reduction reflects items accrued in the 1997 results of operations, including, among other things, the rate reduction ordered in the CPUC decision approving the SBC/PAC merger and the gain on the sale of PacBell's interest in Bellcore. Because of these accruals, the order will not materially affect SBC's results of operations in 1998.

In an April 1997 ruling, the CPUC reaffirmed that postretirement benefit costs were appropriately recoverable in PacBell's price cap filings as exogenous costs. The CPUC continued to allow recovery in 1998 consistent with the amount requested by PacBell in an October 1997 filing. The CPUC also ordered a further proceeding to address future procedures and amounts for recovery.

In May 1997, the FCC adopted new separations rules that shifted recovery of a substantial amount of billing and collection costs to the interstate jurisdiction. PacBell filed for a waiver of the requirement and was denied the waiver in December 1997. As a result, PacBell could be required to refund an annualized amount of approximately $21 to customers since July 1997, with refunds commencing in 1999.

In 1996, the CPUC issued an order on universal service and established the CHCFB to subsidize telephone service in California's high cost areas. The estimated $352 cost of the program is expected to be collected from customers of all telecommunications providers who will contribute to the fund through a 2.87% surcharge on all bills for telecommunications services provided in California. The surcharge became effective February 1, 1997. To maintain revenue neutrality, PacBell will reduce its revenues dollar for dollar for amounts it will receive from the fund. This reduction will occur through an across the board surcredit on all products and services (except for residential basic exchange services and contracts) or through permanent rate reductions for those services that previously subsidized universal service. PacBell filed to reduce permanently certain toll and access rates. Hearings were held in October 1997, and a decision is expected in the second or third quarter of 1998.

PacBell expects to receive approximately $305 annually from the CHCFB fund based on CPUC estimates of the cost of providing universal service. PacBell believes the new program underestimates the cost of providing universal service and that the average cost of providing service is up to 33% higher per line, per month than the CPUC estimate. As a result, subsidies for universal service will remain in the prices for PacBell's competitive services, which may place it at a competitive disadvantage.

In 1992, PacBell entered into a settlement with tax authorities and others which fixed a specific methodology for valuing utility property for tax purposes for a period of eight years. As a result, the CPUC opened an investigation to determine if any resulting property tax savings should be returned by PacBell to its customers. Intervenors have asserted that as much as $20 of annual property tax savings should be treated as an exogenous cost reduction in PacBell's annual price cap filings and that as much as $90 in past property tax savings as of December 31, 1997, plus interest, should be returned to customers. PacBell believes that, under the CPUC's regulatory framework, any property tax savings qualify only as a component of shareable earnings and not as an exogenous cost. In an interim opinion issued in June 1995, the CPUC ruled in favor of intervenors, but decided to defer a final decision on the matter pending resolution in a separate proceeding of the criteria for exogenous cost treatment under its regulatory framework. To date, the CPUC has taken no further action on the issue.

More than 120 applications for certification to provide competitive local service have been approved by the CPUC, with over 25 more applications pending approval. As a result, PacBell expects competition to continue to develop for local service, but the financial impact of this competition cannot be reasonably estimated at this time.

Texas The Public Utility Regulatory Act, which became effective in May 1995 (PURA), allows SWBell and other LECs to elect to move from rate of return regulation to price regulation with elimination of earnings sharing. In September 1995, SWBell notified the Texas Public Utility Commission (TPUC) that it elected incentive regulation under the new law. Basic local service rates are capped at existing levels for four years following the election. The TPUC is prohibited from reducing switched access rates charged by LECs to interexchange carriers while rates are capped.

LECs electing price regulation must commit to network and infrastructure improvement goals, including expansion of digital switching and advanced high-speed services to qualifying public institutions, such as schools, libraries and hospitals, requesting the services. PURA also established an infrastructure grant fund for use by public institutions in upgrading their communications and computer technology. PURA provided for a total fund assessment of $150 annually on all telecommunications providers in Texas for a ten-year period. The 1997 Texas legislative session changed the funding for the infrastructure grant from annually collecting $150 for ten years to a flat rate (1.25%) applied to all telecommunications providers' sales taxable revenues. The law also provides a cap of $1,500 for the life of the fund. SWBell's annual payments will increase from the current level in 1997 of $36 per year to approximately $50 for each of the next three years. Due to the industry's growth in revenues, the fund should be completely funded before the original ten years.

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

MCI, preempted and voided portions of PURA that required certain new entrants to build telephone networks to cover a 27-square-mile area in any market they entered. Furthermore, the FCC also preempted rules that excluded competitors from entering markets with fewer than 31,000 access lines and which made resale of Centrex phone services subject to a limited property restriction. AT&T and MCI have dismissed their suits regarding this matter. In October 1997, SWBell filed with the FCC a Petition for Reconsideration regarding the preemption of the property restriction for Centrex services.

More than 170 applications for certification to provide competitive local service have been approved by the TPUC, with over 25 more applications pending approval. As a result, SWBell expects competition to continue to develop for local service, but the financial impact of this competition cannot be reasonably estimated at this time.

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

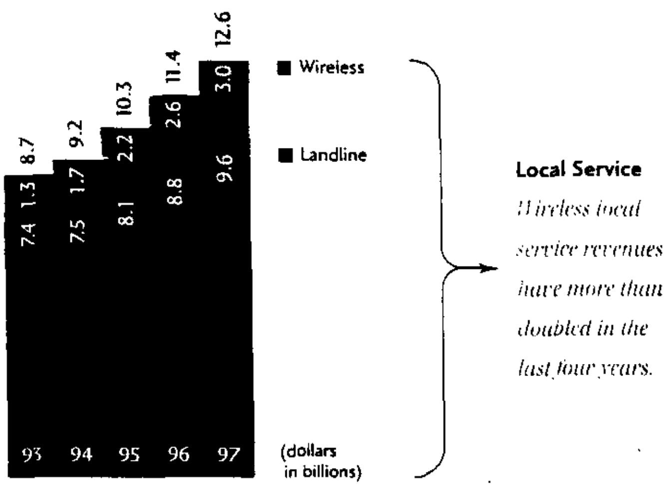
Oklahoma Oklahoma enacted legislation, effective July 1, 1997, which allows for alternative regulation in Oklahoma for telecommunications providers. Key provisions of the new law allow SWBell to apply for alternative regulation at any time, impose a restriction against the Oklahoma Corporation Commission (OCC) initiating a rate case until February 5, 2001, establish a Universal Service Fund (USF), and require SWBell to keep intrastate access rates at parity with interstate rates. SWBell is allowed to seek partial recovery of the access rate reductions from the USF. In addition, the new law allows for streamlined tariff processing procedures and establishes a framework to have services declared competitive and eventually deregulated.

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

Domestic On February 8, 1996, the Telecom Act was enacted into law. The Telecom Act is intended to address various aspects of competition within, and regulation of, the telecommunications industry. The Telecom Act provides that all post-enactment conduct or activities which were subject to the consent decree issued at the time of AT&T divestiture of the Regional Holding Companies (RHCs), referred to as the Modification of Final Judgment (MFJ), are now subject to the provisions of the Telecom Act. In April 1996, the United States District Court for the District of Columbia issued its Opinion and Order terminating the MFJ and dismissing all pending motions related to the MFJ as moot. This ruling effectively ended 13 years of RHC regulation under the MFJ. Among other things, the Telecom Act also defines conditions SBC must comply with before being permitted to offer interLATA long-distance service within California, Texas, Missouri, Kansas, Oklahoma, Arkansas and Nevada (regulated operating areas) and establishes certain terms and conditions intended to promote competition for the Telephone Companies' local exchange services.

Under the Telecom Act, SBC may immediately offer interLATA long-distance outside the regulated operating areas and over its wireless network both inside and outside the regulated operating areas. Before being permitted to offer landline interLATA long-distance service in any state within the regulated operating areas, SBC must apply for and obtain state-specific approval from the FCC. The FCC's approval, which involves consultation with the United States Department of Justice and appropriate state commissions, requires favorable determinations that the Telephone Companies have entered into interconnection agreement(s) that satisfy a 14-point "competitive checklist" with predominantly facilities-based carrier(s) that serve residential and business customers or, alternatively, that the Telephone Companies have a statement of terms and conditions effective in that state under which they offer the "competitive checklist" items. The FCC must also make favorable public interest and structural separation determinations in connection with such applications.

In July 1997, SBC brought suit in the U.S. District Court for the Northern District of Texas (U.S. District Court), seeking a declaration that parts of the Telecom Act are unconstitutional on the grounds that they improperly discriminate against the Telephone Companies by imposing restrictions that prohibit the Telephone Companies by name from offering interLATA long-distance and other services that other LECs are free to provide. The suit challenged only those portions of the Telecom Act that exclude the Telephone Companies from competing in certain lines of business. On December 31, 1997 the U.S. District Court ruled in favor of SBC and declared certain sections of the Telecom Act unconstitutional, thereby allowing SBC to enter interLATA long-distance in the Telephone Companies' operating areas. If upheld, this ruling is expected to speed competition in the interLATA long-distance markets in SBC's regulated operating areas. The FCC and competitor intervenors have sought and received a stay of the decision by the U.S. District Court.



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

In July 1997, the United States Court of Appeals for the Eighth Circuit in St. Louis (8th Circuit) held that the FCC did not have authority to promulgate rules related to the pricing of local intrastate telecommunications and that its rules in that regard were invalid. The 8th Circuit also overturned the FCC's rules which allowed competitors to "pick and choose" among the terms and conditions of approved interconnection agreements. In October 1997, the 8th Circuit issued a subsequent decision clarifying that the Telecom Act does not require the incumbent LECs to deliver network elements to competitors in anything other than completely unbundled form.

In September 1997, a number of parties, including SBC, filed petitions to enforce the July 1997 ruling of the 8th Circuit that the right to set local exchange prices, including the pricing methodology used, is reserved exclusively to the states. The petitions responded to the FCC's rejection of Ameritech Corporation's interLATA long-distance application in Michigan in which the FCC stated it intended to apply its own pricing standards to RHC interLATA applications. The petitioners asserted the FCC was violating state authority. On January 22, 1998 the 8th Circuit ordered the FCC to abide by the July 1997 ruling and reiterated that the FCC cannot use interLATA long-distance applications made by SBC and other RHC wireline subsidiaries wishing to provide interLATA long-distance to attempt to re-impose the pricing standards ruled invalid in July 1997 by the 8th Circuit. On January 26, 1998, the U.S. Supreme Court agreed to hear all appeals of the July 1997 8th Circuit decision.

The effects of the FCC rules are dependent on many factors including, but not limited to: the ultimate resolution of the pending appeals; the number and nature of competitors requesting interconnection, unbundling or resale; and the results of the state regulatory commissions' review and handli[ng] of related matters within their jurisdictions. Accordingly, SBC is not able to assess the impact of the FCC rules at this time.

Landline Local Service Recent state legislative and regulatory developments also allow increased competition for local exchange services. Companies wishing to provide competitive local service have filed numerous applications with state commissions throughout the Telephone Companies' regulated operating areas, and the commissions of each state have been approving these applications since late 1995. Under the Telecom Act, companies seeking to interconnect to the Telephone Companies' networks and exchange local calls must enter into interconnection agreements with the Telephone Companies. These agreements are then subject to approval by the appropriate state commissions. SBC has reached over 250 interconnection and resale agreements with competitive local service providers, and most have been approved by the relevant state commissions. AT&T and other competitors are reselling SBC local exchange services, and as of December 31, 1997, there were approximately 500,000 SBC access lines supporting services of resale competitors throughout the Telephone Companies' regulated operating areas, most of them in Texas and California. Many competitors have placed facilities in service and have begun advertising campaigns and offering services. Beginning in 1996, SWBell was also granted facilities-based and resale operating authority in territories served by other LECs. SWBell began local exchange service offerings to these areas during 1997.

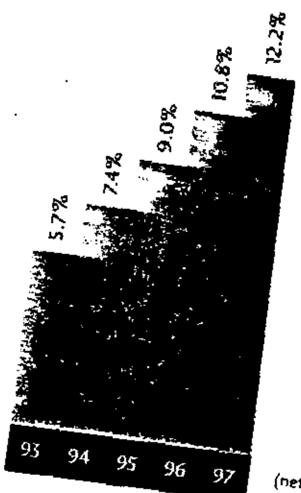
The CPUC authorized facilities-based local services competition effective January 1996 and resale competition effective March 1996. While the CPUC has established local competition rules and interim prices, several issues still remain to be resolved, including final rates for resale and LEC provisioning and pricing of certain network elements to competitors. In order to provide services to resellers, PacBell uses established operating support systems and has implemented electronic ordering systems and a customer care/billing center. Costs to implement local competition, especially number portability, are substantial. The CPUC has set a schedule to review PacBell's recovery of its local competition implementation costs incurred since January 1, 1996.

The CPUC has issued orders regarding the implementation of competition in 1997. Some of the key ones include permitting the resale of Centrex services to businesses only, prohibiting aggregation of customers to obtain toll discounts, enforcing optional calling plans retail tariff restrictions on resale, prohibiting sharing of certain Centrex features to route intraLATA calls, adopting no discount on private line resale, ordering resale of voice mail to competitors, and allowing collection of intrastate access charges on unbundled network elements. The CPUC order on resale of voice mail service was stayed and is being reviewed.

In December 1997, the TPUC set rates that SWBell may charge for access and interconnection to its telephone network. The TPUC decision sets pricing for dozens of network mponents and completes a consolidated arbitration between ell and six of its competitors, including AT&T and MCI. SWBell has TPUC-approved resale and interconnection agreements with approximately 80 local service providers, with approximately 15 pending approval.

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

As a result of the Telecom Act and conforming interconnection agreements, the Telephone Companies expect increased competitive pressure in 1998 and beyond from multiple providers in various markets including facilities-based Competitive Local Exchange Carriers (CLECs), interexchange carriers (IXCs) and resellers. At this time, management is unable to assess the effect of competition on the industry as a whole, or financially on SBC, but expects both losses of market share in local service and gains resulting from new business initiatives, rtical services and new service areas.



Wireless Penetration

SBC's wireless penetration for its network-based non-PCS services is among the highest in the industry.

Wireless Local Service In 1993, the FCC adopted an order allocating radio spectrum and licenses for PCS. PCS utilizes wireless telecommunications digital technology at a higher frequency radio spectrum than cellular. Like cellular, it is designed to permit access to a variety of communications services regardless of subscriber location. In an FCC auction, which concluded in March 1995, PCS licenses were awarded n 51 major markets. SBC or affiliates acquired PCS licenses the Major Trading Areas (MTAs) of Los Angeles-San Diego, alifornia; San Francisco-Oakland-San Jose, California; Memphis, nnessee; Little Rock, Arkansas; and Tulsa, Oklahoma. The lifornia licenses cover substantially all of California and Nevada. SBC is currently operational in all of its major California-Nevada markets and Tulsa, Oklahoma. During 1996, SBC received several AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis, Tennessee and Little Rock, Arkansas and other consideration.

In November 1996, Pacific Bell Mobile Services (PBMS) conducted an extensive PCS trial in San Diego, California. Service was formally launched in San Diego, California in January 1997, in Las Vegas, Nevada in February 1997, in Sacramento, California in March 1997, in San Francisco in May 1997, in Los Angeles in July 1997 and in Bakersfield, California in October 1997. The network incorporates the Global System for Mobile Communications (GSM) standard which is widely used in Europe. PBMS is selling PCS as an off-the-shelf product in retail stores across California and Nevada. Significant competition exists, particularly from the two established cellular companies in each market.

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

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

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

Long-Distance Competition continues to intensify in the Telephone Companies' intraLATA long-distance markets. It is estimated that providers other than PacBell now serve more than half of the business intraLATA long-distance customers in PacBell's service areas.

The OCC recommended that SBC be allowed to offer interLATA long-distance in Oklahoma. Notwithstanding that recommendation, the FCC denied SBC such authority and SBC has appealed the decision in the D.C. Court of Appeals where the case is pending.

Since the Telecom Act, SBC has entered the wireless long-distance markets, and offers wireless long-distance service in all of its wireless service areas. In addition, through affiliates SBC also offers landline interLATA long-distance services to customers in selected areas outside the Telephone Companies' operating areas.

Other In the future, it is likely that additional competitors will emerge in the telecommunications industry. Cable television companies and electric utilities have expressed an interest in, or already are, providing telecommunications services. As a result of recent and prospective mergers and acquisitions within the industry, SBC may face competition from entities offering both cable TV and telephone services in the Telephone Companies' regulated operating areas. Interexchange carriers have been certified to provide local service, and a number of other major carriers have publicly announced their intent to provide local service in certain markets, some of which are in the Telephone Companies' regulated operating areas. Public communications services such as public payphone services will also face increased competition as a result of federal deregulation of the payphone industry.

Dollars in millions except per share amounts

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

International Telmex was granted a concession in 1990, which expired in August 1996, as the sole provider of long-distance services in Mexico. In 1995, the Mexican Senate and Chamber of Deputies passed legislation providing for the introduction of competition into the Mexican long-distance market. This legislation specified that there would be an unlimited number of long-distance concessions and that Telmex was required to provide 60 interconnection points by January 1, 1997, and more than 200 interconnection points by the year 2000. Several large competitors have received licenses to compete with Telmex and begun operations, including a joint venture between AT&T and Alfa S.A. de C.V., a Mexican consortium, and Avantel, S.A., a joint venture between MCI and Grupo Financiero Banamex-Accival, Mexico's largest financial group. Balloting for presubscription of long-distance service is currently occurring among Telmex's customers in selected areas. At the end of 1997, Telmex had retained about 75% of its long-distance customers in areas that had completed balloting.

OTHER BUSINESS MATTERS

Merger Agreement On January 5, 1998, SBC and Southern New England Telecommunications Corporation (SNET) jointly announced a definitive agreement to merge an SBC subsidiary with SNET, in a transaction in which each share of SNET common stock will be exchanged for 1.7568 shares of SBC common stock (equivalent to approximately 120 million shares, or 6.5% of SBC's outstanding shares at December 31, 1997). After the merger, SNET will be a wholly-owned subsidiary of SBC. The transaction is intended to be accounted for as a pooling of interests and to be a tax-free reorganization. The merger is subject to certain regulatory approvals as well as approval by the shareowners of SNET at a special meeting expected to be held on March 27, 1998. If approvals are granted, the transaction is expected to close by the end of 1998.

Restructuring Reserve In December 1993, PAC established a reserve to record the incremental cost of force reductions associated with restructuring PAC's business processes, of $1,431 in expenses, which impacted net income by $861. This restructuring was expected to allow PacBell to eliminate approximately 10,000 employee positions through 1997, net of approximately 4,000 new positions expected to be created. For the three-year period 1994 through 1996, net force reductions totalled 9,168.

This table sets forth the status and activity of this reserve during that three-year period:

	1996	1995	1994
Balance - beginning of year	**$ 228**	$ 819	$1,097
Charges: cash outlays	**(195)**	(372)	(216)
non-cash	**64**	(219)	(62)
Balance - end of year	**$ 97**	$ 228	$ 819

The remaining 1996 reserve of $97 was used during 1997. As a result of the new initiatives arising from the merger with PAC, net force changes during 1997 are not meaningful to the restructuring reserve.

Acquisitions and Dispositions In addition to the items discussed in Note 16 to the Financial Statements, SBC has made several acquisitions and dispositions since 1995.

In 1995, SBC made the following acquisitions: a wireless system serving Watertown, New York, and 100% of the stock of Cross Country Wireless (CCW), a wireless cable television operator providing service to 40,000 customers in Riverside, California and with licenses to provide service in Los Angeles, Orange County and San Diego. The CCW acquisition involved the issuance of stock valued at approximately $120 and assumption of $55 in debt. Additionally, SBC made the following equity investments in 1995: a $317 investment to acquire 40% of VTR S.A. (VTR), a privately owned Chilean telecommunications holding company which was 51% owned by Grupo Luksic (Luksic), a large Chilean conglomerate, and an investment in a South African wireless company.

In 1996, SBC made the following additional investments: an investment to maintain its indirect 10% ownership in a French cellular company to offset dilution of its interest resulting from other equity sales, and an increase in its holding in VTR to 49% through the purchase of shares from another minority shareholder. Also in 1996, SBC and the other RHCs reached an agreement to sell Bellcore. This sale was finalized in 1997.

During 1997, SBC contributed its French cellular holdings and an additional $240 to acquire a 15% interest in Cegetel, S.A, a newly formed company which is intended to provide a broad base of telecommunications services throughout France. Luksic exercised an option to purchase shares of VTR from SBC, reducing SBC's ownership to 44%; in December 1997, VTR sold its wireless services operations. SBC also sold its interests in an Australian directory publisher in 1997.

During the third quarter of 1997, SBC reached agreement to sell its cable television properties in Montgomery County, Maryland and Arlington, Virginia, as well as its purchase option to invest in cable television operations in Chicago, Illinois. These transactions are expected to close during 1998.

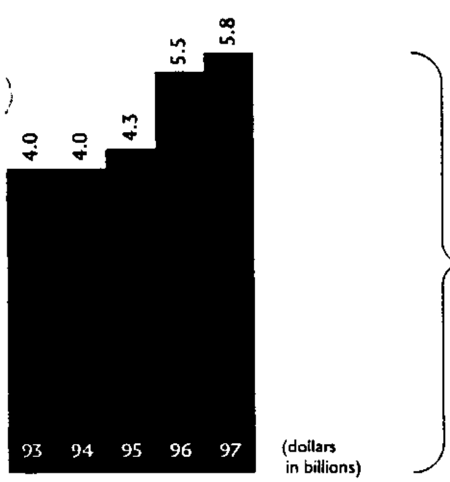
Throughout 1997 and in February 1998, SBC sold portions of its Telmex L shares so that SBC's total equity investment remained below 10% of Telmex's total equity capitalization.

