	6,455	4,190
Treasury stock, at cost (78 million shares in 1998 and 79 million shares in 1997)	(1,923)	(1,645)
Deferred compensation	(114)	(190)
Accumulated other comprehensive income	(191)	(537)
	10,897	8,308
Total liabilities and shareowners' equity	$ 30,299	$ 25,339

The accompanying notes are an integral part of the financial statements

Consolidated Statements of Shareowners' Equity

Ameritech Corporation and Subsidiaries

(dollars in millions, except per share amounts)	Total	Common Stock	Proceeds in Excess of Par Value	Reinvested Earnings	Treasury Stock	Deferred Compensation	Accumulated Other Comprehensive Income	Common Shares Issued (millions)	Treasury Common Shares (millions)
	Shareowners' Equity								
Balances, December 31, 1995	$ 7,015	$ 1,175	$ 5,026	$ 2,209	$ (986)	$ (329)	$ (80)	1,175	67
Comprehensive income									
Net income	2,134			2,134					
Unrealized gain (loss) on securities, net of reclassifications	(1)						(1)		
Foreign currency translation adjustments	(103)						(103)		
Comprehensive income	2,030								
Dividends ($1.078 per share)	(1,189)			(1,189)					
Stock issued to employees	29	1	28					1	
Treasury stock activity									
Purchases	(492)				(492)				17
Issuances	200		66		134				(8)
Reduction of LESOP debt	70					70			
Other	24		24						
Balances, December 31, 1996	7,687	1,176	5,144	3,154	(1,344)	(259)	(184)	1,176	76
Comprehensive income									
Net income	2,296			2,296					
Unrealized gain (loss) on securities, net of reclassifications	(3)						(3)		
Foreign currency translation adjustments	(350)						(350)		
Comprehensive income	1,943								
Dividends ($1.148 per share)	(1,260)			(1,260)					
Stock issued to employees	12	1	11					1	
Treasury stock activity									
Purchases	(602)				(602)				19
Issuances	318		72		246				(13)
Acquisitions of businesses	98		43		55				(3)
Reduction of LESOP debt	69					69			
Other	43		43						
Balances, December 31, 1997	8,308	1,177	5,313	4,190	(1,645)	(190)	(537)	1,177	79
Comprehensive income									
Net income	3,606			3,606					
Unrealized gain (loss) on securities, net of reclassifications	9						9		
Foreign currency translation adjustments	337						337		
Comprehensive income	3,952								
Dividends ($1.218 per share)	(1,341)			(1,341)					
Treasury stock activity									
Purchases	(500)				(500)				10
Issuances	345		123		222				(11)
Reduction of LESOP debt	76					76			
Other	57		57						
Balances, December 31, 1998	$10,897	$ 1,177	$ 5,493	$ 6,455	$(1,923)	$ (114)	$ (191)	1,177	78

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

Ameritech Corporation and Subsidiaries

(dollars in millions)	For the year ended December 31 1998	1997	1996
Cash flows from operating activities			
Net income	$ 3,606	$ 2,296	$ 2,134
Adjustments to net income			
Restructuring, net of tax	64	—	—
Depreciation and amortization	2,717	2,521	2,365
Deferred income taxes, net	305	235	122
Investment tax credits, net	(25)	(32)	(36)
Capitalized interest	(27)	(25)	(28)
Change in accounts receivable, net	26	(8)	(296)
Change in material and supplies	(95)	(97)	(61)
Change in other current assets	(213)	(116)	(11)
Change in accounts payable	(50)	119	44
Change in certain other current liabilities	1,322	391	86
Change in certain noncurrent assets and liabilities	(959)	(622)	(482)
Gain on sale of TCNZ shares	(1,543)	—	—
Gain on sale of assets to Century Telephone Enterprises, Inc.	(170)	—	—
Gain on sale of shares in MATÁV	—	(43)	—
Gain on sale of Bellcore	—	(42)	—
Gain on sale of Sky Network Television of New Zealand	—	(52)	—
Other operating activities, net	(148)	(15)	(94)
Net cash from operating activities	4,810	4,510	3,743
Cash flows from investing activities			
Capital expenditures, net	(2,954)	(2,641)	(2,440)
Additional investments, including acquisition of new companies	(3,261)	(1,074)	(922)
Proceeds from sale of TCNZ shares	1,078	—	—
Proceeds from sale of assets to Century Telephone Enterprises, Inc.	221	—	—
Proceeds from repayment of GEIS note	473	—	—
Proceeds from TCNZ share repurchase	—	152	—
Proceeds from sale of shares in MATÁV	—	146	—
Proceeds from sale of Bellcore	—	64	—
Proceeds from sale of Sky Network Television of New Zealand	—	52	—
Other investing activities, net	3	(14)	51
Net cash from investing activities	(4,440)	(3,315)	(3,311)
Cash flows from financing activities			
Net change in short-term debt	(221)	(195)	815
Issuance of long-term debt	2,500	650	273
Retirement of long-term debt	(1,672)	(320)	(92)
Dividend payments	(1,323)	(1,242)	(1,171)
Repurchase of common stock	(500)	(602)	(492)
Proceeds from reissuance of treasury stock	401	330	196
Issuance of preferred stock in subsidiaries	322	250	—
Other financing activities, net	23	28	53
Net cash from financing activities	(470)	(1,101)	(418)
Net increase (decrease) in cash and temporary cash investments	(100)	94	14
Cash and temporary cash investments, beginning of year	239	145	131
Cash and temporary cash investments, end of year	$ 139	$ 239	$ 145

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

(dollars in millions, except per share amounts)

1 Significant accounting policies

Nature of operations Ameritech Corporation is one of the world's largest communications companies, providing a wide array of local phone, data, directory and other services to more than 12 million customers (primarily in Illinois, Indiana, Michigan, Ohio and Wisconsin).

We serve more than 3.5 million cellular customers, more than 1.5 million paging customers and approximately 1.2 million security services customers. The security services business is conducted throughout the United States and Canada. We have cellular interests in Norway as well as interests in communications companies in Belgium, Denmark and Hungary. We also publish business directories in Germany and other European countries.

See our discussion of regulatory matters and competitive environment in Other Matters in Management's Discussion and Analysis of Results of Operations and Financial Condition (MD&A) on pages 30 to 36. See also the discussion of our pending merger in Note 16 on page 53.

Consolidation The consolidated financial statements include all of our majority-owned subsidiaries. We have eliminated all significant intercompany transactions.

Basis of accounting We have prepared the consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP). We have made certain reclassifications to the 1997 and 1996 balances to correspond to the 1998 presentation.

Use of estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material and supplies We have stated inventories of new and reusable material and supplies at the lower of cost or market, with cost generally determined on an average-cost basis.

Income taxes We file a consolidated federal income tax return. At the end of each period, we determine deferred tax assets and liabilities based on differences between the financial statement bases of assets and liabilities and the tax bases of those same assets and liabilities, using the currently enacted statutory tax rates. We measure deferred income tax expense as the change in the net deferred income tax asset or liability during the year. We also recognize deferred income taxes on undistributed equity earnings from foreign investments when we do not control the dividend flow back to the United States.

Property, plant and equipment We have stated property, plant and equipment primarily at original cost. The provision for depreciation is based principally on straight-line remaining life and straight-line equal life group methods of depreciation applied to individual categories of plant with like characteristics.

We use average plant lives, generally ranging from three to 30 years depending upon the type of asset. In general, the lives used for certain communications assets and office equipment have shortened due to the use of newer technologies.

Generally, when depreciable assets are retired, the amount at which such assets are carried in property, plant and equipment is charged to accumulated depreciation. The cost of maintenance and repair of assets is charged to expense.

Most of our property, plant and equipment is located in Illinois, Indiana, Michigan, Ohio and Wisconsin.

Temporary cash investments We have stated temporary cash investments at cost, which approximates market value. We consider all highly liquid, short-term investments with an original maturity of three months or less to be cash equivalents.

Derivative financial instruments We occasionally enter into forward contracts and swap agreements to hedge exposures to foreign currency exchange and interest rate risks. We include gains and losses on foreign currency forward contracts used for hedging purposes in net income in the period in which the gain or loss arises. We record gains and losses that hedge an investment in a foreign company as a component of accumulated other comprehensive income until such time as we reduce our interest in the company. Gains and losses on interest rate swaps or interest rate "locks" are recorded as adjustments to interest expense.

We use derivatives in a limited way for the following purposes:

- to manage financial risk;
- to hedge assets and obligations that we already hold; and,
- to protect our cash flows.

We do not use derivatives to generate income or engage in speculative activity, and we never use leveraged derivatives.

Advertising costs We charge advertising costs to expense as incurred.

Software costs We have historically expensed most software and related license fees as incurred. Beginning in 1999, we are required, because of a change in GAAP, to capitalize a significant portion of software developed or obtained for our internal use. See our discussion of new accounting pronouncements in Other Matters in MD&A on page 36.

Comprehensive income In 1998, we adopted Statement of Financial Accounting Standards (FAS) 130, "Reporting Comprehensive Income," issued by the Financial Accounting Standards Board (FASB). We report accumulated other comprehensive income as a separate component of shareowners' equity. The deferred tax effects of the unrealized gain or loss on available-for-sale securities were a $5 million benefit in 1998 and expense

of $2 million in 1997 and $1 million in 1996. We do not recognize deferred income taxes on foreign currency translation adjustments.

Earnings per share We compute basic earnings per common share by dividing net income by the weighted average number of common shares outstanding during the period.

Diluted earnings per share are calculated by including all dilutive potential common shares such as stock options. Dilutive potential common shares were 9,319,370 in 1998, 5,375,302 in 1997 and 4,448,568 in 1996. No adjustment to reported net income is required when computing diluted earnings per share.

Stock options We account for our stock option plans in accordance with Accounting Principles Board (APB) Opinion 25, under which no compensation expense is recognized in the financial statements unless the plan is determined to be variable in nature.

Revenue recognition We generally recognize revenues as we provide services or deliver products to customers. We bill certain local telephone and wireless and security service revenues in advance, resulting in deferred revenues. We account for our directory advertising revenues generally as billed over the term of the related directory (usually one year) and amortize production costs, which are deferred when incurred, to match the related revenues.

