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SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

1440 NEW YORK AVENUE, N.W.
WASHINGTON, D.C. 20005-2111

TEL: (202) 371-7000
FAX: (202) 393-5760

DIRECT DIAL
202-371-7230

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February 26, 1999

BY HAND DELIVERY **EX PARTE**

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
Portals II
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: Application of SBC Communications, Inc. and Ameritech Corporation for Authority To Transfer Control of Certain Licenses and Authorizations, CC Docket No. 98-141 -- Notice of Written Ex Parte Presentation

Dear Ms. Salas:

As follow up to the February 9, 1999 meeting between Commission staff and representatives of Ameritech, enclosed are two copies of the Ameritech 1998 Annual Report for inclusion in the docket of the above referenced proceeding.

Respectfully submitted,

Antoinette Cook Bush

Antoinette Cook Bush
Counsel for Ameritech

Enclosure

cc: William Dever, Common Carrier Bureau (CCB)
Lynn Starr (w/o enclosure)
Dick Hetke (w/o enclosure)

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Ameritech®

Ameritech, at the cent
holds enormous potent

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tial.

Hello, future. Hello, growth. Every day the global communications industry redefines the future. New services. Faster technologies. Greater convenience. All just a mouse click or a phone call away. The result: worldwide industry growth over the next five years forecast at 60%. For Ameritech, this transformation means our company, our customers and our shareowners have more ways to grow than ever before.

CONTENTS

Sustained Growth

In 1998, Ameritech achieved its sixth consecutive year of double-digit profit growth.

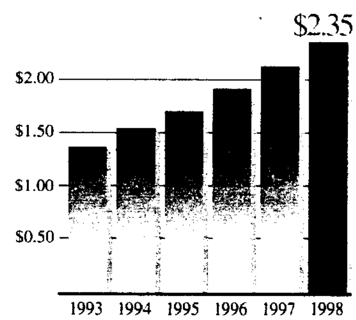
Financial Highlights

(dollars in millions, except per share amounts)	1998		1997	Percent Change
Revenues	$ 17,154	✓	$ 15,998	7.2
Income before one-time items[1]	$ 2,614	✓	$ 2,346	11.4
Net income[1]	$ 3,606	✓	$ 2,296	57.1
Diluted earnings per share before one-time items[1]	$ 2.35	✓	$ 2.12	10.8
Diluted earnings per share[1]	$ 3.25	✓	$ 2.08	56.3
Average common shares outstanding (in millions)	1,101.6		1,098.7	0.3
Dividends declared per share	$ 1.218	✓	$ 1.148	6.1
Total assets	$ 30,299	✓	$ 25,339	19.6
Long-term debt	$ 5,557		$ 4,610	20.5
Total shareowners' equity	$ 10,897	✓	$ 8,308	31.2
Book value per share	$ 9.92	✓	$ 7.57	31.0
Return on average equity	36.2%	✓	28.5%	27.0
Capital expenditures	$ 2,982	✓	$ 2,651	12.5
Net cash from operating activities	$ 4,810	✓	$ 4,510	6.7
Year-end stock price	$ 63.375	✓	$ 40.25	57.5
Year-end dividend yield	1.9%		2.8%	(32.1)
Price/earnings ratio[2]	27.0		19.0	42.1
Total return	61.3%	✓	37.3%	64.3
Number of shareowners	726,893		760,075	(4.4)
Number of employees	70,525		74,359	(5.2)

[1] Results for 1998 and 1997 include several one-time items. For a detailed discussion of these items, please see Management's Discussion and Analysis on page 23.

[2] Price/earnings ratio calculated using diluted earnings excluding one-time items in both years.

✓ *All-time Ameritech highs*



Earnings per Share Growth

(diluted earnings per share before one-time items)

With 10.8% earnings per share growth in 1998, Ameritech has achieved the longest sustained record of double-digit profit growth among major U.S. communications companies.

Ameritech

	What type of service are we providing?	Where is it happening?	What is our role in this effort?	Ho cus

Strategy

Speed Growth in Our Core Business

What type of service are we providing?	Where is it happening?	What is our role in this effort?	Ho cus
Local Phone Service	Illinois, Indiana, Michigan, Ohio and Wisconsin	Transport local voice, data and video; provide call management services — retail and wholesale	11.1 busir AMR catic
Cellular, Personal Communications Services	Illinois, Indiana, Michigan, Missouri, Ohio, Wisconsin, Kentucky and Hawaii	Provide wireless transport of voice, data and video — plus call management services	3.6 and
Paging	Illinois, Indiana, Michigan, Minnesota, Missouri, Ohio and Wisconsin	Transmit numeric and alphanumeric messages	1.5 and
Advertising	Printed directories in Illinois, Indiana, Michigan, Ohio and Wisconsin; global access to Internet Yellow Pages	Produce Yellow Pages, White Pages, Internet Yellow Pages	40 n 440, 192
Capital Services	United States, Europe and Asia	Provide leasing and other equipment financing solutions	7,00 gove

Strategy

Introduce New Services to Customers

What type of service are we providing?	Where is it happening?	What is our role in this effort?	Ho cus
Cable TV	Franchises in 95 communities with nearly 4 million total population	Create, transport and provide cable TV, broadband services	More
Security Services	Customers in United States, Canada and Mexico	Market, install, monitor and service security systems	1.2 busir
Long-Distance	Cellular today; landline in Illinois, Indiana, Michigan, Ohio and Wisconsin, pending approvals	Transport voice, data and video beyond local areas	2.4
Managed Services	North America	Provide network management outsourcing for large customers' voice networks	More natio as U
Internet Access	Markets covering 70% of households in Ameritech's five-state region	Provide reliable access to regional information and the Internet	Start
Library Services	United States and 56 other countries	Provide information management software solutions	7,20

Strategy

Connect Customers Around the World

What type of service are we providing?	Where is it happening?	What is our role in this effort?	Ho cus
Local Phone, Long-Distance, Cellular, Directories, Cable TV	Denmark	Strategic partner (41.6% interest)	3.5 995, 812,
Local Phone, Long-Distance, Cellular, Directories, Security Services	Belgium	Strategic partner (17.5% interest)	5.1 1.2
Local Phone, Long-Distance, Cellular, Directories	Hungary	Strategic partner (29.8% interest)	2.7 640,
Cellular	Norway	Strategic partner (19.7% interest)	530,
Business Purchasing Guides	Germany, Austria, Belgium, Switzerland, Luxembourg, Netherlands, Slovenia, Slovakia, Croatia, Czech Republic	Produce print, CD-ROM and Internet buying guides (100% owned by Ameritech)	278,

Industry terms are defined in the Glossary on page 56.