None of these transactions had a material effect on SBC's financial results in 1997, 1996 or 1995, nor does management expect them to have a material effect on SBC's financial position or results of operations in 1998.

Strategic Realignment In July 1995, SBC announced a strategic realignment of functions, and recognized $139 in selling, general and administrative expenses. These expenses include postemployment benefits for approximately 2,400 employees arising from the future consolidation of operations, streamlining support and administrative functions and integrating financial systems. Full implementation of the realignment had been delayed due to the merger with PAC, and the realignment plans and all remaining liabilities were either integrated with or superseded by the post-merger initiatives. The charge reduced net income for 1995 by approximately $88.

LIQUIDITY AND CAPITAL RESOURCES

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



Capital Expenditures

Continued growth and the build-out of PCS networks led to increases in capital expenditures.

SBC's capital expenditures totaled $5,766, $5,481 and $4,338 for 1997, 1996 and 1995. The Telephone Companies' capital expenditures increased 7% in 1997 and 26% in 1996 due primarily to demand-related growth, network upgrades, customer-contracted requirements, ISDN projects, PCS build-out and SWBell's regulatory commitments.

In 1998, management expects total capital spending to decrease slightly from 1997, to between $5,500 and $5,700. Capital expenditures in 1998 will relate primarily to the continued evolution of the Telephone Companies' networks, including amounts agreed to under regulation plans at SWBell, and continued build-out of Mobile Systems' markets and PBMS. SBC expects to fund ongoing capital expenditures with cash provided by operations.

SWBell continues to make additional network and infrastructure improvements over periods ranging through 2001 to satisfy regulatory commitments. Total capital expenditures under these commitments will vary based on actual demand of potential end users. SWBell anticipates spending approximately $100 in 1998 associated with these commitments.

PacBell has purchase commitments of approximately $190 remaining in connection with its previously announced program for deploying an all-digital switching platform with ISDN and SS-7 capabilities.

Over the next few years, SBC expects to incur significant capital and software expenditures for customer number portability, which allows customers to switch to new local competitors and keep the same phone number, and interconnection. SBC expects capital costs and expenses associated with customer number portability to total up to $1.2 billion on a pre-tax basis over the next four years. Full recovery of customer number portability costs is required under the Telecom Act; however, the FCC has not yet determined when or how those significant costs will be recovered. SBC has filed a tariff for recovery of these costs. No action has been taken by the FCC on this tariff, pending the issuance of its order on customer number portability. SBC is unable to predict the likelihood of the FCC permitting the tariffs to become effective. Capital costs and expenses associated with interconnection will vary based on the number of competitors seeking interconnection, the particular markets entered and the number of customers served by those competitors. Accordingly, SBC is currently unable to reasonably estimate the future costs that will be incurred associated with interconnection.

SBC currently operates numerous date-sensitive computer applications and systems throughout its business. As the century change approaches, it will be essential for SBC to ensure that these systems properly recognize the year 2000 and continue to process critical operational and financial information. SBC has established processes for evaluating and managing the risks and costs associated with preparing its systems and applications for the year 2000 change. Total expenses for this project have been estimated to be less than $250 over the next three years. SBC expects to substantially complete modifications and incur most of these costs during 1998 to allow for thorough testing before the year 2000.

Dividends Declared Dividends declared by the Board of Directors of SBC (Board) were $0.895 per share in 1997, $0.86 per share in 1996, and $0.825 per share in 1995. These per share amounts do not include dividends declared and paid by PAC prior to the merger. The total dividends paid by SBC and PAC were $1,638 in 1997, $1,680 in 1996 and $1,933 in 1995. Pursuant to the terms of the merger agreement, PAC reduced its dividend beginning in the second quarter of 1996. The lower second and third quarter dividends paid in 1996 improved 1996 cash flow by approximately $195. SBC's dividend policy considers both the expectations and requirements of shareowners, internal requirements of SBC and long-term growth opportunities. On January 30, 1998, the Board declared a first quarter 1998 dividend of $0.23375 per share.

NOTE 4. **Merger Agreement with Southern New England Telecommunications Corporation (SNET)**

On January 5, 1998, SBC and SNET jointly announced a definitive agreement to merge an SBC subsidiary with SNET, in a transaction in which each share of SNET common stock will be exchanged for 1.7568 shares of SBC common stock (equivalent to approximately 120 million shares, or 6.5% of SBC's outstanding shares at December 31, 1997; both the exchange ratio and shares to be issued have been restated to reflect the two-for-one stock split declared January 30, 1998). After the merger, SNET will be a wholly-owned subsidiary of SBC. The transaction is intended to be accounted for as a pooling of interests and to be a tax-free reorganization. The merger is subject to certain regulatory approvals as well as approval by the shareowners of SNET at a special meeting expected to be held on March 27, 1998. If approvals are granted, the transaction is expected to close by the end of 1998.

NOTE 5. **Pacific Telesis Group Financial Information**

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

	1997	1996	1995
Balance Sheets			
Current assets	**$ 2,835**	$ 2,474	$ 2,434
Noncurrent assets	**14,041**	14,134	13,407
Current liabilities	**4,513**	3,527	4,641
Noncurrent liabilities	**10,305**	10,308	9,010
Income Statements			
Operating revenues	**$10,101**	$ 9,588	$ 9,042
Operating income (loss)	**(166)**	2,198	2,011
Income (loss) before extraordinary loss and cumulative effect of accounting changes	**(546)**	1,057	1,048
Net income (loss)	**(224)**	1,142	(2,312)

SBC has not provided separate financial statements and other disclosures for PAC as management has determined that such information is not material to the holders of the Trust Originated Preferred Securities (TOPrS) (see Note 10). On January 30, 1998, SBC guaranteed payment of the obligations of the TOPrS.

NOTE 6. **Earnings Per Share**

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before extraordinary loss and cumulative effect of accounting change for the years ended December 31, 1997, 1996 and 1995 are shown in the table below. Per share amounts have been restated to reflect the two-for-one stock split declared January 30, 1998.

Year Ended December 31,	**1997**	1996	1995
Numerators			
Numerator for basic earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$1,474**	$3,189	$2,958
Dilutive potential common shares:			
Other stock-based compensation	**3**	2	2
Numerator for diluted earnings per share	**$1,477**	$3,191	$2,960
Denominators			
Denominator for basic earnings per share:			
Weighted average number of common shares outstanding (000)	**1,828,395**	1,841,240	1,840,861
Dilutive potential common shares (000):			
Stock options	**11,791**	6,783	4,910
Other stock-based compensation	**4,443**	3,410	2,936
Denominator for diluted earnings per share	**1,844,629**	1,851,433	1,848,707
Basic earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$ 0.81**	$ 1.73	$ 1.61
Extraordinary loss	**-**	-	(3.27)
Cumulative effect of accounting change	**-**	0.05	-
Net income (loss)	**$ 0.81**	$ 1.78	$ (1.66)
Diluted earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$ 0.80**	$ 1.72	$ 1.60
Extraordinary loss	**-**	-	(3.26)
Cumulative effect of accounting change	**-**	0.05	-
Net income (loss)	**$ 0.80**	$ 1.77	$ (1.66)

NOTE 7. **Property, Plant and Equipment**

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

	1997	1996
Telephone Companies plant		
In service	**$ 60,122**	$ 56,638
Under construction	**1,147**	1,614
	61,269	58,252
Accumulated depreciation and amortization	**(36,384)**	(34,515)
Total Telephone Companies	**24,885**	23,737
Other	**4,017**	3,534
Accumulated depreciation and amortization	**(1,563)**	(1,191)
Total other	**2,454**	2,343
Property, plant and equipment-net	**$ 27,339**	$ 26,080

SBC's depreciation expense as a percentage of average depreciable plant was 7.4% for 1997, 6.9% for 1996 and 7.0% for 1995.

Certain facilities and equipment used in operations are under operating or capital leases. Rental expenses under operating leases for 1997, 1996 and 1995 were $390, $324 and $231. At December 31, 1997, the future minimum rental payments under noncancelable operating leases for the years 1998 through 2002 were $168, $171, $113, $86 and $66, and $238 thereafter. Capital leases were not significant.

NOTE 8. Equity Investments

Investments in affiliates accounted for under the equity method include SBC's investment in Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company. SBC is a member of a consortium that holds all of the AA shares of Telmex stock, representing voting control of the company. The consortium is controlled by a group of Mexican investors led by an affiliate of Grupo Carso, S.A. de C.V. SBC also owns L shares which have limited voting rights. Throughout 1997 and in February 1998, SBC sold portions of its L shares so that its total equity investment remained below 10% of Telmex's total equity capitalization.

Other major equity investments held by SBC include a 1997 investment of $760 in South African telecommunications (see Note 16), an indirect 15% ownership in Cegetel, a joint venture providing a broad range of telecommunications offerings in France, investments in Chilean telecommunications operations and minority ownership of several domestic wireless properties.

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

	1997	1996	1995
Beginning of year	**$1,964**	$1,616	$1,776
Additional investments	**1,076**	337	447
Equity in net income	**201**	207	120
Dividends received	**(90)**	(70)	(62)
Currency translation adjustments	**(135)**	(94)	(268)
Reclassifications and other adjustments	**(276)**	(32)	(397)
End of year	**$2,740**	$1,964	$1,616

Currency translation adjustments for 1997 primarily reflect the effect of the exchange rate fluctuations on SBC's investments in South African and French telecommunications.

The currency translation adjustment for 1995 primarily reflects the effect on SBC's investment in Telmex of the decline in the value of the Mexican peso relative to the U.S. dollar during 1995. In 1997, SBC used the U.S. dollar, instead of the peso, as the functional currency for its investment in Telmex due to the Mexican economy becoming highly inflationary.

Other adjustments for 1997 reflect the sale of portions of SBC's Telmex L shares and the change to the cost method of accounting in 1997 for SBC's 1995 investment in South African wireless operations. Other adjustments for 1995 reflect the change in October 1995 to the cost method of accounting for SBC's United Kingdom cable television operations (see Note 16).

Undistributed earnings from equity affiliates were $862 and $762 at December 31, 1997 and 1996.

NOTE 9. Debt

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

		1997	1996
SWBell			
Debentures			
4.50%-5.88%	1997-2006	**$ 500**	$ 600
6.13%-6.88%	2000-2024	**1,550**	1,200
7.00%-7.75%	2009-2027	**1,750**	1,500
		3,800	3,300
Unamortized discount-net of premium		**(36)**	(29)
Total debentures		**3,764**	3,271
Notes			
5.04%-7.67%	1997-2010	**1,236**	1,118
Unamortized discount		**(6)**	(6)
Total notes		**1,230**	1,112
PacBell			
Debentures			
4.62%-5.88%	1999-2006	**475**	475
6.00%-6.88%	2002-2034	**1,194**	1,194
7.12%-7.75%	2008-2043	**2,250**	2,150
8.50%	2031	**225**	225
		4,144	4,044
Unamortized discount-net of premium		**(89)**	(89)
Total debentures		**4,055**	3,955
Notes			
6.25%-8.70%	2001-2009	**1,300**	1,150
Unamortized discount		**(18)**	(18)
Total notes		**1,282**	1,132
Other notes			
5.76%-6.98%	1997-2007	**188**	310
7.00%-9.50%	1997-2020	**1,318**	1,140
		1,506	1,450
Unamortized premium (discount)		**71**	(14)
Total other notes		**1,577**	1,436
Guaranteed obligations of employee stock ownership plans[1]			
8.41%-9.40%	1997-2000	**153**	208
Capitalized leases		**294**	303
Total long-term debt, including current maturities		**12,355**	11,417
Current maturities		**(336)**	(487)
Total long-term debt		**$12,019**	$10,930

[1] See Note 13.

In February 1998, SBC called $630 of debentures and notes of SWBell, PacBell and SBC Communications Capital Corporation (included in Other notes). Estimated net income impact from unamortized discounts and call premiums is $(8). During 1995, SBC refinanced long-term debentures of SWBell and PacBell. Costs of $36 associated with refinancing are included in other income (expense) - net, with related income tax benefits of $14 included in income taxes in SBC's Consolidated Statements of Income.

At December 31, 1997, the aggregate principal amounts of long-term debt scheduled for repayment for the years 1998 through 2002 were $336, $500, $469, $986 and $879. As of December 31, 1997, SBC was in compliance with all covenants and conditions of instruments governing its debt.

Dollars in millions except per share amounts

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

	1997	1996
Commercial paper	**$1,268**	$1,848
Current maturities of long-term debt	**336**	487
Other short-term debt	**349**	-
Total	**$1,953**	$2,335

The weighted average interest rate on commercial paper debt at December 31, 1997 and 1996 was 6.0%. SBC has entered into agreements with several banks for lines of credit totaling $1,000. All of these agreements may be used to support commercial paper borrowings and are on a negotiated fee basis with interest rates negotiable at time of borrowing. There were no borrowings outstanding under these lines of credit at December 31, 1997. Another group of uncommitted lines of credit with banks that do not require compensating balances or commitment fees, and accordingly are subject to continued review, amounted to approximately $1,475 at December 31, 1997.

NOTE 10. Financial Instruments

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

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
SWBell debentures	**$3,764**	**$3,828**	$3,271	$3,208
SWBell notes	**1,230**	**1,271**	1,112	1,115
PacBell debentures	**4,055**	**4,337**	3,955	3,917
PacBell notes	**1,282**	**1,342**	1,132	1,171
Other notes	**1,577**	**1,768**	1,436	1,478
TOPrS	**1,000**	**1,034**	1,000	990
Guaranteed obligations of employee stock ownership plans[1]	**153**	**159**	208	219

[1]See Note 13.

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

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

Pacific Telesis Financing I and II (the Trusts) were formed for the exclusive purpose of issuing preferred and common securities representing undivided beneficial interests in the Trusts and investing the proceeds from the sales of TOPrS in unsecured subordinated debt securities of PAC. Under certain circumstances, dividends on TOPrS could be deferred for up to a period of five years. PAC sold $1 billion of TOPrS, $500 at 7.56% in January 1996 through Pacific Telesis Financing I and $500 at 8.5% in June 1996 through Pacific Telesis Financing II. As of December 31, 1997, the Trusts held subordinated debt securities of PAC in principal amounts of $516 and $514 with interest rates of 7.56% and 8.5%. Both issues of TOPrS were priced at $25 per share, have an original 30-year maturity that may be extended up to 49 years, and are callable five years after date of sale at par and are included on the balance sheet as corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts. The proceeds were used to retire short-term indebtedness, primarily commercial paper. On January 30, 1998, SBC guaranteed payment of the obligations of the TOPrS.

Derivatives PAC has entered into an equity swap contract to hedge exposure to risk of market changes related to its recorded liability for outstanding employee stock options for common stock of AirTouch Communications, Inc. (spun-off operations) and associated stock appreciation rights (SARs)(see Note 14). PAC plans to make open market purchases of the stock of spun-off operations to satisfy its obligation for options that are exercised. Off-balance-sheet risk exists to the extent the market price of the stock of spun-off operations rises above the market price reflected in the liability's current carrying value. The equity swap was entered into to hedge this exposure and minimize the impact of market fluctuations. The contract entitles PAC to receive settlement payments to the extent the price of the common stock of spun-off operations rises above the notional value of $23.74 per share, but imposes an obligation to make payments to the extent the price declines below this level. The swap also obligates PAC to make a monthly payment of a fee based on LIBOR. The total notional amount of the contract, $32 and $60 as of December 31, 1997 and 1996 covers the approximate number of the outstanding options and SARs of spun-off operations on that date. PAC plans to periodically adjust downward the outstanding notional amount as the options and SARs are exercised. The equity swap contract expires April 1999.

Both the equity swap and PAC's liability for the stock options and SARs of spun-off operations are carried in the balance sheet at their market values, which were immaterial as of December 31, 1997 and 1996. Gains and losses from quarterly market adjustments of the carrying amounts substantially offset. As of December 31, 1997 and 1996, the accounting loss that would be incurred from nonperformance by the counterparty to the equity swap was $14 and $4. However, management does not expect to realize any loss from counterparty nonperformance.

NOTE 11. Income Taxes

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

	1997	1996
Depreciation and amortization	**$3,648**	$3,283
Other	**2,255**	1,017
Deferred tax liabilities	**5,903**	4,300
Employee benefits	**2,391**	2,221
Unamortized investment tax credits	**169**	195
Other	**2,394**	1,328
Deferred tax assets	**4,954**	3,744
Deferred tax assets valuation allowance	**68**	96
Net deferred tax liabilities	**$1,017**	$ 652

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

The components of income tax expense are as follows:

	1997	1996	1995
Federal			
Current	**$705**	$1,242	$ 829
Deferred-net	**57**	468	520
Amortization of investment tax credits	**(81)**	(80)	(95)
	681	1,630	1,254
State and local			
Current	**24**	172	176
Deferred-net	**158**	158	89
	182	330	265
Total	**$863**	$1,960	$1,519

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

	1997	1996	1995
Taxes computed at federal statutory rate	**$818**	$1,802	$1,567
Increases (decreases) in income taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits	**(53)**	(53)	(92)
State and local income taxes - net of federal income tax benefit	**118**	215	172
Other - net	**(20)**	(4)	(128)
Total	**$863**	$1,960	$1,519

NOTE 12. Employee Benefits

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

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

Net pension cost is composed of the following:

	1997	1996	1995
Service cost-benefits earned during the period	**$ 278**	$ 297	$ 311
Interest cost on projected benefit obligation	**1,146**	1,131	1,161
Actual return on plan assets	**(3,775)**	(2,919)	(4,232)
Other-net	**2,161**	1,270	2,813
Net pension cost (benefit)	**$ (190)**	$ (221)	$ 53

The following table sets forth the pension plans' funded status and the amounts included in SBC's Consolidated Balance Sheets at December 31:

	1997	1996
Fair value of plan assets	**$23,092**	$20,738
Less: Actuarial present value of projected benefit obligation	**16,746**	15,006
Plan assets in excess of projected benefit obligation	**6,346**	5,732
Unrecognized prior service cost	**1,108**	845
Unrecognized net gain	**(6,564)**	(6,072)
Unamortized transition asset	**(811)**	(973)
Prepaid (accrued) pension cost	**$ 79**	$ (468)

The projected benefit obligation was increased $202 at December 31, 1996, for the cost of force reductions anticipated to take place in 1996 and 1997 and recognized in SBC's financial statements under FAS 88.

Significant weighted average assumptions used in developing pension information include:

	1997	1996	1995
Discount rate for determining projected benefit obligation	**7.25%**	7.5%	7.25%
Long-term rate of return on plan assets	**8.5%**	8.55%	8.0%
Composite rate of compensation increase	**4.3%**	4.3%	4.3%

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

Dollars in millions except per share amounts

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

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

The actuarial estimate of the accumulated benefit obligation does not include assumptions about future compensation levels. The accumulated benefit obligation as of December 31, 1997 was $15,565, of which $14,404 was vested. At December 31, 1996 these amounts were $13,965 and $12,376.

Approximately 4,200 and 2,200 employees left PacBell during 1996 and 1995 under retirement or voluntary and involuntary severance programs and received special pension benefits and cash incentives in connection with the PacBell restructuring and related force reduction programs. Annual pension cost excludes $(64) and $219 of additional pension costs charged to PacBell's restructuring reserve in 1996 and 1995.

During 1997, the significant amount of lump sum pension payments resulted in a partial settlement of PAC's pension plans. In accordance with FAS 88, net settlement gains in the amount of $299 were recognized in 1997. Of this amount, $152 was recognized in the first quarter of 1997 and related primarily to managers who terminated employment in 1996. These gains are not included in the net pension cost shown in the preceding table.

In December 1996, under the provisions of Section 420 of the Internal Revenue Code, SBC transferred $73 in pension assets to a health care benefit account for the reimbursement of retiree health care benefits paid by SBC. No additional pension assets were transferred to the health care benefit account in 1997.

Supplemental Retirement Plans - SBC also provides senior and middle management employees with nonqualified, unfunded supplemental retirement and savings plans. These plans include supplemental defined pension benefits as well as compensation deferral plans, some of which include a corresponding match by SBC based on a percentage of the compensation deferral. Expenses related to these plans were $89, $88 and $91 in 1997, 1996 and 1995. Liabilities of $892 and $75[illegible] related to these plans have been included in other noncurrent liabilities in SBC's Consolidated Balance Sheets at December 31, 1997 and 1996.

Postretirement Benefits - SBC provides certain medical, dental and life insurance benefits to substantially all retired employees under various plans and accrues actuarially determined postretirement benefit costs as active employees earn these benefits. Employees retiring after certain dates will pay a share of the costs of medical coverage that exceed a defined dollar medical cap. Such future cost sharing provisions have been reflected in determining SBC's postretirement benefit costs.

Postretirement benefit cost is composed of the following:

	1997	1996	1995
Service cost-benefits earned during the period	**$102**	$101	$ 99
Interest cost on accumulated postretirement benefit obligation (APBO)	**480**	475	496
Actual return on assets	**(619)**	(375)	(452)
Other-net	**398**	208	318
Postretirement benefit cost	**$361**	$409	$461

SBC maintains Voluntary Employee Beneficiary Association (VEBA) trusts to fund postretirement benefits. During 1997 and 1996, SBC contributed $415 and $320 into the VEBA trusts to be ultimately used for the payment of postretirement benefits. Assets consist principally of stocks and U.S. government and corporate bonds.