Intangibles We amortize intangibles, including goodwill arising from business combinations, on a straight-line basis over the anticipated period of benefit, not to exceed 40 years. We periodically review amounts recorded as intangible assets for impairment using expected undiscounted future cash flows.

Translation adjustments We translate the assets and liabilities relating to our share of significant foreign operations to U.S. dollars at year-end exchange rates. We translate revenues and expenses to U.S. dollars using average exchange rates for the year. Translation adjustments are accumulated and recorded as a separate component of accumulated other comprehensive income.

2. Investments

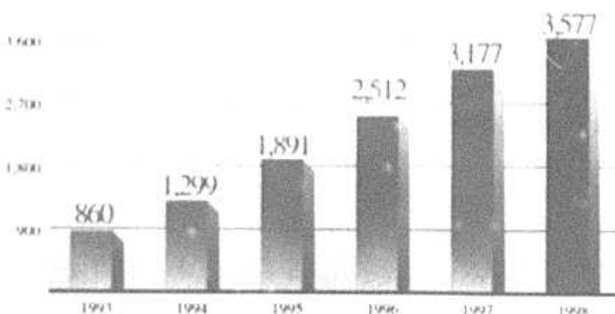
We account for our investments in Tele Danmark, Belgacom and MATÁV using the equity method of accounting.

Tele Danmark In January 1998, we purchased a 34% interest in Tele Danmark A/S, the national communications provider in Denmark, from the Kingdom of Denmark for approximately $3.1 billion. As part of our investment agreement, Tele Danmark repurchased and retired all remaining shares owned by the Danish government, effectively increasing our equity ownership to 41.6% of Tele Danmark.

Based on the year-end closing price of individual Tele Danmark shares, the aggregate market value of our investment was $6.1 billion as of December 31, 1998. We are amortizing goodwill of approximately $1,453 million from this investment over a period of 40 years.

Belgacom In March 1996, a consortium led by Ameritech finalized its agreement to acquire an interest in Belgacom S.A., the national communications provider in Belgium. The consortium purchased from the Belgian government a 49.9% stake in Belgacom. The consortium's purchase price was approximately 74 billion Belgian francs, or $2.5 billion. We have invested approximately $8[illegible] million for our 35% allocable consortium share, which results in about a 17.5% investment in Belgacom.

After giving effect to Belgacom's unfunded pension obligation and other adjustments to conform to U.S. GAAP, our share of goodwill from this investment is approximately $845 million, which we are amortizing on a straight-line basis over a period of 40 years.



Wireless Growth

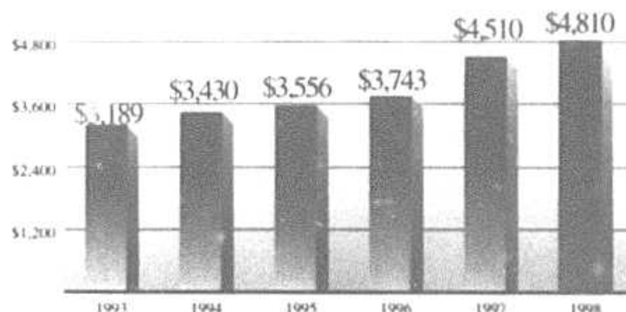
(wireless customers in thousands)

Ameritech has a strong growth record in wireless. In 1998, we added 400,000 cellular customers, an increase of 13%.

MATÁV We invested a total of $843 million in MATÁV, the national communications provider in Hungary. On November 14, 1997, MATÁV completed an initial public offering (IPO) of its shares. We sold 11.5% of our shares in the IPO and realized cash proceeds of $146 million. We recorded a pretax gain of $43 million on the share sale and currently hold 309,029,700 shares, or approximately 30% of MATÁV. Based on the year-end closing price of individual MATÁV shares, the aggregate value of our remaining shares is approximately $1.8 billion. We are amortizing goodwill of approximately $385 million, adjusted for the share sale, over a period of 40 years.

Telecom Corporation of New Zealand Limited In April 1998, we sold substantially all of our remaining 24.95% interest in Telecom Corporation of New Zealand Limited (New Zealand Telecom or TCNZ) in a global stock offering. The first of two installment payments was received in April 1998 with the second

payment due by March 31, 1999. At the time of the first installment payment, we irrevocably transferred our shares to a trustee, which is holding the shares in trust for the purchasers until the final installment is paid. We retained a security interest in the shares, and each purchaser remains personally liable until the final installment payment is received. The purchasers will receive all ordinary dividends in the interim period. The trustee will have one vote for each share and will vote the shares based on instructions from the purchasers.



Cash Flow Growth

(cash flow from operations in millions)

Cash flow from operations increased to $4.8 billion in 1998, up 51% over the past five years.

In accordance with FAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," we accounted for this transaction as a sale and recorded an after-tax gain of approximately $1.0 billion. Because the receivable from the second installment payment does not have a stated interest rate, we are imputing interest at 9%. Net proceeds from the initial installment were approximately $1.1 billion, and we expect to receive total net proceeds of approximately $2.1 billion from this transaction. We have hedged substantially all foreign exchange risk associated with the final installment. Until April 1998, we used the equity method of accounting for this investment.

Summary of nonconsolidated investments A summary of our investments, which have not been consolidated, follows:

	1998	1997
Tele Danmark	$ 3,401	$ —
Belgacom	892	742
MATÁV	534	506
New Zealand Telecom	—	417
Other international investments	4	4
Total international investments	4,831	1,669
Domestic investments	107	82
Total investments	$ 4,938	$ 1,751

In accordance with the equity method of accounting, we increase our recorded investment for our allocable share of earnings (adhering to purchase accounting and U.S. GAAP), reduce the investment for distributions (dividends) received and give effect to any currency translation adjustments. We received dividends on such investments of $171 million in 1998, $164 million in 1997 and $152 million in 1996.

The following tables present summarized financial information of significant investments accounted for using the equity method of accounting after taking into account all adjustments necessary to conform to U.S. GAAP, but excluding Ameritech's purchase adjustments including goodwill.

Year ended December 31	1998	1997	1996
Revenues	$ 11,344	$ 8,199	$ 7,400
Operating income	2,803	1,918	1,918
Net income	1,751	723	1,002
Weighted average owned by Ameritech*	27.8%	22.2%	23.3%

* Represents Ameritech's weighted average share of revenues

As of December 31	1998	1997
Current assets	$ 4,145	$ 2,421
Noncurrent assets	13,826	10,851
Current liabilities	5,165	4,565
Noncurrent liabilities	6,864	6,500
Minority interest	69	91

Other investments In addition to acquiring our Tele Danmark investment in 1998, we made several smaller investments for approximately $100 million in cash and assumed debt of approximately $40 million. At various times in 1997, we acquired assets of several companies engaged in security services through our wholly owned subsidiary, SecurityLink from Ameritech, Inc., for approximately $1 billion in cash and stock.

We accounted for these transactions using the purchase method of accounting. We allocated our purchase price to individual assets and liabilities based on estimates of fair value. Revenues of all of the above-mentioned security businesses in 1996, prior to our asset acquisitions, were approximately $195 million.

of $2 million in 1997 and $1 million in 1996. We do not recognize deferred income taxes on foreign currency translation adjustments.

Earnings per share We compute basic earnings per common share by dividing net income by the weighted average number of common shares outstanding during the period.

Diluted earnings per share are calculated by including all dilutive potential common shares such as stock options. Dilutive potential common shares were 9,319,370 in 1998, 5,375,302 in 1997 and 4,448,568 in 1996. No adjustment to reported net income is required when computing diluted earnings per share.

Stock options We account for our stock option plans in accordance with Accounting Principles Board (APB) Opinion 25, under which no compensation expense is recognized in the financial statements unless the plan is determined to be variable in nature.

Revenue recognition We generally recognize revenues as we provide services or deliver products to customers. We bill certain local telephone and wireless and security service revenues in advance, resulting in deferred revenues. We account for our directory advertising revenues generally as billed over the term of the related directory (usually one year) and amortize production costs, which are deferred when incurred, to match the related revenues.

Intangibles We amortize intangibles, including goodwill arising from business combinations, on a straight-line basis over the anticipated period of benefit, not to exceed 40 years. We periodically review amounts recorded as intangible assets for impairment using expected undiscounted future cash flows.

Translation adjustments We translate the assets and liabilities relating to our share of significant foreign operations to U.S. dollars at year-end exchange rates. We translate revenues and expenses to U.S. dollars using average exchange rates for the year. Translation adjustments are accumulated and recorded as a separate component of accumulated other comprehensive income.

2 Investments

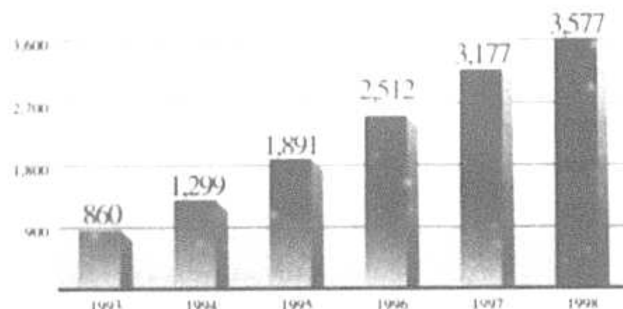
We account for our investments in Tele Danmark, Belgacom and MATÁV using the equity method of accounting.

Tele Danmark In January 1998, we purchased a 34% interest in Tele Danmark A/S, the national communications provider in Denmark, from the Kingdom of Denmark for approximately $3.1 billion. As part of our investment agreement, Tele Danmark repurchased and retired all remaining shares owned by the Danish government, effectively increasing our equity ownership to 41.6% of Tele Danmark.

Based on the year-end closing price of individual Tele Danmark shares, the aggregate market value of our investment was $6.1 billion as of December 31, 1998. We are amortizing goodwill of approximately $1,453 million from this investment over a period of 40 years.

Belgacom In March 1996, a consortium led by Ameritech finalized its agreement to acquire an interest in Belgacom S.A., the national communications provider in Belgium. The consortium purchased from the Belgian government a 49.9% stake in Belgacom. The consortium's purchase price was approximately 74 billion Belgian francs, or $2.5 billion. We have invested approximately $865 million for our 35% allocable consortium share, which results in about a 17.5% investment in Belgacom.

