INFORMATION STATEMENT
AND PROSPECTUS

AT&T

American Telephone and
Telegraph Company
195 Broadway
New York, N. Y. 10007

Dear American Telephone and Telegraph Company Share Owner:

This Information Statement and Prospectus contains a detailed explanation of how American Telephone and Telegraph Company ("AT&T") will divest itself of the exchange telecommunications, exchange access and printed directory advertising portions of the 22 wholly-owned Bell operating telephone companies, as well as the cellular advanced mobile communications service business.

It includes information statements with dividend information and financial and operating data for the post-divestiture AT&T and the seven regional holding companies into which the divested operating companies will be organized prior to divestiture. It also contains a description of the Share Owner Dividend Reinvestment and Stock Purchase Plans of the regional companies.

In addition, you will find in this document a full explanation of the Company's plan to distribute to our common share owners the stock of the new regional holding companies. The divestiture, to take place January 1, 1984, will not affect the number of AT&T common shares you hold. You will, however, be entitled to an equity interest in the form of common shares in each of the regional companies.

Listed alphabetically, the seven regional holding companies are:

American Information Technologies Corporation, with headquarters in Chicago, Illinois.

Bell Atlantic Corporation, with headquarters in Philadelphia, Pennsylvania.

BellSouth Corporation, with headquarters in Atlanta, Georgia.

NYNEX Corporation, with headquarters in New York City.

Pacific Telesis Group, with headquarters in San Francisco, California.

Southwestern Bell Corporation, with headquarters in St. Louis, Missouri.

U S WEST, Inc., with headquarters in Englewood, Colorado.

As explained in this document, each AT&T common share owner as of December 30, 1983, will receive one share of each of the seven regional holding companies for every ten shares of AT&T held by that share owner.

Share owners of record with accounts of at least ten but fewer than 500 AT&T shares will be given options to make no change in their regional company shareholdings; to consolidate their regional company holdings by selling shares of one or more regional companies and buying shares of one or more regional companies; to receive certificates; or to deposit their shares in the regional companies' dividend reinvestment plans. Share owner accounts with fewer than ten shares of AT&T will receive a check from the sale of their fractional regional company shares. Share owner accounts of 500 or more shares of AT&T will receive certificates for the whole shares to which they are entitled and a check from the sale of their fractional shares.

In January we will send you a complete statement of your holdings. Share owners who qualify for the consolidation option will also receive an option card at that time.

Due to the importance of the information contained in this document, you are urged to retain it for future reference.

C L Brown

November 8, 1983

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

AVAILABLE INFORMATION

AT&T, American Information Technologies Corporation ("Ameritech"), Bell Atlantic Corporation ("Bell Atlantic"), BellSouth Corporation ("BellSouth"), NYNEX Corporation ("NYNEX"), Pacific Telesis Group ("PacTel Group"), Southwestern Bell Corporation and U S WEST, Inc. ("U S WEST") are subject to the informational requirements of the Securities Exchange Act of 1934 ("Exchange Act") and in accordance therewith file reports and other information with the Securities and Exchange Commission ("SEC"). Such reports, proxy statements and other information filed by the companies can be inspected and copied at the public reference facilities of the SEC, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, DC 20549, as well as the following SEC Regional Offices: Room 1028, 26 Federal Plaza, New York, NY 10278; Room 1228, Everett McKinley Dirksen Bldg., 219 S. Dearborn Street, Chicago, IL 60604; and 5757 Wilshire Blvd., Suite 500 East, Los Angeles, CA 90036-3648. Such material can also be inspected at the New York Stock Exchange. With regard to AT&T, such material can also be inspected at the Boston, Midwest, Pacific and Philadelphia Stock Exchanges. With regard to the regional holding companies, such material can also be inspected at the regional exchanges on which they are listed, as set forth below. Copies can be obtained from the SEC by mail at prescribed rates. Requests should be directed to the SEC's Public Reference Section, Judiciary Plaza, 450 Fifth Street, N.W., Washington, DC 20549.

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Each regional holding company accepts responsibility only for the accuracy or completeness of the information contained herein about such regional holding company (including the "Description of the Divestiture Transaction") and about its Dividend Reinvestment and Stock Purchase Plan.

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SUMMARY INFORMATION

Certain significant matters discussed in this Information Statement and Prospectus are summarized below. Such summaries are not intended to be complete and are qualified in all respects by references to the detailed explanations appearing elsewhere in this Information Statement and Prospectus. Shareholders are urged to review the entire Information Statement and Prospectus carefully. Shareholders are also urged to retain this document for future reference. A Glossary containing descriptions of terms used herein appears at the end of this Information Statement and Prospectus.

Divestiture

Pursuant to court order of the United States District Court for the District of Columbia ("Court"), on January 1, 1984, AT&T will divest itself of the exchange telecommunications, exchange access and printed directory advertising portions of its 22 wholly-owned subsidiary Bell operating telephone companies ("BOCs"), as well as the cellular advanced mobile communications service business. AT&T will retain ownership of the AT&T Communications division, which includes the former AT&T Long Lines interstate organization ("AT&T Communications"), Western Electric Company, Incorporated ("Western Electric"), Bell Telephone Laboratories, Incorporated ("Bell Laboratories"), AT&T Information Systems Inc. ("AT&T Information Systems"), and AT&T International Inc. ("AT&T International"), as well as those portions of the BOCs that provide interexchange service and customer premises equipment.* To accomplish divestiture the BOCs are being organized into regional holding companies ("RHCs"). Seven RHCs are being formed and their shares will be distributed to AT&T shareholders as detailed below.

Distribution Plan

Shareholders of record as of December 30, 1983, will receive one share in each of the seven RHCs for every 10 common shares of AT&T they hold. *Shareholders will retain their present AT&T certificates.*

The plan for distributing RHC stock to registered shareholders—those accounts on AT&T's books—is outlined in the following table. As noted in the table, the plan separates AT&T shareholder accounts into three categories.

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* Customer premises equipment generally consists of equipment, such as telephone sets and private branch exchanges ("PBXs"), used by a customer at the customer's premises to originate, route or receive telecommunications.

	AT&T Registered Shareholder Accounts
500 or more shares	**Will receive:*** ▪ Certificates for whole shares ▪ Check for any fractional shares
	Can enroll: ▪ In one or more of the RHC dividend reinvestment plans
	Can buy or sell: ▪ Through regular trading channels
10 but fewer than 500 shares	**Will receive:** ▪ Option Card
	Can consolidate RHC stock by: ▪ Selling shares in one or more of the RHCs **and** ▪ Investing the proceeds from that sale in the shares of one or more of the other RHCs (but not AT&T) ▪ Fees: 25 cents per share sold and 25 cents per share bought
	Can receive: ▪ Certificates for whole shares ▪ Check for fractional shares
	Can enroll: ▪ Whole and fractional shares in one or more of the RHCs' dividend reinvestment plans
Fewer than 10 shares	**Will receive:** ▪ Check for fractional shares #

* Accounts with 500 or more shares will be mailed certificates for whole shares in each of the RHCs and a check for any fractional shares in mid-February 1984.

\# Accounts with fewer than 10 shares will not be entitled to a whole share in any of the RHCs. Consequently, their fractional shares will be sold by the agent without charge and a check will be mailed in mid-February 1984.

Option Cards

Accounts with at least 10 but fewer than 500 shares will be sent an option card in mid-January 1984. With this card, shareholders may elect to rearrange their holdings in the RHCs by selling up to six RHCs and reinvesting in others (at least one). This option does not provide for sale or purchase of AT&T shares; nor does it provide for addition or withdrawal of cash.

Transactions will be priced at the average of the high and low on the New York Stock Exchange on the day the option card is received for processing.

Shareholders will be charged 25 cents for each share sold and 25 cents for each share purchased.

All transactions will be conducted through an agent who will match buy and sell orders to the extent possible and execute any unmatched balance in the market.

The deadline for receipt of the option cards will be April 16, 1984. Shareholders not returning their cards by then will be sent certificates for their whole shares in the RHCs and a check for any fractional shares.

Through the option card, shareholders with accounts in this category may also enroll whole and fractional shares in one or more of the RHCs' dividend reinvestment plans. In order to enroll shares for reinvestment of the RHCs' dividends payable on May 1, 1984, the option card must be received by March 30, 1984.

See "Method of Distribution of Regional Holding Company Shares to AT&T Shareholders" below for a detailed explanation.

Trading in Shares of the Regional Holding Companies

The principal market for trading in the RHCs' common shares will be the New York Stock Exchange where each RHC will be listed. In addition, all of the RHCs will be listed on one or more regional exchanges. It is expected that trading of the shares will begin in mid to late November 1983 on a "when issued" basis.*

The Regional Holding Companies and AT&T

Commencing January 1, 1984, the BOC subsidiaries of the RHCs will provide exchange telecommunications within prescribed geographic areas and exchange access service linking subscribers' telephones and other equipment to the facilities of AT&T and other long distance carriers. In addition, the BOCs or other subsidiaries of the RHCs will provide printed directory advertising and cellular advanced mobile communications services. The RHCs are also permitted to provide customer premises equipment.

The following tables for AT&T and each RHC contain a summary of historical and forecast data appearing under "Financial Information" in the Information Statement for AT&T and each RHC, and should be read in conjunction therewith. As discussed in the Summary of Significant Financial Forecast Assumptions, actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material. Because of extensive divestiture-related changes, forecast information lacks comparability with historical results. The pro forma balance sheet for AT&T and each RHC gives effect to the divestiture of the telephone subsidiaries by AT&T, in accordance with the Plan of Reorganization, as if it had occurred on June 30, 1983.

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* The term "when issued" means that trading will begin prior to the time certificates are actually available. Consequently, when the certificates are actually issued trading will already have taken place. Cash settlement for the "when issued" trading on the New York Stock Exchange is suspended until six trading days after the certificates are distributed.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Principal Organizations	AT&T Communications AT&T Technologies Western Electric AT&T Information Systems AT&T International Bell Laboratories
Long Distance Communications Network Service Area	National—interexchange and international telecommunications services
Employees (Est. January 1, 1984)	385,000
Anticipated May 1, 1984 Quarterly Dividend	\$.30 per share*
Anticipated Dividend Payment Dates	May 1, August 1, November 1, February 1
Stock Exchange Listings	New York, Boston, Midwest, Philadelphia and Pacific
Anticipated Debt Ratio (including Debt Maturing Within One Year) **as of January 1, 1984****	40%

Income Information:***

Note: *As explained in the material referred to in the footnote below, forecasted income information is subject to inherent uncertainties and, because of divestiture-related changes, such information lacks comparability with historical results.*

	Dollars in Millions (except per share amounts)			
	Post-Divestiture Forecasted	Pre-Divestiture Consolidated Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Total Operating Revenues	\$56,544.1	\$67,598.8	\$65,093.0	\$58,065.6
Total Operating Expenses	51,564.8	47,160.0	45,025.3	39,345.6
Net Operating Revenues	4,979.3	20,438.8	20,067.7	18,720.0
Net Income	2,110.0	7,187.9	7,278.8	6,822.9
Preferred Dividend Requirements	113.4	139.7	141.9	145.7
Income Applicable to Common Shares	1,996.6	7,048.2	7,136.9	6,677.2
Earnings per Common Share	\$ 2.02	\$ 7.88	\$ 8.40	\$ 8.47
Weighted Average Number of Shares Outstanding (Millions)	989.1	894.8	849.6	788.2

Balance Sheet Information:**

	Pro Forma Consolidated June 30, 1983 (Unaudited)
Total Assets	\$34,276.5
Common Share Owners' Equity	13,228.9
Convertible Preferred Shares Subject to Redemption	277.9
Preferred Shares Subject to Mandatory Redemption	1,537.2
Long and Intermediate Term Debt	9,468.9
Other Liabilities and Deferred Credits (including Debt Maturing Within One Year)	9,763.6

* See "Dividend Information" below.

** See Unaudited Pro Forma Condensed Balance Sheet (including Notes to Unaudited Pro Forma Condensed Balance Sheet) under "Financial Information" in the "Information Statement for American Telephone and Telegraph Company" below.

*** See Financial Forecast and Consolidated Historical Statements of Income (including Report of Independent Certified Public Accountants, Notes to Consolidated Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984 and Note to Forecasted 1984 Statement of Income) under "Financial Information" in the "Information Statement for American Telephone and Telegraph Company" below.

AMERICAN INFORMATION TECHNOLOGIES CORPORATION

Principal Subsidiaries	Illinois Bell Telephone Company Indiana Bell Telephone Company, Incorporated Michigan Bell Telephone Company The Ohio Bell Telephone Company Wisconsin Telephone Company
Other Subsidiaries	Ameritech Mobile Communications, Inc. Ameritech Publishing, Inc. Ameritech Communications, Inc. Ameritech Development Corporation
Telephone Company Service Areas	Illinois, Indiana, Michigan, Ohio and Wisconsin.
Network Access Lines (Est. January 1, 1984)	14,051,000
Employees (Est. January 1, 1984)	79,000
Anticipated Initial Quarterly Dividend	$1.50 per share*
Anticipated Dividend Payment Dates	May 1, August 1, November 1, February 1
Stock Exchange Listings	New York, Boston, Midwest, Philadelphia and Pacific
Anticipated Debt Ratio (including Debt Maturing Within One Year) **as of January 1, 1984****	43.8%

Income Information:***

Note: *As explained in the material referred to in the footnote below, forecasted income information is subject to inherent uncertainties and, because of divestiture-related changes, such information lacks comparability with historical results.*

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Combined Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Total Operating Revenues	$8,344.0	$8,900.8	$8,723.8	$8,070.5
Total Operating Expenses	5,546.6	5,837.4	5,937.9	5,445.3
Net Operating Revenues	2,797.4	3,063.4	2,785.9	2,625.2
Net Income	923.7	1,037.1	936.3	848.7
Earnings per Share	$ 9.47	NA	NA	NA
Weighted Average Number of Shares Outstanding (Millions)	97.5	NA	NA	NA

Balance Sheet Information:**

	Pro Forma June 30, 1983 (Unaudited)
Total Assets	$16,257.0
Share Owners' Equity	6,607.2
Long and Intermediate Term Debt	4,868.0
Other Liabilities and Deferred Credits (including Debt Maturing Within One Year)	4,781.8

* See "Description of Common Stock and Dividend and Market Information" in the "Information Statement for American Information Technologies Corporation" below.

** See Unaudited Pro Forma Condensed Balance Sheet (including Notes to Unaudited Pro Forma Condensed Balance Sheet) under "Financial Information" in the "Information Statement for American Information Technologies Corporation" below.

*** See Financial Forecast and Combined Historical Statements of Income (including Reports of Independent Certified Public Accountants, Notes to Combined Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984 and Note to Forecasted 1984 Statement of Income) under "Financial Information" in the "Information Statement for American Information Technologies Corporation" below.

NA = Not applicable.

BELL ATLANTIC CORPORATION

Principal Subsidiaries	New Jersey Bell Telephone Company The Bell Telephone Company of Pennsylvania The Chesapeake and Potomac Telephone Company The Chesapeake and Potomac Telephone Company of Maryland The Chesapeake and Potomac Telephone Company of Virginia The Chesapeake and Potomac Telephone Company of West Virginia The Diamond State Telephone Company Bell Atlantic Mobile Systems, Inc.
Telephone Company Service Areas	New Jersey, Pennsylvania, Delaware, Maryland, Virginia, West Virginia and the District of Columbia
Network Access Lines (Est. January 1, 1984)	14,247,000
Employees (Est. January 1, 1984)	80,000
Anticipated Initial Quarterly Dividend	$1.60 per share*
Anticipated Dividend Payment Dates	May 1, August 1, November 1, February 1
Stock Exchange Listings	New York, Philadelphia, Boston, Midwest and Pacific
Anticipated Debt Ratio (including Debt Maturing Within One Year) **as of January 1, 1984****	43.3%

Income Information:***

Note: *As explained in the material referred to in the footnote below, forecasted income information is subject to inherent uncertainties and, because of divestiture-related changes, such information lacks comparability with historical results.*

	Dollars in Millions (except per share mount)			
	Post-Divestiture Forecasted	Pre-Divestiture Combined Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Total Operating Revenues	$8,323.1	$8,732.3	$8,367.7	$7,500.3
Total Operating Expenses	5,589.5	5,884.9	5,779.4	5,077.4
Net Operating Revenues	2,733.6	2,847.4	2,588.3	2,422.9
Net Income	952.2	1,054.5	928.1	839.3
Earnings per Share	$ 9.69	NA	NA	NA
Weighted Average Number of Shares Outstanding (Millions)	98.3	NA	NA	NA

Balance Sheet Information:**

	Pro Forma June 30, 1983 (Unaudited)
Total Assets	$16,264.1
Share Owners' Equity	6,825.6
Long and Intermediate Term Debt	4,787.0
Other Liabilities and Deferred Credits (including Debt Maturing Within One Year)	4,651.5

* See "Description of Common Stock and Dividend and Market Information" in the "Information Statement for Bell Atlantic Corporation" below for a statement of conditions upon the declaration and payment of this dividend.

** See Unaudited Pro Forma Condensed Balance Sheet (including Notes to Unaudited Pro Forma Condensed Balance Sheet) under "Financial Information" in the "Information Statement for Bell Atlantic Corporation" below.

*** See Financial Forecast and Combined Historical Statements of Income (including Reports of Independent Certified Public Accountants, Notes to Combined Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984 and Note to Forecasted 1984 Statement of Income) under "Financial Information" in the "Information Statement for Bell Atlantic Corporation" below.

NA = Not applicable.

BELLSOUTH CORPORATION

Principal Subsidiaries	South Central Bell Telephone Company Southern Bell Telephone and Telegraph Company BellSouth Advertising & Publishing Corporation BellSouth Mobility Inc
Telephone Company Service Areas	Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee
Network Access Lines (Est. January 1, 1984)	13,591,000
Employees (Est. January 1, 1984)	99,100
Anticipated Initial Quarterly Dividend	$1.95 per share*
Anticipated Dividend Payment Dates	May 1, August 1, November 1, February 1
Stock Exchange Listings	New York, Boston, Midwest, Pacific and Philadelphia
Anticipated Debt Ratio (including Debt Maturing Within One Year) **as of January 1, 1984****	43.1%

Income Information:***

Note: *As explained in the material referred to in the footnote below, forecasted income information is subject to inherent uncertainties and, because of divestiture-related changes, such information lacks comparability with historical results.*

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Combined Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Total Operating Revenues	$9,799.1	$10,512.6	$10,288.2	$9,206.3
Total Operating Expenses	6,453.0	6,834.6	6,721.3	5,996.6
Net Operating Revenues	3,346.1	3,678.0	3,566.9	3,209.7
Net Income	1,198.8	1,393.1	1,352.2	1,164.3
Earnings per Share	$ 12.21	NA	NA	NA
Weighted Average Number of Shares Outstanding (Millions)	98.2	NA	NA	NA

Balance Sheet Information:**

	Pro Forma June 30, 1983 (Unaudited)
Total Assets	$20,808.8
Share Owners' Equity	8,239.3
Long and Intermediate Term Debt	6,334.6
Other Liabilities and Deferred Credits (including Debt Maturing Within One Year)	6,234.9

* See "Description of Common Stock and Dividend and Market Information" in the "Information Statement for BellSouth Corporation" below.

** See Unaudited Pro Forma Condensed Balance Sheet (including Notes to Unaudited Pro Forma Condensed Balance Sheet) under "Financial Information" in the "Information Statement for BellSouth Corporation" below.

*** See Financial Forecast and Combined Historical Statements of Income (including Reports of Independent Certified Public Accountants, Notes to Combined Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984 and Note to Forecasted 1984 Statement of Income) under "Financial Information" in the "Information Statement for BellSouth Corporation" below.

NA = Not applicable.

NYNEX CORPORATION

Principal Subsidiaries	New York Telephone Company New England Telephone and Telegraph Company NYNEX Mobile Communications Company NYNEX Business Information Systems Company (to be formed) NYNEX Information Resources Company NYNEX Materiel Enterprises Company NYNEX Service Company
Telephone Company Service Areas	New York, Connecticut (Greenwich and Byram only), Massachusetts, Maine, New Hampshire, Rhode Island and Vermont.
Network Access Lines (Est. January 1, 1984)	12,800,000
Employees (Est. January 1, 1984)	98,200
Anticipated Initial Quarterly Dividend	$1.50 per share*
Anticipated Dividend Payment Dates	May 1, August 1, November 1, February 1
Stock Exchange Listings	New York, Boston, Midwest, Philadelphia and Pacific
Anticipated Debt Ratio (including Debt Maturing Within One Year) **as of January 1, 1984****	45.1%

Income Information:***

Note: *As explained in the material referred to in the footnote below, forecasted income information is subject to inherent uncertainties and, because of divestiture-related changes, such information lacks comparability with historical results.*

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Combined Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Total Operating Revenues	$9,825.2	$10,006.6	$9,686.3	$8,641.4
Total Operating Expenses	6,590.4	6,643.6	6,501.4	5,703.6
Net Operating Revenues	3,234.8	3,363.0	3,184.9	2,937.8
Net Income	937.6	1,029.8	973.1	899.9
Earnings per Share	$ 9.54	NA	NA	NA
Weighted Average Number of Shares Outstanding (Millions)	98.3	NA	NA	NA

Balance Sheet Information:**

	Pro Forma June 30, 1983 (Unaudited)
Total Assets	$17,389.0
Share Owners' Equity	7,155.5
Long and Intermediate Term Debt	5,432.8
Other Liabilities and Deferred Credits (including Debt Maturing Within One Year)	4,800.7

* See "Description of Common Stock and Dividend and Market Information" in the "Information Statement for NYNEX Corporation" below.

** See Unaudited Pro Forma Condensed Balance Sheet (including Notes to Unaudited Pro Forma Condensed Balance Sheet) under "Financial Information" in the "Information Statement for NYNEX Corporation" below.

*** See Financial Forecast and Combined Historical Statements of Income (including Reports of Independent Certified Public Accountants, Notes to Combined Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984 and Note to Forecasted 1984 Statement of Income) under "Financial Information" in the "Information Statement for NYNEX Corporation" below.

NA = Not applicable.

PACIFIC TELESIS GROUP

Principal Subsidiaries	Pacific Bell Nevada Bell
Other Subsidiaries (as of January 1984)	PacTel Mobile Access PacTel Publishing PacTel Communications Systems
Telephone Company Service Areas	California and Nevada
Network Access Lines (Est. January 1, 1984)	10,878,000
Employees (Est. January 1, 1984)	82,000
Anticipated Initial Quarterly Dividend	$1.35 per share*
Anticipated Dividend Payment Dates	May 1, August 1, November 1, February 1
Stock Exchange Listings	New York, Pacific and Midwest
Anticipated Debt Ratio (including Debt Maturing Within One Year) **as of January 1, 1984****	46.5%

Income Information:***

Note: *As explained in the material referred to in the footnote below, forecasted income information is subject to inherent uncertainties and, because of divestiture-related changes, such information lacks comparability with historical results.*

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Consolidated Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Total Operating Revenues	$8,082.1	$7,895.9	$7,855.5	$6,818.9
Total Operating Expenses	5,800.1	5,812.3	5,788.9	5,016.2
Net Operating Revenues	2,282.0	2,083.6	2,066.6	1,802.7
Net Income	827.7	977.1	856.9	438.8
Preferred Dividend Requirements	42.7	45.2	47.6	51.2
Income Applicable to Common Shares	785.0	931.9	809.3	387.6
Earnings per Common Share	$ 8.00	NA	NA	NA
Weighted Average Number of Shares Outstanding (Millions)	98.1	NA	NA	NA

Balance Sheet Information:**	Pro Forma June 30, 1983 (Unaudited)
Total Assets	$16,190.8
Common Share Owners' Equity	5,402.7
Preferred Shares Subject to Mandatory Redemption	535.8
Long and Intermediate Term Debt	5,713.4
Other Liabilities and Deferred Credits (including Debt Maturing Within One Year)	4,538.9

* See "Description of Common Stock and Dividend and Market Information" in the "Information Statement for Pacific Telesis Group" below.

** See Unaudited Pro Forma Condensed Balance Sheet (including Notes to Unaudited Pro Forma Condensed Balance Sheet) under "Financial Information" in the "Information Statement for Pacific Telesis Group" below.

*** See Financial Forecast and Consolidated Historical Statements of Income (including Reports of Independent Certified Public Accountants, Notes to Consolidated Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984 and Note to Forecasted 1984 Statement of Income) under "Financial Information" in the "Information Statement for Pacific Telesis Group" below.

NA = Not applicable.

SOUTHWESTERN BELL CORPORATION

Principal Subsidiaries	Southwestern Bell Telephone Company Southwestern Bell Mobile Systems, Inc. Southwestern Bell Publications, Inc. Southwestern Bell Telecommunications Inc.
Telephone Company Service Areas	Arkansas, Kansas, Missouri, Oklahoma and Texas
Network Access Lines (Est. January 1, 1984)	10,285,000
Employees (Est. January 1, 1984)	74,700
Anticipated Initial Quarterly Dividend	$1.40 per share*
Anticipated Dividend Payment Dates	May 1, August 1, November 1, February 1
Stock Exchange Listings	New York, Midwest and Pacific
Anticipated Debt Ratio (including Debt Maturing Within One Year) **as of January 1, 1984****	44.6%

Income Information:***

Note: *As explained in the material referred to in the footnote below, forecasted income information is subject to inherent uncertainties and, because of divestiture-related changes, such information lacks comparability with historical results.*

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Combined Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Total Operating Revenues	$7,754.9	$7,859.5	$7,711.1	$6,782.4
Total Operating Expenses	5,249.5	5,276.5	5,243.0	4,501.7
Net Operating Revenues	2,505.4	2,583.0	2,468.1	2,280.7
Net Income	869.6	887.9	864.0	781.2
Earnings per Share	$ 8.93	NA	NA	NA
Weighted Average Number of Shares Outstanding (Millions)	97.4	NA	NA	NA

Balance Sheet Information:**

	Pro Forma June 30, 1983 (Unaudited)
Total Assets	$15,507.4
Share Owners' Equity	6,352.1
Long and Intermediate Term Debt	4,969.1
Other Liabilities and Deferred Credits (including Debt Maturing Within One Year)	4,186.2

* See "Description of Common Stock and Dividend and Market Information" in the "Information Statement for Southwestern Bell Corporation" below.

** See Unaudited Pro Forma Condensed Balance Sheet (including Notes to Unaudited Pro Forma Condensed Balance Sheet) under "Financial Information" in the "Information Statement for Southwestern Bell Corporation" below.

*** See Financial Forecast and Historical Statements of Income (including Reports of Independent Certified Public Accountants, Notes to Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984 and Note to Forecasted 1984 Statement of Income) under "Financial Information" in the "Information Statement for Southwestern Bell Corporation" below.

NA = Not applicable

U S WEST, Inc.

Principal Subsidiaries	The Mountain States Telephone and Telegraph Company Northwestern Bell Telephone Company Pacific Northwest Bell Telephone Company NewVector Communications, Inc. LANDMARK PUBLISHING Company Interline Communication Services, Inc. BetaWest Properties, Inc.
Telephone Company Service Areas	Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, South Dakota, Oregon, Utah, Washington and Wyoming.
Network Access Lines (Est. January 1, 1984)	10,568,000
Employees (Est. January 1, 1984)	75,000
Anticipated Initial Quarterly Dividend	$1.35 per share*
Anticipated Dividend Payment Dates	May 1, August 1, November 1, February 1
Stock Exchange Listings	New York and Pacific
Anticipated Debt Ratio (including Debt Maturing Within One Year) **as of January 1, 1984****	43.3%

Income Information:***

Note: *As explained in the material referred to in the footnote below, forecasted income information is subject to inherent uncertainties and, because of divestiture-related changes, such information lacks comparability with historical results.*

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Combined Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Total Operating Revenues	$7,436.8	$7,596.1	$7,396.2	$6,789.0
Total Operating Expenses	4,997.2	5,070.4	5,028.8	4,511.6
Net Operating Revenues	2,439.6	2,525.7	2,367.4	2,277.4
Net Income	877.8	910.9	837.3	817.9
Earnings per Share	$ 8.96	NA	NA	NA
Weighted Average Number of Shares Outstanding (Millions)	98.0	NA	NA	NA

Balance Sheet Information:**

	Pro Forma June 30, 1983 (Unaudited)
Total Assets	$15,053.6
Shareowners' Equity	6,065.4
Long and Intermediate Term Debt	4,603.5
Other Liabilities and Deferred Credits (including Debt Maturing Within One Year)	4,384.7

* See "Description of Common Stock and Dividend and Market Information" in the "Information Statement for U S WEST, Inc." below.

** See Unaudited Pro Forma Condensed Balance Sheet (including Notes to Unaudited Pro Forma Condensed Balance Sheet) under "Financial Information" in the "Information Statement for U S WEST, Inc." below.

*** See Financial Forecast and Combined Historical Statements of Income (including Reports of Independent Certified Public Accountants, Notes to Combined Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984 and Note to Forecasted 1984 Statement of Income) under "Financial Information" in the "Information Statement for U S WEST, Inc." below.

NA = Not applicable.

DESCRIPTION OF THE DIVESTITURE TRANSACTION

Background

On August 24, 1982, the Court approved as in the public interest and entered a consent decree entitled the "Modification of Final Judgment" ("Consent Decree"), which arose out of antitrust litigation brought by the Department of Justice ("DOJ"), and was agreed to by AT&T and the DOJ, with certain modifications which the Court had required. On February 28, 1983, the United States Supreme Court affirmed the Consent Decree.

On December 16, 1982, AT&T, as required by the terms of the Consent Decree, filed with the Court a Plan of Reorganization outlining the method by which AT&T intends to comply with the Consent Decree. Such Plan, with amendments agreed to by AT&T and the DOJ and modifications required by the Court ("Plan"), was approved by the Court on August 5, 1983. Approval of the Plan has been appealed by the State of California and the California Public Utilities Commission and by the New York State Department of Public Service. On September 7, 1983, the Court ordered that appeals be filed directly with the United States Supreme Court to avoid delays in resolving the matter.

Under the terms of the Consent Decree, AT&T must divest itself, in accordance with the terms of the Plan, of ownership of the portions of the BOCs that relate to exchange telecommunications, exchange access functions and printed directory advertising, as well as AT&T's cellular advanced mobile communications service business. Cincinnati Bell Inc. and The Southern New England Telephone Company, in which AT&T holds minority interests, are not included in the divestiture requirement. AT&T will retain ownership of AT&T Communications, Western Electric, Bell Laboratories, AT&T Information Systems, AT&T International and those portions of the BOCs which provide interexchange service and customer premises equipment. The divestiture will become effective on January 1, 1984.

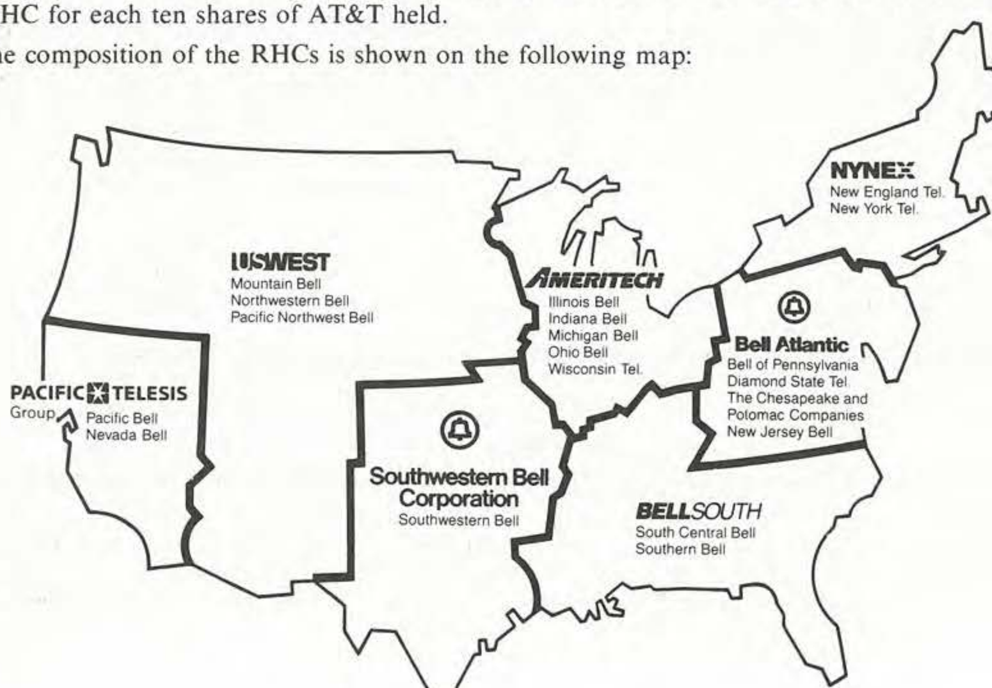
The Regional Holding Companies

Divestiture

To accomplish the required divestiture, AT&T is reorganizing the 22 BOCs and will transfer them to the seven newly formed RHCs. The BOCs will continue to operate in the same areas they now serve providing exchange telecommunications and exchange access services.

On January 1, 1984, ownership of the RHCs will pass from AT&T directly to its shareholders. This will be accomplished by a stock distribution whereby each AT&T shareholder will receive one share of each RHC for each ten shares of AT&T held.

The composition of the RHCs is shown on the following map:



Each RHC has its own officers, employees and board of directors. Although the RHCs will each own a one-seventh interest in a Central Services Organization ("CSO"), commencing January 1, 1984, they will be independent of AT&T and of each other.

Services

The Consent Decree specifies both the types of telecommunications services to be provided by the RHCs or their subsidiaries and the geographic areas in which those services are to be provided. All Bell System territory in the continental United States has been divided into 161 geographical areas which have been termed "Local Access and Transport Areas" ("LATAs"). These LATAs are generally centered on a city or other identifiable community of interest, and each LATA marks the boundary within which the BOC subsidiaries of an RHC may provide telephone service. As of January 1, 1984, the BOCs will provide two basic types of telecommunications services. First, the BOCs will transport telecommunications traffic between telephones and other customer premises equipment located within the same LATA ("intraLATA service"), which can include toll service as well as local service. Second, the BOCs will provide exchange access service, which will link a subscriber's telephone or other equipment to the transmission facilities of AT&T and other interexchange carriers which will, in turn, provide telecommunications service between LATAs ("interLATA service"). Each BOC is required to provide all interexchange carriers exchange access, information access and exchange services for such access that, by September 1, 1986, will be equal in quality, type and price, at all locations upon request, to that provided to AT&T and its affiliates. The Consent Decree prohibits the RHCs and the BOCs from providing interLATA service.

Advanced Mobile Communications Service

Subsidiaries of the RHCs will provide advanced mobile communications service using cellular radio technology. Cellular radio is a new form of two-way mobile telephone service which has been developed by AT&T. At present, activities relating to cellular radio service are conducted by AT&T's wholly-owned subsidiary, Advanced Mobile Phone Service, Inc. ("AMPS"), and seven recently organized Regional Cellular Service Companies ("RCSCs") wholly owned by AMPS. The resources owned by AMPS, including licenses, will be transferred to the appropriate RCSCs. AT&T will transfer to each of the seven RHCs ownership of each respective RCSC.

The provision of cellular service is subject to regulation by the Federal Communications Commission ("FCC") and by the regulatory authorities of some states. In addition, the Court has granted an exception to the requirements of the Consent Decree by allowing mobile cellular service offered by wireline carriers (BOCs) to cross LATA boundaries in certain specified areas subject to certain conditions, including the requirement that interconnection to their wireline systems be provided to non-wireline cellular service operators on the same terms and conditions as provided to its own cellular service operations. The FCC has, to date, granted permits for the construction of cellular facilities by wireline carriers in 29 of the largest service areas in the United States. Of these, 9 have been issued to AMPS, 13 to partnerships in which AMPS has a majority interest, 6 to partnerships in which AMPS has a minority interest and 1 to an independent telephone company. At present one license to operate a cellular system has been granted by the FCC. It authorizes a partnership, in which AMPS has a majority interest, to operate a system in the Chicago area. Under FCC policy at least one non-wireline carrier mobile communication service will be licensed in each area.

It is anticipated that the offering of cellular radio service will be highly competitive, with a considerable number of companies competing for supplies as well as for sales.

Central Services Organization

As previously indicated, the seven RHCs also will jointly own the CSO. This organization will furnish the RHCs and their subsidiaries with technical assistance such as network planning, engineering and software development. It will also provide various consulting services and other assistance that can be provided more effectively on a centralized basis. The CSO will be a central point of contact for coordinating the efforts of the RHCs in meeting the national security and emergency preparedness requirements of the Federal government. It will also help to mobilize the combined resources of the companies in times of natural disasters. Upon divestiture, the CSO will employ about 8,000 persons, including many specialists drawn from Bell Laboratories, Western Electric, AT&T and the BOCs. Since the CSO is primarily a service organization, it is not expected that its future capital expenditures will be significant in relation to the financial positions of the RHCs, nor is it intended to be a significant source of profits. The CSO may offer services to unaffiliated companies, but it is not expected that this will be a significant activity or source of revenues for the foreseeable future.

American Telephone and Telegraph Company

After divestiture, AT&T will be managed as one business with the objective of meeting customer needs, both in the United States and foreign markets, for electronic information movement and management. The elements of its organization are expected to change, perhaps frequently, in response to the evolution of the regulatory environment and rulings, technology and the markets.

Upon divestiture, AT&T will consist of two sectors: (1) AT&T Communications, which will provide a wide variety of nationwide interexchange and international telecommunications services and will include the former AT&T Long Lines organization and 22 intrastate interLATA subsidiaries and (2) AT&T Technologies, which will encompass Western Electric, AT&T International, AT&T Information Systems and Bell Laboratories.

The Technologies Sector will be organized into a number of highly interrelated groups whose markets are both internal and external to AT&T.

Western Electric's activities will be organized as follows:

(a) Network Systems will design, manufacture, market and service transmission, switching and central office products;

(b) Components and Electronic Systems will design and produce silicon chip products and other electronic components;

(c) Processor and Software Systems will develop, manufacture and market computers for use in communication systems and as general purpose computers;

(d) Consumer Products will design, manufacture, wholesale and service communication systems for use in residential and business markets; and

(e) Government will develop, manufacture and market special design products and systems sold primarily to Department of Defense and related agencies.

Two other organizations in the Technologies Sector are AT&T International, which will market AT&T Technologies, products and services outside the U.S., and AT&T Information Systems, a fully separated subsidiary, which will design, develop, market at retail and service communication products and systems for business, government, institutional and residential use.

Bell Laboratories will continue to provide research and development in information and communications technology to AT&T Communications and AT&T Technologies.

AT&T corporate headquarters located in New York City will set corporate policy, strategy and direction.

Additional Terms of the Consent Decree and the Plan

In addition to the divestiture requirement, the Consent Decree has other provisions relating to the post-divestiture activities of the RHCs and AT&T. The RHCs will be allowed to provide exchange telecommunications and exchange access service, as well as cellular advanced mobile communications service. The RHCs also will be permitted to provide printed directory advertising and also to market, but not manufacture, customer premises equipment. An RHC may engage in any other services that are natural monopoly services actually regulated by tariff; it may provide any other services or business upon a showing to the Court that there is no substantial possibility that the RHC could use its monopoly power to impede competition in the market it seeks to enter.

AT&T and the RHCs will not be permitted to own communications facilities jointly. However, appropriate provisions will be made for sharing, through leasing or otherwise, of facilities which perform multiple communications functions (*i.e.,* intraLATA and interLATA functions). After January 1, 1984, AT&T may not acquire the stock or assets of any of the BOCs or the newly formed RHCs.

The Plan provides for the recognition and payment of liabilities by AT&T and the BOCs that are attributable to pre-divestiture events (including transactions to implement the divestiture) but that do not become certain until after divestiture. These contingent liabilities relate principally to litigation and other claims with respect to the Bell System's rates, taxes, contracts and torts (including business torts, such as alleged violations of the antitrust laws). Contingent liabilities that are attributable to pre-divestiture events will be shared by AT&T and the BOCs in accordance with formulas prescribed by the Plan. (See "Contingent Liabilities" under "Common Information" below.)

The Consent Decree and the Plan provide that, at the time of divestiture, AT&T will have to assure that each divested BOC has a debt ratio of approximately 45% (except for a somewhat higher debt ratio for The Pacific Telephone and Telegraph Company). The Plan further provides that to the extent a BOC improves upon its efficiency and reduces its debt, the BOC will retain the benefit of the improvement and will be divested at a debt ratio below that required by the Consent Decree.

Under the Plan, on and after the effective date of divestiture, AT&T cannot use the word "Bell" in its corporate name and in the names of its subsidiaries or affiliates, except for Bell Laboratories and in connection with foreign operations. Nor can the Bell name or Bell trademarks be used by AT&T on any equipment it sells in the United States, except for equipment manufactured or purchased by AT&T prior to the divestiture date. The RHCs and their affiliates may use the Bell name and the Bell trademarks in connection with services they perform and on equipment they use and sell. They may also use the word "Bell" in their corporate names, provided that the Bell name is modified to identify the particular company and provided that equipment sold using a Bell trademark is accompanied by the corporate name of the respective RHC or BOC.

Under the terms of the Consent Decree, AT&T is free to compete in new businesses without the constraints previously imposed by a 1956 consent decree which generally limited AT&T to the regulated telecommunications business. AT&T may not, however, engage in "electronic publishing" (the provision of information which AT&T has originated, authored, compiled, collected or edited or in which it has a financial or proprietary interest) over its own transmission facilities. This prohibition will last for seven years, after which AT&T may apply to the Court for removal of the restriction.

The Consent Decree and the Plan require the termination of all contracts that establish an on-going economic integration between AT&T and the divested BOCs. Such contracts include: the License Contracts between AT&T and each BOC, under which AT&T agrees (1) to maintain arrangements whereby telephones and related equipment may be manufactured under patents owned or controlled by AT&T and may be purchased by the BOC at reasonable prices, (2) to conduct research in telephony and to make available to the BOC the benefits derived therefrom, (3) to furnish advice and assistance with respect to virtually all phases of the BOC's business and (4) to maintain connections between the BOC's telephone system and the systems of the other associated telephone companies of the Bell System; the Standard Supply Contracts between Western Electric and each BOC, under which Western Electric agrees, to the extent reasonably required for the BOC's business, to manufacture materials or purchase materials manufactured by others, to sell such materials to the BOC, to maintain stocks at distributing points, to prepare equipment specifications, to perform installations of materials and to repair or dispose of used materials returned by the BOC; the 1974 Cost Sharing Agreement between the BOCs, AT&T and Bell Laboratories; the Business Information Systems Agreement between Bell Laboratories, the BOCs and AT&T's Long Lines organization; other operational contracts and arrangements between the BOCs and AT&T or its subsidiaries; and the Division of Revenues Contracts, which have provided the means by which revenues have been divided among AT&T and the BOCs to compensate them for costs incurred in providing interstate service. The activities that were performed for the BOCs under such contracts will, after divestiture, be performed by the BOCs themselves or the RHCs or an affiliated corporation; by the CSO; or through arrangements with unaffiliated suppliers. The Consent Decree further requires that until September 1, 1987, AT&T, Western Electric and Bell Laboratories shall provide on a priority basis all research, development, manufacturing and other support services ordered by the BOCs to enable them to fulfill the requirements of the Consent Decree.

AT&T is required to grant to the BOCs royalty free licenses under all patents owned by AT&T and all patents issued to AT&T on or before five years after the date of divestiture. Such licenses include the right to grant limited sublicenses to third parties, subject to the limitations of the Consent Decree.

In order to implement the Consent Decree and the Plan, it has been necessary for AT&T and the RHCs to enter into agreements setting forth the principal provisions for effecting divestiture. These agreements provide that they shall not be construed to prevent any party from challenging in the Court any provision of the agreement as inconsistent with the Consent Decree or the Plan or with the Court's opinion and order relating thereto, or as unfair under present circumstances within the context of the divestiture, provided that the Plan as approved by the Court shall be deemed fair for this purpose.

Access Charge Arrangements

BOC plant has been, and will be in the future, used both for communications services provided solely by the BOC, and for services provided by the BOC and other carriers using the facilities of both the BOC and the other carriers. Other carriers may include AT&T Communications, other BOCs, independent telephone companies, and other common carriers ("OCCs"). The services which have been provided by the BOCs together with others are referred to in this section and elsewhere as "Long Distance Communications".

Two general methods now exist for compensating the BOCs for the use of their plant for Long Distance Communications. First, for Long Distance Communications jointly offered by a BOC and other carriers under federal or state tariffs in which the BOC and the other carriers concur, the revenues derived from such services are divided by first paying each joint participant its expenses incurred in providing the joint service, and then by distributing the remaining revenue to the participants so as to give each the same rate of return on the plant investment used for the joint service. This division of revenues method applies to most BOC Long Distance Communications.

Second, for Long Distance Communications provided under tariffs in which BOCs do not concur, the BOCs have been compensated for the use of their facilities by other carriers under fixed price contracts or, more recently, under tariffs offering facilities to other carriers.

The BOCs would, in compliance with the Consent Decree, provide only intraLATA and exchange access service and would no longer participate with other carriers in the provision of Long Distance Communications except through tariffed offerings of exchange access which the BOCs filed to go into effect January 1, 1984. The FCC has prescribed rate structures of new exchange access tariffs which will specify the charges ("Access Charges") which will apply to BOC facilities used or available for the origination and termination of interstate Long Distance Communications. The Access Charges are intended to recover BOC costs which have been allocated to the interstate jurisdiction ("Interstate Costs") under the FCC's jurisdictional cost allocation rules.

As prescribed by the FCC, Access Charges will apply both to carriers and to BOC subscribers. Initially, each BOC residence service subscriber will pay a maximum monthly Access Charge of $2 per access line and each BOC business service subscriber will pay a maximum monthly Access Charge of $6 per access line, representing a portion of the Interstate Costs of the line ("Subscriber Line") connecting the subscriber's premises to the telephone network. The interstate costs to be recovered from these monthly subscriber Access Charges were previously recovered from interstate rates for Long Distance Communications. (Such Subscriber Lines can be jointly used for both local calling and Long Distance Communications. Subscriber Lines used only for interstate Long Distance Communications are offered both to subscribers and to carriers at full Interstate Cost.) The remaining BOC Interstate Costs will be recovered from the interLATA carriers pursuant to the exchange access tariffs, based predominantly on usage but also based on other factors. After 1984, progressively more of the Interstate Costs of the jointly used Subscriber Lines will be paid by subscribers, and less by interLATA carriers, until, by 1990, all of such costs will be paid by subscribers, except for a portion of the cost of subscriber lines in very high cost areas. Such costs will be recovered from carriers who will pay into a universal service fund to finance them.

The BOCs are also required by the Consent Decree to file tariffs which offer intrastate exchange access to carriers which provide intrastate Long Distance Communications extending beyond the boundaries of BOC local service areas. BOC tariffs must also offer access to interexchange carriers which provide Long Distance Communications within BOC service areas, whether interstate or intrastate. Such intrastate exchange access offerings are for the most part subject to state regulation, including the authority to deny permission to interexchange carriers to provide Long Distance Communications within BOC service areas. The BOCs intend these intrastate access offerings to generally parallel the terms of the interstate access tariff. However, the final terms of such offerings are subject to acceptance by state regulatory bodies. (See "Regulation, Interstate Rates and Competition" in the Information Statements for the Regional Holding Companies.)

On October 18, 1983, the FCC suspended the effective date of interstate Access Charges until April 3, 1984. The FCC also suspended the effectiveness of other interstate tariffs filed by AT&T which would provide for an average reduction of approximately 10% in interstate message toll telephone rates along with certain reductions in rates for WATS and 800 Service and increases in rates for many private line services. On October 27, 1983, AT&T petitioned the FCC to reconsider its order postponing the effectiveness of the Access Charges and other interstate rate filings. The FCC has agreed to receive filings by the parties on an expedited basis with respect to AT&T's petition. In the event that the FCC declines to reconsider, AT&T and the RHCs have reached agreement as to the principal terms of an interim arrangement designed to compensate the BOCs for the use of their facilities for interstate toll and related services on a basis that is approximately consistent with the current level of interstate earnings (which level is somewhat lower than the authorized rate of return). There is pending before the Court a motion which was filed by the Bell Atlantic telephone subsidiaries prior to the time the agreement referred to above was reached. In that motion, the Bell Atlantic telephone subsidiaries proposed that they be compensated for use of their facilities for interstate toll service at the authorized rate of return. Consistent with the agreement, Bell Atlantic is requesting Court approval to withdraw its motion. AT&T and the other RHCs support that request. (See Assumption (b) of the "Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984" in the Information Statements for AT&T and each RHC.)

The Plan provides that AT&T must reimburse the BOCs if any of the actual cost of providing equal access and reconfiguring the network has not been recovered by the BOCs as a group by January 1, 1994 through their collection of Access Charges from interexchange carriers. AT&T's obligation will be discharged to the extent that the BOCs fail annually to file carrier access tariffs designed to recoup any then unrecovered equal access and network reconfiguration costs, or if any regulatory commission refuses to permit such tariffs to take effect, or if the regulatory requirements for the depreciation or amortization of equal access and network configuration investment cause any portion of the investment not to be recognized as a cost for rate-making purposes in periods prior to January 1, 1994.

Pending Telecommunications Legislation

Legislation has been introduced in the United States Congress in response to the anticipated implementation by the FCC of Access Charges. The Senate Commerce, Science and Transportation Committee has approved a bill that would impose a two-year delay on the introduction of direct Access Charges for residential and some small business customers. The House Energy and Commerce Committee has approved a bill which would eliminate direct Access Charges on residential customers and small business customers. The bill would also establish a $1.2 billion fund to provide low-cost service for the poor and defray the higher costs of local telephone companies in rural areas. Additionally, the bill provides for six free long distance information calls a month. If Access Charges on residential and other small users were eliminated or delayed, the BOCs would need to recover the costs of providing local access for Long Distance Communications through charges to other customers or carriers; however, that might increase the likelihood that carriers and larger customers would seek alternate means of completing Long Distance Communications within LATAs. The House legislation would also continue until July 1, 1985, the existing rates charged to the OCCs (which are lower than the rates to be charged to AT&T) for interconnection of their interexchange services to local distribution facilities of the BOCs. Thereafter, a rate differential would be continued until the FCC had determined that "equivalent type and quality of access is being provided." Under the bill the reduction in exchange access revenues resulting from the continuation of existing rates to the OCCs and the rate differential is to be recovered by higher Access Charges to AT&T. The bill also directs the FCC to report to Congress by March 1, 1985, on how the FCC has administered the legislation as well as to provide recommendations as to the continued need for this or new legislation.

Legislation has also been proposed by the cable television ("CATV") industry which would, in addition to dealing with deregulation of the CATV industry, provide for complete deregulation of almost all telecommunications services when provided over CATV systems or facilities. Like, similar or functionally equivalent services provided by a BOC (or other provider) would remain subject to regulation. The Senate has already passed such legislation (S.66), and a companion bill (H.R. 4103) has been introduced in the House. Chances for passage are unclear.

METHOD OF DISTRIBUTION OF REGIONAL HOLDING COMPANY SHARES TO AT&T SHAREHOLDERS

Administration of the Distribution

Administration of the distribution of RHC shares will be handled by Chemical Bank, an independent commercial bank, acting as distribution agent for RHC shareholders, and by American Transtech Inc., a subsidiary of AT&T, as registered transfer agent for the RHCs and as data processing agent for Chemical Bank.

Chemical Bank will handle transactions for the sale and purchase of RHC shares, including fractional shares, as more fully described in the following sections. Shareholders' sale and purchase orders under the options described below will be consolidated daily and matched internally by the distribution agent, with unmatched orders being transacted in the market. The distribution agent will issue its checks for any amounts due to shareholders and furnish statements of accounts.

American Transtech Inc., under contract to the distribution agent, will process shareholders' accounts on behalf of the distribution agent. Under separate contract with each of the RHCs, American Transtech Inc. will perform the usual functions of transfer agent, including the issuance of certificates for the RHCs.

Any correspondence relating to the distribution should be addressed to:

Chemical Bank
c/o American Transtech Inc.
P.O. Box 2566
Jacksonville, Florida 32232

Inside the Continental United States, call toll free: 800 233-2884.

Outside the Continental United States, call collect: 904 737-1933.

Ratio of Distribution

As previously indicated, on January 1, 1984, the direct ownership of the seven RHCs will pass from AT&T to the owners of AT&T common stock. This will be accomplished by means of a distribution of shares in the RHCs. Each AT&T shareholder of record on the books of AT&T as of the close of business on December 30, 1983, will receive *one* share of stock in each of the seven RHCs for every *ten* shares of AT&T common stock held, while retaining the same number of AT&T shares and the original certificates representing those shares.

For example, an AT&T shareholder who owns of record 20 shares of AT&T stock will receive two shares in each of the seven RHCs and retain the 20 shares of AT&T stock. A shareholder who owns of record 100 shares of AT&T stock will receive ten shares in each of the seven RHCs and retain the 100 shares of AT&T stock. Shareholders owning of record any number of AT&T shares not divisible by 10 will be credited with fractional shares. For example, a shareholder account with 17 shares would, at the outset, have 1.7 shares in each RHC. However, fractional shares will not be issued (see "Distribution of Shares", below, as to payment for fractional shares). Each account will be treated separately by account number; however, any shares held in AT&T's Share Owner Dividend Reinvestment and Stock Purchase Plan under a particular account number will be combined with any other shares under the same account number. This plan will not be amended by reason of the distribution and participation will continue as before with respect to post-divestiture AT&T shares.

Only accounts registered on the books of AT&T will be processed in the manner described in this section. If a bank or brokerage house holds shares for a share owner's account, the bank or broker will be responsible for furnishing the shareholder with information concerning divestiture and any options available.

Statement of Holdings

In January 1984, each AT&T shareholder of record on December 30, 1983, will be sent a Statement of Common Share Holdings, as of January 1, 1984, listing the number of AT&T shares held and the number of RHC shares to which that shareholder is entitled. A separate Statement will be sent for each account registered in the shareholder's name on the books of AT&T.

Distribution of Shares

Shareholder accounts with 500 or more shares of AT&T stock will be issued stock certificates for the whole shares to which they are entitled in each of the RHCs. These accounts will receive checks for cash from the sale of any fractional shares. These fractional shares will be sold during December 1983 and January 1984. The checks issued will be based on the average price of all shares representing fractions sold by the distribution agent during the period. No fee will be charged for sale of these fractions. Stock certificates will be mailed on or about February 15, 1984. Checks and statements of account reflecting the sale of fractions will be mailed for delivery on or about February 24, 1984. Checks will reflect the 20% withholding requirement for any non-exempt accounts without taxpayer identification numbers (see "Implications of the Interest and Dividend Tax Compliance Act of 1983").

These accounts will be sent an enrollment card for the dividend reinvestment plan in each of the seven RHCs in February 1984. Cards returned by March 30, 1984, will have dividends reinvested beginning with those payable May 1, 1984.

Shareholders wishing to rearrange their holdings may do so through regular channels for trading in the stock markets, giving them effective control over timing of any transaction.

Shareholder accounts with fewer than ten shares of AT&T stock will not be eligible to receive one full share in each RHC. Their fractional shares in the companies will be sold during December 1983 and January 1984. The check issued will be based on the average price of all shares representing fractions sold by the distribution agent during the period. No fee will be charged for sale of these fractions. Checks and statements of account reflecting the sale of fractions will be mailed for delivery on or about February 24, 1984. Checks will reflect the 20% withholding requirement for any non-exempt accounts without taxpayer identification numbers (see "Implications of the Interest and Dividend Tax Compliance Act of 1983").

Shareholder accounts with at least ten but fewer than 500 shares of AT&T stock will be sent a statement of holdings, a non-transferable option card and an instruction booklet in January 1984. See the sample option card reprinted on the following page. Holders of these accounts may choose what they wish to do with the shares they are entitled to receive in the RHCs from among the specific options listed on the card. These options are described in the first four paragraphs below.

1. *Make no change in holdings*—Shareholders may choose to make no change in their ownership of any or all of the seven RHCs, that is, neither selling nor buying any shares. If enrollment in the dividend reinvestment plans is not elected, certificates will be issued for whole shares and fractional shares will be sold. No fee will be charged for the sale of these fractions. Checks will reflect the 20% withholding requirement for any non-exempt accounts without taxpayer identification numbers (see "Implications of the Interest and Dividend Tax Compliance Act of 1983").

2. *Sell*—Shareholders may choose to sell shares in up to six RHCs. (See Item 5 below as to prices.)
   - —When selling, all shares of a particular RHC must be sold, including fractions. Partial sales may not be made.
   - —The proceeds from any sale *must* be used to buy more shares in one or more other RHCs. Shareholders may not use the option card to sell RHC shares for cash.
   - —A transaction charge of 25 cents for each share sold will be deducted from the proceeds. Fractions will be sold at a prorated fee.
   - —Shareholders selling RHC shares may recognize gain or loss on the sale of shares. Shareholders must allocate their tax basis in their AT&T shares among the AT&T shares and RHC shares as described in "Federal Income Tax Effects of the Divestiture for AT&T Share Owners", including "Allocation of Tax Basis." The resulting tax basis in RHC shares may be different from the sales prices under the consolidation option.
   - —In the case of non-exempt shareholders for whom AT&T does not have a valid taxpayer identification number, the proceeds of any sale will be reduced by the 20% withholding requirement (see "Implications of the Interest and Dividend Tax Compliance Act of 1983").

3. *Buy*—Shareholders must use the proceeds from the sale of shares to buy shares in *at least one* RHC of their choice. (See Item 5 below as to prices.)

—The proceeds from the sale of shares (after deducting the transaction costs and any tax required to be withheld—see above) will be divided equally among the number of RHCs the shareholder wishes to buy. As many shares as possible will be purchased in each RHC with the funds allocated to that RHC.

—A transaction fee of 25 cents for each share bought will be added to the price of any shares purchased. Fees for any fractions bought will be prorated.

—For accounts enrolled in a dividend reinvestment plan, all proceeds net of transaction fees and any tax required to be withheld will be invested in additional shares and fractional shares.

—For accounts which are not enrolled in a dividend reinvestment plan, purchases will be made to bring holdings up to as many whole shares as possible. A check for any money remaining will be sent to the shareholder as soon as possible but not before February 24, 1984.

—Prices of shares will vary among companies; consequently, more or fewer shares may be purchased than are sold.

—Cash may not be added by shareholders to "round-up" or to buy more shares.

—The options to sell and buy do not provide for the sale or purchase of AT&T shares.

—RHC stock purchased through the consolidation option will have a tax basis equal to its cost.

4. *Dividend Reinvestment*—Shareholders may choose to deposit the shares they retain or purchase (both whole and fractional) in the dividend reinvestment plans of the respective RHCs. Under this enrollment option, future dividends will be reinvested toward the purchase of additional shares in the particular RHCs selected at a discount of 5% from market price. Shares enrolled in the dividend reinvestment plans are held for safe-keeping by the RHCs and certificates for such shares will not be issued at this time. No charges are made for services under the plans. (The plans are fully described under "Description of the Dividend Reinvestment and Stock Purchase Plans for the Regional Holding Companies" below.)

In order to enroll shares for reinvestment of the RHCs' dividends payable on May 1, 1984, the option card must be received by March 30, 1984.

SAMPLE

AT&T Divestiture Option Card

627500037

Account Number 123-456-789

Please read the Option Card Instruction Booklet before completing this card.

Step 1	Regional Company	A Make No Change in Holdings	B Sell and Use Proceeds for Option C	C Buy and Add to Holdings	Step 2	Regional Company	Dividend Reinvestment Enrollment
Mark ☒ for only one option (A, B or C) for each company.	Ameritech	☐	☐	☐	Mark ☒ to enroll in the Dividend Reinvestment Plan.	Ameritech	☐
	Bell Atlantic	☐	☐	☐		Bell Atlantic	☐
	BellSouth	☐	☐	☐		BellSouth	☐
	NYNEX	☐	☐	☐		NYNEX	☐
	PacTel Group	☐	☐	☐		PacTel Group	☐
	Southwestern Bell	☐	☐	☐		Southwestern Bell	☐
	U S WEST	☐	☐	☐		U S WEST	☐

Step 3

Sign

I certify, under penalties of perjury, that I am not subject to withholding on interest and dividends under section 3406 (a)(1)(C) of the Internal Revenue Code. (See instruction booklet.)

Signature(s) of registered owner(s)

(___)

Phone Number

Step 4

Mail

Use the enclosed envelope and mail this card so it reaches us by **April 16, 1984.**

5. *Price of Shares Sold and Purchased*—Sales and purchases of shares, including fractions, will be made at the average of each RHC's high and low price on the New York Stock Exchange on the day the distribution agent receives an acceptable option card.*

6. *Option Card Processing*—Option cards, in acceptable form, will be processed on the day received. Shortly thereafter, the shareholder will be sent a statement of account transactions; certificates, if any, for RHC stock; and a check for the cash balance, if any. However, no mailings will be made before February 15, 1984. Option cards received by February 7, 1984, will be processed in time for the first mailing of certificates.

7. *Certification*—Under the Interest and Dividend Tax Compliance Act of 1983, share owners who enroll in Share Owner Dividend Reinvestment and Stock Purchase Plans as well as those who buy shares through the option card must certify that they are not subject to 20% withholding on dividends and interest income (see "Implications of the Interest and Dividend Tax Compliance Act of 1983" below).

8. *Closing Date for Options*—The option card should be mailed to reach the distribution agent no later than April 16, 1984. Shareholders whose option cards are not received by that date will be sent certificates for the number of whole shares in each of the RHCs to which they were originally entitled and a check for fractional shares. The price for fractions will be the average price of all shares representing fractions sold for these holders over a period in late April to May 1984. No charge will be made for the sale of fractions.

9. *Use of a Broker*—The mailing of the option card back to the distribution agent affords the shareholder less control over exactly when shares are bought and sold than would a transaction through a broker. For this reason, some shareholders who are eligible for the consolidation option may choose to rearrange their holdings through a broker instead. In such case, shareholders should discuss completion of the option card with their banks or brokers, then fill it out and mail it in promptly in order to receive their RHC certificates for settlement of these trades. (See also "Stock Trading" section, below.)

Stock Listing and Trading

Stock Listing

Each of the regional companies will be listed on the following stock exchanges under the following ticker symbols:

Company	Stock Exchange	Ticker Symbol
Ameritech	New York Boston Midwest Pacific Philadelphia	AIT
Bell Atlantic	New York Boston Midwest Pacific Philadelphia	BEL
BellSouth	New York Boston Midwest Pacific Philadelphia	BLS

* An exception will be made for cards received during the ex-dividend period, March 26 through March 30, 1984. Shares bought via option cards in this period will *not* be ex-dividend, i.e., they will receive dividends; therefore, the average market prices of shares bought or sold will be adjusted by adding back the amount of the respective dividends.

Company	Stock Exchange	Ticker Symbol
NYNEX	New York Boston Midwest Pacific Philadelphia	NYN
PacTel Group	New York Midwest Pacific	PAC
Southwestern Bell Corporation	New York Midwest Pacific	SBC
U S WEST	New York Pacific	USW

Stock Trading

"When issued"* trading in the stocks of both the regional companies and AT&T is expected to begin in mid to late November 1983 on the New York Stock Exchange.

Cash settlement of when issued trading on the New York Stock Exchange will be suspended until February 24, 1984, six trading days after the RHCs' stock certificates are initially distributed, at which time buyers and sellers will exchange cash and shares.

AT&T will trade on the New York Stock Exchange with a dual listing through February 15, 1984:

—It will trade as the "new" AT&T (i.e., AT&T after divestiture) without the right to stock in the RHCs, with cash settlement suspended until February 24, 1984. This trading is referred to as "when issued, ex-distribution". (Ticker symbol: T WI)

—And, it will trade as the "old" AT&T (i.e., AT&T before divestiture), including the right to stock in the RHCs (Ticker symbol: T). The "old" AT&T will begin trading with a due bill# attached on December 23, 1983, five trading days before the divestiture record date of December 30, 1983. The due bill signifies that the purchaser is entitled to the RHC shares when issued. The due bill for the RHCs cannot be split or traded separately from the "old" AT&T shares traded on the New York Stock Exchange.

—The ability of a shareholder to obtain cash settlement for the full value of "old" AT&T stock during the due bill trading period (December 23, 1983 through February 15, 1984), of course, will depend on the shareholder's credit standing with a broker or bank.

—Shareholders qualified for the option arrangement (described above) who have sold or intend to sell their AT&T stock in the due bill market or have sold or intend to sell their RHC stock in the when issued market, should fill out and mail their option card to AT&T promptly in order to obtain their RHC certificates for settlement of these trades.

—The market value of the "new" AT&T will be lower than the value of "old" AT&T. Shareholders should be aware that beginning December 23, 1983 any AT&T shares given as collateral for a loan may be revalued by the holder at the market value of "new" AT&T. Consequently, additional collateral may be requested or, alternatively, some form of guarantee of delivery of RHC shares may be required.

It is expected that when issued trading will also be conducted on the regional stock exchanges.

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* The term "when issued" means trading in a company's shares prior to the time certificates are actually available or "issued." From the beginning of trading through February 15, 1984, the regional companies will trade on the New York Stock Exchange on a when issued basis. Their ticker symbols shown above will be followed by the letters "wi." Regular trading will begin on February 16, 1984.

The due bill is a stock exchange mechanism designed to provide cash settlement in the normal five-day settlement period, with the promise of the seller—represented by the due bill—to deliver the RHC shares on the settlement date.

Employee Plan Accounts

Employees participating in the Bell System Savings Plan for Salaried Employees, the Bell System Savings and Security Plan, the Bell System Voluntary Contribution Plan and the Bell System Employee Stock Ownership Plan will receive separate information for such plan accounts.

DIVIDEND INFORMATION

The AT&T Board of Directors has declared a dividend of $1.35 per share payable February 1, 1984, to AT&T shareholders of record as of December 30, 1983. This dividend will be paid by AT&T from pre-divestiture Bell System earnings.

AT&T and the RHCs have also announced the plans of their respective Boards of Directors as to the anticipated initial post-divestiture quarterly dividend per share to be paid by each company on May 1, 1984. For the specific amounts to be paid by each company, see "Description of Common Stock and Dividend and Market Information" in the Information Statements for the Regional Holding Companies and page 6 for AT&T.

The anticipated May dividends are equivalent to $1.36½ per AT&T share before divestiture. This amount is derived by taking one-tenth of the announced RHC dividends and adding the announced AT&T dividend for May.

Anticipated subsequent dividend payment dates, as announced by the Boards, will be the first day in August, November and February.

The payment of dividends by AT&T and the RHCs will depend upon the earnings and financial requirements of each company, and other factors, including the matters discussed in Assumption (b) of the "Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984" in the Information Statements for AT&T and each RHC.

FEDERAL INCOME TAX EFFECTS OF THE DIVESTITURE FOR AT&T SHARE OWNERS

Distribution of RHC Shares

The Internal Revenue Service ("IRS") has ruled that except for a portion of PacTel Group stock, the distribution of RHC shares will be tax free to AT&T shareholders. The IRS has taken the position that a small portion of PacTel Group stock should be deemed to have been acquired by AT&T by reason of a taxable merger involving Pacific Bell (formerly The Pacific Telephone and Telegraph Company) which was consummated on May 12, 1982, and that the distribution of such portion of PacTel Group stock is taxable as a dividend to AT&T shareholders to the extent of its fair market value. In the taxable merger, AT&T acquired 8.5% of Pacific Bell's outstanding voting common stock and 21.8% of Pacific Bell's outstanding 6% voting preferred stock.

AT&T has been advised by Davis Polk & Wardwell, tax counsel to AT&T in connection with the divestiture, that in their opinion, although the matter is not free from doubt, no portion of the PacTel Group stock should be taxable as a dividend to AT&T shareholders and that all of the PacTel Group shares should be treated by AT&T shareholders as received in a tax-free distribution, in the same manner as the other RHC shares. Davis Polk & Wardwell has reached that conclusion because, among other reasons, PacTel Group was formed in a tax free transaction in order to achieve significant business objectives, the taxable merger involving Pacific Bell was a separate and independent transaction from the organization of PacTel Group, the distribution in compliance with the Consent Decree does not constitute a device for the distribution of earnings, and PacTel Group owns meaningful assets in addition to its interest in Pacific Bell. The opinion of Davis Polk & Wardwell is not binding on the IRS or the courts.

While the IRS has not indicated how the portion of PacTel Group stock which it considers taxable should be calculated, AT&T has estimated that if the IRS is correct in its interpretation of the law, the taxable dividend might be approximately 7% of the fair market value of PacTel Group stock. Because the right to receive PacTel Group stock will relate to record ownership of AT&T stock on December 30, 1983, the taxable dividend cannot be avoided by selling PacTel Group stock.

Because of the uncertainty as to the correct federal tax treatment of the unspecified portion of PacTel Group stock which the IRS has ruled to be taxable as a dividend, shareholders are urged to consult with their tax advisors as to how they should report this portion of the PacTel Group stock on their tax returns, and handle related tax considerations, including applicable disclosure requirements. Also, each shareholder should consult a tax advisor about state and other tax consequences of the distribution.

Sale of Fractional Shares

The IRS has ruled that the sale of a fractional share of an RHC by the distribution agent on behalf of an AT&T share owner will result in a gain or loss to the share owner measured by the difference between the sales proceeds and the tax basis allocated to the fractional share. The gain or loss on these sales will be a capital gain or loss provided the shares are capital assets in the hands of the shareowner.

Sales and Purchases of RHC Shares

Davis Polk & Wardwell has advised AT&T that shareholders who sell RHC shares through the option card consolidation arrangement, or otherwise, will realize a gain or loss on the sale measured by the difference between the proceeds from the sale of RHC stock and the tax basis allocated to such stock. RHC stock purchased through the consolidation program will have a tax basis equal to its cost. A gain or loss on the sale of RHC stock, whether through the consolidation program or otherwise, will be a capital gain or loss provided that the shares are capital assets in the hands of the shareholders.

Allocation of Tax Basis

All shareholders will be required to allocate tax basis in their AT&T shares in accordance with the alternatives described below whether or not they participate in the consolidation program or enroll in any RHC dividend reinvestment plan. Under the IRS rulings each shareholder is required to allocate his tax basis in his AT&T shares among his AT&T shares and the RHC shares which he is entitled to receive on divestiture except the portion of the PacTel Group stock which is taxable as a dividend. The shareholder's tax basis in the portion of the PacTel Group stock which is taxable as a dividend will be the fair market value thereof on January 1, 1984. A shareholder who determines not to treat a portion of the PacTel Group stock as a taxable dividend should allocate his tax basis in his AT&T shares among his AT&T shares and all the RHC shares to which he is entitled on divestiture. Allocations will be made on the basis of the relative fair market value of the shares on January 1, 1984, which will be the average of the means between the highest and lowest selling prices of the shares on December 30, 1983 and January 3, 1984.

By mid 1984, AT&T will send each shareholder a pamphlet with work sheets and examples explaining how to make the tax allocation based on the relative trading values of AT&T and the RHC stock. However, AT&T will not be able to identify the unspecified portion of PacTel Group stock which the IRS has ruled is a taxable dividend.

IRS Rulings

Excerpts from the pertinent IRS rulings are paraphrased as follows:

1. No gain or loss will be recognized to (and no amount will be included in the income of) AT&T's common shareholders upon the receipt of the common stock of Ameritech, Bell Atlantic, BellSouth, NYNEX, Southwestern Bell Corporation, and US WEST.

2. No gain or loss will be recognized to (and no amount will be included in the income of) AT&T's common shareholders upon the receipt of the common stock of PacTel Group except that the fair market value of a portion of the PacTel Group common stock received by each shareholder representing the interest in Pacific Bell acquired by AT&T by reason of the taxable transaction on May 12, 1982 ("PacTel Group taxable stock"), will be treated as a distribution of property to which the rules of section 301 (other than section 301(b) and 301(d)) apply.

3. As to each AT&T common shareholder, the PacTel Group taxable stock distribution treated under section 301 as a dividend, within the meaning of section 316, will be includible in such shareholder's gross income.

4. The basis of the common stock of AT&T and the common stock of the RHCs (except the PacTel Group taxable stock) in the hands of AT&T's common shareholders after the distribution will be the same as the basis of each shareholder's AT&T common stock held immediately before the distribution allocated in proportion to the fair market value of each.

5. The basis of the PacTel Group taxable stock in the hands of AT&T's common shareholders after the distribution will be the fair market value of such stock on the date of distribution.

6. The holding period of the common stock of the RHCs (except the PacTel Group taxable stock) received by AT&T's common shareholders will include the holding period of the AT&T common stock with respect to which the distribution will be made, provided the AT&T stock is held as a capital asset on the date of distribution.

7. The holding period of the PacTel Group taxable stock will commence as of the date of distribution.

8. When cash is received by an AT&T common shareholder as the result of a sale of fractional shares of the RHC stock, gain or loss will be recognized to the shareholder measured by the difference between that shareholder's basis in the fractional share interest, as determined in rulings 4 or 5 above, and the amount of cash received. If the fractional shares surrendered in the exchange qualify as capital assets in the hands of the exchanging shareholder, the gain or loss will be a capital gain or loss.

9. The date of distribution of the stock of the RHCs shall, for federal income tax purposes, be considered to be January 1, 1984.

10. The fair market value of the common stock of AT&T and RHCs on the date of distribution will be determined by an average of the means between the highest and lowest selling prices on December 30, 1983 and January 3, 1984. The composite listing of combined exchanges should be used.

Because the above is only a summary of the Federal tax consequences and because of the uncertainty as to the correct Federal tax treatment of the unspecified portion of PacTel Group stock which the IRS has ruled to be taxable as a dividend, shareholders are urged to consult their tax advisors as to Federal, state and local tax considerations, including applicable disclosure requirements.

IMPLICATIONS OF THE INTEREST AND DIVIDEND TAX COMPLIANCE ACT OF 1983

Taxpayer Identification Number

AT&T and the RHCs beginning in 1984 in accordance with the Interest and Dividend Tax Compliance Act of 1983 are required to withhold 20% from reportable payments made to share owners where AT&T or the RHCs have not received a valid taxpayer identification number. Unless otherwise exempt from these withholding provisions, for share owners without taxpayer identification numbers, 20% will be withheld from the following reportable payments:

— AT&T and RHC dividend payments, including the portion of PacTel Group stock which the Internal Revenue Service has ruled is taxable. (The amount to be withheld with respect to the PacTel Group taxable stock dividend will be withheld from the AT&T dividend payable on February 1, 1984.)

— Checks to shareholders resulting from the sale of fractional shares in the RHCs (described in "Method of Distribution of Regional Company Shares to AT&T Shareholders" above).

— Proceeds from the sale of RHC shares in the consolidation option. The distribution agent will withhold 20% of the gross proceeds resulting from the sale of RHC stock in the consolidation option for share owners who have not given AT&T a taxpayer identification number. The remaining proceeds after deduction of the $.25 per share transaction fee will be split and applied to purchases according to a share owner's instructions on the option card following the methodology set forth in "Method of Distribution of Regional Holding Company Shares to AT&T Shareholders" —"Distribution of Shares" above.

Certification Requirements

Under the Act, share owners who use the option card to buy RHC shares or who enroll in the RHCs' Share Owner Dividend Reinvestment and Stock Purchase Plans are required to certify, under penalties of perjury, that they are not subject to withholding on interest and dividend payments under Section 3406(a)(1)(C) of the Internal Revenue Code.

A certification statement has been included on the option card above the signature line. The option card is illustrated in "Method of Distribution of Regional Holding Company Shares to AT&T Shareholders" above.

If share owners have not received notice that they are subject to withholding as a result of a failure to report all interest or dividend income on prior tax returns, they can sign the requested certification.

If share owners cannot give the requested certification, they must strike out the certification statement before signing the option card. In that event, if the share owner enrolls in a dividend reinvestment plan or buys RHC shares through the option card, it will be necessary for the RHCs to withhold 20% of any future dividends payable to that share owner. However, if such share owner has furnished a valid taxpayer identification number, there will be no 20% withholding of proceeds from the sale of fractional shares or the sales effected through the consolidation option.

* * * * *

The remainder of this Information Statement and Prospectus consists of information statements and financial information relating to AT&T after divestiture and to each of the RHCs, as well as certain common information, the Share Owner Dividend Reinvestment and Stock Purchase Plan description for each RHC and the financial statements of AT&T and its consolidated subsidiaries.

INFORMATION STATEMENT

FOR

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

The Company

AT&T was incorporated in 1885 under the laws of the State of New York and has its principal executive offices at 195 Broadway, New York, New York 10007 (telephone number 212 393-9800).

The principal business of AT&T and its BOC subsidiaries has been that of furnishing communications services, mainly telephone service, throughout the United States, except in Alaska and Hawaii. AT&T operates, through its interexchange organization, a network of cable, wire and radio circuits and related equipment to provide for interconnection among the communications systems of the BOCs and other communications systems in the United States and for interconnection with those in most other countries throughout the world.

AT&T will divest itself of its BOC subsidiaries on January 1, 1984, pursuant to the Consent Decree and the Plan. AT&T will retain that portion of the facilities and business of the BOCs required to provide communications services between LATAs. AT&T will continue to provide interstate interLATA and international service. All customer premises equipment owned by the BOCs also will be transferred to an AT&T subsidiary or subsidiaries.

Since those portions of the split up business remaining with AT&T after divestiture face strong and growing competition, certain of AT&T's present accounting principles appropriate for rate-regulated enterprises will not be appropriate after December 31, 1983. Accordingly, AT&T will adjust its financial statements on December 31, 1983 to reflect the discontinued use by the post-divestiture AT&T of such principles and will restate the rate-regulated assets assigned to the post-divestiture AT&T on a basis appropriate for a competitive enterprise. This valuation adjustment will be accounted for as a divestiture-related extraordinary charge to income occurring on December 31, 1983. This charge is expected to total about $5.2 billion, net of related taxes, and reduce 1983's earnings by about $5.50 per common share. (See also Note 2 of Notes to Unaudited Pro Forma Condensed Balance Sheet and Note to Forecasted 1984 Statement of Income.)

Organization

After divestiture, AT&T will be managed as one business with the objective of meeting customer needs, both in the United States and foreign markets, for electronic information movement and management. The elements of its organization are expected to change, perhaps frequently, in response to the evolution of the regulatory environment and rulings, technology and the markets.

Upon divestiture, AT&T will consist of two sectors: (1) AT&T Communications, which will provide a wide variety of nationwide interexchange and international telecommunications services and will include the former AT&T Long Lines organization and 22 intrastate interLATA subsidiaries and (2) AT&T Technologies, which will encompass Western Electric, AT&T International, AT&T Information Systems and Bell Laboratories.

The Technologies Sector will be organized into a number of highly interrelated groups whose markets are both internal and external to AT&T.

Western Electric's activities will be organized as follows:

(a) Network Systems will design, manufacture, market and service transmission, switching and central office products;

(b) Components and Electronic Systems will design and produce silicon chip products and other electronic components;

(c) Processor and Software Systems will develop, manufacture and market computers for use in communication systems and as general purpose computers;

(d) Consumer Products will design, manufacture, wholesale and service communication systems for use in residential and business markets; and

(e) Government will develop, manufacture and market special design products and systems sold primarily to Department of Defense and related agencies.

Two other organizations in the Technologies Sector are AT&T International, which will market AT&T Technologies products and services outside the U.S., and AT&T Information Systems, a fully separated subsidiary, which will design, develop, market at retail and service communication products and systems for business, government, institutional and residential use.

Bell Laboratories will continue to provide research and development in information and communications technology to AT&T Communications and AT&T Technologies.

AT&T corporate headquarters located in New York City will set corporate policy, strategy and direction.

After divestiture, AT&T Information Systems or other AT&T subsidiaries will provide and service the customer premises equipment received from the BOCs. All newly manufactured customer premises equipment will be provided by AT&T Information Systems and the AT&T Consumer Products Division.

AT&T expects to mail regular reports to its shareholders containing annual audited and quarterly unaudited financial statements. Such reports are expected to contain a discussion of the financial results including, where appropriate, comparisons with expected results.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The accompanying financial forecast of American Telephone and Telegraph Company for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period. Accordingly, the financial forecast reflects management's judgment, based on present circumstances, of the most likely set of conditions and management's most likely course of action.

We have made a review of the financial forecast in accordance with applicable guidelines for a review of a financial forecast established by the American Institute of Certified Public Accountants. Our review included procedures to evaluate both the assumptions used by management and the preparation and presentation of the financial forecast. The summarized consolidated historical statements of income for 1982 and 1981 presented with the financial forecast are taken from the consolidated financial statements of American Telephone and Telegraph Company for the years ended December 31, 1982 and 1981. The historical financial statements and our report thereon are set forth elsewhere in this document. We have no responsibility to update this report on the financial forecast for events and circumstances occurring after the date of this report.

Based on our review, we believe that the accompanying financial forecast of American Telephone and Telegraph Company is presented in conformity with applicable guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants. We believe that the underlying assumptions provide a reasonable basis for management's financial forecast. However, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material.

COOPERS & LYBRAND

New York, New York
November 8, 1983

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

FINANCIAL FORECAST AND CONSOLIDATED HISTORICAL STATEMENTS OF INCOME

The financial forecast for AT&T, consisting of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, represents management's best estimate based on present circumstances of the most probable operating results and sources of funds supporting construction activity for the year ending December 31, 1984, and has been reviewed by Coopers & Lybrand, independent certified public accountants, whose report is included herein.

It should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist. The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984. In addition, the 1984 financial forecast reflects significant changes in accounting policies, including the consolidation of Western Electric and the adoption of accounting policies appropriate for nonregulated enterprises.

The following summarized Consolidated Historical Statements of Income for the years 1982 and 1981 are taken from the consolidated financial statements of AT&T and its subsidiaries for the years ended December 31, 1982 and 1981 which have been examined by Coopers & Lybrand, whose report is included elsewhere in this document. The unaudited Consolidated Historical Statement of Income of AT&T and its subsidiaries for the twelve month period ended June 30, 1983, in the opinion of AT&T, includes all adjustments (consisting only of normal recurring accruals, except as described in Notes 5 and 6 to the Consolidated Historical Statements of Income) necessary for a fair statement of income. These Consolidated Historical Statements of Income are not adjusted for the effects of divestiture.

	Dollars in Millions (except per share amounts)			
	Post-Divestiture Forecasted	Pre-Divestiture Consolidated Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Local Service Revenues	$ XX	$30,050.7	$28,986.3	$25,553.1
Toll Service Revenues	XX	33,827.4	33,256.4	30,188.5
Directory Advertising and Miscellaneous Operating Revenues	XX	4,583.4	3,623.7	2,913.1
Provision for Uncollectibles	XX	(862.7)	(773.4)	(589.1)
Total Operating Revenues	**56,544.1**	**67,598.8**	**65,093.0**	**58,065.6**
Depreciation	3,420.2	9,188.5	8,734.5	7,900.3
Other Operating Expenses	48,144.6	37,971.5	36,290.8	31,445.3
Total Operating Expenses	**51,564.8**	**47,160.0**	**45,025.3**	**39,345.6**
Net Operating Revenues	**4,979.3**	**20,438.8**	**20,067.7**	**18,720.0**
Federal Income Taxes	1,084.6	4,381.3	4,411.0	3,686.0
Other Operating Taxes	1,764.2	5,632.5	5,398.4	4,863.5
Total Operating Taxes	**2,848.8**	**10,013.8**	**9,809.4**	**8,549.5**
Operating Income	**2,130.5**	**10,425.0**	**10,258.3**	**10,170.5**
Other Income	**655.6**	**535.7**	**950.5#**	**1,015.2**
Interest Expense	**676.1**	**3,772.8**	**3,930.0**	**4,362.8**
Net Income	**2,110.0**	**7,187.9**	**7,278.8**	**6,822.9**
Preferred Dividend Requirements	113.4	139.7	141.9	145.7
Income Applicable to Common Shares	**$ 1,996.6**	**$ 7,048.2**	**$ 7,136.9**	**$ 6,677.2**
Earnings per Common Share	**$ 2.02**	**$ 7.88**	**$ 8.40**	**$ 8.47**
Weighted Average Number of Shares Outstanding (Millions)	989.1	894.8	849.6	788.2

Includes the cumulative effect of a change in accounting principle of $286.8 ($.34 per share). See Note 3.

See accompanying Notes to Consolidated Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984, and Note to Forecasted 1984 Statement of Income.

NOTES TO CONSOLIDATED HISTORICAL STATEMENTS OF INCOME

(Amounts relating to the twelve months ended June 30, 1983 are unaudited)

Dollars in Millions (except per share amounts)

1. **Accounting Policies**—The consolidated historical statements of income of AT&T and its subsidiaries reflect the application of the accounting policies described in this Note and in Note 4.

Consolidation—The consolidated historical statements of income include the accounts of AT&T and its wholly-owned subsidiaries, except Western Electric. The consolidation process eliminates the effects of all significant intercompany transactions except as discussed below under "Purchases from Western Electric." The investment in Western Electric and certain other investments (where it is deemed that AT&T's ownership gives it the ability to exercise significant influence over operating and financial policies) are included at equity (cost plus proportionate share of reinvested earnings). All other investments are included at cost.

Revenue Refunds—AT&T and its telephone subsidiaries record in their financial statements material revenue refunds applicable to prior years as adjustments of the respective years' income and, within a year, as adjustments of the applicable interim periods' income.

Purchases From Western Electric—Western Electric has a substantial investment in manufacturing and other facilities which are devoted mainly to its business with the consolidated telephone subsidiaries. Western Electric has supply contracts with the subsidiaries which provide that the prices it charges for the telephone equipment and materials it manufactures or procures for them shall be as low as the prices it charges its most favored customers for like materials and services under comparable conditions. The consolidated financial statements reflect items purchased from Western Electric at cost to the telephone subsidiaries; this cost includes the return realized by Western Electric on its investment devoted to the communications business. See "Telephone Plant" below.

Telephone Plant—The investment in equipment and materials dedicated to providing communications services is stated at its original cost. Such amounts do not purport to represent reproduction cost or current value. The original cost of telephone plant obtained from Western Electric includes a return on Western Electric's investment. (See "Purchases from Western Electric" above). It is impossible to identify the particular purchases from Western Electric over a long period of years which were charged to the plant accounts and now remain therein, but AT&T considers that such purchases made by the consolidated companies represent about 50% of the consolidated plant investment as of December 31, 1982. Western Electric advises that its rate of profit before interest charges has varied by years and by classes of sales, but that such rate of profit before interest charges, included in prices for material sold and services furnished to affiliated telephone companies (including items chargeable to other than plant accounts), has been approximately 6% of such sales over the twenty year period ended December 31, 1982 and approximately 7% of such sales over the three year period then ended. Western Electric considers that its rate of profit before interest charges on those items which have been charged to the plant accounts is somewhat higher than its rate on total sales to the affiliated companies.

Currently AT&T and certain of its subsidiaries, including Western Electric, join in the filing of a consolidated federal income tax return. As a result, Western Electric's profits before income taxes included in the cost of those materials and services in the plant accounts of AT&T and its telephone subsidiaries are excluded from consolidated taxable income in the year acquired from Western Electric. Instead, such profits are recognized and taxed over the depreciable life of the related plant since, for tax purposes, AT&T must exclude Western Electric profits in deriving the depreciable cost of its investment in telephone plant. Consequently, AT&T's tax liability is higher than if it were permitted to depreciate the full amount it initially paid to Western Electric. Western Electric provides AT&T with the funds necessary to pay the tax liability on these deferred profits in the year in which AT&T first acquires the related telephone plant. These payments are treated as reductions of the investment in telephone plant which results in a reduction in depreciation expense over the life of the related plant. However, there is no material effect on Net Income because the decrease in depreciation expense is offset by the aforementioned increase in the income tax provision.

Material and Supplies—New material and reusable material are carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Non-reusable material is carried at estimated salvage value.

