PLAINTIFF'S EXHIBIT

SWB-3

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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, 1990

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 COMPANY

Incorporated under the laws of the State of Missouri
I.R.S. Employer Identification Number 43-0529710

1010 Pine Street, St. Louis, Missouri 63101
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...✓..... No.........

EXHIBIT 12
FORM 10-K FOR 1990
FILE NO. 1-2346

SOUTHWESTERN BELL TELEPHONE COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
DOLLARS IN MILLIONS

	YEAR ENDED DECEMBER 31				
	1990	1989	1988	1987	1986
Income Before Income Taxes.....	$1,319.4	$1,268.9	$1,345.9	$1,524.4	$1,554.5
Add: Interest Expense....	439.3	476.6	486.4	497.4	515.2
1/3 Rental Expense..	29.6	28.2	32.4	42.2	46.7
Adjusted Earnings.........	$1,788.3	1,773.7	$1,864.7	$2,064.0	$2,116.4
Total Interest Charges.........	$ 439.3	476.6	$ 486.4	$ 497.4	$ 515.2
1/3 Rental Expense............	29.6	28.2	32.4	42.2	46.7
Adjusted Fixed Charges....	$ 468.9	504.8	$ 518.8	$ 539.6	$ 561.9
Ratio of Earnings to Fixed Charges..................	3.81	3.51	3.59	3.83	3.77

SWBT 000535

SOUTHWESTERN BELL TELEPHONE COMPANY
SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
Dollars in Millions

	Column A - Item	Column B - Charged to Costs and Expenses
	Year 1990	
1.	Maintenance and repairs	$1,536.3
2.	Taxes, other than payroll and income taxes	
	Property	254.7
	Gross receipts	116.2
	Year 1989	
1.	Maintenance and repairs	$1,437.7
2.	Taxes, other than payroll and income taxes	
	Property	239.8
	Gross receipts	111.6
	Year 1988	
1.	Maintenance and repairs	$1,458.2
2.	Taxes, other than payroll and income taxes	
	Property	233.6
	Gross receipts	126.8

SOUTHWESTERN BELL TELEPHONE COMPANY
SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION
OF PROPERTY, PLANT AND EQUIPMENT
Dollars in Millions

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Description	Balance at Beginning of Period	Additions Charged to Expenses	Retire-ments	Other Changes -Note(a)	Balance at End of Period
Year 1990.	$8,240.7	$1,499.6	$1,660.6	$(16.7)	$8,063.0
Year 1989.	7,208.2	1,711.2	640.1	(38.6)	8,240.7
Year 1988.	6,269.1	1,678.3	704.6	(34.6)	7,208.2

(a) Comprised principally of the following items:

(1) Amounts received for property, plant and equipment sold.

(2) Provisions for the cost of removing plant and equipment retired.

SWBT 000531

SOUTHWESTERN BELL TELEPHONE COMPANY
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
Dollars in Millions

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes -Note(c)	Balance at End of Period
Year 1988					
Aerial Cable	$ 1,199.0	$ 62.0	$ 24.4	$ (.5)	$ 1,236.1
Aerial Wire	37.3	.6	1.7	--	36.2
Buildings	1,969.6	80.8	7.5	2.8	2,045.7
Buried Cable	4,970.6	273.9	57.9	12.7	5,199.3
Central Office Assets	7,852.5	396.9	360.6	99.5	7,988.3
Conduit Systems	1,152.0	26.4	1.8	.2	1,176.8
Furniture and Office Equipment	1,229.8	120.7	129.3	(41.0)	1,180.2
Held for Future Use	8.5	--	--	(8.3)	.2
Information Equipment	1,453.8	28.4	70.3	4.5	1,416.4
Intrabuilding Network Cable	126.7	1.8	2.5	.5	126.5
Land	138.9	9.9	.2	6.9	155.5
Poles	282.5	11.7	4.8	(.1)	289.3
Submarine Cable	5.5	--	.7	--	4.8
Underground Cable	1,781.2	53.8	14.6	(.2)	1,820.2
Vehicle and Work Equipment	359.7	42.3	28.3	1.3	375.0
Total Property, Plant and Equipment	$22,567.6	$1,109.2	$ 704.6	$ 78.3	$23,050.5

Depreciation as a percentage of average depreciable plant and equipment 7.4%

The Notes on Sheet 4 are an integral part of this Schedule.

SWBT 000529

SOUTHWESTERN BELL TELEPHONE COMPANY
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
Dollars in Millions

COL. A Classification	COL. B Balance at Beginning of Period	COL. C Additions at Cost -Note(a)	COL. D Retirements -Note(b)	COL. E Other Changes -Note(c)	COL. F Balance at End of Period
Year 1990					
Aerial Cable	$ 1,253.9	$ 57.7	$ 29.6	$ (.2)	$ 1,281.8
Aerial Wire	35.8	.5	1.2	-	35.1
Buildings	2,139.0	116.4	10.1	(.2)	2,245.1
Buried Cable	5,437.8	307.7	58.8	(.7)	5,686.0
Central Office Assets	8,217.3	662.7	409.7	35.2	8,505.5
Conduit Systems	1,201.3	38.9	2.1	.7	1,238.8
Furniture and Office Equipment	1,135.8	136.8	133.1	4.6	1,144.1
Held for Future Use	7.9	-	-	.6	8.5
Information Equipment	1,447.8	45.8	965.4	3.4	531.6
Intrabuilding Network Cable	142.8	1.9	4.1	.5	141.1
Land	164.4	2.4	.4	(1.1)	165.3
Poles	296.1	11.6	5.5	-	302.2
Submarine Cable	4.6	.2	-	-	4.8
Underground Cable	1,869.5	76.8	14.9	(.2)	1,931.2
Vehicles and Work Equipment	392.0	47.0	25.7	-	413.3
Total Property Plant and Equipment	$23,746.0	$1,506.4	$1,660.6	$42.6	$23,634.4
Depreciation as a percentage of average depreciable plant and equipment					6.3%

The Notes on Sheet 4 are an integral part of this Schedule.

SWBT 000527

11. Contingent Liabilities

Under the Plan of Reorganization of AT&T (the "Plan") approved in August 1983 by the United States District Court for the District of Columbia acting in the case of United States v. Western Electric et al., the Bell operating companies ("BOCs"), including the Telephone Company, could be liable for certain liabilities that are attributable to predivestiture events (i.e., events prior to January 1, 1984) but that would not become certain until after divestiture. These contingent liabilities relate principally to the former BOCs' taxes, contracts and other business activities. These claims seek monetary damages and various types of monetary relief from the former BOCs, AT&T, or combinations of the foregoing. AT&T and all of the BOCs will share the financial responsibility when any contingent liability becomes certain based upon various formulae set forth in the Plan. Each company's allocable share depends on several factors, including the type of contingent liability involved and each company's relative net investment as of the effective date of divestiture.

In addition, the Telephone Company is party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of the business; the outcomes of these proceedings could affect the Telephone Company's future operations but they are uncertain at this time.

In the opinion of management, although the outcomes of these claims and suits are uncertain, they should not have a material adverse effect on the Telephone Company's financial position.