After giving effect to Belgacom's unfunded pension obligation and other adjustments to conform to U.S. GAAP, our share of goodwill from this investment is approximately $845 million, which we are amortizing on a straight-line basis over a period of 40 years.



Wireless Growth

(wireless customers in thousands)

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MATÁV We invested a total of $843 million in MATÁV, the national communications provider in Hungary. On November 14, 1997, MATÁV completed an initial public offering (IPO) of its shares. We sold 11.5% of our shares in the IPO and realized cash proceeds of $146 million. We recorded a pretax gain of $43 million on the share sale and currently hold 309,029,700 shares, or approximately 30% of MATÁV. Based on the year-end closing price of individual MATÁV shares, the aggregate value of our remaining shares is approximately $1.8 billion. We are amortizing goodwill of approximately $385 million, adjusted for the share sale, over a period of 40 years.

Telecom Corporation of New Zealand Limited In April 1998, we sold substantially all of our remaining 24.95% interest in Telecom Corporation of New Zealand Limited (New Zealand Telecom or TCNZ) in a global stock offering. The first of two installment payments was received in April 1998 with the second

3. Property, plant and equipment

The components of property, plant and equipment were as follows as of December 31:

	1998	1997
Land	$ 148	$ 152
Buildings	3,308	3,123
Central office equipment	14,658	13,335
Cable, wiring and conduit	14,605	13,960
Other	3,140	3,450
	35,859	34,020
Under construction	485	371
	36,344	34,391
Less, accumulated depreciation	22,039	20,518
Total property, net	$ 14,305	$ 13,873

Depreciation expense on property, plant and equipment was $2,475 million in 1998, $2,317 million in 1997 and $2,216 million in 1996.

4. Income taxes

The components of income tax expense follow:

	1998	1997	1996
Federal			
Current	$ 1,568	$ 994	$ 959
Deferred, net	213	217	115
Investment tax credits, net	(25)	(32)	(36)
Total	1,756	1,179	1,038
State, local and foreign			
Current	223	191	138
Deferred, net	52	18	7
Total	275	209	145
Total income tax expense	$ 2,031	$ 1,388	$ 1,183

Total income taxes paid were $956 million in 1998, $1,151 million in 1997 and $1,075 million in 1996.

The following is a reconciliation of the statutory federal income tax rate for each of the past three years to our effective tax rate (computed by dividing total income tax expense by income before income taxes):

	1998	1997	1996
Statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	3.1	2.9	2.8
Amortization of investment tax credits	(0.3)	(0.6)	(0.7)
Other, net	(1.8)	0.4	(1.4)
Effective tax rate	36.0%	37.7%	35.7%

Income tax expense was reduced by $12 million in 1996 as a result of a portion of the beginning-of-year valuation allowances no longer being required.

As of December 31, 1998 and 1997, the components of long-term accumulated deferred income taxes were as follows:

	1998	1997
Deferred tax assets		
Postretirement and postemployment benefits	$ 1,110	$ 1,127
Other	330	291
	1,440	1,418
Deferred tax liabilities		
Accelerated depreciation and amortization	1,903	1,737
Prepaid pension cost	627	530
Undistributed equity earnings from foreign investments	80	44
Other	332	257
	2,942	2,568
Net deferred tax liability	$ 1,502	$ 1,150

As of December 31, we had valuation allowances against certain deferred tax assets aggregating $107 million in 1998 and $72 million in 1997. We do not separately report deferred income taxes in current assets and liabilities, as they are not significant.

5. Debt maturing within one year

We include debt maturing within one year as debt in the computation of debt ratios. Debt maturing within one year consisted of the following as of December 31:

	1998	1997
Notes payable		
Commercial paper	$ 2,368	$ 2,584
Bank loans	4	9
Other	12	38
Long-term debt maturing within one year	235	405
Total	$ 2,619	$ 3,036
Weighted average interest rate on notes payable, year-end	5.4%	5.8%

We have a committed revolving credit facility of $2.0 billion. The fee for this facility is 0.035% per annum. No amounts were outstanding under this facility as of December 31, 1998. In addition, we have entered into uncommitted agreements with a number of banks for lines of credit totaling $1.8 billion. We had $1 million outstanding under these agreements as of December 31, 1998, and did not use the agreements during 1997 or 1996. The interest rates on these lines are negotiable at the time of borrowing. There are no significant commitment fees or material compensating balance requirements associated with any of these lines of credit. These lines, as well as the revolving credit facility, are available for support of commercial paper borrowing and to meet short-term cash needs.

6 Long-term financing

Long-term debt consists principally of debt issued by our landline communications subsidiaries and our financing subsidiary, Ameritech Capital Funding Corporation (ACF). The following table sets forth interest rates and other information on long-term debt outstanding as of December 31:

Interest Rates	Maturities	1998	1997
4.375%–6.0%	2000–2007*	$ 1,890	$ 640
6.125%–8.0%	2001–2028	3,517	3,462
8.125%–9.0%	2000–2005	45	326
9.1%–10.0%	2006–2016	96	96
		5,548	4,524
LESOP (Note 8)		37	114
Capital lease obligations		6	9
Other		2	1
Unamortized discount, net		(36)	(38)
Total		$ 5,557	$ 4,610

* Includes $250 million ACF 5.9% debentures maturing in 2038 with a put option by holder in 2005.

Scheduled maturities of long-term debt, including principal payments on LESOP debt (see Note 8), are $235 million due in 1999, $147 million due in 2000, $606 million due in 2001, $127 million due in 2002 and $977 million due in 2003.

In December 1998, we redeemed approximately $1.3 billion of long-term debt, including mortgage bonds, issued by our landline communications subsidiaries. We called this debt in anticipation of refinancing at more favorable interest rates in 1999. Interest rates on the extinguished debt ranged from 6.25% to 8.5% and maturities ranged from 2004 to 2026.

In January 1998, we issued $1.75 billion of long-term debt in five separate tranches through ACF. The notes and debentures bear interest at annual rates ranging from 5.65% to 6.55% and mature between 2001 and 2038. In February 1998 we issued $750 million of 5.88% unsecured Eurodollar notes, due February 19, 2003, through ACF. We used proceeds from these borrowings primarily to fund our investment in Tele Danmark.

As of December 31, 1998, we had available for issuance through our landline communications subsidiaries and ACF $1.2 billion in unsecured debt securities through shelf registration statements with the Securities and Exchange Commission (SEC).

Preferred stock issuances by subsidiaries In April 1998, an Ameritech subsidiary issued through a private placement 3,250 shares of stated rate auction preferred stock (STRAPS) in four separate series. Net proceeds from these issuances totaled $322 million. Dividends accrue on the STRAPS at varying rates, which are adjusted periodically through separate auctions on each series. Dividends are cumulative from the date of issuance. The dividend rates for each series ranged from 4.15% to 4.35% as of December 31, 1998.

In June 1997, one of our wholly owned subsidiaries issued $250 million of preferred stock in a private placement. The holders of the preferred stock may require our subsidiary to redeem the shares at any time after May 20, 2004. Holders receive quarterly dividends based on a rolling three-month London Interbank Offer Rate (LIBOR). The dividend rate for the December 31, 1998, payment was 6.05%.

As of December 31, 1998, another wholly owned subsidiary has outstanding $85 million of Series A Preferred Stock (7.04%, subject to mandatory redemption in 2001) and $60 million of Series B Preferred Stock (variable rate, 4.4% as of December 31, 1998, not subject to mandatory redemption).

All preferred stock issued by subsidiaries is included in Other long-term liabilities on the consolidated balance sheet.

7 Other assets and deferred charges

The components of other assets and deferred charges are as follows:

	1998	1997
Goodwill	$ 1,077	$ 980
Acquired security services customers	453	512
Other intangibles	544	538
Total intangibles, net	2,074	2,030
Prepaid pension asset	1,651	1,394
Other	2,201	1,742
	$ 5,926	$ 5,166

Costs of acquiring security services customers generally are being amortized over 10 years, the expected life when acquired from a third party. Our goodwill generally is amortized over 40 years. Accumulated amortization of intangibles was $366 million in 1998 and $273 million in 1997.

8 Employee benefit plans

Pension and retiree health and life plans We maintain noncontributory defined benefit pension plans for substantially all employees, as well as postretirement health care and life insurance plans for substantially all retirees and their dependents.

The components of pension cost (credits) are as follows:

	Pension Benefits		
	1998	1997	1996
Benefits earned during the year	$ 210	$ 183	$ 167
Interest cost on projected benefit obligation	551	556	493
Expected return on plan assets	(886)	(822)	(765)
Net amortization and deferral			
Transition obligation	(110)	(110)	(112)
Other	10	19	22
Net pension credits	$ (225)	$ (174)	$ (195)

The components of postretirement benefit cost are as follows:

	Retiree Health and Life Benefits		
	1998	1997	1996
Benefits earned during the year	$ 84	$ 80	$ 88
Interest cost on accumulated benefit obligation	367	360	345
Expected return on plan assets	(150)	(127)	(110)
Net (gain) or loss amortization	10	—	16
Total postretirement benefit cost	$ 311	$ 313	$ 339

The following tables set forth pension and postretirement obligations and plan assets as of December 31:

	Pension Benefits		Retiree Health and Life	
	1998	1997	1998	1997
Change in benefit obligation:				
Benefit obligation as of January 1	$ 7,994	$ 7,622	$ 5,454	$ 5,057
Service cost	210	183	84	80
Interest cost	551	556	367	360
Plan amendment	(30)	—	—	—
Effect of settlements	(34)	(35)	—	—
Actuarial loss (gain)	760	416	190	228
Benefits paid	(766)	(748)	(293)	(271)
Benefit obligation as of December 31	$ 8,685	$ 7,994	$ 5,802	$ 5,454
Change in plan assets:				
Fair value as of January 1	$13,611	$12,121	$ 1,755	$ 1,491
Actual return	1,946	2,268	247	205
Company contribution	—	—	89	83
Effect of settlements	(37)	(39)	—	—
Benefits paid	(758)	(739)	(23)	(24)
Fair value as of December 31	$14,762	$13,611	$ 2,068	$ 1,755
Funded status:				
As of December 31	$ 6,077	$ 5,617	$ (3,734)	$ (3,699)
Unrecognized cost:				
Actuarial and investment (gains) losses, net	(4,246)	(3,996)	814	732
Prior service cost	366	431	2	2
Transition obligation	(546)	(658)	—	—
Prepaid (accrued) benefit cost	$ 1,651	$ 1,394	$ (2,918)	$ (2,965)