Depreciation—Prior to 1981, AT&T's provision for depreciation was based on straight-line composite rates, prescribed by the FCC, determined on the basis of the average expected lives of categories of telephone plant acquired in a given year. In 1982 the FCC approved the implementation of the method of determining straight-line composite rates on the basis of equal life groups of certain categories of telephone plant acquired in a given year which will result in a higher provision for depreciation than that based on average expected lives. In 1981 the FCC authorized AT&T to begin implementation of the "remaining life" method of depreciation. The "remaining life" method provides for the full recovery of the investment in telephone plant. Effective January 1, 1981, the FCC also authorized shorter lives for customer terminal equipment (and certain other telephone plant). The increases in depreciation expense resulting from these FCC actions should be allowable in determining revenue requirements in rate-making proceedings. See also Note 7.

When depreciable plant, other than minor items thereof which are replaced, is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

Maintenance and Repairs—The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is, with minor exceptions, charged to operating expenses.

Station Connections—During 1981 the FCC directed that beginning January 1981 certain costs of installing telephone service on a customer's premises be expensed instead of capitalized and that the balance of the investment in installation costs be amortized.

Interest Charged Construction—Regulatory authorities allow AT&T and its telephone subsidiaries to accrue interest as a cost of constructing certain plant and as an item of income, i.e., interest charged construction. Such income is not realized in cash currently but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Research—The cost of research and systems engineering performed by Bell Laboratories is included as expense in determining Net Income.

Lease Commitments—AT&T leases certain facilities and equipment used in its operations and reflects lease payments as rental expense of the periods to which they relate. These leases include some which would be classified as "capital leases" under criteria established by the Financial Accounting Standards Board. However, for regulatory accounting and rate-making purposes, such leases are not capitalized. Had such leases been capitalized, the effect on Net Income for 1982 and 1981 would have been insignificant.

Income Taxes—

(a) Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the period during which the transaction will be recognized in the determination of net income for financial reporting purposes. Appropriate income charges and their subsequent reversal, reflected as deferred income taxes-net, prevent the tax effect of these timing differences from distorting net income. AT&T recognizes the tax effects of timing differences on the following transactions:

  (1) Vacation pay and certain property taxes are deductible for income tax purposes in the year prior to being expensed in the statements of income.

  (2) Depreciation for income tax purposes is determined based on accelerated methods and shortened lives which cause such depreciation to be higher during the early years of plant life and lower in later years than the depreciation charges for such plant reflected in the statements of income.

(b) Investment tax credits result from provisions of the federal tax law which allow for a reduction in tax liability based on certain construction expenditures. Corresponding reductions in tax expense are deferred and, except for the additional one percent credit available under the Tax Reduction Act of 1975 which must be contributed currently to the Bell System Employee Stock Ownership Plan, are amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

Dollars in Millions (except per share amounts)

2. **Other Income**—Other Income for the twelve months ended June 30, 1983 and for the years 1982 and 1981 also includes the net income applicable to the investment in Western Electric, accounted for on an equity basis, of $93.4, $336.7 and $711.3, respectively, and interest charged construction of $345.8, $317.6 and $287.5, respectively. See also Note 6 for information concerning two significant charges to Western Electric's net income made in the 12 months ended June 30, 1983 and the year 1982.

3. **Income Taxes**—In 1982, AT&T changed its accounting for certain deferred income taxes (primarily state and local taxes) to record deferred taxes on timing differences only when such deferred taxes are recognized by regulators in the rate-making process. This change was made to achieve greater consistency between financial reporting and the intrastate regulatory rate-making process. The effect of this change increased Income Applicable to Common Shares by $352.7 ($.42 per share). The cumulative effect of this change as of the beginning of 1982 was $286.8 ($.34 per share). Income before the cumulative effect of the change in accounting principle was $6,992.0 ($8.06 per share). Pro forma amounts assuming the change in accounting for deferred income taxes had been applied retroactively are as follows:

	1982	1981
Income Applicable to Common Shares	$6,850.1	$6,726.3
Earnings per Common Share	$ 8.06	$ 8.53

The components of operating income tax expense were as follows:

	1982	1981
Federal:		
Current	$ (786.8)	$ 785.1
Deferred—net	3,973.9	1,782.2
Investment tax credits—net	1,223.9	1,118.7
	4,411.0	3,686.0
State and local:		
Current	299.7	287.9
Deferred—net	219.6	145.2
	519.3	433.1
Total	$4,930.3	$4,119.1

Income taxes on non-operating income included in Other Income were:

	1982	1981
Federal:		
Current	$ 8.3	$72.1
Deferred—net	10.6	1.5
	18.9	73.6
State and local:		
Current	11.6	11.3
Deferred—net	.2	—
	11.8	11.3
Total	$30.7	$84.9

Deferred income tax expense results principally from timing differences between depreciation expense for income tax purposes and depreciation expense reflected in these statements of income. The decrease in 1982 Federal Income Taxes—Current and the related increase in Federal Income Taxes-Deferred is principally due to adjustments, primarily relating to prior years, made to reflect the reestablishment of eligibility for current and prior years for accelerated methods of tax depreciation for The Pacific Telephone and Telegraph Company ("Pacific Bell"), a subsidiary, discussed in Note 5 and to conform the treatment of installation costs for tax purposes to the accounting treatment of such costs for financial statement purposes.

Dollars in Millions (except per share amounts)

The effective Federal income tax rate, as determined by dividing Federal income taxes (see above) by the sum of Federal income taxes, income before cumulative effect of a change in accounting principle (after excluding the net income applicable to investments in unconsolidated companies accounted for on an equity basis), and the ownership interest of others in the net income of certain consolidated subsidiaries, was 39.9% and 37.9% for the years 1982 and 1981, respectively. The differences of 6.1% and 8.1%, respectively, between the effective rate and the federal income tax statutory rate of 46% are attributable to the following factors:

	1982	1981
a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation	1.3%	2.8%
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	.8	.8
c. Depreciation not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(.9)	(.8)
d. Amortization of investment tax credits over the life of the plant which gave rise to the credits	5.7	5.3
e. Net effects of recognizing both the reestablished eligibility for investment tax credits and the required tax payment. See Note 5	(1.4)	—
f. Other differences	.6	—
Total	6.1%	8.1%

4. **Provision for Pensions and Death Benefits**—Employees of AT&T, its consolidated subsidiaries, Western Electric and Bell Laboratories are covered by two national Bell System noncontributory pension and death benefit plans, one for management employees and one for non-management employees. Contributions to such plans are made to irrevocable trust funds. It has been, and continues to be, the policy of the companies to make contributions which are equal to the current year cost of the plans determined on a going concern basis by an actuarial method specified by the Employee Retirement Income Security Act of 1974. The following data provide information on plan costs:

	1982	1981
Balance of accumulated costs at beginning of year	$35,852.7	$31,101.2
Current year cost	3,516.4	3,374.7
Net investment income	NA	2,748.7
Benefits paid	NA	1,371.9
Balance of accumulated costs at end of year	NA	$35,852.7
Current year cost as a percent of salaries and wages	12.8%	13.1%

(NA = Not Available)

The value of pension fund assets used for actuarial purposes equals the balance of accumulated costs shown above.

Amendments to the plans during 1982 had the effect of increasing 1982 pension cost by approximately $345.3 while recognition of 1981 actuarial experience had the effect of decreasing 1982 cost.

Dollars in Millions (except per share amounts)

Statement of Financial Accounting Standards No. 36 requires the following disclosure to be made of the actuarial present value of accumulated plan benefits and the fair value (essentially current market value) of net assets available for plan benefits. The following data are based on the latest actuarial valuations.

	At December 31 1981
Actuarial present value of accumulated plan benefits:	
Vested	$20,827.4
Non-vested	3,413.4
Total	$24,240.8
Fair value of net assets available for plan benefits	$35,781.8

The rate of return used in determining the actuarial present value of accumulated plan benefits is the rate used by the Pension Benefit Guaranty Corporation ("PBGC") for determining the value of plan benefits under terminated pension plans and averaged approximately 10.6% compounded annually at December 31, 1981. If the rate used by PBGC had been 1% lower, the actuarial present value of accumulated plan benefits at December 31, 1981 would have been approximately $27,166.9 instead of $24,240.8 as shown above.

5. **Rate and Related Matters**—As previously reported, the IRS had contended that a refund order of the California Public Utilities Commission ("CPUC") rendered Pacific Bell ineligible for certain federal tax benefits relating to accelerated depreciation and investment tax credits. In December 1982, Congressional legislation confirmed Pacific Bell's eligibility for these tax benefits subject to a closing agreement with the IRS for tax payments based on revenues previously refunded to customers. The liability for these tax payments was then estimated to be $320.7. As a result of this probable eligibility, interest expenses previously accrued for anticipated tax deficiencies were eliminated and investment tax credits for which Pacific Bell previously was not considered to be eligible were recognized and portions thereof amortized. The net effects of recognizing in 1982 both the reestablished eligibility and the required tax payment increased Income Applicable to Common Shares by $191.2 ($.22 per share), of which $47.6 ($.06 per share) is applicable to prior years.

On June 20, 1983, AT&T and Pacific Bell entered into a closing agreement with the IRS. This agreement reduces Pacific Bell's current tax liability from $320.7 to $272.7 and provides for the future tax deductibility of disallowed deductions for accelerated depreciation expense reflected in the tax liability. This, in combination with expected CPUC regulatory actions, restores $216.4 of Pacific Bell's previous reduction in net income. This restoral increased Earnings per Common Share for the twelve months ended June 30, 1983 by $.23 per share in addition to the $.22 per share referred to in the preceding paragraph.

Total intrastate revenues (net of taxes) subject to possible refund as of June 30, 1983 are approximately $172.0 ($.19 per share). Refunds, if any, of these revenues may require a restatement of interim results reported for 1983.

6. **Cost of Consolidating Facilities**—Western Electric's net income for the year 1982 and for the twelve months ended June 30, 1983 includes a one-time charge to earnings of $317.6 ($.37 per share for 1982) to phase out or reduce production at certain manufacturing facilities in order to improve plant utilization and reduce costs. The provision includes the write-down of plant and equipment to net realizable value and estimated costs for employee and equipment relocations and employee termination benefits.

Western Electric's net income for the twelve months ended June 30, 1983 also includes a one-time charge to earnings of $96.5 ($.11 per share) to cover the costs of consolidating distribution and repair facilities as a part of a long term plan to improve space utilization and reduce costs. This charge includes the write-down of facilities to net realizable value plus estimated costs of employee and equipment relocations and employee termination benefits.

Dollars in Millions (except per share amounts)

7. **Additional Financial Information**—

	1982	1981
Depreciation—Percentage of average depreciable telephone plant	6.13%	6.05%
Amortization of investment tax credits	$ 795.5	$ 523.2
Other Operating Taxes:		
State and local income taxes	$ 519.3	$ 433.1
Property	1,949.4	1,845.6
Gross receipts	1,333.0	1,211.0
Social security	1,370.2	1,164.9
Capital stock	154.5	146.4
Miscellaneous	72.0	62.5
Total	$5,398.4	$4,863.5
Interest expense:		
On long and intermediate term debt	$3,866.8	$3,608.3
On notes payable	416.6	522.3
Other	(353.4)	232.2
Total	$3,930.0	$4,362.8
Rental expense*	$1,508.4	$1,398.5
*Includes rental expense for satellite rentals based on usage	$ 156.3	$ 128.4

8. **MCI and Litton Antitrust Litigation**—In June 1980, MCI Communications Corporation was awarded $1.8 billion in treble damages in a civil antitrust suit against AT&T. In January 1983, the U. S. Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. Petitions for rehearing of this decision were denied by the Court of Appeals. In July 1983, both parties petitioned the U. S. Supreme Court to review the case. On October 11, 1983, the Supreme Court denied the petitions. In the opinion of AT&T's legal counsel, any monetary liability or financial impact to which AT&T and the Bell System companies might be subject after final adjudication would not be material in amount.

   In June 1981, in another antitrust suit involving terminal equipment against AT&T and certain Bell System companies, Litton Industries, Inc. ("Litton") was awarded $276.8 in treble damages. In February 1983, the U.S. Court of Appeals for the Second Circuit upheld the lower court's decision. The Court of Appeals denied AT&T's petition for a rehearing. In June 1983, AT&T petitioned the U. S. Supreme Court to review the case. On October 3, 1983, the Supreme Court invited the Solicitor General to file a brief in the case expressing the views of the Federal government. Should it ultimately be determined that the Litton award is payable, Income Applicable to Common Shares would be decreased in a future period. If such determination had been made as of June 30, 1983, the decrease in Income Applicable to Common Shares for AT&T and the Bell System companies could have been as much as $180.0 ($.20 per share).

9. **Regulatory Actions**—In June and November 1982, the FCC approved AT&T's plans to establish a nationwide subsidiary to offer on a detariffed basis both enhanced services and new customer premises equipment. The FCC also approved AT&T's intentions to reimburse the operating telephone companies and AT&T's Long Lines Department ("Long Lines") for expenses incurred by them in connection with the formation of the new subsidiary and with the development of the enhanced services and new customer premises equipment. However, the November FCC order requires that liabilities be recognized for that portion of these reimbursements which the FCC believes are subject to refund to customers in future regulatory proceedings. Accordingly, results were previously restated to reflect the estimated amounts to be refunded.

   In April 1983, the FCC determined that additional customer refunds may be required for customer premises equipment development expenses incurred by the operating telephone companies and Long Lines. Previously the FCC had announced its intention to determine if additional refunds were also required for customer premises equipment development expenses incurred by Western Electric. If such determination had been made as of June 30, 1983, Income Applicable to Common Shares would be reduced in a future period by as much as $110.0 ($.12 per share).

SUMMARY OF SIGNIFICANT FINANCIAL FORECAST ASSUMPTIONS FOR THE YEAR ENDING DECEMBER 31, 1984

Dollars in Millions (except per share amounts)

The Consent Decree requires that AT&T divest those parts of the Bell System operating telephone companies that provide exchange telecommunications and exchange access service, as well as printed directory advertising and cellular advanced mobile communications service business. The Plan outlines how divestiture will be accomplished on January 1, 1984.

This forecasted statement of income represents management's best estimate, based on present circumstances, of the most probable operating results of AT&T for the year ending December 31, 1984. Accordingly, the financial forecast reflects management's judgment based on present circumstances of the most likely set of conditions and management's most likely course of action. The assumptions disclosed herein are those that management believes are significant to the financial forecast or are key factors upon which the financial results depend. The assumptions presented are consistent with the Plan approved by the Court. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur subsequent to November 8, 1983, the date of the financial forecast. Therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material. Additionally, it should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist and no longer reflects accounting policies which are appropriate only for rate-regulated operations.

This forecasted statement of income includes estimates of the impact of transactions with the divested telephone companies. Due to potential competitor and supplier relationships, the assumptions used by AT&T with regard to Access Charges, sale of customer premises equipment, sales by Western Electric and other similar transactions were not disclosed in detail to the BOCs and RHCs and thus will not necessarily be the same as the assumptions used by them regarding such transactions.

AT&T does not intend to update this forecasted statement of income because actual results will be reported during 1984. Consequently, it should be evaluated in light of any events and changes in circumstances occurring after November 8, 1983.

The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

Assumptions

(a) **General Economy**—The following national economic assumptions were considered in preparing the 1984 financial forecast.

Growth in Real Gross National Product (GNP)	5.0%
Increase in Consumer Price Index (CPI)	4.4%
Annual Average Interest Rates:	
—AAA Bond Rating	12.2%
—Prime	11.6%
—90 Day Commercial Paper	9.8%

(b) **Operating Revenues**—The forecasted revenues of AT&T Communications, which account for over half of consolidated AT&T 1984 forecasted revenues, are based on estimated rates and volumes of business. The forecast assumes that the FCC will permit to become effective on April 3, 1984 currently filed tariffs for interstate services which would make numerous changes to the present interstate tariffs, including a proposed reduction of approximately 10% in interstate message toll telephone rates. Interstate toll service accounts for about 75% of AT&T Communications' forecasted revenues. The forecast assumes an increase in volume during 1984 over 1983 as a result of the growth in the overall market, the proposed interstate rate reduction, and other factors. AT&T Communications' remaining forecasted revenues will be generated by intrastate toll service, for which rate applications have been or will be filed before regulatory commissions.

It is assumed that the rates to be approved by the FCC and state regulatory authorities will recover (based on regulated book values and accounting practices which do not reflect the valuation adjustments described in Note 2 to the Unaudited Pro Forma Condensed Balance Sheet) the costs (including the cost of capital) of providing these services.

Following the FCC's October 18, 1983 Order suspending the effective date of interstate Access Charges to customers and interexchange carriers from January 1, 1984 to April 3, 1984, AT&T on October 27, 1983 petitioned the FCC to reconsider the suspension. In the event that the FCC declines to reconsider, AT&T and the RHCs have reached agreement as to the principal terms of an interim arrangement designed to compensate the BOCs for the use of their facilities for interstate toll and related services on a basis that is approximately consistent with the current level of interstate earnings (which level is somewhat lower than the authorized rate of return). The forecast assumes that such arrangement will be in effect from January 1, 1984 to April 3, 1984. There is pending before the Court a motion which was filed by the Bell Atlantic telephone subsidiaries prior to the time the agreement referred to above was reached. In that motion, the Bell Atlantic telephone subsidiaries proposed that they be compensated for use of their facilities for interstate toll service at the authorized rate of return. Consistent with the agreement, Bell Atlantic is requesting Court approval to withdraw its motion. AT&T and the other RHCs support that request.

The forecast also assumes that the implementation by the FCC of interstate Access Charges will occur on April 3, 1984, and that the Access Charge process will not be altered through (i) congressional legislation which, as currently proposed, seeks to suspend or prohibit Access Charges to residential and small business customers and also seeks to extend the present reduced interconnection rates charged to interexchange carriers other than AT&T, or (ii) judicial action relating to an appeal of the FCC's Order initially adopting Access Charges which is pending before the U.S. Court of Appeals for the District of Columbia Circuit.

Any changes in these assumptions could have a significant effect on forecasted Net Income; any further delay in implementation of Access Charges would reduce forecasted Net Income.

The majority of the forecasted revenues of the AT&T Technologies sector are expected to come from the sale of equipment by Western Electric to the previously affiliated BOCs and from the leasing of embedded customer premises equipment. The AT&T Technologies sector faces strong competition. However, the forecast assumes that through the introduction of new products and components, competitive pricing and performance, and aggressive marketing, AT&T Technologies will maintain its overall competitive position in an expanding telecommunications market. The forecast assumes that Western Electric will be able to meet its requirements for components through its own production and through purchases from external suppliers. The forecast assumes that the cost of embedded customer premises equipment (after the reduction in carrying value described in Note 2 to the Unaudited Pro Forma Condensed Balance Sheet) will be recovered through revenues from continued leasing and from sales of such equipment to customers.

In addition, the forecast assumes that the FCC will approve AT&T's requests to detariff embedded customer premises equipment prior to divestiture and will approve the pricing program set forth in such request, and that such equipment will be transferred to the existing AT&T Information Systems subsidiary. If the request to detariff is not approved, expenses would be significantly increased due to the need to keep separate tariffed and detariffed customer premises equipment operations. Changes to the pricing program could affect forecasted revenues.

(c) **Depreciation**—Depreciation is provided on the estimated level of plant expected to be owned by AT&T during 1984. Depreciation on assets to be owned by AT&T Communications is estimated using a straight-line method based on average remaining lives at a composite rate of 6.9%. These depreciation rates are expected to be allowable in determining revenue requirements in rate-making proceedings. Depreciation on assets to be owned by AT&T Technologies is estimated principally using the straight-line method based on average remaining lives at a composite rate of 11.0%. Construction costs of $3.8 billion for the period are estimated based on anticipated demand for telecommunications services and products as well as planned improvements to existing services and manufacturing facilities.

Dollars in Millions (except per share amounts)

(d) **Other Operating Expenses**—Other Operating Expenses include estimated charges of $21.8 billion to compensate the BOCs for the use of their facilities for toll and related services (including customer billing) under interim arrangements from January 1, 1984 until April 3, 1984 and under Access Charge tariffs starting April 3, 1984 (see Assumption (b)). These costs could increase significantly if Access Charge tariffs are not implemented as currently proposed.

Other Operating Expenses also include salaries, wages, pensions and other employee related expenses. Salaries and wages, including cost-of-living adjustments, are estimated based on expected post-divestiture force levels and reflect new union contracts agreed upon in August 1983. Pensions and other employee related expenses are estimated based on expected force levels and estimated payroll used to calculate such expenses. It is estimated that the changes in wages and fringe benefits resulting from the new contracts, as well as adjustments in ranges of compensation and fringe benefits for management employees, will increase expenses by about $833.1 in 1984.

Cost of goods sold of $7.4 billion (computed on a first-in, first-out basis) included in Total Operating Expenses as a percentage of sales is 58.9%. Anticipated productivity improvements from closing and downsizing certain facilities at Western Electric are reflected in the forecast of cost of goods sold. Maintenance expense as a percentage of the level of plant is expected to remain relatively constant during 1984. Other Operating Expenses, excluding access charges, salaries, wages, pensions, other employee related expenses and cost of goods sold, include an adjustment for inflation.

(e) **Operating Taxes**—The estimated effective annual Federal income tax rate is expected to be 34.0%. The difference of 12.0% between the estimated effective tax rate and the assumed statutory rate of 46% is attributable to the following factors:

1. Amortization of investment tax credits over the life of the plant which gave rise to the credits	10.0%
2. Research and experimentation credit	2.4
3. Other differences	(.4)
Total	12.0%

The investment tax credit rate is expected to remain at 10%. Tax estimates are in accordance with the Tax Equity and Fiscal Responsibility Act of 1982. Social Security taxes are computed using a 7.0% rate on the statutory wage base. State and local tax estimates are determined based on taxable bases and statutory tax rates.

(f) **Interest Cost**—Total interest costs were computed using an embedded cost of funded debt of 8.0% and an average estimated cost for short term debt of 9.8%. The interest cost of funded debt equals 94.8% of total interest costs. The interest expense included on the forecasted statement of income is net of $117.3 of interest costs expected to be capitalized.

(g) **Summary of Significant Anticipated Sources of Funds Supporting Construction Activity—**

Funds from operations (net of first quarter 1984 dividends, annualized, of $1,303)	$5,542.2
Funds from external financing, net	428.5
Change in working capital	(1,817.4)
Other	(362.8)
Total construction activity	$3,790.5

(h) **Contingent Liabilities**—No amounts have been included in the financial forecast for the matters discussed in Note 8 to Consolidated Historical Statements of Income.

NOTE TO FORECASTED 1984 STATEMENT OF INCOME

Summary of Significant Accounting Policies—The forecasted statement of income is prepared in accordance with the generally accepted accounting principles expected to be used for the financial statements issued during the forecast period. Generally accepted accounting principles used in the forecasted statement of income have been applied on a basis consistent with those principles used in the consolidated historical statements of income for the years 1982 and 1981 and the unaudited twelve month period ended June 30, 1983, except as described below:

Consolidation—The forecasted statement of income consolidates the accounts of all significant subsidiaries controlled by AT&T including Western Electric and Bell Laboratories which previously were included using the equity method.

Accounting Policies and Practices Appropriate for Nonregulated Enterprises—As a result of the divestiture, those portions of the integrated Bell System telecommunications business which face strong and growing competition will be assigned to AT&T; consequently, generally accepted accounting principles appropriate for a rate-regulated enterprise will no longer be applied by AT&T. See also Note 2 to the Unaudited Pro Forma Condensed Balance Sheet. The changed accounting policies and practices are as follows:

Revenue Refunds—Liabilities for probable revenue refunds, if any, are reflected in current results.

Purchases from Western Electric—The returns realized by Western Electric on its investment in manufacturing and other facilities are eliminated from the cost of telephone equipment and materials sold within the consolidated group. Such returns will be realized when the equipment and materials are either sold outside the consolidated group or depreciated.

Income Taxes—Deferred taxes on tax timing differences are recorded when transactions for tax purposes are recognized in time periods other than the periods during which the transactions are recognized in the determination of net income for financial reporting purposes.

Lease Commitments—The asset values and related obligations of capital leases are included in the balance sheet. The amortization of assets under capital leases and the interest cost of capital lease obligations are included in current results.

Compensated Absences—The expense for vacation and other compensated absences is recognized when earned, rather than when paid.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

The following Unaudited Consolidated Historical Balance Sheet as of June 30, 1983 is derived from the unaudited financial statements of AT&T and its consolidated subsidiaries included in its Quarterly Report on Form 10-Q.

The following Unaudited Pro Forma Condensed Balance Sheet gives effect to the divestiture of the telephone subsidiaries by AT&T as if it had occurred on June 30, 1983, in accordance with the Plan and reflects concurrent valuation adjustments for the discontinued application of accounting principles appropriate only for a rate-regulated enterprise. Because divestiture will not occur until January 1, 1984, actual balances and adjustments will vary from those presented in the pro forma balance sheet below. The Unaudited Pro Forma Condensed Balance Sheet should be read in conjunction with the audited consolidated financial statements and notes for the years ended December 31, 1982, 1981 and 1980 and with the unaudited consolidated financial statements and notes for the nine month periods ended September 30, 1983 and 1982 which are included elsewhere in this document.

	Dollars in Millions			
	Consolidated Historical June 30, 1983	Divestiture Pro Forma Adjustments (See Note 1)	Valuation Adjustments (See Note 2)	Pro Forma Consolidated June 30, 1983
ASSETS				
Telephone Plant—Net of Accumulated Depreciation	$130,056.5	$(121,087.1)(a) 15,431.3 (b) 377.0 (d) 3,993.3 (e)	$(7,300.0)	$21,471.0
Investments	5,960.0	57,692.2 (a) (9,213.7)(b) (46,668.0)(c) (5,017.1)(e) (2,128.4)(f)	—	625.0
Current Assets	14,887.3	(9,030.9)(a) 374.4 (b) 5,234.8 (e) 90.4 (f)	—	11,556.0
Other Assets and Deferred Charges	2,614.6	(2,099.3)(a) 44.3 (b) 7.0 (e) 57.9 (f)	—	624.5
Total Assets	$153,518.4	$(111,941.9)	$(7,300.0)	$34,276.5

See accompanying Notes to Unaudited Pro Forma Condensed Balance Sheet.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

	Dollars in Millions			
	Consoldated Historical June 30, 1983	Divestiture Pro Forma Adjustments (See Note 1)	Valuation Adjustments (See Note 2)	Pro Forma Consolidated June 30, 1983
INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS				
Common Share Owners' Equity:				
Common Shares—par value $1 per share	$ 936.7	$ —	$ —	$ 936.7
Proceeds in Excess of Par Value	34,629.6	(25,233.7)(c)	—	9,395.9
Reinvested Earnings	29,580.7	(21,495.4)(c)	(5,189.0)	2,896.3
Convertible Preferred Shares Subject to Redemption	277.9	—	—	277.9
Preferred Shares Subject to Mandatory Redemption	1,537.2	—	—	1,537.2
Ownership Interest of Others in Consolidated Subsidiaries	535.8	(535.8)(a)	—	—
Long and Intermediate Term Debt	45,319.5	(37,554.3)(a) 845.9 (b) 1,085.8 (e) (228.0)(f)	—	9,468.9
Debt Maturing Within One Year	1,617.4	(1,719.6)(a) 1,252.8 (b) 333.6 (e) (1,117.8)(f)	—	366.4
Other Current Liabilities	11,277.0	(8,852.7)(a) 218.7 (b) 1,642.6 (e) (634.3)(f)	2,102.0	5,753.3
Deferred Taxes and Other Deferred Credits	27,806.6	(25,862.7)(a) 4,318.9 (b) 61.1 (c) 377.0 (d) 1,156.0 (e)	(4,213.0)	3,643.9
Total Invested Capital, Liabilities, and Deferred Credits	$153,518.4	$(111,941.9)	$(7,300.0)	$34,276.5

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

Dollars in Millions (except per share amounts)

1. Divestiture Pro Forma Adjustments—

(a) This adjustment reflects the deconsolidation of the BOCs and the reversal of consolidating intercompany eliminations.

(b) This adjustment transfers assets and liabilities to and from the BOCs at net book value. The transfers are tax-free under the Internal Revenue Code. Accumulated deferred income tax reserves and unamortized investment credits are transferred along with the associated assets.

This adjustment also reflects the removal of debt by AT&T from the BOCs as required by the provisions of the Plan. The amount expected to be removed at divestiture under terms of Reorganization and Divestiture Agreements between AT&T and each RHC is approximately $2.6 billion. AT&T expects its debt ratio (debt as a percent of total debt and equity) at the time of divestiture will be approximately 40%.

(c) This adjustment reflects the divestiture of the investment in the BOCs.

(d) Under this adjustment, pursuant to a 1969 closing agreement with the IRS, telephone plant transferred to AT&T Information Systems is increased to original cost and the depreciation reserve is increased to what it would have been had the telephone plant been depreciated on the basis of the original cost. The closing agreement requires that when property ceases to be public utility property the liability for deferred taxes associated with Western Electric profits reverts back to Western Electric. See Note 1 to Consolidated Historical Statements of Income, "Purchases From Western Electric" and "Telephone Plant".

(e) This adjustment effects the consolidation of Western Electric and Bell Laboratories.

(f) This adjustment eliminates significant intercompany accounts receivable and payable.

2. Valuation Adjustment—

For its tariffed telecommunications services, AT&T's financial statements have been prepared in accordance with generally accepted accounting principles applicable to rate-regulated enterprises and thus reflect accounting policies and practices used by regulators in the rate-making process.

As a result of the court-ordered January 1, 1984 divestiture, AT&T's integrated telecommunications business is being split up with those portions which operate predominantly under monopoly regulation being assigned to seven RHCs and those portions which face strong and growing competition being assigned to the post-divestiture AT&T. Consequently, certain of AT&T's accounting policies and practices will no longer be appropriate after December 31, 1983. Accordingly, AT&T will adjust its financial statements on December 31, 1983 to reflect the discontinued use by the post-divestiture AT&T of accounting policies and practices appropriate for rate-regulated enterprises and will restate the rate-regulated assets assigned to the post-divestiture AT&T on a basis appropriate for nonregulated enterprises.

These adjustments, each of which will reduce the carrying value of the post-divestiture AT&T's net assets, consist of the following:

1. Reducing the carrying value of terminal equipment and network facilities from the amounts recognized by regulators in the rate-making process to a lesser amount expected to be recoverable in a competitive environment.
2. Establishing liability accruals for expenses which in the rate-making process have been accounted for only when paid. These include expenses for future compensated absences, special termination benefits, and contractual obligations to the RHCs for the post-divestiture AT&T's share of future benefit payments to certain groups of former employees.

3. Establishing deferred income tax credits for tax timing benefits which regulators in the rate-making process have recognized on a current basis rather than on a deferred basis as is required for nonregulated businesses.

These valuation adjustments will be accounted for as a divestiture-related extraordinary charge to income occurring on December 31, 1983. This year-end extraordinary charge is expected to total about $5.2 billion, net of taxes, or about $5.50 per common share (based on an estimated 941,600,000 weighted average number of shares outstanding during 1983).

Commencing January 1, 1984, AT&T's published financial statements will reflect asset values and accounting principles appropriate for a nonregulated enterprise. See also Note to Forecasted 1984 Statement of Income.

3. Contingent Liabilities—

See Note 8 to Consolidated Historical Statements of Income.

Rates, Regulation and Competition

AT&T's intrastate long distance toll service and Wide Area Telecommunications Service ("WATS") are subject to regulation in the states by public service commissions or similar state authorities having regulatory powers over intrastate rates and services and other matters. AT&T's interstate long distance toll and WATS services are subject to the jurisdiction of the FCC.

Intrastate Rates.

AT&T has formed 22 subsidiaries which, beginning on January 1, 1984 will provide intrastate communications services between LATAs. Several subsidiaries have filed or will file tariffs with the public service commissions or similar public authorities in various states which provide for rates which are basically the same as the existing rates. The tariffs have not yet been approved.

Regulation, Competition and Interstate Rates

On October 3, 1983, AT&T filed with the FCC a request for a $1.75 billion reduction in interstate long distance rates, an average reduction of approximately 10%. In addition, AT&T asked for authority to reduce rates for WATS and 800 Service, increase rates for many private line services and start charging 75 cents for interstate directory assistance calls. On October 18, 1983, the FCC unexpectedly suspended the effective date of such rate changes proposed by AT&T until April 3, 1984, along with the effectiveness of interstate Access Charges.

The sections entitled "Access Charge Arrangements" and "Pending Telecommunications Legislation" contained in the "Description of the Divestiture Transaction" section above, and "FCC Regulatory Jurisdiction," "Competition" and "Interstate Rates" contained in the "Common Information" section below are incorporated herein by reference.

Second Computer Inquiry

AT&T Information Systems* is a wholly-owned, fully separated subsidiary of AT&T that was formed in compliance with the FCC's requirements under its Second Computer Inquiry ("Computer II") order for a fully separated subsidiary. It was formed in June 1982 to offer Advanced Information Systems**/Net 1000 and other enhanced communications services, in accordance with Computer II decisions whereby the provision of enhanced services and customer premises equipment will no longer be subject to tariff regulation. Under Computer II, all enhanced communications services and any newly manufactured customer premises equipment offered by AT&T on and after January 1, 1983, must be provided through a fully separated subsidiary. The FCC postponed the detariffing of "embedded" customer premises equipment (that terminal equipment owned by a BOC, including inventory, which was tariffed or subject to the separations process as of December 31, 1982), pending the completion of a separate Computer II Implementation Proceeding. Under the Consent Decree, embedded customer premises equipment will be transferred to AT&T on January 1, 1984.

In October 1982, AT&T requested the FCC to complete its Computer II Implementation Proceeding and to authorize the detariffing of embedded customer premises equipment and its transfer to AT&T Information Systems. AT&T proposed that the transfer of embedded customer premises equipment be completed no later than January 1, 1984, in order to avoid the necessity of establishing a separate AT&T organization for the tariffed provision of embedded customer premises equipment after the divestiture of the operating companies. AT&T committed itself to a program for the optional purchase of embedded customer premises equipment by customers and to an interim price predictability program for business and residence customers in order to ease the transition to a totally deregulated environment for the provision of customer premises equipment. In January 1983, AT&T filed with the FCC a supplemental capitalization plan for $6.6 billion to cover the regulated net book value of customer premises equipment and related assets being transferred on a detariffed basis to AT&T Information Systems.

The FCC, on June 21, 1983, released a Notice of Proposed Rulemaking in the Computer II Implementation Proceeding, which addresses AT&T's proposals for detariffing and transfer of embedded customer premises equipment to AT&T Information Systems. The Commission indicated its "tentative

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* Formerly American Bell Inc.

** Service mark of AT&T.

preference" to permit detariffing and transfer to AT&T Information Systems of that portion of the embedded customer premises equipment base not sold under the AT&T sales plan, subject to two major contingencies: (1) the portion of embedded customer premises equipment offered for sale must be sufficient to satisfy the FCC's concerns that any "gains" on transferred customer premises equipment accrue to ratepayers; and (2) a number of remaining matters must be resolved, including valuation of the unsold base; accounting issues (including treatment of deferred income taxes and unamortized investment tax credits); pricing and "leasing" options available to embedded customer premises equipment customers; treatment of embedded intrasystem wiring investment; and issues relating to disclosure of customer proprietary data and compensation standards in connection with transitional BOC support of the embedded base.

In a filing with the FCC in July 1982 seeking approval of a capitalization plan whereby AT&T Information Systems would provide new customer premises equipment after January 1, 1983, AT&T explained that by July 1, 1984, about $750 million in assets would be transferred to AT&T Information Systems from the BOCs, AT&T, Bell Laboratories and Western Electric. About $225 million of expenses funded by the telephone subsidiaries and the AT&T interexchange organization relating to the engineering of new customer premises equipment and to the formation of AT&T Information Systems has been reimbursed, with interest, to the telephone subsidiaries, as well as additional expenses related to new enhanced services. It is expected that a total of about $11.3 billion, including a transfer of embedded base of $6.6 billion, of capital from AT&T will be needed by AT&T Information Systems through 1985.

In November 1982, the FCC approved a capitalization plan for new customer premises equipment and directed that companies receiving reimbursements should record such reimbursements as expense reductions. The FCC ordered that estimates of the reimbursed amounts ultimately to be refunded to customers should be credited to the operating companies' liability accounts pending regulatory review of such refunds. The FCC also stated it would require further proceedings to determine whether or not $500 million of new customer premises equipment expenses funded by Western Electric ought to be reimbursed to ratepayers. AT&T filed comments in January 1983 opposing any such reimbursement.

AT&T anticipates that AT&T Information Systems will be profitable after experiencing deficits in the early years as it starts up operation.

Legal Proceedings and Contingent Liabilities

The sections entitled "Legal Proceedings" and "Contingent Liabilities" included in the "Common Information" section below are incorporated herein by reference.

Employee Relations

AT&T estimates that as of January 1, 1984, it will employ approximately 385,000 persons through its headquarters and subsidiary operations. About 62% of the employees of AT&T and its subsidiaries will be represented by unions. Of those so represented about 74% will be represented by the Communications Workers of America, which is affiliated with the AFL-CIO, about 21% by other unions affiliated with the AFL-CIO and the remainder by other unions.

In August 1983, after a three-week strike, new three year contracts were agreed upon which provide for wage increases of up to 5.5% in the first year and up to 1.5% in each of the second and third years, together with cost-of-living adjustments in the second and third years and improvements in fringe benefits. Based on the number of persons estimated to be employed by AT&T on January 1, 1984, it is estimated that these changes in wages and fringe benefits and similar changes for certain non-management employees not represented by unions will increase expenses of AT&T by about $667,000,000 on an annual basis by the end of the three year contract period, excluding any adjustments resulting from cost-of-living increases. For each 1% increase in the national Consumer Price Index for Urban Wage Earners and Clerical Workers, it is estimated that cost-of-living adjustments in each of the second and third years will further increase expenses of AT&T by about $54,000,000 on an annual basis.

In addition to changes provided for non-management employees, adjustments will be made from time to time in the ranges of compensation for management employees and will be reflected in accounts as salary changes become effective. It is expected that such adjustments, together with improvements in fringe benefits for management employees, will represent about 35% of the increases in compensation and fringe benefits of all employees.

Properties

On January 1, 1984, all properties relating to the services to be provided by the RHCs and their subsidiaries will have been transferred to those companies by AT&T. In addition, on January 1, 1984, the BOCs will have transferred to AT&T the 22 subsidiaries containing properties relating to the provision of intrastate interLATA service and the properties relating to the provision of existing customer premises equipment. It is estimated that on January 1, 1984, with respect to AT&T Communications, connecting lines (cables, wires, poles, conduits, etc.) will represent 8% of investment in telephone plant; central office equipment, including switching and transmission equipment will represent 71%; land and buildings will represent 12%; and miscellaneous properties (work equipment, furniture, plant under construction, etc.) will represent 9%. The majority of the connecting lines are on or under public roads, highways and streets and the remainder are on or under private property. Substantially all headquarters offices and substantially all of the important installations of central office equipment are in owned buildings but many of the smaller installations, including PhoneCenter Stores, are in rented quarters. Substantially all of the station equipment is on the premises of customers. Most of the important buildings are on land held in fee, but a few are on land held under long-term leases. See also Note 2 of Notes to Unaudited Pro Forma Condensed Balance Sheet.

Western Electric and its consolidated subsidiaries operate 24 major manufacturing plants, 7 regional centers, 38 associated service, repair and distribution centers, 7 material management centers, and other facilities located throughout the United States which at December 31, 1982, had a total of about 63,900,000 square feet of floor space of which about 9,300,000 square feet were in leased premises. Western Electric owns its headquarters building in New York City and a corporate administration center in Greensboro, North Carolina.

Western Electric has announced plans to phase out manufacturing operations at certain locations and to reduce operations at other locations. These actions, which will occur in stages over several years, are part of a long-term plan for reducing manufacturing capacity to improve plant utilization and reduce costs. The decision to take these actions required a one-time charge which increased 1982 expenses and reduced Net Income by $317.8 million. In addition, Western Electric announced plans to consolidate distribution and repair facilities as part of a long term plan to improve space utilization and reduce costs. The decision to take this action required a one-time charge which increased 1983 expenses and reduced Net Income by $96.5 million. Both of these provisions included the write-down of facilities to net realizable value plus estimated costs for employee and equipment relocations and employee termination benefits.

INFORMATION STATEMENT

FOR

AMERICAN INFORMATION TECHNOLOGIES CORPORATION

The Company

American Information Technologies Corporation ("Ameritech") was incorporated in 1983 under the laws of the State of Delaware and has its principal executive offices at 225 West Randolph Street, Chicago, Illinois 60606 (telephone number 312 750-5000). At divestiture AT&T will transfer to Ameritech its 100% ownership in five telephone subsidiaries, Illinois Bell Telephone Company ("Illinois Bell"), Indiana Bell Telephone Company, Incorporated ("Indiana Bell"), Michigan Bell Telephone Company ("Michigan Bell"), The Ohio Bell Telephone Company ("Ohio Bell"), and Wisconsin Telephone Company ("Wisconsin Telephone"), hereinafter referred to as the "Ameritech BOCs". Ameritech will also receive from AT&T a cellular advanced mobile communications service subsidiary, Ameritech Mobile Communications, Inc. ("Ameritech Mobile"), and a one-seventh interest in the CSO.

Ameritech has established three other corporations, Ameritech Publishing, Inc. ("Ameritech Publishing"), Ameritech Communications, Inc. ("Ameritech Communications") and Ameritech Development Corporation ("Ameritech Development"), which are held in trust for the benefit of Ameritech and which will become wholly-owned subsidiaries of Ameritech after divestiture. In addition, the Ameritech BOCs have established, and each will own shares in another subsidiary, Ameritech Services, Inc. ("Ameritech Services").

Illinois Bell was incorporated in 1881 under the laws of the State of Illinois and has its principal offices at 225 West Randolph Street, Chicago, Illinois 60606 (telephone number 312 727-9411). Commencing January 1, 1984, Illinois Bell will be engaged in the furnishing of exchange telecommunications and exchange access service in Illinois.

Indiana Bell was incorporated in 1920 under the laws of the State of Indiana and has its principal offices at 240 North Meridian Street, Indianapolis, Indiana 46204 (telephone number 317 265-2266). Commencing January 1, 1984, Indiana Bell will be engaged in the furnishing of exchange telecommunications and exchange access service in Indiana.

Michigan Bell was incorporated in 1904 under the laws of the State of Michigan and has its principal offices at 444 Michigan Avenue, Detroit, Michigan 48226 (telephone number 313 223-9900). Commencing January 1, 1984, Michigan Bell will be engaged in the furnishing of exchange telecommunications and exchange access service in Michigan.

Ohio Bell was incorporated in 1921 under the laws of the State of Ohio and has its principal offices at 100 Erieview Plaza, Cleveland, Ohio 44114 (telephone number 216 822-9700). Commencing January 1, 1984, Ohio Bell will be engaged in the furnishing of exchange telecommunications and exchange access service in Ohio.

Wisconsin Telephone was incorporated in 1882 under the laws of the State of Wisconsin and has its principal offices at 722 North Broadway, Milwaukee, Wisconsin 53202 (telephone number 414 456-3000). Commencing January 1, 1984, Wisconsin Telephone will be engaged in the furnishing of exchange telecommunications and exchange access service in Wisconsin.

Exchange telecommunications service refers to intraLATA service which includes toll service as well as local service.

Ameritech Mobile will be engaged in the business of providing advanced mobile communications services using cellular technology. Ameritech Mobile will do business through wholly-owned subsidiaries which either will be general or limited partners of partnerships which will hold FCC licenses and provide advanced mobile communications services in the licensed service areas or will directly hold such licenses and provide such service. Initial operations will be in Chicago, which on October 13, 1983 became the first city in the United States to have advanced mobile communications service in commercial operation. Operations are also currently scheduled in Milwaukee, Detroit and Cincinnati.

Ameritech Publishing, commencing January 1, 1984, will be engaged in the business of directory advertising and publishing.

Ameritech Communications, commencing January 1, 1984, will be engaged in the business of providing customer premises telecommunications equipment and related products. Certain customer premises equipment business may be conducted by subsidiaries of the Ameritech BOCs.

Ameritech Development will be engaged in the business of developing and investing in new products, services, technology and other opportunities on behalf of other Ameritech companies. Ameritech Development has entered into an agreement with Aetna Telecommunications Laboratories, a partnership of G.R.E. Technology, Inc. and Aetna Diversified Technologies, Inc. (a wholly-owned subsidiary of Aetna Corporation), for joint development of an advanced fiber optic and software-based local area network system.

Ameritech Services, commencing January 1, 1984, will be engaged in the business of providing operational support to the Ameritech BOCs by performing services that can be most efficiently delivered by a single organization.

Ameritech expects to mail regular reports to its shareholders containing annual audited and quarterly unaudited financial statements. Such reports are expected to contain a discussion of the financial results including, where appropriate, comparisons with expected results.

Anticipated Additional Business Operations

Under the terms of the Consent Decree, Ameritech and its affiliates may, in addition to engaging in the businesses described above, engage in other businesses that are not a natural monopoly service actually regulated by tariff only upon a finding by the Court that there is no substantial possibility that it could use its monopoly power in furnishing exchange telecommunications and exchange access service to impede competition in the market it seeks to enter. Ameritech has under consideration various other businesses in which it might engage, but has not determined whether or when it will engage in any of these businesses, and can give no assurance as to which new businesses, if any, it will be permitted to enter by the Court. Ameritech's management does not believe such new ventures, in the aggregate, would materially affect the financial position or projected 1984 operating results of Ameritech.

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The accompanying financial forecast of American Information Technologies Corporation for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period. Accordingly, the financial forecast reflects management's judgment based on present circumstances of the most likely set of conditions and its most likely course of action.

We have made a review of the financial forecast in accordance with the applicable guidelines for a review of a financial forecast as established by the American Institute of Certified Public Accountants. Our review included procedures to evaluate both the assumptions used by management and the preparation and presentation of the financial forecast. We did not review the financial forecasts of consolidated subsidiaries Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Telephone Company, which forecasted statements of income reflect total forecasted revenues of 67.3% of the related consolidated forecasted totals. These financial forecasts were reviewed by other auditors whose report thereon has been furnished to us, and our report expressed herein, insofar as it relates to the forecasted amounts included for such subsidiaries, is based solely on the report of the other auditors. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Based on our review and the report of other auditors referred to above, we believe that the accompanying financial forecast is presented in conformity with applicable guidelines for presentation of a financial forecast, established by the American Institute of Certified Public Accountants. We believe that the underlying assumptions provide a reasonable basis for management's financial forecast. However, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast and the variations may be material.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
November 8, 1983

We have examined the combined historical statements of income for the years ended December 31, 1982 and 1981 of Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Telephone Company which are wholly-owned subsidiaries of American Telephone and Telegraph Company. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the historical statements of income of Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, and Wisconsin Telephone Company, which statements reflect total revenues constituting 65.9% and 66.4% of the combined total revenues for the years ended December 31, 1982 and 1981, respectively. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such companies, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other auditors, the combined historical statements of income referred to above present fairly the combined results of operations of the subsidiaries referred to above for the years ended December 31, 1982 and 1981, in conformity with generally accepted accounting principles which, except for the change by Michigan Bell in 1982 with which the other auditors have expressed their concurrence, in accounting for deferred income taxes as described in Note 2 to the combined historical statements of income, have been applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
February 8, 1983

The individual financial forecasts of Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Telephone Company for the year ending December 31, 1984, each of which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, are estimates by management of the respective companies ("management") of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period. Accordingly, the financial forecasts reflect management's judgment, based on present circumstances, of the most likely set of conditions and management's most likely course of action.

We have made a review of each of the financial forecasts in accordance with applicable guidelines for a review of a financial forecast established by the American Institute of Certified Public Accountants. Our reviews included procedures to evaluate both the assumptions used by management and the preparation and presentation of the financial forecast. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Based on our reviews, we believe that the individual financial forecasts referred to above (not shown separately herein) are presented in conformity with applicable guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants. We believe that the underlying assumptions provide a reasonable basis for management's financial forecasts. However, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material.

COOPERS & LYBRAND

Indianapolis, Indiana
November 8, 1983

We have examined the individual historical statements of income for the years ended December 31, 1982 and 1981 of Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Telephone Company, which are wholly owned subsidiaries of American Telephone and Telegraph Company. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the historical statements of income referred to above (not shown separately herein) present fairly the results of operations of the individual subsidiaries referred to above for the years ended December 31, 1982 and 1981, in conformity with generally accepted accounting principles which, except for the change by Michigan Bell Telephone Company in 1982, with which we concur, in accounting for deferred income taxes as described in Note 2 to the combined historical statements of income, included herein, have been applied on a consistent basis.

COOPERS & LYBRAND

Indianapolis, Indiana
February 4, 1983 for all companies except
Michigan Bell Telephone Company as to
which the date is February 8, 1983.

AMERICAN INFORMATION TECHNOLOGIES CORPORATION

FINANCIAL FORECAST AND COMBINED HISTORICAL STATEMENTS OF INCOME

The financial forecast for American Information Technologies Corporation, consisting of a forecasted Statement of Income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, represents management's best estimate based on present circumstances of the most probable operating results and sources of funds supporting construction activity for the year ending December 31, 1984 and has been reviewed by Arthur Andersen & Co., independent public accountants, whose report is included herein.

It should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist. The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

The following Combined Historical Statements of Income reflect the combination of the statements of income of Illinois Bell, Indiana Bell, Michigan Bell, Ohio Bell and Wisconsin Telephone (the "telephone subsidiaries") which will be the principal operating subsidiaries of Ameritech. All significant intercompany transactions have been eliminated. The Combined Historical Statements of Income of the telephone subsidiaries for the years 1981 and 1982 have been examined by Arthur Andersen & Co., whose report is included herein. The unaudited Combined Historical Statement of Income for the twelve month period ended June 30, 1983, in the opinion of Ameritech, includes all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of income. These Combined Historical Statements of Income are not adjusted for the effects of divestiture.

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Combined Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Local Service Revenues	$ XX	$5,049.1	$4,846.9	$4,476.7
Toll Service Revenues	XX	3,488.5	3,508.2	3,259.3
Directory Advertising and Miscellaneous Operating Revenues	XX	473.4	470.1	414.9
Provision for Uncollectibles	XX	(110.2)	(101.4)	(80.4)
Total Operating Revenues	**8,344.0**	**8,900.8**	**8,723.8**	**8,070.5**
Depreciation	1,387.5	1,316.9	1,293.1	1,203.8
Other Operating Expenses	4,159.1	4,520.5	4,644.8	4,241.5
Total Operating Expenses	**5,546.6**	**5,837.4**	**5,937.9**	**5,445.3**
Net Operating Revenues	**2,797.4**	**3,063.4**	**2,785.9**	**2,625.2**
Federal Income Taxes	636.5	727.2	582.2	536.4
Other Operating Taxes	834.8	878.6	856.0	764.7
Total Operating Taxes	**1,471.3**	**1,605.8**	**1,438.2**	**1,301.1**
Operating Income	**1,326.1**	**1,457.6**	**1,347.7**	**1,324.1**
Other Income	**45.8**	**36.1**	**26.3**	**19.4**
Interest Expense	**448.2**	**456.6**	**481.3**	**494.8**
Income Before Cumulative Effect of a Change in Accounting Principle	923.7	1,037.1	892.7	848.7
Prior Years Cumulative Effect of the Change in Accounting For Deferred Income Taxes	—	—	43.6	—
Net Income	**$ 923.7**	**$1,037.1**	**$ 936.3**	**$ 848.7**
Earnings per Share	**$ 9.47**	**NA**	**NA**	**NA**
Weighted Average Number of Shares Outstanding (Millions)	97.5	NA	NA	NA

See accompanying Notes to Combined Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984, and Note to Forecasted 1984 Statement of Income.

NA = Not Applicable.

NOTES TO COMBINED HISTORICAL STATEMENTS OF INCOME

(Amounts relating to the twelve months ended June 30, 1983 are unaudited)

Dollars in Millions

1. **Accounting Policies**—The Combined Historical Statements of Income of Ameritech reflect the combination of the historical statements of income of Illinois Bell, Indiana Bell, Michigan Bell, Ohio Bell and Wisconsin Telephone and the application of the accounting policies described in this Note and in Note 3. All significant intercompany transactions have been eliminated.

Revenue Refunds—The telephone subsidiaries record in their financial statements material revenue refunds applicable to prior years as adjustments of the respective years' income and, within a year, as adjustments of the applicable interim periods' income.

Purchases from Western Electric—Western Electric, a wholly-owned subsidiary of AT&T, has a substantial investment in manufacturing and other facilities which are devoted mainly to its business with affiliated telephone companies. Western Electric has supply contracts with the telephone subsidiaries which provide that the prices it charges for the telephone equipment and materials it manufactures or procures for the telephone subsidiaries shall be as low as the prices it charges its most favored customers for like materials and services under comparable conditions. The financial statements reflect items purchased from Western Electric at cost to the telephone subsidiaries, which cost includes the return realized by Western Electric on its investment devoted to the communications business. See also "Telephone Plant" below.

Telephone Plant—The investment in equipment and materials dedicated to providing communications services is stated at its original cost. Such amounts do not purport to represent reproduction cost or current value. The original cost of telephone plant obtained from Western Electric includes a return on Western Electric's investment (see "Purchases from Western Electric" above). It is impossible to identify the particular purchases from Western Electric over a long period of years which were charged to the plant accounts and now remain therein, but Ameritech considers that such purchases represent about 49% to 53% of the telephone subsidiaries' total plant investment as of December 31, 1982. Western Electric advises that its rate of profit before interest charges has varied by years and by classes of sales, but that such rate of profit before interest charges, included in prices for material sold and services furnished to affiliated telephone companies (including items chargeable to other than plant accounts), has been approximately 6.0% of such sales over the twenty year period ended December 31, 1982 and approximately 7.0% of such sales over the three year period then ended. Western Electric considers that its rate of profit before interest charges on those items which have been charged to the plant accounts is somewhat higher than its rate on total sales to affiliated companies.

Currently, AT&T and certain of its subsidiaries, including Western Electric and the telephone subsidiaries, join in the filing of a consolidated federal income tax return. As a result, Western Electric's profits before income taxes included in the cost of those materials and services in the telephone subsidiaries' plant accounts are excluded from consolidated taxable income in the year acquired from Western Electric. Instead, such profits are recognized and taxed over the depreciable life of the related plant since, for tax purposes, the telephone subsidiaries must exclude Western Electric profits in deriving the depreciable cost of its investment in telephone plant. Consequently, the telephone subsidiaries' tax liability is higher than if they were permitted to depreciate the full amount they initially paid to Western Electric. Western Electric provides the telephone subsidiaries with the funds necessary to pay the tax liability on these deferred profits in the year in which the telephone subsidiaries first acquire the related telephone plant. These payments are treated as reductions of the investment in telephone plant which results in a reduction in depreciation expense over the life of the related plant. However, there is no material effect on Net Income because the decrease in depreciation expense is offset by the aforementioned increase in the income tax provision.

Materials and Supplies—New material and reusable material are carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Depreciation—Prior to 1981, the provision for depreciation was based on straight-line composite rates, prescribed by the FCC, determined on the basis of the average expected lives of categories of telephone plant acquired in a given year. In 1982 the FCC approved the implementation of the method of determining straight-line composite rates on the basis of equal life groups ("ELG") of certain categories of telephone plant acquired in a given year which will result in a higher provision for depreciation than that based on average expected lives. In 1981 the FCC authorized the telephone subsidiaries to begin implementation of the "remaining life" method of depreciation. The "remaining life" method is intended to provide for the full recovery of the investment in telephone plant. Effective January 1, 1981, the FCC also authorized shorter lives for customer terminal equipment (and certain other telephone plant). The increases in depreciation expense resulting from these FCC actions should be allowable in determining revenue requirements in rate-making proceedings. See also Note 4.

When depreciable plant, other than minor items thereof which are replaced, is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

Maintenance and Repairs—The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is, with minor exceptions, charged to operating expenses.

Station Connections—During 1981 the FCC directed that beginning January 1981 certain costs of installing telephone service on a customer's premises be expensed instead of capitalized and that the balance of the investment in installation costs be amortized.

Interest Charged Construction—Regulatory authorities allow the telephone subsidiaries to accrue interest as a cost of constructing certain plant and as an item of income, i.e., interest charged construction. Such income is not realized in cash currently but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Lease Commitments—The telephone subsidiaries lease certain facilities and equipment used in their operations and reflect lease payments as rental expense of the periods to which they relate. These leases include some which would be classified as "capital leases" under criteria established by the Financial Accounting Standards Board. However, for regulatory accounting and rate-making purposes, such leases are not capitalized. Had such leases been capitalized, the effect on Net Income for 1982 and 1981 would have been insignificant.

Income Taxes—

(a) AT&T and its subsidiaries file a consolidated federal income tax return. The consolidated income tax currently payable is allocated in accordance with each company's contribution to consolidated taxable income.

(b) Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the period during which the transaction will be recognized in the determination of net income for financial reporting purposes. Appropriate income charges and their subsequent reversal, reflected as deferred income taxes-net, prevent the tax effect of these timing differences from distorting net income. The telephone subsidiaries recognize the tax effects of timing differences on the following transactions:

(1) Vacation pay, certain property taxes and certain gross receipts taxes are deductible for income tax purposes in the year prior to being expensed in these statements of income.

(2) Depreciation for income tax purposes is determined based on accelerated methods and shortened lives which cause such depreciation to be higher during the early years of plant life and lower in later years than the depreciation charges for such plant reflected in the statements of income.

(c) Investment tax credits result from provisions of the federal tax law which allow for a reduction in tax liability based on certain construction expenditures. Corresponding reductions in tax expense are deferred and, except for the additional one percent credit available under the Tax Reduction Act of 1975 which must be contributed currently to the Bell System Employee Stock Ownership Plan, are amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

Dollars in Millions

2. **Income Taxes**—In 1982, Michigan Bell changed its accounting for certain deferred income taxes to record deferred taxes on timing differences only when such deferred taxes are recognized by regulators in the rate-making process. This change was made to achieve greater consistency between financial reporting and the intrastate regulatory rate-making process. As a result, 1982 income before the cumulative effect of the change increased by $2.7. The prior years' cumulative effect of this change is $43.6. If applied in 1981, this change would have increased 1981 Net Income by $7.4. The effect of the change in accounting on the other telephone subsidiaries was not significant.

The components of operating income tax expense were as follows:

	1982	1981
Federal:		
Current	$233.2	$227.7
Deferred-net	290.9	203.9
Investment tax credits-net	58.1	104.8
	582.2	536.4
State and local:		
Current	30.2	27.9
Deferred-net	23.2	12.7
	53.4	40.6
Total	$635.6	$577.0

Income tax expense (benefit) which relates to non-operating income (expense) included in Other Income was $5.0 and $(.1) in 1982 and 1981, respectively.

Deferred income tax expense results principally from timing differences between depreciation expense recognized for income tax purposes and depreciation expense reflected in these statements of income.

The effective federal income tax rate, as determined by dividing Federal Income Taxes (see above) by the sum of Federal Income Taxes and Income Before Cumulative Effect of a Change in Accounting Principle, was 39.7% in 1982 and 38.7% in 1981. The differences of 6.3% in 1982 and 7.3% in 1981 between the effective rate and the federal income tax statutory rate of 46% are attributable to the following factors:

	1982	1981
a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation	.4%	2.2%
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	—	.2
c. Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(.9)	(.8)
d. Amortization of investment tax credits over the life of the plant which gave rise to the credits. Such amortization reduced income tax expense for 1982 and 1981 by the amounts shown in Note 4	6.1	5.8
e. Other differences	.7	(.1)
Total	6.3%	7.3%

Dollars in Millions

3. **Provision for Pensions and Death Benefits**—Employees of the telephone subsidiaries are covered by two national Bell System noncontributory pension and death benefit plans sponsored by AT&T and the Bell System companies, one for management employees and one for non-management employees. Contributions to such plans are made to irrevocable trust funds. It is the policy of the telephone subsidiaries to make contributions which are equal to the current year cost of the plans determined on a going concern basis by an actuarial method specified by the Employee Retirement Income Security Act of 1974. The following data relate to plan costs:

	1982	1981
Current year cost	$368.1	$367.0
Current year cost as a percent of salaries and wages	12.67%	12.99%

Amendments to the plans during 1982 had the effect of increasing 1982 pension cost by approximately $36.3 while recognition of 1981 actuarial experience had the effect of decreasing 1982 cost.

Statement of Financial Accounting Standards No. 36 requires that certain disclosures be made of the actuarial present value of accumulated plan benefits and the fair value (essentially current market value) of net assets available for plan benefits. With the October 1, 1980, merger of the individual Bell System companies' plans, including the telephone subsidiaries' plans, into the two national Bell System plans, such disclosures are not presented for the telephone subsidiaries because the structure of the new plans does not readily permit the plans' assets and the accumulated benefits data to be disaggregated. However, based on the latest actuarial valuations of the two national plans, utilizing an assumed rate of return of 10.6% for 1981, the fair value of net assets available for plan benefits exceeded the actuarial present value of vested and non-vested accumulated plan benefits at December 31, 1981.

4. **Additional Financial Information**—

	1982	1981
Depreciation—Percentage of average depreciable telephone plant	6.6%	6.6%
Amortization of investment tax credits	$ 91.0	$ 78.4
Other operating taxes:		
State and local income	$ 53.4	$ 40.6
Property	234.8	211.8
Gross receipts	343.6	311.5
Payroll-related	180.7	161.2
Other	43.5	39.6
Total	$856.0	$764.7
Interest expense:		
Interest on long and intermediate term debt	$428.6	$405.8
Interest on advances from AT&T	3.7	9.0
Interest on notes payable	36.1	72.8
Other	12.9	7.2
Total	$481.3	$494.8
Rental expense	$146.1	$136.3

Dollars in Millions

5. **MCI And Litton Antitrust Litigation—**In June 1980, MCI Communications Corporation was awarded $1.8 billion in treble damages in a civil antitrust suit against AT&T. In January 1983, the U.S. Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. Petitions for rehearing of this decision were denied by the Court of Appeals. In July 1983, both parties petitioned the U.S. Supreme Court to review the case. On October 11, 1983, the Supreme Court denied the petitions. In the opinion of AT&T's legal counsel, any monetary liability or financial impact to which AT&T and the Bell System companies might be subject after final adjudication would not be material in amount.

In June 1981, in an antitrust suit involving terminal equipment against AT&T and certain Bell System companies including Ohio Bell, Litton Industries, Inc. ("Litton") was awarded $276.8 in treble damages. While the other telephone subsidiaries are not defendants in this case, they could experience financial impacts from such an award through arrangements providing for the allocation of expenses among Bell System telephone companies. In February 1983, the U.S. Court of Appeals for the Second Circuit upheld the lower court's decision. The Court of Appeals denied AT&T's petition for a rehearing. In June 1983, AT&T petitioned the U.S. Supreme Court to review the case. On October 3, 1983, the Supreme Court invited the Solicitor General to file a brief in the case expressing the views of the Federal government. Should it ultimately be determined that the Litton award is payable, Net Income would be decreased in a future period. If such determination had been made as of June 30, 1983, the decrease in Net Income could have been as much as $21.6.

6. **Reinvested Earnings—**

	1982	1981
Reinvested Earnings		
At beginning of year	$1,875.5	$1,745.6
Add—Net Income	936.3	848.7
	2,811.8	2,594.3
Deduct—Dividends declared	780.9	718.8
At end of year	$2,030.9	$1,875.5

SUMMARY OF SIGNIFICANT FINANCIAL FORECAST ASSUMPTIONS FOR THE YEAR ENDING DECEMBER 31, 1984

Dollars in Millions

The Consent Decree requires that AT&T divest those parts of the Bell System operating telephone companies that provide exchange telecommunications and exchange access service, as well as printed directory advertising and cellular advanced mobile communications service business. The Plan outlines how divestiture will be accomplished on January 1, 1984.

This forecasted statement of income represents management's best estimate, based on present circumstances, of the most probable operating results of Ameritech for the year ending December 31, 1984. Accordingly, the financial forecast reflects management's judgment based on present circumstances of the most likely set of conditions and management's most likely course of action. The assumptions disclosed herein are those that management believes are significant to the financial forecast or are key factors upon which the financial results depend. The assumptions presented are consistent with the Plan approved by the Court. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur subsequent to November 8, 1983, the date of the financial forecast. Therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material. Additionally, it should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist.

This forecasted statement of income includes estimates of the impact of transactions with AT&T and its subsidiaries. Due to potential competitor and supplier relationships, the assumptions used by Ameritech with regard to Access Charge revenues to be received from AT&T, sale of customer premises equipment, purchases from Western Electric and other similar transactions were not disclosed in detail to AT&T and thus will not necessarily be the same as the assumptions used by AT&T regarding such transactions.

Ameritech does not intend to update this forecasted statement of income because actual results will be reported during 1984. Consequently, it should be evaluated in light of any events and changes in circumstances occurring after November 8, 1983.

The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

Assumptions

(a) **General Economy**—The following national economic assumptions were considered in preparing the 1984 financial forecast.

Growth in Real Gross National Product (GNP)	5.0%
Increase in Consumer Price Index (CPI)	4.4%
Annual Average Interest Rates:	
—AAA Bond Rating	12.2%
—Prime	11.6%
—90 Day Commercial Paper	9.8%

(b) **Operating Revenues**—Revenues are based on estimated rates and volumes of business.

Following the FCC's October 18, 1983 Order suspending the effective date of interstate Access Charges to customers and interexchange carriers from January 1, 1984 to April 3, 1984, AT&T on October 27, 1983 petitioned the FCC to reconsider the suspension. In the event that the FCC declines to reconsider, AT&T and the RHCs have reached agreement as to the principal terms of an interim arrangement designed to compensate the BOCs for the use of their facilities for interstate toll and related services on a basis that is approximately consistent with the current level of interstate earnings (which level is somewhat lower than the authorized rate of return). The forecast assumes that such arrangement will be in effect from January 1, 1984 to April 3, 1984. There is pending before the Court a motion which was filed by the Bell Atlantic telephone subsidiaries prior to the time the agreement referred to above was reached. In that motion, the Bell Atlantic telephone subsidiaries proposed that they be compensated for use of their facilities for interstate toll service at the authorized rate of return. Consistent with the agreement, Bell Atlantic is requesting Court approval to withdraw its motion. AT&T and the other RHCs support that request.

The forecast also assumes that the implementation by the FCC of interstate Access Charges will occur on April 3, 1984, and that the Access Charge process will not be altered through (i) congressional legislation which, as currently proposed, seeks to suspend or prohibit Access Charges to residential and small business customers and also seeks to extend the present reduced interconnection rates charged to interexchange carriers other than AT&T, or (ii) judicial action relating to an appeal of the FCC's Order initially adopting Access Charges which is pending before the U.S. Court of Appeals for the District of Columbia Circuit.

Dollars in Millions

The forecast assumes that intrastate interLATA Access Charges will become effective as presently scheduled or, if not, that interim arrangements will be implemented to compensate the BOCs for the use of their facilities for intrastate toll and related services. Rates for exchange telecommunications services have been estimated based on prices expected to be established by state regulatory commissions.

Any changes in these assumptions could have a significant effect on forecasted Net Income; any further delay in implementation of Access Charges would reduce forecasted Net Income.

Revenues from these interstate and intrastate services are expected to recover the costs of providing such services, including a return on facilities. The telephone subsidiaries have filed or will file rate applications before the FCC and with all of the state regulatory commissions to establish rates for Access Charges and exchange telecommunications services. Since the tariff structures will be substantially different from those existing prior to divestiture, approximately 30% of the forecasted Total Operating Revenues for 1984 are dependent upon the outcome of these rate applications. Approximately 3% of such forecasted Total Operating Revenues represents Access Charges to residential and small business customers for which tariffs have been filed with the FCC and which pending legislation seeks to delay or prohibit. If such customer Access Charges are delayed or prohibited by this legislation or if their effectiveness is further delayed by the FCC, the telephone subsidiaries will have to seek to recover the cost of these services through other charges.

Access lines in service at December 31, 1984 are estimated to be 14,210,000. The telephone subsidiaries expect to be able to modify, within reasonable limits, the costs of providing telephone service to recognize variations from the forecasted volume levels.

(c) **Depreciation**—Depreciation expense is estimated using rates and practices prescribed or expected to be prescribed by the governing regulatory authorities applied to assets expected to be owned by Ameritech during 1984. Regulatory authorities are expected to approve depreciation rates that result in an average composite rate of about 7.1%; such rates are expected to be allowable in determining revenue requirements in intrastate rate-making proceedings. Construction costs of $1,743 for the period are estimated based on estimated demand for communications services and improvements to existing services.

(d) **Other Operating Expenses**—Other expenses include primarily salaries, wages, pensions and other employee related expenses. Salaries and wages, including cost-of-living adjustments, are estimated based on expected post-divestiture force levels and reflect new union contracts agreed upon in August 1983. Pensions and other employee related expenses are estimated based on expected force levels and estimated payrolls used to calculate such expenses. It is estimated that the changes in wages and fringe benefits resulting from the new contracts, as well as adjustments in ranges of compensation and fringe benefits for management employees, will increase expenses by about $166.8 in 1984.

Maintenance expense includes an inflation adjustment of 4.4% and, as a percentage of the level of plant, is expected to remain relatively constant during 1984. The CSO will furnish technical assistance, such as network planning, engineering and software development. The telephone subsidiaries' share of the estimated cost of the CSO has been included based on approved functions for the CSO and its expected force levels, and in 1984 is estimated to be $107.0.

(e) **Operating Taxes**—The estimated effective annual Federal income tax rate is expected to be 40.8%. The difference of 5.2% between the estimated effective tax rate and the assumed statutory rate of 46.0% is attributable to the following factors:

a.	Certain taxes and payroll-related construction costs capitalized for financial statement purposes but deducted currently for income tax purposes, net of applicable depreciation	(.5)%
b.	Interest charged construction, which is excluded from taxable income, net of applicable depreciation	.3
c.	Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(.7)
d.	Amortization of investment tax credits over the life of the plant which gave rise to the credits	6.3
e.	Other differences	(.2)
	Total	5.2 %

Dollars in Millions

The investment tax credit rate is expected to remain at 10%. Tax estimates are in accordance with the Tax Equity and Fiscal Responsibility Act of 1982. Social Security taxes are computed using a 7.0% rate on the statutory wage base. State and local tax estimates are determined based on taxable bases and statutory tax rates.

(f) **Interest Expense**—Interest expense was computed using an embedded cost of funded debt of 8.8%. Interest expense on short term debt, at an average estimated cost of 9.8%, represents 3.5% of total interest expense.

(g) **Weighted Average Shares**—The weighted average number of shares outstanding was calculated based on one-tenth of the number of AT&T common shares estimated to be outstanding as of December 30, 1983 and the estimated shares to be issued under Ameritech's dividend reinvestment plan and employee benefit plans during 1984.

(h) **Summary of Significant Anticipated Sources of Funds Supporting Construction Activity**—

Funds from operations (net of first quarter 1984 dividend, annualized, of $585.0)	$2,042.9
Funds from external financing—net	(128.5)
Other (including interest charged construction)	(171.7)
Total construction activity	$1,742.9

(i) **Contingent Liabilities**—No amounts have been included in the financial forecast for the matters discussed in Note 5 to the Combined Historical Statements of Income.

NOTE TO FORECASTED 1984 STATEMENT OF INCOME

Dollars in Millions

1. **Summary of Significant Accounting Policies**—The forecasted statement of income is prepared in accordance with the generally accepted accounting principles expected to be used for the financial statements issued during the forecast period. Generally accepted accounting principles used in the forecasted statement of income have been applied on a basis consistent with those principles used in the combined historical statements of income for the years ended 1981 and 1982 and the twelve month period ended June 30, 1983, except as described in Note 2 to the Combined Historical Statements of Income and as described below:

Revenue Refunds—Effective in 1984, in accordance with Statement of Financial Accounting Standards No. 71 ("Statement No. 71"), "Accounting for the Effects of Certain Types of Regulation", restatements of prior period results for revenue refunds will not be made; instead, refund liabilities (if any) will be reflected in current results.

Purchases from Western Electric—The Standard Supply Contracts with Western Electric will be terminated in accordance with the Plan by January 1, 1984.

In 1984, the telephone subsidiaries will no longer join with AT&T in filing a consolidated Federal income tax return. Accordingly, plant values associated with new purchases from Western Electric will not reflect the effect of the tax which formerly would have been deferred and therefore, such tax will no longer provide a source of funds. As a result of divestiture, the telephone subsidiaries could be required to make an immediate payment of Federal income taxes previously deferred on intercompany profits. The amount of this payment applicable to plant owned by the telephone subsidiaries is approximately $144.9. While payment of these deferred taxes would have no direct effect on Net Income, an immediate payment would increase the telephone subsidiaries' needs for cash. However, AT&T believes that, pursuant to tax regulations, a closing agreement is likely to be entered into with the Internal Revenue Service which would result in only a moderate acceleration of the present time period over which these intercompany profits become taxable.

In addition to the above effects, the telephone subsidiaries will be required to return to Western Electric previous payments of deferred taxes relating to plant assigned to AT&T Information Systems. AT&T will provide the funds to make such payments.

Provision for Pensions and Death Benefits—Upon divestiture, noncontributory pension and death benefit plans sponsored by Ameritech for management and non-management employees will be established similar to existing national Bell System plans.

Lease Commitments—The telephone subsidiaries currently reflect lease payments for certain facilities and equipment used in their operations as rental expense of the periods to which they relate. In 1984, in accordance with Statement No. 71, the asset values and related obligations of capital leases with inception dates after December 31, 1982, will be included in the balance sheet. This change in accounting is not expected to affect Net Income because the total of the interest expense on the lease obligations plus the amortization expense of the leased assets will equal the rental expense allowed for rate-making purposes.

AMERICAN INFORMATION TECHNOLOGIES CORPORATION

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

The following Unaudited Combined Historical Balance Sheet as of June 30, 1983 is derived from the unaudited financial statements included in the quarterly reports on Form 10-Q of the telephone subsidiaries. All significant intercompany transactions have been eliminated.

The following Unaudited Pro Forma Condensed Balance Sheet gives effect to the divestiture of the telephone subsidiaries by AT&T as if it had occurred on June 30, 1983 in accordance with the Plan. Because divestiture will not occur until January 1, 1984, actual balances and adjustments will vary from those presented in the pro forma balance sheet below. The Unaudited Pro Forma Condensed Balance Sheet should be read in conjunction with the audited financial statements and notes contained in the most recent annual reports on Form 10-K, and with the unaudited financial statements and notes contained in the most recent quarterly reports on Form 10-Q of the telephone subsidiaries.

	Dollars in Millions		
	Combined Historical June 30, 1983	Pro-Forma Adjustments	Pro Forma June 30, 1983
ASSETS			
Telephone Plant—Net of Accumulated Depreciation	$16,450.7	$(2,041.2)	$14,409.5
Investments	19.8	(.2)	19.6
Current Assets	1,680.9	(76.0)	1,604.9
Deferred Charges	218.6	4.4	223.0
Total Assets	$18,370.0	$(2,113.0)	$16,257.0
INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS			
Share Owners' Equity	$ 8,142.9	$(1,535.7)	$ 6,607.2
Long and Intermediate Term Debt	4,868.0	—	4,868.0
Debt Maturing Within One Year	256.4	110.5	366.9
Other Current Liabilities	1,550.9	(57.1)	1,493.8
Deferred Taxes and Other Deferred Credits	3,551.8	(630.7)	2,921.1
Total Invested Capital, Liabilities, and Deferred Credits	$18,370.0	$(2,113.0)	$16,257.0

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

1. **Pro Forma Adjustments—**

Assets and liabilities are transferred to and from AT&T at net book value. The transfers are tax-free under the Internal Revenue Code. Accumulated deferred income tax reserves and unamortized investment credits are transferred along with the associated assets.

The Pro Forma Adjustments and pro forma capital structure were developed to reflect provisions of the Plan and the related Reorganization and Divestiture Agreement as if divestiture had taken place on June 30, 1983. The pro forma capital structure reflects adjustments to the telephone subsidiaries' debt and equity as specified in such agreements. Operations subsequent to June 30, 1983 will impact the capital structure. Ameritech expects that through operating efficiencies its debt ratio (debt as a percent of total debt and equity) at the time of divestiture will be approximately 43.8%.

2. **Contingent Liabilities—**See Note 5 to Combined Historical Statements of Income.

Selected Operating Information

As of December 31, 1982, in the five states where the Ameritech BOCs operate, there were about 18,962,000 access lines in service, of which, approximately 73% were served by the Ameritech BOCs with the remaining 27% served by non-affiliated companies. About 50% of the access lines served by the Ameritech BOCs are in the metropolitan areas of Chicago, Detroit, Cleveland, Indianapolis and Milwaukee and an additional 25% in other metropolitan areas having populations in excess of 100,000. Sizeable areas within the five state territory are served by the non-affiliated companies. The Ameritech BOCs do not furnish local service in those areas or localities served by those companies.

The following table sets forth for the telephone subsidiaries the number of network access lines in service at the end of each period and the number estimated to be in service on January 1, 1984.

	Network Access Lines in Service — Thousands					
	Estimated January 1, 1984	June 30, 1983	1982	1981	1980	1979
Illinois Bell	4,629	4,608	4,599	4,624	4,589	4,474
Indiana Bell	1,388	1,378	1,373	1,378	1,366	1,345
Michigan Bell	3,654	3,618	3,602	3,607	3,611	3,605
Ohio Bell	2,897	2,885	2,882	2,883	2,868	2,833
Wisconsin Telephone	1,483	1,481	1,475	1,479	1,466	1,433
Total	14,051	13,970	13,931	13,971	13,900	13,690

Construction Expenditures and Use of Proceeds

The Ameritech BOCs have been making, and expect to continue to make, large construction expenditures to meet the demand for communications services and to further improve such services. Construction expenditures by the Ameritech BOCs since January 1, 1978 were approximately as follows:

Dollars in Millions			
1978	$1,822	1981	$2,021
1979	2,010	1982	1,757
1980	2,093	1983 (through June 30)	681

The Ameritech BOCs are projecting construction expenditures of approximately $1,582 million for 1983 and approximately $1,694 million for 1984, and other subsidiaries (primarily Ameritech Mobile) are expected to expend approximately $49 million for their capital requirements in 1984. Substantially all of such requirements are expected to be financed through internally generated funds.

Ameritech does not know the amount of proceeds from the shares to be issued under the Share Owner Dividend Reinvestment and Stock Purchase Plan, the Ameritech Savings Plan for Salaried Employees, the Ameritech Savings and Security Plan, the Ameritech Voluntary Contribution Plan, and the Employee Stock Ownership Plan. Ameritech intends to use the proceeds from the sale of such shares for advances to subsidiary companies, for additional equity investment in such companies and for general corporate purposes.

Ameritech anticipates that it will be able to obtain external capital, if required, through issuance of debt securities by the BOCs, through short term borrowings and through the issuance of shares pursuant to the plans described above.

Rates, Regulation and Competition

Intrastate Rates

Ameritech BOCs, in providing communications services, are subject to regulation by state commissions in all of the states in which they operate with respect to intrastate rates and services and other matters.

Unless otherwise indicated, the amounts of the changes in revenues resulting from changes in intrastate rates referred to below are stated on an annual basis and are estimates without adjustment for subsequent changes in volumes of business.

The principal changes in intrastate rates authorized since January 1, 1978 in the states served by the Ameritech BOCs were increases aggregating about $68.4 million in 1978, $66.6 million in 1979, $445.6 million in 1980, $259.1 million in 1981, $631.8 million in 1982 and through October 31, 1983, $278.4 million. Decreases were made in intrastate rates aggregating about $8.1 million in 1979 and $3.9 million in 1980.

Included in the above estimates are the effects of rate changes for products and services which the Ameritech BOCs will not provide after divestiture. The Ameritech BOCs estimate that there will be a reduction in revenues of $1,899.7 million on an annual basis as a result of the discontinuance of these products and services. The Ameritech BOCs have filed or expect to file tariffs with the regulatory commissions in the states in which they will be operating that will satisfy their revenue requirements after divestiture. There are two types of tariffs that will be filed which relate to charges for the availability to or the use of the BOCs' facilities for the origination or termination of Long Distance Communications. The first of these, Carrier Access Charges, will apply to the Long Distance Carriers. The second type, End User Access Charges, will apply to each BOC subscriber. However, intrastate End User Access Charges may not apply in all jurisdictions.

The Ameritech BOCs also have applications pending to increase rates for other authorized services to recover increased depreciation expense resulting from the FCC's program providing for improved capital recovery, increased expenses of doing business, and higher rates of return.

Following are the rate requests which have been or will be filed:

	(Dollars in Millions) Amounts requested		
	Carrier Access Charges	Other	Total
Illinois	$101.2	$248.5	$ 349.7
Indiana	60.1	67.6	127.7
Michigan	160.6	26.9	187.5
Ohio	205.2	178.6	383.8
Wisconsin	85.3	158.1	243.4
	$612.4	$679.7	$1,292.1

"Other" includes conventional intrastate rate filings plus End User Access Charges where appropriate.

Ameritech is unable to give any assurances as to the amounts or effective dates of any rate increases that may be granted in any of the above rate proceedings.

Regulation, Interstate Rates and Competition

The sections entitled "Access Charge Arrangements" contained in the "Description of the Divestiture Transaction" section above, and "FCC Regulatory Jurisdiction," "Interstate Rates" and "Competition" contained in the "Common Information" section below are incorporated herein by reference.

Legal Proceedings and Contingent Liabilities

The sections entitled "Legal Proceedings" and "Contingent Liabilities" included in the "Common Information" section below are incorporated herein by reference.

Employee Relations

Ameritech estimates that as of January 1, 1984, it will employ approximately 79,000 persons through its headquarters and subsidiary operations. About 69% of the employees of Ameritech and its subsidiaries will be represented by unions. Of those so represented about 75% will be represented by the Communications Workers of America, which is affiliated with the AFL-CIO, about 20% by other unions affiliated with the AFL-CIO and the remainder by other unions.

In August 1983, after a three-week strike, new three year contracts were agreed upon by the Ameritech BOCs which provide for wage increases of up to 5.5% in the first year and up to 1.5% in each of the second and third years, together with cost-of-living adjustments in the second and third years and improvements in fringe benefits. Based on the numbers of persons estimated to be employed by Ameritech on January 1, 1984, it is estimated that these changes in wages and fringe benefits and similar changes for certain non-management employees not represented by unions will increase expenses of Ameritech by about $142 million on an annual basis by the end of the three year contract period, excluding any adjustments resulting from cost-of-living increases. For each 1% increase in the national Consumer Price Index for Urban Wage Earners and Clerical Workers, it is estimated that cost-of-living adjustments in each of the second and third years will further increase expenses of Ameritech by about $11 million on an annual basis.

In addition to changes provided for non-management employees, adjustments will be made from time to time in the ranges of compensation for management employees and will be reflected in accounts as salary changes become effective. It is expected that such adjustments, together with improvements in fringe benefits for management employees, will represent about 34% of the increases in compensation and fringe benefits of all employees.

Properties

On January 1, 1984, all properties relating to the services to be provided by Ameritech will have been transferred to it by AT&T. Ameritech estimates that central office equipment will represent 33.1% of Ameritech's consolidated investment in telephone plant; land and buildings (occupied principally by central offices) will represent 9.7%; wiring and equipment, substantially all of which are on the premises of customers, will represent 14.5%; and connecting lines not on customers' premises, the majority of which are on or under public roads, highways or streets and the remainder on or under private property, will represent 36.5%.

Substantially all of the installations of central office equipment and administrative offices are located in owned buildings situated on land held in fee. Many garages, business offices and telephone service centers are in rented quarters.

Description of Common Stock and Dividend and Market Information

The certificate of incorporation of Ameritech authorizes issuance of 300,000,000 shares of Common Stock (par value $1 per share), 30,000,000 shares of Preferred Stock (par value $1 per share) and 30,000,000 shares of Preference Stock (par value $1 per share).

After payment of dividends on any outstanding Preferred or Preference Stock, holders of Common Stock are entitled to receive such dividends as may be declared from time to time by the Board of Directors of Ameritech. In the event of liquidation, the holders of Ameritech Common Stock, subject to the prior rights of any outstanding Preferred or Preference Stock, will be entitled to share pro rata in the distributable assets. Each shareholder has one vote for each share of Common Stock registered in the shareholder's name. Holders of Common Shares have no preemptive or cumulative voting rights. All shares of Ameritech Common Stock to be distributed in connection with the divestiture and to be issued in accordance with the dividend reinvestment and employee benefit plans will be fully paid and non-assessable.

The Preferred Stock and the Preference Stock are issuable in series. Subject to the provisions of the certificate of incorporation, the Board of Directors is authorized to fix with respect to each series authorized by it the designation of and number of shares in such series, the dividend rights and preferences, the redemption terms and price (if any), liquidation rights, sinking fund provisions (if any), conversion provisions (if any) and the voting powers (if any, but in any event not to exceed one vote per share). The Preferred Stock has priority over Preference Stock as to the payment of dividends and the distribution of assets. The corporation may not purchase, redeem or otherwise acquire shares of Preference Stock or Common Stock unless there are no arrearages in dividends on Preferred Stock and all required payments for sinking funds for or redemption of Preferred Stock have been made. All series of Preferred Stock would rank equally as to dividends and liquidation. The Board of Directors may establish priorities as to dividends and liquidation for one series of Preference Stock over other series of Preference Stock.

The Board of Directors has no present plan or commitment to issue any Preferred Stock or Preference Stock.

The certificate of incorporation of Ameritech provides that the Board of Directors will be divided into three classes as nearly equal in size as possible. One class of Directors will be elected each year for a three-year term. It will, therefore, require elections in three consecutive years to re-elect or replace the entire Board of Directors. It is anticipated that members of the class having an initial term expiring in 1984 will be re-elected by AT&T (as sole stockholder prior to divestiture) for a term expiring in 1987.

The certificate of incorporation also provides that the affirmative vote of the holders of 80% of all voting stock, voting as a single class, shall be required to approve an extraordinary business transaction with another entity which holds 5% or more of the outstanding voting stock, unless (i) the cash or fair market value received by the holders of Ameritech's common stock is not less than the highest price per share paid by such other entity in acquiring the shares of Ameritech's common stock it owns and not less than the book value per share of Ameritech's common stock, and a proxy statement soliciting approval of the extraordinary transaction is mailed to all holders of Ameritech's common stock, or (ii) the transaction is approved by a vote of 80% of the Continuing Directors. For purposes of this provision, an "extraordinary business transaction" includes a merger or consolidation of Ameritech with or into any other corporation, a sale or other disposition of all or a substantial part (defined as 10% or more) of the assets of Ameritech, and the sale or lease to Ameritech of assets having an aggregate fair market value of more than $5 million, and "Continuing Directors" are Directors who were in office before another entity acquired more than 5% of the voting stock or who were designated by the Board as Continuing Directors.

The certificate of incorporation requires the affirmative vote of the holders of 80% of the voting stock of Ameritech to amend or repeal the provisions of the certificate of incorporation establishing the maximum and minimum number of Directors, classifying the Board of Directors and establishing the voting requirements for approval of an extraordinary business transaction described in the preceding paragraph. However, an 80% vote is not required if the amendment is unanimously recommended by the Board of Directors and no other entity then owns 5% or more of Ameritech's voting stock or all of the Directors then in office are Continuing Directors.

The markets for trading in Ameritech Common Stock will be the New York, Boston, Midwest, Philadelphia and Pacific Stock Exchanges. Trading of the stock is expected to begin on a when issued basis in mid or late November 1983. Ameritech common stock certificates will be distributed in February 1984 and regular trading will begin.

As of September 30, 1983, there were 3,148,391 holders of record of AT&T common stock of which 2,565,186 were owners who held ten or more shares. On January 1, 1984, each holder of record of ten or more shares of AT&T common stock as of December 30, 1983 will receive one share of Ameritech Common Stock for every ten shares of AT&T held by that shareowner.

It is estimated that 3,000,000 shares of Ameritech's Common Stock will be issued during 1984 by Ameritech under its Share Owner Dividend Reinvestment and Stock Purchase Plan, Employee Stock Ownership Plan, Savings Plan for Salaried Employees, Savings and Security Plan (Non-Salaried Employees), Voluntary Contribution Plan and Senior Management Long Term Incentive Plan.

