WILEY, REIN & FIELDING

1776 K STREET, N.W.
WASHINGTON, D.C. 20006
(202) 429-7000

WRITER'S DIRECT DIAL
(202) 828-3224
e-mail: djsmith@wrf.com

FACSIMILE
(202) 429-7049

ORIG-FILES
C98-C-0533
COPIES:
MR. S. ABRAMS (4)
MR. A. BANSOACK

April 22, 1998

Mr. John C. Crary, Secretary
New York Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: Joint Application of SBC Communications Inc. and SNET Corporation for Approval of Agreement and Plan of Merger – Additional Information
Docket No. C98-C-0533

Dear Mr. Crary:

Enclosed are six copies of the complete SEC 8-K for SBC Communications Inc. for the above captioned application. The original filing inadvertently only included the odd-numbered pages of this document. The applicants respectfully request that this full copy be made part of the application in lieu of the copy originally filed with above captioned application.

We apologize for any inconvenience that this oversight may have caused the Commission and its staff. If you require any further information or assistance in regards to this application, please do not hesitate to get in touch with either the designated contacts or the undersigned. Thank you for your help and assistance in this matter.

Sincerely,

Daniel J. Smith

Enclosures

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report: May 8, 1997

SBC COMMUNICATIONS INC.

A Delaware Corporation

Commission File No. 1-8610

IRS Employer No. 43-1301883

175 E. Houston, San Antonio, Texas 78205

Telephone Number (210) 821-4105

Item 7. Financial Statements and Exhibits

On April 1, 1997, SBC Communications Inc. (SBC) and Pacific Telesis Group (PAC) completed the merger of an SBC subsidiary with PAC, in a transaction in which each share of PAC common stock was exchanged for 0.73145 of a share of SBC common stock (equivalent to approximately 313 million shares). With the merger, PAC became a wholly-owned subsidiary of SBC.

SBC presents herein audited consolidated financial statements of SBC to reflect the business combination of SBC and PAC. This report includes the consolidated balance sheets of SBC Communications Inc. (SBC) as of December 31, 1996 and 1995, and the related consolidated statements of income, shareowners' equity and cash flows for each of the three years in the period ended December 31, 1996.

(a) SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS OF SBC COMMUNICATIONS INC. AND PACIFIC TELESIS GROUP

The following audited supplemental consolidated financial statements and notes thereto are presented with the merger accounted for as a "pooling of interests." Under this method of accounting, SBC restates its consolidated financial statements to include the assets, liabilities, shareowners' equity and results of operations of PAC. These are supplemental consolidated financial statements which will become the historical consolidated financial statements of SBC upon issuance of financial statements for the quarter ending June 30, 1997.

The following audited supplemental consolidated financial statements have been prepared using the exchange ratio of 0.73145:

Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 or for the year ended:	1996	1995	1994	1993	1992
Financial Data					
Operating revenues	$ 23,486	$ 21,712	$ 21,006	$ 20,084	$ 19,258
Operating expenses	$ 17,650	$ 16,592	$ 16,056	$ 17,077	$ 15,014
Operating income	$ 5,836	$ 5,120	$ 4,950	$ 3,007	$ 4,244
Interest expense	$ 812	$ 957	$ 935	$ 1,005	$ 1,036
Equity in net income of affiliates	$ 207	$ 120	$ 226	$ 250	$ 208
Income taxes	$ 1,960	$ 1,519	$ 1,448	$ 658	$ 1,161
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes [1]	$ 3,189	$ 2,958	$ 2,777	$ 1,589	$ 2,455
Net income (loss)	$ 3,279	$ (3,064)	$ 2,800	$ (2,474)	$ 2,424
Earnings per common share:					
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes [1]	$ 3.46	$ 3.22	$ 3.04	$ 1.76	$ 2.74
Net income (loss)	$ 3.56	$ (3.33)	$ 3.07	$ (2.74)	$ 2.71
Total assets	$ 39,485	$ 37,112	$ 46,113	$ 47,695	$ 45,588
Long-term debt	$ 10,930	$ 10,409	$ 10,746	$ 10,588	$ 10,923
Construction and capital expenditures	$ 5,481	$ 4,338	$ 3,981	$ 4,021	$ 3,969
Free cash flow [2]	$ 1,935	$ 2,452	$ 2,952	$ 2,147	$ 2,452
Dividends declared per common share [3]	$ 1.72	$ 1.65	$ 1.58	$ 1.51	$ 1.46
Book value per common share [4]	$ 10.56	$ 9.15	$ 14.58	$ 16.69	$ 19.51
Ratio of earnings to fixed charges	5.34	5.24	5.01	2.91	4.06
Return on weighted average shareowners' equity [5]	33.73%	23.97%	24.97%	21.23%	14.24%
Debt ratio [4]	55.49%	61.73%	48.57%	45.30%	43.32%
Operating Data*					
EBITDA [6]	$ 9,945	$ 9,154	$ 8,774	$ 6,750	$ 7,796
Network access lines in service (000)	31,370	29,989	28,918	28,018	27,275
Access minutes of use (000,000)	123,303	112,874	100,800	93,877	88,035
Wireless customers (000)	4,433	3,672	2,992	2,049	1,413
Number of employees	109,870	108,189	110,390	113,755	116,523

*Operating data may be periodically revised to reflect the most current information available.

[1] 1996, Change in directory accounting; 1995, Discontinuance of Regulatory Accounting; 1994-1992, Income (loss) from spun-off operations; and1993, Early Extinguishment of Debt and Cumulative Effect of Changes in Accounting Principles.

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

[3] Dividends declared by SBC's Board of Directors; these amounts do not include dividends declared and paid by PAC prior to the merger.

[4] Shareowners' equity used in book value per common share and debt ratio calculations includes extraordinary loss and changes in accounting principles.

[5] Calculated using income before extraordinary loss and changes in accounting principles. These impacts are included in shareowners' equity.

[6] EBITDA is earnings before interest, taxes, depreciation and amortization (operating income plus depreciation and amortization). SBC considers EBITDA an important component in our economic value added systems as an indicator of the operational strength and performance of our businesses. It is provided as supplemental information and is not intended to be a substitute for operating income, net income or net cash provided by operating activities as a measure of financial performance or liquidity.

Dollars in millions except per share amounts

SBC Communications Inc. (SBC) is a holding company whose subsidiaries and affiliates operate predominantly in the communications services industry. SBC's subsidiaries and affiliates provide landline and wireless telecommunications services and equipment, directory advertising and cable television services.

On April 1, 1997, SBC completed a merger which resulted in Pacific Telesis Group (PAC) becoming a wholly-owned subsidiary of SBC. Among PAC's subsidiaries are Pacific Bell (PacBell) and Nevada Bell. The merger was accounted for as a pooling of interests and a tax-free reorganization. Accordingly, the financial statements for the periods presented have been restated to include the accounts of PAC (see Note 3 to the financial statements).

SBC's largest subsidiaries are Southwestern Bell Telephone Company (SWBell), providing telecommunications services over approximately 15 million access lines in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area), and PacBell providing telecommunications services over approximately 16 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 are subject to regulation by each of the states in which they operate and by the Federal Communications Commission (FCC).

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

Results of Operations

Summary

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

				Percent Change	
	1996	1995	1994	1996 vs. 1995	1995 vs. 1994
Operating revenues	$ 23,486	$ 21,712	$ 21,006	8.2%	3.4%
Operating expenses	$ 17,650	$ 16,592	$ 16,056	6.4%	3.3%
Income before extraordinary loss and cumulative effect of accounting change	$ 3,189	$ 2,958	$ 2,800	7.8%	5.6%
Extraordinary loss	-	$ (6,022)	-	-	-
Cumulative effect of accounting change	$ 90	-	-	-	-
Net income (loss)	$ 3,279	$ (3,064)	$ 2,800	-	-

SBC recognized an extraordinary loss in 1995 from the discontinuance of regulatory accounting at SWBell and PacBell.

The primary factors contributing to the increase in income before extraordinary loss and cumulative effect of accounting change in 1996 were growth in demand for services and products at the Telephone Companies and Southwestern Bell Mobile Systems, Inc. (Mobile Systems).

Dollars in millions except per share amounts

The primary factors contributing to the increase in income before extraordinary loss and cumulative effect of accounting change in 1995 were growth in demand for services and products at the Telephone Companies and Mobile Systems, and an after-tax gain of $111 associated with the merger of SBC's United Kingdom cable television operations into TeleWest P.L.C. (TeleWest). These factors were partially offset by an after-tax charge of $88 recorded in connection with SBC's strategic functional realignment and revenue shortfalls due to the introduction of intraLATA long-distance competition in California.

Items affecting the comparison of the operating results between 1996 and 1995, and between 1995 and 1994, are discussed in the following sections.

Operating Revenues

Total operating revenues increased $1,774, or 8.2%, in 1996 and $706, or 3.4%, in 1995. Components of total operating revenues, including percentage changes from the prior year, are as follows:

				Percent Change	
	1996	1995	1994	1996 vs. 1995	1995 vs. 1994
Local service					
Landline	$ 8,754	$ 8,118	$ 7,494	7.8%	8.3%
Wireless	2,676	2,247	1,749	19.1	28.5
Network access					
Interstate	4,008	3,770	3,525	6.3	7.0
Intrastate	1,823	1,744	1,679	4.6	3.8
Long-distance service	2,240	2,072	2,923	8.1	(29.1)
Directory advertising	1,985	1,984	1,950	0.1	1.7
Other	2,000	1,777	1,686	12.5	5.4
	$ 23,486	$ 21,712	$ 21,006	8.2%	3.4%

Local Service Landline revenues increased in 1996 due to increases in demand, primarily increases in residential and business access lines and vertical services revenues. Total access lines increased 4.6% in 1996, of which 34% was due to growth in Texas and 46% to growth in California. Access lines in Texas and California account for approximately 80% of the Telephone Companies' access lines. Approximately 34% of access line growth in 1996 was due to sales of additional access lines to existing residential customers. Vertical services revenues, which include custom calling options, Caller ID and other enhanced services, also increased in 1996.

Effective January 1, 1995, the California Public Utilities Commission (CPUC) authorized interexchange carriers and others to compete with PacBell in providing intraLATA long-distance service in California. That decision also rebalanced prices for most of PacBell's regulated services, which increased landline local service prices, so that PacBell could remain competitive in the new environment. Landline local service revenues increased in 1995 due to price rebalancing in California, which increased revenue by $379, and increases in demand at the Telephone Companies, primarily increases in residential and business access lines and vertical services revenues. These increases were somewhat offset by price cap revenue reductions ordered by the CPUC. The increased local service revenues resulting from price rebalancing were more than offset by a related $616 decrease in long-distance revenues. Total access lines increased 3.7% in 1995, of which 37% was due to growth in Texas and 43% to growth in California. Approximately

Dollars in millions except per share amounts

32% of access line growth in 1995 was due to the sales of additional access lines to existing residential customers. Vertical services revenues also increased in 1995.

Wireless revenues relate to Mobile Systems operations and increased in 1996 and 1995 due primarily to the growth in the number of Mobile Systems' cellular customers of 20.7% and 22.7%. These increases were partially offset by slight declines in average revenue per customer. Beginning in 1997, wireless revenues will also reflect personal communications services (PCS) operations in California and Nevada.

Mobile Systems had 4,398,000 customers in areas in which they were one of the two incumbent providers and 35,000 resale customers at December 31, 1996. These customer amounts were 3,659,000 and 13,000, respectively, at December 31, 1995.

Network Access Interstate network access revenues increased in 1996 and 1995 due largely to increases in demand for access services by interexchange carriers. Growth in revenues from end user charges, attributable to an increasing access line base, also contributed to the increases in both years. Net rate reductions under the FCC's revised price cap plan, which were effective August 1 1995, partially offset these increases by approximately $115 in both 1996 and 1995.

Intrastate network access revenues increased in 1996 and 1995 due primarily to increases in demand, including usage by alternative intraLATA toll carriers. The increase in 1995 was partially offset by the decrease in prices due to the introduction of competition for long-distance services in California.

Long-Distance Service In 1996 and 1995 PAC provided approximately 55% - 60% of SBC's long-distance revenues. Overall, long-distance revenues increased in 1996 due principally to increases in demand resulting from California's growing economy and growth in Mobile Systems' long-distance revenues, including interLATA service that began in February 1996. Additionally, long-distance service revenues increased due to the inclusion in 1995 of SWBell intraLATA toll pool settlement payments and accruals for rate reductions relating to an appealed 1992 rate order in Oklahoma. The settlement of the appeals in October 1995 eliminated the need to continue these accruals. Absent these accruals and settlements, SWBell long-distance service revenues in 1996 would have decreased slightly due to the continuing impact of price competition from alternative intraLATA toll carriers. Long-distance service revenues decreased in 1995 primarily due to an approximate 40% reduction in intraLATA long-distance prices in California resulting from the introduction of competition for those services and the related regulatory price rebalancing. Additionally, SWBell long-distance services revenues experienced decreases, reflecting competition-related decreases in residential message volumes and the impact of optional calling plans and extended area service plans.

Directory Advertising revenues were relatively unchanged in 1996 as increased yellow pages revenues from Southwestern Bell Yellow Pages, Inc. (Yellow Pages) and Pacific Bell Directory (PBDirectory) were offset by the decrease resulting from the January 1996 sale of SBC's publishing contracts for GTE Corporation's service areas to GTE Directories. Excluding the impact of this sale, revenues increased 5.1% in 1996. Results for 1995 reflect growth in yellow pages revenues, partially offset by the impact of increased competition.

Other operating revenues in 1996 and 1995 reflect the increased demand for voice-messaging services, Caller ID equipment, computer network services, computer programming services and videoconferencing services. Other increases in 1996 were attributable to revenues from new business initiatives, such as wireless cable and internet services. The increase in 1995 was partially offset by the decrease in equipment sales revenues at Mobile Systems resulting primarily from declining equipment prices.

Dollars in millions except per share amounts

Operating Expenses

Total operating expenses increased $1,058, or 6.4%, in 1996 and $536, or 3.3%, in 1995. Components of total operating expenses, including percentage changes from the prior year, are as follows:

				Percent Change	
				1996 vs.	1995 vs.
	1996	1995	1994	1995	1994
Cost of services and products	$ 8,220	$ 7,864	$ 7,917	4.5%	(0.7%)
Selling, general and administrative	5,321	4,694	4,315	13.4	8.8
Depreciation and amortization	4,109	4,034	3,824	1.9	5.5
	$ 17,650	$ 16,592	$ 16,056	6.4%	3.3%

Cost of Services and Products increased in 1996 due to increases at the Telephone Companies for network expansion and maintenance, employee compensation and demand-related increases. Other increases in 1996 reflect growth at Mobile Systems, costs incurred to prepare for local competition and PAC's new business initiatives, such as PCS, Internet access and network integration. These increases were partially offset by PAC's decreased employee benefits expenses due to changes in employee benefit plans and benefit plan assumptions (see Note 9 to the financial statements). In 1995, expenses decreased primarily due to decreased California pool settlements with other local exchange carriers, force reductions at PacBell, and decreased equipment costs at Mobile Systems. The absence of expenses associated with SBC's United Kingdom cable television operations (discussed in Other Business Matters) also contributed to the decrease in 1995. These decreases were mostly offset by increases at the Telephone Companies for network expansion and maintenance, demand-related increases for enhanced services, and employee compensation at SWBell.

Selling, General and Administrative expenses increased in 1996 primarily due to growth-related increases at Mobile Systems and the Telephone Companies, including contracted services, employee compensation and software costs. The increase in 1996 also reflects PAC's expenses incurred to prepare support systems for local competition and for new business initiatives, including long-distance. In 1995, expenses increased primarily due to growth-related increases at Mobile Systems and SWBell, including contracted services and advertising, the $139 charge for costs associated with the strategic realignment discussed in Other Business Matters, and software costs at PAC. These increases were somewhat offset by force reductions at PacBell. Also contributing to the increases in both 1996 and 1995 were increases in operating taxes at SWBell, which include the Texas Infrastructure Fund assessments.

Depreciation and Amortization increased in 1996 and 1995 due primarily to growth in plant levels and changes in plant composition, primarily at the Telephone Companies and Mobile Systems. The increase in 1995 also reflects the effect of regulatory depreciation represcription at the Telephone Companies.

Dollars in millions except per share amounts

Interest Expense decreased $145, or 15.2%, in 1996 due to a change in PAC's capital structure which replaced a portion of interest expense with amounts recorded as Other Income (Expense) (see Note 7 to the financial statements), lower long-term debt levels in SBC subsidiaries other than PAC, and capitalization of interest during construction required by the discontinuance of regulatory accounting in the third quarter of 1995. Under regulatory accounting, the Telephone Companies accounted for capitalization of both interest and equity costs during periods of construction as other income.

Equity in Net Income of Affiliates increased $87 in 1996 and decreased $106 in 1995. The 1996 increase reflects: increased income from Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, due to the relative stabilization of the peso; net gains on international affiliate transactions; and improved results from SBC's investment in French cellular operations, reflecting lower level of losses in its second year. Results for 1995 include losses on SBC's United Kingdom cable television operations, which were accounted for under the equity method prior to October 1995, and exchange losses on the non-peso denominated debt of Telmex. Results for 1996 and 1995 also reflect reductions in the translated amount of U.S. dollar earnings from Telmex's operations. Operational growth at Telmex in both years somewhat offset these declines. The 1995 decrease was also attributable to SBC's investment in French cellular operations and PAC's video-related joint venture.

SBC's future earnings from Telmex will continue to be sensitive to changes in the value of the peso. SBC's investment in Telmex has been recorded under U.S. generally accepted accounting principles (GAAP), which exclude inflation adjustments and include adjustments for the purchase method of accounting. Beginning in 1997, SBC will use 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 as defined by GAAP. Earnings in 1997 will reflect SBC's reduced ownership percentage in Telmex as discussed in Note 5 to the financial statements. These changes are each expected to have a slightly negative impact on Equity in Net Income from Telmex.

Other Income (Expense) - Net decreased $276 in 1996 and increased $210 in 1995. In 1995, SBC recognized a gain from the merger of SBC's United Kingdom cable television operations into TeleWest (see Note 13 to the financial statements) and interest income from tax refunds. The increase was somewhat offset by expenses associated with the refinancing of long-term debt by the Telephone Companies (see Note 6 to the financial statements). Results for 1996 reflect the inclusion in 1995 of these items and decreases due to the reclassification of interest during construction required by the discontinuance of regulatory accounting in the third quarter of 1995 as well as distributions paid on Trust Originated Preferred Securities (TOPrS), as noted in the discussion of Interest Expense (see Note 7 to the financial statements).

Income Tax expense increased $441, or 29.0%, in 1996 and $71, or 4.9%, in 1995, primarily due to higher income before income taxes. In 1995, tax refunds received at PAC somewhat offset the increase. The elimination of excess deferred taxes and the reduction in the amortization of investment tax credits resulting from the discontinuance of regulatory accounting, as described in Note 2 to the financial statements, also contributed to the increases in both years.

Extraordinary Loss In 1995, SBC recorded an extraordinary loss of $6 billion from the discontinuance of regulatory accounting. The loss included a reduction in the net carrying value of telephone plant and the elimination of net regulatory assets of SWBell and PacBell (see Note 2 to the financial statements).

Dollars in millions except per share amounts

Cumulative Effect of Accounting Change As discussed in note 1 to the financial statements, PBDirectory changed its method of recognizing directory publishing revenues and related expenses effective January 1, 1996. The cumulative after-tax effect of applying the new method to prior years is recognized as of January 1, 1996 as a one-time, non-cash gain applicable to continuing operations of $90, or $0.10 per share. The gain is net of deferred taxes of $53. Management believes this change to the issue basis method is preferable because it is the method generally followed in the publishing industry, including Yellow Pages, and better reflects the operating activity of the business. This accounting change is not expected to have a significant net income effect on future periods.

Operating Environment and Trends of the Business

Regulatory Environment

The Telephone Companies' telecommunications operations are subject to regulation by each of the seven states in which they operate for intrastate services and by the FCC for interstate services. The Telephone Companies operate under incentive regulation, or price caps, for various services provided by the Telephone Companies. Under price cap regulation, the Telephone Companies are permitted to establish and modify prices, not to exceed the price caps, subject to expedited approval by the governing jurisdiction. Prices for some other services not specifically covered by price caps are also subject to regulatory approval.

The FCC adopted revised interim price cap rules effective August 1, 1995 that govern the prices that the larger Local Exchange Carriers (LECs), including the Telephone Companies, charge interexchange carriers for access to local telephone networks. Price caps set by the FCC are adjusted annually for inflation, a productivity offset and certain other changes in costs. The productivity offset is a fixed percentage used to reduce price caps and is designed to encourage increased productivity. The revised rules allow a choice of three productivity offsets, two of which provide for a sharing of profits with consumers above certain earnings levels and the third of which has no sharing. Through 1996, the Telephone Companies elected the 5.3% productivity offset with no sharing.

The revised FCC price cap plan was intended to be an interim plan that would be revised in 1996. However, with the passage of the Telecommunications Act of 1996 (the Telecom Act), the FCC is conducting further proceedings to address various pricing and productivity issues, and is performing a broader review of price cap regulation in a competitive environment. Additionally, the FCC has stated it will examine universal service and access charge rules during 1997. The Telecom Act and FCC actions taken to implement provisions of the Telecom Act are discussed further under the heading "Competition."

The states' regulatory bodies set intrastate price caps on various services for various periods, depending upon the state. The price cap plans in California and Nevada included sharing mechanisms; however, beginning in 1997, Nevada implemented a new price cap plan which eliminated the sharing mechanism.

Following is a summary of significant state regulatory developments.

California The CPUC's form of price caps requires PacBell to submit an annual price cap filing to determine prices for categories of services for each new year. The price cap plan includes a sharing mechanism that requires PacBell to share its earnings with customers at certain earnings levels. Price adjustments reflect the effects of any change in inflation less productivity as well as adjustments for certain exogenous cost changes. In December 1995, the CPUC issued an order in its review of the regulatory framework in California that suspended use of the "inflation minus productivity" component of the price cap formula for 1996 through 1998. This action freezes the price caps on most of PacBell's regulated services for the years 1996 through 1998 except for adjustments due to exogenous costs or price changes approved through the CPUC's price cap filing process. In December 1996, the CPUC adjusted PacBell's rates due to various exogenous cost changes by an annual revenue reduction of approximately $66 annually, effective January 1, 1997.

The CPUC issued its final decision on universal service on October 25, 1996, establishing an annual California universal service fund of approximately $352 that will subsidize high cost service. Customers of all telecommunications providers will contribute to the universal service fund via a 2.87% surcharge on all bills for telecommunications services provided in California. Effective February 1, 1997, the universal service fund will subsidize the provision of service in high cost areas. In order to ensure revenue neutrality, PacBell must reduce its rates dollar for dollar for amounts received from the fund via an across the board surcredit on all products and services (except residential basic exchange services) or permanent price reductions for those services that previously subsidized universal service. The fund was intended to allow PacBell to eliminate high cost subsidies from its prices, positioning PacBell for competition. Initially, PacBell expects to receive $305 annually from the fund based on CPUC estimates of the cost of providing universal service. Management believes the new program underestimates the cost of providing universal service. PacBell estimates that the average cost of providing service is up to 33% higher per line per month than the CPUC estimate, which could result in high cost area subsidies remaining in prices for competitive services. If this continues, it would place PacBell at a competitive disadvantage.

In 1992, the CPUC issued a decision adopting, with modification, Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" (FAS 106), for regulatory accounting purposes. Annual price cap decisions by the CPUC granted PacBell approximately $100 in each of the years 1993-1996 for partial recovery of higher costs under FAS 106. In October 1994 the CPUC reopened the proceeding to determine the criteria for exogenous cost treatment and whether PacBell should continue to recover these costs. The CPUC's order also held that related revenues collected after October 12, 1994, were subject to refund plus interest pending further proceedings. On April 9, 1997, the CPUC completed these proceedings and reaffirmed that postretirement benefits costs are appropriately recoverable in PacBell's price cap filings.

The FCC adopted new separations rules effective May 1, 1997 that shift recovery of substantial other billing and collections costs to the interstate jurisdiction. This rule change could reduce PacBell's revenues by about $30 in 1997 and about $45 in each subsequent year. Management is evaluating options to mitigate this effect on net income.

In 1992, a settlement agreement was reached between the State Board of Equalization, all California counties, the State Attorney General, and 28 utilities, including PacBell, on a specific methodology for valuing utility property for property tax purposes for a period of eight years. The CPUC opened an investigation to determine if any resulting property tax savings should be returned to 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. These intervenors have also asserted that past property tax savings totaling as much as approximately $70 as of December 31, 1996, plus interest should be returned to customers. Management believes that, under the CPUC's regulatory framework, any property tax savings should be treated only as a component of the calculation of shareable earnings and not as an exogenous cost. In an Interim Opinion issued in June 1995, the CPUC decided to defer a final decision on this matter pending resolution of the criteria for exogenous cost treatment under its regulatory framework.

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, half of which would be paid by the cellular and wireless industry. The provisions establishing different assessment rates for landline and cellular and wireless service providers were ruled unconstitutional under the Texas constitution in January 1996, and the lower rate was ordered to be applied to both categories of service providers, resulting in less than a $150 annual assessment. Based on this order, SBC's total annual payment is estimated to be approximately $35 to $45. The 1997 Texas legislative session is considering this issue with the stated goal of restoring the assessment to its original $150 annual amount. As a result, SBC's annual payment could increase.

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. SBC is unable to predict the outcome of this proceeding. During 1996, the TPUC approved the application of Sprint for a certificate of authority to provide local service, waiving the build-out requirements specified under state law for facilities-based certificates of authority. TPUC has also requested the FCC issue an expedited ruling on whether PURA's build-out requirements are lawful under the Telecom Act. AT&T and MCI have also filed petitions with the FCC arguing the build-out requirements should be preempted; they have also requested TPUC grant them similar treatment as Sprint. In a preliminary ruling, the TPUC has waived build-out requirements for them.

More than 100 applications to provide competitive local service certification have been approved by the TPUC, with over 30 more applications pending approval. As a result, SWBell expects competition to continue to develop for local service, but the specific financial impacts of this competition cannot be reasonably estimated until all required tariff filings are approved by the TPUC for SWBell and other companies intending to provide local service.

Missouri During 1996, the 1995 Cole County Circuit Court ruling which overturned the August 1994 settlement agreement reached among SWBell, the Missouri Public Service Commission (MPSC) and the Office of Public Counsel (OPC) was upheld on appeal. The practical effect of this decision is to eliminate the prospective commitments under the settlement agreement, including a rate review moratorium and capital investment commitments. The decision has no immediate impact on SWBell's current rates because they were approved by the MPSC in separate proceedings, which were not appealed.

Dollars in millions except per share amounts

Oklahoma On October 30, 1995, the Oklahoma Corporation Commission (OCC) approved a settlement that resolved pending court appeals of a 1992 rate order. Under the terms of the settlement, SWBell paid a cash settlement of $170 to business and residential customers, and offered discounts with a retail value of $268 for certain SWBell services. Previously ordered rate reductions of $100 were lowered to $84, of which $57 had already been implemented. The settlement allowed the remaining $27 in rate reductions to be deferred, with approximately $9 becoming effective in 1996 and the remainder during 1997. The settlement also provides that no overearnings complaint can be filed against SWBell until January 1, 1998. SWBell began accruing for the order in 1992, and the settlement and associated costs had been fully accrued as of the end of the third quarter of 1995.

Competitive Environment

Competition continues to increase in the telecommunications industry. 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. Accordingly, 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, referred to as the Modification of Final Judgment (MFJ), issued at the time of AT&T's divestiture of the Regional Holding Companies (RHCs) 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 terms of 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, 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 it offers the "competitive checklist" items. The FCC must also make favorable public interest and structural separation determinations. The Telecom Act directed the FCC to establish rules and regulations to implement the Telecom Act, and to preempt specific state law provisions under certain circumstances. The Telecom Act also allows RHCs to provide cable services over their own networks, but sets limits on RHCs acquiring interests in cable television operations in their regulated operating areas.

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 network services. The FCC rules were appealed by numerous parties, including SBC, other LECs, various state regulatory commissions and the National Association of Regulatory Utility Commissioners.

On October 15, 1996, the United States Court of Appeals for the Eighth Circuit (Eighth Circuit) issued an order to stay the FCC's Pricing Provisions and its rules permitting new entrants to "pick and choose" among the terms and conditions of approved interconnection agreements. The stay provides that it will remain in effect while the Eighth Circuit considers the validity of the rules. Other provisions of rules adopted by the FCC to implement the Telecom Act remain in effect.

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 handling of related matters within their jurisdictions. Accordingly, SBC is not able to assess the impact of the FCC rules.

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 begun approving these applications. Under the Telecom Act, companies seeking to interconnect to the Telephone Companies' network and exchange local calls must enter into interconnection agreements with the Telephone Companies, which are then subject to approval by the appropriate state commission. There have been approximately 190 companies approved by state commissions to provide local telephone service throughout the Telephone Companies' regulated operating areas, most of them in Texas and California. There are approximately 70 more applications pending approval before the state commissions. Several companies who have failed to agree on all interconnection terms have filed for arbitration before the state commissions.

The CPUC authorized facilities-based local services competition effective January 1996 and resale competition effective March 1996. Several issues still need to be resolved before the CPUC issues final rules for local competition. These issues include final rates for resale, presubscription, implementation of number portability and LEC provisioning and pricing of essential network functions 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, will be material and it is uncertain whether regulators will allow for recovery of these costs. The CPUC expects to issue final rules on presubscription in early 1997 and final rates and rules for all other issues in late 1997. It is anticipated that competition will be targeted mainly to high-density areas, where higher margins may be achieved. Many of these competitors have placed facilities in service and begun extensive advertising campaigns.

In October 1996, in a consolidated arbitration hearing between SWBell and AT&T, MCI, MFS Communications Company, Inc. (MFS), Teleport Communications Group, and American Communications Services, Inc., the TPUC approved interconnection rates to be charged by SWBell as well as certain other terms of interconnection between the parties. SWBell also filed revised cost support for the establishment of rates with the TPUC which may be subject to further hearings. SWBell, AT&T and MCI filed suit in state and federal court maintaining that, for various reasons, the arbitration award is unlawful. SWBell has TPUC-approved interconnection agreements with 26 local service providers, with 17 pending approvals as of April 15.

Dollars in millions except per share amounts

In Missouri, the MPSC issued orders on a consolidated arbitration hearing with AT&T and MCI and on selected items with MFS. Among other terms, the orders established discount rates for resale of SWBell services and prices for unbundled network elements. SWBell has filed suit in federal court appealing the orders as unlawful.

As a result of the Telecom Act and conforming interconnection agreements, the Telephone Companies expect in 1997 they will experience local exchange competition from multiple providers in various markets. Management is unable to assess the effect of competition on the industry as a whole, or financially on SBC, but expects both losses of market share in local service and gains resulting from new business initiatives, vertical services and new service areas. SBC intends to use approved agreements in support of its application to the FCC to provide interLATA long-distance service in the Telephone Companies' regulated operating areas.

The Telephone Companies also face competition from various local service providers that bypass the local exchange network. Some of these providers have built fiber optic "rings" throughout large metropolitan areas to provide transport services (generally high-speed data) for large business customers and interexchange carriers. Others provide high-usage customers, particularly large businesses, alternative telecommunications links for voice and data, such as private network systems, shared tenant services or private branch exchange (PBX) systems (which are customer-owned and provide internal switching functions without using a telephone company's central office facilities). The extent of the economic incentive to bypass the local exchange network depends upon local exchange prices, access charges, regulatory policy and other factors. End user charges previously ordered by the FCC are designed in part to mitigate the effect of system bypass.

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 in 51 major markets. SBC acquired PCS licenses in the Major Trading Areas (MTAs) of Los Angeles-San Diego, California; San Francisco-Oakland-San Jose, California; Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma. The California licenses cover all of California and Nevada. SBC is currently in the build out phase of PCS in most of its 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 in January 1997, in February 1997 in Las Vegas, Nevada, and in March 1997 in Sacramento, California. The network will incorporate 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 approximately 100 retail stores across San Diego County, about 60 retail stores in Las Vegas and about 80 retail stores in Sacramento. PBMS plans to offer PCS service in San Francisco and Los Angeles in the second quarter of 1997. Management expects a widespread offering of PCS service in most of California and Nevada by mid-1997. Management anticipates significant competition, particularly from the two established cellular companies in each market. However, a high quality product with PacBell's service reputation should enable PBMS to establish a significant presence in these markets.

In an FCC auction which concluded January 1997, SBC acquired eight additional PCS licenses for Basic Trading Areas (BTAs) that are within the five-state area. SBC plans to build out the new BTAs as part of its strategy to be a full service telecommunications provider (expected completion 1999). Including these new BTAs with existing cellular and PCS services, SBC will be able to offer wireless services to approximately 85% of its landline local service customers in the five-state area.

Companies granted licenses in MTAs and BTAs where SBC also provides service include subsidiaries and affiliates of AT&T, Sprint and other RHCs. The degree of competition which SBC will encounter in its cellular markets will depend, in part, on the timing and extent of the build out of PCS services.

Long-distance

Competition continues to intensify in the Telephone Companies' intraLATA long-distance markets. Principal competitors are interexchange carriers, bypass service interexchange carriers which are assigned an access code (e.g., "10XXX") used by their customers to route intraLATA calls through the interexchange carrier's network, and resellers, which sell long-distance services obtained at bulk rates. Effective January 1, 1995, the CPUC authorized intraLATA long-distance services competition in California. In April 1995, the CPUC also ordered PacBell to offer expanded interconnection to competitive access providers. These competitors are allowed to carry the intrastate portion of long-distance and intraLATA long-distance calls between PacBell's central offices and long distance carriers. Competitors may choose to locate their transmission facilities within or near PacBell's central offices. It is estimated that PacBell now serves less than 50% of the business intraLATA long-distance customers in its service areas. On April 11, 1997, SBC filed an application with the FCC for the provision of interLATA long-distance services in Oklahoma under the provisions of the Telecom Act. The OCC has approved SBC's application.

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.

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 to 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 encompassing a series of rules for the introduction of competition into the Mexican long-distance market previously issued by the Mexican Secretary of Communication and Transportation. Those rules 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, 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.

Dollars in millions except per share amounts

Other Business Matters

Merger Agreement On April 1, 1997, SBC and PAC completed the merger of an SBC subsidiary with PAC, in a transaction in which each share of PAC common stock was exchanged for 0.73145 of a share of SBC common stock. 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. Accordingly, the financial statements for the periods presented have been restated to include the accounts of PAC (see Note 3 to the financial statements for more information).

Restructuring Reserve In December 1993, a reserve was established to record the incremental cost of force reductions associated with restructuring PacBell's business processes through 1997. 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. Net force reductions were 1,926 for 1996 and 9,168 for the three-year period 1994 through 1996. The pace of net force loss moderated in 1996 due to strong volume growth at PacBell.

This table sets forth the status and activity of this reserve.

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

Charges to the restructuring reserve in 1996 totaled $131, including cash outlays of $195 and a $64 non-cash charge reversal described below. In 1995, PacBell charged $219 to the restructuring reserve for the non-cash cost through 1997 of enhanced retirement benefits negotiated in the 1995 union contracts, to be paid from pension fund assets. Based on its experience, in 1996 PacBell revised its estimate of these retirement costs. Consequently, $64 of these 1995 non-cash charges were reversed in 1996. There was no effect on net income from either the 1995 charge or the 1996 change in this estimate. Management expects to use the remaining reserve balance during 1997.

Effective with the merger, SBC has begun a complete review of all of its subsidiaries, including subsidiaries of PAC. Approximately 50 review teams are examining operational functions within the companies and evaluating all strategic initiatives. The teams will identify synergies between the companies, establish uniform system requirements and redirect strategic efforts. SBC cannot currently estimate the amount of future savings to be derived from this process or the amount of current and future costs associated with reorganizing functions and reevaluating strategies that SBC will incur; however, significant changes in strategic initiatives or combinations of common functions would result in material charges to SBC's 1997 results of operations. SBC anticipates the review teams will complete the evaluation phase by the end of the second quarter.

Acquisitions and Dispositions In addition to the acquisitions, dispositions and the merger of SBC's United Kingdom cable television operations discussed in Note 13 to the financial statements, SBC has made several acquisitions and dispositions since 1994.

In October 1994, SBC sold an additional 25% of its United Kingdom cable television operations to Cox Cable Communications, accounting for the remaining investment under the equity method of accounting until the 1995 merger of these operations.

Dollars in millions except per share amounts

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 exchange of approximately $120 of stock and assumption of $55 in debt. Additionally, SBC made the following equity investments in 1995: a $317 investment for 40% of VTR S.A. (VTR), a privately owned Chilean telecommunications holding company which is 51% owned by Grupo 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 RHC's reached an agreement to sell Bell Communications Research (Bellcore) in a transaction expected to close in 1997.

In March 1997, the consortium of SBC and Telekom Malaysia Berhad, which is 60% owned by SBC, finalized an agreement to purchase 30% of Telkom South Africa (Telkom), the state-owned telecommunications company of South Africa. Under the agreement, SBC is committed to invest approximately $750, approximately $600 of which will remain in Telkom. The transaction is expected to close in the second quarter of 1997.

None of these transactions had a material effect on SBC's financial results in 1996, 1995 or 1994, nor does management expect them to have a material effect on SBC's financial position or results of operations in 1997.

Strategic Realignment 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 report to one management group, while international operations and domestic operations outside the five-state area report to a separate management group.

In connection with this realignment of functions, in 1995 SBC 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 within the five-state area, streamlining support and administrative functions and integrating financial systems. Implementation of the realignment has been delayed due to the merger with PAC. The charge reduced net income for 1995 by approximately $88.

Dollars in millions except per share amounts

Liquidity and Capital Resources

Capital Expenditures and Other Commitments

To provide high-quality communications services to its customers, SBC, particularly the Telephone Companies, Mobile Systems and SBC's PCS operations must make significant investments in property, plant and equipment. The amount of capital investment is influenced by demand for services and products, continued growth and regulatory commitments.

SBC's capital expenditures totaled $5,481, $4,338 and $3,981 for 1996, 1995 and 1994. The Telephone Companies' capital expenditures increased 29% in 1996 and 11% in 1995 due primarily to demand-related growth, network upgrades, customer-contracted requirements, ISDN projects, PCS build-out and SWBell's regulatory commitments. SBC's capital expenditures increase in 1995 was also due to PAC's expenditures for the PCS network. Mobile Systems expenditures increased 10% in 1996 and 6% in 1995 due to continued growth.

In 1997, management expects total capital spending to increase from 1996, to between $5,800 and $6,000. Capital expenditures in 1997 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 PAC's PCS. 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 $150 to $200 in 1997 associated with these commitments.

PacBell has purchase commitments of approximately $208 remaining in connection with its previously announced program for deploying an all-digital switching platform with ISDN and SS-7 capabilities.

In December 1994, PacBell contracted for the purchase of up to $2,000 in Advanced Communications Network (ACN) facilities, which incorporated new technologies. During 1995, the ability to deploy the facilities outstripped the ACN vendor's ability to deliver necessary products and software. Accordingly, management decided to suspend construction at certain sites, which reduced the expected cost to less than $700. If ACN facilities meet certain quality and performance criteria (the Network Test), PacBell is committed to purchase the ACN facilities in 1998. If ACN facilities are acquired, due to competition or other factors affecting PacBell's ability to recover its investment in these facilities, their value to PacBell could be materially impaired. If ACN facilities fail the Network Test, PacBell will not be committed to buy the ACN facilities but might be liable to reimburse the principal ACN vendor for some construction costs up to $300, which would also result in a material charge.

As discussed in Other Business Matters, SBC has committed to invest approximately $750 under its agreement to purchase a stake in Telkom South Africa. The transaction is expected to be completed in the second quarter of 1997.

Over the next few years, SBC is expecting to incur significant software expenditures for interconnection and customer number portability. The extent and timing of these expenditures will vary depending on the timing and nature of regulatory actions and corresponding or compensating network improvements, but are likely to be material.

Dollars in millions except per share amounts

Dividends Declared

Dividends declared by the Board of Directors of SBC were $1.72 per share in 1996, $1.65 per share in 1995, and $1.58 per share in 1994. These per share amounts do not include dividends declared and paid by PAC prior to the merger. Including those PAC dividends, total dividends paid were $1,680 in 1996, $1,933 in 1995 and $1,878 in 1994. Pursuant to the terms of the merger agreement, PAC reduced its 1996 second, third and fourth quarter dividends. The lower second and third quarter dividends paid in 1996 improved 1996 cash flow by approximately $195. Management's dividend policy considers both the expectations and requirements of shareowners, internal requirements of SBC and long-term growth opportunities.

Cash, Lines of Credit and Cash Flows

SBC had $314 of cash and cash equivalents available at December 31, 1996. Commercial paper borrowings as of December 31, 1996, totaled $1,848. SBC has entered into agreements with several banks for lines of credit totaling $3,550 all of which may be used to support commercial paper borrowings (see Note 6 to the Financial Statements). SBC had no borrowings outstanding under these lines of credit as of December 31, 1996.

During 1996, as in 1995 and 1994, SBC's primary source of funds continued to be cash generated from operations, as shown in the Consolidated Statements of Cash Flows. Net cash provided by operating activities exceeded SBC's construction and capital expenditures during 1996, as in 1995 and 1994; this excess is referred to as free cash flow, a supplemental measure of liquidity. SBC generated free cash flow of $1,935, $2,452 and $2,952 in 1996, 1995 and 1994.

During 1996 PAC issued $1,000 of TOPrS, $500 at 7.56% in January 1996 and $500 at 8.5% in June 1996 (see Note 7 to the financial statements). The proceeds were used to retire outstanding short-term debt, primarily commercial paper which had increased significantly during 1995.

During 1996 and 1995, the Telephone Companies refinanced long-term debt with an aggregate principal amount of $964.

Total Capital

SBC's total capital consists of debt (long-term debt and debt maturing within one year), TOPrS and shareowners' equity. Total capital increased $1,844 in 1996 and decreased $4,006 in 1995. The increase in 1996 was due to PAC's increased financing requirements and the reinvestment of earnings, partially offset by the acquisition of treasury shares. The decrease in 1995 was due to the effects of the discontinuance of regulatory accounting. Absent this extraordinary charge, total capital increased by $2,016 in 1995 due primarily to the reinvestment of earnings and increased commercial paper borrowings, partially offset by foreign currency translation adjustments resulting from the decline in the value of the Mexican peso.

Debt Ratio

SBC's debt ratio was 55.5%, 61.7% and 48.6% at December 31, 1996, 1995 and 1994. The debt ratio is affected by the same factors that affect total capital. For 1995, the decrease in equity caused by the discontinuance of regulatory accounting increased the debt ratio by 13.2 percentage points.

Share Repurchases

See Note 12 to the financial statements.

Employee Stock Ownership Plans

See Note 10 to the financial statements.

Report of Independent Auditors

The Board of Directors and Shareowners
SBC Communications Inc.

We have audited the accompanying supplemental consolidated balance sheets of SBC Communications Inc. (formed as a result of the consolidation of SBC Communications Inc. (SBC) and Pacific Telesis Group (PAC)) as of December 31, 1996 and 1995, and the related supplemental consolidated statements of income, shareowners' equity and cash flows for each of the three years in the period ended December 31, 1996. The supplemental consolidated financial statements give retroactive effect to the merger of SBC and PAC on April 1, 1997, which has been accounted for using the pooling of interests method as described in the notes to the supplemental consolidated financial statements. These supplemental consolidated financial statements are the responsibility of SBC's management. Our responsibility is to express an opinion on these supplemental consolidated financial statements based on our audits. We did not audit the financial statements of PAC which statements reflect total assets constituting 42% for 1996 and 43% for 1995 of the related supplemental consolidated financial statement totals, and which reflect total operating revenues constituting approximately 41%, 42% and 44% of the related supplemental consolidated financial statement totals for the years ended December 31, 1996, 1995 and 1994. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for PAC, 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 the report of other auditors, the supplemental consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SBC Communications Inc. at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, after giving retroactive effect to the merger of PAC, as described in Note 3 to the supplemental consolidated financial statements, in conformity with generally accepted accounting principles.