	How many customers?	What drives growth?	1998 growth?	What brand?	Who are our allies, our competitors?
l nt e	11.1 million homes; 1 million businesses such as Kmart, ABN AMRO and Firstar; 5,000 communications/information companies	Faxes, modems, additional phone lines, data and call management features for convenience and productivity	7%[1]	Ameritech®	Competitors: competitive local phone companies plus AT&T, MCI WorldCom and others
	3.6 million consumers and businesses	Mobility, convenience, productivity, safety and accessibility	13%[2]	Ameritech®	Competitors: AT&T, PCS providers and others
	1.5 million consumers and businesses	Mobility, convenience and productivity	3%[2]	Ameritech®	Competitors: various
	40 million directories, 440,000 advertisers, 192 million Internet hits	Business growth and expanded value	18%[1]	Ameritech® Yellow Pages, www.yellowpages.net	Competitors: various
	7,000 businesses and government units	Flexibility and responsiveness	23%[1]	Ameritech® Capital Services	Competitors: various
	More than 200,000	Customer demand for reliable, easy-to-use entertainment and information	71%[2]	*americast*®	Competitors: Time Warner, TCI and others
	1.2 million homes and businesses	Need for personal and property security	13%[2]	SecurityLink® from Ameritech	Competitors: ADT and others
	2.4 million cellular customers	Value added to full-service package	41%[2]	Ameritech®	Competitors: AT&T, MCI WorldCom and others
;'	More than 700,000 ports nationwide for companies such as United Airlines and ComEd	Technology change, corporate focus on core business and cost control	39%[1]	Ameritech®	Ally: IBM Competitors: various
onal	Start-up	Need for communication, research and entertainment	99%[2]	ameritech.net®	Competitors: AT&T, America Online and others
nt	7,200 libraries	Need to automate access to information	5%[2]	Ameritech® Library Services	Competitors: various
st)	3.5 million telephone lines, 995,000 cellular customers, 812,000 cable TV customers	Customer demand, expanded services and availability	14%[3]	Tele Danmark (TLD)	Competitors: various
st)	5.1 million telephone lines, 1.2 million cellular customers	Customer demand, expanded services and availability	11%[3]	Belgacom	Allies: Tele Danmark and Singapore Telecom
t)	2.7 million telephone lines, 640,000 cellular customers	Customer demand, expanded services and availability	69%[3]	MATÁV (MTA)	Ally: Deutsche Telekom
t)	530,000 customers	Customer demand, expanded services and availability	27%[2]	NetCom	Allies: Singapore Telecom, Orkla and Comvik
	278,000 listed companies	Convenient information and contacts for businesses	25%[2]	*WLW*	Competitors: various

[1] Revenues
[2] Customers
[3] Earnings

The timing couldn't be better. Just as humanity prepares to leap forward into a brand-new century, communications has emerged as the world's most dynamic industry. And as a front-runner within that industry, Ameritech is poised not only to help shape the boundless future, but also to reap its unprecedented rewards.

That's because we understood years ago that customers are in charge. In response, our employees transformed every aspect of our business to align Ameritech with the highest expectations of those we serve. And we created a solid platform for growth based on three strategies that have long delighted our shareowners: To speed growth in our core communications business. To introduce innovative new services that leverage our traditional competencies. And to export our services and communications expertise to customers around the world.

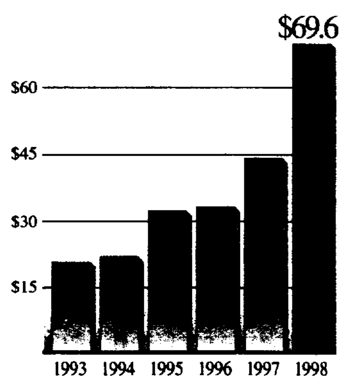
Richard C. Notebaert
Chairman and Chief Executive Officer

Once again in 1998, the results of that foresight spoke for themselves. Our expert work force added 555,000 new phone lines, generated 20% growth in call management services and expanded ClearPath℠ digital wireless service into three new markets. We incorporated state-of-the-art technologies to serve the data needs of our customers and, in the process, fostered impressive growth of such options as ISDN channels (+58%) and high-capacity circuits (+33%). In addition, Ameritech achieved our $300 million new-product revenue objective through aggressive service launches — launches that included Ameritech Privacy

Manager, a popular, first-in-the-nation service enhancement that deflects unwanted calls. We also completed our most ambitious international expansion with the acquisition of a 41.6% stake in Tele Danmark, making Ameritech the largest foreign investor in European telecommunications and a highly valued partner for future opportunities in the growth-oriented European market.

These accomplishments and many more took place within the context of Ameritech's commitment to disciplined execution and outstanding productivity. In fact, applying the industry measure, our 427 lines per employee make our work force the most productive of any local communications provider in the world.

Most importantly, our accomplishments generated the kind of results sought by our shareowners. In 1998, we celebrated our sixth straight year of double-digit profit growth, the longest sustained double-digit growth record in our peer group. We raised our quarterly dividend 5.8% — Ameritech's 15th consecutive annual increase and, for the fourth consecutive year, the largest announced by any major U.S. communications company.

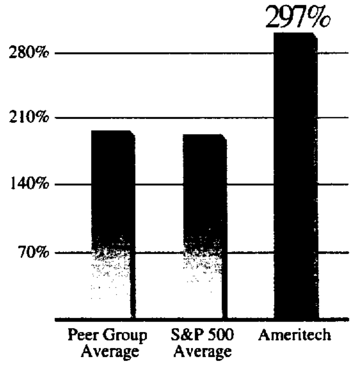


Growth in Market Value
(year-end market capitalization in billions)
Over the past five years, Ameritech created $49 billion in added stock market value for shareowners. Over this period, our stock price and our market capitalization have more than tripled.

In addition, we continued our outstanding tradition of shareowner value creation. In 1998, we delivered a total return to shareowners of 61%. Over the past five years, Ameritech's total return of 297% substantially exceeds both the S&P 500 and the average of our peers. And shareowners who have held shares since Ameritech began trading in 1983 have been rewarded with a total return of 2,421%, which is more than double the S&P 500 return of 1,080% and well ahead of our peers at 1,565%.

What can we do for an encore? Plenty. Not only has Ameritech's growth strategy delivered impressive results in the past, but its design uniquely positions us for success in the future. In fact, it was our pursuit of such value creation — as well as our response to customers' increasing need for a competitive, global provider — that led us to pursue a combination with SBC Communications.

As many of you know, SBC has long been Ameritech's counterpart company in the southwestern United States, a communications



Superior Total Return
(cumulative total return, December 31, 1993, to December 31, 1998)
Ameritech delivered a total return in 1998 of 61%, the best one-year total return in our company's history. Over the past five years, our total return exceeded both the S&P 500 and the average of the major U.S. local communications companies.

provider that has more recently expanded its service area to parts of southern New England. It is a strong, successful organization, whose financial performance and strategy for the future are remarkably similar to our own — a key factor in our shareowners' overwhelming 95% vote to approve this merger.

Ameritech's merger with SBC Communications will enable us to better serve the needs of customers here in the United States and around the world. And that is precisely compatible with our decision several years ago not only to make customer needs the driver of our business decisions, but to implement those decisions in ways that maximize shareowner value.

Our commitment to that objective has never been stronger. Likewise, the marketplace of the future has never offered us such extraordinary opportunities. Last year in this space, I mentioned that the arrival of my first grandson had offered me fresh insight into the universal need to communicate. That reminded me of the vast potential this industry enjoys. In 1998, a second new grandson joined our family and, like his cousin before him, he constantly reinforces my optimistic view of the future.

We hope you will gain a similar sense of excitement and enthusiasm as you read about Ameritech's achievements and aspirations in the pages ahead. If you are one of Ameritech's valued shareowners, you'll undoubtedly be gratified by your company's 1998 performance. If you are a potential investor, you should find the information you need as you determine how Ameritech might complement your portfolio.

In either case, we are confident you'll find compelling evidence of Ameritech's rock-solid commitment to optimize our potential on your behalf.