Ameritech anticipates that dividends will be declared on a quarterly basis and paid on May 1, August 1, November 1 and February 1. Ameritech has announced its intention is to declare an initial quarterly dividend of $1.50 per share payable on May 1, 1984. The declaration and timing of all dividends are at the discretion of the Board of Directors and are dependent upon Ameritech's earnings and financial requirements, general business conditions and other factors. Reference is made to Assumption (b) of the Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984 for information concerning certain of such factors.

Directors (as of November 1, 1983)

The following table sets forth, as to the Directors of Ameritech, their ages, their present principal occupations, other business experience during the last five years, their membership on Committees of the Board of Directors, directorships in other publicly held companies, the estimated number of shares of Ameritech Common Stock which will be beneficially owned by them, directly or indirectly, as of January 1, 1984, based on their AT&T share ownership as of September 30, 1983, and the classes of the Board of which they are members. All of the Directors of Ameritech were initially elected in October 1983.

Name; Age; Ownership of Ameritech Common Shares; Class	Present Principal Occupations; Business Experience During Last Five Years; Other Directorships; Committee Memberships
James F. Beré Age 61 No common shares Class of 1984	Chairman and Chief Executive Officer, Borg-Warner Corporation, Chicago, Illinois, since 1975. Director of: Borg-Warner Corporation, Abbott Laboratories, Continental Illinois Corporation (and its subsidiary, Continental Illinois National Bank and Trust Company of Chicago), Hughes Tool Company, Northwest Industries, Inc., Time Inc. Member of Finance Committee and Human Resources Committee.

Name; Age; Ownership of Ameritech Common Shares; Class	Present Principal Occupations; Business Experience During Last Five Years; Other Directorships; Committee Memberships
Weston R. Christopherson Age 58 No common shares Class of 1986	Chairman and Chief Executive Officer, Jewel Companies, Inc., Chicago, Illinois, since 1980; President, Jewel Companies, Inc., from 1970 to 1980. Director of: Jewel Companies, Inc., Aurrera, S.A., Borg-Warner Corporation, Continental Illinois Corporation (and its subsidiary, Continental Illinois National Bank and Trust Company of Chicago), GATX Corporation, Illinois Tool Works, Inc. Member of Executive Committee, Strategic Corporate Plans and Public Policy Committee and Committee on Directors.
E. Mandell de Windt Age 62 10 common shares Class of 1985	Chairman of the Board, Eaton Corporation, Cleveland, Ohio, since 1969. Director of: Eaton Corporation, Dart & Kraft, Inc., Sears, Roebuck and Co., UAL, Inc. (and its subsidiary, United Airlines), Federal Reserve Bank of Cleveland. Member of Executive Committee and Committee on Directors. Chairman of Human Resources Committee.
Richard M. Gillett Age 60 No common shares Class of 1986	Chairman of the Board, Old Kent Financial Corporation, Grand Rapids, Michigan, since 1972. Director of: Old Kent Financial Corporation, Ball Corporation, Consumers Power Company. Member of Executive Committee and Committee on Directors. Chairman of Audit Committee.
Hanna Holborn Gray Age 53 No common shares Class of 1986	President and Professor of History, University of Chicago, Chicago, Illinois, since 1978. Director of: Atlantic Richfield Company, Cummins Engine Company, Inc., J. P. Morgan Company (and its subsidiary, Morgan Guaranty Trust Company of New York). Member of Audit Committee and Finance Committee.
James A. Henderson Age 49 10 common shares Class of 1985	President and Chief Operating Officer, Cummins Engine Company, Inc., Columbus, Indiana, since 1977. Director of: Cummins Engine Company, Inc., Inland Steel Company, Hayes-Albion Corporation. Member of Finance Committee and Strategic Corporate Plans and Public Policy Committee.
James J. Howard Age 48 90 common shares Class of 1986	President and Chief Operating Officer of Ameritech; Chairman of the Board, Wisconsin Telephone, from 1982 to 1983; President, Wisconsin Telephone, from 1981 to 1982; Vice President, Operations, Wisconsin Telephone, from 1978 to 1981. Director of: First Wisconsin Corporation (and its subsidiary, First Wisconsin National Bank of Milwaukee). Member of Executive Committee. Chairman of Strategic Corporate Plans and Public Policy Committee.
Hal C. Kuehl Age 60 No common shares Class of 1984	Chairman of the Board and Chief Executive Officer, First Wisconsin National Bank of Milwaukee, Milwaukee, Wisconsin, since 1977, and President and Chief Executive Officer, First Wisconsin Corporation (bank holding company), since 1978. Director of: First Wisconsin National Bank of Milwaukee, First Wisconsin Corporation. Member of Audit Committee and Strategic Corporate Plans and Public Policy Committee.
Frank P. Lloyd, M.D. Age 64 No common shares Class of 1984	President and Chief Executive Officer, Methodist Hospital of Indiana, Inc., Indianapolis, Indiana, since 1981; Vice President, Medical Research, Methodist Hospital of Indiana, Inc., from 1971 to 1981. Director of: Midwest National Corporation. Member of Finance Committee and Human Resources Committee.

Name; Age; Ownership of Ameritech Common Shares; Class	Present Principal Occupations; Business Experience During Last Five Years; Other Directorships; Committee Memberships
Graham J. Morgan Age 66 36 common shares Class of 1985	Retired Chairman, United States Gypsum Company, Chicago, Illinois, since June, 1983; Chairman of the Board and Chief Executive Officer, United States Gypsum Company, from 1971 to June, 1983. Director of: United States Gypsum Company, American Hospital Supply Corporation, IC Industries, Inc. (and its subsidiary, Illinois Central Gulf Railroad), International Harvester Company, Abex Corporation, Inc. Member of Executive Committee and Human Resources Committee. Chairman of Committee on Directors.
John D. Ong Age 50 2 common shares Class of 1986	Chairman of the Board, President and Chief Executive Officer, the BFGoodrich Company, Akron, Ohio, since 1979; President and Chief Operating Officer, The BFGoodrich Company, from 1978 to 1979. Director of: The BFGoodrich Company, Cooper Industries, Inc., The Kroger Company, PNC Financial Corp. (and its subsidiary, Pittsburgh National Bank). Member of Audit Committee and Strategic Corporate Plans and Public Policy Committee.
William H. Springer Age 54 209 common shares Class of 1984	Vice Chairman and Chief Financial Officer of Ameritech; Senior Executive Vice President and Secretary, Illinois Bell, from 1982 to 1983; Executive Vice President—Finance and Secretary, Illinois Bell, from 1980 to 1982; Vice President, Comptroller and Secretary, Illinois Bell, from 1975 to 1980. Member of Executive Committee. Chairman of Finance Committee.
William L. Weiss Age 54 90 common shares Class of 1985	Chairman of the Board and Chief Executive Officer of Ameritech; Chairman and Chief Executive Officer, Illinois Bell, from 1982 to 1983; President, Illinois Bell, from 1981 to 1982, President, Indiana Bell, from 1978 to 1981. Director of: Continental Illinois Corporation (and its subsidiary, Continental Illinois National Bank and Trust Company of Chicago), Ransburg Corporation, United States Gypsum Company. Chairman of Executive Committee. Member of Committee on Directors.

Officers (as of November 1, 1983)

The following table sets forth, as to the executive officers of Ameritech, their ages, their offices with Ameritech and the period during which they have held such offices.

Name	Age	Office	Held Since
William L. Weiss	54	Chairman of the Board and Chief Executive Officer	1983
James J. Howard	48	President and Chief Operating Officer	1983
William H. Springer	54	Vice Chairman and Chief Financial Officer	1983
Joseph H. Johnson	64	Executive Vice President—Marketing	1983
Frank R. Zimmerman	52	Senior Vice President—Corporate Affairs	1983
E. Andrew Steffen	59	Senior Vice President—Government Affairs	1983
Kenneth E. Millard	36	Senior Vice President and General Counsel	1983
Carl G. Koch	52	Vice President and Treasurer	1983
Robert P. Schaen	57	Vice President and Comptroller	1983
Herbert P. Crane	44	Vice President—Business Unit Strategy & Marketing	1983
Leighton C. Gilman	52	Vice President—Corporate Communications	1983
Dennis D. Johnson	44	Vice President—Labor Relations & Compensation	1983
Martha L. Thornton	47	Vice President—Human Resources	1983
Bruce B. Howat	38	Secretary	1983

Prior to election to Ameritech's office, each of the above officers held high level managerial positions with the Ameritech BOC's, AT&T or another subsidiary or associated company of AT&T for more than the past five years, except Mr. Howat, who was an attorney and Assistant Secretary of Marshall Field & Company from 1979 to 1983 and previously an attorney with the law firm of Kirkland & Ellis.

Officers are elected annually but are removable at any time at the discretion of the Board of Directors.

Stock Ownership of Directors and Officers

On September 30, 1983, if Ameritech's common stock had been outstanding, the directors and officers of Ameritech as a group, based on their AT&T share ownership on that date, would have owned (including certain family holdings) with voting and investment power 887 common shares of Ameritech (includes shared voting and investment power as trustees of 100 shares), which is less than 1% of the class outstanding.

Compensation of Directors and Officers

Directors who are not employees receive an annual retainer of $16,000 and a fee of $500 for each Board and Committee meeting attended. Non-employee Directors who chair committees receive additional annual retainers of $4,000 for the Audit Committee and $2,000 for other committees. Directors may elect to defer the receipt of all or a part of fees and retainers. Amounts so deferred earn interest, compounded quarterly, at a rate equal to the average interest rate for ten-year United States Treasury notes for the previous quarter. Directors who are also employees receive no compensation for serving as Directors.

The currently authorized salaries for the five most highly compensated executive officers of Ameritech, effective January 1, 1984, are as follows:

Name	Office	Authorized Salary
William L. Weiss	Chairman of the Board and Chief Executive Officer	$465,000
James J. Howard	President and Chief Operating Officer	$290,000
William H. Springer	Vice Chairman and Chief Financial Officer	$260,000
Joseph H. Johnson	Executive Vice President—Marketing	$205,000
Frank R. Zimmerman	Senior Vice President—Corporate Affairs	$190,000

The section entitled "Compensation of Directors and Officers" included in the "Common Information" section below is incorporated herein by reference.

First Shareholders' Meeting and Submission of Shareholder Proposals

Because Ameritech's first year of operations will be 1984, its first public meeting of shareholders will be scheduled for April, 1985. Ameritech will prepare and disseminate its annual report and proxy statement for such meeting. Proposals of shareholders intended for inclusion in such proxy statement should be sent to the Secretary of Ameritech at 225 West Randolph Street, Chicago, Illinois 60606 and must be received by November 1, 1984.

INFORMATION STATEMENT

FOR

BELL ATLANTIC CORPORATION

The Company

Bell Atlantic Corporation ("Bell Atlantic") was incorporated in 1983 under the laws of the State of Delaware and has its principal executive offices at 1600 Market Street, Philadelphia, Pennsylvania 19103 (telephone number 215 963-6000). At divestiture AT&T will transfer to Bell Atlantic its 100 percent ownership in seven telephone subsidiaries: New Jersey Bell Telephone Company ("New Jersey Bell"), The Bell Telephone Company of Pennsylvania ("Bell of Pennsylvania"), The Chesapeake and Potomac Telephone Company ("C&P Telephone Company"), The Chesapeake and Potomac Telephone Company of Maryland ("C&P of Maryland"), The Chesapeake and Potomac Telephone Company of Virginia ("C&P of Virginia"), The Chesapeake and Potomac Telephone Company of West Virginia ("C&P of West Virginia"), and The Diamond State Telephone Company ("Diamond State"). Bell Atlantic will also receive from AT&T a cellular advanced mobile communications service subsidiary, Bell Atlantic Mobile Systems, Inc., and a one-seventh interest in CSO. In addition, Bell Atlantic has established two wholly-owned subsidiaries, Bell Atlantic Management Services, Inc. and Bell Atlantic Enterprises, Inc.

New Jersey Bell was incorporated in 1904 under the laws of the State of New Jersey and has its principal offices at 540 Broad Street, Newark, New Jersey 07101 (telephone number 201 649-9900).

Bell of Pennsylvania was incorporated in 1879 under the laws of the Commonwealth of Pennsylvania and has its principal offices at One Parkway, Philadelphia, Pennsylvania 19102 (telephone number 215 466-9900).

C&P Telephone Company was incorporated in 1883 under the laws of the State of New York and has its principal offices at 2055 L Street, N.W., Washington, D. C. 20036 (telephone number 202 392-9900).

C&P of Maryland was incorporated in 1884 under the laws of the State of Maryland and has its principal offices at 1 East Pratt Street, Baltimore, Maryland 21202 (telephone number 301 539-9900).

C&P of Virginia was incorporated in 1905 under the laws of the Commonwealth of Virginia and has its principal offices at 703 East Grace Street, Richmond, Virginia 23219 (telephone number 804 772-2000).

C&P of West Virginia was incorporated in 1916 under the laws of the State of West Virginia and has its principal offices at 1500 MacCorkle Avenue, S.E., Charleston, West Virginia 25314 (telephone number 304 343-9911).

Diamond State was incorporated in 1897 under the laws of the State of Delaware and has its principal offices at One Parkway, Philadelphia, Pennsylvania 19102 (telephone number 215 466-9900).

Until they are transferred to Bell Atlantic, each of the seven telephone subsidiaries will remain an associated company of the Bell System and a wholly-owned subsidiary of AT&T. These telephone subsidiaries have been engaged in providing communications services in New Jersey, Pennsylvania, the District of Columbia, Maryland, Virginia, West Virginia and Delaware, respectively, and commencing January 1, 1984, they will be engaged in the furnishing of exchange telecommunications and exchange access service and printed directory advertising in the aforementioned states. Exchange telecommunications service refers to intraLATA service which includes toll service as well as local service.

Subsidiaries of Bell Atlantic Mobile Systems, Inc., commencing in 1984, will be engaged in the business of providing advanced mobile communications services using cellular technology; initial operations are scheduled for Philadelphia and Baltimore-Washington in the second quarter of 1984.

Bell Atlantic Management Services, Inc., commencing January 1, 1984, will be engaged in the business of providing planning, marketing, procurement, financial, legal, accounting and other management services for its affiliated companies.

Bell Atlantic Enterprises, Inc., commencing January 1, 1984, will hold interests in certain unregulated affiliates of, and manage certain other investments for, Bell Atlantic.

Bell Atlantic, commencing January 1, 1984, expects to be engaged in the business of providing telecommunications equipment and related activities through one or more subsidiaries.

Bell Atlantic expects to mail regular reports to its shareholders containing annual audited and quarterly unaudited financial statements. Such reports are expected to contain a discussion of the financial results including, where appropriate, comparisons with expected results.

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The accompanying financial forecast of Bell Atlantic Corporation for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period. Accordingly, the financial forecast reflects management's judgment, based on present circumstances, of the most likely set of conditions and management's most likely course of action.

We have made a review of the financial forecast in accordance with applicable guidelines for a review of a financial forecast established by the American Institute of Certified Public Accountants. Our review included procedures to evaluate both the assumptions used by management and the preparation and presentation of the financial forecast. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Based on our review, we believe that the accompanying financial forecast of Bell Atlantic Corporation is presented in conformity with applicable guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants. We believe that the underlying assumptions provide a reasonable basis for management's financial forecast. However, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material.

COOPERS & LYBRAND

Philadelphia, Pennsylvania
November 8, 1983

We have examined the accompanying combined historical statements of income for the years ended December 31, 1982 and 1981 of New Jersey Bell Telephone Company, The Bell Telephone Company of Pennsylvania, The Chesapeake and Potomac Telephone Company, The Chesapeake and Potomac Telephone Company of Maryland, The Chesapeake and Potomac Telephone Company of Virginia, The Chesapeake and Potomac Telephone Company of West Virginia, and The Diamond State Telephone Company, which are wholly owned subsidiaries of American Telephone and Telegraph Company. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the historical statements of income referred to above present fairly the combined results of operations of the subsidiaries referred to above for the years ended December 31, 1982 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Philadelphia, Pennsylvania
February 8, 1983

BELL ATLANTIC CORPORATION

FINANCIAL FORECAST AND COMBINED HISTORICAL STATEMENTS OF INCOME

The financial forecast for Bell Atlantic, consisting of a forecasted Statement of Income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, represents management's best estimate based on present circumstances of the most probable operating results and sources of funds supporting construction activity for the year ending December 31, 1984, and has been reviewed by Coopers & Lybrand, independent certified public accountants, whose report is included herein.

It should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist. The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

The following Combined Historical Statements of Income reflect the combination of the historical statements of income of New Jersey Bell Telephone Company, The Bell Telephone Company of Pennsylvania, The Chesapeake and Potomac Telephone Company, The Chesapeake and Potomac Telephone Company of Maryland, The Chesapeake and Potomac Telephone Company of Virginia, The Chesapeake and Potomac Telephone Company of West Virginia, and The Diamond State Telephone Company (the "telephone subsidiaries"), which will be the principal operating subsidiaries of Bell Atlantic. All significant intercompany transactions have been eliminated. The Combined Historical Statements of Income of the telephone subsidiaries for the years 1981 and 1982 have been examined by Coopers & Lybrand, whose report is included herein. The unaudited Combined Historical Statement of Income for the twelve month period ended June 30, 1983, in the opinion of Bell Atlantic, includes all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of income. These Combined Historical Statements of Income are not adjusted for the effects of divestiture.

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Combined Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Local Service Revenues	$ XX	$4,475.2	$4,221.2	$3,716.5
Toll Service Revenues	XX	3,895.8	3,792.3	3,458.2
Directory Advertising and Miscellaneous Operating Revenues	XX	448.7	432.2	386.8
Provision for Uncollectibles	XX	(87.4)	(78.0)	(61.2)
Total Operating Revenues	**8,323.1**	**8,732.3**	**8,367.7**	**7,500.3**
Depreciation	1,180.3	1,340.0	1,276.7	1,089.9
Other Operating Expenses	4,409.2	4,544.9	4,502.7	3,987.5
Total Operating Expenses	**5,589.5**	**5,884.9**	**5,779.4**	**5,077.4**
Net Operating Revenues	**2,733.6**	**2,847.4**	**2,588.3**	**2,422.9**
Federal Income Taxes	656.2	692.1	575.8	508.6
Other Operating Taxes	673.2	679.9	639.9	607.0
Total Operating Taxes	**1,329.4**	**1,372.0**	**1,215.7**	**1,115.6**
Operating Income	**1,404.2**	**1,475.4**	**1,372.6**	**1,307.3**
Other Income	**32.8**	**30.4**	**28.2**	**24.5**
Interest Expense	**484.8**	**451.3**	**472.7**	**492.5**
Net Income	**$ 952.2**	**$1,054.5**	**$ 928.1**	**$ 839.3**
Earnings per Share	**$ 9.69**	**NA**	**NA**	**NA**
Weighted Average Number of Shares Outstanding (Millions)	98.3	NA	NA	NA

See accompanying Notes to Combined Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984, and Note to Forecasted 1984 Statement of Income.

NA = Not applicable

NOTES TO COMBINED HISTORICAL STATEMENTS OF INCOME

(Amounts relating to the 12 months ended June 30, 1983 are unaudited.)

Dollars in Millions

1. **Accounting Policies**—The Combined Historical Statements of Income reflect the combination of the historical statements of income of New Jersey Bell, Bell of Pennsylvania, C&P Telephone Company, C&P of Maryland, C&P of Virginia, C&P of West Virginia, and Diamond State and the application of the accounting policies described in this Note and in Note 3. All significant intercompany transactions have been eliminated.

Revenue Refunds—The telephone subsidiaries record in their financial statements material revenue refunds applicable to prior years as adjustments of the respective prior years' income and, within a year, as adjustments of the applicable interim periods' income.

Purchases from Western Electric—Western Electric, a wholly-owned subsidiary of AT&T, has a substantial investment in manufacturing and other facilities which are devoted mainly to its business with affiliated telephone companies. Western Electric has supply contracts with the telephone subsidiaries, which provide that the prices it charges for the telephone equipment and materials it manufactures or procures for the telephone subsidiaries shall be as low as the prices it charges its most favored customers for like materials and services under comparable conditions. The financial statements reflect items purchased from Western Electric at cost to the telephone subsidiaries, which cost includes the return realized by Western Electric on its investment devoted to the communications business. See also "Telephone Plant" below.

Telephone Plant—The investment in equipment and materials dedicated to providing communications services is stated at its original cost. Such amounts do not purport to represent reproduction cost or current value. The original cost of telephone plant obtained from Western Electric includes a return on Western Electric's investment (see "Purchases from Western Electric" above). It is impossible to identify the particular purchases from Western Electric over a long period of years which were charged to the plant accounts and now remain therein, but Bell Atlantic considers that such purchases represent about 50% to 55% of the telephone subsidiaries' total plant investment as of December 31, 1982. Western Electric advises that its rate of profit before interest charges has varied by years and by classes of sales, but that such rate of profit before interest charges, included in prices for material sold and services furnished to affiliated telephone companies (including items chargeable to other than plant accounts), has been approximately 6.0% of such sales over the twenty year period ended December 31, 1982 and approximately 7.0% of such sales over the three year period then ended. Western Electric considers that its rate of profit before interest charges on those items which have been charged to the plant accounts is somewhat higher than its rate on total sales to affiliated companies.

Currently, AT&T and certain of its subsidiaries, including Western Electric and the telephone subsidiaries, join in the filing of a consolidated federal income tax return. As a result, Western Electric's profits before income taxes included in the cost of those materials and services in the telephone subsidiaries' plant accounts are excluded from consolidated taxable income in the year acquired from Western Electric. Instead, such profits are recognized and taxed over the depreciable life of the related plant since, for tax purposes, the telephone subsidiaries must exclude Western Electric profits in deriving the depreciable cost of its investment in telephone plant. Consequently, the telephone subsidiaries' tax liability is higher than if they were permitted to depreciate the full amount they initially paid to Western Electric. Western Electric provides the telephone subsidiaries with the funds necessary to pay the tax liability on these deferred profits in the year in which the telephone subsidiaries first acquire the related telephone plant. These payments are treated as reductions of the investment in telephone plant which results in a reduction in depreciation expense over the life of the related plant. However, there is no material effect on Net Income because the decrease in depreciation expense is offset by the aforementioned increase in the income tax provision.

Materials and Supplies—New material and reusable material are carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Depreciation—Prior to 1981, the provision for depreciation was based on straight-line composite rates, prescribed by the FCC, determined on the basis of the average expected lives of categories of telephone plant acquired in a given year. In 1982 the FCC approved the implementation of the method of determining straight-line composite rates on the basis of equal life groups of certain categories of telephone plant acquired in a given year which will result in a higher provision for depreciation than that based on average expected lives. In 1981 the FCC authorized the telephone subsidiaries to begin implementation of the "remaining life" method of depreciation. The "remaining life" method provides for the full recovery of the investment in telephone plant. Effective January 1, 1981, the FCC also authorized shorter lives for customer terminal equipment (and certain other telephone plant). The increases in depreciation expense resulting from these FCC actions should be allowable in determining revenue requirements in rate-making proceedings. See also Note 4.

When depreciable plant, other than minor items thereof which are replaced, is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

Maintenance and Repairs—The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is, with minor exceptions, charged to operating expenses.

Station Connections—During 1981 the FCC directed that beginning January 1981 certain costs of installing telephone service on a customer's premises be expensed instead of capitalized and that the balance of the investment in installation costs be amortized.

Interest Charged Construction—Regulatory authorities allow the telephone subsidiaries to accrue interest as a cost of constructing certain plant and as an item of income, i.e., interest charged construction. Such income is not realized in cash currently but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Lease Commitments—The telephone subsidiaries lease certain facilities and equipment used in their operations and reflect lease payments as rental expense of the periods to which they relate. These leases include some which would be classified as "capital leases" under criteria established by the Financial Accounting Standards Board. However, for regulatory accounting and rate-making purposes, such leases are not capitalized. Had such leases been capitalized, the effect on Net Income for 1982 and 1981 would have been insignificant.

Income Taxes—

(a) AT&T and its subsidiaries file a consolidated federal income tax return. The consolidated income tax currently payable is allocated in accordance with each company's contribution to consolidated taxable income.

(b) Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the period during which the transaction will be recognized in the determination of net income for financial reporting purposes. Appropriate income charges and their subsequent reversal, reflected as deferred income taxes-net, prevent the tax effect of these timing differences from distorting net income. The telephone subsidiaries recognize the tax effects of timing differences on the following transactions:

Dollars in Millions

(1) Vacation pay and certain property taxes are deductible for income tax purposes in the year prior to being expensed in the statements of income.

(2) Depreciation for income tax purposes is determined based on accelerated methods and shortened lives which cause such depreciation to be higher during the early years of plant life and lower in later years than the depreciation charges for such plant reflected in the statements of income.

(c) Investment tax credits result from provisions of the federal tax law which allow for a reduction in tax liability based on certain construction expenditures. Corresponding reductions in tax expense are deferred and, except for the additional one percent credit available under the Tax Reduction Act of 1975 which must be contributed currently to the Bell System Employee Stock Ownership Plan, are amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

2. **Income Taxes—**

The components of operating income tax expense were as follows:

	1982	1981
Federal:		
Current	$181.6	$149.5
Deferred-net	300.9	228.1
Investment tax credits-net	93.3	131.0
	575.8	508.6
State and local:		
Current	26.2	33.9
Deferred-net	8.8	19.0
	35.0	52.9
Total	$610.8	$561.5

Income tax expense (benefits) related to non-operating income included in Other Income was:

	1982	1981
Federal:		
Current	$ 1.5	$ (1.2)
Deferred-net	.8	—
	2.3	(1.2)
State and local:		
Current	.2	(.1)
Total	$ 2.5	$ (1.3)

Deferred income tax expense results principally from timing differences between depreciation expense recognized for income tax purposes and depreciation expense reflected in these statements of income.

The effective federal income tax rate, as determined by dividing Federal Income Taxes (see above) by the sum of Federal Income Taxes and Net Income, was 38.4% in 1982 and 37.7% in 1981. The differences of 7.6% in 1982 and 8.3% in 1981 between the effective rate and the federal income tax statutory rate of 46% are attributable to the following factors:

Dollars in Millions

	1982	1981
a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation	1.5%	3.0%
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	.4	.5
c. Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(.9)	(.9)
d. Amortization of investment tax credits over the life of the plant which gave rise to the credits. Such amortization reduced income tax expense for 1982 and 1981 by the amounts shown in Note 4	5.9	5.5
e. Other differences	.7	.2
Total	7.6%	8.3%

3. **Provision for Pensions and Death Benefits**—Employees of the telephone subsidiaries are covered by two national Bell System noncontributory pension and death benefit plans sponsored by AT&T and the Bell System companies, one for management employees and one for non-management employees. Contributions to such plans are made to irrevocable trust funds. It is the policy of the telephone subsidiaries to make contributions which are equal to the current year cost of the plans determined on a going concern basis by an actuarial method specified by the Employee Retirement Income Security Act of 1974. The following data relate to plan costs:

	1982	1981
Current year cost	\$364.8	\$349.8
Current year cost as a percent of salaries and wages	12.90%	13.34%

Amendments to the plans during 1982 had the effect of increasing 1982 pension cost by approximately \$35.8 while recognition of 1981 actuarial experience had the effect of decreasing 1982 cost.

Statement of Financial Accounting Standards No. 36 requires that certain disclosures be made of the actuarial present value of accumulated plan benefits and the fair value (essentially current market value) of net assets available for plan benefits. With the October 1, 1980 merger of the individual Bell System companies' plans, including the telephone subsidiaries' plans, into the two national Bell System plans, such disclosures are not presented for the telephone subsidiaries because the structure of the new plans does not readily permit the plans' assets and the accumulated benefits data to be disaggregated. However, based on the latest actuarial valuations of the two national plans, utilizing an assumed rate of return of 10.6% for 1981, the fair value of net assets available for plan benefits exceeded the actuarial present value of vested and non-vested accumulated plan benefits at December 31, 1981.

Dollars in Millions

4. **Additional Financial Information—**

	1982	1981
Depreciation—Percentage of average depreciable telephone plant	6.5%	6.2%
Amortization of investment tax credits	$ 88.8	$ 73.5
Other operating taxes:		
Gross receipts	$206.7	$190.2
Property	182.9	170.8
Payroll-related	174.9	153.0
State and local income	35.0	52.9
Capital Stock	20.1	19.9
Other	20.3	20.2
Total	$639.9	$607.0
Interest expense:		
Interest on long and intermediate term debt	$415.4	$400.6
Interest on advances from AT&T	10.1	11.4
Interest on notes payable	38.2	72.6
Other	9.0	7.9
Total	$472.7	$492.5
Rental expense	$172.6	$153.7

5. **MCI And Litton Antitrust Litigation—**In June 1980, MCI Communications Corporation was awarded $1.8 billion in treble damages in a civil antitrust suit against AT&T. In January 1983, the U.S. Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. Petitions for rehearing of this decision were denied by the Court of Appeals. In July 1983, both parties petitioned the U.S. Supreme Court to review the case. On October 11, 1983, the Supreme Court denied the petitions. In the opinion of AT&T's legal counsel, any monetary liability or financial impact to which AT&T and the Bell System companies might be subject after final adjudication would not be material in amount.

In June 1981, in an antitrust suit involving terminal equipment against AT&T and certain Bell System companies including New Jersey Bell, Litton Industries, Inc. ("Litton") was awarded $276.8 in treble damages. While Bell of Pennsylvania, C&P Telephone Company, C&P of Maryland, C&P of Virginia, C&P of West Virginia, and Diamond State are not defendants in this case, they could experience financial impacts from such an award through arrangements providing for the allocation of expenses among Bell System telephone companies. In February 1983, the U.S. Court of Appeals for the Second Circuit upheld the lower court's decision. The Court of Appeals denied AT&T's petition for a rehearing. In June 1983, AT&T petitioned the U.S. Supreme Court to review the case. On October 3, 1983, the Supreme Court invited the Solicitor General to file a brief in the case expressing the views of the Federal government. Should it ultimately be determined that the Litton award is payable, Net Income would be decreased in a future period. If such determination had been made as of June 30, 1983, the decrease in Net Income could have been as much as $21.6.

6. **Reinvested Earnings—**

	1982	1981
Reinvested Earnings		
At beginning of year	$2,050.0	$1,944.9
Add—Net Income	928.1	839.3
	2,978.1	2,784.2
Deduct—Dividends declared	814.6	734.2
At end of year	$2,163.5	$2,050.0

SUMMARY OF SIGNIFICANT FINANCIAL FORECAST ASSUMPTIONS FOR THE YEAR ENDING DECEMBER 31, 1984

Dollars in Millions

The Consent Decree requires that AT&T divest those parts of the Bell System operating telephone companies that provide exchange telecommunications and exchange access service, as well as printed directory advertising and cellular advanced mobile communications service. The Plan outlines how divestiture will be accomplished on January 1, 1984.

This forecasted statement of income represents management's best estimate, based on present circumstances, of the most probable operating results of Bell Atlantic for the year ending December 31, 1984. Accordingly, the financial forecast reflects management's judgment based on present circumstances of the most likely set of conditions and management's most likely course of action. The assumptions disclosed herein are those that management believes are significant to the financial forecast or are key factors upon which the financial results depend. The assumptions presented are consistent with the Plan approved by the Court. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur subsequent to November 8, 1983, the date of the financial forecast. Therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material. Additionally, it should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist.

This forecasted statement of income includes estimates of the impact of transactions with AT&T and its subsidiaries. Due to potential competitor and supplier relationships, the assumptions used by Bell Atlantic with regard to sale of customer premises equipment, purchases from Western Electric and other similar transactions were not disclosed in detail to AT&T and thus will not necessarily be the same as the assumptions used by AT&T regarding such transactions.

Bell Atlantic does not intend to update this forecasted statement of income because actual results will be reported during 1984. Consequently, it should be evaluated in light of any events and changes in circumstances occurring after November 8, 1983.

The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

Assumptions

(a) **General Economy**—The following national economic assumptions were considered in preparing the 1984 financial forecast:

Growth in Real Gross National Product (GNP)	5.0%
Increase in Consumer Price Index (CPI)	4.4%
Annual Average Interest Rates:	
—AAA Bond Rating	12.2%
—Prime	11.6%
—90 Day Commercial Paper	9.8%

(b) **Operating Revenues**—Revenues are based on estimated rates and volumes of business.

Following the FCC's October 18, 1983 Order suspending the effective date of interstate Access Charges to customers and interexchange carriers from January 1, 1984 to April 3, 1984, AT&T on October 27, 1983 petitioned the FCC to reconsider the suspension. In the event that the FCC declines to reconsider, AT&T and the RHCs have reached agreement as to the principal terms of an interim arrangement designed to compensate the telephone subsidiaries for the use of their facilities for interstate toll and related services on a basis that is approximately consistent with the current level of interstate earnings (which level is somewhat lower than the authorized rate of return). The forecast assumes that such arrangement will be in effect from January 1, 1984 to April 3, 1984. There is pending before the Court a motion which was filed by the Bell Atlantic telephone subsidiaries prior to the time the agreement referred to above was reached. In that motion, the Bell Atlantic telephone subsidiaries proposed that they be compensated for use of their facilities for interstate toll service at the authorized rate of return. Consistent with the agreement, Bell Atlantic is requesting Court approval to withdraw its motion. AT&T and the other RHCs support that request.

The forecast also assumes that the implementation by the FCC of interstate Access Charges will occur on April 3, 1984, and that the Access Charge process will not be altered through (i) congressional legislation which, as currently proposed, seeks to suspend or prohibit Access Charges to residential and small business customers and also seeks to extend the present reduced interconnection rates charged to interexchange carriers other than AT&T, or (ii) judicial action relating to an appeal of the FCC's Order initially adopting Access Charges which is pending before the U.S. Court of Appeals for the District of Columbia Circuit.

The forecast assumes that intrastate interLATA Access Charges will become effective as presently scheduled or, if not, that interim arrangements will be implemented to compensate the telephone subsidiaries for the use of their facilities for intrastate toll and related services. Rates for exchange telecommunications services are estimated based on prices expected to be established by state regulatory commissions.

Any changes in these assumptions could have a significant effect on forecasted Net Income; any further delay in implementation of Access Charges would reduce forecasted Net Income.

Revenues from these interstate and intrastate services are expected to recover the costs of providing such services, including a return on facilities. The telephone subsidiaries have filed or will file rate applications before the FCC and in all of the state regulatory commissions to establish rates for Access Charges and exchange telecommunications services. Since the tariff structures will be substantially different from those existing prior to divestiture, approximately 38% of the forecasted Total Operating Revenues for 1984 are dependent upon the outcome of these rate applications. Approximately 2% of the forecasted Total Operating Revenues represents Access Charges to residential and small business customers for which tariffs have been filed with the FCC and which pending legislation seeks to delay or prohibit. If such customer Access Charges are delayed or prohibited by this legislation or if their effectiveness is further delayed by the FCC, the telephone subsidiaries will have to seek to recover the cost of these services through other charges.

Access lines in service at December 31, 1984 are estimated to be 14,580,500. The telephone subsidiaries expect to be able to modify, within reasonable limits, the costs of providing telephone service to recognize variations from the forecasted volume levels.

(c) **Depreciation**—Depreciation expense is estimated using rates and practices prescribed or expected to be prescribed by the governing regulatory authorities applied to assets expected to be owned by the telephone subsidiaries during 1984. Regulatory authorities are expected to approve depreciation rates that result in an average composite rate of about 6.3%; such rates are expected to be allowable in determining revenue requirements in intrastate rate-making proceedings. Construction costs of $1,743.4 for the period are estimated based on estimated demand for communications services and improvements to existing services.

(d) **Other Operating Expenses**—Other expenses include primarily salaries, wages, pensions and other employee related expenses. Salaries and wages, including cost-of-living adjustments, are estimated based on expected post-divestiture force levels and reflect new union contracts agreed upon in August, 1983. Pensions and other employee related expenses are estimated based on expected force levels and estimated payroll used to calculate such expenses. It is estimated that the changes in wages and fringe benefits resulting from the new contracts, as well as adjustments in ranges of compensation and fringe benefits for management employees, will increase expenses by about $175 in 1984.

Maintenance expense includes an inflation adjustment of 4.4% and, as a percentage of the level of plant, is expected to remain relatively constant during 1984. The CSO will furnish technical assistance such as network planning, engineering and software development. Bell Atlantic's share of the estimated cost of the CSO has been included based on approved functions for the CSO and its expected force levels, and in 1984 is estimated to be approximately $107.1.

Dollars in Millions

(e) **Operating Taxes**—The estimated effective annual federal income tax rate is expected to be 41.0%. The difference of 5.0% between the estimated effective tax rate and the assumed statutory rate of 46% is attributable to the following factors:

a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes but deducted currently for income tax purposes, net of applicable depreciation	.1%
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	.4
c. Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(1.0)
d. Amortization of investment tax credits over the life of the plant which gave rise to the credits	5.2
e. Other differences	.3
Total	5.0%

The investment tax credit rate is expected to remain at 10%. Tax estimates are in accordance with the Tax Equity and Fiscal Responsibility Act of 1982. Social Security taxes are computed using a 7.0% rate on the statutory wage base. State and local tax estimates are determined based on taxable bases and statutory tax rates.

(f) **Interest Expense**—Interest expense is computed using an embedded cost of funded debt of 8.79%. Interest expense on short term debt, at an average estimated cost of 12.48%, represents 11.09% of total interest expense.

(g) **Weighted Average Shares**—The weighted average number of shares outstanding is calculated based on one-tenth of the number of AT&T common shares estimated to be outstanding as of December 30, 1983 and the estimated shares to be issued under Bell Atlantic's dividend reinvestment plan and employee benefit plans during 1984.

(h) **Summary of Significant Anticipated Sources of Funds Supporting Construction Activity—**

Funds from operations (net of first quarter 1984 dividend, annualized, of $629.1)	$1,853.7
Funds from external financing, net (principally sale of shares through dividend reinvestment and employee benefit plans)	250.3
Other (including interest charged construction)	(360.6)
Total construction activity	$1,743.4

(i) **Contingent Liabilities**—No amounts are included in the financial forecast for the matters discussed in Note 5 to Combined Historical Statements of Income.

NOTE TO FORECASTED 1984 STATEMENT OF INCOME

Dollars in Millions

Summary of Significant Accounting Policies—The forecasted statement of income is prepared in accordance with the generally accepted accounting principles expected to be used for the financial statements issued during the forecast period. Generally accepted accounting principles used in the forecasted statement of income have been applied on a basis consistent with those principles used in the combined historical statements of income for the years ended 1981 and 1982 and the twelve-month period ended June 30, 1983, except as described below:

Revenue Refunds—Effective in 1984, in accordance with Statement of Financial Accounting Standards No. 71 ("Statement No. 71"), "Accounting for the Effects of Certain Types of Regulation," restatement of prior period results for revenue refunds will not be made; instead, refund liabilities (if any) will be reflected in current results.

Purchases from Western Electric—The Standard Supply Contracts with Western Electric will be terminated in accordance with the Plan by January 1, 1984.

In 1984, the telephone subsidiaries will no longer join with AT&T in filing a consolidated Federal income tax return. Accordingly, plant values associated with new purchases from Western Electric will not reflect the effect of the tax which formerly would have been deferred and therefore, such tax will no longer provide a source of funds. As a result of divestiture, the telephone subsidiaries could be required to make an immediate payment of Federal income taxes previously deferred on intercompany profits. The amount of this payment applicable to plant owned by the telephone subsidiaries is approximately $165.9. While payment of these taxes would have no direct effect on Net Income, an immediate payment would increase the telephone subsidiaries' needs for cash. However, AT&T believes that, pursuant to tax regulations, a closing agreement is likely to be entered into with the Internal Revenue Service which would result in only a moderate acceleration of the present time period over which these intercompany profits become taxable.

In addition to the above effects, the telephone subsidiaries will be required to return to Western Electric previous payments of deferred taxes relating to plant assigned to AT&T Information Systems. AT&T will provide the funds to make such payments.

Provision for Pensions and Death Benefits—Upon divestiture, noncontributory pension and death benefit plans sponsored by Bell Atlantic for management and non-management employees will be established similar to existing national Bell System plans.

Lease Commitments—The telephone subsidiaries currently reflect lease payments for certain facilities and equipment used in their operations as rental expense of the periods to which they relate. In 1984, in accordance with Statement No. 71, the asset values and related obligations of capital leases with inception dates after December 31, 1982 will be included in their balance sheets. This change in accounting is not expected to affect Net Income because the total of the interest expense on the lease obligations plus the amortization expense of the leased assets will equal the rental expense allowed for rate-making purposes.

BELL ATLANTIC CORPORATION

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

Dollars in Millions

The following Unaudited Combined Historical Balance Sheet as of June 30, 1983 is derived from the unaudited financial statements included in the quarterly reports on Form 10-Q of the telephone subsidiaries. All significant intercompany transactions have been eliminated.

The following Unaudited Pro Forma Condensed Balance Sheet gives effect to the divestiture of the telephone subsidiaries by AT&T as if it had occurred on June 30, 1983, in accordance with the Plan. Because divestiture will not occur until January 1, 1984, actual balances and adjustments will vary from those presented in the pro forma balance sheet below. The Unaudited Pro Forma Condensed Balance Sheet should be read in conjunction with the audited financial statements and notes contained in the most recent annual reports on Form 10-K and with the unaudited financial statements and notes contained in the most recent quarterly reports on Form 10-Q of the telephone subsidiaries.

	Combined Historical June 30, 1983	Pro Forma Adjustments	Pro Forma June 30, 1983
ASSETS			
Telephone Plant—Net of Accumulated Depreciation	$16,616.8	$(2,020.5)	$14,596.3
Investments	8.6	—	8.6
Current Assets	1,507.0	(77.1)	1,429.9
Deferred Charges	229.8	(.5)	229.3
Total Assets	$18,362.2	$(2,098.1)	$16,264.1
INVESTED CAPITAL, LIABILITIES AND DEFERRED CREDITS			
Share Owners' Equity	$ 8,292.1	$(1,466.5)	$ 6,825.6
Long and Intermediate Term Debt	4,787.0	—	4,787.0
Debt Maturing Within One Year	393.6	67.8	461.4
Other Current Liabilities	1,212.9	(68.7)	1,144.2
Deferred Taxes and Other Deferred Credits	3,676.6	(630.7)	3,045.9
Total Invested Capital, Liabilities and Deferred Credits	$18,362.2	$(2,098.1)	$16,264.1

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

1. Pro Forma Adjustments—

Assets and liabilities are transferred to and from AT&T at net book value. The transfers are tax-free under the Internal Revenue Code. Accumulated deferred income tax reserves and unamortized investment credits are transferred along with the associated assets.

The Pro Forma Adjustments and pro forma capital structure as of June 30, 1983 were developed to reflect provisions of the Plan and the related Reorganization and Divestiture Agreement implementing divestiture. The pro forma capital structure reflects adjustments to the telephone subsidiaries' debt and equity as specified in such agreement. Operations subsequent to June 30, 1983 will impact capital structure. Accordingly, the debt ratio (debt as a percent of total debt and equity) of Bell Atlantic as of January 1, 1984 may be somewhat different than that derived from the accompanying June 30, 1983 Unaudited Pro Forma Condensed Balance Sheet. However, Bell Atlantic expects that the January 1, 1984 ratio will not differ significantly from the ratio derived from the Unaudited Pro Forma Condensed Balance Sheet at June 30, 1983, and is anticipated to be approximately 43.3%.

2. Contingent Liabilities—See Note 5 to Combined Historical Statements of Income.

Dollars in Millions

Selected Operating Information

The following table sets forth for the telephone subsidiaries the number of network access lines in service at the end of each period and the number estimated to be in service on January 1, 1984.

	Network Access Lines In Service — Thousands					
	Estimated January 1, 1984	June 30, 1983	1982	1981	1980	1979
New Jersey Bell	3,973	3,900	3,844	3,758	3,660	3,542
Bell of Pennsylvania	4,495	4,451	4,474	4,445	4,379	4,288
C&P Telephone Company	748	733	725	716	692	664
C&P of Maryland	2,178	2,138	2,107	2,070	2,029	1,959
C&P of Virginia	1,908	1,859	1,839	1,815	1,756	1,689
C&P of West Virginia	636	624	627	621	624	617
Diamond State	309	306	303	297	287	276
Total	14,247	14,011	13,919	13,722	13,427	13,035

Construction Expenditures and Use of Proceeds

Bell Atlantic's telephone subsidiaries have been making and expect to continue to make large construction expenditures to meet the demand for communications services and to further improve such services. Construction expenditures by the telephone subsidiaries since January 1, 1978 were approximately as follows:

1978	$1,671.3	1981	$2,229.0
1979	2,012.5	1982	2,094.7
1980	2,213.6	1983 (through June 30)	855.8

Bell Atlantic's telephone subsidiaries are projecting construction expenditures of approximately $1,891.0 for 1983 and approximately $1,714.5 for 1984. Other subsidiaries, primarily subsidiaries of Bell Atlantic Mobile Systems, Inc., are expected to expend approximately $28.9 for their capital requirements in 1984. Substantially all of the amounts for both years are expected to be financed through internally generated funds.

Bell Atlantic does not know the aggregate amount of proceeds from shares to be issued under the Share Owner Dividend Reinvestment and Stock Purchase Plan, the Savings Plan for Salaried Employees, the Savings and Security Plan, and the Voluntary Contribution Plan. Bell Atlantic intends to use the proceeds from the sale of such shares for advances to subsidiary companies, for additional equity investment in such companies and for general corporate purposes.

Bell Atlantic anticipates that it will be able to obtain external capital, if required, through issuance of debt securities by the telephone subsidiaries, through short-term borrowings and through the issuance of shares pursuant to the plans described above.

Intrastate Rates *(information as of November 8, 1983)*

New Jersey Bell, Bell of Pennsylvania, C&P Telephone Company, C&P of Maryland, C&P of Virginia, C&P of West Virginia, and Diamond State, in providing communications services, are subject to regulation by state commissions in the states in which they operate with respect to intrastate rates and services and other matters.

Unless otherwise indicated, the amounts of the changes in revenues resulting from changes in rates referred to below are stated on an annual basis and are estimates without adjustment for subsequent changes in volumes of business.

The principal changes in intrastate rates authorized for the telephone subsidiaries since January 1, 1978, were increases of $39.9 in 1978, $157.2 in 1979, $60.9 in 1980, $355.0 in 1981, $606.5 in 1982, and $237.1 in the first ten months of 1983. Details of recent regulatory activity on a state-by-state basis are set forth below.

Because the Consent Decree prohibits the provision by the telephone subsidiaries of some currently authorized products and services, Bell Atlantic's telephone subsidiaries will not realize the full amount of revenues currently authorized by the states in which the telephone subsidiaries will be doing business. As a result, Bell Atlantic estimates a decrease in annual intrastate revenues of approximately $1.3 billion.

Dollars in Millions

However, there will be related reductions in the rate bases of the telephone subsidiaries and elimination of expenses incidental to assets and operations transferred to, and to be carried on by, AT&T and its subsidiaries in connection with divestiture.

The telephone subsidiaries have applications pending to increase rates (excluding intrastate access charges) for their authorized services in the following jurisdictions:

Jurisdictions	Date Filed	Amount Pending
New Jersey	8/15/83	$ 89.6
Pennsylvania	3/29/83	331.4
Maryland	6/3/83	146.8
Virginia	8/19/83	130.1
West Virginia	8/3/83	87.8
Delaware	6/1/83	18.2
Total		$803.9

The rate increases sought include requests to allow rates to recover increased depreciation expense in accordance with the FCC's program to provide for improved capital recovery.

In addition to the interstate access charges provided for by the FCC, regulatory commissions in the states in which the telephone subsidiaries will be doing business have been asked to allow access charges to compensate those companies for their facilities that provide Long Distance Communications furnished on an intrastate basis by interexchange carriers such as AT&T. (See "Access Charge Arrangements" above.) The telephone subsidiaries have filed with the following jurisdictions access charge tariffs which are designed to produce annual revenues to recover the cost of providing access and access related services to interexchange carriers as follows:

Jurisdictions	Date Filed	Amount Pending
New Jersey	11/1/83	$136.5
Pennsylvania	10/11/83	195.4
Maryland	6/3/83	74.8
Virginia	8/19/83	85.9
West Virginia	8/3/83	17.7
Total		$510.3

Bell Atlantic is unable to give any assurances as to the amounts or effective dates of any rate increases that may be granted in any of the above rate proceedings.

New Jersey. On November 18, 1982, New Jersey Bell petitioned the Board of Public Utilities ("BPU") for an increase in intrastate rates of $215.8. In May, 1983, New Jersey Bell, the BPU Staff, and the Department of the Public Advocate signed a stipulation agreement which split the case into two phases to consider New Jersey Bell's financial requirements before divestiture (Phase I) and after divestiture (Phase II). New Jersey Bell's Phase I request became $59.3. On August 15, 1983, New Jersey Bell filed its Phase II request for an increase of $89.6. On October 17, 1983, the BPU authorized an increase of $41.5 for Phase I. The Board's decision on Phase II is still pending, with a decision expected sometime in the second quarter of 1984.

On November 1, 1983, New Jersey Bell filed with the BPU for carrier access charges of $136.5. A decision is expected by January 1, 1984.

Pennsylvania. On April 24, 1981, the Pennsylvania Public Utility Commission ("PUC") authorized an increase in intrastate revenues of $150.3. The PUC set May 15, 1981, as the effective date of the tariffs, rather than April 24, 1981, the date of the revenue award. Bell of Pennsylvania appealed the delay of the effective date to the Pennsylvania Commonwealth Court and received a favorable decision on November 5, 1982. On February 4, 1983, the PUC approved Bell of Pennsylvania's plan to recoup the additional

$7.5 in intrastate revenues lost as a result of the delay. On March 16, 1983, the Pennsylvania Supreme Court agreed to hear the appeal of the Office of the Consumer Advocate ("OCA") from the Commonwealth Court's decision. This appeal is still pending.

Bell of Pennsylvania filed a general increase with the PUC on December 15, 1981. After a full investigation, the PUC authorized an increase in intrastate revenues of $255.6 to be effective September 13, 1982. Subsequently, Bell of Pennsylvania filed a notice of appeal with the Pennsylvania Commonwealth Court on two issues which could generate additional intrastate revenues of $7.4. In addition, the OCA cross-appealed two other issues. If the OCA is successful in its appeal, Bell of Pennsylvania could be required to refund approximately $77.8 in intrastate revenues. Both appeals are still pending.

On March 29, 1983, Bell of Pennsylvania filed with the PUC for a general increase of $378.9, excluding intrastate carrier access charges. This amount has since been revised to $331.4. On October 11, 1983, Bell of Pennsylvania filed with the PUC for carrier access charges of $195.4. Decisions on these current filings are expected before the end of 1983.

Washington, D.C. At a public meeting on September 20, 1983, the District of Columbia Public Service Commission approved an increase in intrastate revenues for C&P Telephone Company of $39.8, including $2.3 originally requested in a prior case. C&P Telephone Company originally had requested $82.0 and subsequently revised their request to $77.4. The increased rates are expected to go into effect about January 1, 1984, after the rate design phase of the case is decided.

C&P Telephone Company filed a motion for reconsideration of certain issues on October 14, 1983 with the Commission. Resolution of the issues involved in favor of C&P Telephone Company could generate additional intrastate revenues of $36.7.

There is no new rate case pending at this time.

Maryland. On February 18, 1983, the Maryland Public Service Commission ("PSC") issued an order authorizing C&P of Maryland to increase annual revenues by $28.2, effective February 19, 1983. C&P of Maryland had requested an increase of $125.4. The revised depreciation methods of remaining life and equal life group prescribed by the FCC in 1981 and 1982 were not allowed by the PSC in determining the intrastate revenue requirement in this order. The resulting lowering of depreciation expense decreased the intrastate revenue requirement by $16.1. In light of the FCC's order of January 6, 1983, in Docket CC Docket No. 79-105, preempting state commission authority in the area of depreciation rates, C&P of Maryland filed a complaint in the U.S. District Court for the District of Maryland on March 21, 1983, seeking enforcement of the FCC prescribed depreciation rates. On April 6, 1983, in accordance with an Order of the U.S. District Court, the commission authorized C&P of Maryland to collect an additional $16.1. This amount is subject to refund since the PSC has appealed the U.S. District Court decision to the U.S. Court of Appeals for the Fourth Circuit.

On June 3, 1983, a new rate case was filed for $163.5 plus an estimated $55.0 for intrastate carrier access charges. These amounts have since been revised to $146.8 and $74.8 respectively. A decision is expected by January 1, 1984.

Virginia. On April 5, 1983, the Virginia State Corporation Commission granted C&P of Virginia a $63.8 increase in annual intrastate revenues. C&P of Virginia had filed its request on August 17, 1982, for $133.5 which was reduced to $94.1 on December 17, 1982. C&P of Virginia had been collecting $66.5 in increased interim rates since November 11, 1982. A revenue requirement of $.9 for equal life group depreciation is subject to refund pending the outcome of the commission's appeal of the FCC preemptive order described above.

C&P of Virginia filed a new rate case on August 19, 1983, for $134.8 plus an estimated $89.8 for intrastate carrier access charges. These amounts have since been revised to $130.1 and $85.9 respectively. A decision is expected by early 1984.

West Virginia. On August 3, 1983, C&P of West Virginia filed with the West Virginia Public Service Commission, requesting an increase of $94.1 plus an estimated $11.4 for intrastate access charges. These amounts have since been revised to $87.8 and $17.7 respectively. A decision is expected by mid-1984.

Delaware. The Delaware Public Service Commission ("PSC") authorized an increase of $8.3 in 1981. Diamond State was successful in appealing two disallowances in the PSC's order to the Delaware

Dollars in Millions

Superior Court, but the PSC further appealed the issues to the Delaware Supreme Court, and Diamond State cross-appealed the question of its right to recoupment. On November 2, 1983, the Delaware Supreme Court affirmed in part, and remanded in part, the Delaware Superior Court's decision. The issue remaining for decision on remand before the PSC involves Diamond State's right to approximately $.4 collected under bond between November 2, 1982 and April 6, 1983, pursuant to a stay pending the appeal to the Delaware Supreme Court.

On June 1, 1983, Diamond State filed with the PSC for a rate increase of $25.9; this amount has since been revised to $18.2. A decision on this filing is expected by early 1984.

FCC Regulation, Interstate Rates and Competition

On September 30, 1983, the telephone subsidiaries filed interstate access charge tariffs with the FCC in the following jurisdictions:

Jurisdictions	Amount Pending
New Jersey	$ 745.9
Pennsylvania	544.8
District of Columbia	173.5
Maryland	310.2
Virginia	367.9
West Virginia	123.2
Delaware	60.3
Total	$2,325.8

The FCC has suspended the effective date of interstate access charge tariffs until April 3, 1984. No assurances can be given that all of the interstate access charge tariffs applied for will be authorized.

The sections entitled "Access Charge Arrangements" and "Pending Telecommunications Legislation" contained in the "Description of the Divestiture Transaction" section above, and "FCC Regulatory Jurisdiction," "Interstate Rates" and "Competition" contained in the "Common Information" section below are incorporated herein by reference.

Legal Proceedings and Contingent Liabilities

The sections entitled "Legal Proceedings" and "Contingent Liabilities" included in the "Common Information" section below are incorporated herein by reference.

Employee Relations

Bell Atlantic estimates that as of January 1, 1984, it will employ approximately 80,000 persons through its headquarters and subsidiary operations. About 70% of the employees of Bell Atlantic and its subsidiaries will be represented by unions. Of those so represented, about 55% will be represented by the Communications Workers of America, which is affiliated with the AFL-CIO, about 22% by other unions affiliated with the AFL-CIO and the remainder by other unions.

In August 1983, after a three week strike, new three year contracts were agreed upon by the telephone subsidiaries which provide for wage increases of up to 5.5% in the first year and up to 1.5% plus a cost-of-living adjustment in each of the second and third years and improvements in fringe benefits. Based on the number of persons estimated to be employed by Bell Atlantic on January 1, 1984, it is estimated that these changes in wages and fringe benefits will increase expenses of Bell Atlantic by about $152.6 on an annual basis by the end of the three year contract period, excluding any adjustments resulting from cost-of-living increases. For each 1% increase in the national Consumer Price Index for Urban Wage Earners and Clerical Workers, it is estimated that cost-of-living adjustments in each of the second and third years will further increase expenses of Bell Atlantic by about $12.2 on an annual basis.

In addition to changes provided for non-management employees, adjustments will be made from time to time in the ranges of compensation for management employees and will be reflected in accounts as salary changes become effective. It is expected that such adjustments, together with improvements in fringe benefits for management employees, will represent about 35% of the increases in compensation and fringe benefits of all employees.

Properties

On January 1, 1984, all properties relating to the services to be provided by Bell Atlantic will have been transferred to it by AT&T. Bell Atlantic estimates that central office equipment will represent 44% of Bell Atlantic's consolidated investment in telephone plant; land and buildings (occupied principally by central offices) will represent 11%; wiring and equipment, substantially all of which are on the premises of customers, will represent 18%; and connecting lines not on customers' premises, the majority of which are on or under public roads, highways or streets and the remainder on or under private property, will represent 27%.

Substantially all of the installations of central office equipment and administrative offices are located in owned buildings situated on land held in fee. Many garages, business offices and telephone service centers are in rented quarters.

Description of Common Stock and Dividend and Market Information

All common shares (par value $1 per share) of Bell Atlantic are entitled to participate equally in dividends. Each shareholder has one vote for each share registered in the shareholder's name. All common shares would rank equally on liquidation. Holders of common shares have no preemptive or cumulative voting rights. Under the certificate of incorporation, shareholder action may be taken only at a duly convened meeting or by unanimous written consent.

The markets for trading in Bell Atlantic common stock will be the New York, Philadelphia, Boston, Midwest and Pacific Stock Exchanges. Trading of the stock is expected to begin on a "when issued" basis in November 1983. Bell Atlantic common stock certificates will be distributed in February 1984, after which regular trading will begin.

As of September 30, 1983, there were 3,148,391 holders of record of AT&T common stock, of which 2,565,186 were owners of ten or more shares. Each holder of record of AT&T stock as of December 30, 1983, other than those holding less than 10 AT&T shares, will be entitled to receive common stock in Bell Atlantic. (See "Method of Distribution of Regional Holding Company Shares to AT&T Shareholders.")

It is estimated that 3.7 million shares of Bell Atlantic common stock will be issued during 1984 by Bell Atlantic under its Share Owner Dividend Reinvestment and Stock Purchase Plan, Employee Stock Ownership Plan, Savings Plan for Salaried Employees, Savings and Security Plan, Voluntary Contribution Plan and Senior Management Long Term Incentive Plan.

All shares of common stock to be distributed in connection with the divestiture and to be issued in accordance with the above-mentioned plans will be fully paid and nonassessable.

Bell Atlantic anticipates that dividends will be declared on a quarterly basis and paid on May 1, August 1, November 1 and February 1, and that the initial dividend payment will be $1.60 per share. The declaration and timing of all dividends are at the discretion of the Board of Directors and are dependent upon Bell Atlantic's earnings and financial requirements, general business conditions and other factors. Reference is made to the Summary of Significant Financial Forecast Assumptions in the "Information Statement for Bell Atlantic Corporation" for information concerning certain factors which may affect Bell Atlantic's earnings. Specifically, the declaration and payment of the initial dividend of $1.60 on May 1, 1984, will be contingent upon the implementation of Access Charges on April 3, 1984, as presently scheduled, without significant changes from the tariffs filed by the telephone subsidiaries. See "Access Charge Arrangements" under "Description of the Divestiture Transaction."

Authorized Preferred and Preference Stock

The certificate of incorporation of Bell Atlantic authorizes the issuance of (i) up to 12.5 million shares of Bell Atlantic series preferred stock (par value $1 per share) and (ii) up to 12.5 million shares of Bell Atlantic series preference stock (par value $1 per share). Bell Atlantic's certificate of incorporation authorizes the Board of Directors to the extent permitted by Delaware law to fix by resolution dividend rates, redemption and sinking fund provisions, liquidation values, voting powers and other terms of any series of preferred or preference stock that may be desired. None of the preferred stock or the preference stock will be issued in connection with divestiture and Bell Atlantic has no present plans to issue any of the preferred or preference stock in the near future.

Directors and Officers

Based upon their holdings of AT&T Shares as of September 30, 1983 (including certain family holdings), the directors and officers of Bell Atlantic as a group would have owned with voting and investment power 825 common shares of Bell Atlantic (includes shared voting and investment power with respect to 62 shares). Had the divestiture distribution taken place on that date, this amount would constitute less than 1% of the outstanding shares.

Directors (as of November 1, 1983)

Name (age) and Principal Occupation	Bell Atlantic Shares Beneficially Owned(1)	Directorships of Other Public Companies
Thomas E. Bolger (56) Chairman of the Board and Chief Executive Officer, Bell Atlantic Corporation; Executive Vice President, American Telephone and Telegraph Company, 1974-83.	441	GEICO Corp.
Philip A. Campbell (47) President, Bell Atlantic Management Services, Inc.; Chairman of the Board, New Jersey Bell Telephone Company, 1983; President and Director, New Jersey Bell Telephone Company, 1982-83; President and Director, Indiana Bell Telephone Company, 1981-82; Executive Vice President and Director, Illinois Bell Telephone Company, 1978-81.	12	Riggs National Corporation.
William L. Mobraaten (54) Vice Chairman of the Board and Chief Financial Officer, Bell Atlantic Corporation; Chairman of the Board and Chief Executive Officer, The Bell Telephone Company of Pennsylvania and The Diamond State Telephone Company, 1983; President and Director, The Bell Telephone Company of Pennsylvania and The Diamond State Telephone Company, 1976-82.	78	Rohm & Haas, Cyclops Corporation.
William G. Copeland (57) President, Director and Chief Executive Officer, Continental American Life Insurance Company.	—	The Diamond State Telephone Company, Bank of Delaware Corp., Crown Central Petroleum Corporation.
Lloyd H. Elliott (65) President, George Washington University.	—	The Chesapeake and Potomac Telephone Company, Woodward & Lothrop Inc., American Security Corp.
Gerald T. Halpin (60) President, Westgate Corporation (land development).	—	The Chesapeake and Potomac Telephone Company of Virginia.
Robert D. Harrison (60) Vice Chairman, John Wanamaker Philadelphia (retail merchandising).	6	The Bell Telephone Company of Pennsylvania, Philadelphia Electric Company, The Philadelphia Saving Fund Society.
Joseph C. Jefferds, Jr. (64) President, Jefferds Corporation (industrial equipment sales and service).	30	The Chesapeake and Potomac Telephone Company of West Virginia, Intermountain Bankshares, Inc.

(1) Holdings of common stock of Bell Atlantic for each Director are projected based upon the Director's ownership of AT&T common shares as of September 30, 1983.

Name (age) and Principal Occupation	Bell Atlantic Shares Beneficially Owned(1)	Directorships of Other Public Companies
J. C. Marous, Jr. (58) .... President, Industries & International Group, Westinghouse Electric Corporation; President—International, 1979-83; Executive Vice President—Construction Group, 1973-79.	—	The Bell Telephone Company of Pennsylvania.
John F. Maypole (44) .... President, Chief Operating Officer and Director, Clevepak Corporation (manufacturer of building and construction production and process equipment), 1983; President and Chief Operating Officer, Interpace Corporation, 1981-83; Executive Vice President, Interpace Corporation, 1980-81; Senior Vice President, Interpace Corporation, 1978-80.	20	New Jersey Bell Telephone Company, Horizon Bancorp.
John M. Seabrook (66) .... Chairman of the Executive Committee, IU International Corporation, 1982-83; Chairman of the Board, IU International Corporation, 1969-82.	102	New Jersey Bell Telephone Company, South Jersey Industries, Inc., Echo Bay Mines Ltd., Gotaas-Larsen Shipping Corporation.

(1) Holdings of common stock of Bell Atlantic for each Director are projected based upon the Director's ownership of AT&T common shares as of September 30, 1983.

Directors hold office until the next Annual Meeting or until their successors have been elected and qualified.

Officers (as of November 1, 1983)

Name	Age	Office	Held Since
Thomas E. Bolger	56	Chairman and Chief Executive Officer	1983
William L. Mobraaten	54	Vice Chairman and Chief Financial Officer	1983
Ian W. Robinson	60	Executive Vice President—Financial Operations	1983
Robert A. Levetown	48	Executive Vice President and General Counsel	1983
John A. Mountain	55	Vice President and Treasurer	1983
Edward G. Grogan	51	Secretary	1983

Prior to election as a Bell Atlantic officer, each of the above officers (except Mr. Mountain) held high level managerial positions with New Jersey Bell, Bell of Pennsylvania, C&P Telephone Company, C&P of Maryland, C&P of Virginia, C&P of West Virginia, Diamond State, AT&T or another subsidiary or associated company of AT&T for more than the past five years. Mr. Mountain served as Chief Financial Officer and Director of Air Products and Chemicals, Inc., Allentown, Pennsylvania, for more than five years prior to his election as a Bell Atlantic officer.

Officers are not elected for a fixed term of office but are removable at the discretion of the Board of Directors.

Compensation of Directors and Officers

Directors who are not employees receive an annual retainer of $16,000 and a fee of $600 for each Board meeting and each Committee meeting attended. Non-employee Directors who chair committees receive additional annual retainers of $2,000. Directors may elect to defer the receipt of all or a part of fees and retainers. Amounts so deferred earn interest, compounded quarterly, at a rate equal to the average interest rate for ten-year United States Treasury notes for the previous quarter. Directors who are also employees receive no remuneration for serving as Directors or members of a Board Committee.

The present salaries for the five most highly compensated executive officers of Bell Atlantic and all executive officers as a group are as follows:

Name	Office	Present Salary
Thomas E. Bolger	Chairman and Chief Executive Officer	$ 433,500
William L. Mobraaten	Vice Chairman and Chief Financial Officer	272,500
Ian W. Robinson	Executive Vice President—Financial Operations	159,000
Robert A. Levetown	Executive Vice President and General Counsel	175,000
John A. Mountain	Vice President and Treasurer	130,000
All executive officers as a group (5 persons)		$1,170,000

Each of the individuals named above is presently an employee of AT&T or one of the telephone subsidiaries of Bell Atlantic. Salaries for these individuals to be effective January 1, 1984 have not yet been determined. It is expected that these initial salaries, when determined, will not significantly exceed present salaries plus normal annual increases.

The section entitled "Compensation of Directors and Officers" included in the "Common Information" section below is incorporated herein by reference (except that certain of the plans described therein have not yet been approved by the Board of Directors).

First Shareholders' Meeting and Submission of Shareholder Proposals

Because Bell Atlantic's first year of operations will be 1984, its first public shareholders meeting will be scheduled for April 1985. Bell Atlantic will prepare and disseminate its annual report and proxy statement for such meeting; proposals of shareholders intended for inclusion in such proxy statement should be sent to the Secretary of Bell Atlantic at 1600 Market Street, Philadelphia, Pennsylvania 19103 and must be received by November 25, 1984.

INFORMATION STATEMENT

FOR

BELLSOUTH CORPORATION

The Company

BellSouth Corporation ("BellSouth") was incorporated in 1983 under the laws of the State of Georgia and has its principal executive offices at 675 West Peachtree Street, N.E., Atlanta, Georgia 30375 (telephone number 404 420-8600). At divestiture, AT&T will transfer to BellSouth its 100 percent ownership in South Central Bell Telephone Company ("South Central Bell") and Southern Bell Telephone and Telegraph Company ("Southern Bell"). BellSouth will also receive from AT&T BellSouth Mobility Inc ("BellSouth Mobility"), a cellular advanced mobile communications service subsidiary, and a one-seventh interest in the CSO.

Southern Bell was incorporated in 1879 under the laws of the State of New York and has its principal offices at 675 West Peachtree Street, N.E., Atlanta, Georgia 30375 (telephone number 404 529-8611). Prior to January 1, 1984, Southern Bell will be reincorporated as a Georgia corporation. Southern Bell is engaged in the business of furnishing exchange telecommunications and exchange access service in Florida, Georgia, North Carolina and South Carolina. Prior to July 1, 1968, Southern Bell carried on a communications business in Alabama, Kentucky, Louisiana, Mississippi and Tennessee. On July 1, 1968, the business and properties of Southern Bell in these states were transferred to South Central Bell.

South Central Bell was incorporated in 1967 under the laws of the State of Delaware and has its principal offices at 600 North 19th Street, Birmingham, Alabama 35203 (telephone number 205 321-1000). Prior to January 1, 1984, South Central Bell will be reincorporated as a Georgia corporation. South Central Bell is engaged in the business of furnishing exchange telecommunications and exchange access service in Alabama, Kentucky, Louisiana, Mississippi and Tennessee.

Exchange telecommunications service refers to intraLATA service, which includes toll service as well as local service.

BellSouth Mobility will engage in the business of providing advanced mobile communications services using cellular technology. BellSouth Mobility is forming subsidiaries and partnerships through which it expects to construct and operate cellular systems. Initial operations are planned in 1984 in Miami, Florida, New Orleans, Louisiana and Atlanta, Georgia. FCC and various state license applications are currently pending with respect to cellular services in Alabama, Florida, Georgia, Kentucky, Louisiana, North Carolina, South Carolina and Tennessee.

Commencing January 1, 1984, BellSouth Advertising & Publishing Corporation ("BellSouth Advertising"), a wholly-owned subsidiary of BellSouth, will be engaged in the directory advertising and publishing operations currently carried on, and in the same states served, by South Central Bell and Southern Bell. Certain assets and employees engaged in the directory advertising functions of South Central Bell and Southern Bell will be transferred to BellSouth Advertising, effective January 1, 1984.

BellSouth Services Incorporated ("BellSouth Services") is jointly owned by South Central Bell and Southern Bell. BellSouth Services will provide network planning, data and computerized functions and marketing, personnel management, purchasing and administrative services for subsidiaries of BellSouth.

BellSouth expects to mail regular reports to its shareholders containing annual audited and quarterly unaudited financial statements. Such reports are expected to contain a discussion of the financial results, including, where appropriate, comparisons with expected results.

Anticipated Additional Business Operations

BellSouth will be permitted by the Consent Decree to market (but not manufacture) customer premises equipment after January 1, 1984. BellSouth's management plans to offer customer premises equipment through South Central Bell and Southern Bell; however, if the FCC so requires, customer premises equipment will be marketed through a separate subsidiary.

Under the terms of the Consent Decree, BellSouth and its affiliates may, in addition to engaging in the businesses described above, engage in a business that is not a natural monopoly service actually regulated by tariff only upon a finding by the Court that there is no substantial possibility that it could use its monopoly power in furnishing exchange telecommunications and exchange access service to impede competition in the market it seeks to enter. BellSouth is exploring the possibility of entering one or more businesses which would require such Court approval. Although BellSouth's management cannot determine whether or to what extent it may do so in the near future, it does not believe such ventures, in the aggregate, would materially affect the financial position or forecasted 1984 operating results of BellSouth.

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The accompanying financial forecast of BellSouth Corporation for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period. Accordingly, the financial forecast reflects management's judgment, based on present circumstances, of the most likely set of conditions and management's most likely course of action.

We have made a review of the financial forecast in accordance with applicable guidelines for a review of a financial forecast established by the American Institute of Certified Public Accountants. Our review included procedures to evaluate both the assumptions used by management and the preparation and presentation of the financial forecast. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Based on our review, we believe that the accompanying financial forecast of BellSouth Corporation is presented in conformity with applicable guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants. We believe that the underlying assumptions provide a reasonable basis for management's financial forecast. However, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material.

COOPERS & LYBRAND

Atlanta, Georgia
November 8, 1983

We have examined the accompanying combined historical statements of income for the years ended December 31, 1982 and 1981 of South Central Bell Telephone Company and Southern Bell Telephone and Telegraph Company, which are wholly owned subsidiaries of American Telephone and Telegraph Company. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the historical statements of income referred to above present fairly the combined results of operations of the subsidiaries referred to above for the years ended December 31, 1982 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Atlanta, Georgia
February 8, 1983

BELLSOUTH CORPORATION

FINANCIAL FORECAST AND COMBINED HISTORICAL STATEMENTS OF INCOME

The financial forecast for BellSouth, consisting of a forecasted Statement of Income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, represents management's best estimate based on present circumstances of the most probable operating results and sources of funds supporting construction activity for the year ending December 31, 1984, and has been reviewed by Coopers & Lybrand, independent certified public accountants, whose report is included herein.

It should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist. The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

The following Combined Historical Statements of Income reflect the combination of the statements of income of South Central Bell and Southern Bell (the "telephone subsidiaries"), which will be the principal operating subsidiaries of BellSouth. The Combined Historical Statements of Income of the telephone subsidiaries for the years 1981 and 1982 have been examined by Coopers & Lybrand, whose report is included herein. The unaudited Combined Historical Statement of Income for the twelve month period ended June 30, 1983, in the opinion of BellSouth includes all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of income. These Combined Historical Statements of Income are not adjusted for the effects of divestiture.

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Combined Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Local Service Revenues	$ xx	$ 5,035.1	$ 4,887.8	$4,235.8
Toll Service Revenues	xx	5,061.8	5,000.8	4,636.5
Directory Advertising and Miscellaneous Operating Revenues	xx	532.0	505.3	417.3
Provision for Uncollectibles	xx	(116.3)	(105.7)	(83.3)
Total Operating Revenues	**9,799.1**	**10,512.6**	**10,288.2**	**9,206.3**
Depreciation	1,604.7	1,546.6	1,432.2	1,333.5
Other Operating Expenses	4,848.3	5,288.0	5,289.1	4,663.1
Total Operating Expenses	**6,453.0**	**6,834.6**	**6,721.3**	**5,996.6**
Net Operating Revenues	**3,346.1**	**3,678.0**	**3,566.9**	**3,209.7**
Federal Income Taxes	798.4	899.0	856.1	746.0
Other Operating Taxes	763.4	785.0	771.5	699.6
Total Operating Taxes	**1,561.8**	**1,684.0**	**1,627.6**	**1,445.6**
Operating Income	**1,784.3**	**1,994.0**	**1,939.3**	**1,764.1**
Other Income	**47.5**	**43.3**	**65.5**	**34.9**
Interest Expense	**633.0**	**644.2**	**652.6**	**634.7**
Net Income	**$ 1,198.8**	**$ 1,393.1**	**$ 1,352.2**	**$1,164.3**
Earnings per Share	**$ 12.21**	**NA**	**NA**	**NA**
Weighted Average Number of Shares Outstanding (Millions)	98.2	NA	NA	NA

See accompanying Notes to Combined Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984 and Note to Forecasted 1984 Statement of Income.

NA = Not applicable.

NOTES TO COMBINED HISTORICAL STATEMENTS OF INCOME

(Amount relating to the twelve months ended June 30, 1983 is unaudited.)

Dollars in Millions

1. **Accounting Policies**—The Combined Historical Statements of Income of BellSouth reflect the combination of the historical statements of income of South Central Bell and Southern Bell and the application of the accounting policies described in this Note and in Note 4.

Revenue Refunds—The telephone subsidiaries record in their financial statements material revenue refunds applicable to prior years as adjustments of the respective years' income and, within a year, as adjustments of the applicable interim periods' income.

Purchases from Western Electric—Western Electric, a wholly-owned subsidiary of AT&T, has a substantial investment in manufacturing and other facilities which are devoted mainly to its business with affiliated telephone companies. Western Electric has supply contracts with the telephone subsidiaries which provide that the prices it charges for the telephone equipment and materials it manufactures or procures for the telephone subsidiaries shall be as low as the prices it charges its most favored customers for like materials and services under comparable conditions. The financial statements reflect items purchased from Western Electric at cost to the telephone subsidiaries, which cost includes the return realized by Western Electric on its investment devoted to the communications business. See also "Telephone Plant" below.

Telephone Plant—The investment in equipment and materials dedicated to providing communications services is stated at its original cost. Such amounts do not purport to represent reproduction cost or current value. The original cost of telephone plant obtained from Western Electric includes a return on Western Electric's investment (see "Purchases from Western Electric" above). It is impossible to identify the particular purchases from Western Electric over a long period of years which were charged to the plant accounts and now remain therein, but BellSouth considers that such purchases represent about 50% of the telephone subsidiaries' total plant investment as of December 31, 1982. Western Electric advises that its rate of profit before interest charges has varied by years and by classes of sales, but that such rate of profit before interest charges, included in prices for material sold and services furnished to affiliated telephone companies (including items chargeable to other than plant accounts), has been approximately 6.0% of such sales over the twenty-year period ended December 31, 1982 and approximately 7.0% of such sales over the three-year period then ended. Western Electric considers that its rate of profit before interest charges on those items which have been charged to the plant accounts is somewhat higher than its rate on total sales to affiliated companies.

Currently, AT&T and certain of its subsidiaries, including Western Electric and the telephone subsidiaries, join in the filing of a consolidated federal income tax return. As a result, Western Electric's profits before income taxes included in the cost of those materials and services in the telephone subsidiaries' plant accounts are excluded from consolidated taxable income in the year acquired from Western Electric. Instead, such profits are recognized and taxed over the depreciable life of the related plant since, for tax purposes, the telephone subsidiaries must exclude Western Electric profits in deriving the depreciable cost of its investment in telephone plant. Consequently, the telephone subsidiaries' tax liability is higher than if they were permitted to depreciate the full amount they initially paid to Western Electric. Western Electric provides the telephone subsidiaries with the funds necessary to pay the tax liability on these deferred profits in the year in which the telephone subsidiaries first acquire the related telephone plant. These payments are treated as reductions of the investment in telephone plant which results in a reduction in depreciation expense over the life of the related plant. However, there is no material effect on Net Income because the decrease in depreciation expense is offset by the aforementioned increase in the income tax provision.

Materials and Supplies—New material and reusable material are carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Depreciation—Prior to 1981, the telephone subsidiaries' provision for depreciation was based on straight-line composite rates, prescribed by the FCC, determined on the basis of the average expected lives of categories of telephone plant acquired in a given year. In 1982 the FCC approved the implementation of the method of determining straight-line composite rates on the basis of equal life groups ("ELG") of certain categories of telephone plant acquired in a given year which will result in a higher provision for depreciation than that based on average expected lives. In 1981 the FCC authorized the telephone subsidiaries to begin implementation of the "remaining life" method of depreciation. The "remaining life" method provides for the full recovery of the investment in telephone plant. Effective January 1, 1981, the FCC also authorized shorter lives for customer terminal equipment (and certain other telephone plant). The increases in depreciation expense resulting from these FCC actions should be allowable in determining revenue requirements in rate-making proceedings. See also Note 5.

When depreciable plant, other than minor items thereof which are replaced, is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

Maintenance and Repairs—The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is, with minor exceptions, charged to operating expenses.

Station Connections—During 1981, the FCC directed that beginning January 1981, certain costs of installing telephone service on a customer's premises be expensed instead of capitalized and that the balance of the investment in installation costs be amortized.

Interest Charged Construction—Regulatory authorities allow the telephone subsidiaries to accrue interest as a cost of constructing certain plant and as an item of income, *i.e.,* interest charged construction. Such income is not realized in cash currently but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Lease Commitments—The telephone subsidiaries lease certain facilities and equipment used in their operations and reflect lease payments as rental expense of the periods to which they relate. These leases include some which would be classified as "capital leases" under criteria established by the Financial Accounting Standards Board. However, for regulatory accounting and rate-making purposes, such leases are not capitalized. Had such leases been capitalized, the effect on Net Income for 1982 and 1981 would have been insignificant.

Income Taxes—

(a) AT&T and its subsidiaries file a consolidated federal income tax return. The consolidated income tax currently payable is allocated in accordance with each company's contribution to consolidated taxable income.

(b) Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the period during which the transaction will be recognized in the determination of net income for financial reporting purposes. Appropriate income charges and their subsequent reversal, reflected as deferred income taxes-net, prevent the tax effect of these timing differences from distorting net income. The telephone subsidiaries recognize the tax effects of timing differences on the following transactions:

(1) Vacation pay and certain property taxes are deductible for income tax purposes in the year prior to being expensed in the statements of income.

(2) Depreciation for income tax purposes is determined based on accelerated methods and shortened lives which cause such depreciation to be higher during the early years of plant

Dollars in Millions

life and lower in later years than the depreciation charges for such plant reflected in the statements of income.

(c) Investment tax credits result from provisions of the federal tax law which allow for a reduction in tax liability based on certain construction expenditures. Corresponding reductions in tax expense are deferred and, except for the additional one percent credit available under the Tax Reduction Act of 1975 which must be contributed currently to the Bell System Employee Stock Ownership Plan, are amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

2. **Other Income**—Other Income for 1982 includes the prior years' cumulative effect on Net Income of a change in accounting for certain deferred income taxes (primarily state and local taxes) of $29.5. Income before the cumulative effect of a change in accounting principle was $1,322.7.

3. **Income Taxes**—

The components of operating income tax expense were as follows:

	1982	1981
Federal:		
Current	$312.3	$190.6
Deferred-net	440.4	348.4
Investment tax credits-net	103.4	207.0
	856.1	746.0
State and local:		
Current	65.9	61.8
Deferred-net	45.2	38.0
	111.1	99.8
Total	$967.2	$845.8

Income tax expense (benefits) related to non-operating income included in Other Income was:

	1982	1981
Federal:		
Current	$ .1	$ 1.5
Deferred-net	(12.2)	—
	(12.1)	1.5
State and local:		
Current	(.5)	(.3)
Deferred-net	.2	—
	(.3)	(.3)
Total	$(12.4)	$ 1.2

Deferred income tax expense results principally from timing differences between depreciation expense recognized for income tax purposes and depreciation expense reflected in these statements of income.

Dollars in Millions

The effective federal income tax rate, as determined by dividing Federal Income Taxes (see above) by the sum of Federal Income Taxes and Net Income, was 38.4% in 1982 and 39.1% in 1981. The differences of 7.6% in 1982 and 6.9% in 1981 between the effective rate and the federal income tax statutory rate of 46% are attributable to the following factors:

	1982	1981
a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation	1.4%	2.1%
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	.3	.4
c. Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(.7)	(.8)
d. Amortization of investment tax credits over the life of the plant which gave rise to the credits. Such amortization reduced income tax expense for 1982 and 1981 by the amounts shown in Note (6)	5.0	5.1
e. Other differences	1.6	.1
Total	7.6%	6.9%

4. **Provision for Pensions and Death Benefits**—Employees of the telephone subsidiaries are covered by two national Bell System noncontributory pension and death benefit plans sponsored by AT&T and the Bell System companies, one for management employees and one for non-management employees. Contributions to such plans are made to irrevocable trust funds. It is the policy of the telephone subsidiaries to make contributions which are equal to the current year cost of the plans determined on a going concern basis by an actuarial method specified by the Employee Retirement Income Security Act of 1974. The following data relate to plan costs:

	1982	1981
Current year cost	$440.9	$427.1
Current year cost as a percent of salaries and wages	12.94%	13.51%

Amendments to the plans during 1982 had the effect of increasing 1982 pension cost by approximately $44.3 while recognition of 1981 actuarial experience had the effect of decreasing 1982 cost.

Statement of Financial Accounting Standards No. 36 requires that certain disclosures be made of the actuarial present value of accumulated plan benefits and the fair value (essentially current market value) of net assets available for plan benefits. With the October 1, 1980 merger of the individual Bell System companies' plans, including the telephone subsidiaries' plans, into the two national Bell System plans, such disclosures are not presented for the telephone subsidiaries because the structure of the new plans does not readily permit the plans' assets and the accumulated benefits data to be disaggregated. However, based on the latest actuarial valuations of the two national plans, utilizing an assumed rate of return of 10.6% for 1981, the fair value of net assets available for plan benefits exceeded the actuarial present value of vested and non-vested accumulated plan benefits at December 31, 1981.

Dollars in Millions

5. **Additional Financial Information—**

	1982	1981
Depreciation—Percentage of average depreciable telephone plant	6.15%	6.13%
Amortization of investment tax credits	$113.5	$ 98.7
Other operating taxes:		
State income	$111.1	$ 99.8
Property	285.0	275.6
Gross receipts	156.5	136.3
Payroll-related	203.1	172.6
Other	15.8	15.3
Total	$771.5	$699.6
Interest expense:		
Interest on long and intermediate term debt	$541.2	$499.9
Interest on advances from AT&T	12.5	11.2
Interest on notes payable	85.9	114.3
Other	13.0	9.3
Total	$652.6	$634.7
Rental expense	$195.1	$179.2

6. **MCI and Litton Antitrust Litigation—**In June 1980, MCI Communications Corporation was awarded $1.8 billion in treble damages in a civil antitrust suit against AT&T. In January 1983, the U.S. Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. Petitions for rehearing of this decision were denied by the Court of Appeals. In July 1983, both parties petitioned the U.S. Supreme Court to review the case. On October 11, 1983, the U.S. Supreme Court denied the petitions. In the opinion of AT&T's legal counsel, any monetary liability or financial impact to which AT&T and the Bell System companies might be subject after final adjudication would not be material in amount.

In June 1981, in an antitrust suit involving terminal equipment against AT&T and certain Bell System companies, including Southern Bell, Litton Industries, Inc. ("Litton") was awarded $276.8 in treble damages. While South Central Bell is not a defendant in this case, it could experience financial impacts from such an award through arrangements providing for the allocation of expenses among Bell System telephone companies. In February 1983, the U.S. Court of Appeals for the Second Circuit upheld the lower court's decision. The Court of Appeals denied AT&T's petition for a rehearing. In June 1983, AT&T petitioned the U.S. Supreme Court to review the case. On October 3, 1983, the U.S. Supreme Court invited the Solicitor General to file a brief in the case expressing the views of the Federal government. Should it ultimately be determined that the Litton award is payable, Net Income would be decreased in a future period. If such determination had been made as of June 30, 1983, the decrease in Net Income could have been as much as $27.4.

7. **Reinvested Earnings—**

	1982	1981
Reinvested Earnings		
At beginning of year	$1,938.8	$1,712.0
Add—Net Income	1,352.2	1,164.3
	3,291.0	2,876.3
Deduct—Dividends declared	1,015.5	937.5
At end of year	$2,275.5	$1,938.8

SUMMARY OF SIGNIFICANT FINANCIAL FORECAST ASSUMPTIONS FOR THE YEAR ENDING DECEMBER 31, 1984

Dollars in Millions

The Consent Decree requires that AT&T divest those parts of the Bell System operating telephone companies that provide exchange telecommunications and exchange access service, as well as printed directory advertising and cellular advanced mobile communications service business. The Plan outlines how divestiture will be accomplished on January 1, 1984.

This forecasted statement of income represents management's best estimate, based on present circumstances, of the most probable operating results of BellSouth for the year ending December 31, 1984. Accordingly, the financial forecast reflects management's judgment based on present circumstances of the most likely set of conditions and management's most likely course of action. The assumptions disclosed herein are those that management believes are significant to the financial forecast or are key factors upon which the financial results depend. The assumptions presented are consistent with the Plan approved by the Court. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur subsequent to November 8, 1983, the date of the financial forecast. Therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material. Additionally, it should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist.

This forecasted statement of income includes estimates of the impact of transactions with AT&T and its subsidiaries. Due to potential competitor and supplier relationships, the assumptions used by BellSouth with regard to Access Charge revenues to be received from AT&T, sale of customer premises equipment, purchases from Western Electric and other similar transactions were not disclosed in detail to AT&T and thus will not necessarily be the same as the assumptions used by AT&T regarding such transactions.

BellSouth does not intend to update this forecasted statement of income because actual results will be reported during 1984. Consequently, it should be evaluated in light of any events and changes in circumstances occurring after November 8, 1983.

The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

Assumptions

(a) **General Economy**—The following economic assumptions were considered in preparing the 1984 financial forecast.

Growth in Real Gross National Product (GNP)	4.5%
Increase in Consumer Price Index (CPI)	4.5%
Annual Average Interest Rates:	
—Prime	11.1%
—90-Day Commercial Paper	9.1%

(b) **Operating Revenues**—Revenues are based on estimated rates and volumes of business.