As discussed in Note 3, the supplemental consolidated financial statements include the effects of changes applied retroactively to conform accounting methodologies between PAC and SBC. As discussed in Note 1 to the supplemental consolidated financial statements, Pacific Bell, a subsidiary of PAC, changed its method of recognizing directory publishing revenues and related expenses effective January 1, 1996. As discussed in Note 2 to the supplemental consolidated financial statements, SBC discontinued its application of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" in 1995.

ERNST & YOUNG LLP

San Antonio, Texas
February 14, 1997,
except for Note 3, as to which the date is
April 1, 1997

SBC Communications Inc.
Consolidated Statements of Income

Dollars in millions except per share amounts

	1996	1995	1994
Operating Revenues			
Local service	$ 11,430	$ 10,365	$ 9,243
Network access	5,831	5,514	5,204
Long-distance service	2,240	2,072	2,923
Directory advertising	1,985	1,984	1,950
Other	2,000	1,777	1,686
Total operating revenues	23,486	21,712	21,006
Operating Expenses			
Cost of services and products	8,220	7,864	7,917
Selling, general and administrative	5,321	4,694	4,315
Depreciation and amortization	4,109	4,034	3,824
Total operating expenses	17,650	16,592	16,056
Operating Income	5,836	5,120	4,950
Other Income (Expense)			
Interest expense	(812)	(957)	(935)
Equity in net income of affiliates	207	120	226
Other income (expense) - net	(82)	194	(16)
Total other income (expense)	(687)	(643)	(725)
Income From Continuing Operations Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Change	5,149	4,477	4,225
Income taxes	1,960	1,519	1,448
Income from Continuing Operations	3,189	2,958	2,777
Income from spun-off operations, net of tax	-	-	23
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	3,189	2,958	2,800
Extraordinary Loss from Discontinuance of Regulatory Accounting, net of tax	-	(6,022)	-
Cumulative Effect of Accounting Change, net of tax	90	-	-
Net Income (Loss)	$ 3,279	$ (3,064)	$ 2,800
Earnings Per Common Share:			
Income from Continuing Operations	$ 3.46	$ 3.22	$ 3.04
Income from spun-off operations	-	-	.03
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	3.46	3.22	3.07
Extraordinary Loss	-	(6.55)	-
Cumulative Effect of Accounting Change	.10	-	-
Net Income (Loss)	$ 3.56	$ (3.33)	$ 3.07
Weighted Average Number of Common Shares Outstanding (in millions)	921	920	912

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

SBC Communications Inc.
Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31, 1996	December 31, 1995
Assets		
Current Assets		
Cash and cash equivalents	$ 314	$ 566
Short-term cash investments	432	243
Accounts receivable - net of allowances for uncollectibles of $311 and $266	4,684	3,995
Prepaid expenses	287	198
Deferred charges	102	369
Other current assets	452	666
Total current assets	6,271	6,037
Property, Plant and Equipment - Net	26,080	24,374
Intangible Assets - Net of Accumulated Amortization of $611 and $543	3,589	3,635
Investments in Equity Affiliates	1,964	1,616
Other Assets	1,581	1,450
Total Assets	$ 39,485	$ 37,112

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

SBC Communications Inc.
Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31, 1996	1995
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	$ 2,335	$ 3,210
Accounts payable and accrued liabilities	6,584	6,026
Dividends payable	393	484
Total current liabilities	9,312	9,720
Long-Term Debt	10,930	10,409
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	853	447
Postemployment benefit obligation	5,070	5,202
Unamortized investment tax credits	498	578
Other noncurrent liabilities	2,181	2,313
Total deferred credits and other noncurrent liabilities	8,602	8,540
Commitments and contingencies		
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts*	1,000	-
Shareowners' Equity		
Preferred shares ($1 par value, 10,000,000 authorized: none issued)	-	-
Common shares ($1 par value, 2,200,000,000 authorized: issued 933,772,624 at December 31, 1996 and 933,861,842 at December 31, 1995)	934	934
Capital in excess of par value	9,422	9,398
Retained earnings (deficit)	1,297	(316)
Guaranteed obligations of employee stock ownership plans	(229)	(272)
Deferred Compensation - LESOP trust	(161)	(242)
Foreign currency translation adjustment	(637)	(578)
Treasury shares (20,616,939 at December 31, 1996 and 11,122,981 at December 31, 1995, at cost)	(985)	(481)
Total shareowners' equity	9,641	8,443
Total Liabilities and Shareowners' Equity	$ 39,485	$ 37,112

* 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.

SBC Communications Inc.
Consolidated Statements of Cash Flows

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

	1996	1995	1994
Operating Activities			
Net income (loss)	$ 3,279	$ (3,064)	$ 2,800
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,109	4,034	3,824
Undistributed earnings from investments in equity affiliates	(138)	(58)	(134)
Provision for uncollectible accounts	395	346	305
Amortization of investment tax credits	(80)	(95)	(124)
Deferred income tax expense	626	609	(20)
Extraordinary loss, net of tax	-	6,022	-
Cumulative effect of accounting change, net of tax	(90)	-	-
Spun-off operations	-	-	(23)
Changes in operating assets and liabilities:			
Accounts receivable	(765)	(463)	(493)
Other current assets	(50)	77	(97)
Accounts payable and accrued liabilities	632	(76)	556
Other - net	(502)	(542)	321
Total adjustments	4,137	9,854	4,115
Net Cash Provided by Continuing Operations	7,416	6,790	6,915
Net Cash Provided by Spun-off Operations	-	-	18
Net Cash Provided by Operating Activities	7,416	6,790	6,933
Investing Activities			
Construction and capital expenditures	(5,481)	(4,338)	(3,981)
Investments in affiliates	(74)	(54)	(25)
Purchase of short-term investments	(1,005)	(704)	(325)
Proceeds from short-term investments	816	587	390
Dispositions	96	14	296
Acquisitions	(442)	(1,186)	(1,238)
Net investment in spun-off operations	-	-	33
Net Cash Used in Continuing Operations	(6,090)	(5,681)	(4,850)
Net Cash used in spun-off operations	-	-	(332)
Net Cash Used in Investing Activities	(6,090)	(5,681)	(5,182)

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

SBC Communications Inc.
Consolidated Statements of Cash Flows

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

	1996	1995	1994
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	(977)	1,402	(129)
Issuance of other short-term borrowings	209	91	36
Repayment of other short-term borrowings	(134)	(91)	(41)
Issuance of long-term debt	989	981	355
Repayment of long-term debt	(408)	(1,086)	(462)
Early extinguishment of debt and related call premiums	-	(465)	-
Issuance of trust originated preferred securities	1,000	-	-
Issuance of common shares	111	74	180
Purchase of treasury shares	(650)	(216)	(447)
Issuance of treasury shares	52	82	18
Dividends paid	(1,664)	(1,814)	(1,744)
Other	(106)	-	(18)
Net Cash Used in Continuing Operations	(1,578)	(1,042)	(2,252)
Net cash provided by spun-off operations	-	-	39
Net Cash Used in Financing Activities	(1,578)	(1,042)	(2,213)
Net Cash Provided by (Used in) all Activities	(252)	67	(462)
Less spun-off operations	-	-	(275)
Net increase (decrease) in cash and cash equivalents	(252)	67	(187)
Cash and cash equivalents beginning of year	566	499	686
Cash and Cash Equivalents End of Year	$ 314	$ 566	$ 499

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

SBC Communications Inc.

Consolidated Statements of Shareowners' Equity

Dollars in millions except per share amounts

	Common Shares		Capital in Excess of Par Value	Retained Earnings (Deficit)	Guaranteed Obligations of Employee Stock Ownership Plans	Deferred Compensation Leveraged Employee Stock Ownership Trust	Foreign Currency Translation Adjustment	Treasury Shares		Total
	Shares	Amount						Shares	Amount	
Balance, December 31, 1993	912,191,021	$912	$11,400	$3,757	$(353)	$(386)	$(39)	(2,510,404)	$(110)	$15,181
Net income for the year ($3.07 per share)	-	-	-	2,800	-	-	-	-	-	
Dividends to shareowners ($1.58 per share)	-	-	-	(1,878)	-	-	-	-	-	
Spun-off stock distribution	-	-	(2,901)	-	-	-	-	-	-	
Reduction of debt associated with Employee Stock Ownership Plans	-	-	-	-	38	-	-	-	-	
Cost of LESOP trust shares allocated to employee accounts	-	-	-	-	-	80	-	-	-	
Foreign currency translation adjustment, net of income tax benefit of $197	-	-	-	-	-	-	(324)	-	-	
Issuance of common shares:										
Dividend Reinvestment Plan	3,334,668	4	134	-	-	-	-	-	-	
Other issuances	15,140,077	15	621	-	-	-	-	-	-	
Purchase of treasury shares	-	-	-	-	-	-	-	(11,301,550)	(447)	
Issuance of treasury shares	-	-	4	-	-	-	-	2,410,326	94	
Other	-	-	-	(14)	-	-	-	-	-	
Balance, December 31, 1994	930,665,766	931	9,258	4,665	(315)	(306)	(363)	(11,401,628)	(463)	13,407
Net income (loss) for the year ($(3.33) per share)	-	-	-	(3,064)	-	-	-	-	-	
Dividends to shareowners ($1.65 per share)	-	-	-	(1,933)	-	-	-	-	-	
Reduction of debt associated with Employee Stock Ownership Plans	-	-	-	-	43	-	-	-	-	
Cost of LESOP trust shares allocated to employee accounts	-	-	-	-	-	64	-	-	-	
Foreign currency translation adjustment, net of income tax benefit of $116	-	-	-	-	-	-	(215)	-	-	
Issuances of common shares	3,196,076	3	129	-	-	-	-	-	-	
Purchase of treasury shares	-	-	-	-	-	-	-	(4,610,713)	(216)	
Issuance of treasury shares:										
Dividend Reinvestment Plan	-	-	19	-	-	-	-	2,730,666	111	
Other issuances	-	-	(8)	-	-	-	-	2,158,694	87	
Other	-	-	-	16	-	-	-	-	-	
Balance, December 31, 1995	933,861,842	934	9,398	(316)	(272)	(242)	(578)	(11,122,981)	(481)	8,443
Net income for the year ($3.56 per share)	-	-	-	3,279	-	-	-	-	-	
Dividends to shareowners ($1.72 per share)	-	-	-	(1,680)	-	-	-	-	-	
Reduction of debt associated with Employee Stock Ownership Plans	-	-	-	-	43	-	-	-	-	
Cost of LESOP trust shares allocated to employee accounts	-	-	-	-	-	81	-	-	-	
Foreign currency translation adjustment, net of income tax benefit of $28	-	-	-	-	-	-	(59)	-	-	
Purchases of common shares	(89,218)	-	-	-	-	-	-	-	-	
Purchase of treasury shares	-	-	-	-	-	-	-	(13,099,709)	(650)	
Issuance of treasury shares:										
Dividend Reinvestment Plan	-	-	26	-	-	-	-	2,667,752	109	
Other issuances	-	-	(5)	-	-	-	-	937,999	37	
Other	-	-	3	14	-	-	-	-	-	
Balance, December 31, 1996	933,772,624	$934	$9,422	$1,297	$(229)	$(161)	$(637)	(20,616,939)	$(985)	$9,641

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

Notes to Consolidated Financial Statements

Dollars in millions except per share amounts

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). SBC's subsidiaries and affiliates operate predominantly in the communications services industry, providing landline and wireless telecommunications services and equipment, directory advertising and cable television services both domestically and worldwide.

SBC's largest subsidiaries are Southwestern Bell Telephone Company (SWBell) providing telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area), and Pacific Telesis Group (PAC), providing telecommunications services in California and Nevada. PAC's subsidiaries include Pacific Bell (PacBell, which also includes its subsidiaries) and Nevada Bell. (SWBell, PacBell and Nevada Bell are collectively referred to as the Telephone Companies.)

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.

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.

Cumulative Effect of Accounting Change - Prior to January 1, 1996, Pacific Bell Directory (a subsidiary of PacBell) recognized revenues and expenses related to publishing directories in California using the "amortization" method, under which revenues and expenses were recognized over the lives of the directories, generally one year. The change in methodology was made because it is the method generally followed in the publishing industry, including Southwestern Bell Yellow Pages, and better reflects the operating activity of the business.

The cumulative after-tax effect of applying the change in method to prior years is recognized as of January 1, 1996 as a one-time, non-cash gain applicable to continuing operations of $90, or $0.10 per share. The gain is net of deferred taxes of $53. Had the current method been applied during 1995 and 1994, income before extraordinary loss and 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. Prior to the discontinuance of regulatory accounting in the third quarter of 1995, SWBell and PacBell computed depreciation using certain straight-line methods and rates as prescribed by regulators. 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, PCS and television licenses, cable television 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, 1996 and 1995, amounts included in net intangible assets for licenses were $2,695 and $2,692. 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 lives of the associated hardware.

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

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.

Earnings Per Common Share - The earnings per common share computation uses the weighted average number of common shares outstanding, including shares held by employee stock ownership plans. Common stock equivalents outstanding are not considered dilutive.

2. Discontinuance of Regulatory Accounting

In the third quarter of 1995, SWBell and PacBell discontinued their application of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71). FAS 71 requires depreciation of telephone plant using lives set by regulators which are generally longer than those established by unregulated companies, and deferral of certain costs and obligations based on regulatory actions (regulatory assets and liabilities). As a result of the adoption of price-based regulation for most of SWBell's revenues and the acceleration of competition in the California and five-state area telecommunications markets, management determined that SWBell and PacBell no longer met the criteria for application of FAS 71.

Dollars in millions except per share amounts

Upon discontinuance of FAS 71 by SWBell and PacBell, SBC recorded a non-cash, extraordinary charge to net income of $6,022 (after a net deferred tax benefit of $4,037). This charge was comprised of an after-tax charge of $5,739 to reduce the net carrying value of telephone plant, and an after-tax charge of $283 for the elimination of net regulatory assets. The components of the charge were as follows:

	Pre-tax	After-tax
Increase telephone plant accumulated depreciation	$ 9,476	$ 5,739
Elimination of net regulatory assets	583	283
Total	$ 10,059	$ 6,022

The increase in accumulated depreciation of $9,476 reflected the effects of adopting depreciable lives for SWBell's and PacBell's plant categories which more closely reflect the economic and technological lives of the plant. The adjustment was supported by discounted cash flow analyses which estimated amounts of telephone plant that may not be recoverable from discounted future cash flows. These analyses included consideration of the effects of anticipated competition and technological changes on plant lives and revenues.

Following is a comparison of new lives to those prescribed by regulators for selected plant categories:

	Average Lives (in Years)	
	Regulator-Prescribed	Estimated Economic
Digital switch	17	10-11
Digital circuit	10-12	7-8
Copper cable	19-26	14-18
Fiber cable	27-30	20
Conduit	57-59	50

The increase in accumulated depreciation at SWBell also included an adjustment of approximately $450 to fully depreciate analog switching equipment scheduled for replacement. Remaining analog switching equipment is being depreciated using an average remaining life of four years.

The discontinuance of FAS 71 for external financial reporting purposes also required the elimination of net regulatory assets of $583. Regulatory assets and liabilities are related primarily to accounting policies used by regulators in the ratemaking process which are different from those used by non-regulated companies. The differences arose predominantly in the accounting for income taxes, deferred compensated absences, and, in California, pension costs and debt redemption costs. These items are required to be eliminated with the discontinuance of accounting under FAS 71. SWBell and PacBell accounting and reporting for regulatory purposes are not affected by the discontinuance of FAS 71 for external financial reporting purposes.

With the discontinuance of FAS 71, SWBell and PacBell began accounting for interest on funds borrowed to finance construction as an increase in property, plant and equipment and a reduction of interest expense. Under the provisions of FAS 71, both companies capitalized both interest and equity costs allowed by regulators during periods of construction as other income and as an addition to the cost of plant constructed. Additionally, PacBell began accounting for pension costs under Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," (FAS 87) and Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" (FAS 88).

Dollars in millions except per share amounts

3. Merger Agreement

On April 1, 1997, SBC and PAC completed the merger of an SBC subsidiary with PAC, in a transaction in which each share of PAC common stock was exchanged for 0.73145 of a share of SBC common stock (equivalent to approximately 313 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. Accordingly, the financial statements for the periods presented have been restated to include the accounts of PAC. These are supplemental consolidated financial statements which will become the historical consolidated financial statements of SBC upon issuance of financial statements for the quarter ending June 30, 1997.

Operating revenues, income before extraordinary loss and cumulative effect of accounting change and net income (loss) of the separate companies for the last three years were as follows:

Year Ended December 31,	1996	1995	1994
Operating revenues:			
SBC	$ 13,898	$ 12,670	11,772
PAC	9,588	9,042	9,234
Combined	$ 23,486	$ 21,712	$ 21,006
Income before extraordinary loss and cumulative effect of accounting change:			
SBC	$ 2,101	$ 1,889	$ 1,649
PAC	1,057	1,048	1,159
Adjustments	31	21	(8)
Combined	$ 3.189	$ 2,958	$ 2,800
Net income (loss):			
SBC	$ 2,101	$ (930)	$ 1,649
PAC	1,142	(2,312)	1,159
Adjustments	36	178	(8)
Combined	$ 3,279	$ (3,064)	$ 2,800

The combined results include the effect of changes applied retroactively to conform accounting methodologies between PAC and SBC for, among other items, pensions, postretirement benefits, sales commissions and merger transaction costs as well as certain deferred tax adjustments resulting from the merger. In each case, SBC believes the new methods are more prevalent and better reflect the operations of the business. 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 amount, $72 is included in expenses in 1996. The remainder will be reflected in 1997 expenses.

Effective with the merger, SBC has begun a complete review of all of its subsidiaries, including subsidiaries of PAC. Approximately 50 review teams are examining operational functions within the companies and evaluating all strategic initiatives. The teams will identify synergies between the companies, establish uniform system requirements and redirect strategic efforts. SBC cannot currently estimate the amount of future savings to be derived from this process or the amount of current and future costs associated with reorganizing functions and reevaluating strategies that SBC will incur; however, significant changes in strategic initiatives or combinations of common functions would result in material charges to SBC's 1997 results of operations. SBC anticipates the review teams will complete the evaluation phase by the end of the second quarter.

Dollars in millions except per share amounts

4. Property, Plant and Equipment

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

	1996	1995
Telephone Companies plant		
In service	$ 56,638	$ 54,152
Under construction	1,614	1,042
	58,252	55,194
Accumulated depreciation and amortization	(34,515)	(32,698)
Total Telephone Companies	23,737	22,496
Other	3,534	2,819
Accumulated depreciation and amortization	(1,191)	(941)
Total other	2,343	1,878
Property, plant and equipment--net	$ 26,080	$ 24,374

SBC's depreciation expense as a percentage of average depreciable plant was 7.2% for 1996, 7.4% for 1995, and 7.2% for 1994.

Certain facilities and equipment used in operations are under operating or capital leases. Rental expenses under operating leases for 1996, 1995 and 1994 were $207, $166 and $159. At December 31, 1996, the future minimum rental payments under noncancelable operating leases for the years 1997 through 2001 were $124, $109, $103, $57 and $35, and $180 thereafter. Capital leases were not significant.

Dollars in millions except per share amounts

5. Equity Investments

Investments in affiliates accounted for under the equity method consist principally of 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. In January 1997, SBC sold a portion of its L shares so that its total equity investment was below 10% of Telmex's total equity capitalization.

In December 1994 SBC made an equity investment in French cellular operations (see Note 12). Other equity investments held by SBC include interests in Australian and Israeli operations which provide directory, cable television and other services, minority ownership of several domestic wireless properties and 1995 investments in Chilean telecommunications and South African wireless operations.

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

	1996	1995	1994
Beginning of year	$ 1,616	$ 1,776	$ 1,458
Additional investments	337	447	629
Equity in net income	207	120	224
Dividends received	(70)	(62)	(90)
Currency translation adjustment	(94)	(268)	(560)
Reclassifications and other adjustments	(32)	(397)	115
End of year	$ 1,964	$ 1,616	$ 1,776

Currency translation adjustments for 1995 and 1994 primarily reflect 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 those years. Beginning in 1997, SBC will use 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 1995 reflect the change to the cost method of accounting in October 1995 for SBC's United Kingdom cable television operations (see Note 13) and the reclassification of a credit deferred in 1994 pending completion of the French cellular investment in 1995. Other adjustments for 1994 reflect the change to the equity method of accounting for SBC's previously consolidated United Kingdom cable television operations.

Undistributed earnings from equity affiliates were $762 and $624 at December 31, 1996 and 1995.

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

6. Debt

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

		1996	1995
SWBell			
Debentures			
4.50%-5.88%	1997-2006	$ 600	$ 600
6.12%-6.88%	2000-2024	1,200	1,200
7.00%-7.75%	2009-2026	1,500	1,500
8.30%	1996	-	200
		3,300	3,500
Unamortized discount--net of premium		(29)	(31)
Total debentures		3,271	3,469
Notes			
5.04%-7.67%	1997-2010	1,118	950
Unamortized discount		(6)	(5)
Total notes		1,112	945
PacBell			
Debentures			
4.62%-5.88%	1999-2006	475	225
6.00%-6.88%	2002-2034	1,194	945
7.12%-7.75%	2008-2043	2,150	2,150
8.50%	2031	225	225
		4,044	3,545
Unamortized discount--net of premium		(89)	(85)
Total debentures		3,955	3,460
Notes			
6.25%-8.70%	2001-2005	1,150	1,150
Unamortized discount		(18)	(20)
Total notes		1,132	1,130
Other notes			
5.70%-6.98%	1996-2007	310	316
7.00%-9.50%	1996-2020	1,140	1,263
		1,450	1,579
Unamortized discount		(14)	(21)
Total other notes		1,436	1,558
Guaranteed obligations of employee stock ownership plans [1]			
8.41%-9.40%	1996-2000	208	260
Capitalized leases		303	48
Total long-term debt, including current maturities		11,417	10,870
Current maturities		(487)	(461)
Total long-term debt		$ 10,930	$ 10,409

[1] See Note 9.

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.

Dollars in millions except per share amounts

At December 31, 1996, the aggregate principal amounts of long-term debt scheduled for repayment for the years 1997 through 2001 were $487, $347, $582, $485 and $509. As of December 31, 1996, SBC was in compliance with all covenants and conditions of instruments governing its debt.

During 1996, PAC entered into sale and leaseback arrangements to finance equipment associated with the buildout of its PCS network. As of December 31, 1996 the obligation remaining for this group of leases is $270. These leases are classified as capitalized leases and the related assets are classified as property, plant and equipment.

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

	1996	1995
Commercial paper	$ 1,848	$ 2,749
Current maturities of long-term debt	487	461
Total	$ 2,335	$ 3,210

The weighted average interest rate on commercial paper debt at December 31, 1996 and 1995 was 6.0% and 5.8%. SBC has entered into agreements with several banks for lines of credit totaling $750. 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, 1996. 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 $2,800 at December 31, 1996.

7. 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:

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
SWBell debentures	$3,271	$3,208	$3,469	$3,553
SWBell notes	1,112	1,115	945	965
PacBell debentures	3,955	3,917	3,460	3,651
PacBell notes	1,132	1,171	1,130	1,224
Other notes	1,436	1,478	1,558	1,629
Trust originated preferred securities (TOPrS)	1,000	990	-	-
Guaranteed obligations of employee stock ownership plans[(1)]	208	219	260	280

[(1)] See Note 10.

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. TOPrS are subject to a limited guarantee from PAC. 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. 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.

As of December 31, 1996, Pacific Telesis Financing I and II held subordinated debt securities of PAC in principal amounts of $515.5 and $514.5, respectively, with interest rates of 7.56% and 8.5%, respectively.

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 SARs. (See Note 11) 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, $60 and $77 as of December 31, 1996 and 1995 respectively, covers the approximate number of the options and SARs outstanding 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, 1996 and 1995. Gains and losses from quarterly market adjustments of the carrying amounts are substantially offset in results of operations. As of December 31, 1996 and 1995, the accounting loss that would be incurred from nonperformance by the counterparty to the equity swap was $4 and $14, respectively. However, management does not expect to realize any loss from counterparty nonperformance.

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

8. Income Taxes

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

	1996	1995
Depreciation and amortization	$ 3,283	$ 3,072
Other	1,019	820
Deferred tax liabilities	4,302	3,892
Employee benefits	2,221	2,206
Unamortized investment tax credits	195	224
Other	1,328	1,503
Deferred tax assets	3,744	3,933
Deferred tax assets valuation allowance	96	110
Net deferred tax liabilities	$ 654	$ 69

In 1996 the State of California reduced the corporate tax rate from 9.3% to 8.84%, effective for taxable years beginning on or after January 1, 1997. In accordance with generally accepted accounting principles, net deferred tax assets at December 31, 1996 were revalued to reflect the lower tax rate. This revaluation increasing state income tax expense, net of federal income tax, and decreasing net income was not material in 1996.

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:

	1996	1995	1994
Federal			
Current	$ 1,242	$ 829	$ 1,347
Deferred--net	468	520	(49)
Amortization of investment tax credits	(80)	(95)	(124)
	1,630	1,254	1,174
State and local			
Current	172	176	245
Deferred--net	158	89	29
	330	265	274
Total	$ 1,960	$ 1,519	$ 1,448

Dollars in millions except per share amounts

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

	1996	1995	1994
Taxes computed at federal statutory rate	$ 1,802	$ 1,567	$ 1,479
Increases (decreases) in income taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits--1996 and 1995, net of deferred income tax	(53)	(92)	(124)
Excess deferred income taxes due to rate change	-	(24)	(35)
Depreciation of telephone plant construction costs previously deducted for tax purposes--net	-	14	23
State and local income taxes--net of federal income tax benefit	215	172	178
Other--net	(4)	(118)	(73)
Total	$ 1,960	$ 1,519	$ 1,448

9. 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, employees' benefits 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.

SBC reports pension costs and related obligations under the provisions of FAS 87 and FAS 88. However, prior to discontinuing application of FAS 71 during 1995, PacBell recognized pension costs consistent with the methods adopted for ratemaking. Nevada Bell continues to follow the accounting method prescribed by the Public Service Commission of Nevada. Pension costs recognized by PacBell under FAS 71 reflected a California Public Utilities Commission (CPUC) order requiring the continued use of the aggregate cost method for intrastate operations and a Federal Communications Commission (FCC) requirement to use FAS 87 and FAS 88 for interstate operations. (See Note 2)

Net pension cost is composed of the following:

	1996	1995	1994
Service cost--benefits earned during the period	$ 297	$ 311	$ 354
Interest cost on projected benefit obligation	1,131	1,161	1,142
Actual return on plan assets	(2,919)	(4,232)	(24)
Other--net	1,270	2,813	(1,396)
Net periodic pension cost (benefit) under FAS 87	(221)	53	76
Adjustment to reflect differing regulatory treatment	-	-	18
Net pension cost (benefit)	$ (221)	$ 53	$ 94

Dollars in millions except per share amounts

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

	1996	1995
Fair value of plan assets	$ 20,738	$ 20,019
Less: Actuarial present value of projected benefit obligation	15,006	17,339
Plan assets in excess of projected benefit obligation	5,732	2,680
Unrecognized prior service cost	845	992
Unrecognized net gain	(6,072)	(3,272)
Unamortized transition asset	(973)	(1,099)
Accrued pension cost	$ (468)	$ (699)

The projected benefit obligation was increased $202 and $407 at December 31, 1996 and 1995, respectively, for the cost of force reductions anticipated to take place in 1996 and 1997 and recognized in the SBC's financial statements under FAS 88.

Significant weighted average assumptions used in developing pension information include:

	1996	1995	1994
Discount rate for determining projected benefit obligation	7.5%	7.25%	7.78%
Long-term rate of return on plan assets	8.55%	8.0%	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.

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, 1996 was $13,965, of which $12,376 was vested. At December 31, 1995 these amounts were $15,433 and $13,565. The reduction in the accumulated benefit obligation in 1996 reflects the changes noted above.

During 1996, 1995 and 1994, special pension benefits and cash incentives were offered in connection with PacBell restructuring and related force reduction program. Approximately 4,200, 2,200 and 3,800 employees left PacBell during 1996, 1995 and 1994, respectively, under retirement or voluntary and involuntary severance programs. Annual pension cost excludes $(64), $219 and $62 of additional pension costs charged to PacBell's restructuring reserve in 1996, 1995 and 1994, respectively.

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.

Dollars in millions except per share amounts

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 $88, $91 and $94 in 1996, 1995 and 1994. Liabilities of $758 and $701 related to these plans have been included in other noncurrent liabilities in SBC's Consolidated Balance Sheets at December 31, 1996 and 1995.

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. However, employees retiring after certain dates will pay a share of the costs of medical coverage that exceeds 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:

	1996	1995	1994
Service cost--benefits earned during the period	$ 101	99	$ 108
Interest cost on accumulated postretirement benefit obligation (APBO)	475	496	489
Actual return on assets	(375)	(452)	(19)
Other--net	208	318	(87)
Postretirement benefit cost	$ 409	$ 461	$ 491

SBC maintains Voluntary Employee Beneficiary Association (VEBA) trusts to fund postretirement benefits. During 1996 and 1995, SBC contributed $320 and $455 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:

	1996	1995
Retirees	$ 4,047	$ 4,200
Fully eligible active plan participants	706	583
Other active plan participants	1,819	1,867
Total APBO	6,572	6,650
Less: Fair value of plan assets	2,697	2,169
APBO in excess of plan assets	3,875	4,481
Unrecognized prior service cost	(31)	(38)
Unrecognized net gain	1,119	616
Accrued postretirement benefit obligation	$ 4,963	$ 5,059

In December 1995, one of the life insurance benefit plans was merged with one of the medical plans. Also in December 1995, $109 of postretirement life insurance assets were transferred to the VEBA trusts. The fair value of plan assets restricted to the payment of life insurance benefits only were $746 and $700 at December 31, 1996 and 1995. At December 31, 1996 and 1995, the accrued life insurance benefits included in the accrued postretirement benefit obligation were $57 and $42.

The assumed medical cost trend rate in 1997 is 8%, 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 rate in 1997 is 6.25%, 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, 1996 by $557 and increases the aggregate service and interest cost components of the net periodic postretirement benefit cost for 1996 by approximately $53. 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.

Dollars in millions except per share amounts

10. 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 three leveraged Employee Stock Ownership Plans (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 recorded as a liability. 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 is 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 this 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:

	1996	1995	1994
Benefit expense--net of dividends and interest income	$ 65	$ 66	$ 67
Interest expense--net of dividends and interest income	26	37	36
Net ESOP expense	91	103	103
Additional savings plans stock purchases	-	-	(1)
Total expense	$ 91	$ 103	$ 102
Company contributions for ESOPs	$ 108	$ 89	$ 118
Dividends and interest income for debt service	$ 62	$ 72	$ 62

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

	1996	1995
Unallocated	15,502,896	16,136,159
Committed to be allocated	177,594	274,425
Allocated to participants	15,559,574	16,209,602
Total	31,240,064	32,620,186

11. Stock Based Compensation

Under various SBC plans, senior and other management employees have received stock options and SARs to purchase 41 million shares of SBC common stock. As of December 31, 1996, SBC is authorized to issue options to purchase up to an additional 37 million shares remain authorized for issuance. Options issued through December 31, 1996 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 plan, vesting of options occurs up to three years from the date of grant.

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 stock based compensation plans has been recognized other than for restricted stock and SARs which totaled $2 and $1 for 1996 and 1995, respectively. 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 1996 and 1995 as defined by FAS 123, SBC's net income (loss) would have been $3,250 and $(3,074) and net income (loss) per share would have been $3.53 and $(3.34).

Options and SARs held by the continuing employees of PAC at the time of the spin-off (see Note 15) 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 7). As of December 31, 1996, 2,182,369 supplemental spun-off operations options and SARs were outstanding with expiration dates ranging from 1997 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 three 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 1996 and 1995: risk-free interest rate of 6.26% and 6.34%; dividend yield of 4.92% and 3.61%; expected volatility factor of 18% and 18%; and expected option life of 4.7 and 4.6 years.

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

Information related to options and SARs is summarized below:

	Number	Weighted Average Exercise Price
Outstanding at January 1, 1994	14,318,818	$35.25
Granted	10,504,532	42.72
Exercised	(1,304,357)	32.14
Forfeited/Expired	(505,278)	38.04
Replaced - Spun-off operations	(1,019,633)	33.17
Outstanding at December 31, 1994	21,994,082	39.03
(7,942,775 exercisable at weighted average price of $34.60)		
Granted	8,367,822	46.97
Exercised	(2,186,670)	33.79
Forfeited/Expired	(754,684)	42.71
Outstanding at December 31, 1995	27,420,550	41.77
(12,762,259 exercisable at weighted average price of $38.10)		
Granted	12,321,638	45.96
Exercised	(1,883,710)	37.45
Forfeited/Expired	(759,276)	43.11
Outstanding at December 31, 1996	**37,099,202**	**$43.35**
(17,761,413 exercisable at weighted average price of $40.25)		

Information related to options and SARs outstanding at December 31, 1996:

Exercise Price Range	$22.00-26.99	$27.00-39.99	$40.00-44.99	$45.00-57.38
Number of options and SARs:				
Outstanding	78,305	8,315,629	12,986,852	15,718,416
Exercisable	78,305	4,501,735	11,653,036	1,528,337
Weighted average exercise price:				
Outstanding	$24.05	$ 35.26	$ 42.04	$ 48.81
Exercisable	$24.05	$ 33.42	$ 42.07	$ 47.35
Weighted average remaining contractual life	1.8 years	4.9 years	7.2 years	6.2 years

The weighted-average grant-date fair value of each option granted during the year was $6.90 for 1996 and $8.31 for 1995.

Options and SARs outstanding but not exercisable at December 31, 1996 include 3,811,502 held by PAC employees. All options and SARs held by PAC employees became exercisable effective with the merger.

12. Shareowners' Equity

Share Repurchases - From time to time, SBC has repurchased shares of common stock for distribution, to offset shares distributed through its employee benefit plans and SBC's Dividend Reinvestment Plan, in connection with certain acquisitions or for general purposes. In January 1997, the Board of Directors of SBC (Board) rescinded all authorizations to repurchase common stock.

Guaranteed Obligations of Employee Stock Ownership Plans - SBC's guarantee of certain ESOP notes issued by savings plans (see Note 10) is presented as a reduction to shareowners' equity and an increase in long-term debt. The amount of debt guaranteed decreases as the notes are repaid.

Shareowners' Rights Plan - The Shareowners' Rights Plan (Plan) becomes operative in certain events involving the acquisition of 20% or more of SBC's common stock by any person or group in a transaction not approved by the Board, or the designation by the Board of a person or group owning more than 10% of the outstanding stock as an adverse person, as provided in the Plan. Upon the occurrence of these events, each right, unless redeemed by the Board, generally entitles the holder (other than the holder triggering the right) to purchase an amount of common stock of SBC (or, in certain circumstances, of the potential acquiror) having a value equal to two times the exercise price of $160. The rights expire in January 1999. After giving effect to a stock split in May 1993, effected in the form of a stock dividend, each share of common stock represents one-half of a right.

The rights have certain antitakeover effects. The rights will cause substantial dilution to a person or group that attempts to acquire SBC on terms not approved by the Board.

The rights should not interfere with any merger or other business combination approved by the Board since the rights may be redeemed.

13. Acquisitions and Dispositions

In October 1995, SBC combined its United Kingdom cable television operations 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. (TeleWest), is the largest cable television operator in the United Kingdom. SBC owns approximately 15% of the new entity and accounts for its investment using the cost method of accounting. Restrictions expiring over the next four years exist on the sale of SBC's interest in TeleWest. SBC recorded an after-tax gain of $111 associated with the combination.

During 1995, SBC purchased at auction PCS licenses in Los Angeles-San Diego, California; San Francisco-Oakland-San Jose, California; Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma for approximately $769. During 1996, SBC received several AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis and Little Rock and other consideration.

During 1994, SBC purchased two cable television systems located in Montgomery County, Maryland, and Arlington County, Virginia, for $650. Also in 1994, SBC acquired the domestic wireless business of Associated Communications Corporation (Associated) for $705, including wireless systems in Buffalo, Rochester, Albany and Glens Falls, New York, and in two separate transactions purchased smaller wireless systems in Syracuse, Utica and Ithaca, New York, which are adjacent to the Associated properties.

In October 1994, SBC formed a strategic alliance with Compagnie Génerale des Eaux (CGE), a French diversified public company. Through this alliance, SBC 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 $376. This investment is accounted for under the equity method of accounting.

In addition to payments shown in the Consolidated Statements of Cash Flows, the 1994 acquisitions were also financed through the issuance of 16 million new and treasury shares, valued at approximately $660, and the issuance of approximately $360 of long-term debt. All of the acquisitions were accounted for under the purchase method of accounting. The purchase prices in excess of the underlying fair value of identifiable net assets acquired are being amortized over periods not 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 1995 and 1994, nor would they had they occurred on January 1 of the respective periods.

Dollars in millions except per share amounts

14. Additional Financial Information

Balance Sheets	December 31, 1996	1995
Accounts payable and accrued liabilities		
Accounts payable	$ 2,741	$ 2,639
Accrued taxes	893	472
Advance billing and customer deposits	611	672
Compensated future absences	479	477
Accrued interest	279	265
Accrued payroll	194	173
Other	1,387	1,328
Total	$ 6,584	$ 6,026

Statements of Income	1996	1995	1994
Interest expense incurred	$ 948	$ 1,000	$ 935
Capitalized interest	(136)	(43)	-
Total interest expense	$ 812	$ 957	$ 935
Allowance for funds used during construction	-	$ 48	$ 48

Statements of Cash Flows	1996	1995	1994
Cash paid during the year for:			
Interest	$ 908	$ 996	$ 923
Income taxes	$ 1,283	$ 1,220	$ 1,665

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

Several subsidiaries of SBC have negotiated contracts with the Communications Workers of America (CWA), none of which is subject to renegotiation in 1997. Approximately 66% of SBC's employees are represented by the CWA.

Dollars in millions except per share amounts

15. Spun-Off Operations

Effective April 1, 1994, PAC spun off to shareowners its domestic and international cellular, paging and other wireless operations in a one-for-one stock distribution of its 86% interest in AirTouch Communications, Inc. The stock distribution was recorded as a stock dividend from paid-in capital at the carrying amount of the net assets of spun-off operations. As a result, PAC's total assets and shareowners' equity were each reduced by $2.9 billion in 1994. The stock distribution itself was a non-cash transaction, which did not affect PAC's cash flow statement.

Under a separation agreement, any unrecorded non-tax contingent liabilities that become certain after the spin-off date will be allocated based on origin of the claim, and acts by, or benefits to, PAC or the spun-off operations. In addition, PAC's responsibilities have been terminated in connection with any future obligations under the spun-off operations' joint venture agreement with Cellular Communications, Inc., and under various financial instrument contracts.

PAC's previous interests in the net revenues and expenses of the spun-off operations prior to April 1, 1994, are classified separately as income from spun-off operations in the income statement.

The components of income from operations through March 31, 1994 are summarized below:

Operating revenues	$	259
Operating expenses		225
Operating income		34
Other income (expense)-net		22
Income before income taxes		56
Income taxes		29
Income before minority interest		27
Minority interest of other shareowners		(4)
Income from spun-off operations	$	23

PAC's cash flow statement for 1994 includes separately the cash flows of spun-off operations.

16. Restructuring Reserve

In December 1993 a reserve was established to record the incremental cost of force reductions associated with restructuring PacBell's business processes through 1997. This reserve is to cover the incremental severance costs associated with terminating more than 14,000 employees through 1997. It is also to cover the incremental costs of consolidating and streamlining operations and facilities to support this downsizing initiative. The remaining reserve balance as of December 31, 1996 and 1995, was $97 and $228, respectively.

Dollars in millions except per share amounts

17. Commitments And Contingencies

Purchase Commitments - In December 1994, PacBell contracted for the purchase of up to $2,000 of Advanced Communications Network ("ACN") facilities, which incorporated new technologies. During 1995, the ability to deploy the facilities outstripped the ACN vendors' ability to deliver necessary products and software. Accordingly, management decided to suspend construction at certain sites, which reduced the expected cost to less than $700. If ACN facilities meet certain quality and performance criteria (the Network Test), PacBell is committed to purchase the ACN facilities in 1998. If ACN facilities are acquired, due to competition or other factors affecting PacBell's ability to recover its investment in these facilities, their value to PacBell could be materially impaired. If ACN facilities fail the Network Test, PacBell will not be committed to buy the ACN facilities but might be liable to reimburse the principal ACN vendor for some construction costs up to $300, which would also result in a material charge

As of December 31, 1996, PacBell had purchase commitments of about $208 remaining in connection with its previously announced program for deploying an all digital switching platform with ISDN and SS-7 capabilities.

Revenues Subject to Refund - In 1992, the CPUC issued a decision adopting, with modification, FAS 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," for regulatory accounting purposes. Annual price cap decisions by the CPUC granted PacBell approximately $100 in each of the years 1993-1996 for partial recovery of higher costs under FAS 106. In October 1994 the CPUC reopened the proceeding to determine the criteria for exogenous cost treatment and whether PacBell should continue to recover these costs. The CPUC's order also held that related revenues collected after October 12, 1994, were subject to refund plus interest pending this future proceeding. Subsequently, the CPUC reaffirmed that postretirement benefits costs are appropriately recoverable in PacBell's price cap filings.

Property Tax Investigation - In 1992, a settlement agreement was reached between the State Board of Equalization, all California counties, the State Attorney General, and 28 utilities, including PacBell, on a specific methodology for valuing utility property for property tax purposes for a period of eight years. The CPUC opened an investigation to determine if any resulting property tax savings should be returned to 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. These intervenors have also asserted that past property tax savings totaling as much as approximately $70 as of December 31, 1996, plus interest should be returned to customers. Management believes that, under the CPUC's regulatory framework, any property tax savings should be treated only as a component of the calculation of shareable earnings and not as an exogenous cost. In an Interim Opinion issued in June 1995, the CPUC decided to defer a final decision on this matter pending resolution in a separate proceeding of the criteria for exogenous cost treatment under its regulatory framework.

Dollars in millions except per share amounts

18. Quarterly Financial Information (Unaudited)

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income (Loss)	Earnings per Common Share	Stock Price [4] High	Low	Close
1996							
First [1]	$ 5,574	$ 1,458	$ 888	$ 0.96	$ 60.250	$ 49.750	$ 52.625
Second	5,738	1,489	803	0.87	50.750	46.250	49.250
Third	5,957	1,532	867	0.94	51.000	46.000	48.125
Fourth	6,217	1,357	721	0.79	55.250	47.000	51.875
Annual [1]	$ 23,486	$ 5,836	$ 3,279	$ 3.56			
1995							
First	$ 5,164	$ 1,233	$ 695	$ 0.76	$ 43.875	$ 39.625	$ 42.000
Second	5,256	1,301	712	0.78	47.875	41.625	47.625
Third [2]	5,567	1,432	(5,207)	(5.64)	55.125	45.500	55.000
Fourth [3]	5,725	1,154	736	0.80	58.500	53.125	57.250
Annual [2]	$ 21,712	$ 5,120	$ (3,064)	$ (3.33)			

(1) Net Income and Earnings per Common Share reflect a cumulative effect of accounting change of $90 or $0.10 per share from change in accounting for directory operations.