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 occurred during the period covered by this report.

Dollars in Millions

8. Additional Financial Information

	December 31, 1990	December 31, 1989
Balance Sheets		
Accounts payable and accrued liabilities:		
Accounts payable	$ 616.6	$ 580.6
Accrued taxes	234.6	251.6
Advance billing and customers deposits	194.6	189.7
Compensated future absences	183.9	178.0
Accrued interest	114.1	115.8
Accrued payroll	128.5	106.9
Other	330.4	320.1
Total	$1,802.7	$1,742.7

Statements of Income	1990	1989	1988
Interest expense:			
Long-term debt	$ 443.6	$ 445.5	$ 447.2
Notes payable	6.0	14.0	29.4
Other	(10.3)	17.1	9.8
Total	$ 439.3	$ 476.6	$ 486.4

Statements of Cash Flows	1990	1989	1988
Cash paid during the year for:			
Interest	$ 441.0	$ 476.4	$ 491.8
Income taxes	481.7	418.5	512.2

Dollars in Millions

6. Debt Maturing Within One Year

Debt maturing within one year is included as debt in the Telephone Company's computation of debt ratios and consists of the following:

	Amounts December 31,			Weighted Average Interest Rate		
	1990	1989	1988	1990	1989	1988
Notes payable:						
Commercial paper	$203.1	$ 59.0	$200.2	8.7%	9.3%	9.6%
Bank loans	-	-	60.4	-	-	9.3%
	203.1	59.0	260.6			
Current maturities of long-term debt	5.9	7.2	9.0			
Total	$209.0	$ 66.2	$269.6			

	Amounts			Weighted Average Interest Rate*		
	1990	1989	1988	1990	1989	1988
Average amount of notes payable outstanding during the year	$ 72.8	$147.8	$385.0	8.3%	9.5%	7.6%
Maximum amount of notes payable at any month end during the year	$203.1	$314.1	$571.0			

*Weighted average interest rate computed by dividing the average daily face amount of notes payable into the aggregate related interest expense.

The Telephone Company has entered into agreements with a number of banks for lines of credit totaling $430.0, all of which are available for the support of 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 agreements at December 31, 1990.

Dollars in Millions

In December 1987, the FASB issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" ("Statement No. 96"). Statement No. 96 requires a change from the current method of accounting for income taxes (pursuant to Accounting Principles Board Opinion No. 11) to the liability method. Specific provisions of Statement No. 96 require regulated companies, such as the Telephone Company, to record regulatory assets and liabilities when adjusting their deferred income tax liabilities. Income tax expense and net income may, depending on future changes in the enacted tax rate, be subject to increased fluctuations. Statement No. 96, as amended, is effective beginning in 1992. However, it is not expected to have a material impact on the Telephone Company's net income or financial position.

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (34 percent) to income before income taxes is as follows:

	1990	1989	1988
Taxes computed at federal statutory rate	$448.6	$431.4	$457.6
Increases (decreases) in taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits	(88.1)	(98.8)	(98.6)
Excess deferred taxes due to rate change	(55.4)	(75.8)	(82.6)
Certain taxes and payroll-related construction costs capitalized for financial statement purposes but deducted currently for income tax purposes-net of applicable depreciation	28.1	28.0	13.9
State and local income taxes-net of federal tax benefit	18.7	19.7	22.6
Other-net	(1.6)	21.2	20.2
Total	$350.3	$325.7	$333.1

made to the pension trust in excess of its cumulative amount of pension cost recognized was $501.5 and $432.4, respectively. Based on actuarial valuations of each plan, the fair value of each plan's assets exceeded their estimated actuarial projected benefit obligation at December 31, 1990 and 1989.

The projected benefit obligations for 1990 and 1989 were determined using a discount rate of 7.5 percent and a composite rate of compensation increase of 6.7 percent.

Substantially all employees are eligible to participate in voluntary savings plans sponsored by the Corporation which are designed to strengthen the employee's financial security at retirement by providing an incentive to save and invest regularly. Under the savings plans, the Telephone Company matches a stated percentage of eligible employee contributions, subject to a specified ceiling. Starting in 1990, the Telephone Company's match of employee contributions is being fulfilled with the Corporation's common stock allocated from two leveraged Employee Stock Ownership Plans and from purchases of the Corporation's stock in the open market. The costs relating to these savings plans were $57.4, $43.5 and $38.1 in 1990, 1989 and 1988, respectively.

The Telephone Company also provides certain medical, dental and life insurance benefits to substantially all retired employees. Retiree health care benefits are recognized as an expense as claims are incurred. Life insurance benefits costs are actuarially determined and are accrued and funded annually over the employees' active working lives. In 1990, 1989 and 1988, the cost of providing these postretirement benefits was $85.0, $72.4 and $73.9, respectively.

In December 1990, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("Statement No. 106"). Statement No. 106 requires benefit costs to be recognized on an accrual basis as benefits are earned by employees, and is effective beginning in 1993, although earlier adoption is permitted. The Telephone Company's expected date for adopting the statement has not been determined.

In implementing Statement No. 106, an employer may immediately recognize the accumulated obligation for postretirement benefits at the date of implementation or delay the recognition over a period not to exceed the greater of the average remaining service period of plan participants or 20 years. A choice between these alternatives is currently under study by the Corporation.

The increase in expense from implementing Statement No. 106 may be material; however, a current estimate is not available. The extent of the expense increase is influenced by the level of expense recognition within the ratemaking process and certain revenue-sharing agreements in regulatory jurisdictions of the Telephone Company.

Dollars in Millions

Deferred income taxes are provided for certain timing differences between earnings reported in the financial statements and earnings reported for income tax purposes.

Investment tax credits resulted from provisions of the federal tax law that allowed for a reduction in income tax liability based on certain construction and other capital expenditures. Corresponding reductions in income tax expense were deferred and are being amortized as reductions in income tax expense over the life of the property, plant and equipment that gave rise to the credits.

Cash Equivalents

All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents.

Material and Supplies

New and reusable materials are carried principally at average original cost. Specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Deferred Charges

Prior to the January 1, 1988, adoption of a revised Uniform System of Accounts ("USOA"), the Telephone Company deferred the cost of compensated future absences for its employees until the compensation was paid. As required by the Federal Communications Commission ("FCC"), the December 31, 1987, balance of this deferred charge is being amortized over 10 years. The current portion of the compensated absences deferral is classified as a "deferred charge," and the noncurrent portion of the deferred charge is classified as an "other asset" on the Telephone Company's Balance Sheets.

Property, Plant and Equipment

The cost of additions to and substantial betterments of property, plant and equipment is capitalized. Cost includes salaries and wages, material, applicable taxes, pensions, allowance for funds used during construction and certain other items.

The Telephone Company's provision for depreciation is computed using certain straight-line methods as prescribed by the 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.

