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Arizona Corporation Commission
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November 9, 2000

Arizona Corporation Commission
Docket Control Center
1200 West Washington Street
Phoenix, AZ 85007

Re: Concert Communications Sales LLC Application and Petition for Certificate of Convenience and Necessity to Provide Local Exchange Services as a Reseller
Commission Docket No. T-03731A-99-0234

To The Commission:

Enclosed please find, on behalf of Concert Communications Sales LLC ("CCS") and pursuant to the request of Commission Staff, an original set, a duplicate set and ten copies of updated financial information for inclusion in the above-referenced proceeding. These materials may be considered updated replacement Exhibits E and F to the Application.

If there are any questions regarding these materials, please contact me at (202) 887-1238. Thank you for your assistance with this matter.

Cordially,

Winafred Brantl

Winafred Brantl

enclosures

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EXHIBIT E

FINANCIAL INFORMATION
FOR
CONCERT COMMUNICATIONS SALES LLC

Concert Communications Sales LLC
Profit And Loss Account
2000 Calendar Year to Date

REVENUE	
Third Party	0
Intra-group	0
Total operating income	0
EXPENSES	
Staff Costs	0
Repairs and Maintenance	0
Rents	0
Depreciation	0
Amortization-intangible Assets	0
Payments to Telecom Operators	0
Advertising	0
Intragroup Expenditures	0
Other Deductions	0
Total operating expenses	0
Miscellaneous Income/Expense	
Interest Payable	0
Interest Income	0
Tax Expense	0
Other Gain/Loss	0
Total other income	0
Net income/<loss>	0

Concert Communications Sales LLC
Balance Sheet
2000 Calendar Year to Date

ASSETS	
Current assets	
Cash at Bank & in Hand	5000
Accounts Receivable	0
Third Party Debtors	0
Intragroup Investments	0
Total current assets	5000
Fixed assets	
Intangible assets	0
Land, Buildings, Plant & Equip	0
Investments	0
Total fixed assets	0
Other assets	0
Total assets	5000
LIABILITIES	
Current liabilities	
Third Party Payables	0
Intragroup Payables	0
Short Term Loans	0
Other Short Term Borrowings	0
Total current liabilities	0
Long term loans and borrowings	
Third Party LT Loans	0
Intragroup Loans	0
Total long term loans and borrowings	0
EQUITY	
Shareholder equity	
Capital Stock	5000
Additional Paid in Capital	0
Retained Earnings	0
Total capital	5000
Total liability and equity	5000

EXHIBIT F

FINANCIAL INFORMATION
FOR
BRITISH TELECOMMUNICATIONS PLC
AND
AT&T CORP.
(APPLICANT'S ULTIMATE PARENTS)

BT

Annual report and Form 20-F

Consolidated Financial Statements Only

2000

Statement of directors' responsibility for preparing the financial statements

The directors are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss and cash flows of the group for that period.

The directors consider that, in preparing the financial statements for the year ended 31 March 2000 on pages 59 to 110 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. The directors also consider that all applicable accounting standards have been followed and confirm that the financial statements have been prepared on the going concern basis.

The directors are responsible for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors are also responsible for taking such steps that are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The auditors' responsibilities are stated in their report to the shareholders.

Report of the auditors to the shareholders of British Telecommunications plc

We have audited the financial statements on pages 59 to 110 which have been prepared under the historical cost convention and the accounting policies set out on pages 59 to 61.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 57, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 45 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards generally accepted in the United Kingdom and in the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the company and the group at 31 March 2000 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.
- present fairly, in all material respects, the consolidated financial position of the group as at 31 March 2000 and 31 March 1999, and the results of its operation and its cash flow for the years ended 31 March 2000, 31 March 1999 and 31 March 1998 in conformity with accounting principles generally accepted in the United Kingdom. These principles differ in certain respects from accounting principles generally accepted in the United States. The effect of the differences in the determination of net income, shareholders' equity and cash flows is shown on pages 103 to 106.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
24 May 2000

Accounting policies

I Basis of preparation of the financial statements

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and the provisions of the Companies Act 1985. The group financial statements consolidate those of the company and all of its subsidiary undertakings. Where the financial statements of subsidiary undertakings, associates and joint ventures do not conform with the group's accounting policies, appropriate adjustments are made on consolidation in order to present the group financial statements on a consistent basis. The principal subsidiary undertakings' financial years are all coterminous with those of the company, with the exception of one newly acquired group at 31 March 2000. References to the "company" are to British Telecommunications public limited company, and references to "BT" or the "group" are to the company and its subsidiaries, or any of them as the context may require.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Actual results could differ from those estimates. Estimates are used principally when accounting for income, provision for doubtful debts, payments to telecommunication operators, depreciation, employee pension schemes and taxes. Certain comparative figures have been restated to conform with revised presentation and reclassification of figures in the year ended 31 March 2000.

II Turnover

Group turnover, which excludes value added tax and other sales taxes, comprises the value of services provided and equipment sales by group undertakings, excluding those between them.

Total turnover is group turnover together with the group's share of its associates' and joint ventures' turnover, excluding the group's share of transactions between the group and its principal joint venture, Concert BV.

III Research and development

Expenditure on research and development is written off as incurred.

IV Interest

Interest payable, including that related to financing the construction of tangible fixed assets, is written off as incurred. Discounts or premiums and expenses on the issue of debt securities are amortised over the term of the related security and included within interest payable. Premiums payable on early redemptions of debt securities, in lieu of future interest costs, are written off when paid.

V Foreign currencies

On consolidation, assets and liabilities of foreign undertakings are translated into sterling at year-end exchange rates. The results of foreign undertakings are translated into sterling at average rates of exchange for the year.

Exchange differences arising from the retranslation at year-end exchange rates of the net investment in foreign undertakings, less exchange differences on borrowings which finance or provide a hedge against those undertakings, are taken to reserves and are reported in the statement of total recognised gains and losses.

All other exchange gains or losses are dealt with through the profit and loss account.

VI Intangibles

***(a)* Goodwill**

Goodwill, arising from the purchase of subsidiary undertakings and interests in associates and joint ventures, represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired.

For acquisitions completed on or after 1 April 1998, the goodwill arising is capitalised as an intangible asset or, if arising in respect of an associate or joint venture, recorded as part of the related investment. In most cases, the goodwill is amortised on a straight line basis from the time of acquisition over its useful economic life. Where special circumstances exist such that amortising goodwill over a finite period would not give a true and fair view, that goodwill is not amortised. The economic life is normally presumed to be a maximum of 20 years.

For acquisitions on or before 31 March 1998, the goodwill is written off on acquisition against group reserves.

If an undertaking is subsequently divested, the appropriate unamortised goodwill or goodwill written off to reserves is dealt with through the profit and loss account in the period of disposal as part of the gain or loss on divestment.

***(b)* Other intangibles**

Licence fees paid to governments, which permit telecommunication activities to be operated for defined periods, are amortised from the later of the start of the licence period or launch of service to the end of the licence period on a straight-line basis.

Accounting policies

VII Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation.

***(a)* Cost**

Cost in the case of network services includes contractors' charges and payments on account, materials, direct labour and directly attributable overheads.

***(b)* Depreciation**

Depreciation is provided on tangible fixed assets on a straight line basis from the time they are available for use, so as to write off their costs over their estimated useful lives taking into account any expected residual values. No depreciation is provided on freehold land.

The lives assigned to other significant tangible fixed assets are:

Freehold buildings –	40 years
Leasehold land and buildings –	Unexpired portion of lease or 40 years, whichever is the shorter
Transmission equipment:	
duct –	25 years
cable –	3 to 25 years
radio and repeater equipment –	2 to 25 years
Exchange equipment –	2 to 13 years
Computers and office equipment –	2 to 6 years
Payphones, other network equipment, motor vehicles and cableships –	2 to 20 years

VIII Fixed asset investments

Investments in subsidiary undertakings, associates and joint ventures are stated in the balance sheet of the company at cost less amounts written off. Amounts denominated in foreign currency are translated into sterling at year-end exchange rates.

Investments in associates and joint ventures are stated in the group balance sheet at the group's share of their net assets, together with any attributable unamortised goodwill on acquisitions arising on or after 1 April 1998.

The group's share of profits less losses of associates and joint ventures is included in the group profit and loss account.

Investments in other participating interests and other investments are stated at cost less amounts written off.

IX Stocks

Stocks mainly comprise items of equipment, held for sale or rental, consumable items and work in progress on long-term contracts.

Equipment held and consumable items are stated at the lower of cost and estimated net realisable value, after provisions for obsolescence.

Work in progress on long-term contracts is stated at cost, after deducting payments on account, less provisions for any foreseeable losses.

X Redundancy costs

Redundancy costs arising from periodic reviews of staff levels are charged against profit in the year in which employees agree to leave the group.

If the most recent actuarial valuation of the group's pension scheme shows a deficit, which exceeds the amount of provision for pension liabilities in the balance sheet, the estimated cost of providing incremental pension benefits in respect of employees leaving the group is charged against profit in the year in which the employees agree to leave the group, within redundancy charges.

XI Pension scheme

The group operates a defined benefit pension scheme, which is independent of the group's finances, for the substantial majority of its employees. Actuarial valuations of the scheme are carried out as determined by the trustees at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. In any intervening years, the actuaries review the continuing appropriateness of the contribution rates.

The cost of providing pensions is charged against profits over employees' working lives with the group using the projected unit method. Variations from this regular cost are allocated on a straight-line basis over the average remaining service lives of current employees to the extent that these variations do not relate to the estimated cost of providing incremental pension benefits in the circumstances described in X above.

Interest is accounted for on the provision in the balance sheet which results from differences between amounts recognised as pension costs and amounts funded. The regular pension cost, variations from the regular pension cost, described above, and interest are all charged within staff costs.

XII Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation. Provision is made for deferred taxation only to the extent that timing differences are expected to reverse in the foreseeable future, with the exception of timing differences arising on pension costs where full provision is made irrespective of whether they are expected to reverse in the foreseeable future.

XIII Financial instruments

(a) Debt instruments

Debt instruments are stated at the amount of net proceeds adjusted to amortise any discount evenly over the term of the debt.

(b) Derivative financial instruments

The group uses derivative financial instruments to reduce exposure to foreign exchange risks and interest rate movements. The group does not hold or issue derivative financial instruments for financial trading purposes.

Criteria to qualify for hedge accounting

The group considers its derivative financial instruments to be hedges when certain criteria are met. For foreign currency derivatives, the instrument must be related to actual foreign currency assets or liabilities or a probable commitment and whose characteristics have been identified. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the group's operations. For interest rate derivatives, the instrument must be related to assets or liabilities or a probable commitment, such as a future bond issue, and must also change the interest rate or the nature of the interest rate by converting a fixed rate to a variable rate or vice versa.

Accounting for derivative financial instruments

Principal amounts underlying currency swaps are revalued at exchange rates ruling at the date of the group balance sheet and are included in debtors or creditors.

Interest differentials, under interest rate swap agreements used to vary the amounts and periods for which interest rates on borrowings are fixed, are recognised by adjustment of interest payable.

The forward exchange contracts used to change the currency mix of net debt are revalued to balance sheet rates with net unrealised gains and losses being shown as part of debtors or creditors. The difference between spot and forward rate for these contracts is recognised as part of net interest payable over the term of the contract.

The forward exchange contracts hedging transaction exposures are revalued at the prevailing forward rate on the balance sheet date with net unrealised gains and losses being shown as debtors and creditors.

Instruments that form hedges against future fixed-rate bond issues are marked to market. Gains or losses are deferred until the bond is issued when they are recognised evenly over the term of the bond.

Group profit and loss account for the year ended 31 March 2000

	Notes	2000 £m	1999 £m	1998 £m
Total turnover – ongoing activities	2	**21,903**	18,223	16,039
– discontinued activities	2	**–**	–	1,372
Total turnover, including discontinued activities	2	**21,903**	18,223	17,411
Group's share of joint ventures' turnover	2	**(1,784)**	(561)	(147)
Group's share of associates' turnover	2	**(1,580)**	(709)	(1,624)
Trading between group and principal joint venture	2	**176**	–	–
Group turnover – ongoing activities	2	**18,715**	16,953	15,640
Other operating income *(a)*	3	**242**	168	372
Operating costs *(b)(c)(d)*	4	**(15,359)**	(13,305)	(12,355)
Group operating profit – ongoing activities		**3,598**	3,816	3,657
Group's share of operating loss of joint ventures	5	**(427)**	(342)	(199)
Group's share of operating profit of associates	5	**27**	–	3
Total operating profit:				
Ongoing activities		**3,198**	3,474	3,436
Discontinued activities		**–**	–	25
		3,198	3,474	3,461
Profit on sale of fixed asset investments *(e)*	6	**–**	1,107	–
Profit on sale of group undertakings	6	**126**	–	63
Interest receivable	7	**193**	165	162
Interest payable	8	**(575)**	(451)	(472)
Profit on ordinary activities before taxation		**2,942**	4,295	3,214
Tax on profit on ordinary activities:				
Corporation and similar taxes	9	**(897)**	(1,293)	(977)
Windfall tax	9	**–**	–	(510)
	9	**(897)**	(1,293)	(1,487)
Profit on ordinary activities after taxation		**2,045**	3,002	1,727
Minority interests	10	**10**	(19)	(25)
Profit for the financial year		**2,055**	2,983	1,702
Dividends	11	**(1,426)**	(1,322)	(1,216)
Retained profit for the financial year	25	**629**	1,661	486
Basic earnings per share	12	**31.7p**	46.3p	26.6p
Diluted earnings per share	12	**30.9p**	45.3p	26.2p
Profit before goodwill amortisation, exceptional items and taxation		**3,100**	3,274	2,976
Basic earnings per share before goodwill amortisation and exceptional items	12	**34.2p**	35.0p	31.7p
Diluted earnings per share before goodwill amortisation and exceptional items	12	**33.4p**	34.2p	31.2p
(a) Including MCI break up fee net of expenses in 1998		**–**	–	238
(b) Including redundancy charges		**59**	124	106
(c) Including exceptional costs relating to the disengagement from MCI		**64**	69	–
(d) Including exceptional costs relating to the proposed closure of the BT Cellnet analogue network in 2000		**47**	–	–
(e) Including gain on MCI shares sold in 1999		**–**	1,133	–

Group statement of total recognised gains and losses for the year ended 31 March 2000

	2000 £m	1999 £m	1998 £m
Profit (loss) for the financial year:			
Group	**2,576**	3,362	1,951
Joint ventures	**(480)**	(362)	(202)
Associates	**(41)**	(17)	(47)
Total profit for the financial year	**2,055**	2,983	1,702
Currency movements arising on consolidation of non-UK:			
Subsidiaries	**(27)**	3	(16)
Joint ventures	**(141)**	27	(40)
Associates	**102**	15	(18)
Unrealised gain on transfer of assets and group undertakings to a joint venture	**159**	–	–
Total recognised gains and losses for the financial year	**2,148**	3,028	1,628

Group cash flow statement for the year ended 31 March 2000

	Notes	2000 £m	1999 £m	1998 £m
Net cash inflow from operating activities	13	5,849	6,035	6,071
Dividends from joint ventures and associates		5	2	5
Returns on investments and servicing of finance				
Interest received		286	111	168
Interest paid, including finance costs		(449)	(439)	(328)
Net cash outflow for returns on investments and servicing of finance		(163)	(328)	(160)
Taxation				
UK corporation tax paid		(1,308)	(359)	(1,625)
Windfall tax paid		–	(255)	(255)
Non-UK tax paid		(3)	(16)	(6)
Tax paid		(1,311)	(630)	(1,886)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(3,568)	(3,220)	(3,020)
Sale of tangible fixed assets		143	143	127
Purchase of fixed asset investments		(373)	(103)	(265)
Disposal of fixed asset investments		46	4,226	50
Net cash inflow (outflow) for capital expenditure and financial investment		(3,752)	1,046	(3,108)
Acquisitions and disposals				
Purchase of subsidiary undertakings, net of £69m cash acquired (1999 – £5m overdraft, 1998 – £6m cash acquired)		(4,065)	(672)	(121)
Investments in joint ventures		(933)	(1,038)	(323)
Investments in associates		(2,167)	(288)	(1,057)
Repayment of loan to joint venture		550	–	–
Disposal of subsidiary undertakings		206	14	–
Sale of investments in joint ventures and associates		4	17	–
Net cash outflow for acquisitions and disposals		(6,405)	(1,967)	(1,501)
Equity dividends paid		(1,364)	(1,186)	(3,473)
Cash inflow (outflow) before management of liquid resources and financing		(7,141)	2,972	(4,052)
Management of liquid resources	14	1,236	(2,447)	2,247
Financing				
Issue of ordinary share capital		127	161	144
Minority shares issued		432	13	48
New loans		1,473	10	1,637
Loan repayments		(587)	(457)	(338)
Net increase (decrease) in short-term borrowings		4,514	(185)	303
Net cash inflow (outflow) from financing		5,959	(458)	1,794
Increase (decrease) in cash in the year		54	67	(11)
Decrease (increase) in net debt in the year	15	(6,582)	3,146	(3,860)

Balance sheets at 31 March 2000

	Notes	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Fixed assets					
Intangible assets	16	5,777	742	-	-
Tangible assets	17	18,163	17,854	14,976	15,022
Investments in joint ventures:	18				
Share of gross assets and goodwill		3,631	1,857		
Share of gross liabilities		(1,045)	(775)		
		2,586	1,082		
Investments in associates	18	2,639	418		
Other investments	18	653	332		
Total investments	18	5,878	1,832	20,038	12,371
Total fixed assets		29,818	20,428	35,014	27,393
Current assets					
Stocks		225	159	182	134
Debtors	19	5,241	3,995	4,678	5,976
Investments	20	2,051	3,278	1,748	1,897
Cash at bank and in hand		253	102	15	7
Total current assets		7,770	7,534	6,623	8,014
Creditors: amounts falling due within one year					
Loans and other borrowings	21	5,650	947	12,551	7,250
Other creditors	22	9,235	7,082	6,942	7,008
Total creditors: amounts falling due within one year		14,885	8,029	19,493	14,258
Net current liabilities		(7,115)	(495)	(12,870)	(6,244)
Total assets less current liabilities		22,703	19,933	22,144	21,149
Creditors: amounts falling due after more than one year					
Loans and other borrowings	21	5,354	3,386	4,836	4,289
Provisions for liabilities and charges	23	1,056	1,391	802	1,116
Minority interests		498	216	-	-
Capital and reserves					
Called up share capital	24	1,627	1,617	1,627	1,617
Share premium account	25	1,580	1,206	1,580	1,206
Other reserves	25	933	774	747	747
Profit and loss account	25	11,655	11,343	12,552	12,174
Total equity shareholders' funds	25	15,795	14,940	16,506	15,744
		22,703	19,933	22,144	21,149

The financial statements on pages 59 to 110 were approved by the board of directors on 24 May 2000 and were signed on its behalf by

Sir Iain Vallance *Chairman*
Sir Peter Bonfield CBE *Chief Executive*
R P Brace *Group Finance Director*

Notes to the financial statements

1. Changes in presentation

During the year ended 31 March 2000, the company has made the following changes in the presentation of its financial statements. Comparative figures have been restated. The previous analysis of turnover has been modified owing to the formation of Concert, the joint venture with AT&T, on 5 January 2000 (see note 18). From that date, international calls into, through and out of the UK and formerly handled by the company, have been handled by Concert. Additionally, certain of the company's multinational customers were transferred to Concert on the same date.

In the modified analysis, fixed network calls comprise calls within the UK and calls made from the UK to other countries. Receipts from other operators include revenues from non-UK operators for incoming and transit calls into and through the UK up to 5 January 2000 and revenues from Concert for terminating incoming international calls from that date.

The group's share of trading with Concert, primarily in respect of international calls made to and from the UK and for services provided to Concert in the UK for the multinational customers transferred to Concert, is eliminated in arriving at total turnover, including the proportionate share of the group's associates and joint ventures.

2. Turnover

	2000 £m	1999*(a)* £m	1998*(a)* £m
Fixed network calls	**5,908**	6,026	5,788
Exchange lines	**3,526**	3,351	3,190
Mobile communications	**2,170**	1,400	1,089
Receipts from other operators	**1,974**	1,417	1,249
Private services	**1,135**	1,140	1,131
Customer premises equipment supply	**847**	870	896
Yellow Pages and other directories	**642**	491	466
Other sales and services	**2,513**	2,258	1,831
Group turnover – ongoing activities	**18,715**	16,953	15,640
Group's share of associates' and joint ventures' turnover	**3,364**	1,270	1,771
Trading between group and principal joint venture	**(176)**	–	–
Total turnover, including discontinued activities	**21,903**	18,223	17,411
Less: discontinued activities *(b)*	**–**	–	(1,372)
Total turnover – ongoing activities	**21,903**	18,223	16,039

(a) Figures in the 1998 and 1999 financial years have been restated to conform with the method of classification used in the 2000 financial year.
(b) Discontinued activities relate to the group's former interest in MCI Communications Corporation (MCI) *(note 18(i))*.

Group's share of associates' and joint ventures' turnover comprised:

	2000 £m	1999 £m	1998 £m
Joint ventures – continuing activities	**1,784**	561	147
Associates:			
Continuing activities	**1,580**	709	252
Discontinued activities *(a)*	**–**	–	1,372
	1,580	709	1,624
Group's share of associates' and joint ventures' turnover	**3,364**	1,270	1,771

(a) Discontinued activities relate to the group's former interest in MCI Communications Corporation (MCI) *(note 18(i))*.

The group provides telecommunication services, principally in the UK, essentially operating as a unitary business. Its main services and products are fixed voice and data calls in the UK, the provision of fixed exchange lines to homes and businesses, the supply of mobile communication services and equipment to businesses and individuals, the provision of communication services in the UK to other operators, the provision of private services to businesses and the supply of telecommunication equipment for customers' premises. Approximately 5% (1999 – 4%, 1998 – 4%) of group turnover arose from operations outside the UK and approximately 18% (1999 – 10%, 1998 – 13%) of total turnover arose from activities outside the UK (note 33). Subsidiary undertakings acquired in the year ended 31 March 2000 contributed approximately 2% of group turnover in the year. Unaudited information concerning the group's classified directory business in the UK is shown on page 115 of this annual report.

3. Other operating income

	2000 £m	1999 £m	1998 £m
Seconded staff and administration and other services provided to Concert	79	–	–
Merger agreement break up fee *(a)*	–	–	273
Merger expenses written off	–	–	(35)
Other	163	168	134
Total other operating income	242	168	372

(a) The company received US$465 million on 12 November 1997 from WorldCom, Inc as a break up fee and partial reimbursement of expenses (the MCI merger break up fee) following the termination of the BT/MCI merger agreement on 9 November 1997 *(note 18(i))*. This income and the associated merger expenses were exceptional items in the year ended 31 March 1998.

4. Operating costs

	2000 £m	1999 £m	1998 £m
Staff costs:			
Wages and salaries	3,754	3,366	3,290
Social security costs	316	275	266
Pension costs (note 27)	167	176	177
Employee share ownership scheme *(a)*	59	64	64
Employee share option scheme compensation for special dividend *(b)*	–	–	120
Total staff costs	4,296	3,881	3,917
Own work capitalised	(498)	(428)	(424)
Depreciation (note 17)	2,752	2,581	2,395
Goodwill amortisation (note 16)	89	–	–
Payments to telecommunications operators	3,086	2,120	1,600
Other operating costs *(c)*	5,634	5,151	4,867
Total operating costs	15,359	13,305	12,355
Operating costs included the following:			
Research and development	345	268	307
Rental costs relating to operating leases, including plant and equipment hire £12 million (1999 – £9 million, 1998 – £19 million)	189	185	192
Foreign currency gains	(26)	(88)	(9)
Year 2000 computer issue costs	67	138	76
Exceptional costs relating to the proposed closure of the BT Cellnet analogue network:			
Depreciation	37	–	–
Other operating costs	10	–	–
	47	–	–
Exceptional costs relating to the disengagement from MCI:			
Staff costs	13	10	–
Depreciation	11	13	–
Payments to telecommunication operators	18	14	–
Other operating costs	22	32	–
	64	69	–

(a) Amount set aside for the year for allocation of ordinary shares in the company to eligible employees.

(b) Compensation for employees holding share options on 15 August 1997 in respect of the September 1997 special dividend.

(c) Includes redundancy charges of £59 million (1999 – £124 million, 1998 – £106 million). No charge for the cost of providing incremental pension benefits for employees taking early retirement was made in the years ended 31 March 2000, 1999 and 1998 in view of the combined surplus in the BT Pension Scheme disclosed by the actuarial valuation as at 31 December 1996 and the amount provided for pension costs within provisions for liabilities and charges.

The directors believe that the nature of the group's business is such that the analysis of operating costs required by the Companies Act 1985 is not appropriate. As required by the Act, the directors have therefore adapted the prescribed format so that operating costs are disclosed in a manner appropriate to the group's principal activity.

5. Group's share of operating profit (loss) of associates and joint ventures

The group's share of operating profit (loss) of associates and joint ventures comprised:

	2000 £m	1999 £m	1998 £m
Joint ventures – continuing activities	(427)	(342)	(199)
Associates:			
Continuing activities	27	–	(22)
Discontinued activities	–	–	25
	27	–	3
Group's share of operating loss of associates and joint ventures	(400)	(342)	(196)

The group's amortisation of goodwill for the year ended 31 March 2000 arising in its joint ventures and associates was £29 million (1999 – £12 million, 1998 – £nil) and £55 million (1999 – £5 million, 1998 – £nil), respectively. The group's share of results of associates from discontinued activities for the year ended 31 March 1998 included the group's share of a charge, made by MCI Communications Corporation, amounting to £63 million mainly for the exiting from and restructuring of customer contracts.

6. Profit on sale of fixed asset investments and group undertakings

In August 1999, the group sold BT Communications Services KK to Japan Telecom for a consideration of £170 million, on which a realised profit of £80 million has been recognised. In February 2000, BT's photonics research facility was sold at a profit of £35 million. Other gains during the year totalled £11 million. All these items have been classified as exceptional in the year ended 31 March 2000.

In September 1998, the group completed the sale of its interest in MCI for £4,159 million at a pre-tax profit of £1,133 million, after taking into account goodwill of £2,214 million originally written off on the acquisition of the group's interest in MCI in September 1994. A provision for impairment of £26 million against another fixed asset investment has been offset against this profit giving a net gain of £1,107 million. These two items have been classified as exceptional in the year ended 31 March 1999.

With the exception of Concert Communications (see note 18), the subsidiary undertakings disposed of in the years ended 31 March 2000, 1999 and 1998 had a negligible effect on the group's operating profit and cash flows and their net assets were immaterial to the group's financial position.

7. Interest receivable

	2000 £m	1999 £m	1998 £m
Income from listed investments	13	9	11
Other interest receivable	169	150	149
Group	182	159	160
Joint ventures	4	2	–
Associates	7	4	2
Total interest receivable	193	165	162

8. Interest payable

	2000 £m	1999 £m	1998 £m
Interest payable and similar charges in respect of:			
Bank loans and overdrafts	87	77	80
Other borrowings *(a)*	401	343	334
Group	488	420	414
Joint ventures	47	19	2
Associates	40	12	56
Total interest payable	575	451	472

(a) Includes £7 million premium charged in the year ended 31 March 1999 on the early redemption of US$200 million $9\frac{5}{8}$% Guaranteed Debentures 2019 on 16 February 1999.

9. Tax on profit on ordinary activities

	2000 £m	1999 £m	1998 £m
United Kingdom:			
Corporation tax at 30% (1999 – 31%, 1998 – 31%)	852	1,200	984
Deferred taxation charge (credit) at 30%	(3)	71	17
Taxation on the group's share of results of associates	3	1	1
Deferred taxation provision released due to reduction in corporation tax rate	–	–	(25)
Prior year adjustments	4	–	(2)
Total UK taxation, excluding windfall tax	856	1,272	975
Non-UK taxation:			
Current	5	14	6
Taxation charge on the group's share of results of joint ventures	11	3	1
Taxation charge (credit) on the group's share of results of associates	25	4	(5)
Total corporation and similar taxes	897	1,293	977
Windfall tax	–	–	510
Total tax on profit on ordinary activities	897	1,293	1,487

The company's charge to the UK windfall tax, imposed on certain privatised companies in July 1997, was paid in two equal instalments in December 1997 and 1998. The charge was based on the group's profit for the financial years ended 31 March 1986 to 31 March 1989.

Total tax on profit on ordinary activities, excluding the windfall tax, varied from the amount computed by applying the corporation tax rate to profit on ordinary activities before taxation. The differences were attributable to the following factors:

	2000 %	1999 %	1998 %
UK corporation tax rate	30.0	31.0	31.0
Non-deductible depreciation and amortisation	2.5	0.6	0.6
Non-deductible non-UK losses	2.7	1.5	1.1
Unprovided deferred taxes on excess capital allowances	(2.0)	(0.7)	(0.9)
Lower effective tax on net foreign exchange gains	(1.2)	–	–
Effect of reduction in UK corporation tax rate on deferred tax provision	–	(0.1)	(0.8)
Lower effective tax on gain in MCI shares (1998 – MCI merger break up fee)	–	(2.4)	(0.7)
Lower effective tax on gain on disposal of group undertakings	(1.2)	–	–
Other	(0.3)	0.2	0.1
Effective corporation tax rate	30.5	30.1	30.4

Notes to the financial statements

9. Tax on profit on ordinary activities (continued)

Deferred taxation of £60 million (1999 – £30 million, 1998 – £30 million) arising on excess capital allowances was not provided in the year ended 31 March 2000.

The deferred taxation charge (credit) was mainly the result of the tax effect of timing differences as follows:

	2000 £m	1999 £m	1998 £m
Excess capital allowances	(80)	1	24
Pension provisions	97	81	20
Other timing differences	(20)	(11)	(27)
	(3)	71	17
Release due to reduction in corporation tax rate	–	–	(25)
Prior year adjustments *(a)*	16	5	(14)
Total deferred taxation charge (credit)	13	76	(22)

(a) Reclassification between deferred and current taxation on the profit on ordinary activities for prior years.

10. Minority Interests

	2000 £m	1999 £m	1998 £m
Minority interests in profits (losses):			
Group	(15)	15	25
Associates	5	4	–
Total minority interests	(10)	19	25

11. Dividends

	2000 pence per share	1999 pence per share	1998 pence per share	2000 £m	1999 £m	1998 £m
Interim dividend paid	8.70	8.10	7.55	565	523	480
Proposed final dividend	13.20	12.30	11.45	861	799	736
Total dividends	21.90	20.40	19.00	1,426	1,322	1,216

12. Earnings per share

The basic earnings per share are calculated by dividing the profit for the financial year attributable to shareholders by the weighted average number of shares in issue after deducting the company's shares held by employee share ownership trusts.

In calculating the diluted earnings per share, share options outstanding and other potential ordinary shares have been taken into account.

The weighted average number of shares in the years were:

	2000 millions of shares	1999 millions of shares	1998 millions of shares
Basic	6,488	6,442	6,387
Dilutive ordinary shares from share options outstanding and shares held in trust	154	150	97
Total diluted	6,642	6,592	6,484

12. Earnings per share (continued)

The items in the calculation of earnings per share before goodwill amortisation and exceptional items in the years were:

	2000 pence per share	1999 pence per share	1998 pence per share	2000 £m	1999 £m	1998 £m
Costs relating to the proposed closure of the BT Cellnet analogue network	(0.7)	–	–	(47)	–	–
Profit on sale of group undertakings	1.9	–	–	126	–	–
Profit on sale of MCI shares	–	17.6	–	–	1,133	–
Provision against another fixed asset investment	–	(0.4)	–	–	(26)	–
Costs relating to the disengagement from MCI	(1.0)	(1.1)	–	(64)	(69)	–
MCI merger break up fee received less expenses	–	–	3.7	–	–	238
Goodwill amortisation	(2.6)	(0.3)	–	(173)	(17)	–
Total credit (charge) before tax	(2.4)	15.8	3.7	(158)	1,021	238
Tax charge attributable	(0.1)	(4.5)	(0.8)	(5)	(291)	(50)
Windfall tax charge	–	–	(8.0)	–	–	(510)
Net credit (charge)	(2.5)	11.3	(5.1)	(163)	730	(322)
Basic earnings per share/profit for the financial year after goodwill amortisation and exceptional items	31.7	46.3	26.6	2,055	2,983	1,702
Goodwill amortisation and exceptional charge (credit)	2.5	(11.3)	5.1	163	(730)	322
Basic earnings per share/profit for the financial year before goodwill amortisation and exceptional items	34.2	35.0	31.7	2,218	2,253	2,024

Earnings per share before goodwill amortisation and exceptional items are provided to help readers evaluate the performance of the group.

13. Reconciliation of operating profit to operating cash flows

	2000 £m	1999 £m	1998 £m
Group operating profit	3,598	3,816	3,657
Depreciation	2,752	2,581	2,395
Goodwill amortisation	89	–	–
Decrease (increase) in stocks	(48)	(8)	36
Increase in debtors	(1,175)	(410)	(29)
Increase in creditors	982	388	44
Decrease in provisions	(295)	(259)	(47)
Other	(54)	(73)	15
Net cash inflow from operating activities	5,849	6,035	6,071

14. Management of liquid resources

	2000 £m	1999 £m	1998 £m
Purchase of short-term investments and payments into short-term deposits over 3 months	(3,178)	(2,973)	(1,103)
Sale of short-term investments and withdrawals from short-term deposits over 3 months	3,850	1,735	1,334
Net movement of short-term investments and short-term deposits under 3 months not repayable on demand	564	(1,209)	2,016
Net cash inflow (outflow) from management of liquid resources	1,236	(2,447)	2,247

Movements in all short-term investments and deposits not repayable on demand are reported under the heading of management of liquid resources.

Notes to the financial statements

15. Net debt

	At 1 April 1999 £m	Cash flow £m	Acquisition or disposal of subsidiary undertakings £m	Other non-cash changes £m	Currency movement £m	At 31 March 2000 £m
Analysis of net debt						
Cash in hand and at bank	102	151	–	–	–	**253**
Overnight deposits	26	15	–	–	–	**41**
Bank overdrafts	(26)	(112)	–	–	–	**(138)**
	102	54	–	–	–	**156**
Other current assets investments	3,252	(1,236)	–	(5)	(1)	**2,010**
Short-term investments and cash, less bank overdrafts	3,354	(1,182)	–	(5)	(1)	**2,166**
Debt due within one year, excluding bank overdrafts	(921)	(3,968)	(348)	(199)	(76)	**(5,512)**
Debt due after one year	(3,386)	(1,432)	(623)	134	(47)	**(5,354)**
Total debt, excluding bank overdrafts	(4,307)	(5,400)	(971)	(65)	(123)	**(10,866)**
Net debt	(953)	(6,582)	(971)	(70)	(124)	**(8,700)**

	2000 £m	1999 £m	1998 £m
Reconciliation of net cash flow to movement in net debt			
Increase (decrease) in cash in the year	**54**	67	(11)
Cash (inflow) outflow from (increase) decrease in debt	**(5,400)**	632	(1,602)
Cash (inflow) outflow from (decrease) increase in liquid resources	**(1,236)**	2,447	(2,247)
Decrease (increase) in net debt resulting from cash flows	**(6,582)**	3,146	(3,860)
Currency and translation movements	**(124)**	(2)	79
Debt assumed on acquisitions	**(971)**	(94)	–
Other non-cash movements	**(70)**	(26)	(20)
Decrease (increase) in net debt in the year	**(7,747)**	3,024	(3,801)
Net debt at 1 April	**(953)**	(3,977)	(176)
Net debt at 31 March	**(8,700)**	(953)	(3,977)

16. Intangible assets

	Gross book value £m	Amortisation £m	Net book value £m
Goodwill			
At 1 April 1999	742	–	742
Additions	5,699	–	5,699
Disposals and transfers	(571)	–	(571)
Currency movements	(6)	–	(6)
Charge for the year	–	(89)	(89)
At 31 March 2000	**5,864**	**(89)**	**5,775**
Other intangibles – acquisitions of subsidiary undertakings	3	(1)	2
Total	**5,867**	**(90)**	**5,777**

16. Intangible assets (continued)

During the year ended 31 March 2000, the acquisition of the interests in subsidiary companies and the consideration given comprised:

	Cellnet Group*(a)* £m	Esat*(b)* £m	Yellow Book USA*(c)* £m	Syntegra (USA)*(d)* £m	Other £m	Total £m
Minority interest	176	(2)	–	1	40	**215**
Fixed assets		428	6	12	157	**603**
Current assets		137	49	48	68	**302**
Current liabilities		(137)	(21)	(88)	(108)	**(354)**
Long-term liabilities		(487)	–	–	(62)	**(549)**
Provisions for liabilities and charges		–	–	–	(2)	**(2)**
Group share of original book value of net assets (liabilities)	176	(61)	34	(27)	93	**215**
Fair value adjustment to achieve consistency of accounting policies	–	(115)	–	–	–	**(115)**
Other fair value adjustments	–	(69)	–	–	–	**(69)**
Fair value to the group	176	(245)	34	(27)	93	**31**
Goodwill	2,997	1,765	381	240	316	**5,699**
Total cost	3,173	1,520	415	213	409	**5,730**
Consideration:						
Cash	3,014	179	401	213	327	**4,134**
Deferred	–	1,167	–	–	45	**1,212**
Loan notes 2000/2009	159	–	–	–	–	**159**
Other loan notes	–	174	14	–	14	**202**
Carrying value of associate wholly acquired	–	–	–	–	23	**23**
Total	3,173	1,520	415	213	409	**5,730**

(a) On 10 November 1999, BT acquired the 40% interest in Cellnet Group Limited, its mobile cellular phone operator, that it did not already own for £3,150 million, excluding £23 million expenses.

The consolidated results of Cellnet Group Limited for the years ended 31 March 1999 and 2000 are summarised as follows:

	2000 £m	1999 £m
Group turnover	**2,435**	1,410
Total operating profit	**97**	165
Exceptional items included in total operating profit:		
Impairment of analogue equipment and network closure costs (note 4)	**(47)**	–
Profit before taxation	**49**	117
Taxation	**(23)**	(39)
Minority interests	**(2)**	–
Profit for the financial year	**24**	78

(b) At the end of March 2000, BT acquired control of Esat Telecom Group plc (Esat), a leading telecommunications operator in Ireland. An interest comprising 70% of the company was acquired under a public offer, the consideration for which passed in April 2000. In January 2000, BT acquired 13% of the company from its then chairman and chief executive for US$287 million (£174 million) and a further 12% interest from a major shareholder for US$271 million (£179 million). Of the total consideration, £179 million was settled in cash in January 2000, £1,029 million in cash in April 2000 and £187 million was satisfied by loan notes repayable at the option of the holder not later than 30 April 2005. The balance of the consideration covers the remaining interest being compulsorily acquired and compensation to employee share option holders.

16. Intangible assets (continued)

Esat holds a 49.5% interest in Esat Digifone. In January 2000, BT acquired a further 1% interest in this company for £15 million. At 31 March 2000, Telenor owned the remaining 49.5% interest. In the table above, the assets acquired and the liabilities assumed comprise those of both Esat and Esat Digifone. Since BT acquired control just before the financial year end, only a preliminary assessment of the fair values of Esat's assets and liabilities, which are based on 31 December 1999 balance sheets, has been undertaken. The fair value adjustment relates to an uplift of £69 million to the carrying value of Esat's debt to its market value on 30 March 2000.

Under an agreement with Telenor, Telenor has the right to exchange its 49.5% interest in Esat Digifone for a 33% interest in Esat and a right to purchase from BT such additional shares as would result in Telenor having an almost 50% interest in Esat at a total price of US$624 million plus interest. If Telenor does not exercise this right, Telenor has agreed to sell its interest in Esat Digifone to the group for US$1,238 million.

Esat incurred a loss after tax of IR£120 million (£95 million) for the year ended 31 December 1999.

(c) On 31 August 1999, BT acquired Yellow Book USA, an independent classified directory publisher in the USA, for £415 million. Yellow Book's loss after tax for the year ended 31 October 1998 was £5 million.

(d) On 31 August 1999, BT acquired Control Data Systems (renamed Syntegra (USA)), an international systems integration company based in the USA, for £213 million. Control Data Systems' loss after tax for the year ended 31 December 1998 was £37 million.

(e) During the year ended 31 March 1999, the acquisition of the interests in Concert Communications on 15 September 1998, Martin Dawes Telecommunications (MDT) on 8 March 1999 and other subsidiary companies and the consideration given comprised:

	Concert £m	MDT £m	Other £m	Total £m
Minority interest	39	–	14	**53**
Fixed assets		34	1	**35**
Current assets		101	1	**102**
Current liabilities		(152)	(3)	**(155)**
Long-term liabilities		(3)	–	**(3)**
Group share of original book value of net assets (liabilities)	39	(20)	13	**32**
Fair value adjustment to achieve consistency of accounting policies	–	(9)	–	**(9)**
Fair value to the group	39	(29)	13	**23**
Goodwill	568	160	14	**742**
Total cost	**607**	**131**	**27**	**765**
Consideration:				
Cash	607	41	19	**667**
Deferred	–	–	8	**8**
Loan notes 1999/2006	–	90	–	**90**
Total	**607**	**131**	**27**	**765**

MDT's profit after tax for the year to 31 December 1998 was £2 million.

In September 1998, the group acquired MCI's 24.9% interest in Concert Communications Company (Concert Communications) for £607 million. Goodwill of £568 million arose on this transaction (note 18(c)). This goodwill was transferred into the Concert global venture with AT&T Corp on 5 January 2000.

17. Tangible fixed assets

	Land and buildings*(a)* £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Group				
Cost				
Balances at 1 April 1999	2,999	29,973	1,121	34,093
Acquisitions of subsidiary undertakings	29	480	26	535
Additions	37	786	2,844	3,667
Transfers	190	2,306	(2,496)	–
Disposal of subsidiary undertakings and transfers to joint ventures	(19)	(1,295)	(125)	(1,439)
Other disposals and adjustments	(101)	(955)	(137)	(1,193)
Total cost at 31 March 2000	**3,135**	**31,295**	**1,233**	**35,663**
Depreciation				
Balances at 1 April 1999	1,375	14,917	–	16,292
Acquisitions of subsidiary undertakings	2	100	–	102
Charge for the year *(i)*	115	2,637	–	2,752
Disposal of subsidiary undertakings and transfers to joint ventures	–	(570)	–	(570)
Other disposals and adjustments	(68)	(942)	–	(1,010)
Total depreciation at 31 March 2000	**1,424**	**16,142**	**–**	**17,566**
Net book value at 31 March 2000	**1,711**	**15,153**	**1,233**	**18,097**
Engineering stores	–	–	66	66
Total tangible fixed assets at 31 March 2000	**1,711**	**15,153**	**1,299**	**18,163**
Net book value at 31 March 1999	1,624	15,056	1,121	17,801
Engineering stores	–	–	53	53
Total tangible fixed assets at 31 March 1999	1,624	15,056	1,174	17,854

(i) Includes impairment charge of £37 million (note 4).