Sincerely,

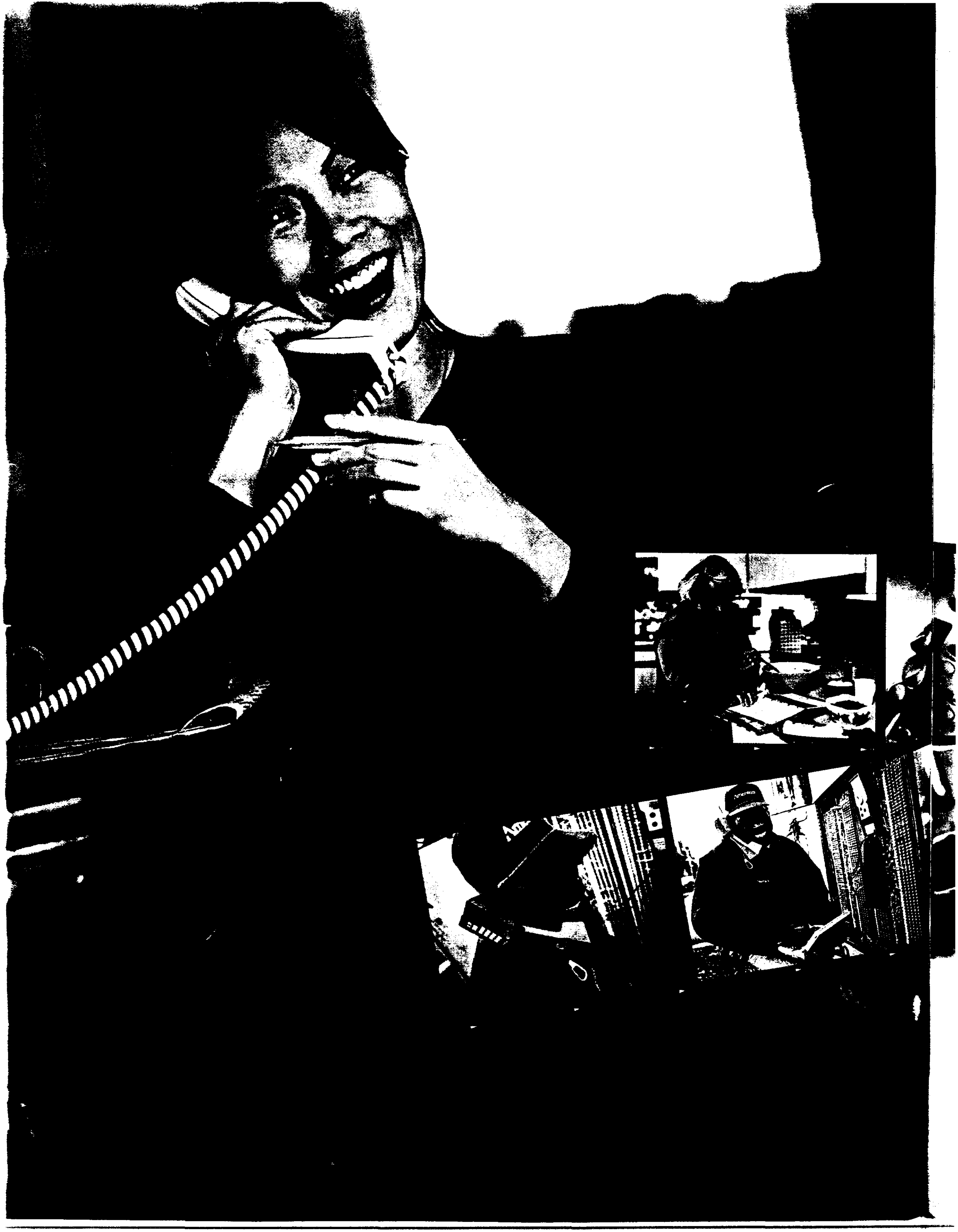
Richard C. Notebaert
Chairman and Chief Executive Officer
January 21, 1999

At Ameritech, we see the future through the eyes of customers. That's how we've built our industry's most exciting platform for growth.

Make a call. View an image. Access data. Share an idea. Every day, people around the world communicate more, and in more ways, than ever before.

Over the next five years, the global communications market is forecast to expand 60% to more than $1.9 trillion. Nearly two-thirds of that growth will occur in North America and Europe, where Ameritech's operations are focused. And our planned merger with SBC Communications will expand our opportunities even further.

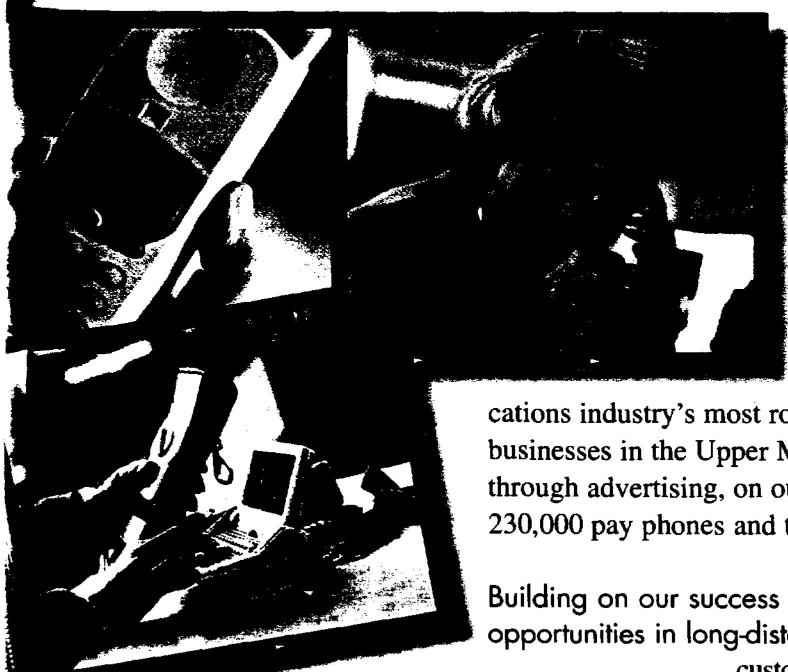
The pages ahead show how we capitalize on these opportunities. How we innovate. How we grow. How our customers define our five key growth areas for our future: Voice. Data. Wireless. Security. Global.



Voice

Over the next five years, local communications will provide customers expanded services and greater convenience. Ameritech leads in this growth market.

At Ameritech, we're expert at speeding growth in local communications, a market projected to grow 27% to $218 billion by 2003. Numerous forces drive this expansion, including new services and broad customer demand. Busy households and businesses use more phone lines and more services to gain access to a world of convenience — through faxes, Voice Mail and time-saving services such as Caller ID and Call Waiting. To capitalize on these growth opportunities, in 1992 Ameritech launched a series of major changes. We built a world-class marketing organization, consolidated all our operations under a single brand and expanded our product portfolio. The result: sustained growth. Over the past five years, we've added more than 3.4 million phone lines in our five-state market area, bringing our total to 21 million. In 1998, consumer additional lines grew 12%, and Caller ID customers grew 25%.



