

FORM 10-K**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (Fee Required)**

For fiscal year ended December 31, 1994

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)**

For the transition period from _____ to _____

Commission File Number: 1-2346

SOUTHWESTERN BELL TELEPHONE COMPANYIncorporated under the laws of the State of Missouri
I.R.S. Employer Identification Number 43-0529710One Bell Center, St. Louis, Missouri 63101-3099
Telephone Number 314-235-9800

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF SOUTHWESTERN BELL CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [Not Applicable]

SWBT 000681

SCHEDULE A

Securities Registered Pursuant To Section 12(b) Of The Act:

<u>Title of each Class</u>	<u>Name of each exchange on which registered</u>
Five Year 8.30% Notes, due June 1, 1996	New York Stock Exchange
Seven Year 6-1/8% Notes, due March 1, 2000	New York Stock Exchange
Eight Year 6-3/8% Notes, due April 1, 2001	New York Stock Exchange
Twelve Year 6-5/8% Notes, due April 1, 2005	New York Stock Exchange
Thirty-Eight Year 7-3/4% Debentures, due September 1, 2009	American Stock Exchange
Forty Year 6-7/8% Debentures, due February 1, 2011	American Stock Exchange
Forty Year 7-3/8% Debentures, due May 1, 2012	American Stock Exchange
Forty Year 7-5/8% Debentures, due October 1, 2013	American Stock Exchange
Forty Year 8-1/4% Debentures, due March 1, 2014	American Stock Exchange
Twenty-Two Year 7% Debentures, due July 1, 2015	New York Stock Exchange
Forty Year 8-1/4% Debentures, due April 1, 2017	American Stock Exchange
Thirty Year 7-5/8% Notes, due March 1, 2023	New York Stock Exchange
Thirty-Two Year 7-1/4% Debentures, due July 15, 2025	New York Stock Exchange

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*Omitted pursuant to General Instruction J(2).

PART I

ITEM 1. BUSINESS

GENERAL

Southwestern Bell Telephone Company (Telephone Company) was incorporated in 1882 under the laws of the State of Missouri, and has its principal executive offices at One Bell Center, St. Louis, Missouri 63101-3099 (telephone number 314-235-9800). The Telephone Company is a wholly-owned subsidiary of Southwestern Bell Corporation (SBC), which was incorporated under the laws of the State of Delaware in 1983 by AT&T Corp. (AT&T) as one of seven regional holding companies (RHCs) formed to hold AT&T's local telephone companies. AT&T divested SBC by means of a spin-off of stock to its shareowners on January 1, 1984 (divestiture). The divestiture was made pursuant to a consent decree, referred to as the Modification of Final Judgment (MFJ), issued by the United States District Court for the District of Columbia (District Court).

THE MFJ AND LINE OF BUSINESS RESTRICTIONS

The MFJ, as originally approved by the District Court in 1982, placed restrictions on the types of businesses in which SBC could engage. The principal restriction prohibits SBC from providing telecommunications services between Local Access and Transport Areas (LATAs), which are generally centered on a standard metropolitan statistical area or other identifiable community of interest. The MFJ also initially restricted SBC from providing information services, engaging in nontelecommunications lines of business, and manufacturing or providing telecommunications products, other than the provision of customer premises equipment (CPE) manufactured by others. CPE, as defined in the MFJ, represents equipment used on customers' premises to originate, route or terminate telecommunications. These services and products are collectively known as "restricted lines of business."

The MFJ permits SBC to obtain relief from these restrictions upon a showing that there is no substantial possibility that it could use its monopoly power to impede competition in the specific market it seeks to enter (the Waiver Standard). As a result of proceedings before the District Court since divestiture, the restrictions against engaging in nontelecommunications lines of business and providing intraLATA information services have been removed. SBC has also been authorized to engage in the restricted lines of business outside the United States, subject to certain conditions designed to prevent an impact on United States markets. SBC has submitted various requests to the District Court which seek to remove or modify the remaining restrictions. These include, among others, pending waiver requests to provide information services on an interLATA basis and to provide interLATA long-distance service outside the five-state area (defined below) and to cellular customers. In addition, SBC and two other RHCs have asked the District Court, in a joint petition filed in July 1994, to vacate the MFJ. This matter is currently pending.