SOUTHWESTERN BELL TELEPHONE COMPANY
STATEMENTS OF CASH FLOWS
Dollars in Millions

	1990	1989	1988
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flow from Operating Activities:			
Net income	$ 969.1	$ 943.2	$ 1,012.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,500.3	1,711.2	1,678.3
Provision for uncollectible accounts	85.5	65.8	64.9
Amortization of investment tax credits	(88.1)	(98.8)	(98.6)
Provision for pensions	(62.7)	(58.8)	(53.5)
Deferred income tax expense	(16.2)	(2.7)	(80.3)
Changes in operating assets and liabilities:			
Accounts receivable	(25.3)	(173.2)	(40.1)
Other current assets	(74.4)	22.1	129.7
Accounts payable and accrued liabilities	39.5	137.2	(126.5)
Other cash payments for noncurrent assets	-	(20.6)	-
Other - net	(27.4)	(56.0)	(53.2)
Total adjustments	1,331.2	1,526.2	1,420.7
Net cash provided by operating activities	2,300.3	2,469.4	2,433.5
Cash Flows from Investing Activities:			
Construction and capital expenditures	(1,479.0)	(1,282.6)	(1,091.3)
Net cash used in investing activities	(1,479.0)	(1,282.6)	(1,091.3)
Cash Flows from Financing Activities:			
Net borrowings (repayments) under line of credit agreements and commercial paper activity	144.1	(201.6)	(184.8)
Net advances (to) from parent	-	-	(81.2)
Repayment of long-term debt	(12.7)	(9.6)	(14.2)
Dividends paid	(947.2)	(970.3)	(1,007.7)
Additional equity investment from parent	-	-	82.0
Return of capital to parent	-	-	(130.0)
Net cash used for financing activities	(815.8)	(1,181.5)	(1,335.9)
Net increase (decrease) in cash and cash equivalents	5.5	5.3	6.3
Cash and cash equivalents beginning of year	32.9	27.6	21.3
Cash and Cash Equivalents End of Year	$ 38.4	$ 32.9	$ 27.6

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

SWBT 000513

SOUTHWESTERN BELL TELEPHONE COMPANY
STATEMENTS OF INCOME AND RETAINED EARNINGS
Dollars in Millions

	1990	1989	1988
Operating Revenues			
Local telephone service	$3,396.5	$3,324.9	$3,243.7
Network access	2,630.9	2,658.5	2,629.6
Long-distance service	1,064.6	1,051.5	1,068.4
Other	373.7	334.2	317.1
Total operating revenues	7,465.7	7,369.1	7,258.8
Operating Expenses			
Cost of services and products	2,504.6	2,335.7	2,329.4
Selling, general and administrative	1,710.8	1,560.6	1,427.2
Depreciation and amortization	1,500.3	1,711.2	1,678.3
Total operating expenses	5,715.7	5,607.5	5,434.9
Operating Income	1,750.0	1,761.6	1,823.9
Other Income (Expense)			
Interest expense	(439.3)	(476.6)	(486.4)
Allowance for funds used during construction	25.7	13.3	15.2
Other income (expense) - net	(17.0)	(29.4)	(6.8)
Total other income (expense)	(430.6)	(492.7)	(478.0)
Income Before Income Taxes	1,319.4	1,268.9	1,345.9
Income Taxes			
Federal	322.0	295.9	298.9
State and local	28.3	29.8	34.2
Total income taxes	350.3	325.7	333.1
Net Income	$ 969.1	$ 943.2	$1,012.8
Retained Earnings			
At beginning of year	$ 621.2	$ 621.2	$ 621.2
Net income	969.1	943.2	1,012.8
Dividends to parent	(969.1)	(943.2)	(1,012.8)
At end of year	$ 621.2	$ 621.2	$ 621.2

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

Accounting for Postretirement Benefits Other than Pensions

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" ("Statement No. 106"). Statement No. 106 will change the manner in which the Telephone Company accounts for postretirement benefits by requiring expense to be recognized on an accrual basis as benefits are earned by employees. Currently, expense is recognized as claims are incurred. Note 2 to the Financial Statements discusses the factors, including the effect of regulation at the Telephone Company, which will influence the extent of any increase in expense from implementing Statement No. 106. The increase may be material but an estimate is not currently available.

traditional adjustment for Yellow Pages imputation and using the Telephone Company's actual capital structure) must be returned to customers. Third, sharing credits will be applied to both local customer and access customer bills.

The settlement also disposes of the funds on deposit with the Cole County Circuit Court. The Telephone Company will receive from the Court: (1) the amount of credits it properly issued to customers in October 1989 and (2) an amount sufficient to satisfy all additional claims for overcharges. The Court will satisfy the claims of AT&T, MCI and the other litigants from the fund. (The Telephone Company believes these three amounts together will exceed the funds on deposit, including accrued interest.) In addition, the Telephone Company will make additional refunds to customers whose credits in October 1989 were less than the Commission's rate reduction. The Telephone Company will be entitled to offset up to $9.4 of these addtional credits against 1990 incentive plan credits to be applied in 1991.

The Telephone Company awaits approval of the settlement by the MPSC and the Cole County Circuit Court. Opposition to the settlement is not expected. In the opinion of management, the proposed modifications to the Missouri Plan will not result in a material financial impact to the Telephone Company.

Oklahoma

In 1986, the Oklahoma Corporation Commission ("OCC") made an inquiry into the effects of the Tax Reform Act of 1986 on the Telephone Company. As a result of the inquiry, in October 1989, the OCC concluded that the Telephone Company had a revenue surplus of $27.5. The Telephone Company is required to invest this revenue surplus, together with interest, to upgrade its network in Oklahoma rather than refund it to customers. In addition, prospective annual rate reductions totaling $7.8 were ordered, effective October 1, 1989.

In January 1990, the Telephone Company filed with the OCC an incentive regulation plan referred to as "TeleState/21." A clarifying amendment was filed on November 20, 1990. If approved, this plan would, among other things, freeze basic monthly telephone rates for five years and provide for the upgrade of the Telephone Company's network in Oklahoma at an estimated cost of $80.

In January 1989, the OCC ordered an investigation into the reasonableness of the Telephone Company's rates. The investigation is expected to conclude in 1991; however, the outcome is uncertain at this time.

Texas

On November 28, 1990, the Texas Public Utility Commission ("TPUC") approved a proposed settlement agreement, with minor changes (the "agreement"), which resolved the TPUC's inquiry into the rates of the Telephone Company in Texas. The agreement provides, among other things, that the Telephone Company, over the next four years, cap basic local rates and provide more

Interstate Price-Caps

On September 19, 1990, the FCC adopted a Price-Cap Regulation Plan effective January 1, 1991 for interstate telecommunication services offered by the local exchange telephone companies, including the Telephone Company. In addition, the FCC represcribed the interstate authorized return on investment (upon which initial price-cap rates were based) to 11.25 percent from 12.0 percent.

The Price-Cap Regulation Plan shifts the focus of regulation to prices rather than earnings and costs. Prices for most interstate services will be capped, and the cap will be adjusted annually for changes in inflation, productivity and other factors. To the extent that the Telephone Company can exceed the FCC's productivity objective, the opportunity exists to earn a higher return than under previous rate base regulation. All earnings up to 12.25 percent return on investment will be retained by the Telephone Company, and earnings between 12.25 percent and 17.25 percent will generally be subject to sharing with the customer through a downward adjustment to the price cap index. The sharing level within that range depends upon the annual productivity election made by the Telephone Company.

