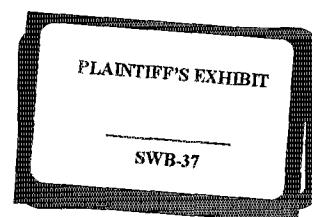
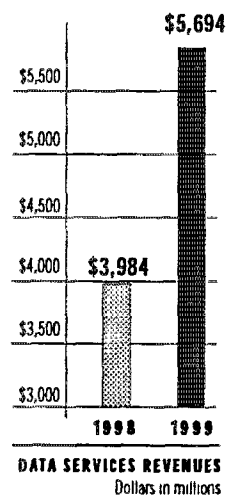
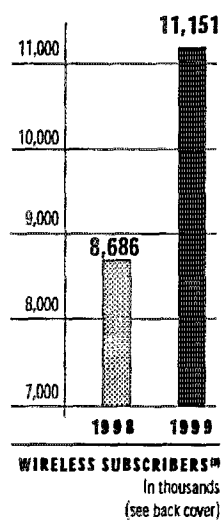
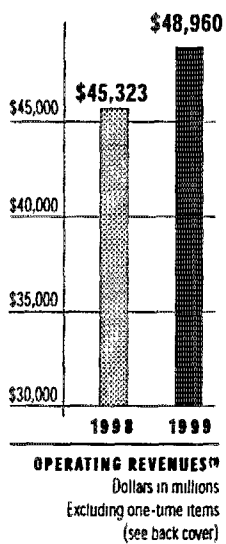




SBC Communications Inc.

Annual Report 99



DEAR FELLOW INVESTOR:

1999 was a year of dynamic changes and unprecedented opportunity in the telecommunications industry, driven by new technology and products and global industry consolidation.

There's never been a more exciting time to be in this business, and never more growth opportunities for companies able to anticipate and take advantage of these changes. SBC is one of those companies.

In the increasingly complex world of technology and telecommunications, our strategy is straightforward and proven: grow our customer base by expanding into new markets; provide service over state-of-the-art networks; sell more services to each of our customers; and execute our strategy better than any other company, which is something we're known for.

We're confident that our strategy is on target and our accomplishments in 1999 put SBC in great position for the future.

- We grew our customer base significantly through the acquisition of Ameritech Corporation, which made us the local communications provider to about 53 million American homes and businesses. Being the incumbent provider is a huge advantage in a marketplace where customers increasingly look to one company to provide all of their communications services. This much larger customer base gives us the scope to achieve significant merger synergies and expand to 30 new major U.S. markets within the next two years.
- We launched a historic \$6 billion initiative to make our networks second to none and bring high-speed, broadband Internet service to most of our customers. This makes SBC a national leader in meeting the exploding demand for high-speed Internet access.
- We announced an agreement with Prodigy to become the nation's third-largest Internet service provider.
- We moved significantly closer to being able to soon offer long-distance service – a missing piece in our lineup of products and services – when we gained the unanimous endorsement from state regulators to enter the long-distance market in Texas. We now await approval from the Federal Communications Commission (FCC).
- And our financial performance continued to be strong. During 1999, before one-time items (see page 44), extraordinary items and accounting changes, SBC earnings increased by 12.5 percent to \$7.4 billion, and our diluted earnings per share increased 12 percent. Full-year revenues increased 8 percent to \$49 billion.

Individually, the accomplishments of 1999 represent a series of aggressive, strategic, well-executed business decisions. Together, they form the foundation for SBC's future growth.

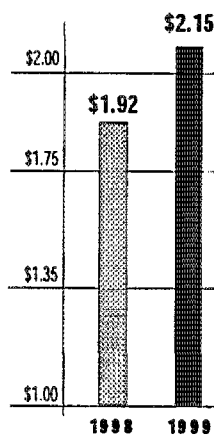
I am more optimistic than ever that the strategy we're executing today will create shareholder value tomorrow as we prepare to produce greater earnings and revenue growth, most of it driven by our significantly larger customer base, and fast-growing data and wireless businesses.

We firmly believe that SBC has assembled the best portfolio of growth assets in our industry, and we're beginning to see the benefits of SBC's transformation into a global growth company. **GROWTH.** Leading our transformation is a deep and talented management team whose trademark is the ability to execute. To that end, we believe that SBC has an opportunity to fuel revenue and earnings growth through its acquisition of Ameritech, our strong international investments, our national expansion, our growing nationwide wireless business, our entry into long distance, our investments in high-speed Internet access and our overall Internet strategy.

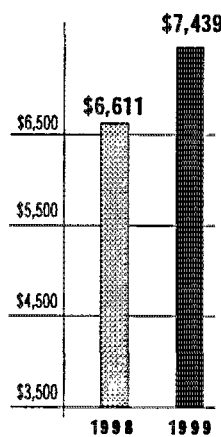
SBC already has strong businesses in strong markets, but to achieve SBC's goal of double-digit revenue and earnings growth in 2001, SBC will rely on four primary revenue growth engines:

Data Services. In the fourth quarter of 1999 we announced a \$6 billion investment in building broadband networks to capitalize on the Internet's growth. Our "Project Pronto" broadband initiative will make high-speed Internet access – capable of delivering streaming video, graphics and data in the blink of an eye – available to most of our wireline customers. Consumers want richer, fuller Internet content – from music and news to video and interactive games – and that's driving demand for our Digital Subscriber Line (DSL) broadband service. At the end of 1999 more than 10 million of our customer locations were DSL-capable. Our target, by the end of 2000, is for the number of DSL-capable customer locations to reach 16 million. Unlike the cable companies, SBC's network is available on an equal and open basis to all Internet Service Providers (ISPs) – including America Online, Prodigy, Microsoft, EarthLink and other top ISPs. This means that our customers have more and better choices when it comes to picking their ISP – another important reason we believe customers choose DSL over cable modem service.

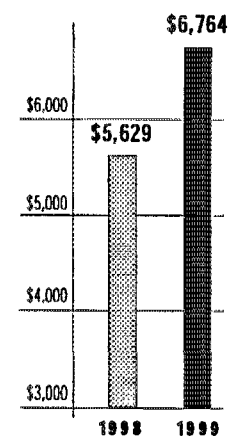
We took a big step last year to expand our presence in the Internet space with our agreement to join our ISP business with Prodigy,



DILUTED EARNINGS PER SHARE™
Before extraordinary items, cumulative effect of accounting change and one-time items (see back cover)



EARNINGS™
Dollars in millions
Before extraordinary items, cumulative effect of accounting change and one-time items (see back cover)



WIRELESS OPERATING REVENUES™
Dollars in millions
Excluding one-time items (see back cover)

a pioneering Internet company. We'll own 43 percent of this partnership with Prodigy – America's third-largest ISP – when the transaction closes, which puts us in a strong position to further expand SBC's presence in the fast-growing Internet industry.

Project Pronto, at the heart of SBC's Internet strategy, is targeted to generate more than \$3.5 billion in new annual revenues and \$1.5 billion in annual cost savings by 2004.

Wireless Services. Long one of the top wireless companies in North America, we made key acquisitions in 1999 that added more than 1.2 million wireless subscribers in the Northeast United States, Puerto Rico and the U.S. Virgin Islands. At year-end, SBC was the second-largest U.S. wireless company, serving customers in 24 states, the District of Columbia and two U.S. territories. We're in nine of the top 10 U.S. markets, with nationwide service, one-rate plans and new wireless data services in many markets. We're committed to growing wireless services revenues by 15 percent annually during the next three years. We expect that new data services and Internet access available through our wireless networks will drive additional per-subscriber revenue growth in 2000. We'll continue to look for wireless opportunities that make sense for our shareowners, and those that help SBC build an even broader base nationwide.

Long Distance. Pending FCC approval, we hope to enter the long-distance business in Texas in April, and expect to offer long-distance service in our other states in the near future. Long distance will help us offer the complete services package that many customers want, and it will make SBC an even stronger competitor to AT&T, MCI WorldCom and others. Long distance clearly is a growth opportunity for SBC. It rounds out our plans to be a one-stop communications provider for our customers. We believe that our compelling complete-service bundles, backed by superior customer service, will make SBC an attractive long-distance provider.

National Expansion. SBC already has an enviable domestic market presence, with more than 60 million access lines through the heartland of America and on both coasts. One-half of the Fortune 500 headquarters reside in the 13 states where SBC provides local service today. Our plan is to target our current business customers and provide them with comprehensive communications services in the major markets where they have locations throughout the U.S.

We're committed to expanding to serve businesses and residential customers in 30 new markets nationwide within the next two years, a plan that we expect to generate more than \$1 billion in annual revenues by 2002.

International. Add to these four primary revenue growth opportunities SBC's superb international portfolio of investments that is expected to grow earnings contribution more than 20 percent annually over the next three years. Currently, SBC has interests in 23 countries in Europe, Asia, Latin America and Africa, representing an estimated value of more than \$25 billion. SBC's global capabilities and presence will continue to grow as we seek alliances and other relationships that give our multinational business customers the services they want.

2000 AND BEYOND. Our stock's reaction last year was disappointing, not only because it followed a 46-percent increase in 1998, but because it did not reflect the company's performance. I assure you we are in a great position to deliver double-digit revenue and earnings growth, and I am confident our business results will be reflected in the value of our stock.

We target revenues, before one-time items, to grow 8 percent to 9 percent in 2000, and 10 percent or more in 2001 and beyond. On the cost side of the equation, synergies from the Ameritech acquisition and savings generated from Project Pronto should result in an annual earnings contribution of \$3 billion by the end of 2004.

While investments in data services and merger-related costs are expected to result in earnings growth in the mid-single digits in 2000, our goal is to achieve annual earnings growth of at least 15 percent beginning in 2001.

THE ONLY COMMUNICATIONS COMPANY OUR CUSTOMERS WILL EVER NEED. Competition for consumers' communications and entertainment dollars is growing. Technological advances, regulatory changes and consumers' desire for one-stop shopping have created a market in which cable TV companies are trying to offer telephone service, and local telephone companies are offering satellite TV and soon will add long-distance service to their mix. In this environment, giving customers attractive bundles of products and services has never been more important.

SBC's bundled offering for consumers –

launched last fall and called Simple Solutions – allows customers to buy the package of services that best meets their needs – from basic local service, to a comprehensive package of local, wireless, high-speed Internet access and satellite TV. Pending regulatory approval, SBC also will be able to offer customers long-distance service.

Compared to our cable TV competitors, we believe we're in a strong position on the bundling front because SBC can add long distance to its portfolio of offerings without much difficulty and at a low cost; we already have the networks, sales, billing and customer support systems in place. Cable companies, on the other hand, are finding that building a local telephone service from the ground up is neither an easy nor an inexpensive proposition.

Becoming a true full-service, one-stop shopping option to consumers puts SBC in the position to earn consumers' entire communications and entertainment budget.

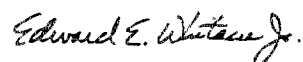
For our business customers, the one-stop shopping goal is the same. Provide them with more services in more locations than ever before. We'll do that through entering new U.S. markets, offering long-distance service and a state-of-the-art broadband network, and by seeking greater global connectivity through alliances and our affiliated companies worldwide.

All of these initiatives will enable SBC to become the only communications company our customers will ever need.

I expect our industry will present as many challenges and opportunities in 2000 and beyond as it did in 1999. You have my commitment and that of our more than 200,000 employees that SBC will continue to anticipate changes, and act swiftly and decisively to add customers, grow revenues and earnings, and create value for you in one of the world's fastest-growing, most exciting industries.

We look forward to updating you on SBC's continued growth and progress toward becoming one of the world's premier full-service telecommunications providers.

Sincerely,



Edward E. Whitacre Jr.
Chairman and Chief Executive Officer
February 11, 2000

SELECTED FINANCIAL AND OPERATING DATA

Dollars in millions except per share amounts

At December 31 or for the year ended:	1999	1998	1997	1996	1995
Financial Data¹					
Operating revenues	\$49,489	\$46,207	\$43,106	\$40,510	\$37,134
Operating expenses	\$37,891	\$34,984	\$35,504	\$30,461	\$27,976
Operating income	\$11,598	\$11,223	\$ 7,602	\$10,049	\$ 9,158
Interest expense	\$ 1,430	\$ 1,605	\$ 1,550	\$ 1,418	\$ 1,513
Equity in net income of affiliates	\$ 912	\$ 613	\$ 437	\$ 470	\$ 216
Income taxes	\$ 4,280	\$ 4,380	\$ 2,451	\$ 3,368	\$ 2,858
Income before extraordinary items and cumulative effect of accounting change	\$ 6,573	\$ 7,735	\$ 4,087	\$ 5,705	\$ 5,362
Net income (loss)²	\$ 8,159	\$ 7,690	\$ 4,087	\$ 5,795	\$ (1,347)
Earnings per common share:					
Income before extraordinary items and cumulative effect of accounting change	\$ 1.93	\$ 2.27	\$ 1.21	\$ 1.67	\$ 1.57
Net income (loss)²	\$ 2.39	\$ 2.26	\$ 1.21	\$ 1.70	\$ (0.39)
Earnings per common share-assuming dilution:					
Income before extraordinary items and cumulative effect of accounting change	\$ 1.90	\$ 2.24	\$ 1.20	\$ 1.66	\$ 1.56
Net income (loss)²	\$ 2.36	\$ 2.23	\$ 1.20	\$ 1.69	\$ (0.39)
Total assets	\$83,215	\$74,966	\$69,917	\$65,765	\$62,197
Long-term debt	\$17,475	\$17,170	\$17,787	\$16,536	\$16,105
Construction and capital expenditures	\$10,304	\$ 8,882	\$ 8,856	\$ 8,304	\$ 6,891
Free cash flow ³	\$ 6,274	\$ 4,099	\$ 2,723	\$ 2,964	\$ 3,946
Dividends declared per common share ⁴	\$ 0.975	\$ 0.935	\$ 0.895	\$ 0.860	\$ 0.825
Book value per common share	\$ 7.87	\$ 6.69	\$ 5.26	\$ 4.94	\$ 4.26
Ratio of earnings to fixed charges	6.52	6.79	4.10	5.67	5.80
Debt ratio	42.9%	47.3%	54.9%	55.6%	59.8%
Weighted average common shares outstanding (000,000)	3,409	3,406	3,391	3,409	3,412
Weighted average common shares outstanding with dilution (000,000)	3,458	3,450	3,420	3,429	3,430
End of period common shares outstanding (000,000)	3,395	3,406	3,398	3,389	3,418
Operating Data					
Network access lines in service (000)	60,682	58,845	56,616	53,891	51,532
Access minutes of use (000,000)	264,010	247,597	228,300	208,230	184,384
Wireless customers (000) ⁵	11,151	8,686	7,556	6,018	4,814
Number of employees	204,530	200,380	202,440	185,400	182,610

¹ Certain one-time adjustments are included in the results for each year presented. See Results of Operations for a summary of the 1999, 1998 and 1997 one-time adjustments and the impact of these items on income before extraordinary items and cumulative effect of accounting change and net income. In 1996, results include the incremental operating impacts attributable to the operations of the overlapping Ameritech Corporation (Ameritech) wireless properties sold in 1999. Excluding these items, SBC Communications Inc. (SBC) reported an adjusted income before cumulative effect of accounting changes of \$5,643, or \$1.65 diluted earnings per share, and an adjusted net income of \$5,733, or \$1.67 diluted earnings per share. The 1995 results include (i) work force restructuring credit, (ii) gain on exchange of cellular interests and (iii) incremental operating impacts attributable to the operations of the overlapping Ameritech wireless properties sold in 1999. Excluding these items, SBC reported an adjusted income before extraordinary loss of \$5,216, or \$1.52 diluted earnings per share, and an adjusted net loss of \$1,493, or \$0.43 diluted loss per share.

² Amounts include the following extraordinary items and cumulative effect of accounting change: 1999, gain on sale of overlapping cellular properties and change in directory accounting at Ameritech; 1998, early retirement of debt and change in directory accounting at Southern New England Telecommunications Corporation (SNET); 1996, change in directory accounting at Pacific Telesis Group (PAC); and 1995, discontinuance of regulatory accounting.

³ Free cash flow is net cash provided by operating activities less construction and capital expenditures.

⁴ Dividends declared by SBC's Board of Directors; these amounts do not include dividends declared and paid by Ameritech, SNET and PAC prior to their respective mergers.

⁵ All periods exclude customers from the overlapping Ameritech wireless properties sold in 1999.

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 in the communications services industry. SBC's subsidiaries and affiliates provide wireline and wireless telecommunications services and equipment, directory advertising, electronic security services and cable television services both domestically and worldwide.

The consolidated financial results reflect mergers of SBC subsidiaries with Ameritech Corporation (Ameritech) in 1999, 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).

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:

	1999	1998	1997	Percent Change	
				1999 vs. 1998	1998 vs. 1997
Operating revenues	\$49,489	\$46,207	\$43,106	7.1%	7.2%
Operating expenses	37,891	34,984	35,504	8.3	(1.5)
Income before extraordinary items and cumulative effect of accounting change	6,573	7,735	4,087	(15.0)	89.3
Extraordinary items	1,379	(60)	—	—	—
Cumulative effect of accounting change	207	15	—	—	—
Net income	8,159	7,690	4,087	6.1	88.2

In 1999 and 1998, 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 1999, SBC recognized an extraordinary gain from the sale of overlapping cellular properties sold in October (see Note 15 of Notes to Consolidated Financial Statements). In 1998, SBC incurred an extraordinary loss related to the early retirement of debt.

Reported results for 1999, 1998 and 1997 also include one-time items that SBC normalizes for management purposes.

Normalized results in 1999 include the following adjustments:

- After-tax charges totaling \$1.5 billion including, among other items, recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts at Ameritech, estimation of deferred taxes on international investments, wireless conversion costs and other merger integration costs as discussed in Note 2 of Notes to Consolidated Financial Statements.
- Elimination of income of \$119 from the incremental impacts of overlapping wireless properties sold in October 1999.
- After-tax pension settlement gains of \$368 recorded in the fourth quarter associated with lump sum pension payments that exceeded the projected service and interest costs.
- After-tax gains of \$77 recognized from the sale of property by an international equity affiliate.
- Reduction of a portion of a first quarter 1998 after-tax charge of \$27 to cover the cost of consolidating security monitoring centers and company-owned cellular retail stores.

Normalized results in 1998 include the following adjustments:

- After-tax gain of \$1,012 from the sale of Telecom Corporation of New Zealand Limited (TCNZ) shares.
- After-tax charges related to strategic initiatives totaling \$268 resulting from the merger integration process with SNET.

- After-tax gains of \$219 from the sale of certain non-core businesses, principally the required disposition of SBC's investment in Mobile Telephone Networks (MTN), a cellular company in South Africa.
- Elimination of income of \$123 from the incremental impacts of overlapping wireless properties sold in October 1999.
- After-tax charge of \$64 to cover the cost of consolidating security monitoring centers and company-owned wireless retail stores.
- After-tax gain of \$102 from the sale of certain telephone and directory assets.