Assumptions as of December 31

	Pension Benefits		Retiree Health and Life	
	1998	1997	1998	1997
Discount rate	6.75%	7.0%	6.75%	7.0%
Expected return	8.4%	8.4%	8.4%	8.4%
Compensation increase rate	4.1%	4.1%	4.1%	4.1%

Effective December 31, 1996, we gave effect to increases in future benefits under the nonmanagement pension plan. The assumed health care cost trend rate was 7.6% for 1998 and 8.0% for 1997 and is assumed to decrease by 0.4% per year to 4.0% in 2007 and remain at that level. A one percentage-point change in the assumed health care cost trend rate would have the following effects:

	One Percentage-Point Increase	One Percentage-Point Decrease
Effect on total of service and interest cost components	$ 65	$ (52)
Effect on postretirement benefit obligation	$ 706	$ (580)

LEVERAGED EMPLOYEE STOCK OWNERSHIP PLANS. In 1989, we created leveraged employee stock ownership plans (LESOPs) within our existing employee savings plans. To fund the LESOPs, the trustee for the savings plans issued $665 million of debt, at 8.03% interest, payable in semiannual installments through 2001, which we guaranteed. The trustee used the proceeds to purchase at fair market value 45,132,552 shares of Ameritech common stock from our treasury. These shares are considered to be outstanding for earnings per share purposes. The trustee repays the notes, including interest, with funds from our contributions to the savings plans, from dividends paid on the shares of our common stock held by the trustee and with new loans from Ameritech.

As a result of our unconditional guarantee, we have recorded the notes of the trusts as long-term debt and as deferred compensation in the accompanying consolidated balance sheets. Deferred compensation represents a reduction of shareowners' equity.

Revenues from data communications grew 32% in 1998 to $1.7 billion

Debt and deferred compensation decrease as the trustee makes principal payments. As of December 31, 1998, we had $37 million included in long-term debt and $77 million included in long-term debt maturing within one year with respect to the LESOPs.

We maintain savings plans that cover substantially all of our employees. Under these plans, we match a certain percentage of eligible contributions made by the employees to the plans. The LESOP provisions of the savings plans became effective January 1, 1990. Under these provisions, our matching contributions are allocated to employees in company stock from the LESOP trusts. We release Ameritech stock for allocation to employees in the proportion that principal and interest paid in a year bears to the total principal and interest due over the life of debt outstanding in the trusts.

We record our matching contributions to the plans as compensation expense. Any change in the required contribution as a result of leveraging this obligation is recorded as a gain or loss in other income. The amount expensed and contributed to the LESOPs totaled $31 million in 1998, $29 million in 1997 and $34 million in 1996. Interest expense incurred by the savings plans was $9 million in 1998, $15 million in 1997 and $21 million in 1996. Dividends paid on shares of stock held by the trustee used to partially satisfy debt repayment requirements were $42 million for 1998 and $41 million for both 1997 and 1996. As of December 31, 1998, we had allocated or committed 35,256,838 shares to employee accounts, leaving 9,875,714 shares unallocated. As of December 31, 1997, we had allocated or committed 32,154,838 shares to employee accounts, leaving 12,977,714 shares unallocated.

We have entered into agreements to lend up to $123 million to one of the trusts through December 1, 2004. As of December 31, 1998, the trustee borrowed $94 million from Ameritech at rates ranging from 6.1% to 8.4%. The trustee borrowed an additional $20 million in January 1999 at 5.6%.

Restructuring In March 1998, we announced plans to significantly reduce future operating expenses by the end of 2002. As part of this cost containment program, we recorded a pretax restructuring charge of $104 million ($64 million after-tax, or $0.06 per share) in March 1998 principally to cover the costs of consolidating security monitoring centers and closing 53 company-owned cellular retail stores. The charge includes employee-related costs (principally severance) of approximately $54 million for the termination of the employment of approximately 5,000 employees, as well as other costs of approximately $50 million related to lease terminations and asset write-downs. We accounted for the employee costs of the restructuring charge in accordance with our existing severance plans and following FAS 112, "Employers' Accounting for Postemployment Benefits." We accounted for the other restructuring costs in accordance with existing accounting literature for restructurings. The charge does not include approximately 550 employees identified for employment termination when we acquired certain security services assets in 1997. We included the cost of terminating the employment of these employees in our purchase price.

Employee reductions under the March 1998 restructuring program were 1,478 in 1998. Termination costs related to these employees were approximately $15 million. We also incurred nonemployee costs of approximately $13 million in 1998 related to this restructuring, resulting in an accrual balance of approximately $76 million as of December 31, 1998. Settlement gains of approximately $3 million associated with this restructuring were recorded in 1998.

Management work force reductions Effective January 1, 1995, management employees who are asked to leave the company under certain conditions will receive a severance payment under the Management Separation Benefit Plan (MSBP). We account for this benefit in accordance with FAS 112, "Employers' Accounting for Postemployment Benefits," accruing the separation cost when incurred. The number of employees leaving Ameritech under the MSBP, other than those leaving as part of the March 1998 restructuring discussed above, was 249 in 1998, 273 in 1997 and 618 in 1996.

Settlement gains result from the payment of lump-sum distributions from the pension plans to former employees and are recorded as a credit to other operating expense. Settlement gains, net of termination costs, under the plans were $18 million in 1998, $20 million in 1997 and $33 million in 1996. We fund the involuntary plans from our operations and made cash payments of $4 million in 1998, $5 million in 1997 and $17 million in 1996.

9 Commitments

We lease certain facilities and equipment used in our operations under both operating and capital leases. Rental expense under operating leases was $243 million in 1998, $220 million in 1997 and $219 million in 1996. As of December 31, 1998, the aggregate minimum rental commitments under noncancelable leases were as follows:

Years	Operating	Capital
1999	$ 94	$ 3
2000	82	2
2001	70	3
2002	56	1
2003	51	1
Thereafter	201	1
Total minimum rental commitments	$ 554	11
Less: executory costs		1
interest costs		2
Present value of minimum lease payments		$ 8

We commenced a 10-year agreement in 1996 with IBM Global Services (IBM), to perform certain information technology services we previously performed. IBM also is responsible for the consolidation of our data centers. The terms of the agreement and subsequent amendments specify payments to IBM that do not exceed about $200 million in any year. Actual charges from IBM

may increase or decrease based in part on usage, growth or other data processing requirements. We may terminate the entire agreement upon payment of a predetermined fee, which varies based on the reason for termination and the year terminated.

10 Financial instruments and derivatives

The following table presents the estimated fair value of our financial instruments as of December 31:

	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and temporary cash investments	$ 139	$ 139	$ 239	$ 239
Debt	8,327	8,644	7,749	8,037
Other assets	1,434	1,421	907	888
Other liabilities	760	789	476	509

We used the following methods and assumptions to estimate the fair value of financial instruments:

Cash and temporary cash investments The carrying value approximates fair value because of the short-term maturity of these instruments.

Debt The carrying amount (including accrued interest) of our debt maturing within one year approximates fair value because of the short-term maturities involved. We estimated the fair value of our long-term debt based on the year-end quoted market price for the same or similar issues.

Other assets and liabilities These financial instruments consist primarily of long-term receivables, other investments, financial contracts, customer deposits and preferred stock of subsidiaries. We based the fair values of these items on expected cash flows, available market prices or market comparables. Fair value of other liabilities includes the effect of interest rate swaps and forwards discussed below.

Financial contracts, including derivatives We occasionally enter into foreign currency forward contracts to hedge exposure to adverse exchange risk. Also, we use interest rate swaps to manage interest rate exposure. Related gains and losses are reflected in net income. As of December 31, 1998, we had contracts giving us the right to deliver foreign currency valued at approximately $1.0 billion ($3.0 billion in 1997). As of December 31, we also had entered into interest rate swap agreements to change the interest rate on notional amounts of $395 million in 1998 and $527 million in 1997. We adjust interest expense to give effect to obligations under the swaps. We are exposed to credit risk in the unlikely event of nonperformance by counterparties and the fair value of the swaps exceeds their carrying value. As of December 31, 1998, the fair value of these interest rate swaps was $25 million less than carrying value. As of December 31, 1997, the fair value of the interest rate swaps was $15 million less than carrying value.

11 Other income, net

The components of other income, net are as follows:

Income (expense)	1998	1997	1996
Equity earnings of affiliates*	$ 382	$ 206	$ 236
Interest on company-owned life insurance and related programs	40	46	55
Gain on LESOP	52	44	35
Gain on sale of TCNZ shares	1,543	—	—
Charge for early redemption of long-term debt	(38)	—	—
Gain on sale of assets to Century Telephone	170	—	—
Gain on sale of Sky Network Television of New Zealand	—	52	—
Gain on sale of shares in MATÁV	—	43	—
Gain on sale of Bellcore	—	42	—
Loss on forward contracts related to Tele Danmark acquisition	(54)	(16)	—
Other, net	(40)	(27)	—
Total	$ 2,055	$ 390	$ 326

* Primarily Tele Danmark, Belgacom and MATÁV in 1998 and TCNZ, Belgacom and MATÁV in 1997 and 1996. Results in 1997 include an $87 million restructuring charge at Belgacom.

12 Shareowners' equity

Stock information Our certificate of incorporation authorizes 2.4 billion common shares. The certificate also allows 30 million shares of preferred stock (par value $1 per share) and 30 million shares of preference stock (par value $1 per share).

As of December 31, 1998, we have registered 14,279,340 shares of our common stock with the SEC for future issuance. We may issue these shares from time to time for the completion of acquisitions, for the payment of dividends or for other corporate purposes.

Stock plans In April 1997, shareowners approved a long-term stock incentive plan. Through our 1989 and 1997 plans, we grant incentive compensation to our officers and other employees in the form of stock options, stock appreciation rights, restricted stock and performance awards. The incentives granted are based upon terms and conditions and are subject to certain limitations, determined by a committee of the board of directors, which administers the plans. The plans authorize the issuance of up to 120,000,000 shares of common stock over a 10-year period. All future grants will be made under the 1997 plan.