The following table sets forth the plans' funded status and the amount included in SBC's Consolidated Balance Sheets at December 31:

	1997	1996
Retirees	**$4,470**	$4,047
Fully eligible active plan participants	**773**	706
Other active plan participants	**1,932**	1,819
Total APBO	**7,175**	6,572
Less: Fair value of plan assets	**3,533**	2,697
APBO in excess of plan assets	**3,642**	3,875
Unrecognized prior service cost	**24**	(31)
Unrecognized net gain	**1,105**	1,119
Accrued postretirement benefit obligation	**$4,771**	$4,963

In December 1995, one of the life insurance benefit plans was merged with one of the medical plans. The fair value of plan assets restricted to the payment of life insurance benefits only was $887 and $746 at December 31, 1997 and 1996. At December 31, 1997 and 1996, the accrued life insurance benefits included in the accrued postretirement benefit obligation were $74 and $57.

The assumed medical cost trend rate in 1998 is 7.5%, decreasing gradually to 5.5% in 2002, prior to adjustment for cost-sharing provisions of the plan for active and certain recently retired employees. The assumed dental cost trend ra[illegible] in 1998 is 6%, reducing to 5% in 2002. Raising the annual medical and dental cost trend rates by one percentage point increases the APBO as of December 31, 1997 by $458 and increases the aggregate service and interest cost components of the net periodic postretirement benefit cost for 1997 by

Equity Risk

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

Interest Rate Risk

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

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts

	1998	1997	199
Operating Revenues			
Landline local service	**$11,100**	$10,334	$ 9,465
Wireless subscriber	**3,783**	3,372	2,907
Network access	**6,512**	6,215	6,203
Long distance service	**2,355**	2,352	2,523
Directory advertising	**2,420**	2,280	2,156
Other	**2,607**	2,128	1,948
Total operating revenues	**28,777**	26,681	25,202
Operating Expenses			
Operations and support	**16,714**	17,802	14,510
Depreciation and amortization	**5,177**	5,301	4,466
Total operating expenses	**21,891**	23,103	18,976
Operating Income	**6,886**	3,578	6,226
Other Income (Expense)			
Interest expense	**(993)**	(1,043)	(901)
Equity in net income of affiliates	**236**	201	207
Other income (expense) – net	**245**	(78)	(75)
Total other income (expense)	**(512)**	(920)	(769)
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Change	**6,374**	2,658	5,457
Income taxes	**2,306**	984	2,070
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	**4,068**	1,674	3,3
Extraordinary Loss from Early Extinguishment of Debt, net of tax	**(60)**	—	—
Cumulative Effect of Accounting Change, net of tax	**15**	—	90
Net Income	**$ 4,023**	$ 1,674	$ 3,477
Earnings Per Common Share:			
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	**$ 2.08**	$ 0.86	$ 1.73
Net Income	**$ 2.06**	$ 0.86	$ 1.78
Earnings Per Common Share – Assuming Dilution:			
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	**$ 2.05**	$ 0.85	$ 1.72
Net Income	**$ 2.03**	$ 0.85	$ 1.77

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

CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

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

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	1998	1997	1996
Operating Activities			
Net income	**$ 4,023**	$ 1,674	$ 3,477
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**5,177**	5,301	4,466
Undistributed earnings from investments in equity affiliates	**(56)**	(100)	(138)
Provision for uncollectible accounts	**513**	566	438
Amortization of investment tax credits	**(72)**	(82)	(82)
Deferred income tax expense	**533**	239	485
Extraordinary loss, net of tax	**60**	—	—
Cumulative effect of accounting change, net of tax	**(15)**	—	(90)
Changes in operating assets and liabilities:			
Accounts receivable	**(959)**	(902)	(1,097)
Other current assets	**(8)**	(56)	301
Accounts payable and accrued liabilities	**(187)**	1,431	591
Other – net	**(628)**	(475)	(450)
Total adjustments	**4,358**	5,922	4,424
Net Cash Provided by Operating Activities	**8,381**	7,596	7,901
Investing Activities			
Construction and capital expenditures	**(5,927)**	(6,230)	(5,855)
Investments in affiliates	**(85)**	(26)	(74)
Purchase of short-term investments	**(42)**	(916)	(1,005)
Proceeds from short-term investments	**355**	1,029	816
Dispositions	**1,140**	578	9[illegible]
Acquisitions	—	(1,118)	(44[illegible]
Other	**11**	13	19
Net Cash Used in Investing Activities	**(4,548)**	(6,670)	(6,445)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**(367)**	(563)	(974)
Issuance of other short-term borrowings	**2**	1,079	209
Repayment of other short-term borrowings	**(8)**	(805)	(134)
Issuance of long-term debt	**413**	1,597	988
Repayment of long-term debt	**(1,121)**	(602)	(443)
Early extinguishment of debt and related call premiums	**(765)**	(6)	—
Issuance of trust originated preferred securities	—	—	1,000
Purchase of fractional shares	—	(15)	—
Issuance of common shares	**64**	—	111
Purchase of treasury shares	**(498)**	(87)	(650)
Issuance of treasury shares	**308**	293	52
Dividends paid	**(1,811)**	(1,724)	(1,765)
Other	—	(7)	(103)
Net Cash Used in Financing Activities	**(3,783)**	(840)	(1,709)
Net increase (decrease) in cash and cash equivalents	**50**	86	(253)
Cash and cash equivalents beginning of year	**410**	324	577
Cash and Cash Equivalents End of Year	**$ 460**	$ 410	$ 324

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

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

Dollars and shares in millions except per share amounts

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2. MERGERS WITH SNET AND PAC

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 3. MERGER AGREEMENT WITH AMERITECH CORPORATION

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

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

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

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

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

NOTE 4. PACIFIC TELESIS GROUP FINANCIAL INFORMATION

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

	1998	1997	1996
Balance Sheets			
Current assets	$ 3,037	$ 2,835	$ 2,474
Noncurrent assets	15,428	14,150	14,134
Current liabilities	5,278	4,513	3,527
Noncurrent liabilities	10,482	10,413	10,308
Income Statements			
Operating revenues	$11,302	$10,101	$ 9,588
Operating income (loss)	2,612	(166)	2,198
Income (loss) before extraordinary loss and cumulative effect of accounting changes	1,240	(546)	1,057
Net income (loss)	1,180	(224)	1,142

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

NOTE 5. EARNINGS PER SHARE

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

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

Dollars in millions except per share amounts

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

NOTE 7. INVESTMENT IN TELEWEST COMMUNICATIONS PLC

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

NOTE 8. EQUITY INVESTMENTS

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

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

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

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

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

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

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

NOTE 9. SEGMENT INFORMATION

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

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

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

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

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

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

Dollars in millions except per share amounts

Geographic Information

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

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

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

NOTE 10. DEBT

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

		1998	1997
SWBell			
Debentures			
5.38%-5.88%	2003-2006	**$ 500**	$ 500
6.13%-6.88%	2000-2048	**1,750**	1,550
7.00%-7.75%	2009-2027	**1,150**	1,750
		3,400	3,800
Unamortized discount – net of premium		**(38)**	(36)
Total debentures		**3,362**	3,764
Notes			
5.04%-7.67%	1998-2010	**1,063**	1,236
Unamortized discount		**(5)**	(6)
Total notes		**1,058**	1,230
PacBell			
Debentures			
4.62%-5.88%	1999-2006	**475**	475
6.00%-6.88%	2002-2034	**1,194**	1,194
7.12%-7.75%	2008-2043	**1,587**	2,250
8.50%	2031	**29**	225
		3,285	4,144
Unamortized discount – net of premium		**(65)**	(8[illegible]
Total debentures		**3,220**	4,055
Notes			
6.12%-8.70%	2001-2009	**1,500**	1,300
Unamortized discount		**(18)**	(18)
Total notes		**1,482**	1,282
Other notes and debentures			
4.37%-6.98%	1998-2007	**501**	633
7.00%-10.50%	1998-2033	**2,048**	2,033
		2,549	2,666
Unamortized premium – net of discount		**61**	65
Total other notes and debentures		**2,610**	2,731
Guaranteed obligations of ESOP[1]			
8.41%-9.40%	2000	**127**	198
Capitalized leases		**260**	294
Total long-term debt, including current maturities		**12,119**	13,554
Current maturities		**(507)**	(378)
Total long-term debt		**$11,612**	$13,176

[1]See Note 14.

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

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

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

$574 (6.4%), $1,034 (7.5%), $980 (6.7%), $749 (6.3%) with $8,406 (6.9%) due thereafter. As of December 31, 1998, SBC was in compliance with all covenants and conditions of instruments governing its debt.

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

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

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

NOTE 11. FINANCIAL INSTRUMENTS

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

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

[1] See Note 14.

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

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

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

Derivatives

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

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

Dollars in millions except per share amounts

NOTE 12. INCOME TAXES

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

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

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

The components of income tax expense are as follows:

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

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

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

NOTE 13. EMPLOYEE BENEFITS

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

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

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

	1998	1997
Benefit obligation at beginning of the year	**$18,116**	$16,330
Service cost – benefits earned during the period	**339**	300
Interest cost on projected benefit obligation	**1,265**	1,237
Amendments	**254**	402
Actuarial gain	**566**	1,398
Special termination benefits	**53**	—
Benefits paid	**(1,723)**	(1,551)
Benefit obligation at end of year	**$18,870**	$18,116

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

	1998	1997
Fair value of plan assets at beginning of the year	**$24,998**	$22,428
Actual return on plan assets	**3,753**	4,111
Benefits paid	**(1,720)**	(1,541)
Fair value of plan assets at end of year	**$27,031**	$24,998
Funded status	**$ 8,161**	$ 6,882
Unrecognized prior service cost	**1,312**	1,221
Unrecognized net gain	**(8,327)**	(7,08[illegible]
Unamortized transition asset	**(759)**	(8[illegible]
Prepaid pension cost	**$ 387**	$ 127

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

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

Net pension cost is composed of the following:

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

Significant weighted average assumptions used in developing pension information include:

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

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

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

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

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

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

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

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

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

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

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

Dollars in millions except per share amounts

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

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

Postretirement benefit cost is composed of the following:

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

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

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

NOTE 14. OTHER EMPLOYEE BENEFITS

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

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

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

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

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

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

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

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

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

NOTE 15. STOCK-BASED COMPENSATION

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

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

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

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

Information related to options and SARs is summarized below:

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

Dollars in millions except per share amounts

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

Exercise Price Range	$13.50 – $17.49	$17.50 – $25.99	$26.00 – $33.99	$34.00 – $43.00
Number of options and SARs:				
Outstanding	3,492,843	41,277,620	25,901,002	20,379,984
Exercisable	3,492,843	41,277,620	2,639,149	84,117
Weighted average exercise price:				
Outstanding	$16.51	$22.39	$27.60	$42.59
Exercisable	$16.51	$22.39	$28.21	$42.00
Weighted average remaining contractual life	3.43 years	6.38 years	8.31 years	5.97 years

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

NOTE 16. SHAREOWNERS' EQUITY

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

NOTE 17. ACQUISITIONS AND DISPOSITIONS

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

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

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

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

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

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

NOTE 18. ADDITIONAL FINANCIAL INFORMATION

	December 31,	
Balance Sheets	**1998**	1997
Accounts payable and accrued liabilities:		
Accounts payable	**$2,865**	$3,115
Accrued taxes	**1,206**	1,118
Advance billing and customer deposits	**855**	76[illegible]
Compensated future absences	**568**	556
Accrued interest	**249**	326
Accrued payroll	**338**	315
Other	**1,899**	2,134
Total	**$7,980**	$8,330

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

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

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

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

NOTE 19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

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

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

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

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareowners
SBC Communications Inc.

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

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

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

Ernst + Young LLP

San Antonio, Texas
February 12, 1999

REPORT OF MANAGEMENT

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

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

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

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

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

Edward E. Whitacre Jr.

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

Donald E. Kiernan

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

SBC BOARD OF DIRECTORS

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

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

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

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

Clarence C. Barksdale, 66[1,3]

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

James E. Barnes, 65[1,2]

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

August A. Busch III, 61[2,4,6]

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

Royce S. Caldwell, 60[4,5]

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

Ruben R. Cardenas, 68[1,3]

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

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

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

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

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

Herman E. Gallegos, 68[1,3]

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

Jess T. Hay, 68[1,6]

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

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

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

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

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

Mary S. Metz, Ph.D., 61[1]

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

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

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

Toni Rembe, Esq., 62[3]

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

S. Donley Ritchey, 65[5,6]

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

Joyce M. Roché, 51[1,3]

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

Richard M. Rosenberg, 68[2,5]

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

Ing. Carlos Slim Helú, 59[3,5]

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

Patricia P. Upton, 60[1,3]

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

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

EXECUTIVES OF SBC AND ITS SUBSIDIARIES

SBC Senior Executives

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

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President-SBC Operations
SBC Communications Inc.

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

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

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

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

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

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

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

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

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

Other Executives

Wayne S. Alexander, 50
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SBC Operations Inc.

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

Terry D. Bailey, 43
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Southwestern Bell Telephone Company

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

William A. Blase, 43
Vice President-Regulatory
Pacific Telesis

Rickford D. Bradley, 47
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SBC Center for Learning

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

James W. Callaway, 52
President-California
Pacific Telesis

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

Lea Ann Champion, 40
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Southwestern Bell Telephone Company

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

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Sr. Vice President & Asst. General Counsel
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SBC International, Inc.

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Sr. Vice President-Regulatory & Public Affairs
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SBC International, Inc.

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Cellular One

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SBC Telecommunications, Inc.

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

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SBC Services, Inc.

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Southwestern Bell Telephone Company

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Southwestern Bell Telephone Company

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Pacific Telesis

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SBC Communications Inc.

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Pacific Bell

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President-Industry Markets
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Pacific Bell

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SBC Telecommunications, Inc.

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SBC Operations Inc.

William B. McCullough, 47
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Southwestern Bell Wireless

Shawn M. McKenzie, 40
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Southwestern Bell Telephone Company

Forrest E. Miller, 46
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SBC Directory Operations

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President & CEO
Southern New England Telephone Co.

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Regional President-Northern & Central California
Pacific Telesis

Edward A. Mueller, 51
President & CEO
Pacific Bell

Carmen P. Nava, 36
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Pacific Telesis

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

David C. Nichols, 41
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Pacific Telesis

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SBC Directory Operations

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Pacific Telesis

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

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Sr. Vice Pres. & General Counsel-Operations
SBC Telecommunications, Inc.

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

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

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

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

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

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

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

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

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

Randall Stephenson, 38
Vice President & Controller
SBC Communications Inc.

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

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

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

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

Lora K. Watts, 41
President-Nevada
Nevada Bell

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

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

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

SHAREOWNER INFORMATION

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

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

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

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

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

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

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

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

Send optional cash investments to:

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

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

Ticker symbol (NYSE): SBC

Newspaper stock listing:
SBC or SBC Comm

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

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

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

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

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

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

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

Printed on recycled paper

FORM 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For fiscal year ended December 31, 1996

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: 1-8610

SBC COMMUNICATIONS INC.

Incorporated under the laws of the State of Delaware
I.R.S. Employer Identification Number 43-1301883

175 E. Houston, San Antonio, Texas 78205-2233
Telephone Number 210-821-4105

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares (Par Value $1.00 Per Share)	New York, Chicago and Pacific Stock Exchanges
$75 Million 8.48% Medium-Term Notes Series D, Due December 8, 1999, of SBC Communications Capital Corporation	New York Stock Exchange

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

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. (X)

Based on composite closing sales price on February 28, 1997, the aggregate market value of all voting stock held by non-affiliates was $34,397,200,000.

As of February 28, 1997, 598,842,533 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of SBC Communications Inc.'s Annual Report to Shareowners for the fiscal year ended December 31, 1996 (Parts I and II).

(2) Portions of SBC Communications Inc.'s Notice of 1997 Annual Meeting and Proxy Statement dated March 11, 1997 (Parts III and IV).

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PART I

ITEM 1. BUSINESS

GENERAL

SBC Communications Inc. (SBC) is a holding company whose subsidiaries and affiliates operate predominantly in the communications services industry. SBC's subsidiaries and affiliates provide landline and wireless telecommunications services and equipment, directory advertising, publishing and cable television services. Southwestern Bell Telephone Company (Telephone Company) is SBC's largest subsidiary, providing telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area). SBC has its principal executive offices at 175 E. Houston, San Antonio, Texas 78205-2233 (telephone number 210-821-4105).

On April 1, 1996, SBC and Pacific Telesis Group (PAC) jointly announced a definitive agreement to merge an SBC subsidiary with PAC, in a transaction in which each share of PAC common stock will be exchanged for 0.733 of a share of SBC common stock (equivalent to approximately 314 million shares), subject to adjustment as described in the merger agreement based upon an allocation of the costs, fees and expenses and other financial effects incurred or sustained in connection with obtaining state regulatory approvals. After the merger, PAC will be a wholly-owned subsidiary of SBC. The transaction is intended to be accounted for as a pooling of interests and to be a tax-free reorganization. Certain pro-forma financial information concerning the merger is set forth in Note 3 to the financial statements of the 1996 SBC Annual Report to Shareowners. On July 31, 1996, the shareowners of SBC and PAC each approved the transaction, which had previously been approved by the board of directors of each company. On November 5, 1996, the United States Department of Justice announced it would not initiate action on the merger under the Hart-Scott-Rodino antitrust law. The Public Service Commission of Nevada approved the merger on December 31, 1996. The FCC approved the transfer of licenses from PAC to SBC on January 31, 1997. The merger agreement is subject to certain other regulatory approvals, including approval by the California Public Utilities Commission (CPUC). On February 21, 1997, an Administrative Law Judge recommendation was issued which proposed approval of the merger subject to certain conditions. Among these conditions was a recommendation that $590 million be refunded to California ratepayers over the next five years, with the annual payments being increased by 10% each year. SBC believes the recommendations are excessive and inappropriate, and intends to ask the CPUC to eliminate or substantially modify the refunds and other conditions. The CPUC is expected to issue an order on the transaction by the end of the first quarter. Subject to allocation of the regulatory approval costs, as discussed above, and receipt of remaining regulatory approvals, the transaction is expected to close in the first half of 1997.

SBC 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).

FEDERAL LEGISLATION AND THE MFJ

On February 8, 1996, the Federal Government enacted the Telecommunications Act of 1996 (the Telecom Act), a major, wide-ranging amendment to the Communications Act of 1934.

By its specific terms, the Telecom Act supersedes the jurisdiction of the District Court with regard to activities occurring after the date of enactment. The Federal Communications Commission (FCC) is given authority for all post-enactment conduct, with the District Court retaining jurisdiction of pre-enactment conduct for a five-year period. As a result of these provisions, on April 11, 1996 the District Court issued its Opinion and Order terminating the MFJ and dismissing all pending motions as moot, thereby effectively ending 13 years of RHCs regulation under the MFJ.

Among other things, the Telecom Act defines the conditions which must be met before SBC will be authorized to provide landline interLATA long-distance service throughout the five-state area. Additional information relating to the Telecom Act is contained in SBC's Annual Report to Shareowners for 1996 under the heading "Competition" beginning on page 14, and is incorporated herein by reference pursuant to General Instruction G(2).

BUSINESS OPERATIONS

In July 1995, SBC announced a strategic realignment which positions the company to be a single-source provider of telecommunications services. All of SBC's operations within the five-state area (in-region) report to one management group, while international operations and domestic operations outside the five-state area (out-region) report to a separate management group. Services and products are provided through several subsidiaries, which include: the Telephone Company, Southwestern Bell Mobile Systems, Inc. (Mobile Systems), SBC International, Inc. (SBC International), Southwestern Bell Yellow Pages, Inc. (Yellow Pages), Southwestern Bell Messaging Services, Inc. (SMSI), and SBC Media Ventures, Inc. (Media Ventures). These services and products (which are described more fully below) include landline and wireless telecommunications services, sales of advertising for and publication of yellow pages and white pages directories, sales of customer premises, private business exchange (PBX) and wireless equipment, enhanced services, and cable television services. Wireless telecommunications services are provided by Mobile Systems. Landline telecommunications services are provided in the five-state area by the Telephone Company. In December 1996, most of the operations of Southwestern Bell Telecommunications, Inc. (Telecom) merged into the operations of the Telephone Company with enhanced services being moved into SMSI.

SBC's revenues are categorized for financial reporting purposes as local service (substantially all of which were provided by the Telephone Company and Mobile Systems), network access (provided by the Telephone Company), long-distance service (substantially all of which were provided by the Telephone Company and Mobile Systems), directory advertising (principally provided by Yellow Pages) and other (including equipment sales at Mobile Systems and Telecom, nonregulated products and services provided by the Telephone Company, billing and collection services for interexchange carriers provided by the Telephone Company, and cable television services provided by Media Ventures). With the passage of the Telecom Act, Mobile Systems began offering interLATA and intraLATA long-distance services in February 1996. In November 1996, Southwestern Bell Communications Services, Inc. (SBCS), another SBC subsidiary, began offering interLATA long-distance services to customers in selected out-region areas.