Normalized results in 1997 include the following adjustments:

- After-tax charges of \$1.6 billion related to strategic initiatives resulting from the merger integration process with PAC.
- After-tax charge of \$87 for SBC's share of the costs of a work force restructuring at Belgacom SA (Belgacom).
- After-tax charges of \$304 for ongoing merger integration costs (see Note 2 of Notes to Consolidated Financial Statements).
- After-tax first quarter settlement gains of \$90 at PAC associated with lump sum pension payments that exceeded the projected service and interest costs for 1996 retirements.
- After-tax gain of \$58 from the sale of SBC's interests in Bell Communications Research, Inc. (Bellcore).
- Elimination of income of \$88 from the incremental impacts of overlapping wireless properties sold in October 1999.

Excluding these items, 1999 income before extraordinary gain and cumulative effect of accounting change would have been \$7,439, or 12.5% higher than 1998 earnings of \$6,611. The corresponding diluted per share amounts would be \$2.15 in 1999, or 12.0% higher than \$1.92 in 1998. In 1998, income before extraordinary loss and cumulative effect of accounting change would have been 13.3% higher than 1997 earnings of \$5,836.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Dollars in millions except per share amounts

The corresponding diluted per share amounts would have been 12.3% higher than \$1.71 in 1997.

Excluding these items, the 1999 and 1998 increases in income before extraordinary items and cumulative effect of accounting change were due primarily to broad-based growth in demand across SBC's operations. Results for 1999 include operations related to the third quarter acquisitions of Comcast Cellular Corporation (Comcast) and Cellular Communications of Puerto Rico, Inc. (Cellular Communications). In addition, SBC's international investments experienced growth due to the acquisitions of Bell Canada in June 1999 and Tele Danmark A/S (Tele Danmark) in January 1998, as well as growth in 1999 and 1998 from SBC's investment in Telefonos de México, S.A. de C.V. (Telmex).

Segment Results

As a result of the Ameritech merger and to better reflect the broadened scope of its operations, SBC adjusted its segment reporting structure in 1999. SBC now has four reportable segments that reflect the current management of its business: wireline, wireless, information and entertainment, and international. 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 information and entertainment segment expands on what was previously the directory segment, and includes all directory

operations from advertising, yellow pages, white pages and electronic publishing and Ameritech's electronic security and cable television operations. All international investment operations have been removed from the other segment and are shown separately in the international segment. The miscellaneous items that formerly were included in the other segment are immaterial and have been reclassified to corporate, adjustments and eliminations (see Note 7 of Notes to Consolidated Financial Statements).

The normalized segment results include the 1999 effects of conforming accounting methodologies between SBC and Ameritech. Among other items, non-cash adjustments were made to conform accounting for pension and postretirement benefits between the companies and to immediately expense certain items routinely deferred and amortized by Ameritech, including sales commissions and leased customer security and paging equipment. The pension and postretirement adjustments include the effects of conforming the adoption date for postretirement accounting, methods of recognizing actuarial gains and synchronization of estimates related to the current year's benefit plans. The conforming accounting changes for 1999 and prior were recorded as a cumulative effect of accounting change at the segments. This cumulative effect of accounting change was retroactively restated to the appropriate year in SBC's consolidated results. Segment results for periods after 1999 also will include these conforming entries and be comparable to 1999 results.

Normalized income before income taxes, extraordinary items and cumulative effect of accounting change for each segment for 1999, 1998 and 1997 are as follows:

	1999	1998	1997	Percent Change	
				1999 vs. 1998	1998 vs. 1997
Wireline	\$ 8,052	\$ 7,318	\$6,558	10.0%	11.6%
Wireless	918	564	372	62.8	51.6
Information and entertainment	1,641	1,590	1,350	3.2	17.8
International	706	453	512	55.8	(11.5)
Corporate, adjustments & eliminations	364	435	375	—	—
Normalized Income Before Income Taxes, Extraordinary Items and Cumulative Effect of Accounting Change	\$11,681	\$10,360	\$9,167	12.8%	13.0%

Changes in income before income taxes in the wireline, wireless and information and entertainment segments primarily reflect increases in operating income discussed below. Changes in income before income taxes for the international segment result primarily from the changes in equity in net income of affiliates and other income (expense) – net discussed below; changes in this line also impacted the wireline segment.

The normalizing items impacting the wireline segment include the 1999 one-time adjustments to the estimate of allowance for doubtful accounts, strategic initiatives resulting from the merger integration process and other items offset by 1999 pension settlement gains. One-time adjustments in 1998 include charges for merger integration costs related to the SNET merger, gain from the sale of certain telephone and directory assets and the first quarter

consolidation of certain Ameritech operations. The 1997 one-time adjustments include costs for strategic initiatives related to the merger integration process with PAC, pension settlement gains and gains from the sale of SBC's interests in Bellcore.

The wireless segment's normalizing items include 1999 adjustments to convert Ameritech's wireless customers to SBC's network platform and merger integration costs offset by recognition of pension settlement gains, the 1999, 1998 and 1997 incremental impacts of the overlapping cellular properties, the 1998 charge to cover the costs of consolidating company-owned cellular retail stores and the 1999 reduction of this charge. In addition, one-time items affecting the wireless segment in 1997 include PAC merger integration costs.

The information and entertainment segment includes one-time charges in 1999, including recognition of impairment of

long-lived assets, adjustments to the estimate of allowance for doubtful accounts and other merger integration costs offset by the recognition of pension settlement gains, the 1998 charge to cover the costs of consolidating security monitoring centers and the 1999 reduction of this charge. In addition, 1997 one-time items included PAC merger integration costs.

The international segment's normalizing items include the 1999 gains related to sales by an international equity affiliate, 1998 gains on sales of certain non-core businesses, principally the required disposition of SBC's MTN investment, and the sale of TCNZ shares. Also, 1997 included a one-time item for SBC's share of the costs of a work force restructuring at Belgacom.

The following table provides a summary by segment of the net increase (decrease) of the normalizing items on income before income taxes, extraordinary items and cumulative effect of accounting change for 1999, 1998 and 1997:

	1999	1998	1997
Wireline	\$ 73	\$ 178	\$1,966
Wireless	6	(99)	(60)
Information and entertainment	523	(23)	75
International	129	(1,811)	86
Corporate, adjustments & eliminations	97	—	562
Total Normalizing Impacts	\$828	\$(1,755)	\$2,629

Operating Income

Components of normalized operating income by segment for 1999, 1998 and 1997 are as follows:

	1999	1998	1997	Percent Change	
				1999 vs. 1998	1998 vs. 1997
Wireline	\$ 9,125	\$ 8,588	\$ 7,702	6.3%	11.5%
Wireless	1,280	931	647	37.5	43.9
Information and entertainment	1,684	1,624	1,384	3.7	17.3
International	(8)	(78)	(43)	(89.7)	81.4
Corporate, adjustments & eliminations	442	422	458	—	—
Total Normalized Operating Income	\$12,523	\$11,487	\$10,148	9.0%	13.2%

Components of segment operating revenues and expenses and discussion of the segment results for 1999, 1998 and 1997 follow.

Operating Revenues

SBC's normalized operating revenues increased \$3,637, or 8.0%, in 1999 and \$2,890, or 6.8%, in 1998. Components of operating revenues by segment for 1999, 1998 and 1997 are as follows:

	1999	1998	1997	Percent Change	
				1999 vs. 1998	1998 vs. 1997
Wireline	\$37,576	\$35,419	\$33,656	6.1%	5.2%
Wireless	6,764	5,629	5,023	20.2	12.1
Information and entertainment	4,777	4,345	3,819	9.9	13.8
International	147	149	122	(1.3)	22.1
Corporate, adjustments & eliminations	(304)	(219)	(187)	—	—
Total Normalized Operating Revenues	\$48,960	\$45,323	\$42,433	8.0%	6.8%

Wireline

Wireline normalized operating revenues increased \$2,157, or 6.1%, in 1999 and \$1,763, or 5.2%, in 1998. Components of wireline operating revenues for 1999, 1998 and 1997 are as follows:

	1999	1998	1997	Percent Change	
				1999 vs. 1998	1998 vs. 1997
Local service	\$19,126	\$17,239	\$15,864	10.9%	8.7%
Network access:					
Interstate	7,544	6,960	6,939	8.4	0.3
Intrastate	2,645	2,717	2,762	(2.6)	(1.6)
Long distance service	3,471	3,679	3,616	(5.7)	1.7
Other	4,790	4,824	4,475	(0.7)	7.8
Total Wireline Revenues	\$37,576	\$35,419	\$33,656	6.1%	5.2%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Dollars in millions except per share amounts

Local service revenues increased \$1,887, or 10.9%, in 1999 and \$1,375, or 8.7%, in 1998 due primarily to increases in demand, which totaled approximately \$1,245 in 1999 and \$1,270 in 1998, including increases in access lines, vertical services and data-related services revenues. In addition, revenues from two network integration companies acquired by SBC in the fourth quarter of 1998 and the second quarter of 1999 contributed approximately \$578 to the increase in 1999 and \$25 in 1998. The number of access lines increased by 3.1% in 1999 and by 3.9% in 1998. Approximately 39% of access line growth in 1999 and 35% in 1998 was due to sales of additional access lines to existing residential customers. In 1999 and 1998, approximately 33% and 31% of the access line growth were in California, 19% and 23% were in Texas and 9% and 12% were in Illinois. Access lines in California, Texas and Illinois account for approximately 60% of SBC's access lines in both 1999 and 1998. Vertical services revenues, which include custom calling services, such as Caller ID, Call Waiting, voice mail and other enhanced services, increased by approximately 14% and totaled more than \$3.3 billion in 1999 and increased by approximately 20% and totaled more than \$2.9 billion in 1998.

Local service revenues also increased as a result of regulatory actions that decreased one or more other types of operating revenues. In 1999, the introduction of extended area service plans, the introduction of the California High Cost Fund (CHCF) and the September 1999 Texas Universal Service Fund (TUSF) rate rebalancing collectively increased local service revenues by approximately \$185 and decreased long distance revenues by approximately \$112 and intrastate network access revenues by approximately \$87, with a net decrease on wireline operating revenues of approximately \$14. In 1998, the introduction of extended area service plans and the CHCF increased local service revenues by approximately \$73 and decreased long distance revenues by approximately \$43 and intrastate network access revenues by approximately \$24, with a net increase on wireline operating revenues of approximately \$6. The state public utility commissions (PUCs) have stated that the CHCF and the TUSF are intended to directly subsidize the provision of service to high-cost areas and allow Pacific Bell Telephone Company (PacBell) and Southwestern Bell Telephone Company (SWBell) to set competitive rates for other services. The increases in local service revenues were partially offset by decreases due to rate reductions under various PUC price cap orders of approximately \$194 in 1999 and \$53 in 1998.

Network access Interstate network access revenues increased \$584, or 8.4%, in 1999 and \$21, or 0.3%, in 1998. Included in the results is a decrease of approximately \$66 due to a conforming item related to costs routinely deferred by Ameritech (see discussion under Segment Results above for further information on the effect of these conforming items). Excluding this conforming item, interstate network access revenues increased \$650, or 9.3%, in 1999 and \$21, or 0.3%, in 1998 due largely to increases in special access, 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 \$795 in 1999 and \$521 in 1998. In addition, customer number portability cost recovery, net of a Federal Communications Commission (FCC) retroactive rate decrease in the second quarter of 1999, contributed approximately \$183 in 1999. Partially offsetting these increases were the effects of rate reductions of approximately \$296 in 1999 and \$336 in 1998 related to the FCC's productivity factor adjustment and access reform. Additional decreases in 1998 totaling approximately \$114 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. The net federal universal fund payments and receipts will be exogenous factors in future federal price cap filings.

Intrastate network access revenues decreased \$72, or 2.6%, in 1999 and \$45, or 1.6%, in 1998. These decreases were due largely to state regulatory rate reductions, including reduction of cellular interconnection rates and the intrastate rate reduction by the Texas legislature as discussed under Regulatory Environment, of approximately \$144 in 1999 and \$105 in 1998 and the effects of the TUSF and CHCF described in local service above totaling approximately \$87 in 1999 and \$24 in 1998. These decreases were partially offset by increases in demand, including usage by alternative intraLATA, toll carriers of approximately \$200 in 1999 and \$179 in 1998.

Long distance service revenues decreased \$208, or 5.7%, in 1999 and increased \$63, or 1.7%, in 1998. Long distance service revenues decreased in 1999 and 1998 by approximately \$202 and \$36 due to price competition from alternative intraLATA toll carriers and the effects of implementing dialing parity. Decreases also resulted from the effects of regulatory shifts of approximately \$112 in 1999 and approximately \$43 in 1998 discussed in local service above related to the TUSF, CHCF and introduction of extended area service plans and rate reductions in Kansas and California of approximately \$24 in 1999. These decreases were partially offset by approximately \$128 in 1999 and \$133 in 1998 due to increased demand at Ameritech's long distance unit, certified to provide long distance service outside SBC's region, increased demand and toll messages for SNET All Distance and increased demand at PacBell in 1998.

Other operating revenues decreased \$34, or 0.7%, in 1999 and increased \$349, or 7.8%, in 1998. Other operating revenues increased due to sales from nonregulated products and services, including customer premise equipment and network integration sales totaling approximately \$91 in 1999 and \$263 in 1998 and revenues from other wireline business initiatives, primarily Internet services totaling approximately \$59 in 1999 and \$83 in 1998. These increases were offset in 1999 and partially offset in 1998 by a decline in the public telephone business totaling approximately \$133 in 1999 and \$36 in 1998. In addition, 1999 results include a decrease for the shift of certain directory revenues to the information and entertainment segment in the first quarter of 1999 totaling approximately \$30.

Wireless

Wireless normalized operating revenues increased \$1,135, or 20.2%, in 1999 and \$606, or 12.1%, in 1998. Components of wireless operating revenues for 1999, 1998 and 1997 are as follows:

	1999	1998	1997	Percent Change	
				1999 vs. 1998	1998 vs. 1997
Subscriber	\$5,307	\$4,538	\$4,121	16.9%	10.1%
Other	1,457	1,091	902	33.5	21.0
Total Wireless Revenues	\$6,764	\$5,629	\$5,023	20.2%	12.1%

Subscriber revenues consist of local service, incollect roaming (revenues from SBC wireless customers roaming outside their home area) and wireless long distance. Wireless subscriber revenues increased \$769, or 16.9%, in 1999 and \$417, or 10.1%, in 1998 due primarily to growth in the number of customers of 28.4% in 1999 and 15.0% in 1998. The growth in customers includes approximately 1,237,000 customers of Comcast and Cellular Communications acquired in 1999. California Personal Communications Services (PCS) operations also contributed to the customer growth. These increases were partially offset by

declines in average revenue per customer. SBC had domestic wireless customers totaling 11,151,000 and 8,686,000 at December 31, 1999 and 1998.

Other wireless revenues relate primarily to outcollect roaming (revenues from non-SBC wireless customers roaming on SBC's wireless network) and equipment sales and increased \$366, or 33.5%, in 1999 and \$189, or 21.0%, in 1998. The increases were primarily attributable to growth in outcollect roaming revenues, as well as equipment sales in the California PCS operations.

Information and Entertainment

Information and entertainment normalized operating revenues increased \$432, or 9.9%, in 1999 and \$526, or 13.8%, in 1998. Information and entertainment operating revenues for 1999, 1998 and 1997 are as follows:

	1999	1998	1997	Percent Change	
				1999 vs. 1998	1998 vs. 1997
Total Information and Entertainment Revenues	\$4,777	\$4,345	\$3,819	9.9%	13.8%

Information and entertainment operating revenues increased in 1999 and 1998 primarily from increased demand for directory advertising services. The 1999 increase also includes approximately \$107 related to the change in directory accounting at Ameritech and approximately \$57 for changes in the directory publishing schedule. In addition, 1999 directory revenues increased due to the shift of certain directory revenues from the

wireline segment totaling approximately \$30. Cable revenues increased approximately \$51 in 1999 due primarily to customer growth. Growth in the number of customers, including through acquisitions, increased security revenues approximately \$179 in 1998. In addition, 1998 directory revenues increased approximately \$150 due to revision of a partnership agreement covering the publication of directories.

Operating Expenses

SBC's normalized operating expenses, which include operations and support and depreciation and amortization expenses, increased \$2,601, or 7.7%, in 1999 and \$1,551, or 4.8%, in 1998. Components of operating expenses by segment for 1999, 1998 and 1997 are as follows:

	1999	1998	1997	Percent Change	
				1999 vs. 1998	1998 vs. 1997
Wireline	\$28,451	\$26,831	\$25,954	6.0%	3.4%
Wireless	5,484	4,698	4,376	16.7	7.4
Information and entertainment	3,093	2,721	2,435	13.7	11.7
International	155	227	165	(31.7)	37.6
Corporate, adjustments & eliminations	(746)	(641)	(645)	—	—
Total Normalized Operating Expenses	\$36,437	\$33,836	\$32,285	7.7%	4.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Dollars in millions except per share amounts

Operations and support

SBC's normalized operations and support expenses increased \$1,979, or 7.5%, in 1999 and \$1,112, or 4.4%, in 1998. Components of operations and support expenses by segment for 1999, 1998 and 1997 are as follows:

	1999	1998	1997	Percent Change	
				1999 vs. 1998	1998 vs. 1997
Wireline	\$21,625	\$20,391	\$19,796	6.1%	3.0%
Wireless	4,557	3,991	3,769	14.2	5.9
Information and entertainment	2,899	2,520	2,286	15.0	10.2
International	138	209	147	(34.0)	42.2
Corporate, adjustments & eliminations	(920)	(791)	(790)	—	—
Total Normalized Operations and Support	\$28,299	\$26,320	\$25,208	7.5%	4.4%

Wireline operations and support expenses increased \$1,234, or 6.1%, in 1999 and \$595, or 3.0%, in 1998. The 1999 results include \$91 related to the treatment of conforming accounting methodologies between SBC and Ameritech. The conforming items include non-cash adjustments made to conform accounting for pension and postretirement benefits between the companies and to immediately expense certain items routinely deferred and amortized by Ameritech, including sales commissions (see discussion under Segment Results above for further information of the effect of these conforming items). The increase includes costs of approximately \$460 in 1999 and \$21 in 1998 associated with business initiatives and other products, primarily Digital Subscriber Lines (DSL), Internet and voice mail. Additionally, operations and support expenses increased approximately \$341 in 1999 and \$214 in 1998 as a result of increased wages and salaries, materials and operating taxes, and by approximately \$575 in 1999 primarily as a result of the acquisition of two network integration companies in 1998 and 1999. Operations and support expenses also increased by approximately \$83 in 1999 related to costs associated with software right-to-use fees including digital network deployment initiatives and by approximately \$288 in 1999 and \$297 in 1998 as a result of costs associated with reciprocal compensation for the termination of Internet traffic.