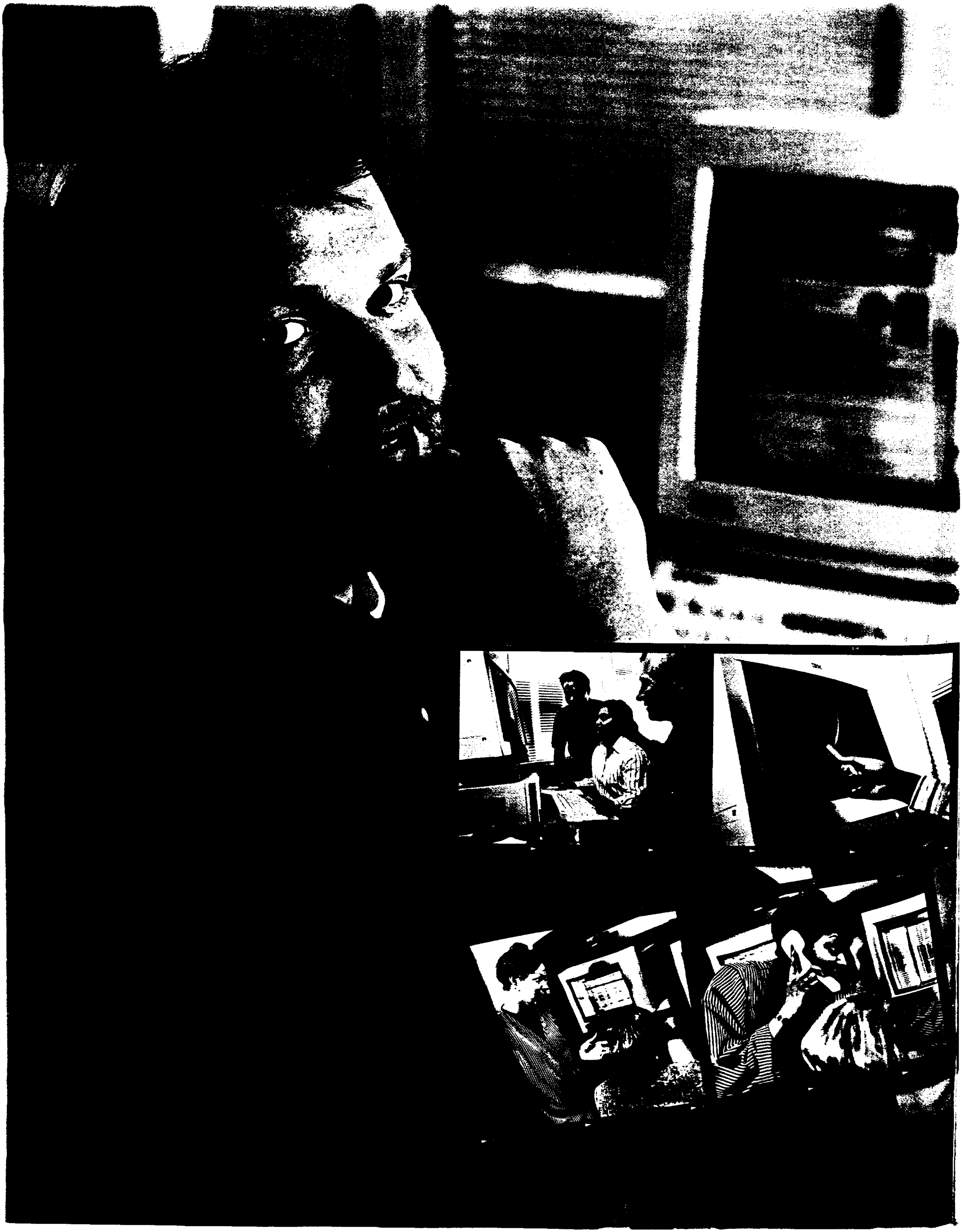
To accelerate growth, we've built a world-class brand defined by attentive customer care. Through targeted advertising and extensive customer interaction, Ameritech has built one of the communications industry's most robust brands. More than 12 million households and businesses in the Upper Midwest experience the Ameritech brand every day through advertising, on our Web sites, on our 40 million directories, on our 230,000 pay phones and through millions of person-to-person customer contacts.

Building on our success in local service, we also are developing growth opportunities in long-distance. For example, more than 2.4 million of our cellular customers have signed up for Ameritech long-distance, up 41% from a year ago. Our prepaid phone card, which can be used for local, long-distance and international calls, recorded even stronger growth. Plus, we continue to work toward full entry into our region's $10.5 billion long-distance market.

20%

Ameritech's sales of call management services such as Caller ID, Call Waiting and Voice Mail grew 20% in 1998.

Customers such as Suyun Kim (facing page) and Gerry Gosnell (inset, color) count on Ameritech for reliability and the added convenience of services such as Caller ID. More than 50,000 employees in our local phone operations deliver these services, including David Lilly (inset, black and white), installation and maintenance technician.



Data

Rapid growth in data and Internet services is transforming communications. Ameritech is shaping the future of this high-potential market.

Data communications sales in the United States are forecast to more than double over the next five years, growing to $158 billion. To capitalize on this huge potential, in 1993 we set up a new business unit to focus on data solutions. Today, 3,400 Ameritech employees are dedicated to this segment of our business. More than half of our network traffic is now data rather than voice. And our 1998 data revenues grew 32% to $1.7 billion, representing more than one-third of our total revenue growth. In recognition of our strength in data, in 1998 Ameritech was selected to operate America's international research and education Internet hub.

To speed growth, we've taken important steps to expand our data capabilities. For example, during the past year we acquired Clover Technologies, a leading network integrator and one of the largest local area network solutions providers in the United States. Also, we were the first company certified to both operate and connect suppliers to the Automotive Network eXchange® (ANX®) service, a secure, Internet protocol network that connects automakers and 4,000 suppliers.

To meet growing mass-market demand for broadband, we're deploying ADSL technology and building competitive cable TV networks, both capable of delivering the data services of the future. This past year, we launched one of the largest single commercial deployments of high-speed ADSL technology in the country — for up to 20,000 off-campus students, faculty and staff at the University of Michigan. ADSL lets users access the Internet at speeds up to 50 times faster than a standard phone line and modem. We're also building advanced cable TV networks. We have 95 cable TV franchises that cover a population of nearly 4 million in the Chicago, Detroit, Cleveland and Columbus, Ohio, markets. We're operating in 75 communities, offering more than 90 channels of programming and real-time community information to more than 200,000 *americast®* customers.

We provide advanced data services to customers at the University of Michigan such as Peter Knoop (facing page). Kuang-Yu Huang, April Shah and Ron Jackowski of Chicago Rawhide (inset, color), use the innovative network we operate for automotive suppliers. At our newly acquired Clover Technologies unit, Nicole Alexander, left, Melissa Haines and Vijay Rajhavan develop network solutions for companies across the United States.

58%

Ameritech ISDN channels grew 58% in 1998. ISDN service can carry voice, data and video simultaneously with several times the capacity of conventional phone lines.


Ameritech

Ameritech is one of the world's most successful cellular companies. Our broad customer base and new services point to an exciting future.

The U.S. wireless market is forecast to grow more than 50% over the next five years to $60 billion. Ameritech's position in this fast-expanding market is large and growing. We provide wireless service to more than 3.5 million customers in the Upper Midwest and cover every major market where we provide traditional wired phone service. Ameritech sells wireless service through more than 1,000 retail locations including 69 shops within Sears stores, which were added in 1998. Our results have been consistent and impressive. Over the past three years, we've added approximately 1.7 million new customers. And opportunities for continued strong growth are outstanding. Our U.S. wireless markets encompass a total population of more than 34 million.

Ameritech's wireless services generate rapid growth. We serve customers such as Marshall Dixon in the United States (facing page) and, through our partnerships, customers such as Zoltan Novak in Hungary (opposite). We market wireless services through a variety of sales channels including retail stores. Ameritech associate Kimberly Lindahl (inset, facing page) demonstrates phone features to Mimi Landsman.

To drive future growth, in 1998 Ameritech accelerated deployment of our ClearPath℠ advanced digital wireless networks in our major U.S. markets. This service gives customers added call clarity, longer talk times and a host of new features such as Caller ID and Voice Mail. Over the past two years, Ameritech launched ClearPath service in our largest markets — Chicago, Detroit, Indianapolis, St. Louis, Milwaukee, Cincinnati and Columbus, Ohio — and the service is available to 84% of our potential customers.

35%

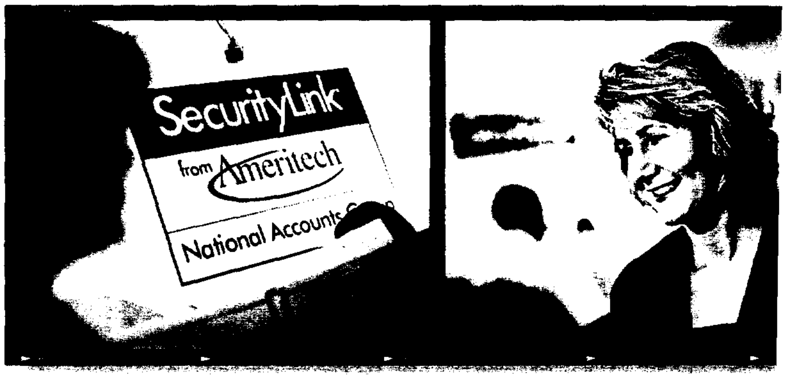
Operating cash flow from our wireless operations increased 35% in 1998, as we recorded the best financial performance in the history of our cellular business.

Ameritech wireless leads its markets in both customer growth and customer satisfaction. Over the past three years, our number of U.S. wireless customers has nearly doubled. That growth has been driven by quality service. In 1998, Ameritech ranked number one in J.D. Power and Associates' customer satisfaction survey of wireless users in Chicago, Detroit and St. Louis — our only markets where the survey was conducted. This marks the fourth consecutive year that Ameritech has received this award in Chicago and Detroit.