Notes to the financial statements

17. Tangible fixed assets (continued)

	Land and buildings(a) £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Company				
Cost				
Balances at 1 April 1999	971	27,090	974	29,035
Additions	8	421	2,388	2,817
Transfers	110	1,923	(2,033)	–
Transfers to subsidiary companies and joint ventures	(3)	(744)	(125)	(872)
Disposals and adjustments	7	(791)	(177)	(961)
Total cost at 31 March 2000	**1,093**	**27,899**	**1,027**	**30,019**
Depreciation				
Balances at 1 April 1999	402	13,663	–	14,065
Charge for the year	39	2,241	–	2,280
Transfers to subsidiary companies and joint ventures	–	(452)	–	(452)
Disposals and adjustments	10	(794)	–	(784)
Total depreciation at 31 March 2000	**451**	**14,658**	**–**	**15,109**
Net book value at 31 March 2000	**642**	**13,241**	**1,027**	**14,910**
Engineering stores	–	–	66	66
Total tangible fixed assets at 31 March 2000	**642**	**13,241**	**1,093**	**14,976**
Net book value at 31 March 1999	569	13,427	974	14,970
Engineering stores	–	–	52	52
Total tangible fixed assets at 31 March 1999	569	13,427	1,026	15,022

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
(a) The net book value of land and buildings comprised:				
Freehold	**1,327**	1,317	**365**	331
Long leases (over 50 years unexpired)	**182**	126	**120**	106
Short leases	**202**	181	**157**	132
Total net book value of land and buildings	**1,711**	1,624	**642**	569

	Group	
	2000 £m	1999 £m
(b) Expenditure on tangible fixed assets comprised:		
Plant and equipment		
Transmission equipment	**1,563**	1,416
Exchange equipment	**413**	411
Other network equipment	**703**	558
Computers and office equipment	**502**	464
Motor vehicles and other	**257**	230
Land and buildings	**229**	205
Increase (decrease) in engineering stores	**13**	(15)
Total expenditure on tangible fixed assets	**3,680**	3,269

18. Fixed asset investments

	Interests in associates and joint ventures					
	Shares £m	Loans £m	Share of post acquisition profits (losses) £m	Other participating interests £m	Other investments £m	Total £m
Group						
Cost						
Balances at 1 April 1999	2,938	247	(662)	163	215	2,901
Additions	3,331	866	–	53	361	4,611
Disposals	–	–	–	–	(7)	(7)
Share of losses less retained profits for the year	–	–	(422)	–	–	(422)
Repayments and other transfers	(80)	(12)	15	(94)	57	(114)
Currency movements	58	(28)	20	–	(7)	43
Balances at 31 March 2000	**6,247**	**1,073**	**(1,049)**	**122**	**619**	**7,012**
Provisions and amounts written off						
Balances at 1 April 1999	(1,023)	–	–	–	(46)	(1,069)
Goodwill amortisation for the year	(84)	–	–	–	–	(84)
Disposals	–	–	–	–	2	2
Transfers	61	–	–	–	–	61
Increase in the year	–	–	–	–	(44)	(44)
Balances at 31 March 2000	**(1,046)**	**–**	**–**	**–**	**(88)**	**(1,134)**
Net book value at 31 March 2000	**5,201**	**1,073**	**(1,049)**	**122**	**531**	**5,878**
Net book value at 31 March 1999	1,915	247	(662)	163	169	1,832

	Subsidiary undertakings					
	Shares £m	Loans £m	Associates and joint ventures £m	Other participating interests £m	Other investments £m	Total £m
Company						
Cost						
Balances at 1 April 1999	12,386	10	58	163	211	12,828
Additions	10,459	–	688	53	131	11,331
Disposals	(2,548)	–	–	–	(2)	(2,550)
Repayments and other transfers	(1,039)	–	–	(94)	57	(1,076)
Currency movements	–	(1)	(5)	–	–	(6)
Balances at 31 March 2000	**19,258**	**9**	**741**	**122**	**397**	**20,527**
Provisions and amounts written off						
Balances at 1 April 1999	(263)	–	(15)	–	(179)	(457)
Increase in the year	(1)	–	–	–	(42)	(43)
Disposals and transfers	11	–	–	–	–	11
Balances at 31 March 2000	**(253)**	**–**	**(15)**	**–**	**(221)**	**(489)**
Net book value at 31 March 2000	**19,005**	**9**	**726**	**122**	**176**	**20,038**
Net book value at 31 March 1999	12,123	10	43	163	32	12,371

18. Fixed asset investments (continued)

***(a)* Subsidiary undertakings, associates and joint ventures**

Details of the principal operating subsidiary undertakings, joint ventures and associates are set out on pages 109 and 110.

***(b)* Associates and joint ventures**

	2000 £m	1999 £m
Associates:		
Goodwill	1,578	227
Share of other net assets	1,061	191
Total – associates	2,639	418
Joint ventures:		
Goodwill	728	409
Loans	1,073	247
Share of other net assets	785	426
Total – joint ventures	2,586	1,082
Net book value at 31 March	5,225	1,500

The group's proportionate share of its associates and joint ventures' assets and liabilities, in aggregate, at 31 March were as follows:

	2000 £m	1999 £m
Fixed assets	4,446	1,723
Current assets	1,833	806
Current liabilities	(1,656)	(1,100)
Net current assets (liabilities)	177	(294)
Non-current liabilities	(1,161)	(478)
Minority interests	(45)	(37)
Share of net assets	3,417	914

The group's proportionate share of its associates and joint ventures' losses less profits before taxation totalled £476 million (1999 – £367 million, 1998 – £252 million) and its share of their losses less profits attributable to shareholders totalled £521 million for the year ended 31 March 2000 (1999 – £379 million, 1998 – £249 million).

***(c)* Concert**

On 5 January 2000, the company and AT&T formed their global venture named Concert for the two companies' trans-border communications activities. The venture is jointly owned and controlled. The group contributed the majority of its cross-border international networks, its international traffic, its business with selected multinational customers and its international products for business customers, as well as Concert Communications. AT&T contributed a similar set of assets and businesses.

18. Fixed asset investments (continued)

The book value of the assets contributed by the group to the joint venture comprised:

	£m
Intangible assets	568
Tangible fixed assets	870
Total fixed assets	1,438
Current assets	123
Current liabilities	(183)
Net current assets (liabilities)	(60)
Provisions for liabilities and charges	(13)
Long-term debt owed to the BT group	(1,169)
Net assets contributed	196

The acquisition of the group's 50% interest in Concert comprised:

	£m
Group's share of Concert's opening net assets (US GAAP)	631
Group's share of US to UK GAAP adjustments	(180)
Group's share of Concert's opening net assets (UK GAAP)	451
Net assets contributed by the group to the joint venture	(196)
Transition costs	(96)
Unrealised gain on the contribution	159

The gain on the transfer of the assets is unrealised since the group continues to maintain a 50% interest in the assets contributed. This gain has been taken to a non-distributable reserve and is shown in the statement of total recognised gains and losses. There is no tax charge on the gain.

In the period 5 January to 31 March 2000, the group's turnover with Concert amounted to £181 million and in the same period it purchased £170 million in services and products from Concert. In addition, the group provided certain support services to Concert, including the secondment of staff, which totalled £79 million and is shown as other operating income. Interest for the period of £12 million was receivable on long-term debt due from Concert. The amount of debt outstanding at 31 March 2000 was £665 million. During the period from 1 April 1999 to 5 January 2000, Concert Communications' net outflow from operations was £18 million and its purchase of tangible fixed assets was £106 million.

***(d)* Japan Telecom**

On 31 August 1999, the group completed its acquisition of a 30% interest, jointly with AT&T Corp, in Japan Telecom, a leading Japanese telecommunications company. Japan Telecom is held through a BT subsidiary company, 66.7% BT owned and 33.3% AT&T owned. The group has a 20% economic interest. AT&T's economic interest is shown within the group's minority interests.

The acquisition of the 30% interest in Japan Telecom comprised:

	£m
Group share of original book value of net assets	871
Fair value adjustment to achieve consistency of accounting policies	(49)
Fair value to the group	822
Goodwill	432
Total cost	**1,254**

On 31 March 2000, the 30% interest in Japan Telecom had a market value equivalent to £3,398 million, compared with a carrying value of £1,345 million.

18. Fixed asset investments (continued)

(e) AT&T Canada, Rogers Cantel Mobile Communications, SmarTone Mobile Communications and other investments

On 16 August 1999, the group acquired a 30% interest in an AT&T subsidiary undertaking which holds a 31% interest in AT&T Canada Corporation, a fixed network telecommunications company operating in Canada. The resulting economic interest of 9.3% cost £360 million. The market value of this interest at 31 March 2000 was £477 million.

On 16 August 1999, the group acquired jointly with AT&T an approximate 33% interest in Rogers Cantel Mobile Communications Inc, a cellular mobile phone company operating in Canada. The resulting economic interest of approximately 17% cost £299 million. The market value of this interest at 31 March 2000 was £520 million.

On 10 May 1999, the group acquired a 20% interest in SmarTone Mobile Communications Limited, a cellular mobile phone company operating in Hong Kong. The market value of this interest at 31 March 2000 was £277 million.

The acquisition of the interest in AT&T Canada, Rogers Cantel Mobile Communications, SmarTone Mobile Communications and other investments comprised:

	AT&T Canada £m	Rogers Cantel Mobile Communi-cations £m	Smartone Mobile Communi-cations £m	Other £m
Group share of original book value of net assets	101	11	96	34
Fair value adjustment to achieve consistency in accounting policies	–	–	–	–
Fair value to the group	101	11	96	34
Goodwill	259	288	145	51
Total cost	**360**	**299**	**241**	**85**

(f) Maxis Communications and LG Telecom

On 9 October 1998, the group completed its acquisition of a 33.3% interest in Maxis Communications, a leading Malaysian telecommunications company. On 14 October 1998, the group completed its acquisition of a 23.5% interest in LG Telecom, a major Korean mobile telecommunications company.

The acquisition of the interests in Maxis Communications and LG Telecom comprised:

	Maxis Communications £m	LG Telecom £m
Group shares of original book value of net assets	60	98
Fair value adjustment to achieve consistency of accounting policies	(9)	(58)
Fair value to the group	51	40
Goodwill	228	194
Total cost	**279**	**234**

(g) Airtel Movil

Following the clearance in 1998 by the European Commission of the alliance between the company, AirTouch and other investors in Airtel Movil SA, a leading Spanish mobile telecommunications company, the group's 15.8% investment in Airtel was reclassified as a joint venture on 1 April 1998. Airtel is jointly controlled by the company as a consequence of the alliance agreement. During the year ended 31 March 1999, the group acquired an additional 2% interest in Airtel for £55 million.

In summary, the acquisition of the cumulative 17.8% interest in Airtel comprised:

	£m
Group share of original book value of net assets	62
Fair value adjustment to achieve consistency of accounting policies	(19)
Fair value to the group	43
Goodwill	158
Total cost	**201**

(h) Cegetel

On 24 September 1997, the group completed its acquisition of a 26% interest in Cegetel, a leading French telecommunications company. Of the cost of the investment in the associated undertaking of £1,029 million, goodwill arising of £862 million was written off against reserves.

The acquisition of the interest in Cegetel comprised:

	£m
Group share of original book value of net assets	483
Fair value adjustment to achieve consistency of accounting policies	(316)
Fair value to the group	167
Goodwill	862
Total cost	**1,029**

(i) MCI Communications Corporation

In September 1994, the company completed the acquisition of a 20% equity interest in MCI (a major carrier of long-distance telecommunications services in the United States) represented by a holding of 136 million unlisted Class A common shares, whereupon MCI became the group's most significant associate. On 3 November 1996, the company entered into a merger agreement with MCI whereby the group would acquire the entire share capital of MCI, not already owned. On 21 August 1997, the terms of the merger agreement were modified. On 1 October 1997, WorldCom announced its intention to offer shares in its company to MCI shareholders as an alternative to the proposed merger and, following an improved offer from WorldCom on 9 November 1997, the company agreed with WorldCom and MCI that it would support the proposed merger of MCI with WorldCom. On 15 September 1998, MCI and WorldCom merged to form MCI WorldCom.

On completion of the merger, the company sold the group's holding of 136 million unlisted Class A common shares in MCI to WorldCom for US$51 per share in cash. The consideration of US$6,936 million was equivalent to £4,133 million at the exchange rate ruling on 15 September 1998. The group also held 0.7 million listed common shares in MCI, most of which were purchased in November 1995. These shares were exchanged for MCI WorldCom common shares on completion of the merger and subsequently sold in the market for £26 million.

As a consequence of the termination of the company's merger agreement with MCI and the company's agreement with WorldCom and MCI, the group ceased treating MCI as an associate on 31 October 1997. The group's share of its associates' results for the year ended 31 March 1998 included a loss before tax of £27 million for its share of MCI's results up to that date.

18. Fixed asset investments (continued)

At 31 March 1998, the group's investment in MCI was stated at £813 million. Goodwill, amounting to £2,214 million written off to group reserves in prior years in respect of this investment, was accounted for at the completion of the MCI/WorldCom merger in determining the profit on the sale of the shares which the group recognised (note 6).

In the period 1 April 1997 to 31 October 1997, the group's turnover with MCI amounted to £108 million and in the same period the group purchased £56 million in services and products from MCI.

***(j)* Other investments**

Other investments include ordinary shares of the company, with a net book value of £117 million (1999 – £18 million) and a market value of £227 million (1999 – £70 million), held in trust for the BT Executive Share Plan, the BT Performance Share Plan and the BT Deferred Bonus Plan (note 30). Also, in the group balance sheet at 31 March 2000, listed investments were held with a book value of £297 million (1999 – £132 million) and a market value of £775 million (1999 – £206 million).

***(k)* BT Telecomunicaciones**

In February 1997, the group entered into an agreement to purchase from Banco Santander SA its 50% holding in the share capital of BT Telecomunicaciones SA, a joint venture between a wholly-owned subsidiary of the company and Banco Santander SA, for the equivalent of £76 million. The transaction was completed in July 1997.

***(l)* Other related party transactions with associates and joint ventures**

In the year ended 31 March 2000, the group's turnover with its other associates and joint ventures amounted to £64 million (1999 – £129 million, 1998 – £74 million) and the group purchased £nil million (1999 – £1 million, 1998 – £9 million) in services and products from these undertakings. The amount of debt outstanding with these joint ventures, at 31 March 2000, was £408 million (1999 – £247 million).

19. Debtors

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Trade debtors *(a)*	2,487	2,190	2,056	1,959
Amounts owed by subsidiary undertakings	–	–	368	2,294
Amounts owed by joint ventures (trading)	602	114	322	114
Amounts owed by associates (trading)	6	16	–	8
Other debtors	596	282	589	278
Accrued income	1,298	1,209	1,208	1,171
Prepayments	252	184	135	152
Total debtors	5,241	3,995	4,678	5,976

(a) The group's trade debtors are stated after deducting £421 million (1999 – £262 million) for doubtful debts. The amount charged to the group profit and loss account for doubtful debts for the year ended 31 March 2000 was £264 million (1999 – £231 million, 1998 – £218 million).

20. Current asset investments

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Listed investments	419	359	5	5
Other short-term deposits and investments	1,632	2,919	1,743	1,892
Total current asset investments	2,051	3,278	1,748	1,897
Market value of listed investments	420	361	5	5

21. Loans and other borrowings

	Average effective interest rates*(a)* %	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
US dollar 8.75% guaranteed bonds 1999	8.8	–	124	–	–
Zero coupon bonds 2000 (less unamortised discount (1999 – £19 million))	5.0	–	181	–	181
US dollar 6.75% notes 2002 (less unamortised discount £5 million (1999 – £7 million))	6.9	**936**	922	**936**	922
12.25% bonds 2003	12.3	**180**	180	**180**	180
7.125% bonds 2003 (less unamortised discount £2 million (1999 – £3 million))	7.3	**498**	497	**498**	497
US dollar 6.75% bonds 2004	6.2	**627**	–	**627**	–
12.25% bonds 2006	12.3	**229**	229	**229**	229
US dollar 7% notes 2007 (less unamortised discount £3 million (1999 – £3 million))	6.9	**624**	617	**624**	617
US dollar 12.5% senior deferred coupon notes 2007 (less unamortised discount £13 million)	*(b)*	**116**	–	–	–
US dollar 11.875% senior notes 2008 (including unamortised premium £17 million)	*(b)*	**112**	–	–	–
Euro 11.875% senior notes 2009 (including unamortised premium £28 million)	*(b)*	**133**	–	–	–
US dollar 8.765% bonds 2009	8.6	**125**	–	–	–
8.625% bonds 2020 (less unamortised discount £4 million (1999 – £4 million))	8.8	**296**	296	**296**	296
5.75% bonds 2028 (less unamortised discount £5 million)	5.8	**595**	–	**595**	–
Total listed bonds, debentures and notes		**4,471**	3,046	**3,985**	2,922
Lease finance		**9**	15	**1**	2
Bank loans due 1999-2009	9.2	**827**	789	–	–
Euro floating rate note 2000–2005	3.3	**172**	–	–	–
Floating rate note 2000-2009	5.3	**159**	–	**159**	–
Other loans	6.4	**245**	111	**112**	1
Bank overdrafts and other short-term borrowings	6.1	**237**	27	**1,078**	794
Commercial paper	5.8	**4,884**	345	**4,884**	345
Loans from subsidiary undertakings		–	–	**7,168**	7,475
Total loans and other borrowings		**11,004**	4,333	**17,387**	11,539

Apart from the lease finance all borrowings at 31 March 2000 are unsecured. Lease finance is repayable by instalments.

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Repayments fall due as follows:				
Within one year, or on demand	**5,650**	947	**12,551**	7,250
Between one and two years	**12**	13	–	934
Between two and three years	**1,225**	3	**1,190**	–
Between three and four years	**589**	1,190	**558**	1,177
Between four and five years	**895**	559	**867**	557
After five years	**2,633**	1,621	**2,221**	1,621
Total due for repayment after more than one year	**5,354**	3,386	**4,836**	4,289
Total loans and other borrowings	**11,004**	4,333	**17,387**	11,539

Notes to the financial statements

21. Loans and other borrowings (continued)

***(a)* Average effective interest rates**

The average interest rates on page 83 take into account the effect of interest rate swaps. The interest basis of interest rate swap agreements used, the notional amounts, their average maturities and weighted average interest rates are shown below:

	Average maturity	Notional amount £m	Average interest receivable rate £m	Average interest payable rate £m
Pay fixed interest and receive variable interest	Over 5 years	943	5.3	8.2
Pay variable interest and receive fixed interest	Under 5 years	150	9.2	6.0

The rates of the variable rate portion of the swaps are based on quoted rates. In calculating the average variable rates, the latest rates agreed with the counterparty on each swap have been used. Changes in interest rates will affect the variable rate information disclosed above.

(b) Debt assumed on acquiring control of Esat on 30 March 2000. No interest relating to these loans is included in the group's interest payable for the year ended 31 March 2000.

(c) Unused committed lines of credit for short-term financing available at 31 March 2000 totalled approximately £5,800 million (1999 – £150 million), which was in support of a commercial paper programme or other borrowings. These lines of credit are available for up to one year.

22. Other creditors

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Trade creditors	**2,416**	2,344	**1,801**	1,739
Amounts owed to subsidiary undertakings	**–**	–	**762**	1,261
Amounts owed to joint ventures (trading)	**747**	2	**504**	–
Corporation taxes	**757**	1,230	**499**	867
Other taxation and social security	**377**	314	**349**	323
Other creditors *(a)*	**2,556**	1,133	**823**	926
Accrued expenses	**558**	445	**490**	351
Deferred income	**963**	815	**853**	742
Dividends	**861**	799	**861**	799
Total other creditors	**9,235**	7,082	**6,942**	7,008

(a) Group includes Esat purchase consideration of £1,167 million at 31 March 2000.

23. Provisions for liabilities and charges

	Deferred taxation*(a)* £m	Pension provisions £m	Other provisions*(b)* £m	Total £m
Group				
Balances at 1 April 1999	350	953	88	1,391
Charged (credited) against profit for the year	13	167	(11)	169
Acquisitions and disposals	(9)	–	–	(9)
Utilised in the year	–	(491)	(4)	(495)
Total provisions at 31 March 2000	**354**	**629**	**73**	**1,056**
Company				
Balances at 1 April 1999	134	953	29	1,116
Charged (credited) against profit for the year	18	152	(1)	169
Utilised in the year	–	(476)	(7)	(483)
Total provisions at 31 March 2000	**152**	**629**	**21**	**802**

23. Provisions for liabilities and charges (continued)

(a) Deferred taxation

The elements of deferred taxation provided in the accounts at 31 March were as follows:

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Tax effect of timing differences due to:				
Excess capital allowances	**613**	696	**434**	538
Pension provisions	**(189)**	(287)	**(189)**	(287)
Other	**(70)**	(59)	**(93)**	(117)
Total provision for deferred taxation	**354**	350	**152**	134

The total potential liability to deferred taxation at 31 March was as follows:

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Tax effect of timing differences due to:				
Excess capital allowances	**2,568**	2,591	**2,389**	2,433
Pension provisions	**(189)**	(287)	**(189)**	(287)
Other	**(70)**	(59)	**(93)**	(117)
Total potential liability for deferred taxation	**2,309**	2,245	**2,107**	2,029

(b) Other provisions comprise amounts provided for legal or constructive obligations arising from insurance claims and litigation.

24. Called up share capital

The authorised share capital of the company throughout the year ended 31 March 2000 was £2,625,000,001 divided into 10,500,000,004 ordinary shares of 25p each.

The allotted, called up and fully paid share capital of the company was £1,627 million at 31 March 2000 (1999 – £1,617 million), representing 6,507,104,882 ordinary shares (1999 – 6,469,435,043 ordinary shares).

Of the authorised but unissued share capital at 31 March 2000, 232 million ordinary shares were reserved to meet options granted under the employee share option schemes described in note 30.

Ordinary shares allotted during the year were as follows:

	Number	Nominal value £	Consideration*(a)* £
Savings related schemes	35,762,240	8,940,560	118,460,889
Other share option schemes	1,138,560	284,640	4,315,608
Stock purchase plan	769,039	192,260	4,469,197
Totals for the year ended 31 March 2000	**37,669,839**	**9,417,460**	**127,245,694**

(a) Consideration excludes contributions from group undertakings as described in *note 25(d)*

Notes to the financial statements

25. Reconciliation of movement in shareholders' funds

	Share capital £m	Share premium account*(a)* £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Group						
Balances at 31 March 1997	1,589	675	750	27	8,075	11,116
Goodwill, arising on acquisition of subsidiaries, associates and joint ventures *(b)*	–	–	–	–	(937)	(937)
Goodwill, previously written off to reserves, taken back to the profit and loss account	–	–	–	–	5	5
Employee share option schemes – 52 million shares issued *(note 30)*	13	217	–	–	–	230
Movement relating to BT's employee share ownership trust *(d)*	–	–	–	–	(85)	(85)
Currency movements (including £31 million net gains in respect of foreign currency borrowings) *(c)*	–	–	–	–	(74)	(74)
Profit for the financial year	–	–	–	–	1,702	1,702
Dividends (19.0p net per ordinary share)	–	–	–	–	(1,216)	(1,216)
Scrip dividend – 4 million shares issued	1	–	(1)	–	18	18
Other movements	–	–	–	–	26	26
Balances at 31 March 1998	1,603	892	749	27	7,514	10,785
Goodwill, previously written off to reserves, taken back to the profit and loss account *(note 6)*	–	–	–	–	2,214	2,214
Employee share option schemes – 50 million shares issued *(d)* *(note 30)*	12	314	–	–	–	326
Movement relating to BT's employee share ownership trust *(d)*	–	–	–	–	(165)	(165)
Currency movements (including £22 million net losses in respect of foreign currency borrowings) *(c)*	–	–	–	–	45	45
Profit for the financial year	–	–	–	–	2,983	2,983
Dividends (20.4p net per ordinary share)	–	–	–	–	(1,322)	(1,322)
Scrip dividend – 8 million shares issued	2	–	(2)	–	74	74
Balances at 31 March 1999	1,617	1,206	747	27	11,343	14,940
Goodwill, previously written off to reserves, taken back to the profit and loss account	–	–	–	–	6	6
Employee share option schemes – 38 million shares issued *(d)* *(note 30)*	10	374	–	–	–	384
Movement relating to BT's employee share ownership trust *(d)*	–	–	–	–	(257)	(257)
Currency movements (including £10 million net losses in respect of foreign currency borrowings) *(c)*	–	–	–	–	(66)	(66)
Profit for the financial year	–	–	–	–	2,055	2,055
Dividends (21.9p per ordinary share)	–	–	–	–	(1,426)	(1,426)
Unrealised gain on transfer of assets and group undertakings to a joint venture	–	–	–	159	–	159
Balances at 31 March 2000	**1,627**	**1,580**	**747**	**186**	**11,655**	**15,795**

25. Reconciliation of movement in shareholders' funds (continued)

	Share capital £m	Share premium account*(a)* £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
Company					
Balances at 31 March 1997	1,589	675	750	9,004	12,018
Employee share option schemes – 52 million shares issued *(note 30)*	13	217	–	–	230
Movement relating to BT's employee share ownership trust *(d)*	–	–	–	(85)	(85)
Profit for the financial year *(e)*	–	–	–	2,146	2,146
Dividends (19.0p net per ordinary share)	–	–	–	(1,216)	(1,216)
Scrip dividend – 4 million shares issued	1	–	(1)	18	18
Currency movements (including £31 million net gain in respect of foreign currency borrowings)	–	–	–	(66)	(66)
Balances at 31 March 1998	1,603	892	749	9,801	13,045
Employee share option schemes – 50 million shares issued *(note 30)*	12	314	–	–	326
Movement relating to BT's employee share ownership trust *(d)*	–	–	–	(165)	(165)
Profit for the financial year *(e)*	–	–	–	3,785	3,785
Dividends (20.4p net per ordinary share)	–	–	–	(1,322)	(1,322)
Scrip dividend – 8 million shares issued	2	–	(2)	74	74
Currency movements	–	–	–	1	1
Balances at 31 March 1999	1,617	1,206	747	12,174	15,744
Employee share option schemes – 38 million shares issued (note 30)	10	374	–	–	384
Movement relating to BT's employee share ownership trust	–	–	–	(252)	(252)
Profit for the financial year *(e)*	–	–	–	2,064	2,064
Dividends (21.9p per ordinary share)	–	–	–	(1,426)	(1,426)
Currency movements	–	–	–	(8)	(8)
Balances at 31 March 2000	**1,627**	**1,580**	747	**12,552**	**16,506**

(a) The share premium account, representing the premium on allotment of shares, the capital redemption reserve and £159 million of the other reserves are not available for distribution.

(b) Aggregate goodwill at 31 March 2000 in respect of acquisitions completed prior to 1 April 1998 of £1,383 million (1999 – £1,389 million, 1998 – £3,603 million) has been written off against retained earnings in accordance with the group's accounting policy. The goodwill written off in the year ended 31 March 1998 mainly arose in connection with the acquisition of the interest in Cegetel. The goodwill written off against retained earnings will be charged in the profit and loss account on the subsequent disposal of the business to which it related.

(c) The cumulative foreign currency translation adjustment, which decreased retained earnings at 31 March 2000, was £151 million (1999 – £85 million decrease, 1998 – £130 million decrease).

(d) During the year ended 31 March 2000 the company issued shares at a market value of £375 million (1999 – £311 million) in respect of the exercise of options awarded under its principal savings-relating share option scheme. Employees paid £118 million (1999 – £146 million) to the group for the issue of these shares and the balance of £257 million (1999 – £165 million) comprised contributions to the qualifying employee share ownership trust from group undertakings.

(e) The profit for the financial year, dealt with in the profit and loss account of the company and after taking into account dividends from subsidiary undertakings, was £2,064 million (1999 – £3,785 million, 1998 – £2,146 million). As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the company is presented.

Notes to the financial statements

26. Financial commitments, contingent liabilities and subsequent events

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Contracts placed for capital expenditure not provided in the accounts	**1,000**	1,109	**940**	1,008
Operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:				
Within one year	**9**	3	**1**	1
Between one and five years	**37**	29	**26**	19
After five years	**140**	116	**85**	93
Total payable within one year	**186**	148	**112**	113

Future minimum operating lease payments for the group at 31 March 2000 were as follows:

	2000 £m
Payable in the year ending 31 March:	
2001	**186**
2002	**173**
2003	**166**
2004	**160**
2005	**152**
Thereafter	**997**
Total future minimum operating lease payments	**1,834**

Operating lease commitments were mainly in respect of leases of land and buildings.

At 31 March 2000, there were no contingent liabilities or guarantees other than those arising in the ordinary course of the group's business and on these no material losses are anticipated. The group has insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of its operations. Otherwise, the group generally carries its own risks.

The company has guaranteed certain borrowings of subsidiary undertakings amounting to £926 million (1999 – £979 million).

Satellite consortia, in which the company has participating interests, are organisations without limited liability. At 31 March 2000, the company's share of the aggregate borrowings of these consortia amounted to £130 million (1999 – £144 million).

The company does not believe there are any pending legal proceedings which would have a material adverse effect on the financial position or results of operations of the group.

On 27 April 2000, BT acquired a third generation mobile licence for the UK in HM Government's auction, for £4.03 billion. BT paid the fee in full on 16 May 2000 by drawing on its commercial paper programmes.

27. Pension costs

The total pension cost of the group expensed within staff costs was £167 million (1999 – £176 million, 1998 – £177 million), of which £159 million (1999 – £167 million, 1998 – £169 million) related to the group's main pension scheme, the BT Pension Scheme (BTPS).

The pension costs for the years ended 31 March 2000, 1999 and 1998 were based on the valuation of the BTPS at 31 December 1996. The valuation, carried out by professionally qualified independent actuaries, used the projected unit method. The valuation was determined using the following long-term assumptions:

	Rates (per annum) %
Return on existing assets, relative to market values	8.0
Return on future investments	8.4
Average increase in retail price index	4.0
Average future increases in wages and salaries	5.8
Average increase in pensions	3.75-4.0

At 31 December 1996, the assets of the BTPS had a market value of £19,879 million and were sufficient to cover 100.3% of the benefits that had accrued to members by that date, after allowing for expected future increases in wages and salaries but not taking into account the costs of providing incremental pension benefits for employees taking early retirement under release schemes since that date. This cost, which amounted to £140 million in the year ended 31 March 2000 (1999 – £279 million, 1998 – £224 million), is being taken into account in the actuarial valuation at 31 December 1999.

In the year ended 31 March 2000, the group made regular contributions of £253 million (1999 – £239 million, 1998 – £238 million) and a special contribution of £230 million (1999 – £200 million).

Certain activities of the BTPS are carried out at the company's pension centre, all costs of which are borne by the company. These costs have not been apportioned for accounting purposes between those attributable to the BTPS and those attributable to the company because functions maintained for both entities cannot be meaningfully divided between them. The company occupies eight properties owned by the scheme on which an annual rental of £3 million is payable.

The BTPS assets are invested in UK and overseas equities, UK and overseas properties, fixed interest and index linked securities, deposits and short-term investments. At 31 March 2000, the UK equities included 51 million (1999 – 46 million) ordinary shares of the company with a market value of £597 million (1999 – £463 million).

Following a High Court judgement made in October 1999, the BTPS is liable to pay additional benefits to certain former employees of the group who left on voluntary redundancy terms. These were former employees, in managerial grades, who had joined the group's business prior to 1 December 1971. The value of the additional benefits at 31 March 2000 is estimated at £300 million.

A further valuation of the BTPS is being carried out at 31 December 1999 for the purpose of determining the group's future pension expenses. For the December 1999 valuation, the major assumptions are that, over the long term, the return on the existing assets of the scheme, relative to market values, would be 5.6% per annum (allowing for real equity dividend growth of 1.25% per annum) and on future investments the return would be 7.1% per annum, the retail price index would increase at an average of 3.0%, and wages and salary rates would increase at an average of 4.8%. The preliminary results of the valuation show that the assets of the scheme, were sufficient to cover 99.3% of the benefits that had accrued to members by that date, including those accruing to members following the High Court judgement noted above.

Notes to the financial statements

28. Directors

Directors' emoluments

The emoluments of the directors for the year ended 31 March 2000 and the benefits received under the long-term incentive plans were, in summary, as follows:

	2000 £000	1999 £000	1998 £000
Salaries	**1,878**	1,695	1,578
Performance-related bonus	**1,295**	1,515	882
Deferred bonus in shares	**573**	1,513	222
Other benefits	**148**	123	114
	3,894	4,846	2,796
Payments to non-executive directors *(a)*	**302**	283	259
Total emoluments	**4,196**	5,129	3,055
Gain on the exercise of share options *(b)*	**–**	932	857
Value of shares vested under the Executive Share Plan and the Performance Share Plan *(c)*	**1,845**	–	–

(a) Payments to non-executive directors include fees paid to their principal employer of £nil (1999 – £9,500, 1998 – £38,000).

(b) The amount for the year ended 31 March 1999 included £41,000 attributable to a former director.

(c) The amount for the year ended 31 March 2000 includes £834,000 attributable to a former director.

More detailed information concerning directors' remuneration, shareholdings, pension entitlements, share options and other long-term incentive plans is shown in the report on directors' remuneration on pages 48 to 56.

29. People employed

	2000		1999		1998	
	Year end '000	Average '000	Year end '000	Average '000	Year end '000	Average '000
Number of employees in the group:						
UK	**126.0**	**123.8**	118.9	119.8	120.2	124.9
Non-UK	**10.8**	**8.3**	5.8	5.1	4.5	4.3
Total employees	**136.8**	**132.1**	124.7	124.9	124.7	129.2

30. Employee share schemes

The company has a share ownership scheme used for employee share allocations (profit sharing), savings-related share option schemes for its employees and those of participating subsidiaries, further share option schemes for selected group employees and an employee stock purchase plan for employees in the United States. It also has an executive share plan, a performance share plan and deferred bonus plan for executives.

Share option schemes

The major share option scheme, the BT Employee Sharesave Scheme, is savings related and the share options are normally exercisable on completion of a three or five-year Save As You Earn contract. A similar savings related scheme exists for group employees based outside the UK. Under the other share option schemes, share options are normally exercisable between the third and tenth anniversaries of the date of grant. Options outstanding under these share option schemes at 31 March 1999 and 2000, together with their exercise prices and dates, were as follows:

		Number of ordinary shares	
Normal dates of exercise	Option price per share	**2000 millions**	1999 millions
Savings-related schemes:			
1999	341p	**–**	25
1999	300p	**–**	7
2000	404p	**4**	5
2000	306p	**37**	43
2001	267p	**62**	64
2001	583p	**4**	4
2002	359p	**48**	50
2002	949p	**4**	–
2003	518p	**38**	39
2004	844p	**29**	–
Total		**226**	237
Other share option schemes:			
1993-2010	289p to 1206p	**6**	6
Total options outstanding		**232**	243

In the period 1 April 2000 to 24 May 2000, no share options were granted, and options over one million shares were exercised or lapsed.

During the year ended 31 March 2000, BT granted options over 34 million shares (1999 – 46 million, 1998 – 60 million) substantially all under the employee sharesave schemes. The weighted average fair value of share options granted during the year ended 31 March 2000 has been estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used in that model: an expected life extending one month later than the first exercise date; estimated annualised dividend yield of approximately 2% (1999 – 3%, 1998 – 5%); risk free interest rates of 6% (1999 – 7%, 1998 – 7%) on options exercisable three years after the date of grant and 6% (1999 – 7%, 1998 – 8%) on options exercisable five years after the date of grant; and expected volatility of approximately 40% (1999 – 30%, 1998 – 18%).

The weighted average fair value of the share options granted in the year ended 31 March 2000 was 413p (1999 – 313p, 1998 – 80p) for options exercisable three years after the date of grant and 524p (1999 – 309p, 1998 – 120p) for options exercisable five years after the date of grant. The total value of share options granted by BT in the year ended 31 March 2000 was £170 million (1999 – £139 million, 1998 – £70 million). In accordance with UK accounting practices, no compensation expense is recognised for the fair value of options granted. See *United States Generally Accepted Accounting Principles – IV Accounting for share options* for the treatment under US GAAP.

30. Employee share schemes (continued)

Options granted, exercised and lapsed under these share option schemes during the years ended 31 March 1998, 1999 and 2000 and options exercisable at 31 March 1998, 1999 and 2000 were as follows:

	Savings related schemes millions	Other share option schemes millions	Total millions	Exercise price range	Weighted average exercise price
Outstanding, 31 March 1997	249	14	263	243p–460p	297p
Granted	60	–	60	359p–596p	363p
Exercised	(46)	(6)	(52)	243p–430p	275p
Lapsed	(10)	–	(10)	243p–430p	313p
Outstanding, 31 March 1998	253	8	261	262p–596p	316p
Granted	45	1	46	518p–1053p	536p
Exercised	(46)	(3)	(49)	262p–583p	321p
Lapsed	(15)	–	(15)	265p–773p	328p
Outstanding, 31 March 1999	237	6	243	267p–1053p	356p
Granted	33	1	34	844p–1206p	862p
Exercised	(36)	(1)	(37)	267p–949p	333p
Lapsed	(8)	–	(8)	267p–1043p	366p
Outstanding, 31 March 2000	**226**	**6**	**232**	**267p–1206p**	**432p**
Exercisable, 31 March 1998	–	7	7	262p–460p	362p
Exercisable, 31 March 1999	–	4	4	289p–460p	369p
Exercisable, 31 March 2000	–	3	3	289p–460p	368p

BT Executive Share Plan, BT Performance Share Plan and BT Deferred Bonus Plan

The BT Executive Share Plan (ESP) and the BT Performance Share Plan (PSP) were introduced for employees of the group in 1994 and 1995, respectively. Under the plans, company shares are acquired by an employee share ownership trust and are conditionally awarded to participants. Participants are only entitled to these shares in full at the end of a five-year period under the ESP and the end of a three-year period, which may be extended to four or five years, under the PSP if, at the end of the applicable period, the company has met the relevant pre-determined corporate performance measure and, normally, if the participants are still employed by the group. Awards of shares were granted in each of the years from 1994 to 1999 under the ESP and from 1995 to 1997 under the first performance cycle of the PSP. Further awards of shares were granted in 1998 and 1999 under the second three-year performance cycle of the PSP. The corporate performance measure assesses the company's overall performance against those top 100 companies listed on the London Stock Exchange, as rated by the Financial Times (the FT-SE 100 index), at the beginning of the relevant performance period.

The first five-year performance cycle of the ESP ended on 31 July 1999 and on the basis of the corporate measure, the company's Total Shareholder Return target relative to the other companies in the FT-SE 100, 100% of the shares vested on 2 August 1999 in 25 participants and 0.6 million shares were transferred to those participants.

The first three-year performance cycle of the PSP ended on 31 July 1998 and on the basis of the corporate measure, the company's Total Shareholder Return target relative to the other companies in the FT-SE 100, 90% of the shares vested on 19 August 1998 in 745 participants and 5.0 million shares were transferred to those participants.

The BT Deferred Bonus Plan (DBP) was established in 1998 and awards were granted to employees of the group in July 1998 and 1999. Under this plan, shares in the company are acquired by an employee share ownership trust and transferred to participants at the end of three years if he or she has continued to be employed by the group throughout that period.

30. Employee share schemes (continued)

At 31 March 2000, 19.3 million shares in the company were held in trust for employee share schemes, of which 5.9 million shares (1999 – 5.6 million) were held for the ESP, 2.2 million shares (1999 – 0.9 million) were held for the PSP and 0.9 million shares (1999 – 0.4 million) were held for the DBP. Dividends earned on the shares during the conditional periods are reinvested in company shares for the potential benefit of the participants. Additional information relating to the plans is as follows:

	ESP		PSP		DBP		Total	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Value of range of possible future transfers: nil to	**66.9**	56.1	**25.3**	9.2	**10.4**	3.8	**102.6**	69.1
Provision for the costs of the plans charged to the profit and loss account in year	**6.4**	6.6	**14.4**	16.0	**7.7**	5.4	**28.5**	28.0
Nominal value of shares held in trust	**1.5**	1.4	**0.6**	0.2	**0.2**	0.1	**2.3**	1.7
Market value of shares held in trust	**69.4**	56.9	**25.4**	9.5	**10.4**	3.8	**105.2**	70.2

In addition, 10.3 million shares are held in trust for future awards under employee share schemes. These shares had a nominal value of £2.6 million and a market value of £122 million at 31 March 2000.

The values of possible future transfers of shares under the plans were based on the company's share price at 31 March 2000 of 1,175p (1999 – 1,011p). The provisions for the costs of the ESP and PSP were based on best estimates of the company's performance over the plans' conditional periods, relating to those portions of the plan conditional periods from commencement up to the financial year end.

BT Employee Stock Purchase Plan

An employee stock purchase plan was established in 1998 for employees in the United States. Under this plan, employees may purchase American Depositary Shares (ADSs) on a monthly basis at a price equal to the lower of (i) 85% of the average trading price of the ADSs on the New York Stock Exchange on the date on which the purchase rights are granted and, (ii) 85% of the average trading price of the ADSs on the date of purchase. During the year ended 31 March 2000, the discounted price was between US$92.20 and US$170.21 (1999 – US$92.20) per ADS and 0.8 million shares (1999 – 0.4 million) were issued under this plan.

31. Auditors

The auditors' remuneration for the year ended 31 March 2000 for the group was £2,650,000 (1999 – £2,491,000, 1998 – £2,396,000), including £1,229,000 (1999 – £1,216,000, 1998 – £1,216,000) for the company.

The following fees were paid or are payable to the company's auditors, PricewaterhouseCoopers, in the UK for the years ended 31 March 2000 and 31 March 1999 (1998 – Coopers & Lybrand):

	2000 £000	1999 £000	1998 £000
Audit of the company's statutory accounts	**1,229**	1,216	1,216
Audits of the UK subsidiary undertakings' statutory accounts	**834**	605	510
Other services, including regulatory audits and tax compliance work *(a)*	**12,745**	8,855	4,724
Total	**14,808**	10,676	6,450

(a) Fees for the year ended 31 March 1999 comprise work carried out by Coopers & Lybrand and Price Waterhouse in the three months to 30 June 1998 and work carried out by PricewaterhouseCoopers on or subsequent to 1 July 1998, the date of the firms' merger. Includes fees for regulatory, taxation and global venture-related work of £7,541,000 (1999 – £4,483,000, 1998 – £2,488,000). Fees for other services in the year ended 31 March 1998 comprise fees solely to Coopers & Lybrand.

Notes to the financial statements

31. Auditors (continued)

In addition, fees of £6,382,000 were paid or are payable to PricewaterhouseCoopers for the year ended 31 March 2000 in respect of audit and other services to the company's subsidiary undertakings outside the UK and in respect of other services to the group. Fees of £6,418,000 were paid to other international members of Coopers & Lybrand, Price Waterhouse or PricewaterhouseCoopers for the year ended 31 March 1999 in respect of audit and other services to the company's subsidiary undertakings outside the UK and in respect of other services to the group. Fees of £1,283,000 and £865,000 were paid for work carried out by Price Waterhouse inside and outside the UK, respectively, between 1 April and 1 July 1998.

32. Financial instruments and risk management

The group holds or issues financial instruments mainly to finance its operations; for the temporary investment of short-term funds; and to manage the currency and interest rate risks arising from its operations and from its sources of finance. In addition, various financial instruments – for example trade debtors and trade creditors – arise directly from the group's operations.

The group finances its operations primarily by a mixture of issued share capital, retained profits, long-term loans and, increasingly over the year ended 31 March 2000, short-term loans, principally by issuing commercial paper. The group borrows in the major debt long-term markets in major currencies. Typically, but not exclusively, the bond markets provide the most cost-effective means of long-term borrowing. The group uses derivative financial instruments primarily to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, gilt locks, currency swaps and forward currency contracts.