State Regulatory Environment

Three of the five states in which the Telephone Company operates (Kansas, Missouri and Texas) are now under some form of incentive regulation rather than traditional rate-of-return regulation. Under the Missouri and Texas incentive plans, the Telephone Company must share earnings beyond an established rate of return with its customers; the Kansas plan has no such requirement.

The Missouri and Texas Public Utility Commissions each require that certain "ratemaking" adjustments be made to the Telephone Company's reported earnings in order to compute the earnings subject to sharing. These adjustments, however, are not used in preparing the published financial statements. As a result, differences may exist between the returns reported to these regulatory bodies and those reported in the financial statements contained herein.

Kansas

Kansas has completed its first year of the five-year incentive regulation plan ("TeleKansas") approved February 1990 by the Kansas Corporation Commission ("KCC"). Over the five years of TeleKansas, neither the Telephone Company nor the KCC staff will seek to alter the Telephone Company's basic rates based on traditional rate-of-return regulation in Kansas. TeleKansas includes, among other things, frozen basic local rates for five years, a reduction of other annual rates approximating $22 effective in January 1990, a network modernization plan at an estimated cost of $160 and flexible pricing for a specified list of discretionary services.

Missouri

Missouri is completing its first year under a three-year incentive regulation plan ("Missouri Plan") in which the Telephone Company will share with its Missouri customers 60 percent of the Telephone Company's

Item 7. Management's Discussion and Analysis of Results of Operations.

Dollars in Millions

Southwestern Bell Telephone Company ("Telephone Company") provides telecommunications services to approximately 9.5 million customers in Arkansas, Kansas, Missouri, Oklahoma and Texas ("five-state area"). The Telephone Company is a public utility subject to some form of regulation in each of the state jurisdictions in which it operates and by the Federal Communications Commission ("FCC").

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

Results of Operations

The Telephone Company reported net income of $969.1 for 1990, a 2.7 percent increase compared with 1989's net income of $943.2. Increased demand for services at the Telephone Company positively affected net income in 1990. This positive factor was primarily offset by the impact in 1990 of a voluntary management reduction program and rate reductions.

Items affecting the comparison of the operating results between 1990 and 1989 are discussed in the following sections.

Operating Revenues

The Telephone Company reported total operating revenues of $7,465.7 in 1990 and $7,369.1 in 1989, which represents an increase of 1.3 percent.

The changes in total operating revenues in 1990 comprise the following increases (decreases) by revenue component:

	For the Year Ended December 31, 1990	
Local telephone service	$ 71.6	2.2%
Network access	(27.6)	(1.0)
Long-distance service	13.1	1.3
Other	39.5	11.8
	$ 96.6	1.3%

Local Telephone Service The increase was due primarily to growth in the number of access lines, partially offset by rate reductions.

Network Access The decrease was due primarily to rate reductions offset partially by increased demand and the settlement of certain claims from major interexchange carriers relating to a portion of the Telephone Company's overearnings liability for the monitoring periods ended December 31, 1986 and 1988. The excess of the previously recorded liabilities, including interest, over the settlement amounts was reversed.

existing enhanced services, pending the FCC's further proceedings on remand from the Ninth Circuit. These services were being offered even prior to ONA plan approval, pursuant to individual, service-specific Comparably Efficient Interconnection ("CEI") plans.

Both the ONA and CEI plans described competitive safeguards imposed to ensure non-discriminatory practices by the Telephone Company. The Telephone Company received FCC approval of a VMS CEI plan on September 29, 1988, and approval of a protocol conversion CEI plan on March 9, 1989. The Telephone Company is currently offering VMS in limited locations and protocol conversion in each of its five states, under the terms of the respective CEI plans, pursuant to the above-described interim waiver.

The FCC has tentatively proposed on remand to again permit the Telephone Company to offer all enhanced services pursuant to an implemented ONA plan. Public comment is being sought and a decision is expected by the end of 1991.

The Telephone Company is allowed to provide CPE in accordance with its CPE Compliance Plan, which received FCC approval in 1988. The CPE Compliance Plan details how the Telephone Company will satisfy FCC-imposed, non-structural, competitive safeguards. The Telephone Company began to provide CPE under the CPE Compliance Plan during 1988. The Telephone Company continues to provide CPE, CPE installation and maintenance services and CPE marketing services under the terms of the CPE Compliance Plan.

Competition

Regulatory and court decisions, as well as new technology, have expanded the types of available communications services and products and have increased the number of competitors offering such services. An increasing amount of this competition is from large companies which have substantial capital and technological and marketing resources.

The Telephone Company faces competition from system bypass in the form of Alternative Local Carriers ("ALCs") and private networks. ALCs typically build fiber optic "rings" throughout large metropolitan areas. ALCs use these fiber optic "rings" to provide high speed digital transport services for large business customers and interexchange carriers. Also an increasing number of individual firms, particularly large business customers, have established their own telecommunications or private network systems to transmit voice and data on a local basis, bypassing the use of Telephone Company facilities. The extent of the economic incentive to bypass the local exchange network depends upon local exchange rates, access charges and other factors. The FCC has ordered implementation of an end-user charge to help mitigate the effect of system bypass.

On November 14, 1989, an ALC, Metropolitan Fiber Systems, Inc. ("MFS"), filed with the DOJ a Petition for Enforcement of the MFJ asking that the Telephone Company and the other Bell operating companies ("BOCs") be ordered to disaggregate access charges and to permit ALCs to collocate their equipment within BOC central offices. On the same date, MFS also

In an order issued on January 24, 1989, the Court determined that the MFJ prohibited the RHCs from providing certain information service gateway functions through a centralized processor which would be utilized on an interexchange basis. Several of the RHCs appealed the order. The order was affirmed by the Court of Appeals on June 12, 1990.

In an order issued on February 16, 1989, the Court granted a waiver to permit the RHCs to provide multi-LATA one-way paging services regardless of geographic scope, subject to conditions applied to previous paging waivers, including a condition requiring the interexchange links for multi-LATA paging services to be obtained from unaffiliated interexchange carriers. The Corporation appealed that portion of the order which prohibits it from owning or operating interexchange links outside of the service territory of the Telephone Company. On October 17, 1990, the Court of Appeals reversed the Court's decision. The Court of Appeals remanded the matter to the Court for reconsideration under the waiver standard it announced in its first triennial review decision.

In an order issued on June 13, 1989, the Court denied a waiver request by the Corporation to permit it to provide electronic directory services outside the service territory of the Telephone Company. The Corporation and two other RHCs appealed the order. On December 10, 1990, the Court of Appeals reversed and remanded the order. The Court directed the lower court to reconsider the waiver requests under the waiver standard as interpreted in its first triennial review decision.

In addition to the various appellate issues, the line of business restrictions may be examined in subsequent triennial review decisions.

Communications Services

Principal Services

The Telephone Company's principal services include local telephone, network access and toll services. Local telephone and toll services transport telecommunications traffic between telephones and other CPE located within the same service area. Network access service links a subscriber's telephone or other equipment to the transmission facilities of long-distance (i.e., interexchange) carriers, which will, in turn, provide telecommunications service between service areas.