(2) Net Loss and Earnings per Common Share reflect an extraordinary loss of $6,022, or $6.55 per share, from discontinuance of regulatory accounting.

(3) Operating Income reflects $139 in selling, general and administrative expenses associated with a strategic realignment of functions. These expenses include postemployment benefits for approximately 2,400 employees arising from the consolidation of operations within the five-state area, streamlining support and administrative functions and integrating financial systems.

Net Income and Earnings per Common Share reflect after-tax charges of $88 for the strategic realignment of functions and $11 for refinancing of debt and an after-tax gain of $111 from the merger of SBC's United Kingdom cable television operations into TeleWest. The net of these transactions was $12, or $0.01 per share.

(4) Represents historical trading of SBC common stock. Prices have not been adjusted to reflect the merger with PAC.

(b) Exhibits

Exhibit 18	Preferability letter on changes in accounting.
Exhibit 23-a	Consent of Ernst & Young LLP.
Exhibit 23-b	Consent of Coopers & Lybrand L.L.P.
Exhibit 27	Financial Data Schedule.

SIGNATURE

Pursuant to the requirements 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.

SBC Communications Inc.

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

May 8, 1997

EXHIBIT INDEX

Exhibit Number	
18	Preferability letter on changes in accounting.
23-a	Consent of Ernst & Young LLP.
23-b	Consent of Coopers & Lybrand L.L.P.
27	Financial Data Schedule.

EXHIBIT 18

May 8, 1997

Mr. Donald Kiernan
Senior Vice President, Treasurer and
Chief Financial Officer
SBC Communications Inc.
175 W. Houston Street
San Antonio, Texas 78205

Dear Mr. Kiernan:

Note 3 of Notes to Consolidated Financial Statements of SBC Communications Inc. (SBC) included in its Form 8-K filed in connection with the merger of SBC and Pacific Telesis Group (PAC) describes changes in the methods of accounting for pensions, postretirement benefits, and sales commissions. You have advised us that you believe that the changes are to conform the accounting methods of SBC and PAC and that the new methods are preferable because the new methods for pensions and postretirement benefits are more widely used and the new method for sales commissions is prevalent industry practice.

We conclude that the changes in the methods of accounting for the items described above are to acceptable alternative methods which, based on your business judgment to make these changes for the reasons cited above, are preferable in your circumstances.

ERNST & YOUNG LLP

EXHIBIT 23-a

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Forms S-8) pertaining to the SBC Savings Plan and Savings and Security Plan (Nos. 33-54309 and 333-24295), the Stock Savings Plan, Management Stock Savings Plan and Stock Based Savings Plan (Nos. 33-37451 and 33-54291), the SBC Communications Inc. 1992 Stock Option Plan (No. 33-49855) and the SBC Communications Inc. 1995 Management Stock Option Plan (No. 33-61715), and in the Registration Statements (Forms S-3) pertaining to the SBC Communications Inc. Dividend Reinvestment Plan (No. 333-08979), and SBC Communications Capital Corporation and SBC Communications Inc. (Nos. 33-45490 and 33-56909), and in the related Prospectuses of our report dated February 14, 1997 (except Note 3, as to which the date is April 1, 1997), with respect to the supplemental consolidated financial statements included in this Current Report (Form 8-K) for the year ended December 31, 1996.

ERNST & YOUNG LLP

San Antonio, Texas
May 7, 1997

EXHIBIT 23-b

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Form 8-K of SBC Communications Inc. of our report dated February 27, 1997, on our audits of the consolidated financial statements and financial statement schedule of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996.

Coopers & Lybrand L.L.P.

San Francisco, California
May 8, 1997

EXHIBIT 27

<DOCUMENT>
<TYPE> EX-27
<TEXT>
<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANACIAL INFORMATION EXTRACTED FROM SBC COMMUNICATIONS INC.'S DECEMBER 31, 1996 SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>
<TABLE>
<S> <C>
<PERIOD-TYPE> YEAR
<FISCAL-YEAR-END> DEC-31-1996
<PERIOD-END> DEC-31-1996
<CASH> 314,000
<SECURITIES> 432,000
<RECEIVABLES> 4,995,000
<ALLOWANCES> 311,000
<INVENTORY> 0<F1>
<CURRENT-ASSETS> 6,271,000
<PP&E> 61,786,000
<DEPRECIATION> 35,706,000
<TOTAL-ASSETS> 39,485,000
<CURRENT-LIABILITIES> 9,312,000
<BONDS> 10,930,000
<PREFERRED-MANDATORY> 0
<PREFERRED> 0
<COMMON> 934,000
<OTHER-SE> 8,707,000
<TOTAL-LIABILITY-AND-EQUITY> 39,485,000
<SALES> 0<F2>
<TOTAL-REVENUES> 23,486,000
<CGS> 0<F3>
<TOTAL-COSTS> 8,220,000
<OTHER-EXPENSES> 4,109,000
<LOSS-PROVISION> 395,000
<INTEREST-EXPENSE> 812,000
<INCOME-PRETAX> 5,149,000
<INCOME-TAX> 1,960,000
<INCOME-CONTINUING> 3,189,000
<DISCONTINUED> 0
<EXTRAORDINARY> 0
<CHANGES> 90,000
<NET-INCOME> 3,279,000
<EPS-PRIMARY> 3.56
<EPS-DILUTED> 0
<FN>
<F1> THIS AMOUNT IS IMMATERIAL.
<F2> NET SALES OF TANGIBLE PRODUCTS IS NOT MORE THAN 10% OF TOTAL OPERATING REVENUES AND THEREFORE HAS NOT BEEN STATED SEPARATELY IN THE FINANCIAL STATEMENTS PURSUANT TO REGULATION S-X, RULE 5-03(B). THIS AMOUNT IS INCLUDED IN THE "TOTAL REVENUES" TAG.
<F3> COST OF TANGIBLE GOODS SOLD IS INCLUDED IN COST OF SERVICES AND PRODUCTS IN THE FINANCIAL STATEMENTS AND THE "TOTAL-COST" TAG, PURSUANT TO REGULATION S-X,RULE 5-03(B).
</FN>
</TABLE>
</TEXT>
</DOCUMENT>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners
of Pacific Telesis Group:

We have audited the accompanying consolidated balance sheets of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basis financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

As discussed in Note A to the Consolidated Financial Statements, Pacific Bell, a subsidiary of Pacific Telesis Group, changed its method of recognizing directory publishing revenues and related expenses effective January 1, 1996. Also discussed in Note A, Pacific Bell discontinued its application of Statement of Financial Accounting Standards No. 71 during 1995.

/s/ Coopers & Lybrand L.L.P.

San Francisco, California
February 27, 1997

PENDING PETITION MEMO

Date: 4/6/98

TO : Office of General Counsel

FROM: CENTRAL FILES

UTILITY: SNET AMERICA, INC.

SUBJECT: 98-C-0533

Joint Petition of SBC Communications Inc. and Southern New England Telecommunications Corporation for Approval of an Agreement and Plan of Merger.

COPY SENT TO COMMUNICATIONS DIV-CWCEW

WILEY, REIN & FIELDING

1776 K STREET, N.W.
WASHINGTON, D.C. 20006
(202) 429-7000

PETER D. SHIELDS
(202) 828-3249

FACSIMILE
(202) 429-7049

April 3, 1998

Mr. John C. Crary
Secretary
New York Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: Joint Application of SBC Communications Inc. and Southern New England Telecommunications Corp. for Approval of Agreement and Plan for Merger

Dear Mr. Crary:

Enclosed is an original and five (5) copies of an application requesting New York Public Service Commission approval for the indirect transfer of control of the authorization held by SNET America, Inc., an authorized reseller of intrastate, interexchange telecommunications services in your state, from Southern New England Telecommunications Corporation to SBC Communications Inc.

Because of the number of regulatory approvals associated with their Merger, the parties request expedited consideration of this application to the extent possible.

Please date-stamp the enclosed extra copy of this filing and return it to the undersigned in the attached self-addressed, stamped envelope. Should you have any questions regarding this application, please do not hesitate to either call me or contact directly one of the designated contacts named within the application.

Sincerely,

Peter D. Shields

PDS:DJS/rg
Enclosures

1998 APR -6 AM 11: 24

ORIGINAL

BEFORE THE
New York Public Service Commission

Joint Application of SBC COMMUNICATIONS INC. and SOUTHERN NEW ENGLAND TELECOMMUNICATIONS CORP. For Approval of Agreement and Plan of Merger	)	Docket No. ______________

JOINT APPLICATION

This application seeks approval for the indirect transfer of control of the authorization held by SNET America, Inc., a wholly owned subsidiary of Southern New England Telecommunications Corporation ("SNET"), to SBC Communications Inc. ("SBC"), as the proposed new parent of SNET.[1] SNET America is the holder of an authorization issued by the New York Public Service Commission ("Commission") to provide resold, intrastate, interexchange telecommunications services in New York, and provides these services pursuant to certification granted by this Commission on October 24, 1994 in Case No. 94-C-0311.

On January 4, 1998, SBC and SNET entered into an Agreement and Plan of Merger (the "Plan") under which SNET would become a first tier, wholly-owned

[1] SBC and SNET are jointly referred to as the "Applicants."

subsidiary of SBC (the "Merger"). A copy of the Plan is included in Exhibit A. Applicants respectfully request expedited treatment of this Application in order to permit them to consummate the Merger in a timely manner. Applicants plan to consummate the Merger by the end of 1998. Although SBC will take control of SNET, SNET America will remain a wholly-owned subsidiary of SNET and continue to hold the authorization to offer intrastate, interexchange telecommunications services in New York.

In support of this Application, the Applicants submit the following information:

I. THE PROPOSED TRANSACTION

SBC and SNET have determined that they will realize significant economic and marketing advantages by establishing SNET as a wholly-owned subsidiary of SBC. Accordingly, SBC and SNET have executed the Plan, which is structured as a merger of SBC (CT), Inc. ("Merger Sub"), a newly formed Connecticut subsidiary of SBC created specifically for the purpose of consummating the Merger, and SNET. Pursuant to the Plan, Merger Sub will merge with and into SNET, with SNET being the surviving entity.[2] The surviving Connecticut corporation will continue under the name Southern New England Telecommunications Corporation.

Originally, the Plan provided for an exchange ratio of 0.8784 shares of SBC common stock for each share of SNET common stock. However, on January 30, 1998, SBC announced a two-for-one stock split which will modify the exchange ratio to allow each SNET stockholder to receive 1.7568 shares of SBC stock for each share of SNET

---

[2] Merger Sub will conduct no business and hold no regulatory licenses from this or any other regulatory commission.

stock. Following the Merger, SBC will own all of the stock of SNET. SNET will continue to own the stock of The Southern New England Telephone Company (which provides local exchange services in the State of Connecticut) and SNET America, among other subsidiaries.

The Merger will result in a change in the ultimate corporate parent of SNET America, but will not involve a change in the manner in which SNET America provides service to its customers. SNET America will continue to be led by a team of well-qualified telecommunications managers comprised of existing SNET personnel. SNET America will continue to provide its authorized services consistent with its past practices in this state. The acquisition of SNET by SBC, therefore, will be virtually transparent to the customers of SNET America in terms of the services that they receive.

II. THE PARTIES

A. SBC Communications Inc.

SBC is a Delaware holding company publicly traded on the New York Stock Exchange under the stock symbol "SBC." Headquartered in San Antonio, Texas, SBC is among the largest telecommunications companies in the United States and one of the world's leading diversified telecommunications companies. SBC is the parent company of Southwestern Bell Telephone Company, Pacific Bell, Nevada Bell, and various wireless service providers operating under the Southwestern Bell, Pacific Bell, Nevada Bell, Southwestern Bell Mobile Systems, Pacific Bell Mobile Services, and Cellular One brand names. SBC's seven in-region states include Arkansas, Missouri, Kansas, Oklahoma, and Nevada, as well as the nation's most populous states –

California and Texas. SBC and its subsidiaries also serve seven of the country's ten largest metropolitan areas and sixteen of the top fifty. Through its international holdings, SBC serves selected markets on five continents.

SBC has the managerial experience and technical and financial qualifications to acquire control of SNET and SNET America. Through its operating subsidiaries, SBC provides customers an expansive array of services and products, including voice and data telephone services, wireless communications, Internet access, telecommunications equipment, voice mail, and directory advertising. SBC serves approximately 33 million local exchange access lines in its seven in-region states. As indicated in SBC's consolidated financial statements for 1996, attached hereto as Exhibit B, SBC's 1996 revenues were $23.5 billion while its 1996 earnings were $3.2 billion. With its substantial financial resources, and by virtue of its experience as one of the world's leading providers of diversified telecommunications services, SBC is well qualified to complete the Merger.

B. Southern New England Telecommunications Corp.

SNET is a Connecticut corporation publicly traded on the New York Stock Exchange under the stock symbol "SNG." Headquartered in New Haven, Connecticut, SNET is Connecticut's largest telecommunications provider, with 2.26 million access lines and 1.5 million business and residential customers. SNET's subsidiaries offer a full range of telecommunications products and services, including voice and data telephone services, long distance and international telephone service, wireless services, video services, Internet access, and wholesale network services. As indicated in SNET's consolidated financial statements for 1997, attached hereto as Exhibit C, SNET's 1997 revenues were $2.02 billion while its 1997 earnings were $193.8 million. SNET America, a wholly-owned subsidiary of SNET, is a nondominant carrier authorized to provide resold, intrastate, interexchange telecommunications services in 46 states, including Connecticut.[3]

C. Designated Contacts

The designated contacts for questions concerning this Joint Application are:

For SBC:

Thomas W. Hartmann, Esq.
Senior Counsel
SBC Communications Inc.
Mergers & Acquisitions, 11th Floor
175 East Houston Street
San Antonio, Texas 78205
(210) 351-3735 (Tel.)
(210) 351-3488 (Fax.)

For SNET:

Alfred J. Brunetti, Esq.
Assistant General Counsel
Southern New England Telecommunications Corporation
227 Church Street, 10th Floor
New Haven, Connecticut 06510
(203) 771-5507 (Tel.)
(203) 771-6577 (Fax.)

III. PUBLIC INTEREST CONSIDERATIONS

Consummation of the Merger will serve the public interest by promoting competition among providers of intrastate, interexchange telecommunications services. By combining the resources, complementary managerial skills and experience of SBC and SNET in providing telecommunications services to the public, the Applicants

---

[3] SNET America is also authorized by the Federal Communications Commission to provide domestic interstate and international services as a nondominant carrier nationwide.

anticipate that the Merger will result in a company better equipped to accelerate its growth as a competitive telecommunications service provider.

Today, although there are hundreds of long distance carriers, including AT&T Corp., MCI Telecommunications Corp., Sprint Corp., and WorldCom, Inc., the market is still characterized by the lock-step pricing practices of the three major facilities-based carriers. This market would benefit by and become more competitive through the entry of other large-scale competitors, which SNET and SBC hope to be and which this Merger will enhance.

Also, the Merger and transfer of control sought herein will afford SNET, and thus SNET America, the scale and scope that SNET America is currently lacking. For example, the Merger will make available to SNET America's long distance operations SBC's superior purchasing power for long distance minutes sold by SNET America which will lower its costs of providing long distance service.

The Merger will therefore ensure the continued provision of high quality and innovative telecommunications services to the existing customers of SNET America and should promote competition in this state's telecommunications service market. In sum, the Merger will benefit the public interest by enhancing the ability of SBC and SNET to offer competitively-priced, interexchange telecommunications services.

IV. CONCLUSION

For the reasons stated herein, Applicants respectfully request that, subject to the ultimate closing of the Merger, the Commission promptly and unconditionally approve this Application, and grant all other relief as necessary and appropriate to effectuate the transaction described herein.

[SIGNATURES ON FOLLOWING PAGE]

Respectfully submitted,

SBC COMMUNICATIONS INC.

Thomas W. Hartmann, Esq.
Senior Counsel
SBC Communications Inc.
Mergers & Acquisitions, 11th Floor
175 East Houston Street
San Antonio, Texas 72205
(210) 351-3735 (Tel.)
(210) 351-3488 (Fax)

SOUTHERN NEW ENGLAND TELECOMMUNICATIONS CORP.

Alfred J. Brunetti, Esq.
Assistant General Counsel
Southern New England Telecommunications Corporation
227 Church Street, 10th Floor
New Haven, Connecticut 06510
(203) 771-5507 (Tel.)
(203) 771-6577 (Fax)

Dated: March 31, 1998

568719

Exhibit A

Agreement and Plan of Merger Between
SNET and
SBC Communications Inc.

AGREEMENT AND PLAN OF MERGER

Among

SOUTHERN NEW ENGLAND TELECOMMUNICATIONS CORPORATION,

SBC COMMUNICATIONS INC.

and

SBC (CT), INC.

Dated as of January 4, 1998

Table of Contents

Index of Defined Terms

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (hereinafter called this "Agreement"), dated as of January 4, 1998, among Southern New England Telecommunications Corporation, a Connecticut corporation (the "Company"), SBC Communications Inc., a Delaware corporation ("SBC"), and SBC (CT), Inc., a Connecticut corporation and a wholly-owned subsidiary of SBC ("Merger Sub").

RECITALS

WHEREAS, the respective boards of directors of each of SBC, Merger Sub and the Company have approved the merger of Merger Sub with and into the Company (the "Merger") and adopted this Agreement;

WHEREAS, it is intended that, for federal income tax purposes, the Merger shall qualify as a "tax-free" reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code");

WHEREAS, for financial accounting purposes, it is intended that the Merger shall be accounted for as a "pooling-of-interests"; and

WHEREAS, as an inducement to the willingness of SBC to enter into this Agreement, the board of directors of the Company has approved the grant to SBC of an option to purchase shares of common stock of the Company pursuant to a stock option agreement, substantially in the form of Exhibit A (the "Stock Option Agreement"), and each of the Company and SBC have duly authorized, executed and delivered the Stock Option Agreement; and

WHEREAS, the Company, SBC and Merger Sub desire to make certain representations, warranties, covenants and agreements in connection with this Agreement.

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE I

The Merger; Closing; Effective Time

1.1. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time (as defined in Section 1.3) Merger Sub shall be merged with and into the Company and the separate corporate existence of Merger Sub shall thereupon cease. The Company shall be the surviving corporation in the Merger (sometimes hereinafter referred to as the "Surviving Corporation") and shall continue to be governed by the laws of the State of Connecticut, and the Merger shall have the effects specified in the Connecticut Business Corporation Act (the "CBCA").

1.2. Closing. The closing of the Merger (the "Closing") shall take place (i) at the offices of Sullivan & Cromwell, 125 Broad Street, New York, New York 10004 at 9:00 A.M. local time on the second business day after the date on which the last to be fulfilled or waived of the conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions) shall be satisfied or waived in accordance with this Agreement or (ii) at such other place and time and/or on such other date as the Company and SBC may agree in writing (the "Closing Date").

1.3. Effective Time. As soon as practicable following the Closing, the Company and SBC will cause a certificate of merger (the "Certificate of Merger") to be signed, acknowledged and delivered for filing with the Secretary of the State of Connecticut as provided in Section 33-819 of the CBCA. The Merger shall become effective at the time when the Certificate of Merger shall have become effective in accordance with the CBCA (the "Effective Time").

ARTICLE II

Certificate of Incorporation and By-Laws of the Surviving Corporation

2.1. The Certificate of Incorporation. The certificate of incorporation of the Company as in effect immediately prior to the Effective Time shall be the certificate of incorporation of the Surviving Corporation (the "Charter"), until duly amended as provided therein or by applicable law, except that (i) Section 3 of the Charter shall be amended to read in its entirety as follows: "The authorized capital stock of the Corporation shall consist of one thousand shares of common stock having a par value of one dollar per share.", and (ii) Section 4 of the Charter shall be amended to read in its entirety as follows: "The number of directors of the Corporation shall be fixed from time to time by the Board of Directors or the Shareholders in accordance with the By-laws of the Corporation. A director shall hold office until the next annual meeting of shareholders of the Corporation following his election and until his successor shall be elected and shall qualify."

2.2. The By-Laws. The by-laws of the Company in effect at the Effective Time shall be the by-laws of the Surviving Corporation (the "By-Laws"), until duly amended as provided therein or by applicable law, except that the By-Laws shall be amended as set forth in Exhibit B.

ARTICLE III

Officers, Directors and Management

3.1. Directors of Surviving Corporation. The directors of Merger Sub at the Effective Time shall, from and after the Effective Time, be the directors of the Surviving Corporation until their successors shall have been duly elected or appointed and shall have qualified or until their earlier death, resignation or removal in accordance with the Charter and the By-Laws.

3.2. Officers of Surviving Corporation. The officers of the Company at the Effective Time shall, from and after the Effective Time, be the officers of the Surviving Corporation until their successors shall have been duly elected or appointed and shall have qualified or until their earlier death, resignation or removal in accordance with the Charter and the By-Laws.

3.3. Election to SBC's Board of Directors. At the Effective Time of the Merger, SBC shall increase the size of its Board of Directors by one. The nominee for such additional directorship shall be selected by the SBC Board of Directors in consultation with the Chief Executive Officer and Board of Directors of the Company from among the members of the Company's Board of Directors (the "Director Designee"), and the SBC Board of Directors shall appoint the Director Designee to the SBC Board of Directors as of the Effective Time, with such Director Designee to serve in the director group determined in accordance with Article II of the by-laws of SBC as in effect on the date hereof until his or her successor shall have been duly elected or appointed and shall have qualified or until his or her earlier death, resignation or removal in accordance with the certificate of incorporation and the by-laws of SBC.

ARTICLE IV

Effect of the Merger on Capital Stock; Exchange of Certificates

4.1. Effect on Capital Stock. At the Effective Time, as a result of the Merger and without any action on the part of the holder of any capital stock of the Company:

(a) Merger Consideration. Each share of the common stock, having a par value of one dollar per share (each a "Company Share" and together the "Company Shares"), of the Company issued and outstanding immediately prior to the Effective Time (other than (i) Company Shares that are owned by SBC or Merger Sub, (ii) Company Shares that are owned by the Company, in each case (i) and (ii) not held on behalf of third parties, or (iii) Company Shares ("Dissenting Shares") that are owned by shareholders ("Dissenting Shareholders") who satisfy all of the requirements to demand payment for such shares in accordance with Sections 33-855 through 33-872 of the CBCA (collectively, "Excluded Company Shares")) shall be converted into 0.8784 of a share (the "Exchange Ratio") of Common Stock, par value $1 per share, of SBC ("SBC Common Stock"), subject to adjustment as provided in Section 4.4 (the "Merger Consideration"). All references in this agreement to SBC Common Stock to be issued pursuant to the Merger shall be deemed to include the corresponding rights ("SBC Rights") to purchase shares of SBC Common Stock pursuant to the SBC Rights Agreement (as defined in Section 5.3(a)), except where the context otherwise requires. At the Effective Time, all Company Shares shall no longer be outstanding, shall be cancelled and retired and shall cease to exist, and each certificate (a "Certificate") formerly representing any Company Shares (other than Excluded Company Shares) shall thereafter represent only the right to the Merger Consideration and the right, if any, to receive pursuant to Section 4.2(d) cash in lieu of fractional shares into which such Company Shares have been converted pursuant to this Section 4.1(a) and any distribution or dividend pursuant to Section 4.2(b), in each case without interest.

(b) Cancellation of Shares. Each Company Share issued and outstanding immediately prior to the Effective Time and owned directly by SBC, Merger Sub or the Company (other than shares held for third parties) shall, by virtue of the Merger and without any action on the part of the holder thereof, no longer be outstanding, shall be cancelled and retired without payment of any consideration therefor and shall cease to exist. Dissenters' Shares shall be cancelled and retired at the Effective Time and paid for in accordance with Section 33-865 of the CBCA.

(c) Restricted Stock. Each Company Share issued and outstanding immediately prior to the Effective Time that, after giving effect to any provision in the plans referred to below providing for the termination or lapse of any restriction resulting from the transactions contemplated by this Agreement, is restricted under the Company's 1995 Stock Incentive Plan, Non-Employee Director Stock Plan or 1996 Non-Employee Director Stock Plan shall be converted into a fraction of a share of SBC Common Stock equal to the Exchange Ratio, having the same restrictions, terms and conditions as were applicable to such Company Share of restricted stock.

(d) Merger Sub. At the Effective Time, each share of common stock, par value $1.00 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into one share of common stock of the Surviving Corporation, and the Surviving Corporation shall be a wholly-owned subsidiary of SBC.

4.2. Exchange of Certificates for Shares.

(a) Exchange Procedures. Promptly after the Effective Time, the Surviving Corporation shall cause an exchange agent selected by SBC with the Company's prior approval, which shall not be unreasonably withheld (the "Exchange Agent"), to mail to each holder of record of Company Shares (other than holders of record of Excluded Company Shares) (i) a letter of transmittal specifying that delivery shall be effected, and that risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates (or affidavits of loss in lieu thereof) to the Exchange Agent, such letter of transmittal to be in such form and have such other provisions as SBC and the Company may reasonably agree, and (ii) instructions for surrendering the Certificates in exchange for (A) uncertificated shares of SBC Common Stock registered on the stock transfer books of SBC in the name of such holder ("Registered SBC Shares") or, at the election of such holder, certificates representing shares of SBC Common Stock and (B) any unpaid dividends and other distributions and cash in lieu of fractional shares. Subject to Section 4.2(g), upon surrender of a Certificate for cancellation to the Exchange Agent together with such letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor (x) Registered SBC Shares or, at the election of such holder, a certificate, representing that number of whole shares of SBC Common Stock that such holder is entitled to receive pursuant to this Article IV, (y) a check in the amount (after giving effect to any required tax withholdings) of (A) any cash in lieu of fractional shares plus (B) any unpaid non-stock dividends and any other dividends or other distributions that such holder has the right to receive pursuant to the provisions of this Article IV, and the Certificate so surrendered shall forthwith be cancelled. No interest will be paid or accrued on any amount payable upon due surrender of the Certificates. In the event of a transfer of ownership of Company Shares that is not registered in the transfer records of the Company, the Registered SBC Shares or certificate, as the case may be, representing the proper number of shares of SBC Common Stock, together with a check for any cash to be paid upon due surrender of the Certificate and any other dividends or distributions in respect thereof, may be issued and/or paid to such a transferee if the Certificate formerly representing such Company Shares is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer taxes have been paid. If any Registered SBC Shares or any certificate for shares of SBC Common Stock is to be issued in a name other than that in which the Certificate surrendered in exchange therefor is registered, it shall be a condition of such exchange that the Person (as defined below) requesting such exchange shall pay any transfer or other taxes required by reason of the issuance of Registered SBC Shares or certificates for shares of SBC Common Stock in a name other than that of the registered holder of the Certificate surrendered, or shall establish to the satisfaction of SBC or the Exchange Agent that such tax has been paid or is not applicable.

For the purposes of this Agreement, the term "Person" shall mean any individual, corporation (including not-for-profit), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, Governmental Entity (as defined in Section 5.1(b)) or other entity of any kind or nature.

(b) Distributions with Respect to Unexchanged Shares; Voting. (i) Whenever a dividend or other distribution is declared by SBC in respect of SBC Common Stock, the record date for which is at or after the Effective Time, that declaration shall include dividends or other distributions in respect of all shares issuable pursuant to this Agreement. No dividends or other distributions in respect of the SBC Common Stock shall be paid to any holder of any unsurrendered Certificate until such Certificate is surrendered for exchange in accordance with this Article IV. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be issued and/or paid to the holder of the Registered SBC Shares or certificates, as the case may be, representing whole shares of SBC Common Stock issued in exchange for such Certificate, without interest, (A) at the time of such surrender, the dividends or other distributions with a record date at or after the Effective Time and a payment date on or prior to the date of issuance of such whole shares of SBC Common Stock and not previously paid and (B) at the appropriate payment date, the dividends or other distributions payable with respect to such whole shares of SBC Common Stock with a record date at or after the Effective Time but with a payment date subsequent to surrender. For purposes of dividends or other distributions in respect of shares of SBC Common Stock, all shares of SBC Common Stock to be issued pursuant to the Merger shall be deemed issued and outstanding as of the Effective Time.

(ii) Holders of unsurrendered Certificates shall be entitled to vote after the Effective Time at any meeting of SBC stockholders with a record date at or after the Effective Time the number of whole shares of SBC Common Stock represented by such Certificates, regardless of whether such holders have exchanged their Certificates.

(c) Transfers. After the Effective Time, there shall be no transfers on the stock transfer books of the Company of the Company Shares that were outstanding immediately prior to the Effective Time.

(d) Fractional Shares. Notwithstanding any other provision of this Agreement, no fractional shares of SBC Common Stock will be issued and any holder of record of Company Shares entitled to receive a fractional share of SBC Common Stock but for this Section 4.2(d) shall be entitled to receive an amount in cash (without interest) determined by multiplying such fraction (rounded to the nearest one-hundredth of a share) by the closing price of a share of SBC Common Stock, as reported in The Wall Street Journal, New York City edition, for the last trading day prior to the Effective Time.

(e) Termination of Exchange Period; Unclaimed Stock. Any shares of SBC Common Stock and any portion of the cash, dividends or other distributions payable with respect to the SBC Common Stock pursuant to Section 4.1, Section 4.2(b) and Section 4.2(d) (including the proceeds of any investments thereof) that remains unclaimed by the shareholders of the Company 180 days after the Effective Time shall be paid to SBC. Any shareholders of the Company who have not theretofore complied with this Article IV shall look only to SBC for payment of their shares of SBC Common Stock and any cash, dividends and other distributions in respect thereof issuable and/or payable pursuant to Section 4.1, Section 4.2(b) and Section 4.2(d) upon due surrender of their Certificates (or affidavits of loss in lieu thereof), in each case, without any interest thereon. Notwithstanding the foregoing, none of SBC, the Surviving Corporation, the Exchange Agent or any other Person shall be liable to any former holder of Company Shares for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

(f) Lost, Stolen or Destroyed Certificates. In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and the posting by such Person of a bond in the form customarily required by SBC as indemnity against any claim that may be made against it with respect to such Certificate, SBC will issue the shares of SBC Common Stock, and the Exchange Agent will issue any unpaid dividends or other distributions and any cash payment in lieu of a fractional share in respect thereof, issuable and/or payable in exchange for such lost, stolen or destroyed Certificate pursuant to this Article IV upon due surrender of and deliverable in respect of the Company Shares represented by such Certificate pursuant to this Agreement, in each case, without interest.

(g) Affiliates. Notwithstanding anything herein to the contrary, Certificates surrendered for exchange by any "affiliate" (as determined pursuant to Section 6.7) of the Company shall not be exchanged until SBC has received a written agreement from such Person as provided in Section 6.7 hereof.

4.3. Dissenters' Rights. No Dissenting Shareholder shall be entitled to shares of SBC Common Stock or cash in lieu of fractional shares thereof or any dividends or other distributions pursuant to this Article IV unless and until the holder thereof shall have failed to perfect or shall have effectively withdrawn or lost such holder's right to dissent from the Merger under the CBCA, and any Dissenting Shareholder shall be entitled to receive only the payment provided by Section 33-856 of the CBCA with respect to Company Shares owned by such Dissenting Shareholder. Unless the obligation of the Company under Section 4.5 to establish an Escrow Account has been waived by SBC, such payment shall be made from the Escrow Account in accordance with Section 4.5. If any Person who would otherwise be deemed a Dissenting Shareholder shall have failed properly to perfect or shall have effectively withdrawn or lost the right to dissent with respect to any Company Shares, such shares shall thereupon be treated as though such shares had been converted into shares of SBC Common Stock pursuant to Section 4.1 hereof and any cash in lieu of fractional shares, dividends or other distributions as provided in Section 4.2 hereof. The Company shall give SBC (i) prompt written notice of any dissenters' demands for payment, attempted withdrawals of such demands and any other instruments served pursuant to applicable law received by the Company relating to dissenters' rights and (ii) the opportunity to direct all negotiations with respect to dissenters under the CBCA. The Company shall not, without the prior written consent of SBC, voluntarily make any payment with respect to any demands for payment by Dissenting Shareholders, offer to settle or settle any such demands or approve any withdrawal of such demands.

4.4. Adjustments to Prevent Dilution. In the event that prior to the Effective Time there is a change in the number of Company Shares or shares of SBC Common Stock or securities convertible or exchangeable into or exercisable for Company Shares or shares of SBC Common Stock issued and outstanding as a result of a distribution, reclassification, stock split (including a reverse split), stock dividend or distribution, or other similar transaction, the Exchange Ratio shall be equitably adjusted to eliminate the effects of such event.

4.5. Escrow Account for Payment of Dissenters' Demands and Transfer Taxes. Pursuant to an escrow agreement to be entered into by the Company with an escrow agent selected by mutual agreement of the Company and SBC (the "Escrow Agent"), in a form reasonably acceptable to SBC (the "Escrow Agreement"), unless SBC shall elect, in its sole discretion, to waive the Company's obligations under this Section 4.5 and shall notify the Company of such election, the Company shall, immediately prior to the Effective Time, deposit in an account with the Escrow Agent (the "Escrow Account") funds sufficient in the aggregate to pay all Dissenting Shareholders who as of such time shall have satisfied all applicable requirements under the CBCA to demand payment for their Dissenting Shares the amounts the Company estimates to be the fair value of such Dissenting Shares plus accrued interest in accordance with Section 33-865(a) of the CBCA, and any Transfer Taxes (as defined herein) attributable to the Merger. These funds will be released from the Escrow Account, upon certification by the Company, (i) to make any payment to which a Dissenting Shareholder shall then be entitled under the CBCA, whether pursuant to the procedures specified in Part XIII thereof, a final judgment of a court of competent jurisdiction or any other agreement with such Dissenting Shareholder; (ii) to pay any Transfer Taxes that become payable under any applicable state, local, foreign or provincial law; or (iii) to the Company, upon the Company's reasonable determination and certification that the Company's obligations in respect of the amounts specified in clause (i) (with respect to all Dissenting Shareholders) and clause (ii) of this Section 4.5 have been fully satisfied. All payments pursuant to clause (i) above shall include interest accrued since the Effective Time in accordance with the CBCA. The Escrow Agreement shall permit the Escrow Agent to invest the funds in the Escrow Account as directed by the Company.

ARTICLE V

Representations and Warranties

5.1. Representations and Warranties of the Company, SBC and Merger Sub. Except as set forth in the corresponding sections or subsections of the disclosure letter, dated the date hereof, delivered by the Company to SBC or by SBC to the Company (each a "Disclosure Letter", and the "Company Disclosure Letter" and the "SBC Disclosure Letter", respectively), as the case may be, the Company (except for references in subparagraphs (a), (b)(ii) and (c) below to documents made available or disclosed by SBC to the Company) hereby represents and warrants to SBC and Merger Sub, and SBC (except for references in subparagraphs (a), (b)(ii) and (c) below to documents made available or disclosed by the Company to SBC), on behalf of itself and Merger Sub, hereby represents and warrants to the Company, that:

(a) Organization, Good Standing and Qualification. Each of it and its Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its respective jurisdiction of organization and has all requisite corporate or similar power and authority to own and operate its properties and assets and to carry on its business as presently conducted and is qualified to do business and is in good standing as a foreign corporation in each jurisdiction where the ownership or operation of its properties or conduct of its business requires such qualification, except where the failure to be so qualified or in good standing is not, when taken together with all other such failures, reasonably likely to have a Material Adverse

Effect (as defined below) on it. It has made available to SBC, in the case of the Company, and to the Company, in the case of SBC, a complete and correct copy of its certificate of incorporation and by-laws, each as amended to date. Such certificates of incorporation and by-laws as so made available are in full force and effect.

As used in this Agreement, (i) the term "Subsidiary" means, with respect to the Company, SBC or Merger Sub, as the case may be, any entity, whether incorporated or unincorporated, of which at least fifty percent of the securities or ownership interests having by their terms ordinary voting power to elect at least fifty percent of the board of directors or other Persons performing similar functions is directly or indirectly owned by such party or by one or more of its respective Subsidiaries or by such party and any one or more of its respective Subsidiaries, (ii) the term "Material Adverse Effect" means, with respect to any Person, a material adverse effect on the total enterprise value of such Person and its Subsidiaries, taken as a whole, other than effects or changes resulting from the execution of this Agreement or the announcement thereof or relating to (I) the telecommunications industry generally, (II) the national economy generally or (A) with respect to SBC only, the economy of the southwestern United States and California, taken together, generally or (B) with respect to the Company only, the economy of New England generally or (III) the securities markets generally, and (iii) reference to "the other party" means, with respect to the Company, SBC and means, with respect to SBC, the Company.

(b) Governmental Filings; No Violations. (i) Other than (A) the filings pursuant to Section 1.3, (B) the notification under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), the Exchange Act and the Securities Act of 1933, as amended (the "Securities Act"), (C) the filings and/or notices to comply with state securities or "blue-sky" laws, (D) the necessary notices to and, if any, approvals of the Federal Communications Commission ("FCC") pursuant to the Communications Act of 1934, as amended, and (E) the necessary notices to and necessary approvals, if any, of the state public utility commissions or similar state regulatory bodies (each a "PUC") identified in its respective Disclosure Letter pursuant to applicable state laws regulating the telephone, mobile cellular, paging, cable television or other telecommunications business ("Utilities Laws") (such filings and/or notices of SBC being the "SBC Required Consents" and of the Company being the "Company Required Consents"), no notices, reports or other filings are required to be made by it to or with, nor are any consents, registrations, approvals, permits or authorizations required to be obtained by it from, any governmental or regulatory authority, court, agency, commission, body or other governmental entity ("Governmental Entity"), in connection with the execution and delivery of this Agreement and the Stock Option Agreement by it and the consummation by it of the Merger and the other transactions contemplated hereby and thereby, except those that the failure to make or obtain are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on it or to prevent, or materially impair its ability to effect, the consummation by it of the transactions contemplated by this Agreement or the Stock Option Agreement.

(ii) The execution, delivery and performance of this Agreement and the Stock Option Agreement by it do not, and the consummation by it of the Merger and the other transactions contemplated hereby and thereby will not, constitute or result in (A) a breach or violation of, or a default under, its certificate of incorporation or by-laws or the comparable governing instruments of any of its "Significant Subsidiaries", as such term is defined in Rule 1.02(w) of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (B) a breach or violation of, a default under, the acceleration of any obligations or the creation of a lien, pledge, security interest or other encumbrance on its assets or the assets of any of its Subsidiaries (with or without notice, lapse of time or both) pursuant to, any agreement, lease, contract, note, mortgage, indenture, arrangement or other obligation ("Contracts") binding upon it or any of its Subsidiaries or any Law (as defined in Section 5.1(h)) or governmental or non-governmental permit or license to which it or any of its Subsidiaries is subject or (C) any change in the rights or obligations of any party under any of its Contracts, except, in the case of clause (B) or (C) above, for any breach, violation, default, acceleration, creation or change that, individually or in the aggregate, is not reasonably likely to have a Material Adverse Effect on it or to prevent, or materially impair its ability to effect, the consummation by it of the transactions contemplated by this Agreement or the Stock Option Agreement. The Company Disclosure Letter, with respect to the Company, and the SBC

Disclosure Letter, with respect to SBC, sets forth a correct and complete list of all Contracts of it and its Subsidiaries required to be filed as material contract exhibits under the Exchange Act and pursuant to which consents or waivers are or may be required prior to consummation of the transactions contemplated by this Agreement or the Stock Option Agreement (whether or not subject to the exception set forth with respect to clauses (B) and (C) above).

(c) Reports; Financial Statements. It has made available to the other party each registration statement, report, proxy statement or information statement prepared by it since December 31, 1996 (the "Audit Date"), including its Annual Report on Form 10-K for the year ended December 31, 1996 in the form (including exhibits, annexes and any amendments thereto) filed with the Securities and Exchange Commission (the "SEC") (collectively, including any such reports filed subsequent to the date hereof, its "Reports"). As of their respective dates, its Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances in which they were made, not misleading. Each of the consolidated balance sheets included in or incorporated by reference into its Reports (including the related notes and schedules) fairly presents the consolidated financial position of it and its Subsidiaries as of its date and each of the consolidated statements of income and of cash flows included in or incorporated by reference into its Reports (including any related notes and schedules) fairly presents the consolidated results of operations and cash flows of it and its Subsidiaries for the periods set forth therein (subject, in the case of unaudited statements, to notes and normal year-end audit adjustments that will not be material in amount or effect), in each case in accordance with generally accepted accounting principles ("GAAP") consistently applied during the periods involved, except as may be noted therein. Since the Audit Date, it and each of its Subsidiaries required to make filings under Utilities Laws has filed with the applicable PUCs or the FCC, as the case may be, all material forms, statements, reports and documents (including exhibits, annexes and any amendments thereto) required to be filed by them, and each such filing complied in all material respects with all applicable laws, rules and regulations, other than such failures to file and non-compliance that are, individually or in the aggregate, not reasonably likely to have a Material Adverse Effect on it or to prevent, or materially impair its ability to effect, the consummation by it of the transactions contemplated by this Agreement or the Stock Option Agreement. To its knowledge, as of the date hereof, no Person or "group" "beneficially owns" 5% or more of its outstanding voting securities, with the terms "beneficially owns" and "group" having the meanings ascribed to them under Rule 13d-3 and Rule 13d-5 under the Exchange Act.

(d) Absence of Certain Changes. Except as disclosed in its Reports filed prior to the date hereof or as expressly contemplated by this Agreement, since the Audit Date it and its Subsidiaries have conducted their respective businesses only in the ordinary and usual course of such businesses, and there has not been (i) any change in the financial condition, business or results of operations of it and its Subsidiaries, except those changes that are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on it; (ii) any damage, destruction or other casualty loss with respect to any asset or property owned, leased or otherwise used by it or any of its Subsidiaries, whether or not covered by insurance, which damage, destruction or loss is reasonably likely, individually or in the aggregate, after taking into account any insurance coverage, to have a Material Adverse Effect on it; (iii) any declaration, setting aside or payment of any dividend or other distribution in respect of its capital stock, except publicly announced regular quarterly cash dividends on its common stock and, in the case of SBC, dividends in SBC Common Stock; or (iv) any change by it in accounting principles, practices or methods except as required by GAAP.

(e) Litigation and Liabilities. Except as disclosed in its Reports filed prior to the date hereof, there are no (i) civil, criminal or administrative actions, suits, claims, hearings, investigations or proceedings ("Litigation") pending or, to the knowledge of its executive officers, threatened against it or any of its Affiliates (as defined in Rule 12b-2 under the Exchange Act) or (ii) obligations or liabilities, whether or not accrued, contingent or otherwise, including those relating to matters involving any Environmental Law (as defined in Section 5.2(e)), that are reasonably likely to result in any claims against or obligations or liabilities of it or any of its Affiliates, except for those that are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on it or to prevent, or materially impair its ability to effect, the consummation by it of the transactions contemplated by this Agreement or the Stock Option Agreement; provided, that for purposes of this paragraph (e) no Litigation arising after the date hereof shall be deemed to have a Material Adverse Effect if and to the extent such Litigation (or any relevant part thereof) is based on this Agreement or the transactions contemplated hereby.

(f) Accounting, Tax and Regulatory Matters. As of the date hereof, neither it nor any of its affiliates (as determined in accordance with Section 6.7) has taken or agreed to take any action, nor do its executive officers have any actual knowledge of any fact or circumstance, that would prevent SBC from accounting for the business combination to be effected by the Merger as a "pooling-of-interests" or prevent the Merger from qualifying as a "reorganization" within the meaning of Section 368(a) of the Code.