The types of financial instrument used for investment of short-term funds are prescribed in group treasury policies with limits on the exposure to any one organisation. Short-term investing in financial instruments is undertaken on behalf of the group by external substantial fund managers who are limited to dealing in debt instruments and certain defined derivative instruments and are given strict guidelines on credit, diversification and maturity profiles.

During the year ended 31 March 2000, net debt increased from £953 million to £8,700 million primarily as a result of the group making acquisitions of businesses and interests in joint ventures and associates. This increase in debt has been primarily funded under the group's commercial paper programmes. As a result, BT's borrowing profile has changed during the year from one at fixed rates to one mainly at floating rates. It is BT's intention to re-finance a significant part of its existing commercial paper programme borrowings with medium or longer-term debt when market conditions allow.

The group uses financial instruments to hedge some of its currency exposures arising from its non-UK assets, liabilities and forward purchase commitments. The group also hedges some of its interest liabilities. The financial instruments used comprise borrowings in foreign currencies, forward foreign currency exchange contracts, gilt locks and interest and currency swaps.

There has been a change in the nature of the group's risk profile between 31 March 2000 and the date of these financial statements with a further increase in short-term borrowings. This has been due to the funding of approximately £6 billion, in total, in respect of the UK third generation mobile licence payment on 16 May 2000, the completion of the Esat acquisition in April 2000 and other non-UK investments. This funding has been financed within the group's commercial paper programme.

The notional amounts of derivatives summarised below do not necessarily represent amounts exchanged by the parties and, thus, are not necessarily a measure of the exposure of the group through its use of derivatives. The amounts exchanged are calculated on the notional amounts and other terms of the derivatives which relate to interest and exchange rates.

(a) Interest rate risk management

The group has entered into interest rate swap agreements with commercial banks and other institutions to vary the amounts and periods for which interest rates on borrowings are fixed. By swapping fixed rates on long-term borrowings into floating rates, the group has obtained lower effective floating-rate borrowings than those available if borrowing directly at a floating rate. Under interest rate swaps, the group agrees with other parties to exchange, at specified intervals, the differences between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal

32. Financial instruments and risk management (continued)

amount. Under gilt locks, forward sales of UK government long-dated treasury stock are entered into for periods of up to one year. This hedge effectively fixes in the interest on part of the group's future borrowings.

At 31 March 2000, the group had outstanding interest rate swap agreements and gilt locks having a total notional principal amount of £2,073 million (1999 – £1,371 million).

(b) Foreign exchange risk management

Cross currency swaps and forward foreign exchange contracts have been entered into to reduce the foreign currency exposure on the group's operations and the group's net assets. The group also enters into forward foreign exchange contracts to hedge investments, interest expense and purchase and sale commitments denominated in foreign currencies (principally US dollars, the euro and the yen). The remaining terms of the currency swaps are up to 14 years and the terms of currency forward exchange contracts are typically less than one year. The purpose of the group's foreign currency hedging activities is to protect the group from the risk that the eventual net inflows and net outflows will be adversely affected by changes in exchange rates.

At 31 March 2000, the group had outstanding foreign currency swap agreements and forward exchange contracts having a total notional principal amount of £11,948 million (1999 – £5,152 million).

The fair values of forward foreign currency contracts at 31 March 2000 were £7,088 million (1999 – £3,100 million) for purchases of currency and £1,852 million (1999 – £1,626 million) for sales of currency. These fair values have been estimated by calculating their present values using the market discount rates, appropriate to the terms of the contracts, in effect at the balance sheet dates.

At 31 March 2000, the group had deferred unrealised gains of £18 million (1999 – £24 million) and losses of £43 million (1999 – £29 million), based on dealer-quoted prices, from hedging purchase and sale commitments. At 31 March 2000, the group also had deferred realised net gains of £11 million (1999 – £1 million). These are included in the profit and loss account as part of the hedged purchase or sale transaction when it is recognised, or as gains or losses when a hedged transaction is no longer expected to occur.

(c) Concentrations of credit risk and credit exposures of financial instruments

The group considers that it is not exposed to major concentrations of credit risk. The group, however, is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not expect any counterparties to fail to meet their obligations. Based on interest and exchange rates in effect at 31 March 2000, the group had a maximum credit exposure of £35 million (1999 – £127 million) to one counterparty under foreign currency and interest rate swap agreements. The group limits the amount of credit exposure to any one counterparty. The group does not normally see the need to seek collateral or other security.

(d) Fair value of financial instruments

The following table shows the carrying amounts and fair values of the group's financial instruments at 31 March 2000 and 1999. The carrying amounts are included in the group balance sheet under the indicated headings, with the exception of derivative amounts related to borrowings, which are included in debtors or other creditors as appropriate. The fair values of the financial instruments are the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in forced or liquidation sale.

32. Financial instruments and risk management (continued)

	Carrying amount		Fair value	
	2000 £m	1999 £m	2000 £m	1999 £m
Non-derivatives:				
Assets				
Cash at bank and in hand	**253**	102	**253**	102
Short-term investments *(a)*	**2,051**	3,278	**2,052**	3,286
Fixed asset investments – loans to joint ventures *(b)*	**1,073**	247	**1,073**	247
Liabilities				
Short-term borrowings *(c)*	**5,121**	372	**5,121**	372
Long-term borrowings, excluding finance leases *(d)*	**5,874**	3,946	**6,085**	4,479
Derivatives relating to investments and borrowings (net) *(e)*:				
Assets	**44**	100	**–**	–
Liabilities	**–**	–	**100**	142

(a) The fair value of listed short-term investments were estimated based on quoted market prices for those investments. The carrying amount of the other short-term deposits and investments approximated to their fair values due to the short maturity of the instruments held.

(b) The fair value of loans to joint ventures approximated to carrying value due to loans bearing commercial rates of interest.

(c) The fair value of short-term borrowings approximated to carrying value due to the short maturity of the instruments.

(d) The fair value of the group's bonds, debentures, notes and other long-term borrowings has been estimated on the basis of quoted market prices for the same or similar issues with the same maturities where they existed, and on calculations of the present value of future cash flows using the appropriate discount rates in effect at the balance sheet dates, where market prices of similar issues did not exist.

(e) The fair value of the group's outstanding foreign currency and interest rate swap agreements was estimated by calculating the present value, using appropriate discount rates in effect at the balance sheet dates, of affected future cash flows translated, where appropriate, into pounds sterling at the market rates in effect at the balance sheet dates.

The following information is provided in accordance with the requirements of FRS 13 – "Derivatives and other financial instruments: disclosures". Except for disclosures under *currency exposures* below, the financial information excludes all of the group's short-term debtors and creditors.

Financial liabilities

After taking into account the various interest rate swaps and forward foreign currency contracts entered into by the group, the interest rate profile of the group's financial liabilities at 31 March was:

	2000				1999*(a)*			
	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total £m	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total £m
Currency:								
Sterling	**2,429**	**6,686**	**376**	**9,491**	2,395	1,592	302	4,289
US dollar	**353**	**83**	**7**	**443**	1,662	(1,654)	–	8
Euro	**424**	**389**	**30**	**843**	303	2	24	329
Yen	**508**	**–**	**1**	**509**	–	–	–	–
Other	**–**	**111**	**4**	**115**	–	9	–	9
Total	**3,714**	**7,269**	**418**	**11,401**	4,360	(51)	326	4,635

(a) Comparative figures have been restated.

32. Financial instruments and risk management (continued)

For the fixed rate financial liabilities, the average interest rates and the average periods for which the rates are fixed are:

	2000		1999	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency:				
Sterling	**9.1**	**15**	9.5	9
US dollar	**8.7**	**8**	7.2	5
Euro	**5.8**	**8**	5.6	8
Yen	**1.2**	**4**	–	–
Total	**7.6**	**12**	8.4	7

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one day to one year by reference to LIBOR. The financial liabilities on which no interest is paid are due to mature within one year of the balance sheet date.

The maturity profile of financial liabilities is as given in note 21.

Financial assets

After taking into account the various interest rate swaps and forward foreign currency contracts entered into by the group, the interest rate profile of the group's financial assets at 31 March was:

	2000				1999*(a)*			
	Fixed rate financial assets £m	Floating rate financial assets £m	Financial assets on which no interest is paid £m	Total £m	Fixed rate financial assets £m	Floating rate financial assets £m	Financial assets on which no interest is paid £m	Total £m
Currency:								
Sterling	**395**	**2,869**	**265**	**3,529**	273	2,898	237	3,408
US dollar	**–**	**31**	**–**	**31**	–	369	–	369
Euro	**–**	**53**	**–**	**53**	–	57	–	57
Other	**–**	**29**	**–**	**29**	–	30	–	30
Total	**395**	**2,982**	**265**	**3,642**	273	3,354	237	3,864

(a) Comparative figures have been restated.

The sterling fixed rate financial assets yield interest at a weighted average of 6.6% (1999 – 5.5%) for a weighted average period of 18 months (1999 – 15 months).

The floating rate financial assets bear interest at rates fixed in advance for periods up to one year by reference to LIBOR.

Notes to the financial statements

32. Financial instruments and risk management (continued)

Currency exposures

The table below shows the currency exposures of the group's net monetary assets (liabilities), in terms of those transactional exposures that give rise to net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the operating (or "functional") currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in non-UK operations. At 31 March, these exposures were as follows:

					2000					1999
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
Functional currency of group operation:										
Sterling	–	13	117	29	159	–	517	38	25	580
Euro	6	(1)	–	–	5	(6)	–	–	(18)	(24)
Other	(10)	–	–	–	(10)	(16)	5	–	–	(11)
Total	(4)	12	117	29	154	(22)	522	38	7	545

The amounts shown in the table above take into account the effect of any currency swaps, forward contracts and other derivatives entered into to manage those currency exposures.

At 31 March 2000, the group also held various forward currency contracts that the group had taken out to hedge expected future foreign currency purchases and sales.

Fair values of financial assets held for trading

	2000 £m	1999 £m
Net gain included in profit and loss account	51	104
Fair value of financial assets held for trading at 31 March	980	1,944

The net gain was derived from government bonds, commercial paper and similar debt instruments. The average fair value of financial assets held during the year ended 31 March 2000 did not differ materially from the year end position.

Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised and deferred gains and losses on instruments used for hedging and those recognised in the years ended 31 March 2000 and 31 March 1999 are as follows:

		2000		1999*(b)*
	Gains £m	Losses £m	Gains £m	Losses £m
Gains and losses:				
recognised in the year but arising in previous years *(a)*	51	23	28	26
unrecognised at the balance sheet date	23	193	38	279
carried forward in the year end balance sheet, pending recognition in the profit and loss account *(a)*	99	15	40	6
expected to be recognised in the following year *(a)*	35	31	27	26

(a) Excluding gains and losses on hedges accounted for by adjusting the carrying amount of a fixed asset.
(b) Comparative figures have been restated.

33. Segmental analysis

The following information is provided as required by the US accounting standard, SFAS No. 131, on disclosures about segments of an enterprise. The information presented is required to be based on the segmental operating results regularly reviewed by the group's chief operating decision maker (the CEO).

The group is a unitary business providing an integrated range of services and has been managed on this basis. For the purposes of exercising day-to-day managerial and budgetary control, the business is divided internally into divisions but these divisions are not self-standing businesses. Control is exercised by comparing performance against budgets agreed in advance. The CEO reviews the turnover and operating results for each main division. The group's capital expenditure programmes are largely centrally driven and are not necessarily linked to individual divisions. For this reason it is group policy not to allocate certain assets to individual divisions, although depreciation charges are allocated.

Since September 1997, the group has been organised into two main divisions BT UK and BT Worldwide (formerly named BT Global and previously Global Communications) in order to reflect the group's two distinctive geographical operating regions and customer groups. Substantially all of the group's operations are within the UK and, of those, the majority are currently managed by BT UK. During the year ended 31 March 2000 and progressively from 1 October 1998, BT UK was sub-divided into ten separate business units, the principal five of which were Markets, Enterprises, Networks and Systems, Mobility, and Products and Solutions. Markets was the division providing the customer facing links for the group's fixed network services and Enterprises managed the Yellow Pages classified directory business and the group's wholesale interconnect business with other operators. Networks and Systems provided the UK fixed network as a platform for these services. Mobility provided the group's UK mobile communication services, principally via BT Cellnet. Products and Solutions managed the group's outsourcing services.

Prior to 30 September 1998, the Consumer Division within BT UK provided fixed network telecommunication services for residential customers, principally the provision of exchange lines to customers' homes and calls to and from those homes. The Business Division provided fixed network services to businesses and organisations other than multinational companies, principally the provision of exchange lines, private services and calls to and from the places of business and customer premises equipment. The Networks and Systems Division built, maintained and operated the company's fixed telecommunications network in the UK. Mobile Communications provided the group's UK mobile communications services. Other units within BT UK provided the group's classified advertising directories and outsourcing services.

BT Worldwide provided telecommunication services to multinational companies, including those based in the UK, and international incoming, outgoing and transit telecommunication services. It was responsible for managing Concert Communications and the group's other non-UK operations, and investments in non-UK joint ventures and associates.

The following information for the years ended 31 March 1998 and 1999 is based on the divisional organisation of the group at 1 April 1998, described above. As already noted, the BT UK organisation was changed progressively from 1 October 1998 into a substantially different form. Financial information in its new form was made available to the senior management of the group with respect to accounting periods from 1 April 1999.

It has not been practicable to restate the segment information for the years ended 31 March 1999 and 1998 onto the segment basis presented for the year ended 31 March 2000.

In April 2000, the group announced a restructuring whereby the group and its ventures would be managed in four global businesses and two UK operating divisions, together with the Concert global venture. The four global businesses are: Ignite responsible for broadband and internet networks; BTopenworld covering the consumer market for internet products around the world; BT Wireless covering the group's global interests in mobile communications; and Yell, responsible for the classified directories and associated e-commerce businesses. The two UK operating divisions will be a wholesale division covering the UK fixed network and a retail division responsible for marketing UK fixed-network products.

33. Segmental analysis (continued)

Year ended 31 March 2000	Turnover External £m	Turnover Internal £m	Depreciation and amortisation £m	Operating profit (loss) of associates and joint ventures £m	Total operating profit (loss) £m
Markets	11,636	8	67	(9)	2,564
Enterprises	3,114	328	100	(4)	835
Networks & Systems	3	–	1,812	–	4
Mobility	2,170	391	305	8	117
Products and Solutions	197	368	76	(103)	240
Other	10	2	132	–	(175)
Eliminations	–	(1,004)	–	–	–
Total BT UK	**17,130**	**93**	**2,492**	**(108)**	**3,585**
BT Worldwide	1,540	129	176	(335)	(520)
Other	45	10	173	43	133
Eliminations	–	(232)	–	–	–
Group totals	**18,715**	**–**	**2,841**	**(400)**	**3,198**

Year ended 31 March 1999					
Business Division	5,624	294	106	–	1,535
Consumer Division	6,168	140	113	(7)	1,998
Networks & Systems	108	–	1,716	(3)	96
Mobile Communications	1,400	312	195	6	189
Other	1,282	1,877	126	(38)	(93)
Eliminations	–	(2,351)	–	–	–
Total BT UK	**14,582**	**272**	**2,256**	**(42)**	**3,725**
BT Worldwide	2,361	984	145	(292)	(327)
Other	10	847	180	(8)	76
Eliminations	–	(2,103)	–	–	–
Group totals	**16,953**	**–**	**2,581**	**(342)**	**3,474**

Year ended 31 March 1998					
Business Division	5,611	419	121	–	1,447
Consumer Division	5,885	101	127	–	1,438
Networks & Systems	148	–	1,720	(2)	61
Mobile Communications	764	408	149	(3)	186
Other	897	1,351	102	(2)	85
Eliminations	–	(878)	–	–	–
Total BT UK	**13,305**	**1,401**	**2,219**	**(7)**	**3,217**
BT Worldwide	2,262	150	70	(217)	(105)
Other	73	1,029	106	28	349
Eliminations	–	(2,580)	–	–	–
Group totals	**15,640**	**–**	**2,395**	**(196)**	**3,461**

Transactions between divisions are at prices set in accordance with those agreed with Oftel where the services provided are subject to regulation. Other transactions are at arms length. Internal supplies of services from Networks & Systems are accounted for by that division as negative costs.

33. Segmental analysis (continued)

Information about geographic areas:

	2000 £m	1999 £m	1998 £m
Turnover with external customers:			
Attributable to UK	**17,161**	15,612	14,384
Attributable to non-UK countries *(a)*	**1,554**	1,341	1,256
Group turnover	**18,715**	16,953	15,640

(a) Turnover attributable to non-UK countries comprises the external turnover of group companies and branches operating outside the UK, income from non-UK operators for calls terminating in or in transit through the UK and turnover with non-UK joint ventures and associates.

	2000 £m	1999 £m
Group fixed assets are located:		
UK	**20,940**	18,271
Europe, excluding the UK	**3,935**	1,304
Americas	**2,549**	218
Asia and Pacific	**2,394**	635
Total	**29,818**	20,428

Geographical segment analysis in accordance with the requirements of SSAP 25 is as follows:

	2000 £m	1999 £m	1998 £m
Total turnover on basis of origin			
UK	**17,975**	16,485	15,155
Europe, excluding the UK	**1,891**	1,231	519
Americas	**979**	237	208
Asia and Pacific	**1,058**	270	157
Total – ongoing	**21,903**	18,223	16,039
Americas – discontinued	**–**	–	1,372
Total	**21,903**	18,223	17,411

	2000 £m	1999 £m	1998 £m
Group turnover on basis of origin			
UK	**17,866**	16,364	15,088
Europe, excluding the UK	**285**	240	236
Americas	**383**	237	208
Asia and Pacific	**181**	112	108
Total	**18,715**	16,953	15,640

The analysis of turnover by geographical area is stated on the basis of origin. In an analysis of turnover by destination, incoming and transit international calls by country of origin and turnover with non-UK joint ventures and associates would be treated differently but would not lead to a materially different geographical analysis. See the "information about geographic areas" above.

33. Segmental analysis (continued)

	2000 £m	1999 £m	1998 £m
Group operating profit (loss)			
UK	**3,621**	3,858	3,684
Europe, excluding the UK	**(42)**	(31)	(14)
Americas	**34**	4	14
Asia and Pacific	**(15)**	(15)	(27)
Total	**3,598**	3,816	3,657

	2000 £m	1999 £m	1998 £m
Share of operating results of associates and joint ventures, including goodwill amortisation – profits (losses)			
UK	**(118)**	(13)	(5)
Europe, excluding the UK	**(312)**	(307)	(219)
Americas	**43**	–	–
Asia and Pacific	**(13)**	(22)	3
Total – ongoing	**(400)**	(342)	(221)
Americas – discontinued	**–**	–	25
Total	**(400)**	(342)	(196)

	2000			1999		
Year ended 31 March	**Net operating assets £m**	**Associates and joint ventures £m**	**Total £m**	Net operating assets (liabilities) £m	Associates and joint ventures £m	Total £m
UK	**16,428**	**17**	**16,445**	14,509	30	14,539
Europe, excluding the UK	**2,232**	**1,296**	**3,528**	(2)	905	903
Americas	**653**	**1,724**	**2,377**	129	–	129
Asia and Pacific	**156**	**2,188**	**2,344**	(9)	565	556
Total	**19,469**	**5,225**	**24,694**	14,627	1,500	16,127

Net operating assets comprise tangible and intangible fixed assets, stocks, debtors less creditors, excluding loans and other borrowings, and provisions for liabilities and charges, excluding deferred tax.

United States Generally Accepted Accounting Principles

The group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the UK (UK GAAP), which differ in certain respects from those applicable in the US (US GAAP).

I Differences between United Kingdom and United States generally accepted accounting principles
The following are the main differences between UK and US GAAP which are relevant to the group's financial statements.

(a) Pension costs
Under UK GAAP, pension costs are accounted for in accordance with UK Statement of Standard Accounting Practice No. 24, costs being charged against profits over employees' working lives. Under US GAAP, pension costs are determined in accordance with the requirements of US Statements of Financial Accounting Standards (SFAS) Nos. 87 and 88. Differences between the UK and US GAAP figures arise from the requirement to use different actuarial methods and assumptions and a different method of amortising surpluses or deficits.

(b) Accounting for redundancies
Under UK GAAP, the cost of providing incremental pension benefits in respect of workforce reductions is taken into account when determining current and future pension costs, unless the most recent actuarial valuation, combined with the provision for pension costs in the group balance sheet, under UK actuarial conventions shows a deficit. In this case, the cost of providing incremental pension benefits is included in redundancy charges in the year in which the employees agree to leave the group.

Under US GAAP, the associated costs of providing incremental pension benefits are charged against profits in the period in which the termination terms are agreed with the employees.

(c) Capitalisation of interest
Under UK GAAP, the group does not capitalise interest in its financial statements. To comply with US GAAP, the estimated amount of interest incurred whilst constructing major capital projects is included in fixed assets, and depreciated over the lives of the related assets. The amount of interest capitalised is determined by reference to the average interest rates on outstanding borrowings. At 31 March 2000 under US GAAP, gross capitalised interest of £349 million (1999 – £499 million) with regard to the company and its subsidiary companies was subject to depreciation generally over periods of 3 to 25 years.

(d) Goodwill
Under UK GAAP, in respect of acquisitions completed prior to 1 April 1998, the group wrote off goodwill arising from the purchase of subsidiary undertakings, associates and joint ventures on acquisition against retained earnings. The goodwill is reflected in the net income of the period of disposal, as part of the calculation of the gain or loss on divestment. Under US GAAP, such goodwill is held as an intangible asset in the balance sheet and amortised over its useful life and only the unamortised portion is included in the gain or loss recognised at the time of divestment. Gross goodwill under US GAAP at 31 March 2000 of £7,978 million (1999 – £1,957 million) was subject to amortisation over periods of 3 to 20 years. The value of goodwill is reviewed annually and the net asset value is written down if a permanent diminution in value has occurred. Under UK GAAP, goodwill arising on acquisitions completed on or after 1 April 1998 is generally accounted for in line with US GAAP.

(e) Mobile cellular telephone licences, software and other intangible assets
Certain intangible fixed assets recognised under US GAAP purchase accounting requirements are subsumed within goodwill under UK GAAP. Under US GAAP these separately identified intangible assets are valued and amortised over their useful lives.

(f) Financial instruments
Under UK GAAP, investments are held on the balance sheet at historical cost, and own shares held in trust for share schemes are recorded in fixed asset investments. Gains and losses on instruments used for hedges are not recognised until the exposure being hedged is recognised. Under US GAAP, trading securities and available-for-sale securities are carried at market value with appropriate valuation adjustments recorded in profit and loss and shareholders' equity, respectively. Certain derivative financial instruments which qualify as hedge accounting under UK GAAP do not qualify for hedge

accounting under US GAAP. These financial instruments, under US GAAP, are carried at market value with valuation adjustments recorded in profit and loss. Own shares held in trust are treated as a reduction to shareholders' equity until they are reissued to employees. The reassessment and purchase of derivatives in the year ended 31 March 2000 gave rise to an adjustment reducing net income by £95 million. The net unrealised holding gain on available-for-sale securities for the year ended 31 March 2000 was £311 million (1999 – £76 million, 1998 – £1,315 million relating primarily to the investment in MCI).

(g) Deferred gain

Under UK GAAP, assets contributed to a joint venture by the group's partners are measured at their net replacement cost. Any difference between the group's share of the joint venture's resulting net assets and the net book value of assets contributed by the group to the joint venture, including certain accrued start up costs, is immediately reflected by adjusting the group's investment in the joint venture and recording a deferred difference in shareholders' equity. Under US GAAP, the assets contributed by all joint venture partners are carried at their historical net book value and any difference between the group's share of the joint venture's resulting net assets and the net book value of assets contributed by the group to the joint venture is amortised over the life of the items giving rise to the difference.

(h) Deferred taxation

Under UK GAAP, provision for deferred taxation is generally only made for timing differences which are expected to reverse. Under US GAAP, deferred taxation is provided on a full liability basis on all temporary differences as defined in SFAS No. 109.

At 31 March 2000, the adjustment of £1,377 million (1999 – £1,424 million) reconciling ordinary shareholders' equity under UK GAAP to the approximate amount under US GAAP included the tax effect of other US GAAP adjustments. This comprised an adjustment increasing non-current assets by £25 million (1999 – £59 million increase); an adjustment increasing current assets by £63 million (1999 – £50 million increase); an adjustment decreasing minority interests by £35 million (1999 – £11 million decrease) and an adjustment increasing long-term liabilities by £1,500 million (1999 – £1,544 million increase).

(i) Dividends

Under UK GAAP, dividends are recorded in the year in respect of which they are declared (in the case of interim or any special dividends) or proposed by the board of directors to the shareholders (in the case of final dividends). Under US GAAP, dividends are recorded in the period in which dividends are declared.

II Net income and shareholders' equity reconciliation statements

The following statements summarise the material estimated adjustments, gross of their tax effect, which reconcile net income and shareholders' equity from that reported under UK GAAP to that which would have been reported had US GAAP been applied.

Net income

Years ended 31 March	2000 £m	1999 £m	1998 £m
Net income applicable to shareholders under UK GAAP	**2,055**	2,983	1,702
Adjustment for:			
Pension costs	**(209)**	(104)	(66)
Redundancy charges	**(300)**	(284)	(253)
Capitalisation of interest, net of related depreciation *(a)*	**(14)**	(19)	(38)
Goodwill amortisation *(a)*	**(64)**	85	(71)
Mobile licences, software and other intangible asset capitalisation and amortisation, net *(a)*	**(33)**	(226)	42
Financial instruments	**(129)**	(6)	5
Deferred gain	**(19)**	–	–
Deferred taxation *(a)*	**106**	220	163
Other items *(a)*	**–**	(60)	(37)
Net income as adjusted for US GAAP	**1,393**	2,589	1,447
Basic earnings per American Depositary Share as adjusted for US GAAP *(b)*	**£2.15**	£4.02	£2.27
Diluted earnings per American Depositary Share as adjusted for US GAAP *(b)*	**£2.10**	£3.93	£2.23

(a) The disposal of the group's interest in MCI shares during the year ended 31 March 1999 gave rise to adjustments; increasing net income by £163 million relating to goodwill and £95 million relating to deferred taxation and decreasing net income by £197 million relating to software and other intangible assets, £60 million relating to foreign exchange translation differences and £5 million relating to the capitalisation of interest.

(b) Each American Depositary Share is equivalent to 10 ordinary shares of 25p each.

Shareholders' equity

At 31 March	2000 £m	1999 £m
Shareholders' equity under UK GAAP	**15,795**	14,940
Adjustment for:		
Pension costs	**(2,202)**	(1,730)
Redundancy costs	**(83)**	(46)
Capitalisation of interest, net of related depreciation	**261**	245
Goodwill, net of accumulated amortisation	**175**	293
Mobile licences, software and other intangible asset capitalisation and amortisation	**533**	628
Financial instruments	**(99)**	5
Deferred gain	**(230)**	–
Deferred taxation	**(1,377)**	(1,424)
Dividend declared after the financial year end	**861**	799
Other items	**–**	(36)
Shareholders' equity as adjusted for US GAAP	**13,634**	13,674

III Minority interests

Under US GAAP, the loss to minority interests would have been increased by £10 million (1999 – income reduced by £12 million, 1998 – income reduced by £5 million) after adjusting for goodwill amortisation and accounting for associates and joint ventures. Net assets attributable to minority interests would have been £82 million higher (1999 – £88 million higher) after adjusting for financial instruments.

United States Generally Accepted Accounting Principles

IV Accounting for share options

Under UK GAAP, the company does not recognise compensation expense for the fair value, at the date of grant, of share options granted under the employee share option schemes. Under US GAAP, the company adopted the disclosure-only option in SFAS No. 123 "Accounting for Stock-Based Compensation". Accordingly, the company accounts for share options in accordance with APB Opinion No. 25 "Accounting for Stock Issued to Employees", under which no compensation expense is recognised. Had the group expensed compensation cost for options granted in accordance with SFAS No. 123, the group's pro forma net income, basic earnings per share and diluted earnings per share under US GAAP would have been £1,347 million (1999 – £2,560 million, 1998 – £1,432 million), 20.8p (1999 – 39.7p, 1998 – 22.4p) and 20.3p (1999 – 38.8p, 1998 – 22.1p), respectively. The SFAS No. 123 method of accounting does not apply to share options granted before 1 January 1995, and accordingly, the resulting pro forma compensation costs may not be representative of that to be expected in future years. See note 30 for the SFAS No. 123 disclosures of the fair value of options granted under employee schemes at date of grant.

V Consolidated statements of cash flows

Under UK GAAP, the Consolidated Statements of Cash Flows are presented in accordance with UK Financial Reporting Standard No. 1 (FRS 1). The statements prepared under FRS 1 present substantially the same information as that required under SFAS No. 95.

Under SFAS No. 95 cash and cash equivalents include cash and short-term investments with original maturities of three months or less. Under FRS 1 cash comprises cash in hand and at bank and overnight deposits, net of bank overdrafts.

Under FRS 1, cash flows are presented for operating activities; returns on investments and servicing of finance; taxation; capital expenditure and financial investments; acquisitions and disposals; dividends paid to the company's shareholders; management of liquid resources and financing. SFAS No. 95 requires a classification of cash flows as resulting from operating, investing and financing activities.

Cash flows under FRS 1 in respect of interest received, interest paid (net of that capitalised under US GAAP) and taxation would be included within operating activities under SFAS No. 95. Cash flows from purchases, sales and maturities of trading securities, while not separately identified under UK GAAP, would be included within operating activities under US GAAP. Capitalised interest, while not recognised under UK GAAP, would be included in investing activities under US GAAP. Dividends paid would be included within financing activities under US GAAP.

The following statements summarise the statements of cash flows as if they had been presented in accordance with US GAAP, and include the adjustments which reconcile cash and cash equivalents under US GAAP to cash at bank and in hand reported under UK GAAP.

	2000 £m	1999 £m	1998 £m
Net cash provided by operating activities	**4,003**	3,876	3,847
Net cash used in investing activities	**(9,104)**	(950)	(4,198)
Net cash provided by (used in) financing activities	**4,697**	(1,665)	(1,647)
Net increase (decrease) in cash and cash equivalents	**(404)**	1,261	(1,998)
Effect of exchange rate changes on cash	**(1)**	33	21
Cash and cash equivalents under US GAAP at beginning of year	**1,660**	366	2,343
Cash and cash equivalents under US GAAP at end of year	**1,255**	1,660	366
Short-term investments with original maturities of less than 3 months	**(1,002)**	(1,558)	(304)
Cash at bank and in hand under UK GAAP at end of year	**253**	102	62

VI Current asset investments

Under US GAAP, investments in debt securities would be classified as either trading, available-for-sale or held-to-maturity. Trading investments would be stated at fair values and the unrealised gains and losses would be included in income. Securities classified as available-for-sale would be stated at fair values, with unrealised gains and losses, net of deferred taxes, reported in shareholders' equity. Debt securities classified as held-to-maturity would be stated at amortised cost. The following analyses do not include securities with original maturities of less than three months.

At 31 March 2000, the group held trading investments (as defined by US GAAP) at a carrying amount of £866 million (1999 – £1,678 million) with fair values totalling £873 million (1999 – £1,678 million). Held-to-maturity securities at 31 March 1999 and 2000 consisted of the following:

	Amortised cost £m	Estimated fair value £m
UK Government securities and other UK listed investments	15	15
Commercial paper, medium term notes and other investments	168	168
Total at 31 March 2000	**183**	**183**
UK Government securities and other UK listed investments	25	25
Commercial paper, medium term notes and other investments	18	18
Total at 31 March 1999	43	43

The contractual maturities of the held-to-maturity debt securities at 31 March 2000 were as follows:

	Cost £m	Fair value £m
Maturing on or before 31 March 2001	25	25
Maturing after 31 March 2001	158	158
Total at 31 March 2000	**183**	**183**

VII Pension costs

The following position for the main pension scheme is computed in accordance with US GAAP pension accounting rules under SFAS No. 87 and SFAS No. 88, the effect of which is shown in the above reconciliation statements.

The pension cost determined under SFAS No. 87 was calculated by reference to an expected long-term rate of return on scheme assets of 6.5% (1999 – 7.7%, 1998 – 8.2%). The components of the pension cost for the main pension scheme comprised:

	2000 £m	1999 £m	1998 £m
Service cost	**498**	387	327
Interest cost	**1,459**	1,653	1,554
Expected return on scheme assets	**(1,600)**	(1,712)	(1,595)
Amortisation of prior service costs	**24**	24	24
Amortisation of net obligation at date of limited application of SFAS No. 87	**52**	52	52
Recognised gains	**(65)**	(137)	(129)
Additional cost of termination benefits	**263**	279	224
Pension cost for the year under US GAAP	**631**	546	457

United States Generally Accepted Accounting Principles

VII Pension costs (continued)

The information required to be disclosed in accordance with SFAS No. 132 concerning the funded status of the main scheme at 31 March 1999 and 31 March 2000, based on the valuations at 1 January 1999 and 1 January 2000, respectively, is given below.

	2000 £m	1999 £m
Changes in benefit obligation		
Benefit obligation at the beginning of the year	27,158	23,513
Service cost	498	387
Interest cost	1,459	1,653
Employees' contributions	171	163
Additional cost of termination benefits	263	279
Actuarial movement *(a)*	2,992	2,361
Other changes	21	25
Benefits paid or payable	(1,538)	(1,223)
Benefit obligation at the end of the year	31,024	27,158

	2000 £m	1999 £m
Changes in scheme assets		
Fair value of scheme assets at the beginning of the year	25,120	22,666
Actual return on scheme assets	5,619	3,050
Employers' contributions *(b)*	483	439
Employees' contributions	171	163
Other changes	21	25
Benefits paid or payable	(1,538)	(1,223)
Fair value of scheme assets at the end of the year	29,876	25,120

	2000 £m	1999 £m
Funded status under US GAAP		
Projected benefit obligation in excess of scheme assets	(1,148)	(2,038)
Unrecognised net obligation at date of initial application of SFAS No. 87 *(c)*	158	210
Unrecognised prior service costs *(d)*	175	199
Other unrecognised net actuarial gains	(2,001)	(1,039)
Accrued pension costs under US GAAP	(2,816)	(2,668)

(a) In the year ended 31 March 2000, the actuarial movement is significant mainly due to revised mortality assumptions being employed in the year. The actuarial movement in the year ended 31 March 1999 is significant due to the decline in the discount rates used to calculate the benefit obligation as a result of the fall in long-term interest rates in 1998.

(b) The employers' contributions for the year ended 31 March 2000 include a special contribution of £230 million paid on 31 March 2000 (1999 – £200 million).

(c) The unrecognised net obligation at the date of initial application is being amortised over 15 years from 1 April 1988.

(d) Unrecognised prior service costs on scheme benefit improvements, are being amortised over periods of 15 or 16 years commencing in the years of the introduction of the improvements.

The benefit obligation for the main pension scheme was determined using the following assumptions at 1 January 1999 and 1 January 2000:

	2000 per annum %	1999 per annum %
Discount rate	5.5	5.5
Rate of future pay increases	4.8	4.8

The determination also took into account requirements in the scheme as to future pension increases.

Subsidiary undertakings, joint ventures and associates

Brief details of principal operating subsidiary undertakings, joint ventures and associates at 31 March 2000, all of which were unlisted unless otherwise stated, were as follows:

	Activity	Group interest in allotted capital*(a)*	Country of operations*(b)*
Subsidiary undertakings			
BT Australasia Pty Limited *(c)*	Communication related services and products provider	100% ordinary 100% preference	Australia
BT Cableships Limited *(c)*	Cableship owner	100% ordinary	International
BT Communications Management Limited *(c)*	Telecommunication services provider	100% ordinary	UK
BT (Hong Kong) Limited *(c)*	Communication related services and products provider	100% ordinary 100% preference	Hong Kong
BT North America Inc *(c)*	Communication related services and products provider	100% common	USA
BT Property Limited *(c)*	Property holding company	100% ordinary	UK
BT Subsea Cables Limited	Cable maintenance and repair	100% ordinary	UK
BT Telecomunicaciones SA *(c)*	Communication related services and products provider	100% ordinary	Spain
BT (Worldwide) Limited *(c)*	International telecommunication network systems provider	100% ordinary	International
Cellnet Group Limited	Holding company for the BT Cellnet group *(d)*	100% ordinary	UK
Clear Communications Limited *(c)*	Communication related services and products provider	100% ordinary	New Zealand
Syntegra (USA) Inc *(b)(c)(e)*	Systems integration and electronic business outsourcing services	100% common	International
Esat Telecom Group Plc *(c)(f)*	Telecommunication services provider	100% ordinary	Ireland
Farland BV *(b)(c)*	Provider of trans-border fibre network across BT's partners in Europe	100% ordinary	International
Manx Telecom Limited *(c)*	Telecommunication services supplier	100% ordinary	Isle of Man
Martin Dawes Telecommunications Limited *(c)(g)(h)*	Cellular telecommunication services provider	100% ordinary	UK
Syntegra Groep BV *(c)*	Systems integration and application development	100% common	Netherlands
Syntegra SA *(c)*	Systems integration and application development	100% ordinary	France
Telecom Securicor Cellular Radio Limited *(c)*	Mobile cellular telephone system provider and operator	100% ordinary	UK
Yellow Book USA Inc *(c)*	Classified directory publisher	100% common	USA
Yellow Pages Sales Limited *(c)*	Yellow Pages sales contractor	100% ordinary	UK

(a) The proportion of voting rights held corresponds to the aggregate interest percentage held by the holding company and subsidiary undertakings, unless otherwise stated.

(b) All overseas undertakings are incorporated in their country of operations. Subsidiary undertakings operating internationally are all incorporated in England and Wales, except Farland BV and Syntegra (USA) Inc, which are incorporated in the Netherlands and USA respectively.

(c) Held through intermediate holding company.

(d) Cellnet trades as BT Cellnet.

(e) Formerly Control Data Systems Inc.

(f) BT acquired control of Esat in March 2000 following a public offer. The interests of dissident shareholders are in the process of being compulsorily acquired. Esat has a 31 December accounting reference date.

(g) Held by Telecom Securicor Cellular Radio Limited.

(h) In May 2000, Martin Dawes Telecommunications Limited changed its name to Lumina Limited and trades as BT Cellnet Lumina.

Subsidiary undertakings, joint ventures and associates

b = billions m = millions	Activity	Share capital Issued*(a)*	Share capital Percentage owned	Country of operations*(b)*
Joint Ventures				
Airtel Movil SA *(c)*	Mobile cellular telephone system provider and operator	Ptas 78b	17.8%	Spain
Albacom SpA	Communication related services and products provider	ITL 543b	23%	Italy
Bharti Cellular Limited	Mobile cellular telephone system provider and operator	Rs1.05b	44%	India
British Interactive Broadcasting Holdings Limited	Digital tv interactive service provider	£0.1m	32.5%	UK
Concert BV	Global communication related services and products provider	NLG 50m	100%*(d)*	International
LG Telecom	Mobile cellular telephone system provider and operator	Won 953b	24.12%	Republic of Korea
Springboard Internet Services Limited	Internet service provider	£8.3m	50%	UK
Sunrise Communications AG	Communication related services and products provider	SFr 40m	34%	Switzerland
Telenordia AB	Communication related services and products provider	SKr106m	33.3%	Sweden
Telfort BV	Communication related services and products provider	NLG 0.5m	50%	Netherlands
VIAG INTERKOM GmbH & Co	Communication related services and products provider	Partnership	45%	Germany

(a) Issued share capital comprises ordinary or common shares, unless otherwise stated. All investments, except Sunrise Communications AG, are held through intermediate holding companies.

(b) All overseas companies are incorporated in their country of operations, with the exception of Concert BV which is incorporated in the Netherlands.

(c) Airtel Movil SA is being accounted for as a joint venture because of the relationship with other shareholders.

(d) 100% of ordinary 'B' shares held giving an effective economic interest of 50%.

b = billions m = millions	Activity	Share Capital Issued*(a)*	Share Capital Percentage owned	Country of operations*(b)*
Associates				
AT&T BT Canada Holdings Limited Partnership *(c)*	Partnership holding of a communications related services and products provider	Partnership	30% *(c)*	USA
Maxis Communications Berhad *(d)(e)*	Communications related services and products provider	Myr 158m	33.3%	Malaysia
Cegetel SA	Communications related services and products provider	FFr 9.55b	26%	France
Cellular Operations Limited	Cellular telecommunications services provider	£0.15m	40%	UK
Japan Telecom Company Limited	Communications related services and products provider	32b	30% *(f)*	Japan
Rogers Cantel Mobile Communications Inc	Mobile cellular telephone system provider and operator	–	16.8% *(g)*	Canada
SmarTone Telecommunications Holdings Limited	Mobile cellular telephone system provider and operator	HK$60m	20.05%	Hong Kong
The Link Stores Limited	Telecommunications equipment retailer	£80	40%	UK

(a) Issued share capital comprises ordinary or common shares, unless otherwise stated. All investments are held through intermediate holding companies.

(b) All overseas undertakings are incorporated in their country of operations.

(c) Holds an effective 31% economic interest in AT&T Canada Corporation.

(d) Certain exchange control constraints operate in Malaysia.

(e) Formerly Binariang Berhad.

(f) Held through a BT subsidiary company – 66.7% BT owned, 33.3% AT&T owned. Economic holding is 20%.

(g) Held through a 50% interest in an intermediary company, which holds 33.6% of Rogers Cantel Mobile Communications Inc.

Delivering

AT&T Annual Report 1999

Delivering We set the strategy. We backed it up with investments. And now we're delivering results. We're creating a new AT&T to bring a new generation of communications and information services to people's homes and businesses.

...the right stuff We're focusing on key areas like wireless and broadband, to give our customers what they need for any-distance communications. We're growing our business by delivering the right stuff – for right now and for the future.

...the right stuff

C. Michael Armstrong
Chairman and
Chief Executive Officer

Dear Shareowners: ***As we enter the new millennium, AT&T is successfully transforming itself from a domestic long distance company to an any-distance, any-service global company.***

That was the promise of my last annual report to you, and I'm proud to report that we are delivering on that promise.

We've made the right strategic decisions, invested in the right assets and have the right people to get the job done.

In 1999, we worked to extend our reach through the local service businesses, broadband cable companies and wireless providers we've acquired in the past several years. We began operation of Concert, our joint venture with BT, to better serve multinational corporations around the world. The scientists at AT&T Labs filed an average of two patents a day. More than 75 percent of our capital investment went into growth businesses, up from 60 percent in 1998. That includes an investment of more than $10 billion to upgrade and expand our data, Internet, broadband, local and wireless networks to meet new customer demand. In fact, we doubled capital spending on our wireless network, which helped us increase our wireless revenue by more than $2 billion in 1999.

When unprecedented wireless growth in metropolitan New York threatened the quality of our service, in less than a year we added capacity there equal to the entire wireless network serving a city the size of Seattle or Minneapolis.

When business customers told us they wanted more control over their communications services, we gave them the richest set of online capabilities in the industry. Every month, 25,000 businesses complete more than 1 million online transactions to provision and maintain their networks.