Following the FCC's October 18, 1983 Order suspending the effective date of interstate Access Charges to customers and interexchange carriers from January 1, 1984 to April 3, 1984, AT&T on October 27, 1983, petitioned the FCC to reconsider the suspension. In the event that the FCC declines to reconsider, AT&T and the RHCs have reached agreement as to the principal terms of an interim arrangement designed to compensate the BOCs for the use of their facilities for interstate toll and related services on a basis that is approximately consistent with the current level of interstate earnings (which level is somewhat lower than the authorized rate of return). The forecast assumes that such arrangement will be in effect from January 1, 1984 to April 3, 1984. There is pending before the Court a motion which was filed by the Bell Atlantic telephone subsidiaries prior to the time the agreement referred to above was reached. In that motion, the Bell Atlantic telephone subsidiaries proposed that they be compensated for use of their facilities for interstate toll service at the authorized rate of return. Consistent with the agreement, Bell Atlantic is requesting Court approval to withdraw its motion. AT&T and the other RHCs support that request.

The forecast also assumes that the implementation by the FCC of interstate Access Charges will occur on April 3, 1984, and that the Access Charge process will not be altered through (i) congressional legislation which, as currently proposed, seeks to suspend or prohibit Access Charges to residential and small business customers and also seeks to extend the present reduced interconnection rates charged to interexchange carriers other than AT&T, or (ii) judicial action relating to an appeal of the FCC's Order initially adopting Access Charges which is pending before the U.S. Court of Appeals for the District of Columbia Circuit.

Dollars in Millions

The forecast assumes that intrastate interLATA Access Charges will become effective as presently scheduled or, if not, that interim arrangements will be implemented to compensate the telephone subsidiaries for the use of their facilities for intrastate toll and related services. Rates for exchange telecommunications services have been estimated based on prices expected to be established by state regulatory commissions.

Any changes in these assumptions could have a significant effect on forecasted Net Income; any further delay in implementation of Access Charges would reduce forecasted Net Income.

Revenues from these interstate and intrastate services are expected to recover the costs of providing such services, including a return on investment. The telephone subsidiaries have filed or will file rate applications before the FCC and in all of the state regulatory commissions to establish rates for access charges and exchange telecommunications services. Since the tariff structures will be substantially different from those existing prior to divestiture, approximately 34% of the forecasted Total Operating Revenues for 1984 are dependent upon the outcome of these rate applications. Approximately 3% of such forecasted Total Operating Revenues represents Access Charges to residential and small business customers for which tariffs have been filed with the FCC and which pending legislation seeks to delay or prohibit. If such customer Access Charges are delayed or prohibited by this legislation or if their effectiveness is further delayed by the FCC, the telephone subsidiaries will have to seek to recover the cost of these services through other charges.

Access lines in service at December 31, 1984 are estimated to be 14,100,000. The telephone subsidiaries expect to be able to modify, within reasonable limits, the costs of providing telephone service to recognize variations from the forecasted volume levels.

(c) **Depreciation**—Depreciation expense is estimated using rates and practices prescribed or expected to be prescribed by the FCC applied to assets expected to be owned by BellSouth during 1984. The FCC is expected to approve depreciation rates that result in an average composite rate of about 6.9%; such rates are expected to be allowable in determining revenue requirements in intrastate rate-making proceedings. Construction costs of $2,405.6 for the period are estimated based on estimated demand for communications services and improvements to existing services.

(d) **Other Operating Expenses**—Other expenses include primarily salaries, wages, pensions and other employee related expenses. Salaries and wages, including cost-of-living adjustments, are estimated based on expected post-divestiture force levels and reflect new union contracts agreed upon in August 1983. Pensions and other employee related expenses are estimated based on expected force levels and estimated payroll used to calculate such expenses. It is estimated that the changes in wages and fringe benefits resulting from the new contracts, as well as adjustments in ranges of compensation and fringe benefits for management employees, will increase expenses by about $135.7 in 1984.

Maintenance expense includes an inflation adjustment of 4.5% and, as a percentage of the level of plant, is expected to remain relatively constant during 1984. The CSO will furnish technical assistance, such as network planning, engineering and software development. BellSouth's share of the estimated cost of the CSO has been included based on approved functions for the CSO and its expected force levels and in 1984 is estimated to be approximately $107.0.

(e) **Operating Taxes**—The estimated effective annual federal income tax rate is expected to be 40.2%. The difference of 5.8% between the estimated effective tax rate and the assumed statutory rate of 46% is attributable to the following factors:

a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes but deducted currently for income tax purposes, net of applicable depreciation	.7%
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	.4
c. Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represent after-tax profit to Western Electric	(1.1)
d. Amortization of investment tax credits over the life of the plant which gave rise to the credits	6.2
e. Other differences	(.4)
Total	5.8%

The investment tax credit rate is expected to remain at 10%. Tax estimates are in accordance with the Tax Equity and Fiscal Responsibility Act of 1982. Social Security taxes are computed using a 7.0% rate on the statutory wage base. State and local tax estimates are determined based on taxable bases and statutory tax rates.

(f) **Interest Expense**—Interest expense was computed using an embedded cost of funded debt of 9.0%. Interest expense on short term debt, at an average estimated cost of 9.4%, represents 6.1% of total interest expense.

(g) **Weighted Average Shares**—The weighted average number of shares outstanding was calculated based on one-tenth of the number of AT&T common shares estimated to be outstanding as of December 30, 1983 and the estimated shares to be issued under BellSouth's dividend reinvestment plan and employee benefit plans during 1984.

(h) **Summary of Significant Anticipated Sources of Funds Supporting Construction Activity**—

Funds from operations (net of first quarter 1984 dividend, annualized, of $766.0)	$2,374.3
Funds from external financing, net (principally sale of shares through dividend reinvestment and employee benefit plans)	275.1
Other (including interest charged construction)	(243.8)
Total construction activity	$2,405.6

(i) **Contingent Liabilities**—No amounts have been included in the financial forecast for the matters discussed in Note 6 to the Combined Historical Statements of Income.

NOTE TO FORECASTED 1984 STATEMENT OF INCOME

Dollars in Millions

Summary of Significant Accounting Policies—The forecasted statement of income is prepared in accordance with the generally accepted accounting principles expected to be used for the financial statements issued during the forecast period. Generally accepted accounting principles used in the forecasted statement of income have been applied on a basis consistent with those principles used in the combined historical statements of income for the years ended 1981 and 1982 and the twelve-month period ended June 30, 1983, except as described below:

Revenue Refunds—Effective in 1984, in accordance with Statement of Financial Accounting Standards No. 71 ("Statement No. 71"), "Accounting for the Effects of Certain Types of Regulation", restatements of prior period results for revenue refunds will not be made; instead, refund liabilities (if any) will be reflected in current results.

Purchases from Western Electric—The Standard Supply Contracts with Western Electric will be terminated in accordance with the Plan by January 1, 1984.

In 1984, the telephone subsidiaries will no longer join with AT&T in filing a consolidated Federal income tax return. Accordingly, plant values associated with new purchases from Western Electric will not reflect the effect of the tax which formerly would have been deferred and therefore such tax will no longer provide a source of funds. As a result of divestiture, the telephone subsidiaries could be required to make an immediate payment of Federal income taxes previously deferred on intercompany profits. The amount of this payment applicable to plant owned by the telephone subsidiaries is approximately $234.2. While payment of these deferred taxes would have no direct effect on Net Income, an immediate payment would increase the telephone subsidiaries' needs for cash. However, AT&T believes that, pursuant to tax regulations, a closing agreement is likely to be entered into with the Internal Revenue Service which would result in only a moderate acceleration of the present time period over which these intercompany profits become taxable.

In addition to the above effects, the telephone subsidiaries will be required to return to Western Electric previous payments of deferred taxes relating to plant assigned to AT&T Information Systems. AT&T will provide the funds to make such payments.

Provision for Pensions and Death Benefits—Upon divestiture, noncontributory pension and death benefit plans sponsored by BellSouth for management and non-management employees will be established similar to existing national Bell System plans.

Lease Commitments—The telephone subsidiaries currently reflect lease payments for certain facilities and equipment used in their operations as rental expense of the periods to which they relate. In 1984, in accordance with Statement No. 71, the asset values and related obligations of capital leases with inception dates after December 31, 1982 will be included in the balance sheets. This change in accounting is not expected to affect Net Income because the total of the interest expense on the lease obligations plus the amortization expense of the leased assets will equal the rental expense allowed for rate-making purposes.

BELLSOUTH CORPORATION

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

The following Unaudited Combined Historical Balance Sheet as of June 30, 1983 is derived from the unaudited financial statements included in the quarterly reports on Form 10-Q of the telephone subsidiaries.

The following Unaudited Pro Forma Condensed Balance Sheet gives effect to the divestiture of the telephone subsidiaries by AT&T as if it had occurred on June 30, 1983 in accordance with the Plan. Because divestiture will not occur until January 1, 1984, actual balances and adjustments will vary from those presented in the pro forma balance sheet below. The Unaudited Pro Forma Condensed Balance Sheet should be read in conjunction with the audited financial statements and notes contained in the most recent annual reports on Form 10-K and with the unaudited financial statements and notes contained in the most recent quarterly reports on Form 10-Q of the telephone subsidiaries.

	Dollars in Millions		
	Combined Historical June 30, 1983	Pro Forma Adjustments	Pro Forma June 30, 1983
ASSETS			
Telephone Plant—Net of Accumulated Depreciation	$21,795.3	$(2,713.7)	$19,081.6
Investments	15.1	(2.0)	13.1
Current Assets	1,526.0	(87.9)	1,438.1
Deferred Charges	293.6	(17.6)	276.0
Total Assets	$23,630.0	$(2,821.2)	$20,808.8
INVESTED CAPITAL, LIABILITIES AND DEFERRED CREDITS			
Share Owners' Equity	$10,294.2	$(2,054.9)	$ 8,239.3
Long and Intermediate Term Debt	6,334.6	—	6,334.6
Debt Maturing Within One Year	463.0	(79.8)	383.2
Other Current Liabilities	1,969.2	(34.2)	1,935.0
Deferred Taxes and Other Deferred Credits	4,569.0	(652.3)	3,916.7
Total Invested Capital, Liabilities and Deferred Credits	$23,630.0	$(2,821.2)	$20,808.8

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

1. **Pro Forma Adjustments—**

Assets and liabilities are transferred to and from AT&T at net book value. The transfers are tax-free under the Internal Revenue Code. Accumulated deferred income tax reserves and unamortized investment credits are transferred along with the associated assets.

The capital structure is developed using a target debt ratio (debt as a percent of total debt and equity) for the telephone subsidiaries of 44.99%. The target debt ratio will be used to determine the amount of debt to be removed by AT&T from the telephone subsidiaries at the time of divestiture. This amount is expected to be $131. BellSouth expects that through operating efficiencies its debt ratio at the time of divestiture will be approximately 43.1%.

2. **Contingent Liabilities—**See Note 6 to Combined Historical Statements of Income.

Selected Operating Information

As of June 30, 1983, about 39% of the access lines of South Central Bell and Southern Bell were in 32 metropolitan areas, each having a population of 125,000 or more, and about 20% are in other metropolitan areas having populations in excess of 25,000. Sizeable areas in the states in which South Central Bell and Southern Bell operate are served by non-affiliated telephone companies which had approximately 29% of the access lines in such states on June 30, 1983. South Central Bell and Southern Bell do not furnish local service in the areas or localities served by such companies.

The following table sets forth for South Central Bell and Southern Bell the number of network access lines in service at the end of each period and the number estimated to be in service on January 1, 1984.

	Network Access Lines in Service — Thousands					
	Estimated January 1, 1984	June 30, 1983	1982	1981	1980	1979
South Central Bell	6,211	6,112	6,079	6,008	5,869	5,737
Southern Bell	7,380	7,255	7,155	6,971	6,725	6,431
Total	13,591	13,367	13,234	12,979	12,594	12,168

Construction Expenditures and Use of Proceeds

South Central Bell and Southern Bell have been making and expect to continue to make large construction expenditures to meet the demand for communications services and to further improve such services. Construction expenditures by such companies since January 1, 1978 were approximately as follows:

1978	$2,612,500,000	1981	$3,044,400,000
1979	2,889,000,000	1982	2,749,800,000
1980	3,152,500,000	1983 (through June 30)	1,125,000,000

South Central Bell and Southern Bell are projecting construction expenditures of approximately $2,486,600,000 for 1983 and approximately $2,373,700,000 for 1984, and other subsidiaries (primarily BellSouth Mobility) are expected to expend in 1984 approximately $31,900,000 for their capital requirements. Substantially all of the above requirements are expected to be financed through internally generated funds.

BellSouth does not know the amount of proceeds it will realize from shares to be issued under the Share Owner Dividend Reinvestment and Stock Purchase Plan, the BellSouth Savings Plan for Salaried Employees, the BellSouth Savings and Security Plan, the BellSouth Voluntary Contribution Plan or the Employee Stock Ownership Plan. BellSouth intends to use such proceeds for general corporate purposes, which may include advances to or investments in subsidiary companies.

BellSouth anticipates that it will be able to obtain external capital, if required, through short term borrowings, through the issuance of shares pursuant to the plans described above and through the issuance of debt securities by Southern Bell and South Central Bell, although no such issuance of debt securities is planned at least through 1984.

Rates, Regulation and Competition

Intrastate Rates

In providing telecommunications services, South Central Bell and Southern Bell are subject to regulation by state commissions in all of the states in which they operate with respect to intrastate rates and services and other matters.

Unless otherwise indicated, the amounts of the changes in revenues resulting from changes in intrastate rates referred to below are stated on an annual basis and are estimates without adjustment for subsequent changes in volumes of business.

The principal changes in intrastate rates authorized since January 1, 1978 in the states served by South Central Bell and Southern Bell were increases aggregating about $137,200,000 in 1978, $179,800,000 in 1979, $234,600,000 in 1980, $591,800,000 in 1981, $402,300,000 in 1982 and $271,400,000 in 1983 through October 31. Decreases were made in intrastate rates aggregating about $33,900,000 in 1978, $16,000,000 in 1979, $2,500,000 in 1980, $7,200,000 in 1981, $0 in 1982 and $55,400,000 in 1983 through October 31.

Because the Consent Decree prohibits the provision by the telephone subsidiaries of some currently authorized products and services, South Central Bell and Southern Bell will not realize the full amount of revenues currently authorized by the states in which they will be doing business. As a result, BellSouth estimates a decrease in annual intrastate revenues aggregating approximately $2,300,000,000, before uncollectibles. However, there will be related reductions in the rate bases of South Central Bell and Southern Bell and the elimination of expenses incidental to assets and operations transferred to, and to be carried on by, AT&T and its subsidiaries in connection with divestiture.

South Central Bell and Southern Bell have applications pending before various state regulatory commissions to increase rates for their authorized services. The rate increases sought include requests to allow rates to recover increased depreciation expense in accordance with the FCC's orders, which provide for improved capital recovery, and to compensate for the loss of certain revenues as a result of divestiture. In addition, such companies are applying for access charges to compensate for their facilities that provide long distance services furnished on an intrastate basis by interexchange carriers, such as AT&T. (See "Description of the Divestiture Transaction—Access Charge Arrangements".) All such applications are summarized below:

	Annual Revenues Requested	
State	Rate Increases	Access Charges
Alabama	$ 120,100,000*	$ —
Kentucky	163,200,000*	—
Louisiana	407,300,000*	—
Mississippi	—	—
Tennessee	279,700,000*	—
Florida	—	257,400,000
Georgia	—	83,400,000
North Carolina	—	125,000,000
South Carolina	78,700,000	50,100,000
Total	$1,049,000,000*	$515,900,000

* Includes both rate increases and access charge filings.

BellSouth is unable to give any assurances as to the amounts or effective dates of any rate increases that may be granted in any of the above rate proceedings. Failure to obtain timely authorization to implement such rates or access charges could significantly adversely affect BellSouth's 1984 operating results. See Assumption (b) in the "Summary of Significant Financial Forecast Assumptions for Year ending December 31, 1984".

Other requested increases are subject to appellate review before judicial and regulatory authorities.

Alabama. In February 1981, South Central Bell filed a request with the Alabama Public Service Commission asking for $146,800,000 in increased revenues. In September 1981, the Commission denied the increase and ordered a reduction in local residential rates of $2,300,000. On appeal, the Alabama Supreme Court superseded the Commission's order and, pending a hearing on the merits of the appeal, authorized South Central Bell to increase its rates, under bond and subject to refund, by $65,000,000. In January 1983, on joint motion of South Central Bell and the Commission, the Court remanded the case to the Commission to implement a settlement. As part of the settlement, South Central Bell agreed to limit any additional filings in 1983 to divestiture related matters. The Commission then issued an order making permanent the $65,000,000 being collected under bond and authorizing an additional $52,500,000.

In October 1983, South Central Bell filed a request with the Commission for an increase of $120,100,000, to be effective January 1, 1984, relating only to divestiture related matters: intrastate access charges and revenues to replace lost toll and customer premises equipment revenues. South Central Bell advised the Commission that additional annual revenues of $186,700,000 will be needed in excess of the $120,100,000 in 1984 and that South Central Bell will file for this amount early in 1984.

Kentucky. In April 1982, South Central Bell filed a request with the Kentucky Public Service Commission requesting $66,100,000 in increased revenues, with $15,200,000 to become effective on an interim basis subject to refund. In May 1982, the Commission denied the interim rate relief but in October granted a permanent increase of $14,500,000. South Central Bell appealed the order to the Franklin Circuit Court. The Court affirmed the Commission on certain issues and remanded other issues to the Commission for reconsideration. That decision has been appealed to the Kentucky Court of Appeals.

In December 1982, South Central Bell filed tariffs designed to produce prior to December 31, 1983 $3,400,000 for the third phase of expensing station connections, and in March 1983, the Commission approved these tariffs with an additional $1,133,000 to compensate for rates not becoming effective until April 1983. The rate adjustment is effective only from April 1, 1983 to December 31, 1983.

In July 1983, South Central Bell filed an application with the Commission requesting $163,200,000 in increased revenues and intrastate access charges. A decision is expected by early 1984.

Louisiana. In May 1982, South Central Bell filed a request with the Louisiana Public Service Commission asking for $238,600,000 in increased revenues. In May 1983, the Commission denied the request, following which South Central Bell filed a motion for preliminary injunction with the U. S. District Court requesting $41,500,000 be implemented, subject to refund, consistent with FCC prescribed depreciation practices. In July 1983, after various proceedings before the Louisiana Commission and the Court, the Court ordered the Commission to allow South Central Bell to begin collecting $40,500,000, subject to refund, during the pendency of the appeal of the FCC's depreciation decision before the Fourth Circuit Court of Appeals. In August 1983, the Commission appealed to the Fifth Circuit Court of Appeals.

In November 1983, South Central Bell filed an application with the Commission requesting increased revenues, including intrastate access charges, of $407,300,000.

Mississippi. In April 1982, South Central Bell filed an application with the Mississippi Public Service Commission requesting $98,200,000 in increased revenues, and in May 1982, $92,700,000 of the requested increase in rates was placed into effect under bond, subject to possible refund at the conclusion of the proceeding. In September 1982, the Commission denied the application and ordered refunds of the amounts collected under bond. South Central Bell has appealed to the Chancery Court of Hinds County, which authorized the continued collection of increases under bond pending final disposition of the appeal. In October 1983, the Court reversed the Commission denial of rate relief and remanded the case to the Commission; this judgment has been appealed to the Mississippi Supreme Court by the Commission and intervenors. The rates continue to be collected under bond pending that review, although, based on findings cited by the Court, South Central Bell estimates that as of September 30, 1983, it may be required to refund approximately $37,000,000.

In February 1983, in a separate proceeding the Forrest County Chancery Court held that the Mississippi bonding statute is unconstitutional and ordered South Central Bell to refund all amounts collected under bond. In April 1983, the Mississippi Supreme Court superseded such order and stayed the enforcement of the final judgment of the Chancery Court pending final decision of South Central Bell's Appeal to the Mississippi Supreme Court.

South Central Bell expects to file an application with the Commission for additional revenues and intrastate access charges related to post-divestiture requirements.

Tennessee. In November 1980, the Tennessee Public Service Commission approved $48,500,000 of additional rates, of which $28,100,000 was approved on an interim basis, subject to refund. In October 1982, the Commission ordered South Central Bell to refund a portion (currently estimated at $8,000,000) of the interim amount. This order was appealed to the Chancery Court of Davidson County, and the Commission stayed the refund order pending the Court's decision. In October 1983, the Court reversed that portion of the Commission's decision requiring a refund in excess of the $1,300,000 refund to which South Central Bell had agreed in the Commission hearings. In a separate proceeding the Commission and an intervenor have appealed a June 1983 Chancery Court order reversing the Commission's $5,700,000 refund order in connection with a previous rate case.

In March 1982, South Central Bell filed an application with the Commission requesting approval of additional rates designed to produce additional revenues of $130,500,000. In September 1982, the Commission approved $49,300,000 of such increase.

In July 1983, South Central Bell filed a request with the Tennessee Public Service Commission requesting $279,700,000 in rate increases and intrastate access charges. A decision is expected by January 1984.

Florida. In November 1982, Southern Bell filed a petition with the Florida Public Service Commission for rates designed to increase revenues by $329,800,000, including $145,300,000 of interim increases. In January 1983, the Commission approved $59,100,000 on an interim basis. In March 1983, Southern Bell reduced its petitioned increases by $44,600,000, reflecting changed economic conditions, and in June 1983, the Commission issued a final order approving $93,500,000.

In June 1983, Southern Bell filed a petition with the Commission which, as amended, stated additional revenue requirements of $257,400,000 related to intrastate access charges.

Georgia. In March 1983, Southern Bell petitioned the Georgia Public Service Commission for rate increases totalling $158,000,000. In September 1983, the Commission approved $37,700,000 of such increases.

In October 1983, Southern Bell filed a petition with the Commission which stated additional revenue requirements of $83,400,000 related to intrastate access charges.

North Carolina. In February 1983, Southern Bell filed a petition with the North Carolina Public Service Commission for increases in intrastate revenues of $145,000,000. In July 1983, Southern Bell reduced its request by $22,500,000, principally as a result of a North Carolina Supreme Court decision regarding rate-making treatment of Yellow Page revenues. In September 1983, the Commission approved $36,700,000 of such increase. Southern Bell has filed a motion for extension of time to file exceptions and a notice of appeal.

In September 1983, Southern Bell filed a petition with the Commission which, as amended, stated additional revenue requirements of $125,000,000 related to intrastate access charges.

South Carolina. In June 1981, Southern Bell filed a petition with the South Carolina Public Service Commission for $78,500,000 of increased revenues. As provided by law, Southern Bell has placed into effect $52,700,000 subject to refund. In January 1982, the Commission entered an order granting increases of $36,000,000 and requiring refunds of the difference between such increases and the revenues collected subject to refund. Upon appeal by Southern Bell, the Richland County Court of Common Pleas affirmed the Commission's order in all respects. Southern Bell has filed a notice of intent to appeal that decision to the South Carolina Supreme Court, staying the Commission's order and the refund requirements.

In August 1982, Southern Bell filed a petition with the Commission for an additional $87,600,000 which Southern Bell reduced to $76,600,000, because of changed economic conditions. In September 1982, $72,200,000 of such amount was placed into effect subject to refund. In March 1983, the Commission approved increases of approximately $20,400,000 and required refunds of the difference in such increase and the $72,200,000. In March 1983, the Commission entered an order in this proceeding denying Southern Bell's petition for reconsideration and rehearing, and Southern Bell appealed to the Court of Common Pleas.

In August 1983, Southern Bell filed a petition with the Commission for rate increases stating additional revenue requirements of $134,100,000, including $50,100,000 related to intrastate access charges. In November 1983, Southern Bell reduced its petitioned rate increase by $5,300,000 due to accounting and actuarial changes.

Regulation, Interstate Rates and Competition

The sections entitled "Access Charge Arrangements" and "Pending Telecommunications Legislation" contained in the "Description of the Divestiture Transaction" section above and "FCC Regulatory Jurisdiction", "Interstate Rates" and "Competition" contained in the "Common Information" section below are incorporated herein by reference.

Legal Proceedings and Contingent Liabilities

The sections entitled "Legal Proceedings" and "Contingent Liabilities" included in the "Common Information" section below are incorporated herein by reference.

Employee Relations

BellSouth estimates that as of January 1, 1984, it will employ approximately 99,100 persons through its headquarters and subsidiary operations. About 61% of the employees of BellSouth and its subsidiaries will be represented by the Communications Workers of America, which is affiliated with the AFL-CIO.

In August 1983, after a three-week strike, new three-year contracts were agreed upon by South Central Bell and Southern Bell which provide for improved employment security and for wage increases of up to 5.5% in the first year and up to 1.5% and cost-of-living adjustments in each of the second and third years and improvements in fringe benefits. Based on the number of persons estimated to be employed by BellSouth on January 1, 1984, it is estimated that these changes in wages and fringe benefits will increase expenses of BellSouth by about $166,900,000 on an annual basis by the end of the three-year contract period, excluding any adjustments resulting from cost-of-living increases. For each 1% increase in the national Consumer Price Index for Urban Wage Earners and Clerical Workers, it is estimated that cost-of-living adjustments in each of the second and third years will further increase expenses of BellSouth by about $13,300,000 on an annual basis.

In addition to changes provided for such non-management employees, adjustments will be made from time to time in compensation for management employees. It is expected that such adjustments, together with improvements in fringe benefits for management employees, will represent about 37% of the increases in compensation and fringe benefits of all employees.

Properties

On January 1, 1984, all properties relating to the services to be provided by BellSouth will have been transferred to it by AT&T. BellSouth estimates that central office equipment will represent 29% of BellSouth's consolidated investment in telephone plant; land and buildings (occupied principally by central offices) will represent 9%; wiring and equipment, substantially all of which are on the premises of customers, will represent 13%; and connecting lines not on customers' premises, the majority of which are on or under public roads, highways or streets and the remainder on or under private property, will represent 43%.

Substantially all of the installations of central office equipment and administrative offices are located in owned buildings situated on land held in fee. Many garages, business offices and telephone service centers are in rented quarters.

Description of Common Stock and Dividend and Market Information

The Articles of Incorporation of BellSouth authorize the issuance of 500,000,000 shares of common stock, par value $1 per share (the "Common Stock"), and 100,000,000 shares of cumulative preferred stock, par value $1 per share (the "Preferred Stock"). The Board of Directors is authorized to provide for the issuance from time to time of the Preferred Stock in series and, as to each series, to fix the number of shares in such series and the voting, dividend, redemption, liquidation, retirement and conversion provisions applicable to the shares of such series.

Dividend Rights. The holders of Common Stock are entitled to receive, from funds legally available for the payment thereof, dividends when and as declared by resolution of the Board of Directors. While any series of Preferred Stock is outstanding, no dividends (other than dividends payable solely in Common Stock) may be declared or paid on Common Stock, and no Common Stock may be purchased, redeemed or otherwise acquired for value, (a) unless dividends on all outstanding shares of Preferred Stock for the current and all past dividend periods have been paid or declared and provision made for payment thereof and (b) unless all requirements with respect to any purchase, retirement or sinking fund or funds applicable to all outstanding series of Preferred Stock have been satisfied. Dividends on the Preferred Stock are cumulative.

Voting Rights. Holders of shares of Common Stock are entitled to one vote, in person or by proxy, for each share held on the applicable record date with respect to each matter submitted to a vote at a meeting of shareholders. The holders of any series of Preferred Stock, when issued, may receive the right to vote as a class on certain amendments to the Articles of Incorporation and on certain other matters, including the election of directors in the event of certain defaults, which may include non-payment of Preferred Stock dividends.

Liquidation Rights. In the event of a voluntary or involuntary liquidation of BellSouth, holders of the Common Stock will be entitled to receive, after creditors have been paid and the holders of the Preferred Stock have received their liquidation preferences and accumulated and unpaid dividends, all the remaining assets of BellSouth.

Preemptive Rights; Conversion Rights; Redemption. No shareholders of any class shall be entitled to any preemptive rights to subscribe for or purchase any shares or other securities issued by BellSouth. The Common Stock has no conversion rights and is not subject to redemption.

Miscellaneous. The Common Stock to be distributed pursuant to the divestiture distribution, and pursuant to the Share Owner Dividend Reinvestment and Stock Purchase Plan, Employee Stock Ownership Plan, Savings Plan for Salaried Employees, Savings and Security Plan (Non-Salaried Employees), Voluntary Contribution Plan and Senior Management Long Term Incentive Plan, will be fully paid and nonassessable by BellSouth.

Manufacturers Hanover Trust Company, New York, New York, has been designated as registrar and American Transtech Inc. ("American Transtech"), Jacksonville, Florida, has been designated as transfer agent for the Common Stock. American Transtech is a wholly-owned subsidiary of AT&T created to effect the distribution of the Common Stock and shares of stock of the other RHCs at divestiture. Under an agreement with BellSouth, American Transtech will provide transfer agent services for five years following divestiture.

BellSouth Common Stock is expected to be listed on the New York, Boston, Midwest, Pacific and Philadelphia Stock Exchanges. Trading of the Common Stock is expected to begin on a when issued basis in November 1983. Following divestiture, BellSouth Common Stock certificates will be distributed in February 1984 and regular trading will begin.

Approximately 96,800,000 shares of BellSouth Common Stock are expected to be issued to AT&T for distribution to the shareholders of AT&T upon divestiture. Each holder of record of ten or more shares of AT&T as of December 30, 1983 will be entitled to receive one or more shares of Common Stock in BellSouth; based on the number of such holders as of a recent date, it is estimated that BellSouth will initially have approximately 2,700,000 stockholders of record.

It is estimated that 3,000,000 shares of BellSouth's Common Stock will be issued during 1984 under its plans listed above.

BellSouth anticipates that dividends will be declared on a quarterly basis and paid on May 1, August 1, November 1 and February 1, and that the initial dividend payment will be $1.95 per share. The declaration and timing of all dividends are at the discretion of the Board of Directors and are dependent upon BellSouth's earnings and financial requirements, general business conditions and other factors. Reference is made to the "Summary of Significant Financial Forecast Assumptions for the Year ending December 31, 1984", in the "Information Statement for BellSouth Corporation", for information concerning certain of such factors.

Directors and Officers

On October 15, 1983, if Common Stock had been outstanding, the directors and officers of BellSouth as a group, based on their AT&T share ownership on that date, would have owned (including certain family holdings) with voting and investment power 755 shares of Common Stock which are less than 1% of the class outstanding.

Directors

Name (Age) Memberships on Board Committees BellSouth equity holdings(1)	Principal Occupation Biographical and Other Information
WALLACE R. BUNN(61) Executive Committee Corporate Public Policy Committee 160 shares	Mr. Bunn is Chairman of the Board of BellSouth. He has served as Chairman of the Board of South Central Bell from November 1982, having previously served as President from 1978. He has been a Director of South Central Bell from 1978, and he previously served as a Director of South Central Bell from 1969 to 1973, at which time he resigned to become President of Pacific Northwest Bell Telephone Company. Mr. Bunn is a Director of AmSouth, N.A., Birmingham, Alabama; AmSouth Bancorporation, Birmingham, Alabama; Saunders Leasing System, Inc., Birmingham, Alabama; and Provident Life and Accident Insurance Company, Chattanooga, Tennessee.
JOHN L. CLENDENIN(49) Executive Committee Corporate Public Policy Committee 14 shares	Mr. Clendenin is President of BellSouth. He has served as Chairman of the Board of Southern Bell from November 1982 and served as President from January 1981 thru October 1982. He has served as a Director of Southern Bell since March 1981. Mr. Clendenin is a Director of Equifax, Inc., Atlanta, Georgia; First Atlanta Corporation; and The First National Bank of Atlanta.
MARSHALL M. CRISER(54) Executive Committee Corporate Public Policy Committee 20 shares	Mr. Criser is currently with the law firm Gunster, Yoakley, Criser & Stewart, P.A., Palm Beach, Florida. He has served as a Director of Southern Bell from 1974. Mr. Criser is a Director of Flagler Systems, Inc., Palm Beach, Florida; D. Mead Johnson Foundation, Palm Beach, Florida; and The Appleman Foundation, Palm Beach, Florida.

Name (Age) Memberships on Board Committees BellSouth equity holdings(1)	Principal Occupation Biographical and Other Information
ROBERT M. HEARIN(66) Compensation and Benefits Committee No shares	Mr. Hearin is retired Chairman of the Board, First Capital Corporation, Jackson, Mississippi, and retired Chairman of the Executive Committee, First National Bank of Jackson, Mississippi. He has served as a Director of South Central Bell from 1968. He is Chairman of the Board and a Director of School Pictures, Inc., Jackson, Mississippi; Chairman of the Board and a Director of Yazoo Manufacturing Company, Inc., Jackson, Mississippi; Director and a member of the Executive Committee of Amerada Hess Corporation, New York, New York; and Director and Chairman of the Executive Committee of Lamar Life Insurance Company, Jackson, Mississippi; and Director of Lamar Life Corporation, Jackson, Mississippi.
EUGENE L. JOYCE(65) Audit Committee 60 shares	Mr. Joyce is currently with the law firm Joyce, Anderson & Meredith, Oak Ridge, Tennessee. He has served as a Director of South Central Bell from 1980. Mr. Joyce is Chairman of the Boards of Bank of Oak Ridge and its major subsidiary, Tennessee Eastern Bancshares, Oak Ridge, Tennessee; President of Alexander Lodge of Oak Ridge, President of Fairview Apartments, Inc., Oak Ridge, Tennessee; and Cumberland Mountain Development Corp., Oak Ridge, Tennessee. He is a Director of Anco Supply, Oak Ridge, Tennessee; Tennelec Corporation, Oak Ridge, Tennessee; and Knoxville Broadcasting, Inc. Mr. Joyce is Chairman of the University of Tennessee Chancellor's Associates and President of University of Tennessee Research Corporation, Oak Ridge, Tennessee.
WILLIAM O. MCCOY(50) Corporate Public Policy Committee 31 shares	Mr. McCoy is Vice Chairman of the Board of BellSouth. He has served as Vice Chairman of the Board and Chief Financial Officer of South Central Bell from November 1982 and has served as a Director of South Central Bell from 1980. Mr. McCoy is a Director of First American Corporation, Nashville, Tennessee.
EDWARD M. O'HERRON, JR.(67) Audit Committee 100 shares	Mr. O'Herron is the retired Chairman of the Board of Eckerd Drugs, Inc., Charlotte, North Carolina. He has served as a Director of Southern Bell from 1977, having previously served on the Board from 1969 to 1975 when he resigned. Mr. O'Herron is Director and President of the O'Herron Foundation, Charlotte, North Carolina. He is also a Director of Akzona, Inc., Asheville, North Carolina; and Piedmont Aviation, Winston-Salem, North Carolina; Jack Eckerd Corporation, Clearwater, Florida, Tax Management Funds for Utility Shares, Inc., West Palm Beach, Florida; and A.B.T. Investment Services, Inc., West Palm Beach, Florida.
G. FRANK PURVIS, JR.(68) Compensation and Benefits Committee 60 shares	Mr. Purvis is Chairman of the Board and Chief Executive Officer of Pan-American Life Insurance Company, New Orleans, Louisiana. He has served as a Director of South Central Bell from 1971. Mr. Purvis is a Director of First Commerce Corporation, New Orleans, Louisiana; Pan-American de Mexico Compania de Seguros, Mexico City; Pan-American International, Inc., New Orleans, Louisiana; Pan-American Guatemala; Pan-American de Colombia; Seguros y Reaseguros, Dominican Republic; International Reinsurance Co., New Orleans, Louisiana; Interhemispheric Insurance Co., New Orleans, Louisiana; Republic Airlines, Inc., Minneapolis, Minnesota; First National Bank of Commerce, New Orleans, Louisiana; Director and Chairman of the Board of Pan-American Real Estate Management, Inc. and Pan-American Assurance Co., New Orleans, Louisiana; Director of Pan-American de Panama, S.A.; and The Stone Exploration Corporation, LaFayette, Louisiana.

Name (Age) Memberships on Board Committees BellSouth equity holdings(1)	Principal Occupation Biographical and Other Information
FRANK P. SAMFORD, JR.(62) Executive Committee Corporate Public Policy Committee No shares	Mr. Samford is Chairman of the Board of Torchmark Corporation (insurance), Birmingham, Alabama. Mr. Samford has served as a Director of South Central Bell from 1979. Mr. Samford is a Director of Golden Enterprises, Inc., Birmingham, Alabama; The Southern Company, Atlanta, Georgia; Saunders Leasing Systems, Inc., Birmingham, Alabama; Liberty National Life Insurance Co., Birmingham, Alabama; American Council of Life Insurance, New York, New York; Globe Life and Accident Insurance Co. of Oklahoma City; and United American Insurance Co. of Dallas.
ROBERT S. SMALL(68) Compensation and Benefits Committee 100 shares	Mr. Small, Greenville, South Carolina, is Chairman of the Executive Committee and a Director of Dan River, Inc. (textiles), Danville, Virginia. Mr. Small has served as a Director of Southern Bell from 1965. Mr. Small is a Director of Liberty Life Insurance Co., Greenville, South Carolina; Morton Thiokal Products, Inc., Chicago, Illinois; Piedmont Natural Gas Co., Inc., Charlotte, North Carolina; South Carolina National Corporation, Charleston, South Carolina; Textile Hall Corporation, Greenville, South Carolina; and J. E. Sirrine Company, Greenville, South Carolina.
THOMAS R. WILLIAMS(55) Executive Committee Audit Committee No shares	Mr. Williams is Chairman of the Boards of First Atlanta Corporation and its major subsidiary, The First National Bank of Atlanta. Mr. Williams has served as a Director of Southern Bell from 1980. Mr. Williams is a Director of Georgia Power Company, Atlanta, Georgia; Eastern Airlines, Inc., Miami, Florida; National Service Industries, Inc., Atlanta, Georgia; National Life Insurance Company of Vermont, Montpelier, Vermont; Equifax, Inc., Atlanta, Georgia; ConAgra, Inc., Omaha, Nebraska; VISA U.S.A., Inc., San Francisco, California; VISA International, San Francisco, California; and the Association of Bank Holding Companies.

(1) Holdings of Common Stock for each director are estimated assuming the director's ownership of AT&T common shares as of October 15, 1983 is unchanged on December 30, 1983, the divestiture distribution record date.

Directors hold office until the next annual meeting of stockholders (see "First Shareholders' Meeting and Submission of Shareholder Proposals") or until their successors have been elected and qualified.

Officers

Name	Age	Office
Wallace R. Bunn	61	Chairman of the Board (Chief Executive Officer)
John L. Clendenin	49	President (Chief Operating Officer)
William O. McCoy	50	Vice Chairman of the Board—Finance and Corporate Strategies (Chief Financial Officer)
Norman C. Frost	60	Vice President and General Counsel
Owen K. Williamson	54	Vice President—Finance, Secretary and Treasurer
F. Duane Ackerman	41	Vice President—Corporate Planning and Development
Larry A. Taylor	50	Vice President—Corporate Markets
Nathaniel R. Johnson	63	Vice President—Corporate Human Resources
E. Q. Faust	51	Vice President—Corporate and Federal Matters
Harvey R. Holding	49	Comptroller

Prior to election to office, each of the above persons held high-level managerial positions with South Central Bell, Southern Bell, AT&T or another subsidiary or associated company of AT&T for more than the past five years. In 1982, AT&T designated Mr. Bunn as the chief executive officer of the then-to-be-formed southeast regional holding company for the purposes of planning the staffing and organization of such company. As a result of such planning, the persons named herein as directors and officers of BellSouth were designated to assume their offices, and upon the organization of BellSouth in October 1983, AT&T, as sole shareholder, elected the directors of BellSouth and such directors thereupon elected the officers of BellSouth. Such persons have resigned, or prior to January 1, 1984 will resign, their current offices or directorships with South Central Bell or Southern Bell, except for Nathaniel R. Johnson, who for a temporary period will continue to also serve as Vice President—Personnel of Southern Bell.

Officers are elected for a designated term or until their successors have been elected and qualified.

Compensation of Directors and Officers

Directors who are not employees receive an annual retainer of $12,000, a fee of $500 for each board and committee meeting attended and an annual retainer of $2,500 for each committee they chair. Directors may elect to defer the receipt of all or a part of their fees and retainers. Amounts so deferred earn interest, compounded quarterly, at a rate equal to the average interest rate for ten-year United States Treasury notes for the previous quarter.

The currently authorized salaries for the five most highly compensated executive officers of BellSouth are as follows:

Name	Office	Authorized Salary
Wallace R. Bunn	Chairman of the Board	$330,000
John L. Clendenin	President	285,000
William O. McCoy	Vice Chairman of the Board	200,000
Norman C. Frost	Vice President and General Counsel	165,000
Nathaniel R. Johnson	Vice President	162,000

The section entitled "Compensation of Directors and Officers" included in the "Common Information" section below is incorporated herein by reference.

First Shareholders' Meeting and Submission of Shareholder Proposals

Because BellSouth's first year of operations will be 1984, its first public shareholders' meeting will be scheduled for May 1985. BellSouth will prepare and disseminate its annual report and proxy statement for such meeting; proposals of shareholders intended for inclusion in such proxy statement should be sent to the Secretary of BellSouth at 675 West Peachtree Street, N.E., Atlanta, Georgia 30375 and must be received by December 18, 1984.

INFORMATION STATEMENT FOR NYNEX CORPORATION

The Company

NYNEX was incorporated on October 7, 1983, under the laws of the State of Delaware and has its principal executive offices at 400 Westchester Avenue, White Plains, New York 10604 (telephone number 914 683-2121). On or about January 1, 1984, NYNEX's principal executive offices will be located at 335 Madison Avenue, New York, New York 10017 (telephone number 212 370-7400). At divestiture AT&T will transfer to NYNEX its 100 percent ownership in two telephone subsidiaries, New York Telephone Company ("New York Company") and New England Telephone and Telegraph Company ("New England Company"), as well as NYNEX Mobile Communications Company ("NYNEX Mobile"), a cellular advanced mobile communications service subsidiary, and a one-seventh interest in the CSO.

In addition, NYNEX has established three other wholly-owned subsidiaries, NYNEX Information Resources Company ("NYNEX Information Resources"), NYNEX Materiel Enterprises Company ("NYNEX Enterprises") and NYNEX Service Company ("NYNEX Service") and has authorized the incorporation of another wholly-owned subsidiary, NYNEX Business Information Systems Company ("NYNEX Business Systems").

The New York Company was incorporated in 1896 under the laws of the State of New York and has been engaged in providing communications services in New York and a small portion of Connecticut. Commencing January 1, 1984, it will be engaged in the furnishing of exchange telecommunications and exchange access service in these areas.

The New England Company was incorporated in 1883 under the laws of the State of New York and has been engaged in providing communications services in Massachusetts, Maine, New Hampshire, Rhode Island and Vermont. Commencing January 1, 1984, it will be engaged in the furnishing of exchange telecommunications and exchange access service in these areas.

Exchange telecommunications service refers to intraLATA service which includes toll service as well as local service (see "Description of the Divestiture Transaction—The Regional Holding Companies —Services").

NYNEX Mobile will be engaged in the business of providing advanced mobile communications services using cellular technology. NYNEX Mobile has created four subsidiaries to provide cellular services, either directly or through partnerships, in four geographical service areas in the Northeastern United States. FCC construction permits have been granted or applied for with respect to such areas and additional construction permits may be applied for with respect to other areas. Following the completion of construction, an FCC operating license is required before a cellular system can commence operations (see "Description of the Divestiture Transaction—The Regional Holding Companies— Advanced Mobile Communications Service").

NYNEX Business Systems, when established, will be engaged in the sale of communications systems and equipment.

NYNEX Information Resources will be engaged, commencing January 1, 1984, in the publishing of directories for the New York Company and the New England Company and in providing non-traditional directory services in current and new markets.

NYNEX Enterprises will undertake, commencing January 1, 1984, for NYNEX and its subsidiaries, various procurement support activities undertaken prior to divestiture by AT&T and Western Electric on behalf of the Bell operating companies, or directly by the New York Company and the New England Company on their own behalf. These procurement support activities include product evaluation, contracting, materials management and disposition, warehousing, transportation and equipment repairs.

NYNEX Service will provide staff support services for NYNEX and its subsidiaries, primarily the New York Company and the New England Company.

NYNEX expects to mail regular reports to its shareholders containing annual audited and quarterly unaudited financial statements. Such reports are expected to contain a discussion of the financial results including, where appropriate, comparisons with expected results.

Anticipated Additional Business Operations

NYNEX has under consideration various other businesses in which it may engage, but has not determined whether or when it will engage in any of these businesses. NYNEX may also decide to engage in other businesses which are not presently under consideration. In this regard, the Consent Decree requires a showing by NYNEX to the United States District Court for the District of Columbia "that there is no substantial possibility that it could use its monopoly power to impede competition in the market it seeks to enter" before NYNEX or its affiliates can engage in such other businesses. NYNEX is unable to give any assurance as to which new businesses, if any, it will be permitted to enter by the Court.

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The accompanying financial forecast of NYNEX Corporation for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period. Accordingly, the financial forecast reflects management's judgment, based on present circumstances, of the most likely set of conditions and management's most likely course of action.

We have made a review of the financial forecast in accordance with applicable guidelines for a review of a financial forecast established by the American Institute of Certified Public Accountants. Our review included procedures to evaluate both the assumptions used by management and the preparation and presentation of the financial forecast. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Based on our review, we believe that the accompanying financial forecast of NYNEX Corporation is presented in conformity with applicable guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants. We believe that the underlying assumptions provide a reasonable basis for management's financial forecast. However, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material.

COOPERS & LYBRAND

New York, New York
November 8, 1983

We have examined the accompanying combined historical statements of income for the years ended December 31, 1982 and 1981 of New York Telephone Company and Subsidiary and New England Telephone and Telegraph Company, which are wholly owned subsidiaries of American Telephone and Telegraph Company. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the historical statements of income referred to above present fairly the combined results of operations of the subsidiaries referred to above for the years ended December 31, 1982 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

New York, New York
February 4, 1983

NYNEX CORPORATION

FINANCIAL FORECAST AND COMBINED HISTORICAL STATEMENTS OF INCOME

The financial forecast for NYNEX, consisting of a forecasted Statement of Income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, represents management's best estimate based on present circumstances of the most probable operating results and sources of funds supporting construction activity for the year ending December 31, 1984, and has been reviewed by Coopers & Lybrand, independent certified public accountants, whose report is included herein.

It should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist. The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

The following Combined Historical Statements of Income reflect the combination of the statements of income of the New York Company and Subsidiary and the New England Company (the "telephone subsidiaries"), which will be the principal operating subsidiaries of NYNEX. All significant intercompany transactions have been eliminated. The Combined Historical Statements of Income of the telephone subsidiaries for the years 1981 and 1982 have been examined by Coopers & Lybrand whose report is included herein. The unaudited Combined Historical Statement of Income for the twelve month period ended June 30, 1983, in the opinion of NYNEX, includes all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of income. These Combined Historical Statements of Income are not adjusted for the effects of divestiture.

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Combined Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Local Service Revenues	$ XX	$ 5,490.8	$5,300.4	$4,691.0
Toll Service Revenues	XX	4,305.8	4,169.8	3,749.5
Directory Advertising & Miscellaneous Operating Revenues	XX	331.3	321.1	285.7
Provision for Uncollectibles	XX	(121.3)	(105.0)	(84.8)
Total Operating Revenues	**9,825.2**	**10,006.6**	**9,686.3**	**8,641.4**
Depreciation	1,205.9	1,195.5	1,175.0	1,091.2
Other Operating Expenses	5,384.5	5,448.1	5,326.4	4,612.4
Total Operating Expenses	**6,590.4**	**6,643.6**	**6,501.4**	**5,703.6**
Net Operating Revenues	**3,234.8**	**3,363.0**	**3,184.9**	**2,937.8**
Federal Income Taxes	565.6	669.2	605.8	550.7
Other Operating Taxes	1,246.0	1,163.2	1,106.3	1,021.4
Total Operating Taxes	**1,811.6**	**1,832.4**	**1,712.1**	**1,572.1**
Operating Income	**1,423.2**	**1,530.6**	**1,472.8**	**1,365.7**
Other Income	**75.1**	**64.8**	**53.7**	**49.5**
Interest Expense	**560.7**	**565.6**	**553.4**	**515.3**
Net Income	**$ 937.6**	**$ 1,029.8**	**$ 973.1**	**$ 899.9**
Earnings per Share	**$ 9.54**	**NA**	**NA**	**NA**
Weighted Average Number of Shares Outstanding (Millions)	98.3	NA	NA	NA

See accompanying Notes to Combined Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984, and Note to Forecasted 1984 Statement of Income.

NA = Not applicable

NOTES TO COMBINED HISTORICAL STATEMENTS OF INCOME

(Amounts relating to the twelve months ended June 30, 1983 are unaudited)

Dollars in Millions

1. **Accounting Policies**—The Combined Historical Statements of Income of NYNEX reflect the combination of the historical statements of income of the New York Company and Subsidiary and the New England Company and the application of the accounting policies described in this Note and in Note 3. All significant intercompany transactions have been eliminated.

Revenue Refunds—The telephone subsidiaries record in their financial statements material revenue refunds applicable to prior years as adjustments of the respective years' income and, within a year, as adjustments of the applicable interim periods' income.

Purchases from Western Electric—Western Electric, a wholly-owned subsidiary of AT&T, has a substantial investment in manufacturing and other facilities which are devoted mainly to its business with affiliated telephone companies. Western Electric has supply contracts with the telephone subsidiaries which provide that the prices it charges for the telephone equipment and materials it manufactures or procures for the telephone subsidiaries shall be as low as the prices it charges its most favored customers for like materials and services under comparable conditions. The financial statements reflect items purchased from Western Electric at cost to the telephone subsidiaries, which cost includes the return realized by Western Electric on its investment devoted to the communications business. See also "Telephone Plant" below.

Telephone Plant—The investment in equipment and materials dedicated to providing communications services is stated at its original cost. Such amounts do not purport to represent reproduction cost or current value. The original cost of telephone plant obtained from Western Electric includes a return on Western Electric's investment (see "Purchases from Western Electric" above). It is impossible to identify the particular purchases from Western Electric over a long period of years which were charged to the plant accounts and now remain therein, but NYNEX considers that such purchases represent about 40% to 44% of the telephone subsidiaries' total plant investment as of December 31, 1982. Western Electric advises that its rate of profit before interest charges has varied by years and by classes of sales, but that such rate of profit before interest charges, included in prices for material sold and services furnished to affiliated telephone companies (including items chargeable to other than plant accounts), has been approximately 6.0% of such sales over the twenty year period ended December 31, 1982 and approximately 7.0% of such sales over the three year period then ended. Western Electric considers that its rate of profit before interest charges on those items which have been charged to the plant accounts is somewhat higher than its rate on total sales to affiliated companies.

Currently, AT&T and certain of its subsidiaries, including Western Electric and the telephone subsidiaries, join in the filing of a consolidated federal income tax return. As a result, Western Electric's profits before income taxes included in the cost of those materials and services in the telephone subsidiaries' plant accounts are excluded from consolidated taxable income in the year acquired from Western Electric. Instead, such profits are recognized and taxed over the depreciable life of the related plant since, for tax purposes, the telephone subsidiaries must exclude Western Electric profits in deriving the depreciable cost of their investment in telephone plant. Consequently, the telephone subsidiaries' tax liability is higher than if they were permitted to depreciate the full amount they initially paid to Western Electric. Western Electric provides the telephone subsidiaries with the funds necessary to pay the tax liability on these deferred profits in the year in which the telephone subsidiaries first acquire the related telephone plant. These payments are treated as reductions of the investment in telephone plant which results in a reduction in depreciation expense over the life of the related plant. However, there is no material effect on Net Income because the decrease in depreciation expense is offset by the aforementioned increase in the income tax provision.

Materials and Supplies—New material and reusable material are carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Depreciation—Prior to 1981, the provision for depreciation was based on straight-line composite rates prescribed by the FCC, determined on the basis of the average expected lives of categories of telephone plant acquired in a given year. In 1982, the FCC approved the implementation of the method of determining straight-line composite rates on the basis of equal life groups ("ELG") of certain categories of telephone plant acquired in a given year which will result in a higher initial provision for depreciation than that based on average expected lives. The New England Company's results for 1982 reflect this method for the depreciation of outside plant. The New York State Public Service Commission ("NYSPSC") has not approved ELG for intrastate rate-making purposes.

Effective January 1, 1981, the FCC also authorized shorter lives for customer terminal equipment and certain other telephone plant.

In 1981, the FCC authorized the New York Company to begin implementation of the "remaining life" method of depreciation. In its order of March 26, 1982, the NYSPSC authorized the New York Company to use the "remaining life" method of depreciation for intrastate rate-making purposes effective April 1, 1982. The New England Company received interim permission from the FCC in August 1982 to begin implementation of the "remaining life" method of depreciation retroactive to January 1, 1982 in New Hampshire and Vermont and retroactive to July 1, 1982 in Maine, Massachusetts and Rhode Island. The "remaining life" method provides for full recovery of the investment in telephone plant on a straight-line basis.

The increases in depreciation expense resulting from these FCC actions should be allowable in determining revenue requirements in rate-making proceedings. See Note 5.

When depreciable plant, other than minor items thereof which are replaced, is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

Maintenance and Repairs—The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is, with minor exceptions, charged to operating expenses.

Station Connections—During 1981, the FCC directed that, beginning January 1981, certain costs of installing telephone service on a customer's premises may be expensed instead of capitalized and that the balance of the investment in installation costs may be amortized.

The NYSPSC approved expensing of station connection costs for the New York Company starting April 1982, combined with imputation of revenues covering the costs and amortization of the imputed revenues. A gradually increasing portion of these costs is being allowed in rate proceedings and the amount of revenues being imputed is decreasing in amounts as determined by the NYSPSC.

Interest Charged Construction—Regulatory authorities allow the telephone subsidiaries to accrue interest as a cost of constructing certain plant and as an item of income, i.e., interest charged construction. Such income is not realized in cash currently but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Lease Commitments—The telephone subsidiaries lease certain facilities and equipment used in their operations and reflect lease payments as rental expense of the periods to which they relate. These leases include some which would be classified as "capital leases" under criteria established by the

Dollars in Millions

Financial Accounting Standards Board. However, for regulatory accounting and rate-making purposes, such leases are not capitalized. Had such leases been capitalized, the effect on Net Income for 1982 and 1981 would have been insignificant.

Income Taxes—

(a) AT&T and its subsidiaries file a consolidated federal income tax return. The consolidated income tax currently payable is allocated in accordance with each company's contribution to consolidated taxable income.

(b) Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the period during which the transaction will be recognized in the determination of net income for financial reporting purposes. Appropriate income charges and their subsequent reversal, reflected as deferred income taxes-net, prevent the tax effect of these timing differences from distorting net income. The telephone subsidiaries recognize the tax effects of certain timing differences, principally those on the following transactions:

(1) Vacation pay and certain property taxes are deductible for income tax purposes in the year prior to being expensed in the statements of income.

(2) Depreciation for income tax purposes is determined based on accelerated methods and shortened lives which cause such depreciation to be higher during the early years of plant life and lower in later years than the depreciation charges for such plant reflected in the statements of income.

(3) Imputed revenues resulting from the New York Company's accounting for the New York intrastate portion of station connection costs are not reportable in the current period for income tax purposes.

(c) Investment tax credits result from provisions of the federal tax law which allow for a reduction in tax liability based on certain construction expenditures. Corresponding reductions in tax expense are deferred and, except for the additional one percent credit available under the Tax Reduction Act of 1975 which must be contributed currently to the Bell System Employee Stock Ownership Plan, are amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

2. **Income Taxes—**

The components of operating income tax expenses were as follows:

	1982	1981
Federal:		
Current	$125.1	$166.1
Deferred-net	376.3	271.9
Investment tax credits-net	104.4	112.7
	605.8	550.7
State and local:		
Current	19.4	17.6
Deferred-net	6.5	10.9
	25.9	28.5
Total	$631.7	$579.2

Income tax expenses which relate to non-operating income included in Other Income were $1.6 and $4.6 in 1982 and 1981, respectively.

Dollars in Millions

Deferred income tax expense results principally from timing differences between depreciation expense recognized for income tax purposes and depreciation expense reflected in these statements of income.

The effective Federal income tax rate, as determined by dividing Federal Income Taxes (see above) by the sum of Federal Income Taxes and Net Income, was 38.4% in 1982 and 38.2% in 1981. The differences of 7.6% in 1982 and 7.8% in 1981 between the effective rate and the federal income tax statutory rate of 46% are attributable to the following factors:

	1982	1981
a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but currently deducted for income tax purposes, net of applicable depreciation	1.1%	2.3%
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	1.0	.8
c. Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(.5)	(.5)
d. Amortization of investment tax credits over the life of the plant which gave rise to the credits. Such amortization reduced income tax expense for 1982 and 1981 by the amounts shown in Note 5	5.2	4.8
e. Other differences	.8	.4
Total	7.6%	7.8%

3. **Provision for Pensions and Death Benefits**—Employees of the telephone subsidiaries are covered by two national Bell System noncontributory pension and death benefit plans sponsored by AT&T and the Bell System companies, one for management employees and one for non-management employees. Contributions to such plans are made to irrevocable trust funds. It is the policy of the telephone subsidiaries to make contributions which are equal to the current year cost of the plans determined on a going concern basis by an actuarial method specified by the Employee Retirement Income Security Act of 1974. The following data relate to plan costs:

	1982	1981
Current year cost	$415.9	$393.0
Current year cost as a percent of salaries and wages	12.0%	13.4%

Amendments to the plans during 1982 had the effect of increasing 1982 pension cost by approximately $40.5 while recognition of 1981 actuarial experience had the effect of decreasing 1982 cost.

Statement of Financial Accounting Standards No. 36 requires that certain disclosures be made of the actuarial present value of accumulated plan benefits and the fair value (essentially current market value) of net assets available for plan benefits. With the October 1, 1980 merger of the individual Bell System companies' plans, including the telephone subsidiaries' plans, into the two national Bell System plans, such disclosures are not presented for the telephone subsidiaries because the structure of the new plans does not readily permit the plans' assets and the accumulated benefits data to be disaggregated. However, based on the latest actuarial valuations of the two national plans, utilizing an assumed rate of return of 10.6% for 1981, the fair value of net assets available for plan benefits exceeded the actuarial present value of vested and non-vested accumulated plan benefits at December 31, 1981.

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4. **Intrastate Revenues Subject to Possible Refund**—Intrastate revenues have been collected subject to possible refund since May 20, 1983, and are included in operating revenues. Should it ultimately be determined that any or all of these amounts are to be refunded, Net Income would be decreased in a future period. If such a determination had been made as of June 30, 1983, the decrease in Net Income could have been as much as $14.2.

5. **Additional Financial Information**—

	1982	1981
Depreciation—Percentage of average depreciable telephone plant	5.94%	5.93%
Amortization of investment tax credits	$ 81.8	$ 69.4
Other operating taxes:		
State income	$ 25.9	$ 28.5
Property	554.1	541.1
Gross receipts	288.6	253.4
Payroll-related	210.7	172.9
Other	27.0	25.5
Total	$1,106.3	$1,021.4
Interest expense:		
Interest on long and intermediate term debt	$ 460.6	$ 423.1
Interest on advances from AT&T	10.3	12.0
Interest on notes payable	69.1	69.3
Other	13.4	10.9
Total	$ 553.4	$ 515.3
Rental expense	$ 199.8	$ 180.6

6. **MCI And Litton Antitrust Litigation**—In June 1980, MCI Communications Corporation was awarded $1.8 billion in treble damages in a civil antitrust suit against AT&T. In January 1983, the U.S. Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. Petitions for rehearing of this decision were denied by the Court of Appeals. In July 1983, both parties petitioned the U.S. Supreme Court to review the case. On October 11, 1983, the Supreme Court denied the petitions. In the opinion of AT&T's legal counsel, any monetary liability or financial impact to which AT&T and the Bell System companies might be subject after final adjudication would not be material in amount.

In June 1981, in an antitrust suit involving terminal equipment against AT&T and certain Bell System companies, including the New York Company, Litton Industries, Inc. ("Litton") was awarded $276.8 in treble damages. While the New England Company is not a defendant in this case, it could experience financial impacts from such an award through arrangements providing for the allocation of expenses among Bell System telephone companies. In February 1983, the U.S. Court of Appeals for the Second Circuit upheld the lower court's decision. The Court of Appeals denied AT&T's petition for a rehearing. In June 1983, AT&T petitioned the U.S. Supreme Court to review the case. On October 3, 1983, the Supreme Court invited the Solicitor General to file a brief in the case expressing the views of the Federal government. Should it ultimately be determined that the Litton award is payable, Net Income would be decreased in a future period. If such determination had been made as of June 30, 1983, the decrease in Net Income could have been as much as $22.5.

Dollars in Millions

7. **Reinvested Earnings—**

	1982	1981
Reinvested Earnings:		
At beginning of year	$1,619.0	$1,441.7
Add—Net Income	973.1	899.9
	2,592.1	2,341.6
Deduct—Dividends declared	833.0	722.6
At end of year	$1,759.1	$1,619.0

SUMMARY OF SIGNIFICANT FINANCIAL FORECAST ASSUMPTIONS FOR THE YEAR ENDING DECEMBER 31, 1984

Dollars in Millions

The Consent Decree requires that AT&T divest those parts of the Bell System operating telephone companies that provide exchange telecommunications and exchange access service, as well as printed directory advertising and cellular advanced mobile communications service business. The Plan outlines how divestiture will be accomplished on January 1, 1984.

This forecasted statement of income represents management's best estimate, based on present circumstances, of the most probable operating results of NYNEX for the year ending December 31, 1984. Accordingly, the financial forecast reflects management's judgment based on present circumstances of the most likely set of conditions and management's most likely course of action. The assumptions disclosed herein are those that management believes are significant to the financial forecast or are key factors upon which the financial results depend. The assumptions presented are consistent with the Plan approved by the Court. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur subsequent to November 8, 1983, the date of the financial forecast. Therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material. Additionally, it should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist.

This forecasted statement of income includes estimates of the impact of transactions with AT&T and its subsidiaries. Due to potential competitor and supplier relationships, the assumptions used by NYNEX with regard to Access Charge revenues to be received from AT&T, sale of customer premises equipment, purchases from Western Electric and other similar transactions were not disclosed in detail to AT&T and thus will not necessarily be the same as the assumptions used by AT&T regarding such transactions.

NYNEX does not intend to update this forecasted statement of income because actual results will be reported during 1984. Consequently, it should be evaluated in light of any events and changes in circumstances occurring after November 8, 1983.

The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

Assumptions

(a) **General Economy**—The following national economic assumptions were considered in preparing the 1984 financial forecast:

Growth in Real Gross National Product (GNP)	5.0%
Increase in Consumer Price Index (CPI)	4.4%
Annual Average Interest Rates:	
—Prime	11.6%
—90 Day Commercial Paper	9.8%

(b) **Operating Revenues**—Revenues are based on estimated rates and volumes of business.

Following the FCC's October 18, 1983 Order suspending the effective date of interstate Access Charges to customers and interexchange carriers from January 1, 1984 to April 3, 1984, AT&T on October 27, 1983 petitioned the FCC to reconsider the suspension. In the event that the FCC declines to reconsider, AT&T and the RHCs have reached agreement as to the principal terms of an interim arrangement designed to compensate the BOCs for the use of their facilities for interstate toll and related services on a basis that is approximately consistent with the current level of interstate earnings (which level is somewhat lower than the authorized rate of return). The forecast assumes that such arrangement will be in effect from January 1, 1984 to April 3, 1984. There is pending before the Court a motion which was filed by the Bell Atlantic telephone subsidiaries prior to the time the agreement referred to above was reached. In that motion, the Bell Atlantic telephone subsidiaries proposed that they be compensated for use of their facilities for interstate toll service at the authorized rate of return. Consistent with the agreement, Bell Atlantic is requesting Court approval to withdraw its motion. AT&T and the other RHCs support that request.

The forecast also assumes that the implementation by the FCC of interstate Access Charges will occur on April 3, 1984, and that the Access Charge process will not be altered through (i) congressional legislation which, as currently proposed, seeks to suspend or prohibit Access Charges to residential and small business customers and also seeks to extend the present reduced interconnection rates charged to interexchange carriers other than AT&T, or (ii) judicial action relating to an appeal of the FCC's Order initially adopting Access Charges which is pending before the U.S. Court of Appeals for the District of Columbia Circuit.

The forecast assumes that intrastate interLATA Access Charges will become effective as presently scheduled or, if not, that interim arrangements will be implemented to compensate the BOCs for the use of their facilities for intrastate toll and related services. Rates for exchange telecommunications services have been estimated based on prices expected to be established by state regulatory commissions.

Any changes in these assumptions could have a significant effect on forecasted Net Income; any further delay in implementation of Access Charges would reduce forecasted Net Income.

Revenues from these interstate and intrastate services are expected to recover the costs of providing such services, including a return on investment in facilities. The telephone subsidiaries have filed or will file rate applications before the FCC and with certain of the state regulatory commissions to establish rates for Access Charges and exchange telecommunications services. Since the tariff structures will be substantially different from those existing prior to divestiture, approximately 27% of the forecasted Total Operating Revenues for 1984 are dependent upon the outcome of these rate applications. Approximately 2% of such forecasted Total Operating Revenues represents Access Charges to residential and small business customers for which tariffs have been filed with the FCC and which pending legislation seeks to delay or prohibit. If such customer Access Charges are delayed or prohibited by this legislation or if their effectiveness is further delayed by the FCC, the telephone subsidiaries will have to seek to recover the cost of these services through other charges.

Access lines in service at December 31, 1984 are estimated to be 13,081,400. The telephone subsidiaries expect to be able to modify, within reasonable limits, the costs of providing telephone service to recognize variations from the forecasted volume levels.

(c) **Depreciation**—Depreciation expense is estimated using rates and practices prescribed or expected to be prescribed by the FCC applied to assets expected to be owned by the telephone subsidiaries during 1984. The FCC is expected to approve depreciation rates that result in an effective average composite rate for 1984 of about 6%; such rates are expected to be allowable in determining revenue requirements in intrastate rate-making proceedings although to date the NYSPSC has not recognized ELG for the New York Company. Construction costs of $2.0 billion for the period are estimated based on estimated demand for communications services and improvements to existing services.

(d) **Other Operating Expenses**—Other operating expenses include primarily salaries, wages, pensions and other employee related expenses. Salaries and wages, including cost-of-living adjustments, are estimated based on expected post-divestiture force levels and reflect new union contracts agreed upon in August, 1983. Pensions and other employee related expenses are estimated based on expected force levels and estimated payroll used to calculate such expenses. It is estimated that the changes in wages and fringe benefits resulting from the new contracts, as well as adjustments in ranges of compensation and fringe benefits for management employees, will increase expenses by about $206.8 in 1984.

Maintenance expense includes an inflation adjustment of 4.4%, and as a percentage of the level of plant is expected to remain relatively constant during 1984. The CSO will furnish technical assistance such as network planning, engineering and software development. NYNEX's share of the estimated cost of the CSO has been included based on approved functions for the CSO and its expected force levels, and in 1984 is estimated to be $107.0.

Dollars in Millions

(e) **Operating Taxes**—The estimated effective annual Federal income tax rate is expected to be 37.8%. The difference of 8.2% between the estimated effective tax rate and the assumed statutory rate of 46% is attributable to the following factors:

a.	Certain taxes and payroll-related construction costs capitalized for financial statement purposes but deducted currently for income tax purposes, net of applicable depreciation	.4%
b.	Interest charged construction, which is excluded from taxable income, net of applicable depreciation	1.4
c.	Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(.6)
d.	Amortization of investment tax credits over the life of the plant which gave rise to the credits	5.9
e.	Other differences	1.1
	Total	8.2%

The investment tax credit rate is expected to remain at 10% with a reduction in the tax basis of the related assets except for the New York Company which, pursuant to NYSPSC action, will recognize investment tax credits at an 8% rate with no reduction in tax basis. Tax estimates are in accordance with the Tax Equity and Fiscal Responsibility Act of 1982. Social Security taxes are computed using a 7% rate on the statutory wage base. State and local tax estimates are determined based on taxable bases and statutory tax rates.

(f) **Interest Expense**—Interest expense was computed using an embedded cost of funded debt of 8.8%. Interest expense on short term debt, at an average estimated cost of 10.6%, represents 12.6% of total interest expense.

(g) **Weighted Average Shares**—The weighted average number of shares outstanding was calculated based on one-tenth of the number of AT&T common shares estimated to be outstanding as of December 30, 1983 and the estimated shares to be issued under NYNEX's dividend reinvestment plan and employee benefit plans during 1984.

(h) **Summary of Significant Anticipated Sources of Funds Supporting Construction Activity**—

Funds from operations (net of first quarter 1984 dividend, annualized, of $592.1)	$1,850.8
Funds from external financing, net (principally sale of shares through dividend reinvestment and employee benefit plans)	400.0
Other (including interest charged construction)	(227.8)
Total construction activity	$2,023.0

(i) **Contingent Liabilities**—No amounts have been included in the financial forecast for the matters discussed in Note 6 to the Combined Historical Statements of Income.

NOTE TO FORECASTED 1984 STATEMENT OF INCOME

Dollars in Millions

Summary of Significant Accounting Policies—The forecasted statement of income is prepared in accordance with the generally accepted accounting principles expected to be used for the financial statements issued during the forecast period. Generally accepted accounting principles used in the forecasted statement of income have been applied on a basis consistent with those principles used in the combined historical statements of income for the years ended 1981 and 1982 and the twelve-month period ended June 30, 1983, except as described below:

Revenue Refunds—Effective in 1984, in accordance with Statement of Financial Accounting Standards No. 71 ("Statement No. 71"), "Accounting for the Effects of Certain Types of Regulation," restatements of prior period results for revenue refunds will not be made; instead, refund liabilities (if any) will be reflected in current results.

Purchases from Western Electric—The Standard Supply Contracts with Western Electric will be terminated in accordance with the Plan by January 1, 1984.

In 1984, the telephone subsidiaries will no longer join with AT&T in filing a consolidated Federal income tax return. Accordingly, plant values associated with new purchases from Western Electric will not reflect the effect of the tax which formerly would have been deferred and therefore, such tax will no longer provide a source of funds. As a result of divestiture, the telephone subsidiaries could be required to make an immediate payment of Federal income taxes previously deferred on intercompany profits. The amount of this payment applicable to plant owned by the telephone subsidiaries is approximately $128.5. While payment of these deferred taxes would have no direct effect on Net Income, an immediate payment would increase the telephone subsidiaries' needs for cash. However, AT&T believes that, pursuant to tax regulations, a closing agreement is likely to be entered into with the Internal Revenue Service which would result in only a moderate acceleration of the present time period over which these intercompany profits become taxable.

In addition to the above effects, the telephone subsidiaries will be required to return to Western Electric previous payments of deferred taxes relating to plant assigned to AT&T Information Systems. AT&T will provide the funds to make such payments.

Provision for Pensions and Death Benefits—Upon divestiture, noncontributory pension and death benefit plans sponsored by NYNEX for management and non-management employees will be established similar to existing national Bell System plans.

Lease Commitments—The telephone subsidiaries currently reflect lease payments for certain facilities and equipment used in their operations as rental expense of the periods to which they relate. In 1984, in accordance with Statement No. 71, the asset values and related obligations of capital leases with inception dates after December 31, 1982, will be included in the balance sheet. This change in accounting is not expected to affect Net Income because the total of the interest expense on the lease obligations plus the amortization expense of the leased assets will equal the rental expense allowed for rate-making purposes.

NYNEX CORPORATION

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

The following Unaudited Combined Historical Balance Sheet as of June 30, 1983 is derived from the unaudited financial statements included in the quarterly reports on Form 10-Q of the telephone subsidiaries. All significant intercompany accounts have been eliminated.

The following Unaudited Pro Forma Condensed Balance Sheet gives effect to the divestiture of the telephone subsidiaries by AT&T as if it had occurred on June 30, 1983, in accordance with the Plan. Because divestiture will not occur until January 1, 1984, actual balances and adjustments will vary from those presented in the pro forma balance sheet below. The Unaudited Pro Forma Condensed Balance Sheet should be read in conjunction with the audited financial statements and notes contained in the most recent annual reports on Form 10-K and with the unaudited financial statements and notes contained in the most recent quarterly reports on Form 10-Q of the telephone subsidiaries.

	Dollars in Millions		
	Combined Historical June 30, 1983	Pro Forma Adjustments	Pro Forma June 30, 1983
ASSETS			
Telephone Plant—Net of Accumulated Depreciation	$17,274.3	$(2,088.0)	$15,186.3
Investments	19.0	(1.8)	17.2
Current Assets	1,776.5	(26.3)	1,750.2
Deferred Charges	440.4	(5.1)	435.3
Total Assets	$19,510.2	$(2,121.2)	$17,389.0
INVESTED CAPITAL, LIABILITIES AND DEFERRED CREDITS			
Share Owners' Equity	$ 8,057.3	$ (901.8)	$ 7,155.5
Long and Intermediate Term Debt	5,432.8	0.0	5,432.8
Debt Maturing Within One Year	973.8	(584.2)	389.6
Other Current Liabilities	1,362.7	(57.6)	1,305.1
Deferred Taxes and Other Deferred Credits	3,683.6	(577.6)	3,106.0
Total Invested Capital, Liabilities and Deferred Credits	$19,510.2	$(2,121.2)	$17,389.0

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

Dollars in Millions

1. **Pro Forma Adjustments**—Assets and liabilities are transferred to and from AT&T at net book value. The transfers are tax-free under the Internal Revenue Code. Accumulated deferred income tax reserves and unamortized investment credits are transferred along with the associated assets.

   The capital structure is developed using a target debt ratio (debt as a percent of total debt and equity) for the telephone subsidiaries of 45%. The target debt ratio will be used to determine the amount of debt to be removed by AT&T from the telephone subsidiaries at the time of divestiture. This amount is expected to be $580.7. NYNEX expects that its debt ratio at the time of divestiture will be approximately 45.1%.

2. **Contingent Liabilities**—See Note 6 to Combined Historical Statements of Income.

Selected Operating Information

As of June 30, 1983, the New York Company and the New England Company had an aggregate of approximately 12,658,000 access lines in service, of which approximately 33 percent were in New York City, 10 percent were in suburban Long Island, 9 percent were in the greater Boston area and 4 percent were in Westchester County.

Sizeable areas within the territories served by the New York Company and the New England Company are served by nonaffiliated companies which had approximately 13 percent of the access lines in such territories on June 30, 1983. The New York Company and the New England Company do not furnish local service in the areas and localities served by the nonaffiliated telephone companies. Rochester and Jamestown are the only cities of over 25,000 population in these territories which are served by such nonaffiliated companies.

The following table sets forth for the telephone subsidiaries the number of network access lines in service at the end of each period and the number estimated to be in service on January 1, 1984.

	Network Access Lines in Service — Thousands					
	Estimated January 1, 1984	June 30, 1983	1982	1981	1980	1979
New York Telephone	8,300	8,277	8,211	8,210	8,071	7,926
New England Telephone	4,500	4,381	4,341	4,266	4,162	4,050
Total	12,800	12,658	12,552	12,476	12,233	11,976

Construction Expenditures and Use of Proceeds

NYNEX's telephone subsidiaries have been making and expect to continue to make large construction expenditures to meet the demand for communications services and to further improve such services. Construction expenditures by the telephone subsidiaries since January 1, 1978 were approximately as follows:

1978	$1,460,700,000	1981	$2,163,900,000
1979	1,728,100,000	1982	2,158,300,000
1980	1,979,400,000	1983 (through June 30)	1,011,300,000

NYNEX's telephone subsidiaries are projecting construction expenditures of approximately $2,085,000,000 for 1983 and approximately $2,002,000,000 for 1984. Other subsidiaries, primarily NYNEX Mobile, are expected to expend approximately $21,000,000 for their capital requirements in 1984.

NYNEX does not know the amount of proceeds from the shares to be issued under the Share Owner Dividend Reinvestment and Stock Purchase Plan, the Savings Plan for Salaried Employees, the Savings and Security Plan, the Voluntary Contribution Plan and the Employee Stock Ownership Plan. NYNEX intends to use the proceeds from the issuance of such shares for general corporate purposes which may include advances to subsidiary companies, or additional equity investment in such companies, or both.

NYNEX anticipates that it will be able to obtain external capital, if required, through issuance of debt securities by the telephone subsidiaries, through short term borrowings and through the issuance of shares pursuant to the plans described above.

Regulation and Intrastate Rates

The New York Company and the New England Company, in providing communications services, are subject to regulation by state commissions in all of the states in which they operate with respect to intrastate rates and services and other matters.

In the following discussion of intrastate rate activity for the New York Company and the New England Company, the term "rates", generally used in the discussion involving the New York Company, refers to the aggregate amount filed in revised tariffs, on an annual basis, with no adjustment made for any change in demand for services as a result of the rate change itself. The term "revenues", used in the following discussion, refers to estimated revenue amounts, also stated on an annual basis, which are based upon historical data and have not been adjusted for subsequent changes in volumes of business unrelated to the rate change itself.

The principal changes in intrastate rates authorized for the New York Company since January 1, 1978 were increases aggregating $70,200,000 in 1978, $198,590,000 in 1979, $108,100,000 in 1980, $351,700,000 in 1981, $504,660,000 in 1982 and $108,295,000 in the first ten months of 1983 (of which $26,310,000 is reflected in the accounts through June 1983). The principal changes in intrastate revenues authorized for the New England Company since January 1, 1978 were increases aggregating $7,500,000 in 1978, $19,300,000 in 1979, $26,100,000 in 1980, $95,000,000 in 1981, $45,000,000 in 1982 and $45,600,000 in the first ten months of 1983 (of which $2,000,000 is reflected in the accounts through June 1983).

Because the Consent Decree prohibits the provision by NYNEX of some currently authorized products and services commencing January 1, 1984, NYNEX and its subsidiaries will not realize the full amount of authorized revenues currently being received by the telephone subsidiaries. NYNEX estimates a net decrease in intrastate revenues for the year 1984 compared to 1983 of approximately $780,000,000 before uncollectibles. However, there will be related reductions in the rate bases of the telephone subsidiaries and removal of expenses incidental to assets and operations transferred to, and to be carried on by, AT&T and its subsidiaries in connection with divestiture.

On August 1, 1983, the New York Company filed an application in New York for an additional $1,107,000,000 in new rates and on October 13, 1983, the New England Company filed an application in Maine for an additional $43,000,000 in annual revenues. The increases being sought include requests to allow the recovery of increased depreciation expense in accordance with the FCC's program to provide for improved capital recovery. These applications are presently pending.

In addition to the interstate Access Charges provided for by the FCC, regulatory commissions in certain states in which the telephone subsidiaries will be doing business have been asked to allow Access Charges to compensate the telephone subsidiaries for use of their facilities by interexchange carriers such as AT&T to provide access to the local exchange network on an intrastate basis. (See "Access Charge Arrangements" above.) The telephone subsidiaries have filed intrastate Access Charge tariffs which are designed to produce annual revenues as follows:

State	Date Filed	Amount Requested (Dollars in Millions)
New York	10/20/83	$202.9
Massachusetts	10/21/83	32.8
Connecticut	10/25/83	5.0
Total		$240.7

NYNEX is unable to give any assurance as to the amounts or effective dates of any rate increases that may be granted to the New York Company or the New England Company with respect to any pending or anticipated rate filings.

Recent intrastate regulatory experiences of the New York Company and the New England Company are described in the following paragraphs:

New York State

In February 1980, the New York Company filed revised tariffs with the New York State Public Service Commission ("NYSPSC") for an additional $381,000,000 in rates. This request was reduced to $288,200,000 in August 1980, the effective date of a supplemental rate increase of $92,800,000 authorized by the NYSPSC in a prior rate case, primarily to recover wage and tax increases. On January 19, 1981, the NYSPSC acted on the February 1980 filing and authorized a general rate increase of $231,100,000.

In May 1981, the Attorney General of the State of New York and others filed a petition challenging the January 19, 1981 rate case decision of the NYSPSC insofar as such decision included deferred taxes in calculating the New York Company's recoverable revenue requirement, and requesting a refund of all previously collected revenues that had been based on similar inclusions. This petition has been denied by several courts, including the Appellate Division of the Supreme Court of the State of New York which affirmed the prior denials on December 30, 1982. On May 5, 1983, the New York Court of Appeals granted the New York Company's motion to dismiss the Attorney General's appeal as of right of the Appellate Division decision. On July 15, 1983, the Appellate Division denied the Attorney General's motion for leave to appeal to the Court of Appeals. On August 4, 1983, the Attorney General filed a motion with the Court of Appeals for leave to appeal the Appellate Division decision. The motion was denied by the Court of Appeals on October 20, 1983.

On May 6, 1981, the New York Company filed revised tariffs with the NYSPSC for an additional $888,900,000 in rates. This request was reduced to $772,260,000 on August 7, 1981, the effective date of a supplemental rate increase of $116,640,000 authorized by the NYSPSC in connection with the February 1980 rate case filing, primarily to recover wage and tax increases. On March 26, 1982, the NYSPSC acted on the New York Company's May 6, 1981 filing and authorized a general rate increase of $402,559,000. On July 28, 1983, the Appellate Division reversed that part of the March 26, 1982 decision of the NYSPSC wherein the NYSPSC disallowed the use of updated operator work time factors. The Appellate Division remanded the issue to the NYSPSC for action not inconsistent with the court's decision. On November 1, 1983, the Court of Appeals granted the NYSPSC's motion for leave to appeal the decision of the Appellate Division.

On June 21, 1982, the New York Company filed revised tariffs with the NYSPSC for an additional $877,800,000 in rates. This request was reduced to $778,610,000 on August 8, 1982, the effective date of a $99,190,000 supplemental rate increase authorized by the NYSPSC in connection with the May 6, 1981 rate case filing, primarily to recover wage and tax increases. On May 11, 1983, the NYSPSC acted on the New York Company's June 21, 1982 filing and authorized, as temporary rates subject to refund, a general rate increase of $221,800,000. The NYSPSC decision also required the New York Company to provide a one-time credit to customer bills which would reduce the revenues which the New York Company might otherwise realize from the increase by $16,260,000. On June 17, 1983, the New York Company petitioned the Supreme Court of the State of New York for review of several rulings in the NYSPSC's May 11, 1983 decision which involved $76,143,000 in annual revenues, including the NYSPSC's disallowance again in that case of the use of updated operator work time factors.

On August 1, 1983, the New York Company filed revised tariffs with the NYSPSC for an additional $1,107,000,000 in new rates. The August 1, 1983 filing is being reduced by approximately $276,000,000 based upon the approval of the NYSPSC on October 19, 1983, of tariffs filed by the New York Company on July 22, 1983. The tariffs filed on July 22, 1983, are designed to restructure the existing terminal equipment rates in such manner that, when the embedded terminal equipment base is transferred to AT&T upon divestiture, certain revenues associated with terminal equipment costs would be transferred to AT&T and the New York Company would retain the remaining portion of the revenue stream currently generated by terminal equipment rates in the form of an investment recovery charge ("IRC"). The August 1, 1983 rate request also anticipates favorable action by the NYSPSC on a tariff filing made on October 20, 1983 in connection with intrastate Access Charges. These tariffs are designed to produce revenues of an estimated $202,910,000 to recover the New York Company's cost of providing intrastate access and access related services to interexchange carriers. The August 1, 1983 rate request also anticipates favorable NYSPSC action on the "unbundling" of tariffs for two-tier and companion service offerings and certain Centrex offerings. These tariffs are designed to produce revenues of $47,230,000. To the extent that the various tariff filings produce amounts less than anticipated, the New York Company's rate needs will increase.

On September 7, 1983, the NYSPSC authorized the New York Company to put into effect on September 8, 1983, as temporary rates subject to refund, a supplemental increase of $54,400,000 authorized by the NYSPSC in its May 11, 1983 decision to permit the New York Company to recoup increases in non-management and lower management wage and fringe benefits, changes in pension and death benefit expenses and increases in New York City property taxes. The NYSPSC also initiated a separate proceeding to inquire into the disposition of the intrastate portion of certain pension and death benefit expenses, which could result in a reduction of approximately $32,000,000 in intrastate revenues.

On September 26, 1983, the New York Company filed revisions to its July 22, 1983 restructuring of terminal equipment rates to permit subscribers to avoid payment of the IRC by terminating their use of the terminal equipment on either a monthly recurring charge basis or on a leased basis. These revisions are expected to reduce the amount of revenues to be obtained by the New York Company from the IRC. On October 19, 1983, the NYSPSC approved the IRC with certain amendments. On October 26, 1983, the New York Company filed a revised tariff in compliance with the order of the NYSPSC which is designed to retain a revenue stream of $323,500,000. The revised IRC tariff is temporary and revenues collected are subject to refund dependent upon a determination of allowable costs and appropriate cost recovery.

Connecticut

On April 16, 1981, the Connecticut Department of Public Utilities ("CDPU") authorized a general rate increase of $3,800,000 out of $4,795,000 requested by the New York Company in December 1980. On August 3, 1982, the CDPU authorized a general rate increase of $2,909,000 out of $4,220,000 requested by the New York Company in March 1982. On October 5, 1983, Southern New England Telephone Company requested of the Department of Justice that it be permitted to continue the joint provision of intrastate toll service with the New York Company in Connecticut, which request requires approval by the Court. On October 25, 1983, the New York Company filed an intrastate Access Charge tariff with the CDPU designed to produce revenues of an estimated $5,000,000.

Maine

In July 1980, the New England Company filed tariffs with the Maine Public Utilities Commission ("MPUC") for $39,500,000 in additional annual revenues. In March 1981, the MPUC authorized an increase of $8,450,000. Upon reconsideration, the MPUC, in May 1981, granted an additional $4,800,000. Upon appeal, the Maine Supreme Court remanded the case to the MPUC for further consideration. In October 1982, an additional $1,706,000 in annual revenues was authorized. In January 1982, the New England Company filed tariffs for additional annual revenues of $21,600,000. This case was dismissed by the MPUC. In July 1982, the New England Company filed tariffs with the MPUC for $49,800,000 in additional annual revenues. On April 26, 1983, the MPUC authorized an increase of $11,386,000. In May 1983, the New England Company appealed the MPUC's April 26, 1983 order to the Maine Supreme Judicial Court on five counts. Also, in May 1983, the New England Company filed a petition in the Federal District Court seeking to enjoin the MPUC's disallowance in its April 26, 1983 order of FCC-prescribed remaining life depreciation rates. That injunction was granted on September 20, 1983. The New England Company is currently collecting $833,000 in additional annual revenues pursuant to the injunction. On October 13, 1983, the New England Company filed with the MPUC a general rate case for $43,000,000 in additional annual revenues.

Massachusetts

On September 4, 1980, the New England Company filed tariffs with the Massachusetts Department of Public Utilities ("MDPU") for $172,200,000 in additional annual revenues. The request was subsequently reduced to reflect a reduction in pension accrual levels and a delay in prescribing new depreciation rates. In connection with this case the New England Company sought interim rate relief amounting to $37,000,000 of which $11,200,000 was authorized in November 1980, subject to refund. In April 1981, the MDPU authorized an increase of $56,100,000 which included the previous interim award. In August 1981, the New England Company filed for capital recovery items (depreciation represcription and expensing station connections) amounting to $60,100,000. The MDPU authorized an increase of $19,100,000 effective in April 1982. This order included $15,600,000 to cover increased depreciation expenses and $3,500,000 to cover the first year effect of the four year phase-in of expensing station connections. On October 21, 1983, the New England Company filed intrastate Access Charge tariffs for $32,800,000 to recover the costs of providing intrastate access and access related services to interexchange carriers.

New Hampshire

In August 1981, the New England Company filed tariffs with the New Hampshire Public Utilities Commission ("NHPUC") for $15,000,000 amended to $14,265,000. In September 1981, the NHPUC authorized an additional $14,260,000. In April 1982, the New England Company filed for an increase of $13,669,000 in annual revenues. The New England Company was granted an increase of $8,400,000 in July 1982, but a rate reduction of $2,100,000 was ordered in August 1983 as the result of lower capital costs and a reduction in the authorized return on equity.