We may grant stock options under the 1997 plan as either incentive stock options or nonqualified stock options. We have not granted any options at less than fair market value as of the date

of grant. Under the 1997 plan, stock options and stock appreciation rights may not be granted at less than the fair market value on the date of grant except in the case of awards to newly hired or promoted employees when the fair market value on the date of hire or promotion may be used. Additionally, under the 1997 plan, the per share exercise price may not be repriced or surrendered as consideration in exchange for a new award with a lower per share exercise price. The options have a maximum life of 10 years and one day from the date of grant. We may grant stock appreciation rights independently or together with stock options. Stock appreciation rights permit the optionee to receive stock, cash or a combination thereof equal to the amount by which the fair market value on the exercise date exceeds the option price. Substantially all stock options granted on or following December 16, 1987, are exercisable after one year in equal increments over the following three years. Beginning in 1994, we awarded grants of nonqualified stock options with dividend equivalents to certain employees.

Information regarding options granted under a long-term incentive plan, which expired in 1994 and under the 1989 and 1997 plans, is as follows:

	Incentive Stock Options		Nonqualified Stock Options	
	Shares	Price*	Shares	Price*
December 31, 1995	11,336	$10.29	27,951,434	$19.03
Granted	—	—	13,760,832	$29.15
Exercised	(11,336)	$10.29	(4,393,874)	$18.08
Canceled or expired	—	—	(1,666,368)	$24.99
December 31, 1996	—	—	35,652,024	$22.78
Granted	—	—	17,226,368	$30.15
Exercised	—	—	(7,859,530)	$19.83
Canceled or expired	—	—	(4,369,148)	$27.53
December 31, 1997	—	—	40,649,714	$25.96
Granted	—	—	9,697,193	$45.09
Exercised	—	—	(6,773,262)	$23.36
Canceled or expired	—	—	(1,638,244)	$35.78
December 31, 1998	—	—	41,935,401	$30.42

* Weighted average

The above stock options have the following characteristics as of December 31, 1998:

Grant Year	Shares Outstanding	Price*	Remaining Life (in years)*	Shares Exercisable
1989-93	2,150,083	$16.28	2.4	2,150,083
1994	3,307,615	19.28	5.1	3,307,615
1995	5,576,324	20.84	6.1	5,576,324
1996	8,361,187	29.13	7.1	4,816,787
1997	13,477,031	30.30	8.1	3,671,271
1998	9,063,161	45.09	9.3	2,111
	41,935,401			19,524,191

* Weighted average

As of December 31, additional shares available under stock options with dividend equivalents were 1,144,092 in 1998, 1,006,992 in 1997 and 713,820 in 1996.

All stock appreciation rights granted under the plans have been issued in tandem with nonqualified stock options. The exercise of a nonqualified option or a stock appreciation right cancels the related right or option. We have not issued any stock appreciation rights after December 31, 1990.

As of December 31, 1998, 22,333 shares of nonperformance-based restricted stock are outstanding under the plans. Shareowners' equity reflects deferred compensation for the unvested stock awarded. This amount is reduced and charged against operations (together with any change in market price) as the employees vest in the stock.

In 1995, the FASB issued FAS 123, "Accounting for Stock-Based Compensation." This pronouncement requires us to calculate the value of stock options at the date of grant using an option pricing model. We have elected the "pro forma, disclosure only" option permitted under FAS 123, instead of recording a charge to operations, as shown below.

		1998	1997	1996
Net income	As reported	$ 3,606	$ 2,296	$ 2,134
	Pro forma	3,581	2,262	2,107
Earnings per share	As reported basic	3.27	2.09	1.93
	As reported diluted	3.25	2.08	1.92
	Pro forma basic	3.25	2.06	1.91
	Pro forma diluted	3.21	2.05	1.91

Because the FAS 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years. We adjusted pro forma net income for dividend equivalents expensed as a variable plan.

Our weighted-average assumptions used in the pricing model and resulting fair values were as follows:

	1998	1997	1996
Risk-free rate	5.63%	6.22%	5.37%
Expected dividend yield*	2.67%	3.74%	3.50%
Expected option life (in years) (without dividend equivalents)	4.20	3.25	3.25
Expected option life (in years) (with dividend equivalents)	5.40	5.00	5.00
Expected stock price volatility	24.43%	23.67%	20.74%
Grant date value (without dividend equivalents)	$10.07	$ 5.49	$ 4.48
Grant date value (with dividend equivalents)	$15.95	$10.31	$ 8.99

* The options granted with dividend equivalents (about 27% of total options granted in 1998, 24% in 1997 and 28% in 1996) were priced assuming the dividends would accrue to the optionee over the expected life of the option.

13 Additional financial information

	December 31	
	1998	1997
Other current liabilities		
Accrued payroll	$ 165	$ 284
Accrued taxes	1,405	478
Advance billings and customer deposits	370	378
Dividends payable	351	330
Accrued interest	183	127
Other	1,002	653
Total	$ 3,476	$ 2,250

Interest paid was $555 million in 1998, $534 million in 1997 and $544 million in 1996. Advertising expense was $283 million in 1998, $354 million in 1997 and $270 million in 1996.

Net income was reduced by $56 million in 1998 and $24 million in 1997 as a result of reclassification of currency translation adjustments from other comprehensive income. This resulted from the sale of our TCNZ and MATÁV shares previously discussed. Reclassifications from other comprehensive income as a result of sales of securities did not exceed $10 million in any year.

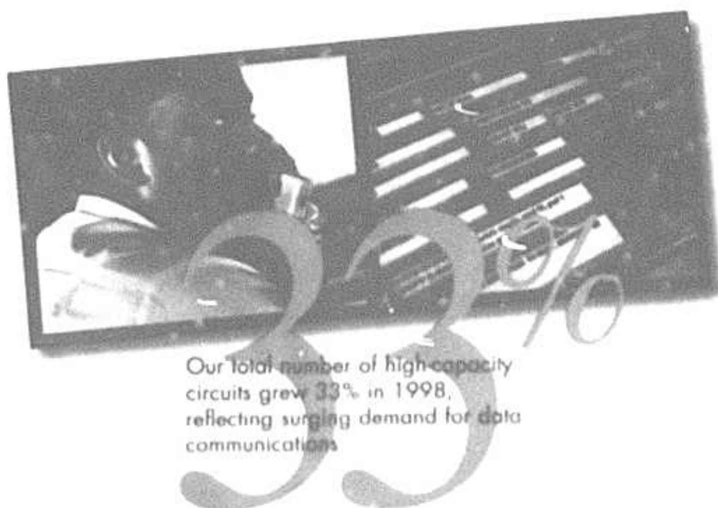
14 Segment Information

We have three reportable segments as defined by FAS 131, "Disclosures About Segments of an Enterprise and Related Information." They are communications, information and entertainment, and international. The communications segment provides telecommunications services such as landline telephone service, cellular telephone and paging services, and call management and data services to business and residential customers primarily in the states of Illinois, Indiana, Michigan, Ohio and Wisconsin. Communications services also include network access and interconnection services for interexchange carriers and competitive providers of local telephone service. The information and entertainment segment provides printed and online directories for business and residential users, security and alarm monitoring services for homes and businesses, and cable TV services. The international segment manages our investments in foreign ventures, which we account for using the equity method of accounting. In addition to these reportable segments, we derive revenues from other nonreportable segments, including lease financing services.

Our reportable segments are strategic business units or aggregations of strategic business units that offer different products or services. They are managed separately based on differences in customer base, strategic objectives or regulatory environment. With the exception of the international segment, management evaluates segment performance based upon direct margin, which represents total revenues less direct expenses attributable to that segment. Results are normalized for one-time items. Management does not allocate corporate overhead, centralized information technology (IT) costs, interest income, interest expense, other nonoperating items or income taxes when measuring segment results. Corporate overhead and IT costs are shown as a reconciling item in the reconciliation of segment profit to consolidated operating income below. The international segment is evaluated based on income from equity-method investees before one-time items. The accounting policies of the segments are generally the same as those described in Note 1. Following is a summary of information about segment profits, assets and capital expenditures (including business acquisitions).

Communications

	1998	1997	1996
Revenues from external customers	$ 15,121	$ 14,208	$ 13,207
Intersegment revenues	148	154	183
Depreciation and amortization	2,398	2,276	2,207
Net income in equity-method investees	4	4	3
Segment profit	6,066	5,561	4,811
Segment assets	19,897	19,053	18,014
Expenditures for segment assets	2,702	2,795	2,181



Our total number of high-capacity circuits grew 33% in 1998, reflecting surging demand for data communications.

(dollars in millions, except per share amounts)

Information and entertainment

	1998	1997	1996
Revenues from external customers	$ 1,993	$ 1,581	$ 1,415
Intersegment revenues	9	2	2
Depreciation and amortization	177	124	74
Segment profit	527	488	521
Segment assets	2,868	2,472	1,168
Expenditures for segment assets	186	1,086	149

International

	1998	1997	1996
Income from equity-method investees	$ 378	$ 289	$ 233
Segment assets	7,438	2,328	2,562
Expenditures for segment assets	3,143	—	898

Other business activities

	1998	1997	1996
Revenues from external customers	$ 156	$ 134	$ 109
Revenues from operating segments	92	72	36
Depreciation and amortization	130	109	69
Profit	90	77	64
Assets	1,479	1,192	953
Expenditures for long-lived assets	139	103	87

Following are reconciliations of reportable segment information to financial statement amounts:

Revenues

	1998	1997	1996
Total revenues from reportable segments	$ 17,271	$ 15,945	$ 14,807
Other operating revenues	248	206	145
Corporate revenues and eliminations	(365)	(153)	(35)
Total consolidated revenues	$ 17,154	$ 15,998	$ 14,917

Profit

	1998	1997	1996
Communications and information and entertainment margins	$ 6,593	$ 6,049	$ 5,332
Margin from other business activities	90	77	64
Corporate and eliminations	(2,386)	(2,258)	(1,891)
Operating income before one-time items	4,297	3,868	3,505
One-time items in operating income	(104)	(69)	—
Operating income	4,193	3,799	3,505
Interest expense	611	505	514
Income from international equity-method investees	378	289	233
Other income (expense)	56	67	75
Other one-time items	1,621	34	18
Pretax income	$ 5,637	$ 3,684	$ 3,317