The following table sets forth for the Telephone Company the percentage of total operating revenues by any class of service which accounted for 10 percent or more of total operating revenues in any of the last three fiscal years.

	Percentage of Total Operating Revenues		
	1990	1989	1988
Recurring charges for local telephone service	40%	38%	38%
Charges to interexchange carriers for network access	28%	29%	31%
Charges for long-distance (i.e., toll) service	14%	14%	15%

TABLE OF CONTENTS

PART I

---

* Omitted pursuant to General Instruction J(2).

SWBT 000496

During 1990, the Court granted several waivers that permit the Corporation and the Telephone Company to engage in activities that otherwise would be impermissible under the MFJ. On April 6, 1990, the Corporation and the other regional holding companies ("RHCs") received a blanket waiver from the interexchange services restriction. Under the waiver, all previously granted waiver orders permitting an RHC to provide interLATA cellular service within the area served by its operating telephone companies were extended to all RHCs.

On July 27, 1990, the Telephone Company received a waiver to provide directory assistance service for other local telephone companies.

On September 12, 1990, the Corporation and the other RHCs received additional relief in the cellular area. The RHCs received a one-year waiver to provide intersystem hand-off of cellular calls so that when a call is in progress and a cellular customer drives into the service area of another cellular service provider, the call can continue, even though the cellular customer may cross a Local Access Transport Area ("LATA") boundary. The Court also requested the DOJ to consider a proposal to permit the RHCs to provide automatic call delivery of cellular calls when the customer is located in a cellular system other than the home system.

On December 4, 1990, the Corporation received a waiver that permits it to acquire up to a 10 percent equity interest in Telefonos de Mexico, S.A. de C.V. ("Telmex"), the principal local and long distance telephone company in Mexico, and to continue Telmex's role in providing the Mexican end of United States-Mexico international telecommunications.

In addition, the Corporation has requests outstanding with the DOJ or the Court which seek the removal of some of the remaining restrictions. These requests seek relief from the interexchange prohibition to provide cellular services in certain of its regional markets and in rural service areas, and the authority to permit the Corporation to engage in the design and development of CPE.

There are also a number of decisions of the Court, affecting either the line of business restrictions or construction of the MFJ, which have been appealed and are either pending or have been recently decided. The Corporation appealed the Court's first triennial review decision on the grounds that the Court (1) failed to correctly interpret and apply the waiver standard in deciding not to remove other line of business restrictions under review and (2) failed to remove the information service restriction even though the original parties to the MFJ did not object.

On April 3, 1990, the U.S. Court of Appeals for the District of Columbia ("Court of Appeals"), in its review of the triennial review decision, affirmed the Court's decision not to remove the interexchange and manufacturing restrictions, but clarified the waiver standard in a manner that will be beneficial in future waiver requests. The Court of Appeals explained that the waiver standard was satisfied by the RHC's showing that it would not impede competition (i.e., would not be able to raise prices or restrict output) in the market it seeks to enter. The Court of Appeals also reversed the decision not to lift the information services restriction completely, and remanded the issue to the Court for reconsideration under a more lenient public interest standard which is to apply when AT&T and the DOJ, the original parties to the MFJ, do not oppose relief. That issue is now pending before the Court.

Major Customer

Approximately 19 percent in 1990, 23 percent in 1989 and 24 percent in 1988 of the Telephone Company's total operating revenues were derived from services provided to AT&T. No other customer accounted for more than 10 percent of total revenues.

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 exchange access and other matters. The Telephone Company is also subject to the jurisdiction of the Federal Communications Commission ("FCC") with respect to foreign and interstate rates, lines and services, interstate access charges and other matters. Access charges compensate the Telephone Company for the use of its facilities for the origination or termination of long-distance communications and are contained in access tariffs filed with and regulated by the FCC and the state commissions.

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 headings "Interstate Regulatory Environment" and "State Regulatory Environment" beginning on pages 11 and 12, respectively, which are incorporated herein by reference pursuant to General Instruction G(3).

Principal Markets

The Telephone Company provides its services to approximately 8.2 million residential and 1.3 million business customers in the five-state area. In 1990, 1989, and 1988, approximately 73 percent of the Telephone Company's total operating revenues were attributable to intrastate operations.

Status of New Services

The Telephone Company is allowed to provide certain enhanced services such as voice messaging service ("VMS") which are more than basic transmission service. They are deregulated at the federal level and although they may now be regulated at the state level, none of the Telephone Company's state commissions have yet asserted jurisdiction over such services.

To offer enhanced services generally, the Telephone Company had to obtain FCC approval of an Open Network Architecture ("ONA") plan. ONA represents the Telephone Company's plan essentially to permit equal access to its network for all enhanced service providers. The Telephone Company filed its ONA plan with the FCC on January 25, 1988, received partial approval on December 22, 1988, and final approval on May 8, 1990.

However, on June 6, 1990, the Ninth U.S. Circuit Court of Appeals reversed the FCC's orders that had originally permitted the Telephone Company to offer enhanced services. The Telephone Company then sought and obtained an interim waiver from the FCC allowing the continued provision of its filed with the FCC a Petition for Rulemaking essentially seeking the same result. MFS' request would allow ALCs to compete with the BOCs for certain transport services by using modified access charges and BOC central office space.

The DOJ has not yet taken any action on the MFS Petition for Enforcement. However, on February 2, 1990, the FCC released a Public Notice inviting public comment on the MFS Petition for Rulemaking by April 4, 1990 and reply comments by May 14, 1990. Although the Telephone Company does not believe that the impact of bypass from ALCs and private carriers will be material, much depends upon what, if any, regulatory or legal actions may be taken on requests like those of MFS.

Employees

As of January 31, 1991, the Telephone Company employed 57,127 persons. Approximately 71 percent of the employees are represented by the Communications Workers of America ("CWA"). Effective August 12, 1989, a three-year contract with the CWA was agreed upon by the Telephone Company. This contract will be subject to renegotiation in 1992.

Item 2. Properties.

The properties of the Telephone Company do not lend themselves to description by character and location of principal units. At December 31, 1990, network access lines represented 45 percent of the Telephone Company's investment in telephone plant; central office equipment represented 36 percent; land and buildings represented 10 percent; other miscellaneous property comprised principally of furniture and office equipment and vehicles and other work equipment represented 7 percent; and information origination/termination equipment represented 2 percent.

Item 3. Legal Proceedings.

See Footnote 11, "Contingent Liabilities," on page 31 of this report, which is incorporated herein by reference pursuant to General Instruction G(3).

Long-Distance Service Revenues increased due to growth and the net change in the results of settlements with independent telephone companies, whereby the Telephone Company and other local exchange carriers recover the expense and investment of jointly handling intraLATA long distance calls. These positive factors were offset primarily by rate reductions.

Other Revenues The increase was due primarily to increased revenues associated with the repair program.

Operating Expenses

Total operating expenses increased $108.2, or 1.9 percent, in 1990, compared with 1989. A large part of this increase was due to expenses associated with increased demand for services and one-time charges in the fourth quarter for a voluntary management reduction program and an accounting consolidation program. A significant offsetting factor was the lower depreciation rates authorized in most jurisdictions.