Rhode Island

On December 15, 1980, the New England Company filed tariffs with the Rhode Island Public Utilities Commission ("RIPUC") requesting $31,000,000 in additional revenues. The New England Company subsequently reduced the request by $6,900,000 due to a delay in the prescription of new depreciation rates. In connection with this case, the New England Company requested interim rate relief amounting to $6,800,000 which was granted in May 1981. In September 1981, the RIPUC approved an increase of $8,900,000 which included the previous interim award. In October 1981, the RIPUC approved an additional increase of $4,500,000 on a New England Company motion to correct the September Report and Order. The New England Company appealed the decision to the Rhode Island Supreme Court, which remanded the case to the RIPUC in April 1983. In June 1983, the RIPUC authorized an additional $3,682,000 in annual revenues. In January 1982, the New England Company requested $17,400,000 in additional annual revenues including the capital recovery items that had been excluded from the prior decision. In April 1982, the RIPUC approved an increase of $6,500,000 for capital recovery items—second year expensing of station connection costs and 1981 depreciation rate represcriptions—in the case filed in January 1982. In December 1982, the RIPUC authorized an increase of $9,265,000 for recovery of expenses for the Rhode Island Personal Property Tax (imposed on the New England Company for the first time in 1982) and third year costs for expensing station connections. In January 1983, the New England Company filed with the RIPUC a general rate case for $37,425,000. In October 1983, the RIPUC authorized increased revenues of $23,330,000, which reflected a $3,682,000 reduction for the June, 1983 Rhode Island Supreme Court remand award.

Vermont

In a March 1976 final order consolidating two rate applications that had requested a total increase of $14,200,000, the Vermont Public Service Board ("VPSB") authorized an aggregate increase of $12,000,000. On remand, after the Attorney General's appeal of the order to the Vermont Supreme Court, the VPSB held further hearings. In August 1980, a final order was issued which had the effect of reducing annual revenues by approximately $500,000. The New England Company appealed the order to the Vermont Supreme Court, which sustained the $500,000 reduction but remanded it for other reasons. In February 1979, the New England Company filed tariffs with the VPSB for $10,500,000 in additional annual revenues. Temporary rates of $4,900,000 to take effect one-half in September 1979 and one-half in December 1979 were granted. In September 1981, the VPSB ordered a permanent increase of $5,500,000. In March 1981, the New England Company filed tariffs with the VPSB for $12,200,000 in additional annual revenues. In a decision concluding all then pending general rate cases and appeals, the VPSB, in November 1981, authorized an additional $9,100,000 in annual revenues. In December 1982, the New England Company filed tariffs designed to produce $16,500,000 in additional annual revenues. In August 1983, the VPSB approved an increase of $8,500,000. The New England Company has filed an appeal with the Vermont Supreme Court and a petition in the Federal District Court to enjoin the VPSB's disallowance of the FCC—prescribed remaining life and equal life group depreciation rates.

Regulation, Interstate Rates and Competition

The sections entitled "Access Charge Arrangements" and "Pending Telecommunications Legislation" contained in the "Description of the Divestiture Transaction" section above, and "FCC Regulatory Jurisdiction", "Interstate Rates" and "Competition" contained in the "Common Information" section below, are incorporated herein by reference.

Legal Proceedings and Contingent Liabilities

The sections entitled "Legal Proceedings" and "Contingent Liabilities" included in the "Common Information" section below are incorporated herein by reference.

Employee Relations

NYNEX estimates that as of January 1, 1984, it will employ approximately 98,200 persons through its headquarters and subsidiary operations. About 67% of the employees of NYNEX and its subsidiaries will be represented by unions. Of those so represented, about 43% will be represented by the Communications Workers of America, which is affiliated with the AFL-CIO, about 29% by other unions affiliated with the AFL-CIO and the remainder by other unions.

In August 1983, after a three-week strike, new three year contracts were agreed upon by the New York Company and the New England Company which provide for wage increases of up to 5.5% in the first year and up to 1.5% in each of the second and third years, together with cost-of-living adjustments in the second and third years and improvements in fringe benefits. Based on the number of persons estimated to be employed by NYNEX on January 1, 1984, it is estimated that these changes in wages and fringe benefits and similar changes for certain non-management employees not represented by unions will increase expenses of NYNEX by about $152,700,000 on an annual basis by the end of the three year contract period, excluding any adjustments resulting from cost-of-living increases. For each 1% increase in the national Consumer Price Index for Urban Wage Earners and Clerical Workers, it is estimated that cost-of-living adjustments in each of the second and third years will further increase expenses of NYNEX by about $13,400,000 on an annual basis.

In addition to changes provided for non-management employees, adjustments will be made from time to time in the ranges of compensation for management employees and will be reflected in accounts as salary changes become effective. It is expected that such adjustments, together with improvements in fringe benefits for management employees, will represent about 38% of the increases in compensation and fringe benefits of all employees.

Properties

On January 1, 1984, all properties relating to the services to be provided by NYNEX will have been transferred to it by AT&T. NYNEX estimates that central office equipment will represent 37.1% of NYNEX's consolidated investment in telephone plant; land and buildings (occupied principally by central offices) will represent 9.2%; wiring and equipment, substantially all of which are on the premises of customers, will represent 15.3%; and connecting lines not on customers' premises, the majority of which are on or under public roads, highways or streets and the remainder on or under private property, will represent 30.7%.

Substantially all of the installations of central office equipment and administrative offices are located in owned buildings situated on land held in fee. Many garages, business offices and telephone service centers are in rented quarters.

Description of Common Stock and Dividend and Market Information

The authorized capital stock of NYNEX consists of 250,000,000 shares of Common Stock (par value $1 per share) and 25,000,000 shares of Preferred Stock (par value $1 per share). The holders of NYNEX Common Stock are entitled to such dividends as may be declared by the Board of Directors out of funds legally available therefor. Stockholders are entitled to one vote for each share of Common Stock. Holders of Common Stock are entitled to share equally in the assets of NYNEX available for distribution to stockholders in the event of liquidation. Holders of Common Stock have no preemptive or cumulative voting rights.

The Board of Directors is authorized to provide for the issuance from time to time of the Preferred Stock in one or more series and to fix the designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions, including dividend, voting, redemption and dissolution rights, of such series.

The markets for trading in NYNEX Common Stock will be the New York, Boston, Midwest, Pacific and Philadelphia Stock Exchanges. Trading of the stock is expected to begin on a "when issued" basis in mid to late November 1983.

As of September 30, 1983, there were 3,148,391 holders of record of AT&T common shares of which 2,565,186 were owners of ten or more shares. Each holder of record of AT&T shares as of December 30, 1983, other than those holding less than ten AT&T shares, will be entitled to receive Common Stock of NYNEX (see "Method of Distribution of Regional Holding Company Shares to AT&T Shareholders").

As a result of divestiture, there will be approximately 97 million shares of NYNEX Common Stock outstanding on January 1, 1984. It is estimated that an additional 3.2 million shares of NYNEX Common Stock will be issued during 1984 by NYNEX under its Share Owner Dividend Reinvestment and Stock Purchase Plan, Savings Plan for Salaried Employees, Savings and Security Plan, Voluntary Contribution Plan, Employee Stock Ownership Plan and the Senior Management Long Term Incentive Plan. All shares of Common Stock to be distributed in connection with the divestiture and to be issued in accordance with these plans will be fully paid and nonassessable.

Manufacturers Hanover Trust Company, New York, New York, has been designated as registrar and American Transtech Inc. ("Transtech"), Jacksonville, Florida, has been designated as transfer agent for the Common Stock. Transtech is a wholly-owned subsidiary of AT&T which will provide transfer agent services for NYNEX, AT&T and the other RHCs.

NYNEX anticipates that dividends will be distributed on a quarterly basis and paid on February 1, May 1, August 1 and November 1. NYNEX has announced its intention to declare an initial quarterly dividend of $1.50 per share payable on May 1, 1984. The payment of dividends will depend upon future earnings, the financial condition of NYNEX and other factors, including the matters discussed in Assumption (b) of the "Summary of Significant Financial Forecast Assumptions For The Year Ending December 31, 1984" in the "Information Statement for NYNEX Corporation".

Directors and Officers

The directors and officers of NYNEX as a group own of record and, to the knowledge of NYNEX, own beneficially 538 shares of NYNEX Common Stock, which are less than 1% of the class outstanding.*

Directors

Name (Age) Memberships on Board Committees	Principal Occupation, Biographical and Other Information	Common Stock of NYNEX*
WILLIAM G. BURNS(51) Executive Committee	Vice Chairman of the Board and Chief Financial Officer of NYNEX Corporation and Executive Vice President and Chief Financial Officer of New York Telephone Company. Executive Vice President and Chief Operating Officer of New York Telephone Company (1979-83). Vice President and Treasurer of AT&T (1977-79). Director of National Reinsurance Corp. and Greenwich Research Associates.	12
JOHN J. CREEDON(59) Audit Committee	President, Chief Executive Officer and Director of Metropolitan Life Insurance Company. President and Chief Operating Officer (1980-83) and Executive Vice President (1976-80) of Metropolitan Life Insurance Company. Director of Metropolitan Reinsurance Company, State Street Research & Management Corporation and Melville Corporation.	0
FLOYD D. HALL(67) Executive and Benefits Committees	Retired Chairman of the Board of Eastern Air Lines. Chairman of the Executive Committee of International Air Transport Association (1977-81). Director of Cluett, Peabody & Co., Inc.	0
RICHARD D. HILL(64) Executive and Audit Committees	Chairman of the Executive Committee and Director of Bank of Boston Corp. Chairman of the Board and Chief Executive Officer of Bank of Boston Corp. (1971-82). Director of Boston Edison Company, John Hancock Mutual Life Insurance Co., Polaroid Corporation and Raytheon Company.	36
DAVID J. MAHONEY(60) Benefits Committee	Retired Chairman of the Board and Chief Executive Officer of Norton Simon, Inc. (holding company in consumer products and services). Chairman of the Board and Chief Executive Officer of Norton Simon, Inc. (1967-83).	0
EDWARD E. PHILLIPS(56) Audit Committee	Chairman of the Board and Chief Executive Officer of New England Mutual Life Insurance Co. since 1981. Chairman of the Board, President and Chief Executive Officer (1978-81) and President (1974-78) of New England Mutual Life Insurance Co.	9
HUGH C. SAUNDERS(61) Executive and Benefits Committees	Chairman of the Board and Chief Executive Officer of Saunders Brothers, Incorporated (manufacturer of wood products) since 1978. Chairman of the Board of Canal Corporation and Canal National Bank (1979-83). Director of Blue Alliance Insurance Company, Shaw's Supermarkets, Incorporated, Canal Bank & Trust, Depositor's Corporation and Lumber Mutual Insurance Company.	35

Name (Age) Memberships on Board Committees	Principal Occupation, Biographical and Other Information	Common Stock of NYNEX*
WALTER V. SHIPLEY (48) Audit Committee	Chairman of the Board of Chemical New York Corporation (bank holding company) and Chemical Bank. President (1982-83), Senior Executive Vice President (1979-81) and Executive Vice President (1978-79) of Chemical New York Corporation and Chemical Bank. Director of Champion International Corp.	0
DELBERT C. STALEY (59) Executive Committee	Chairman of the Board and Chief Executive Officer of NYNEX Corporation and Chairman of the Board of New York Telephone Company. Chief Executive Officer (1983) and President (1979-83) of New York Telephone Company. Vice President of AT&T (1978-79). Director of Ball Corp., The Bank of New York Co., Inc. and its subsidiary, The Bank of New York, and Dean Foods Company.	24
DAVID L. YUNICH (66) Executive and Benefits Committees	Director and Consultant of W. R. Grace & Co. (chemicals, consumer products and services and natural resources) since 1977. Director of Prudential Insurance Company of America, Fidelity Group of Funds, U. S. Industries, Inc., J. Walter Thompson Co., East River Savings Bank, The Harwood Companies, Inc. and Perdue Farms Incorporated.	100

* Based upon the number of shares of AT&T Common Stock beneficially owned as of September 30, 1983, and on the assumption that, upon divestiture, each beneficial owner of AT&T Common Stock will receive one share of NYNEX Common Stock for each 10 shares of AT&T Common Stock so owned.

All of the directors were elected on October 7, 1983. Directors hold office until the next annual meeting of stockholders or until their successors have been elected and qualified (see "First Stockholders Meeting and Submission of Stockholder Proposals"). The By-Laws of NYNEX provide for a Board of Directors of not less than nine nor more than 19 directors. The initial Board of Directors consists of ten directors. However, the Board of Directors may be expanded prior to the first public stockholders meeting in order to permit other persons, some of whom are presently under consideration by NYNEX, to be nominated and elected to the Board of Directors.

Officers

Name	Age	Office
Delbert C. Staley	59	Chairman and Chief Executive Officer
William G. Burns	51	Vice Chairman and Chief Financial Officer
Daniel E. Emerson	59	Executive Vice President
Raymond F. Burke	50	Vice President and General Counsel
Robert J. Eckenrode	52	Vice President-Corporate Planning
Grace J. Fippinger	55	Vice President, Secretary and Treasurer
Burton K. Katkin	51	Vice President-Regulatory
Arthur J. Keenan	55	Vice President and Comptroller
Paul C. O'Brien	44	Vice President-Procurement
John F. Prendiville	55	Vice President-Technical Planning
R. Bruce Pulling	50	Vice President-Administration
Richard J. Santagati	39	Vice President-Marketing

All of the officers were elected on October 17, 1983. Prior to their election to NYNEX office, all of the above officers held high level managerial positions with the New York Company, the New England Company, AT&T or another subsidiary or associated company of AT&T for more than the past five years.

Officers are not elected for a fixed term of office but may be removed at the discretion of the Board of Directors.

Compensation of Directors and Officers

Directors who are not employees receive an annual retainer of $15,000 and a fee of $500 for each Board and Committee meeting attended. The Chairman of the Audit Committee receives an additional annual retainer of $2,500 and other non-employee directors who chair committees receive additional annual retainers of $2,000. Directors may elect to defer the receipt of all or a part of their fees and retainers. Amounts so deferred earn interest, compounded quarterly, at a rate equal to the average interest rate for ten-year United States Treasury notes for the previous quarter. Directors who are also employees receive no remuneration for serving as directors or as members of Board Committees.

The currently authorized annual salaries for the five most highly compensated executive officers of NYNEX are as follows:

Name	Office	Authorized Salary
Delbert C. Staley	Chairman and Chief Executive Officer	$387,500
William G. Burns	Vice Chairman and Chief Financial Officer	259,000
Daniel E. Emerson	Executive Vice President	220,000
Arthur J. Keenan	Vice President and Comptroller	183,000
John F. Prendiville	Vice President-Technical Planning	172,000

Salary levels for the executive officers of NYNEX for 1984 have not been established. However, it is anticipated that the Benefits Committee of the Board of Directors will review and make recommendations to the Board of Directors in December 1983 with respect to 1984 salaries. NYNEX believes that such recommendations will result in the payment of increased salaries to the executive officers during 1984, although the extent of such increases is not fixed at this time.

The section entitled "Compensation of RHC Directors and Officers" included in the "Common Information" section below is incorporated herein by reference.

First Stockholders Meeting and Submission of Stockholder Proposals

Because NYNEX's first year of operations will be 1984, its first public stockholders meeting will be held on or about May 1, 1985. Accordingly, the present directors will continue to serve until the 1985 annual meeting or until their successors are elected and qualified. Following its first year of operations ending December 31, 1984, NYNEX will prepare and disseminate its annual report and proxy statement for its first public stockholders meeting. Proposals of stockholders intended for inclusion in such proxy statement should be sent (after January 1, 1984) to the Secretary of NYNEX at 335 Madison Avenue, New York, New York 10017, and must be received by December 18, 1984.

INFORMATION STATEMENT

FOR

PACIFIC TELESIS GROUP

The Company

Pacific Telesis Group ("PacTel Group") was incorporated in 1983 under the laws of the State of Nevada and has its principal executive offices at 140 New Montgomery Street, San Francisco, California 94105 (telephone number 415 542-9000). At divestiture, AT&T will transfer to PacTel Group its 100 percent common equity ownership in its telephone subsidiary, Pacific Bell (known as The Pacific Telephone and Telegraph Company prior to January 1, 1984*), as well as a cellular advanced mobile communications service subsidiary, PacTel Mobile Access, and a one-seventh interest in the CSO. Furthermore, it is expected that on or about January 1, 1984 Nevada Bell (known as the Bell Telephone Company of Nevada prior to January 1, 1984**), a wholly-owned subsidiary of Pacific Bell, will become a wholly-owned subsidiary of PacTel Group.

In addition, PacTel Group expects to establish two other wholly-owned subsidiaries, PacTel Publishing and PacTel Communications Systems.

Pacific Bell was incorporated in 1906 under the laws of the State of California and has its principal offices at 140 New Montgomery Street, San Francisco, California 94105 (telephone number 415 542-9000). Commencing January 1, 1984, Pacific Bell will be engaged in the furnishing of exchange telecommunications and exchange access service in California.

Nevada Bell was incorporated in 1913 under the laws of the State of Nevada and has its principal offices at 645 E. Plumb Lane, Reno, Nevada 89520 (telephone number 702 789-6000). Commencing January 1, 1984, Nevada Bell will be engaged in the furnishing of exchange telecommunications and exchange access service in Nevada.

Exchange telecommunications service refers to intraLATA service which includes toll service as well as local service.

PacTel Mobile Access, commencing in 1984, expects to engage in the business of providing advanced mobile communications services using cellular technology in California and elsewhere. PacTel Mobile Access has three subsidiaries which will operate and maintain the cellular systems within the three service areas for which it holds or has applied for FCC licenses.

PacTel Publishing, commencing in 1984, expects to engage in new directory-related ventures.

PacTel Communications Systems, commencing in January 1984, will engage in the business of marketing customer premises telecommunications equipment and in related activities in California and Nevada and possibly other states.

PacTel Group expects to mail regular reports to its shareholders containing annual audited and quarterly unaudited financial statements. Such reports are expected to contain a discussion of the financial results including, where appropriate, comparisons with expected results.

Anticipated Additional Business Operations

PacTel Group has under consideration various other businesses in which it may engage, but has not determined whether or when it will engage in any of these businesses. In this regard, the Consent Decree provides for a showing by PacTel Group to the Court "that there is no substantial possibility that it could use its monopoly power to impede competition in the market it seeks to enter" before PacTel Group or its affiliates can engage in any other lines of business. PacTel Group is unable to give any assurance as to which new businesses, if any, it will be permitted to enter by the Court.

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* References to "Pacific Bell" are intended to refer to The Pacific Telephone and Telegraph Company before divestiture and Pacific Bell after divestiture, as the context may require.

** References to "Nevada Bell" are intended to refer to Bell Telephone Company of Nevada before divestiture and Nevada Bell after divestiture, as the context may require.

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The accompanying financial forecast of Pacific Telesis Group for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period. Accordingly, the financial forecast reflects management's judgment, based on present circumstances, of the most likely set of conditions and management's most likely course of action.

We have made a review of the financial forecast in accordance with applicable guidelines for a review of a financial forecast established by the American Institute of Certified Public Accountants. Our review included procedures to evaluate both the assumptions used by management and the preparation and presentation of the financial forecast. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Based on our review, we believe that the accompanying financial forecast of Pacific Telesis Group is presented in conformity with applicable guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants. We believe that the underlying assumptions provide a reasonable basis for management's financial forecast. However, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the forecast, and the variations may be material.

COOPERS & LYBRAND

San Francisco, California
November 8, 1983

We have examined the accompanying consolidated historical statements of income for the years ended December 31, 1982 and 1981 of The Pacific Telephone and Telegraph Company and Subsidiary, which is a wholly owned subsidiary of American Telephone and Telegraph Company. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 6 to the consolidated historical statements of income, income applicable to common shares for 1982 includes amounts resulting from an intrastate rate increase that are subject to possible refund.

In our opinion, subject to the effects, if any, on the 1982 consolidated historical statement of income of the final outcome of the intrastate rate matter referred to in the preceding paragraph, the consolidated historical statements of income referred to above present fairly the consolidated results of operations of The Pacific Telephone and Telegraph Company and Subsidiary for the years ended December 31, 1982 and 1981, in conformity with generally accepted accounting principles which, except for the change in 1982, with which we concur, in accounting for deferred income taxes and unamortized investment tax credits as described in Note 3 to the consolidated historical statements of income, have been applied on a consistent basis.

COOPERS & LYBRAND

San Francisco, California
February 8, 1983

PACIFIC TELESIS GROUP

FINANCIAL FORECAST AND CONSOLIDATED HISTORICAL STATEMENTS OF INCOME

The financial forecast for PacTel Group, consisting of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, represents management's best estimate based on present circumstances of the most probable operating results and sources of funds supporting construction activity for the year ending December 31, 1984, and has been reviewed by Coopers & Lybrand, independent certified public accountants, whose report is included herein.

It should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist. The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

The following Consolidated Historical Statements of Income reflect the consolidated statements of income of Pacific Bell and Nevada Bell (the "telephone subsidiaries"), which will be the principal operating subsidiaries of PacTel Group. All significant intercompany transactions have been eliminated. The Consolidated Historical Statements of Income of Pacific Bell and Nevada Bell for the years 1981 and 1982 have been examined by Coopers & Lybrand, whose report is included herein. The unaudited Consolidated Historical Statement of Income for the twelve month period ended June 30, 1983, in the opinion of PacTel Group, subject to the final outcome of the matter referred to in Note 6, includes all adjustments (consisting only of normal recurring accruals, except as described in Note 2 to the Consolidated Historical Statements of Income) necessary for a fair statement of income. These Consolidated Historical Statements of Income are not adjusted for the effects of divestiture.

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Consolidated Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Local Service Revenues	$ XX	$3,042.9	$3,046.1	$2,556.6
Toll Service Revenues	XX	4,570.7	4,551.6	4,022.4
Directory Advertising and Miscellaneous Operating Revenues	XX	406.1	376.2	321.4
Provision for Uncollectibles	XX	(123.8)	(118.4)	(81.5)
Total Operating Revenues	**8,082.1**	**7,895.9**	**7,855.5**	**6,818.9**
Depreciation	1,180.2	1,041.2	983.7	904.4
Other Operating Expenses	4,619.9	4,771.1	4,805.2	4,111.8
Total Operating Expenses	**5,800.1**	**5,812.3**	**5,788.9**	**5,016.2**
Net Operating Revenues	**2,282.0**	**2,083.6**	**2,066.6**	**1,802.7**
Federal Income Taxes	512.3	374.7	330.2	166.7
Other Operating Taxes	439.6	432.7	430.7	398.4
Total Operating Taxes	**951.9**	**807.4**	**760.9**	**565.1**
Operating Income	**1,330.1**	**1,276.2**	**1,305.7**	**1,237.6**
Other Income	**68.0**	**72.2**	**72.9**	**68.0**
Interest Expense	**570.4**	**635.5**	**747.8**	**866.8**
Income before Extraordinary Item and Change in Accounting Principle	**827.7**	**712.9**	**630.8**	**438.8**
Extraordinary Item(2)	—	264.2	47.8	—
Change in Accounting Principle(3)	—	—	178.3	—
Net Income	**827.7**	**977.1**	**856.9**	**438.8**
Preferred Dividend Requirements	42.7	45.2	47.6	51.2
Income Applicable to Common Shares	**$ 785.0**	**$ 931.9**	**$ 809.3**	**$ 387.6**
Earnings per Common Share	**$ 8.00**	**NA**	**NA**	**NA**
Weighted Average Number of Shares Outstanding (Millions)	98.1	NA	NA	NA

See accompanying Notes to Consolidated Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the Year Ending December 31, 1984 and Note to Forecasted 1984 Statement of Income.

NA = Not Applicable.

NOTES TO CONSOLIDATED HISTORICAL STATEMENTS OF INCOME

(Amounts relating to the twelve months ended June 30, 1983 are unaudited)

Dollars in Millions

1. **Accounting Policies—**The Consolidated Historical Statements of Income of PacTel Group reflect the application of the accounting policies described in this Note and in Notes 3 and 5.

Consolidation—The Consolidated Historical Statements of Income include the accounts of Pacific Bell and Nevada Bell; all significant intercompany transactions have been eliminated.

Revenue Refunds—The telephone subsidiaries record in their financial statements material revenue refunds applicable to prior years as adjustments of the respective years' income and, within a year, as adjustments of the applicable interim periods' income. (See also Note 6.)

Purchases from Western Electric—Western Electric, a wholly-owned subsidiary of AT&T, has a substantial investment in manufacturing and other facilities which are devoted mainly to its business with affiliated telephone companies. Western Electric has supply contracts with the telephone subsidiaries which provide that the prices it charges for the telephone equipment and materials it manufactures or procures for the telephone subsidiaries shall be as low as the prices it charges its most favored customers for like materials and services under comparable conditions. The financial statements reflect items purchased from Western Electric at cost to the telephone subsidiaries, which cost includes the return realized by Western Electric on its investment devoted to the communications business. See also "Telephone Plant" below.

Telephone Plant—The investment in equipment and materials dedicated to providing communications services is stated at its original cost. Such amounts do not purport to represent reproduction cost or current value. The original cost of telephone plant obtained from Western Electric includes a return on Western Electric's investment (see "Purchases from Western Electric" above). It is impossible to identify the particular purchases from Western Electric over a long period of years which were charged to the plant accounts and now remain therein, but PacTel Group considers that such purchases represent about 50.0% of the telephone subsidiaries' total plant investment as of December 31, 1982. Western Electric advises that its rate of profit before interest charges has varied by years and by classes of sales, but that such rate of profit before interest charges, included in prices for material sold and services furnished to affiliated telephone companies (including items chargeable to other than plant accounts), has been approximately 6.0% of such sales over the twenty year period ended December 31, 1982 and approximately 7.0% of such sales over the three year period then ended. Western Electric considers that its rate of profit before interest charges on those items which have been charged to the plant accounts is somewhat higher than its rate on total sales to affiliated companies.

Currently, AT&T and certain of its subsidiaries, including Western Electric and the telephone subsidiaries, join in the filing of a consolidated federal income tax return. As a result, Western Electric's profits before income taxes included in the cost of those materials and services in the telephone subsidiaries' plant accounts are excluded from consolidated taxable income in the year acquired from Western Electric. Instead, such profits are recognized and taxed over the depreciable life of the related plant since, for tax purposes, the telephone subsidiaries must exclude Western Electric profits in deriving the depreciable cost of its investment in telephone plant. Consequently, the telephone subsidiaries' tax liability is higher than if they were permitted to depreciate the full amount they initially paid to Western Electric. Western Electric provides the telephone subsidiaries with the funds necessary to pay the tax liability on these deferred profits in the year in which the telephone subsidiaries first acquire the related telephone plant. These payments are treated as reductions of the investment in telephone plant which results in a reduction in depreciation expense over the life of the related plant. However, there is no material effect on Net Income because the decrease in depreciation expense is offset by the aforementioned increase in the income tax provision.

Materials and Supplies—New material and reusable material are carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Depreciation—Prior to 1981, the provisions for depreciation were based on straight-line composite rates, prescribed by the FCC, determined on the basis of the average expected lives of categories of telephone plant acquired in a given year. In 1981 the FCC authorized the telephone subsidiaries to begin implementation of the "remaining life" method of depreciation. The "remaining life" method provides for the full recovery of the investment in telephone plant. Effective January 1, 1981, the FCC also authorized shorter lives for customer terminal equipment (and certain other telephone plant). In 1982 the FCC approved the implementation of the method of determining straight-line composite rates on the basis of equal life groups ("ELG") of certain categories of telephone plant acquired in a given year which will result in a higher provision for depreciation than that based on average expected lives. The increases in depreciation expense resulting from these FCC actions should be allowable in determining revenue requirements in rate-making proceedings. The provision for depreciation on intrastate plant in California for all periods reported is based on the "remaining life" rates prescribed and used in determining revenue requirements by the California Public Utilities Commission ("CPUC") in the rate-making process. (See also Note 7.)

When depreciable plant, other than minor items thereof which are replaced, is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

Maintenance and Repairs—The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is, with minor exceptions, charged to operating expenses.

Station Connections—During 1981, the FCC directed that beginning January 1981, certain costs of installing telephone service on a customer's premises be expensed instead of capitalized and that the balance of the investment in installation costs be amortized.

Interest Charged Construction—Regulatory authorities allow the telephone subsidiaries to accrue interest as a cost of constructing certain plant and as an item of income, i.e., interest charged construction. Such income is not realized in cash currently but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Lease Commitments—The telephone subsidiaries lease certain facilities and equipment used in their operations and reflect lease payments as rental expense of the periods to which they relate. These leases include some which would be classified as "capital leases" under criteria established by the Financial Accounting Standards Board. However, for regulatory accounting and rate-making purposes, such leases are not capitalized. Had such leases been capitalized, the effect on Net Income for 1982 and 1981 would have been insignificant.

Income Taxes—

(a) AT&T and its subsidiaries file a consolidated federal income tax return. The consolidated income tax currently payable is allocated in accordance with each company's contribution to consolidated taxable income.

(b) Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the period during which the transaction will be recognized in the determination of net income for financial reporting purposes. Appropriate income charges and their subsequent reversal, reflected as deferred income taxes-net, prevent the tax effect of these timing differences from distorting net income.

The telephone subsidiaries recognize the tax effects of timing differences on depreciation. Depreciation for income tax purposes is determined based on accelerated methods and shortened lives which cause such depreciation to be higher during the early years of plant life and lower in later years than the depreciation charges for such plant reflected in the statements of income.

(c) Investment tax credits result from provisions of the federal tax law which allow for a reduction in tax liability based on certain construction expenditures. Corresponding reductions in tax expense are deferred and, except for the additional one percent credit available under the Tax Reduction Act of 1975 which must be contributed currently to the Bell System Employee Stock Ownership Plan, are amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

Dollars in Millions

2. **Federal Tax Matters**—On February 13, 1980 the CPUC ordered refunds of local service revenues for the period August 1974 through February 13, 1980, implementing a September 13, 1977 CPUC order. These refunds were based upon new rate-making methods of treating investment tax credits and deferred federal income taxes resulting from the use of accelerated tax depreciation ("Remand formulae"). The Internal Revenue Service ("IRS") ruled that implementation of the 1977 order made Pacific Bell ineligible for these federal tax benefits and issued a notice of deficiency for tax year 1974. Pacific Bell paid this tax deficiency of $117.4 in 1980. Net Income for 1981 was reduced by $115.9 to reflect anticipated ineligibility for these tax benefits.

In December 1982, Congress enacted legislation which clarified the eligibility requirements for these tax benefits and preserved Pacific Bell's eligibility for the years previously under contention with the IRS (1974-1980). Preservation of eligibility was conditioned upon Pacific Bell entering into a closing agreement with the IRS by July 1, 1983 which was expected to provide for payments of as much as $320.7, based on the amounts of revenue refunded to customers as a result of the implementation of the Remand formulae, and allow for recovery of the deficiency payment made for tax year 1974.

Net Income was increased in 1982 to recognize this probable preservation of eligibility by eliminating interest expense previously accrued on the anticipated tax deficiencies and by recognizing the investment tax credits for which Pacific Bell was previously anticipated to be ineligible and amortizing portions thereof. Recognition of eligibility for periods through December 31, 1981, net of the potential closing agreement payments, increased 1982 Net Income by $47.8. The amount related to January through June 1982, which was recognized in December 1982, increased Net Income for the 12 months ended June 30, 1983 by approximately $45.0.

On June 20, 1983 AT&T and Pacific Bell entered into a closing agreement with the IRS. This agreement set Pacific Bell's current tax liability at $272.7, or $48.0 less than originally estimated, and provided for the future tax deductibility of previously disallowed deductions for accelerated tax depreciation expense reflected in the tax liability. Recognition of the impacts of this closing agreement restored $216.4 of Pacific Bell's 1982 reduction of $320.7 to Net Income.

3. **Change in Accounting Principle for Certain Deferred Taxes and Unamortized Investment Tax Credits**—In 1982, Pacific Bell changed its accounting for certain deferred income taxes (primarily state taxes) and for investment tax credits to recognize deferred taxes and amortize investment tax credits only when such deferred taxes and investment tax credit amortizations are recognized by regulators in the rate-making process. This change was made to achieve greater consistency between financial reporting and the intrastate regulatory rate-making process. The effect of this change increased Net Income in 1982 by $207.1. The cumulative effect of this change as of the beginning of 1982 was $178.3.

	1982	1981
As reported:		
Income before Extraordinary Item and Change in Accounting Principle	$630.8	$438.8
Net Income	$856.9	$438.8
Pro forma amounts assuming the change in accounting principle had been applied retroactively:		
Income before Extraordinary Item	$630.8	$457.9
Net Income	$678.6	$457.9

Dollars in Millions

4. **Income Taxes—**

The components of operating income tax expense were as follows:

	1982	1981
Federal:		
Current	$(291.5)	$(157.6)
Deferred-net	467.5	102.7
Investment tax credits-net	154.2	221.6
	330.2	166.7
State:		
Current	89.2	74.8
Deferred-net	8.1	34.6
	97.3	109.4
Total	$ 427.5	$ 276.1

The negative current federal income taxes resulted principally from investment tax credits claimed pursuant to current income tax laws and the use of accelerated depreciation and shorter lives for income tax purposes (for which deferred income taxes have been provided as described under "Income Taxes" in Note 1). Because Pacific Bell and Nevada Bell participate in the consolidated federal income tax return of AT&T, they are able to obtain the benefit of these credits and deductions currently.

Current federal income tax expense (benefit) relating to non-operating income and deductions included in Other Income was $(0.9) in 1982, and $0.5 in 1981.

The effective federal income tax rate as determined by dividing Federal Income Taxes (see above) by the sum of Federal Income Taxes and Income Before Extraordinary Item and Change in Accounting Principle was 34.3% in 1982 and 27.6% in 1981. The differences of 11.7% in 1982 and 18.4% in 1981 between the effective rate and the federal income tax statutory rate of 46.0% are attributable to the following factors:

	1982	1981
a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation	1.7%	7.5%
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	2.8	4.2
c. Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric. (See Note 1)	(1.1)	(1.4)
d. Depreciation deductible for tax purposes, not currently expensed for rate-making and financial statement purposes	(1.2)	1.8
e. Amortization of investment tax credits over the life of the plant which gave rise to the credits. Such amortization reduced income tax expense for 1982 and 1981 by the amounts shown in Note 7. (See also Note 3)	7.7	5.8
f. Compensated absence expense deductible for tax purposes when earned, recognized for rate-making and financial statement purposes when paid. (See Note 3).	0.9	—
g. Other differences	0.9	0.5
Total	11.7%	18.4%

Dollars in Millions

5. **Provision for Pensions and Death Benefits**—Employees of the telephone subsidiaries are covered by two national Bell System noncontributory pension and death benefit plans sponsored by AT&T and the Bell System companies, one for management employees and one for non-management employees. Contributions to such plans are made to irrevocable trust funds. It is the policy of the telephone subsidiaries to make contributions which are equal to the current year cost of the plans determined on a going concern basis by an actuarial method specified by the Employee Retirement Income Security Act of 1974. The following data relate to plan costs:

	1982	1981
Current year cost	$370.8	$362.1
Current year cost as a percent of salaries and wages	12.7%	13.1%

Amendments to the plans during 1982 had the effect of increasing pension cost by approximately $36.9, while recognition of 1981 actuarial experience had the effect of decreasing 1982 cost.

Statement of Financial Accounting Standards No. 36 requires that certain disclosures be made of the actuarial present value of accumulated plan benefits and the fair value (essentially current market value) of net assets available for plan benefits. With the October 1, 1980 merger of the individual Bell System companies' plans, including the telephone subsidiaries' plans, into the two national Bell System plans, such disclosures are not presented for the telephone subsidiaries because the structure of the new plans does not readily permit the plans' assets and the accumulated benefits data to be disaggregated. However, based on the latest actuarial valuations of the two national plans, utilizing an assumed rate of return of 10.6% for 1981, the fair value of net assets available for plan benefits exceeded the actuarial present value of vested and non-vested accumulated plan benefits at December 31, 1981.

6. **Intrastate Revenues Subject to Possible Refund**—Intrastate revenues collected subject to possible refund have been included in operating revenues. Net Income for 1982 includes approximately $23.2 resulting from intrastate revenues authorized by the CPUC effective November 28, 1981 which are subject to possible refund and potential associated interest. Refund of these revenues during 1983 may require a restatement of results reported for 1982. Refund of any of these amounts subject to possible refund in years subsequent to 1983 would decrease Net Income in a future period. If a determination to refund all revenues subject to possible refund had been made as of June 30, 1983, the decrease in Net Income to reflect this refund of revenues and associated interest could have been as much as $46.1.

7. **Additional Financial information**—

	1982	1981
Depreciation—Percentage of average depreciable telephone plant	5.58%	5.71%
Amortization of investment tax credits	$ 74.0	$ 35.2
Other operating taxes:		
State	$ 97.3	$109.4
Property	137.9	123.5
Social Security	184.7	154.9
Miscellaneous	10.8	10.6
Total	$430.7	$398.4
Interest expense:		
Interest on long and intermediate term debt	$648.1	$583.9
Interest on advances from AT&T	23.2	18.0
Interest on notes payable	66.5	92.4
Interest related to a contingent federal tax liability. (See Note 2)	—	152.4
Other	10.0	20.1
Total	$747.8	$866.8
Rental expense	$207.5	$169.6

Dollars in Millions

8. **MCI and Litton Antitrust Litigation**—In June 1980, MCI Communications Corporation was awarded $1,800.0 in treble damages in a civil antitrust suit against AT&T. In January 1983 the U.S. Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. Petitions for rehearing of this decision were denied by the Court of Appeals. In July 1983, both parties petitioned the U.S. Supreme Court to review the case. On October 11, 1983, the Supreme Court denied the petitions. In the opinion of AT&T's legal counsel, any monetary liability or financial impact to which AT&T and the Bell System companies might be subject after final adjudication would not be material in amount.

In June 1981, in an antitrust suit involving terminal equipment against AT&T and certain Bell System companies, including Pacific Bell, Litton Industries, Inc. ("Litton") was awarded $276.8 in treble damages. In February 1983, the U.S. Court of Appeals for the Second Circuit upheld the lower court's decision. The Court of Appeals denied AT&T's petition for a rehearing. In June 1983, AT&T petitioned the U.S. Supreme Court to review the case. On October 3, 1983, the Supreme Court invited the Solicitor General to file a brief in the case expressing the views of the Federal government. Should it ultimately be determined that the Litton award is payable, Net Income would be decreased in a future period. If such determination had been made as of June 30, 1983, the decrease in Net Income could have been as much as $21.3.

9. **Reinvested Earnings**—

	1982	1981
Reinvested Earnings		
At beginning of year	$1,067.5	$ 970.1
Add—Net Income	856.9	438.8
	1,924.4	1,408.9
Deduct—Miscellaneous	—	1.1
Dividends declared—Common	337.2	289.0
Dividends declared—Preferred	47.6	51.3
At end of year	$1,539.6	$1,067.5

SUMMARY OF SIGNIFICANT FINANCIAL FORECAST ASSUMPTIONS FOR THE YEAR ENDING DECEMBER 31, 1984

Dollars in Millions

The Consent Decree requires that AT&T divest those parts of the Bell System operating telephone companies that provide exchange telecommunications and exchange access service, as well as printed directory advertising and cellular advanced mobile communications service business. The Plan outlines how divestiture will be accomplished on January 1, 1984.

This forecasted statement of income represents management's best estimate, based on present circumstances, of the most probable operating results of PacTel Group for the year ending December 31, 1984. Accordingly, the financial forecast reflects management's judgment based on present circumstances of the most likely set of conditions and management's most likely course of action. The assumptions disclosed herein are those that management believes are significant to the financial forecast or are key factors upon which the financial results depend. The assumptions presented are consistent with the Plan approved by the Court. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur subsequent to November 8, 1983, the date of the financial forecast. Therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material. Additionally, it should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist.

This forecasted statement of income includes estimates of the impact of transactions with AT&T and its subsidiaries. Due to potential competitor and supplier relationships, the assumptions used by PacTel Group with regard to Access Charge revenues to be received from AT&T, sale of customer premises equipment, purchases from Western Electric and other similar transactions were not disclosed in detail to AT&T and thus will not necessarily be the same as the assumptions used by AT&T regarding such transactions.

PacTel Group does not intend to update this forecasted statement of income because actual results will be reported during 1984. Consequently, it should be evaluated in light of any events and changes in circumstances occurring after November 8, 1983.

The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

Assumptions

(a) **General Economy**—The following national economic assumptions were considered in preparing the 1984 financial forecast.

Growth in Real Gross National Product (GNP)	5.0%
Increase in Consumer Price Index (CPI)	4.4%
Annual Average Interest Rates:	
—Prime	11.6%
—90 Day Commercial Paper	9.8%

(b) **Operating Revenues**—Revenues are based on estimated rates and volumes of business.

Following the FCC's October 18, 1983 Order suspending the effective date of interstate Access Charges to customers and interexchange carriers from January 1, 1984 to April 3, 1984, AT&T on October 27, 1983 petitioned the FCC to reconsider the suspension. In the event that the FCC declines to reconsider, AT&T and the RHCs have reached agreement as to the principal terms of an interim arrangement designed to compensate the BOCs for the use of their facilities for interstate toll and related services on a basis that is approximately consistent with the current level of interstate earnings (which level is somewhat lower than the authorized rate of return). The forecast assumes that such arrangement will be in effect from January 1, 1984 to April 3, 1984. There is pending before the Court a motion which was filed by the Bell Atlantic telephone subsidiaries prior to the time the agreement referred to above was reached. In that motion, the Bell Atlantic telephone subsidiaries proposed that they be compensated for use of their facilities for interstate toll service at the authorized rate of return. Consistent with the agreement, Bell Atlantic is requesting Court approval to withdraw its motion. AT&T and the other RHCs support that request.

The forecast also assumes that the implementation by the FCC of interstate Access Charges will occur on April 3, 1984, and that the Access Charge process will not be altered through (i) congressional legislation which, as currently proposed, seeks to suspend or prohibit Access Charges to residential and small business customers and also seeks to extend the present reduced interconnection rates charged to interexchange carriers other than AT&T, or (ii) judicial action relating to an appeal of the FCC's Order initially adopting Access Charges which is pending before the U.S. Court of Appeals for the District of Columbia Circuit.

The forecast assumes that intrastate interLATA Access Charges will become effective as presently scheduled or, if not, that interim arrangements will be implemented to compensate the BOCs for the use of their facilities for intrastate toll and related services. Rates for exchange telecommunications services have been estimated based on prices expected to be established by state regulatory commissions.

Any changes in these assumptions could have a significant effect on forecasted Net Income; any further delay in implementation of Access Charges would reduce forecasted Net Income.

Revenues from these interstate and intrastate services are expected to recover the costs of providing such services, including a return on facilities. The telephone subsidiaries have filed rate applications before the FCC, CPUC and the Public Service Commission of Nevada ("PSCN") to establish rates for Access Charges and before the CPUC to establish rates for exchange telecommunications services. Since the tariff structures will be substantially different from those existing prior to divestiture, approximately 42% of the forecasted Total Operating Revenues for 1984 are dependent upon the outcome of these rate applications. Approximately 2% of such forecasted Total Operating Revenues represents Access Charges to residential and small business customers for which tariffs have been filed with the FCC and which pending legislation seeks to delay or prohibit. If such customer Access Charges are delayed or prohibited by this legislation or if their effectiveness is further delayed by the FCC, the telephone subsidiaries will have to seek to recover the cost of these services through other charges.

Access lines in service at December 31, 1984 are estimated to be 11,255,000. The telephone subsidiaries expect to be able to modify, within reasonable limits, the costs of providing telephone service to recognize variations from forecasted volume levels.

(c) **Depreciation**—Depreciation expense on all Nevada plant and on California plant associated with interstate access charges is estimated using rates and practices prescribed or expected to be prescribed by the FCC applied to that portion of those assets expected to be owned by the telephone subsidiaries during 1984. Depreciation expense on California plant associated with the provision of intrastate telephone service is estimated using rates and practices expected to be prescribed and used in the intrastate rate-making process by the CPUC applied to that portion of those assets expected to be owned by PacTel Group during 1984. The combination of these depreciation rates is expected to result in an average composite rate of about 6.6%. Construction costs of $2.26 billion for the period are estimated based on anticipated demand for communications services and improvements to existing services.

(d) **Other Operating Expenses**—Other operating expenses include primarily salaries, wages, pensions and other employee related expenses. Salaries and wages, including cost-of-living adjustments, are estimated based on expected post-divestiture force levels and reflect new union contracts agreed upon in August 1983. Pensions and other employee related expenses are estimated based on expected force levels and estimated payroll used to calculate such expenses. It is estimated that the changes in wages and fringe benefits resulting from the new contracts, as well as adjustments in ranges of compensation and fringe benefits for management employees, will increase expenses by about $173.9 in 1984.

Dollars in Millions

Maintenance expense includes an inflation adjustment of 4.4%, and as a percentage of the level of plant is expected to remain relatively constant during 1984. The CSO will furnish technical assistance such as network planning, engineering and software development. PacTel Group's share of the estimated cost of the CSO has been included based on approved functions for the CSO and its expected force levels and in 1984 is estimated to be $107.0.

(e) **Operating Taxes**—The estimated effective annual Federal income tax rate is expected to be 38.2%. The difference of 7.8% between the estimated effective tax rate and the assumed statutory rate of 46.0% is attributable to the following factors:

a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes but deducted currently for income tax purposes, net of applicable depreciation	0.8%
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	1.4
c. Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represent after-tax profit to Western Electric	(0.5)
d. Amortization of investment tax credits over the life of the plant which gave rise to the credits	6.4
e. Other differences	(0.3)
Total	7.8%

The investment tax credit rate is expected to remain at 10.0%. Tax estimates are in accordance with the Tax Equity and Fiscal Responsibility Act of 1982. Social Security taxes are computed using a 7.0% rate on the statutory wage base. State and local tax estimates are determined based on taxable bases and statutory tax rates.

(f) **Interest Expense**—Interest expense was computed using an embedded cost of funded debt of 9.5%. Interest expense on short term debt, at an average estimated cost of 9.9%, represents 3.8% of total interest expense.

(g) **Weighted Average Shares**—The weighted average number of shares outstanding was calculated based on one-tenth of the number of AT&T common shares estimated to be outstanding as of December 30, 1983 and the estimated shares to be issued under the PacTel Group dividend reinvestment plan and employee benefit plans during 1984.

(h) **Summary of Significant Anticipated Sources of Funds Supporting Construction Activity**—

Funds from operations (net of first quarter 1984 dividends, annualized, of $523.8)	$1,800.7
Funds from external financing, net	453.1
Other (including interest charged construction)	3.3
Total construction activity	$2,257.1

(i) **Contingent Liabilities**—No amounts have been included in the financial forecast for the matters discussed in Notes 6 and 8 to Consolidated Historical Statements of Income.

NOTE TO FORECASTED 1984 STATEMENT OF INCOME

Dollars in Millions

Summary of Significant Accounting Policies—The forecasted statement of income is prepared in accordance with the generally accepted accounting principles expected to be used for the financial statements issued during the forecast period. Generally accepted accounting principles used in the forecasted statement of income have been applied on a basis consistent with those principles used in the Consolidated Historical Statements of Income for the years ended 1981 and 1982 and the twelve-month period ended June 30, 1983, except as described below:

Revenue Refunds—Effective in 1984, in accordance with Statement of Financial Accounting Standards No. 71 ("Statement No. 71"), "Accounting for the Effects of Certain Types of Regulation", restatements of prior period results for revenue refunds will not be made; instead, refund liabilities (if any) will be reflected in current results.

Purchases from Western Electric—The Standard Supply Contracts with Western Electric will be terminated in accordance with the Plan by January 1, 1984.

In 1984, the telephone subsidiaries will no longer join with AT&T in filing a consolidated Federal income tax return. Accordingly, plant values associated with new purchases from Western Electric will not reflect the effect of the tax which formerly would have been deferred and therefore, such tax will no longer provide a source of funds. As a result of divestiture, the telephone subsidiaries could be required to make an immediate payment of Federal income taxes previously deferred on intercompany profits. The amount of this payment applicable to plant owned by the telephone subsidiaries is approximately $134.9. While payment of these deferred taxes would have no direct effect on Net Income, an immediate payment would increase the telephone subsidiaries' needs for cash. However, AT&T believes that, pursuant to tax regulations, a closing agreement is likely to be entered into with the IRS which would result in only a moderate acceleration of the present time period over which these intercompany profits become taxable.

In addition to the above effects, the telephone subsidiaries will be required to return to Western Electric previous payments of deferred taxes relating to plant assigned to AT&T Information Systems. AT&T will provide the funds to make such payments.

Provision for Pensions and Death Benefits—Upon divestiture, noncontributory pension and death benefit plans sponsored by PacTel Group for management and non-management employees will be established similar to existing national Bell System plans.

Lease Commitments—The telephone subsidiaries currently reflect lease payments for certain facilities and equipment used in their operations as rental expense of the periods to which they relate. In 1984, in accordance with Statement No. 71, the asset values and related obligations of capital leases with inception dates after December 31, 1982, will be included in the balance sheets. This change in accounting is not expected to affect Net Income because the total of the interest expense on the lease obligations plus the amortization expense of the leased assets will equal the rental expense allowed for rate-making purposes.

PACIFIC TELESIS GROUP

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

The following Unaudited Consolidated Historical Balance Sheet as of June 30, 1983 is derived from the unaudited consolidated financial statements included in the quarterly report on Form 10-Q of the telephone subsidiaries. All significant intercompany transactions have been eliminated.

The following Unaudited Pro Forma Condensed Balance Sheet gives effect to the divestiture of the telephone subsidiaries by AT&T as if it had occurred on June 30, 1983 in accordance with the Plan. Because divestiture will not occur until January 1, 1984, actual balances and adjustments will vary from those presented in the pro forma balance sheet below. The Unaudited Pro Forma Condensed Balance Sheet should be read in conjunction with the audited consolidated financial statements and notes contained in the most recent annual report on Form 10-K and with the unaudited consolidated financial statements and notes contained in the most recent quarterly report on Form 10-Q of the telephone subsidiaries.

	Dollars in Millions		
	Consolidated Historical June 30, 1983	Pro Forma Adjustments	Pro Forma June 30, 1983
ASSETS			
Telephone Plant—Net of Accumulated Depreciation	$16,817.2	$(2,323.4)	$14,493.8
Investments	15.8	(1.6)	14.2
Current Assets	1,309.2	(31.1)	1,278.1
Deferred Charges	418.1	(13.4)	404.7
Total Assets	$18,560.3	$(2,369.5)	$16,190.8
INVESTED CAPITAL, LIABILITIES AND DEFERRED CREDITS			
Common Share Owners' Equity	$ 6,423.9	$(1,021.2)	$ 5,402.7
Preferred Shares Subject to Mandatory Redemption	535.8	—	535.8
Long and Intermediate Term Debt	6,559.3	(845.9)	5,713.4
Debt Maturing Within One Year	140.7	104.8	245.5
Other Current Liabilities	1,393.7	(11.0)	1,382.7
Deferred Taxes and Other Deferred Credits	3,506.9	(596.2)	2,910.7
Total Invested Capital, Liabilities and Deferred Credits	$18,560.3	$(2,369.5)	$16,190.8

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

1. Pro Forma Adjustments—

Assets and liabilities are transferred to and from AT&T at net book value. These transfers are tax-free under the Internal Revenue Code. Accumulated deferred income tax reserves and unamortized investment credits are transferred along with the associated assets.

The capital structure is developed using a target debt ratio (debt as a percent of total debt and equity) for the telephone subsidiaries of 50% after taking into account $845.9 ($850.0 of face value long-term debt, net of premium and discount) which will be assumed by AT&T under the Plan at divestiture. AT&T will become the primary obligor on these debt securities; Pacific Bell will become the secondary obligor. The 50% target debt ratio will be used to determine the amount of debt to be removed by AT&T at the time of divestiture. This amount is expected to be $932.1 including the aforementioned funded debt to be assumed by AT&T and $86 which has been advanced by AT&T for the purpose of purchasing certain high interest debt of Pacific Bell. The amount of debt expected to be removed is predicated upon additional equity infusions by AT&T during the second half of 1983. PacTel Group expects that through operating efficiencies its debt ratio at the time of divestiture will be approximately 46.5%. The increase in debt maturing within one year in the Unaudited Pro Forma Condensed Balance Sheet is the consequence of using the target 50% debt ratio in the capital structure development. Had the Pro Forma capital structure been developed using the expected lower debt ratio of 46.5% the increased debt maturing within one year would be eliminated.

2. Contingent Liabilities—See Notes 6 and 8 to Consolidated Historical Statements of Income.

Selected Operating Information

As of June 30, 1983, about 37% of the access lines of Pacific Bell were in Los Angeles and vicinity and about 28% were in San Francisco and vicinity. On such date about 71% of Nevada Bell's access lines were in Reno and vicinity. Sizeable areas and many localities in California and Nevada are served by nonaffiliated telephone companies which had approximately 18% of the access lines in such states on June 30, 1983. Pacific Bell and Nevada Bell do not furnish local service in the areas and localities served by such companies. About 19% of the City of Los Angeles is served by a nonaffiliated company. In addition there are 25 cities of over 50,000 population which are entirely or primarily served by nonaffiliated companies.

The following table sets forth for the telephone subsidiaries the number of network access lines in service at the end of each period and the number estimated to be in service on January 1, 1984.

	Network Access Lines in Service — Thousands					
	Estimated January 1, 1984	June 30, 1983	1982	1981	1980	1979
Pacific Bell	10,715	10,557	10,409	10,275	9,926	9,533
Nevada Bell	163	160	158	154	145	134
Total	10,878	10,717	10,567	10,429	10,071	9,667

Construction Expenditures and Use of Proceeds

Pacific Bell and Nevada Bell have been making and expect to continue to make large construction expenditures to meet the demand for communications services and to further improve such services. Construction expenditures by Pacific Bell and Nevada Bell since January 1, 1978 were approximately as follows:

1978	$1,752,000,000	1981	$2,757,000,000
1979	2,214,000,000	1982	2,436,000,000
1980	2,455,000,000	1983 (through June 30)	828,000,000

Pacific Bell and Nevada Bell are projecting construction expenditures of approximately $1,800,000,000 for 1983 and approximately $2,189,000,000 for 1984, and other subsidiaries (including PacTel Mobile Access) are expected to expend approximately $68,000,000 for their capital requirements in 1984. Of such expenditures for 1983 and 1984, 88% and 80%, respectively, are expected to be financed through internally generated funds.

PacTel Group does not know the amount of proceeds from the shares to be issued under its Share Owner Dividend Reinvestment and Stock Purchase Plan, its Savings Plan for Salaried Employees, its Savings Plan for Non-Salaried Employees, its Voluntary Contribution Plan and its Employee Stock Ownership Plan. PacTel Group intends to use such proceeds for general corporate purposes, which may include advances to or investments in subsidiary companies.

PacTel Group anticipates that it will be able to obtain required external capital through issuance of debt securities by its telephone subsidiaries, through short term borrowings and through the issuance of shares pursuant to the plans described above.

Rates, Regulation and Competition

Intrastate Rates

In providing telecommunications services, Pacific Bell is subject to regulation by the CPUC with respect to intrastate rates and services, issuance of securities and other matters. Nevada Bell is subject to regulation by the PSCN.

Unless otherwise indicated, the amounts of the changes in revenues resulting from changes in intrastate rates referred to below are stated on an annual basis and are estimates without adjustment for subsequent changes in volumes of business.

Since January 1978 the CPUC has authorized, in connection with proceedings commenced in prior years, increases in intrastate rates of $14,400,000 in May 1979 and $23,500,000 in September 1979. The CPUC subsequently ordered refunds of $6,600,000 collected primarily during 1978. On July 14, 1978 Pacific Bell filed for rate increases amounting to about $470,000,000. On October 10, 1979 the CPUC granted a $1,300,000 rate increase which was the net of increases and decreases in various rates (and included the May 1979 increase), not all of which increases and decreases were immediately effective. A $105,000,000 decrease in rates (which was reflected in the $1,300,000 net rate increase) did not become fully implemented until April 1980, and on February 18, 1982 the CPUC ordered a refund of $20,900,000 plus interest in connection therewith. In connection with the same 1978 rate increase application, the CPUC, on December 18, 1979, granted an additional rate increase of $36,600,000.

On November 1, 1979 Pacific Bell submitted to the CPUC an application for interim rate increases amounting to, as subsequently amended, $337,000,000. On April 2, 1980 the CPUC granted rate increases which, as subsequently modified, amounted to approximately $196,000,000.

On August 1, 1980 Pacific Bell filed an application for additional rate increases amounting to about $790,000,000. On August 4, 1981 the CPUC issued a decision which authorized rate increases of $610,000,000 effective August 29, 1981. The August 4, 1981 decision also ordered further hearings which, on August 3, 1983, resulted in CPUC authorization of an additional rate increase of approximately $61,400,000 out of approximately $69,900,000 requested by Pacific Bell to offset increases in depreciation expenses. This rate increase was offset, in part, by previously ordered reductions in the August 4, 1981 rate increases—amounting to approximately $12,900,000 and $3,600,000—and by the resulting refunds. The refunds are to be accomplished by delaying the effective date of the August 3, 1983 rate increase for approximately nine months. On July 20, 1983 the CPUC ordered Pacific Bell to hold revenues subject to refund at an annual rate of approximately $41,000,000 commencing January 1, 1983 and continuing thereafter until further order of the CPUC, pending its determination of whether Pacific Bell has improperly reflected higher, FCC-approved depreciation rates for purposes of the intercompany settlements process when those depreciation rates have not been approved by the CPUC.

By decisions on November 13, 1981 and January 19, 1982 the CPUC, in response to an FCC decision, ordered Pacific Bell to change accounting treatment with respect to certain costs of installing telephone service on customers' premises. Such costs, which previously had been capitalized, were ordered to be expensed commencing on November 28, 1981. The CPUC also granted Pacific Bell a $264,000,000 rate increase effective November 28, 1981 intended to offset the increased expenses. The rates granted were made subject to refund pending the outcome of a rehearing which placed in issue about $40,000,000 annually of the rates granted. On October 19, 1983 the CPUC reaffirmed the full rate increase, but the time for appeal has not expired.

On February 13, 1980 the CPUC ordered refunds of local service revenues of approximately $384,000,000 for the period August 1974 through February 13, 1980, implementing a September 13, 1977 CPUC refund order. These refunds were based upon new ratemaking methods of treating investment tax credits and deferred federal income taxes resulting from the use of accelerated depreciation ("Remand formulae"). The IRS ruled that implementation of the 1977 order made Pacific Bell ineligible for these federal tax benefits and issued a notice of deficiency for tax year 1974.

Congressional legislation in December 1982 clarified the eligibility requirements and preserved Pacific Bell's eligibility for these tax benefits for periods prior to March 1, 1980 subject to Pacific Bell's reaching a closing agreement with the IRS providing for tax payments in an amount based on revenues previously refunded to customers. On June 20, 1983 Pacific Bell entered into a closing agreement with the IRS. This agreement set Pacific Bell's current tax liability at $272,700,000. Pacific Bell is credited under the agreement with approximately $120,000,000 previously paid, with the remaining $152,700,000 to be paid in two equal installments. The first payment was made on June 30, 1983, and the second is due June 30, 1984. Additionally, the agreement provided for subsequent recovery by Pacific Bell of $163,700,000 of the tax liability through the amortization of a "special asset" account against taxable income over a ten year period beginning January 1, 1983.

The February 13, 1980 CPUC orders provided that revenues collected after that date would be based on rate-making methods which previously have been considered consistent with eligibility for the federal tax benefits ("Normalization"), but they are being collected subject to refund pending further CPUC action. Pacific Bell believes its eligibility to use accelerated depreciation and the investment tax credit for federal tax purposes has been reestablished with respect to periods after February 13, 1980, subject to possible loss should the CPUC at a later date retroactively apply rate-making methods inconsistent with the requirements of the federal income tax law. In the February 13, 1980 orders, the CPUC expressed its intent that eligibility for the federal tax benefits be preserved.

On December 15, 1981, the CPUC issued an interim decision involving all major California utilities where it found that the Remand formulae were "devised to respond to circumstances that no longer prevail" and ordered that Normalization be used for purposes of the Economic Recovery Tax Act of 1981 ("ERTA"). This interim decision did not expressly deal with the provisions of Pacific Bell's rate orders since February 13, 1980 which make revenues subject to refund pending possible application of the Remand formulae, but, if the CPUC adheres to the intent expressed in the interim decision, the Remand formulae will not be applied in connection with property placed in service after December 31, 1980, the date when this aspect of ERTA became effective. However, the CPUC has granted limited rehearing of this decision, and the time for appeal has not expired. Pacific Bell believes it is unlikely that material revenue refunds will be ordered with respect to these issues or that eligibility for these tax benefits will be lost.

Because the Consent Decree prohibits the provision by PacTel Group of some currently authorized products and services, PacTel Group and its subsidiaries will not realize the full amount of revenues, currently authorized by the states in which Pacific Bell and Nevada Bell will be doing business. As a result PacTel Group estimates a decrease in annual intrastate revenues of approximately $2,100,000,000 before uncollectibles. However, there will be related reductions in the rate bases of Pacific Bell and Nevada Bell and elimination of expenses incidental to assets and operations transferred to, and to be carried on by, AT&T and its subsidiaries in connection with divestiture.

On January 17, 1983 Pacific Bell filed (and has subsequently amended) an application with the CPUC for additional rate increases amounting to about $1,182,000,000, as amended, which includes the effects of divestiture and various increased expenses expected in 1984. Pacific Bell requested interim rate increases and that those increases be made effective on or before November 1, 1983 in connection with this application. The CPUC denied the request that the interim increases be made effective by November 1, but has not ruled on the request for interim increases. On June 30, 1983 Pacific Bell filed an application with the CPUC for a new type of rate, termed an Access Charge, in an annual amount of about $1,289,000,000. This new rate would replace substantially equivalent amounts of intrastate revenues that Pacific Bell will lose as a result of divestiture starting January 1, 1984 from certain long distance calls made within the state. (See "Description of the Divestiture Transaction—Access Charge Arrangements" above.)

On January 22, 1981 Nevada Bell filed an application for rate increases amounting to about $10,600,000 as subsequently modified. On July 6, 1981 the PSCN authorized a rate increase of approximately $8,000,000. On November 4, 1982 Nevada Bell filed an application for additional rate increases amounting to about $17,400,000. On June 27, 1983 the PSCN authorized a rate increase of approximately $6,200,000. On November 1, 1983, Nevada Bell filed an application for Access Charges (as referred to above) in the amount of $3,000,000.

PacTel Group is unable to give any assurances as to the amounts or effective dates of any rate increases that may be granted in any of the above rate proceedings.

Regulation, Interstate Rates and Competition

The sections entitled "Access Charge Arrangements" and "Pending Telecommunications Legislation" contained in the "Description of the Divestiture Transaction" section above, and "FCC Regulatory Jurisdiction", "Interstate Rates" and "Competition" contained in the "Common Information" section below are incorporated herein by reference.

The CPUC is currently investigating in formal hearings whether it should allow intrastate and intraLATA competition in the provision of voice and data communications service in California. Pacific Bell has testified against allowing such competition but is unable to predict the outcome of this matter.

Legal Proceedings and Contingent Liabilities

The sections entitled "Legal Proceedings" and "Contingent Liabilities" included in the "Common Information" section below are incorporated herein by reference.

Employee Relations

PacTel Group estimates that as of January 1, 1984, it will employ approximately 82,000 persons through its headquarters and subsidiary operations. About 67.5% of the employees of PacTel Group and its subsidiaries will be represented by unions. Of those so represented about 93.6% will be represented by the Communications Workers of America, which is affiliated with the AFL-CIO, about 5.1% by other unions affiliated with the AFL-CIO and the remainder by other unions.

In August 1983, after a three-week strike, new three year contracts were agreed upon by Pacific Bell and Nevada Bell which provide for wage increases of up to 5.5% in the first year and up to 1.5% in each of the second and third years together with cost-of-living adjustments in the second and third years, and improvements in fringe benefits. Based on the number of persons estimated to be employed by PacTel Group on January 1, 1984, it is estimated that these changes in wages and fringe benefits and similar changes for certain non-management employees not represented by unions will increase expenses of PacTel Group by about $160,000,000 on an annual basis by the end of the three year contract period, excluding any adjustments resulting from cost-of-living increases. For each 1% increase in the national Consumer Price Index for Urban Wage Earners and Clerical Workers, it is estimated that cost-of-living adjustments in each of the second and third years will further increase expenses of PacTel Group by about $16,000,000 on an annual basis.

In addition to changes provided for non-management employees, adjustments will be made from time to time in the ranges of compensation for management employees and will be reflected in accounts as salary changes become effective. It is expected that such adjustments, together with improvements in fringe benefits for management employees, will represent about 27% of the increases in compensation and fringe benefits of all employees.

Properties

On January 1, 1984, all properties relating to the services to be provided by PacTel Group will have been transferred to it by AT&T. PacTel Group estimates that central office equipment will represent 36% of PacTel Group's consolidated investment in telephone plant; land and buildings (occupied principally by central offices) will represent 7%; wiring and equipment, substantially all of which are on the premises of customers, will represent 14%; and connecting lines not on customers' premises, the majority of which are on or under public roads, highways or streets and the remainder on or under private property, will represent 36%.

Substantially all of the installations of central office equipment and administrative offices are located in owned buildings situated on land held in fee. Many garages, business offices and telephone service centers are in rented quarters.

Description of Common Stock and Dividend and Market Information

All shares of Common Stock (see "Common Shares" in "Articles of Incorporation and By-Laws", below) of PacTel Group are entitled to participate equally in dividends. Each shareholder has one vote for each share registered in the shareholder's name. All shares of Common Stock would rank equally on liquidation. Holders of shares of Common Stock have no preemptive or cumulative voting rights.

The markets for trading in PacTel Group Common Stock will be the New York, Pacific and Midwest Stock Exchanges. Trading of the shares is expected to begin on a "when issued" basis in November 1983. PacTel Group Common Stock Certificates will be distributed in February 1984 and at that time regular trading will begin.

As of September 30, 1983, there were 3,148,391 holders of record of AT&T common stock of which 2,565,186 were owners of ten or more shares. Each holder of record of AT&T stock as of December 30, 1983, other than those holding less than 10 AT&T shares, will be entitled to receive Common Stock in PacTel Group.

It is estimated that 2 million shares of PacTel Group Common Stock will be issued during 1984 by PacTel Group under its Share Owner Dividend Reinvestment and Stock Purchase Plan, Employee Stock Ownership Plan, Savings Plan for Salaried Employees, Savings Plan for Non-Salaried Employees, Voluntary Contribution Plan and various other employee benefit plans.

All shares of Common Stock to be distributed in connection with the divestiture and to be issued in accordance with the above described plans will be fully paid and nonassessable.

PacTel Group anticipates that dividends will be declared on a quarterly basis and paid on May 1, August 1, November 1 and February 1. PacTel Group has announced its intention to declare an initial quarterly dividend of $1.35 per share payable on May 1, 1984. The declaration and timing of all dividends are at the discretion of the Board of Directors and are dependent upon PacTel Group's earnings and financial requirements, general business conditions and other factors, and there can be no assurances as to the amount or frequency of any future dividends on the Common Stock. Reference is made to Assumption (b) of the Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984 for information concerning certain of such factors.

Articles of Incorporation and By-Laws

Set forth below is a brief description of some of the important provisions of the PacTel Group Articles of Incorporation and By-Laws.

Board of Directors—PacTel Group's Articles of Incorporation provide for a Board which is divided into three approximately equal classes of directors serving staggered three-year terms. As a result, approximately one-third of the Board will be elected at each annual meeting after divestiture, commencing at PacTel Group's first post-divestiture annual meeting which is presently expected to be held on April 19, 1985. The initial term of office of approximately one-third of the directors will expire at this annual meeting in 1985; the initial term of another approximately one-third will expire in 1986; and the initial term of the final approximately one-third will expire in 1987. Each class of directors elected at an annual meeting after divestiture will be elected to three-year terms.

The PacTel Group Articles of Incorporation also provide that the number of directors may be increased or decreased by resolution of the Board, provided that the number of directors shall not be reduced to less than three. All directors serve until their term of office expires and their successor is elected and qualified, or until their earlier resignation, removal from office, death or incapacity. The Articles provide that no director may be removed from office before the end of the term for which such director has been elected except by the affirmative vote of 66⅔% of the voting power of the shares entitled to vote thereon. The Articles also provide that the provisions of the Articles regarding the Board of Directors may not be amended or repealed without the affirmative vote of at least 66⅔% of the voting power of the shares entitled to vote thereon.

Common Shares—The Articles of Incorporation provide for the issuance of up to 505 million Common Shares (par value $.10 per share) in one or more series. The authorized number of the first series of Common Shares is 500 million shares, and that series is designated the "Common Stock". (See "Description of Common Stock and Dividend and Market Information".) Five million shares may be issued from time to time as one or more additional series of Common Shares with such full or limited rights with respect to voting, dividends or distributions upon liquidation, and such other designations, preferences and rights as the Board of Directors may determine.

Preferred Shares—The Articles of Incorporation include a provision for the issuance of up to 50 million Preferred Shares (par value $.10 per share) in one or more series with full or limited voting powers or without voting powers and with such designations, preferences and rights as the Board of Directors may determine.

Stockholder Meetings—Because PacTel Group's first year of operations will be 1984, PacTel Group intends, as stated above, that the first annual meeting of public stockholders after divestiture will be held in April of 1985, and that subsequent meetings will be held annually thereafter. Shareholder proposals intended for inclusion in the proxy statement for the first annual meeting should be sent to the Secretary of PacTel Group at 140 New Montgomery Street, San Francisco, California 94105 and must be received by November 15, 1984. PacTel Group's By-Laws provide that special meetings of stockholders may be called by certain corporate officers and that special meetings shall be called at the request in writing of a majority of the Board of Directors or at the request in writing of the holders of 66⅔% of the voting power of the shares entitled to vote at such meetings.

Amendment of By-Laws—The By-Laws further provide that such By-Laws may be amended or repealed at any time by action of the Board of Directors and that they may also be amended or repealed at a meeting of the stockholders by a vote of at least 66⅔% of the voting power of the shares entitled to vote in the election of directors.

Directors and Officers

On September 30, 1983, if PacTel Group Common Stock had then been outstanding, the designated Directors and Officers of PacTel Group as a group, based on their AT&T share ownership on that date, would have owned (including certain family holdings) with voting and investment power 400 shares of the Common Stock of PacTel Group which is less than 1% of the class outstanding.

*Designated Directors of PacTel Group (as of January 1, 1984)**

Name (Age), Current Memberships on Pacific Bell Board Committees, PacTel Group Equity Holdings(1)	Director of Pacific Bell Since	Biographical and Other Information
Norman Barker, Jr. (61) Audit and Finance Committees No shares of Common Stock	1982	Chairman of the Board and Chief Executive Officer, First Interstate Bank of California since 1973. Director of First Interstate Bancorp (also Vice Chairman of the Board), Carter Hawley Hale Stores, Inc., Carnation Co., Lear Siegler, Inc. and Southern California Edison Company.
William K. Coblentz (61) Executive, Corporate Public Policy and Pension and Savings Plans Committees 11 shares of Common Stock	1976	Partner of Coblentz, Cahen, McCabe & Breyer (law firm) since 1960. Director of Vidal Sassoon, Inc. and McClatchy Newspapers.
Myron Du Bain (60) Executive, Nominating, and Compensation and Personnel Committees 30 shares of Common Stock	1981	President and Chief Executive Officer, AMFAC, Inc. (wholesale distribution, hotels and resorts, food processing, department and specialty stores, horticulture and Hawaii sugar and land) since 1983. Chairman of the Board and President, Fireman's Fund Insurance Companies (1975-1982). Director of Fireman's Fund/American Express, Inc., Potlatch Corp. and First Interstate Bancorp.
Charles E. Ducommun (70) Chairman of Compensation and Personnel Committee; Finance Committee 50 shares of Common Stock	1957	Chairman of the Finance Committee, Ducommun, Inc. (electronic components assembler and distributor, specialty metal products fabricator) since 1978. Director of Ducommun, Inc., Security Pacific Corp. and its subsidiary, Security Pacific National Bank and American Metal Bearing Co.
Herman E. Gallegos (53) Chairman of Pension and Savings Plans Committee; Executive and Corporate Public Policy Committees 11 shares of Common Stock	1974	Director, U. S. Human Resources Corp. (management consulting firm) since 1981; Chairman of the Board (1970-1981). Trustee, Rockefeller Foundation.
Sam L. Ginn (46) Executive Committee 23 shares of Common Stock	1983	Vice Chairman of the Board of Pacific Bell since 1983; Executive Vice President of Pacific Bell (1979-1983); Vice President of Pacific Bell (1978-1979).

* The current Board of Directors of PacTel Group is composed of Messrs. Ginn, Guinn, Hulse, and Saenger (referred to below) and William M. Ellinghaus. It is contemplated that the Board will be expanded at divestiture to include the "Designated Directors" listed below. Mr. Ellinghaus will resign at divestiture. Mr. Ellinghaus is 61 years old, has been a director of Pacific Bell since 1976, and is on the Compensation and Personnel Committee of the Pacific Bell Board. He has been the President of AT&T since 1979 and was the Vice Chairman of AT&T's Board from 1976 to 1979. He is a Director of Armstrong World Industries, Inc., Bankers Trust New York Corp. and its subsidiary, Bankers Trust Co., Bristol-Myers Co., International Paper Co. and J. C. Penney Co.

PacTel Group intends to nominate Messrs. Gallegos, Ginn, McNeely and Saenger as Directors to serve until the first Annual Meeting of shareholders after divestiture, Messrs. Barker, Coblentz, Ducommun and Ziffren and Mrs. Luttgens as Directors to serve until the second Annual Meeting after divestiture, and Messrs. Du Bain, Guinn, Harvey, Houston and Hulse as Directors to serve until the third Annual Meeting after divestiture (see "Board of Directors" in "Articles of Incorporation and By-Laws", above).

(1) Holdings of common stock for each Director are estimated assuming the Director's ownership of AT&T common shares as of September 30, 1983 is unchanged on December 30, 1983, the divestiture record date.

Name (Age), Current Memberships on Pacific Bell Board Committees, PacTel Group Equity Holdings(1)	Director of Pacific Bell Since	Biographical and Other Information
Donald E. Guinn (51) ... Chairman of Executive Committee; Finance, Compensation and Personnel, Corporate Public Policy and Nominating Committees 59 shares of Common Stock	1980	Chairman of the Board of Directors and Chief Executive Officer of Pacific Bell since 1980. Vice President (1978-1980) and Assistant Vice President (1976-1978) of AT&T. Director of Security Pacific Corp. and its subsidiary Security Pacific National Bank, Di Giorgio Corp. and American Medical International.
James R. Harvey (49) ... No shares of Common Stock	1983	Chairman, President and Chief Executive Officer, Transamerica Corp. (diversified service company engaged in insurance and financial services, travel services and the manufacture of precision engineered products) since 1983; President and Chief Executive Officer (1981-1983); President and Chief Operating Officer (1979-1981); Executive Vice President (1977-1979). Director of Safeway Stores, Inc.
Ivan J. Houston (58) ... Audit and Corporate Public Policy Committees 3 shares of Common Stock	1980	Chairman of the Board and Chief Executive Officer, Golden State Mutual Life Insurance Co. since 1980; Chairman of the Board and President (1977-1980). Director of Kaiser Aluminum and Chemical Corp. and First Interstate Bank of California.
John E. Hulse (50) ... Executive, Finance and Pension and Savings Plans Committees 27 shares of Common Stock	1981	Vice Chairman of the Board and Chief Financial Officer of Pacific Bell since 1983; Executive Vice President and Chief Financial Officer of Pacific Bell (1981-1983). Senior Vice President (1979-1980) and Vice President (1975-1979) of Northwestern Bell Telephone Co.
Leslie L. Luttgens (60) ... Chairman of Corporate Public Policy Committee; Executive and Pension and Savings Plans Committees 26 shares of Common Stock	1973	Community Leader, director and trustee of various California organizations. Director of McKesson Corp., Pacific Gas and Electric Company, Hexcel Corp. and Crocker National Corp. and its subsidiary Crocker National Bank.
E. L. McNeely (65) ... Compensation and Personnel, Nominating and Pension and Savings Plans Committees No shares of Common Stock	1979	Business Consultant and retired Chairman of the Board, Wickes Companies, Inc. (diversified manufacturing and marketing) since 1982; Chairman of the Board and Chief Executive Officer (1975-1982). (On or about April 24, 1982, Wickes filed for protection under Chapter 11 of the Bankruptcy Code, which proceedings are currently pending before the United States Bankruptcy Court for the Central District of California.) Director of Dayco Corp., Federal Mogul Corp., Transamerica Corp., National Bank Shares of La Jolla and Oak Industries.

(1) Holdings of common stock for each Director are estimated assuming the Director's ownership of AT&T common shares as of September 30, 1983 is unchanged on December 30, 1983, the divestiture record date.

Name (Age), Current Memberships on Pacific Bell Board Committees, PacTel Group Equity Holdings(1)	Director of Pacific Bell Since	Biographical and Other Information
Theodore J. Saenger (55) Executive and Finance Committees 4 shares of Common Stock	1979	President, Chief Operating Officer and Director of Pacific Bell since 1977. Director of Lloyds Bank California and Up-Right, Inc.
Paul Ziffren (70) Chairman of Nominating Committee, Audit and Corporate Public Policy Committees 7 shares of Common Stock	1981	Partner of Gibson, Dunn & Crutcher (law firm) since 1981. Partner of Ziffren and Ziffren (law firm) (1965-1980). Director of Pacific Mutual Life Insurance Co.

(1) Holdings of common stock for each Director are estimated assuming the Director's ownership of AT&T common shares as of September 30, 1983 is unchanged on December 30, 1983, the divestiture record date.

During 1983 (through July), 1982 and 1981 Pacific Bell indirectly paid $505,606, $767,635 and $734,123, respectively, for insurance premiums, to Golden State Mutual Life Insurance Company, of which Ivan J. Houston is Chairman of the Board and Chief Executive Officer. During 1983 (through July) and 1982 Pacific Bell paid $318,592 and $128,120, respectively, for legal services to Gibson, Dunn & Crutcher, of which Paul Ziffren is a partner. During 1983 (through July), Pacific Bell paid Amfac, Inc. of which Myron Du Bain is President and Chief Executive Officer, $130,169 for hotel and conference expenses and for plumbing and electrical supplies. During 1983 (through July), 1982 and 1981 Pacific Bell paid $10,616,768, $13,030,063 and $10,529,996, respectively, to Transamerica Corp., of which James R. Harvey is Chairman, President and Chief Executive Officer, for insurance and relocation services. Pacific Bell believes the terms of such transactions were as favorable as could have been obtained from unaffiliated parties.

Officers of PacTel Group (as of November 1, 1983)

Name	Age	Title	Held Since
Donald E. Guinn	51	Chairman, President and Chief Executive Officer	1983
Theodore J. Saenger	55	Vice Chairman and Group President—Bell Operating Companies	1983
Sam L. Ginn	46	Vice Chairman and Group President—Diversified Businesses	1983
John E. Hulse	50	Vice Chairman and Chief Financial Officer	1983
Arthur C. Latno	54	Executive Vice President—External Affairs	1983
Robert V. R. Dalenberg	54	Executive Vice President, General Counsel and Secretary	1983
Benton W. Dial	54	Executive Vice President—Human Resources	1983
David M. Craig	59	Vice President—Financial Management	1983
William E. Downing	43	Vice President and Treasurer	1983
Frank V. Spiller	52	Vice President and Comptroller	1983

All of the above officers have held responsible managerial positions with Pacific Bell, AT&T or another subsidiary or associated company of AT&T for more than the past five years.

Officers are not elected for a fixed term of office but are removable at the discretion of the Board of Directors.

Compensation of Directors and Officers

As of January 1, 1984, the Directors who are not employees will receive an annual retainer of $15,000, a fee of $600 for each board meeting attended and a fee of $500 for each committee meeting attended. Non-employee Directors who chair committees will receive additional annual retainers of $3,000. Directors may elect to defer the receipt of all or a part of fees and retainers. Amounts so deferred will earn interest, compounded quarterly, at a rate equal to the average interest rate for ten-year United States Treasury notes for the previous quarter. Directors who are also employees receive no compensation for serving as Directors or as members of Board committees.

The current salaries for the five most highly compensated executive officers of PacTel Group are as follows:

Name	Office	Current Salary*
Donald E. Guinn	Chairman, President and Chief Executive Officer	$ 355,000
Theodore J. Saenger	Vice Chairman and Group President —Bell Operating Companies	253,000
Sam L. Ginn	Vice Chairman and Group President —Diversified Businesses	230,000
John E. Hulse	Vice Chairman and Chief Financial Officer	230,000
Arthur C. Latno	Executive Vice President— External Affairs	199,000
Executive Officers of PacTel Group as a group (consisting of seven persons, including those named above)		1,655,000

* The specified salaries are the current salaries received by these officers as officers of Pacific Bell. The PacTel Group Board of Directors has not set applicable salary levels for 1984.

In June 1982, Pacific Bell entered into employment contracts with six of its officers, including Messrs. Guinn, Saenger, Hulse and Latno. The contracts provide for minimum annual salaries of $305,000, $205,000, $188,000 and $173,000, respectively (a total of $1,210,000 annually for the six officers as a group), and for salary and benefit continuation in the event of termination of employment under certain circumstances. The contracts expire December 31, 1988, with an option given to such officers to renew for two additional years. The principal provisions provide that upon termination of employment by Pacific Bell, the officer's basic salary will continue for the term of the contract including any renewal period. Also, the officer is entitled, at his option, to terminate employment and claim the benefits of the contract, including salary and benefit continuation, if such option is exercised within two years of the occurrence of any of the following events: (1) specified changes in the ownership of the corporation or the makeup of the Board of Directors, (2) requiring such officer to relocate, or (3) assigning such officer reduced job responsibilities, authority or perquisites. The term of the contract is included in computing such officer's overall years of employment in determining retirement benefits under the normal retirement plan of Pacific Bell. In addition to being officers of Pacific Bell, these officers are also serving as officers of PacTel Group. Compensation or benefits paid by PacTel Group are credited against the obligations of Pacific Bell under the contracts.

The section entitled "Compensation of RHC Directors and Officers" included in the "Common Information" section below is incorporated herein by reference.

PacTel Group intends to adopt, effective January 1, 1984, a Senior Management Long Term Incentive Plan similar to the Bell System plan described in the section entitled "Compensation of RHC Directors and Officers" included in the "Common Information" section below, except that PacTel Group's plan will not terminate automatically in 1992, but is terminable at the discretion of the PacTel Group Board of Directors.

Key employees of PacTel Group or its subsidiaries, including directors and officers who are employees, will be eligible for the grant of options under the Pacific Telesis Group Stock Option and Stock Appreciation Rights Plan (the "Option Plan"). Such options may be granted as non-qualified options or as Incentive Stock Options ("ISOs") intended to qualify for favorable tax treatment under federal tax law and may, in either case, be granted in conjunction with stock appreciation rights ("SARs"). The Option Plan will require that the exercise price under all options and SARs must be equal to or greater than the fair market value of PacTel Group Common Stock on the date of grant. The term of any option or SAR cannot exceed 10 years. Subject to additional restrictions, if any, imposed at the time of grant, options and any associated SARs ordinarily will become exercisable in whole or in part at stated times commencing one year after the date of grant. Options and SARs may become immediately exercisable in the event of death or disability. ISOs and any related SARs must be exercised in the order in which they were granted. The exercise price of an option may be paid in cash or by surrendering shares of PacTel Group Common Stock already owned by the optionee, or with a combination of cash and shares. Options expire within 3 or 12 months following a termination of employment, depending upon the reason for the termination; however, if termination of employment is for cause, the options will expire upon such termination.

The Option Plan will be administered by PacTel Group's Board of Directors. The Board will select the optionees, determine the number of shares to be made subject to each grant, and prescribe the other terms and conditions of each award. A total of 6,000,000 shares of PacTel Group Common Stock will be available under the Option Plan for grants of stock options and/or SARs. Shares subject to options which lapse without having been exercised become available for new grants unless the related SARs were exercised. However, the fair market value (at grant) of the stock subject to options granted to any individual in any calendar year under ISOs cannot exceed $100,000 plus a three-year carryover equal to one half of the unused amount.

SARs may be exercised only when the underlying option is exercisable. If an SAR is exercised, the number of shares remaining subject to the related option is reduced accordingly, and vice versa. SARs may be settled in cash or in the form of shares of PacTel Group Common Stock, as the Board may determine at its sole discretion.

Neither the optionee nor PacTel Group will incur any tax consequences as the result of the grant of an option or SAR. The optionee will have no taxable income upon exercising an ISO (except that the alternative minimum tax may apply), and PacTel Group will receive no deduction when an ISO is exercised. Upon exercising a non-qualified option or SAR, the optionee must recognize ordinary income equal to the "spread" between the exercise price and the fair market value of PacTel Group Common Stock on the date of exercise; PacTel Group will be entitled to a deduction for the same amount. The tax treatment of a disposition of shares acquired under the Option Plan depends on how long the shares have been held and on whether such shares were acquired by exercising an ISO or by exercising a non-qualified option or SAR. PacTel Group will not be entitled to a deduction in connection with a disposition of option shares, except in the case of a disposition of shares acquired under an ISO before the applicable ISO holding periods have been satisfied.

INFORMATION STATEMENT
FOR
SOUTHWESTERN BELL CORPORATION

The Corporation

Southwestern Bell Corporation ("Corporation") was incorporated in 1983 under the laws of the State of Delaware and has its principal executive offices at 1010 Pine Street, St. Louis, Missouri 63101 (telephone number 314 247-9800). At divestiture, AT&T will transfer to the Corporation its 100 percent ownership in a telephone subsidiary, Southwestern Bell Telephone Company ("Telephone Company"). The Corporation will also receive from AT&T Southwestern Bell Mobile Systems, Inc. ("Mobile Systems"), a cellular advanced mobile communications service subsidiary, and a one-seventh interest in the CSO.

In addition, the Corporation has established two other wholly-owned subsidiaries, Southwestern Bell Publications, Inc. ("Publications") and Southwestern Bell Telecommunications Inc. ("Telecom").

The Telephone Company was incorporated in 1882 under the laws of the State of Missouri and has its principal offices at 1010 Pine Street, St. Louis, Missouri 63101 (telephone number 314 247-9800). The Telephone Company has been engaged in furnishing communications services in the states of Arkansas, Kansas, Missouri, Oklahoma and Texas, and commencing January 1, 1984, it will be engaged in the furnishing of exchange telecommunications and exchange access service in those same areas. Exchange telecommunications service refers to intraLATA service, which includes toll service as well as local service.

Mobile Systems, commencing January 1, 1984, will be engaged in the business of providing advanced mobile communications services using cellular technology; initial operations are scheduled for St. Louis, Kansas City and Dallas during 1984. Mobile Systems will operate and maintain the cellular systems within the three service areas for which Mobile Systems holds Federal Communications Commission ("FCC") licenses.

Commencing January 1, 1984, Publications will be engaged in the marketing of printed directory advertising and Telecom will be engaged in the business of marketing complex communications systems to businesses. Certain assets and employees currently engaged in these functions for the Telephone Company will be transferred to these newly formed subsidiaries, effective January 1, 1984.

The Corporation expects to mail regular reports to its shareholders containing annual audited and quarterly unaudited financial statements. Such reports are expected to contain a discussion of the financial results including, where appropriate, comparisons with expected results.

Anticipated Additional Business Operations

The Corporation is permitted by the Consent Decree to market (but not manufacture) customer premises equipment after January 1, 1984. The Corporation's management plans to offer certain equipment through the Telephone Company if permitted by the FCC.

Under the terms of the Consent Decree, the Corporation and its affiliates may, in addition to engaging in the businesses described above, engage in a business that is not a natural monopoly service actually regulated by tariff only upon a finding by the Court that there is no substantial possibility that it could use its monopoly power in furnishing exchange telecommunications and exchange access service to impede competition in the market it seeks to enter. The Corporation is exploring the possibility of entering one or more businesses which would require such Court approval. Although the Corporation's management cannot determine whether or to what extent it may do so in the near future, it does not believe such ventures, in the aggregate, would materially affect the financial position or forecasted 1984 operating results of the Corporation.