Assets

	1998	1997	1996
Total assets for reportable segments	$ 30,205	$ 23,853	$ 21,744
Other assets	1,479	1,192	953
Corporate assets and eliminations	(1,385)	294	1,010
Total consolidated assets	$ 30,299	$ 25,339	$ 23,707

Geographic Information We hold investments in entities or conduct operations in a number of countries outside the United States. Substantially all of our overseas ventures are accounted for using the equity method of accounting, under which we do not record the revenues and expenses of the ventures in our operating results (see Note 2). Specifically, less than 1% of consolidated revenues for all years presented are from outside the United States. A summary of our long-lived assets by country is as follows:

Long-lived assets

	1998	1997	1996
United States	$ 20,309	$ 19,093	$ 17,658
Belgium	892	742	890
Denmark	3,401		
Hungary	534	506	655
New Zealand		417	670
Other countries	33	32	35
Total	$ 25,169	$ 20,790	$ 19,908

Product information Most of our revenues are derived from the provisioning of landline telephone service and supporting products. Products or services that contributed more than 5% of our consolidated revenues other than those of our landline telephone business are as follows:

	1998	1997	1996
Cellular and paging	11%	11%	9%
Directory advertising	8%	8%	8%

15. Quarterly financial information (unaudited)

	Revenues	Operating Income	Net Income	Diluted Earnings per Share
1998				
1st Quarter	$ 4,133	$ 905	$ 492	$ 0.44
2nd Quarter	4,289	1,164	1,707	1.54
3rd Quarter	4,290	1,063	645	0.58
4th Quarter	4,442	1,061	762	0.68
Total	$ 17,154	$ 4,193	$ 3,606	$ 3.25
1997				
1st Quarter	$ 3,859	$ 912	$ 536	$ 0.48
2nd Quarter	3,986	1,041	537	0.49
3rd Quarter	4,006	962	613	0.56
4th Quarter	4,147	884	610	0.55
Total	$ 15,998	$ 3,799	$ 2,296	$ 2.08

The first quarter of 1998 includes a one-time pretax charge of $104 million ($64 million after-tax) for restructuring related to a cost containment program, as well as a one-time pretax charge of $54 million ($34 million after-tax) for a currency-related fair value adjustment in conjunction with our Tele Danmark investment. The second quarter of 1998 includes a one-time pretax gain of $1.5 billion ($1.0 billion after-tax) related to the sale of substantially all of our TCNZ shares. The fourth quarter of 1998 includes a one-time pretax charge of $38 million ($24 million after-tax) for the costs of early redemption of long-term debt, as well as a pretax gain of $170 million ($102 million after-tax) from the sale of certain telephone and directory assets to Century Telephone Enterprises, Inc.

The second quarter of 1997 includes a one-time after-tax charge of $87 million related to our share of the costs of a work force restructuring at Belgacom. The third quarter of 1997 includes a one-time pretax gain of $52 million ($37 million after-tax) resulting from the sale of our interest in Sky Network Television of New Zealand. Several other significant income and expense items were reported in the fourth quarter of 1997. However, the net result was not material to results for the quarter or year.

We calculated earnings per share on a quarter-by-quarter basis in accordance with GAAP. Quarterly EPS figures may not total EPS for the year due to fluctuations in the number of shares outstanding.

We have included all adjustments necessary for a fair statement of results for each period.

16. Merger Agreement

On May 11, 1998, we jointly announced with SBC Communications Inc. (SBC) a definitive agreement to merge an SBC subsidiary with Ameritech in a transaction in which each outstanding share of Ameritech common stock (other than shares owned by Ameritech, SBC or their respective subsidiaries) will be converted into and exchanged for 1.316 shares of SBC common stock. After the merger, Ameritech will be a wholly owned subsidiary of SBC. The transaction has been approved by the board of directors and shareowners of each company. It is intended to be accounted for as a pooling of interests and will qualify for federal income tax purposes as a tax-free reorganization. The merger is subject to the satisfaction of certain conditions and regulatory approvals.

The transaction, if approved by regulators and completed, will constitute a change in control of the company. Stock options granted to employees prior to initiation of the merger vest fully upon the change in control, and certain change in control agreements and employee severance plans become operative. These agreements and plans have been described in our most recent proxy statement.

We have capitalized direct merger-related costs aggregating approximately $22 million as of December 31, 1998, pending completion of the merger.

Ameritech Leadership

Board of Directors

Richard C. Notebaert
51, chairman and chief executive officer of Ameritech since 1994; president and chief operating officer 1993–1994; vice chairman 1993; president of Indiana Bell 1989–1992; various operations positions 1969–1989. Director, Aon Corporation, Sears, Roebuck and Co. Ameritech director since 1993.

Donald C. Clark
67, chairman emeritus of Household International Inc. since 1996; chairman 1984–1996; chief executive officer 1982–1994. Director, Armstrong World Industries, Inc., The PMI Group, Inc., Scotsman Industries, Inc., Warner-Lambert Company. Ameritech director since 1989.

Melvin R. Goodes
63, chairman and chief executive officer of Warner-Lambert Company since 1991; president and chief operating officer 1985–1991. Director, Warner-Lambert Company, The Chase Manhattan Corporation, Unisys Corporation. Ameritech director since 1994.

Hanna Holborn Gray, Ph.D.
68, president emeritus and Harry Pratt Judson distinguished service professor of history, University of Chicago since 1993; president and professor of history 1978–1993. Director, Cummins Engine Company, Inc., J.P. Morgan & Co. Incorporated. Ameritech director since 1983.

James A. Henderson
64, chairman since 1995 and chief executive officer since 1994 of Cummins Engine Company, Inc.; president and chief operating officer 1977–1994. Director, Cummins Engine Company, Inc., International Paper Company, Ryerson Tull, Inc., Rohm and Haas Company. Ameritech director since 1983.

Sheldon B. Lubar
69, founder and chairman of Lubar & Co. since 1977 and chairman and chief executive officer of Christiana Companies, Inc. since 1987. Director, Christiana Companies, Inc., Firstar Corporation, Jefferies Group, Inc., Massachusetts Mutual Life Insurance Company, MGIC Investment Corporation, Weatherford International, Inc. Ameritech director since 1993.

Lynn M. Martin
59, chair of the Deloitte & Touche LLP Council for the Advancement of Women and advisor to the firm since 1993; Davee chair, Kellogg School of Management, Northwestern University since 1993; U.S. Secretary of Labor 1991–1993. Director, Harcourt General, Inc., Ryder System, Inc., The Procter & Gamble Company, TRW Inc., various Dreyfus Funds. Ameritech director since 1993.

Arthur C. Martinez
59, chairman and chief executive officer of Sears, Roebuck and Co. since 1995; chairman and chief executive officer of Sears Merchandise Group 1992–1995. Director, Sears, Roebuck and Co., Federal Reserve Bank of Chicago. Ameritech director since 1995.

John B. McCoy
55, president and chief executive officer of BANK ONE CORPORATION since 1998; chairman and chief executive officer of BANC ONE CORPORATION 1987–1998. Director, BANK ONE CORPORATION, Cardinal Health, Inc., Federal Home Loan Mortgage Corporation, Paymentech, Inc. Ameritech director since 1991.

John D. Ong
65, chairman emeritus of The BFGoodrich Company since 1997; chairman 1979–1997; chief executive officer 1979–1996. Director, ASARCO Incorporated, Cooper Industries, Inc., The Geon Company, Marsh & McLennan Companies, Inc., TRW Inc. Ameritech director since 1983.

A. Barry Rand
54, executive vice president — operations of Xerox Corporation 1992–1998; president of Xerox U.S. Marketing Group 1987–1992. Director, Abbott Laboratories, Honeywell Inc. Ameritech director since 1993.

Laura D'Andrea Tyson
51, dean, Haas School of Business, University of California at Berkeley since 1998 and professor 1996–1998; national economic adviser to President of United States 1995–1996; chair, White House Council of Economic Advisers 1993–1995. Director, Eastman Kodak Company, Human Genome Sciences, Inc., Morgan Stanley Dean Witter & Co. Ameritech director since 1997.

James A. Unruh
57, founding principal of Alerion Capital Group, L.L.C. since 1998; chairman and chief executive officer of Unisys Corporation 1990–1997; president and chief operating officer 1989–1990. Director, The Prudential Insurance Company of America. Ameritech director since 1995.

Management Committee

Richard C. Notebaert
51, chairman and chief executive officer since 1994. President and chief operating officer 1993–1994; vice chairman 1993; president of Indiana Bell 1989–1992; various operations positions 1969–1989. M.B.A., 1983, and B.A., Political Science, 1969, University of Wisconsin.

Barry K. Allen
50, executive vice president – regulatory and wholesale operations since 1997. Executive vice president – communications and information products sector 1995–1997. M.B.A., 1974, Boston University; B.S., Business Administration, 1970, University of Kentucky.

V. Patrick Campbell
52, executive vice president – corporate strategy and business development since 1994. President and chief executive officer of Columbia TriStar Home Video 1989–1994; positions at Norelco, SCM Corporation and McGraw Edison 1968–1989. B.A., Political Science, 1968, La Salle University.

Walter M. Oliver
53, senior vice president – human resources since 1994. Vice president – human resources at Johnson Controls, Inc. 1989–1994; positions at Johnson Controls and other companies 1973–1989. M.S., Human Resource Management, 1977, Gonzaga University; B.A., Psychology, 1967, Whitworth College.

Thomas E. Richards
44, executive vice president – communications and information products since 1997. President Ameritech network services 1995–1997; vice president of network operations at Bell Atlantic Corporation 1991–1995. M.S., Management, 1991, MIT; B.A., Economics, 1976, University of Pittsburgh.

Oren G. Shaffer
56, executive vice president and chief financial officer since 1994. President, Virgo Cap Inc. 1992–1994; chief financial officer at The Goodyear Tire & Rubber Company 1987–1992. M.S., Management, 1985, MIT; B.S., Business Administration, 1968, University of California, Berkeley.

Joan H. Walker
51, senior vice president – corporate communications since 1996. President and chief executive officer, Bozell Public Relations, New York 1993–1996; managing director of marketing communications, NYNEX Corporation 1990–1993. M.A., Sociology, 1973, Rutgers University; B.A., 1968, Douglass College.