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

	Percentage of Total Operating Revenues		
	1996	1995	1994
Local service:			
Landline	34%	34%	34%
Wireless	19%	18%	15%
Network access	23%	24%	24%

Telecommunications

Telecommunications services include local, long-distance and network access services. Local services involve the transport of landline and wireless telecommunications traffic between telephones and other customer premises equipment (CPE) located within the same local service calling area. Local services include: basic local exchange service, certain extended area service, dedicated private line services for voice and special services, directory assistance and various vertical services, including custom calling services, call control options and Caller ID services. Until the passage of the Telecom Act, SBC's long-distance services involved the transport of telecommunications traffic between local calling areas within the same LATA (intraLATA), except for certain wireless service areas which cover more than one LATA, for which SBC had obtained MFJ waivers. In addition to these services, in 1996 SBC provided both interLATA and intraLATA long-distance services over its wireless networks, as well as landline interLATA long-distance services in selected areas outside the five-state area. Long-distance services also include other services such as Wide Area Telecommunications Service (WATS or 800 services) and other special services. Network access services connect a subscriber's telephone or other equipment to the transmission facilities of other carriers which provide long-distance (principally interLATA) and other communications services. Network access services are either switched, which use a switched communications path between the carrier and the customer, or special, which use a direct nonswitched path.

During the latter half of 1996 and over the course of 1997, the Telephone Company has and will be offering certain services on a "wholesale" basis to competitors, as well as providing elements of the Telephone Company's network on an "unbundled" basis for local competition. These services are being offered as specified by the Telecom Act and state actions and agreements. That legislation and the regulations promulgated by state and federal agencies to implement it will result in SBC facing increased competition in significant portions of its business. Such increased competition is a prerequisite to SBC's permitted entry into the long-distance business and markets from which it is currently excluded. The precise impact to SBC's business in 1997 from local exchange competition is impossible to quantify due to the fact state and federal regulations governing such competition are not yet finalized.

The Telephone Company is SBC's largest subsidiary, providing approximately 70% of SBC's operating revenues in 1996. The Telephone Company provides its services over approximately 9.8 million residential and 4.9 million business access lines in the five-state area. During 1996, nearly two-thirds of the Telephone Company's access line growth occurred in Texas.

During 1996, the Telephone Company continued to expand its offering of vertical services throughout its five-state area. Some of these services include Caller ID, a feature which displays the telephone number of the person calling and the caller's name in certain markets; Call Return, a feature that redials the number of the last incoming call; and Call Blocker, a feature which allows customers to automatically reject calls from a designated list of telephone numbers.

The FCC has certain rules that impact the manner in which the Telephone Company may offer network services for enhanced service providers. Enhanced services are certain services other than basic transmission services. Under these rules, the Telephone Company is permitted to offer enhanced services either on its own or jointly with its affiliates, subject to nonstructural safeguards designed to permit the Telephone Company's competitors to acquire needed network services on a comparably efficient, non-discriminatory basis and to reduce the risk of cross-subsidization. These safeguards include accounting and reporting procedures and Open Network Architecture (ONA) requirements, which represent the Telephone Company's plan to provide equal access to its network to all enhanced service providers. Enhanced services are deregulated at the federal level, and none of the state commissions to which the Telephone Company is subject has asserted jurisdiction over intrastate enhanced services. The nonstructural safeguards are currently being reviewed by the FCC as a result of an October 1994 judicial remand which ruled that the FCC had not adequately explained how ONA would prevent discrimination against competitors. While the outcome cannot be predicted with certainty, it is anticipated that the FCC will reaffirm the nonstructural safeguards.

SMSI provides voice messaging services under the registered trademark CallNotes to residential and business customers. During 1996, Southwestern Bell Internet Services, Inc., another SBC subsidiary, began providing Internet access services in selected metropolitan areas within the five-state area. Planning is under way to introduce access services to other in-region areas in 1997. During 1996, Southwestern Bell Communications Inc., began providing strategic marketing, product development and network services to SBC subsidiaries operating in the five-state area.

Through the end of 1996, Mobile Systems provided wireless services to 4,398,000 customers, or 10.8 out of every 100 residents in its service areas. Mobile Systems provides services in 38 metropolitan markets, including 5 of the nation's top 15 metropolitan areas, as follows: Washington, D.C.; Chicago, Illinois; Boston, Massachusetts; St. Louis, Missouri; and Dallas-Fort Worth, Texas. Mobile Systems (or partnerships in which it has an ownership interest) is licensed to provide service in 38 rural service areas and is currently providing service in all of these markets. Each rural service area is contiguous to an existing metropolitan service area or another rural service area operated by Mobile Systems, which allows for the expansion of service in a way that may add value to customers' service. Mobile Systems also operates a rural RSA in Arkansas under an interim operating authority granted by the FCC.

In January 1997, Mobile Systems began doing business within its five-state area as Southwestern Bell Wireless, Inc. Mobile Systems operates in areas outside the five-state area under the name of Cellular One by means of licenses from Cellular One Group, a partnership among affiliates of Mobile Systems, AT&T Wireless Services and Vanguard Cellular Systems, Inc. These areas include metropolitan service areas, such as Washington, D.C.; Chicago, Illinois; and Boston, Massachusetts; and rural service areas in Illinois, Massachusetts, New York, Virginia and West Virginia. Cellular One does or can offer on a resale basis wireless and landline interLATA long-distance service in all out-region markets where it provides local wireless service. In January 1997, Cellular One also began offering landline local service in Rochester, New York on a resale basis.

In October 1994, SBC announced the formation of a long-term marketing alliance between Mobile Systems and GTE in Texas. This alliance has enabled both Mobile Systems and GTE to begin offering wireless service in each other's Texas wireless markets, using the host company's wireless system. As a result, Mobile Systems now provides wireless service in Houston, Austin and Beaumont and has the right, under this alliance, to market wireless service in a number of additional markets including El Paso and Galveston.

Mobile Systems began providing commercial digital service in Chicago in July 1993. Digital service improves sound quality, provides a greater degree of privacy on individual calls, increases call-handling capacity of the networks, allows additional service offerings, and reduces exposure to billing fraud. Mobile Systems also began providing commercial digital service in St. Louis in September 1993, in Dallas-Fort Worth in January 1994, and in Washington, D.C.-Baltimore in March 1994. Mobile Systems is evaluating other areas for digital service.

Mobile Systems also markets wireless communications equipment in each of its service areas.

In December 1994, SBC acquired the domestic wireless business of Associated Communications Corporation, including wireless systems in Buffalo, Rochester, Albany and Glens Falls, New York, which are adjacent to other SBC wireless systems in Syracuse, Utica and Ithaca, New York.

In March 1995, SBC acquired United States Cellular Corporation's wireless system that operates in the Watertown, New York area. In December 1995, SBC obtained a controlling interest in a wireless property serving the Laredo, Texas, area, as a part of a joint venture with PriCellular Corporation. SBC contributed two wireless properties serving Central Illinois, known as RSAs 4 and 6, to the joint venture. Combined with SBC's other markets, this joint venture permits SBC to now serve the entire South Texas region.

In 1993, the FCC adopted an order allocating radio spectrum and outlining the development of licenses for new personal communications services (PCS). PCS utilizes wireless telecommunications digital technology at a higher frequency radio spectrum than cellular. Like cellular, it is designed to permit access to a variety of communications services regardless of subscriber location. In an FCC auction, which concluded in March 1995, PCS licenses were awarded in 51 major markets. SBC acquired PCS licenses in the major trading areas of Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma. SBC is currently in the build-out phase of PCS in Tulsa, Oklahoma. During 1996, SBC received several AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis, Tennessee and Little Rock, Arkansas and other considerations.

In an FCC auction concluded in January 1997, SBC acquired 8 additional PCS licenses for Basic Trading Areas (BTAs) that are within its five-state area (includes Springfield, Missouri; McAlester, Oklahoma; Joplin, Missouri; Pittsburgh, Kansas; Temple-Killeen, Texas; Waco, Texas; Tyler, Texas and Longview-Marshall, Texas). SBC plans to build out the new BTAs as part of its strategy to be a full service telecommunications provider. Once the BTAs are completed (expected completion 1999), SBC will be able to offer wireless services to approximately 85% of its landline local service customers.

International

A consortium consisting of SBC International, together with a subsidiary of France Telecom and a group of Mexican investors led by Grupo Carso, S.A. de C.V. (Grupo Carso), has voting control of Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, through its ownership of all of Telmex's Class AA shares. The Mexican investors have voting control of the consortium. During 1996, Grupo Carso transferred its Telmex interest to a spin-off company named Carso Global Telecom, S.A. de C.V. This transaction will have no effect on SBC International's Telmex holdings. SBC International also owns Class L shares which have limited voting rights. In 1996, Telmex made significant purchases under a share repurchase program. In January 1997, SBC International sold a portion of its Class L shares to Telmex so that SBC's total equity investment (including both AA shares and L shares) was slightly below 10% of Telmex's total equity capitalization. Telmex provides complete landline and wireless telecommunications services within Mexico. At the end of 1996, Telmex had 8.8 million access lines in service and provided cellular service to approximately 657,000 subscribers. In June 1995, Telmex acquired a 49% stake of Grupo Televisa's cable television subsidiary, Cablevisión.

In October 1994, SBC International formed a strategic alliance with Compagnie Génerale des Eaux (CGE), a French diversified public company. Through this alliance, SBC International acquired an indirect 10% ownership of Société Francaise du Radiotelephone S.A. (SFR), a nationwide cellular company in France, and minority ownership interests in other communications businesses controlled by CGE, and CGE obtained an effective 10% interest in SBC's wireless operations in Washington, D.C.- Baltimore, and surrounding rural markets. SBC and CGE both made contributions to the alliance. SBC's effective contribution was $375.9 million. During 1996, in response to the 1996 exercise of an option by another company to purchase additional SFR shares, SBC International exercised an option to maintain its 10% indirect ownership interest in SFR. At the end of 1996, SFR provided cellular service to approximately 928,000 subscribers.

In February 1995, SBC International purchased 40% of VTR S.A. (VTR), a privately owned telecommunications holding company in Chile. During 1996 SBC International increased its stake to 49% through the purchase of shares from a minority investor. VTR is 51% indirectly owned by Grupo Luksic, a large Chilean conglomerate. Through its subsidiaries, VTR provides local, long-distance, wireless and cable television services in Chile. At the end of 1996, local services were provided over approximately 97,000 access lines, wireless services were provided to more than 175,000 subscribers and cable television services were provided to approximately 322,000 subscribers.

In October 1995, SBC International combined its United Kingdom cable television operations, which included Midlands Cable Communications and Northwest Cable Communications, with those of TeleWest Communications. P.L.C., a publicly held joint venture between Telecommunications, Inc. and U S WEST, Inc. The resulting entity, TeleWest P.L.C., is the largest cable television operator in the United Kingdom and also provides local exchange services. SBC International owns approximately 15% of the new entity.

SBC International through its subsidiaries also holds a minority interest in Golden Channels, a cable television provider in Israel. At the end of 1996, Golden Channels' systems passed 433,000 households and provided service to approximately 277,000 households, a penetration rate of approximately 64%.

In Israel and Australia, SBC International has interests in companies involved in the publication of yellow pages directories and marketing directory and other software.

In November, a consortium in which SBC International participated received one of two licenses for international telecommunications service in Israel. Other consortium members are STET, (Italy's national telephone company), the US/Israeli Aureq Group, and the Israelis Globescom and Kahan group. At the present time, the award of these licenses is undergoing judicial review.

SBC also has wireless interests in South Korea and SBC International has wireless interests in South Africa.

Directory Advertising

Yellow Pages publishes more than 43 million copies of approximately 350 directories principally within the five-state area. The ten largest revenue-producing yellow pages directories are currently published in the second half of SBC's fiscal year. Directory advertising revenues and expenses associated with yellow pages directories are recognized in the month the related directory is published. Since 1995, SBC's yellow and white pages directories have been printed by R.R. Donnelley & Sons.

Customer Premises Equipment and Other Equipment Sales

In December 1996, most of the operations of Telecom merged with the operations of the Telephone Company. Telecom markets business and residential communications equipment. Their offerings range from single-line and cordless telephones to sophisticated digital PBX systems. PBX is a private telephone switching system, usually located on a customer's premises, which provides intra-premise telephone services as well as access to the public switched network. Telecom, through an exclusive, long-term distribution agreement with Conair Corporation, also markets a full line of residential telephones to retailers nationwide, under the Southwestern Bell Freedom Phone name.

Domestic Video Services

Media Ventures owns two cable television systems serving the suburban Washington, D.C. area. Cable TV Montgomery serves Montgomery County, Maryland and Cable TV Arlington serves Arlington County, Virginia. At the end of 1996, these systems passed 426,000 homes and served 268,000 customers. In August 1996, Media Ventures contributed Cable TV Montgomery and Cable TV Arlington to SBC Media Ventures, LP (Partnership), a recently formed partnership between Media Ventures and affiliates of Prime Cable (Prime). Media Ventures is general partner and retains an approximate 95% ownership interest in the Partnership. Prime contributed $20 million to the Partnership and now manages the cable systems on behalf of the Partnership.

In December 1995, SBC began offering video services over a fiber-to-the-curb network passing 1,800 homes in a consumer trial in Richardson, Texas. In January 1997, SBC announced it plans to build a testbed network to approximately 31,000 homes in Richardson by 1998 and use that network to offer video and communications services citywide.

During 1995, SBC became an equal partner in a venture, with Ameritech Corporation, BellSouth Corporation, GTE, and The Walt Disney Company, to design, market and deliver video programming and interactive services. In 1996, Southern New England Telephone Company became a minority partner in this venture.

GOVERNMENT REGULATION

In the five-state area, the Telephone Company is subject to regulation by state commissions which have the power to regulate, in varying degrees, 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 other carriers. There are currently no access charges for access to the Internet.

Additional information relating to federal and state regulation of the Telephone Company is contained in SBC's Annual Report to Shareowners for 1996 under the heading "Regulatory Environment" on page 12, and is incorporated herein by reference pursuant to General Instruction G(2).

SBC's cable systems are subject to federal and local regulation, including regulation by the FCC and local franchising authorities, concerning rates, service and programming access.

IMPORTANCE, DURATION AND EFFECT OF LICENSES

The FCC authorizes the licensing of only two cellular carriers in each geographic market. These cellular licenses have a standard duration of ten years and are renewable upon application and a showing of compliance with FCC use and conduct standards. Renewal licenses were received for Gary, Indiana; Worcester, Massachusetts; Buffalo, New York; Syracuse, New York; Rochester, New York; and Corpus Christi, Texas in September 1996. Renewal applications were filed in the following markets during September 1996: Lawrence, Kansas; Topeka, Kansas; St. Joseph, Missouri; Amarillo, Texas; Lubbock, Texas; Sherman-Denison, Texas; Albany, New York; and Utica-Rome, New York. Renewal licenses were awarded in November 1996. Renewal applications will be filed in the following markets during September 1997: Abilene, Texas; Brownsville-Harlingen, Texas; Champaign-Urbana-Rantoul, Illinois; Decatur, Illinois; McAllen-Edinburgh-Mission, Texas; Midland, Texas; Odessa, Texas; Springfield, Illinois and Fayetteville-Springdale, Arkansas.

Under the auction process of an FCC order outlining the development of PCS, licenses with durations of ten years were awarded in 51 major markets. The license acquired by SBC for Tulsa, Oklahoma expires in June 2005 and is renewable upon application and a showing of compliance with FCC use and conduct standards.

Cable television systems generally are operated under nonexclusive permits or "franchises" granted by local governmental authorities. SBC operates its suburban Washington, D.C. cable systems under franchises granted by Montgomery County, Maryland, which expires in May 1998; Arlington County, Virginia, which expires in October 2000; and the City of Gaithersburg, Maryland, which expires in November 2001. During 1995, SBC received a franchise to operate a cable system in Richardson, Texas, which expires in September 2013. Each franchise is renewable upon a showing of compliance with established local and federal standards.

MAJOR CUSTOMER

No customer accounted for more than 10% of SBC's consolidated revenues in 1996 or 1995. Approximately 10% of SBC's 1994 consolidated revenues were from services provided to AT&T. No other customer accounted for more than 10% of consolidated revenues in 1994.

COMPETITION

Telecommunications

Information relating to competition in the telecommunications industry is contained in SBC's Annual Report to Shareowners for 1996 under the heading "Competition" beginning on page 14, and is incorporated herein by reference pursuant to General Instruction G(2).

International

Information relating to international competition is contained in SBC's Annual Report to Shareowners for 1996 under the heading "International" on page 17, and is incorporated herein by reference pursuant to General Instruction G(2).

Directory Advertising and Publishing

Yellow Pages faces competition from numerous directory publishing companies as well as other advertising media. There are over 50 other directory publishers in the five-state area producing yellow page directories.

Customer Premises Equipment and Other Equipment Sales

The Telephone Company and Telecom face significant price competition from numerous companies in marketing its telecommunications products.

RESEARCH AND DEVELOPMENT

The majority of company-sponsored basic and applied research is conducted at Bell Communications Research, Inc. (Bellcore). The Telephone Company owns a one-seventh interest in Bellcore along with the other six RHCs. In November 1996, SBC and the other RHCs announced their agreement to sell their interests in Bellcore to Science Applications International Corporation. Regulatory approvals of the transaction are pending, and if they are received it is expected to close in late 1997. The RHCs will retain the portion of Bellcore that coordinates the Federal Government's telecommunications requirements for 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 evaluation services to SBC and its subsidiaries.

EMPLOYEES

As of December 31, 1996, SBC and its subsidiaries employed 61,540 persons. Approximately 67% of the employees are represented by the Communications Workers of America (CWA). A three-year contract and a 20-month contract (both covering an estimated 37,800 employees) were negotiated between the CWA and the Telephone Company, effective in August 1995 and December 1996 and each ending in August 1998. A three-year contract (covers an estimated 1,800 employees) was negotiated between the CWA and Yellow Pages, which became effective in December 1995. A 31-month contract (covers an estimated 800 employees) was negotiated between the CWA and Southwestern Bell Communications, Inc., which became effective in January 1997. The CWA also represents a small number of employees in other subsidiaries of SBC.

ITEM 2. PROPERTIES

The properties of SBC do not lend themselves to description by character and location of principal units. At December 31, 1996, 90% of the property, plant and equipment of SBC was owned by the Telephone Company. Network access lines represented 44% of the Telephone Company's investment in telephone plant; central office equipment represented 39%; land and buildings represented 9%; other miscellaneous property, comprised principally of furniture and office equipment and vehicles and other work equipment, represented 6%; and information origination/termination equipment represented 2%.

ITEM 3. LEGAL PROCEEDINGS

Six putative class action lawsuits are now pending against the Telephone Company in state and federal courts in Texas, Missouri, Oklahoma and Kansas involving the provision by the Telephone Company of maintenance and trouble diagnosis services relating to telephone inside wire located on customer premises in these states and in Arkansas. The actions allege that the Telephone Company's sales practices in connection with these services violated antitrust, fraud and/or deceptive trade practices statutes and seek unspecified damages together with punitive damages and attorney's fees. The Telephone Company believes it has several meritorious defenses to these claims and is vigorously contesting the allegations. Although the outcomes of these cases are uncertain, management believes that this litigation will not have a material adverse impact on SBC's results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of shareowners in the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position	Held Since
Edward E. Whitacre Jr.	55	Chairman and Chief Executive Officer	1-90
Royce S. Caldwell	58	President - Southwestern Bell Operations	7-95
James W. Callaway	50	Senior Vice President - Strategic Planning	8-96
Cassandra C. Carr	52	Senior Vice President - Human Resources	5-94
William E. Dreyer	59	Senior Executive Vice President - External Affairs	7-93
James D. Ellis	53	Senior Executive Vice President and General Counsel	3-89
Charles E. Foster	60	President - SBC Operations	7-95
James S. Kahan	49	Senior Vice President - Corporate Development	7-93
Donald E. Kiernan	56	Senior Vice President, Treasurer and Chief Financial Officer	7-93

All of the above executive officers have held high-level managerial positions with SBC or its subsidiaries for more than the past five years. Executive officers are not appointed to a fixed term of office but hold office until their successors are elected and qualified.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The number of shareowners of record as of December 31, 1996 and 1995 were 800,465 and 840,378. Other information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1996 under the headings "Quarterly Financial Information" on page 33, "Selected Financial and Operating Data" on page 8, and "Stock Trading Information" on page 37, which are incorporated herein by reference pursuant to General Instruction G(2).

ITEM 6. SELECTED FINANCIAL DATA

Information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1996 under the heading "Selected Financial and Operating Data" on page 8 which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1996 on page 9 through page 19, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1996 on page 20 through page 34, which is incorporated herein by reference pursuant to General Instruction G(2).

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

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANTS

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure at the end of Part I of this report since the registrant did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A. Other information required by this Item is included in the registrant's definitive proxy statement, dated March 11, 1997, under the heading "Board of Directors" beginning on page 3 which is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is included in the registrant's definitive proxy statement, dated March 11, 1997, under the headings "Compensation of Directors" on page 11 through page 12, and "Compensation Committee Interlocks and Insider Participation", "Executive Compensation", "Pension Plans", and "Contracts with Management" from page 16 through page 26, which are incorporated herein by reference pursuant to General Instruction G(3).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is included in the registrant's definitive proxy statement, dated March 11, 1997, under the heading "Common Stock Ownership of Directors and Officers" from page 13 through 14, which is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

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

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

	Page
(1) Report of Independent Auditors	*
Financial Statements covered by Report of Independent Auditors:	
Consolidated Statements of Income	*
Consolidated Balance Sheets	*
Consolidated Statements of Cash Flows	*
Consolidated Statements of Shareowners' Equity	*
Notes to Consolidated Financial Statements	*

* Incorporated herein by reference to the appropriate portions of the registrant's annual report to shareowners for the fiscal year ended December 31, 1996. (See Part II.)

	Page
(2) Financial Statement Schedules Covered by Report of Independent Auditors:	
II - Valuation and Qualifying Accounts	18

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. Unless otherwise indicated, all exhibits so incorporated are from File No. 1-8610.