Ameritech.
REVIEW

Through our North American security operations and innovative privacy services, we're building a new growth business in a high-potential market.

Ameritech is a leader in the North American electronic security industry, a $15 billion market forecast to grow to more than $26 billion by 2003. We are the second-largest provider of electronic security in the United States, the largest provider in Canada and one of only two companies that compete nationally in all segments of the industry. We serve 1.2 million customers and operate in 92 of the United States' largest 100 markets, which cover 72% of the country's population. This growth profile is strengthened by the business' strong value equation: a consistent, recurring revenue stream, high customer retention rates and low capital investment requirements for expansion.



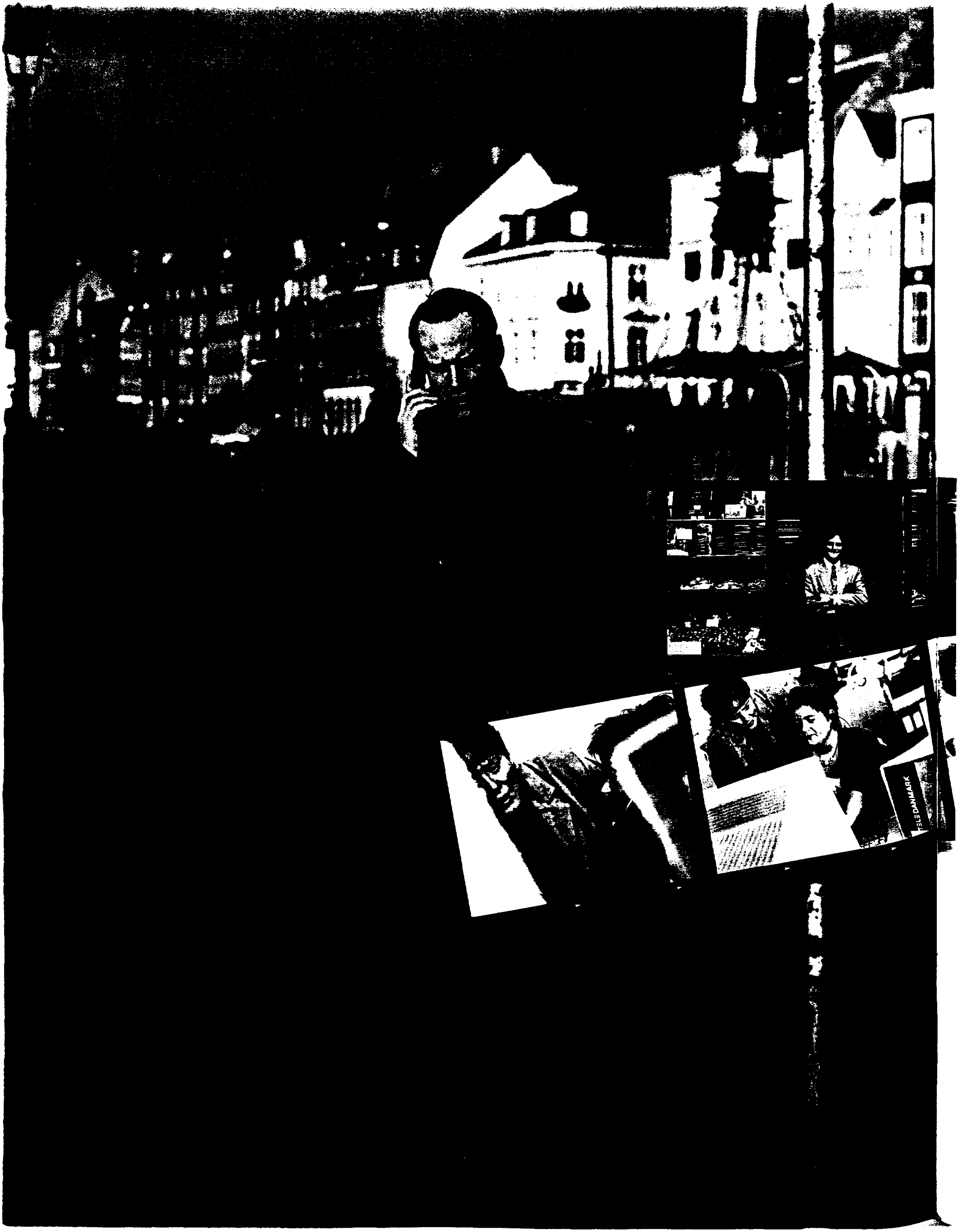
Ameritech provides security monitoring for customers across North America, including Cindy Fine and son William (facing page). Skilled employees such as Terrie Snider at our SecurityLink National Accounts Center in Columbus, Ohio (opposite), serve business customers. Our new Ameritech Privacy Manager service lets customers such as Bernard Mixon (inset, below) avoid unwanted calls.

To spur continued growth, we've expanded our monitored products and services and deployed the security industry's most robust customer service platform. For example, we launched systems that automatically page customers when alarms occur or when loved ones return home. And in 1998, we consolidated our call monitoring centers into four state-of-the-art regional facilities. More than 80% of our accounts are now served by these new centers, which provide more consistent service and added efficiency.

Our Ameritech Privacy Manager service is the industry's first comprehensive solution to phone privacy concerns. Launched late in 1998, this breakthrough service gives customers choice and control over the calls that come into their homes and lets them reject unwanted calls from telemarketers and others. The service is now available to customers in three states. Initial sales are ahead of projections. And growth prospects are bright.

13%

Ameritech added 136,000 North American security customers in 1998 for a 13% growth rate.


TELEDANMARK

In 1998, Ameritech's European investments contributed more than one-fourth of our total earnings growth. These strong results point to a future rich in opportunity.

The European communications market is forecast to grow 60% over the next five years to more than $560 billion. Powering this growth are liberalized markets, expanding economies and a large population base. To capitalize on these growth opportunities, over the past five years Ameritech has become the largest foreign investor in European communications. We have major strategic partnerships in the national, full-service communications companies Belgacom of Belgium, Tele Danmark of Denmark and MATÁV of Hungary. We are also a partner in NetCom, a fast-growing cellular company in Norway, and we own 100% of *WLW*, a successful business-to-business directory and electronic commerce firm based in Germany. Ameritech Global Gateway Services, launched in late 1997, has grown quickly and now provides wholesale long-distance transport to more than 200 countries.

Through our European partnerships, we serve customers such as Soren Bjornskov (facing page) in Denmark and Axel Jooris (inset, color) in Belgium. We build value by sharing skills with international partners. For example, Ameritech manager Sue Nokes and Tele Danmark customer service agent Mette Jorgensen (inset, black and white) work together to improve customer care.