Interest Expense

Interest expense decreased $37.3 or 7.8 percent due primarily to the effects of adjustments resulting from the settlement of certain claims relating to the interstate overearnings liability, as previously discussed.

Federal Income Tax Expense

Federal income tax expense increased $26.1 or 8.8 percent due to a higher effective income tax rate and greater income before income taxes. For additional information, see Note 3 to the Financial Statements.

Operating Environment and Trends of the Business

Interstate Regulatory Environment

Authorized Interstate Earnings

During 1986, the FCC adopted rules to monitor the interstate earnings of local exchange carriers, including the Telephone Company, during two-year monitoring periods, the first of which ended December 31, 1986. These rules require the Telephone Company to refund earnings in excess of authorized levels ("overearnings"), including interest, on an access category basis. During 1988, a United States Court of Appeals reversed and remanded an FCC order that required the Telephone Company to refund the overearnings automatically. The FCC has yet to issue new refund rules.

During 1989 and early 1990, the Telephone Company reached agreements with all significant interexchange carriers, which settled the Telephone Company's overearnings liability with regard to those carriers for the monitoring periods ended December 31, 1986 and 1988. The excess of the recorded liabilities over the settlement amounts was reversed, increasing net income by approximately $30 in 1990.

intrastate earnings between 14.1 percent and 14.5 percent return on equity and 50 percent of the intrastate earnings above 14.5 percent. A general moratorium for Telephone Company initiated rate cases (unless earnings fall below 11.6 percent return on equity) and Missouri Public Service Commission ("MPSC") earnings complaints will also be in effect for the three-year period.

The incentive plan was formed as part of a September 25, 1989, agreement among the MPSC, the Missouri Office of Public Council ("MOPC"), and the Telephone Company. The agreement settled an appeal, filed in the Cole County Circuit Court, of a June 20, 1989, order of the MPSC which, among other things, reduced the Telephone Company's revenues by $101.3, effective July 1, 1989.

In addition to the incentive regulation plan, the Missouri Plan reduces Telephone Company annual revenues in Missouri, effective October 1, 1989, by approximately $82 in lieu of the MPSC's originally ordered July 1, 1989, reduction of $101.3. The Telephone Company also returned $20.4 to Missouri customers in the form of one-time credits on their October 1989 telephone bills. These credits were intended to compensate customers for the Circuit Court's suspension of the effect of the original rate reduction from July 1, 1989, through September 30, 1989. In addition, the Telephone Company will upgrade its network in Missouri between 1990 and 1997 at an estimated cost of $180.

AT&T, MCI and certain others have challenged the MPSC's procedures in entering into the settlement with the Telephone Company and the MOPC, as well as the legality of certain provisions of the Missouri Plan. This action is currently pending before the Court.

In a related challenge before the Circuit Court, the Court entered an order on October 24, 1989, that required the Telephone Company to remit to the Circuit Court an amount representing revenue collected from customers in excess of rates authorized by the MPSC's order of June 20, 1989, together with interest.

On October 18, 1990, the Telephone Company remitted $26.4 to the Circuit Court and is awaiting a ruling by the Court as to who is entitled to receive the $26.4. The Telephone Company had already refunded $20.7 ($20.4 discussed above plus interest) to local customers in 1989. The Telephone Company contends that the $20.7 satisfied its liability under the stay order and that the $26.4 of escrowed funds therefore should be returned to the Telephone Company. In lieu of that, the Telephone Company believes it is entitled to offset that amount against the $26.4 remitted to the Circuit Court.

On March 7, 1991, the Telephone Company entered into a settlement with AT&T and the other litigants contesting the September 25, 1989 settlement. The new settlement preserves all elements of the Missouri Plan with only three minor modifications: First, the floor at which the Telephone Company may file a rate case is increased to 12.61 percent return on equity. Second, intrastate earnings above 17.25 percent return on equity (without the than $1,200 in cumulative rate reductions and other benefits to customers in Texas. The first-year rate reductions and customer benefits will be $246.0 in 1991. The agreement also provides for $87.5 in one-time customer credits. The full amount of these credits was accrued by the Telephone Company in 1990.

In addition, the Telephone Company will share with its customers 50 percent of its annual intrastate earnings from a 12.06 percent through 14.5 percent return on investment (approximately 14.2 percent and 18.2 percent return on equity, respectively). All annual intrastate earnings above a 14.5 percent return on investment (approximately 18.2 percent return on equity) will be returned to customers.

The agreement also provides for a four-year network modernization plan that management estimates will cost $329. The Telephone Company was also

required to reduce its intrastate depreciation expense in Texas by approximately $100 annually, retroactive to January 1, 1989, but would be allowed to amortize its intrastate reserve deficiency beginning in 1991.

In addition, as part of the agreement, AT&T, MCI Telecommunications and US Sprint released all rights to retroactive WATS Prorate Credits of approximately $152, which had not previously been reflected in operations. The WATS Prorate Credits were eliminated by the TPUC effective June 20, 1990.

Other Business Matters

Voluntary Management Reduction Program

In 1990, the Telephone Company offered cash incentives that were accepted by more than 1,000 managers who voluntarily chose to retire or leave the company before December 31, 1990. The program involved a charge against net income in the fourth quarter of 1990 of $34.5.

Accounting for Income Taxes

In accordance with Accounting Principles Board Opinion No. 11, "Accounting for Income Taxes," the deferred tax accounts included in the Telephone Company's Balance Sheet as of December 31, 1990, were calculated using income tax rates in effect at the time the assets and liabilities were established (primarily 46 percent). The recorded liabilities (net of the deferred tax assets) may be greater than the ultimate cash payments to be made at the corporate income tax rate scheduled to be in effect when the deferred tax liabilities are settled.

In December 1987, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" ("Statement No. 96"), which requires a change from the current method of accounting for income taxes to the liability method. For more information see Note 3 to the Financial Statements.

Statement No. 96, as amended, is effective beginning in 1992. However, it is not expected to have a material impact on the Telephone Company's net income or financial position.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Southwestern Bell Telephone Company

We have audited the financial statements of Southwestern Bell Telephone Company listed in the accompanying index to financial statements (Item 14(a)(1) and (2)). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements listed in the accompanying index to financial statements (Item 14(a)(1) and (2)) present fairly, in all material respects, the financial position of Southwestern Bell Telephone Company at December 31, 1990 and 1989, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