Exhibit Number	
2-a	Agreement and Plan of Merger, among Pacific Telesis Group, SBC Communications Inc. and SBC Communications (NV) Inc., dated as of April 1, 1996. (Exhibit 2 to Form 8-K, dated April 1, 1996.)
3-a	Restated Certificate of Incorporation, filed with the Secretary of State of Delaware on April 29, 1996. (Exhibit 3 to Form 10-Q dated March 31, 1996.)
3-b	Bylaws dated January 31, 1996.
4-a	Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the registrant or any of its consolidated subsidiaries is filed herewith. Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.

4-b	Support Agreement dated November 10, 1986, between SBC Communications Inc. (SBC) and SBC Communications Capital Corporation. (Exhibit 4-b to Registration Statement No. 33-11669.)
4-c	Form of Rights Agreement, dated as of January 27, 1989, between SBC and American Transtech, Inc., the Rights Agent, which includes as Exhibit B thereto the form of Rights Certificate. (Exhibit 4-a to Form 8-A dated February 9, 1989.)
4-d	Amendment of Rights Agreement, dated as of August 5, 1992, among SBC, American Transtech, Inc., and The Bank of New York, the successor Rights Agent, which includes the Form of Rights Certificate as an attachment identified as Exhibit B. (Exhibit 4-a to Form 8-K, dated August 7, 1992.)
4-e	Form of Rights Certificate (included in the attachment to the Amendment of Rights Agreement and identified as Exhibit B.) (Exhibit 4-b to Form 8-K, dated August 7, 1992.)
4-f	Second Amendment of Rights Agreement, dated June 15, 1994, between SBC and The Bank of New York, as successor Rights Agent. (Exhibit 4-e to Form 8-A/A, dated June 22, 1994.)
10-a	Senior Management Short Term Incentive Plan, revised January 1, 1991. (Exhibit 10-a to Form 10-K for 1990.)
10-b	Senior Management Long Term Incentive Plan, revised effective January 1, 1993. (Exhibit 10-b to Form 10-K for 1992.)
10-c	Senior Management Survivor Benefit Plan. (Exhibit 10-c to Form 10-K for 1986.)
10-d	Senior Management Supplemental Retirement Income Plan, revised effective January 1, 1993. (Exhibit 10-d to Form 10-K for 1992.)
10-e	Senior Management Deferred Compensation Plan (effective for Units of Participation Having a Unit Start Date Prior to January 1, 1988), revised July 30, 1993. (Exhibit 10.5 to Registration Statement No. 33-54795.)
10-f	Senior Management Deferred Compensation Plan of 1988 (effective for Units of Participation Having a Unit Start Date of January 1, 1988 or later), revised July 30, 1993. (Exhibit 10.6 to Registration Statement No. 33-54795.)
10-g	Senior Management Long Term Disability Plan. (Exhibit 10-f to Form 10-K for 1986.)
10-h	Senior Management Incentive Award Deferral Plan. (Exhibit 10-g to Form 10-K for 1986.)
10-i	Senior Management Financial Counseling Program. (Exhibit 10-h to Form 10-K for 1986.)
10-j	Senior Management Executive Health Plan, effective January 1, 1987. (Exhibit 10-i to Form 10-K for 1986.)
10-k	Retirement Plan for Non-Employee Directors. (Exhibit 10-t to Form 10-K for 1985.)
10-l	Form of Indemnity Agreement, effective July 1, 1986, between SBC and each of its directors and officers. (Appendix 1 to Definitive Proxy Statement dated March 18, 1987.)
10-m	Form of Change of Control Severance Agreements for all Officers of SBC and certain Officers of SBC's subsidiaries. (Exhibit 10-p to Form 10-K for 1988.)

10-n	Stock Savings Plan, revised effective July 26, 1996. (Exhibit 10-a to Form 10-Q dated June 30, 1996.)
10-o	1992 Stock Option Plan, revised effective July 26, 1996. (Exhibit 10-b to Form 10-Q dated June 30, 1996.)
10-p	Officer Retirement Savings Plan. (Exhibit 10.18 to Registration Statement No. 33-54795.)
10-q	1996 Stock and Incentive Plan, revised effective July 26, 1996. (Exhibit 10-d to Form 10-Q dated June 30, 1996.)
12	Computation of Ratios of Earnings to Fixed Charges.
13	Portions of SBC's Annual Report to shareowners for the fiscal year ended December 31, 1996. Only the information incorporated by reference into this Form 10-K is included in the exhibit.
21	Subsidiaries of SBC.
23	Consent of Ernst & Young LLP.
24	Powers of Attorney.
27	Financial Data Schedule.
99-a	Annual Report on Form 11-K for the Savings Plan for the year 1996 to be filed under Form 10 K/A.
99-b	Annual Report on Form 11-K for the Savings and Security Plan for the year 1996 to be filed under Form 10-K/A.

SBC will furnish to shareowners upon request, and without charge, a copy of the annual report to shareowners and the proxy statement, portions of which are incorporated by reference in the Form 10-K. SBC will furnish any other exhibit at cost.

(b) Reports on Form 8-K:

On November 11, 1996, SBC filed a Current Report on Form 8-K, reporting on Item 7, Financial Statements and Exhibits. In the Report, SBC provided pro forma combined condensed financial statements of SBC and PAC assuming the merger will be accounted for as a "pooling of interests".

SBC COMMUNICATIONS INC.
SCHEDULE II - 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 Costs and Expenses	Charged to Other Accounts -Note (a)	Deductions -Note (b)	Balance at End of Period
Year 1996	**$ 134**	**227**	**54**	**267**	**$ 148**
Year 1995	$ 130	186	46	228	$ 134
Year 1994	$ 111	166	41	188	$ 130

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

(b) Amounts written off as uncollectible.

Schedule II - Sheet 2

SBC COMMUNICATIONS INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Accumulated Amortization of Intangibles
Dollars in Millions

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Expense	Charged to Other Accounts	Deductions	Balance at End of Period
Year 1996	**$ 548**	**117**	-	**58(a)**	**$ 607**
Year 1995	$ 428	122	-	2	$ 548
Year 1994	$ 368	97	-	37	$ 428

(a) Primarily related to the disposition of Associated Directory Services, Inc.

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 11th day of March, 1997.

SBC COMMUNICATIONS INC.

By /s/ Donald E. Kiernan
(Donald E. Kiernan
Senior Vice President, Treasurer and
Chief Financial Officer)

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:
Edward E. Whitacre, Jr.*
Chairman and
Chief Executive Officer

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

Directors:

Edward E. Whitacre, Jr.*
Clarence C. Barksdale*
James E. Barnes*
Jack S. Blanton*
August A. Busch III*
Ruben R. Cardenas*
Martin K. Eby, Jr.*
Tom C. Frost*
Jess Hay*
B. R. Inman*
Charles F. Knight*
Haskell M. Monroe, Jr.*
Carlos Slim Helú*
Patricia P. Upton *

/s/ Donald E. Kiernan
(Donald E. Kiernan, as attorney-in-fact and on his own behalf as Principal Financial Officer and Principal Accounting Officer)

March 11, 1997

* by power of attorney

EXHIBIT 12

SBC COMMUNICATIONS INC.
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

Dollars in Millions

	YEAR ENDED DECEMBER 31,				
	1996	1995	1994	1993	1992
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Changes in Accounting Principles*	$ 3,093	$ 2,698	$ 2,300	$ 1,883	$ 1,701
Add: Interest Expense	472	515	480	496	530
1/3 Rental Expense	57	46	42	41	45
Adjusted Earnings	$ 3,622	$ 3,259	$ 2,822	$ 2,420	$ 2,276
Total Interest Charges	$ 493	$ 515	$ 480	$ 496	$ 530
1/3 Rental Expense	57	46	42	41	45
Adjusted Fixed Charges	$ 550	$ 561	$ 522	$ 537	$ 575
Ratio of Earnings to Fixed Charges	6.59	5.81	5.41	4.51	3.96

* Undistributed earnings on investments accounted for under the equity method have been excluded.

FORM 10-K

UNITED STATES
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**

For fiscal year ended December 31, 1997

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File Number: 1-8610

SBC COMMUNICATIONS INC.

Incorporated under the laws of the State of Delaware
I.R.S. Employer Identification Number 43-1301883

175 E. Houston, San Antonio, Texas 78205-2233
Telephone Number 210-821-4105

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.

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. (X)

Based on composite closing sales price on February 27, 1998, the aggregate market value of all voting stock held by non-affiliates was $69,458,800,000.

As of February 27, 1998, 919,465,202 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of SBC Communications Inc.'s Annual Report to Shareowners for the fiscal year ended December 31, 1997 (Parts I and II).

(2) Portions of SBC Communications Inc.'s Notice of 1998 Annual Meeting and Proxy Statement dated March 11, 1998 (Parts III and IV).

SCHEDULE A

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

Title of each class	Name of each exchange on which registered
Common Shares (Par Value $1.00 Per Share)	New York, Chicago and Pacific Stock Exchanges
7 ¾ % Exchangeable Notes, Due March 15, 2001	New York Stock Exchange
7.56% Pacific Telesis Group (PAC) Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	New York Stock Exchange
8.5% PAC Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	New York Stock Exchange

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

GENERAL

SBC Communications Inc. (SBC) is a holding company whose subsidiaries and affiliates operate predominantly in the communications services industry. SBC's subsidiaries and affiliates provide landline and wireless telecommunications services and equipment, directory advertising, publishing and cable television services. SBC's largest subsidiaries are Southwestern Bell Telephone Company (SWBell), providing telecommunications services over approximately 16 million access lines in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area), and Pacific Bell (PacBell), providing telecommunications services over approximately 17 million access lines in California. SBC also provides telecommunications services through its Nevada Bell subsidiary over approximately 300 thousand access lines in Nevada. (SWBell, PacBell and Nevada Bell are collectively referred to as the Telephone Companies.) The Telephone Companies operate within an authorized region (in-region) providing local exchange services and are subject to regulation by each state in which they operate and by the Federal Communications Commission (FCC). SBC was incorporated under the laws of the State of Delaware in 1983 and has its principal executive offices at 175 E. Houston, San Antonio, Texas 78205-2233 (telephone number 210-821-4105).

SBC was one of the original seven regional holding companies (RHCs) formed to hold AT&T Corp.'s (AT&T) local telephone companies. AT&T divested SBC by means of a spin-off of stock to its shareowners on January 1, 1984 (divestiture). As a result, SBC became a publicly traded company. 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). With the mergers of SBC and Pacific Telesis Group (PAC), and Bell Atlantic Corporation and NYNEX Corporation, there are now five RHCs.

COMPLETION OF MERGER WITH PAC

On April 1, 1997, SBC and PAC completed the merger of an SBC subsidiary with PAC, in a transaction in which each outstanding share of PAC common stock was exchanged for 1.4629 shares of SBC common stock (equivalent to approximately 626 million shares; both the exchange ratio and shares issued have been restated to reflect the two-for-one stock split, effected in the form of a stock dividend, declared January 30, 1998 with a record date of February 20, 1998 and payable March 19, 1998). With the merger, PAC became a wholly-owned subsidiary of SBC. The transaction was accounted for as a pooling of interests and a tax-free reorganization.

Post-merger initiatives

Several strategic decisions resulted from the merger integration process. The decisions resulted from an extensive review of operations throughout the merged company and include significant integration of operations and consolidation of some administrative and support functions.

Reorganization

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

SBC recognized charges during 1997 in connection with these initiatives. The charges were comprised mainly of postemployment benefits, primarily related to severance, and costs associated with closing down duplicate operations, primarily contract cancellations. Other charges arising out of the merger relating to relocation, retraining and other effects of consolidating certain operations are being recognized in the periods those charges are incurred. Additional information on these charges is contained in Note 3 of the 1997 SBC Annual Report to Shareowners, and is incorporated herein by reference pursuant to General Instruction G(2).

MERGER WITH SOUTHERN NEW ENGLAND TELECOMMUNICATIONS CORPORATION

On January 5, 1998, SBC and Southern New England Telecommunications Corporation (SNET) jointly announced a definitive agreement to merge an SBC subsidiary with SNET, in a transaction in which each share of SNET common stock will be exchanged for 1.7568 shares of SBC common stock (equivalent to approximately 120 million shares; both the exchange ratio and shares to be issued have been restated to reflect the two-for-one stock split declared January 30, 1998). The transaction is intended to be accounted for as a pooling of interests and to be a tax-free reorganization. Additional information on this matter is contained in Note 4 of the 1997 SBC Annual Report to Shareowners, and is incorporated herein by reference pursuant to General Instruction G(2).

FEDERAL LEGISLATION AND THE MFJ

On February 8, 1996, the Federal Government enacted the Telecommunications Act of 1996 (the Telecom Act), a major, wide-ranging amendment to the Communications Act of 1934.

By its specific terms, the Telecom Act supersedes the jurisdiction of the District Court with regard to activities occurring after the date of enactment. The FCC is given authority for all post-enactment conduct, with the District Court retaining jurisdiction of pre-enactment conduct for a five-year period. As a result of these provisions, on April 11, 1996 the District Court issued its Opinion and Order terminating the MFJ and dismissing all pending motions as moot, thereby effectively ending 13 years of RHCs regulation under the MFJ.

In July 1997, SBC brought suit in the U.S. District Court for the Northern District of Texas (U.S. Court), seeking a declaration that a portion of the Telecom Act is unconstitutional on the grounds that it improperly discriminates against the Telephone Companies by name by imposing restrictions that prohibit SBC from offering interLATA (Local Access Transport Area) long-distance and other services in-region that other Local Exchange Carriers (LECs) are free to provide. The suit challenged only that portion of the Telecom Act that excluded SBC from competing in certain lines of business. On December 31, 1997 the Court issued a ruling declaring unconstitutional, among other things, the prohibitions on SBC providing interLATA long-distance in-region. The FCC and competitor intervenors sought and received a stay of the decision by the Court, and SBC anticipates further opposition to this ruling from the Justice Department and interexchange carriers, but is unable to predict the outcome of subsequent appeals. Additional information relating to the Telecom Act is contained in the 1997 SBC Annual Report to Shareowners under the heading "Competitive Environment" beginning on page 25, and is incorporated herein by reference pursuant to General Instruction G(2).

BUSINESS OPERATIONS

SBC is among the largest telecommunications companies in the United States, with approximately 33 million access lines and approximately 5.5 million wireless customers in the United States. SBC serves the nation's two most populous states, California and Texas as well as 7 of the country's 10 largest metropolitan areas, 16 of the country's 50 largest metropolitan areas, and has investments in telecommunications businesses in selected international markets, including Mexico, France, South Africa, Chile, South Korea, The United Kingdom, Switzerland, Israel and Taiwan. SBC's broad operations offer customers an expansive range of services and products, varying by market, including: local exchange services, wireless communications, long-distance, Internet services, telecommunications equipment, enhanced services, and directory advertising. Services and products are provided through several subsidiaries, which include: the Telephone Companies, Southwestern Bell Mobile Systems, Inc. including its affiliates (Mobile Systems), Pacific Bell Mobile Services (PBMS), SBC International, Inc. (SBC International), Southwestern Bell Yellow Pages, Inc. (SWBYP), Pacific Bell Directory (PBD), Southwestern Bell Messaging Services, Inc. (SMSI), Pacific Bell Information Services (PBIS), Pacific Bell Internet (PBI), Southwestern Bell Internet Services (SBIS), and SBC Media Ventures, Inc. (Media Ventures). These services and products (which are described more fully below) include landline and wireless telecommunications services, sales of advertising for and publication of yellow pages and white pages directories, sales of customer premises, private business exchange (PBX) and wireless equipment, enhanced services, Internet services, and cable television services. Wireless telecommunications services are provided by Mobile Systems and PBMS (collectively SBC Wireless). Landline telecommunications services are provided to the in-region states by the Telephone Companies. In December 1996, substantially all of the operations of Southwestern Bell Telecommunications, Inc. (Telecom) moved into the operations of SWBell with enhanced services being moved into SMSI.

SBC's revenues are categorized for financial reporting purposes as local service (substantially all of which was provided by the Telephone Companies and SBC Wireless), network access (provided by the Telephone Companies), long-distance service (substantially all of which was provided by the Telephone Companies and SBC Wireless), directory advertising (principally provided by SWBYP and PBD) and other (including equipment sales at SBC Wireless and SWBell, nonregulated products and services provided by the Telephone Companies, billing and collection services for interexchange carriers provided by the Telephone Companies, Internet services provided by PBI and SBIS, and cable television services provided by Media Ventures). With the passage of the Telecom Act, SBC Wireless offers interLATA and intraLATA wireless long-distance services. In 1996, two SBC subsidiaries, Southwestern Bell Communications Services, Inc. (SBCS) and Pacific Bell Communications, began offering landline interLATA long-distance services to customers in selected areas outside the Telephone Companies' authorized regions (out-region). The Telephone Companies provide intraLATA long-distance services in-region.

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

	Percentage of Total Operating Revenues		
	1997	1996	1995
Local service:			
Landline	**38%**	36%	37%
Wireless	**12%**	11%	10%
Network access	**23%**	24%	25%

Communication Services

Communication services include local, long-distance and network access services. Local services involve the transport of landline and wireless telecommunications traffic between telephones and other customer premises equipment (CPE) located within the same local service calling area. Local services include: basic local exchange service, certain extended area service, dedicated private line services for voice and special services, directory assistance and various vertical services, including custom calling services, call control options and Caller ID services. Until the passage of the Telecom Act, SBC's long-distance services involved the transport of intraLATA telecommunications traffic, except for certain wireless service areas that cover more than one LATA, for which SBC had obtained MFJ waivers. In addition to these services, beginning in 1996, SBC provided both interLATA and intraLATA cellular long-distance services to its wireless customers, as well as landline interLATA long-distance services in selected out-region areas. Long-distance services also include other services such as Wide Area Telecommunications Service (WATS or 800 services) and other special services. Network access services connect a subscriber's telephone or other equipment to the transmission facilities of other carriers that provide long-distance (principally interLATA) and other communications services. Network access services are either switched, which use a switched communications path between the carrier and the customer, or special, which use a direct nonswitched path.

Landline Network Services

During the latter half of 1996 and over the course of 1997, the Telephone Companies have been offering certain services on a "wholesale" basis to competitors, as well as providing elements of the Telephone Companies' networks on an "unbundled" basis for local competition. These services are being offered as specified by the Telecom Act and state actions and agreements. That legislation and the regulations promulgated by state and federal agencies to implement it have resulted in SBC facing increased competition in significant portions of its business. At December 31, 1997 SBC provided wholesale services to approximately 500 thousand access lines. Management cannot quantify the impact to SBC's business in 1998 from local exchange competition, as uncertainty exists as to the breadth and scope of competitors' offering of local exchange services to all portions of the market in-region, and as certain regulations, tariffs and negotiations governing such competition are not yet finalized.

The Telephone Companies are SBC's largest subsidiaries, providing approximately 82% of SBC's operating revenues in 1997. The Telephone Companies provide their services to approximately 20.9 million residential and 12.1 million business access lines in the seven states in which they operate. During 1997 total access lines grew by 5%, of which 50% of the increase was due to growth in California and over 30% of the increase was due to growth in Texas.

During 1997, the Telephone Companies continued to expand their offering of vertical services throughout their operating areas. These services include, among other things Caller ID, a feature which displays the telephone number of the person calling and the caller's name in certain markets; Call Return, a feature that redials the number of the last incoming call; and Call Blocker, a feature which allows customers to automatically reject calls from a designated list of telephone numbers.

SMSI provides voice messaging services under the registered trademark CallNotes to residential and business customers. PBIS has several registered trademark products, which include residential voice messaging services (The Message Center), business messaging services (Pacific Bell Voice Mail), and business call management services (Pacific Bell Call Management). During 1996, PBI and SBIS began providing Internet services in selected in-region metropolitan areas. Internet access services were introduced throughout many other in-region metropolitan areas in 1997.

Wireless

At the end of 1997, Mobile Systems provided wireless services to 5,068,000 customers over its traditional cellular networks, or 12.2 out of every 100 residents in its service areas. Mobile Systems provides services in 39 metropolitan markets in 10 states and the District of Columbia, including 5 of the nation's top 15 metropolitan areas, as follows: Washington, D.C.; Chicago, Illinois; Boston, Massachusetts; St. Louis, Missouri; and Dallas-Fort Worth, Texas. Mobile Systems is licensed to provide service in 40 rural service areas (RSA) and is currently providing service in all of these markets. Each RSA is contiguous to an existing metropolitan service area or another RSA operated by Mobile Systems, which allows for the expansion of service in a way that may add value to customers' service. Mobile Systems also operates one RSA in Arkansas under an interim operating authority granted by the FCC.

In January 1997, Mobile Systems began doing business within the five-state area as Southwestern Bell Wireless, Inc. Mobile Systems operates in out-region areas under the name of Cellular One by means of licenses from Cellular One Group, a partnership among affiliates of Mobile Systems, AT&T Wireless Services and Vanguard Cellular Systems, Inc. These areas include metropolitan service areas, such as Washington, D.C.; Chicago, Illinois; Albany, Buffalo, and Rochester, New York and Boston, Massachusetts; and rural service areas in Illinois, Massachusetts, New York, Virginia and West Virginia. Cellular One does or can offer, on a resale basis, landline interLATA long-distance service in all out-region markets where it provides local wireless service. In January 1997, Cellular One also began offering landline local service, on a resale basis, in Rochester, New York.

In October 1994, SBC formed a long-term marketing alliance between Mobile Systems and GTE in Texas. This alliance has enabled both Mobile Systems and GTE to offer wireless service in each other's Texas wireless markets, using the host company's wireless system. As a result, Mobile Systems provides wireless service in Houston, Austin and Beaumont and has the right, under this alliance, to market wireless service in a number of additional markets including El Paso and Galveston.