(g) Taxes. It and each of its Subsidiaries have prepared in good faith and duly and timely filed (taking into account any extension of time within which to file) all material Tax Returns (as defined below) required to be filed by any of them and all such filed Tax Returns are complete and accurate in all material respects and: (i) it and each of its Subsidiaries have paid all Taxes (as defined below) that are shown as due on such filed Tax Returns or that it or any of its Subsidiaries is obligated to withhold from amounts owing to any employee, creditor or third party, except with respect to matters contested in good faith or for such amounts that, alone or in the aggregate, are not reasonably likely to have a Material Adverse Effect on it; (ii) as of the date hereof, there are not pending or, to the actual knowledge of its executive officers, threatened, in writing, any audits, examinations, investigations or other proceedings in respect of Taxes or Tax matters; and (iii) there are not, to the actual knowledge of its executive officers, any unresolved questions or claims concerning its or any of its Subsidiaries' Tax liability that are reasonably likely to have a Material Adverse Effect on it. Neither it nor any of its Subsidiaries has any liability with respect to income, franchise or similar Taxes in excess of the amounts accrued in respect thereof that are reflected in the financial statements included in its Reports, except such excess liabilities as are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on it.

As used in this Agreement, (x) the term "Tax" (including, with correlative meaning, the terms "Taxes", and "Taxable") includes all federal, state, local and foreign income, profits, franchise, gross receipts, environmental, customs duty, capital stock, severance, stamp, payroll, sales, employment, unemployment, disability, use, property, withholding, excise, production, value added, transfer, occupancy and other taxes, duties or assessments of any nature whatsoever, together with all interest, penalties and additions imposed with respect to such amounts and any interest in respect of such penalties and additions, and (y) the term "Tax Return" includes all returns, amended returns and reports (including elections, declarations, disclosures, schedules, estimates and information returns) required to be supplied to a Tax authority relating to Taxes.

(h) Compliance with Laws. Except as set forth in its Reports filed prior to the date hereof, the businesses of each of it and its Subsidiaries have not been, and are not being, conducted in violation of any law, statute, ordinance, regulation, judgment, order, decree, injunction, arbitration award, license, authorization, opinion, agency requirement or permit of any Governmental Entity or common law (collectively, "Laws"), except for violations that are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on it or to prevent, or materially impair its ability to effect, the consummation by it of the transactions contemplated by this Agreement or the Stock Option Agreement. Except as set forth in its Reports filed prior to the date hereof, as of the date hereof no investigation or review by any Governmental Entity with respect to it or any of its Subsidiaries is pending or, to the actual knowledge of its executive officers, threatened, nor has any Governmental Entity indicated an intention to conduct the same, except for those the outcome of which are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on it or to prevent, or materially impair its ability to effect, the consummation by it of the transactions contemplated by this Agreement or the Stock Option Agreement. To the actual knowledge of its executive officers, as of the date hereof no material change is required in its or any of its Subsidiaries' processes, properties or procedures in connection with any such Laws, and it has not received any notice or communication of any material noncompliance with any such Laws that has not been cured as of the date hereof, except for such changes and noncompliance that are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on it or to prevent, or materially impair its ability to effect, the consummation by it of the transactions contemplated by this Agreement or the Stock Option Agreement. Each of it and its Subsidiaries has all permits, licenses, franchises, variances, exemptions, orders and other governmental authorizations, consents and approvals (collectively, "Permits") necessary to conduct their business as presently conducted, except for those the absence of which are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on it.

5.2. Representations and Warranties of the Company. Except as set forth in the corresponding sections or subsections of the Company Disclosure Letter, the Company hereby represents and warrants to SBC and Merger Sub that:

(a) Capital Structure. The authorized capital stock of the Company consists of 300,000,000 Company Shares, of which 66,666,268 Company Shares were issued and outstanding and 2,230,586 Company Shares were held in treasury as of the close of business on December 31, 1997; 2,000,000 shares of preferred stock, par value $50.00 per share (the "Preferred Shares"), of which no shares were outstanding as of the close of business on December 31, 1997; and 50,000,000 shares of preference stock, par value $1.00 per share (the "Preference Shares"), of which no shares were outstanding as of December 31, 1997. All of the outstanding Company Shares have been duly authorized and are validly issued, fully paid and nonassessable. Other than 2,000,000 Preference Shares, designated "Series A Junior Participating Preference Stock", reserved for issuance pursuant to the Rights Agreement, dated as of December 11, 1996, between the Company and State Street Bank and Trust Company, as Rights Agent (the "Rights Agreement"), Company Shares reserved for issuance pursuant to the Stock Option Agreement and Company Shares reserved for issuance as set forth below or which may be issued in accordance with Section 6.1(a), the Company has no Company Shares, Preferred Shares or Preference Shares reserved for issuance. As of December 31, 1997, there were not more than 6,650,000 Company Shares reserved for issuance pursuant to the Company's 1986 Stock Option Plan, 1995 Stock Incentive Plan, Non-Employee Director Stock Plan, Incentive Award Deferral Plan and 1996 Non-Employee Director Stock Plan (collectively, the "Stock Plans"). Each of the outstanding shares of capital stock or other securities of each of the Company's Significant Subsidiaries is duly authorized, validly issued, fully paid and nonassessable and owned by the Company or a direct or indirect wholly-owned Subsidiary of the Company, free and clear of any lien, pledge, security interest, claim or other encumbrance. Except as set forth above and except for Company Shares and options to purchase Company Shares which may be issued in accordance with Section 6.1(a), neither the Company nor any of its Subsidiaries has any obligation with respect to any preemptive or other outstanding rights (other than stock appreciation rights in respect of not more than 40,000 Company Shares), options, warrants, conversion rights, stock appreciation rights, redemption rights, repurchase rights, agreements, arrangements or commitments to issue or sell any shares of capital stock or other securities of the Company or any of its Significant Subsidiaries or any securities or obligations convertible or exchangeable into or exercisable for, or giving any Person a right to subscribe for or acquire, any securities of the Company or any of its Significant Subsidiaries, and no securities or obligations evidencing such rights are authorized, issued or outstanding. The Company Shares issuable pursuant to the Stock Option Agreement have been duly reserved for issuance by the Company, and upon any issuance of such Company Shares in accordance with the terms of the Stock Option Agreement, such Company Shares will be duly and validly issued and fully paid and nonassessable. The Company does not have outstanding any bonds, debentures, notes or other obligations the holders of which have the right to vote (or convertible into or exercisable for securities having the right to vote) with the shareholders of the Company on any matter.

(b) Corporate Authority; Approval and Fairness. The Company has all requisite corporate power and authority and has taken all corporate action necessary in order to execute, deliver and perform its obligations under this Agreement and the Stock Option Agreement and to consummate, subject only to approval of this Agreement by the holders of two-thirds of the outstanding Company Shares (the "Company Requisite Vote") and the Company Required Consents, the Merger. Each of this Agreement and the Stock Option Agreement has been duly executed and delivered by the Company and is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles (the "Bankruptcy and Equity Exception"). The board of directors of the Company (A) has adopted this Agreement and approved the Merger and the other transactions contemplated hereby, (B) has approved the execution and delivery of the Stock Option Agreement and (C) has received the opinion of its financial advisors, Salomon Smith Barney Inc., in a customary form and to the effect that the Merger Consideration to be received by the holders of the Company Shares in the Merger is fair to such holders from a financial point of view.

(c) Employee Benefits.

(i) A copy of each bonus, deferred compensation, pension, retirement, profit-sharing, thrift, savings, employee stock ownership, stock bonus, stock purchase, restricted stock, stock option, employment, termination, severance, compensation, medical, health or other material plan, agreement, policy or arrangement that covers employees, directors, former employees or former directors of it and its Subsidiaries (its "Compensation and Benefit Plans") and any trust agreements or insurance contracts forming a part of such Compensation and Benefit Plans has been made available by the Company to SBC prior to the date hereof and each such Compensation and Benefit Plan is listed in Section 5.2(c) of the Company Disclosure Letter.

(ii) All of its Compensation and Benefit Plans are in substantial compliance with all applicable law, including the Code and the Employee Retirement Income Security Act of 1974, as amended ("ERISA") with the exception of any instances of non-compliance that are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on the Company. Each of its Compensation and Benefit Plans that is an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA (a "Pension Plan") and that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service (the "IRS"), and it is not aware of any circumstances likely to result in revocation of any such favorable determination letter. As of the date hereof, there is no pending or, to the knowledge of its executive officers, threatened in writing material litigation relating to its Compensation and Benefit Plans. Neither it nor any Subsidiary has engaged in a transaction with respect to any of its Compensation and Benefit Plans that, assuming the taxable period of such transaction expired as of the date hereof, would subject it or any of its Subsidiaries to a material tax or penalty imposed by either Section 4975 of the Code or Section 502 of ERISA and that is reasonably likely to have a Material Adverse Effect on the Company.

(iii) As of the date hereof, no liability under Subtitle C or D of Title IV of ERISA (other than the payment of prospective premium amounts to the Pension Benefit Guaranty Corporation in the normal course) has been or is expected to be incurred by it or any Subsidiary with respect to any ongoing, frozen or terminated "single-employer plan", within the meaning of Section 4001(a)(15) of ERISA, currently or formerly maintained by any of them, or the single-employer plan of any entity which is considered one employer with it under Section 4001 of ERISA or Section 414 of the Code (its "<u>ERISA Affiliate</u>") (each such single-employer plan, its "ERISA Affiliate Plan"). No notice of a "reportable event", within the meaning of Section 4043 of ERISA for which the 30-day reporting requirement has not been waived, has been required to be filed for any of its Pension Plans or any of its ERISA Affiliate Plans within the 12-month period ending on the date hereof or will be required to be filed in connection with the transactions contemplated by this Agreement.

(iv) Neither any of its Pension Plans nor any of its ERISA Affiliate Plans has an "accumulated funding deficiency" (whether or not waived) within the meaning of Section 412 of the Code or Section 302 of ERISA. Neither it nor its Subsidiaries has provided, or is required to provide, security to any of its Pension Plans or to any of its ERISA Affiliate Plans pursuant to Section 401(a)(29) of the Code.

(v) The consummation of the Merger (or its approval by its shareholders) and the other transactions contemplated by this Agreement and the Stock Option Agreement will not (x) entitle any of its employees or directors or any employees of its Subsidiaries to severance pay, directly or indirectly, upon termination of employment, (y) accelerate the time of payment or vesting or trigger any payment of compensation or benefits under, increase the amount payable or trigger any other material obligation pursuant to, any of its Compensation and Benefit Plans or

(z) result in any breach or violation of, or a default under, any of its Compensation and Benefit Plans.

(vi) Since the Audit Date, except as provided for herein, in the Company Disclosure Letter or as disclosed in the Company's Reports filed prior to the date hereof, there has not been any increase in the compensation payable or that could become payable by it or any of its Subsidiaries to officers or key employees or any amendment of any of its Compensation and Benefit Plans other than increases or amendments in the ordinary course.

(d) Takeover Statutes. The Board of Directors of the Company, including a majority of the non-employee directors of the Company, has duly adopted resolutions approving the Merger, the Stock Option Agreement and the transactions contemplated hereby and thereby and specifically naming SBC and its existing and future affiliates or associates (as such terms are defined under Section 33-840 and 33-843 of the CBCA). Such resolutions satisfy the requirements of Sections 33-842(c)(1) and 33-844(a) of the CBCA, are by their terms irrevocable, and have not been amended or modified in any manner. The provisions of Sections 33-841 and 33-844 of the CBCA do not and will not apply to the Merger or the other transactions contemplated by this Agreement or the Stock Option Agreement. No other "fair price," "moratorium," "control share acquisition" or other similar anti-takeover statute or regulation (each a "Takeover Statute") as in effect on the date hereof or any anti-takeover provision in the Company's certificate of incorporation and by-laws is applicable to the Company, the Company Shares, the Merger or the other transactions contemplated by this Agreement or the Stock Option Agreement.

(e) Environmental Matters. Except as disclosed in its Reports filed prior to the date hereof and except for such matters that, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect on it: (i) each of it and its Subsidiaries has complied with all applicable Environmental Laws (as defined below); (ii) the properties currently owned or operated by it or any of its Subsidiaries (including soils, any groundwater underlying such properties, surface water, buildings or other structures) are not contaminated with any Hazardous Substances (as defined below) at levels that require investigation or cleanup under applicable Environmental

Laws; (iii) the properties formerly owned or operated by it or any of its Subsidiaries were not contaminated with Hazardous Substances during the period of ownership or operation by it or any of its Subsidiaries; (iv) neither it nor any of its Subsidiaries has received written notice that it is subject to liability for any Hazardous Substance disposal or contamination on any third party property; (v) neither it nor any Subsidiary has been responsible for any release or threat of release of any Hazardous Substance; (vi) as of the date hereof neither it nor any Subsidiary has received any written notice, demand, letter, claim or request for information alleging that it or any of its Subsidiaries may be in violation of or liable under any Environmental Law; and (vii) neither it nor any of its Subsidiaries is subject to any binding orders, decrees, injunctions or other arrangements with any Governmental Entity or is subject to any indemnity or other agreement with any third party relating to liability under any Environmental Law or relating to Hazardous Substances.

As used herein, the term "Environmental Law" means any Law relating to: (A) the protection, investigation or restoration of the environment, health, safety, or natural resources, (B) the handling, use, presence, disposal, release or threatened release of any Hazardous Substance or (C) noise, odor, wetlands, pollution, contamination or any injury or threat of injury to persons or property in connection with any Hazardous Substance.

As used herein, the term "Hazardous Substance" means any substance that is: listed, classified or regulated pursuant to any Environmental Law, including any petroleum product or by-product, friable asbestos-containing material, lead-containing paint, polychlorinated biphenyls, radioactive materials or radon.

(f) Labor Matters. As of the date hereof, neither it nor any of its Subsidiaries is the subject of any material proceeding asserting that it or any of its Subsidiaries has committed an unfair labor practice or is seeking to compel it to bargain with any labor union or labor organization nor is there pending or, to the actual knowledge of its executive officers, threatened, nor has there been for the past five years, any labor strike, dispute, walkout, work stoppage, slow-down or lockout involving it or any of its Subsidiaries, except in each case as is not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on it.

(g) Rights Agreement. The Company has amended the Rights Agreement to provide that neither SBC nor Merger Sub shall be deemed to be an Acquiring Person (as defined in the Rights Agreement) and the Distribution Date (as defined in the Rights Agreement) shall not be deemed to occur and that the Rights will not become separable, distributable, unredeemable or exercisable as a result of entering into this Agreement, the Stock Option Agreement or consummating the Merger and/or the other transactions contemplated hereby and thereby.

(h) Brokers and Finders. Neither it nor any of its officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the Merger or the other transactions contemplated in this Agreement and the Stock Option Agreement except that the Company has employed Salomon Smith Barney Inc. as its financial advisor, the arrangements with which have been disclosed to SBC prior to the date hereof.

(i) Intellectual Property. (i) The Company and/or each of its Subsidiaries owns, or is licensed or otherwise possesses legally enforceable rights to use, all patents, trademarks, trade names, service marks, copyrights, and any applications therefor, technology, know-how, computer software programs or applications, and tangible or intangible proprietary information or materials that are used in its or any of its Subsidiaries' businesses as currently conducted, and to the actual knowledge of its executive officers all patents, trademarks, trade names, service marks and copyrights held by it and/or its Subsidiaries are valid and subsisting, except for any failures to so own, be licensed or possess or to be valid and subsisting, as the case may be, that, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect on it.

(ii) Except as disclosed in its Reports filed prior to the date hereof or as is not reasonably likely to have a Material Adverse Effect on the Company:

(A) it and its Subsidiaries are not, nor will any of them be as a result of the execution and delivery of this Agreement or the performance of its obligations hereunder, in violation of any licenses, sublicenses and other agreements as to which it or any of its Subsidiaries is a party and pursuant to which it or any Subsidiary is authorized to use any third-party patents, trademarks, service marks, and copyrights ("Third-Party Intellectual Property Right");

(B) to the actual knowledge of the Company, no claims as of the date hereof with respect to (I) the patents, registered and material unregistered trademarks and service marks, registered copyrights, trade names, and any applications therefor owned by it or any its Subsidiaries (the "Owned Intellectual Property Rights"); (II) any trade secrets material to it; or (III) Third-Party Intellectual Property Rights are currently pending or, to the knowledge of its executive officers, are threatened by any Person; and

(C) to the actual knowledge of its executive officers, there is no unauthorized use, infringement or misappropriation of any of the Owned Intellectual Property Rights by any third party, including any of its or any of its Subsidiaries' employees or former employees.

(j) Severance Payments. No payments to be made to any of the officers and employees of the Company or its Subsidiaries as a result of the consummation of the Merger will be subject to the deduction limitations under Section 280G of the Code.

5.3. Representations and Warranties of SBC and Merger Sub. Except as set forth in the corresponding sections or subsections of the SBC Disclosure Letter, SBC, on behalf of itself and Merger Sub, hereby represents and warrants to the Company that:

(a) Capital Structure. (i) The authorized capital stock of SBC consists of 2,200,000,000 shares of SBC Common Stock, of which 918,627,275 shares were issued and outstanding and 13,831,028 shares were held in treasury as of the close of business on December 30, 1997; and 10,000,000 shares of Preferred Stock, par value $1.00 per share (the "SBC Preferred Shares"), of which no shares were outstanding as of the close of business on December 31, 1997. All of the outstanding shares of SBC Common Stock have been duly authorized and are validly issued, fully paid and nonassessable. SBC has no shares of SBC Common Stock or SBC Preferred Shares reserved for issuance except that SBC has reserved no more than 10,000,000 SBC Preferred Shares for issuance pursuant to the Rights Agreement, dated as of January 27, 1989, between SBC and American Transtech, Inc., as Rights Agent, as amended by the Amendment of Rights Agreement, dated as of August 5, 1992, between SBC and The Bank of New York, as successor Rights Agent, and the Second Amendment of Rights Agreement, dated as of June 15, 1994, between SBC and The Bank of New York, as successor Rights Agent (as amended, the "SBC Rights Agreement"). Each of the outstanding shares of capital stock of each of SBC's Significant Subsidiaries is duly authorized, validly issued, fully paid and nonassessable and owned by SBC or a direct or indirect wholly-owned subsidiary of SBC, free and clear of any lien, pledge, security interest, claim or other encumbrance. Except pursuant to SBC's Senior Management Long Term Incentive Plan, Incentive Award Deferral Plan, Non-Employee Directors Stock and Deferral Plan, Stock Savings Plan, 1994 Stock Option Plan, 1996 Stock and Incentive Plan, 1995 Management Stock Option Plan, Savings Plan, Savings and Security Plan and stock plans assumed by SBC pursuant to the merger of SBC Communications (NV), Inc. with and into Pacific Telesis Group consummated on April 1, 1997 (collectively, the "SBC Stock Plans"), neither SBC nor any of its Subsidiaries has any obligation with respect to any preemptive or other outstanding rights, options, warrants, conversion rights, stock appreciation rights, redemption rights, repurchase rights, agreements, arrangements or commitments to issue or to sell any shares of capital stock or other securities of SBC or any of its Significant Subsidiaries or any securities or obligations convertible or exchangeable into or exercisable for, or giving any Person a right to subscribe for or acquire, any securities of the Company or any of its Significant Subsidiaries, and no securities or obligation evidencing such rights are authorized, issued or outstanding. SBC does not have outstanding any bonds, debentures, notes or other obligations the holders of which have the right to vote (or convertible into or exercisable for securities having the right to vote) with the stockholders of SBC on any matter.

(ii) The authorized capital stock of Merger Sub consists of 1,000 shares of common stock, par value $1.00 per share, all of which are validly issued and outstanding. All of the issued and outstanding capital stock of Merger Sub is, and at the Effective Time will be, owned by SBC, and there are (i) no other shares of capital stock or other voting securities of Merger Sub, (ii) no securities of Merger Sub convertible into or exchangeable for shares of capital stock or other voting securities of Merger Sub and (iii) no options or other rights to acquire from Merger Sub, and no obligations of Merger Sub to issue, any capital stock, other voting securities or securities convertible into or exchangeable for capital stock or other voting securities of Merger Sub. Merger Sub has not conducted any business prior to the date hereof and has no, and prior to the Effective Time will have no, assets, liabilities or obligations of any nature other than those incident to its formation and pursuant to this Agreement and the Merger and the other transactions contemplated by this Agreement.

(b) Corporate Authority; Approval and Fairness. SBC and Merger Sub each has all requisite corporate power and authority and each has taken all corporate action necessary in order to execute, deliver and perform its obligations under this Agreement and the Stock Option Agreement and to consummate, subject only to the SBC Required Consents, the Merger. Each of this Agreement and the Stock Option Agreement has been duly executed and delivered by SBC and Merger Sub and is a valid and binding agreement of SBC and Merger Sub, enforceable against each of SBC and Merger Sub in accordance with its terms, subject to the Bankruptcy and Equity Exception. SBC has received the opinion of its financial advisors, Lazard Frères & Co., in a customary form and to the effect that the Merger Consideration to be paid by SBC in the Merger is fair to SBC from a financial point of view. The shares of SBC Common Stock, when issued pursuant to this Agreement, will be validly issued, fully paid and nonassessable, and no stockholder of SBC will have any preemptive right of subscription or purchase in respect thereof.

(c) Brokers and Finders. Neither it nor any of its officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the Merger or the other transactions contemplated in this Agreement and the Stock Option Agreement except that SBC and Merger Sub have employed Lazard Frères & Co. as their financial advisor.

ARTICLE VI

Covenants

6.1. Interim Operations. (a) The Company covenants and agrees as to itself and its Subsidiaries that, after the date hereof and prior to the Effective Time (unless SBC shall otherwise approve in writing, which approval shall not be unreasonably withheld or delayed, and except as otherwise expressly contemplated by this Agreement or the Stock Option Agreement, in the Company Disclosure Letter or as required by applicable Law):

(i) the business of it and its Subsidiaries shall be conducted in the ordinary and usual course and, to the extent consistent therewith, it and its Subsidiaries shall use all reasonable efforts to preserve its business organization intact and maintain its existing relations and goodwill with customers, suppliers, regulators, distributors, creditors, lessors, employees and business associates;

(ii) it shall not (A) amend its certificate of incorporation or by-laws or amend, modify or terminate the Rights Agreement; (B) split, combine, subdivide or reclassify its outstanding shares of capital stock; (C) declare, set aside or pay any dividend payable in cash, stock or property in respect of any capital stock, other than per share regular quarterly cash dividends not in excess of $0.44 per Company Share; or (D) repurchase, redeem or otherwise acquire, or permit any of its Subsidiaries (other than the Company's Employee Stock Ownership Plan) to purchase or otherwise acquire, any shares of its capital stock or any securities convertible into or exchangeable or exercisable for any shares of its capital stock;

(iii) neither it nor any of its Subsidiaries shall knowingly take any action that would prevent the Merger from qualifying for "pooling of interests" accounting treatment or as a tax-free "reorganization" within the meaning of Section 368(a) of the Code or that would cause any of its representations and warranties herein to become untrue in any material respect;

(iv) neither it nor any of its Subsidiaries shall terminate, establish, adopt, enter into, make any new grants or awards under, amend or otherwise modify, any Compensation and Benefit Plans or increase the salary, wage, bonus or other compensation of any directors, officers or employees except (A) for grants or awards to directors, officers and employees of it or its Subsidiaries under existing Compensation and Benefit Plans in such amounts and on such terms as are consistent with past practice, (B) in the normal and usual course of business (which shall include normal periodic performance reviews and related compensation and benefit increases and the provision of individual Compensation and Benefit Plans consistent with past practice for promoted or newly hired officers and employees and the adoption of Compensation and Benefit Plans for employees of new Subsidiaries in amounts and on terms consistent with past practice) or (C) for actions necessary to satisfy existing contractual obligations under Compensation and Benefit Plans existing as of the date hereof;

(v) neither it nor any of its Subsidiaries shall issue any preferred stock or incur any indebtedness for borrowed money (other than indebtedness incurred solely for the purpose of funding the Escrow Account or the replacement or refinancing of existing short-term indebtedness) or guarantee any such indebtedness if the Company should reasonably anticipate that as a result of such incurrence any of the Company's or any of its Subsidiaries' outstanding senior indebtedness would be rated lower than A by Standard & Poor's;

(vi) neither it nor any of its Subsidiaries shall make any capital expenditures in any calendar year in an aggregate amount in excess of the aggregate amount reflected in the Company's capital expenditure budget for such year, a copy of which has been provided to SBC, plus $100 million;

(vii) except as contemplated by Section 6.1(a)(iv), neither the Company nor any of its Subsidiaries shall issue, deliver, sell, or encumber shares of any class of its common stock or any securities convertible into, or any rights, warrants or options to acquire, any such shares except the option granted under the Stock Option Agreement, options outstanding on the date hereof under the Stock Plans, awards of options and restricted stock granted hereafter under the Stock Plans in the ordinary course of business in accordance with this Agreement and shares issuable pursuant to such options and awards;

(viii) neither it nor any of its Subsidiaries shall spend in excess of $50 million in any calendar year to acquire any business, whether by merger, consolidation, purchase of property or assets or otherwise (valuing any non-cash consideration at its fair market value as of the date of the agreement for such acquisition). For purposes of this clause (viii), the amount spent with respect to any acquisition shall be deemed to include the aggregate amount of capital expenditures that the Company is obligated to make at any time or plans to make as result of such acquisition within two years after the date of acquisition;

(ix) neither it nor its Subsidiaries shall enter any business other than the telecommunications business and those businesses traditionally associated with the telecommunications business or enter into or extend any telecommunications business outside the geographic areas served by it and its Subsidiaries as of the date of this Agreement; and

(x) neither it nor any of its Subsidiaries shall agree prior to the Effective Time to do any of the foregoing after the Effective Time.

(b) SBC covenants and agrees as to itself and its Subsidiaries that, after the date hereof and prior to the Effective Time (unless the Company shall otherwise approve in writing, which approval shall not be unreasonably withheld or delayed, and except as otherwise expressly contemplated by this Agreement or in the SBC Disclosure Letter or as required by applicable Law):

(i) it shall not (A) amend its certificate of incorporation or by-laws in any manner that would prohibit or hinder, impede or delay in any material respect the Merger or the consummation of the transactions contemplated hereby; (B) declare, set aside or pay any dividend or other distribution payable in cash or property (other than SBC Common Stock) in respect of any capital stock, other than per share regular quarterly cash dividends; or (C) repurchase, redeem or otherwise acquire, or permit any of its Subsidiaries to purchase or otherwise acquire, except in open market transactions or in connection with the SBC Stock Plans, any shares of its capital stock or any securities convertible into or exchangeable for any shares of its capital stock;

(ii) neither it nor any of its Subsidiaries shall knowingly take any action that would prevent the Merger from qualifying as a tax-free "reorganization" within the meaning of Section 368(a) of the Code or that would cause any of its representations and warranties herein to become untrue in any material respect, provided, however, that nothing contained herein shall limit the ability of SBC to exercise its rights under the Stock Option Agreement; and

(iii) neither it nor any of its Subsidiaries will authorize or enter into an agreement to do any of the foregoing.

(c) SBC and the Company agree that any written approval obtained under this Section 6.1 may be relied upon by the other party if signed by the Chief Executive Officer, Chief Financial Officer, chief legal officer or another executive officer of the other party.

6.2. Acquisition Proposals. (a) The Company agrees that neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall direct and use its best efforts to cause its and its Subsidiaries' Representatives not to, directly or indirectly, initiate, solicit, encourage or otherwise facilitate any inquiries or the making of any proposal or offer with respect to a merger, reorganization, share exchange, consolidation or similar transaction involving it, or any purchase of, or tender offer for, 15% or more of the equity securities of it or any of its Subsidiaries listed on Schedule 1 or 15% or more of its and its Subsidiaries' assets (based on the fair market value thereof) taken as a whole (any such proposal or offer being hereinafter referred to as an "Acquisition Proposal"). The Company further agrees that neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall direct and use its best efforts to cause its Representatives not to, directly or indirectly, have any discussions with or provide any confidential information or data to any Person relating to an Acquisition Proposal or engage in any negotiations concerning an Acquisition Proposal, or otherwise facilitate any effort or attempt to make or implement an Acquisition Proposal; provided, however, that nothing contained in this Agreement shall prevent the Company or its board of directors from (A) complying with Rule 14e-2 promulgated under the Exchange Act with regard to an Acquisition Proposal; (B) making any disclosure to the Company's shareholders if, in the good faith judgment of the board of directors of the Company, failure so to disclose would be inconsistent with its obligations under applicable law; (C) engaging in any discussions or negotiations with or providing any information to, any Person in response to a bona fide written Acquisition Proposal by any such Person received after the date hereof that was not solicited by the Company after the date hereof; or (D) recommending such an Acquisition Proposal to the shareholders of the Company if and only to the extent that, in such case referred to in clause (C) or (D), the board of directors of the Company concludes in good faith (after consultation with its financial advisor) that such Acquisition Proposal is reasonably capable of being completed, taking into account all legal, financial, regulatory and other aspects of the proposal and the Person making the proposal, and would, if consummated, result in a transaction more favorable to the Company's shareholders from a financial point of view than the transaction contemplated by this Agreement (any such more favorable Acquisition Proposal being referred to in this Agreement as a "Superior Proposal"). The Company agrees that it will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any Acquisition Proposal. The Company also agrees that it will promptly request each Person that has heretofore executed a confidentiality agreement in connection with its consideration of any Acquisition Proposal to return all confidential information heretofore furnished to such Person by or on behalf of it or any of its Subsidiaries.

(b) The Company agrees that it will take the necessary steps to promptly inform the individuals or entities referred to in the first sentence hereof of the obligations undertaken in this Section 6.2. The Company agrees that it will notify SBC promptly if any such inquiries, proposals or offers are received by, any such information is requested from, or any such discussions or negotiations are sought to be initiated or continued with, any of the Company's Representatives indicating, in connection with such notice, the name of such Person and the material terms and conditions of any proposals or offers and thereafter shall keep SBC informed, on a current basis, of the status and material terms of any such proposals or offers and the status of any such discussions or negotiations.

6.3. Information Supplied. The Company and SBC each agrees, as to itself and its Subsidiaries, that none of the information supplied or to be supplied by it or its Subsidiaries for inclusion or incorporation by reference in (i) the Registration Statement on Form S-4 to be filed with the SEC by SBC in connection with the issuance of shares of SBC Common Stock in the Merger (including the proxy statement and prospectus (the "Prospectus/Proxy Statement") constituting a part thereof) (the "S-4 Registration Statement") will, at the time the S-4 Registration Statement becomes effective under the Securities Act, and (ii) the Prospectus/Proxy Statement and any amendment or supplement thereto will, at the date of mailing to shareholders and at the time of the Shareholders Meeting, in any such case, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. If at any time prior to the Effective Time any information relating to SBC or the Company, or any of their respective affiliates, officers or directors, should be discovered by SBC or the Company which should be set forth in an amendment or supplement to any of the S-4 Registration Statement or the Prospectus/Proxy Statement, so that any of such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other parties hereto and an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and, to the extent required by law, disseminated to the shareholders of the Company.

6.4. Shareholders Meeting. The Company will take, in accordance with applicable law and its certificate of incorporation and by-laws, all action necessary to convene a meeting of holders of Company Shares (the

"Shareholders Meeting") as promptly as practicable after the S-4 Registration Statement is declared effective to consider and vote upon the approval of this Agreement and the Merger. Unless the board of directors of the Company determines in good faith after consultation with outside legal counsel that to do so would result in a failure to comply with its fiduciary duties under applicable law, the Company's board of directors shall recommend approval of this Agreement and the Merger and shall take all lawful action to solicit such approval.

6.5. Filings; Other Actions; Notification. (a) SBC and the Company shall promptly prepare and file with the SEC the Prospectus/Proxy Statement, and SBC shall prepare and file with the SEC the S-4 Registration Statement as promptly as practicable. SBC and the Company each shall use all reasonable efforts to have the S-4 Registration Statement declared effective under the Securities Act as promptly as practicable after such filing, and promptly thereafter mail the Prospectus/Proxy Statement to the shareholders of the Company. SBC shall also use all reasonable efforts to obtain prior to the effective date of the S-4 Registration Statement all necessary state securities law or "blue sky" permits and approvals required in connection with the Merger and to consummate the other transactions contemplated by this Agreement and will pay all expenses incident thereto.

(b) The Company and SBC each shall use all reasonable efforts to cause to be delivered to the other party and its directors (i) letters of its independent auditors, dated (A) the date on which the S-4 Registration Statement shall become effective and (B) the Closing Date, and addressed to the other party and its directors, in form and substance customary for "comfort" letters delivered by independent public accountants in connection with registration statements similar to the S-4 Registration Statement, and (ii) a letter from its independent auditors addressed to SBC and the Company, dated as of the Closing Date, stating their opinion that the Merger will qualify for pooling-of-interests accounting treatment.

(c) The Company and SBC shall cooperate with the other and use (and shall cause their respective Subsidiaries to use) their respective best efforts to take or cause to be taken all actions, and do or cause to be done all things, necessary, proper or advisable on its part under this Agreement and the Stock Option Agreement and applicable Laws to consummate and make effective the Merger and the other transactions contemplated by this Agreement and the Stock Option Agreement as soon as practicable, including preparing and filing as promptly as practicable all documentation to effect all necessary applications, notices, petitions, filings and other documents and to obtain as promptly as practicable all consents, registrations, approvals, permits and authorizations necessary or advisable to be obtained from any third party and/or any Governmental Entity in order to consummate the Merger or any of the other transactions contemplated by this Agreement or the Stock Option Agreement; provided, however, that nothing in this Section 6.5 shall require, or be construed to require, SBC or the Company to proffer, or agree to, any concession to any Governmental Entity if (i) such concession is reasonably likely to have a Material Adverse Effect on the Company following the Effective Time, (ii) such concession is reasonably likely to have a Material Adverse Effect on SBC following the Effective Time (it being understood that, for this purpose, materiality shall be determined with reference to the total enterprise value of the Company and its Subsidiaries, taken as a whole, rather than that of SBC and its Subsidiaries, taken as a whole, and taking into account any material restrictions on the ability of SBC or any of its Significant Subsidiaries to conduct its operations as currently conducted or as proposed to be conducted by it). Subject to applicable laws relating to the exchange of information, SBC and the Company shall have the right to review in advance, and to the extent practicable each will consult the other on, all the information relating to SBC or the Company, as the case may be, and any of their respective Subsidiaries, that appears in any filing made with, or written materials submitted to, any third party and/or any Governmental Entity in connection with the Merger and the other transactions contemplated by this Agreement or the Stock Option Agreement. In exercising the foregoing right, each of the Company and SBC shall act reasonably and as promptly as practicable.

(d) Subject to applicable laws relating to the exchange of information, the Company and SBC each shall, upon request by the other, furnish the other with all information concerning itself, its Subsidiaries, directors, officers and stockholders and such other matters as may be reasonably necessary or advisable in connection with the Prospectus/Proxy Statement, the S-4 Registration Statement or any other statement, filing, notice or application made by or on behalf of SBC, the Company or any of their respective Subsidiaries to any third party and/or any Governmental Entity in connection with the Merger and the transactions contemplated by this Agreement or the Stock Option Agreement.

(e) The Company and SBC each shall keep the other apprised of the status of matters relating to completion of the transactions contemplated hereby, including promptly furnishing the other with copies of notices or other communications received by SBC or the Company, as the case may be, or any of its Subsidiaries, from any third party and/or any Governmental Entity with respect to the Merger and the other transactions contemplated by this Agreement or the Stock Option Agreement. Each of the Company and SBC shall give prompt notice to the other of any change that is reasonably likely to result in a Material Adverse Effect on it or of any failure of any of the conditions to the other party's obligations to effect the Merger set forth in Article VII.

6.6. Access; Consultation. (a) Upon reasonable notice, and except as may otherwise be required by applicable law, the Company and SBC each shall (and shall cause its Subsidiaries to) afford the other's and the other's Subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by the other or any of the other's Subsidiaries)(such officers, directors, employees, agents and representatives being referred to in this Agreement, with respect to the Company or SBC, as the context requires, as such party's "Representatives") reasonable access, during normal business hours throughout the period prior to the Effective Time, to its properties, books, contracts and records and, during such period, each shall (and shall cause its Subsidiaries to) furnish promptly to the other all information concerning its business, properties and personnel as may reasonably be requested, provided that no investigation pursuant to this Section shall affect or be deemed to modify any representation or warranty made by the Company, SBC or Merger Sub hereunder, and provided, further, that the foregoing shall not require the Company or SBC to permit any inspection, or to disclose any information, that in the reasonable judgment of the Company or SBC, as the case may be, would violate applicable law or any of its obligations with respect to confidentiality or would result in the disclosure of any trade secrets of third parties if the Company or SBC, as the case may be, shall have used all reasonable efforts to obtain the consent of such third party to such inspection or disclosure. All requests for information made pursuant to this Section shall be directed to an executive officer of the Company or SBC, as the case may be, or such Person as may be designated by any such executive officer, as the case may be. All information provided pursuant to this Section 6.6 shall be governed by the terms of the Confidentiality Agreement.

(b) Subject to the Confidentiality Agreement and to Section 6.16, from the date hereof to the Effective Time, SBC and the Company agree to consult with each other on a regular basis on a schedule to be agreed with regard to their respective operations.

(c) From the date hereof to the Effective Time, the Company agrees to notify SBC in advance of any issuance by the Company or any of its Subsidiaries of any long-term debt or preferred stock.

6.7. Affiliates. (a) Each of the Company and SBC shall deliver to the other a letter identifying all Persons whom such party believes to be, at the date of the Shareholders Meeting, "affiliates" of such party for purposes of applicable interpretations regarding use of the pooling-of-interests accounting method and, in the case of "affiliates" of the Company, for purposes of Rule 145 under the 1933 Act. Each of the Company and SBC shall use all reasonable efforts to cause each Person who is identified as an "affiliate" in the letter referred to above to deliver to SBC prior to the date of the Shareholders Meeting a written agreement, in the form attached hereto as Exhibit C, in the case of affiliates of the Company (the "Company Affiliate's Letter"), and Exhibit D, in the case of affiliates of SBC (the "SBC Affiliate's Letter"). Prior to the Effective Time, each of the Company and SBC shall use all reasonable efforts to cause each additional Person who is identified as an "affiliate" to execute the applicable written agreement as set forth in this Section 6.7.

(b) If the Merger would otherwise qualify for pooling-of-interests accounting treatment, shares of SBC Common Stock issued to such affiliates of the Company in exchange for Company Shares shall not be transferable until such time as financial results covering at least 30 days of combined operations of SBC and the Company shall have been published within the meaning of Section 201.01 of the SEC's Codification of Financial Reporting Policies, regardless of whether each such affiliate has provided the written agreement referred to in this Section, except to the extent permitted by, and in accordance with, SEC Accounting Series Release 135 and SEC Staff Accounting Bulletins 65 and 76. Any Company Shares held by any such affiliate shall not be transferable, regardless of whether such affiliate has provided the applicable written agreement referred to in this Section, if such transfer, either alone or in the aggregate with other transfers by affiliates, would preclude SBC's ability to account for the business combination to be effected by the Merger as a pooling of interests. The Company shall not register the transfer of any Certificate, unless such transfer is made in compliance with the foregoing.

6.8. Stock Exchange Listing and De-listing. SBC shall use its best efforts to cause the shares of SBC Common Stock to be issued in the Merger to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Closing Date. The Surviving Corporation shall use its best efforts to cause the Company Shares to be de-listed from the NYSE and the Pacific Exchange and de-registered under the Exchange Act as soon as practicable following the Effective Time.

6.9. Publicity. The initial press release with respect to the Merger shall be a joint press release, and thereafter the Company and SBC each shall consult with each other prior to issuing any press releases or otherwise making public announcements with respect to the Merger and the other transactions contemplated by this Agreement and the Stock Option Agreement and prior to making any filings with any third party and/or any Governmental Entity (including any national securities exchange) with respect thereto, except as may be required by law or by obligations pursuant to any listing agreement with or rules of any national securities exchange.

6.10. Benefits.

(a) Stock Options.

(i) At the Effective Time, each outstanding option to purchase Company Shares (a "Company

Option") under the Stock Plans, whether vested or unvested, shall be deemed to constitute an option to acquire, on the same terms and conditions as were applicable under such Company Option, after giving effect to any provision requiring the vesting of any Company Option as a result of the transactions contemplated by this Agreement, the same number of shares of SBC Common Stock as the holder of such Company Option would have been entitled to receive pursuant to the Merger had such holder exercised such Company Option in full immediately prior to the Effective Time (rounded down to the nearest whole number) (a "Substitute Option"), at an exercise price per share (rounded up to the nearest whole cent) equal to (y) the aggregate exercise price for the Company Shares otherwise purchasable pursuant to such Company Option divided by (z) the number of full shares of SBC Common Stock deemed purchasable pursuant to such Company Option in accordance with the foregoing. At or prior to the Effective Time, the Company shall make all necessary arrangements with respect to the Stock Plans, including any necessary amendments thereto, to permit the assumption of the unexercised Company Options by SBC pursuant to this Section and no later than five business days after the Effective Time SBC shall register under the Securities Act of 1933 on Form S-8 or other appropriate form (and use its best efforts to maintain the effectiveness thereof) shares of SBC Common Stock issuable pursuant to all Substitute Options. As promptly as practicable after the Effective Time, the Company shall deliver to the participants in the Stock Plans appropriate notices setting forth such participants' rights pursuant to such assumed Company Options.

(ii) Effective at the Effective Time, SBC shall assume each Company Option in accordance with the terms of the Stock Plan under which it was issued and the stock option agreement by which it is evidenced.

(b) Employee Benefits. SBC agrees that it shall cause the Surviving Corporation for at least two years after the Effective Time to provide or cause to be provided to employees of the Company and its Subsidiaries compensation and benefit plans that are no less favorable, in the aggregate, than the Company's Compensation and Benefit Plans; provided, however, if during this period SBC implements any widespread increase or decrease in benefits under compensation and benefit plans or in the cost thereof to participants under compensation and benefit plans applicable to employees of SBC and its Subsidiaries (other than the Surviving Corporation and its Subsidiaries), the Surviving Corporation shall proportionately adjust the benefits under the Company's compensation and benefit plans or the cost thereof to participants, and provided, further, with respect to employees who are subject to collective bargaining, all benefits shall be provided in accordance with the applicable collective bargaining agreement. SBC shall, and shall cause the Surviving Corporation to, honor, pursuant to their terms, all employee benefit obligations to current and former employees under the Compensation and Benefit Plans.

6.11. Expenses. Except as otherwise provided in Section 6.18 or 8.5(b), whether or not the Merger is consummated, all costs and expenses incurred in connection with this Agreement and the Merger and the other transactions contemplated by this Agreement shall be paid by the party incurring such cost or expense, except that expenses incurred in connection with the filing fee for the S-4 Registration Statement and printing and mailing the Prospectus/Proxy Statement and the S-4 Registration Statement and the filing fee under the HSR Act shall be shared equally by SBC and the Company.

6.12. Indemnification; Directors' and Officers' Insurance. (a) From and after the Effective Time, SBC agrees that it will indemnify and hold harmless each present and former director and officer of the Company (when acting in such capacity) determined as of the Effective Time (the "Indemnified Parties"), against any costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages or liabilities (collectively, "Costs") incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to matters existing or occurring at or prior to the Effective Time, whether asserted or claimed prior to, at or after the Effective Time, to the fullest extent that the Company would have been permitted under Connecticut law and its certificate of incorporation or by-laws in effect on the date hereof to indemnify such Person (and SBC shall also advance expenses as incurred to the fullest extent permitted under applicable law, provided the Person to whom expenses are advanced provides an undertaking to repay such advances if it is ultimately determined that such Person is not entitled to indemnification).