BUSINESS OPERATIONS

The Telephone Company's principal services include local, long-distance and network access services, which are provided in the states of (listed by number of access lines) Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area). Local services involve the transport of telecommunications traffic between telephones and other CPE located within the same local service calling area. Local services include: basic local exchange service, extended area service, dedicated private line services for voice and special services, directory assistance and various custom calling services. Long-distance services involve the transport of telecommunications traffic between local calling areas within the same LATA (intraLATA). Long-distance services also include such other services as Wide Area

GOVERNMENT REGULATION

In the five-state area, the Telephone Company is subject to regulation by state commissions which have the power to regulate intrastate rates and services, including local, long-distance and network access (both intraLATA and interLATA access within the state) services. The Telephone Company is also subject to the jurisdiction of the FCC with respect to foreign and interstate rates and services, including interstate access charges. Access charges are designed to compensate the Telephone Company for the use of its facilities for the origination or termination of long-distance and other communications by non-Telephone Company carriers.

Additional information relating to federal and state regulation of the Telephone Company is contained in Item 7, Management's Discussion and Analysis of Results of Operations of this report under the heading "Regulatory Environment" beginning on page 12 of this report.

MAJOR CUSTOMER

Approximately 15% in 1994 and 1993, and 16% in 1992, of the Telephone Company's revenues were from services provided to AT&T. No other customer accounted for more than 10% of total revenues.

COMPETITION

Information relating to competition in the telecommunications industry is contained in Item 7, Management's Discussion and Analysis of Results of Operations of this report under the heading "Competition" beginning on page 13 of this report.

RESEARCH AND DEVELOPMENT

The majority of company-sponsored basic and applied research activities is conducted at Bell Communications Research, Inc. (Bellcore). The Telephone Company owns a one-seventh interest in Bellcore along with the other six RHCs. Bellcore is the central point of contact for coordinating the Federal government's telecommunications requirements on national security and emergency preparedness.

Basic and applied research is also conducted at Southwestern Bell Technology Resources, Inc. (TRI), a subsidiary of SBC. TRI provides technology planning and assessment services to SBC and its subsidiaries.

EMPLOYEES

As of December 31, 1994, the Telephone Company employed 48,440 persons. Approximately 76% of the employees are represented by the Communications Workers of America (CWA). Effective in August 1992, a three-year contract was negotiated between the CWA and the Telephone Company. This contract will be subject to renegotiation in mid 1995.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

	At December 31, or for the year ended	
	1994	1993
Return on Weighted Average Total Capital	13.02%	12.48%*
Debt Ratio (debt, including current maturities, as a percentage of total capital)	47.65%	48.58%
Network access lines in service (000)	13,612	13,145#
Access minutes of use (000,000)	48,430	44,203#
Long-distance messages billed (000,000)	1,018	1,012#
Number of employees	48,440	49,320

* Calculated using income before extraordinary loss and cumulative effect of changes in accounting principles. These impacts are included in shareowner's equity.

1993 data has been restated to reflect the most current information available.

Management's Discussion and Analysis, continued
Dollars in millions

Operating Revenues

Total operating revenues increased \$303.3, or 3.8%, in 1994. Components of total operating revenues, including changes from the prior year, are as follows:

	1994	1993	Percent change 1994 vs. 1993
Local service	\$ 4,022.0	\$ 3,898.3	3.2%
Network access			
Interstate	1,912.5	1,804.7	6.0
Intrastate	944.5	880.7	7.2
Long-distance service	903.5	965.7	(6.4)
Other	593.7	523.5	13.4
	\$ 8,376.2	\$ 8,072.9	3.8%

Local Service revenues increased in 1994 due to increases in demand, including growth in the number of access lines of 3.6%. Nearly two-thirds of the access line growth occurred in Texas. Previously ordered rate reductions, primarily in Texas and Missouri, reduced 1994 revenues by approximately \$80.