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The accompanying financial forecast of Southwestern Bell Corporation ("Corporation") for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, presents management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period. Thus, the financial forecast reflects management's judgment, based on present circumstances, as to the most likely set of conditions and management's most likely course of action.

We have made a review of the financial forecast in accordance with applicable guidelines for a review of a financial forecast established by the American Institute of Certified Public Accountants. Our review included procedures to evaluate both the assumptions used by management and the preparation and presentation of the financial forecast. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Based on our review, we believe that the accompanying financial forecast of the Corporation is presented in conformity with applicable guidelines for presenting a financial forecast established by the American Institute of Certified Public Accountants and that the underlying assumptions provide a reasonable basis for management's financial forecast. However, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast and the variations may be material.

ARTHUR YOUNG & COMPANY

St. Louis, Missouri
November 8, 1983

We have examined the accompanying statements of income of Southwestern Bell Telephone Company for the years ended December 31, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the results of operations of Southwestern Bell Telephone Company for the years ended December 31, 1982 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

St. Louis, Missouri
February 8, 1983

SOUTHWESTERN BELL CORPORATION

FINANCIAL FORECAST AND HISTORICAL STATEMENTS OF INCOME

The financial forecast for the Corporation, consisting of a forecasted Statement of Income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, represents management's best estimate based on present circumstances of the most probable operating results and sources of funds supporting construction activity for the year ending December 31, 1984, and has been reviewed by Arthur Young & Company, independent certified public accountants, whose report is included herein.

It should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist. The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

The following Historical Statements of Income reflect the historical statements of income of the Telephone Company which will be the principal operating subsidiary of the Corporation. The Historical Statements of Income of the Telephone Company for the years 1981 and 1982 have been examined by Arthur Young & Company, whose report is included herein. The unaudited Historical Statement of Income for the twelve month period ended June 30, 1983, in the opinion of the Corporation, includes all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of income. These Historical Statements of Income are not adjusted for the effects of divestiture.

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Historical		
	Year 1984	12 Months Ended June 30, 1983 (Unaudited)	Year 1982	Year 1981
Local Service Revenues	$ XX	$ 3,627.2	$ 3,511.1	$ 3,048.6
Toll Service Revenues	XX	3,779.7	3,755.3	3,360.3
Directory Advertising and Miscellaneous Operating Revenues	XX	557.9	535.5	437.0
Provision for Uncollectibles	XX	(105.3)	(90.8)	(63.5)
Total Operating Revenues	**7,754.9**	**7,859.5**	**7,711.1**	**6,782.4**
Depreciation	1,130.8	1,076.1	1,037.4	889.0
Other Operating Expenses	4,118.7	4,200.4	4,205.6	3,612.7
Total Operating Expenses	**5,249.5**	**5,276.5**	**5,243.0**	**4,501.7**
Net Operating Revenues	**2,505.4**	**2,583.0**	**2,468.1**	**2,280.7**
Federal Income Taxes	585.0	591.7	538.7	525.5
Other Operating Taxes	615.9	617.0	601.2	551.8
Total Operating Taxes	**1,200.9**	**1,208.7**	**1,139.9**	**1,077.3**
Operating Income	**1,304.5**	**1,374.3**	**1,328.2**	**1,203.4**
Other Income	**63.8**	**33.9**	**39.7**	**15.6**
Interest Expense	**498.7**	**520.3**	**503.9**	**437.8**
Net Income	**$ 869.6**	**$ 887.9**	**$ 864.0**	**$ 781.2**
Earnings per Share	**$ 8.93**	**NA**	**NA**	**NA**
Weighted Average Number of Shares Outstanding (Millions)	97.4	NA	NA	NA

See accompanying Notes to Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984, and Note to Forecasted 1984 Statement of Income.

NA = Not Applicable.

NOTES TO HISTORICAL STATEMENTS OF INCOME

(Amounts relating to the twelve months ended June 30, 1983 are unaudited)

Dollars in Millions

1. **Accounting Policies**—The Historical Statements of Income of the Corporation reflect the historical statements of income of the Telephone Company and the application of the accounting policies described in this Note and in Note 4.

Revenue Refunds—The Telephone Company records in its financial statements material revenue refunds applicable to prior years as adjustments of the respective years' income and, within a year, as adjustments of the applicable interim periods' income.

Purchases from Western Electric—Western Electric, a wholly-owned subsidiary of AT&T, has a substantial investment in manufacturing and other facilities which are devoted mainly to its business with affiliated telephone companies. Western Electric has a supply contract with the Telephone Company which provides that the prices it charges for the telephone equipment and materials it manufactures or procures for the Telephone Company shall be as low as the prices it charges its most favored customers for like materials and services under comparable conditions. The financial statements reflect items purchased from Western Electric at cost to the Telephone Company, which cost includes the return realized by Western Electric on its investment devoted to the communications business. See also "Telephone Plant" below.

Telephone Plant—The investment in equipment and materials dedicated to providing communications services is stated at its original cost. Such amounts do not purport to represent reproduction cost or current value. The original cost of telephone plant obtained from Western Electric includes a return on Western Electric's investment (see "Purchases from Western Electric" above). It is impossible to identify the particular purchases from Western Electric over a long period of years which were charged to the plant accounts and now remain therein, but the Telephone Company considers that such purchases represent about 55% to 60% of the Telephone Company's total plant investment as of December 31, 1982. Western Electric advises that its rate of profit before interest charges has varied by years and by classes of sales, but that such rate of profit before interest charges, included in prices for material sold and services furnished to affiliated telephone companies (including items chargeable to other than plant accounts), has been approximately 6.0% of such sales over the twenty year period ended December 31, 1982 and approximately 7.0% of such sales over the three year period then ended. Western Electric considers that its rate of profit before interest charges on those items which have been charged to the plant accounts is somewhat higher than its rate on total sales to affiliated companies.

Currently, AT&T and certain of its subsidiaries, including Western Electric and the Telephone Company, join in the filing of a consolidated federal income tax return. As a result, Western Electric's profits before income taxes included in the cost of those materials and services in the Telephone Company's plant accounts are excluded from consolidated taxable income in the year acquired from Western Electric. Instead, such profits are recognized and taxed over the depreciable life of the related plant since, for tax purposes, the Telephone Company must exclude Western Electric profits in deriving the depreciable cost of its investment in telephone plant. Consequently, the Telephone Company's tax liability is higher than if it were permitted to depreciate the full amount it initially paid to Western Electric. Western Electric provides the Telephone Company with the funds necessary to pay the tax liability on these deferred profits in the year in which the Telephone Company first acquires the related telephone plant. These payments are treated as reductions of the investment in telephone plant which results in a reduction in depreciation expense over the life of the related plant. However, there is no material effect on Net Income because the decrease in depreciation expense is offset by the aforementioned increase in the income tax provision.

Materials and Supplies—New material and reusable material are carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Depreciation—Prior to 1981, the provision for depreciation was based on straight-line composite rates, prescribed by the FCC, determined on the basis of the average expected lives of categories of telephone plant acquired in a given year. In 1982, the FCC approved the implementation of the method of determining straight-line composite rates on the basis of equal life groups ("ELG") of certain categories of telephone plant acquired in a given year which will result in a higher provision for depreciation than that based on average expected lives. In 1981, the FCC authorized the Telephone Company to begin implementation of the "remaining life" method of depreciation. The "remaining life" method provides for the full recovery of the investment in telephone plant. Effective January 1, 1981, the FCC also authorized shorter lives for customer terminal equipment. The increases in depreciation expense resulting from these FCC actions should be allowable in determining revenue requirements in rate-making proceedings.

When depreciable plant, other than minor items thereof which are replaced, is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

Maintenance and Repairs—The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is, with minor exceptions, charged to operating expenses.

Station Connections—During 1981, the FCC directed that beginning January 1981, certain costs of installing telephone service on a customer's premises be expensed instead of capitalized and that the balance of the investment in installation costs be amortized.

Interest Charged Construction—Where capital invested in telephone construction projects is not allowed in the rate base upon which revenue requirements are determined, it is the practice of regulatory authorities to allow in lieu thereof, a capitalization of interest during periods of construction. This interest charged construction is an item of income during the construction period and an addition to the cost of plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Lease Commitments—The Telephone Company leases certain facilities and equipment used in its operations and reflects lease payments as rental expense of the periods to which they relate. These leases include some which would be classified as "capital leases" under criteria established by the Financial Accounting Standards Board. However, for regulatory accounting and rate-making purposes, such leases are not capitalized. Had such leases been capitalized, the effect on Net Income for 1982 and 1981 would have been insignificant.

Income Taxes—

(a) AT&T and its subsidiaries file a consolidated federal income tax return. The consolidated income tax currently payable is allocated in accordance with each company's contribution to consolidated taxable income.

(b) Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the period during which the transaction will be recognized in the determination of net income for financial reporting purposes. Appropriate income charges and their subsequent reversal, reflected as deferred income taxes-net, prevent the tax effect of these timing differences from distorting net income. The Telephone Company recognizes the tax effects of timing differences on the following transactions:

(1) Certain vacation pay is deductible for income tax purposes in the year prior to being expensed in the statements of income.

(2) Depreciation for income tax purposes is determined based on accelerated methods and shortened lives which cause such depreciation to be higher during the early years of plant life and lower in later years than the depreciation charges for such plant reflected in the statements of income.

Dollars in Millions

(3) Some regulatory jurisdictions recognize deferred taxes related to timing differences in connection with certain construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes.

(c) Investment tax credits result from provisions of the federal tax law which allow for a reduction in tax liability based on certain construction expenditures. Corresponding reductions in tax expense are deferred and, except for the additional one percent credit available under the Tax Reduction Act of 1975 which must be contributed currently to the Bell System Employee Stock Ownership Plan, are amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

2. **Other Income**—Other Income for 1982 includes the prior years' cumulative effect on Net Income of a change in accounting for certain deferred income taxes of $13.3.

3. **Income Taxes**—In 1982, the Telephone Company changed its accounting for certain deferred income taxes to record deferred taxes on timing differences only when such deferred taxes are recognized by regulators in the rate-making process. This change was made to achieve consistency between financial reporting and the treatment given in those states which do not recognize all deferred taxes in the intrastate regulatory rate-making process. The effect of this change increased Net Income for 1982 by $26.9, including a $13.3 cumulative effect of this change as of the beginning of 1982.

	1982	1981
Net Income as actually reported	$864.0	$781.2
Pro forma Net Income assuming the change in accounting for deferred income taxes had been applied retroactively	$850.7	$786.7

The components of operating income tax expense were as follows:

	1982	1981
Federal:		
Current	$ 17.6	$114.3
Deferred-net	396.2	279.2
Investment tax credits-net	124.9	132.0
	538.7	525.5
State and local:		
Current	9.2	14.9
Deferred-net	15.5	11.5
	24.7	26.4
Total	$563.4	$551.9

Current income tax benefits which relate to non-operating income and deductions included in Other Income were:

	1982	1981
Federal	$1.1	$ .6
State and local	.1	.1
Total	$1.2	$ .7

Deferred income tax expense results principally from timing differences between depreciation expense recognized for income tax purposes and depreciation expense reflected in the statements of income.

Dollars in Millions

Total federal income tax expense is less than the amount computed by multiplying the sum of Federal Income Taxes and Net Income by the statutory federal income tax rate (46%). The differences are attributable to the following factors:

	1982	1981
Taxes computed at statutory rate on book income before decreases (increases) in tax from:	$644.7	$600.8
a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation	21.3	17.6
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	4.9	2.6
c. Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(19.1)	(13.2)
d. Amortization of investment tax credits over the life of the plant which gave rise to the credits	85.9	68.3
e. Other differences	14.1	.6
Total	$537.6	$524.9

4. **Provision for Pensions and Death Benefits**—Employees of the Telephone Company are covered by two national Bell System noncontributory pension and death benefit plans sponsored by AT&T and the Bell System companies, one for management employees and one for non-management employees. Contributions to such plans are made to irrevocable trust funds. It is the policy of the Telephone Company to make contributions which are equal to the current year cost of the plans determined on a going concern basis by an actuarial method specified by the Employee Retirement Income Security Act of 1974. The following data relate to plan costs:

	1982	1981
Current year cost	$325.2	$299.3
Current year cost as a percent of salaries and wages	12.6%	13.1%

Amendments to the plans during 1982 had the effect of increasing 1982 pension cost by approximately $32.7 while recognition of 1981 actuarial experience had the effect of decreasing 1982 cost.

Statement of Financial Accounting Standards No. 36 requires that certain disclosures be made of the actuarial present value of accumulated plan benefits and the fair value (essentially current market value) of net assets available for plan benefits. With the October 1, 1980, merger of the individual Bell System companies' plans, including the Telephone Company's plans, into the two national Bell System plans, such disclosures are not presented for the Telephone Company because the structure of the new plans does not readily permit the plans' assets and the accumulated benefits data to be disaggregated. However, based on the latest actuarial valuations of the two national plans, utilizing an assumed rate of return of 10.6% for 1981, the fair value of net assets available for plan benefits exceeded the actuarial present value of vested and non-vested accumulated plan benefits at December 31, 1981.

Dollars in Millions

5. **Additional Financial Information—**

	1982	1981
Depreciation—Percentage of average depreciable telephone plant	6.1%	5.9%
Amortization of investment tax credits	$ 85.9	$ 68.3
Other operating taxes:		
State and local income	$ 24.7	$ 26.4
Property	218.9	216.4
Gross receipts	190.7	165.2
Payroll-related	150.0	128.5
Other	16.9	15.3
Total	$601.2	$551.8
Interest expense:		
Interest on long and intermediate term debt	$433.7	$405.3
Interest on advances from AT&T	10.0	3.5
Interest on notes payable	52.3	20.3
Other	7.9	8.7
Total	$503.9	$437.8
Rental expense	$144.3	$119.4
Services received from parent under License Contract	$104.9	$132.8

6. **MCI And Litton Antitrust Litigation—**In June 1980, MCI Communications Corporation ("MCI") was awarded $1,800.0 in treble damages in a civil antitrust suit against AT&T. In January 1983, the U.S. Circuit Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. Petitions for rehearing of this decision were denied by the Court of Appeals. In July 1983, both parties petitioned the U.S. Supreme Court to review the case. On October 11, 1983, the Supreme Court denied the petitions. While the Telephone Company is not a defendant in the MCI case, it could experience financial impact from such an award through contracts providing for the allocation of expenses among Bell System telephone companies. In the opinion of AT&T's legal counsel, any monetary liability or financial impact to which AT&T and the Bell System companies might be subject after final adjudication would not be material in amount.

In June 1981, in an antitrust suit involving terminal equipment against AT&T and certain Bell System companies, including the Telephone Company, Litton Industries, Inc. ("Litton") was awarded $276.8 in treble damages. In February 1983, the U.S. Circuit Court of Appeals for the Second Circuit upheld the lower court's decision. The Court of Appeals denied AT&T's petition for a rehearing. In June 1983, AT&T petitioned the U.S. Supreme Court to review the case. On October 3, 1983, the Supreme Court invited the Solicitor General to file a brief in the case expressing the views of the Federal government. Should it ultimately be determined that the Litton award is payable, Net Income would be decreased in a future period. If such determination had been made as of June 30, 1983, the decrease in Net Income could have been as much as $20.6.

7. **Reinvested Earnings—**

	1982	1981
Reinvested Earnings		
At beginning of year	$1,437.9	$1,322.0
Add—Net Income	864.0	781.2
	2,301.9	2,103.2
Deduct—Dividends	751.3	665.3
At end of year	$1,550.6	$1,437.9

SUMMARY OF SIGNIFICANT FINANCIAL FORECAST ASSUMPTIONS FOR THE YEAR ENDING DECEMBER 31, 1984

Dollars in Millions

The Consent Decree requires that AT&T divest those parts of the Bell System operating telephone companies that provide exchange telecommunications and exchange access service, as well as printed directory advertising and cellular advanced mobile communications service business. The Plan outlines how divestiture will be accomplished on January 1, 1984.

This forecasted statement of income represents management's best estimate, based on present circumstances, of the most probable operating results of the Corporation for the year ending December 31, 1984. Accordingly, the financial forecast reflects management's judgment based on present circumstances of the most likely set of conditions and management's most likely course of action. The assumptions disclosed herein are those that management believes are significant to the financial forecast or are key factors upon which the financial results depend. The assumptions presented are consistent with the Plan approved by the Court. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur subsequent to November 8, 1983, the date of the financial forecast. Therefore, the actual results achieved during the forecast period will vary from the financial forecast and the variations may be material. Additionally, it should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist.

This forecasted statement of income includes estimates of the impact of transactions with AT&T and its subsidiaries. Due to potential competitor and supplier relationships, the assumptions used by the Corporation with regard to Access Charge revenues to be received from AT&T, sale of customer premises equipment, purchases from Western Electric and other similar transactions were not disclosed in detail to AT&T and thus will not necessarily be the same as the assumptions used by AT&T regarding such transactions.

The Corporation does not intend to update this forecasted statement of income because actual results will be reported during 1984. Consequently, it should be evaluated in light of any events and changes in circumstances occurring after November 8, 1983.

The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

Assumptions

(a) **General Economy**—In preparing the 1984 financial forecast, the Corporation assumed continued economic growth during the year accompanied by moderate inflation and slightly higher interest rates. The following national economic assumptions were utilized:

—Growth in Real Gross National Product (GNP)	5.0%
—Increase in Consumer Price Index (CPI)	4.4%
—Annual Average Interest Rates:	
AA Public Utility Bond Rating	12.4%
Prime Rate	11.6%
90-day Commercial Paper	9.8%
—Growth in Employment	3.0%

In addition, the Corporation also used the Southwestern Business Index which is a measure of Gross State Product for its five-state operating territory. This measure is expected to increase 5.2% in 1984.

(b) **Operating Revenues**—Revenues are based on estimated rates and volumes of business.

Following the FCC's October 18, 1983 Order suspending the effective date of interstate Access Charges to customers and interexchange carriers from January 1, 1984 to April 3, 1984, AT&T on October 27, 1983 petitioned the FCC to reconsider the suspension. In the event that the FCC declines to reconsider, AT&T and the RHCs have reached agreement as to the principal terms of an interim arrangement designed to compensate the BOCs for the use of their facilities for interstate toll and related services on a basis that is approximately consistent with the current level of interstate earnings (which level is somewhat lower than the authorized rate of return). The forecast assumes that such arrangement will be in effect from January 1, 1984 to April 3, 1984. There is pending before the Court a motion which was filed by the Bell Atlantic telephone subsidiaries prior to the time the agreement referred to above was reached. In that motion, the Bell Atlantic telephone subsidiaries proposed that they be compensated for use of their facilities for interstate toll service at the authorized rate of return. Consistent with the agreement, Bell Atlantic is requesting Court approval to withdraw its motion. AT&T and the other RHCs support that request.

The forecast also assumes that the implementation by the FCC of interstate Access Charges will occur on April 3, 1984, and that the Access Charge process will not be altered through (i) congressional legislation which, as currently proposed, seeks to suspend or prohibit Access Charges to residential and small business customers and also seeks to extend the present reduced interconnection rates charged to interexchange carriers other than AT&T, or (ii) judicial action relating to an appeal of the FCC's Order initially adopting Access Charges which is pending before the U.S. Court of Appeals for the District of Columbia Circuit.

The forecast assumes that intrastate interLATA Access Charges will become effective on January 1, 1984. Rates for exchange telecommunications services have been estimated based on prices expected to be established by state regulatory commissions.

Any changes in these assumptions could have a significant effect on forecasted Net Income; any further delay in implementation of Access Charges would reduce forecasted Net Income.

Revenues from these interstate and intrastate services are expected to recover the costs of providing such services, including a return on facilities. The Telephone Company has filed rate applications before the FCC and with all of its state regulatory commissions to establish rates for Access Charges and exchange telecommunications services. Since the tariff structures will be substantially different from those existing prior to divestiture, approximately 44% of the Corporation's 1984 estimated Total Operating Revenues are dependent upon the outcome of these rate applications. Approximately 3% of such forecasted Total Operating Revenues represents Access Charges to residential and small business customers for which tariffs have been filed with the FCC and which pending legislation seeks to delay or prohibit. If such customer access charges are delayed or prohibited by this legislation or if their effectiveness is further delayed by the FCC, the Telephone Company will have to seek to recover the cost of these services through other charges.

Access lines in service at December 31, 1984 are estimated to be 10,525,000. The Telephone Company expects to be able to modify, within reasonable limits, the costs of providing telephone service to recognize variations from the forecasted volume levels.

(c) **Depreciation**—Depreciation expense is estimated using rates and practices expected to be prescribed by the FCC applied to assets expected to be owned by the Corporation during 1984. The FCC is expected to approve depreciation rates that result in an average composite rate of about 6.5%; such rates are expected to be allowable in determining revenue requirements in intrastate rate-making proceedings. Construction costs of approximately $1,830.4 for the period are estimated based on estimated demand for communications services and improvements to existing services.

(d) **Other Operating Expenses**—Other expenses include primarily salaries, wages, pensions and other employee related expenses. Salaries and wages, including cost-of-living adjustments, are estimated based on expected post-divestiture force levels and reflect new union contracts agreed upon in August 1983. Pensions and other employee related expenses are estimated based on expected force levels and estimated payroll used to calculate such expenses. It is estimated that the changes in wages and fringe benefits resulting from the new contracts, as well as adjustments in ranges of compensation and fringe benefits for management employees, will increase expenses by about $159.0 in 1984.

Dollars in Millions

Maintenance expense includes an inflation adjustment of 4.4% and, as a percentage of the level of plant, is expected to remain relatively constant during 1984. CSO will furnish technical assistance, such as network planning, engineering and software development. The Corporation's share of the estimated cost of CSO has been included based on approved functions for CSO and its expected force levels and in 1984 is estimated to be approximately $105.9.

(e) **Operating Taxes**—The estimated Federal income tax expense is less than the amount computed by multiplying the sum of Federal Income Taxes and Net Income by the expected statutory federal income tax rate (46%). The differences are attributable to the following factors:

Taxes computed at statutory rate on book income before decreases (increases) in tax from:	$672.3
a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes but deducted currently for income tax purposes, net of applicable depreciation	8.9
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	17.9
c. Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represent after-tax profit to Western Electric	(11.9)
d. Amortization of investment tax credits over the life of the plant which gave rise to the credits	81.8
e. Other differences	(16.4)
Total	$592.0

The investment tax credit rate is expected to remain at 10%. Tax estimates are in accordance with the Tax Equity and Fiscal Responsibility Act of 1982. Social Security taxes are computed using a 7.0% rate on the statutory wage base. State and local tax estimates are determined based on taxable bases and statutory tax rates.

(f) **Interest Expense**—Interest expense was computed using an embedded cost of funded debt of 9.4%. Interest expense on short term debt, at an average estimated cost of 9.8%, represents 5.3% of total interest expense.

(g) **Weighted Average Shares**—The weighted average number of shares outstanding was calculated based on one-tenth of the number of AT&T common shares estimated to be outstanding as of December 30, 1983 and the estimated shares to be issued under the Corporation's dividend reinvestment and employee stock ownership plans during 1984. It is assumed that the shares of stock required to satisfy the Corporation's portion of employee benefit plans during 1984 will be purchased on the open market with funds provided by operations.

(h) **Summary of Significant Anticipated Sources of Funds Supporting Construction Activity**—

Funds from operations (net of anticipated first quarter 1984 dividend, annualized, of $545.6)	$1,878.7
Funds from external financing, net (principally sale of shares through dividend reinvestment plan)	129.5
Other (including interest charged construction)	(177.8)
Total construction activity	$1,830.4

(i) **Contingent Liabilities**—No amounts have been included in the financial forecast for the matters discussed in Note 6 to Historical Statements of Income.

NOTE TO FORECASTED 1984 STATEMENT OF INCOME

Dollars in Millions

Summary of Significant Accounting Policies—The forecasted statement of income is prepared in accordance with the generally accepted accounting principles expected to be used for the financial statements issued during the forecast period. Generally accepted accounting principles used in the forecasted statement of income have been applied on a basis consistent with those principles used in the historical statements of income for the years ended 1981 and 1982 and the twelve month period ended June 30, 1983, except as described below:

Revenue Refunds—Effective in 1984, in accordance with Statement of Financial Accounting Standards No. 71 ("Statement No. 71"), "Accounting for the Effects of Certain Types of Regulation," restatements of prior period results for revenue refunds will not be made; instead, refund liabilities (if any) will be reflected in current results.

Purchases from Western Electric—The Standard Supply Contract with Western Electric will be terminated in accordance with the Plan by January 1, 1984.

In 1984, the Telephone Company will no longer join with AT&T in filing a consolidated Federal income tax return. Accordingly, plant values associated with new purchases from Western Electric will not reflect the effect of the tax which formerly would have been deferred and therefore, such tax will no longer provide a source of funds. As a result of divestiture, the Telephone Company could be required to make an immediate payment of Federal income taxes previously deferred on intercompany profits. The amount of this payment applicable to plant owned by the Telephone Company is approximately $190.4. While payment of these deferred taxes would have no direct effect on Net Income, an immediate payment would increase the Telephone Company's needs for cash. However, AT&T believes that, pursuant to tax regulations, a closing agreement is likely to be entered into with the Internal Revenue Service which would result in only a moderate acceleration of the present time period over which these intercompany profits become taxable.

In addition to the above effects, the Telephone Company will be required to return to Western Electric previous payments of deferred taxes relating to plant assigned to AT&T Information Systems. AT&T will provide the funds to make such payments.

Provision for Pensions and Death Benefits—Upon divestiture, noncontributory pension and death benefit plans sponsored by the Corporation for management and non-management employees will be established similar to existing national Bell System plans.

Lease Commitments—The Telephone Company currently reflects lease payments for certain facilities and equipment used in their operations as rental expense of the periods to which they relate. In 1984, in accordance with Statement No. 71, the asset values and related obligations of capital leases with inception dates after December 31, 1982 will be included in the balance sheets. This change in accounting is not expected to affect Net Income because the total of the interest expense on the lease obligations plus the amortization expense of the leased assets will equal the rental expense allowed for rate-making purposes.

SOUTHWESTERN BELL CORPORATION

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

Dollars in Millions

The following Unaudited Historical Condensed Balance Sheet as of June 30, 1983 is derived from the unaudited financial statements included in the quarterly report on Form 10-Q of the Telephone Company.

The following Unaudited Pro Forma Condensed Balance Sheet gives effect to the divestiture of the Telephone Company by AT&T as if it had occurred on June 30, 1983 in accordance with the Plan. Because divestiture will not occur until January 1, 1984, actual balances and adjustments will vary from those presented in the pro forma balance sheet below. The Unaudited Pro Forma Condensed Balance Sheet should be read in conjunction with the audited financial statements and notes contained in the most recent annual report on Form 10-K, and with the unaudited financial statements and notes contained in the most recent quarterly report on Form 10-Q of the Telephone Company.

	Historical June 30, 1983	Pro Forma Adjustments	Pro Forma June 30, 1983
ASSETS			
Telephone Plant—Net of Accumulated Depreciation	$16,393.8	$(2,281.8)	$14,112.0
Current Assets	1,198.3	(52.4)	1,145.9
Deferred Charges	256.5	(7.0)	249.5
Total Assets	$17,848.6	$(2,341.2)	$15,507.4
INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS			
Share Owners' Equity	$ 7,399.0	$(1,046.9)	$ 6,352.1
Long and Intermediate Term Debt	4,969.1	—	4,969.1
Debt Maturing Within One Year	839.9	(626.8)	213.1
Other Current Liabilities	1,199.0	(2.5)	1,196.5
Deferred Taxes and Other Deferred Credits	3,441.6	(665.0)	2,776.6
Total Invested Capital, Liabilities, and Deferred Credits	$17,848.6	$(2,341.2)	$15,507.4

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

1. Pro Forma Adjustments—

Assets and liabilities are transferred to and from AT&T at net book value. The transfers are tax-free under the Internal Revenue Code. Accumulated deferred income tax reserves and unamortized investment credits are transferred along with the associated assets.

The capital structure is developed using a target debt ratio (debt as a percent of total debt and equity) for the Telephone Company of 45.0%. The target debt ratio will be used to determine the amount of debt to be removed by AT&T from the Telephone Company at the time of divestiture. This amount is expected to be about $584.7. The Corporation expects that its debt ratio at the time of divestiture will be approximately 44.6%.

2. Contingent Liabilities—See Note 6 to Historical Statements of Income.

Selected Operating Information

As of June 30, 1983 about 66% of the Telephone Company's access lines were in the metropolitan areas of Houston, Dallas, St. Louis and San Antonio. Sizeable areas in the territory in which the Telephone Company operates are served by non-affiliated telephone companies which had approximately 22% of the access lines in such territory on June 30, 1983. With minor exceptions the Telephone Company does not furnish local service in the areas and localities or portions thereof served by such companies. Baytown, Garland, Irving, Killeen, Plano and San Angelo in Texas; Texarkana in Arkansas and Texas; and Columbia in Missouri are the only cities of over 50,000 population which are served by non-affiliated companies.

The following table sets forth for the Telephone Company the number of network access lines in service at the end of each period and the number estimated to be in service on January 1, 1984.

	Network Access Lines in Service — Thousands					
	Estimated January 1, 1984	June 30, 1983	1982*	1981	1980	1979
Arkansas	625	614	609	606	601	586
Kansas	940	925	921	912	886	859
Missouri	1,780	1,770	1,757	1,750	1,731	1,705
Oklahoma	1,270	1,260	1,263	1,236	1,179	1,130
Texas	5,670	5,620	5,574	5,277	4,969	4,719
Total	10,285	10,189	10,124	9,781	9,366	8,999

* Amounts for 1982 reflect the acquisition of El Paso, Texas operations on January 1, 1982.

Construction Expenditures and Use of Proceeds

The Telephone Company has been making and expects to continue to make large construction expenditures to meet the demand for communications services and to further improve such services. Construction expenditures by the Telephone Company since January 1, 1978 were approximately as follows:

1978	$1,943,000,000	1981	$2,243,000,000
1979	2,217,000,000	1982	2,295,000,000
1980	2,217,000,000	1983 (through June 30)	897,000,000

The Telephone Company is projecting construction expenditures of approximately $1,983,000,000 for 1983 and approximately $1,813,000,000 for 1984, and other subsidiaries (primarily Mobile Systems) are expected to expend approximately $17,000,000 for their capital requirements in 1984. Substantially all of such requirements are expected to be financed by internally generated funds.

The Corporation does not know the amount of proceeds from shares to be issued under the Share Owner Dividend Reinvestment and Stock Purchase Plan, the Savings Plan for Salaried Employees, the Savings and Security Plan (Non-Salaried Employees), the Voluntary Contribution Plan and the Employee Stock Ownership Plan. The Corporation intends to use the proceeds from the sales of such shares for general corporate purposes, which may include advances to or investments in subsidiary companies.

The Corporation anticipates that it will be able to obtain external capital, if required, through issuance of shares pursuant to the plans described above, through short term borrowings and through the issuance of debt securities by the Telephone Company.

Rates, Regulation and Competition

Intrastate Rates

The Telephone Company, in providing communications services, is subject to regulation by state commissions in all of the states in which it operates with respect to intrastate rates and services and other matters.

Unless otherwise indicated, the amounts of the changes in revenues resulting from changes in intrastate rates referred to below are stated on an annual basis and are estimates without adjustment for subsequent changes in volumes of business. Increases set forth below do not include estimated settlements with independent telephone companies. Settlements with independent telephone companies are amounts that independents are entitled to receive for providing joint toll communications services furnished under uniform rates to cover their costs including a fair rate of return on the net plant investment devoted to the services.

The principal changes in intrastate rates authorized since January 1, 1978 in the states served by the Telephone Company were increases aggregating about $155,100,000 in 1978, $137,300,000 in 1979, $271,800,000 in 1980, $442,700,000 in 1981, $384,900,000 in 1982 and $73,200,000 through June 30, 1983. Decreases were made in intrastate rates aggregating about $18,500,000 in 1979 and $38,900,000 in 1981. Details of certain of these changes on a state-by-state basis are set forth below.

Because the Consent Decree prohibits the provision by the Telephone Company of some currently authorized products and services, it will not realize the full amount of revenues currently authorized by the states in which it will be doing business. As a result, the Corporation estimates a decrease in annual intrastate revenues aggregating approximately $2.0 billion before uncollectibles. However, there will be related reductions in the Telephone Company's rate base and the elimination of expenses incidental to assets and operations transferred to, and to be carried on by, AT&T and its subsidiaries in connection with divestiture.

The Telephone Company has filed petitions seeking rate increases for its authorized services which include requests to allow rates to recover increased depreciation expense in accordance with the FCC's orders which provide for improved capital recovery. Also filed as part of these petitions were Access Charge tariffs designed to compensate the Telephone Company for use of its facilities to provide Long Distance services furnished on an intrastate basis by interexchange carriers such as AT&T. (See "Description of the Divestiture Transaction—Access Charge Arrangements.") These charges are in addition to the Access Charges provided for by the FCC. The Telephone Company has filed petitions seeking rate increases for its authorized services, net of independent telephone company settlements, as follows:

	Dollars in Millions		
	Access Charge Portion of Filings	Remaining Revenue Requirement	Total Rate Case Filings
Arkansas	$ 48.2	$ 86.7	$ 134.9
Kansas	93.0	120.7	213.7
Missouri	73.1	135.8	208.9
Oklahoma	78.8	139.7	218.5
Texas	836.0	524.0	1,360.0
	$1,129.1	$1,006.9	$2,136.0

The Corporation is unable to give any assurances as to the amounts or effective dates of any rate increases that may be granted in any of the above rate proceedings.

In Arkansas, the Telephone Company requested from the Arkansas Public Service Commission ("APSC") a $57,500,000 increase in annual revenues in 1981 and was granted $41,500,000. An increase of $18,700,000 was granted by the APSC in an order of November 29, 1982. This order required a refund of $2,526,000 based on an alleged excess collection of deferred Federal income taxes. The refund was stayed pending the outcome of two appeals being taken on similar issues. The Telephone Company filed an appeal in the Pulaski County Circuit Court in response to the APSC's denial of its application for rehearing on the refund issue. The Telephone Company has an application pending before the APSC requesting an increase of $134,900,000 in annual revenues.

In Kansas, the Telephone Company requested from the Kansas Corporation Commission ("KCC") a $65,300,000 increase in annual revenues in 1981 and was granted $28,400,000. An increase of $46,700,000 was granted by the KCC in an order of February 25, 1982. In this order the KCC also granted an increase of $9,300,000 to recover the impact of a change to expense certain costs previously capitalized. The KCC granted another increase of $17,900,000 on March 4, 1983. Based on this case, on March 25, 1983, the Telephone Company filed a complaint in a U.S. District Court seeking to have the KCC increase rates by approximately $3,000,000 to reflect remaining life depreciation changes ordered by the FCC. In addition, on April 26, 1983, the Telephone Company filed a complaint in a U.S. District Court seeking to have the KCC increase rates by approximately $10,800,000 to reflect FCC prescribed separations methodology. In response to District Court injunctions, the KCC increased rates allowing the Telephone Company to recover the requested amounts, subject to refund. The Telephone Company has an application pending before the KCC requesting an increase of $213,700,000 in annual revenues.

In Missouri, the Telephone Company requested from the Missouri Public Service Commission ("MPSC") a $118,600,000 increase in annual revenues in 1981 and was granted $81,800,000. An increase of $11,100,000 was granted by the MPSC in an order of October 7, 1982 based upon the MPSC's approval of Equal Life Group and remaining life depreciation changes. In addition, an increase of $57,900,000 was granted by the MPSC on December 30, 1982. The Telephone Company has an application pending before the MPSC requesting an increase of $208,900,000 in annual revenues.

In Oklahoma, the Telephone Company requested from the Oklahoma Corporation Commission ("OCC") a $68,200,000 increase in annual revenues in 1981 and was granted $54,600,000. An increase of $16,400,000 was granted by the OCC in an order of March 3, 1982 based upon the OCC's approval of expensing station connections and depreciation changes. In addition, an increase of approximately $3,000,000 was authorized by the OCC on July 1, 1982 to implement rate changes associated with Tulsa and Oklahoma City exchange reclassification. The Telephone Company filed an application with the OCC on November 12, 1982 requesting an increase of $129,200,000. On May 24, 1983, the OCC issued an order suspending the pending rate case, directed the Telephone Company to file an amended application reflecting divestiture and granted interim relief in the amount of $40,800,000. The Telephone Company filed an amended application with the OCC requesting an increase of $218,500,000 in annual revenues.

In Texas, in two separate 1981 rate cases, the Telephone Company requested from the Texas Public Utility Commission ("TPUC") a total increase in annual revenues of $714,800,000 and was granted a total of $329,800,000. On November 9, 1982, the Telephone Company placed in effect under bond $265,400,000 in rates. The TPUC granted an increase in rates of $221,800,000 on January 3, 1983. On January 11, 1983 the Telephone Company reduced annual revenues by $43,600,000 to comply with the order. The Telephone Company's application for rehearing with the TPUC was overruled by operation of law on February 17, 1983. On February 18, 1983, the Telephone Company filed an original petition and application for a temporary injunction in a state district court in Austin, Texas. On March 18, 1983, the application for a temporary injunction was denied by the Court. A hearing was held July 1, 1983 on the merits of the case. The Court has taken the matter under consideration. The Telephone Company has an application pending before the TPUC requesting an increase of $1,360,000,000 in annual revenues.

Regulation, Interstate Rates and Competition

The sections entitled "Access Charge Arrangements" and "Pending Telecommunications Legislation" contained in the "Description of the Divestiture Transaction" section above, and "FCC Regulatory Jurisdiction," "Interstate Rates" and "Competition" contained in the "Common Information" section below are incorporated herein by reference.

Legal Proceedings and Contingent Liabilities

The sections entitled "Legal Proceedings" and "Contingent Liabilities" included in the "Common Information" section below are incorporated herein by reference.

Employee Relations

The Corporation estimates that as of January 1, 1984, it will employ approximately 74,700 persons through its headquarters and subsidiary operations. About 72% of the employees of the Corporation and its subsidiaries will be represented by the Communications Workers of America, which is affiliated with the AFL-CIO.

In August 1983, after a three-week strike, new three-year contracts were agreed upon by the Telephone Company which provide for wage increases of up to 5.5% in the first year and up to 1.5% in each of the second and third years together with cost-of-living adjustments in the second and third years and improvements in fringe benefits. Based on the number of persons estimated to be employed by the Corporation on January 1, 1984, it is estimated that these changes in wages and fringe benefits and similar changes for certain non-management employees not represented by unions will increase expenses of the Corporation by about $126 million on an annual basis by the end of the three year contract period, excluding any adjustments resulting from cost-of-living increases. For each 1% increase in the national Consumer Price Index for Urban Wage Earners and Clerical Workers in both the second and third years of the contract, it is estimated that cost-of-living adjustments will further increase expenses of the Corporation by about $21 million on an annual basis by the end of the three year contract period.

In addition to changes provided for non-management employees, adjustments will be made from time to time in the range of compensation for management employees and will be reflected in accounts as salary changes become effective. It is expected that by the end of the three-year contract period such adjustments together with improvements in fringe benefits for management employees will represent, on an annual basis, about 50.4% of the increases in compensation and fringe benefits of all employees.

Properties

On January 1, 1984, all properties relating to the services to be provided by the Corporation will have been transferred to it by AT&T. The Corporation estimates that central office equipment will represent 33% of the Corporation's consolidated investment in telephone plant; land and buildings (occupied principally by central offices) will represent 9%; wiring and equipment, substantially all of which are on the premises of customers, will represent 13%; and connecting lines not on customers' premises, the majority of which are on or under public roads, highways or streets and the remainder on or under private property, will represent 38%.

Substantially all of the installations of central office equipment and administrative offices are located in owned buildings situated on land held in fee. Many garages, business offices and telephone service centers are in rented quarters.

Description of Common Stock and Dividend and Market Information

All common shares (par value $1 per share) of the Corporation are entitled to participate equally in dividends. Each shareholder has one vote for each share registered in the shareholder's name. All common shares would rank equally on liquidation. Holders of common shares have no preemptive or cumulative voting rights.

The principal market for trading in the Corporation's common stock will be the New York Stock Exchange. Trading of the stock is expected to begin on a when issued basis in mid to late November 1983. The Corporation's stock certificates will be distributed in February 1984 and regular trading will begin.

As of September 30, 1983, there were 3,148,391 holders of record of AT&T common stock of which 2,565,186 were owners of ten or more shares. Each holder of record of AT&T stock as of December 30, 1983, other than those holding less than ten AT&T shares, will be entitled to receive common stock in the Corporation. (See "Method of Distribution of Regional Holding Company Shares to AT&T Shareholders.")

All common shares to be distributed in connection with the divestiture and to be issued in accordance with the Corporation's Share Owner Dividend Reinvestment and Stock Purchase Plan and Employee Stock Ownership Plan will be fully paid and nonassessable.

The Corporation anticipates that dividends will be declared on a quarterly basis and paid on May 1, August 1, November 1 and February 1. The Corporation has announced its intention to declare an initial quarterly dividend of $1.40 per share payable on May 1, 1984. The payment of future dividends will depend upon future earnings, the financial condition of the Corporation and other factors. Reference is made to Assumption (b) of the "Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984" for information concerning certain of such factors.

The Bylaws of the Corporation provide that the Board of Directors shall be divided into three classes, each consisting of an equal, or as nearly equal as possible, number of Directors. The terms of each class will expire in succeeding years. It will, therefore, require elections in three consecutive years to reelect or to replace the entire Board of Directors. The Bylaws of the Corporation also provide that certain business combinations must be approved by an affirmative vote of the holders of two-thirds of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (the "Voting Stock"). A "business combination" subject to this vote of approval is defined to include certain mergers or consolidations; certain sales, leases, exchanges, or mortgages of property in excess of $10,000,000 fair market value; any plan or proposal for liquidation or dissolution of the Corporation, and certain reclassifications of securities or recapitalizations of the Corporation to which a stockholder beneficially owning more than ten percent of the voting stock (an "Interested Stockholder") or any affiliate of an Interested Stockholder is a party. The two-thirds vote of approval is not required if the business combination is approved by a majority of Directors not affiliated with any Interested Stockholder or if the consideration received by the other stockholders upon the consummation of the business combination reflects a fair value (which is determined by formulae set forth in the Bylaws) for their interest in the Corporation and certain other requirements are met, including maintenance of dividends during the business combination and the furnishing of information to the stockholders of the Corporation.

The Certificate of Incorporation of the Corporation requires a two-thirds affirmative vote of the shareholders to amend any Bylaw which provides for the maximum number of Directors on the Board, for a classified Board with staggered terms of office or for approval by the shareholders or by the Board of Directors of any business combination. The Certificate of Incorporation also requires that shareholders representing at least two-thirds of the total number of shares of the Corporation must sign a written consent of any action without a meeting of the shareholders. Reference is hereby made to the Certificate of Incorporation and the Bylaws of the Corporation which are filed as Exhibits to the Registration Statement.

The provisions of the foregoing two paragraphs may tend to defer any potential unfriendly tender offers or other efforts to obtain control of the Corporation. On the other hand, these provisions will tend to assure continuity of management and corporate policies and tend to induce any person seeking control of the Corporation or a business combination with the Corporation to negotiate on terms acceptable to the then elected Board of Directors of the Corporation.

Directors and Officers

If the Corporation's common stock had been outstanding on October 15, 1983, the Directors and officers of the Corporation as a group based on their AT&T share ownership on that date, would have owned (including certain family holdings) with voting and investment power 3,484 common shares of the Corporation (includes shared voting and investment power as trustees of 617 shares) which is less than 1% of the class outstanding.

Directors (as of November 1, 1983)

Name [Age], Principal Occupation, Biographical & Other Information*	Equity Holdings of Southwestern Bell Corporation#
Zane E. Barnes [61], Chairman of the Board, President and Chief Executive Officer, Southwestern Bell Corporation and, President and Chief Executive Officer, Southwestern Bell Telephone Company (1, 4, 5)**. Mr. Barnes is a Director of Burlington Northern, Inc.; Centerre Bancorporation; Centerre Bank, St. Louis; General American Life Insurance Company; H & R Block, Inc.; INTERCO INCORPORATED; Reading & Bates Corporation; and Southwestern Bell Telephone Company.	256 shares
Louis C. Bailey [62], Vice President-Chief Financial Officer, Southwestern Bell Corporation and, Vice President—Finance and Comptroller, Southwestern Bell Telephone Company (1, 4)**. Mr. Bailey is a Director of Boatmen's Bancshares, Inc.; Boatmen's National Bank; and Southwestern Bell Telephone Company.	282 shares
Clarence C. Barksdale [51], Chairman of the Board and Chief Executive Officer, Centerre Bancorporation and Centerre Bank (2). Mr. Barksdale is a Director of Allied Bank International; Centerre Trust Company; Dillard Department Stores; Federal Reserve Bank of St. Louis; Pet Incorporated; Southwestern Bell Telephone Company; UMC Industries, Inc.; and Wetterau, Incorporated.	10 shares
John W. Bates, Jr. [64], Chairman of the Board and Chief Executive Officer, Reading & Bates Corporation (4, 5). Mr. Bates is a Director of First National Bank and Trust Company of Tulsa; First Tulsa Bancorporation; Reading & Bates Corporation; and Southwestern Bell Telephone Company.	None
Jack S. Blanton [55], Chairman of the Board and Chief Executive Officer, Scurlock Oil Company (5). Mr. Blanton is a Director of Gordon Jewelry Corporation; Southwestern Bell Telephone Company; Texas Commerce Bancshares; Texas Commerce Bank, N.A., Houston; and United Energy Resources, Inc.	340 shares
Henry W. Bloch [61], President and Chief Executive Officer, H & R Block, Inc. (2, 3). Mr. Bloch is a Director of H & R Block, Inc. and Southwestern Bell Telephone Company.	755 shares
Lloyd S. Bowles, Sr. [67], Chairman of the Board and Chief Executive Officer, Dallas Federal Savings and Loan Association (4, 5). Mr. Bowles is a Director of Allied Finance Company; A. H. Belo Corporation; MGIC Investment Corporation; Republic Bank Corporation; Republic Financial Services, Inc.; and Southwestern Bell Telephone Company.	None
August A. Busch III [46], Chairman of the Board and President, Anheuser-Busch Companies, Inc. and, Chairman of the Board and Chief Executive Officer, Anheuser-Busch, Inc. (1, 3). Mr. Busch is a Director of Anheuser-Busch Companies, Inc.; Centerre Bancorporation; General American Life Insurance Company; Laclede Gas Company; Norfolk Southern Corporation; and Southwestern Bell Telephone Company.	3 shares

(1) Member of the Executive Committee.

(2) Member of the Audit Committee.

(3) Member of the Corporate Public Policy Committee.

(4) Member of the Finance/Pension Committee.

(5) Member of the Human Resources Committee.

* The Corporation has a classified board of directors under which there are three classes of directors, each as nearly equal in number as possible. The terms of office for all of the present Directors will expire at the first annual meeting of shareholders which is expected to occur in early 1984. It is expected that all of the Directors will then be re-elected and assigned to one of the classes. The determination of which Directors will be assigned to particular classes and therefore, the terms of office of such Directors, has not yet been made. The term of office of the first class will expire at the annual meeting in 1985, the second class in 1986 and the third class in 1987. At each annual meeting, beginning in 1985, the directors in each class will be elected for a term which will expire the third succeeding annual meeting after their election.

** All of the Directors who are officers of Southwestern Bell Corporation have held responsible managerial positions with the Telephone Company, AT&T or another subsidiary or associated company of AT&T for more than the past five years. Directors who are shown as officers or partners of other corporations or institutions or firms have held the positions indicated or have been officers of the organization indicated for more than the last five years, except as noted for Mr. Monroe.

\# Holdings of common stock of the Corporation for each Director are estimated assuming the Director's ownership of AT&T common shares as of October 15, 1983, is unchanged on December 30, 1983, the divestiture distribution record date.

Name [Age], Principal Occupation, Biographical & Other Information*	Equity Holdings of Southwestern Bell Corporation#
George H. Capps [67], President, Capitol Coal and Coke Company (1, 5). Mr. Capps is a Director of Alton Packaging Corporation; Boatmen's Bancshares, Inc.; Boatmen's National Bank; General American Life Insurance Company; McDonnell Douglas Corporation; Petrolite Corporation; and Southwestern Bell Telephone Company.	67 shares
Ruben R. Cardenas [52], Partner, Cardenas & Whitis (2). Mr. Cardenas is a Director of McAllen State Bank and Southwestern Bell Telephone Company.	20 shares
Herschel H. Friday [61], Senior Partner, Friday, Eldredge & Clark (5). Mr. Friday is the senior partner in the law firm of Friday, Eldredge & Clark of Little Rock, Arkansas. The law firm of Friday, Eldredge & Clark is retained by Southwestern Bell Telephone Company, a wholly-owned subsidiary of the Corporation, for representation in various matters. Mr. Friday is a Director of First Commercial Bank, N.A.; First Commercial Corporation; Missouri-Pacific Railroad Company; Southwestern Bell Telephone Company; and Union Pacific Railroad Company.	60 shares
Tom C. Frost [56], Chairman of the Board, Cullen/Frost Bankers, Inc. and, Senior Chairman of the Board, Frost National Bank (3). Mr. Frost is a Director of Cullen/Frost Bankers, Inc.; La Quinta Motor Inns, Inc.; Southwestern Bell Telephone Company; and Tesoro Petroleum Corporation.	None
Joe H. Hunt [57], Executive Vice President, Southwestern Bell Corporation and, Executive Vice President and Chief Operating Officer, Southwestern Bell Telephone Company (1, 4)**. Mr. Hunt is a Director of Mercantile Bancorporation, Inc.; Mercantile Trust Company, N.A.; and Southwestern Bell Telephone Company.	54 shares
Charles F. Knight [47], Chairman and Chief Executive Officer, Emerson Electric Co. (1, 2). Mr. Knight is a Director of Baxter Travenol Laboratories, Inc.; Centerre Bancorporation; Centerre Bank, St. Louis; Centerre Trust Company; Cox Communications, Inc.; Emerson Electric Co.; McDonnell Douglas Corporation; Southwestern Bell Telephone Company; and Standard Oil Company (Ohio).	12 shares
William W. Martin [59], President and Chief Executive Officer, Martin Tractor Company, Inc. (3). Mr. Martin is a Director of First Topeka Bancshares, Inc.; Gas Service Company; and Southwestern Bell Telephone Company.	None
Haskell M. Monroe, Jr. [52], President and Professor of History, The University of Texas at El Paso, 1980-Present. Associate Vice President for Academic Affairs at Texas A&M, 1977-1980 (3). Mr. Monroe is a Director of Security Southwest Life Insurance Company and Southwestern Bell Telephone Company.	20 shares
Howard T. Tellepsen [70], Chairman of the Board, Tellepsen Construction Co. (2). Mr. Tellepsen is a Director of First Pasadena State Bank, Texas; Southwestern Bell Telephone Company; and Texas Employers Insurance Association, Dallas.	None

*, **, #, See Notes on preceding page.

Officers (as of November 1, 1983)

Name^ø	Age	Title
Zane E. Barnes†	61	Chairman of the Board, President and Chief Executive Officer
Louis C. Bailey†	62	Vice President—Chief Financial Officer
Gerald D. Blatherwick	47	Vice President—Public Relations
R. M. Geschwind	41	Treasurer
Ann Goddard	52	Secretary
James F. Haake	57	Vice President—Personnel
John E. Hayes, Jr.	46	Vice President—Revenues and Public Affairs
Joe H. Hunt†	57	Executive Vice President
Edgar Mayfield	58	Vice President and General Counsel
Robert G. Pope	47	Vice President—Strategic Planning

ø All of the above officers have held responsible managerial positions with the Telephone Company, AT&T or another subsidiary or associated company of AT&T for more than the past five years. They were elected as officers of the Corporation by the Board of Directors on October 14, 1983. They were not elected for a fixed term of office but serve at the discretion of the Board of Directors.

† Member of Board of Directors.

Compensation of Directors and Officers

Directors who are not employees receive an annual retainer of $12,000 and a fee of $450 for each board and committee meeting attended. The Chairman of the Audit Committee receives an additional annual retainer of $2,500 and other non-employee Directors who chair committees receive additional annual retainers of $1,250. Directors may elect to defer the receipt of all or a part of fees and retainers. Amounts so deferred earn interest at a variable rate, adjusted quarterly, and equal to the average rate paid on commercial paper issued by the Corporation and any of its subsidiaries during the calendar quarter. If no commercial paper is issued by the Corporation or any of its subsidiaries during the quarter, the rate shall be equal to the 90-day dealer commercial paper rate in effect on the first day of the calendar quarter. Directors who are also employees receive no compensation for serving as Directors or as members of board committees.

The currently authorized salaries for the five most highly compensated executive officers of the Corporation, effective November 1, 1983, are as follows:

Name	Office	Authorized* Salary
Zane E. Barnes	Chairman of the Board, President and Chief Executive Officer	$ 367,000
Joe H. Hunt	Executive Vice President	245,000
Louis C. Bailey	Vice President—Chief Financial Officer	211,000
James F. Haake	Vice President—Personnel	193,000
Edgar Mayfield	Vice President and General Counsel	189,000
Officers of the Corporation as a group (consists of 10 persons, including those named above)		1,829,400

* These are the present salaries of these individuals in their capacities as officers of Southwestern Bell Telephone Company. The Board of Directors of the Corporation has not yet authorized salaries to be paid officers in 1984.

The section entitled "Compensation of Directors and Officers" included in the "Common Information" section below is incorporated herein by reference.

First Public Shareholders' Meeting and Submission of Shareholder Proposals

Because the Corporation's first year of operations will be 1984, its first public shareholders' meeting is presently scheduled for April 26, 1985. The Corporation will prepare and disseminate its annual report and proxy statement for such meeting; proposals of shareholders intended for inclusion in such proxy statement should be sent to the Secretary of the Corporation at 1010 Pine Street, St. Louis, Missouri 63101 and must be received by January 1, 1985.

INFORMATION STATEMENT

FOR

U S WEST, Inc.

The Company

U S WEST, Inc. ("U S WEST") was incorporated in 1983 under the laws of the State of Colorado and has its principal executive offices at 7800 East Orchard Road, Englewood, Colorado 80111 (telephone number 303 793-6500). At divestiture, AT&T will transfer to U S WEST its 100 percent ownership in three telephone subsidiaries, The Mountain States Telephone and Telegraph Company ("Mountain Bell"), Northwestern Bell Telephone Company ("Northwestern Bell") and Pacific Northwest Bell Telephone Company ("Pacific Northwest Bell"). U S WEST will also receive from AT&T NewVector Communications, Inc. ("NewVector"), a cellular advanced mobile communications service subsidiary, and a one-seventh interest in CSO.

In addition, U S WEST has established three other wholly-owned subsidiaries, LANDMARK PUBLISHING Company ("LANDMARK"), Interline Communication Services, Inc. ("Interline") and BetaWest Properties, Inc. ("BetaWest").

Mountain Bell was incorporated in 1911 under the laws of the State of Colorado and has its principal offices at 931 Fourteenth Street, Denver, Colorado 80202 (telephone number 303 624-2424). Commencing January 1, 1984, Mountain Bell will be engaged in the furnishing of exchange telecommunications and exchange access service in Arizona, Colorado, Montana, New Mexico, Utah, Wyoming and Idaho south of the Salmon River. Its subsidiary Malheur Home Telephone Company, furnishes such services in Malheur County, Oregon.

Northwestern Bell was incorporated in 1896 under the laws of the State of Iowa and has its principal offices at 1314 Douglas-On-The-Mall, Omaha, Nebraska 68102 (telephone number 402 422-2000). Commencing January 1, 1984, Northwestern Bell will be engaged in the furnishing of exchange telecommunications and exchange access service in Iowa, Minnesota, Nebraska, North Dakota and South Dakota.

Pacific Northwest Bell was incorporated in 1961 under the laws of the State of Washington and has its principal offices at Sixteen Hundred Bell Plaza, Seattle, Washington 98191 (telephone number 206 345-2211). Commencing January 1, 1984, Pacific Northwest Bell will be engaged in the furnishing of exchange telecommunications and exchange access service in Oregon, Washington and northern Idaho.

Exchange telecommunications service refers to intraLATA service which includes toll service as well as local service.

NewVector, commencing in 1984, will be engaged in the business of providing advanced mobile communications services using cellular technology. Initial operations will be in Denver, Phoenix and, through a partnership in which NewVector is the general partner, Minneapolis and Seattle.

LANDMARK, commencing in 1984, will be engaged in the business of publishing telephone directories through its subsidiary U S WEST DIRECT Company.

Interline, commencing in 1984, will be engaged in the business of providing communication consulting and engineering, installation, maintenance and service of communication systems.

BetaWest, commencing in 1984, will be engaged in the business of providing property management and development services to U S WEST and its subsidiaries.

U S WEST has announced its intent to form a subsidiary to engage in the business of marketing business communications equipment, commencing in 1984.

U S WEST expects to mail regular reports to its shareowners containing annual audited and quarterly unaudited financial statements. Such reports are expected to contain a discussion of the financial results including, where appropriate, comparisons with expected results.

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The accompanying financial forecast of U S WEST, Inc. for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period. Accordingly, the financial forecast reflects management's judgment, based on present circumstances, of the most likely set of conditions and management's most likely course of action.

We have made a review of the financial forecast in accordance with applicable guidelines for a review of a financial forecast established by the American Institute of Certified Public Accountants. Our review included procedures to evaluate both the assumptions used by management and the preparation and presentation of the financial forecast. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Based on our review, we believe that the accompanying financial forecast of U S WEST, Inc. is presented in conformity with applicable guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants. We believe that the underlying assumptions provide a reasonable basis for management's financial forecast. However, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material.

COOPERS & LYBRAND

Denver, Colorado
November 8, 1983

We have examined the accompanying combined historical statements of income for the years ended December 31, 1982 and 1981 of The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company and Pacific Northwest Bell Telephone Company, which are wholly owned subsidiaries of American Telephone and Telegraph Company. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the historical statements of income referred to above present fairly the combined results of operations of the subsidiaries referred to above for the years ended December 31, 1982 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Denver, Colorado
February 4, 1983

U S WEST, Inc.

FINANCIAL FORECAST AND COMBINED HISTORICAL STATEMENTS OF INCOME

The financial forecast for U S WEST, consisting of a forecasted Statement of Income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, represents management's best estimate based on present circumstances of the most probable operating results and sources of funds supporting construction activity for the year ending December 31, 1984, and has been reviewed by Coopers & Lybrand, independent certified public accountants, whose report is included herein.

It should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist. The extent of the changes required as a result of divestiture do not permit meaningful comparisions between forecasted results and the results for periods prior to 1984.

The following Combined Historical Statements of Income reflect the combination of the historical statements of income of Mountain Bell, Northwestern Bell and Pacific Northwest Bell (the "telephone subsidiaries"), which will be the principal operating subsidiaries of U S WEST. All significant intercompany transactions have been eliminated. The Combined Historical Statements of Income of the telephone subsidiaries for the years 1981 and 1982 have been examined by Coopers & Lybrand, whose report is included herein. The unaudited Combined Historical Statement of Income for the twelve month period ended June 30, 1983, in the opinion of U S WEST, includes all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of income. These Combined Historical Statements of Income are not adjusted for the effects of divestiture.

	Dollars in Millions (except per share amount)			
	Post-Divestiture Forecasted	Pre-Divestiture Combined Historical		
	Year 1984	12 Months Ended June 30, 1983	Year 1982	Year 1981
		(Unaudited)		
Local Service Revenues	$ XX	$3,287.0	$3,147.1	$2,837.9
Toll Service Revenues	XX	3,948.8	3,891.7	3,626.2
Directory Advertising and Miscellaneous Operating Revenues	XX	455.4	443.2	391.1
Provision for Uncollectibles	XX	(95.1)	(85.8)	(66.2)
Total Operating Revenues	**7,436.8**	**7,596.1**	**7,396.2**	**6,789.0**
Depreciation	1,119.2	1,137.4	1,041.6	916.6
Other Operating Expenses	3,878.0	3,933.0	3,987.2	3,595.0
Total Operating Expenses	**4,997.2**	**5,070.4**	**5,028.8**	**4,511.6**
Net Operating Revenues	**2,439.6**	**2,525.7**	**2,367.4**	**2,277.4**
Federal Income Taxes	588.9	579.7	508.8	484.0
Other Operating Taxes	586.9	607.9	600.9	560.3
Total Operating Taxes	**1,175.8**	**1,187.6**	**1,109.7**	**1,044.3**
Operating Income	**1,263.8**	**1,338.1**	**1,257.7**	**1,233.1**
Other Income	**54.8**	**31.1**	**42.5**	**43.7**
Interest Expense	**440.8**	**458.3**	**462.9**	**458.9**
Net Income	**$ 877.8**	**$ 910.9**	**$ 837.3**	**$ 817.9**
Earnings per Share	**$ 8.96**	NA	NA	NA
Weighted Average Number of Shares Outstanding (Millions)	98.0	NA	NA	NA

See accompanying Notes to Combined Historical Statements of Income, Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984, and Note to Forecasted 1984 Statement of Income.

NA = Not Applicable

NOTES TO COMBINED HISTORICAL STATEMENTS OF INCOME

(Amounts relating to the twelve months ended June 30, 1983 are unaudited)

Dollars in Millions

1. **Accounting Policies**—The Combined Historical Statements of Income of U S WEST reflect the combination of the historical statements of income of Mountain Bell, Northwestern Bell and Pacific Northwest Bell and the application of the accounting policies described in this Note and in Note 3. All significant intercompany transactions have been eliminated.

Revenue Refunds—The telephone subsidiaries record in their financial statements material revenue refunds applicable to prior years as adjustments of the respective years' income and, within a year, as adjustments of the applicable interim periods' income.

Purchases from Western Electric—Western Electric, a wholly-owned subsidiary of AT&T, has a substantial investment in manufacturing and other facilities which are devoted mainly to its business with affiliated telephone companies. Western Electric has supply contracts with the telephone subsidiaries which provide that the prices it charges for the telephone equipment and materials it manufactures or procures for the telephone subsidiaries shall be as low as the prices it charges its most favored customers for like materials and services under comparable conditions. The financial statements reflect items purchased from Western Electric at cost to the telephone subsidiaries, which cost includes the return realized by Western Electric on its investment devoted to the communications business. See also "Telephone Plant" below.

Telephone Plant—The investment in equipment and materials dedicated to providing communications services is stated at its original cost. Such amounts do not purport to represent reproduction cost or current value. The original cost of telephone plant obtained from Western Electric includes a return on Western Electric's investment (see "Purchases from Western Electric" above). It is impossible to identify the particular purchases from Western Electric over a long period of years which were charged to the plant accounts and now remain therein, but U S WEST considers that such purchases represent about 52% to 53% of the telephone subsidiaries' total plant investment as of December 31, 1982. Western Electric advises that its rate of profit before interest charges has varied by years and by classes of sales, but that such rate of profit before interest charges, included in prices for material sold and services furnished to affiliated telephone companies (including items chargeable to other than plant accounts), has been approximately 6.0% of such sales over the twenty year period ended December 31, 1982 and approximately 7.0% of such sales over the three year period then ended. Western Electric considers that its rate of profit before interest charges on those items which have been charged to the plant accounts is somewhat higher than its rate on total sales to affiliated companies.

Currently, AT&T and certain of its subsidiaries, including Western Electric and the telephone subsidiaries, join in the filing of a consolidated federal income tax return. As a result, Western Electric's profits before income taxes included in the cost of those materials and services in the telephone subsidiaries' plant accounts are excluded from consolidated taxable income in the year acquired from Western Electric. Instead, such profits are recognized and taxed over the depreciable life of the related plant since, for tax purposes, the telephone subsidiaries must exclude Western Electric profits in deriving the depreciable cost of its investment in telephone plant. Consequently, the telephone subsidiaries' tax liability is higher than if they were permitted to depreciate the full amount they initially paid to Western Electric. Western Electric provides the telephone subsidiaries with the funds necessary to pay the tax liability on these deferred profits in the year in which the telephone subsidiaries first acquire the related telephone plant. These payments are treated as reductions of the investment in telephone plant which results in a reduction in depreciation expense over the life of the related plant. However, there is no material effect on Net Income because the decrease in depreciation expense is offset by the aforementioned increase in the income tax provision.

Materials and Supplies—New material and reusable material are carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Depreciation—Prior to 1981, the provision for depreciation was based on straight-line composite rates, prescribed by the FCC, determined on the basis of the average expected lives of categories of telephone plant acquired in a given year. In 1982 the FCC approved the implementation of the method of determining straight-line composite rates on the basis of equal life groups ("ELG") of certain categories of telephone plant acquired in a given year which will result in a higher provision for depreciation than that based on average expected lives. In 1981, the FCC authorized the telephone subsidiaries to begin implementation of the "remaining life" method of depreciation. The "remaining life" method provides for the full recovery of the investment in telephone plant. Effective January 1, 1981, the FCC also authorized shorter lives for customer terminal equipment. The increases in depreciation expense resulting from these FCC actions should be allowable in determining revenue requirements in rate-making proceedings. Regulatory commissions in certain states have not yet approved implementation of the ELG and remaining life methods of depreciation for intrastate rate-making purposes. See also Note 5.

When depreciable plant, other than minor items thereof which are replaced, is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

Maintenance and Repairs—The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is, with minor exceptions, charged to operating expenses.

Station Connections—During 1981, the FCC directed that beginning January 1981 certain costs of installing telephone service on a customer's premises be expensed instead of capitalized and that the balance of the investment in installation costs be amortized.

Interest Charged Construction—Regulatory authorities allow the telephone subsidiaries to accrue interest as a cost of constructing certain plant and as an item of income, i.e., interest charged construction. Such income is not realized in cash currently but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Lease Commitments—The telephone subsidiaries lease certain facilities and equipment used in their operations and reflect lease payments as rental expense of the periods to which they relate. These leases include some which would be classified as "capital leases" under criteria established by the Financial Accounting Standards Board. However, for regulatory accounting and rate-making purposes, such leases are not capitalized. Had such leases been capitalized, the effect on Net Income for 1982 and 1981 would have been insignificant.

Income Taxes—

(a) AT&T and its subsidiaries file a consolidated federal income tax return. The consolidated income tax currently payable is allocated in accordance with each company's contribution to consolidated taxable income.

(b) Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the period during which the transaction will be recognized in the determination of net income for financial reporting purposes. Appropriate income charges and their subsequent reversal, reflected as deferred income taxes-net, prevent the tax effect of these timing differences from distorting net income. The telephone subsidiaries recognize the tax effects of timing differences on the following transactions:

(1) Vacation pay is deductible for income tax purposes in the year prior to being expensed in these financial statements.

Dollars in Millions

(2) Depreciation for income tax purposes is determined based on accelerated methods and shortened lives which cause such depreciation to be higher during the early years of plant life and lower in later years than the depreciation charges for such plant reflected in the statements of income.

(c) Investment tax credits result from provisions of the federal tax law which allow for a reduction in tax liability based on certain construction expenditures. Corresponding reductions in tax expense are deferred and, except for the additional one percent credit available under the Tax Reduction Act of 1975 which must be contributed currently to the Bell System Employee Stock Ownership Plan, are amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

2. **Income Taxes—**

The components of operating income tax expenses were as follows:

	1982	1981
Federal:		
Current	$ 59.5	$ 81.0
Deferred-net	335.9	254.6
Investment tax credits-net	113.4	148.4
	508.8	484.0
State and Local:		
Current	35.2	36.9
Deferred-net	27.6	31.0
Investment tax credits-net	0.7	1.9
	63.5	69.8
Total	$572.3	$553.8

Income tax expense which relates to non-operating income included in Other Income was $1.1 in 1982 and 1981.

Deferred income tax expense results principally from timing differences between depreciation expense recognized for income tax purposes and depreciation expense reflected in these financial statements.

The effective federal income tax rate, as determined by dividing Federal Income Taxes (see above) by the sum of Federal Income Taxes and Net Income, was 37.8% in 1982 and 37.2% in 1981. The differences of 8.2% in 1982 and 8.8% in 1981 between the effective rate and the federal income tax statutory rate of 46% are attributable to the following factors:

Dollars in Millions

	1982	1981
a. Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation	1.9%	3.1%
b. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	1.0	1.1
c. Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(.8)	(.7)
d. Amortization of investment tax credits over the life of the plant which gave rise to the credits. Such amortization reduced income tax expense for 1982 and 1981 by the amounts shown in Note 5	5.8	5.1
e. Other differences	.3	.2
Total	8.2%	8.8%

3. **Provision for Pensions and Death Benefits**—Employees of the telephone subsidiaries are covered by two national Bell System noncontributory pension and death benefit plans sponsored by AT&T and the Bell System companies, one for management employees and one for non-management employees. Contributions to such plans are made to irrevocable trust funds. It is the policy of the telephone subsidiaries to make contributions which are equal to the current year cost of the plans determined on a going concern basis by an actuarial method specified by the Employee Retirement Income Security Act of 1974. The following data relate to plan costs:

	1982	1981
Current year cost	$338.8	$326.0
Current year cost as a percent of salaries and wages	13.31%	13.50%

Amendments to the plans during 1982 had the effect of increasing 1982 pension cost by approximately $33.6 while recognition of 1981 actuarial experience had the effect of decreasing 1982 cost.

Statement of Financial Accounting Standards No. 36 requires that certain disclosures be made of the actuarial present value of accumulated plan benefits and the fair value (essentially current market value) of net assets available for plan benefits. With the October 1, 1980, merger of the individual Bell System companies' plans, including the telephone subsidiaries' plans, into the two national Bell System plans, such disclosures are not presented for the telephone subsidiaries because the structure of the new plans does not readily permit the plans' assets and the accumulated benefits data to be disaggregated. However, based on the latest actuarial valuations of the two national plans, utilizing an assumed rate of return of 10.6% for 1981, the fair value of net assets available for plan benefits exceeded the actuarial present value of vested and non-vested accumulated plan benefits at December 31, 1981.

4. **Intrastate Revenues Subject To Possible Refund**—Intrastate revenues have been collected subject to possible refund since 1981 and included in operating revenues. Should it ultimately be determined that these amounts are to be refunded, Net Income would be decreased in a future period. The total amount of intrastate revenues (net of taxes) subject to possible refund at June 30, 1983 is approximately $50.8.

Dollars in Millions

5. **Additional Financial Information—**

	1982	1981
Depreciation—Percentage of average depreciable telephone plant	5.99%	5.77%
Amortization of investment tax credits	$ 77.9	$ 66.0
Other operating taxes:		
State and local income	$ 63.5	$ 69.8
Property	230.3	212.8
Gross receipts	135.1	128.6
Payroll-related	160.6	138.4
Other	11.4	10.7
Total	$600.9	$560.3
Interest expense:		
Interest on long and intermediate term debt	$374.2	$359.8
Interest on advances from AT&T	12.2	10.4
Interest on notes payable	68.3	79.3
Other	8.2	9.4
Total	$462.9	$458.9
Rental expense	$159.8	$137.3

6. **MCI And Litton Antitrust Litigation**—In June 1980, MCI Communications Corporation was awarded $1.8 billion in treble damages in a civil antitrust suit against AT&T. In January 1983 the U.S. Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. Petitions for rehearing of this decision were denied by the Court of Appeals. In July 1983, both parties petitioned the U.S. Supreme Court to review the case. On October 11, 1983, the Supreme Court denied the petitions. In the opinion of AT&T's legal counsel, any monetary liability or financial impact to which AT&T and the Bell System companies might be subject after final adjudication would not be material in amount.

In June 1981, in an antitrust suit involving terminal equipment against AT&T and certain Bell System companies, including Pacific Northwest Bell, Litton Industries, Inc. ("Litton") was awarded $276.8 in treble damages. While Mountain Bell and Northwestern Bell are not defendants in this case, they could experience financial impacts from such an award through arrangements providing for the allocation of expenses among Bell System telephone companies. In February 1983, the U.S. Court of Appeals for the Second Circuit upheld the lower court's decision. The Court of Appeals denied AT&T's petition for a rehearing. In June 1983, AT&T petitioned the U.S. Supreme Court to review the case. On October 3, 1983, the Supreme Court invited the Solicitor General to file a brief in the case expressing the views of the Federal government. Should it ultimately be determined that the Litton award is payable, Net Income would be decreased in a future period. If such determination had been made as of June 30, 1983, the decrease in Net Income could have been as much as $20.0.

7. **Reinvested Earnings—**

	1982	1981
Reinvested Earnings		
At beginning of year	$2,180.2	$1,897.7
Add—Net Income	837.3	817.9
	3,017.5	2,715.6
Deduct—Dividends declared	798.3	535.4
At end of year	$2,219.2	$2,180.2

SUMMARY OF SIGNIFICANT FINANCIAL FORECAST ASSUMPTIONS FOR THE YEAR ENDING DECEMBER 31, 1984

Dollars in Millions

The Consent Decree requires that AT&T divest those parts of the Bell System operating telephone companies that provide exchange telecommunications and exchange access service, as well as printed directory advertising and cellular advanced mobile communications service business. The Plan outlines how divestiture will be accomplished on January 1, 1984.

This forecasted statement of income represents management's best estimate, based on present circumstances, of the most probable operating results of U S WEST for the year ending December 31, 1984. Accordingly, the financial forecast reflects management's judgment based on present circumstances of the most likely set of conditions and management's most likely course of action. The assumptions disclosed herein are those that management believes are significant to the financial forecast or are key factors upon which the financial results depend. The assumptions presented are consistent with the Plan approved by the Court. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur subsequent to November 8, 1983, the date of the financial forecast. Therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material. Additionally, it should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist.

This forecasted statement of income includes estimates of the impact of transactions with AT&T and its subsidiaries. Due to potential competitor and supplier relationships, the assumptions used by U S WEST with regard to Access Charge revenues to be received from AT&T, sale of customer premises equipment purchases from Western Electric and other similar transactions were not disclosed in detail to AT&T and thus will not necessarily be the same as the assumptions used by AT&T regarding such transactions.

U S WEST does not intend to update this forecasted statement of income because actual results will be reported during 1984. Consequently, it should be evaluated in light of any events and changes in circumstances occurring after November 8, 1983.

The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984.

Assumptions

(a) **General Economy**—The following national economic assumptions were considered in preparing the 1984 financial forecast.

Growth in Real Gross National Product (GNP)	5.0%
Increase in Consumer Price Index (CPI)	4.4%
Annual Average Interest Rates:	
—AAA Bond Rating	12.2%
—AA Bond Rating	12.4%
—Prime	11.6%
—90 Day Commercial Paper	9.8%

(b) **Operating Revenues**—Revenues are based on estimated rates and volumes of business.

Following the FCC's October 18, 1983 Order suspending the effective date of interstate Access Charges to customers and interexchange carriers from January 1, 1984 to April 3, 1984, AT&T on October 27, 1983 petitioned the FCC to reconsider the suspension. In the event that the FCC declines to reconsider, AT&T and the RHCs have reached agreement as to the principal terms of an interim arrangement designed to compensate the BOCs for the use of their facilities for interstate toll and related services on a basis that is approximately consistent with the current level of interstate earnings (which level is somewhat lower than the authorized rate of return). The forecast assumes that such arrangement will be in effect from January 1, 1984 to April 3, 1984. There is pending before the Court a motion which was filed by the Bell Atlantic telephone subsidiaries prior to the time the agreement referred to above was reached. In that motion, the Bell Atlantic telephone subsidiaries proposed that they be compensated for use of their facilities for interstate toll service at the authorized rate of return. Consistent with the agreement, Bell Atlantic is requesting Court approval to withdraw its motion. AT&T and the other RHCs support that request.

The forecast also assumes that the implementation by the FCC of interstate Access Charges will occur on April 3, 1984, and that the Access Charge process will not be altered through (i) congressional legislation which, as currently proposed, seeks to suspend or prohibit Access Charges to residential and small business customers and also seeks to extend the present reduced interconnection rates charged to interexchange carriers other than AT&T, or (ii) judicial action relating to an appeal of the FCC's Order initially adopting Access Charges which is pending before the U.S. Court of Appeals for the District of Columbia Circuit.

Intrastate interLATA Access Charges are assumed to become effective on April 3, 1984. However, the telephone subsidiaries have filed or will file, in each state, requests for rates to become effective January 1, 1984. It is assumed arrangements will be implemented to compensate the telephone subsidiaries for the use of their facilities for intrastate toll and related services for the interim period.

Any changes in these assumptions could have a significant effect on forecasted Net Income; any further delay in implementation of Access Charges would reduce forecasted Net Income.

Revenues from these interstate and intrastate services are expected to recover the costs of providing such services including a return on facilities. Rates for exchange telecommunications services have been estimated based on prices expected to be established by state regulatory commissions. The telephone subsidiaries have filed or will file rate applications before the FCC and in all of the state regulatory commissions to establish rates for Access Charges and exchange telecommunications services. Since the tariff structures will be substantially different from those existing prior to divestiture, approximately 34% of the forecasted Total Operating Revenues for 1984 are dependent upon the outcome of these rate applications. Approximately 2.5% of such forecasted Total Operating Revenues represent Access Charges to residential and small business customers for which tariffs have been filed with the FCC and which pending legislation seeks to delay or prohibit. If such customer Access Charges are delayed or prohibited by this legislation or its effectiveness is further delayed by the FCC, the telephone subsidiaries will have to seek to recover the cost of these services through other charges.

Access lines in service at December 31, 1984 are estimated to be 10,851,800. The telephone subsidiaries expect to be able to modify, within reasonable limits, the costs of providing telephone service to recognize variations from the forecasted volume levels.

(c) **Depreciation**—Depreciation expense is estimated using rates and practices expected to be prescribed by the FCC applied to assets expected to be owned by the telephone subsidiaries during 1984. The FCC is expected to approve depreciation rates that result in an average composite rate of about 6.4%; such rates are expected to be allowable in determining revenue requirements in intrastate rate-making proceedings. Construction costs of $1,837 million for the period are estimated based on estimated demand for communications services and improvements to existing services.

(d) **Other Operating Expenses**—Other expenses include primarily salaries, wages, pensions and other employee related expenses. Salaries and wages, including cost-of-living adjustments, are estimated based on expected post-divestiture force levels and reflect new union contracts agreed upon in August 1983. Pensions and other employee related expenses are estimated based on expected force levels and estimated payroll used to calculate such expenses. It is estimated that the changes in wages and fringe benefits resulting from the new contracts, as well as adjustments in ranges of compensation and fringe benefits for management employees, will increase expenses by about $138.2 in 1984.

Maintenance expense includes an inflation adjustment of 4½ to 6%, and as a percentage of the level of plant is expected to remain relatively constant during 1984. The CSO will furnish technical assistance, such as network planning, engineering and software development. U S WEST's share of the estimated cost of the CSO has been included based on approved functions for the CSO and its expected force levels, and in 1984 is estimated to be approximately $107.0.

Dollars in Millions

(e) **Operating Taxes**—The estimated effective annual federal income tax rate is expected to be 40.2%. The difference of 5.8% between the estimated effective tax rate and the assumed statutory rate of 46% is attributable to the following factors:

a.	Certain taxes and payroll-related construction costs capitalized for financial statement purposes but deducted currently for income tax purposes, net of applicable depreciation	.6%
b.	Interest charged construction, which is excluded from taxable income, net of applicable depreciation	.9
c.	Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represent after-tax profit to Western Electric	(.7)
d.	Amortization of investment tax credits over the life of the plant which gave rise to the credits	5.6
e.	Other differences	(.6)
	Total	5.8%

The investment tax credit rate is expected to remain at 10%. Tax estimates are in accordance with the Tax Equity and Fiscal Responsibility Act of 1982. Social Security taxes are computed using a 7.0% rate on the statutory wage base. State and local tax estimates are determined based on taxable bases and statutory tax rates.

(f) **Interest Expense**—Interest expense was computed using an embedded cost of funded debt of 8.8%. Interest expense on short-term debt, at an average estimated cost of 12.5%, represents 5.4% of total interest expense.

(g) **Weighted Average Shares**—The weighted average number of shares outstanding was calculated based on one-tenth of the number of AT&T common shares estimated to be outstanding as of December 30, 1983 and the estimated shares to be issued under U S WEST's dividend reinvestment plan and employee benefit plans during 1984.

(h) **Summary of Significant Anticipated Sources of Funds Supporting Construction Activity**—

Funds from operations (net of first quarter 1984 dividend, annualized, of $526)	$1,885
Funds from external financing	312
Other (including interest charged construction)	(280)
Total construction activity	$1,917

(i) **Contingent Liabilities**—No amounts have been included in the financial forecast for the matters discussed in Note 6 to Combined Historical Statements of Income.

NOTE TO FORECASTED 1984 STATEMENT OF INCOME

Dollars in Millions

Summary of Significant Accounting Policies—The forecasted statement of income is prepared in accordance with the generally accepted accounting principles expected to be used for the financial statements issued during the forecast period. Generally accepted accounting principles used in the forecasted statement of income have been applied on a basis consistent with those principles used in the combined historical statements of income for the years ended 1981 and 1982 and the twelve-month period ended June 30, 1983, except as described below:

Revenue Refunds—Effective in 1984, in accordance with Statement of Financial Accounting Standards No. 71 ("Statement No. 71"), "Accounting for the Effects of Certain Types of Regulation", restatements of prior period results for revenue refunds will not be made; instead, refund liabilities (if any) will be reflected in current results.

Purchases from Western Electric—The Standard Supply Contracts with Western Electric will be terminated in accordance with the Plan by January 1, 1984.

In 1984, the telephone subsidiaries will no longer join with AT&T in filing a consolidated Federal income tax return. Accordingly, plant values associated with new purchases from Western Electric will not reflect the effect of the tax which formerly would have been deferred and therefore, such tax will no longer provide a source of funds. As a result of divestiture, the telephone subsidiaries could be required to make an immediate payment of Federal income taxes previously deferred on intercompany profits. The amount of this payment applicable to plant owned by the telephone subsidiaries is approximately $166.1. While payment of these deferred taxes would have no direct effect on Net Income, an immediate payment would increase the telephone subsidiaries' needs for cash. However, AT&T believes that, pursuant to tax regulations, a closing agreement is likely to be entered into with the Internal Revenue Service which would result in only a moderate acceleration of the present time period over which these intercompany profits become taxable.

In addition to the above effects, the telephone subsidiaries will be required to return to Western Electric previous payments of deferred taxes relating to plant assigned to AT&T Information Systems. AT&T will provide the funds to make such payments.

Provision for Pensions and Death Benefits—Upon divestiture, noncontributory pension and death benefit plans sponsored by U S WEST for management and non-management employees will be established similar to existing national Bell System plans.

Lease Commitments—The telephone subsidiaries currently reflect lease payments for certain facilities and equipment used in their operations as rental expense of the periods to which they relate. In 1984, in accordance with Statement No. 71, the asset values and related obligations of capital leases with inception dates after December 31, 1982, will be included in the balance sheets. This change in accounting is not expected to affect Net Income because the total of the interest expense on the lease obligations plus the amortization expense of the leased assets will equal the rental expense allowed for rate-making purposes.

U S WEST, INC.

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

The following Unaudited Combined Historical Balance Sheet as of June 30, 1983 is derived from the unaudited financial statements included in the quarterly reports on Form 10-Q of the telephone subsidiaries. All significant intercompany transactions have been eliminated.

The following Unaudited Pro Forma Condensed Balance Sheet gives effect to the divestiture of the telephone subsidiaries by AT&T as if it had occurred on June 30, 1983 in accordance with the Plan. Because divestiture will not occur until January 1, 1984, actual balances and adjustments will vary from those presented in the Pro Forma balance sheet below. The Unaudited Pro Forma Condensed Balance Sheet should be read in conjunction with the audited financial statements and notes contained in the most recent annual reports on Form 10-K, and with the unaudited financial statements and notes contained in the most recent quarterly reports on Form 10-Q of the telephone subsidiaries.

	Dollars in Millions		
	Combined Historical June 30, 1983	Pro Forma Adjustments	Pro Forma June 30, 1983
ASSETS			
Telephone Plant—Net of Accumulated Depreciation	$15,730.5	$(1,962.7)	$13,767.8
Current Assets	1,108.3	(54.5)	1,053.8
Deferred Charges	233.9	(1.9)	232.0
Total Assets	$17,072.7	$(2,019.1)	$15,053.6
INVESTED CAPITAL, LIABILITIES AND DEFERRED CREDITS			
Shareowners' Equity	$ 7,331.2	$(1,265.8)	$ 6,065.4
Long and Intermediate Term Debt	4,603.5	—	4,603.5
Debt Maturing Within One Year	552.7	(245.1)	307.6
Other Current Liabilities	1,223.9	(12.6)	1,211.3
Deferred Taxes and Other Deferred Credits	3,361.4	(495.6)	2,865.8
Total Invested Capital, Liabilities and Deferred Credits	$17,072.7	$(2,019.1)	$15,053.6

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

1. Pro Forma Adjustments—Assets and liabilities are transferred to and from AT&T at net book value. The transfers are tax-free under the Internal Revenue Code. Accumulated deferred income tax reserves and unamortized investment credits are transferred along with the associated assets.

The capital structure is developed using a target debt ratio (debt as a percent of total debt and equity) for the telephone subsidiaries of 44.7%. The target debt ratio will be used to determine the amount of debt to be removed by AT&T from the telephone subsidiaries at the time of divestiture. This amount is expected to be $341 million. U S WEST expects that through operating efficiencies its debt ratio at the time of divestiture will be approximately 43.3%.

2. Contingent Liabilities—See Note 6 to Combined Historical Statements of Income.

Selected Operating Information

As of June 30, 1983, about 40.2% of the access lines of the telephone subsidiaries of U S WEST were in the metropolitan areas of Denver, Des Moines, Minneapolis-St. Paul, Omaha, Phoenix, Portland, Salt Lake City, Seattle and Spokane and about 21.5% are in other metropolitan areas having populations in excess of 50 thousand. Sizeable areas in the territory which the telephone subsidiaries operate are served by non-affiliated telephone companies which had approximately 20.5% of the access lines in such territory on June 30, 1983. The telephone subsidiaries do not furnish local service in the areas or localities served by such companies.

The following table sets forth for the telephone subsidiaries the number of network access lines in service at the end of each period and the number estimated to be in service on January 1, 1984.

	Network Access Lines in Service — Thousands					
	–Estimated – January 1, 1984	June 30, 1983	1982	1981	1980	1979
Mountain Bell	4,757	4,658	4,656	4,718*	4,501*	4,278*
Northwestern Bell	3,323	3,274	3,278	3,270	3,223	3,147
Pacific Northwest Bell	2,488	2,449	2,453	2,450	2,402	2,318
Total	10,568	10,381	10,387	10,438	10,126	9,743

* Amounts for 1981 and prior years include the operations in El Paso County, Texas. These properties were sold to Southwestern Bell Telephone Company on January 1, 1982.

Construction Expenditures and Use of Proceeds

U S WEST's telephone subsidiaries have been making, and expect to continue to make, large construction expenditures to meet the demand for communications services and to further improve such services. Construction expenditures by the telephone subsidiaries since January 1, 1978, were approximately as follows:

1978	$1,910,000,000	1981	$2,391,000,000
1979	2,101,000,000	1982	2,113,000,000
1980	2,244,000,000	1983 (through June 30)	769,000,000

U S WEST's telephone subsidiaries are projecting construction expenditures of approximately $1,696,000,000 for 1983 and approximately $1,837,000,000 for 1984, and other subsidiaries (including NewVector) are expected to expend approximately $80,000,000 for their capital requirements in 1984. Substantially all of such requirements are expected to be financed through internally generated funds.

U S WEST does not know the amount of proceeds from shares to be issued under the U S WEST Shareowner Dividend Reinvestment and Stock Purchase Plan, the U S WEST Savings Plan for Salaried Employees, the U S WEST Savings and Security Plan, the U S WEST Voluntary Contribution Plan and the U S WEST Employee Stock Ownership Plan. U S WEST intends to use proceeds from the sales of such shares for general corporate purposes, which may include advances to or investments in subsidiary companies.