(b) Any Indemnified Party wishing to claim indemnification under paragraph (a) of this Section 6.12, upon learning of any such claim, action, suit, proceeding or investigation, shall promptly notify SBC thereof, but the failure to so notify shall not relieve SBC of any liability it may have to such Indemnified Party if such failure does not materially prejudice SBC. In the event of any such claim, action, suit, proceeding or investigation (whether arising before or after the Effective Time), (i) SBC or the Surviving Corporation shall have the right to assume the defense thereof and SBC shall not be liable to such Indemnified Parties for any legal expenses of other counsel or any other expenses subsequently incurred by such Indemnified Parties in connection with the defense thereof, except that if SBC or the Surviving Corporation elects not to assume such defense or counsel for the Indemnified Parties advises that there are issues which raise conflicts of interest between SBC or the Surviving Corporation and the Indemnified Parties, the Indemnified Parties may retain counsel satisfactory to them, and SBC or the Surviving Corporation shall pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements therefor are received; provided, however, that SBC shall be obligated pursuant to this paragraph (b) to pay for only one firm of counsel for all Indemnified Parties in any jurisdiction, (ii) the Indemnified Parties will cooperate in the defense of any such matter, and (iii) SBC shall not be liable for any settlement effected without its prior written consent.

(c) SBC or the Surviving Corporation shall maintain a policy of officers' and directors' liability insurance for acts and omissions occurring prior to the Effective Time ("D&O Insurance") with coverage in amount and scope at least as favorable as the Company's existing directors' and officers' liability insurance coverage for a period of six years after the Effective Time; provided, however, if the existing D&O Insurance expires, is terminated or cancelled, or if the annual premium therefor is increased to an amount in excess of 175% of the last annual premium paid prior to the date hereof (the "Current Premium"), in each case during such six year period, SBC or the Surviving Corporation will use its best efforts to obtain D&O Insurance in an amount and scope as great as can be obtained for the remainder of such period for a premium not in excess (on an annualized basis) of 175% of the Current Premium.

(d) If SBC or the Surviving Corporation or any of its successors or assigns (i) shall consolidate with or merge into any other corporation or entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) shall transfer all or substantially all of its properties and assets to any individual, corporation or other entity, then and in each such case, proper provisions shall be made so that the successors and assigns of SBC or the Surviving Corporation, as the case may be, shall assume all of the obligations set forth in this Section.

(e) The provisions of this Section are intended to be for the benefit of, and shall be enforceable by, each of the Indemnified Parties, their heirs and their representatives.

6.13. Takeover Statute. If any Takeover Statute is or may become applicable to the Merger or the other transactions contemplated by this Agreement or the Stock Option Agreement, each party hereto and its board of directors shall grant such approvals and take such actions as are necessary so that such transactions may be consummated as promptly as practicable on the terms contemplated by this Agreement or the Stock Option Agreement or by the Merger and otherwise act to eliminate or minimize the effects of such statute or regulation on such transactions.

6.14. Dividends. The Company shall coordinate with SBC the declaration, setting of record dates and payment dates of dividends on Company Shares so that holders of Company Shares do not receive dividends on both Company Shares and SBC Common Stock received in the Merger in respect of any calendar quarter or fail to receive a dividend on either Company Shares or SBC Common Stock received in the Merger in respect of any calendar quarter.

6.15. Confidentiality. The Company and SBC each acknowledges and confirms that it has entered into a Confidentiality and Non-Disclosure Agreement, dated October 22, 1997 (the "Confidentiality Agreement"), and that the Confidentiality Agreement shall remain in full force and effect in accordance with its terms, whether or not the Merger is consummated.

6.16. Control of the Company's Operations. Nothing contained in this Agreement shall give SBC, directly or indirectly, rights to control or direct the Company's operations prior to the Effective Time. Prior to the Effective Time, the Company shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision of its operations.

6.17. Tax Representation Letters. For purposes of the tax opinions described in Sections 7.2(c) and 7.3(c) of this Agreement, each of the Company and SBC shall provide representation letters, in form and substance reasonably satisfactory to the Company and SBC, each dated as of the date that is two business days prior to the date the Prospectus/Proxy Statement is first mailed to shareholders of the Company and reissued as of the Closing Date.

6.18. Transfer Taxes. All state, local, foreign or provincial sales, use, real property transfer, stock transfer or similar Taxes (including any interest or penalties with respect thereto) attributable to the Merger (collectively, the "Transfer Taxes") shall be timely paid by the Company, which payments, if any, shall be made from the Escrow Account if required by Section 4.5.

ARTICLE VII

Conditions

7.1. Conditions to Each Party's Obligation to Effect the Merger. The respective obligation of each party to effect the Merger is subject to the satisfaction or waiver at or prior to the Effective Time of each of the following conditions:

(a) Shareholder Approval. This Agreement shall have been duly approved by holders of Company Shares constituting the Company Requisite Vote;

(b) NYSE Listing. The shares of SBC Common Stock issuable to the Company shareholders pursuant to this Agreement shall have been approved for listing on the NYSE subject to official notice of issuance.

(c) Governmental Consents. The waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated and all material

Company Required Consents and SBC Required Consents from or with the FCC, the DPUC or any other Governmental Entity shall have been made or obtained pursuant to a Final Order, free of any conditions adverse to the Company or SBC (other than for conditions that (i) are not reasonably likely, individually or in the aggregate, to have a Material Adverse Effect on the Company following the Effective Time, or (ii) are not reasonably likely to have a Material Adverse Effect on SBC following the Effective Time (it being understood that, for this purpose, materiality shall be determined with reference to the total enterprise value of the Company and its Subsidiaries, taken as a whole, rather than that of SBC and its Subsidiaries, taken as a whole, and taking into account any material restrictions on the ability of SBC or any of its Significant Subsidiaries to conduct its operations as currently conducted or as proposed to be conducted by it)). For the purposes of this Agreement, "Final Order" means an action or decision that has been granted as to which (a) no request for a stay or any similar request is pending, no stay is in effect, the action or decision has not been vacated, reversed, set aside, annulled or suspended and any deadline for filing such a request that may be designated by statute or regulation has passed, (b) no petition for rehearing or reconsideration or application for review is pending and the time for the filing of any such petition or application has passed, (c) none of the FCC, the DPUC or any other Governmental Entity has the action or decision under reconsideration on its own motion and the time within which it may effect such reconsideration has passed and (d) no appeal is pending (including other administrative or judicial review) or in effect and any deadline for filing any such appeal that may be specified by statute or rule has passed, which in any such case (a), (b), (c) or (d) is reasonably likely to result in vacating, reversing, setting aside, annulling, suspending or modifying such action or decision (in any such case in a manner which would have a Material Adverse Effect on SBC or the Company following the Effective Time).

(d) Laws and Orders. No Governmental Entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the Merger or the other transactions contemplated by this Agreement or that is, individually or in the aggregate with all other such Laws, reasonably likely to have a Material Adverse

Effect on SBC or the Company (collectively, an "Order"), and none of the Department of Justice, the Federal Trade Commission, the FCC or the DPUC shall have instituted any proceeding or threatened in writing or publicly announced its intention to institute any proceeding seeking any such Order.

(e) S-4. The S-4 Registration Statement shall have become effective under the Securities Act. No stop order suspending the effectiveness of the S-4 Registration Statement shall have been issued, and no proceedings for that purpose shall have been initiated or be threatened by the SEC.

7.2. Conditions to Obligations of SBC and Merger Sub. The obligations of SBC and Merger Sub to effect the Merger are also subject to the satisfaction or waiver by SBC at or prior to the Effective Time of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company set forth in this Agreement (i) to the extent qualified by Material Adverse Effect shall be true and correct and (ii) to the extent not qualified by Material Adverse Effect shall be true and correct, except that this clause (ii) shall be deemed satisfied so long as any failures of such representations and warranties to be true and correct, taken together, do not have a Material Adverse Effect on the Company, in each case (i) and (ii), as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date, and SBC shall have received a certificate signed on behalf of the Company by an executive officer of the Company to such effect.

(b) Performance of Obligations of the Company. The Company shall have performed all material obligations required to be performed by it under this Agreement at or prior to the Closing Date, and SBC shall have received a certificate signed on behalf of the Company by an executive officer of the Company to such effect.

(c) Tax Opinion. SBC shall have received the opinion of Sullivan & Cromwell, special counsel to SBC, dated the Closing Date, to the effect that the Merger will be treated for Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, and that each of SBC, Merger Sub and the Company will be a party to that reorganization within the meaning of Section 368(b) of the Code; it being understood that in rendering such opinion, such tax counsel shall be entitled to rely upon representations provided by the parties hereto in the representation letters referred to in Section 6.17.

(d) Dissenting Shares. The Dissenting Shares shall not constitute more than 9% of the aggregate number of Company Shares outstanding immediately prior to the Effective Time provided, however, that this condition shall be deemed to be waived by SBC if the condition set forth in Section 7.2(e) is deemed waived by SBC pursuant to the proviso to Section 7.2(e).

(e) Accountants' Letter. SBC shall have received a letter from its independent public accounting firm to the effect that the Merger will qualify for "pooling-of-interests" accounting treatment; provided, however, that this condition shall be deemed to be waived by SBC if SBC's independent accounting firm shall have failed to deliver such letter solely as a result of one or more SBC Pooling Actions.

For purposes of this Section 7.2(e), "SBC Pooling Action" shall mean (i) any action taken by SBC or any of its Subsidiaries after the date hereof that would prevent the Merger from qualifying for "pooling-of-interests" accounting treatment if any of the executive officers of SBC actually knew or, after appropriate inquiry, should have known that such action would prevent the Merger from qualifying for "pooling-of-interests" accounting treatment, (ii) the escrow arrangements referred to in Section 4.5 hereof, if the Company's obligation to make such arrangements has not been waived by SBC in accordance with Section 4.5 and (iii) any condition existing on the date hereof which, with reference only to SBC and its Subsidiaries, would prevent the Merger from qualifying for "pooling-of-interests" accounting treatment under the currently published and effective guidelines and interpretations of the American Institute of Certified Public Accountants, the Financial Accounting Standards Board and the SEC relating to "pooling-of-interests" accounting treatment.

7.3. Conditions to Obligation of the Company. The obligation of the Company to effect the Merger is also subject to the satisfaction or waiver by the Company at or prior to the Effective Time of the following conditions:

(a) Representations and Warranties. The representations and warranties of SBC and Merger Sub set forth in this Agreement (i) to the extent qualified by Material Adverse Effect shall be true and correct, and (ii) to the extent not qualified by Material Adverse Effect shall be true and correct, except that this clause (ii) shall be deemed satisfied so long as any failures of such representations and warranties to be true and correct, taken together, do not have a Material Adverse Effect on SBC, in each case (i) and (ii), as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date, and the Company shall have received a certificate signed on behalf of SBC by an executive officer of SBC to such effect.

(b) Performance of Obligations of SBC and Merger Sub. Each of SBC and Merger Sub shall have performed all material obligations required to be performed by it under this Agreement at or prior to the Closing Date, and the Company shall have received a certificate signed on behalf of SBC and Merger Sub by an executive officer of SBC to such effect.

(c) Tax Opinion. The Company shall have received the opinion of Cravath, Swaine & Moore, counsel to the Company, dated the Closing Date, to the effect that the Merger will be treated for Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, and that each of SBC, Merger Sub and the Company will be a party to that reorganization within the meaning of Section 368(b) of the Code; it being understood that in rendering such opinion, such tax counsel shall be entitled to rely upon representations provided by the parties hereto in the representation letters referred to in Section 6.17.

ARTICLE VIII

Termination

8.1. Termination by Mutual Consent. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after the approval by shareholders of the Company referred to in Section 7.1(a), by mutual written consent of the Company and SBC, by action of their respective boards of directors.

8.2. Termination by Either SBC or the Company. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by action of the board of directors of either SBC or the Company if (i) the Merger shall not have been consummated by December 31, 1998, whether such date is before or after the date of approval by the shareholders of the Company (the "Termination Date"); provided, however, that if the Company or SBC determines that additional time is necessary in connection with obtaining a Company Required Consent or a SBC Required Consent from or with the FCC, the DPUC or any other Governmental Entity, the Termination Date may be extended by the Company or SBC from time to time by written notice to the other party to a date no later than June 30, 1999 (the "Extended Termination Date"), (ii) the approval of the Company's shareholders required by Section 7.1(a) shall not have been obtained at a meeting duly convened therefor or at any adjournment or postponement thereof or (iii) any Order permanently restraining, enjoining or otherwise prohibiting consummation of the Merger shall become final and non-appealable (whether before or after the approval by the shareholders of the Company); provided, that the right to terminate this Agreement pursuant to clause (i) above shall not be available to any party that has breached in any material respect its obligations under this Agreement in any manner that shall have proximately contributed to the failure of the Merger to be consummated.

8.3. Termination by the Company. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after the approval by shareholders of the Company referred to in Section 7.1(a), by action of the board of directors of the Company:

(a) If (i) the Company shall not have willfully breached any of the terms of this Agreement in a manner resulting in failure of a condition set forth in Section 7.2(a) or 7.2(b), (ii) the board of directors of the Company approves entering into a binding written agreement concerning a transaction that constitutes a Superior Proposal and the Company notifies SBC in writing that the Company wishes to enter into such agreement, (iii) SBC does not make, within five business days of receipt of the Company's written notification of its desire to enter into a binding agreement for a Superior Proposal, an offer that the board of directors of the Company believes, in good faith after consultation with its financial advisors, is at least as favorable, from a financial point of view, to the shareholders of the Company as the Superior Proposal, and that contains terms and conditions (other than with respect to type or amount of consideration) that do not differ materially from either the terms and conditions of this Agreement or the terms and conditions of the proposed agreement for such Superior Proposal and (iv) the Company prior to such termination pays to SBC in immediately available funds any fees required to be paid pursuant to Section 8.5. The Company agrees to notify SBC promptly if its desire to enter into a written agreement referred to in its notification shall change at any time after giving such notification.

(b) If there has been a breach by SBC or Merger Sub of any representation, warranty, covenant or agreement contained in this Agreement which (i) would result in a failure of a condition set forth in Section 7.3(a) or 7.3(b) and (ii) cannot be cured prior to the Extended Termination Date.

8.4. Termination by SBC. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by action of the board of directors of SBC if (i) the board of directors of the Company shall have withdrawn or adversely modified its approval or recommendation of this Agreement or failed to reconfirm its recommendation of this Agreement within ten business days after a written request by SBC to do so, *provided* that such a request is made after the board of directors of the

Company has taken any of the actions specified in clause (C) or (D) of the proviso of Section 6.2 with respect to an Acquisition Proposal and such Acquisition Proposal has not been rejected by such board of directors or withdrawn, (ii) there has been a breach by the Company of any representation, warranty, covenant or agreement contained in this Agreement which (A) would result in a failure of a condition set forth in Section 7.2(a) or 7.2(b) and (B) cannot be cured prior to the Extended Termination Date or (iii) if the Company or any of its Representatives shall take any of the actions that would be proscribed by Section 6.2 but for the exception therein allowing certain actions to be taken pursuant to clause (C) or (D) of the proviso thereof (other than any such actions taken pursuant to such clause (C) with respect to any bona fide written Acquisition Proposal (received after the date hereof that was not solicited by the Company after the date hereof) taken during the ten calendar day period following receipt of such Acquisition Proposal by the Company if, and only if, the Company receives such Acquisition Proposal during the Initial 15 Day Period). For purposes of this Agreement, the "Initial 15 Day Period" shall mean the 15 calendar day period commencing with the first calendar day after which this Agreement shall have been filed by SBC or the Company with the SEC as an exhibit to a Current Report on Form 8-K under the Exchange Act.

8.5. Effect of Termination and Abandonment. (a) In the event of termination of this Agreement and the abandonment of the Merger pursuant to this Article VIII, this Agreement (other than as set forth in Section 9.1) shall become void and of no effect with no liability on the part of any party hereto (or of any of its directors, officers, employees, agents, legal or financial advisors or other representatives); provided, however, except as otherwise provided herein, no such termination shall relieve any party hereto of any liability or damages resulting from any willful and intentional breach of this Agreement (in any such case in which SBC is not the breaching party, to the extent any such liability or damages exceed any Termination Fee which may have been paid to SBC pursuant to Section 8.5(b)).

(b) In the event that (i) after the date hereof a bona fide Acquisition Proposal with respect to the Company or any Subsidiary of the Company that was not solicited by the Company after the date hereof shall have been made to the Company or any of its Subsidiaries and made known to shareholders generally or has been made directly to shareholders generally or any Person shall have publicly announced an intention (whether or not conditional) to make a bona fide Acquisition Proposal with respect to the Company or any Subsidiary of the Company and such Acquisition Proposal or announced intention shall not have been withdrawn prior to the Shareholders Meeting and thereafter this Agreement is terminated by either SBC or the Company pursuant to Section 8.2(ii) and within nine months after such termination the Company shall have entered into an agreement to consummate a transaction that would constitute an Acquisition Proposal if it were the subject of a proposal, or (ii) this Agreement is terminated (x) by the Company pursuant to Section 8.3(a) or (y) by SBC pursuant to Section 8.4(i), (ii) (solely with respect to a willful and intentional breach of Section 6.2) or (iii), then the Company shall promptly, but in no event later than two days after the date of such termination (except as otherwise provided in Section 8.3(a)) or, in the case of a termination pursuant to Section 8.2(ii), two days after the relevant agreement is entered into, pay SBC a fee equal to $125 million (the "Termination Fee"), which amount shall be exclusive of any expenses to be paid pursuant to Section 6.11, payable by wire transfer of same day funds. The Company acknowledges that the agreements contained in this Section 8.5(b) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, SBC and Merger Sub would not enter into this Agreement; accordingly, if the Company fails to promptly pay the amount due pursuant to this Section 8.5(b), and, in order to obtain such payment, SBC or Merger Sub commences a suit which results in a judgment against the Company for the fee set forth in this paragraph (b), the Company shall pay to SBC or Merger Sub its costs and expenses (including attorneys' fees) in connection with such suit, together with interest on the amount of the fee at the prime rate of Citibank N.A. in effect on the date such payment was required to be made. Solely for purposes of Section 8.5(b)(i), the term "Acquisition Proposal" shall have the meaning assigned to such term in Section 6.2(a) except that references to "15%" in the definition of "Acquisition Proposal" in Section 6.2(a) shall be deemed to be references to 35% and the reference in such definition to "or any of its Subsidiaries listed on Schedule 1" shall be deemed to be a reference to "or the Southern New England Telephone Company".

ARTICLE IX

Miscellaneous and General

9.1. Survival. This Article IX (other than Sections 9.2 and 9.4) and the agreements of the Company, SBC and Merger Sub contained in Sections 6.10 (Benefits), 6.11 (Expenses) and 6.12 (Indemnification; Directors' and Officers' Insurance) shall survive the consummation of the Merger. This Article IX (other than Section 9.2 (Modification or Amendment), Section 9.3 (Waiver of Conditions) and Section 9.14 (Assignment)) and the agreements of the Company, SBC and Merger Sub contained in Section 6.11 (Expenses), Section 6.15 (Confidentiality) and Section 8.5 (Effect of Termination and Abandonment) shall survive the termination of this Agreement. All other representations, warranties, covenants and agreements in this Agreement shall not survive the consummation of the Merger or the termination of this Agreement.

9.2. Modification or Amendment. Subject to the provisions of applicable law, at any time prior to the Effective Time, the parties hereto may modify or amend this Agreement, by written agreement executed and delivered by duly authorized officers of the respective parties.

9.3. Waiver of Conditions. (a) Any provision of this Agreement may be waived prior to the Effective Time if, and only if, such waiver is in writing and signed by the party against whom the waiver is to be effective.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. Except as otherwise herein provided, the rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

9.4. Counterparts. This Agreement may be executed in any number of counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts shall together constitute the same agreement.

9.5. <u>GOVERNING LAW AND VENUE; WAIVER OF JURY TRIAL</u>. (a) **THIS AGREEMENT SHALL BE DEEMED TO BE MADE IN AND IN ALL RESPECTS SHALL BE INTERPRETED, CONSTRUED AND GOVERNED BY AND IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE, WITHOUT REGARD TO THE CONFLICT OF LAW PRINCIPLES THEREOF, EXCEPT THAT THE MERGER SHALL BE GOVERNED BY AND IN ACCORDANCE WITH THE CBCA, TO THE EXTENT APPLICABLE.** The parties hereby irrevocably submit to the jurisdiction of the Federal courts of the United States of America located in the State of Delaware solely in respect of the interpretation and enforcement of the provisions of this Agreement and of the documents referred to in this Agreement, and in respect of the transactions contemplated hereby and thereby, and hereby waive, and agree not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or of any such document, that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement or any such document may not be enforced in or by such courts, and the parties hereto irrevocably agree that all claims with respect to such action or proceeding shall be heard and determined in such a Federal court. The parties hereby consent to and grant any such court jurisdiction over the Person of such parties and over the subject matter of such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 9.6 or in such other manner as may be permitted by law, shall be valid and sufficient service thereof.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) EACH SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (iv) EACH SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS

AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.5.

9.6. Notices. Notices, requests, instructions or other documents to be given under this Agreement shall be in writing and shall be deemed given, (i) three business days following sending by registered or certified mail, postage prepaid, (ii) when sent if sent by facsimile, provided that the fax is promptly confirmed by telephone confirmation thereof, (iii) when delivered, if delivered personally to the intended recipient, and (iv) one business day later, if sent by overnight delivery via a national courier service, and in each case, addressed to a party at the following address for such party:

if to SBC or Merger Sub

SBC Communications Inc.
175 E. Houston
San Antonio, Texas 78205
Attention: James D. Ellis, Esq.

with copies to:

Sullivan & Cromwell
125 Broad Street
New York, New York 10004-2498
Attention: Benjamin F. Stapleton, Esq.

if to the Company

Southern New England Telecommunications Corporation
227 Church Street
New Haven, Connecticut 06510
Attention: Madeline DeMatteo, Esq.

with copies to:

Cravath, Swaine & Moore
825 Eighth Avenue
New York, New York 10019
Attention: Robert A. Kindler, Esq.
Robert I. Townsend III, Esq.

or to such other Persons or addresses as may be designated in writing by the party to receive such notice as provided above.

9.7. Entire Agreement. This Agreement (including any exhibits hereto), the Stock Option Agreement, the Confidentiality Agreement, the Company Disclosure Letter and the SBC Disclosure Letter constitute the entire agreement, and supersede all other prior agreements, understandings, representations and warranties both written and oral, among the parties with respect to the subject matter hereof. EACH PARTY HERETO AGREES THAT, EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS AGREEMENT AND THE STOCK OPTION AGREEMENT, NEITHER SBC AND MERGER SUB NOR THE COMPANY MAKES ANY OTHER REPRESENTATIONS OR WARRANTIES, AND EACH HEREBY DISCLAIMS ANY OTHER REPRESENTATIONS OR WARRANTIES MADE BY ITSELF OR ANY OF ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, FINANCIAL AND LEGAL ADVISORS OR OTHER REPRESENTATIVES, WITH RESPECT TO THE EXECUTION AND DELIVERY OF THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, NOTWITHSTANDING THE DELIVERY OR DISCLOSURE TO THE OTHER OR THE OTHER'S REPRESENTATIVES OF ANY DOCUMENTATION OR OTHER INFORMATION WITH RESPECT TO ANY ONE OR MORE OF THE FOREGOING.

9.8. No Third Party Beneficiaries. Except as provided in Section 6.12 (Indemnification; Directors' and Officers' Insurance), this Agreement is not intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

9.9. Obligations of SBC and of the Company. Whenever this Agreement requires a Subsidiary of SBC to take any action, such requirement shall be deemed to include an undertaking on the part of SBC to cause such Subsidiary to take such action. Whenever this Agreement requires a Subsidiary of the Company to take any action, such requirement shall be deemed to include an undertaking on the part of the Company to cause such Subsidiary to take such action and, after the Effective Time, on the part of the Surviving Corporation to cause such Subsidiary to take such action.

9.10. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability or the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

9.11. Interpretation. The table of contents and headings herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof. Where a reference in this Agreement is made to a Section or Exhibit, such reference shall be to a Section of or Exhibit to this Agreement unless otherwise indicated. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

9.12. Assignment. This Agreement shall not be assignable by operation of law or otherwise; provided, however, that SBC may designate prior to the Effective Time, by written notice to the Company, another wholly owned direct or indirect Subsidiary to be a party to the Merger in lieu of Merger Sub, in which event all references herein to Merger Sub shall be deemed references to such other Subsidiary (except with respect to representations and warranties made herein with respect to Merger Sub as of the date hereof) and all representations and warranties made herein with respect to Merger Sub as of the date hereof shall be also made with respect to such other subsidiary as of the date of such designation. Any assignment in contravention of the preceding sentence shall be null and void.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the parties hereto as of the date first written above.

SOUTHERN NEW ENGLAND
TELECOMMUNICATIONS CORPORATION

By: ______________________________
Name: Daniel J. Miglio
Title: Chairman of the Board
and Chief Executive Officer

SBC COMMUNICATIONS INC.

By: Edward E. Whitacre Jr.
Name: Edward E. Whitacre, Jr.
Title: Chairman of the Board
and Chief Executive Officer

SBC (CT), INC.

By: Edward E. Whitacre, Jr.
Name: Edward E. Whitacre, Jr.
Title: President

EXHIBIT A

Stock Option Agreement

STOCK OPTION AGREEMENT, dated as of the 4th day of January, 1998 (this "Agreement"), between Southern New England Telecommunications Corporation, a Connecticut corporation ("Issuer"), and SBC Communications Inc., a Delaware corporation ("Grantee").

RECITALS

(a) The Merger Agreement. Prior to the entry into this Agreement and prior to the grant of the Option (as defined in Section 1(a)), Grantee, SBC (CT), Inc., a wholly-owned subsidiary of Grantee ("Merger Sub"), and Issuer have entered into an Agreement and Plan of Merger, dated as of the date hereof (the "Merger Agreement"), pursuant to which Grantee and Issuer intend to effect a merger of Merger Sub with and into Issuer (the "Merger").

(b) The Option Agreement. As an inducement and condition to Grantee's and Merger Sub's willingness to enter into the Merger Agreement, and in consideration thereof, the board of directors of Issuer has approved the grant to Grantee of the Option pursuant to this Agreement; provided, that such grant was expressly conditioned upon, and made of no effect until after, execution and delivery by Issuer, Grantee and Merger Sub of the Merger Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein and in the Merger Agreement, the parties hereto agree as follows:

1. The Option. (a) Issuer hereby grants to Grantee an unconditional, irrevocable option (the "Option") to purchase, subject to the terms hereof, up to 13,266,587 fully paid and nonassessable shares of common stock, having a par value of one dollar per share ("Common Stock"), of Issuer at a price per share in cash equal to $65.00 (the "Option Price"); provided, however, that in no event shall the number of shares for which the Option is exercisable exceed 19.9% of the shares of Common Stock issued and outstanding at the time of exercise (without giving effect to the shares of Common Stock issued or issuable under the Option) (the "Maximum Applicable Percentage"). The number of shares of Common Stock purchasable upon exercise of the Option and the Option Price are subject to adjustment as set forth herein.

(b) In the event that any additional shares of Common Stock are issued or otherwise become outstanding after the date of this Agreement (other than pursuant to this Agreement), the aggregate number of shares of Common Stock purchasable upon exercise of the Option (inclusive of shares, if any, previously purchased upon exercise of the Option) shall automatically be increased (without any further action on the part of Issuer or Grantee being necessary) so that, after such issuance, it equals the Maximum Applicable Percentage. Any such increase shall not affect the Option Price.

2. Exercise; Closing;. (a) Conditions to Exercise; Termination. Grantee or any other person that shall become a holder of all or a part of the Option in accordance with the terms of this Agreement (each such person being referred to herein as the "Holder") may exercise the Option, in whole or in part, by delivering a written notice thereof as provided in Section 2(d) within 90 days of the occurrence of a Triggering Event (as defined in Section 2(b)) unless prior to such Triggering Event the Effective Time (as defined in the Merger Agreement) shall have occurred. The Option shall terminate upon either (i) the occurrence of the Effective Time or (ii) the close of business on the earlier of (x) the day 90 days after the date that Grantee becomes entitled to receive the Termination Fee (as defined in the Merger Agreement) and (y) the date that Grantee is no longer potentially entitled to receive the Termination Fee, in each case under Section 8.5(b) of the Merger Agreement.

(b) Triggering Event. A "Triggering Event" shall have occurred if the Merger Agreement is terminated and Grantee then or thereafter becomes entitled to receive the Termination Fee pursuant to Section 8.5(b) of the Merger Agreement.

(c) Notice of Trigger Event by Issuer. Issuer shall notify Grantee promptly in writing of the occurrence of any Triggering Event, it being understood that the giving of such notice by Issuer shall not be a condition to the right of the Holder to exercise the Option.

(d) Notice of Exercise by Grantee. If a Holder shall be entitled to and wishes to exercise the Option, it shall send to Issuer a written notice (the date of which is referred to herein as the "Notice Date") specifying (i) the total number of shares that the Holder will purchase pursuant to such exercise and (ii) a place and date (a "Closing Date") not earlier than three business days nor later than

60 business days from the Notice Date for the closing of such purchase (a "Closing"); provided, that if a filing is required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), or prior notification to or approval of the FCC, the CDPUC or any other regulatory authority is required in connection with such purchase, the Holder or Issuer, as required, promptly after the giving of such notice shall file the required notice or application for approval and shall expeditiously process the same and the period of time referred to in clause (ii) shall commence on the date on which the Holder furnishes to Issuer a supplemental written notice setting forth the Closing Date, which notice shall be furnished as promptly as practicable after all required notification periods shall have expired or been terminated and all required approvals shall have been obtained and all requisite waiting periods shall have passed. Each of the Holder and the Issuer agrees to use all reasonable efforts to cooperate with and provide information to Issuer or Holder, as the case may be, for the purpose of any required notice or application for approval.

(e) Payment of Purchase Price. At each Closing, the Holder shall pay to Issuer the aggregate purchase price for the shares of Common Stock purchased pursuant to the exercise of the Option in immediately available funds by a wire transfer to a bank account designated by Issuer; provided, that failure or refusal of Issuer to designate such a bank account shall not preclude the Holder from exercising the Option, in whole or in part.

(f) Delivery of Common Stock. At such Closing, simultaneously with the payment of the purchase price by the Holder, Issuer shall deliver to the Holder a certificate or certificates representing the number of shares of Common Stock purchased by the Holder and, if the Option shall be exercised in part only, a new Option evidencing the rights of the Holder to purchase the balance (as adjusted pursuant to Section 1(b)) of the shares then purchasable hereunder.

(g) Restrictive Legend. Certificates for Common Stock delivered at a Closing may be endorsed with a restrictive legend that shall read substantially as follows:

> "The transfer of the shares represented by this certificate is subject to certain provisions of an agreement between the registered holder hereof and Issuer, a copy of which agreement is on file at the principal office of Issuer, and to resale restrictions arising under the Securities

Act of 1933, as amended. A copy of the aforementioned agreement will be mailed to the holder hereof without charge promptly after receipt by Issuer of a written request therefor."

It is understood and agreed that: (i) the reference to the resale restrictions of the Securities Act of 1933, as amended (the "Securities Act"), in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the Holder shall have delivered to Issuer a copy of a letter from the staff of the Securities and Exchange Commission, or a written opinion of counsel, in form and substance reasonably satisfactory to Issuer, to the effect that such legend is not required for purposes of the Securities Act; (ii) the reference to the provisions of this Agreement in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the shares have been sold or transferred in compliance with the provisions of this Agreement and under circumstances that do not require the retention of such reference; and (iii) the legend shall be removed in its entirety if the conditions in the preceding clauses (i) and (ii) both are satisfied. In addition, such certificates shall bear any other legend as may be required by applicable law.

(h) Ownership of Record; Tender of Purchase Price; Expenses. Upon the giving by the Holder to Issuer of a written notice of exercise referred to in Section 2(e) and the tender of the applicable purchase price in immediately available funds, the Holder shall be deemed to be the holder of record of the shares of Common Stock issuable upon such exercise, notwithstanding that the stock transfer books of Issuer shall then be closed or that certificates representing such shares of Common Stock shall not have been delivered to the Holder. Issuer shall pay all expenses, and any and all United States federal, state and local taxes and other charges that may be payable in connection with the preparation, issue and delivery of stock certificates under this Section 2 in the name of the Holder or its assignee, transferee or designee.

3. Covenants of Issuer. In addition to its other agreements and covenants herein, Issuer agrees:

(a) Shares Reserved for Issuance. To maintain, free from preemptive rights, sufficient authorized but unissued or treasury shares of Common Stock so that the Option may be fully exercised without additional authorization of Common Stock after giving effect to all other options, warrants, convertible securities and other rights of third parties to purchase shares of Common Stock from Issuer, or to issue the appropriate number of shares of Common Stock pursuant to the terms of this Agreement;

(b) No Avoidance. Not to avoid or seek to avoid (whether by charter amendment or through reorganization, consolidation, merger, issuance of rights, dissolution or sale of assets, or by any other voluntary act) the observance or performance of any of the covenants, agreements or conditions to be observed or performed hereunder by Issuer; and

(c) Further Assurances. Promptly after the date hereof to take all actions as may from time to time be required (including (i) complying with all applicable premerger notification, reporting and waiting period requirements under the HSR Act and (ii) in the event that prior approval of or notice to the FCC, the CDPUC or any other regulatory authority is necessary under any applicable federal, state or local law before the Option may be exercised, cooperating fully with the Holder in preparing and processing the required applications or notices) in order to permit each Holder to exercise the Option and purchase shares of Common Stock pursuant to such exercise and to take all action necessary to protect the rights of the Holder against dilution.

4. Representations and Warranties of Issuer. Issuer hereby makes each of the representations and warranties contained in Sections 5.1(b)(ii), 5.2(a) and 5.2(b) of the Merger Agreement as they relate to this Agreement as if such representations and warranties were set forth herein. Issuer hereby further represents and warrants to Grantee that all shares of Common Stock, upon issuance pursuant to the Option, will be delivered free and clear of all claims, liens, encumbrances, and security interests (other than those created by this Agreement) and not subject to any preemptive rights.

5. Representations and Warranties of Grantee. Grantee hereby represents and warrants to Issuer that Grantee has all requisite corporate power and authority and has taken all corporate action necessary in order to execute, deliver and perform its obligations under this Agreement and to consummate the transactions contemplated hereby; this Agreement has been duly and validly executed and delivered by Grantee and constitutes a valid and binding agreement of Grantee enforceable against Grantee in

accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

6. Exchange; Replacement. This Agreement and the Option granted hereby are exchangeable, without expense, at the option of the Holder, upon presentation and surrender of this Agreement at the principal office of Issuer, for other Agreements providing for Options of different denominations entitling the holder thereof to purchase in the aggregate the same number of shares of Common Stock purchasable at such time hereunder, subject to corresponding adjustments in the number of shares of Common Stock purchasable upon exercise so that the aggregate number of such shares under all Stock Option Agreements issued in respect of this Agreement shall not exceed the Maximum Applicable Percentage. Unless the context shall require otherwise, the terms "Agreement" and "Option" as used herein include any Stock Option Agreements and related Options for which this Agreement (and the Option granted hereby) may be exchanged. Upon (i) receipt by Issuer of evidence reasonably satisfactory to it of the loss, theft, destruction, or mutilation of this Agreement, (ii) receipt by Issuer of reasonably satisfactory indemnification in the case of loss, theft or destruction and (iii) surrender and cancellation of this Agreement in the case of mutilation, Issuer will execute and deliver a new Agreement of like tenor and date. Any such new Agreement executed and delivered shall constitute an additional contractual obligation on the part of Issuer, whether or not the Agreement so lost, stolen, destroyed or mutilated shall at any time be enforceable by any person other than the holder of the new Agreement.

7. Adjustments. In addition to the adjustment to the total number of shares of Common Stock purchasable upon exercise of the Option pursuant to Section 1(b), the total number of shares of Common Stock purchasable upon the exercise hereof and the Option Price shall be subject to adjustment from time to time as follows:

(a) In the event of any change in the outstanding shares of Common Stock by reason of stock dividends, split-ups, mergers, recapitalizations, combinations, subdivisions, conversions, exchanges of shares or the like, the type and number of shares of Common Stock purchasable upon exercise of the Option shall be appropriately adjusted, and proper provision shall be made in the agreements governing any such transaction, so that (i) any Holder shall receive upon exercise of the Option the number and class of shares, other securities, property or cash that such Holder would have received in respect of the shares of Common Stock purchasable upon exercise of the Option if the Option had been exercised and such shares of Common Stock had been issued to such Holder immediately prior to such event or the record date therefor, as applicable; and (ii) in the event any additional shares of Common Stock are to be issued or otherwise become outstanding as a result of any such change (other than pursuant to an exercise of the Option), the number of shares of Common Stock purchasable upon exercise of the Option shall be increased so that, after such issuance and together with shares of Common Stock previously issued pursuant to the exercise of the Option (as adjusted on account of any of the foregoing changes in the Common Stock), the number of shares so purchasable equals the Maximum Applicable Percentage of the number of shares of Common Stock issued and outstanding immediately after the consummation of such change; and

(b) Whenever the number of shares of Common Stock purchasable upon exercise hereof is adjusted as provided in this Section 7, the Option Price shall be adjusted by multiplying the Option Price by a fraction, the numerator of which is equal to the number of shares of Common Stock purchasable prior to the adjustment and the denominator of which is equal to the number of shares of Common Stock purchasable after the adjustment.

8. Registration. (a) Upon the occurrence of a Triggering Event prior to an Exercise Termination Event, Issuer shall, at the request of Grantee delivered in the written notice of exercise of the Option provided for in Section 2(e), as promptly as practicable prepare, file and keep current a shelf registration statement under the Securities Act covering any or all shares issued and issuable pursuant to the Option and shall use its best efforts to cause such registration statement to become effective and remain current in order to permit the sale or other disposition of any shares of Common Stock issued upon total or partial exercise of the Option ("Option Shares") in accordance with any plan of disposition requested by Grantee; provided, however, that Issuer may postpone filing a registration statement relating to a registration request by Grantee under this Section 8 for a period of time (not in excess of 30 days) if in its judgment such filing would require the disclosure of material information that Issuer has a bona fide business purpose for preserving as confidential. Issuer will use its best efforts to cause

such registration statement first to become effective and then to remain effective for 270 days from the day such registration statement first becomes effective or until such earlier date as all shares registered shall have been sold by Grantee. In connection with any such registration, Issuer and Grantee shall provide each other with representations, warranties, indemnities and other agreements customarily given in connection with such registrations. If requested by Grantee in connection with such registration, Issuer shall become a party to any underwriting agreement relating to the sale of such shares, but only to the extent of obligating Issuer in respect of representations, warranties, indemnities, contribution and other agreements customarily made by issuers in such underwriting agreements.

(b) In the event that Grantee so requests, the closing of the sale or other disposition of the Common Stock or other securities pursuant to a registration statement filed pursuant to Section 8(a) shall occur substantially simultaneously with the exercise of the Option.

9. Repurchase of Option and/or Shares.
(a) Repurchase; Repurchase Price. Upon the occurrence of a Triggering Event prior to an Exercise Termination Event, (i) at the request of a Holder, delivered in writing within 180 days of such occurrence (or such later period as provided in Section 2(e) with respect to any required notice or application or in Section 10), Issuer shall repurchase the Option from the Holder, in whole or in part, at a price (the "Option Repurchase Price") equal to the number of shares of Common Stock then purchasable upon exercise of the Option (or such lesser number of shares as may be designated in the Repurchase Notice (as defined below)) multiplied by the amount by which the market/offer price (as defined below) exceeds the Option Price and (ii) at the request of a Holder or any person who has been a Holder (for purposes of this Section 9 only, each such person being referred to as a "Holder"), delivered in writing within 180 days of such occurrence (or such later period as provided in Section 2(e) with respect to any required notice or application or in Section 10), Issuer shall repurchase such number of Option Shares from such Holder as the Holder shall designate in the Repurchase Notice at a price (the "Option Share Repurchase Price") equal to the number of shares designated multiplied by the market/offer price. The term "market/offer price" shall mean the highest of (x) the price per share of Common Stock at which a tender or exchange offer for Common Stock has been made, (y) the price per share of Common Stock to be paid by any third party pursuant to an agreement with Issuer

and (z) the highest closing price for shares of Common Stock on the NYSE (or, if the Common Stock is not then listed on the NYSE, any other national securities exchange or automated quotation system on which the Common Stock is then listed or quoted) within the six-month period immediately preceding the delivery of the Repurchase Notice. In the event that a tender or exchange offer is made for the Common Stock or an agreement is entered into for a merger, share exchange, consolidation or reorganization involving consideration other than cash, the value of the securities or other property issuable or deliverable in exchange for the Common Stock shall be determined in good faith by a nationally recognized investment banking firm selected by Issuer.

(b) Method of Repurchase. A Holder may exercise its right to require Issuer to repurchase the Option, in whole or in part, and/or any Option Shares then owned by such Holder pursuant to this Section 9 by surrendering for such purpose to Issuer, at its principal office, this Agreement or certificates for Option Shares, as applicable, accompanied by a written notice or notices stating that the Holder elects to require Issuer to repurchase the Option and/or such Option Shares in accordance with the provisions of this Section 9 (each such notice, a "Repurchase Notice"). Within two business days after the surrender of the Option and/or certificates representing Option Shares and the receipt of the Repurchase Notice relating thereto, Issuer shall deliver or cause to be delivered to the Holder the applicable Option Repurchase Price and/or the Option Share Repurchase Price or, in either case, the portion thereof that Issuer is not then prohibited under applicable law and regulation from so delivering. In the event that the Repurchase Notice shall request the repurchase of the Option in part, Issuer shall deliver with the Option Repurchase Price a new Stock Option Agreement evidencing the right of the Holder to purchase that number of shares of Common Stock purchasable pursuant to the Option at the time of delivery of the Repurchase Notice minus the number of shares of Common Stock represented by that portion of the Option then being repurchased.

(c) Effect of Statutory or Regulatory Restraints on Repurchase. To the extent that, upon or following the delivery of a Repurchase Notice, Issuer is prohibited under applicable law or regulation from repurchasing the Option (or portion thereof) and/or any Option Shares subject to such Repurchase Notice (and Issuer hereby undertakes to use its reasonable best efforts to obtain all required regulatory and legal approvals and to file any required notices as promptly as practicable in order to accomplish such repurchase), Issuer shall immediately so notify the Holder in writing and thereafter deliver or cause to be delivered, from time to time, to the Holder the portion of the Option Repurchase Price and the Option Share Repurchase Price that Issuer is no longer prohibited from delivering, within 2 business days after the date on which it is no longer so prohibited; provided, however, that upon notification by Issuer in writing of such prohibition, the Holder may, within 5 days of receipt of such notification from Issuer, revoke in writing its Repurchase Notice, whether in whole or to the extent of the prohibition, whereupon, in the latter case, Issuer shall promptly (i) deliver to the Holder that portion of the Option Repurchase Price and/or the Option Share Repurchase Price that Issuer is not prohibited from delivering; and (ii) deliver to the Holder, as appropriate, (A) with respect to the Option, a new Stock Option Agreement evidencing the right of the Holder to purchase that number of shares of Common Stock for which the surrendered Stock Option Agreement was exercisable at the time of delivery of the Repurchase Notice less the number of shares as to which the Option Repurchase Price has theretofore been delivered to the Holder, and/or (B) with respect to Option Shares, a certificate for the Option Shares as to which the Option Share Repurchase Price has not theretofore been delivered to the Holder. Notwithstanding anything to the contrary in this Agreement, including, without limitation, the time limitations on the exercise of the Option, the Holder may exercise the Option for 180 days after a notice of revocation has been issued pursuant to this Section 9(c).