Operations and support expense increases were partially offset by approximately \$278 in 1999 and \$317 in 1998 due to lower contract labor costs, employee benefits and costs associated with customer number portability. These reductions primarily resulted from the realization of merger initiative benefits. The 1998 decrease was partially offset by costs of approximately \$262 related to progress in the PAC and SNET merger implementation

process including centralizing support functions and other merger initiatives. Also partially offsetting the increases in operations and support was the change in accounting for software costs (see Note 16 of Notes to Consolidated Financial Statements) which required approximately \$345 of software costs to be capitalized rather than expensed in 1999. The 1997 results include the recognition of 1997 pension settlement gains relating to 1997 retirees since the merger with PAC totaling approximately \$136.

Wireless operations and support expenses increased \$566, or 14.2%, in 1999 and \$222, or 5.9%, in 1998 due primarily to growth in the number of customers, including the acquisitions of Comcast and Cellular Communications discussed in subscriber revenues above. The 1999 results also were impacted by increased incollect roaming expenses and software costs capitalized rather than expensed in 1999.

Information and entertainment operations and support expenses increased \$379, or 15.0%, in 1999 and \$234, or 10.2%, in 1998. The 1999 results include \$116 of conforming charges related to sales commissions and leased customer equipment that SecurityLink from Ameritech, Inc. (SecurityLink) previously deferred and amortized (see discussion of conforming items under Segment Results above). The change in directory accounting at Ameritech discussed in information and entertainment operating revenues above caused expenses to increase by approximately \$103. Electronic security and cable television expenses increased in 1999 and 1998 due primarily to growth-related employee increases, while directory employee-related expenses declined partially offsetting the costs of increased demand and changes in the schedule of published directories.

Depreciation and amortization

SBC's normalized depreciation and amortization expense increased \$622, or 8.3%, in 1999 and \$439, or 6.2%, for 1998. Components of normalized depreciation and amortization expense by segment for 1999, 1998 and 1997 are as follows:

	1999	1998	1997	Percent Change	
				1999 vs. 1998	1998 vs. 1997
Wireline	\$6,826	\$6,440	\$6,158	6.0%	4.6%
Wireless	927	707	607	31.1	16.5
Information and entertainment	194	201	149	(3.5)	34.9
International	17	18	18	(5.6)	—
Corporate, adjustments & eliminations	174	150	145	—	—
Total Depreciation and Amortization	\$8,138	\$7,516	\$7,077	8.3%	6.2%

Depreciation and amortization expense is primarily in the wireline and wireless segments. In 1999, overall higher plant levels increased depreciation expense by \$326 in the wireline segment and \$67 in the wireless segment. Depreciation and amortization expenses also increased by \$142 due to the third quarter acquisitions of Comcast and Cellular Communications. A new software accounting standard (see Note 16 of Notes to Consolidated Financial Statements) also contributed \$52 to the increase in 1999. Overall higher plant levels in 1998 increased depreciation expense by \$329 in the wireline segment and \$88 in the wireless segment. Amortization expense at SecurityLink increased \$38 in 1998 due to acquisitions. The increase in 1998 was partially offset by reduced depreciation of \$42 on certain wireline analog switching equipment written off in 1997.

A full year of operations from the wireless acquisitions, along with additional capital expenditures as a part of the rapid deployment of advanced data services, is expected to increase depreciation and amortization expense by approximately \$250 in 2000.

Interest expense on a consolidated basis for 1999 decreased by \$175, or 10.9%, in 1999 and increased by \$55, or 3.5%, in 1998. The 1999 decrease was due primarily to reductions in interest expense resulting from lower average debt levels due to debt retirements in 1998 and early 1999. The 1998 increase was due primarily to higher average debt levels early in 1998 and lower capitalized interest in the wireless segment in 1998 than in 1997.

Equity in net income of affiliates increased \$299 in 1999 and \$176 in 1998. The 1999 increase includes \$131 of gains related to the sale of property by SBC's Israeli equity affiliate and reflects increased equity in net income of \$108 from investments in Telmex and Tele Danmark. The new investment in Bell Canada along with increased earnings at MATAV contributed \$71 to the increase. These increases were partially offset by \$83 of reduced earnings from the sale of SBC's investment in TCNZ and lower earnings from Telkom SA Limited (Telkom) and Belgacom. Investments in domestic wireless partnerships contributed \$17 to the increase.

The 1998 increase includes \$132 from inclusion of the first year of earnings from Tele Danmark and earnings growth at Belgacom, offset by reduced earnings from TCNZ, which was sold in April 1998. Also contributing to the increase was \$92 from Telmex, Telkom, domestic wireless partnerships and MATAV. These increases were partially offset by increased losses of \$53 from wireless start up costs in Switzerland and long distance start up costs in Switzerland, France and Israel.

SBC's earnings from foreign affiliates will continue to be sensitive to exchange rate changes in the value of the respective local currencies. SBC's foreign investments are recorded under United States' 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. Equity earnings in 2000 will reflect a full year of operations from SBC's investment in Bell Canada (see Note 15 of Notes to Consolidated Financial Statements for discussion of the Bell Canada investment).

Other income (expense) – net in 1999, 1998 and 1997 includes amounts that SBC management normalized for evaluating results. Normalizing adjustments for the incremental impacts of overlapping wireless properties sold in October 1999 were \$24 in 1999, \$31 in 1998 and \$21 in 1997. Amounts for 1998 include gains of \$2,071 related to various sales of investments and assets, primarily the sale of TCNZ and the required disposition of MTN. Amounts for 1997 also reflect gains of \$96 from the sale of SBC's interests in Bellcore and \$26 in charges related to strategic initiatives, primarily writeoffs of nonoperating plant. Excluding these items, other income (expense) – net was expense of \$205 in 1999, \$156 in 1998 and \$0 in 1997.

Results for 1999 include a gain from the sale of a portion of Amdocs Limited (Amdocs), an SBC equity investee, of approximately \$92 and gains of approximately \$63 representing dividends and market adjustments on Amdocs shares used for contributions to the SBC Foundation and deferred compensation. Results for 1999 also include a gain of approximately \$59 recognized from the sale of SBC's investment in Chile and a gain of approximately \$81 recognized from the sales of certain discontinued plant and other investments. These gains were offset by increased expenses related to higher appreciation in the market value of Telmex L shares underlying certain SBC debt redeemable in either cash or Telmex L shares than in the comparable periods of 1998, net of gains recognized from the sale of certain Telmex L shares, of approximately \$296 and approximately \$76 in dividends paid on preferred securities issued by Ameritech subsidiaries, losses on forward exchange contracts and other nonoperating items. In addition, higher wireless minority interest and lower interest income resulted in approximately \$160 net expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Dollars in millions except per share amounts

During 1998, SBC recognized expenses of approximately \$237 related to an impairment of an international investment and investments in certain wireless technologies, primarily wireless video, and approximately \$154 related to the combination of dividends paid on preferred securities owned by Ameritech subsidiaries, losses on forward exchange contracts and debt redemption costs. Partially offsetting these expenses was other income related to a special dividend of approximately \$158 received from Amdocs and gains of approximately \$127 recognized on the sale and the charitable contribution of SBC's available-for-sale investment in Telewest Communications plc.

Results for 1997 include gains of approximately \$95 recognized from the sale of all or portions of certain international investments and royalty payments associated with software developed by Amdocs and other investment gains totaling approximately \$82. Partially offsetting these gains was the net activity related to market movement on Telmex L shares of approximately \$47 and the combination of dividends paid on preferred securities owned by Ameritech subsidiaries and losses on forward exchange contracts totaling approximately \$34. In addition, higher minority interest and lower interest income resulted in approximately \$96 net expense.

Income taxes for 1999, 1998 and 1997 reflect the tax effect of certain one-time charges related to strategic initiatives resulting from SBC's comprehensive review of operations after completion of the Ameritech, SNET and PAC mergers, gains related to the sale of various assets and businesses and other items, and pension settlement gains (see further discussion of these items under Segment Results). The net effective tax rate on these items differed as a result of nondeductible items included in the charges and valuation adjustments to certain deferred tax assets. Excluding these items, income taxes for 1999, 1998 and 1997 would have been \$4,242, \$3,749 and \$3,331. Income taxes for 1999, 1998 and 1997 were higher due primarily to higher income before income taxes.

Extraordinary items In 1999, SBC recorded an extraordinary gain of \$1,379, net of taxes of \$960, related to the sale of overlapping wireless properties in October (see Note 15 of Notes to Consolidated Financial Statements). In 1998, SBC recorded an extraordinary loss of \$60 related to the repurchase of \$684 of long-term debt.

Cumulative effect of accounting change As discussed in Note 1 of Notes to Consolidated Financial Statements, Ameritech's directory publishing subsidiary, effective January 1, 1999, and SNET effective January 1, 1998, changed their methods of recognizing directory publishing revenues and related expenses (see Note 1 of Notes to Consolidated Financial Statements). The cumulative after-tax effect of applying the new method to prior years was recognized as of January 1, 1999 and 1998 as a one-time, non-cash gain applicable to continuing operations of \$207, or \$0.06 per share and \$15, or \$0.01 per share, net of deferred taxes of \$125 and \$11.

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. SBC's wireline telecommunications subsidiaries remain subject to regulation by 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 communications services, such as long distance, wireless, electronic security, cable television, Internet and other data transmission. Companies operating in some of these markets also are expanding into others, such as the provision of local service by long distance companies, and companies in previously unrelated industries, such as entertainment, are expanding into communications and communications companies are expanding into these unrelated industries. Additionally, new technologies also are affecting the way people view and use communications services.

The telecommunications industry also is changing internationally, as government-owned telephone monopolies are being privatized in many countries and competitive entrants are authorized. United States-controlled companies have acquired or formed investments, joint ventures 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 have also acquired or formed such relationships with United States companies.

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

Trends

National-Local In 1999, SBC began to implement a "National-Local" strategy in conjunction with its acquisition of Ameritech. Under the "National-Local" strategy SBC will seek to become a competitive local exchange carrier (CLEC) and offer local exchange services in 30 new markets across the country in combination with other major national and international operations. SBC expects to introduce service in nine new markets in 2000, and is required by the FCC to enter the remaining 21 markets by midyear 2002 (see Ameritech Merger discussion below). This "National-Local" strategy is part of SBC's overall strategy to expand from a regional company to a company that provides communications services and products nationally and globally.

Broadband Initiative In October 1999, as the first post-Ameritech merger initiative, SBC announced plans to offer broadband services to approximately 80% of SBC's United States wireline customers over the next three years (Project Pronto). SBC will invest an estimated \$6 billion in fiber, electronics and other technology for this broadband initiative. The build-out will include moving many customers from the existing copper network to a new fiber network. Over the deployment period, marketing costs will be

incurred depending on the rate of customer sign-ups and installations. An ongoing assessment of the carrying value and economic useful life of the existing network facilities will continue (see Note 5 of Notes to Consolidated Financial Statements).

Wireline

Federal Regulation Through affiliates, SBC offers landline interLATA long distance services to customers in selected areas outside its wireline subsidiaries' operating areas. Further, through a subsidiary, SBC offers interLATA long distance services to customers in Connecticut. Under the Telecommunications Act of 1996 (Telecom Act), before being permitted to offer landline interLATA long distance service in any state within the 12-state region encompassed by the regulated operating areas of SWBell, PacBell, Ameritech and Nevada Bell (these areas with the addition of SNET are referred to as SBC's 13-state area), 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 SBC's wireline subsidiaries 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, the subsidiaries have a statement of terms and conditions effective in that state under which they offer the "competitive checklist" items. The FCC also must make favorable public interest and structural separation determinations in connection with each application. See "State Regulation" for status of the state applications.

Ameritech Merger On October 8, 1999, SBC and Ameritech completed the merger of an SBC subsidiary with Ameritech (see Note 2 of Notes to Consolidated Financial Statements for a discussion of the merger with Ameritech).

The FCC issued an order approving the transaction, subject to certain conditions, including fostering out-of-region competition, promoting advanced services, opening local markets to competition and improving residential services. These FCC conditions require specific performance and reporting provisions and contain enforcement provisions that could potentially trigger more than \$2 billion in payments, as described below, if certain goals are not met. The following is a brief summary of the major conditions:

- **Out-of-Region Competition** Within 30 months from the merger closing, SBC must enter 30 new markets as a facilities-based competitive provider of local services to business and residential customers. Failure to achieve entrance into 30 markets within the 30-month time frame could result in a fine of \$40 for each market missed.
- **Promoting Advanced Services** SBC established separate subsidiaries to provide advanced services, such as DSL. These subsidiaries are required to use the same processes for the ordering and provisioning of SBC wireline services as competitors, pay an equivalent price for facilities and services and locate at least 10% of their advanced service facilities in low-income areas. In addition, SBC will provide data CLECs the economic equivalent of line sharing by providing them a second line at a 50% discount for the purposes of providing advanced services.
- **Opening Local Markets to Competition** SBC will file performance measurement data reflecting 20 different cate-

gories for each state in its 13-state area with the FCC and relevant state commissions on a monthly basis. These performance measurements address functions that may have a particularly direct effect on SBC's local competitors and their customers such as SBC's response to competitors' requests for information and interconnection. If these performance goals are not met, payments of up to \$1.1 billion over three years could be triggered. SBC will develop and deploy, with CLEC input, uniform electronic operational support systems (OSS) throughout its 13-state area that support the pre-ordering, ordering, provisioning, maintenance, repair and billing of resold local services and unbundled network elements. The OSS will include uniform application-to-application interfaces and graphical user interfaces. Payments of up to \$20 could be triggered if deployment targets are not met. SBC will restructure OSS charges to eliminate any flat rate up-front charge for the right to use SBC's standard interfaces for accessing OSS. In addition, SBC will provide free training and OSS expert teams for CLECs with annual revenues under \$300.

- **Improving Residential Service** SBC will not charge residential customers minimum monthly long distance fees for at least three years after entering the long distance business in that market. In addition, SBC will offer a low-income Lifeline universal service plan to low-income residential customers in each state in its 13-state area.

The effects of these conditions on results of operations is still being evaluated. However, SBC expects to incur approximately \$500 in additional expenses, exclusive of potential penalty payments, in 2000 to comply with these conditions.

Unbundled Network Elements In August 1996, the FCC issued rules by which competitors could connect with local exchange companies' (LECs) networks, including those of SBC's subsidiaries. Among other items, 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 January 1999, the United States Supreme Court (Supreme Court) ruled that the Telecom Act gives the FCC the authority to set guidelines for states to follow in setting prices under the Telecom Act, reinstated the FCC rules allowing those seeking to interconnect to "pick and choose" specific provisions from previous interconnection agreements and upheld FCC rules forbidding incumbent LECs from separating already combined network elements. The Supreme Court also ordered the FCC to review its unbundling rules that required major local telephone carriers, such as SBC's subsidiaries, to lease to competitors, at a discount, parts of their phone networks, including the telephone lines that run to customers' homes, switching equipment that routes calls and directory and operator assistance.

In November 1999, the FCC adopted an order providing that the major local telephone carriers must continue leasing certain parts of their phone network to competitors at a discount. This order provides revised rules that expand the definitions of certain unbundled network elements. The FCC did rule that directory and operator assistance no longer has to be leased at a discount. The order also limits discounted access to switches serving customers

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Dollars in millions except per share amounts

with four or more lines under certain conditions. In addition, the FCC declined to expand its regulation to include mandatory leasing of high speed Internet and data equipment. Although the effect of this order on SBC's results of operations and financial position cannot be determined at this time, it is expected to be unfavorable.

Reciprocal Compensation is billed to SBC's wireline subsidiaries by 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 only for intrastate local traffic, while the FCC has authority over interstate and interexchange traffic. SBC believes most Internet traffic is interexchange and interstate. Several state commissions have taken the position that a connection to the Internet is intrastate or local traffic and ordered SBC to pay reciprocal compensation to certain CLECs pursuant to existing contracts. In February 1999, the FCC declared that Internet traffic is not intrastate or local traffic, but instead is primarily interstate, subject to interstate jurisdiction. However, the FCC found that existing federal law does not address to what extent, if any, compensation should be paid to CLECs that deliver Internet traffic to Internet service providers and initiated a proceeding to establish such rules. Pending the completion of that proceeding, the FCC held that state commissions, interpreting existing contracts and consistent with federal law, might nevertheless order payment of reciprocal compensation for Internet traffic in certain circumstances. The FCC's February 1999 decision was appealed by MCI WorldCom, Inc. (MCI), US West, Inc. (US West) and GTE Corporation (GTE). In its appeal, MCI disputed that a connection to the Internet is part of interstate communication. US West and GTE appealed the FCC's conclusion that states may require reciprocal compensation for such traffic pending completion of FCC rulemaking. These appeals are pending in the United States Court of Appeals for the District of Columbia Circuit.

In June 1999, the United States Court of Appeals for the Seventh Circuit (7th Circuit) issued an opinion affirming an order of the Illinois Commerce Commission (ICC) directing Ameritech to pay reciprocal compensation on Internet traffic under existing interconnection agreements. The 7th Circuit only reviewed whether the ICC's determination that the parties intended that calls to Internet Service Providers would be subject to reciprocal compensation violated federal law. The 7th Circuit declined to review any contract issues and concluded that the ICC's determination did not violate federal law as it was expressly permitted under the February 1999 FCC ruling regarding reciprocal compensation. SBC has sought a rehearing of the 7th Circuit Court decision.

Other appeals of reciprocal compensation decisions currently are pending before the United States Circuit Courts of Appeals for the Fifth and Tenth Circuits, the United States Circuit Court of Appeals for the Sixth Circuit (6th Circuit) and United States District Courts in Indiana, Ohio and California. In August 1999, the Michigan District Court affirmed an order of the Michigan Public Service Commission (MPSC) directing Ameritech to pay reciprocal compensation under existing interconnection agreements. Relying upon the FCC's declaratory ruling, the Michigan District Court concluded that the FCC had left the issue of reciprocal compensation to be determined by state commissions and

therefore deferred to the MPSC's decision. SBC has appealed that decision to the 6th Circuit. In July 1999, the United States District Court in Wisconsin dismissed SBC's appeal without deciding the merits of the case. SBC appealed that dismissal to the 7th Circuit.

SBC records expense for amounts sought by certain CLECs for the termination of Internet traffic to Internet service providers.

Digital Subscriber Line is a high-speed data service principally used for Internet access. In June 1998, SBC filed a petition with the FCC requesting relief for DSL from pricing, unbundling and resale regulatory restrictions. The FCC denied the petition and declared that incumbents, such as the SBC's wireline subsidiaries, must offer such services for resale at a discount and must offer unbundled access to the equipment used in DSL provisioning to the extent possible. SBC filed a petition with the FCC for reconsideration of this order.

In November 1999, the FCC issued an order requiring the regional holding companies (RHCs), such as SBC, to share phone lines with data CLECs. Using a technology called line sharing, the RHCs split the frequency of a telephone line so the Internet service is carried on a portion of it. This ruling is not expected to have a material effect on SBC's financial position or results of operations.