ERNST & YOUNG

St. Louis, Missouri
February 8, 1991

SOUTHWESTERN BELL TELEPHONE COMPANY
BALANCE SHEETS
Dollars in Millions

	December 31, 1990	December 31, 1989
Assets		
Current Assets:		
Cash and cash equivalents	$ 38.4	$ 32.9
Accounts receivable - net of allowances for uncollectibles of $18.1 and $15.0	1,175.9	1,215.4
Material and supplies	94.4	127.6
Deferred charges	55.0	51.0
Deferred income taxes	77.8	92.2
Prepaid expenses and other current assets	90.9	30.5
Total current assets	1,532.4	1,549.6
Property, Plant and Equipment - Net	15,571.4	15,505.3
Other Assets	878.9	845.0
Total Assets	$17,982.7	$17,899.9
Liabilities and Shareowner's Equity		
Current Liabilities:		
Debt maturing within one year	$ 209.0	$ 66.2
Accounts payable and accrued liabilities	1,802.7	1,742.7
Total current liabilities	2,011.7	1,808.9
Long-Term Debt	4,858.2	4,860.0
Deferred Credits and Other Noncurrent Liabilities:		
Deferred income taxes	3,352.4	3,383.1
Unamortized investment tax credits	654.1	742.2
Other noncurrent liabilities	15.2	14.6
Total deferred credits and other noncurrent liabilities	4,021.7	4,139.9
Commitments and Contingent Liabilities (Notes 5, 11)		
Shareowner's Equity:		
Common stock - one share, without par value, owned by parent	6,469.9	6,469.9
Retained earnings	621.2	621.2
Total shareowner's equity	7,091.1	7,091.1
Total Liabilities and Shareowner's Equity	$17,982.7	$17,899.9

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

1. Summary of Significant Accounting Policies

Southwestern Bell Telephone Company ("Telephone Company") is a regulated utility which provides telecommunications services to customers in Arkansas, Kansas, Missouri, Oklahoma and Texas. The Telephone Company is a wholly-owned subsidiary of Southwestern Bell Corporation ("Corporation").

Regulatory Accounting

The Telephone Company prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("Statement No. 71"). The provisions of Statement No. 71 require, among other things, that regulated enterprises reflect rate actions of regulators in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise. Statement No. 71 also specifies that the actions of a regulator can eliminate only liabilities imposed by the regulator.

Allowance for Funds Used During Construction

Where capital invested by the Telephone Company in construction projects is not allowed in the rate base upon which revenue requirements are determined, it is the practice of regulatory authorities to allow, in lieu thereof, a capitalization of interest and equity costs during periods of construction. In accordance with Statement No. 71, these capitalized costs are reflected as income during the construction period and as an addition to the cost of plant constructed.

Income Taxes

The Telephone Company is included in the Corporation's consolidated federal income tax return. Federal income taxes are provided for in accordance with the provisions of the Tax Allocation Agreement ("Agreement") between the Telephone Company and the Corporation. Under the Agreement, the Telephone Company's income tax provision reflects the financial consequences of all income, deductions and credits which can be utilized on a separate return basis or in consolidation with the Corporation and which are assured of realization. For future periods, there is no assurance that the Telephone Company will continue to receive income tax benefits for income, deductions and credits which cannot be utilized on a separate return basis since the Corporation may be unable to use these income, deductions and credits; or the Agreement may be amended or terminated.

Dollars in Millions

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

The cost of maintenance and repairs of property, plant and equipment, including the cost of replacing minor items not constituting substantial betterments, is charged to operating expenses.

2. Employee Retirement Benefits

Substantially all employees of the Telephone Company are covered by one of two noncontributory pension and death benefit plans sponsored by the Corporation. 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.

The Telephone Company's objective in funding the plans, in combination with 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 an irrevocable trust for the sole benefit of plan participants. Plan assets consist primarily of listed stocks, U.S. government and domestic corporate bonds, and real estate.

The following data relate to plan costs:

	1990	1989	1988
Pension cost (credit)	$(66.6)	$(58.8)	$(52.4)
Amount capitalized in property, plant and equipment	$ (5.7)	$ (5.5)	$ (5.2)

The assumed discount rate used in determining pension cost for 1990 was 7.5 percent; for both 1989 and 1988, this rate was 8.0 percent.

The assumed long-term rate of return on plan assets used in determining pension cost for 1990, 1989 and 1988 was 7.5 percent.

Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," requires certain disclosures to be made of the components of net periodic pension cost for the period and a reconciliation of the funded status of the plans with amounts reported in the balance sheets. This information is not presented for the Telephone Company as the structure of the plans does not readily permit the proportionate determination of the Telephone Company's share of plan assets and obligations. As of December 31, 1990 and 1989, the amount of the Telephone Company's cumulative contributions

Dollars in Millions

3. Income Taxes

The components of income tax expense are as follows:

	1990	1989	1988
Federal:			
Current	$423.8	$402.9	$479.5
Deferred-net	(13.7)	(8.2)	(82.0)
Amortization of investment tax credits	(88.1)	(98.8)	(98.6)
	322.0	295.9	298.9
State and local:			
Current	30.8	24.3	31.6
Deferred-net	(2.5)	5.5	2.6
	28.3	29.8	34.2
Total	$350.3	$325.7	$333.1

The components of deferred federal income tax expense are as follows:

	1990	1989	1988
Depreciation	$ 17.9	$(11.1)	$(17.1)
Voluntary Employees' Beneficiary Association (VEBA)	7.6	6.0	(66.8)
Provision for pensions	19.8	19.4	10.1
Other-net	(59.0)	(22.5)	(8.2)
Total	$(13.7)	$ (8.2)	$(82.0)

The Telephone Company does not provide deferred income taxes if its regulated rates to customers are based on taxes currently payable ("flow-through treatment"). The amounts of income tax timing differences for which deferred tax liabilities have not been provided were approximately $450.7, $522.3 and $612.7 at December 31, 1990, 1989 and 1988, respectively. The timing differences accorded flow-through treatment result principally from portions of allowance for funds used during construction and certain taxes and payroll-related construction costs previously capitalized for financial statement purposes, but deducted immediately for income tax purposes.

Dollars in Millions

4. Property, Plant and Equipment

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

	December 31, 1990	December 31, 1989
Telephone Plant -		
In service	$23,245.1	$23,502.7
Under construction	380.8	235.4
Held for future use	8.5	7.9
	23,634.4	23,746.0
Accumulated depreciation and amortization	(8,063.0)	(8,240.7)
Property, Plant and Equipment - Net	$15,571.4	$15,505.3

As a result of the 1989 triennial represcription, whereby the depreciation rates for telephone plant and equipment are reviewed, the FCC authorized revised depreciation rates for the Telephone Company, effective January 1, 1990. Certain individual state jurisdictions also adopted depreciation rate revisions during 1990. As a result, Arkansas, Oklahoma and Texas adopted revisions which reduced annual depreciation expense by approximately $108. In addition, the 1990 results included a one-time reduction to Texas depreciation expense of approximately $100 relating to 1989. Because portions of the decrease in 1990 depreciation expense were offset by rate reductions, the effect on 1990 net income was not material.