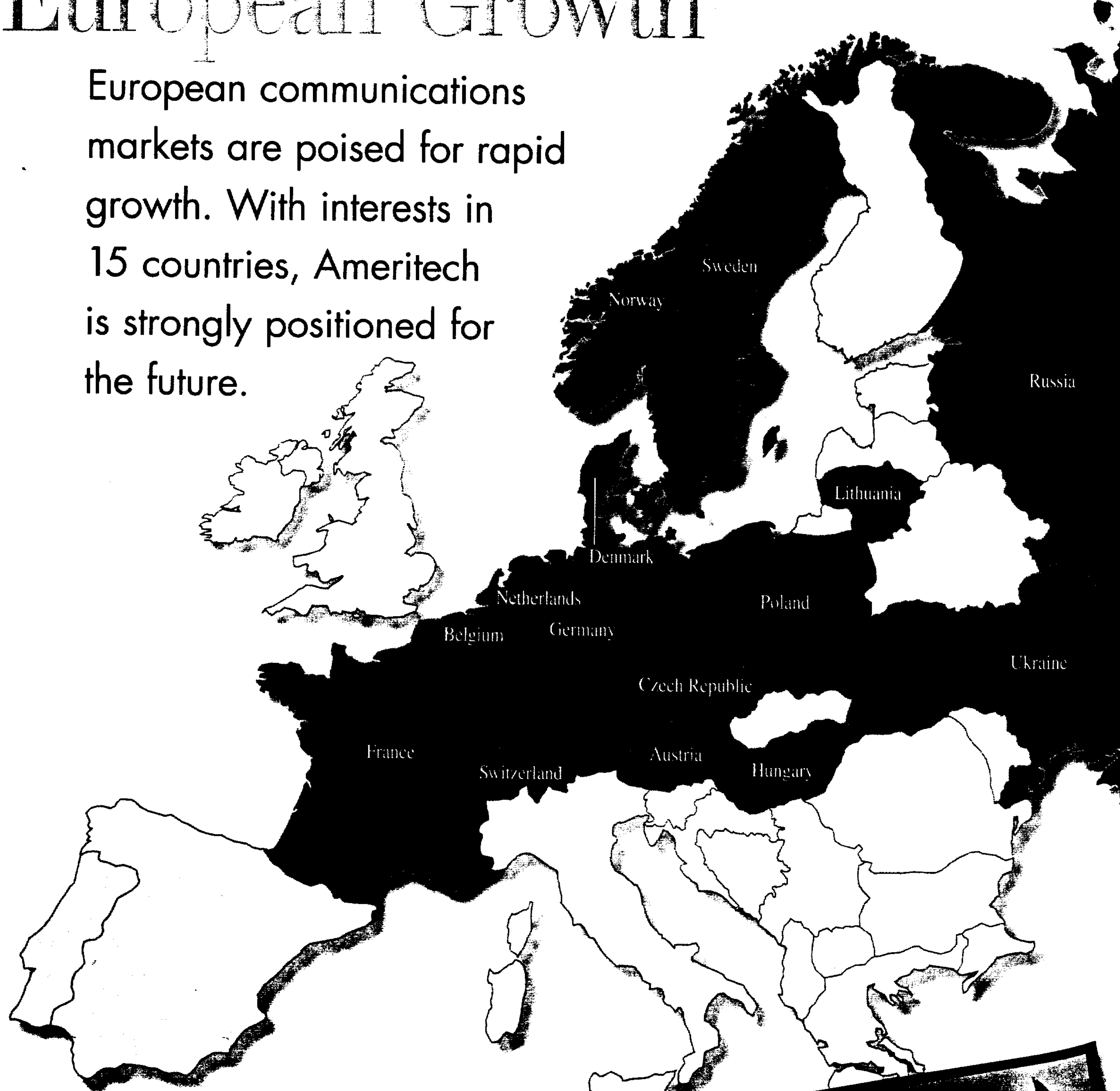
Over the past few years, the value of our European investments has more than doubled, growing from our original investment of $4.7 billion to more than $10 billion. We build value by sharing skills and focusing on customers. In Hungary, for instance, our partnership in MATÁV resulted in rapid service upgrades and elimination of a 13-year waiting list for phone service. MATÁV's earnings growth has exceeded 50% and revenue growth has topped 25% four quarters in a row. In 1998, Tele Danmark launched a host of successful new services — including Duet, the world's first seamless cellular-landline single-number phone service.

Over the past year, the estimated value of our European investments grew 65%, driven by strong financial results and expanded market opportunities.

Wireless communications is a powerful growth engine in our European partnerships. For example, Belgacom's total cellular customer base grew more than 80% in 1998 to 1.2 million. MATÁV's 1998 cellular customer growth was 45%. And in late 1998, Belgacom and Tele Danmark partnered to launch an advanced nationwide wireless network in the Netherlands.

European Growth

European communications markets are poised for rapid growth. With interests in 15 countries, Ameritech is strongly positioned for the future.



Ameritech has investments and operations in many of Europe's most promising communications markets. For example, we help provide wireless services to customers in 11 countries, including Henrik Kiqerulff of Copenhagen (right).

Ameritech's European Holdings

Company	Customers	Stake	Investments	Country	Services	Market Value*
Tele Danmark	3.5 million lines, 995,000 cellular, 812,000 cable TV	**41.6%**		**Denmark**	Local phone, cellular, long-distance, security services, directories, cable TV	$ 6,110 million
			Belgacom	**Belgium**	Local phone, cellular, long-distance, security services	
			BITE GSM	**Lithuania**	Cellular	
			Comliet UAB	**Lithuania**	Cellular	
			Connect Austria	**Austria**	Cellular	
			Czech Radio	**Czech Republic**	Cellular, broadcasting	
			East-West Link	**Russia**	International cable	
			HTTC	**Hungary**	Local phone	
			InterNordia	**Sweden**	Voice and data equipment	
			NSAB	**Sweden**	Satellite services	
			Polkomtel	**Poland**	Cellular	
			Ben	**Netherlands**	Cellular	
			Sunrise	**Switzerland**	Competitive carrier	
			Talkline	**Germany**	Cellular resale, Internet and landline	
			Telenordia	**Sweden**	Business communications	
			UMC	**Ukraine**	Cellular	
MATÁV	2.7 million lines, 640,000 cellular	**29.8%**		**Hungary**	Local phone, cellular, long-distance, directories, cable TV	$ 1,845 million
Belgacom	5.1 million lines, 1.2 million cellular	**17.5%**		**Belgium**	Local phone, cellular, long-distance, security services	$ 1,800 million
			Belgacom France	**France**	Landline second carrier	
			Combellga	**Russia**	Landline	
			Ben	**Netherlands**	Cellular	
NetCom	530,000 cellular	**19.7%**		**Norway**	Cellular	$ 255 million
WLW	278,000 listed companies	**100%**		**Throughout Europe**	Business purchasing guides	$ 100 million
					TOTAL	$10,110 million

*** Using actual year-end closing prices for publicly traded companies and company estimates for Belgacom and *WLW*.**

Pro Rata International Financials

	Total European Investments	**Ameritech U.S.**	Pro Rata Europe	**Total Ameritech**
1998				
Financial Data (in millions)				
Revenues	$10,851	**$ 17,154**	$ 3,017	**$ 20,171**
Operating expenses	$ 6,660	**$ 10,244**	$ 1,912	**$ 12,156**
Operating cash flow (EBITDA)	$ 4,191	**$ 6,910**	$ 1,105	**$ 8,015**
Depreciation and amortization	$ 1,584	**$ 2,717**	$ 417	**$ 3,134**
Operating income (EBIT)	$ 2,607	**$ 4,193**	$ 688	**$ 4,881**
Nonrecurring items	$ —	**$ (1,621)**	$ —	**$ (1,621)**
Other (income)/expense	$ 77	**$ 19**	$ 19	**$ 38**
Interest	$ 149	**$ 611**	$ 26	**$ 637**
Taxes	$ 746	**$ 2,031**	$ 190	**$ 2,221**
Reported net income	$ 1,635	**$ 3,153**	$ 453	**$ 3,606**
One-time items	$ (122)	**$ (945)**	$ (47)	**$ (992)**
Recurring net income	$ 1,513	**$ 2,208**	$ 406	**$ 2,614**
Average dilutive common shares (in millions)		**1,110.9**		
Recurring diluted earnings per share	$ 1.37	**$ 1.99**	$ 0.36	**$ 2.35**
EBITDA margin (before one-time items)		**40.9%**	36.6%	**40.3%**
EBIT margin (before one-time items)		**25.0%**	22.8%	**24.7%**
Net margin (before one-time items)		**12.9%**	13.5%	**13.0%**

Notes: "Ameritech U.S." column excludes international equity income from European investments. Pro rata European results are shown on a U.S. GAAP basis before Ameritech's purchase accounting adjustments.