Federal Access Rates In May 1999, the United States Court of Appeals for the District of Columbia Circuit (Court of Appeals) ruled that the FCC failed to adequately explain certain changes to part of the price cap formula used to calculate the access rates local carriers, such as SBC's subsidiaries, charge long distance carriers. In a subsequent order, the Court of Appeals stayed this decision until April 1, 2000. In November 1999, the FCC issued a further notice of proposed rulemaking (FNPR) and SBC and numerous other local exchange and interexchange carriers have proposed a solution to the issues in this docket that would temporarily maintain the current price cap formula and reduce it markedly after traffic sensitive rates are reduced. The effect of any future final decision on SBC's results of operations and financial position cannot be determined at this time.

Pricing Flexibility In August 1999, the FCC adopted an order and an FNPR on interstate access charge reform issues. Under the order, Phase I flexibility will permit a LEC, such as one of SBC's subsidiaries, to offer volume and term discounts under contract for certain access services after the LEC has demonstrated that competitors have made substantial investments in facilities in the LEC's market areas. Phase II flexibility will permit a LEC to have special access and dedicated transport services removed from price caps entirely after the LEC demonstrates that a greater level of competitive investment exists. Although the effect of this order and FNPR on SBC's results of operations and financial position cannot be determined at this time, it is expected to be favorable.

Acquisitions of Security Services Assets In 1998, the FCC issued a Memorandum Opinion and Order to Show Cause relating to four asset acquisitions by SecurityLink in 1996 and 1997. The FCC found that Ameritech had gained "financial control" over the entities 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, Ameritech show cause why the FCC should not require SecurityLink to divest the assets

acquired in this transaction. Previously, the FCC had ruled that the 1996 transaction was permissible under the Telecom Act, and the District of Columbia Circuit Court (D.C. Circuit Court) had vacated and remanded this decision to the FCC. Ameritech filed a response with the FCC, contending that divestiture would not be an appropriate remedy. The FCC's decision on these Orders to Show Cause is pending.

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 13 states in which SBC's wireline subsidiaries operated at December 31, 1999:

State	Alternative Regulation ¹	Dialing Parity ²	Number of Signed Wireline Interconnection Agreements ³	Long Distance Application Status
Arkansas	Yes	Yes	66	Decision expected in 2000 ⁴
California	Yes, through 12/2001	Yes	140	Decision expected in 2000 ⁴
Connecticut	Yes, through 3/2001	Yes	18	Long distance service provided ⁵
Illinois	Yes	Yes	48	Filing planned in 2000 ⁶
Indiana	Yes, interim	Yes	45	Filing planned in 2000 ⁶
Kansas	Yes	Yes	60	Decision expected in 2000 ⁴
Michigan	Yes	Yes	27	Filing planned in 2000 ⁶
Missouri	Yes	Yes	74	Decision expected in 2000 ⁴
Nevada	Yes	Yes	31	Filing planned in 2000 ⁶
Ohio	Yes	Yes	51	Filing planned in 2000 ⁶
Oklahoma	Pending	Yes	74	Decision expected in 2000 ⁴
Texas	Yes	Yes	204	State approval received in 1999; FCC decision expected in 2000
Wisconsin	Yes	Yes	35	Filing planned in 2000 ⁶

Notes:

¹Alternative regulation is other than rate of return regulation.

²In a January 1999 decision, the Supreme Court ruled that the FCC had the authority to issue rules implementing intrastate and intraLATA dialing parity. Dialing parity allows customers to subscribe to an intraLATA toll carrier just as they do for long distance services.

³Interconnection agreements are signed with CLECs for the purpose of allowing the CLECs to exchange local calls with the incumbent telephone company and, at the CLEC's option, to resell services and obtain unbundled network elements.

⁴Awaiting determination by state commissions on SBC's compliance with the 14-point competitive checklist. FCC approval is required subsequent to state determination.

⁵Restricted from providing interLATA long distance service originating in any of the other 12 states in its 13-state area.

⁶Will require approval by the state commission and the FCC.

The following presents highlights of certain regulatory developments:

Texas Long Distance Application In December 1999, the Texas Public Utility Commission (TPUC) unanimously approved SWBell's interLATA long distance application and formally declared that the local phone market in Texas is open to competition, noting that SWBell has met the 14-point checklist requirements of the Telecom Act. SWBell's long distance application was filed with the FCC in January 2000 and the FCC has 90 days from that time to rule on the application.

Texas Legislation In May 1999, the Texas legislature adopted Senate Bill 560, as amended. The bill, which became law on September 1, 1999, extends incentive regulation indefinitely,

provides more pricing flexibility on certain products offered by SWBell, such as Caller ID, operator service and directory assistance, and allows SWBell to package some services in ways attractive to customers. The bill also required SWBell to reduce the intrastate switched access rate it charges to long distance carriers by 1 cent on September 1, 1999 and by 2 additional cents on the earlier of either SWBell's entry into the long distance market or July 1, 2000. The 2-cent reduction in intrastate access rates, assuming a July 1, 2000 effective date, is expected to result in a reduction of intrastate network access revenues of approximately \$72 for 2000.

California Property Tax Investigation In 1992, PacBell entered into a settlement with tax authorities and others, which fixed a specific methodology for valuing utility property for tax

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Dollars in millions except per share amounts

purposes for a period of eight years. As a result, the California Public Utilities Commission (CPUC) opened an investigation to determine if any property tax savings that may result from the settlement agreement should be returned by PacBell to its customers. In January 2000, the CPUC ruled the property tax changes resulting from the settlement are not subject to refund. This ruling is not expected to have a material effect on SBC's financial position or results of operations.

California Ruling In December 1999, a CPUC administrative judge ruled that PacBell must pay \$44 in penalties and contact customers for potential refunds for alleged overly aggressive and deceptive marketing practices related to packages of enhanced services such as Caller ID and call forwarding. SBC believes the findings in this decision are unwarranted and appealed the ruling to the CPUC in January 2000.

COMPETITION

Wireline

Competition continues to increase for telecommunications and information services. Recent changes in legislation and regulation have increased the opportunities for alternative communications service providers. 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 SBC's 13-state area and the commission of each state has been approving these applications since late 1995. Under the Telecom Act, companies seeking to interconnect to SBC's wireline subsidiaries' networks and exchange local calls must enter into interconnection agreements with SBC. These agreements are then subject to approval by the appropriate state commission. SBC has reached approximately 873 wireline interconnection agreements with competitive local service providers, and most have been approved by the relevant state commission. AT&T Corp. (AT&T), MCI and other competitors are reselling SBC local exchange services, and as of December 31, 1999, there were approximately 1.6 million SBC access lines supporting services of resale competitors throughout SBC's 13-state area, primarily in Texas, California and Illinois. 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 expects to begin offering local exchange service to these areas in late 2000.

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 resolved, including final rates for resale. PacBell has incurred substantial costs implementing local competition and number portability. In November 1998, the CPUC issued a decision authorizing PacBell to recover local competition implementation costs and a proceeding is pending to determine the amount of those costs that are recoverable. In June 1999, the CPUC issued a ruling

recategorizing certain PacBell services, including the maintenance of inside wiring, calling card, collect and person to person calls and the provisioning of directory assistance to interexchange carriers, as competitive products thereby allowing greater pricing flexibility. In its ruling, the CPUC approved an increase in the maximum price for both inside wire repair services and interexchange directory assistance.

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

In Illinois, the ICC approved Advantage Illinois in 1994, providing a framework for regulating Ameritech by capping prices for noncompetitive services. In this order, the ICC approved a price cap on the monthly line charge for residential customers and residential calling rates within local calling areas for an initial five year period that ended in October 1999. Per the order, an application for review was submitted in March 1998. This review is pending. The price cap on residential rates will remain in effect until the review is completed or the price cap is overridden by legislation.

In Missouri, the Missouri Public Service Commission (MSC) issued orders on a consolidated arbitration hearing with AT&T and MCI and in a separate arbitration on selected items with Metropolitan Fiber Systems (which is now owned by MCI). 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 AT&T/MCI arbitration proceeding in November 1997. A second arbitration process to address other interconnection issues with AT&T has concluded, and the MSC ordered that a conforming interconnection agreement be filed. SWBell appealed this second order in April 1998. In a consolidated decision issued in August 1999, affecting both appeals, a federal district court in Missouri affirmed most portions of the MSC's orders, finding, among other things, that the MSC's pricing decisions were not unlawful and remanding decisions on certain fiber and unbundling issues back to the MSC. In September 1999, SWBell appealed this decision to the United States Court of Appeals for the Eighth Circuit.

In Oklahoma, the Oklahoma Corporation Commission (OCC) approved a rule in October 1999 creating alternative regulation for companies who opt into the alternative regulation rule, including SWBell. Under the rule, which was approved as an emergency rule and signed by the governor of Oklahoma, SWBell, in order to opt into alternative regulation, was required to file an application with the OCC for approval of its transition plan. The plan was approved by the OCC in December 1999. When SWBell opts into the alternative regulation rule, SWBell will be regulated under price cap regulation instead of rate of return regulation. Under the emergency rule, SWBell plans to implement one element of the transition plan, network infrastructure deployment, including DSL and switch replacement. The cost of full deployment is currently estimated at \$200 in total capital expenditures over the next three years. Other items under SWBell's transition plan will be implemented only if the Oklahoma legislature adopts the alternative regulation rule and the rule becomes law. These other items include promotional discounts on unbundled network

elements provided to competitors, pricing flexibility and ratepayer benefits. The ratepayer benefits include SWBell's obligation to pay \$30 into an education information technology fund as well as waiver of the Oklahoma universal access fund surcharge for five years. SWBell's current fund surcharge is approximately \$2 annually and SWBell will pay the current assessment into the fund even though it has waived collection of this amount from customers. The OCC alternative regulation rule has been submitted to the Oklahoma legislature for approval in the session that begins in February 2000. If the rule is not approved into law, SWBell will not be obligated to complete the infrastructure deployment and, at that time, will determine if implementation will continue.

In Indiana, the Indiana Court of Appeals (Indiana Court) issued a decision in October 1999 reversing a portion of the 1997 Indiana Utility Regulatory Commission (IURC) Opportunity Indiana (OI) order, which had directed Ameritech to reduce rates for basic residential and business services and remanded the rate issue to the IURC. In addition, the Indiana Court affirmed the IURC's order requiring Ameritech to comply with the infrastructure investment commitments made in OI. Ameritech has sought rehearing of this portion of the Indiana Court's decision. Ameritech will continue to operate under the other provisions of the OI order and will continue charging basic local rates at current levels.

SBC's wireline subsidiaries expect increased competitive pressure in 2000 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 SBC's 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, intraLATA toll dialing parity, implemented throughout SBC's 13-state area, will continue to increase competition in intraLATA long distance markets.

Wireless

SBC's wireless subsidiaries currently provide analog and digital wireless products and services to approximately 11.2 million customers across the nation, making SBC one of the three largest wireless providers in the United States. SBC offers service in 23 of the 35 largest United States' metropolitan areas.

Companies that were granted licenses in areas where SBC also provides wireless service include subsidiaries and affiliates of AT&T, Sprint Corporation 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.

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.

Information and Entertainment

SBC's directory subsidiaries 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.

SBC's cable subsidiary offers cable television service in more than 80 communities in the Midwest and faces competition from other cable television providers in those areas.

SBC's SecurityLink competes with other companies across North America as a provider of security systems.

International

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, 1999, Telmex had approximately 84% of the long distance market in Mexico. 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. Mexican regulators postponed the elimination of the proportional return mechanism, which had been scheduled for year-end 1999. The mechanism may expire in 2000, but regulators have not yet provided a definitive time frame for the expiration. Aggressive local competition is expected in 2000, primarily in the business segment.

SBC has an investment in the Hungarian telecommunications company, MATÁV. MATÁV provides domestic and international long distance telephone service throughout Hungary and local telephone service in certain designated areas of Hungary. MATÁV has a concession agreement that provides for exclusivity until December 2001. There are discussions taking place with the Hungarian government to shorten the exclusivity period; this would require MATÁV's approval. Once the exclusivity period expires, MATÁV will experience aggressive competition, especially in the domestic and international long distance markets.

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, 2000, with earlier adoption permitted. SBC currently is 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 16 of Notes to Consolidated Financial Statements for a discussion of the new accounting standard on software costs).

Acquisitions

During 1999, SBC and Telmex each acquired a 50% interest in Cellular Communications. The total transaction was valued at \$827, including assumption of approximately \$370 in debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Dollars in millions except per share amounts

In November 1999, SBC announced it has agreed to acquire Radiofone, Inc. (Radiofone) for approximately 8 million shares of SBC common stock. The transaction is expected to be completed in the second quarter of 2000, pending regulatory approvals. Radiofone serves more than 200,000 wireless customers in Louisiana and Michigan and approximately 300,000 paging customers in 11 states.

In January 2000, SBC and Telmex acquired a stake in Brazilian wireless provider ATL – Algar Telecom Leste S.A. (ATL), which serves customers in the Brazilian states of Rio de Janeiro and Espirito Santo. As part of the transaction, Williams Communications Group Inc. will reduce its stake to a 50% economic interest in ATL. SBC and Telmex will have the opportunity to subsequently increase their investment to a 50% stake in ATL, but cannot do so until 2004. Until then, Algar Telecom retains an investment in ATL, as well as voting and board control of ATL, in accordance with Brazilian regulations.

See Note 15 of Notes to Consolidated Financial Statements for a discussion of the Comcast and Bell Canada acquisitions.

SBC's Year 2000 Project

SBC performed a four-step methodology to address the Year 2000 issue consisting of inventory and assessment, hardware and software fixes, testing and deployment. All phases of the Year 2000 project were completed by December 31, 1999. SBC's network and operating systems successfully passed through the Year 2000 date change. Employees monitored the network and supporting systems and experienced no Year 2000-related problems. SBC spent approximately \$475 on the entire project, with approximately \$227 spent in 1999.

LIQUIDITY AND CAPITAL RESOURCES

SBC had \$495 of cash and cash equivalents available at December 31, 1999. Commercial paper borrowings as of December 31, 1999 totaled \$2,623 out of \$6 billion authorized. SBC has entered into agreements with several banks for committed lines of credit totaling \$2,880, all of which may be used to support commercial paper borrowings (see Note 8 of Notes to Consolidated Financial Statements). SBC had no borrowings outstanding under these lines of credit as of December 31, 1999.

Cash from Operating Activities

During 1999, as in 1998 and 1997, 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 1999, 1998 and 1997; this excess is referred to as free cash flow, a supplemental measure of liquidity. SBC generated free cash flow of \$6,274, \$4,099 and \$2,723 in 1999, 1998 and 1997.

In addition, SBC will incur additional expenses totaling approximately \$2 billion in 2000 related to the FCC merger conditions, the merger initiatives, including Project Pronto and obtaining approval to begin offering long distance.

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 \$10,304, \$8,882 and \$8,856 for 1999, 1998 and 1997. Capital expenditures in the wireline segment increased by 17.2% in 1999 compared with 1998 due primarily to DSL, digital and broadband network upgrades, capitalized software accounting rule changes and regulatory commitments. The wireline segment's capital expenditures were relatively unchanged in 1998. The wireless segment's capital expenditures were relatively unchanged in 1999 and decreased in 1998 due primarily to completion of the 1997 initial build-out of the PCS network and conversion of SBC's largest cellular markets to digital during 1997.

See Note 15 of Notes to Consolidated Financial Statements for a discussion of the acquisitions and dispositions.

In 2000, management expects total capital spending to be between \$13 billion and \$14 billion. Capital expenditures in 2000 will be used to continue the evolution of the wireline subsidiaries' networks, including amounts estimated for Project Pronto, SBC's broadband initiative, and continued build-out of SBC's wireless markets.

Cash from Financing Activities

Dividends declared by the Board of Directors of SBC were \$0.975 per share in 1999, \$0.935 per share in 1998, and \$0.895 per share in 1997. These per share amounts do not include dividends declared and paid by Ameritech, SNET and PAC prior to their respective mergers. The total dividends paid by SBC, Ameritech, SNET or PAC were \$3,312 in 1999, \$3,177 in 1998 and \$3,015 in 1997. SBC's dividend policy considers both the expectations and requirements of shareowners, internal requirements and long-term growth opportunities.

In December 1999, SBC called approximately \$31 of debt that was scheduled to mature in December 2004. During 1999, subsequent to the completion of the acquisitions of Comcast and Cellular Communications, SBC retired \$1,415 of Comcast's and Cellular Communications' long-term debt with no effect on net income. In May 1999, SBC issued \$750 of 6.25% unsecured Eurodollar notes, due May 2009, with proceeds used to fund its investment in Bell Canada.

During 1998, SBC redeemed \$2,789 of long-term debt, including mortgage bonds. Also in 1998, SBC issued \$2,150 of notes and debentures. In February 1998, SBC also issued \$750 of 5.88% unsecured Eurodollar notes, due February 2003, with proceeds used primarily to fund its investment in Tele Danmark.

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

In April 1998, an SBC subsidiary issued, through private placement, 3,250 shares of stated rate auction preferred stock (STRAPS) in four separate series. Net proceeds from these issuances totaled \$322.

In June 1997 and December 1999, one of SBC's wholly owned subsidiaries issued \$250 and \$100 of preferred stock in private placements.

In January 2000, SBC's Board of Directors authorized the repurchase of up to 100 million shares of SBC's common stock.

SBC expects to fund ongoing capital expenditures, the repurchase of stock and merger initiative expenses with cash provided by operations and incremental borrowings.

Other

SBC's total capital consists of debt (long-term debt and debt maturing within one year), Trust Originated Preferred Securities and shareowners' equity. Total capital increased \$3,453 in 1999 and \$3,292 in 1998. The increase in 1999 was due to 1999 earnings, partially offset by lower debt levels. The increase in 1998 was primarily due to 1998 earnings, partially offset by lower debt levels.

SBC's debt ratio was 42.9%, 47.3% and 54.9% at December 31, 1999, 1998 and 1997. The debt ratio is affected by the same factors that affect total capital.

MARKET RISK

SBC is exposed to market risks primarily from changes in interest rates, foreign currency exchange rates, and certain equity stock prices. In managing exposure to these fluctuations, SBC may engage in various hedging transactions that have been authorized according to documented policies and procedures. SBC does not use derivatives for trading purposes, to generate income or to engage in speculative activity. 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. The majority of SBC's financial instruments are medium- and long-term fixed rate notes and debentures.

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 8 and 9 of Notes to Consolidated Financial Statements. Following are SBC's interest rate derivatives subject to interest rate risk:

	Maturity						Total	Fair Value 12/31/99
	2000	2001	2002	2003	2004	After 2004		
Interest Rate Derivatives								
Interest Rate Swaps:								
Receive Fixed/Pay Variable Notional Amount	—	—	\$130	\$315	\$200	\$150	\$795	\$ (20)
Variable Rate Payable ¹	6.3%	6.9%	7.0%	7.1%	7.1%	7.2%		
Weighted Average Fixed Rate Receivable	6.1%	6.1%	6.1%	6.1%	6.0%	6.0%		
Receive Variable/Pay Fixed Notional Amount	\$10	\$120	\$ 5	—	—	\$250	\$385	\$ 6
Fixed Rate Payable	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%		
Weighted Average Variable Rate Receivable ²	6.4%	7.0%	7.1%	7.1%	7.2%	7.3%		
Lease Obligations:								
Variable Rate Leases ³	—	\$ 42	—	—	\$ 81	—	\$123	\$123
Average Interest Rate ³	6.7%	7.1%	7.2%	7.3%	7.3%	—		

¹Interest payable based on Three Month London Interbank Offer Rate (LIBOR) plus or minus a spread.