U S WEST anticipates that it will be able to obtain any external capital, if required, through issuance of debt securities by its subsidiaries, through short term borrowings and through the issuance of shares pursuant to the plans described above.

Rates, Regulation and Competition

Intrastate Rates

In providing communications services, Mountain Bell, Northwestern Bell and Pacific Northwest Bell are subject to regulation by state commissions in all of the states in which they operate with respect to intrastate rates and services and other matters.

Unless otherwise indicated, the amounts of the changes in revenues resulting from changes in intrastate rates referred to below are stated on an annual basis and are estimates without adjustment for subsequent changes in volumes of business.

The principal changes in intrastate rates authorized since January 1, 1978 in the states served by the telephone subsidiaries were increases aggregating about $66,900,000 in 1978, $52,400,000 in 1979, $110,300,000 in 1980, $308,804,000 in 1981, $255,296,000 in 1982 and in 1983 through October 31, $240,200,000. Decreases were made in intrastate rates aggregating about $55,800,000 in 1978, $3,400,000 in 1979 and $8,500,000 in 1980.

An order granting about $19.9 million of the 1980 increases is under appeal in Minnesota. Of the 1981 increases, an order granting about $60.0 million is under appeal in Minnesota and about $11.8 million is under appeal in Montana. Of the 1982 increases, an order granting about $38.5 million is under appeal in Colorado and an order granting about $10.7 million is under appeal in Iowa. Of the 1983 increases, an order granting about $52.6 million is under appeal in Minnesota, an order granting about $6.2 million is under appeal in Nebraska and $38.8 million is under appeal in Washington.

Because the Consent Decree prohibits the provision by the telephone subsidiaries of some currently authorized products and services, the telephone subsidiaries will not realize the full amount of revenues currently authorized by the states in which they will be doing business. As a result, U S WEST estimates a decrease in annual intrastate revenues aggregating approximately $766,642,000 before uncollectibles. However, there will be related reductions in the rate bases of the telephone subsidiaries and the elimination of expenses incidental to assets and operations transferred to, and to be carried on by, AT&T and its subsidiaries in connection with divestiture.

The telephone subsidiaries have applications pending to increase rates for their authorized services in the following states:

(Dollars in Millions)

State	Date Filed	Amount Being Requested	Interim Increase Granted
Arizona	2/22/83	$ 78.3	$ —
Idaho	10/21/83	21.1	—
Minnesota	9/29/83	104.3	—
Montana	3/28/83	20.7	4.2
Nebraska	9/ 2/83	6.5	—
New Mexico	6/17/83	81.7	1.7
North Dakota	7/22/83	14.2	—
Oregon	9/30/83	32.0	—
South Dakota	5/13/83	18.5	—
Utah	5/13/83	42.8	11.4
Wyoming	2/4/83	16.0	—
Total		$436.1	$17.3

Interim increases are being collected pending final resolution of the proceeding and are subject to possible refund.

The rate increases sought include requests to allow rates to recover increased depreciation expense in accordance with the FCC's orders which provide for improved capital recovery.

In addition to the access charges provided for by the FCC, regulatory commissions in the states in which the telephone subsidiaries will be doing business will allow Access Charges to compensate those companies for use of their facilities to provide Long Distance services furnished on an intrastate basis by carriers such as AT&T. (See "Access Charge Arrangements" above.) The telephone subsidiaries have filed or will file with the following states access charge tariffs which are designed to produce annual revenues as follows:

(Dollars in Millions)

State	Date Filed	Amount Being Requested
Arizona	—	$ —
Colorado	—	—
Idaho	—	—
Iowa	—	—
Minnesota	7/ 1/83	96.5
Montana	—	—
Nebraska	10/14/83	20.2
New Mexico	—	—
North Dakota	10/11/83	11.4
Oregon	10/13/83	41.0
South Dakota	—	—
Utah	—	—
Washington	9/30/83	80.6
Wyoming	—	—
Total		$249.7

U S WEST is unable to give any assurances as to the amounts or effective dates of any rate increases that may be granted in any of the above rate proceedings.

Regulation, Interstate Rates and Competition

The sections entitled "Access Charge Arrangements" and "Pending Telecommunications Legislation" contained in the "Description of the Divestiture Transaction" section above, and "FCC Regulatory Jurisdiction," "Interstate Rates" and "Competition" contained in the "Common Information" section below are incorporated herein by reference.

Legal Proceedings and Contingent Liabilities

The sections entitled "Legal Proceedings" and "Contingent Liabilities" included in the "Common Information" section below are incorporated herein by reference.

Employee Relations

U S WEST estimates that as of January 1, 1984, it will employ approximately 75,000 persons through its headquarters and subsidiary operations. About 65% of the employees of U S WEST and its subsidiaries will be represented by the unions. Of those so represented about 96% will be represented by the Communications Workers of America, which is affiliated with the AFL-CIO and about 4% by other unions affiliated with the AFL-CIO.

In August 1983, after a three-week strike, new three-year contracts were agreed upon by Mountain Bell, Northwestern Bell and Pacific Northwest Bell which provide for wage increases of up to 5.5% in the first year and up to 1.5% in each of the second and third years, together with cost-of-living adjustments in the second and third years and improvements in fringe benefits. Based on the number of persons estimated to be employed by U S WEST on January 1, 1984, it is estimated that these changes in wages and fringe benefits and similar changes for certain non-management employees not represented by unions will increase expenses of U S WEST by about $93,000,000 on an annual basis by the end of the three year contract period, excluding any adjustments resulting from cost-of-living increases. For each 1% increase in the national Consumer Price Index for Urban Wage Earners and Clerical Workers, it is estimated that cost-of-living adjustments in each of the second and third years will further increase expenses of U S WEST by about $9,600,000 on an annual basis.

In addition to changes provided for non-management employees, adjustments will be made from time to time in the ranges of compensation for management employees and will be reflected in accounts as salary changes become effective. It is expected that such adjustments, together with improvements in fringe benefits for management employees, will represent about 52% of the increases in compensation and fringe benefits of all employees.

Properties

On January 1, 1984, all properties relating to the services to be provided by U S WEST will have been transferred to it by AT&T. U S WEST estimates that central office equipment will represent 33% of U S WEST's consolidated investment in telephone plant; land and buildings (occupied principally by central offices) will represent 9%; wiring and equipment, substantially all of which are on the premises of customers, will represent 17%; and connecting lines not on customers' premises, the majority of which are on or under public roads, highways or streets and the remainder on or under private property, will represent 32%.

Substantially all of the installations of central office equipment and administrative offices are located in owned buildings situated on land held in fee. Many garages, business offices and telephone service centers are in rented quarters.

Description of Common Stock and Dividend and Market Information

All common shares (without par value) of U S WEST are entitled to participate equally in dividends. Each shareowner has one vote for each share registered in the shareowner's name. All common shares would rank equally on liquidation. Shareowners have no preemptive rights.

U S WEST's Articles of Incorporation provide for a classified Board of Directors effective with the first shareowners' meeting. Under that classification there are three classes of Directors, each as nearly equal in number as possible. The term of office of the first class will expire at the shareowners' meeting in 1986, the term of the second class at the shareowners' meeting in 1987 and the term of the third class at the shareowners' meeting in 1988. At each shareowners' meeting, beginning in 1986, the number of Directors to be elected will equal the number of the class whose term expires at that meeting and the term for which they will be elected will be until the third succeeding shareowners' meeting after their election. Cumulative voting is not allowed in the election of directors.

Article Nine of U S West's Articles of Incorporation provides that the affirmative vote of not less than 80% of the outstanding shares shall be required for the approval of any "Business Combination" (as defined therein, generally a merger or other extraordinary corporate transaction) of the Corporation with any "Related Person" (an owner of 10% or more of the outstanding shares) unless either the Business Combination shall have been approved by a majority of directors unaffiliated with the Related Person or all of the following conditions have been met: (i) the aggregate amount of consideration received per share by holders shall be at least equal either to the highest price per share paid by the Related Person for any shares acquired by it when it became such person or within two (2) years prior to the announcement of the Business Combination, or the highest market value or liquidation value per share on the date of such announcement or the date the Related Person became such, (ii) the consideration shall be in cash or in the same form as the Related Person has previously paid for shares and (iii) a proxy statement shall have been mailed to public shareowners soliciting shareowner approval of the Business Combination.

Article Nine also provides that a vote of two-thirds of the outstanding shares is necessary to amend the Bylaws or remove a member of the Board of Directors and that the Article can only be amended by a vote of 80% of the outstanding shares unless the change was approved by 2/3 of the Board of Directors.

The provisions of the foregoing three paragraphs may tend to deter any potential unfriendly tender offers or other efforts to obtain control of U S WEST and thereby deprive shareowners of opportunities to sell shares at higher market prices. On the other hand these provisions will tend to assure continuity of management and corporate policies and tend to induce any person seeking control of U S WEST or a business combination with U S WEST to negotiate on terms acceptable to the then elected Board of Directors of U S WEST.

Except as provided in Article Nine, the vote of a majority of the outstanding shares is necessary to approve a plan of merger.

Pursuant to the Articles of Incorporation of U S WEST, the aggregate number of shares which U S WEST shall have authority to issue is 550,000,000 shares, consisting of 500,000,000 common shares without par value and 50,000,000 preferred shares having a par value of $1.00 per share.

The preferred shares may be issued from time to time in one or more series. All preferred shares of all series shall rank equally and be identical in all respects except that the Board of Directors is authorized to fix the number of shares in each series, the designation thereof, the relative rights, preferences and limitations of each series and the variations in such rights, preferences and limitations as between series. U S WEST has no present plans to issue any preferred stock.

The markets for trading in U S WEST common stock initially will be the New York and Pacific Stock Exchanges. Trading of the stock is expected to begin on a "when issued" basis in November 1983. Following divestiture, U S WEST stock certificates will be distributed in February 1984 after which regular trading will begin.

As of September 30, 1983, there were 3,148,391 holders of record of AT&T common stock of which 2,565,186 were owners of ten or more shares. Each holder of record of AT&T stock as of December 30, 1983, other than those holding less than ten AT&T shares, will be entitled to receive common stock in U S WEST. (See "Method of Distribution of Regional Holding Company Shares to AT&T Shareholders".)

It is estimated that 3,566,000 shares of U S WEST common stock will be issued during 1984 by U S WEST under its Shareowner Dividend Reinvestment and Stock Purchase Plan, Employee Stock Ownership Plan, Savings Plan for Salaried Employees, Savings and Security Plan and Voluntary Contribution Plan.

All common shares to be distributed in connection with the divestiture and to be issued in accordance with the above described plans will be fully paid and nonassessable.

U S WEST anticipates that dividends will be declared on a quarterly basis and paid on May 1, August 1, November 1 and February 1, and that the initial dividend payment will be $1.35 per share. The declaration and timing of all dividends are at the discretion of the Board of Directors and are dependent upon U S WEST's earnings and financial requirements, general business conditions and other factors. Reference is made to Assumption (b) of "Summary of Significant Financial Forecast Assumptions for the Year Ending December 31, 1984" for information concerning certain of such factors.

Directors and Officers

On September 30, 1983, if U S WEST common shares had been outstanding, the Directors and officers of U S WEST as a group based on their AT&T share ownership on that date, would have owned (including certain family holdings) with voting and investment power 900 common shares of U S WEST (includes shared voting and investment power as custodian of 218 shares) which is less than 1% of the class that would have been outstanding.

Directors (as of November 1, 1983)

Name (Age) Memberships on Board Committees U S WEST Equity Holdings*	Biographical and Other Information
Shirley M. Hufstedler (58) Audit Committee	Mrs. Hufstedler has been a partner in the law firm of Hufstedler, Miller, Carlson & Beardsley since 1981. She served as United States Secretary of Education from 1979 to 1981 and as a Judge on the United States Court of Appeals for the Ninth Circuit from 1968 to 1981. Mrs. Hufstedler is a Director of Hewlett-Packard Co.
Allen F. Jacobson (57) Audit Committee 70 common shares (Mr. Jacobson is custodian for his childrens' accounts, 218 shares, under the Minnesota Uniform Gift to Minors Act.)	Mr. Jacobson has been Executive Vice President of Minnesota Mining & Manufacturing Co. since 1981 and served as Group Vice President, Tape and Allied Products from 1975 to 1981. Mr. Jacobson is a Director of Minnesota Mining & Manufacturing Co., Northern States Power Company and Valmont Industries, Inc.
Jack A. MacAllister (56) 134 common shares	Mr. MacAllister has been President of U S WEST, Inc. since 1983. He was Chairman of the Board of its subsidiary, Northwestern Bell Telephone Company, from 1982 to 1983 and President and a Director from 1975 to 1982. Mr. MacAllister is a Director of First Interstate Bancorp, The St. Paul Companies, Inc. and Toro Co.
Robert D. O'Brien (70) Compensation and Management Succession Committee Trust Investment Committee 65 common shares	Mr. O'Brien has been Chairman of the Board of the Univar Corporation since 1978. He was a Director of Pacific Northwest Bell Telephone Company, a subsidiary of U S WEST, from 1968 to 1983. Mr. O'Brien is a Director of Puget Sound Power and Light Co., Rainier Bancorporation, Rainier National Bank and Weyerhaeuser Co.
Glen L. Ryland (59) Compensation and Management Succession Committee	Mr. Ryland has been Chairman, President, and Chief Executive Officer of Frontier Holdings, Inc., since 1982. He has been Chairman of the Board of Frontier Airlines, Incorporated, since 1981, President and Chief Executive Officer since 1980, Chief Operating Officer from 1976 to 1980 and Executive Vice President from 1973 to 1980. He was a Director of The Mountain States Telephone and Telegraph Company, a subsidiary of U S WEST, from 1980 to 1983. He is a Director of Homestake Mining Company.
William I. Spencer (66) Trust Investment Committee	Mr. Spencer was President and Chief Administrative Officer of Citicorp and Citibank, N.A. from 1970 until he retired in 1982. He is a Director of Amerada Hess Corp., Bio-Response, Inc., Capital Cities Communications, Inc., Trust Company of the West and United Technologies Corp.
Willis A. Strauss (61) Compensation and Management Succession Committee	Mr. Strauss has been Chairman of the Board and Chief Executive Officer of InterNorth, Inc., since 1966. He was a Director of Northwestern Bell Telephone Company, a subsidiary of U S WEST, from 1972 to 1983. Mr. Strauss is a Director of First Bank System, Inc., Ingersoll-Rand Co., Majers Corporation, The Omaha National Bank and The Omaha National Corp.
Jack H. Vollbrecht, Sr. (62) Audit Committee	Mr. Vollbrecht has been a General Business Consultant since 1981, he was President of Aero-Jet General Corp. from 1969 to 1981. Mr. Vollbrecht is a Director of For Better Living, Inc. and UNC Resources, Inc.
Daniel Yankelovich (58) Trust Investment Committee 80 common shares	Mr. Yankelovich has been Chairman of the Board of Yankelovich, Skelly & White, Inc., since 1981 and he was President from 1959 to 1981. Mr. Yankelovich is a Director of Loral Corporation, Meredith Corporation, Reliance Group Holdings, Inc. and Reliance Insurance Company.

* Holdings of common stock of U S WEST for each Director are estimated assuming the Director's ownership of AT&T common shares as of September 30, 1983, is unchanged on December 30, 1983, the divestiture record date.

The foregoing Directors constitute the initial Board of Directors and will hold office until the first shareowners' meeting on May 3, 1985 or until their successors have been elected and qualified.

Officers (as of November 1, 1983)

Name	Age	Office	Held Since
Jack A. MacAllister	56	President	1983
Howard P. Doerr	54	Executive Vice President and Chief Financial Officer	1983
Laurence W. DeMuth, Jr.	54	Executive Vice President, General Counsel and Secretary	1983
A. Gary Ames	39	Vice President and Treasurer	1983
Barbara B. Doherty	44	Vice President-Human Affairs	1983
John W. Felt	51	Vice President-Public Relations	1983
Larry G. Kappel	43	Vice President-Strategic Planning and Development	1983
James M. Travers	58	Vice President and Controller	1983

Prior to election to a U S WEST office, each of the above officers held high-level managerial positions with Mountain Bell, Northwestern Bell, Pacific Northwest Bell or AT&T for more than the past five years.

Officers are not elected for a fixed term of office but serve at the discretion of the Board of Directors.

Compensation of Directors and Officers

Directors who are not employees receive an annual retainer of $18,000 and a fee of $600 for each Board and committee meeting attended. Non-employee Directors who chair committees receive additional annual retainers of $4,000. Directors may elect to defer the receipt of all or a part of fees and retainers. Amounts so deferred earn interest, compounded quarterly, at a rate equal to the average interest rate for ten-year United States Treasury notes for the previous quarter. Directors who are also employees receive no compensation for serving as Directors or as members of Board committees.

In 1983 the Board of Directors adopted a program for non-employee Directors who serve a minimum of three years on the Board of U S WEST. The plan provides for an amount equal to five percent of the final twelve months basic retainer times the years served on the Board of U S WEST with a maximum of ten years. This amount will be paid over a five year period or as a lump sum. Current directors who previously served on a telephone subsidiary board will receive credit for such service.

The currently authorized salaries for the five most highly compensated executive officers of U S WEST, effective January 1, 1984, are as follows:

Name	Office	Authorized Salary
Jack A. MacAllister	President	$380,000
Howard P. Doerr	Executive Vice President and Chief Financial Officer	235,000
Laurence W. DeMuth, Jr.	Executive Vice President, General Counsel and Secretary	225,000
Larry G. Kappel	Vice President-Strategic Planning and Development	120,000
A. Gary Ames	Vice President and Treasurer	115,000

The following is a description of the compensation plan for officers of U S WEST.

U S WEST has separate non-contributory pension plans for management and non-management employees. Under the management pension plan, retirement is mandatory at age 65 for officers and other executives; however, retirement before age 65 can be elected with certain conditions. Under the management plan, annual pensions are computed on an adjusted career average pay basis. The applicable adjusted career average pay formula (which represents the same terms as the predecessor Bell System Plan), effective October 1, 1983, is the sum of (a) 1.6% of the average pay for the five years ended September 30, 1982 times the number of years of service prior to October 1, 1982 plus (b) 1.6% of pay subsequent to September 30, 1982. Pension amounts are not subject to reductions for Social Security benefits or other offset amounts. The Employee Retirement Income Security Act of 1974 places certain limitations on pensions which may be paid under Federal income tax qualified plans. Pension amounts which exceed such limitations, as well as pension amounts attributable to short term incentive plan awards, will be paid outside the qualified plan as an operating expense.

U S WEST provides life insurance for Senior Officers (the President and any Executive Vice President) equal to one year's salary (not including incentive plan payments) and, in addition, a death benefit (payable either from a trust fund or from insurance as the officer elects) equal to one year's salary and applicable short term incentive award, which may be payable to a spouse or certain other dependent relatives. These benefits will continue after retirement.

In 1983, U S WEST adopted insured annuitant's benefit plans for Senior Officers. The annuity is payable only if there is a surviving spouse or parent. The annual benefit is equal to the product of the average of the standard short term awards for the positions held for the last six years (or fewer if not a participant for six years) times .0065 of the number of years of credited service.

A Senior Officer who becomes disabled may receive full salary for up to one year and 60% of final salary thereafter, up to age 65, and may be given credit for the period of disability in computing service for pension purposes. An officer or surviving spouse also may be entitled to a minimum pension (based on 15% of final salary and short term incentive award). Payment amounts which are not offset by amounts payable under the management pension plan and other U S WEST-provided pensions will be paid as an operating expense.

Employees hired at age 35 or over into the fourth level of management and above are covered by a supplemental benefit plan. The plan provides survivor insurance protection equal to one year's salary until the employee qualifies for coverage under the management pension plan or the disability plan for officers. For those at the fifth level of management and above, the plan also provides additional pension credits equal to the difference between 35 and their maximum possible years of service attainable at age 65, but not to exceed actual Net Credited Service, at one-half the rate in the management pension plan (or 0.8%). Benefits under this plan will be paid as an operating expense.

Under the savings plan for salaried employees, any eligible employee may make a basic allotment of 2%, 4% or 6% from salary and U S WEST contributes an amount equal to two-thirds of the basic allotment.

Federal tax law makes an additional tax credit available to a company if it applies an equivalent amount to the purchase of its securities, to be held in trust for employees. An employee stock ownership plan was adopted under this provision in 1983 by U S WEST to provide for the issuance of U S WEST common shares to employees of U S WEST. The employee stock ownership plan provides for the conversion of an investment in AT&T shares accumulated since the inception of the AT&T plan into an investment in U S WEST shares.

In 1983 U S WEST established a short term incentive plan applicable to officers which provides for annual cash awards beginning in 1985 based on the achievement in the previous year of performance criteria described below. Under this plan, the U S WEST Board of Directors sets an award opportunity (target and maximum) as a percentage of base salary for each officer position. The award granted each year will be based on individual and corporate performance in the preceding year and may range from zero to the maximum amount established for each position. U S WEST performance is measured on the basis of criteria established by the U S WEST Board of Directors relating primarily to financial performance. These results plus evaluation of individual performance are used to determine the amount paid to each officer.

In 1983 U S WEST adopted a long term incentive plan applicable to officers. Awards are made in units. The portion of units distributed, if any, at the end of the three year performance period is set by the U S WEST Board of Directors and will be determined by the degree to which certain financial objectives are met. Distribution of units will be made in the form of cash or the company's common shares, with a unit valued at the then current value of a share. The performance period initially established by the U S WEST Board of Directors is a three year period ending December 31, 1986. The first distribution would be made in early 1987.

Units granted to officers from the previous Bell System Long Term Incentive Plan will be discounted by the actual time elapsed in the five year performance period and will be distributed in two installments in 1985 and 1986. The number of units distributed will be based on pre-divestiture Bell System performance and the distribution will be in the form of cash and U S WEST stock.

In 1983, U S WEST adopted a plan to permit deferral of awards under both the short and long term plans. On deferred share amounts, accounts will be credited, on each dividend payment date for U S WEST common shares, with an amount of common shares equivalent in market value to the amount of the quarterly dividend on the shares then held. On deferred cash amounts interest will be compounded quarterly at a rate equal to the average interest rate for ten-year United States Treasury notes for the previous quarter.

First Shareowners' Meeting and Submission of Shareowner Proposals

Because U S WEST's first year of operations will be 1984, its first shareowners' meeting is scheduled for May 3, 1985. U S WEST's 1984 annual report and proxy statement for such meeting will be mailed to shareowners in advance. Proposals of shareowners intended for inclusion in such proxy statement should be sent to the Secretary of U S WEST at 7800 East Orchard Road, Englewood, Colorado 80111 and must be received by December 14, 1984.

COMMON INFORMATION

The following information is applicable to each of the RHCs and is incorporated by reference into each of the preceding RHC Information Statements, with the exception that "Compensation of RHC Directors and Officers" is not incorporated into the "Information Statement for U S West Inc." In addition, the following information, with the exception of the "Compensation of RHC Directors and Officers" section, is applicable to AT&T and is incorporated by reference into the preceding AT&T Information Statement.

FCC Regulatory Jurisdiction

The BOCs and AT&T are subject to the jurisdiction of the FCC with respect to interstate and foreign rates, lines and services, as well as access charges and other matters. The FCC prescribes a uniform system of accounts, depreciation rates and the principles and standard procedures ("separations procedures") used to separate property costs, revenues, expenses, taxes and reserves between those applicable to interstate services under the jurisdiction of the FCC and those applicable to intrastate services under the jurisdiction of the respective state regulatory authorities.

Interstate Rates

In May 1981, the FCC released its order approving a 12.75% overall rate of return on interstate and foreign communications with a variation of plus or minus .25% considered reasonable. In June 1981, Bell System tariffs went into effect providing for general interstate rate increases and overseas rate decreases. These rate changes, together with the termination of bulk private line rates, a separate private line rate increase and restructured WATS tariffs, were designed to increase Bell System interstate revenues by approximately $1.1 billion on an annual basis and achieve the 12.75% overall rate of return. The June 1981 rate increase, as well as others approved in earlier years totalling $800 million on an annual basis (*i.e.*, the first year the increases were effective), are subject to further FCC investigation and possible refund. In the opinion of Howard J. Trienens, Vice President and General Counsel for AT&T, the eventual outcome of these rate cases will not result in a material refund for AT&T and its subsidiaries (including the BOCs).

Competition

Regulatory and court decisions, as well as new technology, have expanded the types of available communications services and products as well as the number of competitors of the BOCs and AT&T offering such services. An increasing amount of this competition is and may be from large companies which have substantial capital, technological and marketing resources. Following divestiture there may be competition among the RHCs and with AT&T in certain services and products. An increasing number of customers are obtaining their terminal equipment and other facilities from other sources rather than using telephone company-provided equipment and facilities.

These decisions and other FCC policies have resulted in increased competition among existing and new common carriers for the provision of voice and data communications services. Regulatory and court decisions have required the telephone companies to provide exchange connections to other common carriers and have allowed such carriers to offer services which are similar to the traditional interstate message toll services ("MTS") offered by telephone companies. In 1980, the FCC adopted a decision eliminating the application of certain regulatory requirements to "nondominant" common carriers to permit such carriers to file tariffs and rates on short notice without providing economic support data and, after initial certification, to serve additional cities and add facilities without prior FCC authorization. In August 1982, the FCC announced tentatively proposed rules which would relieve domestic carriers which resell the services of other carriers, other than resale carriers which are affiliates of dominant carriers, of all requirements to file tariffs or to obtain certification to provide service. AT&T and the BOCs are considered to be "dominant" carriers and for the present continue to be subject to traditional regulatory requirements. However, they are proposing to the FCC that resale affiliates of dominant carriers be classified as non-dominant.

In October 1983 the FCC determined to forbear from regulation of interexchange carriers other than AT&T, resellers of communications services affiliated with telephone companies and domestic satellite resellers. The FCC also classified as "non-dominant" and subject to reduced regulation certain additional categories of domestic and international carriers. It also stated it would act on AT&T's request for "non-dominant" classification of AT&T Information Systems, AT&T's international private line offerings and specialized satellite services after comments are received in a separate inquiry initiated at the same time. The FCC also instituted an inquiry into the long-range regulation of AT&T's domestic interstate services, which might include different types of regulation, as well as responding to AT&T's various petitions for less regulation of certain services in the new competitive environment.

For a number of years various Bell System interstate tariff rates have been challenged before the FCC by common carriers in competition with the Bell System companies and by others on the basis that the tariffs were not in compliance with the Communications Act of 1934. In certain cases the FCC has suspended or rejected such tariffs on the ground that they were discriminatory and therefore unlawful under that Act.

Competition among interexchange carriers may be increased by the requirement of the Consent Decree that the BOCs provide the interexchange carriers with access to local networks equal in price and quality to that provided to AT&T. The Court's LATA decision dated April 20, 1983, in connection with the implementation of the Consent Decree, ruled that interexchange carriers (including AT&T) are not prohibited from engaging in intraLATA traffic. However, the BOCs are not required to provide access for such traffic which is the same as that the BOCs use for their intraLATA traffic. Such intrastate exchange access offerings are for the most part subject to state regulation, including the authority to deny permission to interexchange carriers to provide Long Distance Communications within BOC service areas.

Legal Proceedings

AT&T and various of its subsidiaries are parties to approximately 65 pending private actions, some of which are less significant than others, which allege, among other things, violations of federal and state antitrust laws and claim very substantial monetary damages and a variety of equitable relief. Violations of the antitrust laws are the primary focus of approximately 40 of these actions. Damages, if any, ultimately awarded in most of these private actions could have a financial impact on AT&T and all BOCs whether or not such companies are defendants. Prior to divestiture, the division of revenue or license contracts will allocate these expenses. After divestiture any such damages will be treated as contingent liabilities and allocated in accordance with the allocation rules established by the Plan (see "Contingent Liabilities" below).

These actions may be classified in six general categories: intercity private line cases, intercity switched service cases, terminal equipment cases attacking the protective connecting arrangement ("PCA") requirement, alarm system cases, procurement cases, and miscellaneous cases.

Intercity Private Line Cases—Two cases allege that the Bell System violated the antitrust laws through its pricing of private line services and its interconnection policies and practices.

In January 1980, MCI Communications Corporation was awarded $1.8 billion in treble damages against AT&T in the United States District Court for the Northern District of Illinois (*MCI et al.* v. *AT&T*, CA No. 74-C-633). AT&T appealed to the United States Court of Appeals for the Seventh Circuit. In January 1983, that Court affirmed six of the jury's findings relating generally to the interconnection claims and rejected others. It set aside the judgment and remanded the action for a new trial on the issue of damages only. The Court of Appeals also denied petitions for rehearing of this decision. Both parties petitioned for further review before the United States Supreme Court, but those petitions were denied in October 1983. This case is now before the District Court for trial on damages.

Following a trial without a jury, judgment was entered for defendants on all counts in 1982 in *Southern Pacific Communications Co., et al.* v. *American Telephone and Telegraph Co., et al.*, Civ. Act. No. 78-0545 in the United States District Court for the District of Columbia. At the close of trial, plaintiff had been claiming damages, before trebling, of $230 million. Plaintiffs appealed from the judgment, and that appeal is pending before the United States Court of Appeals for the District of Columbia Circuit.

Intercity Switched Service Cases—There are three cases which allege that the Bell System's interconnection practices for competitive switched intercity services violated the antitrust laws.

Terminal Equipment Cases—There are eighteen cases generally challenging the validity of Bell System tariffs which required PCAs for the interconnection of customer-provided terminal equipment. Some of these cases also allege that the Bell System predatorily priced its own terminal equipment, and some also include procurement allegations.

In June 1981, affiliated companies of Litton Industries Inc. were awarded $276.8 million in treble damages against AT&T, Western Electric, Bell Laboratories and certain BOCs in the United States District Court for the Southern District of New York (*Litton et al.* v. *AT&T et al.*, CA No. 76-2512). In February 1983, the United States Court of Appeals for the Second Circuit affirmed the lower court's judgment and denied AT&T's petition for a rehearing. AT&T has petitioned for review before the United States Supreme Court. On October 3, 1983, the Supreme Court invited the Solicitor General to file a brief in *Litton* expressing the views of the Federal government.

Allegations similar to those made in *Litton* have also been made in the other terminal equipment actions pending against AT&T and the various Bell System companies. In June 1983, the District Court for the District of Columbia granted the motion of plaintiffs in *Jack Faucett Associates, Inc. et al.* v. *American Telephone and Telegraph Company, et al.*, and the other class actions on behalf of telephone company customers consolidated with it, that the judgment in *Litton* be given preclusive effect on liability issues. The District Court also stated as a predicate for an immediate appeal to the U.S. Circuit Court of Appeals for the District of Columbia Circuit that the matter involves a controlling question of law as to which there is substantial ground for difference of opinion. In August 1983, the Court of Appeals granted AT&T's petition for permission to appeal, and the appeal is currently pending before that Court.

Alarm System Cases—There are four cases alleging anticompetitive conduct by the Bell System with respect to the services and rates provided to alarm companies and their customers.

Procurement Cases—Four cases challenge the Bell System's procurement practices with respect to particular items of equipment or service.

Miscellaneous Cases—The remaining cases challenge a variety of conduct on the part of the Bell System companies that is alleged to have violated the antitrust laws, including, for example, alleged anticompetitive conduct involving radio common carriers, directory advertising and patent abuses.

While complete assurance can not be given as to the outcome of any litigation, in the opinion of Howard J. Trienens, Vice President and General Counsel for AT&T, with respect to all such actions, (1) any monetary liability or financial impact to which such company and its subsidiaries would be subject after final adjudication as a result of all such actions, excluding, however, the award in the *Litton* action should it ultimately be determined that the amount is payable, would not be material in amount to such company and its subsidiaries, and (2) any equitable relief which might be granted would not have a material effect on the business of such company and its subsidiaries.

Contingent Liabilities

The Plan provides for the recognition and payment of liabilities that are attributable to pre-divestiture events (including transactions to implement the divestiture) but that do not become certain until after divestiture. These contingent liabilities relate principally to litigation and other claims with respect to the Bell System's rates, taxes, contracts, and torts (including business torts, such as alleged violations of the antitrust laws).

With respect to such liabilities, AT&T and the BOCs will share the costs of any judgment or other determination of liability entered by a court or administrative agency, the costs of defending the claim (including attorneys' fees and court costs), and the cost of interest or penalties with respect to any such judgment or determination.* Except to the extent that affected parties may otherwise agree, responsibility for such contingent liabilities will be divided among AT&T and the BOCs on the basis of their relative net investment** as of the effective date of divestiture. This general rule of allocation will be modified as

* To simplify the administration of relatively small proceedings (other than claims relating to Federal income taxes or to tax timing and investment tax credit adjustments attributable to state and local income taxes), the responsibility is shared only for amounts exceeding $1 million for each judgment or determination of liability. The responsibility for judgments or determinations of $1 million or less, and the first $1 million of other judgments or determinations, shall remain with the entity that is party to the proceeding.

** Net investment is defined as total assets less reserves for depreciation. AT&T's net investment will include the assets (minus reserves) of AT&T and all of its majority-owned affiliates, as of the effective date of divestiture. On that date the BOCs' net investment will include the assets (minus reserves) of the individual BOCs, their respective RHCs, their shares of the CSO, and any affiliate in which any of these companies directly or indirectly owns majority interests.

described below for any situation in which (i) the liability relates exclusively to pre-divestiture interstate operations, (ii) the liability relates exclusively to pre-divestiture intrastate operations, or (iii) the liability relates to pre-divestiture Federal income taxes or to a pre-divestiture tax timing or investment tax credit adjustment attributable to state and local income taxes.

Where all or part of a liability relates exclusively to pre-divestiture interstate operations, responsibility will be allocated among AT&T and all the BOCs in proportion to their relative investment devoted to interstate services as of the effective date of divestiture (as calculated in accordance with the FCC-prescribed Separations Manual in effect on the date of divestiture), adjusted to reflect the assignments of assets under the Plan (customer premises equipment and interLATA assets to AT&T, and intraLATA assets to the BOCs).

Where all or part of a liability relates exclusively to pre-divestiture intrastate operations, responsibility will be allocated between AT&T and the BOC that conducted the operations in that State. The allocation will be in proportion to the companies' relative investment devoted to intrastate services as of the effective date of divestiture (also as calculated in accordance with the FCC-prescribed Separations Manual in effect on the date of divestiture), adjusted to reflect the assignments of customer premises equipment and interLATA assets to AT&T and intraLATA assets to the BOC.

Where a liability relates to Federal income tax deficiencies (or overpayments) for the Bell System's pre-divestiture consolidated tax return years, the amount initially will be divided between AT&T and the individual BOCs in accordance with existing tax allocation agreements. To the extent that any portion of an amount thus allocated relates to tax-timing adjustments, that portion of the liability will be further allocated to the entity that will receive the benefit or detriment of such tax-timing adjustment. To the extent that any portion of an amount relates to investment tax credits, that portion of the liability will be assigned between AT&T and a BOC on the basis of the Plan's assignment of the assets that gave rise to the investment tax credits. All other amounts allocated to that BOC under the tax allocation agreements will be assigned between AT&T and that BOC on the basis of the relative net investment held, as of the effective date of divestiture, by that BOC and by the AT&T-owned subsidiaries created to receive that BOC's interLATA facilities and customer premises equipment.

Subject to the foregoing principles and procedures, all the BOCs and AT&T will be responsible for the payment of judgments and determinations of liability, whether or not an entity was a party to the proceeding and regardless of whether an entity was dismissed from the proceeding by virtue of settlement or otherwise. The settlement of all or any part of an action or other claim will not be shared among AT&T and the BOCs, except to the extent that any such entities may agree to share the costs of settlement.

Compensation of RHC Directors and Officers

The following is a description of the compensation plans for directors and officers of each of the RHCs.

Each RHC has separate non-contributory pension plans for management and non-management employees. Under the management pension plan, retirement is mandatory at age 65 for officers and other executives; however, retirement before age 65 can be elected with certain conditions. Under the management plan, annual pensions are computed on an adjusted career average pay basis. The applicable adjusted career average pay formula (which represents the same terms as the predecessor Bell System Plan), effective October 1, 1983, is the sum of (a) 1.6% of the average pay for the five years ended September 30, 1982, times the number of years of service prior to October 1, 1982, plus (b) 1.6% of pay subsequent to September 30, 1982. Pension amounts are not subject to reductions for Social Security benefits or other offset amounts. The Employee Retirement Income Security Act of 1974 places certain limitations on pensions which may be paid under Federal income tax qualified plans. Pension amounts which exceed such limitations, as well as pension amounts attributable to short term incentive plan awards or standard awards, will be paid outside the qualified plan as an operating expense.

Each RHC provides life insurance for officers equal to one year's salary (not including incentive plan payments) and, in addition, a death benefit (payable either from a trust fund or from insurance as the officer elects) equal to one year's salary and applicable short term incentive award (up to the lesser of 60%

of the standard salary rate or standard short term award for each senior management level), which may be payable to a spouse or certain other dependent relatives. These benefits will continue after retirement. Each RHC also provides $100,000 of coverage for non-employee directors through the group life insurance plan for each RHC's employees.

The RHC Boards of Directors have adopted insured annuitant's benefit plans for Senior Managers (those officers who are eligible to participate in the short and long term incentive plans). In the case of some RHC plans the annuity is payable only if there is a surviving spouse or parent. The annual benefit is equal to the product of the average of the standard short term awards (but not to exceed 60% of the standard salary rates) for the positions held for the last six years (or fewer if not a participant for six years) times .0065 of the number of years of credited service.

An officer who becomes disabled may receive full salary for up to one year and 60% of final salary thereafter, up to age 65, and may be given credit for the period of disability in computing service for pension purposes. An officer or surviving spouse also may be entitled to a minimum pension (based on 15% of final salary and short term incentive award up to the lesser of 60% of the standard salary rate or the standard short term award). Payment amounts which are not offset by amounts payable under the management pension plan and other RHC-provided pensions will be paid as an operating expense.

Employees hired at age 35 or over into the fourth level of management and above are covered by a supplemental benefit plan. The plan provides survivor insurance protection equal to one year's salary until the employee qualifies for coverage under the management pension plan or the disability plan for officers. For those at the fifth level of management and above, the plan also provides additional pension credits equal to the difference between 35 and their maximum possible years of service attainable at age 65, but not to exceed actual Net Credited Service, at one-half the rate in the management pension plan (or 0.8%). Benefits under this plan will be paid as an operating expense.

Under the savings plan for salaried employees, any eligible employee may make a basic allotment of 2%, 4% or 6% from salary and each RHC will contribute an amount equal to two-thirds of the basic allotment.

Federal tax law makes an additional tax credit available to a company if it applies an equivalent amount to the purchase of its securities, to be held in trust for employees. Employee stock ownership plans were adopted under this provision in 1983 by the RHCs providing for the issuance of company common shares to employees of each RHC. The Plan provides for the conversion of an investment in AT&T shares accumulated since the inception of the AT&T plan into an investment in the RHC's shares.

The Board of Directors of each of the RHCs has adopted a Short Term Incentive Plan applicable to Senior Managers, which provides for annual cash awards beginning in 1985 based on the achievement in the preceding year of performance criteria described below and on individual performance. Under this plan, the Board sets a standard award amount for each senior management level, which amount is the basis upon which the incentive compensation is determined. Senior Managers receive each year, based upon individual and corporate performance in the preceding year, from zero to 200% of the standard award amount established for their level. Corporate performance is measured on the basis of criteria established by the Board relating to financial performance and service or other performance. Results in the criteria categories, plus evaluations of management effectiveness and individual performance, are used to determine the amount paid to each Senior Manager.

In 1982, the AT&T shareholders approved continuation, with certain modifications, of the Bell System Long Term Incentive Plan for Senior Managers of AT&T and other Bell System companies for an additional ten years. Under the plan the boards of directors of participating Bell System companies have granted awards in 1978 through 1983. In 1983, each RHC adopted a long term incentive plan similar to the Bell System plan which extends the benefits of the Bell System plan to RHC Senior Managers. Under such plans each RHC Board of Directors may grant awards in each of the years of 1984 through 1992. Awards are made in units. The portion of the units distributed, if any, at the end of a stated future period of two or more years set by the Board will be determined by the degree to which specified financial and other objectives are met. Distribution of units will be made in the form of an equal number of the RHC's common shares, or cash equal in amount to the then current value of such number of shares, or partly in shares and partly in cash. Each of the performance periods established by the AT&T Board in prior years to date has been of five years' duration. The first distribution of awards was made in 1983 for the five-year period ended December 31, 1982. A second distribution may be made in respect of the five-year period ending December 31, 1983. Thereafter, distributions may be made by the respective Boards of the RHCs based on performance periods which initially will include early years which used Bell System performance criteria. During the year in which an award of units is made and thereafter until distribution, cash payments will be made to participants in an amount equivalent to the dividends paid on a number of shares equal to the number of units awarded. These dividend equivalents will be paid on a current basis and will not depend on the number of units actually distributed at the end of the performance period.

The Board of Directors of each of the RHCs has adopted a plan to permit deferral of awards under both the short and long term plans. On deferred share amounts, accounts will be credited, on each dividend payment date for the RHC common shares, with an amount of common shares equivalent in market value to the amount of the quarterly dividend on the shares then held. On deferred cash amounts interest will be compounded quarterly at a rate equal to the average interest rate for ten-year United States Treasury notes for the previous quarter.

Pursuant to the Senior Management Transfer Program, each RHC provides to Senior Managers a residence relocation differential to mitigate the economic and other hardships associated with job transfers. The differential for the first year is equal to the greater of 10% of the new base salary or 8% of the standard salary rate for that level. For the second and third years, the differential is equal to 80% and 60%, respectively, of the differential paid in the first year.

DESCRIPTION OF THE
DIVIDEND REINVESTMENT AND STOCK PURCHASE PLANS
FOR

AMERICAN INFORMATION TECHNOLOGIES CORPORATION

BELL ATLANTIC CORPORATION

BELLSOUTH CORPORATION

NYNEX CORPORATION

PACIFIC TELESIS GROUP

SOUTHWESTERN BELL CORPORATION

U S WEST, INC.

The Share Owner Dividend Reinvestment and Stock Purchase Plans of the RHCs provide holders of their common shares with a simple and convenient method of purchasing additional common shares without fees of any kind, at a 5% discount from market price in the case of reinvested dividends. Any holder of record of common shares of any RHC is eligible to join that RHC's Plan.

Investment options offered under the Plans are:

Full Dividend Reinvestment—Reinvest dividends on all shares held. Participants may also make optional payments up to an aggregate of $3,000 during the 3 month period immediately preceding any quarterly dividend payment ("dividend payment cycle"). The first dividend payment cycle for optional payments will be a 4 month period beginning on January 1, 1984 and ending on April 30, 1984.

Partial Dividend Reinvestment—Reinvest dividends on less than all shares held and continue to receive cash dividends on the other shares. Participants may also make optional payments up to an aggregate of $3,000 per dividend payment cycle.

Optional Payments Only—Invest by making optional payments at any time in any amount up to an aggregate of $3,000 per dividend payment cycle without reinvesting dividends on shares held.

Optional payments will be invested on the first business day of the month after they are received. Shares purchased with optional payments received during the first month of any dividend payment cycle will be entitled to the next dividend. Cash dividends on shares held in the participant's account under a Plan are automatically reinvested to purchase additional common shares regardless of which investment option is selected.

The price of common shares purchased with reinvested common share dividends will be 95% of the average of the daily high and low sale prices of the shares on the New York Stock Exchange for the period of five trading days ending on the day of purchase. The price of common shares purchased with optional payments will be 100% of such average.

THE PLANS

The following is a question and answer statement of the provisions of the Share Owner Dividend Reinvestment and Stock Purchase Plans ("Plans") of the RHCs. Although the terms of the Plans are identical in substance, the Plans are completely independent of each other. Each RHC has prepared a separate prospectus covering its own Plan. A copy of any such individual prospectus will be provided upon request (See Question 3). As used herein, the term "Plan" shall mean the Share Owner Dividend Reinvestment and Stock Purchase Plan of each RHC, and the term "Company" shall mean each RHC.

Purpose and Advantages

1. *What is the purpose of the Plan?*

The purpose of the Plan is to provide holders of record of Company common shares with a simple and convenient method of investing cash dividends and optional payments in additional common shares without payment of any brokerage commission or service charge. Since such additional common shares will be purchased directly from the Company, the Company will receive funds needed for its continuing construction program and general corporate purposes.

2. *What are the advantages of the Plan?*

Common shares may be purchased quarterly with reinvested cash dividends on all or less than all of the Company common shares registered in the participants' names. Participants may also purchase common shares monthly with optional payments, up to an aggregate of $3,000 per dividend payment cycle. The price of common shares purchased with reinvested common share dividends will be 95% of the market price average.

No commission or service charge is paid by participants in connection with purchases under the Plan. Full investment of funds is possible because the Plan permits fractions of shares, as well as full shares, to be credited to a participant's account. In addition, dividends in respect of such fractions, as well as full shares, will be credited to a participant's account. Dividends on the shares held in a participant's account under the Plan are automatically reinvested in additional common shares.

The Company assures safekeeping of shares held in a participant's account under the Plan since certificates for such shares are not issued unless requested by the participant. Regular statements of account provide simplified recordkeeping.

Administration

3. *Who administers the Plan for participants?*

American Transtech Inc.* ("Agent") has been designated by the Company to administer the Plan for participants, keep records, send statements of account to participants and perform other duties relating to the Plan. The address and telephone number for information about the Plan are:

FOR INFORMATION ABOUT THE PLAN

Call American Transtech Inc. toll free:
800 631-3311

Outside the Continental United States
call collect 904 737-1933
or
Write to: American Transtech Inc.
P.O. Box 2566
Jacksonville, Florida 32232

All written notices and requests
concerning the Plan should be
mailed to the above address.

Please include a telephone number in your letter
where you can be reached during business hours.

Optional Payments, with the checks payable to the Company, may be mailed to:

American Transtech Inc.
P.O. Box 2750
Jacksonville, Florida 32232

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* American Transtech Inc. is a subsidiary of American Telephone and Telegraph Company.

Participation

4. *How does a shareholder participate?*

A holder of record of common shares may join the Plan by signing the Authorization Form and returning it to the Agent. An Authorization Form and postage-paid envelope may be obtained at any time by contacting the Agent (see Question 3).

5. *When may a shareholder join the Plan?*

A holder of record of common shares may join the Plan at any time. An optional payment may be made when joining by enclosing a check or money order (payable to the Company in United States dollars) with the Authorization Form.

The Authorization Form must be received by the Agent before the first day of the month preceding the month in which the dividend is paid in order to reinvest that dividend (see Question 7).

6. *What does the Authorization Form provide?*

The Authorization Form provides for the purchase of additional common shares through the following investment options offered under the Plan:

> **Full Dividend Reinvestment**—Reinvest dividends on all shares held by a participant at 95% of the market price average. Optional payments may also be invested at 100% of the market price average up to an aggregate of $3,000 per dividend payment cycle.
>
> **Partial Dividend Reinvestment**—Reinvest dividends on less than all of the shares held by a participant at 95% of the market price average and continue to receive cash dividends on the other shares. Optional payments may also be invested at 100% of the market price average up to an aggregate of $3,000 per dividend payment cycle.
>
> **Optional Payments Only**—Invest by making optional payments at any time in any amount up to an aggregate of $3,000 per dividend payment cycle at 100% of the market price average.

Cash dividends on shares held in a participant's account under the Plan are automatically reinvested to purchase additional common shares regardless of which investment option is selected.

7. *When must the Authorization Form be **received** by the Agent to begin reinvesting dividends?*

The following table indicates the dates by which the Authorization Form must be received by the Agent to begin reinvesting dividends (based on the current payment date schedule). A new Authorization Form need not be submitted for subsequent quarters unless a change in investment option is desired.

Authorization Form Must Be **Received** By:	To Have Dividend **Reinvested** On:
March 30, 1984	May 1, 1984
June 29, 1984	August 1, 1984
September 28, 1984	November 1, 1984
December 31, 1984	February 1, 1985
March 29, 1985	May 1, 1985
June 28, 1985	August 1, 1985

8. *How may a participant change options under the Plan?*

A participant may change the investment option at any time by signing a new Authorization Form and returning it to the Agent. An Authorization Form and postage-paid envelope may be obtained at any time by contacting the Agent (see Question 3). Any change in option with respect to reinvestment of dividends must be received by the Agent before the first day of the month preceding the month in which the dividend is paid.

Optional Payments

9. *How are optional payments made?*

Optional payments may be made at any time after January 1, 1984. An optional payment can initially be made by enclosing a check or money order (payable to the Company in United States dollars) with the Authorization Form. Optional payments received by the Agent by the last business day of a month will be invested on the first business day of the next month. Optional payments not received by the last business day will be deposited and invested at the next monthly purchase date. Checks dated the last day of a month and received prior to that date will be held by the Agent and deposited at the end of that month. A receipt for each optional payment will be sent to the participant along with an Optional Payment Form for use in making the next payment. Additional Optional Payment Forms may be obtained by contacting the Agent (see Question 3).

Optional payments may not exceed a total of $3,000 per dividend payment cycle based on when such optional payments are **received** by the Agent and not when they are used to purchase shares (see Optional Payment Table—Question 10). Optional payments in excess of the limit for the dividend payment cycle will be refunded. For example, if the dividend payment date were May 1 and if the Agent received optional payments of $1,000 in February, $1,500 in March and $1,000 in April, the $3,500 received for the dividend payment cycle exceeds the $3,000 limit. Therefore, $500 would be refunded.

10. *When will dividends be paid on shares purchased with optional payments?*

The following table explains the dividend payment dates for shares purchased with optional payments.

OPTIONAL PAYMENT TABLE*

Optional Payments† Received by the Last Business Day of the Months in the Following Dividend Payment Cycles	Purchase Shares on	Dividend Payment Date For Shares Purchased
1984		
First Dividend Payment Cycle		
January	Feb. 1, 1984	May 1, 1984
February	Mar. 1, 1984	May 1, 1984
March	Apr. 2, 1984	Aug. 1, 1984
April	May 1, 1984	Aug. 1, 1984
Second Dividend Payment Cycle		
May	June 1, 1984	Aug. 1, 1984
June	July 2, 1984	Nov. 1, 1984
July	Aug. 1, 1984	Nov. 1, 1984
Third Dividend Payment Cycle		
August	Sept. 4, 1984	Nov. 1, 1984
September	Oct. 1, 1984	Feb. 1, 1985
October	Nov. 1, 1984	Feb. 1, 1985
Fourth Dividend Payment Cycle		
November	Dec. 3, 1984	Feb. 1, 1985
December	Jan. 2, 1985	May 1, 1985
January, 1985	Feb. 1, 1985	May 1, 1985
1985		
First Dividend Payment Cycle		
February	Mar. 1, 1985	May 1, 1985
March	Apr. 1, 1985	Aug. 1, 1985
April	May 1, 1985	Aug. 1, 1985
Second Dividend Payment Cycle		
May	June 3, 1985	Aug. 1, 1985
June	July 1, 1985	Nov. 1, 1985
July	Aug. 1, 1985	Nov. 1, 1985

* Based on the current dividend payment date schedule.

† The total of all optional payments **received** per dividend payment cycle may not exceed $3,000.

Costs

11. *Are there any expenses to participants in connection with purchases under the Plan?*

No. There are no brokerage fees because shares are purchased directly from the Company. All costs of administration of the Plan are paid by the Company.

Purchases

12. *What will be the price of common shares purchased under the Plan?*

The price of common shares purchased with reinvested common share dividends will be 95% of the average of the daily high and low sale prices of Company common shares on the New York Stock Exchange for the period of five trading days ending on the day of purchase (or the period of five trading days immediately preceding the day of purchase, if the New York Stock Exchange is closed on the day of purchase).

The price of common shares purchased with optional payments will be 100% of such average.

If there is no trading in the shares on the New York Stock Exchange for a substantial amount of time during any trading day in the five day period, the purchase price shall be determined by the Company on the basis of such market quotations as it shall deem appropriate. No shares will be sold under the Plan at less than the par value of such shares.

13. *How many common shares will be purchased for participants?*

Each participant's account will be credited with that number of shares, including fractions computed to three decimal places, equal to the amounts to be invested divided by the applicable purchase price. The number of shares purchased with cash dividends and optional payments cannot be determined until the day of purchase since the purchase price is based on a five day average.

14. *When will purchases of common shares under the Plan be made?*

On the first business day of each month any optional payment which has been received from the participant prior to such day will be applied by the Agent to the purchase of additional common shares (see Question 10).

Cash dividends on common shares will be applied by the Agent to the purchase of additional common shares on dividend payment dates.

Reports to Participants

15. *What reports will be sent to participants in the Plan?*

Each participant in the Plan will receive a Statement of Account each quarter showing amounts invested, purchase prices, shares purchased and other information for the year to date. In addition, each participant will receive the same communications sent to every other holder of common shares, including the Company's quarterly newsletter and, beginning in 1985, an annual report and notice of annual meeting and proxy statement.

Dividends

16. *Will a participant's account be credited with dividends on fractions of shares?*

Yes. A participant's account will be credited with dividends on fractions of shares.

Issuance of Shares

17. *Will certificates be issued for common shares purchased?*

Common shares purchased under the Plan will be registered in the name of the Company, as agent for participants in the Plan, and certificates for such shares will not be issued to participants unless requested. This protects against loss, theft or destruction of stock certificates.

The number of shares held in an account under the Plan will be shown on the participant's quarterly Statement of Account.

Certificates for any number of whole shares held in an account under the Plan will be issued within two weeks* after receipt of a written request which should be signed by the participant (or participants if a joint registration) who wishes to remain in the Plan. This request should be mailed to the Agent (see Question 3). Any remaining full shares and fraction of a share will continue to be held by the Company, as agent, in the participant's account.

Certificates for a fractional share will not be issued under any circumstances.

Shares held in the account of a participant under the Plan may not be pledged. A participant who wishes to pledge such shares must request that certificates for such shares be issued in the participant's name.

An institution that is required by law to maintain physical possession of certificates may request a special arrangement regarding the issuance of certificates for common shares purchased under the Plan. This request should be mailed to the Agent (see Question 3).

18. *In whose name will certificates be registered when issued?*

Accounts under the Plan are maintained in the names in which certificates of the participants were registered at the time they entered the Plan. Certificates for whole shares will be similarly registered when issued.

Withdrawal

19. *Can a participant withdraw certificates for some or all of the shares held under the Plan and continue to participate with respect to those shares?*

Yes. Certificates for any number of whole shares held in the participant's account under the Plan will be issued within two weeks* after receipt of a written request which should be signed by the participant (or participants if a joint registration) who wishes to continue to participate with respect to those shares. This request should be mailed to the Agent (see Question 3). Any remaining full shares and fraction of a share will continue to be held by the Company, as agent, in the participant's account.

Certificates for a fractional share will not be issued under any circumstances.

Termination

20. *How is participation in the Plan terminated?*

In order to terminate participation in the Plan, a participant (or participants if a joint registration) should send a written request to the Agent (see Question 3). When participation in the Plan is terminated, certificates for whole shares held in the participant's account under the Plan will be issued, a cash payment will be made for any fraction of a share, and **the account will be closed.**†

Upon termination the participant may request that up to 24 whole shares and any fraction of a share held in the account be sold.# Upon receipt of the written request the sale normally will be made for the account of the participant by an independent fiduciary institution designated by the Company and the proceeds of the sale less any brokerage commission and any transfer tax will be forwarded to the participant within two weeks. **This sale will close the dividend reinvestment account.**

The Company will automatically terminate a participant's account and refund the dividend if the dividends on the shares in the participant's account under the Plan are not sufficient to purchase at least .001 fraction of a share.

21. *When may participation in the Plan be terminated?*

Participation in the Plan may be terminated at any time.

A participant may stop all investment on any day of purchase if written notification to stop such investment is received by the Agent (see Question 3) not later than the day preceding the day of purchase.

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* Except that no certificates will be issued before February 15, 1984.

† Certificates will not be mailed prior to February 15, 1984; and cash will not be sent before February 24, 1984.

This service will not be available before February 16, 1984.

Other Information

22. *What happens when a participant who is reinvesting the cash dividends on all or part of the shares registered in the participant's name sells or transfers a portion of such shares?*

If a participant who is reinvesting the cash dividends on all of the common shares registered in the participant's name disposes of a portion of such shares, the Company will continue to reinvest the dividends on the remainder of the shares.

If a participant who is reinvesting the cash dividends on part of the common shares registered in the participant's name disposes of a portion of such shares, the Company will continue to reinvest the dividends on the remainder of the shares up to the number of shares originally authorized. For example, if a participant authorized the Company to reinvest the cash dividends on 50 shares of a total of 100 shares registered in the participant's name, and then the participant disposed of 25 shares, the Company would continue to reinvest the cash dividends on 50 of the remaining 75 shares. If instead the participant disposed of 75 shares, the Company would continue to reinvest the cash dividends on all of the remaining 25 shares.

23. *What happens when a participant sells or transfers all of the shares registered in the participant's name?*

If a participant disposes of all common shares registered in the participant's name, the Company will continue to reinvest the dividends on the shares held in the participant's account under the Plan until otherwise notified (see Question 20).

24. *If the Company has a rights offering, how will a participant's entitlement be computed?*

A participant's entitlement in a rights offering will be based upon the participant's total holdings—just as the participant's dividend is computed each dividend payment cycle. Rights certificates will be issued for the number of whole shares only, however, and rights based on a fraction of a share held in a participant's account will be sold for the participant's account and the net proceeds will be treated as an optional payment.

25. *What happens if the Company issues a stock dividend or declares a stock split?*

Any common shares distributed as a result of a stock dividend or stock split by the Company on shares held in the account of a participant under the Plan will be added to the participant's account. Stock dividends or split shares distributed on shares registered in the name of the participant will be mailed directly to the shareholder in the same manner as to shareholders who are not participating in the Plan.

26. *How will a participant's shares be voted at meetings of shareholders?*

If a participant holds certificates for shares, the participant will be sent a proxy card representing both the shares for which the participant holds certificates and the whole shares held by the Company in the participant's Plan account. Such proxy will be voted as indicated by the participant on the proxy. If the participant does not hold certificates for shares, the participant will be sent an instruction form on which to indicate how the whole shares held by the Company in the participant's Plan account are to be voted. Fractional shares will not be voted.

If the proxy card or instruction form is returned, and no voting instructions are given with respect to any item thereon, all of the participant's shares (including whole Plan shares) will be voted in accordance with the recommendations of the Company management. This is the same procedure that is followed for all shareholders who return proxies and do not provide instructions. If the proxy card or instruction form is not returned or if it is returned unsigned by the registered owner(s), none of the participant's shares will be voted.

27. *What are the Federal income tax consequences of participation in the Plan?*

In the opinion of the Company, the Federal income tax consequences for Plan participants are as follows:

(1) A participant in the Plan will be treated for Federal income tax purposes as having received, on the dividend payment date, a dividend in an amount equal to the tax basis per share multiplied by the number of shares purchased with reinvested dividends. (The tax basis per share is equal to the average of the high and low sale prices of Company common shares on the New York Stock

Exchange on the dividend payment date—or the average of the high and low sale prices on the trading days immediately preceding and following the dividend payment date, if the shares are not traded on the dividend payment date.) The tax basis per share of shares purchased with optional payments is equal to the participant's purchase price per share.

(2) A participant's holding period for common shares acquired pursuant to the Plan will begin on the day following the purchase of such shares (see Question 14).

(3) A participant will not realize any taxable income when the participant receives certificates for whole shares held in the participant's account, either upon the participant's request for certain of those shares or upon termination of participation in or termination of the Plan.

(4) A participant will realize gain or loss when shares are sold or exchanged, whether pursuant to the participant's request upon termination of participation in the Plan (see Question 20) or by the participant after receipt of shares from the Plan, and, in the case of a fractional share, when the participant receives a cash adjustment for a fraction of a share held in the participant's account upon termination of participation in or termination of the Plan; and the amount of such gain or loss will be the difference between the amount which the participant receives for the shares or fraction of a share and the tax basis therefor.

The Federal income tax consequences of participation in the Plan are not changed by any provisions of the Economic Recovery Tax Act of 1981. Section 321 of the Act makes available certain tax benefits to taxpayers who participate in the dividend reinvestment plan of a "qualified public utility." However, the Company is not a "qualified public utility" as defined by the Act. Accordingly, the law does not apply to the dividends reinvested in the Company Plan.

28. *What are the effects of the Interest and Dividend Tax Compliance Act of 1983 on the Plan?*

If a participant has failed to furnish a valid taxpayer identification number to the Agent, unless the participant is exempt from the withholding requirements described in section 3406 of the Internal Revenue Code, then the Agent must withhold 20% from the amount of common share dividends, the proceeds of the sale of fractional shares and the proceeds of any sale of up to 24 whole shares (as described in Question 20). In addition, the Interest and Dividend Tax Compliance Act of 1983 provides that if a new participant fails to certify that such participant is not subject to withholding on interest and dividend payments as a result of failure to report all interest or dividend income on prior tax returns, then 20% must be withheld from the amount of common share dividends. The withheld amounts will be deducted from the amount of dividends and the remaining amount will be reinvested.

29. *How are United States income tax withholding provisions applied to foreign shareholders?*

In the case of those foreign shareholders whose common share dividends are subject to United States income tax withholding, the amount of tax to be withheld will be deducted from the amount of common share dividends and the remaining amount of dividends will be reinvested.

30. *What are the responsibilities of the Company and the Agent under the Plan?*

Neither the Company nor the Agent, in administering the Plan, will be liable for any act done in good faith or for any good faith omission to act, including, without limitation, any claim of liability arising out of failure to terminate a participant's account upon such participant's death prior to receipt of notice in writing of such death.

Participants should recognize that neither the Company nor the Agent can assure them of a profit or protect them against a loss on the shares purchased by them under the Plan.

Although the Plan contemplates the continuation of quarterly dividend payments, the payment of dividends will depend upon future earnings, the financial condition of the Company and other factors.

31. *May the Plan be changed or discontinued?*

The Company reserves the right to suspend, modify or terminate the Plan at any time. All participants will receive notice of any such suspension, modification or termination. Upon termination of the Plan by the Company, certificates for whole shares held in a participant's account under the Plan will be issued and a cash payment will be made for any fraction of a share.

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS AND COUNSEL

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

The financial forecast of AT&T for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies and which is based upon assumptions by management, has been reviewed by Coopers & Lybrand, independent certified public accountants, to the extent indicated in their report appearing elsewhere herein (which report indicates that the financial forecast is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period and includes a statement that some assumptions will inevitably not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material). The assumptions on which the financial forecast is based are set forth under "Financial Information" in the "Information Statement for American Telephone and Telegraph Company." The financial forecast has been included herein in reliance upon the expertise of such firm with respect to reviewing and reporting upon financial forecasts.

The balance sheets as of December 31, 1982 and 1981 and the related statements of income and reinvested earnings and sources of funds supporting construction activity of AT&T for the years ended December 31, 1982, 1981 and 1980 have been examined by Coopers & Lybrand, whose report thereon is included elsewhere herein. Their report, to the extent indicated therein, is based on the reports of other auditors. The other auditors, whose reports are also included herein, are Arthur Young & Company as auditors of Western Electric Company, Incorporated and Southwestern Bell Telephone Company and Arthur Andersen & Co. as auditors of Illinois Bell Telephone Company. These financial statements are included herein in reliance upon the reports of such independent certified public accountants given upon their authority as experts in accounting and auditing.

AMERICAN INFORMATION TECHNOLOGIES CORPORATION

The financial forecast of Ameritech for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies and which is based upon assumptions by management, has been reviewed by Arthur Andersen & Co., independent public accountants, as indicated in their report with respect thereto. Their report to the extent indicated therein, is based on the report of other independent certified public accountants, namely Coopers & Lybrand. As indicated in the reports of Arthur Andersen & Co. and Coopers & Lybrand, which are included elsewhere herein, the forecast is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period and some assumptions will inevitably not materialize and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary from the forecast and the variations may be material. The assumptions on which the financial forecast is based are set forth under "Financial Information" in the "Information Statement for American Information Technologies Corporation". The financial forecast has been included herein in reliance upon the expertise of such firms with respect to reviewing and reporting upon financial forecasts.

The combined historical statements of income of Illinois Bell, Indiana Bell, Michigan Bell, Ohio Bell and Wisconsin Telephone for the years 1982 and 1981 have been examined by Arthur Andersen & Co., as set forth in their report included elsewhere herein. Their report to the extent indicated therein, is based on the report of other auditors, namely Coopers & Lybrand also included elsewhere herein. These Combined Historical Statements of Income are included in reliance upon the reports of those firms, included elsewhere herein, given upon their authority as experts in accounting and auditing.

Kenneth E. Millard, Senior Vice President and General Counsel of Ameritech, is passing upon the legality of the issue for Ameritech.

BELL ATLANTIC CORPORATION

The financial forecast of Bell Atlantic for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies and which is based upon assumptions by management, has been reviewed by Coopers & Lybrand, independent certified public accountants, to the extent indicated in their report appearing elsewhere herein (which report indicates that the financial forecast is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period and includes a statement that some assumptions will inevitably not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material). The assumptions on which the financial forecast is based are set forth under "Financial Information" in the "Information Statement for Bell Atlantic Corporation." The financial forecast has been included herein in reliance upon the expertise of such firm with respect to reviewing and reporting upon financial forecasts.

The combined historical statements of income of New Jersey Bell, Bell of Pennsylvania, C&P Telephone Company, C&P of Maryland, C&P of Virginia, C&P of West Virginia and Diamond State for the years 1982 and 1981 have been examined by Coopers & Lybrand, whose report thereon is included elsewhere herein. These statements of income are included herein in reliance upon the report of Coopers & Lybrand given upon their authority as experts in accounting and auditing.

Mr. Robert A. Levetown, Executive Vice President and General Counsel of Bell Atlantic, is passing upon the legality of the securities being offered pursuant to the Bell Atlantic Share Owner Dividend Reinvestment and Stock Purchase Plan.

BELLSOUTH CORPORATION

The financial forecast of BellSouth for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies and which is based upon assumptions by management, has been reviewed by Coopers & Lybrand, independent certified public accountants, to the extent indicated in their report appearing elsewhere herein (which report indicates that the financial forecast is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period and includes a statement that some assumptions will inevitably not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material). The assumptions on which the financial forecast is based are set forth under "Financial Information" in the "Information Statement for BellSouth Corporation". The financial forecast has been included herein in reliance upon the expertise of such firm with respect to reviewing and reporting upon financial forecasts.

The combined historical statements of income of South Central Bell and Southern Bell for the years 1982 and 1981 have been examined by Coopers & Lybrand, whose report thereon is included elsewhere herein. These statements of income are included herein in reliance upon the report of Coopers & Lybrand given upon their authority as experts in accounting and auditing.

Mr. Norman C. Frost, Vice President and General Counsel of BellSouth, is passing upon the legality of the issue for BellSouth.

NYNEX CORPORATION

The financial forecast of NYNEX for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies and which is based upon assumptions by management, has been reviewed by Coopers & Lybrand, independent certified public accountants, to the extent indicated in their report appearing elsewhere herein (which report indicates that the financial forecast is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period and includes a statement that some assumptions will inevitably not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material). The assumptions on which the financial forecast is based are set forth under "Financial Information" in the "Information Statement for NYNEX Corporation". The financial forecast has been included herein in reliance upon the expertise of such firm with respect to reviewing and reporting upon financial forecasts.

The combined historical statements of income of New York Company and Subsidiary and New England Company for the years 1982 and 1981 have been examined by Coopers & Lybrand, whose report thereon is included elsewhere herein. These statements of income are included herein in reliance upon the report of Coopers & Lybrand given upon their authority as experts in accounting and auditing.

Raymond F. Burke, 400 Westchester Avenue, White Plains, New York 10604, is passing upon the legality of the issue for NYNEX.

PACIFIC TELESIS GROUP

The financial forecast of PacTel Group for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies and which is based upon assumptions by management, has been reviewed by Coopers & Lybrand, independent certified public accountants, to the extent indicated in their report appearing elsewhere herein (which report indicates that the financial forecast is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period and includes a statement that some assumptions will inevitably not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material). The assumptions on which the financial forecast is based are set forth under "Financial Information" in the "Information Statement for Pacific Telesis Group". The financial forecast has been included herein in reliance upon the expertise of such firm with respect to reviewing and reporting upon financial forecasts.

The consolidated historical statements of income of The Pacific Telephone and Telegraph Company and Subsidiary for the years 1982 and 1981 have been examined by Coopers & Lybrand, whose report thereon is subject to the final outcome of the matter discussed therein, and is included elsewhere herein. These statements of income are included herein in reliance upon the report of Coopers & Lybrand given upon their authority as experts in accounting and auditing.

Mr. Robert V. R. Dalenberg, Executive Vice President, General Counsel and Secretary, is passing upon the legality of the issue for PacTel Group.

SOUTHWESTERN BELL CORPORATION

The financial forecast of the Corporation for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies and which is based upon assumptions by management, has been reviewed by Arthur Young & Company, independent certified public accountants, to the extent indicated in their report appearing elsewhere herein (which report indicates that the financial forecast is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period and includes a statement that some assumptions will inevitably not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material). The assumptions on which the financial forecast is based are set forth under "Financial Information" in the "Information Statement for Southwestern Bell Corporation." The financial forecast has been included herein in reliance upon the expertise of such firm with respect to reviewing and reporting upon financial forecasts.

The historical statements of income of Southwestern Bell Telephone Company for the years 1982 and 1981 have been examined by Arthur Young & Company, whose report thereon is also included elsewhere herein. These statements of income are included herein in reliance upon the report of Arthur Young & Company given upon their authority as experts in accounting and auditing.

Mr. Edgar Mayfield, Vice President and General Counsel of the Corporation, is passing upon the legality of the issue for the Corporation.

U S WEST, Inc.

The financial forecast of U S WEST for the year ending December 31, 1984, which consists of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies and which is based upon assumptions by management, has been reviewed by Coopers & Lybrand, independent certified public accountants, to the extent indicated in their report appearing elsewhere herein (which report indicates that the financial forecast is management's estimate of the most probable results of operations and significant anticipated sources of funds supporting construction activity for the forecast period and includes a statement that some assumptions will inevitably not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material). The assumptions on which the financial forecast is based are set forth under "Financial Information" in the "Information Statement for U S WEST, Inc.". The financial forecast has been included herein in reliance upon the expertise of such firm with respect to reviewing and reporting upon financial forecasts.

The combined historical statements of income of Mountain Bell, Northwestern Bell and Pacific Northwest Bell for the years 1982 and 1981 have been examined by Coopers & Lybrand, whose report thereon is included elsewhere herein. These statements of income are included herein in reliance upon the report of Coopers & Lybrand given upon their authority as experts in accounting and auditing.

Laurence W. DeMuth, Jr., Executive Vice President, General Counsel and Secretary of U S WEST, is passing upon the legality of the issue for U S WEST.

FINANCIAL STATEMENTS
FOR

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS CONSOLIDATED SUBSIDIARIES

The following financial statements have been prepared by AT&T pursuant to the rules and regulations of the SEC and, in the opinion of AT&T, include all adjustments (consisting only of normal recurring accruals, except as described in Notes (b) and (c)) necessary for a fair statement of income for each period shown, subject, with respect to the nine months ended September 30, 1983, to the outcome of the matters referred to in Note (b). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations. A divestiture related valuation adjustment will be recorded as an extraordinary charge to income on December 31, 1983 (see Note (d)). AT&T believes that the disclosures made are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with financial statements and notes thereto included in AT&T's latest annual report (included elsewhere in this document).

Statements of Income and Reinvested Earnings
(Millions of Dollars)
(Unaudited)

	For the 9 Months Ended	
	September 30, 1983	September 30, 1982
Local Service Revenues	$22,649.9	$21,452.6
Toll Service Revenues	25,764.6	24,854.3
Directory Advertising and Miscellaneous Operating Revenues	4,031.7	2,654.7
Provision for Uncollectibles	(641.4)	(540.9)
Total Operating Revenues	51,804.8	48,420.7
Depreciation	7,255.5	6,503.3
Other Operating Expenses	29,200.0	26,682.0
Total Operating Expenses	36,455.5	33,185.3
Net Operating Revenues	15,349.3	15,235.4
Federal Income Taxes		
Current	493.6	(99.7)
Deferred—net	2,033.8	2,546.6
Investment tax credits—net	382.7	624.0
State and Local Income Taxes		
Current	286.1	244.9
Deferred—net	144.7	87.2
Property Taxes	1,549.4	1,503.3
Gross Receipts, Payroll-Related and Other Taxes	2,483.2	2,209.2
Total Operating Taxes	7,373.5	7,115.5
Operating Income	7,975.8	8,119.9
Western Electric Company, Incorporated Net Income	(36.1)	545.1
Interest Charged Construction	276.4	239.3
Miscellaneous Income and Deductions—net	72.7	3.1
Interest Expense	3,165.4	3,416.8
Income before prior years cumulative effect of a change in accounting	5,123.4	5,490.6
Prior years cumulative effect (through December 31, 1981) of the change in accounting for deferred income taxes	—	286.8(a)
Net Income	5,123.4	5,777.4
Preferred Dividend Requirements	98.1	106.5
Income Applicable to Common Shares	$ 5,025.3(b)(c)	$ 5,670.9(a)

(Continued)

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS CONSOLIDATED SUBSIDIARIES

Statements of Income and Reinvested Earnings—(Continued)

(Millions of Dollars)
(Unaudited)

	For the 9 Months Ended	
	September 30, 1983	September 30, 1982
Earnings per Common Share Amounts (In Dollars) Based on Weighted Average Number of Shares Outstanding		
Weighted Average Number of Shares Outstanding (Thousands)	928,758	839,186
Before prior years cumulative effect of a change in accounting	$ 5.41	$ 6.42
Prior years cumulative effect (through December 31, 1981) of the change in accounting for deferred income taxes	—	.34(a)
Earnings per Common Share	$ 5.41(b)(c)	$ 6.76(a)
Dividends Declared per Common Share (In Dollars)	$ 4.50	$ 4.05
Reinvested Earnings—at beginning of period	$28,888.5	$26,364.9
Add—Net Income	5,123.4	5,777.4
Deduct—Dividends Declared:		
Convertible preferred shares subject to redemption	11.7	19.3
Preferred shares subject to mandatory redemption	86.3	87.3
Common	4,192.1	3,416.5
Miscellaneous—net	2.5	13.5
Reinvested Earnings—at end of period	$29,719.3	$28,605.7

See Notes to Financial Statements.

Selected Operating Data

	(Thousands) For the 9 Months Ended	
	September 30, 1983	September 30, 1982
Toll Messages	14,784,004	14,543,551
WATS Messages	5,988,543	4,904,596

Charges for toll messages and WATS messages for the twelve months ended September 30, 1983 account for about 35% and 10%, respectively, of total billed operating revenues.

	(Thousands)	
	September 30, 1983	September 30, 1982
Network Access Lines in Service	85,901	84,504

Recurring charges for network access lines in service for the twelve months ended September 30, 1983 account for about 24% of total billed operating revenues.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS CONSOLIDATED SUBSIDIARIES

Balance Sheet

ASSETS

	(Millions of Dollars) (Unaudited) September 30, 1983
Telephone Plant—At Cost	$164,152.6
Less: Accumulated Depreciation	33,515.8
	130,636.8
Investments	
At Equity:	
Western Electric Company, Incorporated	4,525.9
Other	806.8
At Cost	573.4
	5,906.1
Current Assets	
Cash and Temporary Cash Investments—Less Drafts Outstanding of $522.8	5,254.2
Receivables—Less Allowance for Uncollectibles of $172.6	9,087.3
Material and Supplies (principally at average cost)	1,442.1
Prepaid Expenses	446.7
	16,230.3
Other Assets and Deferred Charges	3,176.7
Total Assets	$155,949.9

See Notes to Financial Statements.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS CONSOLIDATED SUBSIDIARIES

Balance Sheet

INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS

	(Millions of Dollars) (Unaudited) September 30, 1983
Common Share Owners' Equity	
Common Shares—par value $1 per share(e)	$ 954.7
Authorized shares: 1,200,000,000	
Outstanding shares: 954,675,000	
Proceeds in Excess of Par Value	35,641.0
Reinvested Earnings	29,719.3
	66,315.0
Convertible Preferred Shares Subject to Redemption(f)	
$4 Cumulative Convertible Preferred (includes proceeds in excess of stated value)	22.9
Preferred Shares Subject to Mandatory Redemption(f)	
$3.64 Cumulative Preferred	485.0
$3.74 Cumulative Preferred	500.0
$77.50 Cumulative Preferred	537.5
	1,522.5
Ownership Interest of Others in Consolidated Subsidiaries—Preferred Shares Subject to Mandatory Redemption	523.2
Long and Intermediate Term Debt(j)	44,915.5
Current Liabilities	
Accounts Payable	5,582.4
Debt Maturing Within One Year	1,729.2
Taxes Accrued	1,936.5
Income Taxes Deferred for One Year	221.2
Advance Billing and Customers' Deposits	1,758.1
Dividends Payable	1,321.3
Interest Accrued	1,223.2
	13,771.9
Deferred Credits	
Accumulated Deferred Income Taxes	20,128.8
Unamortized Investment Tax Credits	7,894.2
Other	855.9
	28,878.9
Total Invested Capital, Liabilities, and Deferred Credits	$155,949.9

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS CONSOLIDATED SUBSIDIARIES

Statements of Sources of Funds Supporting Construction Activity

	(Millions of Dollars) (Unaudited) For the 9 Months Ended	
	September 30, 1983	September 30, 1982
Funds From Operations:		
Total Funds Generated	$14,939.2	$14,775.1
Less: Dividends	4,290.1	3,523.1
	10,649.1	11,252.0
Funds From External Financing:		
Issuance of Shares, Net of Redemptions	3,265.2	2,808.4
Issuance of Long and Intermediate Term Debt	1,300.0	717.2
Increase (Decrease) in Short Term Borrowings—Net	(1,295.8)	212.1
	3,269.4	3,737.7
Less: Retirement of Long and Intermediate Term Debt	481.9	745.0
	2,787.5	2,992.7
Other Changes:*		
Working Capital (Excluding Debt Maturing Within One Year and Income Taxes Deferred for One Year)	(2,601.8)	(956.3)
Other	(1,509.5)	(1,036.8)
	(4,111.3)	(1,993.1)
Funds Supporting Construction Activity	9,325.3	12,251.6
Add: Interest Charged Construction	276.4	239.3
Total Construction For Communications Services	$ 9,601.7	$12,490.9

* (   ) Denotes a change which results in a decrease in funds supporting construction activity.

See Notes to Financial Statements.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Financial Statements

(Dollars in Millions except per share amounts)

(Unaudited)

(a) **Income Taxes**—As previously reported, results for the nine months ended September 30, 1982 were restated, increasing Income Applicable to Common Shares by $342.5 ($.41 per share) to reflect a change in accounting for certain deferred income taxes (primarily state and local taxes). The prior years cumulative effect of this change as of the beginning of 1982 was $286.8 ($.34 per share computed using 849,550,000 shares, the weighted average number of shares outstanding for 1982).

(b) **Rate and Related Matters**—As previously reported, the IRS had contended that a refund order of the CPUC rendered Pacific Bell ineligible for certain federal tax benefits relating to accelerated depreciation and investment tax credits. In December 1982, Congressional legislation confirmed Pacific Bell's eligibility for these tax benefits subject to a closing agreement with the IRS for tax payments based on revenues previously refunded to customers. The liability for these tax payments was then estimated to be $320.7. In June 1983, AT&T and Pacific Bell entered into a closing agreement with the IRS. This agreement reduced Pacific Bell's current tax liability from $320.7 to $272.7 and provided for the future tax deductibility of disallowed deductions for accelerated depreciation expense reflected in the tax liability. This, in combination with expected CPUC regulatory actions, restored $216.4 of Pacific Bell's previous reduction in net income. This restoral increased Earnings per Common Share for the nine months ended September 30, 1983 by $.23 per share.

In June 1982 Federal Income Taxes-Deferred were increased by $549.4 and Federal Income Taxes-Current were decreased by $520.3 as a result of a confirmation by the IRS that certain Pacific Bell plant was eligible for accelerated tax depreciation benefits retroactive to February 1980, the date of a CPUC rate order which was consistent with IRS eligibility regulations.

During the nine months ended September 30, 1983 approximately $112.2 ($.12 per share) of intrastate revenues, net of taxes, were collected subject to possible refund in various states. Total intrastate revenues, net of taxes, subject to possible refund as of September 30, 1983 are approximately $211.5 ($.23 per share). Refunds, if any, of these revenues may require a restatement of interim results reported for 1983.

(c) **Cost of Consolidating Facilities**—Income Applicable to Common Shares for the nine months ended September 30, 1983 includes a charge in September 1983 of $213.3, net of taxes, ($.23 per share) to cover the costs of consolidating operations as part of a long term plan to reduce expenses. This charge includes the estimated costs of employee relocations and reductions as well as anticipated lease termination costs. Also included in the nine months 1983 results is a charge by Western Electric of $96.5 ($.10 per share) to cover the costs of consolidating distribution and repair facilities as a part of a long term plan to improve space utilization and reduce costs. This charge includes the write-down of facilities to net realizable value plus estimated costs of employee and equipment relocations and employee termination benefits.

(d) **Valuation Adjustment**—For its tariffed telecommunications services, AT&T's financial statements have been prepared in accordance with generally accepted accounting principles applicable to rate-regulated enterprises and thus reflect accounting policies and practices used by regulators in the rate-making process.

As a result of the Court-ordered January 1, 1984 divestiture, AT&T's integrated telecommunications business is being split up with those portions which operate predominantly under monopoly regulation being assigned to seven RHCs and those portions which face strong and growing competition being assigned to the post-divestiture AT&T. Consequently, certain of AT&T's accounting policies and practices will no longer be appropriate after December 31, 1983. Accordingly, AT&T will adjust its financial statements on December 31, 1983 to reflect the discontinued use by the post-divestiture AT&T of accounting policies and practices appropriate for rate-regulated enterprises and will restate the rate-regulated assets assigned to the post-divestiture AT&T on a basis appropriate for nonregulated enterprises.

These adjustments, each of which will reduce the carrying value of the post-divestiture AT&T's net assets, consist of the following:

1. Reducing the carrying value of terminal equipment and network facilities from the amounts recognized by regulators in the rate-making process to a lesser amount expected to be recoverable in a competitive environment.

2. Establishing liability accruals for expenses which in the rate-making process have been accounted for only when paid. These include expenses for future compensated absences, special termination benefits, and contractual obligations to the RHCs for the post-divestiture AT&T's share of future benefit payments to certain groups of former employees.

3. Establishing deferred income tax credits for tax timing benefits which regulators in the rate-making process have recognized on a current basis rather than on a deferred basis as is required for nonregulated businesses.

These valuation adjustments will be accounted for as a divestiture-related extraordinary charge to income occurring on December 31, 1983. This year-end extraordinary charge is expected to total about $5.2 billion, net of taxes, or about $5.50 per share (based on an estimated 941,600,000 weighted average number of shares outstanding during 1983).

Commencing January 1, 1984, AT&T's published financial statements will reflect asset values and accounting principles appropriate for a nonregulated enterprise.

(e) **Common Shares**—Book value per common share was $69.46 at September 30, 1983.

During the nine months ended September 30, 1983 AT&T sold 17,600,000 shares through an underwritten offering, sold 23,894,758 shares under the Share Owner Dividend Reinvestment and Stock Purchase Plan, sold 8,705,500 shares to Bell System employee savings plans, issued 26,845 shares under the Bell System Long Term Incentive Plan, issued 5,813,413 shares upon conversion of AT&T's $4 convertible preferred shares, and issued 2,214,311 shares in connection with the Bell System Employee Stock Ownership Plan.

On May 23, 1983 the par value was changed from $16⅔ per share to $1 per share.

(f) **Preferred Shares**—Authorized are 100,000,000 preferred shares at $1 par value.

Convertible Preferred Shares Subject to Redemption

Each $4 preferred share is convertible into approximately 1.05 common shares of AT&T. 5,548,561 of such shares were converted during the nine months ended September 30, 1983. AT&T has announced that shares outstanding after September 30, 1983 will be redeemed at the stated value of $50 per share.

Preferred Shares Subject to Mandatory Redemption

In February 1983, AT&T redeemed 12,500 of the $77.50 preferred shares which have a stated value of $1,000 per share.

(g) **MCI and Litton Antitrust Litigation**—In June 1980, MCI Communications Corporation was awarded $1.8 billion in treble damages in a civil antitrust suit against AT&T. In January 1983, the U.S. Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. Petitions for rehearing of this decision were denied by the Court of

Appeals. In July 1983, both parties petitioned the U.S. Supreme Court to review the case. On October 11, 1983, the Supreme Court denied the petitions. In the opinion of AT&T's legal counsel, any monetary liability or financial impact to which AT&T and the Bell System companies might be subject after final adjudication would not be material in amount.

In June 1981, in an antitrust suit involving terminal equipment against AT&T and certain Bell System companies, Litton Industries, Inc. ("Litton") was awarded $276.8 in treble damages. In February 1983, the U.S. Court of Appeals for the Second Circuit upheld the lower court's decision. The Court of Appeals denied AT&T's petition for a rehearing. In June 1983, AT&T petitioned the U.S. Supreme Court to review the case. On October 3, 1983, the Supreme Court invited the Solicitor General to file a brief in the case expressing the views of the Federal government. Should it ultimately be determined that the Litton award is payable, Income Applicable to Common Shares would be decreased in a future period. If such determination had been made as of September 30, 1983, the decrease in Income Applicable to Common Shares for AT&T and the Bell System companies could have been as much as $185.0 ($.20 per share).

(h) **Department of Justice Antitrust Action**—On August 24, 1982, the Consent Decree between AT&T and the DOJ was entered by the Court, following the dismissal by stipulation of the DOJ's 1974 civil antitrust action involving AT&T and its subsidiaries. The terms of the Consent Decree require that AT&T divest those parts of the Bell System operating telephone companies that provide local exchange and exchange access service, as well as printed directory advertising, and also require termination of the License Contracts between AT&T and the operating companies and the Standard Supply Contracts between Western Electric and the operating companies. Interexchange facilities, including those currently owned by the operating companies, would remain a part of AT&T, which would continue to own Western Electric and Bell Laboratories. Ownership of existing customer premises equipment would remain with AT&T. The divested operating companies are restricted to exchange services and other natural monopoly services; however, they may provide new customer premises equipment and printed directory advertising. A divested operating company is permitted to engage in any other business upon a showing to the Court that there is no substantial possibility that it could use its monopoly power to impede competition in the market it seeks to enter. AT&T's access to the services of the divested operating companies would be on terms and conditions equal to other interexchange carriers. The operating companies would be divested by a spin-off to AT&T's share owners or by other disposition. At the time of divestiture, AT&T will have to assure that each divested operating company has a debt ratio of approximately 45% (except for a somewhat higher debt ratio for Pacific Bell).

In July 1983, the Court ruled that, as a condition of approving implementation of the Consent Decree, it would require AT&T to reimburse the divested operating companies for costs of reconfiguration of their networks to provide equal access to all interexchange carriers that have not been recovered by the divested operating companies by January 1, 1994. Another condition would prohibit AT&T after divestiture from using the word "Bell" and the Bell trademarks for itself and its subsidiaries and affiliates, except for Bell Laboratories and foreign subsidiaries and affiliates. On August 3, 1983 AT&T agreed to the Court-proposed modifications. On August 5, 1983 the Court gave final approval to the Plan as amended. Approval of the Plan is subject to appeal by intervenors.

As a result of such divestiture, the divested operating companies could be required to make an immediate payment of approximately $1.2 billion of federal income taxes previously deferred on intercompany profits. While payment of these deferred taxes should have no direct effect on Net

Income, an immediate payment would increase the divested operating companies' needs for cash. However, AT&T believes that, pursuant to tax regulations, a closing agreement is likely to be entered into with the IRS which would result in only a moderate acceleration of the present time period over which these intercompany profits become taxable.