Highlights

AT&T Group*

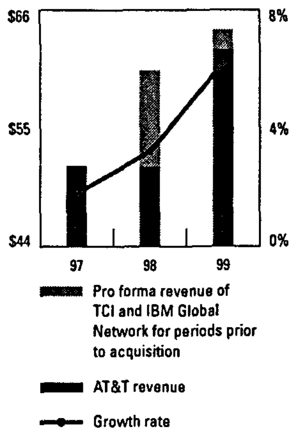
Dollars in millions, except per share amounts	**1999**	1998	Change
Revenue*	**$ 62,391**	$ 53,223	17.2%
SG&A (Selling, general and administrative) expenses	**13,516**	12,770	5.8%
SG&A expenses/Revenue	**21.7%**	24.0%	
Operating income	**10,859**	7,487	45.0%
Income from continuing operations	**5,450**	5,235	4.1%
AT&T Group Earnings	**5,450**	6,398	(14.8)%
Per AT&T Common Share – Diluted			
Income from continuing operations:			
As reported	**1.74**	1.94	(10.3)%
*Operational****	**2.20**	2.35	(6.4)%
AT&T Group Earnings, as reported	**1.74**	2.37	(26.6)%
Cash flow from operations	**11,635**	10,217	13.9%
Gross capital expenditures	**13,511**	7,981	69.3%
EBIT (Earnings before interest and taxes)	**10,358**	8,734	18.6%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	**18,292**	13,415	36.4%
Total debt	**34,224**	6,727	408.7%
Shareowners' equity	**40,406**	25,522	58.3%
Stock price	**$ 50.81**	$ 50.50	0.6%

**Excludes the results of Liberty Media Group.*

***Represents revenue on an as-reported basis. Pro forma revenue, which includes TCI adjusted for all closed cable partnerships and Excite@Home, and also includes IBM Global Network Services as if they were part of AT&T for all of 1998 and 1999, grew 6.2%, or $3,747 million, in 1999.*

****Excludes certain nonoperational net charges and gains.*

Revenue
($ billions)



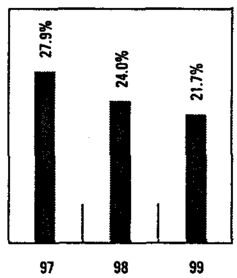
When consumers and businesses told us they wanted services that are easy to understand and use, we worked harder than ever to simplify our offers. Our AT&T One Rate® 7¢ Plan offers state-to-state, long distance calls for 7 cents a minute, all day, every day, for as little as $4.95 a month — an advantage over competing offers that switch to higher rates in peak time periods. Our new National PrePaid Wireless offer gives customers one simple rate for all their domestic calls, with no roaming or long distance charges and no annual contract or monthly bill. Our wireless Group Calling service gives businesses a single flat rate for unlimited local wireless and landline calls. And the AT&T Business Network allows companies to bundle all their communications services on one bill so they can get the full pricing advantage of all the business they do with us.

And even as we did all this, we showed that we can meet our commitments.

We essentially doubled our revenue growth rate. We reduced selling, general and administrative expenses to just under 22 percent of revenue. We generated operational EBITDA (earnings before interest, taxes, depreciation and amortization) — nearly $20 billion — that, as far as we know, hasn't been matched outside the financial-services industry. We also upgraded more than half our cable plant — just as we said we would — and at a slightly lower cost per household than we originally estimated.

We trialed our cable telephony service in 16 communities, starting in Fremont, California, where it surpassed the local telephone company's service on every measure, from call setup time to call quality and customer satisfaction. Now we're ramping up. From just 8,300 cable telephony customers at the beginning of 2000, we're rolling out

Cost Structure Improvements
(Selling, general and administrative expenses as % of revenue)

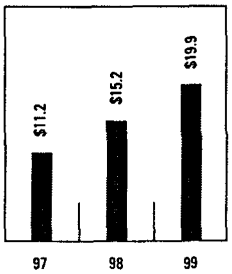


Delivering

enough trucks every day to install service in 400,000 to 500,000 households by the end of the year.

And in New York, where Bell Atlantic has been allowed to offer long distance, we are leasing facilities from them to offer our own local service. Despite significant operational problems on Bell Atlantic's side, we expect to end the year with hundreds of thousands of customers using combined AT&T local and long distance services.

Operational EBITDA*
(earnings before interest, taxes, depreciation and amortization)
($ billions)



*Excludes certain nonoperational net charges and gains.

The people of AT&T are demonstrating that our strategy is not just doable — it's being done.

Employees at every level throughout our business are committed to meeting our ambitious goals. They've got the knowledge and the skills to make it happen. They're energized about the transformation of our company. And as you'll see in the next few pages, that transformation is well under way.

But some things won't change.

On peak days, the AT&T network regularly handles more than 300 million voice calls and about 675 trillion bytes of data. That data traffic alone is equivalent to the contents of 34 Libraries of Congress. But we handle each of those calls, and every bit of that data, as if it were the most important thing we have to do all day. Because for that moment, it is.

That's why the AT&T network operates with a network reliability rating of 99.99 percent. And why so many people and so many businesses entrust their communications to us. And that, in turn, is why we are so determined to deliver on our potential.

AT&T is gaining momentum. Our strategy for growth has us on the right track. Our record of meeting commitments is quickening our pace. My millennium message: There's no stopping us.

C. Michael Armstrong
Chairman and Chief Executive Officer

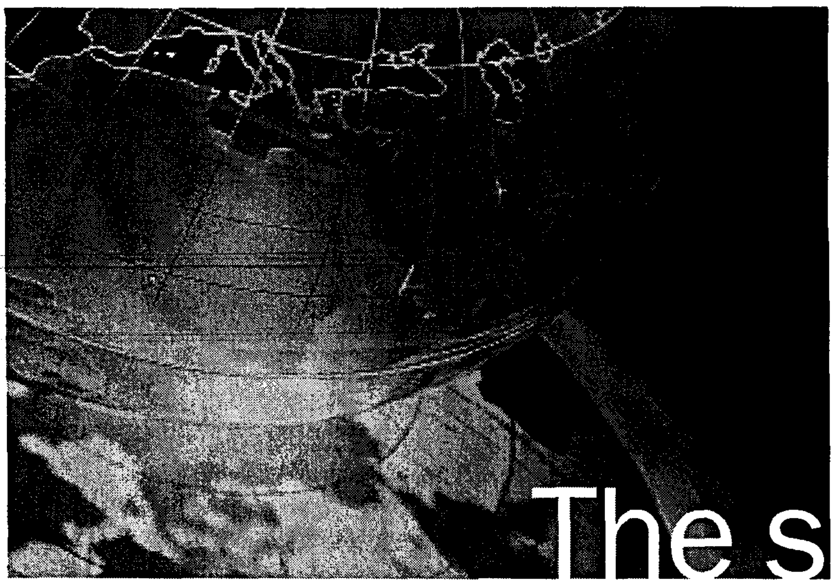
March 17, 2000

AT&T Business Services is the company's biggest revenue engine and a world leader in data networking and managed network services. Last year, our business providing packet services — the data-transmission format most companies use — grew more than 60 percent. And we increased the capacity of our Internet network fourfold.

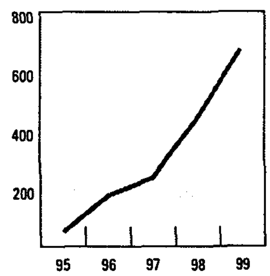
Our managed network services business, AT&T Solutions, which will be reported in the Business Services segment in 2000, increased revenue nearly 50 percent in 1999 as a number of the world's most sophisticated companies entrusted us to manage their networks and the applications that ride on them. AT&T Solutions ended last year with more than 30,000 clients and $11 billion in signed contracts.

Our purchase of the IBM Global Network last year will extend the reach of our data networks to 81 countries. Now known as AT&T Global Network Services, this unit, along with Concert, enables us to handle more transborder traffic to more places around the world than any other company.

While our voice long distance revenue will decline as a percent of total revenue, we expect our packet services (including Internet protocol) and local service revenue growth will outpace the industry. When we merged with TCG in 1998, it was one of the industry's largest competitive local exchange companies. Last year, we nearly doubled its size, adding more local lines than it had installed in its history. We expect to reach nearly 60 percent of the business market with our local lines by the end of 2000. In fact, our new local service offices will be within three miles of 75 percent of the top 100 fast-growing dot-com Internet companies. Further, we have begun deploying up to 26 Internet data centers with more than 1 million square feet of conditioned space to meet the e-commerce needs of business customers.



Network Terabytes of Demand
(trillions of bytes per day)



The speed of e!

Electronic commerce, streaming video and other new data applications are fueling the need for bandwidth. In 1999, we announced plans to significantly expand the transport capacity of our network by installing 16,500 route miles of the latest, state-of-the-art fiber-optic cable, which links 30 major metropolitan areas.

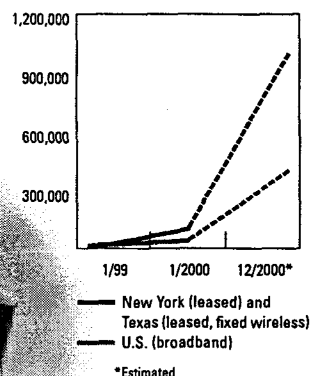
AT&T Consumer Services' revenue declined by 4 percent last year, as expected, reflecting lower long distance prices and some market-share loss. But that level of revenue would still rank our consumer business 53rd on the Fortune 500, higher than PepsiCo, for example. And Consumer Services' operational earnings (before interest and taxes) shot up nearly 20 percent, to a sum greater than that of American Express, for example.

Residential long distance earnings have long been strong. Today, they are helping to feed the company's transformation, allowing us to invest in such growth areas as wireless and broadband services, as well as to focus on fast-growing consumer market segments.

Among those growth segments are individuals and families who place a high value on communications and information services. Those customers want a good buy, but they also want the convenience of one-stop shopping and integrated bundles of services tailored to their needs. At the end of last year, more than 5 million customers subscribed to packages of AT&T services, and we expect to double that number in 2000.

Consumer Services' aggressive cost cutting has given us industry-leading returns and the flexibility to meet any competitive price challenges. As this annual report goes to press, more than 6 million customers — 40 percent of them new to AT&T — have signed up for our AT&T One Rate® 7¢ Plan for interstate long distance. In the past six months, more than 1 million subscribers have signed up for our new AT&T One Rate International Value Plan, with the lowest rates to anywhere in the world. And the Yankee Group rated AT&T's customer service the best in the industry.

Ramping to Scale
(cumulative customer sales, local service)



Start small, get it right, then expand to meet demand. That's our formula for ramping up local service. We're using a mix of cable, fiber, fixed wireless and leased facilities to give consumers a choice in local connectivity.

Ramping up

***AT&T Wireless Services** is our fastest-growing business, with a 33 percent increase in subscribers, a 41 percent growth in revenue and a 23 percent growth in operational earnings before interest, taxes, depreciation and amortization, excluding other income and nonoperational net charges and gains (operational EBITDA). At the end of 1999, we were serving nearly 10 million customers.*

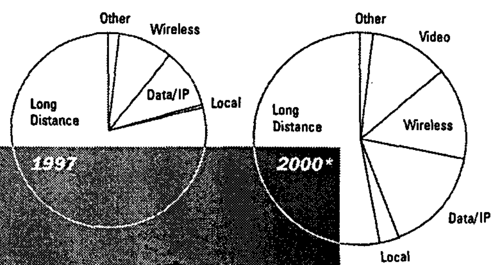
But as popular as wireless voice services have become, the next Big Thing is wireless data. By 2003, some analysts estimate there will be 1 billion wireless phones in the world — more than wired phones and far more than personal computers. Someday, wireless phones could be the most ubiquitous Internet devices in the world.

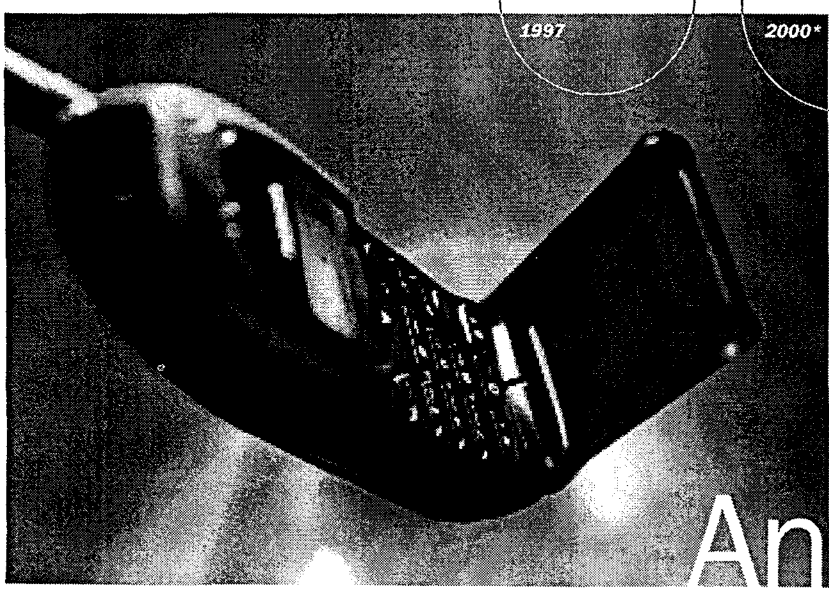
The next generation of wireless data services, which will operate at speeds significantly faster than current technology, will support such services as two-way messaging, video-based information services and mobile comparison shopping.

To reach this potential, AT&T Wireless is leading an effort to unite the two most widely employed technical standards, TDMA and GSM, used by 181 million people worldwide. This will allow the same wireless phone to support high-speed data applications, as well as voice calls, anywhere in the world. In a first step, AT&T Wireless and BT are already developing a seamless roaming service between the United States and Europe.

AT&T Wireless is also using fixed wireless technology — which piggybacks on the infrastructure of our mobile network — to offer local telephony and high-speed data services to consumers and small businesses. We conducted a successful trial of fixed wireless service last year in Dallas and will bring the service to three other markets in 2000. By 2001, we will begin offering the service in areas where we don't have cable coverage. (Note: Fixed wireless results will be reported in the Wireless segment in 2000.)

Revenue Diversification
(by product)
*Estimated





Any, any, any!

At home. On the phone. Over the Internet. Next door. In the car. Across town. Around the world ... Today, people and businesses want choices in the way they communicate. At AT&T, we provide services to meet those demands—any time, anywhere, any distance. And while our revenue grows, our dependency on long distance declines.

AT&T Broadband is on track and gaining momentum. We are clustering our cable systems so that, with MediaOne and other related transactions, more than 90 percent of our customers will be in the top 25 markets. We dramatically improved the service quality of our cable TV operations, meeting or exceeding industry standards for customer care, installation and transmission quality. And we increased pro forma revenue by more than 7 percent.

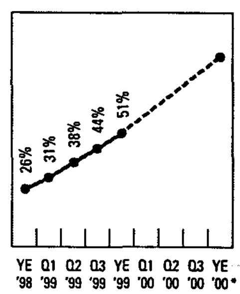
We lead the industry in the deployment of digital video, with 1.8 million customers. We have introduced cable telephony service in 16 communities. And we ended the year with more than 200,000 high-speed Internet access customers. In fact, with no-wait, always-on connections, the AT&T name will take on new meaning as our customers begin to think about being "Online...All The Time℠."

Our focus in 2000 and 2001 is on steadily scaling up marketing and installation to put new revenue-generating services on our upgraded cable network.

As the year started, we were installing new advanced broadband services at a rate of 5,000 homes per day. We plan to ramp that up to 10,000 installations per day by the end of the year. That means millions of consumers and small businesses will be able to get a host of new services across the same cable network that once carried only cable television.

Our anticipated merger with MediaOne Group during 2000 will extend our broadband reach to an additional 8.5 million homes. Once all transactions are completed, we will pass a total of some 26 million homes across the United States.

Broadband Plant Upgrades
(Percent complete)

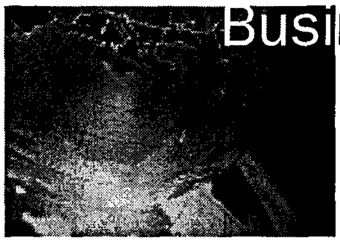


*Estimated

Moving to scale

We're upgrading the broadband cable assets we acquired for two-way communication. That upgrade is ahead of schedule and on budget, and the installation trucks are right behind, rolling out new services like any-distance telephony, high-speed Internet access and digital video.

Our Business

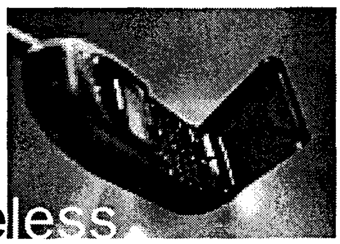


Business

AT&T Business Services offers businesses of all sizes a portfolio of any-distance services, including long distance, local, data, Web hosting and IP networking. Through AT&T Solutions, we also offer a full slate of managed network services. (Note: AT&T Solutions was not reported as part of the Business Services segment in 1999, but will be included in 2000.)

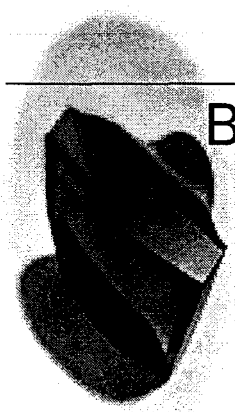
Consumer

AT&T Consumer Services provides individuals and families with any-distance communications services, including local, local toll, long distance and Internet access.



Wireless

AT&T Wireless Group offers consumers and businesses voice and data wireless services, using mobile and fixed wireless technologies. We operate one of the largest digital wireless networks in the United States, and have interests in wireless systems in Canada, Colombia, India and Taiwan. (Note: Fixed wireless was part of the Consumer Services segment in 1999 and will be reported in the Wireless segment in 2000.)



Broadband

AT&T Broadband brings cable TV to more than 11 million homes in 36 states. We are expanding our services to include all-distance telephony, high-speed Internet access (AT&T@Home), digital video and interactive video services. We are also beginning to offer high-speed Internet access and broadband telephony to a growing number of small-business customers.

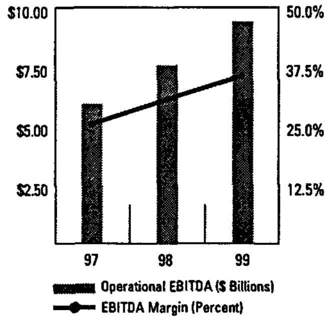
Making the numbers

Our Progress in 1999

Our Goals for 2000

- ***Increased total calling volume by nearly 25%***
- ***Increased Business Services revenue 6.3%***
- ***Grow Business Services operational EBITDA (earnings before interest, taxes, depreciation and amortization) 24.1%***
- ***Grew AT&T Solutions revenue (excluding AT&T Global Network Services) by 48.3%***
- ***Closed on acquisition of IBM global network; integration is 99% complete***
- ***Increased by 50% our installed local service lines — now totaling 1.3 million***

Operational* EBITDA and EBITDA margin
1997-1999

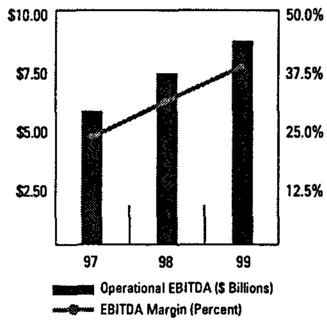


*Excludes certain nonoperational net charges and gains.

- ***Increase long distance voice minutes***
- ***Accelerate revenue growth***
- ***Increase local service revenue***
- ***Double local service access lines***
- ***Maintain leadership position in network management and outsourcing***
- ***Grow packet services revenue, including Internet, at greater than industry levels***

- ***Signed more than 5 million subscribers in less than six months to AT&T One Rate® 7¢ Plan***
- ***Signed up nearly 200,000 local customers in New York and Texas***
- ***Increased operational EBIT (earnings before interest and taxes) 19.1% over 1998***
- ***Achieved operational EBITDA margin of 39.6%***
- ***Grew quarter-over-quarter operational EBITDA for eight consecutive quarters***

Operational* EBITDA and EBITDA margin
1997-1999

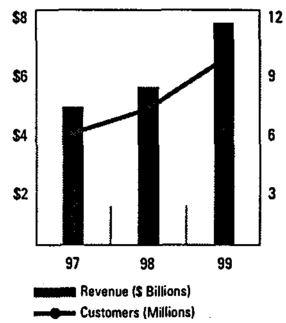


*Excludes certain nonoperational net charges and gains.

- ***Maintain and improve customer service and satisfaction***
- ***Increase any-distance customer base***
- ***Continue to focus on high-value customers***
- ***Increase distribution of prepaid cards***

- ***Grew consolidated subscriber base 33.4% to nearly 10 million***
- ***Increased average monthly revenue per subscriber by 14.2% to $65.80***
- ***Grew revenue 41.1%***
- ***Signed up nearly 2 million AT&T Digital One Rate℠ customers since May 1998***
- ***Nearly 80% of customers are digital***
- ***Achieved No. 1 quality rating in nine markets vs. three markets for next-best competitor (J. D. Power and Associates 1999 U.S. Wireless Customer Satisfaction Study)***

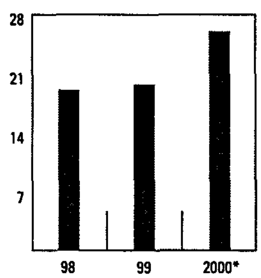
Revenue and Customers
1997-1999



- ***Increase customer base***
- ***Grow revenue***
- ***Increase earnings before interest, taxes, depreciation and amortization (excluding other income)***
- ***Expand wireless data services***
- ***Trial local fixed wireless service in three markets***

- ***Completed merger with TCI***
- ***Passed midway point of two-way cable plant upgrade***
- ***Local telephony available in 16 communities***
- ***Delivered digital cable service to 1.8 million customers***
- ***Provided high-speed Internet access to 207,000 AT&T@Home customers***
- ***Achieved pro forma revenue growth of 7.4%***

Homes Passed
(millions)



*Estimated

- ***Accelerate revenue growth***
- ***Move to national scale for telephony and high-speed data services***
- ***Maintain leadership position in digital cable***
- ***Expand number of households passed through merger with MediaOne***
- ***Continue plant upgrade to add bandwidth and extend two-way capabilities***

AT&T Wireless Group ***As part of our strategic plan to grow our wireless business, we are creating the AT&T Wireless Group "tracking stock." We believe this tracking stock will help us meet our capital needs by creating an additional publicly traded security that we can use to raise capital and can issue for acquisitions and investments. In fact, we plan to conduct an initial public offering of less than 20 percent of the AT&T Wireless Group tracking stock in the second quarter of this year. We believe this will increase market awareness of the performance and value of our wireless business.***

While the tracking stock will separate the economic performance of the AT&T Common Stock Group and the AT&T Wireless Group, we will maintain the advantages of doing business under common ownership. These benefits include strategic, financial and operational synergies that might not be available if the two groups were not under common ownership. For example, the tracking stock will allow both groups to continue to benefit from the AT&T brand and from cross-marketing and bundling of services between the groups, and will also enable us to share technology, networking arrangements and business expenses.

We have the team in place to seize the potential of our wireless business.

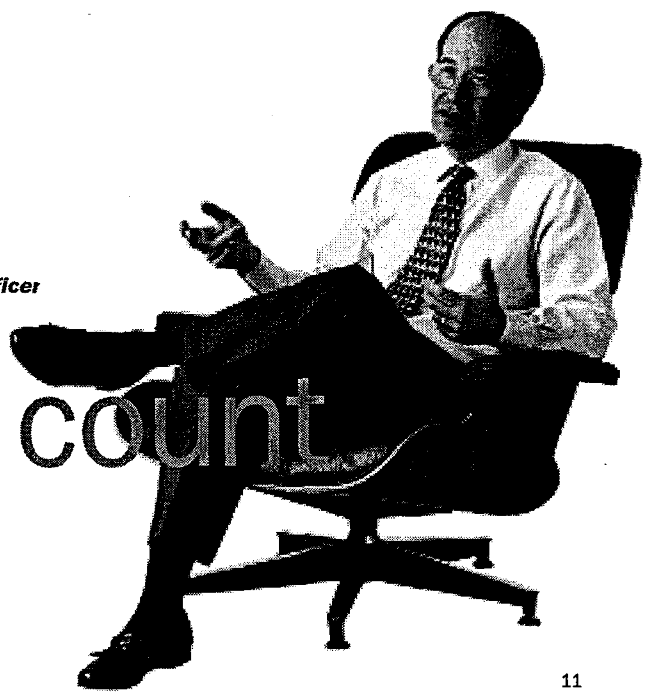
AT&T Wireless Group Senior Leadership Team, pictured left to right: Michael Keith, Executive VP – Fixed Wireless; John Zeglis, Chairman and CEO; Hal Burlingame, Executive VP – Communications and Human Resources; Mohan Gyani, President – AT&T Wireless Services.

Fast track

Some time back, we laid out benchmarks investors could use to track our progress in transforming AT&T. We delivered on those revenue, cost-reduction and earnings targets. But most important, through our acquisitions and internal investments, we laid the foundation for future growth. Now we're ramping up to deliver on the potential of those investments. Because we know that however elegant the strategy, it's results that count.

Financial Section Index:

Chuck Noski
Senior Executive
Vice President
and Chief Financial Officer



Results count

Introduction

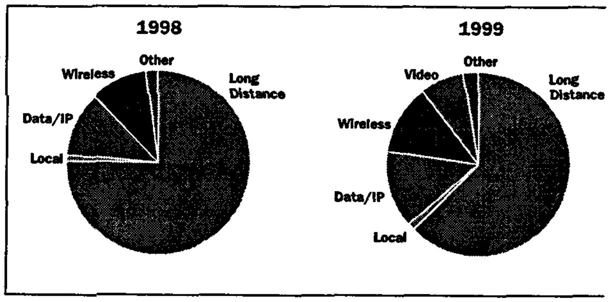
In 1999, we made significant strides to transform AT&T and deliver growth. We finalized many of the strategic acquisitions we announced in 1998 and made additional investments to further support our facilities-based growth strategy. We continued to maintain the execution-focused culture of the new AT&T.

One of the most dynamic areas in 1999 was our wireless business. Increasing demand for wireless services and the continued appeal of our Digital One Rate plans drove Wireless Services revenue to grow approximately 40% for the year. Throughout 1999 we continued to expand our national footprint. In the second quarter, we completed the acquisition of Vanguard Cellular Systems, which was announced in 1998; in August we closed the acquisition of Honolulu Cellular; and in October we announced the acquisition of American Cellular Corp. through a newly created joint venture between AT&T and Dobson Communications. We capped off the year by proposing the creation of a new class of tracking stock that will reflect the economic performance of the AT&T Wireless Group. While the Wireless Group will remain part of AT&T, the separate tracking stock will provide current shareowners and future investors with a security tied directly to the performance of this business.

As we worked to grow our wireless businesses in 1999, we also started putting the bricks and mortar around our broadband plans — a key component of our overall growth strategy. We completed our $52 billion merger with Tele-Communications, Inc. (TCI) in March, and quickly accelerated the upgrade of the TCI cable plant, which will enable us to develop additional revenue streams from any-distance cable telephony, high-speed data, and digital video. By the end of 1999, TCI, renamed AT&T Broadband, was offering cable telephony in 16 cities within nine pilot markets, digital-video subscribers totaled approximately 1.8 million, and more than 200,000 customers had signed up for high-speed data service. To expand our national cable network beyond AT&T Broadband's systems, we announced in May the $57 billion merger with MediaOne. When the merger is completed in 2000, we will significantly increase our presence in major metropolitan markets across the country with owned and operated cable systems passing more than 26 million homes.

In addition to the accomplishments in our domestic growth initiatives, we also made significant progress in our global strategy. Most notably, we launched Concert — a leading global telecommunications company created through AT&T's joint venture with British Telecommunications plc (BT). Concert represents the core of our global strategy and began serving multinational business customers, international carriers and Internet service providers in January 2000. As part of our relationship with Concert and BT, we also made several in-country facility-based investments during 1999, including AT&T Canada Corp., Rogers Cantel in Canada, and Japan Telecom. We also completed the purchase of IBM Global Network Services and now provide data networking services to businesses around the world as AT&T Global Network Services (AGNS).

Revenue Diversification by Product



In addition to delivering on our domestic and global strategic objectives for 1999, we also achieved the aggressive financial targets we set for the year. We delivered revenue growth of 6.2% on a pro forma basis for the acquisitions of AT&T Broadband and AGNS, hitting our targeted range of 5% to 7%. The majority of the increase came from our growth businesses, showing the success of our investment strategy as it begins to shift our revenue base away from long distance voice revenue. Just one year ago, long distance voice revenue was 75% of our total revenue; in 1999 it dropped to 62%. While long distance is increasingly becoming a commodity, as evidenced by the continued pricing pressures in the industry, its current profitability supports investments in growth businesses. These growth businesses in turn will support the long distance business as we include long distance as a component of a bundle of competitively priced services.

In order to become truly competitive, we must become the low-cost provider in the industry, and therefore, we are continuing our efforts to reduce our cost structure. A year ago, we committed to reducing our 1999 selling, general and administrative (SG&A) expenses to 23% of revenue. We beat that target, delivering an SG&A expense-to-revenue ratio of 21.7% for the year, which translates into approximately $830 million of SG&A expense savings compared with our targets. The fourth quarter came in at just 21.2%. That's a dramatic improvement from 1997, when the SG&A expense-to-revenue ratio for the year was 27.9%. While we've been successful in driving costs out of the business, we still have more to do. We will continue to attack costs and have committed to cutting $2 billion in costs by the end of 2000 by continuing to streamline our SG&A expenses and by lowering our network costs by moving more data, voice and wireless traffic onto our expanding network of global facilities.

Not surprisingly, our success in growing revenue and shrinking costs allowed us to deliver strong cash flow results in 1999, with cash from operations growing to $11.6 billion — up 13.9% from 1998. In 1999, we generated $18.3 billion of reported EBITDA [earnings, including other income(expense), before interest, taxes, depreciation and amortization].

As anticipated, the positive impact of our revenue growth and cost controls on earnings per share was more than offset by the impact of shares issued and the franchise, goodwill and other purchased intangibles amortization associated with our investments and acquisitions. As a result, earnings per diluted share were 10.3% below 1998. We undertook an aggressive stock buyback program to help offset some of the dilutive impacts of these acquisitions, and since the second half of 1998 we've repurchased nearly 220 million shares, at a cost of approximately $10 billion. In 2000, we plan to repurchase another 50 million shares from Cox Communications, Inc., in exchange for cable properties and cash.

We've come a long way in 1999. As the following pages present in further detail, we've made solid progress in our strategy to transform AT&T, and we've delivered on our commitments for growth and expense control. There is still much to be done, but we finished 1999 with pride in our accomplishments and confidence in our ability to sustain the momentum and further accelerate our growth in 2000.

Overview

AT&T is among the world's communications leaders, providing voice, data and video telecommunications services to large and small businesses, consumers and government agencies. We provide domestic and international long distance, regional, local and wireless communications services, cable television and Internet communications services. AT&T also provides billing, directory and calling-card services to support our communications business.

Merger with TCI

We completed the merger with TCI, renamed AT&T Broadband (Broadband), on March 9, 1999, in an all-stock transaction valued at approximately $52 billion. We issued approximately 664 million shares, of which 149 million were treasury shares that were repurchased in anticipation of the Broadband merger.

The merger was recorded under the purchase method of accounting and, accordingly, the results of Broadband have been included with the financial results of AT&T since the date of acquisition. Periods prior to the merger were not restated to include the results of Broadband.

In connection with this transaction, we also issued a separate tracking stock to reflect the economic performance of Liberty Media Group (LMG), Broadband's former programming and technology investment businesses. We issued 1,140 million shares of Liberty Media Group Class A tracking stock (including 60 million shares related to the conversion of convertible notes) and 110 million shares of Liberty Media Group Class B tracking stock. We do not have a controlling financial interest in Liberty Media Group for financial accounting purposes; therefore, our ownership in LMG is reflected as an investment accounted for under the equity method in the AT&T consolidated financial statements. The amounts attributable to LMG are reflected as separate line items "Equity losses from Liberty Media Group" and "Investment in Liberty Media Group and related receivables, net" in the accompanying consolidated financial statements.

Broadband's cable and certain other operations, including its ownership interest in At Home Corporation (Excite@Home) and Cablevision Systems Corp. (Cablevision), but excluding LMG, were combined with the existing operations of AT&T to form the AT&T Common Stock Group (AT&T Group), the economic performance of which is represented by AT&T common stock. References to AT&T common stock do not include the LMG tracking stock.

Ownership of shares of AT&T common stock or Liberty Media Class A or B tracking stock does not represent a direct legal interest in the assets and liabilities of either of the groups, but an ownership of AT&T in total. Each of these shares represents an interest in the economic performance of the net assets of each of these groups. Accordingly, the earnings and losses related to LMG are excluded from earnings available to AT&T Group, and earnings and losses related to AT&T Group are excluded from earnings available to LMG.

Because we account for LMG as an equity investment, revenue, operating expenses, other income(expense), interest expense and provision for taxes for AT&T Group are the same as consolidated AT&T.

The discussion and analysis that follows provides information management believes is relevant to an assessment and understanding of AT&T's consolidated results of operations for the years ended December 31, 1999, 1998 and 1997, and financial condition as of December 31, 1999 and 1998.

Forward-Looking Statements

Except for the historical statements and discussions contained herein, statements herein constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements concerning future operating performance, AT&T's share of new and existing markets, AT&T's short- and long-term revenue and earnings growth rates, and general industry growth rates and AT&T's performance relative thereto. These forward-looking statements rely on a number of assumptions concerning future events, including the adoption and implementation of balanced and effective rules and regulations by the Federal Communications Commission (FCC) and the state public regulatory agencies, and AT&T's ability to achieve a significant market penetration in new markets. These forward-looking statements are subject to a number of uncertainties and other factors, many of which are outside AT&T's control, that could cause actual results to differ materially from such statements. AT&T disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Consolidated Results of Operations

For the Years Ended December 31,	1999	1998	1997
Dollars in millions (except per share amounts)			
Operating income	$10,859	$ 7,487	$ 6,836
Operating income margin	17.4%	14.1%	13.3%
Income from continuing operations	$ 3,428	$ 5,235	$ 4,249
Net income	$ 3,428	$ 6,398	$ 4,415
Per AT&T Group common share – basic:			
Income from continuing operations	$ 1.77	$ 1.96	$ 1.59
Income from discontinued operations	—	—	0.03
Gains on sales of discontinued operations	—	0.48	0.03
Extraordinary loss	—	0.05	—
AT&T Group earnings	$ 1.77	$ 2.39	$ 1.65
Per AT&T Group common share – diluted:			
Income from continuing operations	$ 1.74	$ 1.94	$ 1.59
Income from discontinued operations	—	—	0.03
Gains on sales of discontinued operations	—	0.48	0.03
Extraordinary loss	—	0.05	—
AT&T Group earnings	$ 1.74	$ 2.37	$ 1.65
Liberty Media Group loss per share:			
Basic and diluted	$ 1.61	$ —	$ —

Our results include certain items that affect comparability from year to year. We quantify the impact of these items in order to explain our results on a comparable basis. These items include the 1999 acquisitions of Broadband and AT&T Global Network Services (AGNS), net restructuring and other charges, significant gains on sales of businesses [discussed in other income(expense) discussion] and the impact of a change in tax rules. The net restructuring and other charges, gains on sales of businesses, change in tax rules and the impact of our investments in Excite@ Home and Cablevision are collectively referred to as "restructuring and other charges, and certain gains and losses." We discuss our results excluding the impact of our investments in Excite@ Home and Cablevision since these businesses have financial information publicly available and their results can be reviewed independently of AT&T's results.

Following is a summary of the approximate diluted earnings per share (EPS) impact of the above items for 1999 and 1998:

- Net restructuring and other charges of $0.37 in 1999 and $0.59 in 1998;
- Gains on sales of businesses of $0.07 in 1999 and $0.18 in 1998;
- A loss of $0.18 reflecting the earnings impact of our investments in Excite@Home and Cablevision in 1999; and
- A $0.02 benefit in 1999 from changes in tax rules with respect to the utilization of acquired net operating losses.

Operating income, on a reported basis, increased 45.0% in 1999 compared with 1998; excluding net restructuring and other charges, operating income increased 23.6%. Operating income margin (operating income as a percent of revenue) was 17.4% in 1999 compared with 14.1% in 1998. Operating income margin, excluding net restructuring and other charges, was 19.8% in 1999 compared with 18.8% in 1998. These operational improvements were due to revenue growth and operating expense efficiencies.

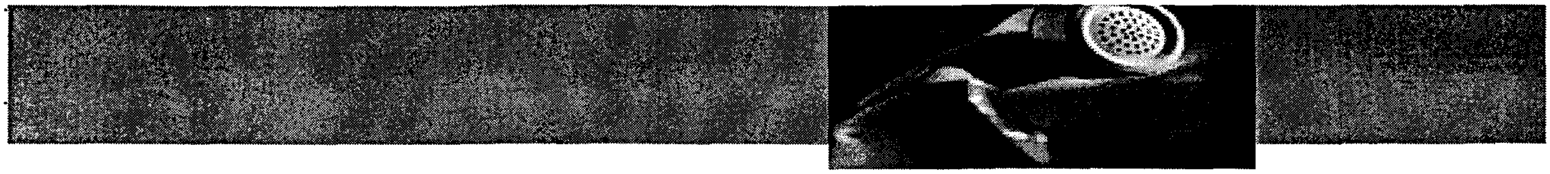
EPS from continuing operations attributable to AT&T Group on a diluted basis declined 10.3% in 1999 to $1.74, compared with 1998. The decline was primarily due to the impact of the Broadband and AGNS acquisitions, including the impact of shares issued and equity losses of Excite@Home and Cablevision. Partially offsetting these declines was increased income from the remaining operations due to revenue growth and operating expense efficiencies as well as lower net restructuring and other charges. Excluding the restructuring and other charges, and certain gains and losses, EPS was $2.20 per diluted share in 1999, a decrease of 6.4%, or $0.15, over the prior year. The decrease in operational earnings in 1999 was primarily due to the impacts of the acquisitions of Broadband and AGNS.

Excluding the impacts of both Broadband and AGNS, operational EPS for 1999 was $3.08, an increase of 31.1%, or $0.73, compared with 1998. The increase was primarily due to higher revenue combined with improving margins resulting from cost efficiencies.

Operating income, on a reported basis, increased 9.5% in 1998 compared with 1997; excluding net restructuring, exit and other charges, in 1998 and 1997, operating income increased 42.2%.

Results for 1997 include net restructuring and other charges, and a gain from a sale of a business, which resulted in an approximate $0.01 EPS benefit on a diluted basis. In addition, 1998 included a benefit from the 1998 adoption of a new accounting standard related to the capitalization of internal-use software. EPS from continuing operations was $1.94 per diluted share in 1998, an increase of 22.0% from 1997. Excluding the impact of the 1998 and 1997 restructuring and other charges, and certain gains and losses, EPS was $2.30 per diluted share in 1998, an increase of $0.72, or 45.6%, compared with 1997. Cost control initiatives and higher revenue were the primary drivers of the operational increases.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Revenue			
Business Services	$25,102	$23,611	$22,331
Consumer Services	21,972	22,885	23,690
Wireless Services	7,627	5,406	4,668
Broadband	4,871	—	—
Other and Corporate	2,819	1,321	888
Total revenue	$62,391	$53,223	$51,577



Total revenue increased 17.2%, or $9,168 million, in 1999 compared with the prior year. Revenue for 1999 included Broadband and AGNS revenue from their respective dates of acquisition. Excluding the impact of these acquisitions, 1999 revenue increased 5.8% to $56,307 million. This increase was fueled by growth in wireless, business data, business domestic long distance voice and outsourcing revenue, partially offset by the continued decline of consumer long distance voice revenue. Adjusting 1999 and 1998 to reflect the revenue of Broadband and AGNS for a full year in both periods, 1999 pro forma revenue increased 6.2% to $64,141 million from $60,394 million in 1998.

Long distance voice revenue as a percent of total revenue declined to approximately 62% in 1999, compared with approximately 75% and 79% in 1998 and 1997, respectively. We expect this percentage to continue to decline as data, Internet, wireless and outsourcing revenue continue to grow and as long distance prices continue to decrease, resulting in a more diversified portfolio.

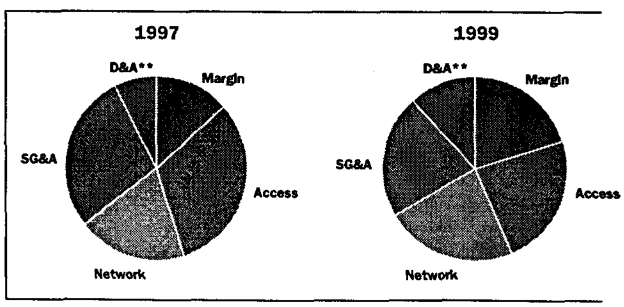
Total revenue in 1998 increased $1,646 million, or 3.2%, compared with 1997, led by business data, wireless and outsourcing revenue. Improvements in these areas were partially offset by a decline in consumer long distance revenue and reduced revenue due to the sale of AT&T Solutions Customer Care (ASCC) in 1998.

Revenue by segment is discussed in more detail in the segment results section.

Operating Expenses

For the year, operating expenses totaled $51,532 million, an increase of 12.7% from $45,736 million in 1998. In 1998, operating expenses increased 2.2% from $44,741 million in 1997. Operating expenses for 1999 reflect Broadband and AGNS expenses from their respective dates of acquisition. In addition, operating expenses in 1999 and 1998 included $1,506 million and $2,514 million, respectively, of net restructuring and other charges. Operating expenses in 1997 included a $160 million charge to exit the two-way messaging business and a $100 million benefit from the reversal of pre-1995 restructuring reserves. Excluding the impact of the acquisitions of Broadband and AGNS and net restructuring and other charges, 1999 operating expenses increased $198 million, or 0.5%, and 1998 operating expenses decreased 2.8%.

Margin and Expenses* as a Percent of Revenue



* Excludes net restructuring and other charges.

** Depreciation and amortization expenses include the amortization of goodwill, franchise costs and other purchased intangibles.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Access and other interconnection	$14,686	$15,328	$16,350

Access and other interconnection expenses are the charges we pay to connect calls on the facilities of local exchange carriers and other domestic service providers, and fees we pay foreign telephone companies (international settlements) to connect calls made to foreign countries. These charges represent payments to these carriers for shared and dedicated facilities and switching equipment used to connect our network with their networks. These costs declined $642 million, or 4.2%, in 1999 and $1,022 million, or 6.3%, in 1998 compared with the prior year. These declines were primarily driven by mandated reductions in per-minute access rates in 1999 and 1998 and lower international settlement rates resulting from our negotiations with international carriers. Additionally, we continue to manage these costs through more efficient network usage. These reductions were partially offset by volume growth, increased per-line charges (Primary Interexchange Carrier Charges) and Universal Service Fund contributions. Since most of these charges are passed through to the customer, the per-minute access-rate reductions and the increases in per-line charges and the Universal Service Fund have generally resulted in an offsetting impact on revenue. Broadband and AGNS do not have any access and other interconnection expenses, therefore the results are the same excluding Broadband and AGNS.