(d) Acquisition Transactions. In addition to any other restrictions or covenants, Issuer hereby agrees that, in the event that a Holder delivers a Repurchase Notice, it shall not enter or agree to enter into any Acquisition Transaction unless the other party or parties thereto agree to assume in writing Issuer's obligations under Section 9(a) and, notwithstanding any notice of revocation delivered pursuant to the proviso to Section 9(c), a Holder may require such other party or parties to perform Issuer's obligations under Section 9(a) unless such party or parties are prohibited by law or regulation from such performance, in which case such party or parties shall be subject to the obligations of the Issuer under Section 9(c).

10. Extension of Exercise Periods. The 180-day periods for exercise of certain rights under Sections 2 and 9 shall be extended in each such case at the request of the

Holder to the extent necessary to avoid liability by the Holder under Section 16(b) of the Exchange Act by reason of such exercise.

11. Assignment. Neither party hereto may assign any of its rights or obligations under this Agreement or the Option to any other person without the express written consent of the other party except that, in the event that a Triggering Event shall have occurred, Grantee may assign the Option, in whole or in part. Any attempted assignment in contravention of the preceding sentence shall be null and void.

12. Filings; Other Actions. Each of Grantee and Issuer will use its best efforts to make all filings with, and to obtain consents of, all third parties and governmental authorities necessary for the consummation of the transactions contemplated by this Agreement.

13. Specific Performance. The parties hereto acknowledge that damages would be an inadequate remedy for a breach of this Agreement by either party hereto and that the obligations of the parties hereto shall be specifically enforceable through injunctive or other equitable relief.

14. Severability; Etc. If any term, provision, covenant, or restriction contained in this Agreement is held by a court or a federal or state regulatory agency of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the terms, provisions, covenants, and restrictions contained in this Agreement shall remain in full force and effect, and shall in no way be affected, impaired, or invalidated. If for any reason such court or regulatory agency determines that the Holder is not permitted to acquire, or Issuer is not permitted to repurchase pursuant to Section 9, the full number of shares of Common Stock provided in Section 1(a) hereof (as adjusted pursuant to Sections 1(b) and 7 hereof), it is the express intention of Issuer to allow the Holder to acquire or to require Issuer to repurchase such lesser number of shares as may be permissible, without any amendment or modification hereof.

15. Notices. All notices, requests, instructions, or other documents to be given hereunder shall be in writing and shall be deemed given (i) three business days following sending by registered or certified mail, postage prepaid, (ii) when sent if sent by facsimile, provided that the fax is promptly confirmed by telephone confirmation thereof, (iii) when delivered, if delivered personally to

the intended recipient, and (iv) one business day later, if sent by overnight delivery via a national courier service, in each case at the respective addresses of the parties set forth in the Merger Agreement.

16. Governing Law. This Agreement shall be deemed to be made in and in all respects shall be interpreted, construed and governed by and in accordance with the law of the State of Delaware, without regard to the conflict of law principles thereof, except to the extent that the Connecticut Business Corporation Act is applicable hereto.

17. Expenses. Except as otherwise expressly provided herein or in the Merger Agreement, all costs and expenses incurred in connection with this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such expense, including fees and expenses of its own financial consultants, investment bankers, accountants, and counsel.

18. Entire Agreement, Etc. This Agreement and the Merger Agreement constitute the entire agreement, and supersede all other prior agreements, understandings, representations and warranties, both written and oral, between the parties, with respect to the subject matter hereof. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. Nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto, and their respective successors and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided herein.

19. Limitation on Profit. (a) Notwithstanding any other provision of this Agreement, in no event shall the Grantee's Total Profit (as hereinafter defined) plus any Termination Fee paid to Grantee pursuant to Section 8.5(b) of the Merger Agreement exceed in the aggregate $175 million and, if it otherwise would exceed such amount, the Grantee, at its sole election, shall either (i) reduce the number of shares of Common Stock subject to this Option, (ii) deliver to the Issuer for cancellation Option Shares previously purchased by Grantee, (iii) pay cash to the Issuer, or (iv) any combination thereof, so that Grantee's realized Total Profit, when aggregated with such Termination Fee so paid to Grantee shall not exceed $175 million after taking into account the foregoing actions.

(b) Notwithstanding any other provision of this Agreement, this Option may not be exercised for a number of shares as would, as of the date of exercise, result in a Notional Total Profit (as defined below) which, together with any Termination Fee theretofore paid to Grantee would exceed $175 million; provided, that nothing in this sentence shall restrict any exercise of the Option permitted hereby on any subsequent date.

(c) As used herein, the term "Total Profit" shall mean the aggregate amount (before taxes) of the following: (i) (x) the amount received by Grantee pursuant to Issuer's repurchase of the Option (or any portion thereof) or any Option Shares pursuant to Section 9, less, in the case of any repurchase of Option Shares, (y) the Grantee's purchase price for such Option Shares, as the case may be, (ii) (x) the net cash amounts received by Grantee pursuant to the sale of Option Shares (or any other securities into which such Option Shares are converted or exchanged) to any unaffiliated party, less (y) the Grantee's purchase price of such Option Shares, and (iii) the net cash amounts received by Grantee on the transfer of the Option (or any portion thereof) to any unaffiliated party.

(d) As used herein, the term "Notional Total Profit" with respect to any number of shares as to which Grantee may propose to exercise this Option shall be the Total Profit determined as of the date of such proposal assuming that this Option were exercised on such date for such number of shares and assuming that such shares, together with all other Option Shares held by Grantee and its affiliates as of such date, were sold for cash at the closing market price for the Common Stock as of the close of business on the preceding trading day (less customary brokerage commissions).

20. Captions. The Article, Section and paragraph captions herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the parties hereto as of the date first written above.

SOUTHERN NEW ENGLAND
TELECOMMUNICATIONS CORPORATION

By: ______________________________
Name:
Title:

SBC COMMUNICATIONS INC.

By: ______________________________
Name:
Title:

EXHIBIT B

Amendments to Company By-laws

Amendments to the By-laws of the Company

Article II and Article III of the By-laws of the Company shall be amended at the Effective Time to read in their entirety as follows:

"ARTICLE II

BOARD OF DIRECTORS

The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. subject to any limitation set forth in the Certificate of Incorporation. The Board of Directors shall consist of one or more members ("Directors"), the number thereof to be determined from time to time by the Board or by the holders of shares of the Corporation entitled to vote generally in the election of Directors, except as a greater number may be required to give effect to the rights of the holders of any class of preferred or preference stock or any series thereof to elect additional Directors under specified circumstances. Directors need not be shareholders and shall be elected and shall hold office in accordance with the provisions of the Certificate of Incorporation and these By-laws.

Subject to the rights of the holders of any class of preferred or preference stock or any series thereof to elect additional Directors under specified circumstances, vacancies in the Board resulting from any increase in the number of directorships or any vacancies resulting from death. resignation. disqualification, removal from office or other cause shall be filled by a majority vote of the Directors then in office even though less than a quorum of the Board, or by the sole remaining Director, and Directors so chosen shall hold office until the next annual meeting of shareholders following their election and until such Directors' successors shall have been elected and qualified. A reduction of the number of directorships shall not remove any Director in office or shorten his term.

Subject to the rights of the holders of any class of preferred or preference stock or any series thereof to elect Directors under specified circumstances, any Director may be removed from office at any time, but only either (i) by the vote of the holders of a majority of the shares of the Corporation then entitled to vote generally in the election of Directors, with or without cause. at a meeting called for the purpose of removing such Director, the notice for which meeting must state that the purpose of the meeting, or one of the purposes, is removal of the Director or (ii) by the Board pursuant to a resolution approved by a majority of the entire Board, upon not less than ten or more than sixty days' written notice of the meeting at which said resolution is to be presented.

At the meeting of the Directors held immediately after the annual meeting of the shareholders, or at any meeting of the Directors held in lieu of such meeting, the Board shall elect a Chairman of the Board. a President. a Secretary and other officers of the Corporation.

ARTICLE III

MEETINGS OF DIRECTORS

Regular meetings of the Directors may be held at such place within or without the State of Connecticut and at such time as the Directors may from time to time determine, and if so determined notice thereof need not be given.

Special meetings of the Directors may be held at any time or place whenever called by the Chairman of the Board, by the Chief Executive Officer or by any two directors. A written or printed notice of the time and place of every special meeting of the Board shall be given by the Secretary by mailing such notice to each and every Director, addressed to him at his usual place of business or such address as may appear on the books of the Corporation, at least two days before the time named for the meeting or by providing notice personally, telephonically or by telegram or telecopy at least 24 hours before such meeting. Such notice need not describe the purpose of the special meeting.

Except as otherwise provided by law, at all meetings of the Directors one-third of the entire Board shall constitute a quorum. Except as otherwise provided by law, the Certificate of Incorporation or these By-laws, at any meeting of the Board at which a quorum is present at the time, the act of a majority of the Directors present at the meeting shall be the act of the Board."

EXHIBIT C

Company Affiliate's Letter

EXHIBIT C

Form of Company Affiliate's Letter

_______, 1998

SBC Communications Inc.
175 East Houston
San Antonio, Texas 78205

Ladies and Gentlemen:

The undersigned is a holder of shares of Common Stock, par value $1.00 per share ("SNET Common Stock"), of SOUTHERN NEW ENGLAND TELECOMMUNICATIONS CORPORATION, a Connecticut corporation ("SNET"). Pursuant to the terms of that certain Agreement and Plan of Merger, dated as of January 4, 1998, among SNET, SBC Communications Inc., a Delaware corporation ("SBC"), and SBC (CT), Inc., a Connecticut corporation and a wholly-owned subsidiary of SBC ("Merger Sub"), Merger Sub will be merged with and into SNET and SNET will become a wholly owned subsidiary of SBC (the "Merger"). In connection with the Merger, the undersigned, as a holder of SNET Common Stock, will be entitled to receive Common Stock, par value $1.00 per share, of SBC (the "Securities") in exchange for the shares of SNET Common Stock held by the undersigned at the effective time of the Merger.

The undersigned acknowledges that the undersigned may be deemed an "affiliate" of SNET within the meaning of Rule 145 ("Rule 145") promulgated under the Securities Act of 1933, as amended (the "Act"), and/or as such term is used in and for purposes of Accounting Series Release Nos. 130 and 135, as amended, of the Securities and Exchange Commission (the "Commission"), although nothing contained herein shall be construed as an admission of such status.

If in fact the undersigned were an affiliate of SNET under the Act, the undersigned's ability to sell, assign or transfer any Securities received by the undersigned in exchange for any shares of SNET Common Stock pursuant to the Merger may be restricted unless such transaction is registered under the Act or an exemption from such registration is available. The undersigned understands that such exemptions are limited and the undersigned has obtained advice of counsel as to the nature and conditions of such exemptions, including information with respect to the applicability to the sale of such Securities of Rules 144 and 145(d) promulgated under the Act.

The undersigned hereby represents to and covenants with SBC that it will not sell, assign or transfer any Securities received by the undersigned in exchange for shares of SNET Common Stock pursuant to the Merger except (i) pursuant to an effective registration statement under the Act. (ii) by a sale made in conformity with the volume and other limitations of Rule 145 (and otherwise in accordance with Rule 144 under the Act, if the undersigned is an affiliate of SBC and if so required at the time) or (iii) in a transaction which, in the opinion of independent counsel reasonably satisfactory to SBC or as described in a "no-action" or interpretive letter from the Staff of the Commission, is not required to be registered under the Act.

The undersigned understands that SBC is under no obligation to register the sale, transfer or other disposition of the Securities by the undersigned or on behalf of the undersigned under the Act or to take any other action necessary in order to make compliance with an exemption from such registration available solely as a result of the Merger.

In the event of a sale of Securities pursuant to Rule 145, the undersigned will supply SBC with evidence of compliance with such Rule, in the form of customary seller's and broker's Rule 145 representation letters or as SBC may otherwise reasonably request. The undersigned understands that SBC may instruct its transfer agent to withhold the transfer of any Securities disposed of by the undersigned in a manner inconsistent with this letter.

The undersigned acknowledges and agrees that appropriate legends will be placed on certificates representing Securities received by the undersigned in the Merger or held by a transferee thereof, which legends will be removed (i) by delivery of substitute certificates upon receipt of an opinion in form and substance reasonably satisfactory to SBC to the effect that such legends are no longer required for the purposes of the Act and the rules and regulations of the Commission promulgated thereunder or (ii) in the event of a sale of the Securities which has been registered under the Act or made in conformity with the provisions of Rule 145.

The undersigned further represents to and covenants with SBC that (i) the undersigned will not, during the 30 days prior to the effective time of the Merger sell, transfer or otherwise dispose of, or reduce any risk relative to, any securities of SNET or SBC, and (ii) the undersigned will not sell, transfer or otherwise dispose of, or reduce any risk relative to, the Securities received by the undersigned in the Merger or any other shares of the capital stock of SBC until after such time as financial results covering at least 30 days of post-Merger operations of SBC (including the combined operations of SNET and SBC) have been published by SBC in the form of a quarterly earnings report, an effective registration statement filed with the Commission. a report to the Commission on Form 10-K, 10-Q or 8-K, or any other public filing or announcement which includes such results of operations. except in the cases of clauses (i) and (ii) of this paragraph to the extent permitted by, and in accordance with, SEC Accounting Series Release 135 and SEC Staff Accounting Bulletins 65 and 76 if and to the extent that such Release and Bulletins remain in full force and effect at the relevant time.

I further understand and agree that this letter agreement shall apply to all shares of SNET Common Stock and shares of SBC Common Stock that I am deemed to beneficially own pursuant to applicable federal securities law.

The undersigned acknowledges that it has carefully reviewed this letter and understands the requirements hereof and the limitations imposed upon the distribution, sale, transfer or other disposition of Securities.

Sincerely,

[NAME OF SNET AFFILIATE]

EXHIBIT D

Form of SBC Affiliate's Letter

EXHIBIT D

Form of SBC Affiliate's Letter

_______, 1998

SBC Communications Inc.
175 East Houston
San Antonio, Texas 78205

Ladies and Gentlemen:

The undersigned is a holder of shares of Common Stock, par value $1.00 per share (the "Securities"), of SBC COMMUNICATIONS INC., a Delaware corporation ("SBC"). Pursuant to the terms of that certain Agreement and Plan of Merger, dated as of January 4, 1998, among SOUTHERN NEW ENGLAND TELECOMMUNICATIONS CORPORATION, a Connecticut corporation ("SNET"), SBC, and SBC (CT) Inc., a Connecticut corporation and a wholly-owned subsidiary of SBC ("Merger Sub"), Merger Sub will be merged with and into SNET and SNET will become a wholly owned subsidiary of SBC (the "Merger").

The undersigned acknowledges that the undersigned may be deemed an "affiliate" of SBC as such term is used in and for purposes of Accounting Series Release Nos. 130 and 135, as amended, of the Securities and Exchange Commission (the "Commission"), although nothing contained herein shall be construed as an admission of such status.

The undersigned hereby represents to and covenants with SBC that the undersigned will not, during the 30 days prior to the effective time of the Merger sell, transfer or otherwise dispose of, or reduce any risk relative to, the Securities or any other shares of the capital stock of SBC until after such time as financial results covering at least 30 days of post-Merger operations of SBC (including the combined operations of SNET and SBC) have been published by SBC in the form of a quarterly earnings report, an effective registration statement filed with the Commission, a report to the Commission on Form 10-K, 10-Q or 8-K, or any other public filing or announcement which includes such results of operations, except to the extent permitted by, and in accordance with, SEC Accounting Series Release 135 and SEC Staff Accounting Bulletins 65 and 76 if and to the extent that such Release and Bulletins remain in full force and effect at the relevant time.

I further understand and agree that this letter agreement shall apply to all Securities that I am deemed to beneficially own pursuant to applicable federal securities law.

The undersigned acknowledges that it has carefully reviewed this letter and understands the requirements hereof and the limitations imposed upon the sale, transfer or other disposition of Securities.

Sincerely,

[NAME OF SBC AFFILIATE]

Schedule 1

The Southern New England Telephone Company
SNET America, Inc.
SNET Information Services
Springwich Inc.
SNET Cellular, Inc.
SNET Personalvision, Inc.

Exhibit B

Consolidated Financial Statements
of
SBC Communications Inc.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report: May 8, 1997

SBC COMMUNICATIONS INC.

A Delaware Corporation

Commission File No. 1-8610

IRS Employer No. 43-1301883

175 E. Houston, San Antonio, Texas 78205

Telephone Number (210) 821-4105

Item 7. Financial Statements and Exhibits

On April 1, 1997, SBC Communications Inc. (SBC) and Pacific Telesis Group (PAC) completed the merger of an SBC subsidiary with PAC, in a transaction in which each share of PAC common stock was exchanged for 0.73145 of a share of SBC common stock (equivalent to approximately 313 million shares). With the merger, PAC became a wholly-owned subsidiary of SBC.

SBC presents herein audited consolidated financial statements of SBC to reflect the business combination of SBC and PAC. This report includes the consolidated balance sheets of SBC Communications Inc. (SBC) as of December 31, 1996 and 1995, and the related consolidated statements of income, shareowners' equity and cash flows for each of the three years in the period ended December 31, 1996.

(a) SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS OF SBC COMMUNICATIONS INC. AND PACIFIC TELESIS GROUP

The following audited supplemental consolidated financial statements and notes thereto are presented with the merger accounted for as a "pooling of interests." Under this method of accounting, SBC restates its consolidated financial statements to include the assets, liabilities, shareowners' equity and results of operations of PAC. These are supplemental consolidated financial statements which will become the historical consolidated financial statements of SBC upon issuance of financial statements for the quarter ending June 30, 1997.

The following audited supplemental consolidated financial statements have been prepared using the exchange ratio of 0.73145:

Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 or for the year ended:	1996	1995	1994	1993	1992
Financial Data					
Operating revenues	$ 23,486	$ 21,712	$ 21,006	$ 20,084	$ 19,258
Operating expenses	$ 17,650	$ 16,592	$ 16,056	$ 17,077	$ 15,014
Operating income	$ 5,836	$ 5,120	$ 4,950	$ 3,007	$ 4,244
Interest expense	$ 812	$ 957	$ 935	$ 1,005	$ 1,036
Equity in net income of affiliates	$ 207	$ 120	$ 226	$ 250	$ 208
Income taxes	$ 1,960	$ 1,519	$ 1,448	$ 658	$ 1,161
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes [1]	$ 3,189	$ 2,958	$ 2,777	$ 1,589	$ 2,455
Net income (loss)	$ 3,279	$ (3,064)	$ 2,800	$ (2,474)	$ 2,424
Earnings per common share:					
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes [1]	$ 3.46	$ 3.22	$ 3.04	$ 1.76	$ 2.74
Net income (loss)	$ 3.56	$ (3.33)	$ 3.07	$ (2.74)	$ 2.71
Total assets	$ 39,485	$ 37,112	$ 46,113	$ 47,695	$ 45,588
Long-term debt	$ 10,930	$ 10,409	$ 10,746	$ 10,588	$ 10,923
Construction and capital expenditures	$ 5,481	$ 4,338	$ 3,981	$ 4,021	$ 3,969
Free cash flow [2]	$ 1,935	$ 2,452	$ 2,952	$ 2,147	$ 2,452
Dividends declared per common share [3]	$ 1.72	$ 1.65	$ 1.58	$ 1.51	$ 1.46
Book value per common share [4]	$ 10.56	$ 9.15	$ 14.58	$ 16.69	$ 19.51
Ratio of earnings to fixed charges	5.34	5.24	5.01	2.91	4.06
Return on weighted average shareowners' equity [5]	33.73%	23.97%	24.97%	21.23%	14.24%
Debt ratio [4]	55.49%	61.73%	48.57%	45.30%	43.32%
Operating Data*					
EBITDA [6]	$ 9,945	$ 9,154	$ 8,774	$ 6,750	$ 7,796
Network access lines in service (000)	31,370	29,989	28,918	28,018	27,275
Access minutes of use (000,000)	123,303	112,874	100,800	93,877	88,035
Wireless customers (000)	4,433	3,672	2,992	2,049	1,413
Number of employees	109,870	108,189	110,390	113,755	116,523

*Operating data may be periodically revised to reflect the most current information available.

[1] 1996, Change in directory accounting; 1995, Discontinuance of Regulatory Accounting; 1994-1992, Income (loss) from spun-off operations; and1993, Early Extinguishment of Debt and Cumulative Effect of Changes in Accounting Principles.
[2] Free cash flow is net cash provided by operating activities less construction and capital expenditures.
[3] Dividends declared by SBC's Board of Directors; these amounts do not include dividends declared and paid by PAC prior to the merger.
[4] Shareowners' equity used in book value per common share and debt ratio calculations includes extraordinary loss and changes in accounting principles.
[5] Calculated using income before extraordinary loss and changes in accounting principles. These impacts are included in shareowners' equity.
[6] EBITDA is earnings before interest, taxes, depreciation and amortization (operating income plus depreciation and amortization). SBC considers EBITDA an important component in our economic value added systems as an indicator of the operational strength and performance of our businesses. It is provided as supplemental information and is not intended to be a substitute for operating income, net income or net cash provided by operating activities as a measure of financial performance or liquidity.

Dollars in millions except per share amounts

The primary factors contributing to the increase in income before extraordinary loss and cumulative effect of accounting change in 1995 were growth in demand for services and products at the Telephone Companies and Mobile Systems, and an after-tax gain of $111 associated with the merger of SBC's United Kingdom cable television operations into TeleWest P.L.C. (TeleWest). These factors were partially offset by an after-tax charge of $88 recorded in connection with SBC's strategic functional realignment and revenue shortfalls due to the introduction of intraLATA long-distance competition in California.

Items affecting the comparison of the operating results between 1996 and 1995, and between 1995 and 1994, are discussed in the following sections.

Operating Revenues

Total operating revenues increased $1,774, or 8.2%, in 1996 and $706, or 3.4%, in 1995. Components of total operating revenues, including percentage changes from the prior year, are as follows:

				Percent Change	
	1996	1995	1994	1996 vs. 1995	1995 vs. 1994
Local service					
Landline	$ 8,754	$ 8,118	$ 7,494	7.8%	8.3%
Wireless	2,676	2,247	1,749	19.1	28.5
Network access					
Interstate	4,008	3,770	3,525	6.3	7.0
Intrastate	1,823	1,744	1,679	4.6	3.8
Long-distance service	2,240	2,072	2,923	8.1	(29.1)
Directory advertising	1,985	1,984	1,950	0.1	1.7
Other	2,000	1,777	1,686	12.5	5.4
	$ 23,486	$ 21,712	$ 21,006	8.2%	3.4%

Local Service Landline revenues increased in 1996 due to increases in demand, primarily increases in residential and business access lines and vertical services revenues. Total access lines increased 4.6% in 1996, of which 34% was due to growth in Texas and 46% to growth in California. Access lines in Texas and California account for approximately 80% of the Telephone Companies' access lines. Approximately 34% of access line growth in 1996 was due to sales of additional access lines to existing residential customers. Vertical services revenues, which include custom calling options, Caller ID and other enhanced services, also increased in 1996.

Effective January 1, 1995, the California Public Utilities Commission (CPUC) authorized interexchange carriers and others to compete with PacBell in providing intraLATA long-distance service in California. That decision also rebalanced prices for most of PacBell's regulated services, which increased landline local service prices, so that PacBell could remain competitive in the new environment. Landline local service revenues increased in 1995 due to price rebalancing in California, which increased revenue by $379, and increases in demand at the Telephone Companies, primarily increases in residential and business access lines and vertical services revenues. These increases were somewhat offset by price cap revenue reductions ordered by the CPUC. The increased local service revenues resulting from price rebalancing were more than offset by a related $616 decrease in long-distance revenues. Total access lines increased 3.7% in 1995, of which 37% was due to growth in Texas and 43% to growth in California. Approximately

Dollars in millions except per share amounts

partially offset by the decrease in equipment sales revenues at Mobile Systems resulting primarily from declining equipment prices.

Operating Expenses

Total operating expenses increased $1,058, or 6.4%, in 1996 and $536, or 3.3%, in 1995. Components of total operating expenses, including percentage changes from the prior year, are as follows:

				Percent Change	
				1996 vs.	1995 vs.
	1996	1995	1994	1995	1994
Cost of services and products	$ 8,220	$ 7,864	$ 7,917	4.5%	(0.7%)
Selling, general and administrative	5,321	4,694	4,315	13.4	8.8
Depreciation and amortization	4,109	4,034	3,824	1.9	5.5
	$ 17,650	$ 16,592	$ 16,056	6.4%	3.3%

Cost of Services and Products increased in 1996 due to increases at the Telephone Companies for network expansion and maintenance, employee compensation and demand-related increases. Other increases in 1996 reflect growth at Mobile Systems, costs incurred to prepare for local competition and PAC's new business initiatives, such as PCS, Internet access and network integration. These increases were partially offset by PAC's decreased employee benefits expenses due to changes in employee benefit plans and benefit plan assumptions (see Note 9 to the financial statements). In 1995, expenses decreased primarily due to decreased California pool settlements with other local exchange carriers, force reductions at PacBell, and decreased equipment costs at Mobile Systems. The absence of expenses associated with SBC's United Kingdom cable television operations (discussed in Other Business Matters) also contributed to the decrease in 1995. These decreases were mostly offset by increases at the Telephone Companies for network expansion and maintenance, demand-related increases for enhanced services, and employee compensation at SWBell.

Selling, General and Administrative expenses increased in 1996 primarily due to growth-related increases at Mobile Systems and the Telephone Companies, including contracted services, employee compensation and software costs. The increase in 1996 also reflects PAC's expenses incurred to prepare support systems for local competition and for new business initiatives, including long-distance. In 1995, expenses increased primarily due to growth-related increases at Mobile Systems and SWBell, including contracted services and advertising, the $139 charge for costs associated with the strategic realignment discussed in Other Business Matters, and software costs at PAC. These increases were somewhat offset by force reductions at PacBell. Also contributing to the increases in both 1996 and 1995 were increases in operating taxes at SWBell, which include the Texas Infrastructure Fund assessments.

Depreciation and Amortization increased in 1996 and 1995 due primarily to growth in plant levels and changes in plant composition, primarily at the Telephone Companies and Mobile Systems. The increase in 1995 also reflects the effect of regulatory depreciation represcription at the Telephone Companies.

Dollars in millions except per share amounts

Cumulative Effect of Accounting Change As discussed in note 1 to the financial statements, PBDirectory changed its method of recognizing directory publishing revenues and related expenses effective January 1, 1996. The cumulative after-tax effect of applying the new method to prior years is recognized as of January 1, 1996 as a one-time, non-cash gain applicable to continuing operations of $90, or $0.10 per share. The gain is net of deferred taxes of $53. Management believes this change to the issue basis method is preferable because it is the method generally followed in the publishing industry, including Yellow Pages, and better reflects the operating activity of the business. This accounting change is not expected to have a significant net income effect on future periods.

Operating Environment and Trends of the Business

Regulatory Environment

The Telephone Companies' telecommunications operations are subject to regulation by each of the seven states in which they operate for intrastate services and by the FCC for interstate services. The Telephone Companies operate under incentive regulation, or price caps, for various services provided by the Telephone Companies. Under price cap regulation, the Telephone Companies are permitted to establish and modify prices, not to exceed the price caps, subject to expedited approval by the governing jurisdiction. Prices for some other services not specifically covered by price caps are also subject to regulatory approval.

The FCC adopted revised interim price cap rules effective August 1, 1995 that govern the prices that the larger Local Exchange Carriers (LECs), including the Telephone Companies, charge interexchange carriers for access to local telephone networks. Price caps set by the FCC are adjusted annually for inflation, a productivity offset and certain other changes in costs. The productivity offset is a fixed percentage used to reduce price caps and is designed to encourage increased productivity. The revised rules allow a choice of three productivity offsets, two of which provide for a sharing of profits with consumers above certain earnings levels and the third of which has no sharing. Through 1996, the Telephone Companies elected the 5.3% productivity offset with no sharing.

The revised FCC price cap plan was intended to be an interim plan that would be revised in 1996. However, with the passage of the Telecommunications Act of 1996 (the Telecom Act), the FCC is conducting further proceedings to address various pricing and productivity issues, and is performing a broader review of price cap regulation in a competitive environment. Additionally, the FCC has stated it will examine universal service and access charge rules during 1997. The Telecom Act and FCC actions taken to implement provisions of the Telecom Act are discussed further under the heading "Competition."

The states' regulatory bodies set intrastate price caps on various services for various periods, depending upon the state. The price cap plans in California and Nevada included sharing mechanisms; however, beginning in 1997, Nevada implemented a new price cap plan which eliminated the sharing mechanism.

Following is a summary of significant state regulatory developments.

California The CPUC's form of price caps requires PacBell to submit an annual price cap filing to determine prices for categories of services for each new year. The price cap plan includes a sharing mechanism that requires PacBell to share its earnings with customers at certain earnings levels. Price adjustments reflect the effects of any change in inflation less productivity as well as adjustments for certain exogenous cost changes. In December 1995, the CPUC issued an order in its review of the regulatory framework in California that suspended use of the "inflation minus productivity" component of the price cap formula for 1996 through 1998. This action freezes the price caps on most of PacBell's regulated services for the years 1996 through 1998 except for adjustments due to exogenous costs or 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, half of which would be paid by the cellular and wireless industry. The provisions establishing different assessment rates for landline and cellular and wireless service providers were ruled unconstitutional under the Texas constitution in January 1996, and the lower rate was ordered to be applied to both categories of service providers, resulting in less than a $150 annual assessment. Based on this order, SBC's total annual payment is estimated to be approximately $35 to $45. The 1997 Texas legislative session is considering this issue with the stated goal of restoring the assessment to its original $150 annual amount. As a result, SBC's annual payment could increase.

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. SBC is unable to predict the outcome of this proceeding. During 1996, the TPUC approved the application of Sprint for a certificate of authority to provide local service, waiving the build-out requirements specified under state law for facilities-based certificates of authority. TPUC has also requested the FCC issue an expedited ruling on whether PURA's build-out requirements are lawful under the Telecom Act. AT&T and MCI have also filed petitions with the FCC arguing the build-out requirements should be preempted; they have also requested TPUC grant them similar treatment as Sprint. In a preliminary ruling, the TPUC has waived build-out requirements for them.

More than 100 applications to provide competitive local service certification have been approved by the TPUC, with over 30 more applications pending approval. As a result, SWBell expects competition to continue to develop for local service, but the specific financial impacts of this competition cannot be reasonably estimated until all required tariff filings are approved by the TPUC for SWBell and other companies intending to provide local service.

Missouri During 1996, the 1995 Cole County Circuit Court ruling which overturned the August 1994 settlement agreement reached among SWBell, the Missouri Public Service Commission (MPSC) and the Office of Public Counsel (OPC) was upheld on appeal. The practical effect of this decision is to eliminate the prospective commitments under the settlement agreement, including a rate review moratorium and capital investment commitments. The decision has no immediate impact on SWBell's current rates because they were approved by the MPSC in separate proceedings, which were not appealed.

network services. The FCC rules were appealed by numerous parties, including SBC, other LECs, various state regulatory commissions and the National Association of Regulatory Utility Commissioners.

On October 15, 1996, the United States Court of Appeals for the Eighth Circuit (Eighth Circuit) issued an order to stay the FCC's Pricing Provisions and its rules permitting new entrants to "pick and choose" among the terms and conditions of approved interconnection agreements. The stay provides that it will remain in effect while the Eighth Circuit considers the validity of the rules. Other provisions of rules adopted by the FCC to implement the Telecom Act remain in effect.

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 handling of related matters within their jurisdictions. Accordingly, SBC is not able to assess the impact of the FCC rules.

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 begun approving these applications. Under the Telecom Act, companies seeking to interconnect to the Telephone Companies' network and exchange local calls must enter into interconnection agreements with the Telephone Companies, which are then subject to approval by the appropriate state commission. There have been approximately 190 companies approved by state commissions to provide local telephone service throughout the Telephone Companies' regulated operating areas, most of them in Texas and California. There are approximately 70 more applications pending approval before the state commissions. Several companies who have failed to agree on all interconnection terms have filed for arbitration before the state commissions.

The CPUC authorized facilities-based local services competition effective January 1996 and resale competition effective March 1996. Several issues still need to be resolved before the CPUC issues final rules for local competition. These issues include final rates for resale, presubscription, implementation of number portability and LEC provisioning and pricing of essential network functions 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, will be material and it is uncertain whether regulators will allow for recovery of these costs. The CPUC expects to issue final rules on presubscription in early 1997 and final rates and rules for all other issues in late 1997. It is anticipated that competition will be targeted mainly to high-density areas, where higher margins may be achieved. Many of these competitors have placed facilities in service and begun extensive advertising campaigns.

In October 1996, in a consolidated arbitration hearing between SWBell and AT&T, MCI, MFS Communications Company, Inc. (MFS), Teleport Communications Group, and American Communications Services, Inc., the TPUC approved interconnection rates to be charged by SWBell as well as certain other terms of interconnection between the parties. SWBell also filed revised cost support for the establishment of rates with the TPUC which may be subject to further hearings. SWBell, AT&T and MCI filed suit in state and federal court maintaining that, for various reasons, the arbitration award is unlawful. SWBell has TPUC-approved interconnection agreements with 26 local service providers, with 17 pending approvals as of April 15.

its strategy to be a full service telecommunications provider (expected completion 1999). Including these new BTAs with existing cellular and PCS services, SBC will be able to offer wireless services to approximately 85% of its landline local service customers in the five-state area.

Companies granted licenses in MTAs and BTAs where SBC also provides service include subsidiaries and affiliates of AT&T, Sprint and other RHCs. The degree of competition which SBC will encounter in its cellular markets will depend, in part, on the timing and extent of the build out of PCS services.

Long-distance

Competition continues to intensify in the Telephone Companies' intraLATA long-distance markets. Principal competitors are interexchange carriers, bypass service interexchange carriers which are assigned an access code (e.g., "10XXX") used by their customers to route intraLATA calls through the interexchange carrier's network, and resellers, which sell long-distance services obtained at bulk rates. Effective January 1, 1995, the CPUC authorized intraLATA long-distance services competition in California. In April 1995, the CPUC also ordered PacBell to offer expanded interconnection to competitive access providers. These competitors are allowed to carry the intrastate portion of long-distance and intraLATA long-distance calls between PacBell's central offices and long distance carriers. Competitors may choose to locate their transmission facilities within or near PacBell's central offices. It is estimated that PacBell now serves less than 50% of the business intraLATA long-distance customers in its service areas. On April 11, 1997, SBC filed an application with the FCC for the provision of interLATA long-distance services in Oklahoma under the provisions of the Telecom Act. The OCC has approved SBC's application.

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.

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 to 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 encompassing a series of rules for the introduction of competition into the Mexican long-distance market previously issued by the Mexican Secretary of Communication and Transportation. Those rules 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, a Mexican consortium, and Avantel, S.A., a joint venture between MCI and Grupo Financiero Banamex-Accival, Mexico's largest

Dollars in millions except per share amounts

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 exchange of approximately $120 of stock and assumption of $55 in debt. Additionally, SBC made the following equity investments in 1995: a $317 investment for 40% of VTR S.A. (VTR), a privately owned Chilean telecommunications holding company which is 51% owned by Grupo 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 RHC's reached an agreement to sell Bell Communications Research (Bellcore) in a transaction expected to close in 1997.

In March 1997, the consortium of SBC and Telekom Malaysia Berhad, which is 60% owned by SBC, finalized an agreement to purchase 30% of Telkom South Africa (Telkom), the state-owned telecommunications company of South Africa. Under the agreement, SBC is committed to invest approximately $750, approximately $600 of which will remain in Telkom. The transaction is expected to close in the second quarter of 1997.

None of these transactions had a material effect on SBC's financial results in 1996, 1995 or 1994, nor does management expect them to have a material effect on SBC's financial position or results of operations in 1997.

Strategic Realignment 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 report to one management group, while international operations and domestic operations outside the five-state area report to a separate management group.

In connection with this realignment of functions, in 1995 SBC 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 within the five-state area, streamlining support and administrative functions and integrating financial systems. Implementation of the realignment has been delayed due to the merger with PAC. The charge reduced net income for 1995 by approximately $88.

Dollars in millions except per share amounts

Dividends Declared

Dividends declared by the Board of Directors of SBC were $1.72 per share in 1996, $1.65 per share in 1995, and $1.58 per share in 1994. These per share amounts do not include dividends declared and paid by PAC prior to the merger. Including those PAC dividends, total dividends paid were $1,680 in 1996, $1,933 in 1995 and $1,878 in 1994. Pursuant to the terms of the merger agreement, PAC reduced its 1996 second, third and fourth quarter dividends. The lower second and third quarter dividends paid in 1996 improved 1996 cash flow by approximately $195. Management's dividend policy considers both the expectations and requirements of shareowners, internal requirements of SBC and long-term growth opportunities.

Cash, Lines of Credit and Cash Flows

SBC had $314 of cash and cash equivalents available at December 31, 1996. Commercial paper borrowings as of December 31, 1996, totaled $1,848. SBC has entered into agreements with several banks for lines of credit totaling $3,550 all of which may be used to support commercial paper borrowings (see Note 6 to the Financial Statements). SBC had no borrowings outstanding under these lines of credit as of December 31, 1996.

During 1996, as in 1995 and 1994, SBC's primary source of funds continued to be cash generated from operations, as shown in the Consolidated Statements of Cash Flows. Net cash provided by operating activities exceeded SBC's construction and capital expenditures during 1996, as in 1995 and 1994; this excess is referred to as free cash flow, a supplemental measure of liquidity. SBC generated free cash flow of $1,935, $2,452 and $2,952 in 1996, 1995 and 1994.

During 1996 PAC issued $1,000 of TOPrS, $500 at 7.56% in January 1996 and $500 at 8.5% in June 1996 (see Note 7 to the financial statements). The proceeds were used to retire outstanding short-term debt, primarily commercial paper which had increased significantly during 1995.

During 1996 and 1995, the Telephone Companies refinanced long-term debt with an aggregate principal amount of $964.

Total Capital

SBC's total capital consists of debt (long-term debt and debt maturing within one year), TOPrS and shareowners' equity. Total capital increased $1,844 in 1996 and decreased $4,006 in 1995. The increase in 1996 was due to PAC's increased financing requirements and the reinvestment of earnings, partially offset by the acquisition of treasury shares. The decrease in 1995 was due to the effects of the discontinuance of regulatory accounting. Absent this extraordinary charge, total capital increased by $2,016 in 1995 due primarily to the reinvestment of earnings and increased commercial paper borrowings, partially offset by foreign currency translation adjustments resulting from the decline in the value of the Mexican peso.

Debt Ratio

SBC's debt ratio was 55.5%, 61.7% and 48.6% at December 31, 1996, 1995 and 1994. The debt ratio is affected by the same factors that affect total capital. For 1995, the decrease in equity caused by the discontinuance of regulatory accounting increased the debt ratio by 13.2 percentage points.

Share Repurchases

See Note 12 to the financial statements.

Employee Stock Ownership Plans

See Note 10 to the financial statements.

SBC Communications Inc.
Consolidated Statements of Income

Dollars in millions except per share amounts

	1996	1995	1994
Operating Revenues			
Local service	$ 11,430	$ 10,365	$ 9,243
Network access	5,831	5,514	5,204
Long-distance service	2,240	2,072	2,923
Directory advertising	1,985	1,984	1,950
Other	2,000	1,777	1,686
Total operating revenues	23,486	21,712	21,006
Operating Expenses			
Cost of services and products	8,220	7,864	7,917
Selling, general and administrative	5,321	4,694	4,315
Depreciation and amortization	4,109	4,034	3,824
Total operating expenses	17,650	16,592	16,056
Operating Income	5,836	5,120	4,950
Other Income (Expense)			
Interest expense	(812)	(957)	(935)
Equity in net income of affiliates	207	120	226
Other income (expense) - net	(82)	194	(16)
Total other income (expense)	(687)	(643)	(725)
Income From Continuing Operations Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Change	5,149	4,477	4,225
Income taxes	1,960	1,519	1,448
Income from Continuing Operations	3,189	2,958	2,777
Income from spun-off operations, net of tax	-	-	23
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	3,189	2,958	2,800
Extraordinary Loss from Discontinuance of Regulatory Accounting, net of tax	-	(6,022)	-
Cumulative Effect of Accounting Change, net of tax	90	-	-
Net Income (Loss)	$ 3,279	$ (3,064)	$ 2,800
Earnings Per Common Share:			
Income from Continuing Operations	$ 3.46	$ 3.22	$ 3.04
Income from spun-off operations	-	-	.03
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	3.46	3.22	3.07
Extraordinary Loss	-	(6.55)	-
Cumulative Effect of Accounting Change	.10	-	-
Net Income (Loss)	$ 3.56	$ (3.33)	$ 3.07
Weighted Average Number of Common Shares Outstanding (in millions)	921	920	912

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

SBC Communications Inc.
Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31, 1996	1995
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	$ 2,335	$ 3,210
Accounts payable and accrued liabilities	6,584	6,026
Dividends payable	393	484
Total current liabilities	9,312	9,720
Long-Term Debt	10,930	10,409
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	853	447
Postemployment benefit obligation	5,070	5,202
Unamortized investment tax credits	498	578
Other noncurrent liabilities	2,181	2,313
Total deferred credits and other noncurrent liabilities	8,602	8,540
Commitments and contingencies		
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts*	1,000	-
Shareowners' Equity		
Preferred shares ($1 par value, 10,000,000 authorized: none issued)	-	-
Common shares ($1 par value, 2,200,000,000 authorized: issued 933,772,624 at December 31, 1996 and 933,861,842 at December 31, 1995)	934	934
Capital in excess of par value	9,422	9,398
Retained earnings (deficit)	1,297	(316)
Guaranteed obligations of employee stock ownership plans	(229)	(272)
Deferred Compensation - LESOP trust	(161)	(242)
Foreign currency translation adjustment	(637)	(578)
Treasury shares (20,616,939 at December 31, 1996 and 11,122,981 at December 31, 1995, at cost)	(985)	(481)
Total shareowners' equity	9,641	8,443
Total Liabilities and Shareowners' Equity	$ 39,485	$ 37,112

* 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.

SBC Communications Inc.
Consolidated Statements of Cash Flows
Dollars in millions, increase (decrease) in cash and cash equivalents

	1996	1995	1994
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	(977)	1,402	(129)
Issuance of other short-term borrowings	209	91	36
Repayment of other short-term borrowings	(134)	(91)	(41)
Issuance of long-term debt	989	981	355
Repayment of long-term debt	(408)	(1,086)	(462)
Early extinguishment of debt and related call premiums	-	(465)	-
Issuance of trust originated preferred securities	1,000	-	-
Issuance of common shares	111	74	180
Purchase of treasury shares	(650)	(216)	(447)
Issuance of treasury shares	52	82	18
Dividends paid	(1,664)	(1,814)	(1,744)
Other	(106)	-	(18)
Net Cash Used in Continuing Operations	(1,578)	(1,042)	(2,252)
Net cash provided by spun-off operations	-	-	39
Net Cash Used in Financing Activities	(1,578)	(1,042)	(2,213)
Net Cash Provided by (Used in) all Activities	(252)	67	(462)
Less spun-off operations	-	-	(275)
Net increase (decrease) in cash and cash equivalents	(252)	67	(187)
Cash and cash equivalents beginning of year	566	499	686
Cash and Cash Equivalents End of Year	$ 314	$ 566	$ 499

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

Notes to Consolidated Financial Statements

Dollars in millions except per share amounts

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). SBC's subsidiaries and affiliates operate predominantly in the communications services industry, providing landline and wireless telecommunications services and equipment, directory advertising and cable television services both domestically and worldwide.