²Interest receivable based on Three Month Commercial Paper Index published by Federal Reserve.

³Average interest rate based on current and implied forward rates for One Month LIBOR plus 30 basis points. The lease obligations require interest payments only until maturity.

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

	U.S. Dollar Value of Net Foreign Exchange Contracts	Net Underlying Foreign Currency Transaction Exposures
December 31, 1999		
Total Exposure – Japanese Yen	\$142	\$142

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 Japanese yen 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Dollars in millions except per share amounts

In 1999, a \$50 interest rate swap contract, linked to the variable rate debt, matured and interest rate swap contracts of \$13 linked to variable rate lease obligations were exited with minimal effect on net income.

There has been no material change in the updated market risks since December 31, 1998.

QUALITATIVE INFORMATION ABOUT MARKET RISK

Foreign Exchange Risk

From time to time SBC makes investments in businesses 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 often will 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 equity price risk exposure from certain outstanding employee stock options linked to Vodafone AirTouch ADRs which are not significant (see Note 13 of Notes to Consolidated Financial Statements).

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 managing the mix of fixed and floating rate debt. 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:

- Adverse economic changes in the markets served by SBC, or countries in which SBC has significant investments.
- Changes in available technology.
- The final outcome of FCC rulemakings and judicial review, if any, of such rulemakings, including issues relating to jurisdiction.
- The final outcome of state regulatory proceedings in SBC's 13-state area, and judicial review, if any, of such proceedings, including proceedings relating to interconnection terms, access charges, universal service, unbundled network elements and resale rates, and reciprocal compensation.
- Enactment of additional state, Federal and/or foreign regulatory laws and regulations pertaining to SBC's subsidiaries and foreign investments.
- The timing of entry and the extent of competition in the local and intraLATA toll markets in SBC's 13-state area and SBC's entry into the in-region long distance market.
- The impact of the Ameritech transaction, including performance with respect to regulatory requirements and merger integration efforts.
- The timing and cost of deployment of SBC's broadband initiative also known as Project Pronto, its effect on the carrying value of the existing wireline network and the level of consumer demand for offered services.

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

	1999	1998	1997
Operating Revenues			
Landline local service	\$19,003	\$17,196	\$15,961
Wireless subscriber	5,851	5,265	4,852
Network access	10,094	9,575	9,491
Long distance service	3,456	3,673	3,616
Directory advertising	4,266	3,929	3,615
Other	6,819	6,569	5,571
Total operating revenues	49,489	46,207	43,106
Operating Expenses			
Operations and support	29,338	27,143	27,727
Depreciation and amortization	8,553	7,841	7,777
Total operating expenses	37,891	34,984	35,504
Operating Income	11,598	11,223	7,602
Other Income (Expense)			
Interest expense	(1,430)	(1,605)	(1,550)
Equity in net income of affiliates	912	613	437
Other income (expense) – net	(227)	1,884	49
Total other income (expense)	(745)	892	(1,064)
Income Before Income Taxes, Extraordinary Items and Cumulative Effect of Accounting Change	10,853	12,115	6,538
Income taxes	4,280	4,380	2,451
Income Before Extraordinary Items and Cumulative Effect of Accounting Change	6,573	7,735	4,087
Extraordinary items, net of tax	1,379	(60)	—
Cumulative effect of accounting change, net of tax	207	15	—
Net Income	\$ 8,159	\$ 7,690	\$ 4,087
Earnings Per Common Share:			
Income Before Extraordinary Items and Cumulative Effect of Accounting Change	\$ 1.93	\$ 2.27	\$ 1.21
Net Income	\$ 2.39	\$ 2.26	\$ 1.21
Earnings Per Common Share – Assuming Dilution:			
Income Before Extraordinary Items and Cumulative Effect of Accounting Change	\$ 1.90	\$ 2.24	\$ 1.20
Net Income	\$ 2.36	\$ 2.23	\$ 1.20

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

CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	December 31,	
	1999	1998
Assets		
Current Assets		
Cash and cash equivalents	\$ 495	\$ 599
Accounts receivable – net of allowances for uncollectibles of \$1,099 and \$810	9,378	9,783
Prepaid expenses	651	843
Deferred income taxes	767	685
Other current assets	639	787
Total current assets	11,930	12,697
Property, Plant and Equipment – Net	46,571	44,194
Intangible Assets – Net of Accumulated Amortization of \$1,325 and \$1,111	6,796	5,161
Investments in Equity Affiliates	10,648	7,412
Other Assets	7,270	5,502
Total Assets	\$83,215	\$74,966
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	\$ 3,374	\$ 4,178
Accounts payable and accrued liabilities	15,103	13,253
Dividends payable	836	809
Total current liabilities	19,313	18,240
Long-Term Debt	17,475	17,170
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,821	2,846
Postemployment benefit obligation	9,612	9,193
Unamortized investment tax credits	389	474
Other noncurrent liabilities	3,879	3,269
Total deferred credits and other noncurrent liabilities	18,701	15,782
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 3,433,124,836 at December 31, 1999 and 3,433,762,063 at December 31, 1998)	3,433	3,434
Capital in excess of par value	12,453	12,439
Retained earnings	13,798	8,948
Guaranteed obligations of employee stock ownership plans (ESOP)	(106)	(261)
Deferred compensation – leveraged ESOP (LESOP)	(73)	(82)
Treasury shares (37,752,621 at December 31, 1999 and 28,217,018 at December 31, 1998, at cost)	(1,717)	(882)
Accumulated other comprehensive income	(1,062)	(822)
Total shareowners' equity	26,726	22,774
Total Liabilities and Shareowners' Equity	\$83,215	\$74,966

[#] 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

	1999	1998	1997
Operating Activities			
Net income	\$ 8,159	\$ 7,690	\$ 4,087
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,553	7,841	7,777
Undistributed earnings from investments in equity affiliates	(471)	(256)	(172)
Provision for uncollectible accounts	1,136	896	938
Amortization of investment tax credits	(85)	(96)	(115)
Deferred income tax expense	1,061	840	553
Gain on sale of Telecom Corporation of New Zealand shares	—	(1,543)	—
Extraordinary items, net of tax	(1,379)	60	—
Cumulative effect of accounting change, net of tax	(207)	(15)	—
Changes in operating assets and liabilities:			
Accounts receivable	(731)	(2,257)	(1,281)
Other current assets	335	310	(661)
Accounts payable and accrued liabilities	2,054	1,175	1,994
Other – net	(1,847)	(1,664)	(1,541)
Total adjustments	8,419	5,291	7,492
Net Cash Provided by Operating Activities	16,578	12,981	11,579
Investing Activities			
Construction and capital expenditures	(10,304)	(8,882)	(8,856)
Investments in affiliates	51	(77)	(29)
Purchase of short-term investments	(26)	(42)	(916)
Proceeds from short-term investments	31	355	1,029
Dispositions	4,867	2,727	1,000
Acquisitions	(5,198)	(3,261)	(2,190)
Other	2	11	13
Net Cash Used in Investing Activities	(10,577)	(9,169)	(9,949)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	(787)	(589)	(761)
Issuance of other short-term borrowings	—	2	1,079
Repayment of other short-term borrowings	—	(8)	(805)
Issuance of long-term debt	738	2,890	2,246
Repayment of long-term debt	(2,301)	(2,860)	(999)
Early extinguishment of debt and related call premiums	(31)	(765)	(6)
Purchase of fractional shares	—	—	(15)
Issuance of common shares	313	464	308
Issuance of preferred shares	103	322	250
Purchase of treasury shares	(1,169)	(498)	(87)
Issuance of treasury shares	318	308	293
Dividends paid	(3,287)	(3,131)	(2,966)
Other	(2)	3	13
Net Cash Used in Financing Activities	(6,105)	(3,862)	(1,450)
Net increase (decrease) in cash and cash equivalents	(104)	(50)	180
Cash and cash equivalents beginning of year	599	649	469
Cash and Cash Equivalents End of Year	\$ 495	\$ 599	\$ 649

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

	1999		1998		1997	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	3,434	\$ 3,434	3,428	\$ 3,428	3,430	\$ 3,430
Purchase of shares	(8)	(8)	(13)	(13)	(25)	(25)
Issuance of shares	7	7	19	19	23	23
Balance at end of year	3,433	\$ 3,433	3,434	\$ 3,434	3,428	\$ 3,428
Capital in Excess of Par Value						
Balance at beginning of year		\$12,439		\$12,375		\$12,468
Purchase of shares		(398)		(487)		(576)
Issuance of shares		215		370		406
Other		197		181		77
Balance at end of year		\$12,453		\$12,439		\$12,375
Retained Earnings						
Balance at beginning of year		\$ 8,948		\$ 4,429		\$ 3,338
Net income (\$2.39, \$2.26 and \$1.21 per share)		8,159		7,690		4,087
Dividends to shareowners (\$0.975, \$0.935 and \$0.895 per share)		(3,312)		(3,177)		(3,015)
Other		3		6		19
Balance at end of year		\$13,798		\$ 8,948		\$ 4,429
Guaranteed Obligations of ESOP						
Balance at beginning of year		\$ (261)		\$ (409)		\$ (535)
Reduction of debt associated with ESOP		155		148		126
Balance at end of year		\$ (106)		\$ (261)		\$ (409)
Deferred Compensation - LESOP						
Balance at beginning of year		\$ (82)		\$ (119)		\$ (161)
Cost of LESOP trust shares allocated to employees		9		37		42
Balance at end of year		\$ (73)		\$ (82)		\$ (119)
Treasury Shares						
Balance at beginning of year	(28)	\$ (882)	(30)	\$ (730)	(41)	\$ (985)
Purchase of shares	(23)	(1,169)	(12)	(498)	(3)	(87)
Issuance of shares	13	334	14	346	14	335
Other	—	—	—	—	—	7
Balance at end of year	(38)	\$ (1,717)	(28)	\$ (882)	(30)	\$ (730)
Accumulated Other Comprehensive Income, net of tax						
Balance at beginning of year		\$ (822)		\$ (1,111)		\$ (821)
Foreign currency translation adjustment, net of taxes of \$290, \$37 and \$(38)		(336)		224		(287)
Reclassification adjustment to net income for cumulative translation adjustment on securities sold		—		56		—
Unrealized gains (losses) on available-for-sale securities		113		69		(3)
Less reclassification adjustment for gains included in net income		(17)		(60)		—
Other comprehensive income (loss)		(240)		289		(290)
Balance at end of year		\$ (1,062)		\$ (822)		\$ (1,111)
Total Comprehensive Income						
Net income		\$ 8,159		\$ 7,690		\$ 4,087
Other comprehensive income (loss) per above		(240)		289		(290)
Total Comprehensive Income		\$ 7,919		\$ 7,979		\$ 3,797

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in millions except per share amounts

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 mergers of SBC's subsidiaries with Pacific Telesis Group (PAC), Southern New England Telecommunications Corporation (SNET) and Ameritech Corporation (Ameritech) as poolings of interests (see Note 2). SBC's subsidiaries and affiliates operate in the communications services industry, providing wireline and wireless telecommunications services and equipment, directory advertising, electronic security services and cable television services both domestically and worldwide.

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 using the equity method are included for periods ended within three months of SBC's year end.

The preparation of financial statements in conformity with United States' 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 and cash equivalents include all highly liquid investments with original maturities of three months or less and the carrying amounts approximate fair value.

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. Certain revenues derived from local telephone and wireless services are billed monthly in advance and are recognized the following month when services are provided. Revenues derived from other telecommunications services, principally network access, long distance and wireless airtime usage, are recognized monthly as services are provided.

Ameritech's directory publishing subsidiary, prior to January 1, 1999, and SNET prior to January 1, 1998, 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, 1999, for Ameritech and January 1, 1998, for SNET 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 by SBC's other directory

subsidiaries 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, 1999 and 1998 as one-time, non-cash gains of \$207, or \$0.06 per share and \$15, or \$0.01 per share, net of deferred taxes of \$125 and \$11. Had the current method been applied during prior periods, income before extraordinary items 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 improvements to 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. Certain subsidiaries follow composite group depreciation methodology; accordingly, when a portion of their 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, 1999 and 1998, amounts included in net intangible assets for licenses were \$3,713 and \$2,660. Management periodically reviews the carrying value and lives of all intangible assets based on expected future cash flows.

Advertising Costs – Costs for advertising products and services or corporate image are expensed as incurred.

Foreign Currency Translation – Local currencies generally are considered the functional currency for SBC's share of foreign investments, 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 for the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income. 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 derivatives for trading purposes. From time to time, as part of its risk management strategy, SBC uses 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

Gains and losses are deferred until the underlying transaction being hedged occurs, and then are recognized as part of that transaction (see Note 9).

NOTE 2. COMPLETION OF MERGERS

In October 1999, SBC and Ameritech completed the merger of an SBC subsidiary with Ameritech in a transaction in which each share of Ameritech common stock was exchanged for 1.316 shares of SBC common stock (equivalent to approximately 1,446 million shares). Ameritech 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 Ameritech. Transaction costs related to the merger were \$77 (\$48 net of tax). Of this total \$25 (\$16 net of tax) is included in expenses in 1999 and \$52 (\$32 net of tax) in 1998.

Operating revenues, income before extraordinary items and cumulative effect of accounting change and net income of the separate companies on a pre-merger basis for the last three periods are presented below:

	Nine Months Ended September 30,	Year Ended December 31,	
	1999	1998	1997
Operating revenues:			
SBC	\$22,477	\$28,777	\$26,681
Ameritech	13,912	17,154	15,998
Adjustments	203	276	427
Combined	\$36,592	\$46,207	\$43,106
Income before extraordinary items and cumulative effect of accounting change:			
SBC	\$ 3,569	\$ 4,068	\$ 1,674
Ameritech	1,438	3,606	2,296
Adjustments	(161)	61	117
Combined	\$ 4,846	\$ 7,735	\$ 4,087
Net income:			
SBC	\$ 3,569	\$ 4,023	\$ 1,674
Ameritech	1,645	3,606	2,296
Adjustments	(161)	61	117
Combined	\$ 5,053	\$ 7,690	\$ 4,087

Combined results include the effect of retroactively conforming accounting methodologies between SBC and Ameritech. Among other items, non-cash adjustments were made to conform accounting for pension and postretirement benefits between the companies and to immediately expense certain items routinely deferred and amortized by Ameritech, including sales commissions and leased customer security and paging equipment. The pension and postretirement adjustments include the effects of conforming the adoption date for postretirement accounting, methods of recognizing actuarial gains and conforming the estimate methods used related to the current year's benefit plans.

In October 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 was accounted for as a pooling of interests and a tax-free reorganization.

In April 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 was accounted for as a pooling of interests and a tax-free reorganization.

Post-Merger Initiatives – Upon completion of each merger, SBC performed an evaluation and review of operations throughout the merged company. These reviews included the formation of teams that performed comprehensive evaluations of companywide operations (review teams). Based on these merger integration reviews, certain strategic decisions were made and significant integration of operations and consolidation of some administrative and support functions occurred resulting in one-time charges. The following table summarizes the charges incurred for each merger related to these reviews and decisions:

Pre-tax charges	Ameritech	SNET	PAC
Reorganization	\$ 582	\$ 82	\$ 839
Impairments/asset valuation	690	321	965
Wireless conversion	220	—	—
Regulatory and legal	164	—	165
Merger approval costs	31	—	281
Other items and estimates of other obligations	79	—	—
Pacific and Southwestern video curtailment/purchase commitments	—	—	698
Total one-time charges	\$1,766	\$403	\$2,948
After-tax charges	Ameritech	SNET	PAC
Reorganization	\$ 379	\$ 50	\$ 517
Impairments/asset valuation	472	199	667
Wireless conversion	143	—	—
Regulatory and legal	102	—	101
Merger approval costs	19	—	176
Other items and estimates of other obligations	342	—	—
Pacific and Southwestern video curtailment/purchase commitments	—	—	438
Total one-time charges	\$1,457	\$249	\$1,899

One-time charges incurred in the third and fourth quarter of 1999 totaled \$1,766 (\$1,457 net of tax). These charges included costs related to various regulatory and legal issues, merger approval costs and other related costs of \$274 (\$174 net of tax). In addition, these charges included costs related to strategic decisions reached by the review teams of \$1,492 (\$1,283 net of tax) in 1999. Charges in the fourth quarter of 1998 for the SNET

merger and the second quarter of 1997 for the PAC merger of \$403 (\$249 net of tax) and \$2 billion (\$1.3 billion net of tax) also related to the strategic decisions reached by the review teams. At December 31, 1999, 1998 and 1997, remaining accruals for anticipated cash expenditures related to the PAC and SNET decisions were approximately \$52, \$323 and \$432. Anticipated cash expenditures related to the decisions for the Ameritech merger totaled \$703 at December 31, 1999.

Reorganization – SBC is centralizing several key functions that will support the wireline operations including network planning, strategic marketing and procurement. It also is consolidating a number of corporatewide support activities, including research and development, information technology, financial transaction processing and real estate management. 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 net charges of approximately \$582 (\$379 net of tax) during the fourth quarter of 1999, \$82 (\$50 net of tax) during the fourth quarter of 1998 and \$839 (\$517 net of tax) during 1997 in connection with these initiatives. The charges were comprised mainly of postemployment benefits, primarily related to severance, and costs associated with closing 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 fourth quarter 1999 charge is net of \$45 (\$29 net of tax) of reversals of accruals made in connection with the SNET and PAC mergers that were related to plans now superseded by the current reorganization plans.

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 the long-lived assets in the third and fourth quarter of 1999, the fourth quarter of 1998 and the second quarter of 1997. The reviews were conducted companywide, although the 1998 review focused primarily on SNET and the 1999 review focused primarily on Ameritech. These reviews included estimating remaining useful lives and cash flows and identifying assets to be abandoned. Where this review indicated impairment, fair market values, including, in some cases, discounted cash flows as an estimate of fair value, related to those assets were analyzed to determine the amount of the impairment. As a result of these reviews, SBC wrote off certain assets and recognized impairments to the value of other assets with a combined charge of \$690 (\$472 net of tax) in the third and fourth quarter of 1999, \$321 (\$199 net of tax) in the fourth quarter of 1998 and \$965 (\$667 net of tax) in the second quarter of 1997.