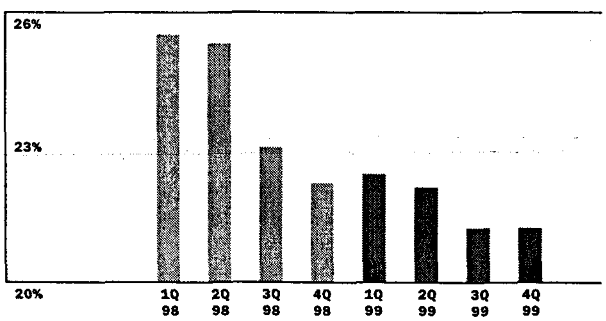
For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Network and other costs of services	$14,385	$10,495	$10,038

Network and other costs of services expenses include the costs of operating and maintaining our networks, costs to support our outsourcing contracts, fees paid to other wireless carriers for the use of their networks (off-network roaming), the provision for uncollectible receivables, programming and licensing costs for cable services, costs of wireless handsets sold and other service-related costs. These costs increased $3,890 million, or 37.1%, in 1999 compared with 1998, largely due to the Broadband and AGNS acquisitions. Excluding these acquisitions, network costs increased $428 million, or 4.1%, in 1999, a slight improvement compared with the 4.5% increase in 1998. The growing wireless subscriber base primarily drove the increase in both years, largely attributable to the success of AT&T Digital One Rate service, which has resulted in higher off-network roaming charges, costs of handsets and provision for uncollectible receivables. The increase in costs of handsets reflects not only the higher number of handsets sold, but the increased cost per unit as customers migrate or sign up for digital service. Costs to support growth in outsourcing contracts also contributed to the increase. Partially offsetting the 1999 increase were network cost-control initiatives, lower per-call compensation expense due to a favorable FCC ruling in 1999, lower provision for uncollectible receivables in Consumer and Business Services and lower gross receipts and property taxes. The 1998 increase was partially offset by lower provision for uncollectible receivables in Business Services, lower expenses as a result of the sale of ASCC in the first quarter of 1998 and the impact of a 1997 charge to write-down the two-way messaging business.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Selling, general and administrative	$13,516	$12,770	$14,371

Selling, general and administrative (SG&A) expenses increased $746 million, or 5.8%, in 1999 compared with 1998. This increase was due to the Broadband and AGNS acquisitions. Excluding these expenses, SG&A expenses declined $529 million, or 4.2%. Reductions in consumer long distance acquisition-program spending resulted in lower marketing and sales expenses. In 1999 we continued our efforts to achieve a best-in-class cost structure with companywide cost-control initiatives, which yielded an improving cost structure. These decreases were partially offset by increased costs in Wireless Services to support the growing subscriber base. SG&A expenses as a percent of revenue were 21.7% in 1999, 24.0% in 1998 and 27.9% in 1997. We expect SG&A expenses as a percent of revenue to continue to decline as we continue to focus on controlling our expenses and prioritizing our spending. In addition, we expect to realize a larger pension credit in 2000 resulting from a higher pension trust asset base and an increase in the discount rate used to measure the pension and postretirement obligations.

Cost Structure Improvements
SG&A Expenses as a Percent of Revenue



SG&A expenses declined $1,601 million, or 11.1%, in 1998 compared with 1997. The decrease was primarily due to savings from cost-control initiatives, such as headcount reductions and a $221 million SG&A expense benefit from the 1998 adoption of a new accounting pronouncement related to the capitalization of internal-use software (Statement of Position 98-1). Also contributing to the decrease in SG&A expenses was a decline in marketing and sales costs relating to lower customer acquisition costs in Consumer Services. These declines were partially offset by increases in wireless customer acquisition and migration costs and increased costs associated with preparing our computer systems for conversion of the calendar to the Year 2000 (Y2K project).

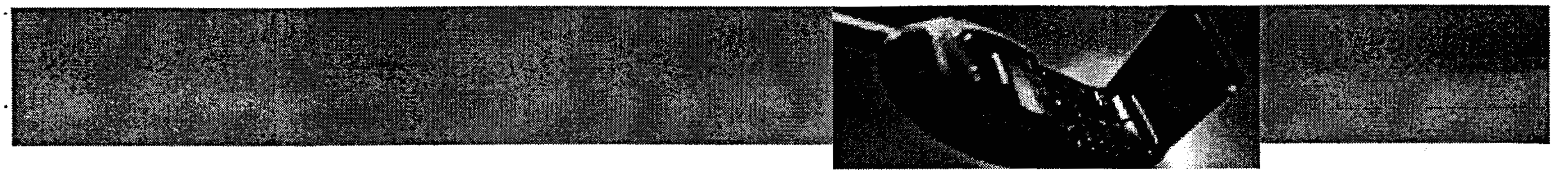
Also included in SG&A expenses were $550 million, $513 million and $633 million of research and development (R&D) expenses in 1999, 1998 and 1997, respectively. R&D expenditures are mainly for work on advanced communications services and projects aimed at Internet protocol (IP) services. The increase in R&D expenses in 1999 was due to costs associated with launching Concert, the acquisition of Broadband and development spending on business data services and IP. These increases were largely offset by lower R&D spending on development projects for consumer products. The decline in R&D expenses in 1998 was mainly due to the redeployment of resources in support of the Y2K project.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Depreciation and other amortization	$ 6,138	$ 4,378	$ 3,728

Depreciation and other amortization expenses increased $1,760 million, or 40.2%, in 1999. Approximately one-half of the increase was due to the acquisitions of Broadband and AGNS. Excluding these acquisitions, depreciation and other amortization expenses increased $879 million, or 20.1%, in 1999. Depreciation and other amortization expenses increased $650 million, or 17.4%, in 1998 compared with 1997. Growth in the depreciable asset base resulting from continued infrastructure investment drove the increase in both years. Total capital expenditures for 1999, 1998 and 1997 were $13.5 billion, $8.0 billion and $7.7 billion, respectively. Approximately three-quarters of 1999 capital expenditures focused on our growth businesses of broadband, data, wireless, local and AT&T Solutions. More than half of the capital expenditures in 1998 were related to the long distance network, including the completion of the SONET (Synchronous Optical Network) buildout. These expenditures expanded network capacity, reliability and efficiency. In addition, in 1998 we invested in our local network to expand our switching and transport capacity and invested to expand our wireless footprint.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Amortization of goodwill, franchise costs and other purchased intangibles	$ 1,301	$ 251	$ 254

Amortization of goodwill, franchise costs and other purchased intangibles increased $1,050 million in 1999 compared with 1998 primarily due to the acquisition of Broadband and, to a lesser extent, AGNS. Franchise costs represent the value attributable to the agreement with local authorities that allow access to homes in Broadband's service areas. Other purchased intangibles arising from business combinations primarily included customer lists and licenses. In addition to the amortization of goodwill reflected here, we also have amortization of goodwill associated with our nonconsolidated investments recorded as a component of other income(expense). This amortization totaled $495 million, $52 million and $66 million in 1999, 1998 and 1997, respectively.



Net Restructuring and Other Charges

During 1999, we recorded $1,506 million of net restructuring and other charges, which had an approximate $0.37 impact on earnings per diluted share.

A $594 million in-process research and development charge was recorded reflecting the estimated fair value of research and development projects at Broadband, as of the date of the acquisition, which had not yet reached technological feasibility or that have no alternative future use. The projects identified related to Broadband's efforts to offer voice over IP, product-integration efforts for advanced set-top devices, cost-savings efforts for cable telephony implementation and in-process research and development related to Excite@Home. We estimated the fair value of in-process research and development for each project using an income approach, which was adjusted to allocate fair value based on the project's percentage of completion. Under this approach, the present value of the anticipated future benefits of the projects was determined using a discount rate of 17%. For each project, the resulting net present value was multiplied by a percentage of completion based on effort expended to date versus projected costs to complete.

The charge associated with voice over IP technology, which allows voice telephony traffic to be digitized and transmitted in IP data packets, was $225 million as of the date of the acquisition. Current voice over IP equipment does not yet support many of the features required to connect customer premises equipment to traditional phone networks. Further technical development is also needed to ensure voice quality that is comparable to conventional circuit-switched telephony and to reduce the power consumption of the IP telephony equipment. We anticipate that we will test IP telephony equipment for field deployment in late 2000.

The charge associated with Broadband's product-integration efforts for advanced set-top devices, which will enable us to offer next-generation digital services, was $114 million as of the date of acquisition. The associated technology consists of the development and integration work needed to provide a suite of software tools to run on the digital set-top box hardware platform. It is anticipated that field trials will begin in mid 2000 for next-generation digital services.

The charge associated with Broadband's cost-savings efforts for cable telephony implementation was $101 million as of the date of the acquisition. Telephony cost reductions primarily consist of cost savings from the development of a "line of power switch," which allows Broadband to cost effectively provide power for customer telephony equipment through the cable plant. This device will allow us to provide line-powered telephony without burying the cable line to each house. The device currently requires further development in order to reach an acceptable level of reliability. We expect to test and deploy devices by the end of 2000.

Additionally, the in-process research and development charge related to Excite@Home was valued at $154 million. During the second quarter of 1999, we ceased to consolidate Excite@Home and began to account for our investment under the equity method of accounting due to certain corporate governance changes, which resulted in AT&T no longer holding a controlling financial interest. Accordingly, we will no longer report on the in-process research and development projects of Excite@Home.

Although there are significant technological issues to overcome in order to successfully complete the acquired in-process research and development, we expect successful completion. We estimate the costs to complete the identified projects will not have a material impact on our results of operations. If, however, we are unable to establish technological feasibility and produce commercially viable products/services, then anticipated incremental future cash flows attributable to expected profits from such new products/services may not be realized.

A $531 million asset impairment charge was primarily recorded in association with the planned disposal of wireless network equipment resulting from a program to increase capacity and operating efficiency of our wireless network. As part of a multi-vendor program, contracts are being executed with certain vendors to replace significant portions of our wireless infrastructure equipment in the western United States and the metropolitan New York markets. The program will provide Wireless Services with the newest technology available and allow us to evolve to new, third-generation digital technology with high-speed data capabilities.

The planned disposal of the existing wireless infrastructure equipment required an evaluation of asset impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" to write-down these assets to their fair value, which was estimated by discounting the expected future cash flows of these assets through the date of disposal. Since the assets will remain in service from the date of the decision to dispose of these assets to the disposal date, the remaining net book value of the assets will be depreciated over this period.

A $145 million charge for restructuring and exit costs was recorded as part of AT&T's initiative to reduce costs by $2 billion by the end of 2000. The restructuring and exit plans primarily focus on the maximization of synergies through headcount reductions in Business Services and network operations, including the consolidation of customer-care and call centers.

Included in the exit costs was $142 million of cash termination benefits associated with the separation of approximately 2,800 employees as part of voluntary and involuntary termination plans. Approximately one-half of the separations were management employees and one-half were nonmanagement employees. Approximately 1,700 employee separations related to involuntary terminations and approximately 1,100 related to voluntary terminations. Nearly 80% of the affected employees have left their positions as of December 31, 1999, and the remaining employees will leave the company in early 2000. Termination benefits of $40 million were paid in the fourth quarter of 1999. This cash outlay was primarily funded through cash from operations. The balance of the cash termination payments are expected to be paid in the first quarter of 2000.

The restructuring initiative is projected to yield cash savings of approximately $250 million per year, as well as EBIT [earnings, including other income(expense), before interest and taxes] savings of approximately $200 million in 2000 and nearly $400 million per year thereafter. We expect increased spending in growth businesses will largely offset these cash and EBIT savings. The EBIT savings, primarily attributable to reduced personnel-related expenses, will be realized in SG&A expenses and network and other costs of services. EBIT savings in 2000 are expected to be partially offset by accelerated depreciation expense. However, depreciation expense in subsequent years will be lower related to the 1999 write-off of Wireless Services' assets.

In addition, our continuing efforts to reduce costs by $2 billion by the end of 2000 and the planned merger with MediaOne may require further charges for exit and separation plans, which we expect to have finalized in the first half of 2000.

We also recorded net losses of $307 million related to the government-mandated disposition of certain international businesses that would have competed directly with Concert, and $50 million related to a contribution agreement Broadband entered into with Phoenixstar, Inc., that requires Broadband to satisfy certain liabilities owed by Phoenixstar and its subsidiaries. The remaining obligation under this contribution agreement is $26 million. In addition, we recorded benefits of $121 million related to the settlement of pension obligations for former employees who accepted AT&T's 1998 voluntary retirement incentive program (VRIP) offer.

During 1998, we recorded $2,514 million of net restructuring and other charges, which had an approximate $0.59 impact on earnings per diluted share. The bulk of the charge was associated with a plan to reduce headcount by 15,000 to 18,000 over two years as part of our overall cost-reduction program. In connection with this plan, the VRIP was offered to eligible management employees. Approximately 15,300 management employees accepted the VRIP offer. A restructuring charge of $2,724 million was composed of $2,254 million and $169 million for pension and postretirement special-termination benefits, respectively, $263 million of curtailment losses and $38 million of other administrative costs. We also recorded charges of $125 million for related facility costs and $150 million for executive-separation costs. These charges were partially offset by benefits of $940 million as we settled pension benefit obligations for 13,700 of the total VRIP employees. In addition, the VRIP charges were partially offset by the reversal of $256 million of 1995 business restructuring reserves primarily resulting from the overlap of VRIP on certain 1995 projects.

Also included in the 1998 net restructuring and other charges were asset impairment charges totaling $718 million, of which $633 million was related to our decision not to pursue Total Service Resale (TSR) as a local service strategy. We also recorded an $85 million asset impairment charge related to the write-down of unrecoverable assets in certain international operations in which the carrying value is no longer supported by future cash flows. This charge was made in connection with the review of certain operations that would have competed directly with Concert.

Additionally, $85 million of merger-related expenses were recorded in 1998 in connection with the Teleport Communications Group Inc. (TCG) merger, which was accounted for as a pooling of interests. Partially offsetting these charges in 1998 was a $92 million reversal of the 1995 restructuring reserve. This reversal reflects reserves that were no longer deemed necessary. The reversal primarily included separation costs attributed to projects completed at a cost lower than originally anticipated. Consistent with the three-year plan, the 1995 restructuring initiatives were substantially completed by the end of 1998.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Other income(expense)	$ (501)	$ 1,247	$ 443

Other income(expense) was an expense of $501 million in 1999 compared with income of $1,247 million in 1998. The significant decrease is due to higher net losses from investments, largely due to Excite@Home and Cablevision, and lower gains on sales. Gains on sales in 1999 included $153 million from Language Line Services, $88 million from WOOD-TV and $110 million from the sale of a portion of our ownership interest in AT&T Canada. Gains on sales in 1998 included $350 million from AT&T Solutions Customer Care, $317 million from LIN Television Corp. (LIN-TV) and $103 million from SmarTone Telecommunications Holdings Limited (SmarTone). Distributions on trust preferred securities in 1999 and higher interest income in 1998 as a result of the proceeds received from the sale of Universal Card Services (UCS) also contributed to the decrease.

Other income(expense) increased $804 million in 1998 primarily due to gains on sales in 1998 as well as increased interest income on our higher cash balance. These increases were partially offset by lower earnings from equity investments and a gain in 1997 on the sale of AT&T Skynet Satellite Services (Skynet) of $97 million.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
EBIT	$10,358	$ 8,734	$ 7,279

EBIT increased $1,624 million, or 18.6%, in 1999. EBIT was impacted by restructuring and other charges, and certain gains and losses, as well as the acquisitions of Broadband and AGNS. Excluding these items, EBIT increased $2,805 million, or 26.8%, to $13,283 million in 1999. The improvement in EBIT was due to increased revenue combined with an improving cost structure. EBIT for 1998 increased $1,455 million, or 20.0%. Excluding restructuring and other charges, and certain gains and losses, EBIT increased $3,037 million, or 41.9%. This increase in EBIT was driven by higher revenue, the benefit of our SG&A expense cost-cutting initiatives and lower international settlement rates.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Interest expense	$ 1,651	$ 427	$ 307

Interest expense increased $1,224 million in 1999 due to a higher average debt balance associated with our acquisitions, including debt outstanding for Broadband at the date of acquisition. Interest expense increased $120 million in 1998. After the sale of UCS on April 2, 1998, interest expense associated with debt previously attributed to UCS was reclassified from discontinued operations to continuing operations since we did not retire all of this debt. This reclassification is the primary reason for the increase in 1998.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Provision for income taxes	$ 3,257	$ 3,072	$ 2,723

The effective income tax rate is the provision for income taxes as a percent of income from continuing operations before income taxes. The effective income tax rate was 48.7% in 1999, 37.0% in 1998 and 39.0% in 1997. The effective income tax rate for AT&T Group was 37.4% in 1999, 37.0% in 1998 and 39.0% in 1997. The 1999 effective tax rate for AT&T Group was impacted by the in-process research and development charge, which was not tax deductible, and a change in the net operating loss utilization tax rules that resulted in a $75 million reduction in the valuation allowance and the income tax provision. In addition, the 1999 effective tax rate reflects tax benefits associated with investment dispositions, legal entity restructurings and other tax planning strategies. The effective tax rate for 1998 was impacted by the pooling of TCG's historical results, which did not include tax benefits on preacquisition losses, and the effects of certain foreign legal entity restructurings and investment dispositions.

Discontinued Operations

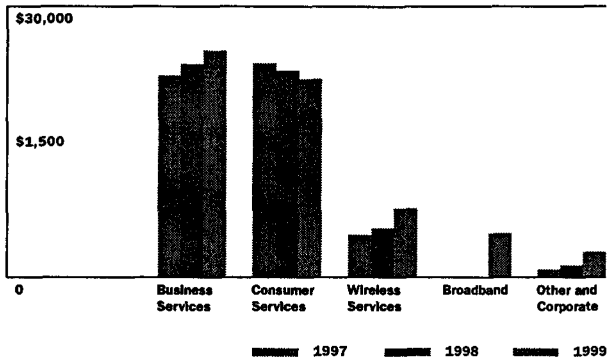
Pursuant to Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," the consolidated financial statements of AT&T reflect the dispositions of UCS, which was sold on April 2, 1998, and AT&T's submarine systems business (SSI), which was sold on July 1, 1997, as discontinued operations. Accordingly, the revenue, costs and expenses, and cash flows of these businesses have been excluded from the respective captions in the Consolidated Statements of Income and Consolidated Statements of Cash Flows, and have been reported through their respective dates of disposition as "Income from discontinued operations," net of applicable income taxes; and as "Net cash provided by(used in) discontinued operations." As of December 31, 1998, all businesses previously reported as discontinued operations have been disposed of; therefore, there was no impact to the Consolidated Balance Sheets presented. Gains associated with these sales are recorded as "Gains on sales of discontinued operations," net of applicable taxes.

Extraordinary Items

In August 1998, AT&T extinguished $1,046 million of TCG's debt. The $217 million pretax loss on the early extinguishment of debt was recorded as an extraordinary loss. The after-tax impact was $137 million, or $0.05 per diluted share.

Revenue by Segment

Dollars in millions



Segment Results

In support of the services we provide, we segment our results by the business units that support our primary lines of business: Business Services, Consumer Services, Wireless Services and Broadband. A fifth category, Other and Corporate, comprises the results of all other units of AT&T Group, including corporate staff functions. We supplementally discuss AT&T Solutions and International Operations and Ventures, which are both included in the Other and Corporate category. Although not a segment, we also discuss the results of LMG.

The discussion of segment results includes revenue; earnings, including other income(expense), before interest and taxes (EBIT); earnings, including other income(expense), before interest, taxes, depreciation and amortization (EBITDA); total assets; and capital additions. The discussion of EBITDA for Wireless Services and Broadband is modified to exclude other income (expense). Total assets for each segment include all assets, except intercompany receivables. Prepaid pension assets and corporate-owned or leased real estate are generally held at the corporate level and therefore are included in the Other and Corporate group. Shared network assets are allocated to the segments and reallocated each January, based on two years of volumes. Capital additions for each segment include capital expenditures for property, plant and equipment, acquisitions of licenses, additions to nonconsolidated investments, increases in franchise costs and additions to internal-use software.

EBIT is the primary measure used by AT&T's chief operating decision makers to measure AT&T's operating results and to measure segment profitability and performance. AT&T calculates EBIT as operating income plus other income(expense). In addition, management also uses EBITDA as a measure of segment profitability and performance, and is defined as EBIT plus depreciation and amortization. Interest and taxes are not factored into the profitability measure used by the chief operating decision makers;

therefore, trends for these items are discussed on a consolidated basis. Management believes EBIT is meaningful to investors because it provides analysis of operating results using the same measures used by AT&T's chief operating decision makers and provides a return on total capitalization measure. We believe EBITDA is meaningful to investors as a measure of each segment's liquidity consistent with the measure utilized by our chief operating decision makers. In addition, we believe that both EBIT and EBITDA allow investors a means to evaluate the financial results of each segment in relation to AT&T. Our calculation of EBIT and EBITDA may or may not be consistent with the calculation of these measures by other public companies. EBIT and EBITDA should not be viewed by investors as an alternative to generally accepted accounting principles (GAAP) measures of income as a measure of performance or to cash flows from operating, investing and financing activities as a measure of liquidity. In addition, EBITDA does not take into account changes in certain assets and liabilities that can affect cash flow.

Reflecting the dynamics of our business, we continually review our management model and structure. In 2000, we anticipate changes to our segments as follows: The Business Services segment will be expanded to include the results of AT&T Solutions, and Broadband results will be expanded to include the operations of MediaOne upon the completion of the merger. The Wireless Services segment will be expanded to include fixed wireless technology and certain international wireless investments.

Business Services

Our Business Services segment offers a variety of global communications services including long distance, local and data and IP networking to small and medium-sized businesses, large domestic and multinational businesses and government agencies. Business Services is also a provider of voice, data and IP transport to service resellers (wholesale services).

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
External revenue	$23,540	$22,706	$21,520
Internal revenue	1,562	905	811
Total revenue	25,102	23,611	22,331
EBIT	6,131	5,007	4,047
EBITDA	9,079	7,395	5,902
Capital additions	7,145	5,952	4,547
At December 31,	**1999**	**1998**	
Total assets	$25,107	$21,415	

Revenue In 1999, Business Services revenue grew $1,491 million, or 6.3%, driven by data and IP services, domestic long distance voice services and local services. Total calling volumes increased approximately 25% for the year. Revenue in 1998 increased $1,280 million, or 5.7%, led by growth in data services.

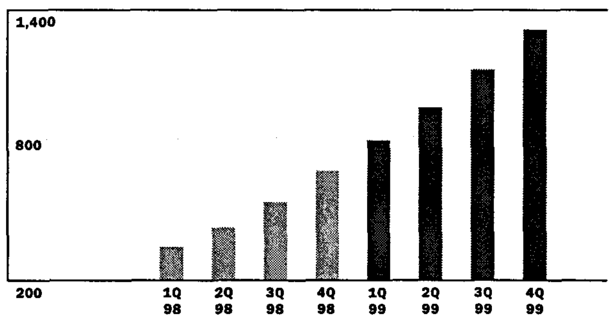
Data services, which is the transportation of data rather than voice along our network, grew at a high-teens rate in 1999 and at a mid-teens rate for 1998. Growth in each period was led by the continued strength of frame relay and high-speed private line, both of which are high-speed data-transmission services. On average in 1999, we added approximately 230 more net frame ports per month as compared with 1998. Also contributing to the revenue increase in 1999 was significant growth in IP services, such as AT&T WorldNet Services and virtual private network (VPN) services.

Long distance voice revenue grew at a low single-digit rate in both 1999 and 1998. The continued strength of volumes, as evidenced by a high-teens growth rate for 1999 and a near-teens growth rate for 1998, was largely mitigated by a declining average price per minute. The average price per minute has declined due to competitive forces within the industry that are expected to continue. Also impacting the average price per minute was a change in product mix, which in 1999 was largely attributable to an increase in our wholesale business sales, which had a lower rate per minute. Revenue in 1998 was also impacted by reductions in access costs that were passed on to customers in the form of lower rates.

Local voice service revenue grew more than 50% in 1999. During 1999, AT&T added more than 626,000 access lines, with the total reaching 1.3 million by the end of the year. Access lines enable AT&T to provide local service to customers by allowing direct connection from customer equipment to the AT&T network. AT&T serves more than 36,000 buildings in 89 metropolitan statistical areas (MSAs), with just over 5,800 of the buildings on network (buildings where AT&T owns the fiber that runs into the building). At the end of 1998, we served approximately 20,000 buildings in 83 MSAs, with about 5,200 buildings on network.

Access Lines

Thousands



Business Services internal revenue increased $657 million, or 72.5%, in 1999. The increase is the result of greater sales of business long distance services to other AT&T units, primarily AT&T Solutions (including the impact of AGNS) and Wireless Services, which resell such services to their external customers.

EBIT/EBITDA EBIT rose $1,124 million, or 22.5%, and EBITDA grew $1,684 million, or 22.8%, in 1999. Excluding 1999 restructuring and exit costs, EBIT increased 24.4% to $6,226 million and EBITDA increased 24.1% to $9,174 million. These increases were driven by revenue growth combined with margin improvement resulting from ongoing cost-control initiatives. The increase in EBIT was offset somewhat by increased depreciation and

amortization expenses resulting from increased capital expenditures aimed at data, IP and local services.

EBIT increased $960 million, or 23.7%, and EBITDA increased $1,493 million, or 25.3%, in 1998. The increases were driven by growth in revenue and the benefits reaped from cost-cutting initiatives. Partly offsetting the increase in EBIT and EBITDA in 1998 was the gain on the sale of Skynet, recorded in 1997. In addition, the EBIT improvements were partially offset by increased depreciation and amortization expenses correlated to the continued high levels of capital expenditures.

Other Items Capital additions increased $1,193 million and $1,405 million in 1999 and 1998, respectively. Spending in all periods reflects Business Services' portion of AT&T's investment to enhance our long distance network (including the data network), and spending on AT&T's local network.

Total assets increased $3,692 million, or 17.2%, at December 31, 1999, compared with December 31, 1998. The increase was primarily due to net increases in property, plant and equipment as a result of capital additions.

Consumer Services

Our Consumer Services segment provides to residential customers a variety of any-distance communications services including long distance, local toll (intrastate calls outside the immediate local area) and Internet access. In addition, Consumer Services provides prepaid calling-card and operator-handled calling services. Local phone service is also provided in certain areas. The costs associated with the development of fixed wireless technology are included in the Consumer Services segment results.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Revenue	$21,972	$22,885	$23,690
EBIT	7,968	6,568	4,922
EBITDA	8,845	7,298	5,694
Capital additions	859	526	1,010
At December 31,	1999	1998	
Total assets	$ 6,823	$ 6,561	

Revenue In 1999, Consumer Services revenue decreased $913 million, or 4.0%, on a mid single-digit decline in volumes. Revenue in 1998 fell $805 million, or 3.4%, on a low single-digit decline in volumes. Excluding AT&T WorldNet Services, revenue decreased 4.4% for 1999 and was down 3.8% in 1998. The declines in both years reflect the ongoing competitive nature of the consumer long distance industry, which has resulted in pricing pressures and a loss of customers. Also negatively impacting revenue growth was product substitution and market migration away from direct dial and calling card to rapidly growing wireless services. The entry of the Regional Bell Operating Companies (RBOCs) into the long distance market is expected to increase competitive pressures in 2000.

Demonstrating our commitment to providing customers with choice, simplicity and competitive rates, we introduced in August 1999, the AT&T One Rate® 7¢ offer, a simple, convenient calling plan that allows customers to make long distance calls 24 hours a day, seven days a week for 7 cents a minute. The offer has been extremely well received. At the end of 1999, we had enrolled more than 5.0 million customers, with more than 60% of those customers electing to bundle their 7-cent long distance with AT&T's local toll service. Approximately one-third of the customers enrolled in the 7-cent plan were new AT&T long distance customers.

AT&T WorldNet Services revenue increased 41.2% to $301 million in 1999, and 78.9% to $213 million in 1998. AT&T WorldNet Services served 1.5 million residential customers as of December 31, 1999, an increase of 29.5% over 1998. At December 31, 1998, AT&T WorldNet Services served 1.1 million residential customers, an increase of 22.3% over 1997.

EBIT/EBITDA EBIT grew $1,400 million, or 21.3%, and EBITDA grew $1,547 million, or 21.2%, in 1999. Adjusted to exclude the 1999 gain on the sale of the Language Line Services business and 1999 restructuring and exit costs, EBIT increased 19.1% to $7,823 million, and EBITDA increased 19.2% to $8,700 million. On this basis, EBIT margin improved to 35.6% in 1999 from 28.7% in the prior year. The EBIT and EBITDA growth for the year is reflective of ongoing cost-reduction efforts, particularly in marketing spending, as well as lower negotiated settlement rates.

For 1998, EBIT increased $1,646 million, or 33.4%, and EBITDA increased $1,604 million, or 28.2%. These increases were primarly driven by reduced SG&A expenses, largely due to AT&T's focus on high-value customers, which has led to lower spending on customer-acquisition and retention programs.

Other Items Capital additions increased $333 million, or 63.3%, in 1999, primarily due to increased spending on internal-use software to add more functionality to our services, in support of AT&T WorldNet Services subscriber growth and for fixed wireless equipment. In 1998, capital additions declined $484 million, or 47.9%. The decrease was primarily due to a decrease in the allocation of shared network assets due to lower consumer volumes as a percent of total volumes.

Total assets grew $262 million, or 4.0%, during 1999. The increase in total assets was primarily associated with the purchase of SmarTalk Tele-Services, Inc., in 1999. Also contributing to the growth were capital additions, offset somewhat by lower accounts receivable, as a result of lower revenue.

Wireless Services

Our Wireless Services segment offers wireless voice and data services and products to customers in our 850 megahertz (cellular) and 1900 megahertz (Personal Communications Services, or PCS) markets. Wireless Services also includes certain interests in partnerships and affiliates that provide wireless services in the United States and internationally, aviation communications services and the results of our messaging business through the October 2, 1998, date of sale.

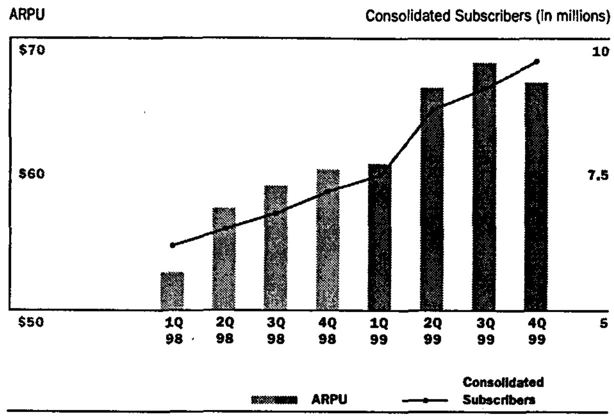
For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Revenue	$ 7,627	$ 5,406	$ 4,668
EBIT	(474)	182	366
EBITDA excluding other income(expense)	640	947	964
Capital additions	2,598	2,321	2,071

At December 31,	1999	1998
Total assets	$22,478	$19,115

Revenue Wireless Services revenue grew $2,221 million, or 41.1%, in 1999 compared with 1998. Wireless Services' 1999 results include Vanguard Cellular Systems, Inc. (Vanguard), since its acquisition in May 1999, and 1998 results include Wireless' messaging business until its sale on October 2, 1998. Adjusted to exclude both Vanguard and the messaging business, revenue grew to $7,304 million, up 39.0% for the year. The strength in revenue was driven by consolidated subscriber growth and higher average monthly revenue per user (ARPU), which demonstrates the continued successful execution of AT&T's wireless strategy of targeting and retaining high-value subscribers, expanding our national wireless footprint, focusing on digital service and offering simple rate plans.

AT&T Digital One Rate service, the first national, one-rate wireless service plan that eliminated separate roaming and long distance charges, significantly contributed to the increases in both subscribers and ARPU. For 1999, ARPU was approximately $66, an increase of 14.2% over 1998. Consolidated subscribers grew 33.4% to approximately 9.6 million at December 31, 1999. This included approximately 700,000 subscribers from our acquisition of Vanguard and 125,000 subscribers from our August 1999 acquisition of Honolulu Cellular Telephone Company (Honolulu). Total subscribers, including partnership markets in which AT&T does not own a controlling interest, were nearly 12.2 million at the end of 1999. We continue to rapidly migrate customers to digital service, which we believe improves capital efficiency, lowers network operating costs and allows us to offer higher-quality services. At the end of 1999, 79.2% of consolidated subscribers were being provided digital service, compared with 60.7% at the end of 1998. Including partnership markets, digital subscribers represented 77.1% of customers, compared with 54.9% at the end of 1998.

Average Revenue per User (ARPU) and Consolidated Subscribers



Wireless Services revenue grew $738 million, or 15.8%, in 1998. Adjusted to exclude the messaging business, 1998 revenue increased 17.2% compared with 1997. The increase was primarily driven by the strong response to AT&T Digital One Rate service, which was rolled out in May 1998, and a full-year impact in 1998 of eight new 1900 megahertz markets that were launched in the second half of 1997.

As of December 31, 1998, we had 7.2 million consolidated subscribers, an increase of 20.3% from December 31, 1997. Digital subscribers represented 60.7% of the consolidated subscribers, up from 29.3% at December 31, 1997. Including partnership markets, 54.9% of the 9.6 million total subscribers were being provided digital service at December 31, 1998.

EBIT/EBITDA During 1999, EBIT decreased $656 million. Excluding a $529 million asset impairment charge recorded in 1999, and the gain on the sale of SmarTone in 1998, EBIT decreased $24 million, or 31.4%, for the year. This decline was primarily driven by higher network operations costs, principally off-network roaming expenses as well as greater customer-acquisition and customer-care costs associated with the rapid growth of subscribers. Higher depreciation and amortization of a larger wireless asset base, coupled with lower earnings from our equity investments, also contributed to the EBIT decline. These impacts to EBIT were partly offset by revenue growth.

EBITDA, excluding other income(expense), decreased $307 million in 1999. EBITDA, excluding other income(expense) and the asset impairment charge, increased $222 million, or 23.4%. On this basis, EBITDA was favorably impacted by revenue growth, partially offset by higher off-network roaming expenses, as well as the rise in customer-acquisition and customer-care spending related to subscriber growth.

Off-network roaming expenses continue to negatively impact AT&T Wireless Services' results. However, compared with 1998, our average incollect rate per minute has declined 18.2%. The decline in incollect rates is expected to continue in 2000. Initiatives have been introduced to address off-network costs, including aggressively capturing more minutes on the AT&T network through capital expansion within existing and new markets, acquisitions and affiliate launches. Intercarrier roaming rates have declined significantly as a result of renegotiated roaming agreements and the deployment of Intelligent Roaming Database (IRDB) technology, which assists in identifying favorable roaming partners in areas not included in our wireless network.

In 1998, EBIT decreased 50.1%, and EBITDA, excluding other income(expense), fell 1.8%. Adjusted to exclude the 1998 gain on the sale of SmarTone and a charge in 1997 related to the write-down of our two-way messaging business, EBIT fell $447 million, or 84.8%. The decline in EBIT was primarily attributable to higher costs associated with a growing subscriber base, higher depreciation and amortization expenses due to our growing asset base and lower earnings from our equity investments. These declines were partially offset by growth in revenue. EBITDA, excluding other income(expense) and the 1997 two-way messaging charge, declined $97 million, or 9.3%, primarily due to greater costs associated with a growing subscriber base partially offset by revenue growth.

Other Items Capital additions increased by $277 million in 1999 and $250 million in 1998. The buildout of the 1900 megahertz markets was substantially completed in 1997. Since then, spending has focused on increasing the capacity and quality of our national wireless network in existing markets as well as the expansion of our national footprint.

Total assets increased $3,363 million, or 17.6%, from December 31, 1998. This increase was primarily due to increases in goodwill, licensing costs, and property, plant and equipment associated with our acquisitions of Vanguard and Honolulu. Capital expenditures and increased accounts receivable resulting from the growth in revenue also contributed to the 1999 increase in total assets.

Broadband

Our Broadband segment offers a variety of services through our cable broadband network, including traditional analog video and new services such as digital cable and AT&T@Home, our high-speed cable Internet access service. Also included in this segment are the operations associated with developing and installing the infrastructure that supports broadband telephony.

For the 10 Months Ended December 31,	1999
Dollars in millions	
Revenue	$ 4,871
EBIT	(2,276)
EBITDA excluding other income(expense)	645
Capital additions	4,759
At December 31,	1999
Total assets	$56,536

Revenue From the date of acquisition through December 31, 1999, Broadband revenue was $4,871 million. Broadband ended the year with 11.4 million basic cable customers, passing approximately 19.7 million homes, and had approximately 1.8 million digital-cable customers. Broadband's high-speed cable Internet service, AT&T@Home, ended 1999 with approximately 207,000 customers.

Broadband's telephony pilot market initiatives are progressing on schedule. As of the end of 1999, we had introduced broadband telephony service to customers in 16 cities within nine pilot markets and had nearly 8,300 broadband telephony customers. The markets include the California Bay Area (including Fremont), Chicago, Dallas, Denver, Pittsburgh, Seattle, Salt Lake City, St. Louis and Portland, Oregon.

EBIT/EBITDA Since the date of acquisition, EBIT for 1999 was a deficit of $2,276 million and EBITDA, excluding other income (expense), was $645 million. Included in Broadband's results was a $594 million in-process research and development charge and a $50 million charge relating to a contribution agreement entered into by Broadband to satisfy certain liabilities of Phoenixstar. In addition, our equity ownership in Excite@Home and Cablevision negatively impacted Broadband's 1999 EBIT by $942 million.

Other Items Broadband's capital additions for 1999, since the date of acquisition, were $4,759 million. In 1999, spending was largely directed toward cable-distribution systems, focusing on the upgrade of cable plants. Capital additions also included contributions to various nonconsolidated investments.

Other and Corporate

This group reflects the results of AT&T Solutions, our outsourcing and network management business, International Operations and Ventures, other corporate operations, corporate staff functions and elimination of transactions between segments. Included in AT&T Solutions are the results of AGNS, which was acquired for cash in phases throughout 1999.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Revenue	$ 2,819	$ 1,321	$ 888
EBIT	(991)	(3,023)	(2,056)
EBITDA	(273)	(2,547)	(1,587)
Capital additions	1,798	779	1,055
At December 31,	1999	1998	
Total assets	$20,002	$12,459	

Revenue For 1999, revenue increased $1,498 million, or 113.4%. Excluding the results of AGNS, the majority of which was acquired in April 1999, revenue for the year increased $285 million, or 21.5%. The increase was primarily driven by the continued strength of AT&T Solutions' outsourcing business, and growth in International Operations and Ventures. These increases were partially offset by the increase in the elimination of intercompany revenue and the sale of AT&T Solutions Customer Care (ASCC) in 1998. The elimination of revenue and profit generated by the sale of services between segments is primarily the result of sales of business long distance services to other AT&T units. For the year, intercompany revenue eliminated was $1,585 million, an increase of 62.5% from 1998. This increase can be attributed to the rise in Business Services' sales to AT&T Solutions (including the impact of AGNS) and Wireless Services.

Revenue increased $433 million, or 48.8%, in 1998. This revenue growth was primarily due to increases in International Operations and Ventures, and AT&T Solutions, partially offset by revenue of ASCC, which we sold in 1998.

EBIT/EBITDA EBIT and EBITDA deficits in 1999 improved $2,032 million, or 67.2%, and $2,274 million, or 89.3%, respectively. Adjusted to exclude the impacts of gains on sales of AT&T Canada and WOOD-TV in 1999 and ASCC and LIN-TV in 1998, and net restructuring and other charges in both 1999 and 1998, EBIT improved $217 million, or 18.6%, to a deficit of $959 million in 1999. On the same basis, EBITDA improved $460 million, or 65.8%, to a deficit of $240 million. The increases can be attributed to improvements in the operating performance of International Operations and Ventures, benefits from ongoing cost-control initiatives and the sales of miscellaneous investments. Negatively impacting the improvements in EBIT and EBITDA was less interest income due to a lower cash balance and distributions on trust preferred securities.

In 1998, the EBIT and EBITDA deficits increased 47.1% and 60.8%, respectively, over 1997. Adjusted to exclude restructuring and other charges recorded in 1998, gains on the 1998 sales of ASCC and LIN-TV and the 1997 restructuring reserve reversal, EBIT improved $980 million, or 45.4%, to a deficit of $1,176 million, and EBITDA improved $987 million, or 58.4%, to a deficit of $700 million in 1998. This was primarily due to lower corporate overhead related to headcount reductions and lower employee benefit costs, higher interest income associated with a larger cash balance, and improvements in the operating performance of AT&T Solutions and International Operations and Ventures.

Other Items Capital additions increased $1,019 million in 1999 and decreased $276 million in 1998. Additional spending in 1999 reflected increased international equity investments that support our global strategy. The decrease in 1998 reflected fewer international equity investments compared with 1997.

Total assets increased $7,543 million at December 31, 1999, primarily due to the acquisition of AGNS.

Supplemental Disclosures

AT&T Solutions

AT&T Solutions is composed of the Solutions outsourcing unit, the internal AT&T Information Technology Services unit and the recently acquired AT&T Global Network Services (AGNS). The results of AT&T Solutions are included in the Other and Corporate group.

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Revenue	$ 3,120	$ 1,098	$ 824
EBIT	(12)	31	(151)
EBITDA	482	307	135
Capital additions	384	280	289

At December 31,	1999	1998
Total assets	$ 7,064	$ 1,023

Revenue AT&T Solutions revenue for 1999 rose $2,022 million, or 184.1%. Adjusted to exclude the impact of the acquisition of AGNS, revenue grew $531 million, or 48.3%, to $1,629 million. For 1998 revenue grew 33.2% to $1,098 million. Throughout both 1999 and 1998, revenue strength was associated with the signing of new contracts as well as the expansion of services provided to existing clients.

AT&T Solutions, with more than 30,000 clients, including IBM, CitiGroup, Bank One, McGraw-Hill, United Health Group, Textron, JP Morgan, Merrill Lynch, MasterCard International and the State of Texas General Services Commission, has the potential for more than $11 billion in outsourcing revenue over the life of signed contracts. During the fourth quarter of 1999, AT&T Solutions signed multimillion dollar contracts with General Motors and Delphi Automotive Systems. Also, in January 2000, AT&T Solutions signed a contract with Acer, the world's third-largest manufacturer of personal computers, its first global agreement with a non-U.S.-based multinational corporation.

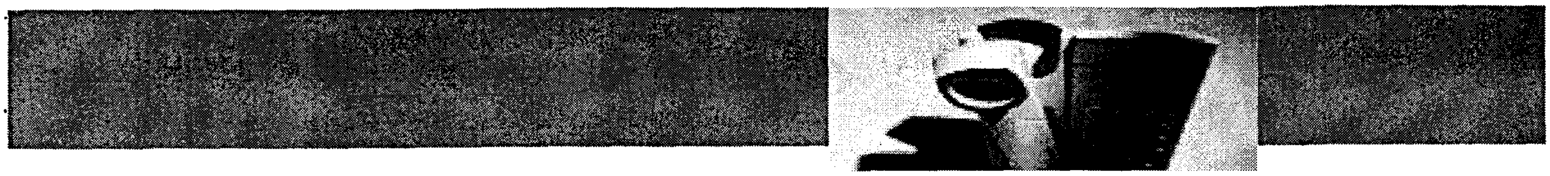
EBIT/EBITDA For 1999, EBIT declined $43 million and EBITDA improved $175 million. Adjusted to exclude the impact of AGNS, EBIT improved $61 million, or 192.0%, and EBITDA improved $85 million, or 27.4%. For 1998, EBIT improved $182 million, or 120.7%, and EBITDA improved $172 million, or 127.7%. For both periods, revenue growth combined with margin improvement resulting from ongoing cost-control initiatives drove the EBIT and EBITDA improvements.