Network Access Interstate network access revenues increased in 1994 due largely to increases in demand for access services. Growth in revenues from end user charges attributable to an increasing access line base also contributed to the increase. Revenues in 1994 also reflect a retroactive billing adjustment that decreased interstate access revenues slightly while increasing intrastate access revenues.

Intrastate network access revenues increased in 1994 due primarily to increases in demand. Also affecting intrastate revenues in 1994 was the partial replacement of the Texas pool settlement process with a system of primary toll carrier access charges. Under this system, charges received by the Telephone Company from other intrastate carriers are recorded as intrastate access revenues, while those paid by the Telephone Company are recorded as cost of services and products. These amounts were each approximately \$40 and did not materially affect operating income in 1994. Previously, only the net settlement pool payment or receipt was recognized as an adjustment to revenue. The retroactive billing adjustment noted in the preceding paragraph also slightly increased intrastate access revenues. Previously ordered rate reductions, primarily in Texas, reduced revenues by approximately \$120 during 1994.

Long-Distance Service message volumes in 1994 are relatively unchanged from 1993, as the implementation of optional calling plans encouraged higher volumes which offset competition-related decreases in messages. These optional calling plans also lower the average revenue per message and, combined with other demand-related decreases and rate decreases (primarily in Missouri), caused a decrease in long-distance service revenue.

Management's Discussion and Analysis, continued

Dollars in millions

Operating Environment and Trends of the Business

Regulatory Environment

The Telephone Company's intrastate telecommunications operations in Texas, Missouri and Kansas are presently operating under incentive regulation plans, while operations in Oklahoma and Arkansas are regulated under traditional rate-of-return methodology. The Telephone Company's interstate telecommunications operations in the five states are regulated by the FCC, using a price cap system. The FCC is in the process of reviewing the current price cap plan, in order to evaluate issues related to price cap methodology, the goals of price cap regulation and transition to a fully competitive market. It is expected that the FCC will complete their review during the first half of 1995.

Regulatory jurisdictions may require that adjustments be made to reported earnings in order to compute earnings subject to sharing or regulatory returns, as applicable, according to its regulatory plan. As a result, differences may exist between the returns reported to these regulatory bodies and those computed from Telephone Company financial information included in the financial statements.

Following is a summary of significant regulatory proceedings.

Texas In 1994, the Telephone Company completed the final year of its four-year incentive regulation agreement. Under its terms, the Telephone Company agreed to cap certain local rates, provide annual rate reductions and other benefits to customers in Texas, and upgrade the network at a cost of approximately \$329. Rate reductions for 1994 and 1993 were \$146 and \$21, respectively. Rate reductions and customer benefits for 1992 were \$34.

The agreement also provided an earnings-sharing mechanism designed to encourage efficiency and innovation by the Telephone Company. Revenue sharing amounts for 1992 were not significant, and there will be no sharing of 1993 revenues. Sharing amounts for 1994 have not been approved by the Texas Public Utility Commission (TPUC), but are estimated to be approximately \$30.

The Telephone Company has offered to extend the agreement until September 1, 1995. This extension was offered because of the possibility that new legislation concerning utility regulation may be written during the 1995 session of the Texas legislature. Such legislation, if enacted, would become effective in September 1995. Although no formal reply regarding the extension has been received from the TPUC, no objections have been raised by the TPUC and the Telephone Company is continuing to operate under the provisions of the original agreement.

Missouri In response to a Missouri Public Service Commission (MPSC) staff complaint, the MPSC issued an order in December 1993 requiring rate reductions of \$84.6 annually, beginning January 1994. The Telephone Company appealed the order and, in August 1994, reached a settlement agreement with the MPSC and Office of Public Counsel (OPC).

Under the terms of the settlement agreement, the Telephone Company implemented annual rate reductions of \$69.6 effective October 1, 1994, representing the original \$84.6 reduction ordered by the MPSC, offset by \$15 for recovery of a portion of the costs associated with postretirement benefit accruals, allowed by legislation enacted in 1994. In addition, customers were given one-time credits totaling \$64 for rate reductions which were accrued under the original order and paid to the court beginning in 1994. The Telephone Company has also committed to invest an average of \$275 annually in capital expenditures during the term of the agreement.