SBC's largest subsidiaries are Southwestern Bell Telephone Company (SWBell) providing telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area), and Pacific Telesis Group (PAC), providing telecommunications services in California and Nevada. PAC's subsidiaries include Pacific Bell (PacBell, which also includes its subsidiaries) and Nevada Bell. (SWBell, PacBell and Nevada Bell are collectively referred to as the Telephone Companies.)

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.

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.

Cumulative Effect of Accounting Change - Prior to January 1, 1996, Pacific Bell Directory (a subsidiary of PacBell) recognized revenues and expenses related to publishing directories in California using the "amortization" method, under which revenues and expenses were recognized over the lives of the directories, generally one year. The change in methodology was made because it is the method generally followed in the publishing industry, including Southwestern Bell Yellow Pages, and better reflects the operating activity of the business.

The cumulative after-tax effect of applying the change in method to prior years is recognized as of January 1, 1996 as a one-time, non-cash gain applicable to continuing operations of $90, or $0.10 per share. The gain is net of deferred taxes of $53. Had the current method been applied during 1995 and 1994, income before extraordinary loss and accounting change would not have been materially affected.

Dollars in millions except per share amounts

Upon discontinuance of FAS 71 by SWBell and PacBell, SBC recorded a non-cash, extraordinary charge to net income of $6,022 (after a net deferred tax benefit of $4,037). This charge was comprised of an after-tax charge of $5,739 to reduce the net carrying value of telephone plant, and an after-tax charge of $283 for the elimination of net regulatory assets. The components of the charge were as follows:

	Pre-tax	After-tax
Increase telephone plant accumulated depreciation	$ 9,476	$ 5,739
Elimination of net regulatory assets	583	283
Total	$ 10,059	$ 6,022

The increase in accumulated depreciation of $9,476 reflected the effects of adopting depreciable lives for SWBell's and PacBell's plant categories which more closely reflect the economic and technological lives of the plant. The adjustment was supported by discounted cash flow analyses which estimated amounts of telephone plant that may not be recoverable from discounted future cash flows. These analyses included consideration of the effects of anticipated competition and technological changes on plant lives and revenues.

Following is a comparison of new lives to those prescribed by regulators for selected plant categories:

	Average Lives (in Years)	
	Regulator-Prescribed	Estimated Economic
Digital switch	17	10-11
Digital circuit	10-12	7-8
Copper cable	19-26	14-18
Fiber cable	27-30	20
Conduit	57-59	50

The increase in accumulated depreciation at SWBell also included an adjustment of approximately $450 to fully depreciate analog switching equipment scheduled for replacement. Remaining analog switching equipment is being depreciated using an average remaining life of four years.

The discontinuance of FAS 71 for external financial reporting purposes also required the elimination of net regulatory assets of $583. Regulatory assets and liabilities are related primarily to accounting policies used by regulators in the ratemaking process which are different from those used by non-regulated companies. The differences arose predominantly in the accounting for income taxes, deferred compensated absences, and, in California, pension costs and debt redemption costs. These items are required to be eliminated with the discontinuance of accounting under FAS 71. SWBell and PacBell accounting and reporting for regulatory purposes are not affected by the discontinuance of FAS 71 for external financial reporting purposes.

With the discontinuance of FAS 71, SWBell and PacBell began accounting for interest on funds borrowed to finance construction as an increase in property, plant and equipment and a reduction of interest expense. Under the provisions of FAS 71, both companies capitalized both interest and equity costs allowed by regulators during periods of construction as other income and as an addition to the cost of plant constructed. Additionally, PacBell began accounting for pension costs under Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," (FAS 87) and Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" (FAS 88).

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

4. Property, Plant and Equipment

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

	1996	1995
Telephone Companies plant		
In service	$ 56,638	$ 54,152
Under construction	1,614	1,042
	58,252	55,194
Accumulated depreciation and amortization	(34,515)	(32,698)
Total Telephone Companies	23,737	22,496
Other	3,534	2,819
Accumulated depreciation and amortization	(1,191)	(941)
Total other	2,343	1,878
Property, plant and equipment--net	$ 26,080	$ 24,374

SBC's depreciation expense as a percentage of average depreciable plant was 7.2% for 1996, 7.4% for 1995, and 7.2% for 1994.

Certain facilities and equipment used in operations are under operating or capital leases. Rental expenses under operating leases for 1996, 1995 and 1994 were $207, $166 and $159. At December 31, 1996, the future minimum rental payments under noncancelable operating leases for the years 1997 through 2001 were $124, $109, $103, $57 and $35, and $180 thereafter. Capital leases were not significant.

Dollars in millions except per share amounts

6. Debt

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

		1996	1995
SWBell			
Debentures			
4.50%-5.88%	1997-2006	$ 600	$ 600
6.12%-6.88%	2000-2024	1,200	1,200
7.00%-7.75%	2009-2026	1,500	1,500
8.30%	1996	-	200
		3,300	3,500
Unamortized discount--net of premium		(29)	(31)
Total debentures		3,271	3,469
Notes			
5.04%-7.67%	1997-2010	1,118	950
Unamortized discount		(6)	(5)
Total notes		1,112	945
PacBell			
Debentures			
4.62%-5.88%	1999-2006	475	225
6.00%-6.88%	2002-2034	1,194	945
7.12%-7.75%	2008-2043	2,150	2,150
8.50%	2031	225	225
		4,044	3,545
Unamortized discount--net of premium		(89)	(85)
Total debentures		3,955	3,460
Notes			
6.25%-8.70%	2001-2005	1,150	1,150
Unamortized discount		(18)	(20)
Total notes		1,132	1,130
Other notes			
5.70%-6.98%	1996-2007	310	316
7.00%-9.50%	1996-2020	1,140	1,263
		1,450	1,579
Unamortized discount		(14)	(21)
Total other notes		1,436	1,558
Guaranteed obligations of employee stock ownership plans [(1)]			
8.41%-9.40%	1996-2000	208	260
Capitalized leases		303	48
Total long-term debt, including current maturities		11,417	10,870
Current maturities		(487)	(461)
Total long-term debt		$ 10,930	$ 10,409

[(1)] See Note 9.

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.

Dollars in millions except per share amounts

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. TOPrS are subject to a limited guarantee from PAC. 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. 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.

As of December 31, 1996, Pacific Telesis Financing I and II held subordinated debt securities of PAC in principal amounts of $515.5 and $514.5, respectively, with interest rates of 7.56% and 8.5%, respectively.

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 SARs. (See Note 11) 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, $60 and $77 as of December 31, 1996 and 1995 respectively, covers the approximate number of the options and SARs outstanding 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, 1996 and 1995. Gains and losses from quarterly market adjustments of the carrying amounts are substantially offset in results of operations. As of December 31, 1996 and 1995, the accounting loss that would be incurred from nonperformance by the counterparty to the equity swap was $4 and $14, respectively. However, management does not expect to realize any loss from counterparty nonperformance.

Dollars in millions except per share amounts

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

	1996	1995	1994
Taxes computed at federal statutory rate	$ 1,802	$ 1,567	$ 1,479
Increases (decreases) in income taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits--1996 and 1995, net of deferred income tax	(53)	(92)	(124)
Excess deferred income taxes due to rate change	-	(24)	(35)
Depreciation of telephone plant construction costs previously deducted for tax purposes--net	-	14	23
State and local income taxes--net of federal income tax benefit	215	172	178
Other--net	(4)	(118)	(73)
Total	$ 1,960	$ 1,519	$ 1,448

9. 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, employees' benefits 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.

SBC reports pension costs and related obligations under the provisions of FAS 87 and FAS 88. However, prior to discontinuing application of FAS 71 during 1995, PacBell recognized pension costs consistent with the methods adopted for ratemaking. Nevada Bell continues to follow the accounting method prescribed by the Public Service Commission of Nevada. Pension costs recognized by PacBell under FAS 71 reflected a California Public Utilities Commission (CPUC) order requiring the continued use of the aggregate cost method for intrastate operations and a Federal Communications Commission (FCC) requirement to use FAS 87 and FAS 88 for interstate operations. (See Note 2)

Net pension cost is composed of the following:

	1996	1995	1994
Service cost--benefits earned during the period	$ 297	$ 311	$ 354
Interest cost on projected benefit obligation	1,131	1,161	1,142
Actual return on plan assets	(2,919)	(4,232)	(24)
Other--net	1,270	2,813	(1,396)
Net periodic pension cost (benefit) under FAS 87	(221)	53	76
Adjustment to reflect differing regulatory treatment	-	-	18
Net pension cost (benefit)	$ (221)	$ 53	$ 94

Dollars in millions except per share amounts

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 $88, $91 and $94 in 1996, 1995 and 1994. Liabilities of $758 and $701 related to these plans have been included in other noncurrent liabilities in SBC's Consolidated Balance Sheets at December 31, 1996 and 1995.

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. However, employees retiring after certain dates will pay a share of the costs of medical coverage that exceeds 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:

	1996	1995	1994
Service cost--benefits earned during the period	$ 101	99	$ 108
Interest cost on accumulated postretirement benefit obligation (APBO)	475	496	489
Actual return on assets	(375)	(452)	(19)
Other--net	208	318	(87)
Postretirement benefit cost	$ 409	$ 461	$ 491

SBC maintains Voluntary Employee Beneficiary Association (VEBA) trusts to fund postretirement benefits. During 1996 and 1995, SBC contributed $320 and $455 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:

	1996	1995
Retirees	$ 4,047	$ 4,200
Fully eligible active plan participants	706	583
Other active plan participants	1,819	1,867
Total APBO	6,572	6,650
Less: Fair value of plan assets	2,697	2,169
APBO in excess of plan assets	3,875	4,481
Unrecognized prior service cost	(31)	(38)
Unrecognized net gain	1,119	616
Accrued postretirement benefit obligation	$ 4,963	$ 5,059

In December 1995, one of the life insurance benefit plans was merged with one of the medical plans. Also in December 1995, $109 of postretirement life insurance assets were transferred to the VEBA trusts. The fair value of plan assets restricted to the payment of life insurance benefits only were $746 and $700 at December 31, 1996 and 1995. At December 31, 1996 and 1995, the accrued life insurance benefits included in the accrued postretirement benefit obligation were $57 and $42.

The assumed medical cost trend rate in 1997 is 8%, 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 rate in 1997 is 6.25%, 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, 1996 by $557 and increases the aggregate service and interest cost components of the net periodic postretirement benefit cost

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

11. Stock Based Compensation

Under various SBC plans, senior and other management employees have received stock options and SARs to purchase 41 million shares of SBC common stock. As of December 31, 1996, SBC is authorized to issue options to purchase up to an additional 37 million shares remain authorized for issuance. Options issued through December 31, 1996 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 plan, vesting of options occurs up to three years from the date of grant.

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 stock based compensation plans has been recognized other than for restricted stock and SARs which totaled $2 and $1 for 1996 and 1995, respectively. 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 1996 and 1995 as defined by FAS 123, SBC's net income (loss) would have been $3,250 and $(3,074) and net income (loss) per share would have been $3.53 and $(3.34).

Options and SARs held by the continuing employees of PAC at the time of the spin-off (see Note 15) 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 7). As of December 31, 1996, 2,182,369 supplemental spun-off operations options and SARs were outstanding with expiration dates ranging from 1997 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 three 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 1996 and 1995: risk-free interest rate of 6.26% and 6.34%; dividend yield of 4.92% and 3.61%; expected volatility factor of 18% and 18%; and expected option life of 4.7 and 4.6 years.

Dollars in millions except per share amounts

Shareowners' Rights Plan - The Shareowners' Rights Plan (Plan) becomes operative in certain events involving the acquisition of 20% or more of SBC's common stock by any person or group in a transaction not approved by the Board, or the designation by the Board of a person or group owning more than 10% of the outstanding stock as an adverse person, as provided in the Plan. Upon the occurrence of these events, each right, unless redeemed by the Board, generally entitles the holder (other than the holder triggering the right) to purchase an amount of common stock of SBC (or, in certain circumstances, of the potential acquiror) having a value equal to two times the exercise price of $160. The rights expire in January 1999. After giving effect to a stock split in May 1993, effected in the form of a stock dividend, each share of common stock represents one-half of a right.

The rights have certain antitakeover effects. The rights will cause substantial dilution to a person or group that attempts to acquire SBC on terms not approved by the Board.

The rights should not interfere with any merger or other business combination approved by the Board since the rights may be redeemed.

13. Acquisitions and Dispositions

In October 1995, SBC combined its United Kingdom cable television operations 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. (TeleWest), is the largest cable television operator in the United Kingdom. SBC owns approximately 15% of the new entity and accounts for its investment using the cost method of accounting. Restrictions expiring over the next four years exist on the sale of SBC's interest in TeleWest. SBC recorded an after-tax gain of $111 associated with the combination.

During 1995, SBC purchased at auction PCS licenses in Los Angeles-San Diego, California; San Francisco-Oakland-San Jose, California; Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma for approximately $769. During 1996, SBC received several AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis and Little Rock and other consideration.

During 1994, SBC purchased two cable television systems located in Montgomery County, Maryland, and Arlington County, Virginia, for $650. Also in 1994, SBC acquired the domestic wireless business of Associated Communications Corporation (Associated) for $705, including wireless systems in Buffalo, Rochester, Albany and Glens Falls, New York, and in two separate transactions purchased smaller wireless systems in Syracuse, Utica and Ithaca, New York, which are adjacent to the Associated properties.

In October 1994, SBC formed a strategic alliance with Compagnie Génerale des Eaux (CGE), a French diversified public company. Through this alliance, SBC 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 $376. This investment is accounted for under the equity method of accounting.

In addition to payments shown in the Consolidated Statements of Cash Flows, the 1994 acquisitions were also financed through the issuance of 16 million new and treasury shares, valued at approximately $660, and the issuance of approximately $360 of long-term debt. All of the acquisitions were accounted for under the purchase method of accounting. The purchase prices in excess of the underlying fair value of identifiable net assets acquired are being amortized over periods not 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 1995 and 1994, nor would they had they occurred on January 1 of the respective periods.

Dollars in millions except per share amounts

15. Spun-Off Operations

Effective April 1, 1994, PAC spun off to shareowners its domestic and international cellular, paging and other wireless operations in a one-for-one stock distribution of its 86% interest in AirTouch Communications, Inc. The stock distribution was recorded as a stock dividend from paid-in capital at the carrying amount of the net assets of spun-off operations. As a result, PAC's total assets and shareowners' equity were each reduced by $2.9 billion in 1994. The stock distribution itself was a non-cash transaction, which did not affect PAC's cash flow statement.

Under a separation agreement, any unrecorded non-tax contingent liabilities that become certain after the spin-off date will be allocated based on origin of the claim, and acts by, or benefits to, PAC or the spun-off operations. In addition, PAC's responsibilities have been terminated in connection with any future obligations under the spun-off operations' joint venture agreement with Cellular Communications, Inc., and under various financial instrument contracts.

PAC's previous interests in the net revenues and expenses of the spun-off operations prior to April 1, 1994, are classified separately as income from spun-off operations in the income statement.

The components of income from operations through March 31, 1994 are summarized below:

Operating revenues	$ 259
Operating expenses	225
Operating income	34
Other income (expense)-net	22
Income before income taxes	56
Income taxes	29
Income before minority interest	27
Minority interest of other shareowners	(4)
Income from spun-off operations	$ 23

PAC's cash flow statement for 1994 includes separately the cash flows of spun-off operations.

16. Restructuring Reserve

In December 1993 a reserve was established to record the incremental cost of force reductions associated with restructuring PacBell's business processes through 1997. This reserve is to cover the incremental severance costs associated with terminating more than 14,000 employees through 1997. It is also to cover the incremental costs of consolidating and streamlining operations and facilities to support this downsizing initiative. The remaining reserve balance as of December 31, 1996 and 1995, was $97 and $228, respectively.

Dollars in millions except per share amounts

18. Quarterly Financial Information (Unaudited)

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income (Loss)	Earnings per Common Share	Stock Price [4] High	Stock Price [4] Low	Stock Price [4] Close
1996							
First [1]	$ 5,574	$ 1,458	$ 888	$ 0.96	$ 60.250	$ 49.750	$ 52.625
Second	5,738	1,489	803	0.87	50.750	46.250	49.250
Third	5,957	1,532	867	0.94	51.000	46.000	48.125
Fourth	6,217	1,357	721	0.79	55.250	47.000	51.875
Annual [1]	$ 23,486	$ 5,836	$ 3,279	$ 3.56			
1995							
First	$ 5,164	$ 1,233	$ 695	$ 0.76	$ 43.875	$ 39.625	$ 42.000
Second	5,256	1,301	712	0.78	47.875	41.625	47.625
Third [2]	5,567	1,432	(5,207)	(5.64)	55.125	45.500	55.000
Fourth [3]	5,725	1,154	736	0.80	58.500	53.125	57.250
Annual [2]	$ 21,712	$ 5,120	$ (3,064)	$ (3.33)			

(1) Net Income and Earnings per Common Share reflect a cumulative effect of accounting change of $90 or $0.10 per share from change in accounting for directory operations.

(2) Net Loss and Earnings per Common Share reflect an extraordinary loss of $6,022, or $6.55 per share, from discontinuance of regulatory accounting.

(3) Operating Income reflects $139 in selling, general and administrative expenses associated with a strategic realignment of functions. These expenses include postemployment benefits for approximately 2,400 employees arising from the consolidation of operations within the five-state area, streamlining support and administrative functions and integrating financial systems.

Net Income and Earnings per Common Share reflect after-tax charges of $88 for the strategic realignment of functions and $11 for refinancing of debt and an after-tax gain of $111 from the merger of SBC's United Kingdom cable television operations into TeleWest. The net of these transactions was $12, or $0.01 per share.

(4) Represents historical trading of SBC common stock. Prices have not been adjusted to reflect the merger with PAC.

SIGNATURE

Pursuant to the requirements 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.

SBC Communications Inc.

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

May 8, 1997

EXHIBIT INDEX

Exhibit Number	
18	Preferability letter on changes in accounting.
23-a	Consent of Ernst & Young LLP.
23-b	Consent of Coopers & Lybrand L.L.P.
27	Financial Data Schedule.

EXHIBIT 18

May 8, 1997

Mr. Donald Kiernan
Senior Vice President, Treasurer and
Chief Financial Officer
SBC Communications Inc.
175 W. Houston Street
San Antonio, Texas 78205

Dear Mr. Kiernan:

Note 3 of Notes to Consolidated Financial Statements of SBC Communications Inc. (SBC) included in its Form 8-K filed in connection with the merger of SBC and Pacific Telesis Group (PAC) describes changes in the methods of accounting for pensions, postretirement benefits, and sales commissions. You have advised us that you believe that the changes are to conform the accounting methods of SBC and PAC and that the new methods are preferable because the new methods for pensions and postretirement benefits are more widely used and the new method for sales commissions is prevalent industry practice.

We conclude that the changes in the methods of accounting for the items described above are to acceptable alternative methods which, based on your business judgment to make these changes for the reasons cited above, are preferable in your circumstances.

ERNST & YOUNG LLP

EXHIBIT 23-a

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Forms S-8) pertaining to the SBC Savings Plan and Savings and Security Plan (Nos. 33-54309 and 333-24295), the Stock Savings Plan, Management Stock Savings Plan and Stock Based Savings Plan (Nos. 33-37451 and 33-54291), the SBC Communications Inc. 1992 Stock Option Plan (No. 33-49855) and the SBC Communications Inc. 1995 Management Stock Option Plan (No. 33-61715), and in the Registration Statements (Forms S-3) pertaining to the SBC Communications Inc. Dividend Reinvestment Plan (No. 333-08979), and SBC Communications Capital Corporation and SBC Communications Inc. (Nos. 33-45490 and 33-56909), and in the related Prospectuses of our report dated February 14, 1997 (except Note 3, as to which the date is April 1, 1997), with respect to the supplemental consolidated financial statements included in this Current Report (Form 8-K) for the year ended December 31, 1996.

ERNST & YOUNG LLP

San Antonio, Texas
May 7, 1997

EXHIBIT 23-b

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Form 8-K of SBC Communications Inc. of our report dated February 27, 1997, on our audits of the consolidated financial statements and financial statement schedule of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996.

Coopers & Lybrand L.L.P.

San Francisco, California
May 8, 1997

EXHIBIT 27

<DOCUMENT>
<TYPE> EX-27
<TEXT>
<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANACIAL INFORMATION EXTRACTED FROM SBC COMMUNICATIONS INC.'S DECEMBER 31, 1996 SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>
<TABLE>

<S>	<C>	
<PERIOD-TYPE>	YEAR	
<FISCAL-YEAR-END>		DEC-31-1996
<PERIOD-END>		DEC-31-1996
<CASH>		314,000
<SECURITIES>		432,000
<RECEIVABLES>		4,995,000
<ALLOWANCES>		311,000
<INVENTORY>		0<F1>
<CURRENT-ASSETS>		6,271,000
<PP&E>		61,786,000
<DEPRECIATION>		35,706,000
<TOTAL-ASSETS>		39,485,000
<CURRENT-LIABILITIES>		9,312,000
<BONDS>		10,930,000
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		934,000
<OTHER-SE>		8,707,000
<TOTAL-LIABILITY-AND-EQUITY>		39,485,000
<SALES>		0<F2>
<TOTAL-REVENUES>		23,486,000
<CGS>		0<F3>
<TOTAL-COSTS>		8,220,000
<OTHER-EXPENSES>		4,109,000
<LOSS-PROVISION>		395,000
<INTEREST-EXPENSE>		812,000
<INCOME-PRETAX>		5,149,000
<INCOME-TAX>		1,960,000
<INCOME-CONTINUING>		3,189,000
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		90,000
<NET-INCOME>		3,279,000
<EPS-PRIMARY>		3.56
<EPS-DILUTED>		0

<FN>
<F1> THIS AMOUNT IS IMMATERIAL.
<F2> NET SALES OF TANGIBLE PRODUCTS IS NOT MORE THAN 10% OF TOTAL OPERATING REVENUES AND THEREFORE HAS NOT BEEN STATED SEPARATELY IN THE FINANCIAL STATEMENTS PURSUANT TO REGULATION S-X, RULE 5-03(B). THIS AMOUNT IS INCLUDED IN THE "TOTAL REVENUES" TAG.
<F3> COST OF TANGIBLE GOODS SOLD IS INCLUDED IN COST OF SERVICES AND PRODUCTS IN THE FINANCIAL STATEMENTS AND THE "TOTAL-COST" TAG, PURSUANT TO REGULATION S-X,RULE 5-03(B).
</FN>
</TABLE>
</TEXT>
</DOCUMENT>

EXHIBIT 99

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners
of Pacific Telesis Group:

We have audited the accompanying consolidated balance sheets of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basis financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

As discussed in Note A to the Consolidated Financial Statements, Pacific Bell, a subsidiary of Pacific Telesis Group, changed its method of recognizing directory publishing revenues and related expenses effective January 1, 1996. Also discussed in Note A, Pacific Bell discontinued its application of Statement of Financial Accounting Standards No. 71 during 1995.

/s/ Coopers & Lybrand L.L.P.

San Francisco, California
February 27, 1997

Exhibit C

Consolidated Financial Statements
of
Southern New England Telecommunications Corp.

SNET

Southern New England
Telecommunications Corporation
227 Church Street
New Haven, Connecticut 06510

1997 Annual Report & 1998 Proxy Statement

Wireline
Wireless
Information and
Entertainment

Report of Management

The Corporation's consolidated financial statements have been prepared in conformity with generally accepted accounting principles. The Corporation is responsible for the preparation and reliability of the data in these consolidated financial statements, including estimates and judgments relating to matters not concluded by year-end. To this end, the Corporation maintains a highly developed system of internal controls and supports an extensive program of internal auditing to monitor compliance with the system.

Management believes that this system provides reasonable, but not absolute, assurance at a reasonable cost that the transactions of the Corporation are executed in accordance with management's authorizations and are recorded properly. This system requires that the recorded assets be compared with existing assets at reasonable intervals and it provides reasonable assurance that access to assets is permitted only in accordance with management's authorization. The Corporation further seeks to assure the reliability of these consolidated financial statements by the careful selection of its managers, by organizational arrangements that provide appropriate division of responsibility and by communication and inspection programs aimed at assuring understanding of and compliance with its policies, standards and managerial authorities.

The Audit Committee of the Board of Directors, which consists of six non-employee directors, meets periodically with the Corporation's financial management, Audit Services and independent accountants (Coopers & Lybrand L.L.P.) to review their work and the relationships between them in whatever depth considered necessary to fulfill the Audit Committee's responsibilities. Both Audit Services and the independent accountants meet privately with and have unrestricted access to the Audit Committee.

Donald R. Shassian

Donald R. Shassian
Senior Vice President and Chief Financial Officer
January 27, 1998

Report of Independent Accountants

To the Shareholders of Southern New England Telecommunications Corporation:

We have audited the consolidated balance sheets of Southern New England Telecommunications Corporation as of December 31, 1997 and 1996, and the related consolidated statements of income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southern New England Telecommunications Corporation as of December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, the Corporation discontinued accounting for the operations of its telephone subsidiary in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," effective January 1, 1996.

Coopers + Lybrand L.L.P.

Coopers & Lybrand L.L.P.
Hartford, Connecticut
January 27, 1998

Southern New England Telecommunications Corporation

Consolidated Statements of Income (Loss)

Dollars in Millions, Except Per Share Amounts, For the Years Ended December 31,	1997	1996	1995
Revenues and Sales	**$2,022.3**	$1,941.9	$1,816.4
Costs and Expenses			
Operating and maintenance	**1,192.6**	1,149.0	1,065.1
Depreciation and amortization	**379.1**	356.1	346.0
Taxes other than income	**53.1**	54.6	56.5
Total Costs and Expenses	**1,624.8**	1,559.7	1,467.6
Operating Income	**397.5**	382.2	348.8
Interest expense	**89.8**	88.7	85.9
Other income, net	**8.3**	6.9	15.5
Income Before Income Taxes	**316.0**	300.4	278.4
Income taxes	**118.5**	107.6	109.6
Income Before Extraordinary Charge	**197.5**	192.8	168.8
Extraordinary charge, net of tax	**(3.7)**	—	(687.1)
Net Income (Loss)	**$ 193.8**	$ 192.8	$ (518.3)
Weighted Average Common Shares Outstanding (thousands)			
Basic	**66,156**	65,437	64,871
Assuming Dilution	**66,322**	65,604	64,903
Basic Earnings (Loss) Per Share			
Income before extraordinary charge	**$ 2.99**	$ 2.95	$ 2.60
Extraordinary charge, net of tax	**(.06)**	—	(10.59)
Basic Earnings (Loss) Per Share	**$ 2.93**	$ 2.95	$ (7.99)
Diluted Earnings (Loss) Per Share			
Income before extraordinary charge	**$ 2.98**	$ 2.94	$ 2.60
Extraordinary charge, net of tax	**(.06)**	—	(10.59)
Diluted Earnings (Loss) Per Share	**$ 2.92**	$ 2.94	$ (7.99)

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

Southern New England Telecommunications Corporation

Consolidated Balance Sheets

Dollars in Millions, At December 31,	1997	1996
Assets		
Cash and temporary cash investments	$ 12.3	$ 9.0
Accounts receivable, net of allowance for uncollectibles of $32.5 and $27.4, respectively	327.9	323.3
Materials, supplies and inventories	29.8	27.4
Prepaid publishing	35.9	35.2
Deferred income taxes	37.7	45.4
Other current assets	11.0	27.7
Total Current Assets	454.6	468.0
Property, plant and equipment, net	1,716.8	1,597.0
Intangible assets, net	394.7	400.3
Deferred income taxes	89.7	91.2
Leases and other assets	115.1	114.5
Total Assets	$2,770.9	$2,671.0
Liabilities and Shareholders' Equity		
Accounts payable and accrued expenses	$ 266.8	$ 252.0
Short-term debt	186.3	215.2
Advance billings and customer deposits	64.4	60.9
Accrued compensated absences	33.3	31.9
Other current liabilities	106.8	107.0
Total Current Liabilities	657.6	667.0
Long-term debt	1,156.9	1,169.7
Accrued postretirement benefit obligation	267.0	288.9
Unamortized investment tax credits	14.0	15.5
Other liabilities and deferred credits	78.2	66.9
Total Liabilities	2,173.7	2,208.0
Common stock; $1.00 par value; 300,000,000 shares authorized; 68,896,854 and 68,407,669 issued, respectively	68.9	68.4
Proceeds in excess of par value	622.1	602.8
Retained earnings (deficit)	26.8	(55.7)
Treasury stock; at cost, 2,230,586 and 2,758,512 shares, respectively	(84.7)	(104.7)
Unearned compensation related to ESOP	(35.9)	(47.8)
Total Shareholders' Equity	597.2	463.0
Total Liabilities and Shareholders' Equity	$2,770.9	$2,671.0

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

Southern New England Telecommunications Corporation

Consolidated Statements of Changes in Shareholders' Equity

Dollars in Millions, Except Per Share Amounts	Common Stock Issued		Proceeds in Excess of Par Value	Retained Earnings (Deficit)	Treasury Stock	Unearned Compensation Related to ESOP	Total Shareholders' Equity
	Number	Par Value					
Balance at January 1, 1995	67,264,435	$67.3	$677.8	$ 381.8	$(104.7)	$(69.3)	$952.9
Net loss				(518.3)			(518.3)
Common stock issued, at market:							
Dividend reinvestment plan	466,498	.5	15.4				15.9
Savings and incentive plans	150,226	.1	4.7				4.8
Dividends declared ($1.76 per share)				(114.2)			(114.2)
Reduction of ESOP debt						11.0	11.0
Tax benefit of dividends declared on unallocated shares held in ESOP				1.2			1.2
ESOP earned compensation accrual						(.4)	(.4)
Balance at December 31, 1995	67,881,159	67.9	697.9	(249.5)	(104.7)	(58.7)	352.9
Net income				192.8			192.8
Common stock issued, at market:							
Dividend reinvestment plan	367,183	.4	14.3				14.7
Savings and incentive plans	159,327	.1	5.8				5.9
Dividends declared ($1.76 per share)			(115.2)				(115.2)
Reduction of ESOP debt						12.1	12.1
Tax benefit of dividends declared on unallocated shares held in ESOP				1.0			1.0
ESOP earned compensation accrual						(1.2)	(1.2)
Balance at December 31, 1996	68,407,669	68.4	602.8	(55.7)	(104.7)	(47.8)	463.0
Net income				**193.8**			**193.8**
Common stock issued, at market:							
Dividend reinvestment plan	**190,928**	.2	**6.9**				7.1
Savings and incentive plans	**298,257**	.3	**10.9**				11.2
Dividends declared ($1.76 per share)				**(116.5)**			**(116.5)**
Reduction of ESOP debt						**13.2**	**13.2**
Acquisition of Woodbury Telephone			**1.0**	**4.5**	**20.0**		**25.5**
Tax benefit of dividends declared on unallocated shares held in ESOP				**.7**			**.7**
ESOP earned compensation accrual						**(1.3)**	**(1.3)**
Other			**.5**				**.5**
Balance at December 31, 1997	**68,896,854**	**$68.9**	**$622.1**	**$ 26.8**	**$ (84.7)**	**$(35.9)**	**$597.2**

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

Southern New England Telecommunications Corporation

Consolidated Statements of Cash Flows

Dollars in Millions, For the Years Ended December 31,	1997	1996	1995
Operating Activities			
Net income (loss)	**$ 193.8**	$ 192.8	$(518.3)
Tax benefit of dividends on shares held in ESOP	**.7**	1.0	1.2
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**379.1**	356.1	346.0
Extraordinary charge, net of tax	**3.7**	—	687.1
Provision for uncollectible accounts	**43.4**	44.4	25.9
Restructuring payments	**(15.0)**	(110.6)	(89.1)
Decrease in deferred income taxes	**9.2**	22.2	30.7
Decrease in investment tax credits	**(1.5)**	(2.1)	(6.9)
Changes in operating assets and liabilities, net	**(8.1)**	(30.3)	(34.0)
Other, net	**10.7**	3.9	—
Net Cash Provided by Operating Activities	**616.0**	477.4	442.6
Investing Activities			
Cash expended for capital additions	**(472.4)**	(373.8)	(357.4)
Purchase of cellular properties	**—**	—	(455.6)
Proceeds from asset sales	**19.9**	10.8	74.0
Other, net	**7.6**	16.6	16.5
Net Cash Used by Investing Activities	**(444.9)**	(346.4)	(722.5)
Financing Activities			
Proceeds from long-term debt	**100.0**	—	300.0
Repayments of long-term debt	**(94.8)**	(34.9)	(108.3)
Cash dividends paid	**(102.4)**	(100.2)	(98.0)
Net (payments) proceeds of commercial paper	**(57.3)**	2.0	192.9
Other, net	**(13.3)**	—	(2.3)
Net Cash (Used) Provided by Financing Activities	**(167.8)**	(133.1)	284.3
Increase (Decrease) in Cash and Temporary Cash Investments	**3.3**	(2.1)	4.4
Cash and temporary cash investments at beginning of year	**9.0**	11.1	6.7
Cash and Temporary Cash Investments at End of Year	**$ 12.3**	$ 9.0	$ 11.1

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

Notes to Consolidated Financial Statements
(Dollars in Millions, Except Per Share Amounts)

NOTE 1: Summary of Significant Accounting Policies

Basis of Presentation The consolidated financial statements of Southern New England Telecommunications Corporation ("Corporation") have been prepared in conformity with generally accepted accounting principles ("GAAP"). Effective January 1, 1996, the Corporation's telephone operating subsidiary, The Southern New England Telephone Company ("Telephone Company"), discontinued using Statement of Financial Accounting Standard ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation" [see Note 3].

The consolidated financial statements include the accounts of the Corporation, all wholly-owned subsidiaries and partnerships in which the Corporation effectively has control. All significant intercompany transactions and accounts have been eliminated.

The Corporation derives substantially all of its revenues from the telecommunications service industry by providing wireline, wireless and information and entertainment services, including local, national and international communications; network services; mobile communications; cable television and internet; and advertising. The Corporation's operations and customers are located primarily in Connecticut. In addition, its wireless operations cover Rhode Island and portions of Massachusetts.

As appropriate, all periods presented have been reclassified to conform to the current year presentation.

Use of Estimates The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used when accounting for depreciation, taxes, employee benefits, allowance for uncollectible accounts receivable, restructuring reserves and contingencies, among others.

Cash and Temporary Cash Investments Cash and temporary cash investments include all highly liquid investments, with original maturities of three months or less. The Corporation records payments made by draft as accounts payable until the banks honoring the drafts have presented them for payment. At December 31, 1997 and 1996, accounts payable included drafts outstanding of $28.8 and $41.4, respectively.

Materials, Supplies and Inventories Materials and supplies, which are carried at original cost, are primarily for the construction and maintenance of telephone plant. Inventories, principally telephone sets, wireless equipment and telephone systems, are carried at the lower of weighted average cost or market value.

Property, Plant and Equipment Property, plant and equipment is stated at cost. Depreciation is calculated on telephone plant using either the equal life group straight-line depreciation method or the composite vintage group method. Property and equipment other than telephone plant is depreciated primarily using the straight-line method.

Effective January 1, 1996, as a result of the discontinuance of SFAS No. 71, the Corporation is using estimated useful lives that are shorter than the economic lives historically prescribed by regulators. A comparison of average asset lives before and after the discontinuance of SFAS No. 71, for the most significantly affected categories of telephone plant, is as follows:

Asset Category	Before	After
Digital Switch	17	10.5
Digital Circuit	11.5	8.2
Conduit	55	55
Copper	22–26	10.5–16
Fiber	32–40	25

Under the composite group method, the cost of depreciable telephone plant sold or retired, net of removal costs and salvage (i.e., gains or losses), is charged to accumulated depreciation. When depreciable property and equipment other than telephone plant are sold or retired, the resulting gain or loss is recognized currently as an element of income. All long-lived assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable, and any necessary adjustment is made. Replacements, renewals and betterments that materially increase an asset's useful or remaining life are capitalized. Minor replacements and all repairs and maintenance are charged to expense.

Intangible Assets Intangible assets consist primarily of cellular licenses, customer lists and goodwill resulting from the cellular acquisitions completed in 1995 and goodwill resulting from the Woodbury Telephone Company ("Woodbury") acquisition completed in 1997. The intangible assets are stated at cost and are being amortized using the straight-line method over periods ranging from 5 to 40 years. Accumulated amortization was $44.8 and $27.6 as of December 31, 1997 and 1996, respectively. Intangible assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable, and any necessary adjustment is made.

Lease Notes Receivable Direct-financing and leveraged lease contracts are accounted for by recording the total minimum lease payments receivable, plus the estimated residual value, less the unearned lease income and, for leveraged leases, less the associated aggregate non-recourse debt obligation. The unearned lease income for direct-financing leases represents the excess of total minimum lease payments, plus estimated residual value expected to be realized, over the cost of the related equipment. For leveraged leases, the unearned income reflects the net positive cash flow to be generated from the lease.

Employee Stock Ownership Plan The Corporation accounts for its Employee Stock Ownership Plan ("ESOP") in accordance with Statement of Position ("SOP") 76-3, as amended. Accordingly, compensation expense is measured as the cost of shares allocated from the trust, plus the amount required to purchase any additional shares allocated to employee accounts, less a percentage of dividends received by the plan. Dividends on stock held by the ESOP are recorded as a reduction of retained earnings, and all ESOP shares are treated as outstanding for earnings per share calculations. Debt of the ESOP that has been guaranteed by the Corporation is recorded as long-term debt and as a reduction of shareholders' equity. As the ESOP repays the debt, a corresponding reduction in long-term debt and an increase in shareholders' equity is recorded.

Revenue Recognition Revenues are recognized when earned regardless of the period in which billed. Revenues for directory advertising are recognized over the life of the related directory, normally one year.

Capitalized Interest Cost The Corporation accounts for capitalized interest in accordance with SFAS No. 34, "Capitalization of Interest Cost." Upon the discontinuance of SFAS No. 71, effective January 1, 1996, the Telephone Company reports capitalized interest as a cost of telephone plant and a reduction in interest expense, in accordance with SFAS No. 34. Prior to the discontinuance of SFAS No. 71, the Telephone Company included in its telephone plant accounts an imputed cost of debt and equity for funds used during the construction of telephone plant.

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

Computer Software Costs The Corporation capitalizes initial operating systems for central office switching equipment. Right-to-use fees, additions, upgrades and modifications to operating software programs, all applications and computer software acquired or developed for internal use are expensed. SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," was issued on March 4, 1998. This SOP requires the capitalization of certain costs of computer software developed or obtained for internal use and is effective for financial statements for fiscal years beginning after December 15, 1998.

Income Taxes The Corporation files a consolidated federal income tax return and, where allowable, combined state income tax returns.

The Corporation records income taxes under SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are determined based on all temporary differences between the financial statement and tax bases of assets and liabilities using the currently enacted rates. Additionally, the Corporation will recognize deferred tax assets if it is more likely than not that the related benefit will be realized.

Investment tax credits realized in prior years by the Telephone Company are being amortized as a reduction to the provision for income taxes over the life of the related plant.

Earnings Per Share Effective December 31, 1997, the Corporation adopted SFAS No. 128, "Earnings per Share." Under SFAS No. 128, "basic" earnings per share is computed by dividing income by the weighted average number of actual common shares outstanding during the period. In order to compute "diluted" earnings per share, the weighted average number of common shares is increased by the effect of all potential common shares outstanding during the period. As required by SFAS No. 128, all periods presented have been restated to conform to the provisions of the new standard.

For the computation of diluted earnings per share, the weighted average number of common shares outstanding has been adjusted for the effects of the Corporation's stock options as follows:

In Thousands, For the Years Ended December 31,	1997	1996	1995
Weighted average shares outstanding	66,156	65,437	64,871
Stock options, net	166	167	32
Weighted average shares outstanding assuming dilution	66,322	65,604	64,903

Stock options of 218 in 1997, 156 in 1996 and 391 in 1995, were not assumed exercised because they were antidilutive in the periods presented.

NOTE 2: Merger, Acquisition and Sale of Assets

On January 4, 1998, the Corporation and SBC Communications Inc. ("SBC") approved a definitive merger agreement ("Agreement") whereby the Corporation will become a wholly-owned subsidiary of SBC. Under the original terms of the Agreement, each share of the Corporation's common stock was to be exchanged for 0.8784 shares of SBC common stock. On January 30, 1998, SBC announced a two-for-one stock split, which modified the exchange ratio to 1.7568. In addition, the Agreement does not require any changes to the Corporation's quarterly dividend prior to closing.

The transaction is intended to be accounted for as a pooling-of-interests and as a tax-free reorganization under the applicable provisions of the Internal Revenue Code. The merger has been reviewed by the U.S. Department of Justice and must still be approved by the Corporation's shareholders, the Department of Public Utility Control ("DPUC") and the Federal Communications Commission ("FCC"). The Corporation is currently authorized to provide interexchange services in 46 states. For the majority of these states these authorizations have been utilized solely to provide calling card services to Connecticut-based customers traveling in the respective states. The Corporation does, however, provide long-distance service to a small number of customers in states where SBC is an Incumbent Local Exchange Carrier ("ILEC"). The Corporation may be required to modify or withdraw its interexchange authorizations in the states where SBC is an ILEC. In addition, authorizations may be required from a number of other states to allow the Corporation to transfer its existing long-distance authorizations to SBC. Once the necessary approvals are obtained, the merger is expected to close by December 31, 1998.

On July 30, 1997, the Corporation completed its acquisition of Woodbury by issuing approximately 528,000 shares of the Corporation's treasury stock for the remaining 63.5% of Woodbury's common stock not formerly held by the Corporation. The total cost of completing the acquisition was $30.1, which includes the assumption of $9.0 in long-term debt. Woodbury provides local exchange telephone services, intrastate toll services and access to long-distance telephone services in a number of central Connecticut towns. The acquisition was accounted for under the purchase method and, accordingly, resulted in goodwill of $11.5 which is being amortized on a straight-line method over 15 years. Woodbury's results have been included in the consolidated financial statements since the date of acquisition. Had the acquisition taken place at the beginning of 1996, consolidated revenues and sales, income before extraordinary charge, net income and earnings per share would not have been materially different from the amounts reported for 1997 and 1996.

In July 1995, the Corporation purchased from Bell Atlantic Corporation and Richmond Telephone Company, for approximately $456, certain cellular properties in Rhode Island and Massachusetts and an increased interest in Springwich Cellular Limited Partnership ("Springwich"). The acquisitions were accounted for under the purchase method and, accordingly, the operating results of the cellular properties and the increased interest in Springwich were included in the consolidated financial statements subsequent to the acquisition date. The excess of the purchase price over the estimated fair value of the net assets acquired, approximately $24, was assigned to goodwill and is being amortized on a straight-line method over 15 years. The cellular acquisitions were financed with approximately $456 of short-term debt. Short-term debt of approximately $300 was replaced with medium-term notes in the third quarter of 1995.

NOTE 3: Discontinuance of SFAS No. 71

In the fourth quarter of 1995, the Telephone Company determined it was no longer eligible for application of SFAS No. 71, which specifies accounting standards required for public utilities and certain other regulated companies. Effective January 1, 1996, the Telephone Company began following accounting principles which are more appropriate for a competitive environment. This determination was made based on the significant changes in technology and the increase in telecommunications competition in Connecticut brought about by legislative and regulatory policy changes. This accounting change is for financial reporting purposes only and does not affect the Telephone Company's accounting and reporting for regulatory purposes. As a result of the discontinued use of SFAS No. 71, in accordance with the provisions of SFAS No. 101, "Accounting for the Discontinuance of Application of FASB Statement No. 71," the Corporation recorded a non-cash, extraordinary charge of $687.1, or $10.59 per share, for both basic and diluted earnings per share, net of applicable tax benefits of $515.5, in the fourth quarter of 1995.