Other Items Capital additions increased $104 million in 1999 and declined slightly in 1998. Increased spending in 1999 related to AGNS' purchases of client-support equipment. Spending in 1998 and 1997 was directed primarily toward the AT&T information-technology infrastructure.

Total assets increased $6,041 million, or 590.4%, at December 31, 1999, primarily due to goodwill and other intangible assets associated with the purchase of AGNS and increased accounts receivable.

International Operations and Ventures

International Operations and Ventures includes AT&T's consolidated foreign operations such as frame relay services in the United Kingdom, international carrier services and international online services. However, bilateral international long distance traffic is not included here; it is included in our Business and Consumer Services segments. The earnings or losses of AT&T's nonconsolidated international joint ventures and alliances, such as Alestra in Mexico, AT&T Canada Corp., Rogers Cantel in Canada and Japan Telecom, are also included. The results of International Operations and Ventures are included in the Other and Corporate group.



For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Revenue	$ 1,228	$ 1,083	$ 712
EBIT	(316)	(333)	(399)
EBITDA	(252)	(264)	(338)
Capital additions	1,095	155	496
At December 31,	**1999**	**1998**	
Total assets	$ 2,777	$ 1,915	

Revenue International Operations and Ventures revenue grew $145 million, or 13.5%, during 1999 and $371 million, or 52.1%, in 1998. International carrier services and frame relay services volume increases drove revenue growth in both years. In addition, nearly one-half of the revenue growth in 1998 can be attributed to the 1998 purchase of ACC Corp. During 1998, we streamlined our operations by divesting certain nonstrategic businesses. Such streamlining, which continued in 1999, along with the exit from additional businesses that would have competed directly with Concert, negatively impacted our revenue growth rate in 1999.

EBIT/EBITDA EBIT and EBITDA improved $17 million and $12 million, respectively, during 1999. Excluding restructuring and other charges, and certain gains and losses in 1999 and 1998, EBIT improved $131 million, or 52.9%, to a deficit of $117 million, and EBITDA improved $126 million, or 70.5%, to a deficit of $53 million, for the year. Such improvements can be attributed to the continued restructuring of international operations, which included the disposition of certain nonstrategic investments. Also contributing to the growth was the improving financial performance in other ventures and alliances, international carrier services and frame relay services. Negatively impacting EBIT and EBITDA were costs incurred during 1999 related to the launch of Concert.

EBIT improved $66 million and EBITDA improved $74 million in 1998 compared with 1997. Excluding an asset impairment charge recorded in 1998, EBIT improved $151 million, or 38.0%, to a deficit of $248 million, and EBITDA improved $159 million, or 47.1%, to a deficit of $179 million, compared with 1997. The EBIT and EBITDA improvements were primarily due to revenue increases and AT&T's efforts to streamline its international operations and exit nonstrategic and unprofitable businesses.

Other Items Capital additions in 1999 increased $940 million over 1998, to $1,095 million, driven by increased investments in nonconsolidated subsidiaries, such as AT&T Canada and Japan Telecom. Capital additions decreased $341 million in 1998 compared with 1997. The decrease was primarily due to the high level of spending in 1997, which was directed toward the funding of start-up ventures.

Total assets were $2,777 million at December 31, 1999, compared with $1,915 million at December 31, 1998. The increase was primarily due to investments in nonconsolidated subsidiaries, partially offset by the divestment of certain nonstrategic businesses.

Liberty Media Group

Liberty Media Group (LMG) produces, acquires and distributes entertainment, educational and informational programming services through all available formats and media. LMG is also engaged in electronic retailing services, direct marketing services, advertising sales relating to programming services, infomercials and transaction processing. Losses from LMG were $2,022 million from the date of acquisition through December 31, 1999.

Liquidity

For the Years Ended December 31,	1999	1998	1997
Dollars in millions			
Cash flow of continuing operations:			
Provided by operating activities	$11,635	$10,217	$ 8,501
(Used in)provided by investing activities	(27,043)	3,582	(6,755)
Provided by(used in) financing activities	13,272	(11,049)	(1,540)
EBITDA	$18,292	$13,415	$11,327

In 1999, net cash provided by operating activities of continuing operations increased $1,418 million. The increase was primarily driven by an increase in net income excluding the noncash impact of depreciation and amortization, restructuring and other charges, and the impact of losses from our equity investments. Partially offsetting this source was an increase in accounts receivable, driven by higher revenue, and an increase in our 1999 tax payments primarily related to the 1998 gain on the sale of UCS. The increase in net cash provided by operating activities in 1998 was primarily due to an increase in operational net income from continuing operations.

AT&T's investing activities resulted in a net use of cash of $27,043 million for 1999, compared with a net source of cash of $3,582 million for 1998. During 1999, AT&T used $14.3 billion for capital expenditures and other additions, contributed $5.5 billion of cash to LMG, purchased AGNS for $4.9 billion and loaned $1.5 billion to MediaOne to pay termination fees to Comcast Corporation (Comcast). During 1998, we received $5.7 billion as settlement of a receivable in conjunction with the sale of UCS as well as $3.5 billion in proceeds from the sale. Also in 1998, we received a total of $1.6 billion in proceeds from the sales of LIN-TV, ASCC and SmarTone. Our capital spending of $7.8 billion partially offset these 1998 sources of cash. During 1997, the primary use of cash was in connection with capital spending of $7.6 billion.

During 1999, net cash provided by financing activities was $13,272 million compared with cash used in financing activities of $11,049 million for 1998. During 1999, AT&T received $8.4 billion in cash from 1999 bond issuances, $10.2 billion from the issuance of commercial paper and short-term debt, and $5.0 billion from the issuance of convertible securities and warrants to Microsoft Corporation (Microsoft). Significant uses of cash were $3.9 billion for the repurchase of AT&T common stock, $2.8 billion to retire long-term debt, and $2.7 billion to pay dividends on common stock. In 1998, cash used in financing activities was largely attributable to the pay down of commercial paper and debt, and the repurchase of approximately $3 billion of AT&T common stock. The AT&T common stock repurchased in 1998 and 1999 was reissued in connection with the Broadband acquisition. Cash used in financing activities in 1997 was primarily for the payment of dividends on common stock.

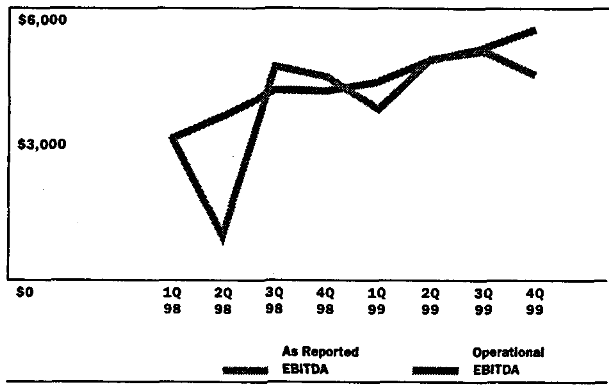
AT&T has $4.6 billion of registered notes and warrants to purchase notes available for public sale under a registration statement filed with the Securities and Exchange Commission. AT&T may sell notes under this registration statement based on market conditions. The board of directors recently authorized us to increase our long-term borrowing capacity by $10 billion. This would bring total notes available for public or private sale to $14.6 billion. Proceeds from the potential sale of private or publicly-placed notes and warrants will be used for funding investments in subsidiary companies, acquisitions of licenses, assets or businesses and general corporate purposes. In addition, we will receive funds from the initial public offering of AT&T Wireless tracking stock, which is expected to take place in the first half of 2000.

In 2000, we expect cash generated from operations to be the primary source of funding for our dividend requirements and capital expenditures. Since the majority of debt maturing within one year is commercial paper and debt with an original maturity of one year or less, we expect to fund repayments of these with other short-term borrowings.

At December 31, 1999, we had a 364-day, $7 billion revolving-credit facility with a consortium of 42 lenders. We also had additional 364-day, revolving-credit facilities of $3 billion. These lines were for commercial paper back-up and were unused at December 31, 1999. In addition, we had a $20 billion commitment from multiple lenders with credit agreements to be finalized upon consummation of the proposed merger with MediaOne. In February 2000, we negotiated the syndication of a new 364-day, $10 billion facility. As a result, the $3 billion credit facilities and the commitments associated with the $20 billion syndication terminated. Also in February 2000, the $7 billion revolving-credit facility expired.

EBITDA

Dollars in millions



*Excludes restructuring and other charges and certain gains and losses.

EBITDA [earnings, including other income(expense), before interest, taxes, depreciation and amortization] is a measure of our ability to generate cash flow and should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with generally accepted accounting principles. EBITDA increased $4,877 million, or 36.4%, to $18,292 million in 1999 compared with 1998. EBITDA increased $2,088 million, or 18.4%, to $13,415 million in 1998 compared with 1997. Excluding Broadband, AGNS, restructuring and other charges, and certain gains and losses, EBITDA increased 24.5% to $18,873 million in 1999 from $15,159 million in 1998. The increase was primarily due to increased revenue and an improving cost structure. Excluding restructuring and other charges, and certain gains and losses, EBITDA increased 33.2% in 1998 compared with 1997, primarily as a result of our cost-reduction efforts coupled with higher revenue.

Risk Management

We are exposed to market risk from changes in interest and foreign exchange rates, as well as changes in equity prices associated with affiliate companies. On a limited basis, we use certain derivative financial instruments, including interest rate swaps, options, forwards, equity hedges and other derivative contracts, to manage these risks. We do not use financial instruments for trading or speculative purposes. All financial instruments are used in accordance with board-approved policies.

We use interest rate swaps to manage the impact of interest rate changes on earnings and cash flows and also to lower our overall borrowing costs. We monitor our interest rate risk on the basis of changes in fair value. Assuming a 10% downward shift in interest rates at December 31, 1999 and 1998, the fair value of interest rate swaps and the underlying hedged debt would have changed by $3 million in both periods. Assuming a 10% downward shift in interest rates at December 31, 1999 and 1998, the fair value of unhedged debt would have increased by $938 million and $290 million, respectively.

We use forward and option contracts to reduce our exposure to the risk of adverse changes in currency exchange rates. We are subject to foreign exchange risk related to reimbursements to foreign telephone companies for their portion of the revenue billed by AT&T for calls placed in the United States to a foreign country. In addition, we are also subject to foreign exchange risk related to other foreign-currency-denominated transactions. As of December 31, 1999, we had a net unrealized loss on forward contracts of $27 million. As of December 31, 1998, we had a net unrealized gain on forward contracts of $9 million. Unrealized gains and losses are calculated based on the difference between the contract rate and the rate available to terminate the contracts. We monitor our foreign exchange rate risk on the basis of changes in fair value. Assuming a 10% appreciation in the U.S. dollar at December 31, 1999 and 1998, the fair value of these contracts would have resulted in additional unrealized losses of $29 million and $20 million, respectively. Because these contracts are entered into for hedging purposes, we believe that these losses would be largely offset by gains on the underlying firmly committed or anticipated transactions.

We use equity hedges to manage our exposure to changes in equity prices associated with stock appreciation rights of affiliated companies. Assuming a 10% decrease in equity prices of affiliated companies, the fair value of the equity hedge would have decreased by $81 million. Because these contracts are entered into for hedging purposes, we believe that the decrease in fair value would be largely offset by gains on the underlying transaction.

The changes in fair value, as discussed above, assume the occurrence of certain adverse market conditions. They do not consider the potential effect of favorable changes in market factors and do not represent projected losses in fair value that we expect to incur. Future impacts would be based on actual developments in global financial markets. We do not foresee any significant changes in the strategies used to manage interest rate risk, foreign currency rate risk or equity price risk in the near future.

Euro Conversion

On January 1, 1999, certain members of the European Union established fixed conversion rates between their existing currencies and the European Union's currency (Euro). The transition period is anticipated to extend through July 1, 2002. We have assessed the impact of the conversion on information-technology systems, currency exchange rate risk, derivatives and other financial instruments, continuity of material contracts as well as income tax and accounting issues. To date, the conversion has not had, nor do we expect the conversion during the transition period to have, a material effect on our consolidated financial statements.

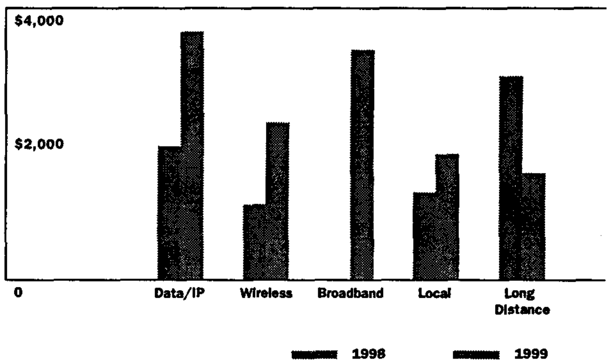
Financial Condition

At December 31,	1999	1998
Dollars in millions		
Total assets	$169,406	$59,550
Total liabilities	81,762	33,919
Total shareowners' equity	78,927	25,522

Total assets increased $109,856 million, or 184.5%, at December 31, 1999, primarily due to the impact of the Broadband acquisition, which resulted in franchise costs; increased other investments including Cablevision, Excite@Home and Lenfest Communications, Inc.; and the addition of property, plant and equipment. Property, plant and equipment also increased due to capital expenditures made during the year. In addition, assets increased due to Liberty Media Group, which is recorded as an equity investment, and the AGNS acquisition, which resulted in increased goodwill. These increases were partially offset by a net decrease in cash, which was used to partially fund capital expenditures, the common stock repurchases and the purchase of AGNS.

Capital Investments Support Growth Opportunities

Dollars in millions



Total liabilities at December 31, 1999, increased $47,843 million, or 141.0%, primarily due to the impact of the Broadband acquisition, particularly debt and deferred income taxes. In addition, we issued $8.5 billion of long-term debt and $10.2 billion of short-term debt to fund acquisitions, capital expenditures and the common stock repurchases. These increases were partially offset by the retirement of $2.8 billion of long-term debt.

At the time of the acquisition, TCI had mandatorily redeemable preferred securities that were issued through a subsidiary trust and preferred stock outstanding. In June 1999, Microsoft Corporation purchased $5.0 billion of quarterly convertible income preferred securities, which AT&T issued through a subsidiary trust. These securities are reflected between liabilities and shareowners' equity in the balance sheet. The preferred stock is recorded within minority interest in equity of consolidated subsidiaries.

Total shareowners' equity was $78,927 million at December 31, 1999. Total shareowners' equity includes the equity attributable to both AT&T common stock and Liberty Media tracking stock. The AT&T common stock equity at December 31, 1999, was $40,406 million, an increase of 58.3% from $25,522 million at December 31, 1998. This increase was primarily due to the issuance of shares related to Broadband, partially offset by shares repurchased. Liberty Media Group equity at December 31, 1999, was $38,521 million.

The ratio of total debt to total AT&T Group capital (debt divided by debt plus equity of AT&T Group) at December 31, 1999, was 44.3% compared with 20.9% at December 31, 1998. For purposes of this calculation, debt included $1.6 billion of redeemable preferred securities issued through a subsidiary trust of TCI, and equity included $5.0 billion of convertible preferred securities issued through a subsidiary trust of AT&T. The increase was primarily due to higher debt partially offset by a higher equity base.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." Among other provisions, it requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The effective date for this standard was delayed via the issuance of SFAS No. 137. The effective date for SFAS No. 133 is now for fiscal years beginning after June 15, 2000, though earlier adoption is encouraged and retroactive application is prohibited. For AT&T, this means that the standard must be adopted no later than January 1, 2001. Based on the types of derivatives we currently have, we do not expect the adoption of this standard will have a material impact on AT&T's results of operations, financial position or cash flows.

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," which must be adopted by March 31, 2000. We are currently assessing the impact of SAB 101 on our results of operations.

Year 2000

AT&T's Year 2000 (Y2K) program addressed the use of two-digit, instead of four-digit, year fields in computer systems. If computer systems could not distinguish between the year 1900 and the year 2000, system failures or other computer errors could have resulted. The potential for failures and errors spanned all aspects of our business, including computer systems, voice and data networks, and building infrastructures. We also needed to address our interdependencies with our suppliers, connecting carriers and major customers, all of whom faced the same concern. All computer systems were tested and repaired as of December 31, 1999, and no major Y2K-related problems were reported as the calendars rolled to January 1, 2000. The cost of AT&T's Y2K program was $725 million since inception in 1997. Total costs for 1999 were $275 million, of which approximately $45 million represented capital spending for upgrading and replacing noncompliant computer systems. Less than half of the 1999 costs represent internal information technology resources that were redeployed from other projects and are expected to return to these projects in 2000.

Subsequent Events

On January 5, 2000, AT&T and British Telecommunications plc (BT) announced financial closure of Concert. Concert began operations in 2000 as the leading global telecommunications company serving multinational business customers, international carriers and Internet service providers worldwide.

On January 18, 2000, we sold our ownership in Lenfest Communications, Inc. (Lenfest), to a subsidiary of Comcast. In connection with the sale, we received 48,555,280 shares of Comcast Class Special A common stock, which had a value of $2,510 million at the date of disposition.

On February 3, 2000, a registration statement was filed with the SEC for an initial public offering of AT&T Wireless Group tracking stock. The new tracking stock will provide current shareowners and future investors with a security tied directly to the economic performance of AT&T's Wireless business. AT&T Wireless Group will include voice and data mobility, fixed wireless and certain international wireless investments. At a special shareowner meeting in March, a proposal to create the tracking stock was approved. We intend to conduct an initial public offering of AT&T Wireless Group tracking stock in the second quarter. A distribution, which may be in the form of a dividend, exchange offer, or a combination of these, of the AT&T Wireless Group tracking stock is intended to be made to shareowners of AT&T common stock sometime thereafter. Holders of Liberty Media Group tracking stock will not be entitled to this distribution.

In February 2000, AT&T entered into an agreement with TeleCorp PCS, Inc., to swap certain licenses that we currently own in the midwestern United States as well as cash of approximately $100 million in exchange for licenses in several New England markets. The transaction is expected to close in the fourth quarter of 2000.

Legislative and Regulatory Developments

The Telecommunications Act of 1996 was designed to foster local exchange competition by establishing a regulatory framework to govern new competitive entry in local and long distance telecommunications services. The Telecommunications Act also permits Regional Bell Operating Companies (RBOCs) to provide interexchange services originating in any state in its region after demonstrating to the FCC that such provision is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act.

A number of court decisions in 1997 severely restricted implementation of the Telecommunications Act and delayed local service competition. Recent rulings, however, have upheld the Telecommunications Act. Despite these favorable rulings, there can be no assurance that the prices and other conditions established in each state will provide for effective local service entry and competition or provide AT&T with new market opportunities.

In July 1997, the United States Court of Appeals for the Eighth Circuit vacated the pricing rules that the FCC had adopted to implement the sections of the local competition provisions of the Telecommunications Act applicable to interconnection with local exchange carrier (LEC) networks and the purchase of unbundled network elements and wholesale services from LECs. In October 1997, the Eighth Circuit vacated an FCC Rule that had prohibited incumbent LECs from separating network elements that are combined in the LECs' network, except at the request of the competitor purchasing the elements. These decisions increased the difficulty and costs of providing competitive local service through the use of unbundled network elements purchased from the incumbent LECs.

On December 31, 1997, the U.S. District Court for the Northern District of Texas issued a memorandum opinion and order holding that the Telecommunications Act's restrictions on the provision of in-region, interLATA service by the RBOCs are unconstitutional. AT&T and other carriers (collectively, "intervenors") filed an appeal with the United States Court of Appeals for the Fifth Circuit. On February 11, 1998, the District Court suspended the effectiveness of its December 31 memorandum opinion and order pending appeal.

On September 4, 1998, the United States Court of Appeals for the Fifth Circuit rejected arguments that the Telecommunications Act is unconstitutional, and reversed the district court's contrary opinion. On December 22, 1998, the United States Court of Appeals for the District of Columbia Circuit rejected a similar challenge to the constitutionality of the Telecommunications Act. On January 19, 1999, the United States Supreme Court denied petitions filed by the RBOCs to review the decision of the Fifth Circuit Court of Appeals.

On January 25, 1999, the United States Supreme Court issued a decision reversing the Eighth Circuit Court of Appeals' holding that the FCC lacks jurisdiction to establish pricing rules applicable to interconnection and the purchase of unbundled network elements, and the Court of Appeals' decision to vacate the FCC's rule prohibiting incumbent LECs from separating network elements that are combined in the LECs' networks. The effect of the Supreme Court's decision is to reinstate the FCC's rules governing pricing and the separation of unbundled network elements. The Eighth Circuit Court of Appeals will now consider the incumbent LECs' claims that although the FCC has jurisdiction to adopt pricing rules, the rules it adopted are not consistent with the applicable provisions of the Act. The Supreme Court also vacated the FCC's rule identifying and defining the unbundled network elements that incumbent LECs are required to make available to new entrants, and directed the FCC to re-examine this issue in light of the standards mandated by the Telecommunications Act.

In response to the Supreme Court's decision, the FCC completed its re-examination and released an order identifying and defining the unbundled network elements that incumbent LECs are required to make available to new entrants. That order readopted the original list of elements, with certain exceptions. An association of incumbent LECs has appealed the FCC's order to the United States Court of Appeals for the District of Columbia Circuit, and asked the Court to hear the appeal on an expedited basis.

A number of parties, including AT&T and other incumbent LECs, have petitioned the FCC to reconsider and/or clarify its order. The FCC has moved to hold the appeal in abeyance pending its disposition of the reconsideration petitions.

In view of the proceedings pending before the Eighth Circuit, D.C. Circuit, FCC and state public utility commissions, there can be no assurance that the prices and other conditions established in each state will provide for effective local service entry and competition or provide AT&T with new market opportunities.

In December 1999, Bell Atlantic obtained approval to offer long distance telecommunications service in New York State, the first time an RBOC had received this approval under the Telecommunications Act. Bell Atlantic began offering combined local and long distance service in January 2000.

In January 2000, SBC Communications, Inc., filed with the FCC an application for authorization to offer long distance telecommunications service in Texas. Under the Telecommunications Act, the FCC is required to issue a decision on the application by April 2000.

Competition

AT&T currently faces significant competition and expects that the level of competition will continue to increase. The Telecommunications Act permits RBOCs to provide interLATA interexchange services after demonstrating to the FCC that such provision is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act. The RBOCs have petitioned the FCC for permission to provide interLATA interexchange services in one or more states within their home markets; to date the FCC has granted only one petition. In December 1999, Bell Atlantic became the first RBOC to obtain FCC approval to provide long distance in a state within its home territory, in New York. In January 2000, SBC Communications, Inc., applied to the FCC for authorization to provide long distance service in Texas; by law, the FCC is required to rule on the application in April 2000.

To the extent that the RBOCs obtain in-region interLATA authority before the Telecommunications Act's checklist of conditions has been fully or satisfactorily implemented and adequate facilities-based local exchange competition exists, there is a substantial risk that AT&T and other interexchange service providers would be at a disadvantage to the RBOCs in providing both local service and combined service packages. Because it is widely anticipated that substantial numbers of long distance customers will seek to purchase local, interexchange and other services from a single carrier as part of a combined- or full-service package, any competitive disadvantage, inability to profitably provide local service at competitive rates, or delays or limitations in providing local service or combined-service packages is likely to adversely affect AT&T's future revenue and earnings. In addition, the simultaneous entrance of numerous new competitors for interexchange and combined-service packages is likely to adversely affect AT&T's long distance revenue and could adversely affect earnings.

Six-Year Summary of Selected Financial Data (Unaudited)

AT&T Corp. and Subsidiaries

Dollars in millions (except per share amounts)	1999[1,2]	1998[2]	1997	1996	1995[2]	1994
Results of Operations						
Revenue	$ 62,391	$ 53,223	$ 51,577	$ 50,688	$ 48,449	$ 46,063
Operating income	10,859	7,487	6,836	8,709	5,169	7,393
Income from continuing operations	3,428	5,235	4,249	5,458	2,981	4,230
Earnings per Common Share						
AT&T Group income from continuing operations:						
Basic[2]	$ 1.77	$ 1.96	$ 1.59	$ 2.07	$ 1.15	$ 1.65
Diluted[2]	1.74	1.94	1.59	2.07	1.14	1.64
Dividends declared per AT&T Group common share	0.88	0.88	0.88	0.88	0.88	0.88
Liberty Media Group loss[3]:						
Basic and diluted	1.61	—	—	—	—	—
Assets and Capital						
Property, plant and equipment, net	$ 39,618	$ 26,903	$ 24,203	$ 20,803	$ 16,453	$ 14,721
Total assets – continuing operations	169,406	59,550	59,994	55,838	54,365	47,926
Total assets	169,406	59,550	61,095	57,348	62,864	57,817
Long-term debt	21,591	5,556	7,857	8,878	8,913	9,138
Total debt	34,224	6,727	11,942	11,351	21,081	18,720
Mandatorily redeemable preferred securities	1,626	—	—	—	—	—
Shareowners' equity	78,927	25,522	23,678	21,092	17,400	18,100
AT&T Group book value per common share	12.64	9.70	8.82	7.92	6.64	7.02
AT&T Group debt ratio[4]	44.3%	20.9%	33.5%	35.0%	54.8%	50.8%
Gross capital expenditures	13,511	7,981	7,714	7,084	4,659	3,504
Other Information						
Operating income as a percent of revenue	17.4%	14.1%	13.3%	17.2%	10.7%	16.1%
Income from continuing operations attributable to AT&T Group as a percent of revenue	8.7%	9.8%	8.2%	10.8%	6.2%	9.2%
Return on average common equity – AT&T Group	15.2%	25.3%	19.7%	27.1%	0.4%	29.5%
EBIT[5]	$ 10,358	$ 8,734	$ 7,279	$ 9,114	$ 5,439	$ 7,450
EBITDA[5]	18,292	13,415	11,327	11,995	8,112	9,914
Employees – AT&T Group continuing operations	147,800	107,800	130,800	128,700	126,100	116,400
Data at year-end:						
AT&T stock price per share[6]	50.81	50.50	40.87	27.54	29.60	22.97
Liberty Media Group A stock price per share	56.81	—	—	—	—	—
Liberty Media Group B stock price per share	68.75	—	—	—	—	—

1. In connection with the Tele-Communications, Inc. merger, which was completed March 9, 1999, AT&T issued separate tracking stock for Liberty Media Group (LMG). LMG is accounted for as an equity investment. AT&T Group refers to results excluding LMG.
2. Income from continuing operations attributable to AT&T Group included a net expense consisting of restructuring and other charges, and certain gains and losses of $1.5 billion, $1.1 billion and $2.0 billion in 1999, 1998 and 1995, respectively.
3. No dividends have been declared for LMG tracking stock.
4. Debt ratio reflects debt as a percent of total capital (debt plus equity). In 1999 debt included $1.6 billion of mandatorily redeemable preferred securities and equity included $5.0 billion of convertible securities.
5. EBIT [earnings, including other income(expense), before interest and taxes] and EBITDA (EBIT plus depreciation and amortization) for 1999 included $2.1 billion and $1.7 billion, respectively, of a net expense consisting of restructuring and other charges, and certain gains and losses. EBIT and EBITDA included $1.7 billion and $3.0 billion of a net expense consisting of restructuring and other charges, and certain gains and losses for 1998 and 1995, respectively.
6. AT&T Group earnings per share amounts and stock prices have been restated to reflect the April 1999 three-for-two stock split.

Report of Management

Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and all other financial information included in this report. Management is also responsible for maintaining a system of internal controls as a fundamental requirement for the operational and financial integrity of results. The financial statements, which reflect the consolidated accounts of AT&T Corp. and Subsidiaries and other financial information shown, were prepared in conformity with generally accepted accounting principles. Estimates included in the financial statements were based on judgments of qualified personnel. To maintain its system of internal controls, management carefully selects key personnel and establishes the organizational structure to provide an appropriate division of responsibility. We believe it is essential to conduct business affairs in accordance with the highest ethical standards as set forth in the AT&T Code of Conduct. These guidelines and other informational programs are designed and used to ensure that policies, standards and managerial authorities are understood throughout the organization. Our internal auditors monitor compliance with the system of internal controls by means of an annual plan of internal audits. On an ongoing basis, the system of internal controls is reviewed, evaluated and revised as necessary in light of the results of constant management oversight, internal and independent audits, changes in AT&T's business and other conditions. Management believes that the system of internal controls, taken as a whole, provides reasonable assurance that (1) financial records are adequate and can be relied upon to permit the preparation of financial statements in conformity with generally accepted accounting principles, and (2) access to assets occurs only in accordance with management's authorizations.

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 accountants to review the manner in which these groups of individuals are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Periodically, both the internal auditors and the independent accountants meet privately with the Audit Committee and have access to its individual members at any time.

The consolidated financial statements in this annual report have been audited by PricewaterhouseCoopers LLP, Independent Accountants. Their audits were conducted in accordance with generally accepted auditing standards and include an assessment of the internal control structure and selective tests of transactions. Their report follows.

C. Michael Armstrong Chairman of the Board, Chief Executive Officer	Charles H. Noski Senior Executive Vice President, Chief Financial Officer

Report of Independent Accountants

To the Board of Directors and Shareowners of AT&T Corp.:

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareowners' equity and of cash flows present fairly, in all material respects, the financial position of AT&T Corp. and its subsidiaries (AT&T) at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of AT&T's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Liberty Media Group, an equity method investee, which was acquired by AT&T on March 9, 1999. AT&T's financial statements include an investment of $38,460 million as of December 31, 1999, and an equity method loss of $2,022 million, for the year ended December 31, 1999. Those statements were audited 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 Liberty Media Group, as of and for the year ended December 31, 1999, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

March 9, 2000

Consolidated Statements of Income

AT&T Corp. and Subsidiaries

	For the Years Ended December 31,		
Dollars in millions (except per share amounts)	1999	1998	1997
Revenue	$ 62,391	$ 53,223	$ 51,577
Operating Expenses			
Access and other interconnection	14,686	15,328	16,350
Network and other costs of services	14,385	10,495	10,038
Selling, general and administrative	13,516	12,770	14,371
Depreciation and other amortization	6,138	4,378	3,728
Amortization of goodwill, franchise costs and other purchased intangibles	1,301	251	254
Net restructuring and other charges	1,506	2,514	—
Total operating expenses	51,532	45,736	44,741
Operating Income	10,859	7,487	6,836
Equity losses from Liberty Media Group	2,022	—	—
Other income(expense)	(501)	1,247	443
Interest expense	1,651	427	307
Income from continuing operations before income taxes	6,685	8,307	6,972
Provision for income taxes	3,257	3,072	2,723
Income from continuing operations	3,428	5,235	4,249
Discontinued Operations			
Income from discontinued operations (net of taxes of $6 and $50)	—	10	100
Gains on sales of discontinued operations (net of taxes of $799 and $43)	—	1,290	66
Income before extraordinary loss	3,428	6,535	4,415
Extraordinary loss (net of taxes of $80)	—	137	—
Net Income	$ 3,428	$ 6,398	$ 4,415
Per AT&T common share – basic:			
Income from continuing operations	$ 1.77	$ 1.96	$ 1.59
Income from discontinued operations	—	—	0.03
Gains on sales of discontinued operations	—	0.48	0.03
Extraordinary loss	—	0.05	—
AT&T Group earnings	$ 1.77	$ 2.39	$ 1.65
Per AT&T common share – diluted:			
Income from continuing operations	$ 1.74	$ 1.94	$ 1.59
Income from discontinued operations	—	—	0.03
Gains on sales of discontinued operations	—	0.48	0.03
Extraordinary loss	—	0.05	—
AT&T Group earnings	$ 1.74	$ 2.37	$ 1.65
Liberty Media Group loss per share:			
Basic and diluted	$ 1.61	$ —	$ —

The notes on pages 36 through 55 are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

AT&T Corp. and Subsidiaries

Dollars in millions	At December 31, 1999	1998
Assets		
Cash and cash equivalents	$ 1,024	$ 3,160
Receivables, less allowances of $1,507 and $1,060	10,453	9,055
Deferred income taxes	1,287	1,310
Other current assets	1,120	593
Total current assets	13,884	14,118
Property, plant and equipment, net	39,618	26,903
Franchise costs, net of accumulated amortization of $697	32,693	—
Licensing costs, net of accumulated amortization of $1,491 and $1,266	8,548	7,948
Goodwill, net of accumulated amortization of $363 and $226	7,445	2,205
Investment in Liberty Media Group and related receivables, net	38,460	—
Other investments	19,366	4,434
Prepaid pension costs	2,464	2,074
Other assets	6,928	1,868
Total assets	$169,406	$ 59,550
Liabilities		
Accounts payable	$ 6,771	$ 6,226
Payroll and benefit-related liabilities	2,651	1,986
Debt maturing within one year	12,633	1,171
Dividends payable	703	581
Other current liabilities	5,449	5,478
Total current liabilities	28,207	15,442
Long-term debt	21,591	5,556
Long-term benefit-related liabilities	3,964	4,255
Deferred income taxes	24,199	5,453
Other long-term liabilities and deferred credits	3,801	3,213
Total liabilities	81,762	33,919
Minority Interest in Equity of Consolidated Subsidiaries	2,391	109
Company-Obligated Convertible Quarterly Income Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debt Securities of AT&T	4,700	—
Subsidiary-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Subordinated Debt Securities of an AT&T Subsidiary	1,626	—
Shareowners' Equity		
Common Stock:		
AT&T Common Stock, $1 par value, authorized 6,000,000,000 shares; issued and outstanding 3,196,436,757 shares (net of 287,866,419 treasury shares) at December 31, 1999, and 2,630,391,784 shares (net of 80,222,341 treasury shares) at December 31, 1998	3,196	2,630
Liberty Media Group Class A Tracking Stock, $1 par value, authorized 2,500,000,000 shares; issued and outstanding 1,156,778,730 shares at December 31, 1999	1,157	—
Liberty Media Group Class B Tracking Stock, $1 par value, authorized 250,000,000 shares; issued and outstanding 108,421,114 shares at December 31, 1999	108	—
Additional paid-in capital	60,792	15,195
Guaranteed ESOP obligation	(17)	(44)
Retained earnings	6,712	7,800
Accumulated other comprehensive income	6,979	(59)
Total shareowners' equity	78,927	25,522
Total liabilities and shareowners' equity	$169,406	$ 59,550

The notes on pages 36 through 55 are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Shareowners' Equity

AT&T Corp. and Subsidiaries

	For the Years Ended December 31,		
Dollars in millions	1999	1998	1997
AT&T Common Shares			
Balance at beginning of year	$ 2,630	$ 2,684	$ 2,662
Shares issued (acquired), net:			
Under employee plans	—	2	2
For acquisitions	566	(56)	19
Other	—	—	1
Balance at end of year	3,196	2,630	2,684
Liberty Media Group Class A Tracking Stock			
Balance at beginning of year	—	—	—
Shares issued, net:			
For acquisitions	1,140	—	—
Other	17	—	—
Balance at end of year	1,157	—	—
Liberty Media Group Class B Tracking Stock			
Balance at beginning of year	—	—	—
Shares issued (acquired), net:			
For acquisitions	110	—	—
Other	(2)	—	—
Balance at end of year	108	—	—
Additional Paid-In Capital			
Balance at beginning of year	15,195	17,121	16,624
Shares issued (acquired), net:			
Under employee plans	431	67	(8)
Under shareowner plans	—	—	9
For acquisitions	43,675	(2,105)	117
Other	339	112	379
Common stock warrants issued	306	—	—
Gain on issuance of common stock by affiliates	667	—	—
Other	179	—	—
Balance at end of year	60,792	15,195	17,121
Guaranteed ESOP Obligation			
Balance at beginning of year	(44)	(70)	(96)
Amortization	27	26	26
Balance at end of year	(17)	(44)	(70)
Retained Earnings			
Balance at beginning of year	7,800	3,981	1,902
Net income	3,428	6,398	4,415
Dividends declared	(2,807)	(2,230)	(2,145)
Treasury shares issued at less than cost	(1,709)	(370)	(187)
Other changes	—	21	(4)
Balance at end of year	6,712	7,800	3,981
Accumulated Comprehensive Income			
Balance at beginning of year	(59)	(38)	—
Other comprehensive income	7,038	(21)	(38)
Balance at end of year	6,979	(59)	(38)
Total Shareowners' Equity	$ 78,927	$ 25,522	$ 23,678
Summary of Total Comprehensive Income:			
Net income	$ 3,428	$ 6,398	$ 4,415
Other comprehensive income [net of taxes of $4,600, $(53) and $(24)]	7,038	(21)	(38)
Comprehensive Income	$ 10,466	$ 6,377	$ 4,377

AT&T accounts for treasury stock as retired stock, and as of December 31, 1999, had 288 million treasury shares of which 216 million shares were owned by Tele-Communications, Inc., subsidiaries and 70 million shares related to the purchase of AT&T shares previously owned by Liberty Media Group.

We have 100 million authorized shares of preferred stock at $1 par value. No preferred stock is currently issued or outstanding.

The notes on pages 36 through 55 are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

AT&T Corp. and Subsidiaries

Dollars in millions	1999	1998	1997
	For the Years Ended December 31,		
Operating Activities			
Net income	$ 3,428	$ 6,398	$ 4,415
Deduct: Income from discontinued operations	—	10	100
Gains on sales of discontinued operations	—	1,290	66
Add: Extraordinary loss on retirement of debt	—	137	—
Income from continuing operations	3,428	5,235	4,249
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Gains on sales of businesses and investments	(682)	(959)	(208)
Net restructuring and other charges	1,209	2,362	—
Depreciation and amortization	7,439	4,629	3,982
Provision for uncollectibles	1,416	1,389	1,522
Equity losses from Liberty Media Group	2,022	—	—
Net losses(earnings) from other equity investments	1,155	68	(31)
Increase in accounts receivable	(2,891)	(1,577)	(1,034)
Increase(decrease) in accounts payable	116	(467)	125
Net change in other operating assets and liabilities	(1,180)	5	(832)
Other adjustments for noncash items, net	(397)	(468)	728
Net cash provided by operating activities of continuing operations	11,635	10,217	8,501
Investing Activities			
Capital expenditures and other additions	(14,306)	(7,817)	(7,604)
Proceeds from sale or disposal of property, plant and equipment	286	104	169
Decrease(increase) in other receivables	17	6,403	(465)
Net acquisitions of licenses	(6)	(97)	(435)
Sales of marketable securities	—	2,003	479
Purchases of marketable securities	—	(1,696)	(345)
Equity investment distributions and sales	1,875	1,516	583
Equity investment contributions and purchases	(8,121)	(1,281)	(484)
(Acquisitions)dispositions of businesses including cash acquired in acquisitions	(6,711)	4,507	1,507
Other investing activities, net	(77)	(60)	(160)
Net cash (used in)provided by investing activities of continuing operations	(27,043)	3,582	(6,755)
Financing Activities			
Proceeds from long-term debt issuances	8,396	17	—
Retirements of long-term debt	(2,774)	(2,610)	(737)
Issuance of convertible securities	4,638	—	—
Issuance of common shares	—	32	240
Net acquisition of treasury shares	(4,624)	(3,321)	(69)
Dividends paid on common stock	(2,712)	(2,187)	(2,142)
Distributions on trust preferred securities	(254)	—	—
Increase(decrease) in short-term borrowings, net	10,238	(3,033)	1,114
Other financing activities, net	364	53	54
Net cash provided by(used in) financing activities of continuing operations	13,272	(11,049)	(1,540)
Net cash provided by(used in) discontinued operations	—	92	(84)
Net (decrease)increase in cash and cash equivalents	(2,136)	2,842	122
Cash and cash equivalents at beginning of year	3,160	318	196
Cash and cash equivalents at end of year	$ 1,024	$ 3,160	$ 318

The notes on pages 36 through 55 are an integral part of the consolidated financial statements.

Dollars in millions unless otherwise noted (except per share amounts)

1 Summary of Significant Accounting Policies

Consolidation
The consolidated financial statements include all majority-owned and controlled subsidiaries. Investments in majority-owned subsidiaries where control does not exist and investments in which we exercise significant influence but do not control (generally a 20% to 50% ownership interest) are accounted for under the equity method of accounting. This represents the majority of our investments. Investments in which we have less than a 20% ownership interest and in which there is no significant influence are accounted for under the cost method of accounting.

Foreign Currency Translation
For operations outside the United States that prepare financial statements in currencies other than the U.S. dollar, we translate income statement amounts at average exchange rates for the year, and we translate assets and liabilities at year-end exchange rates. We present these translation adjustments as a component of accumulated other comprehensive income within shareowners' equity. Gains and losses from foreign currency transactions are included in results of operations.

Revenue Recognition
We recognize long distance, local and wireless services revenue based upon minutes of traffic processed or contracted fee schedules. Cable installation revenue is recognized in the period the installation services are provided to the extent of direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that customers are expected to remain connected to the cable distribution systems. We recognize products and other services revenue when the products are delivered and accepted by customers and when services are provided in accordance with contract terms.

Advertising and Promotional Costs
We expense costs of advertising and promotions, including cash incentives used to acquire customers, as incurred. Advertising and promotional expenses were $1,804, $1,920 and $1,995 in 1999, 1998 and 1997, respectively.

Investment Tax Credits
We amortize investment tax credits as a reduction to the provision for income taxes over the useful lives of the assets that produced the credits.

Cash Equivalents
We consider all highly liquid investments with original maturities of generally three months or less to be cash equivalents.

Property, Plant and Equipment
We state property, plant and equipment at cost and determine depreciation based upon the assets' estimated useful lives using either the group or unit method. The useful lives of communications and network equipment range from three to 15 years. The useful lives of other equipment ranges from three to seven years. The useful lives of buildings and improvements range from 10 to 40 years. The group method is used for most depreciable assets, including the majority of the communications and network equipment. When we sell or retire assets depreciated using the group method, the cost is deducted from property, plant and equipment and charged to accumulated depreciation, without recognition of a gain or loss. The unit method is primarily used for large computer systems and support assets. When we sell assets that were depreciated using the unit method, we include the related gains or losses in other income(expense).

We use accelerated depreciation methods primarily for certain high-technology computer-processing equipment and digital equipment used in the telecommunications network, except for switching equipment placed in service before 1989, where a straight-line method is used. All other plant and equipment, including capitalized software, is depreciated on a straight-line basis.

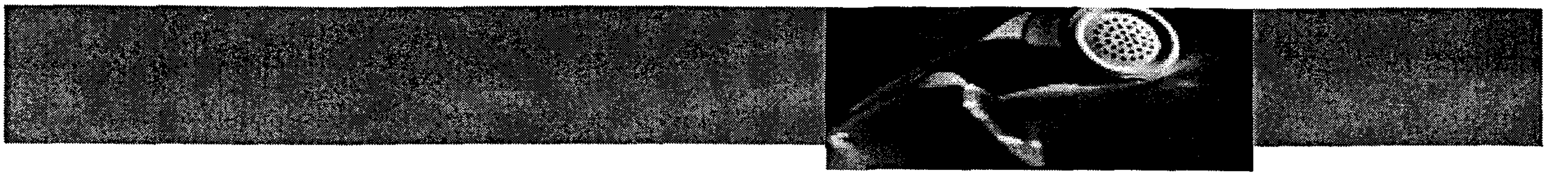
Licensing Costs
Licensing costs are costs incurred to develop or acquire cellular and personal communications services (PCS) licenses. Generally, amortization begins with the commencement of service to customers and is computed using the straight-line method over periods of 35 or 40 years.

Franchise Costs
Franchise costs include the value attributed to agreements with local authorities that allow access to homes in cable service areas acquired in connection with a business combination. Such amounts are amortized on a straight-line basis over 40 years.