Management's Discussion and Analysis, continued

Dollars in millions

CAPs typically build fiber optic "rings" throughout large metropolitan areas to provide transport services (generally high-speed data) for large business customers and interexchange carriers. Also, an increasing number of high usage customers, particularly large businesses, now bypass Telephone Company facilities by establishing alternative telecommunications links for voice and data, such as private network systems, shared tenant services or private branch exchange (PBX) systems (which are customer-owned and provide internal switching functions without use of Telephone Company central office facilities). The extent of the economic incentive to bypass the local exchange network depends upon local exchange prices, access charges, regulatory policy and other factors. End user charges ordered by the FCC are designed to mitigate the effect of system bypass.

The FCC has adopted rules requiring large local exchange carriers, including the Telephone Company, to provide expanded interconnection to independent parties for provision of special access and switched access transport services. (Special access refers to a dedicated transmission path, used primarily by large business customers and long-distance carriers, which does not involve switching at the local exchange carrier central office. Switched access refers to the link between local exchange carriers' switching facilities and long-distance carriers' networks; switched access transport is one component of this process.) A July 1994 FCC order requires that local exchange carriers provide equipment and establish a set of technical and pricing rules intended to position alternate providers as if their equipment were located in the central office (referred to as virtual collocation). Alternatively, the local exchange carrier may, at its discretion, allow alternate providers to physically collocate their equipment within its central office. This order followed a June 1994 judicial remand which vacated the FCC's previous order requiring physical collocation. Various aspects of the FCC rules are being contested by a number of local exchange carriers, including the Telephone Company.

Collocation for access services is also being addressed at the state regulatory level. In general, collocation requirements in Texas and Oklahoma follow terms similar to those of interstate requirements. Proceedings in Missouri and Arkansas have been delayed awaiting the outcome of pending FCC collocation issues. The Kansas Corporation Commission presently does not authorize intrastate collocation.

Competition exists in all of the Telephone Company's intraLATA toll markets. Principal competitors are interexchange carriers, which are assigned an access code (e.g., "10XXX") used by their customers to route intraLATA calls through the interexchange carrier's network, and resellers, which sell toll services obtained at bulk rates.

Pending regulatory and legislative proceedings could allow increased competition for local exchange services in the future. In Texas, three companies have filed applications with the TPUC seeking authority to provide local exchange services in selected metropolitan areas within the Telephone Company's service territory. Hearings on these applications are scheduled to begin in mid 1995. In Missouri, a commission appointed by the Governor recommended in January 1995 that legislation be adopted to open the Telephone Company's local exchange market to competition. The report also recommended an end to earnings regulation for the Telephone Company, but provided only limited pricing flexibility for its services. It is not known whether such legislation will be passed in the 1995 legislative session. In Oklahoma and Kansas, there are generic competition dockets pending which address competitive issues related to the provision and regulation of intrastate telecommunications services.

Management's Discussion and Analysis, continued

Dollars in millions

Regulatory Accounting

The Telephone Company currently accounts for the economic effects of regulation in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (Statement No. 71). Statement No. 71 requires deferral of certain costs and obligations based on regulatory actions (regulatory assets and liabilities). In addition, under Statement No. 71, telephone plant is depreciated using rates set by regulators in a joint federal and state triennial review process. These rates are usually lower than used by unregulated companies. The Telephone Company will present proposed depreciation rates for 1995 through 1997 to federal and state regulators in triennial review meetings scheduled for mid 1995.

Continued application of Statement No. 71 is appropriate only if it is reasonable to assume that rates which are adequate to recover costs can be charged to and collected from customers. This assumption requires, among other things, consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. It is management's opinion that application of Statement No. 71 to the Telephone Company remains appropriate at this time. However, due to the rapid pace of change in the telecommunications industry, the Telephone Company must continually assess its position with respect to Statement No. 71. If, as a result of actual and anticipated increases in competition, technological development and other changes in the telecommunications industry including the manner of determining rates, the Telephone Company determines that it no longer qualifies for the provisions of Statement No. 71, the Telephone Company would be required to eliminate its regulatory assets and liabilities, and adjust the carrying amount of its telephone plant to the extent that it determines that such amount is not recoverable. The net effect would be reflected in the financial statements as a non-cash, extraordinary charge to income. Because of the uncertainties regarding the timing, extent and potential combination of circumstances which would cause the Telephone Company to discontinue application of Statement No. 71, management cannot estimate a specific amount of the charge at this time, but under most combinations of circumstances would anticipate the after-tax amount of the charge to be between \$2.0 billion and \$3.0 billion.