The 1999 adjustments include an impairment of \$300 (\$224 net of tax) related to Ameritech's security business. This impairment adjustment, taken as a reduction in goodwill of \$300, reflects a reduction of the investment to fair market value based upon the value of comparable businesses. In connection with this adjustment, SBC shortened the estimated life of the remaining

goodwill on the security business from 40 to 15 years. As a result of these adjustments, SBC estimates amortization expense will increase by \$10 to \$15 annually for the remaining life of the goodwill. Also in 1999, SBC performed a review of the allowance for doubtful accounts at the Ameritech subsidiaries and recognized a charge of \$212 (\$135 after tax). This charge resulted from adjusting Ameritech's estimation methods to the method utilized by SBC. Other 1999 adjustments consist primarily of valuation adjustments on certain analog switching equipment at Ameritech and certain cost investments.

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 television 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.

Wireless Conversion – In December 1999, Ameritech notified its wireless customers that the current wireless network platform (Code Division Multiple Access or CDMA) would be converted to the network platform utilized by SBC (Time Division Multiple Access or TDMA). As part of the conversion, SBC sold the CDMA network assets and is leasing it back over the conversion period. A charge of \$220 (\$143 net of tax) was recognized in the fourth quarter to recognize the loss on the sale and leaseback and to replace the customers' CDMA handsets.

Other Items and Estimates of Other Obligations – SBC performed reviews of Ameritech's and PAC's accounting operations and applied consistent accounting techniques between the merging companies. As a result, SBC recognized charges in 1999 and 1997 related to the impact of several regulatory and legal rulings of \$164 (\$102 net of tax) and \$165 (\$101 net of tax). Also in 1997, SBC recognized a charge of \$281 (\$176 net of tax) for PAC merger approval costs. In 1999 SBC incurred a charge of \$31 (\$19 net of tax) for Ameritech merger approval costs. In 1999 charges for deferred taxes on Ameritech's international investments of \$289, net charges related to the routine deferral of certain costs and revenues by Ameritech of \$62 (\$40 after tax) and other miscellaneous items of \$17 (\$13 net of tax) were recognized.

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 Pacific Bell Telephone Company (PacBell) and Southwestern Bell Telephone Company (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 net of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

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. During 1999, SBC negotiated a settlement with its Americast partners related to the withdrawal. The settlement did not 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 net of tax) in the second quarter of 1997.

NOTE 3. SUBSIDIARY FINANCIAL INFORMATION

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 (TOPs) (see Note 9), which have been guaranteed by SBC. See Note 7 for a discussion of conforming items on the segments and subsidiaries. This information is provided as a supplement only. The following table presents summarized financial information for PAC at December 31, or for the year then ended:

PAC	1999	1998	1997
Balance Sheets			
Current assets	\$ 3,022	\$ 3,037	\$ 2,835
Noncurrent assets	15,334	15,428	14,150
Current liabilities	4,944	5,278	4,513
Noncurrent liabilities	10,284	10,482	10,413
Income Statements			
Operating revenues	\$11,747	\$11,305	\$10,101
Operating income (loss)	2,866	2,612	(166)
Income (loss) before extraordinary loss and cumulative effect of accounting changes	1,521	1,240	(546)
Net income (loss)	1,303	1,180	(224)

SBC has not provided separate financial statements and other disclosures for SWBell or PacBell as management has determined that such information is not material to the holders of certain SWBell and PacBell outstanding debt securities, which have been guaranteed by SBC. See Note 7 for a discussion of conforming items on the segments and subsidiaries. This information is provided as a supplement only. The following tables present summarized financial information for SWBell and PacBell:

SWBell	1999	1998	1997
Balance Sheets			
Current assets	\$ 2,453	\$ 2,538	\$ 2,452
Noncurrent assets	13,978	13,241	12,562
Current liabilities	5,127	4,679	3,686
Noncurrent liabilities	8,403	7,838	8,310
Income Statements			
Operating revenues	\$11,173	\$10,752	\$10,116
Operating income	2,815	2,794	2,192
Income before cumulative effect of accounting change	1,540	1,527	1,187
Net income	1,267	1,527	1,187
PacBell	1999	1998	1997
Balance Sheets			
Current assets	\$ 2,318	\$ 2,431	\$ 2,337
Noncurrent assets	13,620	12,662	12,002
Current liabilities	4,539	4,445	3,599
Noncurrent liabilities	8,680	7,388	7,953
Income Statements			
Operating revenues	\$ 9,718	\$ 9,406	\$ 8,726
Operating income	2,259	2,299	483
Income before extraordinary loss and cumulative effect of accounting changes	1,161	1,137	—
Net income	151	1,077	345

NOTE 4. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before extraordinary items and cumulative effect of accounting change for the years ended December 31, 1999, 1998 and 1997 are shown in the table below:

Year Ended December 31,	1999	1998	1997
Numerators			
Numerator for basic earnings per share:			
Income before extraordinary items and cumulative effect of accounting change	\$6,573	\$7,735	\$4,087
Dilutive potential common shares:			
Other stock-based compensation	4	4	3
Numerator for diluted earnings per share	\$6,577	\$7,739	\$4,090
Denominators			
Denominator for basic earnings per share:			
Weighted average number of common shares outstanding (000,000)	3,409	3,406	3,391
Dilutive potential common shares (000,000):			
Stock options	42	38	25
Other stock-based compensation	7	6	4
Denominator for diluted earnings per share	3,458	3,450	3,420
Basic earnings per share			
Income before extraordinary items and cumulative effect of accounting change	\$ 1.93	\$ 2.27	\$ 1.21
Extraordinary items	0.40	(0.02)	—
Cumulative effect of accounting change	0.06	0.01	—
Net income	\$ 2.39	\$ 2.26	\$ 1.21
Diluted earnings per share			
Income before extraordinary items and cumulative effect of accounting change	\$ 1.90	\$ 2.24	\$ 1.20
Extraordinary items	0.40	(0.02)	—
Cumulative effect of accounting change	0.06	0.01	—
Net income	\$ 2.36	\$ 2.23	\$ 1.20

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

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

	1999	1998
Land	\$ 589	\$ 590
Buildings	10,284	10,269
Central office equipment	43,335	40,874
Cable, wiring and conduit	48,785	46,499
Other equipment	11,241	9,626
Under construction	2,098	1,920
	116,332	109,778
Accumulated depreciation and amortization	69,761	65,584
Property, plant and equipment – net	\$ 46,571	\$ 44,194

SBC's depreciation expense as a percentage of average depreciable plant was 7.4%, 7.2% and 7.4% for 1999, 1998 and 1997.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases for 1999, 1998 and 1997 were \$707, \$683 and \$606. At December 31, 1999, the future minimum rental payments under noncancelable operating leases for the years 2000 through 2004 were \$366, \$304, \$220, \$160 and \$165 and \$623 thereafter. Capital leases are not significant.

In October 1999, as the first post-Ameritech merger initiative, SBC launched an initiative to provide advanced broadband services to many of its United States wireline customers (Project Pronto) over the next three years. Since the launch of Project Pronto, SBC has incurred \$20 (\$13 net of tax) related to network placement costs. The launch of Project Pronto and the Federal Communications Commission's recent rulings on data services and unbundled network element pricing led SBC to review and evaluate the carrying value of its network plant in its traditional wireline operations in the fourth quarter of 1999 and determine that an impairment did not exist. Project Pronto will result in the migration of certain customers to new network services. As this migration occurs, SBC will monitor, review and assess both the carrying value and economic useful lives of the currently existing network facilities. This assessment may result in an impairment of the future carrying value of the existing facilities or the shortening of some of its economic lives. Should that occur, material charges to future operations in the wireline segment may be required.

NOTE 6. EQUITY INVESTMENTS

Investments in equity affiliates are accounted for under the equity method and include the June 1999 purchase of a 20% interest of Bell Canada, the largest supplier of telecommunications services in Canada, and the 1998 acquisition of a 41.6% equity interest of Tele Danmark A/S (Tele Danmark), the national communications provider in Denmark (see Note 15). SBC currently is able to elect six of twelve members of the Tele Danmark Board of Directors, including the Chairman, who would cast any tie-breaking vote.

Investments in equity affiliates also includes 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

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 1999, 1998 and 1997, SBC sold portions of its L shares mainly in response to open market share repurchases by Telmex, so that its total equity investment remained below 10% of Telmex's total equity capitalization. At December 31, 1999 and 1998 SBC held an approximate 8.9% and 9.8% equity interest in Telmex.

Other major equity investments held by SBC include a 17.5% interest in Belgacom S.A. (Belgacom), the national communications provider in Belgium, an 18% interest in Telkom SA Limited (Telkom), the state-owned telecommunications company of South Africa, a 29.8% interest in MATÁV, the national communications provider in Hungary, a 15% interest in Cegetel, a joint venture providing a broad range of telecommunications offerings in France and minority ownership of several domestic wireless properties.

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

	1999	1998	1997
Beginning of year	\$ 7,412	\$4,453	\$4,226
Additional investments	3,702	3,159	1,076
Equity in net income	912	613	437
Dividends received	(445)	(344)	(254)
Currency translation adjustment	(707)	169	(476)
Reclassifications and other adjustments	(226)	(638)	(556)
End of year	\$10,648	\$7,412	\$4,453

The currency translation adjustment for 1999 primarily reflects the effect of exchange rate fluctuations on SBC's investment in Tele Danmark and Belgacom. Other adjustments for 1999 reflect the sale of Telmex L shares and the sale of SBC's investment in Chile.

The currency translation adjustment for 1998 primarily reflects the effect of exchange rate fluctuations on SBC's investment in Tele Danmark partially offset by exchange rate fluctuations on SBC's investment in Telkom. Other adjustments for 1998 reflect the sale of Telecom Corporation of New Zealand Limited (TCNZ) shares, a write-down of an international investment and the sale of Telmex L shares.

Currency translation adjustments for 1997 primarily reflect the effect of the exchange rate fluctuations on SBC's investments in Telkom, Belgacom and MATÁV. Other adjustments for 1997 reflect the sale of Telmex L, TCNZ and MATÁV shares, and the change to the cost method of accounting for SBC's 1995 investment in Mobile Telephone Networks (MTN), which was sold during the third quarter of 1998 (see Note 15).

Undistributed earnings from equity affiliates were \$1,788 and \$1,317 at December 31, 1999 and 1998.

The following table presents summarized financial information of significant investments accounted for using the equity method taking into account all adjustments necessary to conform to United States' generally accepted accounting principles, but excluding SBC's purchase adjustments including goodwill, at December 31, or for the year then ended:

	1999	1998	1997
Income Statements			
Operating revenues	\$32,776	\$24,232	\$21,293
Operating income	8,941	6,383	5,254
Net income	4,892	3,515	2,327
Balance Sheets			
Current assets	\$13,961	\$ 9,793	
Noncurrent assets	40,616	29,675	
Current liabilities	13,395	12,323	
Noncurrent liabilities	23,376	13,500	

At December 31, 1999, SBC had goodwill, net of accumulated amortization, of approximately \$5.9 billion related to investments in equity affiliates. Based on the December 31, 1999 quoted market price, the aggregate market value of SBC's investment in Tele Danmark was approximately \$6.8 billion and MATÁV was approximately \$2.2 billion. SBC's investment in Telmex consists of both publicly traded and nonpublicly traded securities and therefore does not have a quoted market price. SBC's weighted average share of operating revenues shown above was 19% in 1999 and 1998 and 17% in 1997.

NOTE 7. SEGMENT INFORMATION

SBC's 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 (i.e. one-time) items. Transactions between segments are reported at fair value and the accounting policies of the segments are the same as those described in Note 1.

As a result of the merger with Ameritech and to better reflect the broadened scope of its operations, SBC adjusted its segment reporting structure in 1999. SBC now has four reportable segments that reflect the current management of its business: wireline, wireless, information and entertainment, and international. 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 information and entertainment segment expands on what was previously the directory segment, and includes all directory operations of the combined company including advertising, yellow pages, white pages and electronic publishing and Ameritech's electronic security and cable television operations. All international investment operations have been removed from the other segment and are shown separately in the international segment. The miscellaneous items that formerly were included in the other segment are immaterial and have been moved to corporate, adjustments and eliminations.

Normalized results in 1999 include the following adjustments:

- After-tax charges totaling \$1.5 billion including, among other items, recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts, estimation of deferred taxes on international investments, wireless conversion costs and other items as discussed in Note 2.
- Elimination of income of \$119 from the incremental impacts of overlapping wireless properties sold in October 1999.

- After-tax pension settlement gains of \$368 associated with lump sum pension payments that exceeded the projected service and interest costs.
- After-tax gains of \$77 recognized from the sale of property by an international equity affiliate.
- An after-tax reduction of \$27 of a portion of a first quarter 1998 charge to cover the cost of consolidating security monitoring centers and company-owned wireless retail stores.

For 1998, normalizing items included the following items:

- After-tax gain of \$1,012 for the sale of TCNZ shares.
- After-tax charges of \$268 related to strategic initiatives resulting from the merger integration process with SNET.
- After-tax gains of \$219 from the sale of certain non-core businesses, principally the required disposition of SBC's investment in MTN, a cellular company in South Africa.
- Elimination of income of \$123 from the incremental impacts of overlapping wireless properties sold in October 1999.
- After-tax gain of \$102 from the sale of certain telephone and directory assets.
- After-tax charge of \$64 to cover the cost of consolidating security monitoring centers and company-owned wireless retail stores.

Normalizing items in 1997 included the following adjustments:

- After-tax charges of \$1.6 billion related to strategic initiatives resulting from the merger integration process with PAC.
- After-tax charge of \$87 for SBC's share of the costs of a work force restructuring at Belgacom.
- After-tax charges of \$304 for ongoing merger integration costs (see Note 2).
- After-tax first quarter settlement gains of \$90 at PAC associated with lump sum pension payments that exceeded the projected service and interest costs for 1996 retirements.
- Elimination of income of \$88 from the incremental impacts of overlapping wireless properties sold in October 1999.
- After-tax gain of \$58 from the sale of SBC's interests in Bell Communications Research, Inc.

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

Segment results, including a reconciliation to SBC consolidated results, for 1999, 1998 and 1997 are as follows:

At December 31, 1999 or for the year ended	Wireline	Wireless	Information and Entertainment	International	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	\$37,254	\$ 6,759	\$4,686	\$ 137	\$ 124	\$ 529	\$49,489
Intersegment revenues	322	5	91	10	(428)	—	—
Depreciation and amortization	6,826	927	194	17	174	415	8,553
Equity in net income of affiliates	(2)	42	—	739	2	131	912
Interest expense	1,188	227	53	312	(362)	12	1,430
Income before income taxes	8,052	918	1,641	706	364	(828)	10,853
Segment assets	53,692	11,593	4,015	12,615	1,300	—	83,215
Investment in equity method investees	31	216	48	10,372	(19)	—	10,648
Expenditures for additions to long-lived assets	8,754	988	232	1	329	—	10,304

At December 31, 1998 or for the year ended	Wireline	Wireless	Information and Entertainment	International	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	\$35,114	\$5,628	\$4,263	\$ 132	\$ 186	\$ 884	\$46,207
Intersegment revenues	305	1	82	17	(405)	—	—
Depreciation and amortization	6,440	707	201	18	150	325	7,841
Equity in net income of affiliates	(6)	25	—	588	6	—	613
Interest expense	1,250	189	42	282	(179)	21	1,605
Income before income taxes	7,318	564	1,590	453	435	1,755	12,115
Segment assets	50,948	9,183	4,193	11,230	(588)	—	74,966
Investment in equity method investees	47	244	34	7,106	(19)	—	7,412
Expenditures for additions to long-lived assets	7,471	978	193	13	227	—	8,882

At December 31, 1997 or for the year ended	Wireline	Wireless	Information and Entertainment	International	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	\$33,282	\$5,022	\$3,728	\$103	\$ 298	\$ 673	\$43,106
Intersegment revenues	374	1	91	19	(485)	—	—
Depreciation and amortization	6,158	607	149	18	145	700	7,777
Equity in net income of affiliates	(4)	9	—	528	(9)	(87)	437
Interest expense	1,198	165	54	104	(16)	45	1,550
Income before income taxes	6,558	372	1,350	512	375	(2,629)	6,538
Expenditures for additions to long-lived assets	7,314	1,066	238	2	236	—	8,856

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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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. Specifically, less than 1% of total operating revenues for all years presented are from outside the United States. Long-lived assets outside the United States consist primarily of the book value of these investments:

December 31,	1999	1998
United States	\$48,924	\$45,493
Canada	3,770	—
Denmark	3,019	3,401
Mexico	906	836
Belgium	831	892
South Africa	708	694
Hungary	532	534
France	459	557
Other foreign countries	129	199
Total	\$59,278	\$52,606

NOTE 8. DEBT

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

	1999	1998
Notes and debentures		
4.37%-6.00% 1999-2007 ¹	\$ 3,056	\$ 3,366
6.03%-7.85% 1999-2048 ²	13,990	13,568
8.00%-10.50% 1999-2031	577	646
	17,623	17,580
Unamortized discount-net of premium	236	(101)
Total notes and debentures	17,859	17,479
Guaranteed obligations of ESOP ³		
8.10%-9.40% 2000	88	164
Capitalized leases	258	268
Total long-term debt, including		
current maturities	18,205	17,911
Current maturities	(730)	(741)
Total long-term debt	\$17,475	\$17,170

¹Includes \$250 of 5.9% debentures maturing in 2038 with a put option by holder in 2005.

²Includes \$125 of 6.35% debentures maturing in 2026 with a put option by holder in 2006.

³See Note 12.

At December 31, 1999, the aggregate principal amounts of long-term debt and weighted average interest rate scheduled for repayment for the years 2000 through 2004 were \$730 (6.4%), \$1,466 (6.7%), \$1,107 (6.6%), \$1,722 (6.0%), \$1,154 (6.5%) with \$11,790 (6.9%) due thereafter. As of December 31, 1999, SBC was in compliance with all covenants and conditions of instruments governing its debt. Substantially all of SBC's outstanding long-term debt is unsecured.

In January 2000, SBC guaranteed existing publicly issued debt securities issued by Ameritech Capital Funding Corporation, Illinois Bell Telephone Company, Indiana Bell Telephone Company, Inc., Michigan Bell Telephone Company, The Ohio Bell Telephone Company, PacBell, Southern New England Telecommunications Corporation, The Southern New England Telephone Company, SWBell and Wisconsin Bell, Inc. Each guarantee will apply as long as the individual company remains a wholly owned subsidiary of SBC.

Financing Activities – In December 1999, SBC called approximately \$31 of debt that was scheduled to mature in December 2004. The net income effect of retiring this debt did not materially impact SBC's financial statements. During 1999, subsequent to the completion of the acquisitions of Comcast Cellular Corporation (Comcast) and Cellular Communications of Puerto Rico, Inc. (Cellular Communications), SBC retired \$1,415 of Comcast's and Cellular Communications' long-term debt with no effect on net income. In May 1999, SBC issued \$750 of 6.25% unsecured Eurodollar notes, due May 2009.

In 1998, SBC issued approximately \$2,150 in notes and debentures. The notes and debentures bear interest rates ranging from 5.65% to 6.88% and mature between 2001 and 2048. Also, in 1998, SBC issued \$750 of 5.88% unsecured Eurodollar notes, due February 2003. SBC used proceeds from these borrowings primarily to fund its investment in Tele Danmark.