Goodwill
Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. We amortize goodwill on a straight-line basis over the periods benefited, ranging from five to 40 years.

Software Capitalization
In 1998, AT&T adopted Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In accordance with this standard, certain direct development costs associated with internal-use software are capitalized, including external direct costs of material and services, and payroll costs for employees devoting time to the software projects. These costs are included within other assets and are amortized over a period not to exceed five years beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred. AT&T also capitalizes initial operating-system software costs and amortizes them over the life of the associated hardware.

AT&T also capitalizes costs associated with the development of application software incurred from the time technological feasibility is established until the software is ready to provide service to customers. These capitalized costs are included in property, plant and equipment and are amortized over a useful life not to exceed five years.



Valuation of Long-Lived Assets
Long-lived assets such as property, plant and equipment, licensing costs, franchise costs, goodwill, investments and software are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Derivative Financial Instruments
We use various financial instruments, including derivative financial instruments, for purposes other than trading. We do not use derivative financial instruments for speculative purposes. Derivatives, used as part of our risk-management strategy, must be designated at inception as a hedge and measured for effectiveness both at inception and on an ongoing basis. Gains and losses related to qualifying hedges of foreign currency firm commitments are deferred in current assets or liabilities and recognized as part of the underlying transactions as they occur. All other foreign exchange contracts are marked to market on a current basis and the respective gains or losses are recognized in other income(expense). Interest rate differentials associated with interest rate swaps used to hedge AT&T's debt obligations are recorded as an adjustment to interest payable or receivable with the offset to interest expense over the life of the swaps. If we terminate an interest rate swap agreement, the gain or loss is deferred and amortized over the remaining life of the liability. Cash flows from financial instruments are classified in the Consolidated Statements of Cash Flows under the same categories as the cash flows from the related assets, liabilities or anticipated transactions.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as long-term contracts, allowance for doubtful accounts, depreciation and amortization, employee benefit plans, taxes, restructuring reserves and contingencies.

Concentrations
As of December 31, 1999, we do not have any significant concentration of business transacted with a particular customer, supplier or lender that could, if suddenly eliminated, severely impact our operations. We also do not have a concentration of available sources of labor, services, franchises, or licenses or other rights that could, if suddenly eliminated, severely impact our operations. We invest our cash with several high-quality credit institutions.

Issuance of Common Stock by Affiliates
Changes in our proportionate share of the underlying equity of a subsidiary or equity method investee, which result from the issuance of additional equity securities by such entity, are recognized as increases or decreases to additional paid-in capital in the Consolidated Statements of Shareowners' Equity.

Reclassifications and Restatements
We reclassified certain amounts for previous years to conform to the 1999 presentation. In addition, we restated prior years' share and per share amounts to reflect the April 1999 three-for-two split of AT&T's common stock.

2 Supplementary Financial Information

Supplementary Income Statement Information

For the Years Ended December 31,	1999	1998	1997
Included in Selling, General and Administrative Expenses			
Research and development expenses	$ 550	$ 513	$ 633
Other Income(Expense)			
Interest income	$ 147	$ 322	$ 59
Minority interests in (earnings) losses of subsidiaries	(23)	34	(12)
Distributions on trust preferred securities	(254)	—	—
Net (losses)earnings from equity investments	(1,155)	(68)	31
Officers' life insurance	71	63	68
Gains on sales of businesses and investments	682	959	208
Miscellaneous, net	31	(63)	89
Total other income(expense)	$ (501)	$ 1,247	$ 443
Deducted from Interest Expense			
Capitalized interest	$ 143	$ 197	$ 254

Supplementary Balance Sheet Information

At December 31,	1999	1998
Property, Plant and Equipment		
Communications, network and other equipment	$ 60,985	$ 44,806
Buildings and improvements	8,104	7,098
Land and improvements	586	373
Total property, plant and equipment	69,675	52,277
Accumulated depreciation	(30,057)	(25,374)
Property, plant and equipment, net	$ 39,618	$ 26,903

Supplementary Shareowners' Equity Information

For the Years Ended December 31,	1999	1998	1997
Net foreign currency translation adjustment [net of taxes of $87, $(3), $(18)]	$ 148	$ (5)	$ (20)
Net revaluation of investments [net of taxes of $4,506, $(35), $(6)]	6,878	(25)	(4)
Net minimum pension liability adjustment [net of taxes of $7, $(15), $0]	12	9	(14)
Other comprehensive income	$ 7,038	$ (21)	$ (38)

In 1999, other comprehensive income included Liberty Media Group's foreign currency translation adjustments totaling $60, net of applicable taxes, and revaluation of Liberty Media Group's available-for-sale securities totaling $6,497, net of applicable taxes.

Supplementary Cash Flow Information

For the Years Ended December 31,	1999	1998	1997
Interest payments net of amounts capitalized	$ 1,311	$ 422	$ 250
Income tax payments	3,906	2,881	2,416

3 Merger with Tele-Communications, Inc. (TCI)

The merger with TCI, renamed AT&T Broadband (Broadband), was completed on March 9, 1999, in an all-stock transaction valued at approximately $52 billion. Each share of TCI Group Series A common stock was converted into 1.16355 shares of AT&T common stock, and each share of TCI Group Series B common stock was converted into 1.27995 shares of AT&T common stock. AT&T issued approximately 664 million shares of AT&T common stock in the transaction, of which approximately 149 million were treasury shares. The total shares had an aggregate market value of approximately $27 billion. Certain subsidiaries of TCI held TCI Group Series A common stock, which was converted into 216 million shares of AT&T common stock. These subsidiaries continue to hold these shares, which are reflected as treasury stock in the accompanying Consolidated Balance Sheet at December 31, 1999.

In addition, TCI simultaneously combined its Liberty Media Group programming business with its TCI Ventures Group technology investments business, forming Liberty Media Group (LMG). In connection with the closing, AT&T issued a separate tracking stock in exchange for the TCI Liberty Media Group and TCI Ventures Group tracking shares previously outstanding. We issued 1,140 million shares of Liberty Media Group Class A tracking stock (including 60 million shares related to the conversion of convertible notes) and 110 million shares of Liberty Media Group Class B tracking stock. The aggregate market value of shares issued in conjunction with the merger was approximately $23 billion. The tracking stock is designed to reflect the separate economic performance of LMG.

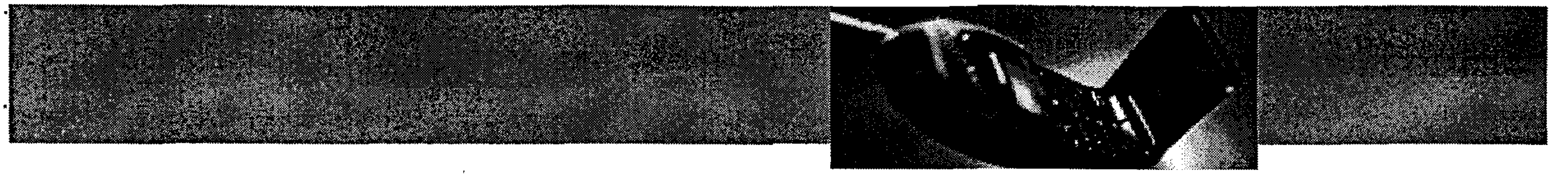
AT&T does not have a controlling financial interest for financial accounting purposes in LMG; therefore, our investment in LMG has been reflected as an investment accounted for under the equity method in the accompanying consolidated financial statements. The amounts attributable to LMG are reflected as separate line items "Equity losses from Liberty Media Group" and "Investment in Liberty Media Group and related receivables, net," in the accompanying consolidated financial statements. As a separate tracking stock, all of the earnings or losses related to LMG are excluded from the earnings available to the holders of AT&T common stock, referred to as AT&T Group.

In general, the holders of shares of Liberty Media Group Class A common stock and Liberty Media Group Class B common stock will vote together as a single class with the holders of shares of AT&T common stock on all matters presented to such stockholders. Each share of Liberty Media Group Class A common stock is entitled to three-fortieths of a vote, and each share of Liberty Media Group Class B common stock is entitled to three-fourths of a vote. The AT&T common stock continues to have one vote per share.

The merger was accounted for under the purchase method of accounting and, accordingly, the results of Broadband have been included with the financial results of AT&T since the date of acquisition. The operating results of Broadband have been included in the accompanying consolidated financial statements at their preliminary fair value since March 1, 1999, the deemed effective date of acquisition for accounting purposes. The impact of the results from March 1–9, 1999, were deemed immaterial to our consolidated results. Periods prior to the merger were not restated to include the results of Broadband.

The $52 billion aggregate value assigned to Broadband's net assets was composed of AT&T common stock of approximately $27 billion, Liberty Media Group tracking stock of approximately $23 billion, and assumption of convertible notes and preferred stock of approximately $2 billion.

Approximately $19 billion of the purchase price of $52 billion was attributed to franchise costs and is being amortized on a straight-line basis over 40 years. Franchise costs represent the value attributable to the agreements with local franchise authorities that allow access to homes in our broadband service areas. Pursuant to Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," AT&T recorded an approximate $12 billion deferred tax liability in connection with this franchise intangible, which is also included in franchise costs. We do not expect that this deferred tax liability will ever be paid. This deferred tax liability is being amortized on a straight-line basis over 40 years and is included in the provision for income taxes. Also included in the $52 billion purchase price was approximately $11 billion related to nonconsolidated investments, approximately $5 billion related to property, plant and equipment and approximately $11 billion of Broadband long-term debt. In addition, our investment in LMG was recorded at approximately $34 billion, including approximately $11 billion of goodwill that is being amortized on a straight-line basis over 20 years as a component of "Equity losses from Liberty Media Group."



We may make additional refinements to the allocation of the purchase price in the first quarter of 2000 as the related appraisals of certain assets and liabilities are finalized.

Following is a summary of the pro forma results of AT&T as if the merger had closed effective January 1, 1998:

Shares in millions For the Years Ended December 31,	(Unaudited) 1999	1998
Revenue	$ 63,332	$59,426
Income from continuing operations	2,856	3,829
Net income	2,856	4,992
Weighted-average AT&T Group common shares	3,181	3,146
Weighted-average AT&T Group common shares and potential common shares	3,299	3,251
Weighted-average Liberty Media Group shares	1,259	1,190
Basic earnings per AT&T common share:		
Income from continuing operations	$ 1.60	$ 1.31
AT&T Group earnings	$ 1.60	$ 1.68
Diluted earnings per AT&T common share:		
Income from continuing operations	$ 1.55	$ 1.27
AT&T Group earnings	$ 1.55	$ 1.63
Liberty Media Group loss per share:		
Basic and diluted	$ 1.78	$ 0.25

Pro forma data may not be indicative of the results that would have been obtained had these events actually occurred at the beginning of the periods presented, nor does it intend to be a projection of future results.

4 Other Mergers, Acquisitions, Ventures, Dispositions and Discontinued Operations

ACC Europe

On November 5, 1999, AT&T sold ACC Corp. (ACC) in Europe, including ACC's principal operations in the United Kingdom as well as ACC's operating companies in France, Germany and Italy, to WORLDxCHANGE Communications. We were required to dispose of this investment pursuant to a government mandate since it would have competed directly with Concert, our global venture with British Telecommunications plc (BT). The transaction resulted in a pretax loss of $179.

MediaOne Group, Inc.

On October 21, 1999, shareholders of MediaOne Group, Inc. (MediaOne), voted in favor of the proposed merger between AT&T and MediaOne, pursuant to a definitive merger agreement entered into on May 6, 1999. Under the agreement, each MediaOne shareholder is entitled to elect to receive either cash or AT&T stock in exchange for their MediaOne shares, subject to the limitation that the aggregate consideration will consist of $30.85 per share in cash plus 0.95 of a share of AT&T stock for every MediaOne share. In addition, the cash portion of the AT&T offer will be increased to offset up to a 10% decline in AT&T's closing stock price of $57 per share on April 21, 1999, the date the offer was extended. This will maintain a value of $85 per share for every MediaOne share, provided AT&T's stock trades between $57 per share and $51.30 per share. The additional amount of cash that may be received is limited to $5.42 per share. AT&T estimates that we will issue approximately 600 million shares in the transaction. The merger, which remains subject to regulatory and other approvals, is expected to close in the second quarter of 2000. Comcast Corporation (Comcast) received a $1.5 billion breakup fee in conjunction with the termination of MediaOne's previous merger agreement with Comcast. MediaOne received the funds to pay the breakup fee in the form of a note payable to AT&T.

Cox Communications, Inc.

On July 6, 1999, AT&T and Cox Communications, Inc. (Cox), signed an agreement whereby AT&T would redeem approximately 50.3 million shares of AT&T common stock held by Cox in exchange for cable television systems serving approximately 312,000 customers, our interest in certain investments and approximately $750 in other consideration, including cash. Based on the closing price of AT&T's stock on July 6, 1999, the transaction is valued at approximately $2.8 billion. The transaction is subject to receipt of necessary government and regulatory approvals and is expected to close by the end of the first quarter of 2000.

Comcast Corporation

On May 4, 1999, AT&T and Comcast announced an agreement to exchange various cable systems to improve each company's geographic coverage by better clustering its systems. The agreement will result in a net addition to Comcast of approximately 750,000 subscribers. Because Comcast will receive more subscribers than it is contributing in the exchange, it will pay AT&T consideration having a value of approximately $4,500 per added subscriber for a total value of $3.0 billion to $3.5 billion. Also, Comcast has agreed to offer AT&T-branded telephony in all of its markets, subject to certain conditions. The foregoing agreements are subject to completion of the proposed AT&T/MediaOne merger and other regulatory and legal approvals.

IBM Global Network

On April 30, 1999, AT&T completed its acquisition of the IBM Global Network business (renamed AT&T Global Network Services or AGNS) and its assets in the United States. The non–U.S. acquisitions occurred in phases throughout 1999 as legal and regulatory requirements were met in each of the countries in which the business operates. Under the terms of the agreement, AT&T acquired the global network of IBM, and the two companies entered into outsourcing agreements with each other. IBM is outsourcing a significant portion of its global networking needs to AT&T, and AT&T is outsourcing certain applications-processing and data-center-management operations to IBM. As of December 31, 1999, a total of 71 countries have been transferred from IBM to AT&T, representing more than 99% of the contract revenue. We are awaiting regulatory approval in the remaining countries and expect to be providing service in a total of 81 countries by the end of the first quarter of 2000. The acquisition has been accounted for as a purchase. Accordingly, the operating results of AGNS have been included in the accompanying consolidated financial statements since the date of acquisition. The pro forma impact of AGNS on historical AT&T results is not material.

Teleport Communications Group Inc.
On July 23, 1998, AT&T completed the merger with Teleport Communications Group Inc. (TCG) pursuant to an agreement and plan of merger dated January 8, 1998. Each share of TCG common stock was exchanged for 1.4145 shares of AT&T common stock, resulting in the issuance of 272.4 million shares in the transaction. The merger was accounted for as a pooling of interests, and accordingly, AT&T's results of operations, financial position and cash flows were restated to reflect the merger. In 1998, we recognized $85 of merger-related expenses. Premerger TCG revenue was $455 and $494, and net losses were $118 and $223, for the six months ended June 30, 1998, and for the year ended December 31, 1997, respectively. Elimination entries between AT&T and TCG were not material. On April 22, 1998, TCG purchased ACC for an aggregate value of approximately $1,100, including approximately $700 in goodwill.

Other Dispositions
On March 3, 1998, AT&T sold its 45% common share interest in LIN Television Corp., a subsidiary of LIN Broadcasting Company, for $742 to Hicks, Muse, Tate and Furst Inc. We recognized a pretax gain of $317. Also on March 3, 1998, AT&T sold AT&T Solutions Customer Care to MATRIXX Marketing Inc., a teleservices unit of Cincinnati Bell, for $625. AT&T recognized a pretax gain of $350 in 1998 on the sale.

Discontinued Operations
On July 1, 1997, AT&T sold its submarine systems business (SSI) to Tyco International Ltd. for $850, resulting in an after-tax gain of $66, or $0.03 per diluted share.

On April 2, 1998, AT&T sold AT&T Universal Card Services Inc. (UCS) for $3,500 to Citigroup, Inc. The after-tax gain resulting from the disposal of UCS was $1,290, or $0.48 per diluted share. Included in the transaction was a cobranding and joint-marketing agreement. In addition, we received $5,722 in settlement of receivables from UCS.

The consolidated financial statements of AT&T have been restated to reflect the dispositions of SSI and UCS. Accordingly, the revenue, costs and expenses, and cash flows of these businesses have been excluded from the respective captions in the Consolidated Statements of Income and Consolidated Statements of Cash Flows, and have been reported through the dates of disposition as "Income from discontinued operations," net of applicable income taxes, and as "Net cash provided by(used in) discontinued operations" for all periods presented. As of December 31, 1998, all businesses previously reported as discontinued operations have been disposed of; therefore, there was no impact to the Consolidated Balance Sheets presented. Gains associated with these sales are reflected as "Gains on sales of discontinued operations," net of applicable income taxes.

Summarized financial information for discontinued operations was as follows:

For the Years Ended December 31,	1998	1997
Revenue	$ 365	$ 1,942
Income before income taxes	16	150
Net income	10	100

No interest expense was allocated to discontinued operations in 1998 or 1997 due to the immateriality of the amounts; however, UCS recorded direct interest expense of $85 and $297 in 1998 and 1997, respectively, primarily related to amounts payable to AT&T.

5 Earnings per Common Share and Potential Common Share

Basic earnings per share (EPS) for AT&T Group for the years 1999, 1998 and 1997 were computed by dividing earnings available to AT&T Group common shareowners by the weighted-average number of common shares outstanding of AT&T Group during the period. In March 1999, our board of directors declared a three-for-two split of AT&T common stock, paid on April 15, 1999, to shareowners of record on March 31, 1999. Share (except shares authorized) and per share amounts were restated to reflect the stock split on a retroactive basis.

Diluted EPS for AT&T Group was computed by dividing earnings available to AT&T Group common shareowners, adjusted for the conversion of securities, by the weighted-average number of common shares and dilutive potential common shares outstanding of AT&T Group during the period, assuming conversion of the potential common shares at the beginning of the periods presented. Shares issuable upon conversion of preferred stock of subsidiaries, convertible debt securities of subsidiary, stock options and other performance awards have been included in the diluted calculation of weighted-average shares to the extent that the assumed issuance of such shares would have been dilutive, as illustrated below. The quarterly income preferred securities were antidilutive and were excluded from the computation of diluted EPS. Computed on a yearly basis, the dividends would have had an after-tax impact to earnings of approximately $160. Assuming the conversion of the securities, the dividends would no longer be included in other income(expense) and the securities would convert into 66.667 million shares of AT&T common stock.

Income from continuing operations for 1999 of $3,428 included income from continuing operations attributable to AT&T Group of $5,450 as well as losses from LMG of $2,022.

A reconciliation of the income and share components for the basic and diluted EPS calculations with respect to AT&T Group continuing operations is as follows:

Shares in millions For the Years Ended December 31,	1999	1998	1997
Income from continuing operations attributable to AT&T Group	$ 5,450	$ 5,235	$ 4,249
Income impact of assumed conversion of preferred stock of subsidiary	26	—	—
Income from continuing operations attributable to AT&T Group adjusted for conversion of securities	$ 5,476	$ 5,235	$ 4,249
AT&T Group weighted-average common shares	3,082	2,676	2,671
Stock options	35	24	12
Preferred stock of subsidiary	33	—	—
Convertible debt securities of subsidiary	2	—	—
AT&T Group weighted-average common shares and potential common shares	3,152	2,700	2,683

Basic EPS for LMG from the date of acquisition through December 31, 1999, was computed by dividing the loss available to LMG shareowners by the weighted-average number of shares outstanding of LMG of 1.259 billion. Since LMG had a loss, the impact of any potential shares would have been antidilutive, and therefore are not factored into the diluted calculations. There were 48 million potentially dilutive LMG securities outstanding at December 31, 1999.

On September 27, 1999, LMG announced that the board of directors of AT&T approved the repurchase from time to time of up to 135 million shares of Liberty Media Group Class A or Class B tracking stock.

6 Net Restructuring and Other Charges

During 1999, we recorded $1,506 of net restructuring and other charges.

A $594 in-process research and development charge was recorded reflecting the estimated fair value of research and development projects at Broadband, as of the date of acquisition, which have not yet reached technological feasibility or that have no alternative future use. The projects identified related to Broadband's efforts to offer voice over Internet protocol (IP), product-integration efforts for advanced set-top devices that would enable Broadband to offer next-generation digital services, cost-savings efforts for cable telephony implementation and in-process research and development related to Excite@Home. Although there are significant technological issues to overcome to successfully complete the acquired in-process research and development, AT&T expects successful completion. We currently anticipate that (i) we will test IP telephony equipment for field deployment in late 2000, (ii) field trials will begin in mid 2000 for next-generation digital services, and (iii) testing and deployment of devices with respect to AT&T's cost-savings efforts for cable telephony implementation will occur by the end of 2000. If, however, AT&T is unable to establish technological feasibility and produce commercially viable products/services, then anticipated incremental future cash flows attributable to expected profits from such new products/services may not be realized.

A $531 asset impairment charge was recorded primarily associated with the planned disposal of wireless network equipment resulting from a program to increase capacity and operating efficiency of our wireless network. As part of a multivendor program, contracts are being executed with certain vendors to replace significant portions of our wireless infrastructure equipment in the western United States and the metropolitan New York markets. The program will provide Wireless Services with the newest technology available and allow it to evolve to new, third-generation digital technology, which will provide high-speed data capabilities.

The planned disposal of the existing wireless infrastructure equipment required an evaluation of asset impairment in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" to write-down these assets to their fair value, which was estimated by discounting the expected future cash flows of these assets through the date of disposal. Since the assets will remain in service from the date of the decision to dispose of these assets to the disposal date, the remaining net book value of the assets will be depreciated over this period.

A $145 charge for restructuring and exit costs was recorded as part of AT&T's initiative to reduce costs by $2 billion by the end of 2000. The restructuring and exit plans primarily focus on the maximization of synergies through headcount reductions in Business Services and network operations, including the consolidation of customer-care and call centers.

Included in the exit costs was $142 of cash termination benefits associated with the separation of approximately 2,800 employees as part of voluntary and involuntary termination plans. Approximately one-half of the separations were management employees and one-half were nonmanagement employees. Approximately 1,700 employee separations related to involuntary terminations and approximately 1,100 related to voluntary terminations. Nearly 80% of the affected employees have left their positions as of December 31, 1999, and the remaining employees will leave the company in early 2000. Termination benefits of $40 were paid in the fourth quarter of 1999. This cash outlay was funded primarily through cash from operations. The balance of the cash termination payments is expected to be paid in the first quarter of 2000.

In addition, our continuing efforts to reduce costs by $2 billion by the end of 2000 and the planned merger with MediaOne may require further charges for exit and separation plans, which we expect to have finalized in the first half of 2000.

The following table displays the activity and balances of the restructuring reserve account from January 1, 1998, to December 31, 1999:

Type of Cost	Jan. 1, 1998 Balance	1998 Additions	1998 Deductions	Dec. 31, 1998 Balance
Employee separations	$ 413	$ 150	$ (445)	$ 118
Facility closings	434	125	(190)	369
Other	60	—	(30)	30
Total	$ 907	$ 275	$ (665)	$ 517

Type of Cost	Jan. 1, 1999 Balance	1999 Additions	1999 Deductions	Dec. 31, 1999 Balance
Employee separations	$ 118	$ 142	$ (110)	$ 150
Facility closings	369	—	(130)	239
Other	30	3	(12)	21
Total	$ 517	$ 145	$ (252)	$ 410

Deductions reflect cash payments of $209 and $245 and noncash utilization of $43 and $420 for 1999 and 1998, respectively. Noncash utilization included a reversal in 1998 of $348 related to the 1995 restructuring plan. Other noncash utilization included deferred severance payments primarily related to executives.

We also recorded net losses of $307 related to the government-mandated disposition of certain international businesses that would have competed directly with Concert and $50 related to a contribution agreement Broadband entered into with Phoenixstar, Inc., that requires Broadband to satisfy certain liabilities owed by Phoenixstar and its subsidiaries. The remaining obligation under this contribution agreement is $26. In addition, we recorded benefits of $121 related to the settlement of pension obligations for former employees who accepted AT&T's 1998 voluntary retirement incentive program (VRIP) offer.

During 1998, we recorded $2,514 of net restructuring and other charges. The bulk of the charge was associated with a plan to reduce headcount by 15,000 to 18,000 over two years as part of our overall cost-reduction program. In connection with this plan, the VRIP was offered to eligible management employees. Approximately 15,300 management employees accepted the VRIP offer. A restructuring charge of $2,724 was composed of $2,254 and $169 for pension and postretirement special-termination benefits, respectively, $263 of curtailment losses and $38 of other administrative costs. We also recorded charges of $125 for related facility costs and $150 for executive-separation costs. These charges were partially offset by benefits of $940 as we settled pension benefit obligations of 13,700 of the total VRIP employees. In addition, the VRIP charges were partially offset by the reversal of $256 of 1995 business restructuring reserves primarily resulting from the overlap of VRIP with certain 1995 restructuring initiatives.

Also included in the 1998 net restructuring and other charges were asset impairment charges totaling $718, of which $633 was related to our decision not to pursue Total Service Resale (TSR) as a local service strategy. We also recorded an $85 asset impairment charge related to the write-down of unrecoverable assets in certain international operations in which the carrying value is no longer supported by future cash flows. This charge was made in connection with an ongoing review associated with certain operations that would have competed directly with Concert.

Additionally, $85 of merger-related expenses was recorded in 1998 in connection with the TCG merger which was accounted for as a pooling of interests. Partially offsetting these charges was a $92 reversal of the 1995 restructuring reserve. This reversal reflects reserves that were no longer deemed necessary. The reversal primarily included separation costs attributed to projects completed at a cost lower than originally anticipated. Consistent with the three-year plan, the 1995 restructuring initiatives were substantially completed at the end of 1998.

7 Investment in Liberty Media Group

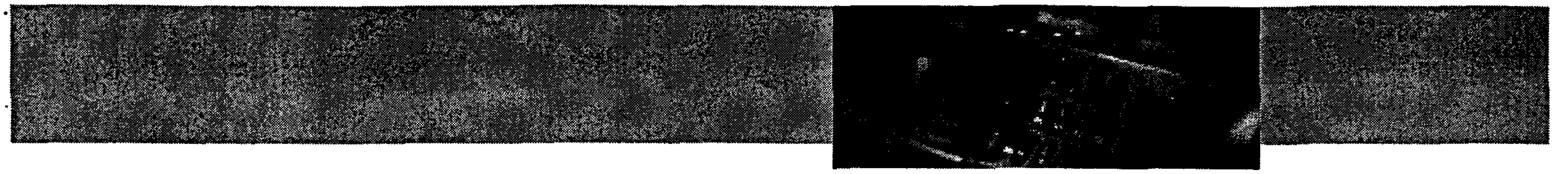
As a result of the acquisition of Broadband, we acquired Liberty Media Group, a wholly-owned investment accounted for under the equity method (see Note 3). Summarized results of operations for Liberty Media Group were as follows:

For the 10 Months Ended December 31,	1999
Revenue	$ 729
Operating loss	2,214
Net loss	2,022

At December 31,	1999
Current assets	$ 3,387
Noncurrent assets	55,297
Current liabilities	3,370
Noncurrent liabilities	16,853
Minority interests	1

8 Other Investments

We have investments in various companies and partnerships that are accounted for under the equity method and included within "Other investments" in the accompanying Consolidated Balance Sheets. Under the equity method, investments are stated at initial cost and are adjusted for subsequent contributions and our share of earnings, losses and distributions. At December 31, 1999 and 1998, we had equity investments (other than LMG) of $18,454 and $4,257, respectively. The carrying value of these investments exceeded our share of the underlying reported net assets by approximately $12,530 and $564, at December 31, 1999 and 1998, respectively. The goodwill is being amortized over periods ranging from seven to 40 years. Amortization of goodwill of $495, $52 and $66 in 1999, 1998 and 1997, respectively, was reflected as a component of other income(expense) in the accompanying Consolidated Statements of Income.



Ownership of significant equity investments was as follows:

At December 31,	1999	1998
AB Cellular	55.62%(a)	55.62%
Cablevision Systems Corporation	32.04%(b)	—
At Home Corporation	25.00%(c)	—
Lenfest Communications, Inc.	50.00%(d)	—
Time Warner Texas	50.00%	—
Bresnan Communications Group LLC	50.00%	—
Insight Midwest LP	50.00%	—
Rogers Cantel Mobile Communications, Inc.	16.65%(e)	—
Century-TCI California, LP	25.00%	—
Kansas City Cable Partners	50.00%	—
Parnassos, LP	33.33%	—

(a) Voting interest in AB Cellular was 50% at December 31, 1999 and 1998.

(b) At December 31, 1999, we owned 48,942,172 shares of Cablevision Systems Corporation Class A common stock, which had a closing market price of $75.50 per share on that date.

(c) During 1999, At Home Corporation issued shares of its common stock for various acquisitions, including Excite, Inc. (Excite). As a result of these transactions, AT&T's economic interest in At Home Corporation (Excite@Home) decreased from 38% to 25% following these mergers. Due to the resulting increase in Excite@Home's equity, net of the dilution of AT&T's ownership interest in Excite@Home, AT&T recorded an increase to additional paid-in capital of $527 in 1999. At December 31, 1999, we owned 63,720,000 shares of Excite@Home Class A common stock, which had a closing market price of $42.875 per share on that date.

(d) In the first quarter of 2000, we sold our interest in Lenfest Communications, Inc., to Comcast (see Note 20).

(e) This investment is accounted for under the equity method because of our ability to elect certain members of the board of directors of this entity, which we believe provides us with significant influence.

Summarized unaudited combined financial information for investments accounted for under the equity method was as follows:

For the Years Ended December 31,	1999	1998	1997
Revenue	$10,433	$ 4,144	$ 4,132
Operating income(loss)	(1,542)	268	121
Income(loss) from continuing operations before extraordinary items and cumulative effect of a change in accounting principle	(2,771)	156	68
Net income(loss)	(3,005)	65	24

At December 31,	1999	1998
Current assets	$ 5,160	$ 2,610
Noncurrent assets	21,066	7,345
Current liabilities	4,554	1,674
Noncurrent liabilities	17,896	1,435
Redeemable preferred stock	1,095	595
Minority interests	1,824	3

We also have investments accounted for under the cost method of accounting. Under this method, investments are stated at cost, and earnings are recognized to the extent distributions are received from the accumulated earnings of the investee. Distributions received in excess of accumulated earnings are recognized as a reduction of our investment balance. These investments, which are covered under the scope of SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities," are classified as "available-for-sale" and are carried at fair value with any unrealized gain or loss, net of tax, being included within other comprehensive income as a component of shareowners' equity.

9 Debt Obligations

Debt Maturing Within One Year

At December 31,	1999	1998
Commercial paper	$ 5,974	$ —
Short-term notes	5,000	—
Currently maturing long-term debt	1,355	1,083
Other	304	88
Total debt maturing within one year	$12,633	$ 1,171
Weighted-average interest rate of short-term debt	5.3%	5.6%

At December 31, 1999, we had a 364-day, $7 billion revolving-credit facility with a consortium of 42 lenders. We also had additional 364-day, revolving-credit facilities of $3 billion. These lines were for commercial paper back-up and were unused at December 31, 1999. In addition, we had a $20 billion commitment from multiple lenders with credit agreements to be finalized upon consummation of the proposed merger with MediaOne. In February 2000, we negotiated the syndication of a new 364-day, $10 billion facility. As a result, the existing $3 billion credit facilities and the commitments associated with the $20 billion syndication terminated. Also in February 2000, the $7 billion revolving-credit facility expired.

Long-Term Obligations

At December 31,		1999	1998
Debentures and Notes (a) (b)			
Interest Rates (c)	Maturities		
4.38% – 6.00%	2001 – 2014	$ 5,251	$ 900
6.34% – 7.50%	2000 – 2029	8,068	2,234
7.53% – 8.50%	2000 – 2026	4,762	2,583
8.60% – 11.13%	2000 – 2031	3,763	748
Variable rate	2000 – 2054	867	98
Total debentures and notes		22,711	6,563
Other		362	94
Unamortized discount, net		(127)	(18)
Total long-term obligations		22,946	6,639
Less: Currently maturing long-term debt		1,355	1,083
Net long-term obligations		$21,591	$ 5,556

(a) In August 1998, AT&T extinguished $1,046 of TCG debt resulting in a loss of $217, which was recorded as an extraordinary loss. The after-tax impact was $137, or $0.05 per diluted share.

(b) Included in these balances was $815 representing the remaining excess of the fair value over the recorded value of debt in connection with the Broadband acquisition. The excess is being amortized over the remaining lives of the underlying debt obligations.

(c) The actual interest paid on our debt obligations may have differed from the stated amount due to our entering into interest rate swap contracts to manage our exposure to interest rate risk and our strategy to reduce finance costs (see Note 11).

On January 26, 1999, AT&T filed a registration statement with the Securities and Exchange Commission (SEC) for the offering and sale of up to $10 billion of notes and warrants to purchase notes, resulting in a total available shelf registration of $13.1 billion. On March 26, 1999, AT&T issued $8 billion in notes. We received net proceeds of approximately $7.9 billion from the sale of the notes. The proceeds were utilized to repay commercial paper issued in connection with the Broadband merger and toward funding the share repurchase program. On September 14, 1999, AT&T completed a $450 bond offering in connection with the same registration statement. The proceeds from the issuance were utilized for general corporate purposes.

This table shows the maturities at December 31, 1999, of the $22,946 in total long-term obligations:

2000	2001	2002	2003	2004	Later Years
$ 1,355	$ 1,158	$ 1,574	$ 1,616	$ 2,815	$ 14,428

10 Other Securities

Preferred Stock of Subsidiaries

Prior to the Broadband merger, TCI issued Class B 6% Cumulative Redeemable Exchangeable Junior preferred stock (Class B preferred stock). There were 1.6 million shares outstanding as of December 31, 1999, net of shares held by a subsidiary, out of an authorized 1.7 million shares.

Dividends accrue cumulatively (but without compounding) at an annual rate of 6% of the stated liquidation value of $100 per share, whether or not such dividends are declared or funds are legally available for payment of dividends. Accrued dividends are payable annually on March 1 of each year in cash or AT&T stock, or any combination of the foregoing, at the sole discretion of the TCI board of directors. Dividends accrued on shares of Class B preferred stock aggregated approximately $8 at December 31, 1999.

Class B preferred stock and accumulated dividends are reflected within "Minority Interest in Equity of Consolidated Subsidiaries" in the accompanying Consolidated Balance Sheets and aggregated $152 at December 31, 1999.

Subsequent to December 31, 1999, the TCI board of directors approved the redemption of Class B preferred stock. On February 22, 2000, all outstanding shares of Class B preferred stock were redeemed at $105.88 per share.

Prior to the Broadband merger, TCI Pacific Communications Inc. (Pacific) issued 5% Class A Senior Cumulative Exchangeable preferred stock, which remains outstanding. There were 6.3 million shares authorized and outstanding at December 31, 1999. Each share is exchangeable, from and after August 1, 2001, for approximately 6.3 shares of AT&T common stock, subject to certain antidilution adjustments. Additionally, Pacific may elect to make any dividend, redemption or liquidation payment in cash, shares of AT&T common stock or by a combination of the foregoing. The Pacific preferred stock is reflected within "Minority Interest in Equity of Consolidated Subsidiaries" in the accompanying Consolidated Balance Sheets and aggregated $2.1 billion at December 31, 1999. There were no accrued dividends on shares of Pacific preferred stock as of December 31, 1999.

Company-Obligated Convertible Quarterly Income Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debt Securities of AT&T and Related Warrants

On June 16, 1999, AT&T Finance Trust I (AT&T Trust), a wholly-owned subsidiary of AT&T, completed the private sale of 100 million shares of 5.0% cumulative quarterly income preferred securities (the quarterly preferred securities) to Microsoft Corporation (Microsoft). Proceeds of the issuance were invested by the AT&T Trust in Junior Subordinated Debentures (the Debentures) issued by AT&T due 2029, which represent the sole assets of the AT&T Trust.

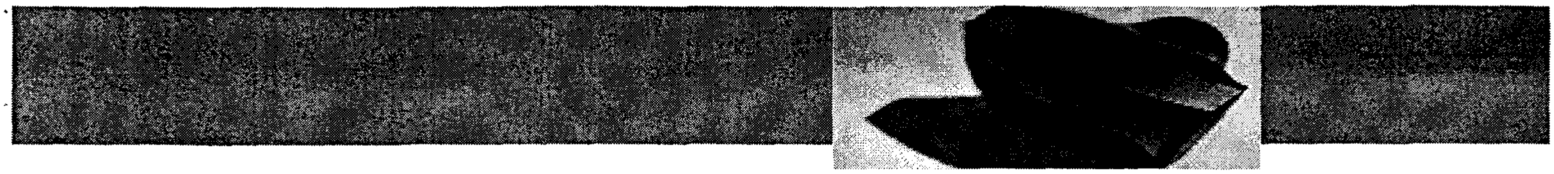
The quarterly preferred securities pay dividends at an annual rate of 5.0% of the liquidation preference of $50 per security and are convertible at any time prior to maturity into 66.667 million shares of AT&T common stock and are subject to mandatory redemption upon repayment of the Debentures at maturity or their earlier redemption. The conversion feature can be terminated, under certain conditions, after three years.

The Debentures will make a quarterly payment in arrears of 62.5 cents per security on the last day of March, June, September and December of each year. AT&T has the right to defer such interest payments up to 20 consecutive quarters; as a consequence, quarterly dividend payments on the quarterly preferred securities can be deferred by the AT&T Trust during any such interest-payment period. If AT&T defers any interest payments, we may not, among other things, pay any dividends on our common stock until all interest in arrears is paid to the AT&T Trust.

Dividends on the quarterly preferred securities were $140 for the period ended December 31, 1999, and are reported within other income(expense) in the accompanying Consolidated Statements of Income.

On June 16, 1999, AT&T also issued to Microsoft 40 million warrants, each to purchase one share of AT&T common stock at a price of $75 per share at the end of three years. Alternatively, the warrants are exercisable on a cashless basis. If the warrants are not exercised on the three-year anniversary of the closing date, the warrants expire.

A discount on the quarterly preferred securities equal to the value of the warrants of $306 was recognized and is being amortized over the 30-year life of the quarterly preferred securities as a component of other income(expense) in the accompanying Consolidated Statements of Income.



Subsidiary-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Subordinated Debt Securities of an AT&T Subsidiary

Certain subsidiary trusts of TCI (TCI Trusts) had preferred securities outstanding at December 31, 1999, as follows:

Subsidiary Trust	Interest Rate	Maturity Date	Current Balance*
TCI Communications Financing I	8.72%	2045	$ 528
TCI Communications Financing II	10.00%	2045	521
TCI Communications Financing III	9.65%	2027	360
TCI Communications Financing IV	9.72%	2036	217
Total			$ 1,626

* In connection with the acquisition of Broadband, approximately $160 was allocated to the Trust Preferred Securities representing the excess of the fair market value over the recorded value at the date of acquisition. The excess is being amortized over the remaining life of the Trust Preferred Securities, 28 to 46 years, and was $154 at December 31, 1999.

The TCI Trusts were created for the exclusive purpose of issuing the Trust Preferred Securities and investing the proceeds thereof into Subordinated Deferrable Interest Notes (the Subordinated Debt Securities) of TCI. Subordinated Debt Securities have interest rates equal to the interest rate of the corresponding Trust Preferred Securities and have maturity dates ranging from 30 to 49 years from the date of issuance. The preferred securities are mandatorily redeemable upon repayment of the Subordinated Debt Securities and are callable by AT&T. The Financing I and II Trust Preferred Securities are callable at face value beginning in January and May 2001, respectively. Financing III Trust Preferred Securities are callable at 104.825% of face value beginning in March 2007. Financing IV Trust Preferred Securities are callable at face value beginning in March 2002. Upon redemption of the Subordinated Debt Securities, the Trust Preferred Securities will be mandatorily redeemable. TCI effectively provides a full and unconditional guarantee of the TCI Trusts' obligations under the Trust Preferred Securities. Subsequent to December 31, 1999, AT&T expects to provide a full and unconditional guarantee of TCI's Trust Preferred Securities for TCI Communications Financing I, II and IV subsidiary trusts (see Note 12).

Dividends accrued and paid on the Trust Preferred Securities aggregated $114 for the period from completion of the merger with TCI through December 31, 1999, and are recorded within other income(expense) in the accompanying Consolidated Statements of Income. AT&T has the right to defer interest payments up to 20 consecutive quarters; as a consequence, dividend payments on the Trust Preferred Securities can be deferred by the TCI Trust during any such interest-payment period. If AT&T defers any interest payments, we may not, among other things, pay any dividends on our common stock until all interest in arrears is paid to the TCI Trusts.

11 Financial Instruments

In the normal course of business, we use various financial instruments, including derivative financial instruments, for purposes other than trading. We do not use derivative financial instruments for speculative purposes. These instruments include letters of credit, guarantees of debt, interest rate swap agreements, foreign currency exchange contracts and equity hedges. Interest rate swap agreements and foreign currency exchange contracts are used to mitigate interest rate and foreign currency exposures. Equity hedges are used to mitigate exposure to stock appreciation of affiliated companies. Collateral is generally not required for these types of instruments.

By their nature, all such instruments involve risk, including the credit risk of nonperformance by counterparties, and our maximum potential loss may exceed the amount recognized in our balance sheet. However, at December 31, 1999 and 1998, in management's opinion there was no significant risk of loss in the event of nonperformance of the counterparties to these financial instruments. We control our exposure to credit risk through credit approvals, credit limits and monitoring procedures. We do not have any significant exposure to any individual customer or counterparty, nor do we have any major concentration of credit risk related to any financial instruments.

Letters of Credit

Letters of credit are purchased guarantees that ensure our performance or payment to third parties in accordance with specified terms and conditions and do not create any additional risk to AT&T.

Guarantees of Debt

From time to time, we guarantee the debt of our subsidiaries and certain unconsolidated joint ventures. Prior to the merger, Broadband had agreed to take certain steps to support debt compliance with respect to obligations aggregating $1,720 of certain cable television partnerships in which Broadband has a noncontrolling ownership interest. Although there can be no assurance, management believes that it will not be required to meet its obligations under such guarantees. Additionally, in connection with the restructuring of AT&T in 1996, we issued guarantees for certain debt obligations of AT&T Capital Corp. and NCR. The amount of guaranteed debt associated with our former subsidiaries, AT&T Capital Corp. and NCR, was $56 and $108 at December 31, 1999 and 1998, respectively.

Interest Rate Swap Agreements

We enter into interest rate swaps to manage our exposure to changes in interest rates and to lower our overall costs of financing. We enter into swap agreements to manage the fixed/floating mix of our debt portfolio in order to reduce aggregate risk to interest rate movements. Interest rate swaps also allow us to raise funds at floating rates and effectively swap them into fixed rates that are lower than those available to us if fixed-rate borrowings were made directly. These agreements involve the exchange of floating-rate for fixed-rate payments, fixed-rate for floating-rate payments or floating-rate for other floating-rate payments without the exchange of the underlying principal amount. Fixed interest rate payments at December 31, 1999, were at rates ranging from 6.05% to 9.47%. Floating-rate payments are based on rates tied to London Inter-Bank Offered Rate (LIBOR).