Mobile Systems now offers digital service, including advanced features in most of the metropolitan areas where it's licensed to provide wireless service. Mobile Systems first began providing commercial digital service in Chicago in July 1993. Digital service improves sound quality, provides a greater degree of privacy on individual calls, increases call-handling capacity of the networks, allows additional service offerings, and reduces exposure to billing fraud.

Mobile Systems also markets wireless communications equipment in each of its service areas.

In 1993, the FCC adopted an order allocating radio spectrum and outlining the development of licenses for new personal communications services (PCS). PCS utilizes wireless telecommunications digital technology at a higher frequency radio spectrum than cellular using lower powered transmission equipment. Like cellular, it is designed to permit access to a variety of communications services regardless of subscriber location. In an FCC auction, which concluded in March 1995, PCS licenses were awarded in 51 major markets. SBC or affiliates acquired PCS licenses in the Major Trading Areas (MTAs) of Los Angeles-San Diego, California; San Francisco-San Jose, California; Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma. The California licenses cover substantially all of California and Nevada. SBC is currently operational in all of its major California-Nevada markets and Tulsa, Oklahoma. During 1996, SBC received several AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis, Tennessee and Little Rock, Arkansas and other considerations.

PBMS was formed to offer PCS services across California and Nevada. The network incorporates the Global System for Mobile Communications (GSM) standard, which is widely used internationally, and its phones feature a built-in pager and answering machine. PBMS began trials in August 1996 and began offering services in January 1997, and by mid-1997 provided widespread offerings of PCS services to all of California and Nevada. At the end of 1997, PBMS provided wireless services to 340,000 customers over its PCS networks.

In an FCC auction concluded in January 1997, SBC acquired the following additional PCS licenses for Basic Trading Areas (BTAs) that are within the five-state area: Springfield, Missouri; McAlester, Oklahoma; Joplin, Missouri; Pittsburgh, Kansas; Temple-Killeen, Texas; Waco, Texas; Tyler, Texas and Longview-Marshall, Texas.

Overall, at the end of 1997, SBC Wireless operations provided local wireless services to 5,493,000 customers throughout its wireless markets. In addition, since the Telecom Act passed, Mobile Systems began providing wireless long-distance service to its wireless customers, and at year-end 1997 had been selected as the long-distance carrier by approximately 3,286,000, or 63 percent, of its wireless customers.

International

Mexico

A consortium consisting of SBC International, together with a subsidiary of France Telecom and a group of Mexican investors led by Grupo Carso, S.A. de C.V. (Grupo Carso), has voting control of Teléfonos de México, S.A. de C.V. (Telmex), Mexico's largest national telecommunications company, through its ownership of all of Telmex's Class AA shares. The Mexican investors have voting control of the consortium. During 1996, Grupo Carso transferred its Telmex interest to a spin-off company named Carso Global Telecom, S.A. de C.V. This transaction had no effect on SBC International's Telmex holdings. SBC International also owns Class L shares, which have limited voting rights. Telmex made significant purchases under various share repurchase programs from 1995 through 1997, buying back 23% of its stock. Throughout 1997 and in February 1998, SBC International sold portions of its Class L shares to Telmex so that SBC's total equity investment (including both AA shares and L shares) was slightly below 10% of Telmex's total equity capitalization. Telmex provides complete landline and wireless telecommunications services within Mexico. At the end of 1997, Telmex had 9.3 million access lines in service and provided cellular service to approximately 1.1 million subscribers. Telmex began providing cable television services through its purchase in 1995 of a 49% stake of Grupo Televisa's cable television subsidiary, Cablevisión. In March 1997, SBC issued approximately $396 million in debt due March 2001 which, at SBC's option, may be redeemed upon maturity either in cash or Telmex L shares (equivalent to up to 2.4% of Telmex's equity capitalization at March 31, 1997).

France

In October 1994, SBC International formed a strategic alliance with Compagnie Génerale des Eaux (CGE), a French diversified public company. Through this alliance, SBC International acquired an indirect 10% ownership of Société Francaise du Radiotelephone S.A. (SFR), a nationwide cellular company in France, and minority ownership interests in other communications businesses controlled by CGE, and CGE obtained an effective 10% interest in SBC's wireless operations in Washington, D.C.-Baltimore, and surrounding rural markets. SBC and CGE both made contributions to the alliance. In 1997, SBC International contributed its indirect 10% ownership of SFR shares and an additional $240 million to acquire a 15% interest in Cegetel, S.A., a new French company formed by CGE to provide a broad base of telecommunications services throughout France. Operations on a limited scale are scheduled to begin during the first half of 1998. At the end of 1997, SFR had 2.2 million wireless subscribers.

Chile

In February 1995, SBC International purchased 40% of VTR S.A. (VTR), a privately owned telecommunications holding company in Chile. During 1996 SBC International increased its stake to 49% through the purchase of shares from a minority investor. VTR is 51% indirectly owned by Grupo Luksic (Luksic), a large Chilean conglomerate. During 1997, Luksic exercised an option to purchase more shares of VTR from SBC International, reducing SBC's ownership to 44%. Through its subsidiaries, VTR provides local, long-distance, wireless and cable television services in Chile. In December 1997, VTR sold its wireless service operations. At the end of 1997, local services were provided to approximately 123,000 access lines and cable television services were provided to approximately 367,000 subscribers.

United Kingdom

In October 1995, SBC International combined its United Kingdom cable television operations, which included Midlands Cable Communications and Northwest Cable Communications, with those of TeleWest Communications, P.L.C., a publicly held joint venture between Telecommunications, Inc. and U S WEST, Inc. The resulting entity, TeleWest P.L.C., is the largest cable television operator in the United Kingdom and also provides local exchange services. SBC International owns approximately 15% of TeleWest P.L.C.

Israel

SBC International through its subsidiaries holds a minority interest in Golden Channels, a cable television provider in Israel. At the end of 1997, Golden Channels' systems passed 449,000 households and provided service to approximately 292,000 households, a penetration rate of approximately 65%. SBC International also has interests in companies involved in the publication of yellow pages directories, and marketing directory and other software in Israel.

In 1996, a consortium in which SBC International participated received one of two licenses for international telecommunications service in Israel. Other consortium members are STET (Italy's national telephone company), the US/Israeli Aurec Group, and the Israeli Globescom and Kahn groups. At the present time, the award of these licenses is undergoing judicial review.

Australia

In 1997, SBC International sold its directory interests in Australia to Telstra Corporation Limited, the principal provider of telecommunications services in Australia.

South Africa

In 1997, SBC International acquired an effective 18% stake in Telkom, S.A. Limited (Telkom), South Africa's state-owned local exchange, long distance, and cellular company. SBC International's partner in the acquisition is Telekom Malaysia, which acquired a 12% stake in Telkom. SBC International's still holds its 15.5% ownership stake in MTN, one of South Africa's two national cellular companies, but is obligated to divest it as part of the acquisition of Telkom. At the end of 1997, Telkom provided local exchange services to 4.5 million access lines. Telkom provides long-distance service to all of its local exchange customers.

Switzerland

In June 1997, SBC International purchased a 40% interest in diAx, a new company formed by SBC International and a Swiss-based company. diAx is currently building a network to provide long-distance telephone service in Switzerland. The target date for commencement of service is mid-1998.

China

In December 1997, SBC International signed a Cable and Maintenance Agreement with China Telecom and twelve other telecommunications companies to construct a direct undersea cable link between the United States and China. The cable is expected to be completed by the year 2000.

South Korea

SBC also has wireless interests in South Korea where its affiliate provided wireless service to approximately 1.1 million subscribers at the end of 1997.

Taiwan

SBC International owns a 20% interest in a consortium that formed TransAsia Telecommunications, Inc., a new cellular service provider in Taiwan. Offering of services commenced in January 1998.

Directory Advertising

SWBYP publishes more than 43 million books, representing approximately 347 directories, principally within the five-state area. PBD, the publisher of Pacific Bell SMART Yellow Pages, publishes 35 million books, representing approximately 112 directories in California and Nevada. SBC recognizes all directory advertising revenues and expenses in the month the related directory is published. SWBYP's nine largest revenue-producing yellow pages directories are currently published in the second half of SBC's fiscal year, while PBD's publishing schedule is spread throughout the year for its directories. SWBYP's directories are printed by R.R. Donnelley & Sons and PBD's directories are printed by World Color Press.

Customer Premises Equipment and Other Equipment Sales

In December 1996, substantially all of the operations of Telecom were moved into the operations of SWBell. Equipment offerings range from single-line and cordless telephones to sophisticated digital PBX systems. PBX is a private telephone switching system, usually located on a customer's premises, which provides intra-premise telephone services as well as access to the public switched network. Telecom, through an exclusive, long-term distribution agreement with Conair Corporation, also markets a full line of residential telephones to retailers nationwide, under the Southwestern Bell Freedom Phone name.

Domestic Video Services

As part of the changes in strategic direction of the post-merger initiatives, SBC announced during 1997 that it is scaling back its limited direct investment in a number of video services. Additional information on these matters is contained in Note 3 of the 1997 SBC Annual Report to Shareowners, and is incorporated herein by reference pursuant to General Instruction G(2). As part of this curtailment, SBC has halted construction on the Advanced Communications Network (ACN) in California. As part of an agreement with the ACN vendor, SBC paid the liabilities of the ACN trust that owns and finances ACN construction and incurred costs to shut down all construction previously conducted under the trust and receive certain consideration from the vendor. SBC also curtailed several other video-related activities, including its broadband network video trials in Richardson, Texas. SBC has also substantially scaled back its involvement in the Tele-TV joint venture.

Media Ventures owns two cable television systems serving the suburban Washington, D.C. area. Cable TV Montgomery serves Montgomery County, Maryland and Cable TV Arlington serves Arlington County, Virginia. At the end of 1997, these systems passed 432,000 homes and served 278,000 customers. In August 1996, Media Ventures contributed Cable TV Montgomery and Cable TV Arlington to SBC Media Ventures, LP (Partnership), a recently formed partnership between Media Ventures and affiliates of Prime Cable (Prime). Media Ventures became the general partner and retained an approximate 95% ownership interest in the Partnership. Prime contributed $20 million to the Partnership and now manages the cable systems on behalf of the Partnership. In October 1997, SBC entered a definitive agreement to sell Media Ventures' interest in the Partnership to Prime and other investors. These transactions are expected to close during 1998. On the same date, SBC entered into definitive agreements to sell its interests in Prime Cable of Chicago, Inc. to Prime and other investors. A PAC subsidiary had acquired these interests prior to the merger with SBC.

During 1995, SBC became an equal partner in a venture with Ameritech Corporation, BellSouth Corporation, GTE, and The Walt Disney Company, to design, market and deliver video programming and interactive services. In 1996, SNET became a minority partner in this venture. In mid-1997, SBC Interactive Media, Inc. (SBC Interactive), a wholly-owned subsidiary of SBC, notified the venture of its withdrawal. On October 7, 1997 the remaining partners in the venture attempted to initiate arbitration against SBC Interactive regarding the validity of its withdrawal. On October 15, 1997, SBC Interactive filed a declaratory judgement action in and sought a preliminary injunction from Delaware Chancery Court to halt the arbitration attempt. On December 24, 1997, the Chancery Court directed that the arbitration proceed, and on January 22, 1998, SBC appealed that ruling. This matter is still being litigated.

In connection with the post-merger initiatives, SBC reviewed the carrying values of certain wireless video assets and other related long-lived assets. This review included estimating remaining useful lives and cash flows and identifying certain assets to be abandoned. Where this review indicated impairment, discounted cash flows related to those assets were analyzed to determine the amount of the impairment. In 1997, SBC recognized impairments and took writeoffs of equipment related to the wireless digital TV operations in southern California.

GOVERNMENT REGULATION

In the in-region states, the Telephone Companies are subject to regulation by state commissions which have the power to regulate, in varying degrees, intrastate rates and services, including local, long-distance and network access (both intraLATA and interLATA access within the state) services. The Telephone Companies are also subject to the jurisdiction of the FCC with respect to interstate and international rates and services, including interstate access charges. Access charges are designed to compensate the Telephone Companies for the use of their facilities for the origination or termination of long-distance and other communications by other carriers. There are currently no access charges for access to the Internet.

Additional information relating to federal and state regulation of the Telephone Companies is contained in the 1997 SBC Annual Report to Shareowners under the heading "Regulatory Environment" on page 23, and is incorporated herein by reference pursuant to General Instruction G(2).

SBC's cable systems are subject to federal and local regulation, including regulation by the FCC and local franchising authorities, concerning rates, service and programming access.

IMPORTANCE, DURATION AND EFFECT OF LICENSES

The FCC authorizes the licenses for multiple wireless carriers in each geographic market. The cellular licenses, of which there are only two in each geographic region have a standard duration of ten years, and upon application and a showing of compliance with FCC use and conduct standards may be renewed. Renewal applications were filed in the following markets during 1997: Abilene, Texas; Brownsville-Harlingen, Texas; Champaign-Urbana-Rantoul, Illinois; Decatur, Illinois; McAllen-Edinburgh-Mission, Texas; Midland, Texas; Odessa, Texas; Springfield, Illinois and Fayetteville-Springdale, Arkansas. Renewals for these licenses were granted in January 1998. Renewal applications will be filed in the following markets during 1998: Bloomington-Normal, Illinois; Glen Falls, New York; Laredo, Texas; Little Rock-North Little Rock, Arkansas; and Pine Bluff, Arkansas.

Under the auction process of an FCC order outlining the development of PCS, licenses with durations of ten years were awarded in 51 major markets. SBC's licenses for Los Angeles-San Diego, California, San Francisco-San Jose, California and Tulsa, Oklahoma expire in 2005. These licenses, upon application and a showing of compliance with FCC use and conduct standards, may be renewed.

Cable television systems generally are operated under nonexclusive permits or "franchises" granted by local governmental authorities. SBC operates its suburban Washington, D.C. cable systems under franchises granted by Montgomery County, Maryland, which expires in May 1998; Arlington County, Virginia, which expires in October 2000; and the City of Gaithersburg, Maryland, which expires in November 2001. During 1995, SBC received a franchise to operate a cable system in Richardson, Texas, which expires in September 2013. Each franchise is renewable upon a showing of compliance with established local and federal standards. A number of SBC subsidiaries hold FCC channel licenses for wireless video services. These subsidiaries also have numerous leases with Instructional Television Fixed Service (ITFS) channel licensees to use their excess channel capacity. The channels under these licenses and leases are primarily in southern California.

MAJOR CUSTOMER

No customer accounted for more than 10% of SBC's consolidated revenues in 1997, 1996 or 1995.

COMPETITION

Communication Services

Information relating to competition in the communications industry is contained in SBC's Annual Report to Shareowners for 1997 under the heading "Competitive Environment" beginning on page 25, and is incorporated herein by reference pursuant to General Instruction G(2).

International

Information relating to international competition is contained in SBC's Annual Report to Shareowners for 1997 under the heading "International" on page 28, and is incorporated herein by reference pursuant to General Instruction G(2).

Directory Advertising and Publishing

Both SWBYP and PBD face competition from over 100 publishers of printed directories in their operating areas. Direct and indirect competition also exist from other advertising media, including newspapers, radio, television, and direct mail providers, as well as from directories offered over the Internet.

Customer Premises Equipment and Other Equipment Sales

SBC faces significant competition from numerous companies in marketing its telecommunications equipment.

RESEARCH AND DEVELOPMENT

Certain company-sponsored basic and applied research was conducted at Bell Communications Research, Inc. (Bellcore). The Telephone Companies owned a two-seventh interest in Bellcore, with the remainder owned by the other four remaining RHCs. In November 1997, the sale of Bellcore was completed. The RHCs have retained the activities of Bellcore that coordinate the Federal Government's telecommunications requirements for national security and emergency preparedness.

Applied research is also conducted at SBC Technology Resources, Inc. (TRI), a subsidiary of SBC. TRI provides research, technology planning and evaluation services to SBC and its subsidiaries.

EMPLOYEES

As of December 31, 1997, SBC and its subsidiaries employed 118,340 persons. Approximately 67% of the employees are represented by the Communications Workers of America (CWA). Contracts covering an estimated 73,000 employees between the CWA and the Telephone Companies end in August 1998. New contracts are scheduled to be negotiated in 1998. A three-year contract (which covers an estimated 2,000 employees) was negotiated between the CWA and SWBYP, which became effective in December 1995. A new contract is scheduled to be negotiated in 1998. In 1995, PBD negotiated two new three-year contracts with the International Brotherhood of Electrical Workers (IBEW), covering approximately 1,600 employees in northern and southern California. PBD also is scheduled to negotiate new contracts with the IBEW in 1998. The CWA also represents an estimated 2,000 employees in other subsidiaries of SBC.

ITEM 2. PROPERTIES

The properties of SBC do not lend themselves to description by character and location of principal units. At December 31, 1997, 94% of the property, plant and equipment of SBC was owned by the Telephone Companies. Network access lines represented 42% of the Telephone Companies' investment in telephone plant; central office equipment represented 39%; land and buildings represented 10%; other miscellaneous property, comprised principally of furniture and office equipment and vehicles and other work equipment, represented 6%; and information origination/termination equipment represented 4%.

ITEM 3. LEGAL PROCEEDINGS

Six putative class actions in Texas, Missouri, Oklahoma, and Kansas that involved the provision by SWBell of maintenance and trouble diagnosis services relating to telephone inside wire located on customer premises have been settled. These actions alleged that SWBell's sales practices in connection with these services violated antitrust, fraud and/or deceptive trade practices statutes. The trial court has approved the settlement, which is not expected to materially affect the financial results of SBC.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of shareowners in the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position	Held Since
Edward E. Whitacre Jr.	56	Chairman and Chief Executive Officer	1-90
John H. Atterbury III	49	Senior Vice President – International Operations	6-97
Royce S. Caldwell	59	President - SBC Operations	7-95
Cassandra C. Carr	53	Senior Vice President - Human Resources	5-94
William E. Dreyer	60	Senior Executive Vice President - External Affairs	7-93
James D. Ellis	54	Senior Executive Vice President and General Counsel	3-89
Charles E. Foster	61	Group President – SBC	7-95
James S. Kahan	50	Senior Vice President - Corporate Development	7-93
Donald E. Kiernan	57	Senior Vice President, Treasurer and Chief Financial Officer	7-93
Stanley T. Sigman	50	President and Chief Executive Officer SBC Wireless Inc.	4-97

All of the above executive officers have held high-level managerial positions with SBC or its subsidiaries for more than the past five years. Executive officers are not appointed to a fixed term of office.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The number of shareowners of record as of December 31, 1997 and 1996 were 1,059,158 and 800,465. Other information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1997 under the headings "Quarterly Financial Information" on page 45, "Selected Financial and Operating Data" on page 18, and "Stock Trading Information" on the inside of back cover, which are incorporated herein by reference pursuant to General Instruction G(2).

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

Information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1997 under the heading "Selected Financial and Operating Data" on page 18 which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1997 on page 19 through page 30, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative Information about Market Risk

Foreign Exchange Risk Sensitivity Analysis				
December 31, 1997 (millions of $)	US Dollar Value of Net Foreign Exchange Contracts	Net Underlying Foreign Currency Transaction Exposures	Net Exposed Long/Short Currency Position	Foreign Exchange Loss from a 10% Depreciation of the US dollar
Swiss Franc	$ 14	$ 14	$0	$0
Japanese Yen	142	142	0	0
Total Exposure	$156	$156	$0	$0

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

Equity Price Risk Sensitivity Analysis				
December 31, 1997 (millions of $)	Net Appreciated Value of Equity Swap Contract	Value of Underlying Employee Stock Option Exposures	Net Exposed Long/Short Equity Position	Loss from a 40% Increase in the price of AirTouch Common
AirTouch Communications Inc. (AirTouch) Common	$12	$14	$2	$(.8)

The table above describes the effects of an appreciation in the price of AirTouch common used in settlement of employee stock options. At December 31, 1997 the notional value of an equity swap contract entered in 1994 had appreciated by $12 million, while the value of the underlying options for AirTouch common had increased to $14 million, a difference of $2 million. If the obligations under the options granted were left exposed to a 40 percent rise in the value of the stock, the result would have been an $800,000 loss. Since 1995 the average yearly rate of change in the price of AirTouch common stock has ranged from 25%-40%. The equity swap contract expires April 1999.

Interest Rate Risk Related to Debt Derivatives Table Presentation								
Interest Rate Swaps	Exposure 1997	Exposure 1998	Exposure 1999	Exposure 2000	Exposure 2001	Exposure 2002	There-after	Fair Market Value as of 12/31/97 (millions of $)
Receive Variable/Pay Fixed	-0-	-0-	$50	-0-	-0-	-0-	-0-	$1.0
Fixed Rate Payable	7.2%	7.2%	7.2%	-0-	-0-	-0-	-0-	
Variable Rate Receivable	5.66%	Constant Maturity Treasury Rate minus .20%	Constant Maturity Treasury Rate minus .20%	-0-	-0-	-0-	-0-	
Receive Variable/Pay Fix	-0-	-0-	-0-	-0-	-0-	-0-	$10.2*	$.4
Fixed Rate Payable	6.705%	6.705%	6.705%	6.705%	6.705%	6.705%	6.705%	
Variable Rate Receivable	5.9375%	One Month LIBOR	One Month LIBOR	One Month LIBOR	One Month LIBOR	One Month LIBOR	One Month LIBOR	
Receive Variable/Pay Fix	-0-	-0-	-0-	-0-	-0-	-0-	$2.9*	$.1
Fixed Rate Payable	6.555%	6.555%	6.555%	6.555%	6.555%	6.555%	6.555%	
Variable Rate Receivable	5.9375%	One Month LIBOR	One Month LIBOR	One Month LIBOR	One Month LIBOR	One Month LIBOR	One Month LIBOR	

* Both swaps mature on April 30, 2004

The above table describes the results of entering an interest rate swap for the purpose of providing variable rate payment streams to pay a floating rate note, in exchange for fixed rate payments. As a result of interest rate fluctuations if SBC were to terminate the contract it would be required to pay $1.5 million to replace the fixed rate flow. SBC does not intend to terminate the contract as it is linked to a bond issued by SBC.