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

	1999	1998
Commercial paper	\$2,623	\$3,412
Current maturities of long-term debt	730	741
Other short-term debt	21	25
Total	\$3,374	\$4,178

The weighted average interest rate on commercial paper debt at December 31, 1999 and 1998 was 5.72% and 5.43%. SBC has entered into agreements with several banks for committed lines of credit totaling \$2,880 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, 1999 or 1998.

NOTE 9. 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:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures	\$17,859	\$17,086	\$17,479	\$18,656
TOPRS	1,000	924	1,000	1,029
Preferred stock of subsidiaries	820	820	717	717
Guaranteed obligations of ESOP ¹	88	94	164	169

¹See Note 12.

The fair values of SBC's notes and debentures, including ESOP obligations, 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 preferred stock of subsidiaries and commercial paper debt approximate fair values. SBC's short-term investments and customer deposits are recorded at amortized cost and the carrying amounts approximate fair values.

Preferred Stock Issuances by Subsidiaries – In April 1998, an SBC subsidiary issued through private placement 3,250 shares of stated rate auction preferred stock (STRAPS). Net proceeds from these issuances totaled \$322. 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 4.39% to 5.05% as of December 31, 1999.

In June 1997 and December 1999, one of SBC's wholly owned subsidiaries issued \$250 and \$100 of preferred stock in private placements. The holders of the preferred stock may require SBC's subsidiary to redeem the shares 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, 1999 payment was 6.28%.

As of December 31, 1999, a wholly owned subsidiary had outstanding \$85 of Series A Preferred Stock (7.04%, subject to mandatory redemption in 2001) and \$60 of Series B Preferred Stock (variable rate, 4.60% as of December 31, 1999, not subject to mandatory redemption).

The preferred stock of subsidiaries discussed above is included in other noncurrent liabilities on the consolidated balance sheet.

Pacific Telesis Financing I and II (the Trusts) were formed in 1996 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. As of December 31, 1999, the Trusts held subordinated debt securities of PAC in principal amounts of \$516 and \$514 with interest rates of 7.56% and 8.50%. The TOPrS are priced at \$25 per share, have an original 30-year maturity that may be extended up to 49 years, are callable in 2001 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 enters into foreign currency contracts to hedge exposure to adverse exchange risk. SBC also uses interest rate swaps to manage interest rate exposure. Related gains and losses are reflected in net income. The carrying amounts and estimated fair values of SBC's derivative financial instruments are summarized as follows at December 31:

	1999		1998	
	Carrying/ Notional Amount	Fair Value	Carrying/ Notional Amount	Fair Value
Foreign exchange contracts – long	\$ —	\$142	\$ —	\$ —
Foreign exchange contracts – short	—	—	—	765
Interest rate swaps	1,180	(14)	458	(27)
Equity swaps	—	—	13	26

Prior to its merger with an SBC subsidiary, PAC issued stock options to its employees during a spinoff of certain wireless properties. Some of these options were still outstanding when PAC merged with an SBC subsidiary in 1997 (see Note 13). SBC had used equity swaps to hedge the equity price risk related to these spinoff operations employee stock options. However, in 1999 SBC evaluated the related risk level and exited all of its related equity swap contracts, receiving cash for the appreciated value of the contracts and recognizing a minimal gain.

NOTE 10. INCOME TAXES

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

	1999	1998
Depreciation and amortization	\$6,865	\$6,104
Equity in foreign affiliates	540	457
Deferred directory expenses	524	383
Other	1,254	216
Deferred tax liabilities	9,183	7,160
Employee benefits	2,418	2,416
Currency translation adjustments	586	333
Allowance for uncollectibles	222	168
Unamortized investment tax credits	147	132
Other	1,850	1,631
Deferred tax assets	5,223	4,680
Deferred tax assets valuation allowance	99	143
Net deferred tax liabilities	\$4,059	\$2,623

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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The components of income tax expense are as follows:

	1999	1998	1997
Federal:			
Current	\$2,883	\$3,151	\$1,781
Deferred – net	814	671	363
Amortization of investment tax credits	(85)	(96)	(115)
	3,612	3,726	2,029
State and local:			
Current	421	485	232
Deferred – net	247	169	190
	668	654	422
Total	\$4,280	\$4,380	\$2,451

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 items and cumulative effect of accounting change is as follows:

	1999	1998	1997
Taxes computed at federal statutory rate	\$3,798	\$4,240	\$2,288
Increases (decreases) in income taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits	(55)	(62)	(75)
State and local income taxes – net of federal income tax benefit	440	424	274
Other – net	97	(222)	(36)
Total	\$4,280	\$4,380	\$2,451

NOTE 11. EMPLOYEE BENEFITS

Pensions – Substantially all employees of SBC are covered by one of various noncontributory pension and death benefit plans. Management employees participate in either cash balance or defined lump sum pension plans. The pension benefit formula for most nonmanagement employees is based on a flat dollar amount per year according to job classification. Most employees can elect to receive their pension benefits in either lump sum or annuity.

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.

Effective with the Ameritech merger, SBC performed a midyear valuation for all pension plans. The amounts that follow reflect the impacts and assumptions of the midyear valuation.

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

	1999	1998
Benefit obligation at beginning of the year	\$27,528	\$26,235
Service cost – benefits earned during the period	584	548
Interest cost on projected benefit obligation	1,831	1,813
Amendments	460	224
Actuarial (gain)/loss	(1,121)	1,170
Special termination benefits	32	53
Benefits paid	(3,629)	(2,515)
Benefit obligation at end of year	\$25,685	\$27,528

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:

	1999	1998
Fair value of plan assets at beginning of the year	\$41,794	\$38,703
Actual return on plan assets	8,065	5,593
Benefits paid	(3,901)	(2,502)
Fair value of plan assets at end of year ¹	\$45,958	\$41,794
Funded status	\$20,273	\$14,266
Unrecognized prior service cost	1,898	1,653
Unrecognized net gain	(17,926)	(12,487)
Unamortized transition asset	(1,036)	(1,352)
Prepaid pension cost	\$ 3,209	\$ 2,080

¹Plan assets include SBC common stock of \$34 at December 31, 1999 and \$71 at December 31, 1998.

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

	1999	1998
Prepaid pension cost	\$3,539	\$2,512
Accrued pension liability	(330)	(432)
Net amount recognized	\$3,209	\$2,080

Net pension cost is composed of the following:

	1999	1998	1997
Service cost – benefits earned during the period	\$ 584	\$ 548	\$ 481
Interest cost on projected benefit obligation	1,831	1,813	1,789
Expected return on plan assets	(2,951)	(2,722)	(2,527)
Amortization of prior service cost	(35)	(57)	(69)
Recognized actuarial gain	(273)	(161)	(157)
Net pension benefit	\$ (844)	\$ (579)	\$ (483)

Significant weighted-average assumptions used in developing pension information include:

	1999	1998	1997
Discount rate for determining projected benefit obligation	7.75%	7.0%	7.2%
Long-term rate of return on plan assets	8.50%	8.5%	8.5%
Composite rate of compensation increase	4.25%	4.2%	4.2%

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 SBC Pension Benefit Plan 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.

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 table above.

In addition to the net periodic benefit costs reported in the above tables, SBC recognized \$566 in net settlement gains in the fourth quarter of 1999. These settlement gains resulted from a significant amount of lump sum pension payments that caused a partial settlement of Ameritech's pension plans. SBC currently is evaluating whether additional lump sum payments will require the recognition of additional settlement gains in 2000.

In December 1999, under the provisions of Section 420 of the Internal Revenue Code, SBC transferred \$280 in pension assets to a health care benefit account for the reimbursement of retiree health care benefits paid by SBC.

Supplemental Retirement Plans – SBC also provides senior 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 \$146, \$114 and \$97 in 1999, 1998 and 1997. Liabilities of \$1,287 and \$1,022 related to these plans have been included in other noncurrent liabilities in SBC's Consolidated Balance Sheets at December 31, 1999 and 1998.

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. SBC's postretirement benefit cost in 1998 and 1997 for certain plans reflects an estimate of potential future cost sharing by retirees. 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:

	1999	1998
Benefit obligation at beginning of the year	\$15,489	\$12,978
Service cost – benefits earned during the period	260	193
Interest cost on projected benefit obligation	1,050	904
Amendments	(2)	2,008
Actuarial (gain)/loss	(515)	109
Benefits paid	(771)	(703)
Benefit obligation at end of year	\$15,511	\$15,489

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

	1999	1998
Fair value of plan assets at beginning of the year	\$ 6,869	\$ 5,583
Actual return on plan assets	1,199	1,114
Employer contribution	93	442
Benefits paid	(290)	(270)
Fair value of plan assets at end of year ¹	\$ 7,871	\$ 6,869
Funded status	\$(7,640)	\$(8,620)
Unrecognized prior service cost	960	1,119
Unrecognized net gain	(2,460)	(1,245)
Accrued postretirement benefit obligation	\$(9,140)	\$(8,746)

¹Plan assets include SBC common stock of \$10 at December 31, 1999 and 1998.

Postretirement benefit cost is composed of the following:

	1999	1998	1997
Service cost – benefits earned during the period	\$ 260	\$ 193	\$ 187
Interest cost on accumulated postretirement benefit obligation (APBO)	1,050	904	876
Expected return on assets	(504)	(419)	(351)
Amortization of prior service cost	157	(260)	(280)
Recognized actuarial gain	(13)	(12)	(27)
Postretirement benefit cost	\$ 950	\$ 406	\$ 405

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

The fair value of plan assets restricted to the payment of life insurance benefits was \$1,277 and \$1,323 at December 31, 1999 and 1998. At December 31, 1999 and 1998, the accrued life insurance benefits included in the APBO benefit obligation were \$540 and \$322.

The assumed medical cost trend rate in 2000 is 8.0%, decreasing linearly to 5.0% in 2006, 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 2000 is 5.5%, reducing to 5.0% in 2002. 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	\$ 186	\$ 148
Effect on postretirement benefit obligation	1,632	1,402

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. Due to the Ameritech merger, a midyear valuation also was performed for all postretirement benefit plans.

NOTE 12. OTHER EMPLOYEE BENEFITS

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

SBC has six 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.

One 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.

Another 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.

Two ESOPs were funded with notes issued by the savings plans which Ameritech guaranteed, the proceeds of which were used to purchase, at fair market value, shares of Ameritech common stock held in treasury. As a result of Ameritech's unconditional guarantee, the notes are presented as a reduction to shareowners' equity and an increase in long-term debt. Ameritech periodically made cash payments that, together with dividends received on shares held by the ESOPs, were used to make interest and principal payments on the loan. All Ameritech shares were exchanged for SBC shares effective with the merger on October 8, 1999. 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:

	1999	1998	1997
Benefit expense – net of dividends and interest income	\$ 90	\$ 77	\$ 73
Interest expense – net of dividends and interest income	10	25	36
Total expense	\$100	\$102	\$109
Company contributions for ESOPs	\$104	\$142	\$141
Dividends and interest income for debt service	\$ 75	\$100	\$104

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

	1999	1998
Unallocated	16,030,695	24,501,561
Allocated to participants	101,257,366	95,069,009
Total	117,288,061	119,570,570

NOTE 13. STOCK-BASED COMPENSATION

Under various SBC plans, senior and other management employees and non-employee directors have received stock options, stock appreciation rights (SARs), performance stock units and nonvested stock units. Stock options issued through December 31, 1999 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. Beginning in 1994 and ending in 1999, certain Ameritech employees were awarded grants of nonqualified stock options with dividend equivalents. Depending upon the grant, vesting of stock options may occur up to four years from the date of grant. Performance stock units are granted to key employees based upon the common stock price at date of grant and are awarded in the form of common stock and cash at the end of a two- or three-year period, subject to the achievement of certain performance goals. Nonvested stock units are valued at market price of the stock at date of grant and vest over a three- to five-year period. Up to 310 million shares may be issued under these plans.

SBC measures compensation cost for these plans using the intrinsic value-based method of accounting as allowed 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. 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 1999, 1998 and 1997 as defined by FAS 123, SBC's net income would have been \$7,969, \$7,537 and \$3,962, and basic net income per share would have been \$2.34, \$2.21 and \$1.17. The compensation cost that has been charged against income for SBC's other stock-based compensation plans totaled \$36, \$83 and \$65 for 1999, 1998 and 1997.

For purposes of these pro forma disclosures, the estimated fair value of the options granted is amortized to expense over the options' vesting period. 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 1999, 1998 and 1997: risk-free interest rate of 5.31%, 5.69% and 6.47%; dividend yield of 1.65%, 2.38% and 2.98%; expected volatility factor of 15%, 18% and 19%; and expected option life of 4.5, 5.0 and 4.9 years.

As of December 31, 1998, 29,390 shares of nonperformance-based restricted stock issued to Ameritech employees were outstanding under the Ameritech plans. Shareowners' equity reflects deferred compensation for the unvested stock awarded. This amount was reduced and charged against operations (together with any change in market price) as the employees vested in the stock. All restricted stock under Ameritech plans vested as a result of the Ameritech merger with an SBC subsidiary in 1999.

Information related to options and SARs is summarized below:

	Number	Weighted-Average Exercise Price
Outstanding at January 1, 1997	126,464,343	\$ 20.03
Granted	56,229,919	25.52
Exercised	(27,891,733)	18.49
Forfeited/Expired	(10,567,550)	22.85
Outstanding at December 31, 1997		
(60,656,487 exercisable at weighted-average price of \$19.36)	144,234,979	22.27
Granted	34,516,726	39.46
Exercised	(25,767,038)	20.61
Forfeited/Expired	(6,747,545)	29.64
Outstanding at December 31, 1998		
(73,187,564 exercisable at weighted-average price of \$20.85)	146,237,122	26.26
Granted	26,139,492	48.70
Exercised	(19,095,315)	23.13
Forfeited/Expired	(4,118,769)	39.06
Outstanding at December 31, 1999		
(116,276,298 exercisable at weighted-average price of \$26.91)	149,162,530	\$30.24

Information related to options and SARs outstanding at December 31, 1999:

	\$10.90	\$17.40	\$30.00	\$35.50
Exercise Price Range	– \$17.39	– \$29.99	– \$35.49	– \$59.00
Number of options and SARs:				
Outstanding	13,145,846	82,990,276	9,845,528	43,180,880
Exercisable	13,145,846	74,948,465	9,845,528	18,336,459
Weighted-average exercise price:				
Outstanding	\$15.07	\$23.93	\$34.16	\$46.10
Exercisable	\$15.07	\$23.53	\$34.16	\$45.30
Weighted-average remaining contractual life	3.93 years	6.29 years	8.30 years	8.83 years

The weighted-average, grant-date fair value of each option granted during 1999, 1998 and 1997 was \$9.31, \$8.71 and \$5.36.

As of December 31, additional shares available under stock options with dividend equivalents were 1,526,514 in 1999, 1,505,625 in 1998 and 1,325,201 in 1997.

Options and SARs held by the continuing employees of PAC at the time of the AirTouch Communications, Inc. (AirTouch) spinoff were supplemented with an equal number of options and SARs for common shares of spunoff 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 spunoff operations' options and SARs. The balance sheet reflects a related liability equal to the difference between the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

current market price of spinoff operations stock and the exercise prices of the supplemental options outstanding. The spinoff operations options and SARs have been adjusted for Vodafone's acquisition of AirTouch and for Vodafone's five-for-one stock split in 1999. As of December 31, 1999, 404,825 supplemental spinoff operations options and SARs were outstanding with expiration dates ranging from 2000 to 2003. Outstanding options and SARs that were held by employees of the wireless operations at the spinoff date were replaced by options and SARs for common shares of spinoff operations. The spinoff operations assumed liability for these replacement options and SARs.

NOTE 14. SHAREOWNERS' EQUITY

From time to time, SBC repurchases shares of common stock for distribution or to offset shares distributed through its employee benefit plans or in certain acquisitions. In 1999, the Board of Directors approved the repurchase of approximately 23 million shares of SBC's common stock, which has been completed.

In January 2000, SBC's Board of Directors authorized the repurchase of up to 100 million shares of SBC's common stock.

NOTE 15. ACQUISITIONS AND DISPOSITIONS

Acquisitions – In July 1999, SBC completed the acquisition of Comcast, the wireless subsidiary of Comcast Corporation, in a transaction valued at approximately \$1.8 billion, including assumption of \$1.4 billion in debt. With the acquisition, SBC added approximately 862,000 wireless subscribers in Pennsylvania, Delaware, New Jersey and Illinois.

In June 1999, SBC acquired 20% of Bell Canada, a subsidiary of BCE Inc. (BCE), a publicly traded Canadian communications company, for approximately \$3.4 billion. As part of the investment, SBC has the option to sell its shares to BCE at fair market value plus 25% in 2002 and 2004. BCE has the option to repurchase the shares on the same terms. SBC also has the right to sell its shares at a premium to BCE if a change in control of BCE occurs before June 2004. After June 2004, the sales price would be the higher of fair market value or the implied value in the transaction that gave rise to the change in control at BCE. Similarly, BCE may repurchase the shares at fair market value any time if there is a change in control of SBC. The investment agreement also provides for rights of first refusal and rights of first offer.

In January 1998, SBC purchased a 34% interest in Tele Danmark, the national communications provider in Denmark, from the Kingdom of Denmark for approximately \$3.1 billion. As part of the investment agreement, Tele Danmark repurchased and retired all remaining shares owned by the Danish government, effectively increasing SBC's equity ownership to 41.6% of Tele Danmark.

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 remained in Telkom.

During 1997, SBC also acquired assets of several companies engaged in electronic security services for approximately \$1 billion in cash and stock.

These above acquisitions were 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 exceeding 40 years. Results of operations of the acquisitions 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 1999, 1998 or 1997, nor would they, had they occurred on January 1 of the respective periods.

Dispositions – In October 1999, SBC completed the required disposition, as a condition of the Ameritech merger, of 20 Midwestern cellular properties including the competing cellular licenses in several markets including, but not limited to, Chicago, Illinois, and St. Louis, Missouri. SBC recorded an extraordinary gain of \$1,379, or \$0.40 per share on this sale net of taxes of \$960. Results of operations for 1999 up to the date of disposition, 1998 and 1997 include revenues of \$705, \$891 and \$861, net income of \$119, \$123 and \$88 and diluted earnings per share of \$0.03, \$0.04 and \$0.03 related to these cellular properties.

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.

In April 1998, SBC sold substantially all of its remaining interest in TCNZ in a global stock offering. Net proceeds received in two installment payments in April 1998 and March 1999 were approximately \$2.1 billion resulting in an after-tax gain of approximately \$1 billion in 1998.