Other Business Matters

Operational Restructuring During the third quarter of 1993, the Telephone Company announced a restructuring of its operations. The restructuring realigns the Telephone Company into two operating divisions, Customer Services, comprised of nine geographic market areas, and Network Services, which focuses on technology planning and deployment. As part of the restructuring, approximately 800 management positions were eliminated during 1993. Costs for severance, relocation and benefits associated with the positions eliminated were accrued during 1993, reducing net income by approximately \$35.

Pending Litigation The Telephone Company is presently engaged in litigation with 57 Texas cities arising from the Telephone Company's alleged breach of certain ordinances relating to the Telephone Company's use of, and work activities in, streets and other public ways. In November 1992, *City of Port Arthur, et al., v. Southwestern Bell Telephone Company, et al.*, in the 136th Judicial District Court of Jefferson County, Texas, was certified as a class action. Trial is set for 1995. In addition, three municipalities participating in the class action had filed separate lawsuits, which have been suspended pending the outcome of the class action.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Auditors

**The Board of Directors
Southwestern Bell Telephone Company**

We have audited the accompanying balance sheets of Southwestern Bell Telephone Company as of December 31, 1994 and 1993, and the related statements of income, shareowner's equity and cash flows for each of the three years in the period ended December 31, 1994. Our audits also included the financial statement schedules listed in the Index at Item 14 (a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwestern Bell Telephone Company at December 31, 1994 and 1993, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Notes 5 and 6 to the financial statements, in 1993 the Company changed its method of accounting for income taxes, postretirement benefits other than pensions, and postemployment benefits.

ERNST & YOUNG LLP

**San Antonio, Texas
February 10, 1995**

SOUTHWESTERN BELL TELEPHONE COMPANY**BALANCE SHEETS**

Dollars in millions

	December 31,	
	1994	1993
Assets		
Current Assets		
Cash and cash equivalents	\$ 46.1	\$ 37.8
Accounts receivable - net of allowances for uncollectibles of \$15.2 and \$14.2	1,378.5	1,375.0
Material and supplies	141.8	129.0
Deferred charges	48.1	46.8
Deferred income taxes	184.8	152.4
Prepaid expenses and other current assets	87.1	56.6
Total current assets	1,886.4	1,797.6
Property, Plant and Equipment - Net	15,736.0	15,699.1
Other Assets	166.6	401.7
Total Assets	\$ 17,789.0	\$ 17,898.4
Liabilities and Shareowner's Equity		
Current Liabilities		
Debt maturing within one year	\$ 660.2	\$ 663.0
Accounts payable and accrued liabilities	2,440.1	2,160.0
Total current liabilities	3,100.3	2,823.0
Long-Term Debt	4,268.1	4,383.0
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,728.6	1,746.7
Postemployment benefit obligation	2,632.0	2,817.7
Unamortized investment tax credits	369.2	429.8
Other noncurrent liabilities	277.3	356.7
Total deferred credits and other noncurrent liabilities	5,007.1	5,350.9
Shareowner's Equity		
Common stock - one share, without par value, owned by parent	1.0	1.0
Paid-in surplus	5,389.9	5,706.9
Retained earnings (deficit)	22.6	(366.4)
Total shareowner's equity	5,413.5	5,341.5
Total Liabilities and Shareowner's Equity	\$ 17,789.0	\$ 17,898.4