Qualitative Information about Market Risk

Foreign Exchange Risk
SBC has operations in ten countries. From time to time SBC is required to make investments, receive dividends, or borrow funds in foreign currency. To maintain the dollar cost of the investment or limit the dollar cost of the funding, SBC will enter into forward foreign exchange contracts. The contracts are used to provide currency at a fixed rate. SBC's policy is to measure the risk of adverse currency fluctuations by calculating the potential dollar losses resulting from changes in exchange rates that have a reasonable probability of occurring. Changes that exceed acceptable loss limits require that SBC cover the exposure. SBC does not speculate in foreign exchange markets, and does not hedge all foreign exchange exposures due to uncertainty in foreign exchange cash flows.

Equity Risk
PAC entered into an equity swap contract to hedge exposure to risk of market changes related to its recorded liability for outstanding employee stock options for common stock of AirTouch (spun-off operations). PAC plans to make open market purchases of the stock of spun-off operations to satisfy its obligation for options that are exercised. Off-balance-sheet risk exists to the extent the market price of AirTouch rises in value. The equity swap was entered into to hedge this exposure and minimize the impact of market fluctuations. The contract entitles PAC to receive settlement payments to the extent the price of the common stock of spun-off operations rises above the notional value of $23.74 per share, but imposes an obligation to make payments to the extent the price declines below this level. The swap also obligates PAC to make a monthly payment of a fee based on LIBOR. The additional cost of AirTouch shares is offset by the gain in the value of the shares obtained by proportionate sales of the swap. SBC does not seek to profit from changes in the value of the swap. For this reason the swap transactions are matched to exercise activity as closely as possible.

Interest Rate Risk
SBC issues debt in fixed and floating rate instruments. Interest rate swaps are used for the purpose of controlling interest expense by fixing the interest rate of floating rate debt. When market conditions favor issuing debt in floating rate instruments, and SBC prefers not to take the risk of floating rates, SBC will enter interest rate swap contracts to obtain floating rate payments to service the debt in exchange for paying a fixed rate. SBC does not seek to make a profit from changes in interest rates. In order to maintain flexibility in funding amounts, it is necessary to accept exposure to volatile interest rates. SBC manages interest rate sensitivity by measuring potential increases in interest expense that would result from a probable change in interest rates. When the potential increase in interest expense exceeds an acceptable limit, SBC reduces risk through fixed rate instruments and derivatives.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1997 on page 31 through page 45, which is incorporated herein by reference pursuant to General Instruction G(2).

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

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure at the end of Part I of this report since the registrant did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A. Other information required by this Item is included in the registrant's definitive proxy statement, dated March 11, 1998, under the heading "Board of Directors" beginning on page 3 which is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is included in the registrant's definitive proxy statement, dated March 11, 1998, under the headings "Compensation of Directors" from page 11 through page 12, and "Compensation Committee Interlocks and Insider Participation", "Executive Compensation", "Pension Plans", and "Contracts with Management" from page 20 through page 31, which are incorporated herein by reference pursuant to General Instruction G(3).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is included in the registrant's definitive proxy statement, dated March 11, 1998, under the heading "Common Stock Ownership of Directors and Officers" on page 13, which is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item is included in the registrant's definitive proxy statement, dated March 11, 1998, under the heading "Compensation of Directors" from page 11 through page 12 and "Contracts with Management" from page 30 through 31, which are incorporated herein by reference pursuant to General Instruction G(3).

PART IV

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

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

* Incorporated herein by reference to the appropriate portions of the registrant's annual report to shareowners for the fiscal year ended December 31, 1997. (See Part II.)

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. Unless otherwise indicated, all exhibits so incorporated are from File No. 1-8610.

Exhibit Number	
2-a	Agreement and Plan of Merger, among Pacific Telesis Group, SBC Communications Inc. and SBC Communications (NV) Inc., dated as of April 1, 1996. (Exhibit 2 to Form 8-K, dated April 1, 1996.)
2-b	Agreement and Plan of Merger, among Southern New England Telecommunications Corporation, SBC Communications Inc., and SBC (CT), dated as of January 4, 1998. (Exhibit 2 to Form 8-K, dated January 4, 1998.)
3-a	Restated Certificate of Incorporation, filed with the Secretary of State of Delaware on April 29, 1996. (Exhibit 3 to Form 10-Q dated March 31, 1996.)
3-b	Certificate of Designation, filed with the Secretary of State of Delaware on March 31, 1997.
3-c	Bylaws dated January 30, 1998. (Exhibit to SBC Communications Inc. (SBC) Form 8-K dated February 5, 1998.)

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

4-b Support Agreement dated November 10, 1986, between SBC and SBC Communications Capital Corporation. (Exhibit 4-b to Registration Statement No. 33-11669.)

4-c Form of Rights Agreement, dated as of January 27, 1989, between SBC and American Transtech, Inc., the Rights Agent, which includes as Exhibit B thereto the form of Rights Certificate. (Exhibit 4-a to Form 8-A dated February 9, 1989.)

4-d Amendment of Rights Agreement, dated as of August 5, 1992, among SBC, American Transtech, Inc., and The Bank of New York, the successor Rights Agent, which includes the Form of Rights Certificate as an attachment identified as Exhibit B. (Exhibit 4-a to Form 8-K, dated August 7, 1992.)

4-e Form of Rights Certificate (included in the attachment to the Amendment of Rights Agreement and identified as Exhibit B.) (Exhibit 4-b to Form 8-K, dated August 7, 1992.)

4-f Second Amendment of Rights Agreement, dated June 15, 1994, between SBC and The Bank of New York, as successor Rights Agent. (Exhibit 4-e to Form 8-A/A, dated June 22, 1994.)

4-g Resolutions guaranteeing certain obligations of Pacific Telesis Group.

10-a Short Term Incentive Plan.

10-b Senior Management Long Term Incentive Plan. (Exhibit 10-b to Form 10-K for 1992.)

10-c Supplemental Life Insurance Plan.

10-d Supplemental Retirement Income Plan.

10-e Senior Management Deferred Compensation Plan (effective for Units of Participation Having a Unit Start Date Prior to January 1, 1988), revised July 30, 1993. (Exhibit 10.5 to Registration Statement No. 33-54795.)

10-f Senior Management Deferred Compensation Plan of 1988 (effective for Units of Participation Having a Unit Start Date of January 1, 1988 or later), revised July 30, 1993. (Exhibit 10.6 to Registration Statement No. 33-54795.)

10-g Senior Management Long Term Disability Plan. (Exhibit 10-f to Form 10-K for 1986.)

10-h Salary and Incentive Award Deferral Plan.

10-i Financial Counseling Program.

10-j Supplemental Health Plan.

10-k Retirement Plan for Non-Employee Directors.

10-l Form of Indemnity Agreement, effective July 1, 1986, between SBC and its directors and officers. (Appendix 1 to Definitive Proxy Statement dated March 18, 1987.)

10-m Forms of Change of Control Severance Agreements for officers of SBC and certain officers of SBC's subsidiaries (Exhibit 10-p to Form 10-K for 1988.)

10-n	Forms of Change of Control Severance Agreements for officers of SBC and certain officers of SBC's subsidiaries (Approved November 21, 1997).
10-o	Stock Savings Plan.
10-p	1992 Stock Option Plan.
10-q	Officer Retirement Savings Plan.
10-r	1996 Stock and Incentive Plan.
10-s	Non-Employee Director Stock and Deferral Plan.
10-t	Agreement with Philip J. Quigley, dated March 28, 1997 (Exhibit 10pp (vii) to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609))
10-u	Agreement with Philip J. Quigley, dated October 24, 1997.
10-v	Pacific Telesis Group Deferred Compensation Plan for Nonemployee Directors. (Exhibit 10gg to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)
	10-v(i) Resolutions amending the Plan, effective November 21, 1997.
10-w	Pacific Telesis Group Outside Directors' Deferred Stock Unit Plan. (Exhibit 10oo to Form 10-K for 1995 of Pacific Telesis Group (Reg. 1-8609).)
10-x	Pacific Telesis Group 1996 Directors' Deferred Compensation Plan. (Exhibit 10qq to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)
	10-x(i) Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-v(i) to this Form 10-K.)
10-y	Pacific Telesis Group Executive Supplemental Cash Balance Pension Plan. (Exhibit 10kk to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)
10-z	Pacific Telesis Group Executive Deferral Plan. (Exhibit 10ll to Form 10-K for 1995 of Pacific Telesis Group (Reg. 1-8609).)
10-aa	Pacific Telesis Group 1996 Executive Deferred Compensation Plan. (Exhibit 10nn to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)
	10-aa(i) Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-v(i) to this Form 10-K.)
10-bb	Pacific Telesis Group 1994 Stock Incentive Plan. (Attachment A to Pacific Telesis Group's 1994 Proxy Statement filed March 11, 1994, and amended March 14 and March 25, 1994.)
	10-bb(i) Resolutions amending the Plan, effective January 1, 1995. (Attachment A to Pacific Telesis Group's 1995 Proxy Statement, filed March 13, 1995.)
10-cc	Pacific Telesis Group Nonemployee Director Stock Option Plan. (Exhibit A to Pacific Telesis Group's 1990 Proxy Statement filed February 26, 1990.)

10-cc(i)	Resolutions amending the Plan, effective April 1, 1994. (Exhibit 10xx(i) to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)

12	Computation of Ratios of Earnings to Fixed Charges.
13	Portions of SBC's Annual Report to shareowners for the fiscal year ended December 31, 1997. Only the information incorporated by reference into this Form 10-K is included in the exhibit.
21	Subsidiaries of SBC.
23-a	Consent of Ernst & Young LLP.
23-b	Consent of Coopers & Lybrand L.L.P.
24	Powers of Attorney.
27	Financial Data Schedule.
99-a	Annual Report on Form 11-K for the Savings Plan for the year 1997 to be filed under Form 10 K/A.
99-b	Annual Report on Form 11-K for the Savings and Security Plan for the year 1997 to be filed under Form 10-K/A.
99-c	Report of Independent Auditors Coopers & Lybrand L.L.P.

SBC will furnish to shareowners upon request, and without charge, a copy of the annual report to shareowners and the proxy statement, portions of which are incorporated by reference in the Form 10-K. SBC will furnish any other exhibit at cost.

(b) Reports on Form 8-K:

None.

Schedule II - Sheet 1

SBC COMMUNICATIONS INC.
SCHEDULE II - 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 Costs and Expenses Note	Charged to Other Accounts -Note (a)	Deductions -Note (b)	Balance at End of Period
Year 1997	**$ 311**	**523**	**377**	**816**	**$ 395**
Year 1996	$ 266	395	235	585	$ 311
Year 1995	$ 264	346	200	544	$ 266

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

(b) Amounts written off as uncollectible.

SBC COMMUNICATIONS INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Accumulated Amortization of Intangibles
Dollars in Millions

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Expense	Charged to Other Accounts	Deductions	Balance at End of Period
Year 1997	**$ 611**	**391**	**4**	**4**	**$ 1,002**
Year 1996	$ 543	121	1	54(a)	$ 611
Year 1995	$ 423	122	-	2	$ 543

(a) Primarily related to the disposition of Associated Directory Services, Inc.

SBC COMMUNICATIONS INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Reserve for Restructuring
Dollars in Millions

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts -Note	Deductions -Note (a)	Balance at End of Period
Year 1997	**$ 110**	**-**	**-**	**110**	**$ -**
Year 1996	$ 260	-	-	150	$ 110
Year 1995	$ 870	-	-	610	$ 260

(a) The 1996 and 1995 amounts reflect $(64), and $219 of costs, respectively, for enhanced retirement benefits paid from pension fund assets which do not require current outlays of the Company's funds. The 1996 reversal of $64 resulted from revised estimates of these retirement costs.

10-d	Supplemental Retirement Income Plan.
10-e	Senior Management Deferred Compensation Plan (effective for Units of Participation Having a Unit Start Date Prior to January 1, 1988), revised July 30, 1993. (Exhibit 10.5 to Registration Statement No. 33-54795.)
10-f	Senior Management Deferred Compensation Plan of 1988 (effective for Units of Participation Having a Unit Start Date of January 1, 1988 or later), revised July 30, 1993. (Exhibit 10.6 to Registration Statement No. 33-54795.)
10-g	Senior Management Long Term Disability Plan. (Exhibit 10-f to Form 10-K for 1986.)
10-h	Salary and Incentive Award Deferral Plan.
10-i	Financial Counseling Program.
10-j	Supplemental Health Plan.
10-k	Retirement Plan for Non-Employee Directors.
10-l	Form of Indemnity Agreement, effective July 1, 1986, between SBC and its directors and officers. (Appendix 1 to Definitive Proxy Statement dated March 18, 1987.)
10-m	Forms of Change of Control Severance Agreements for officers of SBC and certain officers of SBC's subsidiaries (Exhibit 10-p to Form 10-K for 1988.)
10-n	Forms of Change of Control Severance Agreements for officers of SBC and certain officers of SBC's subsidiaries (Approved November 21, 1997).
10-o	Stock Savings Plan.
10-p	1992 Stock Option Plan.
10-q	Officer Retirement Savings Plan.
10-r	1996 Stock and Incentive Plan.
10-s	Non-Employee Director Stock and Deferral Plan.
10-t	Agreement with Philip J. Quigley, dated March 28, 1997 (Exhibit 10pp (vii) to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609))
10-u	Agreement with Philip J. Quigley, dated October 24, 1997.
10-v	Pacific Telesis Group Deferred Compensation Plan for Nonemployee Directors. (Exhibit 10gg to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)
	10-v(i) Resolutions amending the Plan, effective November 21, 1997.
10-w	Pacific Telesis Group Outside Directors' Deferred Stock Unit Plan. (Exhibit 10oo to Form 10-K for 1995 of Pacific Telesis Group (Reg. 1-8609).)
10-x	Pacific Telesis Group 1996 Directors' Deferred Compensation Plan. (Exhibit 10qq to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)

10-x(i) Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-v(i) to this Form 10-K.)

10-y Pacific Telesis Group Executive Supplemental Cash Balance Pension Plan. (Exhibit 10kk to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)

10-z Pacific Telesis Group Executive Deferral Plan. (Exhibit 10ll to Form 10-K for 1995 of Pacific Telesis Group (Reg. 1-8609).)

10-aa Pacific Telesis Group 1996 Executive Deferred Compensation Plan. (Exhibit 10nn to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)

10-aa(i) Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-v(i) to this Form 10-K.)

10-bb Pacific Telesis Group 1994 Stock Incentive Plan. (Attachment A to Pacific Telesis Group's 1994 Proxy Statement filed March 11, 1994, and amended March 14 and March 25, 1994.)

10-bb(i) Resolutions amending the Plan, effective January 1, 1995. (Attachment A to Pacific Telesis Group's 1995 Proxy Statement, filed March 13, 1995.)

10-cc Pacific Telesis Group Nonemployee Director Stock Option Plan. (Exhibit A to Pacific Telesis Group's 1990 Proxy Statement filed February 26, 1990.)

10-cc(i) Resolutions amending the Plan, effective April 1, 1994. (Exhibit 10xx(i) to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)

12 Computation of Ratios of Earnings to Fixed Charges.

13 Portions of SBC's Annual Report to shareowners for the fiscal year ended December 31, 1997. Only the information incorporated by reference into this Form 10-K is included in the exhibit.

21 Subsidiaries of SBC.

23-a Consent of Ernst & Young LLP.

23-b Consent of Coopers & Lybrand L.L.P.

24 Powers of Attorney.

27 Financial Data Schedule.

99-a Annual Report on Form 11-K for the Savings Plan for the year 1997 to be filed under Form 10 K/A.

99-b Annual Report on Form 11-K for the Savings and Security Plan for the year 1997 to be filed under Form 10-K/A.

99-c Report of Independent Auditors Coopers & Lybrand L.L.P.

EXHIBIT 12

SBC COMMUNICATIONS INC.
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
Dollars in Millions

	YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Changes*	$ 2,237	$ 4,975	$ 4,383	$ 4,091	$ 2,070
Add: Interest Expense	947	812	957	935	1,005
Dividends on Preferred Securities	80	60	-	-	-
1/3 Rental Expense	130	108	77	85	81
Adjusted Earnings	$ 3,394	$ 5,955	$ 5,417	$ 5,111	$ 3,156
Total Interest Charges	$ 1,067	$ 947	$ 957	$ 935	$ 1,005
Dividends on Preferred Securities	80	60	-	-	-
1/3 Rental Expense	130	108	77	85	81
Adjusted Fixed Charges	$ 1,277	$ 1,115	$ 1,034	$ 1,020	$ 1,086
Ratio of Earnings to Fixed Charges	2.66	5.34	5.24	5.01	2.91

* Undistributed earnings on investments accounted for under the equity method have been excluded.

Australia

In 1997, SBC International sold its directory interests in Australia to Telstra Corporation Limited, the principal provider of telecommunications services in Australia.

South Africa

In 1997, SBC International acquired an effective 18% stake in Telkom, S.A. Limited (Telkom), South Africa's state-owned local exchange, long distance, and cellular company. SBC International's partner in the acquisition is Telekom Malaysia, which acquired a 12% stake in Telkom. Telkom provides complete wireline and wireless telecommunications services within South Africa. At the end of 1998, Telkom had more than 4.9 million access lines in service. In addition, at the end of 1998, Vodacom Group (Pty) Ltd, in which Telkom has a 50% interest, provided cellular services to 1.5 million subscribers.

In the third quarter 1998, SBC International sold its 15.5% interest in Mobile Telephone Networks (MTN), one of two South African national cellular companies, to the remaining shareholders of MTN. SBC International was required to divest its interest in MTN as part of its acquisition of Telkom.

Switzerland

In June 1997, SBC International purchased a 40% interest in diAx, a joint venture formed to provide long distance telephone service in Switzerland. SBC's partner in the joint venture is diAx Holdings, a consortium of Swiss utility and insurance companies. Service was launched in May 1998, and at the end of 1998, diAx provided services to 233,000 access lines (via equal access).

In December 1997, SBC International formed a joint venture with diAx Holdings for the purpose of submitting a bid for a wireless license. SBC International's ownership interest in this joint venture, diAx Mobile, is 40%, with the remaining ownership interest being held by diAx Holdings. In April 1998, diAx Mobile was also awarded a wireless license by the Swiss government. Wireless service offerings began in late December 1998. The award of the license is currently in litigation, as an unsuccessful bidder for the license has challenged the award to diAx Mobile.

China

In December 1997, SBC International signed a Construction and Maintenance Agreement with China Telecom and twelve other telecommunications companies to construct a direct undersea cable link between the United States and China. The cable is expected to be completed by the year 2000.

Japan

In the third quarter of 1998, SBC signed an agreement to participate in building a state-of-the-art undersea communications pipeline directly linking Japan and the United States. SBC will be one of 12 initial parties with an ownership stake in the Japan-U.S. Cable Network and responsibility for oversight, maintenance and administration. The consortium has agreed to invest more than $1 billion in the network for the first phase of construction. The network should be up and running in mid-year 2000.

South Korea

SBC has wireless interests in South Korea where its affiliate provided wireless service to approximately 2.1 million subscribers at the end of 1998..

Taiwan

SBC International owns a 19.4% interest in a consortium that formed TransAsia Telecommunications, Inc., a new cellular service provider in the southern region of Taiwan. Service offerings commenced in January 1998, and at the end of 1998, TransAsia Telecommunications, Inc. provided cellular service to approximately 186,000 subscribers.

East Asia Financial Risks

Presently, SBC has limited investments in Eastern Asia and the Pacific Rim and therefore does not anticipate a significant financial impact from recent financial economic turmoil.

DOMESTIC VIDEO SERVICES

SBC also announced during 1997 that it is scaling back its limited direct investment in certain video services in the areas also served by PacBell and SWBell. As part of this curtailment, SBC halted construction on the Advanced Communications Network (ACN) in California. As part of an agreement with the ACN vendor, SBC paid the liabilities of the ACN trust that owns and finances ACN construction and incurred costs to shut down all construction previously conducted under the trust and received certain consideration from the vendor. SBC also curtailed several other video-related activities, including its broadband network video trials in Richardson, Texas and San Jose, California. SBC and its joint venture partners are winding up the Tele-TV joint venture in southern California.

Media Ventures, Inc. (Media Ventures), another SBC subsidiary, owned two cable television systems serving the suburban Washington, D.C. area along with a partner, Prime Cable (Prime). Media Ventures became the general partner and retained an approximate 95% ownership interest in the Partnership until 1998. Prime contributed $20 million to the Partnership and managed the cable systems on behalf of the Partnership. SBC sold its Media Ventures' interest in the Partnership to Prime and other investors in the third quarter of 1998. In October 1998, SBC completed the sale of its interests in Prime Cable of Chicago, Inc. to Prime and other investors. A PAC subsidiary had acquired these interests prior to the merger with SBC.