The following table indicates the types of swaps in use at December 31, 1999 and 1998, and their weighted-average interest rates. Average variable rates are those in effect at the reporting date and may change significantly over the lives of the contracts.

	1999	1998
Fixed to variable swaps – notional amount	$ 1,800	$ 461
Average receive rate	6.89%	6.33%
Average pay rate	6.67%	5.31%
Variable to fixed swaps – notional amount	$ 229	$ 241
Average receive rate	6.30%	4.92%
Average pay rate	6.77%	7.68%
Variable to variable swaps – notional amount	$ 495	$ —
Average receive rate	6.63%	—
Average pay rate	6.53%	—

The weighted-average remaining terms of the swap contracts were seven and two years at December 31, 1999 and 1998, respectively.

Foreign Exchange

We enter into foreign currency exchange contracts, including forward and option contracts, to manage our exposure to changes in currency exchange rates, principally European Union's currency (Euro), British pounds sterling and Japanese yen. The use of these derivative financial instruments allows us to reduce our exposure to the risk of adverse changes in exchange rates on the reimbursement to foreign telephone companies for their portion of the revenue billed by AT&T for calls placed in the United States to a foreign country and other foreign currency payables and receivables. These transactions are generally expected to occur in less than one year. In addition, we are subject to foreign exchange risk related to other foreign-currency-denominated transactions.

Equity Hedges

We enter into equity hedges to manage our exposure to changes in equity prices associated with stock appreciation rights of affiliated companies.

Fair Values of Financial Instruments Including Derivative Financial Instruments

The following table summarizes the notional amounts of material financial instruments. The notional amounts represent agreed-upon amounts on which calculations of dollars to be exchanged are based. They do not represent amounts exchanged by the parties and, therefore, are not a measure of our exposure. Our exposure is limited to the fair value of the contracts with a positive fair value plus interest receivable, if any, at the reporting date.

Derivatives and Off Balance Sheet Instruments

	1999 Contract/ Notional Amount	1998 Contract/ Notional Amount
Interest rate swap agreements	$ 2,524	$ 702
Foreign exchange forward contracts	1,881	244
Equity hedges	495	—
Letters of credit	243	184
Guarantees of debt	1,848	237

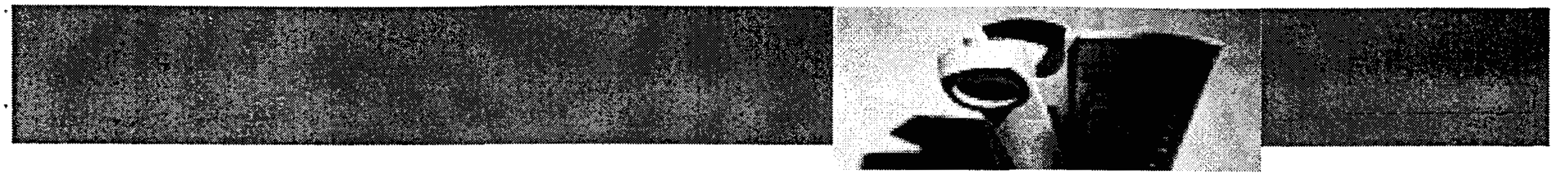
The following tables show the valuation methods, the carrying amounts and estimated fair values of material financial instruments.

Financial Instrument	Valuation Method
Debt excluding capital leases	Market quotes or rates available to us for debt with similar terms and maturities
Letters of credit	Fees paid to obtain the obligations
Guarantees of debt	There are no quoted market prices for similar agreements available
Interest rate swap agreements	Market quotes obtained from dealers
Foreign exchange contracts	Market quotes
Equity hedges	Market quotes
Preferred securities	Market quotes*

*It is not practicable to estimate the fair market value of our $4,700 quarterly preferred securities. There are no current market quotes available on this private placement.

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt excluding capital leases	$33,881	$32,565	$ 6,691	$ 7,136
Pacific preferred stock	2,121	1,929	—	—
Subsidiary-obligated mandatorily redeemable preferred securities	1,626	1,527	—	—

	1999				1998			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
Interest rate swap agreements	$28	$27	$ 6	$29	$ 5	$13	$—	$19
Foreign exchange forward contracts	—	26	1	28	7	7	13	4
Equity hedges	313	2	313	—	—	—	—	—



12 Guarantee of Preferred Securities

Prior to the consummation of the Broadband merger, TCI issued mandatorily redeemable preferred securities through subsidiary trusts that held subordinated debt securities of TCI. Subsequent to December 31, 1999, AT&T expects to provide a full and unconditional guarantee on the outstanding securities issued by TCI Communications Financing I, II and IV (see Note 10). At December 31, 1999, $1,266 of the guaranteed redeemable preferred securities remained outstanding. Following is a summary of the results of TCI which have been included in the financial results of AT&T since the date of the acquisition. The summarized financial information included transactions with AT&T that were eliminated in consolidation.

For the 10 Months Ended December 31,	1999
Revenue	$ 4,870
Operating loss	1,071
Loss before extraordinary items	4,211
Net loss	4,220

At December 31,	1999
Current assets	$ 468
Noncurrent assets	93,798
Current liabilities	2,814
Noncurrent liabilities	36,227
Minority interests	2,175

13 Pension, Postretirement and Other Employee Benefit Plans

We sponsor noncontributory defined benefit pension plans covering the majority of our employees. Pension benefits for management employees are principally based on career-average pay. Pension benefits for occupational employees are not directly related to pay. Pension trust contributions are made to trust funds held for the sole benefit of plan participants. Our benefit plans for current and future retirees include health-care benefits, life insurance coverage and telephone concessions.

The following table shows the components of the net periodic benefit costs included in our Consolidated Statements of Income:

For the Years Ended December 31,	Pension Benefits 1999	1998	1997	Postretirement Benefits 1999	1998	1997
Service cost benefits earned during the period	$ 247	$ 275	$ 305	$ 54	$ 56	$ 56
Interest cost on benefit obligations	919	940	946	324	322	278
Amortization of unrecognized prior service cost	159	135	114	13	(2)	39
Credit for expected return on plan assets	(1,458)	(1,570)	(1,371)	(200)	(173)	(120)
Amortization of transition asset	(158)	(175)	(181)	—	—	—
Amortization of gains	(10)	—	—	(1)	—	—
Charges for special termination benefits	—	2,254	—	5	169	—
Net curtailment losses	—	140	—	—	141	—
Net settlement (gains) losses	(121)	(921)	5	—	—	—
Net periodic benefit cost (credit)	$ (422)	$1,078	$ (182)	$195	$513	$253

On January 26, 1998, we offered a voluntary retirement incentive program (VRIP) to employees who were eligible participants in the AT&T Management Pension Plan. Approximately 15,300 management employees accepted the VRIP offer. In connection with the VRIP, we recorded pretax charges in 1998 for pension and postretirement plan special-termination benefits of $2,254 and $169, respectively. We also recorded pension and postretirement plan pretax charges of $120 and $143, respectively, which are included within net curtailment losses in 1998. The special-termination benefits reflect the value of pension benefit improvements and expanded eligibility for postretirement benefits. The VRIP also permitted employees to choose either a total lump-sum distribution of their pension benefits or periodic future annuity payments.

As of December 31, 1999, all 15,300 employees had terminated employment under the VRIP. AT&T has settled the pension obligations covering about 15,000 of these employees, the remainder of which either chose to defer commencing their pension benefits or elected to receive an annuity distribution. Lump-sum pension settlements totaling $5.2 billion, including a portion of the special-pension termination benefits referred to above, resulted in settlement gains of $121 and $940 recorded in 1999 and 1998, respectively.

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets for the years ended December 31, 1999 and 1998, and a statement of the funded status at December 31, 1999 and 1998, respectively:

	Pension Benefits		Postretirement Benefits	
	1999	1998	1999	1998
Change in benefit obligations:				
Benefit obligation, beginning of year	$14,443	$14,481	$ 5,168	$ 4,356
Service cost	247	275	54	56
Interest cost	919	940	324	322
Plan amendments	558	324	4	(95)
Actuarial (gains) losses	(1,683)	1,609	(579)	258
Benefit payments	(1,062)	(770)	(334)	(227)
Special termination benefits	—	2,254	5	169
Settlements	(554)	(4,676)	—	—
Curtailment losses	—	6	—	329
Benefit obligation, end of year	$12,868	$14,443	$ 4,642	$ 5,168
Change in fair value of plan assets:				
Fair value of plan assets, beginning of year	$18,567	$20,513	$ 2,476	$ 1,969
Actual return on plan assets	4,133	3,375	385	437
Employer contributions	48	125	325	297
Benefit payments	(1,062)	(770)	(334)	(227)
Settlements	(554)	(4,676)	—	—
Fair value of plan assets, end of year	$21,132	$18,567	$ 2,852	$ 2,476
At December 31,				
Funded(unfunded) benefit obligation	$ 8,264	$ 4,124	$ (1,790)	$ (2,692)
Unrecognized net gain	(7,735)	(3,495)	(800)	(36)
Unrecognized transition asset	(279)	(445)	—	—
Unrecognized prior service cost	1,362	960	55	63
Net amount recorded	$ 1,612	$ 1,144	$ (2,535)	$ (2,665)

Our pension plan assets include $82 and $85 of AT&T common stock at December 31, 1999 and 1998, respectively.

The following table provides the amounts recorded in our Consolidated Balance Sheets:

	Pension Benefits		Postretirement Benefits	
At December 31,	1999	1998	1999	1998
Prepaid pension cost	$ 2,464	$ 2,074	$ —	$ —
Benefit related liabilities	(918)	(1,016)	(2,535)	(2,665)
Intangible asset	46	47	—	—
Accumulated other comprehensive income	20	39	—	—
Net amount recorded	$ 1,612	$ 1,144	$ (2,535)	$ (2,665)

Our nonqualified pension plan had an unfunded accumulated benefit obligation of $118 and $135 at December 31, 1999 and 1998, respectively. Our postretirement health and telephone concession benefit plans had accumulated postretirement benefit obligations of $4,021 and $4,461 at December 31, 1999 and 1998, respectively, which were in excess of plan assets of $1,635 and $1,408 at December 31, 1999 and 1998, respectively.

The assumptions used in the measurement of the pension and postretirement benefit obligations are shown in the following table:

At December 31,	1999	1998	1997
Weighted-average assumptions:			
Discount rate	7.75%	6.5%	7.0%
Expected return on plan assets	9.5%	9.5%	9.0%
Rate of compensation increase	4.5%	4.5%	4.5%

We assumed a rate of increase in the per capita cost of covered health-care benefits (the health-care cost trend rate) of 6.6%. This rate was assumed to gradually decline after 1999 to 4.6% by 2009 and then remain level. Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one percentage point increase or decrease in the assumed health-care cost trend rate would increase or decrease the total of the service and interest-cost components of net periodic postretirement health-care benefit cost by $11 and $9, respectively, and would increase or decrease the health-care component of the accumulated postretirement benefit obligation by $137 and $110, respectively.

We also sponsor savings plans for the majority of our employees. The plans allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. We match a percentage of the employee contributions up to certain limits. Our contributions amounted to $234 in 1999, $204 in 1998 and $201 in 1997.

Stock-Based Compensation Plans

Under the 1997 Long-term Incentive Program (Program), which was effective June 1, 1997, and amended on May 19, 1999, we grant stock options, performance shares, restricted stock and other awards. Under the Program, there were 150 million shares of common stock available for grant with a maximum of 22.5 million common shares that could be used for awards other than stock options. From the time the Program became effective to the period ended December 31, 1999, there were approximately 109 million shares granted and approximately 41 million shares that remained available for grant. Beginning with January 1, 2000, the remaining shares available for grant at December 31 of the prior year, plus 1.75% of the shares of AT&T common stock outstanding on January 1 of each year, become available for grant. There is a maximum of 37.5 million shares that may be used for awards other than stock options. The exercise price of any stock option is equal to the stock price when the option is granted. Generally, the options vest over three years and are exercisable up to 10 years from the date of grant. Under the 1987 Long-term Incentive Program, which expired in April 1997, we granted the same awards, and on January 1 of each year, 0.6% of the outstanding shares of our common stock became available for grant.

Under the Program, performance share units are awarded to key employees in the form of either common stock or cash at the end of a three-year period based on AT&T's total shareholder return and certain financial-performance targets. Under the 1987 Long-term Incentive Program, performance share units with the same terms were also awarded to key employees based on AT&T's return-to-equity performance compared with a target.

On August 1, 1997, substantially all employees were granted a stock option award to purchase 150 shares representing a total of 18.75 million shares of AT&T common stock. The options vest after three years and are exercisable up to 10 years from the grant date.

Under the AT&T 1996 Employee Stock Purchase Plan (Plan), which was effective July 1, 1996, we are authorized to sell up to 75 million shares of common stock to our eligible employees. Under the terms of the Plan, employees may have up to 10% of their earnings withheld to purchase AT&T's common stock. The purchase price of the stock on the date of exercise is 85% of the average high and low sale prices of shares on the New York Stock Exchange for that day. Under the Plan, we sold approximately 3 million shares to employees in both 1999 and 1998 and 6 million shares in 1997.

We apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for our plans. Accordingly, no compensation expense has been recognized for our stock-based compensation plans other than for our performance-based and restricted stock awards and stock appreciation rights (SARs). Compensation costs charged against income were $462, $157 and $110 in 1999, 1998 and 1997, respectively. In 1999, costs included $382 related to grants of SARs of affiliated companies held by certain employees subsequent to the Broadband merger. We also entered into an equity hedge in 1999 to offset potential future compensation costs associated with these SARs. The 1999 income related to this hedge was $247.

A summary of option transactions is shown below:

Shares in Thousands	1999	Weighted-Average Exercise Price	1998	Weighted-Average Exercise Price	1997	Weighted-Average Exercise Price
Outstanding at January 1,	131,904	$30.41	110,972	$24.77	76,466	$21.59
Options assumed in Broadband merger	11,770	$14.79	—	—	—	—
Options granted	47,927	$57.13	46,148	$41.69	57,465	$25.98
Options and SARs exercised	(17,858)	$22.87	(18,894)	$21.95	(16,652)	$16.34
Options canceled or forfeited	(4,980)	$42.44	(6,322)	$31.64	(6,307)	$26.73
At December 31:						
Options outstanding	168,763	$37.42	131,904	$30.41	110,972	$24.77
Options exercisable	57,894	$28.21	35,472	$23.13	34,472	$22.17
Shares available for grant	41,347		91,838		135,518	

All of the 11.8 million stock options assumed in connection with the Broadband merger were in tandem with SARs. These SARs were subsequently canceled on April 30, 1999. During 1999, 386,000 SARs (including 137,000 for Broadband) were exercised. At December 31, 1999, there were no AT&T SARs outstanding.

The following table summarizes information about stock options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at Dec. 31, 1999 (in thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at Dec. 31, 1999 (in thousands)	Weighted-Average Exercise Price
$ 4.36 – $18.08	14,316	5.2	$13.93	8,919	$14.54
$18.15 – $24.49	10,453	4.9	$23.21	9,240	$23.31
$24.50	16,388	7.6	$24.50	58	$24.50
$24.51 – $26.18	3,895	4.7	$24.90	3,534	$24.83
$26.21	19,398	7.1	$26.21	11,393	$26.21
$26.33 – $31.58	14,619	6.2	$29.89	11,473	$30.05
$32.19 – $42.04	12,247	8.4	$38.27	3,056	$37.77
$42.10	29,255	8.1	$42.10	9,026	$42.10
$42.19 – $59.75	18,967	9.5	$51.59	1,091	$49.66
$59.88	29,122	9.1	$59.88	104	$59.88
$61.03 – $62.13	103	9.1	$62.06	—	$62.06
	168,763	7.6	$37.42	57,894	$28.21

AT&T has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." If AT&T had elected to recognize compensation costs based on the fair value at the date of grant for awards in 1999, 1998 and 1997, consistent with the provisions of SFAS No. 123, AT&T's net income and earnings per AT&T common share would have been reduced to the following pro forma amounts:

For the Years Ended December 31,	1999	1998	1997
Income from continuing operations	$ 3,171	$ 5,078	$ 4,158
Income from discontinued operations	—	7	99
Gains on sales of discontinued operations	—	1,290	66
Extraordinary loss	—	137	—
Net income	$ 3,171	$ 6,238	$ 4,323
Earnings per AT&T Group common share – basic:			
Continuing operations	$ 1.68	$ 1.90	$ 1.56
Discontinued operations	—	—	0.03
Gains on sales of discontinued operations	—	0.48	0.03
Extraordinary loss	—	0.05	—
AT&T Group earnings	$ 1.68	$ 2.33	$ 1.62
Earnings per AT&T Group common share – diluted:			
Continuing operations	$ 1.65	$ 1.88	$ 1.55
Discontinued operations	—	—	0.03
Gains on sales of discontinued operations	—	0.48	0.03
Extraordinary loss	—	0.05	—
AT&T Group earnings	$ 1.65	$ 2.31	$ 1.61

The pro forma effect on net income for 1999, 1998 and 1997 may not be representative of the pro forma effect on net income of future years because the SFAS No. 123 method of accounting for pro forma compensation expense has not been applied to options granted prior to January 1, 1995.

The weighted-average fair values at date of grant for options granted during 1999, 1998 and 1997 were $15.64, $9.75 and $6.06, respectively, and were estimated using the Black-Scholes option-pricing model. The weighted-average risk-free interest rates applied for 1999, 1998 and 1997 were 5.10%, 5.33% and 6.16%, respectively. The following assumptions were applied for 1999, 1998 and 1997, respectively: (i) expected dividend yields of 1.7%, 2.1% and 2.2%, (ii) expected volatility rates of 28.3%, 23.8% and 21.8% and (iii) expected lives of 4.5 years.

15 Income Taxes

The following table shows the principal reasons for the difference between the effective income tax rate and the U.S. federal statutory income tax rate:

For the Years Ended December 31,	1999	1998	1997
U.S. federal statutory income tax rate	35%	35%	35%
Federal income tax at statutory rate	$ 2,340	$ 2,908	$ 2,440
Amortization of investment tax credits	(10)	(14)	(16)
State and local income taxes, net of federal income tax effect	210	201	183
Liberty Media Group losses	708	—	—
In-process research and development write-off	208	—	—
Foreign rate differential	90	63	117
Amortization of intangibles	43	28	23
Taxes on repatriated and accumulated foreign income, net of tax credits	(45)	(36)	(32)
Research and other credits	(64)	(91)	(86)
Valuation allowance	(78)	37	77
Investment dispositions, acquisitions and legal entity restructuring	(94)	(153)	25
Other differences, net	(51)	129	(8)
Provision for income taxes	$ 3,257	$ 3,072	$ 2,723
Effective income tax rate	48.7%*	37.0%	39.0%

*Includes the impact of LMG's losses, net of taxes, reported as a separate line item in AT&T's Consolidated Statements of Income. AT&T Group's effective tax rate was 37.4%.

The U.S. and foreign components of income from continuing operations before income taxes and the provision for income taxes are presented in this table:

For the Years Ended December 31,	1999	1998	1997
Income from Continuing Operations before Income Taxes			
United States	$ 6,467	$ 8,318	$ 7,090
Foreign	218	(11)	(118)
Total	$ 6,685	$ 8,307	$ 6,972
Provision for Income Taxes			
Current			
Federal	$ 2,609	$ 2,908	$ 1,561
State and local	403	251	194
Foreign	100	41	49
	$ 3,112	$ 3,200	$ 1,804
Deferred			
Federal	$ 228	$ (172)	$ 851
State and local	(81)	58	89
Foreign	8	—	(5)
	$ 155	$ (114)	$ 935
Deferred investment tax credits	(10)	(14)	(16)
Provision for income taxes	$ 3,257	$ 3,072	$ 2,723

The current income taxes payable balance was $427 and $1,393 at December 31, 1999 and 1998, respectively. The decrease in the 1999 balance was primarily due to income taxes accrued in 1998 and paid in 1999 related to the sale of UCS.

Deferred income tax liabilities are taxes we expect to pay in future periods. Similarly, deferred income tax assets are recorded for expected reductions in taxes payable in future periods. Deferred income taxes arise because of differences in the book and tax bases of certain assets and liabilities.

Deferred income tax liabilities and assets consist of the following:

At December 31,	1999	1998
Long-Term Deferred Income Tax Liabilities		
Property, plant and equipment	$ 7,678	$ 7,324
Investments	7,304	—
Franchise costs	11,998	—
Other	1,156	776
Total long-term deferred income tax liabilities	$28,136	$ 8,100
Long-Term Deferred Income Tax Assets		
Business restructuring	$ 120	$ 134
Net operating loss/credit carryforwards	710	495
Employee pensions and other benefits, net	1,359	1,557
Reserves and allowances	376	126
Investments	—	39
Other	1,603	556
Valuation allowance	(231)	(260)
Total net long-term deferred income tax assets	$ 3,937	$ 2,647
Net long-term deferred income tax liabilities	$24,199	$ 5,453
Current Deferred Income Tax Liabilities		
Total current deferred income tax liabilities	$ 427	$ 408
Current Deferred Income Tax Assets		
Business restructuring	$ 47	$ 79
Employee pensions and other benefits	562	346
Reserves and allowances	682	896
Other	423	397
Total current deferred income tax assets	$ 1,714	$ 1,718
Net current deferred income tax assets	$ 1,287	$ 1,310

At December 31, 1999, we had net operating loss carryforwards (tax-effected) for federal and state income tax purposes of $156 and $187, respectively, expiring through 2014. We also had foreign net operating loss carryforwards (tax-effected) of $78, which have no expiration date. In addition, we had federal tax credit carryforwards of $257, of which $183 have no expiration date and $74 expiring through 2005. We had state tax credit carryforwards (tax-effected) of $32 expiring through 2003.

In connection with the Broadband merger, we acquired certain federal and state net operating loss carryforwards subject to a valuation allowance of $124. If, in the future, the realization of these acquired deferred tax assets becomes more likely than not, any reduction of the associated valuation allowance will be allocated to reduce franchise costs and other purchased intangibles.

16 Commitments and Contingencies

In the normal course of business we are subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 1999. These matters could affect the operating results of any one quarter when resolved in future periods. However, we believe that after final disposition, any monetary liability or financial impact to us beyond that provided for at year-end would not be material to our annual consolidated financial statements.

We lease land, buildings and equipment through contracts that expire in various years through 2047. Our rental expense under operating leases was $827 in 1999, $742 in 1998 and $853 in 1997. The following table shows our future minimum lease payments due under noncancelable operating leases at December 31, 1999. Such payments total $3,284. The total of minimum rentals to be received in the future under noncancelable subleases as of December 31, 1999, was $285.

2000	2001	2002	2003	2004	Later Years
$ 675	$ 562	$ 445	$ 372	$ 302	$ 928

We have an agreement with General Instrument Corporation to purchase a minimum of 2.5 million set-top devices in 2000 at an average price of $318 per unit.

Through a joint venture (70% owned by AT&T and 30% owned by BT), AT&T and BT have a 31% ownership of AT&T Canada Corp. as a result of the merger between AT&T Canada Corp. and MetroNet Communications, Corp. In connection with this merger, the AT&T and BT joint venture has the right to call, or arrange for another entity to call, the remaining 69% of AT&T Canada for the greater of Cdn$37.50 per share (accreting 4% each quarter beginning June 30, 2000) or the then-appraised fair market value. If we do not exercise our call rights by June 30, 2003, the shares would be put up for auction, and the AT&T and BT joint venture would have to make the shareholders whole for the difference between the proceeds received in auction and the greater of the fair market value or the accreted value. The exact timing of any purchase will likely be partially dependent upon the future status of federal foreign ownership regulations.

17 Segment Reporting

AT&T's results are segmented according to the way we manage our business: Business Services, Consumer Services, Wireless Services and Broadband. Our Business Services segment offers a variety of global communications services including long distance, local, and data and Internet protocol (IP) networking to small and medium-sized businesses, large domestic and multinational businesses and government agencies. Business Services is also a provider of voice, data and IP transport to service resellers (wholesale services). Our Consumer Services segment provides to residential customers a variety of any-distance communications services including long distance, local toll (intrastate calls outside the immediate local area) and Internet access. In addition, Consumer Services provides prepaid calling-card and operator-handled calling services. Local phone service is also provided in certain areas. The costs associated with the development of fixed wireless technology are included in the Consumer Services segment results. Our Wireless Services segment offers wireless voice and data services and products to customers in our 850 megahertz (cellular) and 1900 megahertz (Personal Communications Services, or PCS) markets. Wireless Services includes certain interests in partnerships and affiliates that provide wireless services in the United States and internationally, aviation communications services and the results of our messaging business through the October 2, 1998, date of sale. Our Broadband segment offers a variety of services through our cable broadband network, including traditional analog video and new services such as digital cable and AT&T@Home, our high-speed cable Internet access service. Also included in this segment are the operations associated with developing and installing the infrastructure that supports broadband telephony. The balance of AT&T Group's operations is included in an "Other and Corporate" category. This category reflects the results of AT&T Solutions, our outsourcing and network management business, International Operations and Ventures, other corporate operations, corporate staff functions and elimination of transactions between segments. Included in AT&T Solutions are the results of the IBM Global Network (renamed AT&T Global Network Services, or AGNS), which was acquired for cash in phases throughout 1999. Liberty Media Group (LMG) is then added to AT&T Group, as appropriate, to reconcile segment results to consolidated AT&T. LMG is not an operating segment of AT&T because AT&T does not have a controlling financial interest in LMG for financial accounting purposes; therefore, we account for this investment under the equity method. Additionally, LMG's results are not reviewed by the chief operating decision-makers for purposes of determining resources to be allocated.

Total assets for our reportable segments include all external assets for each segment. Prepaid pension assets and corporate-owned or leased real estate are generally held at the corporate level. Shared network assets are allocated to the segments and reallocated each January based on two years of volumes.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1). AT&T evaluates performance based on several factors, of which the primary financial measure is earnings, including other income(expense), before interest and taxes (EBIT).

Generally, AT&T accounts for Business Services' intersegment telecommunications transactions at market prices.

Revenue

For the Years Ended December 31,	1999	1998	1997
Business Services external revenue	$23,540	$22,706	$21,520
Business Services internal revenue	1,562	905	811
Total Business Services revenue	25,102	23,611	22,331
Consumer Services external revenue	21,972	22,885	23,690
Wireless Services external revenue	7,627	5,406	4,668
Broadband external revenue	4,871	—	—
Total reportable segments	59,572	51,902	50,689
Other and Corporate	2,819	1,321	888
Total revenue	$62,391	$53,223	$51,577

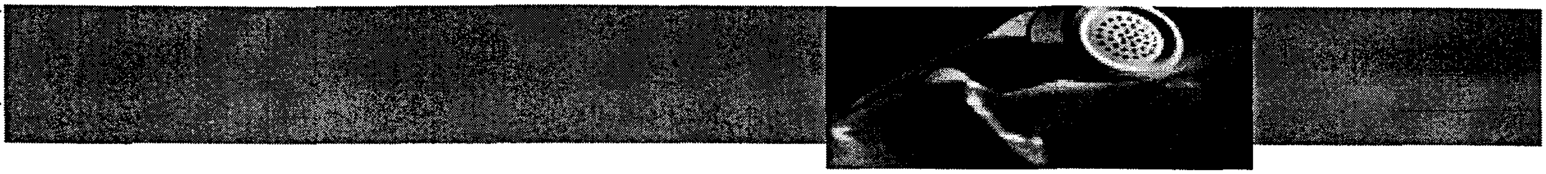
Depreciation and Amortization*

For the Years Ended December 31,	1999	1998	1997
Business Services	$ 2,948	$ 2,388	$ 1,855
Consumer Services	877	730	772
Wireless Services	1,223	1,036	886
Broadband	1,674	—	—
Total reportable segments	6,722	4,154	3,513
Other and Corporate	717	475	469
Total depreciation and amortization	$ 7,439	$ 4,629	$ 3,982

* Includes the amortization of goodwill, franchise costs and other purchased intangibles.

Equity Earnings(Losses)

For the Years Ended December 31,	1999	1998	1997
Wireless Services	$ 74	$ 108	$ 222
Broadband	(1,145)	—	—
Total reportable segments	(1,071)	108	222
Other and Corporate	(84)	(176)	(191)
Liberty Media Group	(2,022)	—	—
Total equity earnings(losses)	$ (3,177)	$ (68)	$ 31



Reconciliation of Earnings Before Interest and Taxes (EBIT) to Income Before Income Taxes

For the Years Ended December 31,	1999	1998	1997
Business Services	$ 6,131	$ 5,007	$ 4,047
Consumer Services	7,968	6,568	4,922
Wireless Services	(474)	182	366
Broadband	(2,276)	—	—
Total reportable segments' EBIT	11,349	11,757	9,335
Other and Corporate EBIT	(991)	(3,023)	(2,056)
Liberty Media Group equity losses	2,022	—	—
Interest expense	1,651	427	307
Total income before income taxes	$ 6,685	$ 8,307	$ 6,972

Assets

At December 31,	1999	1998	1997
Business Services	$ 25,107	$ 21,415	$ 16,918
Consumer Services	6,823	6,561	8,156
Wireless Services	22,478	19,115	18,639
Broadband	56,536	—	—
Total reportable segments	110,944	47,091	43,713
Other and Corporate assets:			
Other segments	11,045	4,165	4,336
Prepaid pension costs	2,464	2,074	2,156
Deferred taxes	899	1,156	1,106
Net assets of discontinued operations	—	—	1,101
Other corporate assets	5,594	5,064	8,683
Investment in Liberty Media Group and related receivables, net	38,460	—	—
Total assets	$169,406	$ 59,550	$ 61,095

Equity Investments

At December 31,	1999	1998	1997
Wireless Services	$ 3,850	$ 3,735	$ 3,128
Broadband	13,052	—	—
Total reportable segments	16,902	3,735	3,128
Other and Corporate	1,552	522	555
Liberty Media Group	38,460	—	—
Total equity investments	$56,914	$ 4,257	$ 3,683

Capital Additions

For the Years Ended December 31,	1999	1998	1997
Business Services	$ 7,145	$ 5,952	$ 4,547
Consumer Services	859	526	1,010
Wireless Services	2,598	2,321	2,071
Broadband	4,759	—	—
Total reportable segments	15,361	8,799	7,628
Other and Corporate	1,798	779	1,055
Total capital additions	$17,159	$ 9,578	$ 8,683

Geographic information is not presented due to the immateriality of revenue attributable to international customers.

Reflecting the dynamics of our business, we continually review our management model and structure. In 2000, we anticipate changes to our segments as follows: The Business Services segment will be expanded to include the results of AT&T Solutions, and Broadband results will be expanded to include the operations of MediaOne upon the completion of the merger. The Wireless Services segment will be expanded to include fixed wireless technology and certain international wireless investments.

18 Quarterly Information (Unaudited)

	1999				1998			
	First	Second	Third	Fourth	First[4]	Second[5]	Third	Fourth
Revenue	$ 14,096	$ 15,691	$ 16,270	$ 16,334	$ 12,831	$ 13,211	$13,653	$13,528
Operating income(loss)	2,116	2,913	3,389	2,441	1,404	(459)	3,356	3,186
Income(loss) from continuing operations[1]	1,018	1,045	1,416	(51)	1,285	(161)	2,123	1,988
Income before extraordinary loss	1,018	1,045	1,416	(51)	1,295	1,129	2,123	1,988
Extraordinary loss	—	—	—	—	—	—	137	—
Net income	$ 1,018	$ 1,045	$ 1,416	$ (51)	$ 1,295	$ 1,129	$ 1,986	$ 1,988
Per AT&T Group common share – basic[2]:								
Income(loss) from continuing operations	$ .39	$ .50	$ .51	$ .36	$ .48	$ (.06)	$ .79	$ .76
Extraordinary loss	—	—	—	—	—	—	.05	—
AT&T Group earnings	.39	.50	.51	.36	.48	.42	.74	.76
Per AT&T Group common share – diluted[2]:								
Income(loss) from continuing operations	$ .38	$ .49	$ .50	$ .36	$ .48	$ (.06)	$ .78	$ .75
Extraordinary loss	—	—	—	—	—	—	.05	—
AT&T Group earnings	.38	.49	.50	.36	.48	.42	.73	.75
Dividends declared per AT&T common share	$ .22	$ .22	$ .22	$ .22	$ .22	$ .22	$ .22	$ .22
Liberty Media Group loss per share[3]:								
Basic and diluted[2]	$ .05	$ .43	$ .17	$ .95	—	—	—	—
Stock price[2,6]:								
AT&T common stock								
High	$ 64.08	$ 63.00	$ 59.00	$ 61.00	$ 45.67	$ 44.92	$ 40.92	$ 52.67
Low	50.58	50.06	41.81	41.50	38.25	37.42	32.25	37.46
Quarter-end close	53.20	55.81	43.50	50.81	43.83	38.08	38.95	50.50
Liberty Media Group Class A tracking stock								
High	29.06	37.03	39.69	56.81	—	—	—	—
Low	25.88	26.25	30.88	35.88	—	—	—	—
Quarter-end close	26.30	36.75	37.31	56.81	—	—	—	—
Liberty Media Group Class B tracking stock								
High	29.13	37.25	39.75	68.75	—	—	—	—
Low	26.13	27.38	32.00	38.63	—	—	—	—
Quarter-end close	26.88	37.25	39.75	68.75	—	—	—	—

1. First and second quarter 1999 amounts were restated to reflect changes resulting from the appraisal of Broadband. The restatement had no impact on net income or earnings per share.

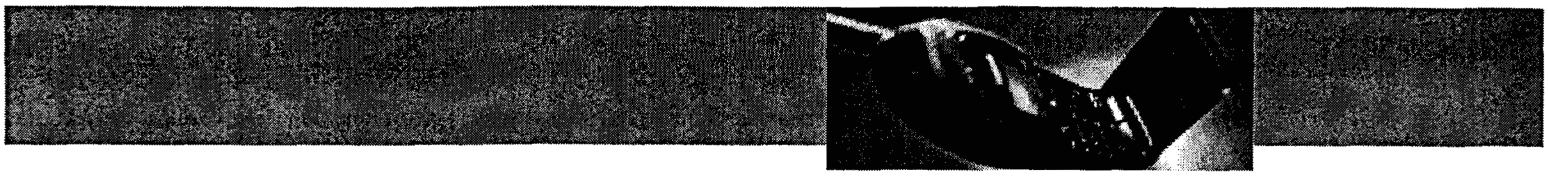
2. Amounts have been restated to reflect the April 1999 three-for-two split of AT&T's common stock and the June 1999 two-for-one stock split of the Liberty Media Group tracking stock.

3. No dividends have been declared for Liberty Media Group.

4. First quarter 1998 included $10 of income from discontinued operations. This income had no material impact on earnings per share.

5. Second quarter 1998 included a gain on sale of discontinued operations of $1,290, for an earnings per share impact of $0.48.

6. Stock prices obtained from the New York Stock Exchange Composite Tape.



19 New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Among other provisions, it requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The effective date of this standard was delayed via the issuance of SFAS No. 137. The effective date for SFAS No. 133 is now for fiscal years beginning after June 15, 2000, though earlier adoption is encouraged and retroactive application is prohibited. For AT&T this means that the standard must be adopted no later than January 1, 2001. Based on the types of derivatives we currently have, we do not expect the adoption of this standard will have a material impact on AT&T's results of operations, financial position or cash flows.

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," which must be adopted by March 31, 2000. We are currently assessing the impact of SAB 101 on our results of operations.

20 Subsequent Events

On January 5, 2000, AT&T and BT announced financial closure of Concert. Concert began operations in 2000 as the leading global telecommunications company serving multinational business customers, international carriers and Internet service providers worldwide.

On January 18, 2000, we sold our ownership in Lenfest Communications, Inc. (Lenfest), to a subsidiary of Comcast. In connection with the sale, we received 48,555,280 shares of Comcast Class Special A common stock, which had a value of $2,510 at the date of disposition.

On February 3, 2000, a registration statement was filed with the SEC for an initial public offering of AT&T Wireless Group tracking stock. The new tracking stock will provide current shareowners and future investors with a security tied directly to the economic performance of AT&T's Wireless business. AT&T Wireless Group will include voice and data mobility, fixed wireless and certain international wireless investments. At a special shareowner meeting held in March, a proposal to create the tracking stock was approved. We intend to conduct an initial public offering of AT&T Wireless Group tracking stock in the second quarter. A distribution, which may be in the form of a dividend, exchange offer, or a combination of these, of the AT&T Wireless Group tracking stock is intended to be made to shareowners of AT&T common stock sometime thereafter. Holders of Liberty Media Group tracking stock will not be entitled to this distribution.

In February 2000, AT&T entered into an agreement with TeleCorp PCS, Inc., to swap certain licenses that we currently own in the midwestern United States as well as cash of approximately $100 in exchange for licenses in several New England markets. The transaction is expected to close in the fourth quarter of 2000.

AT&T Senior Leadership Team

Pictured left to right:
Mike Armstrong
Mirian Graddick
Dick Martin
Chuck Noski

Pictured left to right:
Jim Cicconi
John Petrillo
Dan Somers

Pictured left to right:
Frank Ianna (standing)
Dave Nagel
Rick Roscitt

AT&T Senior Leadership Team

C. Michael Armstrong
Chairman of the Board and
Chief Executive Officer

James W. Cicconi
General Counsel and
Executive Vice President
Law and Government Affairs

Mirian Graddick
Executive Vice President
Human Resources

Frank Ianna
President
AT&T Network Services

Richard J. Martin
Executive Vice President
Public Relations & Employee
Communications

David C. Nagel
Chief Technology Officer and
President
AT&T Labs

Charles H. Noski
Senior Executive Vice President
and Chief Financial Officer

John C. Petrillo
Executive Vice President
Corporate Strategy & Business
Development

Richard R. Roscitt
President
AT&T Business Services

Daniel E. Somers
President
AT&T Broadband

AT&T Wireless Group (pictured on page 10)

Harold W. Burlingame
Executive Vice President
Communications & Human
Resources

Mohan Gyani
President
AT&T Wireless Services

Michael G. Keith
Executive Vice President
Fixed Wireless

John D. Zeglis
Chairman and Chief Executive
Officer

Board of Directors and Corporate Information

Corporate Headquarters
32 Avenue of the Americas
New York, NY 10013-2412

AT&T Board of Directors

C. Michael Armstrong, 61
Chairman of the Board and Chief Executive Officer of AT&T since 1997. 4,7

Kenneth T. Derr, 63
Retired Chairman of the Board, Chevron Corporation, an international oil company. Director since 1995. 1,2

M. Kathryn Eickhoff, 60
President, Eickhoff Economics, Inc., economic consultants. Elected to Board in 1987. 1,5

Walter Y. Elisha, 67
Retired Chairman and Chief Executive Officer, Springs Industries, a textile manufacturer. Director since 1987. 3,5

George M. C. Fisher, 59
Chairman, Eastman Kodak Company, an imaging company. Elected to Board in 1997. 2,5

Donald V. Fites, 65
Retired Chairman and Chief Executive Officer, Caterpillar Inc., an equipment manufacturer. Director since 1997. 3,5,6

Amos B. Hostetter, Jr., 62
Former Chairman and Chief Executive Officer, Continental Cablevision, Inc., a cable communications company. Elected to Board in 1999.

Ralph S. Larsen, 61
Chairman and Chief Executive Officer, Johnson & Johnson, a pharmaceutical, medical and consumer-products company. Director since 1995. 1,5

John C. Malone, 58
Chairman, Liberty Media Corporation, a cable programming company. Elected to Board in 1999. 6

Donald F. McHenry, 63
President, IRC Group LLC, international relations consultants; former U.S. Ambassador to the United Nations. Director since 1986. 1,2,3,4

Michael I. Sovern, 68
President Emeritus and Chancellor Kent Professor of Law, Columbia University. Elected to Board in 1984. 1,2,4,6,7

Sanford I. Weill, 66
Chairman and Co-Chief Executive Officer, Citigroup, a financial services company. Director since 1998. 1,5

***Thomas H. Wyman, 70**
Former Chairman and Chief Executive Officer, CBS Inc. Elected to Board in 1981. 2,3,4,7

John D. Zeglis, 52
President of AT&T and Chief Executive Officer of AT&T Wireless Group. Director of AT&T since 1997. 3

1. Audit Committee
2. Compensation and Employee Benefits Committee
3. Governance and Nominating Committee
4. Executive Committee
5. Finance Committee
6. Capital Stock Committee
7. Proxy Committee

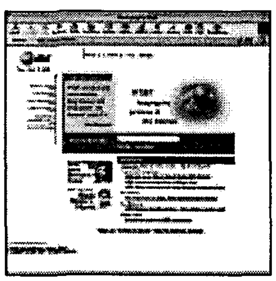
Ages are as of January 1, 2000.

*will retire from Board in May 2000

Corporate Information

AT&T on the World Wide Web

The AT&T home page – **www.att.com** – is your entry point for a vast array of information about AT&T, including company news and details on products and services. You're also encouraged to visit the AT&T Investor Relations Web site (**www.att.com/ir/**) for up-to-the-minute information for shareowners and the financial community.



Stock Information

AT&T (ticker symbol "T") is listed on the New York Stock Exchange, as well as the Boston, Chicago, Cincinnati, Pacific and Philadelphia exchanges in the United States, and on stock exchanges in Brussels, London, Paris and Geneva. As of December 31, 1999, AT&T had 3.2 billion shares outstanding, held by more than 4.2 million shareowners. Liberty Media Group Class A and Class B common stock (ticker symbols "LMG.A" and "LMG.B"), tracking stock of AT&T, are listed on the New York Stock Exchange. As of December 31, 1999, Liberty Media Class A had 1.2 billion shares outstanding, held by 5,902 shareowners; Liberty Media Class B had 108.4 million shares outstanding, held by 417 shareowners.

Annual Meeting

The 115th Annual Meeting of Shareowners will convene at 9:30 a.m. at the Arie Crown Theater at Lakeside Center, Chicago, Illinois, on May 24, 2000.

Supplier Diversity Initiative

As part of AT&T's Supplier Diversity Initiative, approximately $1.2 billion of AT&T's total purchases in 1999 were made from minority-, women- and service-disabled-veteran-owned business enterprises. More information is available online at **www.att.com/supplier_diversity/**.

AT&T Foundation

During the past 100 years, AT&T has built a tradition of supporting education, health and human services, the environment, public policy and the arts in communities we serve. In 1999, the AT&T Foundation donated $45 million to nonprofit organizations in communities throughout the United States and around the world. Also included in the AT&T Foundation are **AT&T CARES**, a companywide initiative through which employees volunteered more than 400,000 hours of community service in 1999, and **The AT&T Learning Network**, an online program connecting teachers, schools and parents to the technology tools they need to help improve teaching and learning. For more information on the AT&T Foundation, visit the Web site at **www.att.com/foundation/**.

Telephone Pioneers of America

Since 1911, AT&T has been a sponsor of The Telephone Pioneers of America, the world's largest, industry-based volunteer organization, comprised of nearly 800,000 employees and retirees from the telecommunications industry. For more information, call the AT&T Pioneers at 1 800 258-0649 or visit **www.telephone-pioneers.org/**.

Environment, Health & Safety

AT&T is dedicated to creating a safe and healthy workplace for AT&T employees and strives to maintain our reputation as one of the top corporate environmental champions. More information about AT&T's environment, health and safety initiatives may be found online at **www.att.com/ehs/**.

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