Kelly R. Welsh
46, executive vice president and general counsel since 1996. Vice president and associate general counsel 1993–1996; Corporation Counsel, City of Chicago 1989–1993. J.D., 1978, Harvard Law School; M.A., Intellectual History, 1975, Sussex University; A.B., Government, 1974, Harvard College.

Corporate Officers

Deidra D. Gold
Secretary

Barbara A. Klein
Vice President
and Comptroller

Gary R. Lytle
Vice President
Federal Relations

Sari L. Macrie
Vice President
Investor Relations

Richard W. Pehlke
Vice President
and Treasurer

State Presidents

Robert N. Cooper
President
Ameritech Michigan

Ellen M. Gardner
President
Ameritech Wisconsin

Kent A. Lebherz
President
Ameritech Indiana

Douglas L. Whitley
President
Ameritech Illinois

Jacqueline F. Woods
President
Ameritech Ohio

Business Unit Presidents

Ronald L. Blake
President
General Business Services

Gregory Q. Brown
President
Custom Business Services

Walter S. Catlow
President
Ameritech Cellular Services

Timothy J. Cawley
President
Ameritech International

Neil E. Cox
President
SecurityLink from Ameritech

Patrick J. Earley
President
Ameritech
Communications, Inc.

Donald V. Goens
President
Pay Phone Services

R. Scott Horsley
President
Ameritech Capital Services

Deborah L. Lenart
President
Ameritech New Media, Inc.

Peter J. McDonald
President
Ameritech Advertising Services

Diane L. Primo
President
Product Management

Wharton B. "Zie" Rivers Jr.
President
Network Services

John E. Rooney
President
Consumer Services

Mary E. Tudela
President
Long Distance
Industry Services

Karen S. Vessely
President
Information Industry Services

Glossary

Access charge A fee that local phone companies charge long-distance carriers for connecting long-distance calls to customers on the local network.

Access line A line for voice, data or video reaching from a local phone company to a home or business.

ADSL (Asymmetric Digital Subscriber Line) A technology that uses the existing copper phone wiring that serves virtually all homes and businesses to provide customers network access to the Internet and other popular multimedia and data services at speeds 50 times faster than an ordinary phone line.

ATM (Asynchronous Transfer Mode) A technology that transmits data, voice and video at high speeds. ATM breaks customers' data into fixed-length cells and transmits them in bursts in order to provide efficient use of network capacity.

Broadband A transmission facility that has a capacity or "bandwidth" greater than a voice-grade phone line. Broadband facilities — fiber optics and coaxial cable, for example — may carry numerous voice, data and video channels at the same time.

Call management services Services that add value and convenience for phone customers — such as Call Waiting, Call Forwarding and Caller ID. These services are sold to customers individually and in packages.

Customer premises equipment (CPE) Communications equipment owned by customers, including telephones, faxes and switches.

Data communications Digital transmissions through wired or wireless networks, usually linking computers.

Digital An alternative to traditional analog communications, digital systems transport information in the 1s and 0s of computer code for improved clarity and quality.

Federal Communications Commission (FCC) The U.S. federal agency responsible for regulating the interstate aspects of telecommunications activities.

Financial Accounting Standards Board (FASB) The independent body responsible for setting accounting and financial reporting standards to be followed by U.S. business enterprises.

High-capacity lines Lines sold to customers that have large-volume data communications needs — such as long-distance carriers, Internet access providers and large companies.

Interconnection Allowing a competitive local service provider to use the local phone company's network, or elements of the network, to provide service to its customers.

Interexchange carriers (IXCs) Those companies primarily involved in providing long-distance voice and data transmission services — such as AT&T, MCI WorldCom and Sprint.

Internet The global web of networks that connects computers around the world, providing rapid access to information from multiple sources.

Intrastate revenues The portion of revenues regulated by state rather than federal authorities.

ISDN (Integrated Services Digital Network) A service that carries voice, data and video at the same time. Offers several times the capacity of a conventional phone line.

Landline Refers to conventional (wired) phone service.

Local access The local completion of long-distance calls.

Local access and transport area (LATA) The boundary within which a local company may provide phone service. A LATA usually is centered around a city or other identifiable community of interest.

Local exchange carrier (LEC) One of the companies primarily involved in providing local phone service and access to the local phone network, including Ameritech in Illinois, Indiana, Michigan, Ohio and Wisconsin. A competitive local exchange carrier, or CLEC, is a company that provides such services in competition with the established local provider.

Long-distance Voice, data and video communications to locations beyond local service areas. Ameritech currently is prohibited from carrying certain landline long-distance communications beyond local areas.

Managed services Services that give business customers one point of contact for all communications and computing needs, including phones, personal computers, videoconferencing, local area networks, PBXs and more.

Personal communications services (PCS) Wireless services, such as cellular-like phone service and two-way paging, that use radio frequencies auctioned by the FCC.

Privatization A government sale of part or all of a national company to private firms and investors.

Security services Services that help secure people and property at home and at work — such as burglar and fire alarm systems, closed-circuit cameras (CCTV) and electronic card access.

SONET The North American fiber-optic transmission standard used to offer high-speed transport of digital information — voice, data and video. SONET enables connection with networks and equipment from multiple vendors.

Switched minutes of use The measure of time used to bill long-distance companies for access to the local phone network.

Total return Stock price appreciation plus reinvested dividends.

Voice grade equivalent A channel or other portion of a high-capacity access line that can be used to transmit voice or data traffic.

Voice mail A service that automatically answers calls and distributes messages.

Wireless Voice, data and video communications that use radio frequencies rather than wires for transmission. Includes cellular, paging and personal communications services (PCS).

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Information for Our Investors

We're here to help you. Please call 800 233-1342 for inquiries on stock-related matters — including dividend payments, direct deposit of dividends, stock transfers, dividend reinvestments, odd-lot sales, lost certificates and address changes. To hear or receive information regarding our latest dividends and earnings, please call 800 984-0248.

Direct deposit of dividends. This service gives you access to your money on the day it is issued with no cost to you. Direct deposit of dividends is the safest, most confidential way to get your money into your checking or savings account. To receive an enrollment form, just call 800 233-1342.

The Ameritech Direct Services Investment Plan (ADSIP). This plan offers many innovative features to give investors greater convenience and flexibility to invest in Ameritech. For more information or a prospectus, call 800 233-1342.

Safekeeping. Convert your certificate shares to book entry so you'll never have to worry about theft, loss or destruction of your Ameritech stock certificate(s). For information, call 800 233-1342.

Semiannual report and quarterly results. A semiannual report for all registered and street-name shareowners is scheduled for August. Shareowners can call 800 984-0248 for financial and other news delivered by phone, fax or mail.

Requests for additional information. Additional financial information is available without charge. To request a copy of the Ameritech Fact Book, Annual Report on Form 10-K, the Ameritech Report to the Community or an audiocassette version of this annual report, contact:

Sari L. Macrie
Vice President of Investor Relations
Ameritech Corporation
30 S. Wacker Drive, 35th Floor
Chicago, IL 60606
312 750-5353

How to contact Ameritech

In the United States	800 233-1342
Outside the United States, call collect	201 324-0308
TDD/TTY Teletypewriter	888 403-9700
Internet	www.ameritech.com/investor
E-mail	share.owners@ameritech.com

Write to us at:
Ameritech Shareowner Services
c/o First Chicago Trust Division of EquiServe
P.O. Box 2558
Jersey City, NJ 07303-2558

For information about Ameritech services and products

Consumer Services	800 709-5465
General Business Services	800 776-3487
Cellular Services	800 221-0994
Team Data	800 832-6328
SecurityLink from Ameritech	888 393-5465
Global Calling Services	888 988-8977
All other	800 327-9346

Annual meeting. The 1999 annual meeting of shareowners will be held at 9:30 a.m. Central Time on Wednesday, April 21, 1999, at McCormick Place South, Grand Ballroom, Level 1, 2301 S. Martin Luther King Jr. Drive, Chicago, Illinois.

Electronic voting. As an added convenience, we offer shareowners the opportunity to vote their proxy via the Internet or by telephone. Registered shareowners can find us at http://www.vote-by-net.com, or you may call toll free, 800 652-8683, 24 hours a day, seven days a week. Street-name shareowners can find us at http://proxyvote.com, or you may call the toll-free number on the voting instruction form 24 hours a day, seven days a week.

Trading and dividend information
(restated to reflect stock split effective December 31, 1997)

	High	Low	Close	Dividends Declared
1998				
1st Quarter	$ 49.88	$ 38.75	$ 49.44	$ .30
2nd Quarter	50.25	41.50	44.88	.30
3rd Quarter	52.13	43.38	47.50	.30
4th Quarter	64.25	47.38	63.38	.3175
1997				
1st Quarter	$ 32.50	$ 28.31	$ 30.63	$ .2825
2nd Quarter	35.88	27.63	33.97	.2825
3rd Quarter	35.31	30.66	33.25	.2825
4th Quarter	43.13	30.13	40.25	.30

Stock trading information. Ameritech stock is traded in the United States on the New York, Boston, Chicago, Pacific and Philadelphia stock exchanges. It also is listed on the London, Tokyo and Amsterdam stock exchanges and on the Swiss stock exchanges of Basel, Geneva and Zurich.

Key dividend dates*

	Record Date	Payment Date
1st Quarter	April 10, 1999	May 3, 1999
2nd Quarter	July 10, 1999	August 2, 1999
3rd Quarter	October 10, 1999	November 1, 1999
4th Quarter	January 10, 2000	February 1, 2000

* Subject to discretion of the Ameritech board of directors.

Ameritech stock Ticker symbol — AIT (NYSE)
Newspaper stock table listing — Ameritech or Amrtch

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Our Vision

Ameritech will be the world's premier provider of full-service communications for people at work, at home or on the move. Our goal is to improve the quality of life for individuals and to increase the competitive effectiveness of the businesses we serve. As we move and manage information for our customers, we set standards for value and quality. Ameritech's competence reaches worldwide, building on our strength in America's vibrant Upper Midwest. Customers can be assured that we will assume only those tasks we can do exceedingly well.