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

SOUTHWESTERN BELL TELEPHONE COMPANY**STATEMENTS OF SHAREOWNER'S EQUITY**

Dollars in millions

	Common Stock	Paid-in Surplus	Retained Earnings (Deficit)
Balance, December 31, 1992	\$ 6,469.9	\$ -	\$ 621.2
Net income (loss)	-	-	(987.6)
Dividend to shareowner	-	(862.0)	-
Equity from parent	-	100.0	-
Transfer of equity	(6,468.9)	6,468.9	-
Balance, December 31, 1993	1.0	5,706.9	(366.4)
Net income	-	-	1,071.9
Dividend to shareowner	-	(389.0)	(682.9)
Equity from parent	-	72.0	-
Balance, December 31, 1994	\$ 1.0	\$ 5,389.9	\$ 22.6

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

Notes to Financial Statements, continued

Dollars in millions

Material and Supplies - New and reusable materials are carried principally at average original cost. Specific costs are used for large individual items. Nonreusable material is carried at estimated salvage value.

Property, Plant and Equipment - Property, plant and equipment is stated at cost. The cost of additions and substantial betterments of property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses.

The Telephone Company computes depreciation using certain straight-line methods and rates as prescribed by the Federal Communications Commission (FCC) and the applicable state regulatory authorities. The Telephone Company's provision for depreciation includes the amortization of interstate and certain intrastate accumulated depreciation deficiencies (reserve deficiency amortization). Reserve deficiency amortization allows additional depreciation to be recognized currently in an attempt to reflect more accurately prior years' actual consumption of telephone plant.

When a portion of the Telephone Company's depreciable property, plant and equipment is retired, the gross book value is charged to accumulated depreciation.

Reclassifications - Certain amounts in prior period financial statements have been reclassified to conform to the current year's presentation.

2. Property, Plant and Equipment

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

	1994	1993
Telephone Company plant		
In service	\$ 26,731.6	\$ 25,970.0
Under construction	231.5	261.3
	26,963.1	26,231.3
Accumulated depreciation and amortization	(11,227.1)	(10,532.2)
Property, plant and equipment-net	\$ 15,736.0	\$ 15,699.1

For 1994, 1993 and 1992, the Telephone Company's depreciation as a percentage of average depreciable plant was 6.5%, 6.7% and 6.6%, respectively.

Certain facilities and equipment used in operations are under operating or capital leases. Rental expenses under operating leases for 1994, 1993 and 1992 were \$76.8, \$68.3 and \$82.8, respectively. At December 31, 1994, the aggregate minimum rental commitments under noncancelable operating leases for the years 1995 through 1999 were \$33.6, \$25.3, \$14.1, \$9.2 and \$12.6, respectively, and \$15.4 thereafter. Capital leases were not significant.

Notes to Financial Statements, continued
Dollars in millions

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

	1994	1993
Commercial paper	\$ 543.0	\$ 375.0
Current maturities of long-term debt	117.2	288.0
Total	\$ 660.2	\$ 663.0

The weighted average interest rate on commercial paper debt at December 31, 1994 and 1993 was 6.0% and 3.3%, respectively. The Telephone Company has entered into agreements with several banks for lines of credit totaling \$270.0, all of which may be used to support commercial paper borrowings. All of these lines are on an informal basis with interest rates determined at time of borrowing. There were no borrowings outstanding under these lines of credit at December 31, 1994.

4. Financial Instruments

The Telephone Company does not have any financial instruments held or issued for trading purposes. The carrying amounts reported in the Balance Sheets for cash and cash equivalents and commercial paper debt approximate fair values. The carrying amounts and fair values of the Telephone Company's long-term debt, including current maturities, are summarized as follows at December 31:

	1994		1993	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debentures	\$3,568.8	\$3,169.3	\$3,765.8	\$3,830.8
Notes	810.7	730.2	895.2	915.1

The fair value of the debentures was based on quoted market prices. The fair value of the notes was based on discounted cash flows using current interest rates.

5. Income Taxes

The Telephone Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109) effective January 1, 1993. In adopting Statement No. 109, the Telephone Company adjusted its net deferred income tax liability for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, computed based on provisions of the enacted tax law. Financial statements prior to January 1, 1993, have not been restated to apply the provisions of Statement No. 109. The cumulative effect of adopting Statement No. 109 as of January 1, 1993 was to decrease net income for 1993 by \$8.6. The adoption of Statement No. 109 had no material effect on pre-tax income for 1993.