5. Leases

Certain facilities and equipment used in operations are under capital or operating leases. Rental expenses under operating leases were $88.8, $84.5 and $97.2 for 1990, 1989 and 1988, respectively. At December 31, 1990, the aggregate minimum rental commitments under noncancelable leases were as follows:

Year	Operating Leases	Capital Leases
1991	$25.5	$11.0
1992	21.0	10.0
1993	10.1	8.9
1994	4.7	3.1
1995	2.6	.8
Thereafter	16.0	2.7
Total minimum lease payments	$79.9	36.5
Amount representing executory costs		(3.7)
Amount representing interest		(9.3)
Present value of minimum lease payments		$23.5

Dollars in Millions

7. Long-Term Debt

A summary of long-term debt is as follows:

		December 31, 1990	December 31, 1989
Debentures -			
Interest Rates and Maturities:			
4 1/2% - 4 3/4%	1992 - 1997	$ 300.0	$ 300.0
5 3/8% - 6 7/8%	2003 - 2011	650.0	650.0
7 3/8% - 8 3/4%	1993 - 2024	2,800.0	2,800.0
9 1/4% - 9 5/8%	2015 - 2019	600.0	600.0
11 1/2% - 11 7/8%	2021 - 2023	680.0	680.0
12 3/4%	2025	52.0	52.0
		5,082.0	5,082.0
Unamortized discount - net of premium		(241.4)	(249.3)
Total debentures		4,840.6	4,832.7
Capitalized Leases		23.5	34.4
		4,864.1	4,867.1
Current Maturities		(5.9)	(7.1)
Total Long-Term Debt		$4,858.2	$4,860.0

The call premium and unamortized discount (or premium) on Telephone Company debt extinguished prior to maturity has been classified as a discount (or premium) on long-term debt and is being amortized (as approved by the FCC) over the remaining life of the new debt issued to refinance the old debt.

Under the Telephone Company's debenture agreements, no principal payments are due until maturity. The aggregate principal amounts of long-term debt scheduled for repayment are $100.0 for 1992, 1993 and 1995.

Pursuant to a shelf registration statement, the Telephone Company may offer up to $700.0 aggregate principal amount of its debt securities. Net proceeds from the sale of debt securities under this shelf registration will be used for any or all of the following: refinancing outstanding long-term debt, repay short-term debt or for general corporate purposes of the Telephone Company. No debt securities have been issued under this shelf registration through 1990.

Dollars in Millions

9. Quarterly Financial Information (Unaudited)

Unaudited 1990 and 1989 quarterly results of operations appear below:

	Amounts		
Calendar Quarter	Total Operating Revenues	Operating Income	Net Income
1990			
First	$1,846.6	$ 462.6	$ 255.3
Second	1,855.6	465.5	254.7
Third	1,879.9	464.2	258.6
Fourth	1,883.6	357.7	200.5
Total	$7,465.7	$1,750.0	$ 969.1
1989			
First	$1,813.0	$ 440.4	$ 229.3
Second	1,883.6	468.2	259.7
Third	1,810.1	413.6	225.3
Fourth	1,862.4	439.4	228.9
Total	$7,369.1	$1,761.6	$ 943.2

10. Segment and Major Customer Information

The Telephone Company operates predominantly in the communications service industry.

Approximately 19 percent in 1990, 23 percent in 1989 and 24 percent in 1988 of the Telephone Company's revenues were derived from services provided to AT&T. No other customer accounted for more than 10 percent of total revenues.

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Documents filed as a part of the report: Page

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 SEC, are incorporated by reference as exhibits hereto.

3-a Restated Articles of Incorporation of Southwestern Bell Telephone Company, effective October 8, 1986. (Exhibit 3-a to Form 10-K for 1986, File 1-2346.)

3-b Bylaws of Southwestern Bell Telephone Company, effective September 17, 1986. (Exhibit 3-b to Form 10-K for 1986, File 1-2346.)

4 Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long and intermediate term debt of the registrant is filed herewith. Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.

12 Computation of Ratios of Earnings to Fixed Charges.

24 Consent of Ernst & Young.

25 Powers of Attorney.

SOUTHWESTERN BELL TELEPHONE COMPANY
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
Dollars in Millions

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes -Note(c)	Balance at End of Period
Year 1989					
Aerial Cable	$ 1,236.1	$ 61.4	$ 28.1	$ (15.5)	$ 1,253.9
Aerial Wire	36.2	.5	.9	-	35.8
Buildings	2,045.7	106.8	10.4	(3.1)	2,139.0
Buried Cable	5,199.3	290.2	49.2	(2.5)	5,437.8
Central Office Assets	7,988.3	467.7	341.9	103.2	8,217.3
Conduit Systems	1,176.8	26.9	2.3	(.1)	1,201.3
Furniture and Office Equipment	1,180.2	168.3	147.8	(64.9)	1,135.8
Held for Future Use	.2	-	-	7.7	7.9
Information Equipment	1,416.4	40.6	12.3	3.1	1,447.8
Intrabuilding Network Cable	126.5	2.1	4.3	18.5	142.8
Land	155.5	17.6	.1	(8.6)	164.4
Poles	289.3	11.7	4.9	-	296.1
Submarine Cable	4.8	.1	.3	-	4.6
Underground Cable	1,820.2	63.1	13.5	(.3)	1,869.5
Vehicles and Work Equipment	375.0	42.0	24.1	(.9)	392.0
Total Property Plant and Equipment	$23,050.5	$1,299.0	$640.1	$ 36.6	$23,746.0
Depreciation as a percentage of average depreciable plant and equipment					7.4%

The Notes on Sheet 4 are an integral part of this Schedule.

(a) Includes allowance for funds used during construction and additions to capitalized leased assets.

(b) Items of telephone plant, when retired or sold are deducted from the property accounts at the amount of cost originally recorded. Amounts are estimated if original historical cost is not known.

(c) Primarily includes transfers to and from Material and Supplies from and to Property, Plant and Equipment for reused material.

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
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Revenues	Charged to Other Accounts -Note(a)	Deductions -Note(b)	Balance at End of Period
Year 1990.	$ 15.0	$ 85.5	$ 29.4	$ 111.8	$ 18.1
Year 1989.	14.2	65.8	25.6	90.6	15.0
Year 1988.	20.9	64.0	24.1	94.8	14.2

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

(b) Amounts written off as uncollectible.

SWBT 000532

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 15th day of March, 1991.

SOUTHWESTERN BELL TELEPHONE COMPANY

By /s/ C. J. Roesslein
(C. J. Roesslein
Vice President-Chief Financial
Officer and Treasurer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Principal Executive Officer:

J. R. Adams*
President and Chief
Executive Officer

Principal Financial and
Accounting Officer:

C. J. Roesslein
Vice President-Chief Financial
Officer and Treasurer

/s/ C. J. Roesslein
(C. J. Roesslein, as attorney-in-fact and on his own behalf as Principal Financial Officer and Principal Accounting Officer)

March 15, 1991

Directors:
J. R. Adams*
R. D. Barron*
Gerald D. Blatherwick*
J. W. Callaway*
W. E. Dreyer*
James B. Ellis*
James D. Ellis*
R. M. Geschwind*
R. H. Glaser*
R. G. Pope*
James E. Taylor*
Claude M. West*

---

* by power of attorney

Schedule A

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each Class	Name of each exchange on which registered
Thirty-Seven Year 8-3/4% Debentures, due August 1, 2007	American 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
Forty Year 9-1/4% Debentures, due January 15, 2015	American Stock Exchange
Forty Year 8-1/2% Debentures, due March 15, 2016	American Stock Exchange
Forty Year 8-1/4% Debentures, due April 1, 2017	American Stock Exchange
Forty Year 8-3/4% Debentures, due September 1, 2018	American Stock Exchange
Forty Year 9-5/8% Debentures, due March 15, 2019	American Stock Exchange