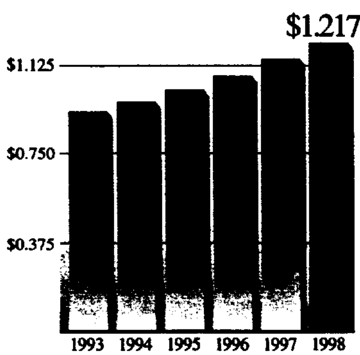
Questions & Answers

The global communications industry has entered an era of rapid expansion. And Ameritech has taken major steps to accelerate its growth strategies. Chairman and Chief Executive Officer Richard C. Notebaert answers questions investors frequently ask about Ameritech's future.

Q. In December 1998, shareowners of Ameritech and SBC Communications approved a plan to merge. What are your goals for the merger?

A. The proposed merger offers outstanding potential for us to speed growth and build value for our shareowners. Over the next few years, the communications industry will generate unprecedented opportunities. The merged company will have the scale, scope, experience and financial strength to capitalize on these opportunities and serve customers on a national and global basis.

Our combined resources will enable us to launch more new services faster than ever before. Our employees will form a world-class talent pool. And our new-business initiatives, including our planned national-local expansion into 30 U.S. markets outside our traditional regions, will spur competition and further accelerate our industry's expansion.



Dividend Growth

(dividends declared per share, adjusted for stock splits)

Ameritech's 5.8% dividend increase announced in December 1998 was the largest among major U.S. communications companies for the fourth consecutive year.

In previous annual reports, I said that for any merger to make sense for Ameritech, it would have to deliver clear wins for both our customers and our shareowners. This merger will deliver these wins faster than we could achieve them on our own.

Q. What is your dividend history, and how will Ameritech's planned merger with SBC affect dividend payouts?

A. Ameritech and SBC share a strong dividend record. Both companies have raised their dividend every year they've been in business. When the merger closes, each share of Ameritech common stock will be exchanged for 1.316 shares of SBC common stock. So, we expect the transaction will have little or no impact on dividend payouts for Ameritech shareowners. Because of our strong earnings, both companies have achieved consistent dividend growth while steadily reducing payout ratios. This allows a larger portion of earnings to be retained for investment in growth opportunities.

Q. Ameritech continues to expand internationally. How do you minimize risk when making overseas investments?

A. We do three important things to ensure success in our international investments. First, we screen every country by looking at a range of quantifiable factors. These include political and economic stability, business and legal environments and education levels. Second, we evaluate every business opportunity by applying disciplined investment models that quantify potential for growth and value creation over time. Third, we pursue strategic partnerships rather than passive investments. Partnerships allow us to learn from others while having direct input into operations, with seasoned Ameritech professionals transferring knowledge and skills critical to success.

Q. What impact will competition have on Ameritech's future?

A. Competition is a clear positive. It's good for customers. It invigorates markets. And it spurs growth. That's why Ameritech has taken the lead in pushing for more open markets, and why we continue to work to move beyond regulatory barriers and gain entry into the long-distance business. Today, more than 200 companies have been certified to provide local service in our markets, and we've completed more than 150 interconnection agreements with competitive providers.

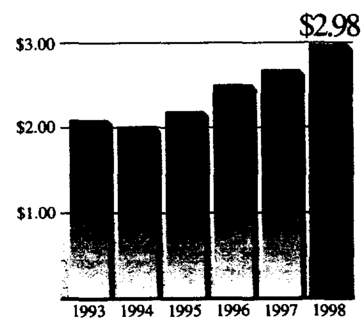
Our competitive confidence is based on proven strengths: a strong brand, a reputation for outstanding service and world-class marketing capabilities. It's also based on the success of our wholesale business. Since 1993, our wholesale unit has grown to include 1,000 employees, and today more than 5,000 network and information providers — including cellular, PCS and competing local service companies — use Ameritech services in their products.

Q. What is Ameritech doing to increase its flow of new services?

A. We created a special business unit to speed new product development. And we set stretch targets for revenues from new services. With the success of new data services and advanced calling products such as 1-800-CONFERENCE® and Ameritech Privacy Manager, in 1998 we achieved our goal and tripled our new-product revenues. Our pipeline continues to be robust, both in our core business and in new growth opportunities, such as cable TV and security services. And in the coming year, we expect to outpace our 1998 revenue gains from new products.

Q. What steps has Ameritech taken to prepare for Year 2000 computer and systems conversions?

A. We began a thorough assessment of our mission-critical systems in 1996, and we're confident we've identified and made changes to most systems in time for a full year of testing before the turn of the century. Our assessment and remediation programs will require that we spend about $250 million by the end of 2001. As part of our Year 2000 efforts, we've also developed contingency plans should disruptions to services occur. The work is conducted by centrally coordinated teams organized by business function.



Capital Expenditures
(in billions)
Capital expenditures increased $330 million in 1998, reflecting growth in our local telephone business as well as expansion of our cellular and cable TV networks.

Q. What are your plans for capital spending?

A. Our capital budget for 1999 is in line with 1998, when we invested $2.98 billion in capital projects — an increase of $330 million over 1997. Two-thirds of our 1998 capital dollars were used to expand and upgrade our local phone network. Growth in capital spending also was driven by our deployment of digital cellular networks and by continued buildout of our cable TV network.

We take a highly disciplined approach to capital investment. Regulatory requirements are one factor in our decisions. But the major driver of our capital planning is customers. We place a high priority on projects that enable us to provide customers with new products and services.

Selected Financial and Operating Data

Ameritech Corporation and Subsidiaries

As of December 31 or for the year ended
(dollars in millions, except per share amounts)

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Revenues	$17,154	$15,998	$14,917	$13,428	$12,569	$11,865	$11,285	$10,983	$10,773	$10,316	$10,014
Operating expenses[1]	12,961	12,199	11,412	10,125	10,540	9,307	8,941	9,001	8,584	8,161	7,882
Operating income	4,193	3,799	3,505	3,303	2,029	2,558	2,344	1,982	2,189	2,155	2,132
Interest expense	611	505	514	469	435	453	495	545	454	384	366
Other income, net	2,055	390	326	260	147	117	125	219	76	14	52
Income taxes	2,031	1,388	1,183	1,086	571	709	628	491	557	547	581
Income before special accounting items[2]	3,606	2,296	2,134	2,008	1,170	1,513	1,346	1,165	1,254	1,238	1,237
Special accounting items[2]	—	—	—	—	(2,234)	—	(1,746)	—	—	—	—
Net income (loss)	$ 3,606	$ 2,296	$ 2,134	$ 2,008	$ (1,064)	$ 1,513	$ (400)	$ 1,165	$ 1,254	$ 1,238	$ 1,237
Earnings (loss) per share[3]											
Income before special accounting items[2]											
Basic	$ 3.27	$ 2.09	$ 1.93	$ 1.81	$ 1.06	$ 1.39	$ 1.25	$ 1.10	$ 1.18	$ 1.15	$ 1.14
Diluted	3.25	2.08	1.92	1.81	1.06	1.39	1.25	1.10	1.18	1.15	1.14
Special accounting items[2]											
Basic	—	—	—	—	(2.03)	—	(1.62)	—	—	—	—
Diluted	—	—	—	—	(2.03)	—	(1.62)	—	—	—	—
Net income (loss)											
Basic	$ 3.27	$ 2.09	$ 1.93	$ 1.81	$ (0.97)	$ 1.39	$ (0.37)	$ 1.10	$ 1.18	$ 1.15	$ 1.14
Diluted	3.25	2.08	1.92	1.81	(0.97)	1.39	(0.37)	1.10	1.18	1.15	1.14
Dividends declared per share[3]	$ 1.218	$ 1.148	$ 1.078	$ 1.015	$ 0.97	$ 0.93	$ 0.89	$ 0.86	$ 0.81	$ 0.75	$ 0.69
Average common shares outstanding (millions)[3]	1,101.6	1,098.7	1,103.8	1,107.2	1,098.5	1,088.2	1,073.1	1,062.1	1,061.2	1,078.9	1,088.8
Total assets[4]	$30,299	$25,339	$23,707	$21,942	$19,947	$23,428	$22,818	$22,290	$21,715	$19,833	$19,163
Property, plant and equipment, net[4]	$14,305	$13,873	$13,507	$13,457	$13,455	$17,366	$17,335	$16,986	$16,652	$16,296	$16,078
Capital expenditures	$ 2,982	$ 2,651	$ 2,476	$ 2,176	$ 1,955	$ 2,108	$ 2,267	$ 2,200	$ 2,154	$ 2,015	$ 1,895
Long-term debt	$ 5,557	$ 4,610	$ 4,437	$ 4,513	$ 4,448	$ 4,090	$ 4,586	$ 4,964	$ 5,074	$ 5,069	$ 4,487
Total debt[6]	$ 8,176	$ 7,646	$ 7,592	$ 6,651	$ 6,346	$ 6,692	$ 6,704	$ 6,938	$ 6,769	$ 5,582	$ 4,942
Debt ratio	42.9%	47.9%	49.7%	48.7%	51.2%	46.0%	48.9%	46.1%	46.7%	42.1%	38.7%
Return on average equity[5]	36.2%	28.5%	28.7%	29.5%	(13.6)%	20.1%	(5.9)%	14.5%	16.3%	15.8%	15.8%
Return on average total capital[5]	22.1%	18.1%	17.1%	18.2%	(4.6)%	13.1%	0.2%	10.6%	11.8%	11.9%	12.0%
Market price per common share[3]	$ 63.38	$ 40.25	$ 30.31	$ 29.44	$ 20.19	$ 19.19	$ 17.81	$ 15.88	$ 16.69	$ 17.00	$ 11.94
Access lines (000s)	20,968	20,502	19,694	19,057	18,239	17,560	17,001	16,584	16,278	15,899	15,469
Cellular subscribers (000s)	3,577	3,177	2,512	1,891	1,299	860	586	483	326	242	146
Employees	70,525	74,359	66,128	65,345	63,594	67,192	71,300	73,967	75,780	77,326	77,334