Notes to Financial Statements, continued
Dollars in millions

The components of deferred federal income tax expense for 1992 as recorded prior to the adoption of Statement No. 109 were as follows:

	1992
Depreciation	\$ (23.7)
Employee benefits	(70.0)
Other—net	(7.0)
Total	\$ (100.7)

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35% for 1994 and 1993, 34% for 1992) to income before income taxes, extraordinary loss and cumulative effect of changes in accounting principles is as follows:

	1994	1993	1992
Taxes computed at federal statutory rate	\$ 555.1	\$ 498.5	\$ 450.4
Increases (decreases) in taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits	(60.6)	(65.5)	(72.0)
Excess deferred taxes due to rate change	(34.6)	(43.2)	(74.3)
Depreciation of telephone plant construction costs previously deducted for tax purposes—net	18.3	22.5	21.7
State and local income taxes—net of federal tax benefit	37.7	29.1	29.0
Other—net	(1.9)	(32.2)	5.8
Total	\$ 514.0	\$ 409.2	\$ 360.6

6. Employee Benefits

Pensions - Substantially all employees of the Telephone Company are covered by noncontributory pension and death benefit plans sponsored by SBC. The pension benefit formula used in the determination of pension cost is based on a flat dollar amount per year of service according to job classification for nonmanagement employees, and a stated percentage of adjusted career income for management employees.

Notes to Financial Statements, continued
Dollars in millions

Postretirement Benefits - The Telephone Company provides certain medical, dental and life insurance benefits to substantially all retired employees. Effective January 1, 1993, the Telephone Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106), which requires accrual of actuarially determined postretirement benefit costs as active employees earn these benefits. Prior to the adoption of Statement No. 106, the Telephone Company expensed retiree medical benefits when claims were incurred.

In implementing Statement No. 106, the Telephone Company immediately recognized an accumulated obligation for postretirement benefits (transition obligation) in the amount of \$2,756.9 and a related deferred income tax benefit of \$976.2. The resulting charge to net income of \$1,780.7 is included in the cumulative effect of changes in accounting principles in the 1993 Statement of Income.

Most of the Telephone Company's state regulatory jurisdictions have addressed the adoption of Statement No. 106 for ratemaking purposes, recognizing all or a portion of accrued expenses, with some funding requirements. The FCC has allowed increases to the interstate price caps for all postretirement benefit expenses, including the transition obligation, subject to further proceedings. Because of the uncertainty surrounding the interstate treatment and the conditional nature of the intrastate recovery, the Telephone Company does not meet the requirements to establish a regulatory asset in accordance with Statement No. 71.

In connection with 1992 collective bargaining agreements, SBC established collectively bargained Voluntary Employee Beneficiary Association (CBVEBA) trusts to fund postretirement benefits. During 1994 and 1993, the Telephone Company contributed \$130.6 and \$132.3, respectively, into the CBVEBA trusts to be ultimately used for the payment of postretirement benefits. The Telephone Company also funds postretirement life insurance benefits at an actuarially determined rate. Assets consist principally of stocks and U.S. government and corporate bonds.

Statement No. 106 requires certain disclosures to be made of components of net periodic postretirement benefit cost and a reconciliation of the funded status of the plans to amounts reported in the balance sheets. Since the funded status of assets and obligations relates to the plans as a whole, this information is not presented for the Telephone Company. The Telephone Company recognized postretirement benefit cost for 1994 and 1993 of \$224.1 and \$238.8, respectively. Expense recognized under the claims incurred method for providing postretirement benefits was \$102.6 for 1992 and would have been approximately \$126.6 for 1993. At December 31, 1994 and 1993, the amount included in the Balance Sheets for accrued postretirement benefit obligation was \$2,692.7 and \$2,722.6, respectively.