Ameritech, 30 S. Wacker Drive, Chicago, Illinois 60606 800 257-0902 www.ameritech.com

<u>EXHIBIT D</u>

Ameritech Corporation's 1998 Annual Report

(See attached)

EXHIBIT E

Statement of Managerial Capability

SBC National, Inc. ("SBC National") is a corporation created and existing under the laws of the State of Delaware. Its parent corporation, SBC Communications Inc. ("SBC"), is a holding company whose subsidiaries and affiliates operate predominately in the communications services industry. SBC's subsidiaries and affiliates provide landline telecommunications and related services in California, Texas, Missouri, Oklahoma, Kansas, Arkansas, Nevada, and Connecticut and wireless telecommunications and related services principally in those states, as well as Illinois, Indiana, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, Virginia, Washington D.C., and West Virginia. SBC has investments in telecommunications companies that serve selected markets outside of the United States, including Mexico, Chile, South Korea, France, South Africa, the United Kingdom, Switzerland, and Taiwan. SBC also has investments in Israel, where it provides cable TV, directory publishing, and software development.

Further, upon the completion of its merger with Ameritech Corporation, SBC will provide landline and wireless telecommunications and related services in Illinois,* Indiana, Michigan, Ohio, and Wisconsin; wireless and related services in Missouri,* Minnesota, and Hawaii; and security and monitoring services in most of the United States' largest metropolitan areas. It also will have significant investments in the European telecommunications industry.

SBC National's executive officers have been recruited from SBC and its affiliates, and are among its key managers with considerable experience in the telecommunications industry, including operations, interconnection, network, marketing, sales, finance, regulatory and legal issues. Each has served in an executive capacity with SBC or one of its affiliates in excess of five years. The following provides a brief synopsis of the managerial experience of each of SBC National's executive officers.

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* As a result of the pending merger with Ameritech Corporation and Federal Communications Commission regulations, SBC will be required to divest itself of overlapping cellular properties in Illinois and Missouri.

STEPHEN M. CARTER, President

Mr. Carter has been employed by SBC since 1987, when he became Managing Director of its newly created United Kingdom subsidiary, Southwestern Bell Telecom, Ltd. In 1993, he was appointed President and Chief Executive Officer of that subsidiary. Subsequently, Mr. Carter assumed responsibilities for all marketing, sales and operations for Southwestern Bell Telephone Company's ("SWBT") inter-industry customers and national account customers, as well as operator services and public communications in the five-state SWBT region (Texas, Arkansas, Kansas, Oklahoma, and Missouri). In 1997, Mr. Carter was appointed President of Special Markets for SBC. In that position, he was responsible for wholesale operations, including marketing, sales and operations for interexchange carriers and local wholesale carriers, as well as national accounts, operator services, and public communications for three SBC subsidiaries: SWBT, Pacific Bell, and Nevada Bell. He ultimately was responsible for interconnection agreements with the wholesale customers of SBC's subsidiaries. Since November 1, 1998, Mr. Carter has been responsible for SBC's National-Local operations in his capacity as President-Strategic Markets, and has served as President of SBC National since its inception.

TIMOTHY HARDEN, Vice President, Operations

Mr. Harden has over 18 years of telecommunications experience and is responsible for the design, development and deployment of the network and systems necessary to support SBC National's competitive local exchange activities. He also is responsible for the day-to-day operations. SBC National represents Mr. Harden's third "start up" endeavor. He was on the ground floor with the start up of PacTel Business Systems as Chief Operating Officer and as President and CEO. More recently he served as Vice President & General Manager of the Pacific Telesis broadband effort in California where he was responsible for all of the operations of that \$5 billion effort, including network engineering, design and construction; customer care centers; and systems designs and implementations. Mr. Harden gained broad telecommunications experience in a series of executive assignments with Pacific Telesis Group, most recently as Vice President and General Manager of SBC's Industry Operations where he had responsibility for all wholesale operations for access and local (CLEC) customers. Also, he previously served as Vice President and General Manager of Industry Markets, Vice President and General Manager

of the Pacific Bell North Coast Regional Business Unit, and President and Chief Executive Officer for PacTel Business Systems. Other assignments have included stints in operations, customer service, and switching in both Northern and Southern California.

DAVID R. LOPEZ, Vice President, National-Local Regulatory

Mr. Lopez began his career with Southwestern Bell Telephone in 1979. He has held numerous executive positions with his responsibilities covering a vast array of disciplines, including public relations, accounting, human resources, regulatory and operator service. He was appointed to his current position of Vice President, National-Local Regulatory in December of 1998. Prior to his current position, Mr. Lopez held the position of President of Southwestern Bell Telephone-Oklahoma. In this capacity, Mr. Lopez directed all regulatory and external affairs activities for the state of Oklahoma. Prior to his appointment as President of Southwestern Bell Telephone-Oklahoma, Mr. Lopez served as the Assistant Vice-President, External Affairs in the State of Texas. In this capacity, Mr. Lopez managed public affairs and community relations activities.

EDWARD L. ECKHART, Vice President, General Counsel/Secretary

Mr. Eckhart has practiced law since 1976. He began his career with Southwestern Bell Telephone in 1981 and has held a variety of positions with responsibilities for state and federal regulatory issues. Mr. Eckhart possesses considerable experience in telecommunications law and local exchange carrier issues. Prior to his recent appointment as Vice President, General Counsel and Secretary at SBC National, Inc., Mr. Eckhart held the position of General Attorney and Assistant General Counsel at SBC Communications in San Antonio, Texas, where he was responsible for state regulatory matters related to the pending merger with Ameritech. Prior to his assignment in San Antonio, Mr. Eckhart held the position of General Counsel-Austin. In this capacity, Mr. Eckhart directed all legal issues for Southwestern Bell Telephone-Texas regulatory, which included legislative and regulatory activity, local exchange carrier negotiations, and arbitration support.

PETER A. RITCHER, Vice President & Chief Financial Officer

Mr. Ritcher joined SBC in 1987 and has held various positions in the Tax Department including serving as the director of all state and local tax matters for SBC and its affiliates. In 1996, Mr. Richter was appointed Vice President Finance/Chief Financial Officer for Cellular One in Chicago, where he was responsible for all financial activities related to the Chicago cellular market. He held that position until he was appointed Vice President & Chief Financial Officer of SBC National. Mr. Ritcher has extensive experience in all areas of finance, including analysis, general accounting, financial reporting, budgeting, procurement, payroll, compensation, accounts receivable, collections and facility management.

MICHAEL D. WAGNER, Treasurer

Mr. Wagner joined SBC in 1977 and began has career with Southwestern Bell Telephone Company in the Controller's Department. In 1991 he accepted the position of Director-Investor Relations. While holding this title, Mr. Wagner was responsible for management of SBC's relationship with the investment community, which included dissemination of all financial and operational information to this community. Mr. Wagner filled the position of Chief Financial Officer with SBC International from December 1997 to May 1998. In May 1998 Mr. Wagner assumed, and still retains, the position of Director-Corporate Finance for SBC. In this position, Mr. Wagner directs the development and implementation of cash investment, cash management, financing, foreign exchange, and financial risk management policies and strategies for SBC, its existing subsidiaries and proposed affiliates or investments.

This biographical data of its managers shows that SBC National possesses the technical, managerial and leadership expertise to provide alternative telecommunications service in the State of Florida.

EXHIBIT F

Statement of Technical Capability

SBC National, Inc. ("SBC National") clearly possesses the technical expertise to provide alternative local exchange service in the State of Florida. SBC National anticipates staffing its operations with a significant number of employees who will have a broad range of experience and expertise in provisioning facilities and services in the local, long distance, wireless, paging, Internet access, security services, and messaging markets. These employees will build and acquire the network and systems, and will develop the product distribution channels and service strategies to enable SBC National to compete successfully.

Detailed planning currently is underway for the initial network deployment strategy. The key elements of this infrastructure and design will be fashioned in a manner that will best serve customers. It will consist of voice switching equipment; data switching and routing equipment; fiber transport; customer access equipment; service platforms (*i.e.*, network features and functions that allow the provision of custom services); operations support systems (OSS); billing and customer care infrastructure; as well as adjunct infrastructure such as floor space, power equipment, interface equipment, and alarm and monitoring equipment.

Evaluation of customer expectations, economic analyses, vendor negotiations, service provider negotiations and other critical discussions have commenced and are designed to determine the optimal initial network implementation strategy that will be deployed. SBC National anticipates the results of these analyses and negotiations to produce an initial network implementation strategy consisting of a combination of (1) deploying its own network infrastructure; (2) leasing capacity from other network providers; (3) strategic partnership agreements with other service providers; and (4) combined utilization of unbundled network elements and some resale of telecommunications services from incumbent local exchange carriers. One of the guiding principles being used in finalizing this network implementation plan is that SBC National will have as much control as possible of all network elements owned, leased or otherwise obtained to ensure the high level of service quality, technical excellence,

performance guarantees, and overall customer satisfaction for which SBC is recognized in the worldwide markets it currently serves.

EXHIBIT G

Price List

SBC National, Inc. will file a price list prior to the commencement of operations.

PLEC

DEPOSIT DATE

D I APR 1999

1. This is an application for √ (check one):

   (✓) **Original certificate** (new company)

   ( ) **Approval of transfer of existing certificate:**
   Example, a non-certificated company purchases an existing company and desires to retain the original certificate authority.

   ( ) **Approval of assignment of existing certificate:**
   Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

   ( ) **Approval for transfer of control:**
   Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

   SBC National, Inc. ("SBC National")

3. Name under which the applicant will do business (fictitious name, etc.):

   Not applicable

4. Official mailing address (including street name & number, post office box, city, state, zip code):

   David R. Lopez
   Vice President, National-Local Regulatory
   SBC National, Inc.
   175 E. Houston Street, Room 4-A-60
   San Antonio, Texas 78205

LAW OFFICES

HOLLAND & KNIGHT LLP

2509507

April 14, 19 99

63-751/631

Pay Two Hundred Fifty Dollars and 00/100------------- DOLLARS $ 250.00

VOID AFTER 180 DAYS

HOLLAND & KNIGHT LLP

TO THE ORDER OF Florida Public Service Commission

DOCUMENT NUMBER-DATE

04871 APR 16 99

FIRST UNION NATIONAL BANK OF FLORIDA
ST PETERSBURG, FLORIDA

AUTHORIZED REPRESENTATIVES

TWO SIGNATURES REQUIRED FOR AMOUNTS OVER $1000.00