The following table is a summary of the extraordinary charge for 1995:

	Before-tax	After-tax
Adjustment to net telephone plant	$(1,178.0)	$(703.9)
Elimination of net regulatory assets	(24.6)	(14.3)
Tax-related net regulatory liabilities	—	20.1
Accelerated amortization of investment tax credits	—	11.0
Total Non-cash, Extraordinary Charge	$(1,202.6)	$(687.1)

The adjustment of $1,178.0 to net telephone plant was necessary since estimated useful lives and depreciation methods historically prescribed by regulators did not reflect the rapid pace of technological development and differed significantly from those economic useful lives used by unregulated companies. Plant balances were adjusted by increasing the accumulated depreciation reserve. The increase to the accumulated depreciation reserve was determined by a discounted cash flow analysis which considered technological replacement and the estimated impact of future competition. To support this analysis, a depreciation reserve study was also performed that identified, by asset categories, inadequate accumulated depreciation levels (i.e., deficiencies) that had developed over time.

The discontinuance of SFAS No. 71 also required the Corporation to eliminate from its consolidated balance sheet the effects of any actions of regulators that had been recognized as assets and liabilities pursuant to SFAS No. 71, but would not have been recognized as assets and liabilities by unregulated companies. The elimination of net regulatory assets relates principally to vacation pay costs and gross earnings tax which were being amortized as they were recognized in the ratemaking process.

Additionally, upon the discontinuance of SFAS No. 71, the tax-related regulatory assets and liabilities were eliminated and the related deferred tax balances were adjusted to reflect application of SFAS No. 109, consistent with other unregulated companies.

As asset lives were shortened, the related investment tax credits associated with those assets were also adjusted for the shortened lives and the result ($11.0) was included in the extraordinary charge as a credit to income, net of associated deferred income taxes.

NOTE 4: Employee Benefits

Pension Plans The Corporation sponsors several non-contributory, defined benefit pension plans: one for management employees and one for bargaining-unit employees; and one supplementary non-qualified, unfunded plan for all employees. The supplementary non-qualified plan provides a benefit equal to any pension amount above which would otherwise be payable under the defined benefit pension plans in the absence of Internal Revenue Code limitations. Prior to July 1, 1995, benefits for bargaining-unit employees were based on years of service and pay during 1987 to 1991 as well as a cash balance component. Prior to 1996, benefits for management employees were based on an adjusted career average pay plan. The bargaining-unit and management pension plans were converted to cash balance plans effective July 1, 1995 and January 1, 1996, respectively. Accordingly, pension benefits are determined as a single account balance and grow each year with pay and interest credits. Prior to the conversion to the cash balance plans, the benefits for the employees' supplementary plans were based on years of service and average eligible pay. Effective with the conversion to the cash balance plans, the benefits are based on pay and interest credits. A supplementary non-qualified, unfunded plan for non-employee directors was terminated in 1996 with pension benefits payable only to current and retired directors and with the amount of accrued pension benefits being frozen.

Funding of the management and bargaining-unit plans is achieved through irrevocable contributions made to a trust fund. Plan assets consist primarily of listed stocks, corporate and governmental debt and real estate. The Corporation's policy is to fund the pension cost for these plans in conformity with the Employee Retirement Income Security Act of 1974 using the aggregate cost method. For purposes of determining contributions, the assumed investment earnings rate on plan assets was 9.5% in 1997 and declines to 7.5% in 1999.

Pension cost (income) for all plans, computed using the projected unit credit actuarial method, includes the following components:

For the Years Ended December 31,	**1997**	1996	1995
Service cost	**$ 21.9**	$ 20.2	$ 22.1
Interest cost on projected benefit obligation	**91.8**	96.3	113.5
Amortizations and deferrals, net	**225.9**	65.8	249.6
Actual return on plan assets	**(338.7)**	(177.6)	(393.3)
Net Pension Cost (Income) Recorded to Expense	**.9**	4.7	(8.1)
Settlement gain	**—**	(76.1)	(76.0)
Costs relating to special termination benefits	**—**	—	137.5
Curtailment loss	**—**	10.8	16.8
Net (Settlement Gain) Curtailment Loss	**—**	(65.3)	78.3
Net Pension Cost (Income)	**$ .9**	$ (60.6)	$ 70.2

The 1997 decrease in net pension cost (income) recorded to expense was due to strong investment performance and a change in the discount rate. The 1996 net settlement gain and the 1995 net curtailment loss were associated with the severance programs and were recorded to the restructuring reserve in the respective years [see Note 6]. The 1996 increase was due primarily to lower returns on plan assets, reflecting a combination of a lower asset base and a generally weaker capital market return when compared with 1995.

The following table sets forth the plans' funded status:

At December 31,	**1997**	1996
Actuarial Present Value of Accumulated Benefit Obligation, including vested benefits of $1,336.9 and $1,253.3, respectively	**$ 1,348.6**	$ 1,289.3
Plan assets at fair value	**$ 1,905.9**	$ 1,690.3
Actuarial present value of projected benefit obligation	**(1,385.2)**	(1,337.3)
Assets in Excess of Projected Benefit Obligation	**520.7**	353.0
Unrecognized prior service costs	**116.2**	129.2
Unrecognized transition asset	**(84.0)**	(98.4)
Unrecognized net gain	**(570.0)**	(401.3)
Adjustment required to recognize minimum liability	**(4.7)**	(3.2)
Accrued Pension Cost	**$ (21.8)**	$ (20.7)

Assumptions used to calculate the plans' funded status:

At December 31,	1997	1996	1995
Discount rate for projected benefit obligation	**7.0%**	7.5%	7.0%
Expected rate of increase in future management compensation levels	**4.5%**	4.5%	4.5%
Expected long-term rate of return on plan assets	**8.0%**	8.0%	8.0%

The Corporation periodically amends the benefit formulas under its pension plans. Accordingly, pension cost has been determined in such a manner as to anticipate that modifications to the pension plans would continue in the future.

Postretirement Health Care Benefits The Corporation provides health care and life insurance benefits for retired employees. Substantially all of the Corporation's employees may become eligible for these benefits if they meet certain age and service requirements. In addition, an employee's spouse and dependents may be eligible for health care benefits. Effective July 1, 1996, all bargaining-unit employees who retire after December 31, 1989 and all management employees who retire after December 31, 1991 may have to share with the Corporation the premium costs of postretirement health care benefits if these costs exceed certain limits.

The Corporation funds trusts for postretirement health insurance benefits using Voluntary Employee Beneficiary Association. Plan assets consist primarily of investments in domestic corporate equity and government and corporate debt securities.

The Corporation's postretirement benefit cost includes the following components:

For the Years Ended December 31,	1997	1996	1995
Service cost	**$ 4.1**	$ 4.4	$ 4.4
Interest cost of accumulated benefit obligation	**36.1**	37.6	33.4
Amortizations and deferrals, net	**41.2**	19.8	21.0
Actual return on plan assets	**(56.4)**	(30.9)	(31.5)
Net Postretirement Benefit Cost Recorded to Expense	**25.0**	30.9	27.3
Costs relating to special termination benefits	**—**	—	11.0
Curtailment loss	**—**	.2	12.9
Net Curtailment Loss	**—**	.2	23.9
Net Postretirement Benefit Cost	**$ 25.0**	$ 31.1	$ 51.2

The 1996 and 1995 net curtailment losses were associated with the severance programs and were recorded to the restructuring reserve in the respective years [see Note 6].

The following table sets forth the plans' funded status:

At December 31,	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	**$(423.9)**	$(458.6)
Fully eligible active plan participants	**(27.4)**	(15.5)
Other active plan participants	**(74.1)**	(66.3)
Total Accumulated Postretirement Benefit Obligation	**(525.4)**	(540.4)
Plan assets at fair value	**292.8**	229.4
Accumulated Postretirement Benefit Obligation in Excess of Plan Assets	**(232.6)**	(311.0)
Unrecognized net gain	**(65.6)**	(11.9)
Unrecognized prior service cost	**10.8**	13.6
Accrued Postretirement Benefit Obligation	**$(287.4)**	$(309.3)

Assumptions used to calculate the plans' funded status:

At December 31,	1997	1996	1995
Discount rate for projected benefit obligation	**7.0%**	7.5%	7.0%
Expected rate of increase in future compensation levels	**4.5%**	4.5%	4.5%
Expected long-term rate of return on plan assets:			
Management health trust	**7.0%**	7.0%	7.0%
Bargaining-unit health trust	**7.5%**	7.5%	7.5%
Retiree life insurance trust	**7.5%**	7.5%	7.5%

The assumed health care cost trend rate used to measure the expected cost of these benefits for 1997 was 5.5% and declines to 4.5% by 2001. A one percentage point increase in the assumed health care cost trend rate would have increased the estimated aggregate service and interest cost components of the 1997 net postretirement benefit cost by approximately $2 and the accrued postretirement benefit obligation by approximately $21 as of December 31, 1997.

Savings and Stock Ownership Plans The Corporation sponsors employee savings plans under section 401(k) of the Internal Revenue Code. The plans cover substantially all employees. As part of the savings plans, the Corporation has established an Employee Stock Ownership Plan ("ESOP"). The Corporation provides matching contributions based on qualified employee contributions through its ESOP plan. Under the ESOP, the Corporation's matching contributions are invested entirely in common stock of the Corporation and are held by the ESOP.

In January 1990, the Corporation loaned the ESOP $10.0 and in February 1990, the ESOP borrowed an additional $110.0, which the Corporation guaranteed, through a third party. The proceeds of the $10.0 loan were used to acquire shares of the Corporation's common stock through open market purchases. The proceeds of the $110.0 loan were used to purchase shares of both unissued common stock and treasury stock from the Corporation. All shares purchased by the ESOP were originally pledged as collateral for its debt. The Corporation 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. As these payments are made, shares are released from collateral and made available for distribution to employees' accounts, based on the proportion of debt service paid in the year.

ESOP expense and ESOP trust activity are as follows:

For the Years Ended December 31,	1997	1996	1995
Compensation expense[1]	**$12.7**	$11.0	$14.7
Interest expense incurred[1]	**3.4**	4.4	5.1
Interest income earned	**(.4)**	(.5)	(.6)
Total Expense	**$15.7**	$14.9	$19.2
Dividends Used for Debt Service	**$ 4.6**	$ 5.1	$ 5.3
Cash Contributions Used for Debt Service	**$13.7**	$13.5	$13.3

[1] Net of applicable dividends used for debt service.

ESOP shares outstanding are as follows:

In Thousands, At December 31,	1997	1996	1995
Allocated shares	**1,602.1**	1,389.1	1,508.0
Unreleased shares	**904.8**	1,206.4	1,301.5
Total ESOP Shares	**2,506.9**	2,595.5	2,809.5

Separation Offers In April 1995, the Corporation ratified a contract with the Connecticut Union of Telephone Workers, Inc. which included a voluntary early-out offer ("EOO"). The EOO provided enhanced pension benefits by adding six years to the age and to the length of service of employees for purposes of determining pension and postretirement health care benefits eligibility. The employees also had the option to select a pension distribution method (i.e., lump-sum, monthly pension or a combination of both) at the time of separation. The EOO was available to the bargaining-unit work force during July 1995 and approximately 2,700 employees, or 40.7% of the total bargaining-unit work force, accepted the offer and left the Corporation through June 1996. In addition, approximately 500 management employees accepted a severance plan with enhanced benefits during 1996. The 1996 net settlement gains and the 1995 net curtailment losses related to these separation offers were recorded to the restructuring reserve in the respective years [see Note 6].

NOTE 5: Income Taxes

Income tax expense includes the following components:

For the Years Ended December 31,	1997	1996	1995
Federal			
Current	**$ 84.1**	$ 79.4	$ 62.4
Deferred	**15.8**	16.1	27.4
Investment tax credits, net	**(1.5)**	(2.1)	(6.9)
Total Federal	**98.4**	93.4	82.9
State			
Current	**16.0**	9.8	17.3
Deferred	**4.1**	4.4	9.4
Total State	**20.1**	14.2	26.7
Total Income Taxes	**$118.5**	$107.6	$109.6

In April 1995, new Connecticut state income tax rates were enacted to accelerate the reduction of current rates. The 1997 Connecticut state income tax rate of 10.5% will gradually decrease to 7.5% in 2000.

A reconciliation between income taxes and taxes computed by applying the statutory federal income tax rate to pre-tax income is as follows:

For the Years Ended December 31,	1997	1996	1995
Statutory Federal Income Tax Rate	**35.0%**	35.0%	35.0%
Federal income taxes at statutory rate	**$110.6**	$105.1	$97.4
State income taxes, net of federal income tax effect	**13.0**	9.2	17.4
Depreciation of telephone plant construction cost previously deducted for tax purposes[1]	—	—	5.1
Amortization of investment tax credits[1]	**(1.5)**	(2.1)	(6.9)
Other differences, net	**(3.6)**	(4.6)	(3.4)
Income Taxes	**$118.5**	$107.6	$109.6
Effective Tax Rate	**37.5%**	35.8%	39.4%

[1] Telephone Company only.

Consolidated deferred income tax assets (liabilities) are comprised of the following:

At December 31,	1997	1996
Postretirement benefits other than pensions	**$120.1**	$124.8
Software	**24.7**	13.9
Allowance for uncollectibles	**15.0**	11.9
Other	**11.1**	10.6
Compensated absences	**9.3**	13.1
Pension	**7.8**	9.2
Restructuring charge	**2.8**	12.8
Depreciation and amortization	**(31.1)**	(29.3)
Leveraged leases	**(30.4)**	(28.3)
Valuation allowance	**(1.9)**	(2.1)
Deferred Income Taxes	**$127.4**	$136.6

Valuation Allowance The 1997 decrease in the valuation allowance was due primarily to the reduction in state loss carryovers. The allowance will continue to be evaluated based on evidence of realization of all deferred tax assets.

NOTE 6: Restructuring Charge

In December 1993, the Corporation recorded a restructuring charge of $355.0, $204.2 after-tax or $3.21 for both basic and diluted earnings per share, to provide for a comprehensive restructuring program. The charge included: $170.0 for employee separation costs; $145.0 for process and systems reengineering; and $40.0 for exit and other costs.

Costs incurred for employee separations included payments for severance, unused vacation and health care continuation, as well as non-cash net pension and postretirement settlement gains of $65.1 in 1996 and curtailment losses of $102.2 in 1995. Process and systems reengineering costs included incremental costs incurred in connection with the execution of numerous reengineering programs. Exit and other costs included expenses related to the reduction of overall corporate space requirements.

A summary of costs incurred under the restructuring program is as follows:

For the Years Ended December 31,	1997	1996	1995
Employee separation costs (gains)	$ 5.0	$(45.1)	$111.2
Process and systems reengineering	2.8	83.1	74.2
Exit and other costs	7.2	7.5	2.5
Total Costs Incurred	$15.0	$ 45.5	$187.9

Total employee separations under the restructuring program approximated 4,300 employees utilizing the EOO and severance plans: 970 employees through the end of 1994; 2,195 employees in 1995; and 1,135 employees in 1996. Total employee separations were substantially offset by an increase in provisional employees to support greater demand for services and expanding businesses. The hiring of provisional employees also provides flexible work force levels as business needs change in the future.

The Telephone Company has implemented network operations, customer service, repair and support programs and developed new processes to reduce the costs of business while improving quality and customer service. These new integrated processes have enabled the Telephone Company to increase its responsiveness to customer-specific needs and to eliminate certain labor-intensive interfaces between the existing systems.

As of December 31, 1997, the restructuring reserve balance of $6.5 is adequate for the future residual costs, primarily 1998's exit costs relating to the delayed reduction of overall corporate space requirements.

NOTE 7: Short-term Debt

Short-term debt, which includes commercial paper used to meet temporary cash needs and long-term debt maturing within one year, consists of the following:

At December 31,	1997	1996
Commercial paper	$144.6	$201.9
Current maturities of long-term debt	41.7	13.3
Total Short-term Debt	$186.3	$215.2
Weighted Average Interest Rate on Commercial Paper at Year-End	5.9%	5.8%

The Corporation maintained bank lines of credit to facilitate the issuance of commercial paper. As part of these credit facilities, the Corporation has obtained a contractual commitment to $170.0 in lines of credit provided by a syndicate of banks. At December 31, 1997, the entire line remained available. The annual commitment fee is currently .045% of the total lines of credit.

NOTE 8: Long-term Debt

The components of long-term debt are as follows:

At December 31,	Maturing	1997	1996
Unsecured notes:			
6.13%–8.00%	1998–2007	$ 820.0	$ 720.0
7.25%–8.70%	2031–2033	245.0	325.0
Guaranteed ESOP:			
9.35%	1997–2000	44.2	56.4
Debentures:			
4.38%	2001	45.0	45.0
Mortgage notes:			
9.00%–9.90%	1997–2007	25.5	17.2
Bank notes:			
10.50%	1997–2009	23.9	24.4
Total Long-term Debt		1,203.6	1,188.0
Unamortized discount and premium, net		(5.1)	(5.1)
Capital lease obligations		.1	.1
Current maturities		(41.7)	(13.3)
Long-term Debt		$1,156.9	$1,169.7

Scheduled maturities of total long-term debt include $41.7 in 1998, $17.4 in 1999, $125.6 in 2000, $66.7 in 2001, $101.9 in 2002 and $850.3 thereafter.

On February 4, 1997, the Corporation issued $100.0 of 6.50% medium-term notes due 2002. The issuance replaced a portion of short-term debt related to the cellular acquisitions in 1995.

On February 18, 1997, the Corporation redeemed $80.0 of 8.70% medium-term notes due 2031, by issuing short-term debt. The early extinguishment of debt resulted in an extraordinary charge of $3.7, net of tax benefits of $2.7, or $.06 per share, for both basic and diluted earnings per share.

At December 31, 1997, the Corporation and the Telephone Company had remaining securities, registered with the Securities and Exchange Commission, to issue up to $125.0 and $95.0, respectively, of medium-term unsecured notes through shelf registrations.

NOTE 9: Commitments and Contingencies

The Corporation has entered into both operating and capital leases for facilities and equipment used in its operations. Rental expense under operating leases was $19.8, $21.0 and $23.7 for 1997, 1996 and 1995, respectively. Future minimum rental commitments under third-party, noncancelable operating leases include $14.2 in 1998, $13.1 in 1999, $11.7 in 2000, $5.7 in 2001, $4.5 in 2002 and $10.5 thereafter, for a total of $59.7. Capital leases were not significant.

The Corporation expects total capital expenditures of approximately $475 for additions to property, plant and equipment during 1998. In connection with the capital program, the Corporation has made certain commitments for the purchase of material and equipment.

In 1995, a U.S. District Court decision was issued in favor of the Department of Labor against the Corporation and the Telephone Company. The decision held that the Corporation and the Telephone Company violated certain sections of the Fair Labor Standards Act and was liable for back wages and liquidating damages. The Corporation and the Telephone Company appealed the decision and on July 31, 1997, the Second Circuit Court of Appeals affirmed the U.S. District Court's decision. As required by the Court's decision, in October 1997, the Corporation and the Telephone Company paid back wages, liquidating damages and interest (from the date of the District Court's judgment) to the employees involved in this action. In 1995, the Telephone Company recorded a liability of $11.0 which was adequate to cover the cost of total damages for this matter.

NOTE 10: Financial Instruments

Fair Value of Financial Instruments The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it was practicable to estimate that value:

Cash and Temporary Cash Investments The carrying amount approximates fair value because of the short maturity of those instruments.

Long-term Investments The fair value of equity investments was estimated based on quoted market prices for those or similar investments.

Debt The carrying amount of the Corporation's short-term debt approximates fair value because of the short maturity of those instruments. The fair value of long-term debt (excluding capital leases) was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Corporation for debt of the same remaining maturities.

The carrying amount and estimated fair value of the Corporation's financial instruments are as follows:

At December 31,	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and Temporary Cash Investments	**$ 12.3**	**$ 12.3**	$ 9.0	$ 9.0
Long-term Investments	**$ 2.9**	**$ 2.1**	$ 4.1	$ 13.2
Debt	**$(1,343.1)**	**$(1,371.5)**	$(1,384.8)	$(1,381.0)

Concentrations of Credit Risk Financial instruments that potentially subject the Corporation to concentrations of credit risk consist primarily of temporary cash investments and trade receivables. The Corporation places its temporary cash investments in short-term, high quality commercial paper which is rated at least A-1 by Standard and Poor's and P-1 by Moody's Investors Services, Inc. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers in the Corporation's customer base.

NOTE 11: Lease Notes Receivable

Lease notes receivable include, on an investment basis, a portfolio of leveraged and direct-financing leases. The gross investment in these leases has been recorded on the consolidated balance sheet in leases and other assets. Investments in leveraged leases are in a coal-fired, electric generating facility and other equipment. The investment in direct-financing leases are in a commercial aircraft and other equipment.

The components of the lease notes receivable are as follows:

At December 31,	1997		1996	
	Direct-Financing Leases	Leveraged Leases	Direct-Financing Leases	Leveraged Leases
Minimum rentals receivable	**$ 58.9**	**$ 24.5**	$ 61.7	$ 25.4
Unearned income	**(24.1)**	**(12.9)**	(26.9)	(14.0)
Estimated, unguaranteed residual value of leased assets	**10.3**	**30.6**	10.3	30.6
Initial direct costs	**.2**	**—**	.2	—
Allowance for losses	**(11.0)**	**—**	(11.0)	—
Lease Notes Receivable	**$ 34.3**	**42.2**	$ 34.3	42.0
Deferred taxes arising from leveraged leases		**(30.4)**		(28.3)
Net Investment in Leveraged Leases		**$ 11.8**		$ 13.7

Future minimum receipts under third-party direct-financing leases include $5.4 in 1998, $4.8 in 1999, $3.1 in 2000, $3.8 in 2001, $3.8 in 2002 and $38.0 thereafter.

NOTE 12: Shareholders' Equity

Common, Preferred and Preference Shares The Corporation is authorized to issue up to 300,000,000 shares of common stock at a par value of $1.00 per share ("Common Stock") as well as 2,000,000 preferred shares at a par value of $50.00 per share and 50,000,000 preference shares at a par value of $1.00 per share. No preferred or preference shares have been issued pursuant to these authorizations.

Dividends Declared The dividends for 1997 and 1995 were declared out of retained earnings, while the dividends for 1996 were declared out of proceeds in excess of par value.

Shareholders' Rights Plan On December 11, 1996, the Board of Directors approved the 1997 shareholders' rights plan ("Rights Plan") which became effective February 11, 1997 upon the expiration of the previous plan. Under the 1997 Rights Plan, each share of Common Stock has a purchase right that entitles the holder to purchase 1/100 of a preference share (equivalent of one share of Common Stock) at an exercise price of $180.00. The rights are not exercisable or transferable apart from the Common Stock until a person or group has acquired, or has made an offer for, 20% or more of the outstanding Common Stock. In the event that a person or group acquires 20% or more of the outstanding Common Stock, each outstanding right, other than those held by the 20% acquirer, is entitled to purchase, at the exercise price of the rights, a number of shares of Common Stock having a market value of two times the exercise price of the right. The Board also may exchange the rights generally at an exchange ratio of one share of Common Stock per right. The Rights Plan may be amended by the Board of Directors to reduce the threshold at which the rights are triggered to not less than 10% of the then outstanding Common Stock. Additionally, if the person or group acquires the Corporation in a merger or other business combination transaction, each right will entitle the owner to purchase common stock of the acquirer having a market value of two times the exercise price of the right. The rights are redeemable at one cent each prior to public announcement that a person or group has acquired beneficial ownership of 20% or more of the outstanding Common Stock. The rights expire on February 11, 2007. On January 4, 1998, the Board of Directors amended the Rights Plan to provide that the pending merger with SBC would not invoke the provisions of the plan.

The Corporation sponsors a Dividend Reinvestment and Stock Purchase Plan ("DRISPP"). Effective July 1, 1997, the Corporation's policy of issuing new shares was modified to have its agent begin purchasing shares on the open market (when market conditions merit) to meet the needs of the DRISPP. Beginning with the January 15, 1998 dividend, the Corporation resumed issuance of new shares to meet the needs of the DRISPP.

NOTE 13: Stock-Based Compensation Plans

During 1997, the Corporation sponsored an employee stock option plan and a restricted stock plan for non-employee directors. In prior years, the Corporation also sponsored the SNET 1986 Stock Option Plan ("1986 Plan"). The 1986 Plan, which expired on June 30, 1996, provided stock options to certain key employees at the discretion of a committee of the Board of Directors ("Committee").

The SNET 1995 Stock Incentive Plan ("1995 Plan") is a stock-based compensation plan which enables the awarding of incentive compensation, including stock options, to all employees at the discretion of the Board of Directors or the Committee. Under both the 1986 Plan and the 1995 Plan, the exercise price of each option may not be less than 100% of the fair market value of the shares on the date of grant. All options are exercisable no earlier than one year after the date of grant, with most options vesting ratably over two or four years, and have a maximum life of ten years. Both the 1986 Plan and the 1995 Plan allow stock appreciation rights ("SARs") to be granted in tandem with the related stock option. No SARs have been granted since 1992 and the Corporation presently does not intend to grant additional SARs in the future.

The Corporation has elected to continue following Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its employee stock-based compensation plans. Accordingly, no compensation cost has been recognized for the plans. Had the Corporation adopted the cost recognition method provided under SFAS No. 123, "Accounting for Stock-Based Compensation," net income (loss) and earnings (loss) per share would approximate the pro forma amounts below:

For the Years Ended December 31,	**1997**	1996	1995
Net Income (Loss)	**$190.7**	$189.4	$(518.9)
Basic Earnings (Loss) Per Share	**$ 2.88**	$ 2.90	$ (8.00)
Diluted Earnings (Loss) Per Share	**$ 2.87**	$ 2.89	$ (7.99)

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards prior to 1995.

The Black-Scholes option pricing model was used to estimate the options' grant date fair value with the following assumptions: 20% volatility; risk free interest rate ranging from 5.8% to 6.7%; dividends of $1.76 per share per year; and an estimated period to exercise of three or five years. The weighted average fair value of options granted during the year was $6.79, $7.85 and $6.13 in 1997, 1996 and 1995, respectively.

Information with respect to plan activity is as follows:

	Options Available for Grant	Shares Under Option	SARs	Average Price
Balance at 1/1/95	785,300	861,725	162,700	$33.25
Approved for grant	4,600,000	—	—	—
Granted	(2,535,950)	2,535,950	—	$37.59
SARs exercised	—	(41,475)	(41,475)	$28.44
Options exercised	—	(15,775)	—	$30.86
Canceled	34,500	(34,500)	—	$33.15
Balance at 12/31/95	2,883,850	3,305,925	121,225	$36.65
1986 Plan unused	(65,525)	—	—	—
Granted	(223,500)	223,500	—	$42.48
SARs exercised	—	(66,975)	(66,975)	$32.60
Options exercised	—	(53,625)	—	$33.37
Canceled	364,725	(364,725)	—	$38.04
Balance at 12/31/96	2,959,550	3,044,100	54,250	$37.05
1986 Plan unused	**(64,950)**	—	—	—
Granted	**(868,500)**	**868,500**	—	**$36.98**
SARs exercised	—	**(22,400)**	**(22,400)**	**$31.33**
Options exercised	—	**(222,149)**	—	**$35.64**
Canceled	**214,150**	**(214,150)**	—	**$37.39**
Balance at 12/31/97	**2,240,250**	**3,453,901**	**31,850**	**$36.93**

Options exercisable were 2,114,777, 1,334,388 and 403,850 at December 31, 1997, 1996 and 1995, respectively. The respective weighted average exercise prices were $37.37, $36.72 and $33.67. All outstanding SARs were exercisable at each year-end. All outstanding SARs as of January 4, 1998 were canceled.

The following table summarizes information with regard to stock options outstanding and exercisable by ranges of exercise prices:

At December 31, 1997	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Stock Options Outstanding:			
$24.69 to $36.94	1,737,901	$34.71	7.5 years
$37.06 to $44.94	1,716,000	$39.19	8.2 years
$24.69 to $44.94	3,453,901	$36.93	7.8 years
Stock Options Exercisable:			
$24.69 to $36.94	730,151	$34.09	—
$37.06 to $44.94	1,384,626	$39.11	—
$24.69 to $44.94	2,114,777	$37.37	—

The 1994 SNET Non-Employee Director Stock Plan ("1994 Plan"), which was terminated upon ratification of the 1996 Non-Employee Director Stock Plan ("1996 Plan"), allowed each director to receive between 25% and 100% of their annual retainer in shares of Common Stock. The 1996 Plan, approved on May 8, 1996, provides each non-employee director with 300 shares of Common Stock in lieu of cash compensation. A director may also elect to receive up to 100% of his or her cash retainer in shares. All shares distributed have voting and dividend rights, and are subject to restrictions on transferability. Upon granting of the shares, compensation expense is recorded in the amount of the market value of the shares.

A summary of restricted stock activity is as follows:

At December 31,	**1997**	1996	1995
Shares available for grant, beginning of period	**196,400**	143,852	147,152
New shares approved for issuance	—	200,000	—
1994 Plan unused	—	(141,619)	—
Shares granted	**(2,489)**	(5,833)	(3,300)
Shares Available for Grant, End of Period	**193,911**	196,400	143,852
Weighted Average Market Value of Stock on Grant Date	**$37.41**	$41.21	$35.02
Compensation Expense Recorded for Restricted Stock Grants	**$ .1**	$ .2	$ .1

NOTE 14: Supplemental Financial Information

Supplemental Income Statement Information

For the Years Ended December 31,	1997	1996	1995
Advertising Expense	$ 38.8	$ 42.1	$ 38.8
Depreciation and amortization:			
Depreciation	$351.7	$331.1	$328.1
Amortization	27.4	25.0	17.9
Total Depreciation and Amortization	$379.1	$356.1	$346.0
Taxes other than income:			
Property	$ 48.1	$ 48.0	$ 43.7
Other	5.0	6.6	12.8
Total Taxes Other Than Income	$ 53.1	$ 54.6	$ 56.5
Interest expense:			
Long-term debt	$ 80.9	$ 83.0	$ 74.7
Short-term debt	10.1	10.0	8.5
Capitalized interest	(4.6)	(7.2)	—
Other	3.4	2.9	2.7
Total Interest Expense	$ 89.8	$ 88.7	$ 85.9

Supplemental Balance Sheet Information

At December 31,	1997	1996
Materials, supplies and inventories:		
Materials and supplies	$ 14.7	$ 14.3
Inventories	15.1	13.1
Total Materials, Supplies and Inventories	$ 29.8	$ 27.4
Property, plant and equipment, at cost:		
Telephone plant:		
Land	$ 16.5	$ 16.8
Buildings	398.4	386.4
Central office equipment	1,850.8	1,743.0
Outside plant facilities and equipment	1,798.4	1,732.4
Furniture and office equipment	255.5	310.0
Station equipment and connections	24.9	22.5
Plant under construction	85.5	98.0
Telecommunications property and equipment	487.0	398.2
Total Property, Plant and Equipment, at cost	4,917.0	4,707.3
Accumulated Depreciation	(3,200.2)	(3,110.3)
Total Property, Plant and Equipment, net	$1,716.8	$1,597.0

Supplemental Cash Flow Information

For the Years Ended December 31,	1997	1996	1995
Interest Paid, net of amounts capitalized	$ 88.3	$ 89.2	$ 79.7
Income Taxes Paid	$ 78.8	$ 84.0	$ 87.8
Changes in operating assets and liabilities, net:[1]			
Increase in accounts receivable, net	$(44.7)	$(18.5)	$(78.3)
Increase in materials, supplies and inventories	(1.8)	(1.2)	(.1)
Increase (decrease) in accounts payable, accrued expenses and compensated absences	16.6	(18.2)	65.0
Changes in other assets and liabilities, net	21.8	7.6	(20.6)
Changes in Operating Assets and Liabilities, net	$ (8.1)	$(30.3)	$(34.0)

[1] Reflects the Corporation's acquisition of Woodbury, on July 30, 1997, in a non-cash transaction [see Note 2].

NOTE 15: Operating Cash Flow[1] (Unaudited)

The following financial data on the Corporation's product groups is not required by generally accepted accounting principles and is provided for informational purposes only:

For the Years Ended December 31,	1997	1996	1995
Wireline[2]	$607.2	$564.8	$569.0
Wireless[3]	61.1	31.3	(10.8)
Information and Entertainment[4]	90.2	110.2	102.6
Other[5]	18.1	32.0	34.0
Total Operating Cash Flow	$776.6	$738.3	$694.8

[1] Represents operating income before depreciation and amortization. Operating cash flow is not a generally accepted accounting principle measurement.

[2] Includes Telephone Company's telecommunications operations, SNET Diversified Group, Inc., SNET America, Inc. and Woodbury Telephone Company.

[3] Includes the wholesale and retail cellular operations, SNET Cellular, Inc. and SNET Mobility, Inc., net of cellular intercompany amounts and its paging operations.

[4] Includes publishing, internet and cable television operations.

[5] Includes SNET Real Estate, Inc. and holding company operations.

NOTE 16: Quarterly Financial Information (Unaudited)

	1st QTR	2nd QTR	3rd QTR	4th QTR	Full Year
1997					
Revenues and Sales	**$482.7**	**$501.6**	**$509.7**	**$528.3**	**$2,022.3**
Operating Income	**$ 96.4**	**$ 98.5**	**$ 99.2**	**$103.4**	**$ 397.5**
Income before extraordinary charge	**$ 46.1**	**$ 50.0**	**$ 49.1**	**$ 52.3**	**$ 197.5**
Extraordinary charge [see Note 8]	**(3.7)**	**—**	**—**	**—**	**(3.7)**
Net Income	**$ 42.4**	**$ 50.0**	**$ 49.1**	**$ 52.3**	**$ 193.8**
Basic Earnings Per Share:					
Income before extraordinary charge	**$ .70**	**$ .76**	**$ .74**	**$ .79**	**$ 2.99**
Extraordinary charge	**(.06)**	**—**	**—**	**—**	**(.06)**
Basic Earnings Per Share	**$ .64**	**$ .76**	**$ .74**	**$ .79**	**$ 2.93**
Diluted Earnings Per Share:					
Income before extraordinary charge	**$ .70**	**$ .76**	**$ .74**	**$ .78**	**$ 2.98**
Extraordinary charge	**(.06)**	**—**	**—**	**—**	**(.06)**
Diluted Earnings Per Share	**$ .64**	**$ .76**	**$ .74**	**$ .78**	**$ 2.92**
1996					
Revenues and Sales	$474.0	$487.8	$488.2	$491.9	$1,941.9
Operating Income	$102.1	$100.2	$ 90.5	$ 89.4	$ 382.2
Net Income	$ 52.2	$ 50.5	$ 45.8	$ 44.3	$ 192.8
Basic Earnings Per Share	$ .80	$ .77	$ .70	$ .68	$ 2.95
Diluted Earnings Per Share	$ .80	$ .77	$ .70	$ .67	$ 2.94

Southern New England Telecommunications Corporation

Financial Data (Unaudited)

Dollars in Millions, Except as Noted	1997	1996	1995	1994	1993
Revenues and sales	**$2,022**	$1,942	$1,816	$1,718	$1,655
Costs and expenses[1]	**$1,246**	$1,204	$1,121	$1,015	$1,367
Interest expense	**$ 90**	$ 89	$ 86	$ 75	$ 91
Income taxes	**$ 119**	$ 108	$ 110	$ 122	$ (44)
Income (loss) from continuing operations[2]	**$ 198**	$ 193	$ 169	$ 178	$ (44)
Net income (loss)	**$ 194**	$ 193	$ (518)	$ 178	$ (318)
Basic earnings (loss) per share (dollars):					
From continuing operations[2]	**$ 2.99**	$ 2.95	$ 2.60	$ 2.77	$ (.68)
Net income (loss)	**$ 2.93**	$ 2.95	$ (7.99)	$ 2.77	$ (4.99)
Diluted earnings (loss) per share (dollars):					
From continuing operations[2]	**$ 2.98**	$ 2.94	$ 2.60	$ 2.77	$ (.68)
Net income (loss)	**$ 2.92**	$ 2.94	$ (7.99)	$ 2.77	$ (4.99)
Dividends declared per share (dollars)	**$ 1.76**	$ 1.76	$ 1.76	$ 1.76	$ 1.76
Net cash provided by operating activities	**$ 616**	$ 477	$ 443	$ 424	$ 481
Cash expended for capital additions	**$ 472**	$ 374	$ 357	$ 283	$ 269
Depreciation and amortization	**$ 379**	$ 356	$ 346	$ 329	$ 291
Property, plant and equipment, net	**$1,717**	$1,597	$1,565	$2,712	$2,770
Total assets	**$2,771**	$2,671	$2,724	$3,505	$3,762
Short-term debt	**$ 186**	$ 215	$ 232	$ 40	$ 290
Long-term debt	**$1,157**	$1,170	$1,182	$ 952	$ 984
Shareholders' equity	**$ 597**	$ 463	$ 353	$ 953	$ 855

Certain amounts have been restated to conform to the current year presentation.

(1) Excludes depreciation and amortization. 1993 includes a charge of $355.0, $204.2 after-tax or $3.21 for both basic and diluted earnings per share, for restructuring.

(2) 1997 excludes an extraordinary charge of $3.7 or $.06 for both basic and diluted earnings per share resulting from the early extinguishment of debt. 1995 excludes an extraordinary charge of $687.1, or $10.59 for both basic and diluted earnings per share, related to the discontinuance of SFAS No. 71. 1993 includes the after-tax restructuring charge and excludes discontinued operations of $10.3, or $.16 per share (basic and diluted), an extraordinary charge of $44.0, or $.69 per share (basic and diluted) and the cumulative effect of accounting changes of $220.2, or $3.46 per share (basic and diluted).

Southern New England Telecommunications Corporation

Statistical Data (Unaudited)

Dollars in Millions, Except as Noted	1997	1996	1995	1994	1993
Network access lines in service (thousands)[1]	**2,286**	2,163	2,073	2,009	1,964
Annual growth[1]	**5.7%**	4.3%	3.2%	2.3%	1.4%
Network interstate access minutes of use (millions)	**8,291**	7,906	7,298	6,917	6,522
Annual growth	**4.9%**	8.3%	5.5%	6.1%	4.7%
Interstate and international toll access line subscribers (thousands)	**941**	758	266	117	10
Annual growth	**24.1%**	185.0%	127.4%	—	—
Cellular subscribers (thousands)[2]	**457**	392	323	166	88
Annual growth	**16.6%**	21.4%	94.6%	88.6%	29.4%
Operating cash flow[3]	**$ 777**	$ 738	$ 695	$ 703	$ 288
Telephone Company wireline cost per access line (dollars)[4]	**$ 312**	$ 332	$ 320	$ 340	$ 365
Return on average total capital	**14.9%**	15.9%	—[5]	12.8%	—[6]
Return on average equity	**36.3%**	45.6%	—[5]	19.4%	—[6]
Debt ratio[7]	**69.2%**	74.9%	80.0%	51.0%	59.9%
Pre-tax interest coverage (times)	**4.3**	4.1	4.2	5.0	.1
Average total debt cost	**6.5%**	6.6%	6.9%	6.8%	7.7%
Current ratio (times)	**.69**	.70	.73	.88	.82
Average dividend yield	**4.4%**	4.4%	5.1%	5.4%	4.9%
Payout ratio	**60.1%**	59.9%	—[5]	63.5%	—[6]
Market price per share (dollars):					
High	**$51.500**	$45.500	$40.250	$36.250	$38.375
Low	**$34.750**	$36.000	$31.750	$28.250	$33.625
Book value per share (dollars)	**$ 8.96**	$ 7.05	$ 5.42	$ 14.77	$ 13.38
Average market price per share (dollars)	**$ 39.96**	$ 40.07	$ 34.47	$ 32.63	$ 35.70
Average book value per share (dollars)	**$ 8.08**	$ 6.44	$ 15.14	$ 14.26	$ 17.69
Average price/earnings ratio (times)	**14**	14	—[5]	12	—[6]
Average trading volume	**153,200**	105,028	91,797	59,437	79,086
Number of shareholders	**48,720**	50,917	53,332	55,693	57,352
Total employees	**9,743**	9,441	9,070	9,797	10,476

Certain amounts have been restated to conform to the current year presentation.

(1) Excluding the purchase of Woodbury Telephone Company ("Woodbury"), network access lines in service would have increased 4.7% to 2,265,000 in 1997.

(2) Excluding the subscribers from the acquired cellular properties, cellular subscribers would have increased 51.1% to 251,000 subscribers in 1995.

(3) Represents operating income before depreciation and amortization. Operating cash flow is not a generally accepted accounting principle measurement. Management provides this measurement for informational purposes only. Excluding the impact of the 1993 before-tax restructuring charge, operating cash flow would have been $643 in 1993.

(4) Excludes depreciation and amortization, property and other taxes, publishing and bad debt expenses. Also, excludes costs and access lines acquired from the purchase of Woodbury. 1993 also excludes the before-tax restructuring charge.

(5) Not presented for 1995 based upon a loss per share. A return on average total capital of 11.6%, a return on average equity of 17.2%, a payout ratio of 67.7% and an average price/earnings ratio of 13 were calculated excluding the loss per share impact of the extraordinary charge of $10.59.

(6) Not presented for 1993 based upon a loss per share. A return on average total capital of 10.4%, a return on average equity of 12.3%, a payout ratio of 69.6% and an average price/earnings ratio of 14 were calculated excluding the loss per share impact of the restructuring charge of $3.21, discontinued operations of $.16, extraordinary charge of $.69 and the cumulative effect of accounting changes of $3.46.

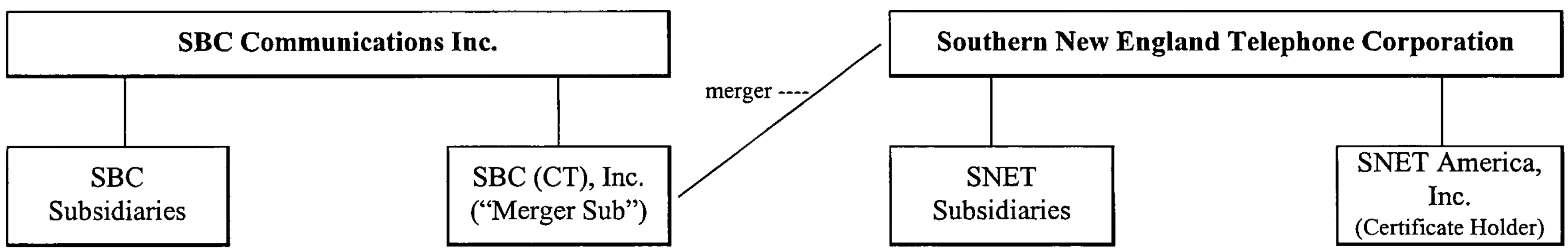
(7) Excluding the effect of the non-cash extraordinary charge related to the discontinuance of SFAS No. 71, the 1995 debt ratio would have been 57.6%. Excluding the combined effect of the charge related to SFAS No. 71 and the debt issued to acquire the cellular properties, the 1995 debt ratio would have been 48.0%.

Exhibit D

Applicants' Corporate Structure
(Pre & Post Merger)

EXHIBIT
Applicants' Corporate Structure

Before Transaction



After Transaction