Notes to Financial Statements, continued
Dollars in millions

8. Additional Financial Information

Balance Sheets	December 31,	
	1994	1993
Accounts payable and accrued liabilities		
Accounts payable	\$ 856.5	\$ 748.7
Accrued taxes	292.4	379.9
Advance billing and customer deposits	237.3	222.2
Compensated future absences	170.4	182.8
Accrued interest	85.2	86.8
Accrued payroll	91.7	91.0
Other	706.6	448.6
Total	\$ 2,440.1	\$ 2,160.0

Statements of Income	1994	1993	1992
Interest expense			
Long-term debt	\$ 311.5	\$ 354.8	\$ 381.0
Notes payable	25.8	21.3	25.9
Other	20.6	9.1	1.8
Total	\$ 357.9	\$ 385.2	\$ 408.7
Allowance for funds used during construction	\$ 18.6	\$ 20.7	\$ 30.1

Statements of Cash Flows	1994	1993	1992
Cash paid during the year for:			
Interest	\$ 359.5	\$ 389.6	\$ 416.3
Income taxes	\$ 740.8	\$ 477.8	\$ 563.5

Approximately 15% in 1994 and 1993, and 16% in 1992, of the Telephone Company's revenues were from services provided to AT&T Corp. No other customer accounted for more than 10% of total revenues.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No changes in accountants or disagreements with accountants on any accounting or financial disclosure matters occurred during the period covered by this report.

PART III

ITEMS 10 THROUGH 13.

Omitted pursuant to General Instruction I(2).

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as a part of the report:	<u>Page</u>
(1) Report of Independent Auditors	18
Financial Statements Covered by Report of Independent Auditors:	
Statements of Income.....	19
Balance Sheets	20
Statements of Cash Flows	21
Statements of Shareowner's Equity.....	22
(2) Financial Statement Schedules Covered by Report of Independent Auditors:	
VIII - Valuation and Qualifying Accounts	36

Financial statement schedules other than those listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

(3) Exhibits:

Exhibits identified in parentheses below, on file with the Securities and Exchange Commission (SEC), are incorporated herein by reference as exhibits hereto.

SOUTHWESTERN BELL TELEPHONE COMPANY
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
 Allowance for Uncollectibles
 Dollars in Millions

COL. A	COL. B	COL. C		COL. D	COL. E
Description	Balance at Beginning of Period	Additions		Deductions -Note (b)	Balance at End of Period
		(1) Charged to Costs and Expenses	(2) Charged to Other Accounts -Note (a)		
Year 1994	\$ 14.2	84.1	30.9	114.0	\$ 15.2
Year 1993	\$ 11.3	66.0	35.1	98.2	\$ 14.2
Year 1992	\$ 12.3	62.6	34.8	98.4	\$ 11.3

(a) Amounts previously written off which were credited directly to this account when recovered.

(b) Amounts written off as uncollectible.

EXHIBIT 12

SOUTHWESTERN BELL TELEPHONE COMPANY
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

Dollars in Millions

	YEAR ENDED DECEMBER 31,				
	1994	1993	1992	1991	1990
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Changes in Accounting Principles	\$ 1,585.9	\$ 1,424.2	\$ 1,324.7	\$ 1,286.3	\$ 1,319.4
Add: Interest Expense	357.9	385.2	408.7	456.3	439.3
1/3 Rental Expense	<u>25.6</u>	<u>22.8</u>	<u>27.6</u>	<u>22.7</u>	<u>29.6</u>
 Adjusted Earnings	 <u>\$ 1,969.4</u>	 <u>\$ 1,832.2</u>	 <u>\$ 1,761.0</u>	 <u>\$ 1,765.3</u>	 <u>\$ 1,788.3</u>
 Total Interest Charges	 \$ 357.9	 \$ 385.2	 \$ 408.7	 \$ 456.3	 \$ 439.3
1/3 Rental Expense	<u>25.6</u>	<u>22.8</u>	<u>27.6</u>	<u>22.7</u>	<u>29.6</u>
 Adjusted Fixed Charges	 <u>\$ 383.5</u>	 <u>\$ 408.0</u>	 <u>\$ 436.3</u>	 <u>\$ 479.0</u>	 <u>\$ 468.9</u>
 Ratio of Earnings to Fixed Charges	 5.14	 4.49	 4.04	 3.69	 3.81

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