Pending Transaction – In November 1999, SBC and Prodigy Communications Corporation (Prodigy) announced an agreement to form a partnership that will join their consumer and small business Internet operations. Under the terms of the agreement, which is expected to close in the second quarter of 2000, SBC will make Prodigy its exclusive retail consumer and small business Internet access service for customers in SBC's service area. Prodigy will assume management of approximately 650,000 SBC subscribers of dial-up, ISDN and basic DSL Internet access services, increasing Prodigy's total managed subscriber base to more than 2 million. Subject to specific exceptions, SBC will exclusively market Prodigy service through its extensive marketing channels with a commitment to deliver a minimum of 1.2 million new customers over the next three years to the Prodigy member base. The agreement provides SBC with a 43% ownership stake in the partnership and a similar voting interest in Prodigy. Under certain circumstances, this may translate into a direct ownership interest in Prodigy. Required approvals for the transaction have been received from certain Federal regulatory agencies that had jurisdiction to consider the transaction. The agreement is subject to approval at a meeting of the shareholders of Prodigy, which is anticipated in early 2000.

NOTE 16. SOFTWARE COSTS

The American Institute of Certified Public Accountants issued a Statement of Position (SOP) that requires capitalization of certain computer software expenditures beginning in 1999. The SOP, which prescribed prospective application, requires the capitalization of certain costs incurred in connection with developing or obtaining internal use software beginning in 1999. Capitalized software costs are being amortized over three years. Prior to the adoption of the SOP, the costs of computer software purchased or developed for internal use were generally expensed as incurred. However, initial operating system software costs were, and continue to be, capitalized.

With comparable levels of software expenditures, the SOP would tend to increase net income when compared with SBC's former 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. The effect of adopting the SOP was to increase net income by approximately \$274, or \$0.08 per share, assuming dilution, for the year ended December 31, 1999.

NOTE 17. ADDITIONAL FINANCIAL INFORMATION

	December 31,		
Balance Sheets	1999	1998	
Accounts payable and accrued liabilities:			
Accounts payable	\$ 4,834	\$ 4,726	
Accrued taxes	3,386	2,611	
Advance billing and customer deposits	1,481	1,255	
Compensated future absences	711	677	
Accrued interest	427	432	
Accrued payroll	800	536	
Other	3,464	3,016	
Total	\$15,103	\$13,253	
Statements of Income	1999	1998	1997
Advertising expense	\$ 812	\$ 814	\$ 844
Interest expense incurred	\$1,511	\$ 1,691	\$1,700
Capitalized interest	(81)	(86)	(150)
Total interest expense	\$1,430	\$ 1,605	\$1,550
Statements of Cash Flows	1999	1998	1997
Cash paid during the year for:			
Interest	\$1,516	\$ 1,713	\$1,676
Income taxes, net of refunds	2,638	2,676	1,640

No customer accounted for more than 10% of consolidated revenues in 1999, 1998 or 1997.

Approximately two-thirds of SBC employees are represented by collective bargaining agreements with varying dates of expiration in the years 2001 through 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

NOTE 18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income	Diluted Earnings Per Share	Stock Price		
					High	Low	Close
1999							
First	\$11,802	\$ 3,051	\$1,980	\$0.57	\$59.938	\$46.063	\$47.188
Second	12,256	3,227	1,938	0.56	58.000	48.000	58.000
Third	12,534	2,462	1,135	0.33	59.875	45.375	51.063
Fourth	12,897	2,858	3,106	0.90	55.500	44.063	48.750
Annual	\$49,489	\$11,598	\$8,159	\$2.36			
1998							
First	\$11,038	\$ 2,685	\$1,483	\$0.43	\$ 46.563	\$ 35.375	\$ 43.375
Second	11,398	3,017	2,750	0.80	44.938	37.125	40.000
Third	11,606	2,994	1,926	0.56	44.875	35.000	44.375
Fourth	12,165	2,527	1,531	0.44	54.875	41.125	53.625
Annual	\$46,207	\$11,223	\$7,690	\$2.23			

The first quarter of 1999 includes a cumulative effect of accounting change of \$207, or \$0.06 per share from a change in accounting for directory operations at Ameritech. The fourth quarter of 1999 includes an extraordinary gain of \$1,379, or \$0.40 per share on the sale of the overlapping wireless properties. The first quarter of 1998 includes a cumulative effect of accounting change of \$15, or \$0.01 per share from a change in accounting for directory operations at SNET. The fourth quarter of 1998 includes an extraordinary loss on retirement of debt of \$60, or \$0.02 per share.

There were also normalizing (i.e. one-time) items which are included in the information above, but are excluded from the information that management uses to evaluate the performance of each segment of the business (see Note 7). The after-tax impact of the 1999 normalizing items was as follows:

- An expense reduction of \$27 in the first quarter related to a first quarter 1998 charge to cover the cost of consolidating security monitoring centers and company-owned cellular retail stores.
- Charges of \$883 in the third quarter and \$574 in the fourth quarter related to strategic initiatives resulting from the merger integration process with Ameritech (see Note 2).
- Gains of \$368 in the fourth quarter related to lump sum pension settlement gains for 1999 retirements.
- Gains of \$77 in the fourth quarter related to sales by an international equity affiliate.
- Incremental impacts of overlapping wireless properties required to be sold in October 1999 of \$39 in the first quarter, \$28 in the second quarter, \$47 in the third quarter and \$5 in the fourth quarter.

The after-tax impact of the 1998 normalizing items was as follows:

- Charges of \$64 in the first quarter to cover the cost of consolidating security monitoring centers and company-owned cellular retail stores.
- Gain of \$1,012 in the second quarter on the sale of TCNZ shares.
- Gains of \$219 in the third quarter on sales of certain non-core businesses, principally the required disposition of MTN, due to SBC's investment in Telkom.
- Charges of \$268 in the fourth quarter related to strategic initiatives resulting from the merger integration process with SNET.
- Gain of \$102 in the fourth quarter from the sale of certain telephone and directory assets.
- Incremental impacts of overlapping wireless properties required to be sold in October 1999 of \$19 in the first quarter, \$30 in the second quarter, \$28 in the third quarter and \$46 in the fourth quarter.

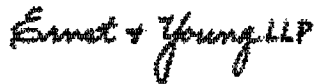
REPORT OF INDEPENDENT AUDITORS

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, 1999 and 1998, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1999. 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 1998 and 1997 financial statements of Ameritech Corporation, a wholly owned subsidiary, which statements reflect total assets constituting approximately 40% of the Company's related 1998 consolidated financial statement total and which reflect total operating revenues constituting approximately 37% of the Company's related consolidated financial statement totals for the years ended December 31, 1998 and 1997. Those statements were audited by other auditors whose report has been furnished to us. Our opinion, insofar as it relates to the 1998 and 1997 data included for Ameritech Corporation, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 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, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.



San Antonio, Texas
February 11, 2000

REPORT OF MANAGEMENT

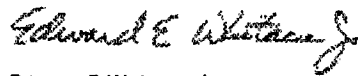
The consolidated financial statements have been prepared in conformity with United States' generally accepted accounting principles. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility 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 11 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 respective 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.
Chairman of the Board and
Chief Executive Officer



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

SBC BOARD OF DIRECTORS

Edward E. Whitacre Jr., 58 ^(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., 57 ⁽³⁾



Chairman and
Chief Executive Officer
AmTech, LLC
AmTech Capital, LP
San Francisco, California
Advisory Director since April 1997
PTG Director 1995-1997
Background: Technology,
electronics engineering

Clarence C. Barksdale, 67 ^(1,3)



Vice Chairman,
Board of Trustees
Washington University
(on a one-year absence
from this position until May 2000)
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1982-1983
Background: Banking

James E. Barnes, 66 ^(1,2)



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, 62 ^(2,4,5)



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, 61 ^(4,5)



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

Ruben R. Cardenas, 69 ^(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, 68 ^(2,3)



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

Martin K. Eby Jr., 65 ^(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, 69 ^(1,3)



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

Jess T. Hay, 69 ^(1,6)



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

James A. Henderson, 65 ^(1,5)



Retired Chairman and
Chief Executive Officer
Cummins Engine
Company, Inc.
Columbus, Indiana
SBC Director since October 1999
AIT Director 1983-1999
Background: Manufacturing

Admiral Bobby R. Inman, 68 ^(5,6)



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

Charles F. Knight, 64 ^(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

Lynn M. Martin, 60 ^(3,5)



Chair of the Council for the
Advancement of Women
Advisor to the Firm
Deloitte & Touche LLP
Professor
J.L. Kellogg Graduate School
of Management
Northwestern University
Chicago, Illinois
SBC Director since October 1999
AIT Director 1993-1999
Background: Consulting, former
Congresswoman and
Secretary of Labor

John B. McCoy, 56 ^(2,6)



Retired Chairman and
Chief Executive Officer
BANK ONE CORPORATION
Chicago, Illinois
SBC Director since October 1999
AIT Director 1991-1999
Background: Banking

Mary S. Metz, Ph.D., 62 ^(1,3)



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

Toni Rembe, Esq., 63 ^(2,3)



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, 66 ^(5,6)



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, 52 ^(1,3)



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

Richard M. Rosenberg, 69 ^(2,5)



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 Helú, 60 ^(3,5)



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

Dr. Laura D'Andrea Tyson, 52 ^(1,5)



Dean
Walter A. Haas School
of Business
University of California,
Berkeley
Berkeley, California
SBC Director since October 1999
AIT Director 1997-1999
Background: Economics, education

Patricia P. Upton, 61 ^(1,3)



President and
Chief Executive Officer
Aromaticque, 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., 58
Chairman & CEO
SBC Communications Inc.

Royce S. Caldwell, 61
Vice Chairman-SBC
SBC Communications Inc.

James W. Callaway, 53
Group President-SBC Services
SBC Communications Inc.

Cassandra C. Carr, 55
Sr. Executive Vice President-External Affairs
SBC Communications Inc.

James D. Ellis, 56
Sr. Executive Vice President & General Counsel
SBC Communications Inc.

Charles E. Foster, 63
Group President-SBC
SBC Communications Inc.

Karen E. Jennings, 49
Sr. Executive Vice President-Human Resources
SBC Communications Inc.

James S. Kahan, 52
Sr. Executive Vice President-Corporate
Development
SBC Communications Inc.

Donald E. Kiernan, 59
Sr. Executive Vice President, Treasurer & CFO
SBC Communications Inc.

Linda S. Mills, 48
Sr. Executive Vice President-Corporate
Communications
SBC Communications Inc.

Edward A. Mueller, 52
President-International Operations
SBC Communications Inc.

Stanley T. Sigman, 52
Group President-SBC National Operations
SBC Communications Inc.

Other Executives

Wayne S. Alexander, 51
President-Southwestern Bell

John H. Attarbury III, 51
President-Broadband Services

Terry D. Bailey, 43
President-Southwestern Bell Business
Communications Services

Thomas M. Barry, 55
President-SBC International (Telkom S. Africa)

Ronald L. Blake, 44
President-SBC Telecom

William A. Blase Jr., 44
President-Pacific Bell

Rickford D. Bradley, 48
President-Interconnection Services

Cynthia J. Brinkley, 40
President-Arkansas

Blaine H. Bull, 42
Executive Vice President-Ameritech

Richard M. Burk, 51
President-Sales (Global Markets)

Stephen M. Carter, 48
President-SBC Wireless

Timothy J. Cawley, 44
President-SBC International (Europe)

Margaret M. Carrudo, 51
Vice President-Staffing & Development

Lee Ann Champion, 41
President-Pacific Bell Business
Communications Services

Frederick R. Chang, 44
Vice President-SBC Advanced Solutions

David A. Cole, 51
President-Southwestern Bell Consumer
Markets

Liam S. Coonan, 64
Executive Vice President & Associate
General Counsel

Robert N. Cooper, 51
President-Ameritech Michigan

Catherine M. Coughlin, 42
Senior Vice President-Marketing
BCS/Global Markets

Nell E. Cox, 50
President-SecurityLink

Wilbur Crossley, 56
Vice President-Network (Telkom S. Africa)

Patricia Diaz Dennis, 53
Senior Vice President-Regulatory & Public
Affairs

Richard C. Dietz, 53
President-SBC Global Markets

Kathleen L. Dowling, 44
Regional President-Cellular One (Northeast)
and SNET Wireless

Gregory Dunne, 49
Vice President-Ameritech Network
Operations

J. Cliff Eason, 52
President-SBC Network Services

Patricia A. Engels, 49
President-Ameritech Consumer Markets

James M. Epperson Jr., 44
President-Oklahoma

David Fannin, 39
President & CEO-SBC Technology Resources
Inc.

Melanie S. Fannin, 49
Senior Vice President & General Counsel-
Network

Robert E. Ferguson, 40
President-Federal Regulatory

James D. Gallellora, 48
Executive Vice President-SBC Strategic
Marketing/Planning

Andrew M. Geisse, 43
Vice President-Enterprise Software Solutions

Michael M. Gilliam, 47
Vice President-Long-Distance Compliance
Relief

Edward L. Giotzbach, 51
Executive Vice President & Chief Information
Officer

Donald V. Goens, 42
President-SBC Public Communications (Coin)

Ynocencio Gonzalez, 42
Vice President-SBC Network Operations

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Vice President-Network & Operations
(National/Local)

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Vice President-Human Resources

Priscilla Hill-Ardoin, 48
Senior Vice President-FCC

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President-Ameritech Capital Services

Ross K. Ireland, 53
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Engineering

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President-Sales (Ameritech Business
Communications Services)

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Executive Vice President-Merger Integration

Michael Kaufman, 54
President-SBC/Prodigy Transition

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President-Ameritech Network Services

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Vice President-Partner Channels and Alliance

Kent A. Labherz, 54
President-Ameritech Indiana

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Vice President & General Counsel-Directory

Susan R. Lichtenstein, 43
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Officer-SBC Wireless

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President-Nevada

David R. Lopez, 48
President-Texas

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Communications Services

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Corporate

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Senior Vice President-Finance

Peter J. McDonald, 49
President-SBC Directory Operations

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President-SBC Network Integration

Shawn M. McKenzie, 41
President-Kansas

Forrest E. Miller, 47
President-SNET

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President-SBC Consumer Markets

Meiba Muscarolas, 38
Regional President-Northern & Central
California

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President-Pacific Bell Consumer Markets

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President-Ameritech Wisconsin

Robert J. Nelson, 41
Regional President-Cellular One (Midwest) &
Ameritech Cellular

Jan L. Newton, 46
President-Missouri

David C. Nichols, 42
Regional President-San Diego

Thomas A. Pall, 60
Senior Vice President-Directory Sales

T. Michael Payne, 49
Senior Vice President, General Counsel &
Secretary-International & Advanced Services

Robert B. Pickering, 41
Senior Vice President-Finance (Corporate)

Diane I. Primo, 44
President-SBC Product Marketing

Joe A. Ramsey, 52
Vice President-Consumer Sales Operations
(12 State)

Alfred G. Richter Jr., 49
Senior Vice President & General Counsel-
External Affairs

Peter A. Ritcher, 39
Vice President-Finance (Network)

A. Dale Robertson, 51
Senior Vice President & Chief Financial
Officer-SBC Advanced Solutions Inc.

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Senior Vice President & General Counsel-
Human Resources

Charles J. Roesslein, 51
President-SBC CATV

Paul R. Roth, 41
Vice President-SBC Telecom

Drew A. Roy, 53
Senior Vice President-SBC Consumer Markets

Mark E. Roysse, 40
President-SBC International (Mexico)

Judith M. Sahn, 54
Vice President & Secretary

Robert W. Shaner, 51
Regional President-Southwestern Bell &
Pacific Bell Wireless

James B. Shelley, 46
President-SBC Regulatory

Charles H. Smith, 56
President-Pacific Bell Network Services

Donna L. Snyder, 48
Senior Vice President & General Counsel-
Operations

John T. Stankay, 37
President-Industry Markets

Randall L. Stephenson, 39
Senior Vice President-Finance (SBC
Operations)

Joyce M. Taylor, 42
Regional President-San Francisco (Bay Area)

Van H. Taylor, 51
Senior Vice President-Network Services Staff

Mary E. Tudela, 45
Senior Vice President-SBC Compliance

J. Michael Turner, 50
President-SBC Advanced Solutions Inc.

Karen S. Vessely, 53
President-Ameritech Business
Communications Services

Joe W. Walkowiak, 52
President-Southwestern Bell Network
Services

Donald W. Watts, 46
Vice President & Assistant General Counsel-
Corporate

Lora K. Watts, 43
Regional President-Los Angeles

Stephen G. Welch, 56
President-Procurement

Horace Wilkins Jr., 49
President-Special Markets

Rayford Wilkins Jr., 48
President-Business Communications Services

Jacqueline F. Woods, 52
President-Ameritech Ohio

Josef B. Wright, 45
President-Ameritech Illinois

H. Edward Wynn, 39
Vice President-Regulatory Policy

SHAREOWNER INFORMATION

Toll-Free Shareowner Hotline

Call us at 1-800-351-7221 between 8 a.m. and 7 p.m. Central Time Monday through Friday. TDD 1-888-403-9700

For help with:

- account inquiries
- requests for assistance, including stock transfers
- information on The DirectSERVICE™ Investment Program for Shareholders of SBC Communications Inc. (sponsored and administered by First Chicago Trust Company of New York)

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 Company of New York
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 Company of New York
P.O. Box 2589
Jersey City, New Jersey 07303-2589

You also may reach First Chicago Trust Company of New York, the Transfer Agent for SBC, at their e-mail address: sbcfcct@equiserve.com

The DirectSERVICE™ Investment Program for Shareholders of SBC Communications Inc. (sponsored and administered by First Chicago Trust Company of New York)

The DirectSERVICE Investment Program for shareholders of SBC Communications Inc. is sponsored and administered by First Chicago Trust Company of New York. The Program allows current shareowners to reinvest dividends, purchase additional SBC stock or enroll in an Individual Retirement Account.

For more information, call 1-800-351-7221.

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

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 28, 2000, at:

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

Independent Auditor

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

Requests for 10-K

The SBC Form 10-K, filed with the Securities and Exchange Commission, is available in paper form by request and also is available on our home page on the World Wide Web: <http://www.sbc.com>

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

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Footnotes from cover and chairman's letter

⁽¹⁾Operating revenues and wireless subscriber revenues were reduced by the net of revenues from the overlapping cellular properties sold in October 1999 and other items related to the strategic initiatives with the merger of SBC and Ameritech Corporation (Ameritech). For more information on these adjustments, see page 30 under the heading Note 7. Segment Information.

⁽²⁾Income before extraordinary items and cumulative effect of accounting change and diluted earnings per share were adjusted for the following: 1999 excludes a net charge of \$1.5 billion principally for strategic initiatives and impairments related to the merger of SBC and Ameritech offset by gains on sales by an international equity affiliate, pension settlement gains, reduction of a charge to cover the cost of consolidating security monitoring centers and company-owned cellular retail stores and a reduction of income from the overlapping cellular properties sold in October 1999; 1998 gains from the sale of certain non-core businesses and other required dispositions totaling \$1.5 billion, and a reduction of income from the overlapping cellular properties sold in October 1999 offset by charges for strategic initiatives related to the merger of SBC with Southern New England Telecommunications Corporation. For more information on these adjustments, see page 30 under the heading Note 7. Segment Information.

⁽³⁾Excludes customers from overlapping properties sold in October 1999.