For information concerning the effects of the divestiture on the future operations of AT&T, refer to the financial forecasts for AT&T and each of the RHCs for the year ending December 31, 1984 and the pro forma condensed balance sheets for AT&T and each of the RHCs as of June 30, 1983 included elsewhere in this Information Statement and Prospectus.

(i) **Regulatory Actions**—In June and November 1982, the FCC approved AT&T's plans to establish a nationwide subsidiary to offer on a detariffed basis both enhanced services and new customer premises equipment. The FCC also approved AT&T's intentions to reimburse the operating telephone companies and Long Lines for expenses incurred by them in connection with the formation of the new subsidiary and with the development of the enhanced services and new customer premises equipment. The November FCC order required that liabilities be recognized for that portion of these reimbursements which the FCC believes are subject to refund to customers in future regulatory proceedings. Accordingly, as previously reported, results were restated to reflect the estimated amounts to be refunded. This reduced Income Applicable to Common Shares for the nine months ended September 30, 1982 by $38.0 ($.04 per share) and Reinvested Earnings as of January 1, 1982 by $155.7. The FCC also announced its intention to determine if additional refunds were required for customer premises equipment development expenses incurred by Western Electric. If such determination had been made as of September 30, 1983, Income Applicable to Common Shares would be reduced in a future period by as much as $130.0 ($.14 per share).

(j) **Financing Subsequent to September 30, 1983**—Through November 8, 1983, one telephone subsidiary announced its intention to sell up to $200.0 of long and/or intermediate term debt. The proceeds of this sale will be applied primarily to repayment of debt maturing within one year.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

First Nine Months of 1983 Compared to First Nine Months of 1982

Net Income for the nine months ended September 30, 1983 decreased $654.0 million or 11.3 per cent from the same period last year. Earnings per Common Share were $5.41 on 928.8 million weighted average number of shares outstanding, a decrease of $1.35 or 20.0 per cent compared to earnings for the same nine months in 1982 of $6.76 on 839.2 million weighted average number of shares (9.6 per cent fewer shares outstanding). Contributing to the decreased earnings were the lingering effects of the recession, losses to competition in both the interstate long distance and terminal equipment markets, and efforts to ready the Bell System for divestiture. Long distance volumes were up only two per cent over a year ago and Western Electric's sales to the Bell System companies were substantially below year-ago levels. In addition, Net Income for the nine months ended September 30, 1983 was reduced by non-recurring charges in September of $213.3 million ($.23 per share) and in June of $96.5 ($.10 per share) to cover the costs of consolidating operations (see Note (c) to Financial Statements). Increased labor costs from contractual changes decreased Net Income by about $300.0 million ($.32 per share) compared to the nine months ended 1982. Net Income in 1983 was improved by $216.4 million ($.23 per share) from a restoration of a previous reduction of Pacific Bell's Net Income (see Note (b) to Financial Statements) and from lower pension costs of $263.0 million ($.28 per share), after taxes, primarily due to a change in pension accrual rates effective January 1, 1983. Included in the results for nine months ended September 30, 1982 is the cumulative effect of a change in accounting for deferred income taxes which improved earnings by $286.8 million ($.34 per share) (see Note (a) to Financial Statements).

Total Operating Revenues for the nine months ended September 30, 1983 increased $3.4 billion or 7.0 per cent over the same period last year. This increase reflects the lingering effects of the recession and losses to competition in both the interstate long distance and terminal equipment markets. Local Service revenues and Toll Service revenues increased $1.2 billion or 5.6 per cent and $910.3 million or 3.7 per cent, respectively, due to growth in the number of network access lines in service (see "Selected Operating Data" included elsewhere in this document) and to higher rates and calling volumes. Increases in directory advertising revenues of $319.2 million and revenues from non-tariffed telecommunications services (primarily sales of new customer premises equipment) of $1.1 billion, offset by a $100.5 million increase in the provision for uncollectibles, account for the remaining increase in total operating revenues.

Total Operating Expenses for the nine months ended September 30, 1983 increased $3,270.2 million or 9.9 per cent over the same period last year. The 1983 expense increase over 1982 was due to the following changes:

	Millions of Dollars
Depreciation due to:	
Revised rates and practices	$ 187.6
Increased plant investment	564.6
One-time charge for consolidating operations	330.0
Provision for pensions	(525.9)
Labor contract changes	600.0
Cost of sales and services for non-tariffed telecommunications services	464.0
Research and systems engineering	266.5
Other operating and administrative expenses	1,383.4
Total	$3,270.2

Total Operating Taxes for the nine months ended September 30, 1983 increased $258.0 million or 3.6 per cent over the same period last year. The 1983 tax increase over 1982 was due to the following changes:

	Millions of Dollars
Federal income taxes	$(160.8)
State and local income taxes	98.7
Property taxes	46.1
Gross receipts, payroll-related and other taxes	274.0
Total	$ 258.0

Federal income taxes decreased $216.4 million due to the recognition of the provisions of a closing agreement with the IRS regarding Pacific Bell's tax liabilities reflected in the nine months ended September 30, 1983 (see Note (b) to Financial Statements). This decrease was offset by higher income before such taxes and a decrease in expenses which are included in capital expenditures but deductible currently for tax purposes. The state and local income taxes increase is attributable to higher income before such taxes and higher state and local tax rates. Gross receipts taxes increased $146.6 million due to the increase in operating revenues. Social security taxes increased $97.6 million due to a higher taxable wage base and increased wage levels.

Western Electric's net income for the nine months ended September 30, 1983 decreased $581.2 million from the same period last year principally due to a reduction of Western Electric's sales of products and services to the Bell System companies. Western Electric's net income was also reduced by a charge of $96.5 million for the consolidation of distribution and repair operations. In addition, a change in the method of accounting for certain computer software development costs plus a provision for additional consolidations through employee relocations and reductions, reduced earnings by approximately $73.2 million.

Miscellaneous Income and Deductions—net for the nine months ended September 30, 1983 increased $69.6 million over the same period last year due to increased interest income on temporary cash investments offset by a true-up of accruals for future compensated absences.

Interest Expense for the nine months ended September 30, 1983 decreased $251.4 million or 7.4 per cent over the same period last year. Interest on short term and other debt decreased by $306.1 million due to lower interest rates and debt levels. This improvement was offset by an increase in interest expense on long term debt of $54.7 million principally due to the sale of $1.3 billion of long and intermediate term debt by six subsidiaries in 1983. AT&T's embedded cost of long and intermediate term debt at September 30, 1983 was 8.81 per cent compared to 8.73 per cent at the same date last year.

Dividends—Total dividends paid to common share holders during the nine months ended September 30, 1983 were $4.50 per common share compared to $4.05 per common share for the same period last year. Included in the 1983 total is a special one-time dividend of $.45 per common share paid to holders of record on March 31, 1983. This special dividend was not a "dividend increase" but instead was a one-time payment declared by AT&T to accommodate a change in the schedule of its regular quarterly dividend payments. Dividends declared as a per cent of Income Applicable to Common Shares for the nine months ended September 30, 1983 (including the special one-time dividend) were 83 per cent compared to 60 per cent for the same period last year.

Equity Financing—AT&T raised $3.3 billion in new equity during the nine months ended September 30, 1983 of which $1.4 billion was raised through AT&T's Dividend Reinvestment and Stock Purchase Plan, $600 million through Employee Savings Plans, $200 million through the Bell System Employee Stock Ownership Plan, and $1.1 billion through an underwritten sale of 17,600,000 common shares.

Debt Financing—Six subsidiaries sold $1.3 billion in long and intermediate term debt during the nine months ended September 30, 1983 at an average interest rate of 11.69 per cent. During the same period, AT&T and its subsidiaries redeemed $481.9 million in long and intermediate term debt and decreased outstanding short term debt by $1.3 billion. Subsequent to September 30, 1983 and through November 8, 1983, one telephone subsidiary announced its intention to sell up to $200.0 million of long and/or intermediate term debt (see Note (j) to Financial Statements).

In April, 1983 AT&T cancelled its $750 million revolving credit agreements due to increased liquidity, primarily as a result of the underwritten sale of common shares in the First Quarter of 1983.

Debt Ratio—The Bell System debt ratio as a result of the changes in equity and debt financing decreased from December 31, 1982 as follows:

	At Sept. 30, 1983	At Dec. 31, 1982	Change
Per cent debt obligations of total debt, common equity, and preferred shares	40.6%	42.3%	(1.7%)
Per cent debt obligations and preferred shares subject to mandatory redemption of total debt, common equity, and preferred shares	41.9%	43.7%	(1.8%)

Construction Expenditures—The Bell System expects to continue to make large construction expenditures for tariffed telecommunications services. It is expected that these expenditures will be financed by internal sources and, as needed, by external financing. The Bell System's total construction expenditures for tariffed telecommunications services for nine months ended September 30, 1983 were $9.6 billion, compared to $12.5 billion for the same nine months in 1982. These reduced expenditures reflect not only the three week strike in August but also tight control of capital budgets and increased utilization of facilities already in place.

Results of Operations—In 1983, operating results are subject to the timing and strength of the economic recovery. In addition, AT&T anticipates that AT&T Information Systems (the subsidiary recently formed to provide customer premises equipment and enhanced services) will ultimately be profitable; however, operating deficits are expected in its early years of start-up operations. Also affecting results for 1983 will be: (1) AT&T's plans to make certain changes in accounting policies and practices in order to reflect the less regulated, more competitive nature of its business after divestiture; these adjustments will be accounted for as a divestiture-related extraordinary charge to income occurring on December 31, 1983 (see Note (d) to Financial Statements), (2) increased expenses associated with accelerated capital recovery programs when there are lags in rate authorizations which take these capital recovery costs into account, (3) increased expenses related to preparations for divestiture, and (4) reduced rate of growth in business volumes resulting from the lingering effects of the recession as well as competition in both the terminal equipment and interstate long distance markets.

See Notes (b), (d), (g), (h) and (i) to Financial Statements for matters pertaining to Rate and Related Matters, Valuation Adjustment, MCI and Litton Antitrust Litigation, Department of Justice Antitrust Action, and Regulatory Actions, respectively.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS CONSOLIDATED SUBSIDIARIES

Financial Statements

The following Financial Statements of AT&T and its Consolidated Subsidiaries, except for Notes (E), (Q) and (R), are the same as those published in its annual report to share owners for the fiscal year ended December 31, 1982:

1. Report of Management
2. Results in Brief: Selected Financial and Operating Data
3. Report of Independent Certified Public Accountants
4. Financial Statements of AT&T and its Consolidated Subsidiaries
5. Management's Discussion and Analysis of Financial Condition and Results of Operations
6. Supplementary Data

Report of Management

The financial statements that follow, which consolidate the accounts of American Telephone and Telegraph Company and its subsidiaries, have been prepared in conformity with generally accepted accounting principles.

The integrity and objectivity of data in these financial statements, including estimates and judgments relating to matters not concluded by year-end, are the responsibility of management as is all other information included in the Annual Report unless indicated otherwise. To this end, management maintains a system of internal accounting controls which, on an ongoing basis, is reviewed and evaluated. Our internal auditors monitor compliance with it in connection with the annual plan of internal audits. However, there are inherent limitations that should be recognized in considering the assurances provided by any system of internal accounting controls. The concept of reasonable assurance recognizes that the costs of a system of internal accounting controls should not exceed, in management's judgment, the benefits to be derived. Management believes that the Company's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and are recorded properly to maintain accountability for assets and to permit the preparation of financial statements in conformity with generally accepted accounting principles. Management also believes that this system provides reasonable assurance that access to assets is permitted only in accordance with management's authorizations, that the recorded accountability for assets is compared with the existing assets at reasonable intervals, and that appropriate action is taken with respect to any differences. Management also seeks to assure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility, and by communications programs aimed at assuring that its policies, standards, and managerial authorities are understood throughout the organization.

These financial statements have been examined by Coopers & Lybrand, independent Certified Public Accountants. The other auditors referred to in their report are Arthur Young & Company, auditors of Western Electric Company, Incorporated and Southwestern Bell Telephone Company, and Arthur Andersen & Co., auditors of Illinois Bell Telephone Company.

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

R. N. Flint,
Vice President and Comptroller

Results in Brief: Selected Financial and Operating Data

Dollars in Millions (000,000) except per share amounts

		1982	1981*	1980*	1979	1978
Revenues	Local service	$ 28,986	$ 25,553	$ 22,449	$ 20,208	$ 18,685
	Toll service	33,257	30,189	26,051	23,371	20,770
	Other (including other income)	3,514	3,339	3,049	2,604	2,289
		65,757	59,081	51,549	46,183	41,744
Expenses	Operating	45,025	39,346	34,305	30,236	26,527
	Income taxes on operations	4,931	4,119	3,581	3,607	3,826
	Other operating taxes	4,879	4,430	3,928	3,602	3,439
	Interest	3,930	4,363	3,768	3,083	2,690
		58,765	52,258	45,582	40,528	36,482
Income before cumulative effect of a change in accounting principle		6,992	6,823	5,967	5,655	5,262
Prior years cumulative effect of a change in accounting for deferred income taxes		287	—	—	—	—
Net Income		7,279	6,823	5,967	5,655	5,262
Preferred dividend requirements		142	146	150	156	164
Income applicable to common shares		$ 7,137	$ 6,677	$ 5,817	$ 5,499	$ 5,098
Earnings per common share		$ 8.40	$ 8.47	$ 8.04	$ 8.01	$ 7.73
Based on average shares outstanding (in thousands)		849,550	788,178	723,516	686,109	659,843
Pro forma amounts assuming the change in accounting for deferred income taxes had been applied retroactively:						
Income applicable to common shares		$ 6,850	$ 6,726	$ 5,863	$ 5,532	$ 5,134
Earnings per common share		$ 8.06	$ 8.53	$ 8.10	$ 8.06	$ 7.78
Total assets		$148,186	$137,750	$125,553	$113,444	$103,025
Long and intermediate term debt		$ 44,105	$ 43,877	$ 41,255	$ 37,168	$ 34,203
Preferred shares subject to mandatory redemption		$ 1,550	$ 1,563	$ 1,575	$ 1,588	$ 1,600
Convertible preferred shares subject to redemption		$ 301	$ 336	$ 385	$ 433	$ 501
Dividends declared per common share		$ 5.40	$ 5.40	$ 5.00	$ 5.00	$ 4.60
Ratio of earnings to fixed charges**		3.64	3.26	3.34	3.76	4.10
Toll messages for the year ended December 31 (000,000)		19,275	18,643	17,457	16,193	14,639
WATS messages for the year ended December 31 (000,000)		6,615	5,655	4,874	4,244	3,631

Charges for toll messages and WATS messages for the year ended December 31, 1982 account for about 36% and 9%, respectively, of total billed operating revenues.

	1982	1981*	1980*	1979	1978
Network access lines in service at December 31 (000,000)	85	84	82	79	76

Recurring charges for network access lines in service for the year ended December 31, 1982 account for about 24% of total billed operating revenues.

* Restated, See Note (S)

** For the purpose of this ratio for the enterprise as a whole: (i) earnings have been calculated by adding total taxes on income, the income before income taxes of Western Electric, ownership interest of others in the net income of certain consolidated subsidiaries, dividends received on investments in less-than-fifty-percent-owned companies and fixed charges to Income before cumulative effect of a change in accounting principle, and by deducting therefrom the Company's share in the income of companies accounted for on an equity basis; (ii) fixed charges comprise total interest expense, dividends on preferred shares of a consolidated subsidiary held by others and such portion of rentals representative of the interest factor.

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REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have examined the balance sheets of American Telephone and Telegraph Company and its subsidiaries as of December 31, 1982 and 1981, and the related statements of income and reinvested earnings and sources of funds supporting construction activity for the years ended December 31, 1982, 1981 and 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of two telephone subsidiaries and of Western Electric Company, Incorporated, the Company's principal unconsolidated subsidiary, were examined by other auditors; such statements reflect net income constituting approximately 22%, 27% and 28% of consolidated net income for 1982, 1981 and 1980, respectively. The reports of the other auditors have been furnished to us and our opinion expressed herein, insofar as it relates to amounts included for subsidiaries examined by them, is based solely upon such reports.

In our opinion, based upon our examinations and the reports of other auditors, the financial statements referred to above present fairly the financial position of American Telephone and Telegraph Company and its subsidiaries at December 31, 1982 and 1981, and the results of their operations and sources of funds supporting their construction activity for the years ended December 31, 1982, 1981 and 1980, in conformity with generally accepted accounting principles which, except for the change in 1982, with which we concur, in accounting for deferred income taxes as described in Note (B) to Financial Statements, have been applied on a consistent basis.

COOPERS & LYBRAND

New York, New York
February 8, 1983, except for Note (R)
as to which the date is November 8, 1983.

We have examined the balance sheets of Illinois Bell Telephone Company (an Illinois corporation and a wholly-owned subsidiary of American Telephone and Telegraph Company) as of December 31, 1982 and 1981, and the related statements of income and reinvested earnings and sources of funds used for construction expenditures for each of the three years in the period ended December 31, 1982 (not shown separately herein). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Illinois Bell Telephone Company as of December 31, 1982 and 1981, and the results of its operations and its sources of funds used for construction expenditures for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
February 8, 1983 (except as to the matter discussed in Note (R) to the Financial Statements of American Telephone and Telegraph Company and its subsidiaries as it relates to Illinois Bell Telephone Company and as discussed in Item 7(b) of Illinois Bell Telephone Company's Form 8-K, Date of Report November 8, 1983, for which the date is November 8, 1983)

We have examined the balance sheets of Southwestern Bell Telephone Company at December 31, 1982 and 1981, and the related statements of income, reinvested earnings and sources of funds supporting construction activity for each of the three years in the period ended December 31, 1982 (not shown separately herein). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Southwestern Bell Telephone Company at December 31, 1982 and 1981, and the results of operations and sources of funds supporting construction activity for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

St. Louis, Missouri
February 8, 1983 (except as to the matter discussed in Note (R) to the Financial Statements of American Telephone and Telegraph Company and its subsidiaries as it relates to Southwestern Bell Telephone Company (see Item 7(b) of Southwestern Bell Telephone Company's Form 8-K, Date of Report November 8, 1983) for which the date is November 8, 1983)

We have examined the consolidated balance sheets of Western Electric Company, Incorporated at December 31, 1982 and 1981, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1982 (not shown separately herein). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Western Electric Company, Incorporated at December 31, 1982 and 1981, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the change, with which we concur, in the method of accounting for early retirement incentive plans as described in the notes to such consolidated financial statements.

ARTHUR YOUNG & COMPANY

New York, New York
February 7, 1983

STATEMENTS OF INCOME AND REINVESTED EARNINGS

American Telephone and Telegraph Company and its Subsidiaries

Dollars in Millions (except per share amounts)

	Year 1982	Year 1981*	Year 1980*
OPERATING REVENUES			
Local service			
Service and equipment charges	$24,633.7	$21,727.8	$18,972.4
Message charges	2,618.7	2,324.8	2,184.7
Public telephones	946.4	862.3	800.4
Private lines and other services	787.5	638.2	491.9
Toll service			
Message charges	23,356.7	22,232.7	20,083.3
WATS	5,565.0	4,487.7	3,724.3
Private lines and other services	4,334.7	3,468.1	2,243.6
Directory advertising and miscellaneous	3,623.7	2,913.1	2,651.6
Provision for uncollectibles	(773.4)	(589.1)	(494.0)
Total operating revenues	65,093.0	58,065.6	50,658.2
OPERATING EXPENSES			
Maintenance	14,986.2	12,987.7	10,916.5
Depreciation	8,734.5	7,900.3	7,040.4
Network and operator services	3,910.2	3,580.6	3,253.3
Marketing and customer services	6,126.6	5,192.0	4,319.5
Financial operations	1,882.0	1,671.1	1,547.4
Directory	1,218.3	1,048.9	917.5
Research and systems engineering	610.6	507.2	418.8
Provision for pensions and other employee benefits (C)	5,405.4	4,773.5	4,461.2
Other operating expenses	2,151.5	1,684.3	1,430.2
Total operating expenses	45,025.3	39,345.6	34,304.8
Net operating revenues	20,067.7	18,720.0	16,353.4
OPERATING TAXES			
Federal income taxes (B)	4,411.0	3,686.0	3,241.4
State and local income taxes (B)	519.3	433.1	339.0
Property taxes	1,949.4	1,845.6	1,722.5
Gross receipts, payroll-related, and other taxes (P)	2,929.7	2,584.8	2,206.1
Total operating taxes	9,809.4	8,549.5	7,509.0
Operating income	10,258.3	10,170.5	8,844.4
OTHER INCOME			
Western Electric Company net income (G)	336.7	711.3	693.2
Interest charged construction	317.6	287.5	271.1
Miscellaneous income and deductions—net (B)(D)	9.4	16.4	(72.8)
Total other income	663.7	1,015.2	891.5
Income before interest expense	10,922.0	11,185.7	9,735.9
INTEREST EXPENSE (P)	3,930.0	4,362.8	3,768.1
Income before cumulative effect of a change in accounting principle	6,992.0	6,822.9	5,967.8
Prior years cumulative effect (through December 31, 1981) of the change in accounting for deferred income taxes (B)	286.8	—	—
NET INCOME	7,278.8	6,822.9	5,967.8
Preferred dividend requirements	141.9	145.7	150.7
INCOME APPLICABLE TO COMMON SHARES	$ 7,136.9	$ 6,677.2	$ 5,817.1
EARNINGS PER COMMON SHARE AMOUNTS based on weighted average number of shares outstanding of 849,550,000, 788,178,000 and 723,516,000 in years 1982, 1981 and 1980, respectively:			
Before cumulative effect of a change in accounting principle	$ 8.06	$ 8.47	$ 8.04
Prior years cumulative effect (through December 31, 1981) of the change in accounting for deferred income taxes (B)	.34	—	—
Earnings per Common Share	$ 8.40	$ 8.47	$ 8.04
REINVESTED EARNINGS			
At beginning of year	$26,364.9	$23,946.4	$21,751.3
Add net income	7,278.8	6,822.9	5,967.8
	33,643.7	30,769.3	27,719.1
Deduct dividends declared:			
Convertible preferred shares subject to redemption:			
$4 Cumulative convertible preferred shares	25.2	28.0	32.0
Preferred shares subject to mandatory redemption:			
$3.64 Preferred shares	36.4	36.4	36.4
$3.74 Preferred shares	37.4	37.4	37.4
$77.50 Preferred shares	42.6	43.6	44.6
Common: 1982, $5.40 per share; 1981, $5.40 per share; and 1980, $5.00 per share	4,601.0	4,256.6	3,619.5
Miscellaneous—net	12.6	2.4	2.8
	4,755.2	4,404.4	3,772.7
At end of year	$28,888.5	$26,364.9	$23,946.4

* Restated, see Note (S).

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

BALANCE SHEETS

American Telephone and Telegraph Company and its Subsidiaries

Dollars in Millions (except per share amounts)

ASSETS

	at December 31 1982	1981*
TELEPHONE PLANT at cost		
In service	$152,725.6	$141,419.2
Under construction	5,229.6	5,094.2
Held for future use	91.0	51.0
	158,046.2	146,564.4
Less accumulated depreciation	29,982.8	26,580.9
	128,063.4	119,983.5
INVESTMENTS		
At equity (G)		
Western Electric Company, Incorporated	4,757.1	4,991.2
Other	661.9	563.7
At cost	307.1	322.0
	5,726.1	5,876.9
CURRENT ASSETS		
Cash	137.5	282.9
Temporary cash investments at cost (approximates market value)	2,969.9	1,775.5
	3,107.4	2,058.4
Less drafts outstanding (H)	653.7	795.8
	2,453.7	1,262.6
Receivables		
Customers and agents less allowance for uncollectibles: 1982, $302.0; 1981, $238.2	7,764.5	7,179.9
Other	815.0	651.3
Material and supplies	1,178.8	1,171.6
Prepaid expenses (principally taxes)	245.8	226.6
	12,457.8	10,492.0
DEFERRED CHARGES	1,938.2	1,397.1
TOTAL ASSETS	$148,185.5	$137,749.5

* Restated, see Note (S).

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

BALANCE SHEETS

American Telephone and Telegraph Company and its Subsidiaries

Dollars in Millions (except per share amounts)

INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS

	at December 31	
	1982	1981*
COMMON SHARE OWNERS' EQUITY		
Common shares—$16⅔ par value (I)	$ 14,940.4	$ 13,585.1
Authorized shares: 1982—1,200,000,000; 1981—900,000,000		
Outstanding shares: 1982—896,425,000; 1981—815,108,000		
Proceeds in excess of par value	18,084.1	14,929.1
Reinvested earnings**	28,888.5	26,364.9
	61,913.0	54,879.1
CONVERTIBLE PREFERRED SHARES SUBJECT TO REDEMPTION (J)		
$4 cumulative convertible preferred (includes proceeds in excess of stated value)	301.4	335.8
PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION (J)	1,550.0	1,562.5
OWNERSHIP INTEREST OF OTHERS IN CONSOLIDATED SUBSIDIARIES		
Share owners' equity (I)	—	415.8
Preferred shares subject to mandatory redemption (K)	535.8	553.0
	535.8	968.8
LONG AND INTERMEDIATE TERM DEBT (L)	44,105.0	43,876.9
CURRENT LIABILITIES		
Accounts payable		
To unconsolidated subsidiaries	1,339.7	1,330.2
Payrolls	695.5	632.6
Others	2,928.5	2,183.2
Debt maturing within one year (M)	3,045.0	4,019.1
Taxes accrued	1,669.3	3,195.2
Income taxes deferred for one year (B)	263.7	149.9
Advance billing and customers' deposits	1,668.0	1,476.7
Dividends payable	1,223.3	1,145.7
Interest accrued	1,126.5	1,094.1
	13,959.5	15,226.7
DEFERRED CREDITS		
Accumulated deferred income taxes (B)(E)	17,804.4	14,037.3
Unamortized investment tax credits (E)	7,590.3	6,543.7
Other	426.1	318.7
	25,820.8	20,899.7
LEASE COMMITMENTS (N)		
TOTAL INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS	$148,185.5	$137,749.5

** See statements of income and reinvested earnings.

STATEMENTS OF SOURCES OF FUNDS SUPPORTING CONSTRUCTION ACTIVITY

American Telephone and Telegraph Company and its Subsidiaries

Dollars in Millions (except per share amounts)

	Year 1982	Year 1981*	Year 1980*
FUNDS FROM OPERATIONS			
Net Income	$ 7,278.8	$ 6,822.9	$ 5,967.8
Add expenses not requiring funds currently			
Depreciation	8,734.5	7,900.3	7,040.4
Deferred income taxes—net	4,167.7	1,851.4	1,651.1
Investment tax credits—net	1,046.6	969.7	961.4
Deduct income not providing funds currently			
Interest charged construction	317.6	287.5	271.1
Prior years cumulative effect of the change in accounting for deferred income taxes	286.8	—	—
Share of equity-basis companies' income in excess of dividends	(223.1)	197.5	236.7
Total funds from operations	20,846.3	17,059.3	15,112.9
Less dividends	4,742.6	4,402.0	3,769.9
	16,103.7	12,657.3	11,343.0
FUNDS FROM EXTERNAL FINANCING			
Issuance of shares, net of redemptions	4,463.4	3,168.7	2,591.7
Issuance of long and intermediate term debt	713.4	3,460.2	4,728.9
Increase (decrease) in short term borrowings—net	(674.1)	(513.0)	83.9
	4,502.7	6,115.9	7,404.5
Less retirement of long and intermediate term debt	785.0	595.0	415.0
	3,717.7	5,520.9	6,989.5
CHANGES IN WORKING CAPITAL** (excluding debt maturing within one year and income taxes deferred for one year)			
Cash and temporary cash investments	(1,191.1)	(255.6)	(144.4)
Receivables	(748.3)	(1,047.8)	(950.7)
Material and supplies	(7.2)	(153.7)	(111.4)
Prepaid expenses	(19.2)	(20.9)	(27.8)
Accounts payable	817.7	419.8	224.8
Taxes accrued	(1,525.9)	557.5	275.8
Advance billing and customers' deposits	191.3	197.9	190.5
Dividends payable	77.6	161.7	48.1
Interest accrued	32.4	99.5	144.5
	(2,372.7)	(41.6)	(350.6)
OTHER CHANGES**			
Investments	(72.3)	(420.0)	(334.5)
Deferred charges	(541.1)	(145.3)	(133.7)
Ownership interest of others in consolidated subsidiaries	(433.0)	22.0	(616.3)
Other—net	77.6	216.9	132.4
	(968.8)	(326.4)	(952.1)
FUNDS SUPPORTING CONSTRUCTION ACTIVITY	16,479.9	17,810.2	17,029.8
Add interest charged construction	317.6	287.5	271.1
TOTAL CONSTRUCTION FOR COMMUNICATIONS SERVICES	$16,797.5	$18,097.7	$17,300.9

* Restated, see Note (S).

** ( ) Denotes a change which results in a decrease in funds supporting construction activity.

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

NOTES TO FINANCIAL STATEMENTS

(Dollars in Millions (except per share amounts)

Accounting Policies

(A) The consolidated financial statements of American Telephone and Telegraph Company ("Company") and its subsidiaries reflect the application of the accounting policies described in this note and in Notes (C), (H) and (N).

In December 1982 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 71 ("Statement No. 71"), "Accounting for the Effects of Certain Types of Regulation," which when implemented, will not significantly affect any year presented herein.

Consolidation—The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, except Western Electric Company, Incorporated ("Western Electric"). The consolidation process eliminates the effects of all significant intercompany transactions except as discussed below under "Purchases from Western Electric." The investment in Western Electric and certain other investments (where it is deemed that the Company's ownership gives it the ability to exercise significant influence over operating and financial policies) are included at equity (cost plus proportionate share of reinvested earnings). All other investments are included at cost. See also Note (G).

Revenue Refunds—The Company and its telephone subsidiaries record in their financial statements material revenue refunds applicable to prior years as adjustments of the respective years' income and, within a year, as adjustments of the applicable interim periods' income.

Purchases From Western Electric—Western Electric has a substantial investment in manufacturing and other facilities which are devoted mainly to its business with the consolidated telephone subsidiaries. Western Electric has supply contracts with the subsidiaries which provide that the prices it charges for the telephone equipment and materials it manufactures or procures for them shall be as low as the prices it charges its most favored customers for like materials and services under comparable conditions. The consolidated financial statements reflect items purchased from Western Electric at cost to the telephone subsidiaries; this cost includes the return realized by Western Electric on its investment devoted to the communications business. See "Telephone Plant" below and Note (R).

Telephone Plant—The investment in equipment and materials dedicated to providing communications services is stated at its original cost. The amounts shown do not purport to represent reproduction cost or current value. The original cost of telephone plant obtained from Western Electric includes a return on Western Electric's investment. (See "Purchases from Western Electric" above.) It is impossible to identify the particular purchases from Western Electric over a long period of years which were charged to the plant accounts and now remain therein, but the Company considers that such purchases made by the consolidated companies represent about 50% of the consolidated plant investment. Western Electric advises that its rate of profit before interest charges has varied by years and by classes of sales, but that such rate of profit before interest charges, included in prices for material sold and services furnished to affiliated telephone companies (including items chargeable to other than plant accounts), has been approximately 6% and 7% of such sales over the twenty year and the three year periods ended December 31, 1982, respectively. Western Electric considers that its rate of profit before interest charges on those items which have been charged to the plant accounts is somewhat higher than its rate on total sales to the affiliated companies.

Because the Company and most of its subsidiaries, including Western Electric, join in the filing of a consolidated federal income tax return, Western Electric's profits before incomes taxes included in the cost of those materials and services in the plant accounts of the Company and its telephone subsidiaries are excluded from consolidated taxable income in the year acquired from Western Electric. Instead, such profits are recognized and taxed over the depreciable life of the related plant since, for tax purposes, the Company must exclude Western Electric profits in deriving the depreciable cost of its investment in telephone plant. Consequently, the Company's tax liability is higher than if it were permitted to depreciate the full amount it initially paid to Western Electric. Western Electric provides the Company with the funds necessary to pay the tax liability on these deferred profits in the year in which the Company first acquires the related telephone plant. These payments are treated as reductions of the investment in telephone plant which results in a reduction in depreciation expense over the life of the related plant. However, there is no material effect on Net Income because the decrease in depreciation expense is offset by the aforementioned increase in the income tax provision. See also Note (R).

Material and Supplies—New material and reusable material are carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Non-reusable material is carried at estimated salvage value.

Depreciation—Prior to 1981, the Company's provision for depreciation was based on straight-line composite rates, prescribed by the Federal Communications Commission ("FCC"), determined on the basis of the average expected lives of categories of telephone plant acquired in a given year. In 1982 the FCC approved the implementation of the method of determining straight-line composite rates on the basis of equal life groups of certain categories of telephone plant acquired in a given year which will result in a higher provision for depreciation than that based on average expected lives. In 1981 the FCC authorized the Company to begin implementation of the "remaining life" method of depreciation. The "remaining life" method provides for the full recovery of the investment in telephone plant. Effective January 1, 1981, the FCC also authorized shorter lives for customer terminal equipment (and certain other telephone plant). The increases in depreciation expense resulting from these FCC actions should be allowable in determining revenue requirements in rate-making proceedings. See also Note (P).

When depreciable plant, other than minor items thereof which are replaced, is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

Maintenance and Repairs—The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is, with minor exceptions, charged to operating expenses.

Station Connections—During 1981 the FCC directed that beginning January 1981 certain costs of installing telephone service on a customer's premises be expensed instead of capitalized and that the balance of the investment in installation costs be amortized.

Interest Charged Construction—Regulatory authorities allow the Company and its telephone subsidiaries to accrue interest as a cost of constructing certain plant and as an item of income, i.e., interest charged construction. Such income is not realized in cash currently but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Research—The cost of research and systems engineering performed by Bell Telephone Laboratories, Incorporated ("Bell Laboratories") is included as expense in determining Net Income.

Income Taxes:

(1) Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the period during which the transaction will be recognized in the determination of net income for financial reporting purposes. Appropriate income charges and their subsequent reversal, reflected as deferred income taxes-net, prevent the tax effect of these timing differences from distorting net income. The Company recognizes the tax effects of timing differences on the following transactions:

(a) When vacation pay and certain property taxes are deductible for income tax purposes in the year prior to being expensed in these financial statements, the tax effects of these timing differences are included in Current Liabilities—Income Taxes Deferred for One Year in the accompanying Balance Sheets.

(b) Depreciation for income tax purposes is determined based on accelerated methods and shortened lives which cause such depreciation to be higher during the early years of plant life and lower in later years than the depreciation charges for such plant reflected in these financial statements. The accumulated tax effects of these timing difference are shown in the accompanying Balance Sheets as Deferred Credits—Accumulated Deferred Income Taxes.

(2) Investment tax credits result from provisions of the federal tax law which allow for a reduction in tax liability based on certain construction expenditures. Corresponding reductions in tax expense are deferred and, except for the additional one percent credit available under the Tax Reduction Act of 1975 which must be contributed currently to the Bell System Employee Stock Ownership Plan, are amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

Income Taxes

(B) In 1982, the Company changed its accounting for certain deferred income taxes (primarily state and local taxes) to record deferred taxes on timing differences only when such deferred taxes are recognized by regulators in the rate-making process. This change was made to achieve greater consistency between financial reporting and the intrastate regulatory rate-making process. The effect of this change increased Income Applicable to Common Shares by $352.7 ($.42 per share). The cumulative effect of this change as of the beginning of 1982 was $286.8 ($.34 per share). See also Note (O). Pro forma amounts assuming the change in accounting for deferred income taxes had been applied retroactively are as follows:

	1982	1981	1980
Income Applicable to Common Shares	$6,850.1	$6,726.3	$5,863.4
Earnings per Common Share	$8.06	$8.53	$8.10

The components of operating income tax expense were as follows:

	1982	1981*	1980*
Federal:			
Current	$(786.8)	$ 785.1	$ 564.0
Deferred—net	3,973.9	1,782.2	1,563.3
Investment tax credits—net	1,223.9	1,118.7	1,114.1
	4,411.0	3,686.0	3,241.4
State and local:			
Current	299.7	287.9	222.8
Deferred—net	219.6	145.2	116.2
	519.3	433.1	339.0
Total	$4,930.3	$4,119.1	$3,580.4

* Restated, see Note (S)

Income taxes on non-operating income included in Miscellaneous Income and Deductions—net were:

	1982	1981	1980
Federal:			
Current	$ 8.3	$72.1	$57.7
Deferred—net	10.6	1.5	2.5
	18.9	73.6	60.2
State and local:			
Current	11.6	11.3	3.1
Deferred—net	.2	—	.1
	11.8	11.3	3.2
Total	$30.7	$84.9	$63.4

Deferred income tax expense results principally from timing differences between depreciation expense for income tax purposes and depreciation expense reflected in these financial statements. The decrease in 1982 Federal Income Taxes—Current and the related increase in Federal Income Taxes—Deferred is principally due to adjustments, primarily relating to prior years, made to reflect the reestablishment of eligibility for current and prior years for accelerated methods of tax depreciation for The Pacific Telephone and Telegraph Company ("Pacific"), a subsidiary, discussed in Note (E) and to conform the treatment of installation costs for tax purposes to the accounting treatment of such costs for financial statement purposes.

The effective Federal income tax rate, as determined by dividing Federal income taxes (see above) by the sum of Federal income taxes, Income before cumulative effect of a change in accounting principle (after excluding the net income applicable to investments in unconsolidated companies accounted for on an equity basis), and the ownership interest of others in the net income of certain consolidated subsidaries, was 39.9%, 37.9% and 37.9% for the years 1982, 1981 and 1980, respectively. The differences of 6.1%, 8.1% and 8.1%, respectively, between the effective rate and the federal income tax statutory rate of 46% are attributable to the following factors:

	1982	1981*	1980*
(1) Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation	1.3%	2.8%	3.6%
(2) Interest charged construction, which is excluded from taxable income, net of applicable depreciation	.8	.8	.9
(3) Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(.9)	(.8)	(.8)
(4) Amortization of investment tax credits over the life of the plant which gave rise to the credits	5.7	5.3	4.6
(5) Net effects of recognizing both the reestabished eligibility for investment tax credits and the required tax payment. See Note (E).	(1.4)	—	—
(6) Other differences	.6	—	(.2)
Total	6.1%	8.1%	8.1%

* Restated, see Note (S).

Provision for Pensions and Death Benefits

(C) Employees of the Company, its consolidated subsidiaries, Western Electric and Bell Laboratories are covered by two national Bell System noncontributory pension and death benefit plans, one for management employees and one for non-management employees. Contributions to such plans are made to irrevocable trust funds. It has been, and continues to be, the policy of the companies to make contributions which are equal to the current year cost of the plans determined on a going concern basis by an actuarial method specified by the Employee Retirement Income Security Act of 1974 ("ERISA").

The following data provide information on plan costs:

	1982	1981	1980
Balance of accumulated costs at beginning of year	$35,852.7	$31,101.2	$25,867.0
Current year cost	3,516.4	3,374.7	3,544.0
Net investment income	NA	2,748.7	2,911.1
Benefits paid	NA	1,371.9	1,220.9
Balance of accumulated costs at end of year	NA	$35,852.7	$31,101.2
Current year cost as a percent of salaries and wages	12.8%	13.1%	15.2%

(NA = Not Available)

The value of pension fund assets used for actuarial purposes equals the balance of accumulated costs shown above.

Amendments to the plans during 1982 had the effect of increasing 1982 pension cost by approximately $345.3 while recognition of 1981 actuarial experience had the effect of decreasing 1982 costs. Amendments to the plans during 1981 had the effect of increasing 1981 pension cost by approximately $145.8. Changes in plan design effective October 1, 1980, together with changes in actuarial assumptions and 1980 experience reduced 1981 pension cost by approximately $960.4. Changes in actuarial assumptions, an amendment to the plans prior to October 1, 1980, and changes in plan design effective October 1, 1980 decreased pension cost for 1980 by approximately $141.6.

Statement of Financial Accounting Standards No. 36 ("Statement No. 36") requires the following disclosure to be made of the actuarial present value of accumulated plan benefits and the fair value of net assets available for plan benefits ("fair value" essentially is current market value). The following data are based on the latest actuarial valuations.

	at December 31	
	1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	$20,827.4	$21,455.3
Non-vested	3,413.4	4,050.5
Total	$24,240.8	$25,505.8
Fair value of net assets available for plan benefits	$35,781.8	$33,523.7

The rates of return used in determining the actuarial present value of accumulated plan benefits are the rates used by the Pension Benefit Guaranty Corporation ("PBGC") for determining the value of plan benefits under terminated pension plans and averaged approximately 10.6% and 8.9% compounded annually at December 31, 1981 and 1980, respectively. If the rates used by PBGC had been 1% lower, the actuarial present value of accumulated plan benefits at December 31, 1981 would have been approximately $27,166.9 instead of $24,240.8 as shown above.

The Company believes that misleading inferences concerning the plan's funding status may result from a comparison of the actuarial present value of accumulated plan benefits with the fair value of net assets available for plan benefits. This is because plan assets have been accumulated by making contributions equal to current year costs determined on a going concern basis as required by ERISA, while the determination of the actuarial present value of accumulated plan benefits required by Statement No. 36 is essentially a "plan termination" type calculation which uses methods and assumptions which are not the same as those used to determine current year pension costs. The required method for determining the actuarial present value of accumulated plan benefits fails to take into consideration probable future events such as future wage and salary increases and future employee service which have been taken into consideration by the Company and its subsidiaries in determining costs for the plans. Furthermore, the fair value of net assets available for plan benefits will fluctuate which also may create erroneous impressions with respect to long term progress on funding the pension plans.

Miscellaneous Income and Deductions—Net

(D) Miscellaneous Income for the years 1982, 1981 and 1980 includes the net income applicable to investments in unconsolidated companies, other than Western Electric, accounted for on an equity basis of $35.6, $31.9 and $30.6, respectively. Miscellaneous Deductions for the years 1982, 1981 and 1980 include the ownership interest of others in the net income of certain consolidated subsidiaries of $56.8, $79.8 and $164.5, respectively. See also Note (B).

Rate and Related Matters

(E) It previously was reported that the Internal Revenue Service ("IRS") had contended that a refund order of the California Public Utilities Commission rendered Pacific ineligible for certain federal tax benefits relating to accelerated depreciation and investment tax credits. In December 1982, Congress enacted legislation which clarifies the eligibility requirements for these tax benefits and confirms Pacific's eligibility for the years previously under contention with the IRS. Eligibility is conditioned upon Pacific's entering into a closing agreement with the IRS in 1983; this agreement will require tax payments based on amounts previously refunded to customers. On June 20, 1983 AT&T and Pacific entered into a closing agreement with the IRS. As a result of this probable eligibility, interest expenses previously accrued for anticipated tax deficiencies have now been eliminated and investment tax credits for which Pacific previously was not considered to be eligible have now been recognized and portions thereof have been amortized. The net effects of recognizing in 1982 both the reestablished eligibility and the required tax payment was to increase Income Applicable to Common Shares by $191.2 ($.22 per share) [of which $47.8 ($.06 per share) is applicable to prior years], reduce Federal Income Taxes—Current by $885.2, increase Federal Income Taxes—Deferred by $1,009.4 and increase Investment Tax Credits—Net by $325.0.

As of September 30, 1983 approximately $99.3 ($.12 per share) of intrastate revenues (net of taxes) had been collected subject to refund in various states and recorded during the years 1982 and prior.

Interstate Revenues Tax

(F) An August 1979 county court ruling in Illinois, which was reversed in 1981 by an intermediate appellate court, would have subjected interstate telephone revenues earned in Illinois in 1967 and subsequent years to a messages tax. The reversal by the intermediate court was upheld by the Illinois Supreme Court in December 1982. The Company now believes that no material liability exists.

Investments at Equity

(G) *Other*—At December 31, 1982, includes principally:

Bell Telephone Laboratories, Incorporated—50% owned by the Company and 50% owned by Western Electric. The Company's investment at equity is $345.6.

The Southern New England Telephone Company—23.7% owned. The Company's investment at equity is $186.8. The market value of the shares owned by the Company based on the closing price as obtained from the Composite Tape was $203.2.

Cincinnati Bell Inc.—31.7% owned. The Company's investment at equity is $115.5. The market value of the shares owned by the Company based on the closing price as obtained from the Composite Tape was $97.6.

The following summarized financial information is for the above three equity companies combined:

	1982	1981	1980
Operating revenues	$3,502.7	$2,990.5	$2,423.1
Operating expenses	3,039.9	2,535.2	2,051.2
Net Income	132.3	146.3	114.3

	1982	1981
Telephone plant—net	$2,529.6	$2,452.2
Current assets	357.8	327.0
Noncurrent assets	1,114.8	852.3
Total assets	$4,002.2	$3,631.5
Preferred shares subject to mandatory redemption	$ 34.5	$ 41.0
Long-term debt	784.7	784.7
Current liabilities	440.4	460.9
Noncurrent liabilities	866.6	693.8
Total liabilities	$2,126.2	$1,980.4

Western Electric Company, Incorporated and its subsidaries—Wholly-owned. The following summarized consolidated financial information is for Western Electric:

	1982	1981	1980
Sales	$12,579.9	$13,008.0	$12,032.1
Operating costs and expenses	11,359.5	11,549.8	10,582.5
Provision related to Facility Utilization Plan	625.0	—	—
Net Income	336.7	711.3	693.2

	1982	1981
Current assets	$4,770.7	$5,101.4
Net plant and equipment	2,936.8	2,867.7
Other assets	490.3	369.2
Total assets	$8,197.8	$8,338.3
Current liabilities	$1,669.4	$1,881.1
Long-term debt	889.7	807.1
Other liabilities	881.6	658.9
Total liabilities	$3,440.7	$3,347.1

The 1982 Provision related to Facility Utilization Plan represents a one-time charge to earnings to phase out or reduce production at certain manufacturing facilities in order to improve plant utilization and reduce costs. The provision includes the write-down of plant and equipment to net realizable value and estimated costs for employee and equipment relocations and employee termination benefits.

Cash and Temporary Cash Investments

(H) Cash and Temporary Cash Investments have been reduced by the amount of drafts outstanding with a corresponding reduction in Accounts Payable. It is the practice of the Company and most telephone subsidiaries to make certain payments by draft and to record such drafts as accounts payable until such time as the banks honoring the drafts have presented them for payment. The Company maintains cash and temporary cash investments not only to meet its own obligations but to maintain funds upon which the subsidiary companies may draw on a day-to-day basis to meet their obligations, including coverage for outstanding drafts.

Common Shares

(I) Book value per common share amounted to $69.07, $67.33 and $65.22 at December 31, 1982, 1981 and 1980, respectively.

At December 31, 1982 there were 6,318,652 authorized but unissued common shares reserved for the conversion of the Company's outstanding $4 cumulative convertible preferred shares.

Common shares outstanding increased in the periods indicated as follows:

721,589, 1,024,946 and 1,008,811 shares issued in the years 1982, 1981 and 1980, respectively, upon conversion of the Company's $4 cumulative convertible preferred shares. See also Note (J).

27,700,000 and 18,150,000 shares sold through underwritten offerings in 1982 and 1981, respectively.

26,887,926, 22,775,416 and 16,183,915 shares sold at 95% of market in the years 1982, 1981 and 1980, respectively, under the Share Owner Dividend Reinvestment and Stock Purchase Plan. In addition, 1,383,737, 1,565,270 and 6,430,372 shares were sold at market for optional cash payments in the years 1982, 1981 and 1980, respectively, under that Plan.

8,201,200, 8,233,895 and 8,087,058 shares sold at market in the years 1982, 1981 and 1980, respectively, to the Bell System Savings Plan for Salaried Employees.

6,922,300, 5,908,700 and 5,731,700 shares sold at market in the years 1982, 1981 and 1980, respectively, to the Bell System Savings and Security Plan.

2,697,245, 2,621,592 and 2,427,063 shares issued at market in the years 1982, 1981 and 1980, respectively, in connection with the Bell System Employee Stock Ownership Plan through the election of an extra 1% Investment Tax Credit.

117,500 shares sold at market in 1982 to the Bell System Voluntary Contribution Plan.

The Company issued 6,685,360 common shares in 1982 in connection with the acquisition, effective May 12, 1982, of the remaining ownership interest of others in Pacific's common shares. Included under "Issuance of shares, net of redemptions" for 1982 in the Statements of Sources of Funds Supporting Construction Activity is $371.0 for these shares.

The Company issued 13,589,301 shares in 1981 in connection with the acquisition, effective December 22, 1980, of the remaining ownership interest of others in three consolidated subsidiaries. Included under "Issuance of shares, net of redemptions" for 1980 in the Statements of Sources of Funds Supporting Construction Activity is $662.5 for these shares.

Preferred Shares

(J) Authorized are 100,000,000 preferred shares at $1 par value. Outstanding are:

Convertible Preferred Shares Subject to Redemption

	$50 stated value, $4 cumulative convertible preferred	Proceeds in excess of stated value
December 31		
1980	7,661,925	$1.7
1981	6,688,228	$1.4
1982	6,002,719	$1.3

Each $4 preferred share is convertible into approximately 1.05 common shares of the Company. 685,509, 973,697 and 958,367 shares were converted in the years 1982, 1981 and 1980, respectively. See Note (I). Each share may be redeemed by the Company at stated value; however, such redemption is not required.

Preferred Shares Subject to Mandatory Redemption

	$50 stated value, cumulative preferred		$1,000 stated value, cumulative preferred
	$3.64	$3.74	$77.50
December 31			
1980	10,000,000	10,000,000	575,000
1981	10,000,000	10,000,000	562,500
1982	10,000,000	10,000,000	550,000

The $3.64 preferred shares may be redeemed by the Company at a premium of $2.70 per $50 share on or before April 30, 1983 and at a diminishing premium thereafter. On May 1 of each year, commencing in 1984, the Company through a sinking fund must redeem without premium 3% of these shares; an additional 3% may be redeemed each year at the Company's option.

The $3.74 preferred shares may be redeemed by the Company at a premium of $2.78 per $50 share on or before January 31, 1984 and at a diminishing premium thereafter. On February 1 of each year, commencing in 1985, the Company through a sinking fund must redeem without premium 3% of these shares; an additional 3% may be redeemed each year at the Company's option.

The $77.50 preferred shares may be redeemed by the Company at a premium of $53.10 per $1,000 share on or before January 31, 1984 and at a diminishing premium thereafter. On February 1 of each year, the Company through a sinking fund must redeem at stated value 12,500 of these shares through 1992 and 18,750 shares each year thereafter and may redeem an additional equal number each year at the Company's option. Under these sinking fund provisions, the Company redeemed on February 1, 12,500 shares in each of the years 1980 through 1983 which reduced stated capital (as defined in the New York Business Corporation Law) by $12.5 in each year.

The total sinking fund requirement for all series of preferred shares subject to mandatory redemption are $12.5 for 1983, $27.5 for 1984, $42.5 for 1985, 1986 and 1987. These sinking fund requirements are cumulative; that is, should redemption amounts not be set aside in full because the net assets of the Company are insufficient, or for any other reason, such amounts must be set aside, without interest, before any common share dividends are paid or declared, or any common shares are purchased or redeemed.

All preferred shares rank prior to the common shares both as to dividends and on liquidation but have no general voting rights. However, if dividends on any series of preferred shares are in default in an amount equal to six quarterly dividends, the number of directors of the Company will be increased by two, and the holders of all preferred shares will have the exclusive right, voting separately as a class, to elect such two additional directors so long as such default continues.

Ownership Interest of Others in Consolidated Subsidiaries

(K) Preferred Shares Subject to Mandatory Redemption—Pacific has authorized 24,000,000 of $25 par value cumulative non-voting preferred shares.

Outstanding shares amounted to 21,430,000, 22,120,000 and 22,120,000 at December 31, 1982, 1981 and 1980, respectively. The dividend rates on these shares ranged from 7.88% to 11.25%. These shares are subject to mandatory pro rata redemptions without premium through annual sinking fund contributions. Under these sinking fund provisions, Pacific redeemed 690,000 shares in 1982. The total sinking fund requirements for the years 1983 through 1987 are $24.9, $40.5, $42.4, $46.7 and $46.7, respectively.

Long and Intermediate Term Debt

(L) Interest rates and maturities on long and intermediate term debt outstanding at December 31, 1982 were as follows (see also Note (P)):

Maturities	2⅝% to 6⅞%	7% to 8⅞%	9% to 17%	Total
1984	$ 355.0	$ 50.0	$ 150.0	$ 555.0
1985	445.0	50.0	200.0	695.0
1986	235.0	—	326.0	561.0
1987	375.0	—	—	375.0
1988-1997	3,767.0	375.0	2,534.0	6,676.0
1998-2007	4,777.0	5,423.1	61.5	10,261.6
2008-2017	825.0	11,147.0	3,749.5	15,721.5
2018-2021	—	1,075.0	8,570.0	9,645.0
	$10,779.0	$18,120.1	$15,591.0	$44,490.1
Other				81.9
Unamortized discount—net				(467.0)
Total				$44,105.0

Substantially all of the properties of two of the Company's telephone subsidiaries, comprising about $21,235.9 of the total gross consolidated telephone plant, are subject to lien under mortgage bond indentures with outstanding balances of $2,680.0

Debt Maturing Within One Year

(M) The Company's telephone subsidiaries follow the practice of financing construction of telephone plant partially through bank loans, commercial paper, commerical notes and other notes, all of which are payable in twelve months or less after issuance, pending long term financing. See also Note (P).

In March 1981, the Company negotiated two-year revolving credit agreements with certain major United States banks to borrow up to $750 million. In July 1982, the Company renegotiated these agreements and obtained new four-year revolving credit agreements at a reduced commitment fee of ¼ of 1 percent per annum on any unused portion. No part of this line of credit has been used.

Debt maturing within one year is included as debt in the Company's computation of debt ratios and consists of the following at December 31:

	Amounts			Weighted Average Interest Rate		
	1982	1981	1980	1982	1981	1980
Notes payable:						
Bank loans	$ 438.7	$ 614.1	$ 903.8	9.3%	13.1%	18.5%
Commercial paper	1,524.2	1,921.2	1,930.6	8.5%	12.4%	18.4%
Commercial notes	531.7	683.8	754.9	8.6%	12.5%	18.7%
Other notes	65.4	15.0	157.8	10.3%	12.3%	19.0%
Long and intermediate term debt maturing within one year	485.0	785.0	595.0	—	—	—
Total	$3,045.0	$4,019.1	$4,342.1	—	—	—
Average amounts of notes payable outstanding during the year	$3,335.3	$3,206.7	$3,918.2	12.5%*	16.3%*	12.9%*
Maximum amounts of notes payable at any month end during the year	$3,982.7	$3,662.9	$4,709.1	—	—	—

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

Lease Commitments

(N) The Company and its consolidated subsidiaries lease certain facilities and equipment used in their operations and reflect lease payments as rental expense of the periods to which they relate. See Note (P). At December 31, 1982 the aggregate minimum rental commitments under noncancellable leases for the periods shown were approximately as follows:

Years	Amounts
1983	$ 973.8
1984	762.6
1985	584.5
1986	420.3
1987	300.9
Thereafter	2,633.3
Total	$5,675.4

These leases include some which would be classified as "capital leases" under criteria established by the Financial Accounting Standards Board. However, for regulatory accounting and rate-making purposes, such leases are not captialized. Had such leases been capitalized, the following amounts would have been included on the Balance Sheets:

	at December 31	
	1982	1981
Assets	$1,791.7	$1,781.9
Less:		
Accumulated amortization	736.2	675.8
Total	$1,055.5	$1,106.1
Lease commitments	$1,213.0	$1,236.9

The effect on Income Applicable to Common Shares for 1982, 1981 and 1980 would have been insignificant. Implementation of Statement No. 71 will require recognizing on the Balance Sheets the assets and related obligations associated with capital leases. See Note (A).

Quarterly Financial Information (unaudited)

(O) All adjustments necessary for a fair statement of income for each period have been included.

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income	Earnings per Common Share*
1980 1st	$12,054.4	$ 2,076.1	$1,410.9	$1.94
2nd	12,376.6	2,150.6	1,447.3	1.96
3rd	12,940.3	2,247.9	1,527.5	2.05
4th	13,286.9	2,369.8	1,582.1	2.09
Total	$50,658.2	$8,844.4	$5,967.8	$8.04
1981 1st	$13,470.0	$2,318.7	$1,488.4	$1.90
2nd	14,122.0	2,370.2	1,541.2	1.94
3rd	15,145.2	2,759.9	1,923.6	2.36
4th	15,328.4	2,721.7	1,869.7	2.26
Total	$58,065.6	$10,170.5	$6,822.9	$8.47
1982 1st	$15,638.1	$ 2,607.2	$2,010.6	$2.40
2nd	16,144.7	2,614.7	1,745.7	2.04
3rd	16,637.9	2,898.0	2,021.1	2.32
4th	16,672.3	2,138.4	1,501.4	1.66
Total	$65,093.0	$10,258.3	$7,278.8	$8.40

Results for the fourth quarter of 1982 include the Provision related to Facility Utilization Plan for Western Electric. See Note (G). Results for the second and fourth quarters of 1982 include adjustments to recognize Pacific's reestablished eligibility which increased Net Income for the periods by $34.2 and $157.0 ($.04 and $.18 per share), respectively. See Note (E). Results for the first, second and third quarters of 1982 and for all quarters of 1981 and 1980 have been restated to reflect the effects of the refund order issued by the FCC in the fourth quarter of 1982. See Note (S).

Results for the first, second and third quarters of 1982 have been restated for the change in accounting for certain deferred income taxes. Such restatements increased Net Income for the periods by $310.2, $16.5 and $15.8 ($.38, $.02 and $.02 per share), respectively. The change in accounting increased Net Income in the fourth quarter of 1982 by $10.2 ($.01 per share). Income before the cumulative effect of the change for the first quarter of 1982 was $1,723.8. The prior years cumulative effect of the change, included in the first quarter of 1982, was $286.8 ($.34 per share). See Note (B).

Pro forma amounts assuming the change in accounting for deferred income taxes had been applied in prior years are as follows:

Calendar Quarter	1981		1980	
	Net Income	Earnings per Common Share*	Net Income	Earnings per Common Share*
1st	$1,499.4	$1.92	$1,425.7	$1.96
2nd	1,554.7	1.96	1,457.8	1.98
3rd	1,937.0	2.37	1,538.3	2.06
4th	1,880.9	2.27	1,592.3	2.10
Total	$6,872.0	$8.53	$6,014.1	$8.10

* Because of increasing numbers of common shares outstanding each quarter, the sum of quarterly earnings per common share may not equal earnings per common share for the year.

Additional Financial Information

(P)

	1982	1981	1980
Depreciation—Percentage of average depreciable telephone plant	6.13%	6.05%	5.86%
Amortization of investment tax credits	$ 795.5	$ 523.2	$ 401.1
Gross receipts, payroll-related and other taxes:			
Gross receipts	$1,333.0	$1,211.0	$1,065.8
Social security	1,370.2	1,164.9	940.2
Capital stock	154.5	146.4	145.3
Miscellaneous	72.0	62.5	54.8
Total	$2,929.7	$2,584.8	$2,206.1
Interest expense:			
On long and intermediate term debt	$3,866.8	$3,608.3	$3,055.5
On notes payable	416.6	522.3	505.1
Other (E)	(353.4)	232.2	207.5
Total	$3,930.0	$4,362.8	$3,768.1
Rental expense*	$1,508.4	$1,398.5	$1,119.9
* Includes rental expense for satellite rentals based on usage	$ 156.3	$ 128.4	$ 116.3

MCI and Litton Antitrust Litigation

(Q) In June 1980, MCI Communications Corporation was awarded $1.8 billion in treble damages in a civil antitrust suit against the Company. On January 12, 1983, the U.S. Circuit Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. Petitions for rehearing of this decision were denied by the Court of Appeals. In July 1983, both parties petitioned the U.S. Supreme Court to review the case. On October 11, 1983, the Supreme Court denied the petitions. In the opinion of the Company's legal counsel, any monetary liability or financial impact to which the Company and the Bell System companies might be subject after final adjudication would not be material in amount.

In June 1981, in another antitrust suit involving terminal equipment against the Company and certain Bell System companies, Litton Industries, Inc. ("Litton") was awarded $276.8 in treble damages. On February 3, 1983, the U.S. Circuit Court of Appeals for the Second Circuit upheld the lower court's decision. The Court of Appeals denied the Company's petition for a rehearing. In June 1983, the Company petitioned the U.S. Supreme Court to review the case. On October 3, 1983, the Supreme Court invited the Solicitor General to file a brief in the case expressing the views of the Federal government. Should it ultimately be determined that the Litton award is payable, Income Applicable to Common Shares would be decreased in a future period. If such determination had been made as of December 31, 1982, the decrease in Income Applicable to Common Shares could have been as much as $170.0 ($.20 per share).

Department of Justice Antitrust Action

(R) On August 24, 1982, the Consent Decree between the Company and the Department of Justice was entered by the U.S. District Court for the District of Columbia. Both the Department of Justice and the Company have stipulated dismissal of the Department of Justice's 1974 civil antitrust action involving the Company and its subsidiaries. The Consent Decree and the stipulated dismissal are subject to the outcome of appeals filed by certain intervenors. The terms of the Consent Decree require that the Company divest those parts of the Bell System operating telephone companies that provide local exchange and exchange access service, as well as printed directory advertising, and also require termination of the License Contracts between the Company and the operating companies and the Standard Supply Contract between Western Electric and the operating companies. Interexchange facilities, including those currently owned by the operating companies, would remain a part of the Company, which would continue to own Western Electric and Bell Laboratories. Ownership of existing customer premises equipment ("CPE") would remain with the Company. The divested operating companies are restricted to exchange services and other natural monopoly services actually regulated by tariff; however, they may provide new CPE and printed directory advertising. An operating company is permitted to engage in any other business upon a showing to the Court that there is no substantial possibility that the company could use its monopoly power to impede competition in the market it seeks to enter. The Company's access to the services of the divested operating companies would be on terms and conditions equal to other interexchange carriers. The operating companies would be divested by a spin-off to the Company's share owners or by other disposition. At the time of divestiture the Company will have to assure that each divested operating company has a debt ratio of approximately 45% (except for a somewhat higher debt ratio for Pacific).

In July 1983, the Court ruled that, as a condition of approving implementation of the Consent Decree, it would require AT&T to reimburse the operating companies for costs of reconfiguration of their networks to provide equal access to all interexchange carriers that have not been recovered by the operating companies by January 1, 1994. Another condition would prohibit AT&T after divestiture from using the word "Bell" and the Bell trademarks for itself and its subsidiaries and affiliates, except for Bell Laboratories and foreign subsidiaries and affiliates. On August 3, 1983 AT&T agreed to the Court-proposed modifications. On August 5, 1983 the Court gave final approval to the Plan of Reorganization ("Plan") as amended. Approval of the Plan is subject to appeal by intervenors.

As a result of such divestiture, the operating companies could be required to make an immediate payment of approximately $1.2 billion of federal income taxes previously deferred on intercompany profits. While payment of these deferred taxes should have no direct effect on net income, an immediate payment would increase the operating companies' needs for cash. However, the Company believes that, pursuant to tax regulations, a closing agreement is likely to be entered into with the IRS which would result in only a moderate acceleration of the present time period over which these intercompany profits become taxable. See also Note (A), "Telephone Plant."

For information concerning the effects of the divestiture on the future operations of the Company, refer to the financial statements of the Company for the nine-month periods ended September 30, 1983 and 1982, and the financial forecasts for AT&T and each of the RHCs for the year ending December 31, 1984 and the pro forma condensed balance sheets for AT&T and each of the RHCs as of June 30, 1983 included elsewhere in this Information Statement and Prospectus.

Regulatory Actions

(S) In June and November 1982, the FCC approved Company plans to establish a nationwide subsidiary to offer on a detariffed basis both enhanced services and new customer premises equipment. The FCC also approved the Company's plans to reimburse the operating telephone companies and Long Lines for expenses incurred by them in connection with the formation of the new subsidiary and with the development of the new enhanced services and customer premises equipment. However, the November FCC order requires that liabilities be recognized for that portion of these reimbursements which the FCC believes are subject to refund to customers in future regulatory proceedings. Accordingly, results were restated in November to reflect the estimated amounts to be refunded. This reduced Income Applicable to Common Shares for the years 1982, 1981 and 1980 by $46.4, $65.2 and $90.5 ($.05, $.08 and $.13 per share), respectively.

The FCC also announced its intention to determine if reimbursements by the Company are required for customer premises equipment development expenses incurred by Western Electric. If refunds to customers are required, Income Applicable to Common Shares would be decreased in a future period. If such determination had been made as of December 31, 1982, the decrease in Income Applicable to Common Shares could have been as much as $80.0 ($.09 per share).

FINANCIAL STATEMENTS OF AT&T AND ITS CONSOLIDATED SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Although AT&T's volume of business increased during 1982, the rate of growth was considerably less than in recent years—in large part because of the lingering national recession.

Growth was particularly slow in the last half of the year, as the recession deepened and unemployment rose to record levels.

Total revenues (including other income) for 1982 increased 11.3 percent, compared with 14.6 percent in 1981 and 11.6 percent in 1980. Total expenses (including operating taxes and interest) increased 12.5 percent in 1982, compared with 14.6 percent in 1981 and 12.5 percent in 1980.

Net income in 1982 rose 6.7 percent, compared with a 14.3 percent increase in 1981 and a 5.5 percent rise in 1980. The rate of return on average total capital for 1982 was 10.0 percent, compared with 10.3 percent in 1981 and 9.8 percent in 1980. Return to average common equity for 1982 was 12.2 percent, compared with 12.8 percent in 1981 and 12.5 percent in 1980.

Revenues

Local and toll service revenues increased 11.7 percent in 1982, 14.9 percent in 1981 and 11.3 percent in 1980. The 1982 revenue growth was due in part to business growth and in part to rate increases.

The overall volume of business (revenues adjusted to exclude the effects of rate increases) rose by 4.4 percent during 1982, compared with 8.5 percent in 1981 and 8.1 percent in 1980.

The rate of growth varied by service category. Growth in network access lines and domestic toll messages slackened during 1982, while Wide Area Telecommunications Service (WATS) and international toll messages continued their traditional strong growth.

Due largely to the depressed housing market, the Bell operating telephone companies added only 1.1 million network access lines during 1982, compared with 2.1 million in 1981 and 2.5 million in 1980.

Total toll messages increased by 3.4 percent in 1982, compared with 6.8 percent in 1981 and 7.8 percent in 1980. WATS messages were up in 1982 by 17 percent, compared with 16 percent in 1981 and 14.8 percent in 1980.

Revenues from international and overseas calling (included in toll revenues) remained constant at \$1.8 billion in 1982, 1981 and 1980 as a result of rate reductions which went into effect in 1981 and 1982. Also during 1982, AT&T International more than doubled its sales abroad to \$403 million.

Higher intrastate rates contributed \$3.5 billion to the increase in revenues in 1982, compared with \$2.1 billion in 1981 and \$1.2 billion in 1980. Interstate rate changes contributed another \$557 million in revenues during 1982, \$729 million in 1981 and \$327 million in 1980. Many of these rate increases reflected the increased revenue requirements associated with accelerated capital recovery measures.

Western Electric

Western Electric's net income (included in "other income") declined 52.7 percent in 1982, compared with increases of 2.6 percent in 1981 and 9 percent in 1980.

This earnings decline was due largely to a decision to phase out or reduce production at certain Western Electric manufacturing facilities. This is part of a long-term plan for reducing manufacturing capacity in order to improve plant utilization and reduce costs. This decision has a one-time effect on earnings. In 1982, it increased expenses by \$625 million, which reduced net income by \$317.6 million.

Also a factor in the earnings decline was the Bell System operating companies' reduced demand for products and services, reflecting the impact of the recession. As a result, Western Electric's sales for 1982 decreased 3.3 percent, compared with increases of 8.1 percent in 1981 and 9.7 percent in 1980.

Expenses

AT&T and its consolidated companies worked vigorously to control expenses during 1982. However, inflation continued to affect such expenses (see also Supplementary Data below). This was reflected in increases in salary and wage-related costs, pensions and other employee benefits, and in the cost of materials and services.

Also contributing to the increase in operating expenses were various capital recovery programs, including changes in depreciation rates and practices and the expensing of station connection costs.

Yearly Increases in Operating Expenses

(Dollars in Millions)

	1982 over 1981	1981 over 1980	1980 over 1979
Wages and salaries, including cost-of-living adjustments	$2,624	$2,358	$1,678
Provision for pensions and other employee benefits	632	312	379
Depreciation due to:			
—Revised rates and practices	385	887	324
—Expensing station connection costs	(184)	(626)	—
—Increased plant investment	633	599	585
Maintenance due to expensing station connection costs	939	584	—
Materials, supplies and other payments	650	927	1,102
Total increase in operating expenses	$5,679	$5,041	$4,068

Taxes and Interest

Total income taxes on operations increased 19.7 percent in 1982 and 15.0 percent in 1981, because of higher income before such taxes. Results for 1982 include the effect of the change in accounting for certain deferred income taxes which increased Income Applicable to Common Shares by $352.7 million ($.42 per share). See also Note (B).

As a result of legislation enacted by Congress to clarify Pacific Telephone's eligibility for certain tax benefits—see Note (E) to Financial Statements—interest expense decreased 9.9 percent in 1982, compared with increases of 15.8 percent in 1981 and 22.2 percent in 1980. The average interest cost on long and intermediate term debt issued in 1982 was 13.7 percent, compared with 15.5 percent in 1981 and 12.5 percent in 1980. The embedded cost of debt rose to 8.7 percent at the end of 1982 from 8.6 percent in 1981 and 8 percent in 1980.

Financing

The Bell System obtained about 87 percent of its capital needs through internal sources in 1982, 73 percent in 1981 and 65 percent in 1980.

The Company's external long term financing in 1982 was $4.8 billion, of which $4.1 billion was obtained through the issue of new equity.

Roughly two-thirds of the new equity, or some $2.5 billion, was raised through the Dividend Reinvestment and Stock Purchase Plan and employee stock ownership, savings and investment plans. An additional $1.6 billion was raised from the issuance of a total of 27.7 million common shares in three separate underwritten offerings. In 1981 and 1980, new equity raised amounted to $3.2 billion and $1.9 billion, respectively. Average common shares outstanding increased 61 million in 1982, compared with increases of 65 million in 1981 and 37 million in 1980.

AT&T and its consolidated subsidiaries also raised some $675 million through long and intermediate term debt issues in 1982. In 1981 and 1980, similar debt issues totaled $3.5 billion and $4.7 billion, respectively.

To further enhance the Company's ability to raise needed capital, AT&T's common stock was listed on the stock exchange in London. Subsequently, the Company sold $400 million of the $675 million of long and intermediate term debt mentioned above in the Eurobond market through a newly formed finance subsidiary. See also Note (M) to Financial Statements.

Improved Debt Ratio

The Bell System's debt ratio (debt as a percent of total debt and equity) declined in 1982 to 42.3 percent at year's end. It was 45.3 percent at year-end 1981 and 46.7 percent at year-end 1980.

If preferred shares subject to mandatory redemption were included with debt, the ratio would be 43.7 percent for 1982, 46.8 percent for 1981 and 48.3 percent for 1980.

Construction Costs

Reflecting the reduced demand for new services, 1982 construction expenditures of the Bell System operating companies were $16.8 billion, compared with $18.1 billion in 1981 and $17.3 billion in 1980.

Expensing of certain station connection costs reduced the Company's construction requirements by about $1.6 billion in 1982 and $600 million in 1981.

To meet the demand for communications services and to improve existing services, the operating companies' 1983 construction expenditures are expected to total about $15.2 billion and, in addition, the construction expenditures of American Bell Inc. (the subsidiary recently formed to provide customer premises equipment and enhanced services) and other consolidated subsidiaries are expected to total about $1.5 billion.

The Bell System has been able to obtain the funds needed to finance its construction program and believes that it will continue to be able to do so.

Divestiture

For information concerning the effects of the divestiture on the future operations of AT&T, refer to the financial statements of the Company for the nine-month periods ended September 30, 1983 and 1982, and the financial forecasts for AT&T and each of the RHCs for the year ending December 31, 1984 and the pro forma condensed balance sheets for AT&T and each of the RHCs as of June 30, 1983 included elsewhere in this Information Statement and Prospectus.

Future Operations

Results of operations in 1983 will be subject to the timing and strength of the expected economic recovery. In addition, the Company anticipates that American Bell Inc. will ultimately be profitable; however, some operating deficits are expected in its early years of start-up operations. Also affecting results will be (1) increased expenses associated with accelerated capital recovery programs when there is a lag in rate authorizations which take these capital recovery costs into account, (2) increased expenses related to preparations for divestiture which the Company will attempt to offset, and (3) reduced rate of growth in business volumes resulting from competition in both the equipment and interstate long distance markets.

See Notes (E), (Q), (R) and (S) to Financial Statements pertaining to Rate and Related Matters, MCI and Litton Antitrust Litigation, Department of Justice Antitrust Action, and Regulatory Actions, respectively.

SUPPLEMENTARY DATA

Accounting for the Effects of Inflation (Unaudited)

Dollars in Millions (except per share amounts)

High rates of inflation drew increased attention to the need to assess both the impact of inflation on business and the results of management's efforts in coping with it. No consensus has been reached either on the preferability of any one reporting method or on the practical usefulness of the resulting data. The Financial Accounting Standards Board ("FASB"), believing that additional experience should be gained and experimentation undertaken with respect to reporting the effects of inflation, issued Statement of Financial Accounting Standards No. 33 ("Statement No. 33") which requires disclosure of supplementary data to reflect the effects of general inflation (constant dollar) and the effects of changes in specific prices (current cost). The data in Tables A and B have been prepared to comply with Statement No. 33; however, the Company believes that it should be used with care because the data neither completely nor accurately portray inflation's effects.

Traditionally, financial statements have been prepared on the basis of historical costs, i.e., the actual number of dollars exchanged at the time each transaction took place. However, it is recognized that general inflation has caused the purchasing power of dollars to decline, the result of which is the presentation of financial statement elements in dollars of varying purchasing power. To eliminate this disparity, such elements may be restated in "constant" dollars, each of which then has equal purchasing power. To reflect the effects of inflation and thus express operating results in dollars of comparable purchasing power, Statement No. 33 requires the Company to show what the FASB characterizes as "income from continuing operations" as if depreciation of plant assets had been based on asset amounts expressed in dollars of constant purchasing power. (This is shown in column (b) of Table A, stated in average 1982 dollars.) This adjustment is derived from the application of the Consumer Price Index for All Urban Consumers ("CPI-U"), a measure of inflation based on changes in the costs to consumers of a wide range of commodities and services. (The 1982 average CPI-U has been estimated based on actual statistics through November 1982.)

Technological improvements, changes in supply and demand, and productivity gains cause the specific prices of goods and services purchased by a particular business to fluctuate differently from price changes that would be caused solely by general inflation. To reflect the effects of such specific price changes on operating results, Statement No. 33 requires that the Company also show "income from continuing operation" as if depreciation of plant assets had been based on the "current cost" of these or comparable assets, rather than on historical cost. (This calculation is shown in column (c) of Table A, stated in average 1982 dollars.) Because current cost data are unique to each company, the current cost of telephone plant has been calculated by applying internally-generated indexes to investments in each of the major telephone plant accounts.

In computing "income from continuing operation," only depreciation expense has been adjusted to show the effects of inflation. Because most other operating expense items are current year transactions, they already are recorded in dollars of approximately current purchasing power.

In accordance with requirements of Statement No. 33, no adjustments have been made to reflect any effects of inflation on provisions for federal income taxes. The effective federal income tax rate (operating federal income taxes divided by the sum of operating federal income taxes and "income from continuing operations") for the historical data in column (a) of Table A would be 38.7%. The rate reflecting adjustments for inflation would be 98.9% for column (b) and 75.7% for column (c) of Table A. While the federal income taxes used in these computations include investment tax credits and tax deferrals relating to accelerated depreciation, the effects of inflation on effective tax rates also would be increased dramatically, even though in lower percentages, if these tax benefits were excluded. These tax benefits were intended by Congress to provide funds for investment in other capital assets in order to increase productivity and employment.

Amounts shown as "net assets at year end" in Table B are the sum of common share owners' equity, convertible preferred shares, and the common share owners' equity portion of the ownership interest of others in consolidated subsidiaries as shown in the historical cost financial statements which are adjusted for general inflation by the difference between telephone plant at historical cost and telephone plant in constant dollars and are adjusted for changes in specific prices by the difference between telephone plant at historical cost and telephone plant at current cost.

It is essential that regulatory authorities allow telephone services to be priced at levels that will preserve the Company's ability to attract the continuing additional amounts of capital necessary to meet the public's demand for telephone services. Such price levels need to provide rates of return which, after giving recognition to the effects of inflation, adequately will compensate purchasers of securities for funds provided for telephone plant construction. This inflation-affected compensation would acknowledge higher interest rates for debt securities in anticipation that such debt will be repaid in dollars having less purchasing power; it would acknowledge that returns on equity securities must be comparable with returns available on alternative equity investment opportunities. Because of this comparable return requirement for equity securities, any reflection of "constant dollar" or "current cost" depreciation in the returns on equity of non-regulated companies should result in regulatory recognition of the need for increased returns on equity for the Bell System and thus give recognition to similar inflation effects on its depreciation. Accordingly, the Company has no reason to expect that increases in operating revenues will not keep pace with the effects of inflation on depreciation; the constant dollar and current cost amounts shown for telephone plant investment in the accompanying schedule reflect this premise. Should regulatory authorities not give recognition to the need for such higher equity returns, then the recoverable amount of the Company's plant, when adjusted for inflation's effects, could be reduced. No such reduction is necessary for constant dollar results in 1982 (Table A column (b)); the constant dollar depreciation provided for any 1982 reduction that would have been necessary. The cumulative amount of constant dollar reductions applicable to all years through December 31, 1982, could have reduced "net assets," as defined herein, by as much as $89,622.5. The amounts of such reductions applicable to current cost results in 1982 (Table A column (c)) could have been as much as $6,422.7, the cumulative amount of such reduction at December 31, 1982, could have reduced net assets by as much as $78,224.4.

The reader should note the item identified in Tables A and B as "benefits from decline in purchasing power of net amounts owed." During periods of inflation lenders of money experience a loss due to the fact that amounts owed to them will be repaid in dollars having less purchasing power than the dollars originally lent; it is in anticipation of such loss that interest rates are high during inflationary times. Conversely, to the extent that lenders are losing purchasing power, borrowers are benefiting.

In assessing the impact of inflation on business, the Company believes that the benefits from inflation's effects on money that is borrowed should be viewed as an offset to interest expense. The benefit, however, does not provide funds to the Company.

The disclosure called for by Statement No. 33 is misleading by its incorrect inference that the Company ought not to have paid out more in dividends than its inflation-adjusted income from continuing operations. Statement No. 33 is based on the incorrect premise that depreciation expense, rather than being a means of allocating asset costs to accounting periods, provides funds to be set aside and used for the replacement of those assets being depreciated. Statement No. 33 also assumes that the cost of new assets acquired to replace retired assets will equal the original cost of the retired assets adjusted for either inflation or specific price increases; obviously, such is not the case in a high technology industry such as ours. Technological advances hold down price increases for new communications equipment and also increase significantly the productive capacity of both new and exisiting equipment. As shown in the accompanying Analysis of Construction Program and Cash Utilization (Table C), internally-generated funds, after paying dividends, were sufficient not only to provide all the funds needed for plant replacement, modernization, and customer movement, but also to provide $6,186.4, $4,742.2 and $2,845.6 in 1982, 1981 and 1980, respectively, for financing new telephone growth and other corporate investments.

The reader also should note that the increase in the specific prices of telephone plant was greater than the increase adjusted for the effects of general inflation for 1982 due to the significant decrease in the inflation rate during the year ended December 31, 1982. In prior years (as shown in Table B) the increase in the specific prices of telephone plant actually had been less than the general increase in the rate of inflation which was primarily attributable to "benefits of technological improvements in constructing telephone plant." These technological improvements, combined with the resulting improvements in productivity, were responsible for the Company's success in prior years in keeping the rate of growth in the prices of its services below the rate of growth in the general level of prices.

Statement No. 33 also requires that the data shown in Table B be presented in a five year summary, restated into the average purchasing power of the dollar during 1982. The calculations for these restatements (except market price per common share) have been made by applying the average CPI-U for 1982 to the data for the years 1978 through 1981. The calculations for market price per common share have been made by applying the average CPI-U for 1982 to the data for the years 1978 through 1982. Since the actual market price for 1982 is stated in year end dollars which have a lower purchasing power than the average 1982 dollar, the effect of the calculation for 1982 is to decrease the year end market price per common share from the actual quoted amount. No adjustments have been made to the historical cost information, which is presented for comparison purposes only.

TABLE A

SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR THE EFFECTS OF INFLATION AND CHANGING PRICES—DECEMBER 31, 1982

Dollars in Millions

	As Reported in the Historical Cost Financial Statements (a)	Adjusted for General Inflation (Constant Dollars) (b)	Adjusted for Changes in Specific Prices (Current Cost) (c)
Operating revenues	$ 65,093.0	$ 65,093.0	$ 65,093.0
Depreciation	8,734.5	15,676.4	14,308.7
Other operating expenses	36,290.8	36,290.8	36,290.8
Operating federal income taxes	4,411.0	4,411.0	4,411.0
Other operating taxes	5,398.4	5,398.4	5,398.4
Other income	(663.7)	(663.7)	(663.7)
Interest expense	3,930.0	3,930.0	3,930.0
	58,101.0	65,042.9	63,675.2
Income from continuing operations	$ 6,992.0	$ 50.1	$ 1,417.8
Benefits from decline in purchasing power of net amounts owed		$ 2,880.0	$ 2,880.0
Increase in specific prices (current cost) of telephone plant held during the year			$ 15,179.9
Effect of increase in general price level (constant dollar)			8,513.0
Excess of increase in specific prices over increase in the general price level			$ 6,666.9
Telephone plant, net of accumulated depreciation	$128,063.4	$219,142.4*	$207,559.1*

* Year end 1982 dollars

TABLE B

SUPPLEMENTARY FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA

Dollars in Millions (except per share amounts)

	1982	1981*	1980*	1979	1978
Operating revenues in average 1982 dollars	$ 65,093.0	$ 61,646.7	$ 59,361.3	$ 60,404.8	$ 60,699.7
Historical cost information:					
Income from continuing operations	$ 6,992.0	$ 6,822.9	$ 5,967.8	$ 5,654.7	$ 5,261.6
Income from continuing operations per common share[1]	8.06	8.47	8.04	8.01	7.73
Net assets at year end	62,214.4	55,630.7	50,009.0	45,879.0	42,014.8
Historical cost information adjusted for general inflation (average 1982 dollars):[2]					
Income from continuing operations	$ 50.1	$ 422.5	$ 982.7	$ 2,417.9	
Income (loss) from continuing operations per common share[1]	(.11)	.34	1.11	3.23	
Net assets at year end	150,842.0	148,561.4	143,023.1	138,346.2	
Historical cost information adjusted for changes in specific prices (average 1982 dollars):[2]					
Income from continuing operations	$ 1,417.8	$ 2,251.5	$ 2,196.4	$ 2,981.0	
Income from continuing operations per common share[1]	1.50	2.66	2.79	4.04	
Difference between the amount by which current cost of telephone plant would have increased if computed by reference to changes in general price levels and increase in current cost of telephone plant	(6,666.9)	6,118.3	6,374.6	12,980.9	
Net assets at year end	139,443.9	128,954.1	128,435.3	126,959.9	
Other Information:[2]					
Benefits from decline in purchasing power of net amounts owed in average 1982 dollars	$ 2,880.0	$ 5,830.8	$ 8,084.9	$ 9,142.6	
Cash dividends declared per common share:					
At historical cost	$ 5.40	$ 5.40	$ 5.00	$ 5.00	$ 4.60
In average 1982 dollars	5.40	5.73	5.86	6.65	6.81
Market price per common share at year end:					
At historical cost[3]	$59.38	$58.75	$47.88	$52.13	$60.50
In average 1982 dollars	58.43	60.36	53.58	65.31	86.27
Average CPI-U (1982 estimated)	289.2	272.4	246.8	217.4	195.4

* Certain amounts for 1981 and 1980 have been restated, see Note (S).

[1] Income from continuing operations per common share is after preferred dividend requirements.

[2] Certain information for 1978 is not disclosed since it is impractical to obtain.

[3] Using Composite Tape closing price.

TABLE C

ANALYSIS OF CONSTRUCTION PROGRAM AND CASH UTILIZATION

Construction program components (approximate):

In Millions of Historical Dollars	1982	1981	1980
Plant replacement	$ 1,150.1	$ 1,099.9	$ 1,051.2
Plant modernization	3,614.1	3,406.6	3,340.0
Customer movement	2,334.9	3,438.6	3,754.3
Growth	9,380.8	9,865.1	8,884.3
	16,479.9	17,810.2	17,029.8
Add interest charged construction	317.6	287.5	271.1
Total construction program	$16,797.5	$18,097.7	$17,300.9
Retirements of telephone plant at historical cost	$ 6,161.0	$ 5,744.8	$ 6,113.3

Internally-generated funds available for investments:**

In Millions of Historical Dollars	1982	1981*	1980*
Funds from operations	$20,846.3	$17,059.3	$15,112.9
Decrease (increase) in working capital	(2,372.7)	(41.6)	(350.6)
Decrease (increase) in deferred charges and other—net	(463.5)	71.6	(1.3)
	18,010.1	17,089.3	14,761.0
Less dividends	4,742.6	4,402.0	3,769.9
Funds available for investments	13,267.5	12,687.3	10,991.1
Less amount spent on plant replacement, plant modernization, and customer movement	7,099.1	7,945.1	8,145.5
Funds available for growth and other investments	$ 6,168.4	$ 4,742.2	$ 2,845.6

* Restated, see Note (S)

** See statements of sources of funds supporting construction activity.

GLOSSARY

Access Charges—Charges which will apply to BOCs' facilities used or available for the origination and termination of interstate Long Distance Communications.

AMPS—Advanced Mobile Phone Service using cellular radio technology

AT&T Information Systems—AT&T Information Systems Inc.

AT&T International—AT&T International Inc.

AT&T Communications—AT&T's interLATA communications organization

BOCs—Bell Operating Telephone Companies

Bell Laboratories—Bell Telephone Laboratories, Incorporated

Consent Decree—Modification of Final Judgment

Court—U.S. District Court for the District of Columbia

CSO—Central Services Organization

Customer premises equipment—equipment which generally consists of telephone sets and private branch exchanges, used by a customer at the customer's premises to originate, route or receive telecommunications

DOJ—Department of Justice

ERISA—Employee Retirement Income Security Act of 1974

Exchange Act—Securities Exchange Act of 1934

Exchange Carrier—carrier that provides telecommunications service within a local access transport area (see IntraLATA service)

FCC—Federal Communications Commission

Interexchange Carrier—carrier that provides telecommunications service between local access transport areas (see InterLATA service)

InterLATA Service—telecommunications service which links a subscriber's telephone or other apparatus to the transmission facilities of AT&T and other interexchange carriers which will in turn provide telecommunications service between local access and transport areas

IntraLATA Service—telecommunications traffic between telephone and other apparatuses located within the same local access and transport area

Interstate Costs—Bell operating company costs which have been allocated to interstate and interexchange telecommunications under the FCC's cost allocation rules

LATAs—all Bell System territory has been divided into 161 geographical areas which have been termed "Local Access and Transport Areas"

Long Distance Communications—services provided by BOCs together with interexchange carriers

MTS—message toll service

Network Access Line—see Subscriber Line

OCCs—other common carriers offering service between exchanges

PBX—private branch exchange

Plan—Plan of Reorganization

Plans—Share Owner Dividend Reinvestment and Stock Purchase Plans of the RHCs

RCSC—Regional Cellular Service Companies

RHCs—Regional Holding Companies

SEC—Securities and Exchange Commission

Subscriber Line—the line connecting the subscriber's premises to the telephone network

Western Electric—Western Electric Company, Incorporated

When issued trading—trading in a company's shares prior to the time certificates are actually available or issued

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