In the fourth quarter of 1998, SBC sold 90% of the stock of subsidiaries that operate a wireless video business in southern California to E.L. Acquisition, Inc., a subsidiary of Prime.

During 1995, SBC, through SBC Interactive Media, Inc. (SBC Interactive), a wholly-owned subsidiary of SBC, became an equal partner in Americast, a venture with Ameritech Corporation, BellSouth Corporation, GTE, and The Walt Disney Company, to design, market and deliver video programming and interactive services. In 1996, SNET became a minority partner in this venture. In mid-1997, SBC Interactive notified the venture of its withdrawal of operations in territories served by SWBell. On October 7, 1997 the remaining partners in the venture attempted to initiate arbitration against SBC Interactive regarding the validity of its withdrawal. On October 15, 1997, SBC Interactive filed a declaratory judgement action in and sought a preliminary injunction from Delaware Chancery Court to halt the arbitration attempt. On December 24, 1997, the Chancery Court directed that the arbitration proceed, and on January 22, 1998, SBC appealed that ruling. This matter is still being litigated and is not material to the financial statements.

SNET Personal Vision operates a cable television system in Connecticut, which began deploying cable service in the first quarter of 1997. At the end of 1998, SNET Personal Vision provided service to approximately 24,000 households.

Additional information related to SBC's video operations is contained in Note 2 of the 1998 SBC Annual Report to Shareowners, and is incorporated herein by reference pursuant to General Instruction G(2).

GOVERNMENT REGULATION

In the in-region states, the Telephone Companies are subject to regulation by state commissions which have the power to regulate, in varying degrees, intrastate rates and services, including local, long distance and network access services. The Telephone Companies are also subject to the jurisdiction of the FCC with respect to interstate and international rates and services, including interstate access charges. Access charges are designed to compensate the Telephone Companies for the use of their facilities for the origination or termination of long distance and other communications by other carriers.

Additional information relating to federal and state regulation of the Telephone Companies is contained in the 1998 SBC Annual Report to Shareowners under the heading "Regulatory Environment" on page 11, and is incorporated herein by reference pursuant to General Instruction G(2).

SBC's cable systems are subject to federal and local regulation, including regulation by the FCC and local franchising authorities, concerning rates, service and programming access.

IMPORTANCE, DURATION AND EFFECT OF LICENSES

The FCC authorizes the licenses for multiple wireless carriers in each geographic market. The cellular licenses, of which there are only two in each geographic region have a standard duration of ten years. Upon application and a showing of compliance with FCC use and conduct standards, licenses may be renewed. Renewal applications were filed and granted for the following MSA markets during 1998: Bloomington-Normal, Illinois; Glen Falls, New York; Laredo, Texas; Little Rock-North Little Rock, Arkansas; Pittsfield, Massachusetts; and Pine Bluff, Arkansas. Renewal applications for eight RSA markets will be filed in the following states during 1999: Illinois; Missouri; New York; Oklahoma and Texas. Renewals of these licenses are anticipated to be granted in late 1999 or early 2000.

Under the auction process of an FCC order outlining the development of PCS, licenses with durations of ten years were awarded in 51 major markets. SBC's licenses for Los Angeles-San Diego, California, San Francisco-San Jose, California and Tulsa, Oklahoma expire in 2005. These licenses, upon application and a showing of compliance with FCC use and conduct standards, may be renewed.

Cable television systems generally are operated under nonexclusive permits or "franchises" granted by local governmental authorities. Each franchise is renewable upon a showing of compliance with established local and federal standards. SBC sold its suburban Washington, D.C. cable systems and all related franchises were transferred as part of the sale of the properties in Montgomery County, Maryland; Arlington County, Virginia; and the City of Gaithersburg, Maryland. During 1995, SBC received a franchise to operate a cable system in Richardson, Texas, which expires in September 2013 and had acquired a franchise agreement in the PAC merger with the city of San Jose, California. In 1998, SBC reached agreement with the cities of San Jose, California and Richardson, Texas to terminate the franchises that they had granted SBC and its affiliates for video trials. On September 6, 1996, SNET Personal Vision received an 11-year license that covers the state of Connecticut. A number of SBC subsidiaries hold FCC channel licenses for wireless video services. These subsidiaries also have numerous leases with Instructional Television Fixed Service channel licensees to use their excess channel capacity. The channels under these licenses and leases are primarily in southern California.

PART IV

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

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

	Page
(1) Report of Independent Auditors	*
Financial Statements covered by Report of Independent Auditors:	
Consolidated Statements of Income	*
Consolidated Balance Sheets	*
Consolidated Statements of Cash Flows	*
Consolidated Statements of Shareowners' Equity	*
Notes to Consolidated Financial Statements	*

* Incorporated herein by reference to the appropriate portions of the registrant's annual report to shareowners for the fiscal year ended December 31, 1998. (See Part II.)

	Page
(2) Financial Statement Schedules:	
II - Valuation and Qualifying Accounts	26

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. Unless otherwise indicated, all exhibits so incorporated are from File No. 1-8610.

Exhibit Number	
2-a	Agreement and Plan of Merger, among Pacific Telesis Group, SBC Communications Inc. and SBC Communications (NV) Inc., dated as of April 1, 1996. (Exhibit 2 to Form 8-K, dated April 1, 1996.)
2-b	Agreement and Plan of Merger, among Southern New England Telecommunications Corporation, SBC Communications Inc., and SBC (CT), dated as of January 4, 1998. (Exhibit 2 to Form 8-K, dated January 4, 1998.)
2-c	Agreement and Plan of Merger among Ameritech Corporation, SBC and SBC Delaware, Inc., dated as of May 10, 1998. (Exhibit 2 to Form 8-K, dated May 10, 1998.)
3-a	Restated Certificate of Incorporation, filed with the Secretary of State of Delaware on April 28, 1998. (Exhibit 3-a to Form 10-Q dated March 31, 1998.)
3-b	Certificate of Designation, filed with the Secretary of State of Delaware on March 31, 1997.

3-c	Bylaws dated June 26, 1998.
4-a	Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the registrant or any of its consolidated subsidiaries is filed herewith. Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.
4-b	Support Agreement dated November 10, 1986, between SBC and SBC Communications Capital Corporation. (Exhibit 4-b to Registration Statement No. 33-11669.)
4-c	Resolutions guaranteeing certain obligations of Pacific Telesis Group. (Exhibit 4-g to Form 10-K for 1997.)
10-a	Short Term Incentive Plan. (Exhibit 10-a to Form 10-K for 1997.)
10-b	Senior Management Long Term Incentive Plan. (Exhibit 10-b to Form 10-K for 1992.)
10-c	Supplemental Life Insurance Plan. (Exhibit 10-c to Form 10-K for 1997.)
10-d	Supplemental Retirement Income Plan. (Exhibit 10-d to Form 10-K for 1997.)
10-e	Senior Management Deferred Compensation Plan (effective for Units of Participation Having a Unit Start Date Prior to January 1, 1988), revised July 30, 1993. (Exhibit 10.5 to Registration Statement No. 33-54795.)
10-f	Senior Management Deferred Compensation Plan of 1988 (effective for Units of Participation Having a Unit Start Date of January 1, 1988 or later), revised July 30, 1993. (Exhibit 10.6 to Registration Statement No. 33-54795.)
10-g	Senior Management Long Term Disability Plan. (Exhibit 10-f to Form 10-K for 1986.)
10-h	Salary and Incentive Award Deferral Plan. (Exhibit 10-h to Form 10-K for 1997.)
10-i	Financial Counseling Program. (Exhibit 10-i to Form 10-K for 1997.)
10-j	Supplemental Health Plan. . (Exhibit 10-j to Form 10-K for 1997.)
10-k	Retirement Plan for Non-Employee Directors. (Exhibit 10-k to Form 10-K for 1997.)
10-l	Form of Indemnity Agreement, effective July 1, 1986, between SBC and its directors and officers. (Appendix 1 to Definitive Proxy Statement dated March 18, 1987.)
10-m	Forms of Change of Control Severance Agreements for officers of SBC and certain officers of SBC's subsidiaries (Exhibit 10-p to Form 10-K for 1988.)
10-n	Forms of Change of Control Severance Agreements for officers of SBC and certain officers of SBC's subsidiaries (Approved November 21, 1997). (Exhibit 10-n to Form 10-K for 1997.)
10-o	Stock Savings Plan. (Exhibit 10-o to Form 10-K for 1997.)
10-p	1992 Stock Option Plan. (Exhibit 10-p to Form 10-K for 1997.)
10-q	Officer Retirement Savings Plan. (Exhibit 10-q to Form 10-K for 1997.)
10-r	1996 Stock and Incentive Plan.

10-s Non-Employee Director Stock and Deferral Plan. (Exhibit 10-s to Form 10-K for 1997.)

10-t Pacific Telesis Group Deferred Compensation Plan for Nonemployee Directors. (Exhibit 10gg to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)

10-t(i) Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-v(i) to Form 10-K for 1997.)

10-u Pacific Telesis Group Outside Directors' Deferred Stock Unit Plan. (Exhibit 10oo to Form 10-K for 1995 of Pacific Telesis Group (Reg. 1-8609).)

10-v Pacific Telesis Group 1996 Directors' Deferred Compensation Plan. (Exhibit 10qq to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)

10-v(i) Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-v(i) to Form 10-K for 1997.)

10-w Pacific Telesis Group 1994 Stock Incentive Plan. (Attachment A to Pacific Telesis Group's 1994 Proxy Statement filed March 11, 1994, and amended March 14 and March 25, 1994.)

10-w(i) Resolutions amending the Plan, effective January 1, 1995. (Attachment A to Pacific Telesis Group's 1995 Proxy Statement, filed March 13, 1995.)

10-x Pacific Telesis Group Nonemployee Director Stock Option Plan. (Exhibit A to Pacific Telesis Group's 1990 Proxy Statement filed February 26, 1990.)

10-x(i) Resolutions amending the Plan, effective April 1, 1994. (Exhibit 10xx(i) to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)

12 Computation of Ratios of Earnings to Fixed Charges.

13 Portions of SBC's Annual Report to shareowners for the fiscal year ended December 31, 1998. Only the information incorporated by reference into this Form 10-K is included in the exhibit.

21 Subsidiaries of SBC.

23-a Consent of Ernst & Young LLP.

23-b Consent of PricewaterhouseCoopers LLP.

24 Powers of Attorney.

27 Financial Data Schedule.

99-a Report of Independent Accountants PricewaterhouseCoopers LLP.

99-b Annual Report on Form 11-K for the SBC Savings Plan for the year 1998 to be filed under Form 10 K/A.

99-c Annual Report on Form 11-K for the SBC Savings and Security Plan for the year 1998 to be filed under Form 10-K/A.

99-d	Annual report on Form 11-K for the Pacific Telesis Group Supplemental Retirement and Savings Plan for Nonsalaried Employees for the year 1998.
99-e	Annual report on Form 11-K for the Pacific Telesis Group Supplemental Retirement and Savings Plan for Salaried and Nonsalaried Employees (LESOP) for the year 1998.
99-f	Annual report on Form 11-K for the SNET Bargaining Unit Retirement Savings Plan for the year 1998.
99-g	Annual report on Form 11-K for the SNET Management Retirement Savings Plan for the year 1998.

SBC will furnish to shareowners upon request, and without charge, a copy of the annual report to shareowners and the proxy statement, portions of which are incorporated by reference in the Form 10-K. SBC will furnish any other exhibit at cost.

(b) Reports on Form 8-K:

On October 15, 1998, SBC filed a Form 8-K, including an Item 5. Other Events, and an Item 7. Financial Statements and Exhibits. In the report, SBC disclosed a press release discussing its third quarter 1998 earnings and selected financial information for the periods ended September 30, 1998 and 1997.

On October 26, 1998, SBC filed a Form 8-K, including an Item 5. Other Events, and an Item 7. Exhibits. In the report, SBC disclosed that it had completed the merger with Southern New England Telecommunications Corporation.

On October 30, 1998, SBC filed a Form 8-K, including an Item 5. Other Events. In the report, SBC disclosed that its subsidiary, Pacific Bell announced on October 29, 1998 it was commencing a fixed spread repurchase offer for any and all of its outstanding 8.50% debentures due August 15, 2031; 7.75% debentures due September 15, 2032; and 7.50% debentures due February 1, 2033.

On November 19, 1998, SBC filed a Form 8-K, including an Item 7. Financial Statements and Exhibits. In the report, SBC disclosed unaudited financial statements to reflect the proposed business combination of SBC and Ameritech Corporation as and for the nine months ended September 30, 1998.

SBC COMMUNICATIONS INC.
SCHEDULE II - 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 Costs and Expenses Note	Charged to Other Accounts -Note (a)	Deductions -Note (b)	Balance at End of Period
Year 1998	**$ 430**	**513**	**278**	**749**	**$ 472**
Year 1997	$ 339	566	388	863	$ 430
Year 1996	$ 303	438	254	656	$ 339

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

(b) Amounts written off as uncollectible.

Schedule II - Sheet 2

SBC COMMUNICATIONS INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Accumulated Amortization of Intangibles
Dollars in Millions

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Expense	Charged to Other Accounts	Deductions	Balance at End of Period
Year 1998	**$ 1,047**	**136**	**1**	**443(a)**	**$ 741**
Year 1997	$ 638	410	5	6	$ 1,047
Year 1996	$ 554	139	2	57(b)	$ 638

(a) Primarily related to the disposition of SBC Media Ventures, Inc. and an impairment of an investment in wireless video.

(b) Primarily related to the disposition of Associated Directory Services, Inc.

SBC COMMUNICATIONS INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Reserve for Restructuring
Dollars in Millions

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions -Note (a)	Balance at End of Period
Year 1998	**$ 7**	**-**	**-**	**7**	**$ -**
Year 1997	$ 142	-	-	135	$ 7
Year 1996	$ 337	-	-	195	$ 142

(a) The 1996 amount reflects $(64) of costs for enhanced retirement benefits paid from pension fund assets which do not require current outlays of SBC's funds. This 1996 reversal of $64 resulted from revised estimates of these retirement costs. The 1996 amount also includes non-cash net pension and postretirement settlement gain charged against the restructuring reserve of $66.

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 12th day of March, 1999.

SBC COMMUNICATIONS INC.

By /s/ Donald E. Kiernan
(Donald E. Kiernan
Senior Vice President, Treasurer and
Chief Financial Officer)

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:
Edward E. Whitacre, Jr.*
Chairman and
Chief Executive Officer

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

/s/ Donald E. Kiernan
(Donald E. Kiernan, as attorney-in-fact
and on his own behalf as Principal
Financial Officer and Principal
Accounting Officer)

March 12, 1999

Directors:

Edward E. Whitacre, Jr.*
Clarence C. Barksdale*
James E. Barnes*
August A. Busch III*
Royce S. Caldwell*
Ruben R. Cardenas*
William P. Clark*
Martin K. Eby, Jr.*
Herman E. Gallegos*
Jess T. Hay*
Bobby R. Inman*
Charles F. Knight*
Mary S. Metz*
Haskell M. Monroe, Jr.*
Toni Rembe*
S. Donley Ritchey*
Joyce M. Roche'*
Richard M. Rosenberg*
Carlos Slim Helu'*
Patricia P. Upton*

* by power of attorney

EXHIBIT INDEX

Exhibits identified in parentheses below, on file with the Securities and Exchange Commission (SEC), are incorporated herein by reference as exhibits hereto. Unless otherwise indicated, all exhibits so incorporated are from File No. 1-8610.

Exhibit Number	
2-a	Agreement and Plan of Merger, among Pacific Telesis Group, SBC Communications Inc. and SBC Communications (NV) Inc., dated as of April 1, 1996. (Exhibit 2 to Form 8-K, dated April 1, 1996.)
2-b	Agreement and Plan of Merger, among Southern New England Telecommunications Corporation, SBC Communications Inc., and SBC (CT), dated as of January 4, 1998. (Exhibit 2 to Form 8-K, dated January 4, 1998.)
2-c	Agreement and Plan of Merger among Ameritech Corporation, SBC and SBC Delaware, Inc., dated as of May 10, 1998. (Exhibit 2 to Form 8-K, dated May 10, 1998.)
3-a	Restated Certificate of Incorporation, filed with the Secretary of State of Delaware on April 28, 1998. (Exhibit 3-a to Form 10-Q dated March 31, 1998.)
3-b	Certificate of Designation, filed with the Secretary of State of Delaware on March 31, 1997.
3-c	Bylaws dated June 26, 1998.
4-a	Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the registrant or any of its consolidated subsidiaries is filed herewith. Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.
4-b	Support Agreement dated November 10, 1986, between SBC and SBC Communications Capital Corporation. (Exhibit 4-b to Registration Statement No. 33-11669.)
4-c	Resolutions guaranteeing certain obligations of Pacific Telesis Group. (Exhibit 4-g to Form 10-K for 1997.)
10-a	Short Term Incentive Plan. (Exhibit 10-a to Form 10-K for 1997.)
10-b	Senior Management Long Term Incentive Plan. (Exhibit 10-b to Form 10-K for 1992.)
10-c	Supplemental Life Insurance Plan. (Exhibit 10-c to Form 10-K for 1997.)
10-d	Supplemental Retirement Income Plan. (Exhibit 10-d to Form 10-K for 1997.)
10-e	Senior Management Deferred Compensation Plan (effective for Units of Participation Having a Unit Start Date Prior to January 1, 1988), revised July 30, 1993. (Exhibit 10.5 to Registration Statement No. 33-54795.)
10-f	Senior Management Deferred Compensation Plan of 1988 (effective for Units of Participation Having a Unit Start Date of January 1, 1988 or later), revised July 30, 1993. (Exhibit 10.6 to Registration Statement No. 33-54795.)
10-g	Senior Management Long Term Disability Plan. (Exhibit 10-f to Form 10-K for 1986.)
10-h	Salary and Incentive Award Deferral Plan. (Exhibit 10-h to Form 10-K for 1997.)

10-i	Financial Counseling Program. (Exhibit 10-i to Form 10-K for 1997.)
10-j	Supplemental Health Plan. . (Exhibit 10-j to Form 10-K for 1997.)
10-k	Retirement Plan for Non-Employee Directors. (Exhibit 10-k to Form 10-K for 1997.)
10-l	Form of Indemnity Agreement, effective July 1, 1986, between SBC and its directors and officers. (Appendix 1 to Definitive Proxy Statement dated March 18, 1987.)
10-m	Forms of Change of Control Severance Agreements for officers of SBC and certain officers of SBC's subsidiaries (Exhibit 10-p to Form 10-K for 1988.)
10-n	Forms of Change of Control Severance Agreements for officers of SBC and certain officers of SBC's subsidiaries (Approved November 21, 1997). (Exhibit 10-n to Form 10-K for 1997.)
10-o	Stock Savings Plan. (Exhibit 10-o to Form 10-K for 1997.)
10-p	1992 Stock Option Plan. (Exhibit 10-p to Form 10-K for 1997.)
10-q	Officer Retirement Savings Plan. (Exhibit 10-q to Form 10-K for 1997.)
10-r	1996 Stock and Incentive Plan.
10-s	Non-Employee Director Stock and Deferral Plan. (Exhibit 10-s to Form 10-K for 1997.)
10-t	Pacific Telesis Group Deferred Compensation Plan for Nonemployee Directors. (Exhibit 10gg to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)
	10-t(i) Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-v(i) to Form 10-K for 1997.)
10-u	Pacific Telesis Group Outside Directors' Deferred Stock Unit Plan. (Exhibit 10oo to Form 10-K for 1995 of Pacific Telesis Group (Reg. 1-8609).)
10-v	Pacific Telesis Group 1996 Directors' Deferred Compensation Plan. (Exhibit 10qq to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)
	10-v(i) Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-v(i) to Form 10-K for 1997.)
10-w	Pacific Telesis Group 1994 Stock Incentive Plan. (Attachment A to Pacific Telesis Group's 1994 Proxy Statement filed March 11, 1994, and amended March 14 and March 25, 1994.)
	10-w(i) Resolutions amending the Plan, effective January 1, 1995. (Attachment A to Pacific Telesis Group's 1995 Proxy Statement, filed March 13, 1995.)
10-x	Pacific Telesis Group Nonemployee Director Stock Option Plan. (Exhibit A to Pacific Telesis Group's 1990 Proxy Statement filed February 26, 1990.)
	10-x(i) Resolutions amending the Plan, effective April 1, 1994. (Exhibit 10xx(i) to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)
12	Computation of Ratios of Earnings to Fixed Charges.
13	Portions of SBC's Annual Report to shareowners for the fiscal year ended December 31, 1998. Only the information incorporated by reference into this Form 10-K is included in the exhibit.
21	Subsidiaries of SBC.

23-a	Consent of Ernst & Young LLP.
23-b	Consent of PricewaterhouseCoopers LLP.
24	Powers of Attorney.
27	Financial Data Schedule.
99-a	Report of Independent Accountants PricewaterhouseCoopers LLP.
99-b	Annual Report on Form 11-K for the SBC Savings Plan for the year 1998 to be filed under Form 10 K/A.
99-c	Annual Report on Form 11-K for the SBC Savings and Security Plan for the year 1998 to be filed under Form 10-K/A.
99-d	Annual report on Form 11-K for the Pacific Telesis Group Supplemental Retirement and Savings Plan for Nonsalaried Employees for the year 1998.
99-e	Annual report on Form 11-K for the Pacific Telesis Group Supplemental Retirement and Savings Plan for Salaried and Nonsalaried Employees (LESOP) for the year 1998.
99-f	Annual report on Form 11-K for the SNET Bargaining Unit Retirement Savings Plan for the year 1998.
99-g	Annual report on Form 11-K for the SNET Management Retirement Savings Plan for the year 1998.