[1] Increase in operating expenses in 1994 and 1998 was due to work force restructuring charges of $728 million and $104 million, respectively, while operating expenses in 1995 decreased due to a restructuring credit of $134 million.

[2] Special accounting items represent an extraordinary item for the discontinuance of FAS 71 (accounting in a regulatory environment) in 1994 and the cumulative effect of changes in accounting principles in 1992 for FAS 106 ($1,644 million) and FAS 112 ($102 million).

[3] Gives retroactive effect to all stock splits.

[4] Substantial reduction in total assets and property, plant and equipment, net in 1994 was due principally to the discontinuance of FAS 71.

[5] Return on average equity and return on average total capital are calculated using weighted average monthly amounts.

[6] Total debt excludes preferred stock issued by subsidiaries of $325 million in 1998, $250 million in 1997, $60 million in 1995 and $85 million in 1994. The 1997 and 1994 issues are subject to mandatory redemption.

Management's Discussion and Analysis of Results of Operations and Financial Condition

(dollars in millions, except per share amounts)

Overview

Ameritech is a diversified, full-service communications company providing wireline and wireless telephone service, paging, cable TV, security services, directory advertising and online services. Our five domestic landline communications subsidiaries provide local telephone service, network access and public telephone service to more than 12 million customers in Illinois, Indiana, Michigan, Ohio and Wisconsin. These subsidiaries are subject to regulation by the respective state utility commissions and by the Federal Communications Commission (FCC). In addition, we provide cellular service primarily in our five-state region and Missouri; paging services in our five-state region, Missouri and Minnesota; cable TV service in Illinois, Michigan and Ohio; and security services throughout North America.

The communications industry continued to adapt to sweeping regulatory changes, increased competition and significant new strategic initiatives in 1998. The Telecommunications Act of 1996 established a national policy that calls for competition and open markets, rather than regulatory management, as the basic industry business environment. As a result, it opened the nation's communications markets to competition from new players both within and outside the industry, potentially enabling them to become either niche or full-service providers of voice, video, data, local and long-distance services for their customers. At the same time, many communications markets in other parts of the world are in the midst of reform, resulting in privatization and deregulation of many previously nationalized communications companies.

These forces acting together create an environment for tremendous potential growth in the global communications industry. Ameritech recognized these growth opportunities several years ago, and we implemented three basic strategies to compete effectively in this new environment: speed growth in our core business, introduce new services for customers and connect customers around the world. By adhering to these strategies, we have positioned ourselves to take advantage of future market expansion and strategic growth opportunities.

On May 11, 1998, we accelerated the execution of Ameritech's strategy with the announcement of our agreement to merge with SBC Communications Inc. In the merger transaction, each share of Ameritech common stock will be converted into and exchanged for 1.316 shares of SBC common stock. After the merger, Ameritech will be a wholly owned subsidiary of SBC. The transaction was approved by the board of directors and shareowners of each company in 1998, but remains subject to various federal and state regulatory approvals. Ameritech and SBC own competing cellular licenses in several markets, including Chicago and St. Louis. Because FCC rules limit cross-ownership of cellular licenses, we expect that the FCC will require divestiture of one overlapping license in each market before granting approval of the merger.

Results of Operations

Ameritech's record of strong financial results continued in 1998. We achieved double-digit earnings growth before one-time items in each quarter of 1998 and for the year. Results were driven by solid revenue growth and by operating cost controls initiated in the first quarter of 1998. Income from international ventures in Belgium, Denmark and Hungary also contributed to earnings growth.

Consolidated results of operations for 1998 compared with the prior year were as follows:

Results of Operations

	1998	1997	Increase (Decrease)	Percent Change
Income before				
one-time items	$ 2,614	$ 2,346	$ 268	11.4
One-time items	992	(50)	1,042	n/m
Net income	3,606	2,296	1,310	57.1
EPS before one-time items				
Basic	$ 2.37	$ 2.14	$ 0.23	10.7
Diluted	2.35	2.12	0.23	10.8
Earnings per share				
Basic	$ 3.27	$ 2.09	$ 1.18	56.5
Diluted	3.25	2.08	1.17	56.3
Average common shares				
(millions)	1,101.6	1,098.7	2.9	0.3

One-time items in 1998 consisted of:

- a pretax charge of $104 million ($64 million after-tax, or $0.05 per share) for restructuring related to a cost containment program announced in March 1998;
- a pretax gain of $1,543 million ($1,012 million after-tax, or $0.91 per share) from the sale of substantially all of our shares in Telecom Corporation of New Zealand Limited (TCNZ);
- a pretax charge of $54 million ($34 million after-tax, or $0.03 per share), for a currency-related fair-value adjustment related to our Tele Danmark investment;
- a pretax gain of $170 million ($102 million after-tax, or $0.09 per share) from the sale of certain Wisconsin telephone and directory assets to Century Telephone Enterprises, Inc. (Century Telephone); and,
- a pretax charge of $38 million ($24 million after-tax, or $0.02 per share) for the costs of redeeming $1.3 billion of long-term debt.

One-time items in 1997 included:

- an after-tax charge of $87 million, or $0.08 per share, related to our share of the costs of a work force restructuring at Belgacom, the national telecommunications provider in Belgium;
- a pretax gain of $52 million ($37 million after-tax, or $0.03 per share) resulting from the sale of our 12.5% interest in Sky Network Television Limited of New Zealand (Sky TV);

- a pretax charge of $69 million ($42 million after-tax, or $0.04 per share) resulting from our agreement to settle lawsuits related to our inside wire maintenance services;
- a pretax gain of $42 million ($25 million after-tax, or $0.03 per share) resulting from the sale of our 14.3% share of Bell Communications Research (Bellcore);
- a pretax gain of $43 million ($27 million after-tax, or $0.03 per share) resulting from the sale in an initial public offering of a portion of our stake in MATÁV, the telecommunications provider in Hungary; and,
- a pretax charge of $16 million ($10 million after-tax, or $0.01 per share) resulting from a currency-related fair-value adjustment related to our Tele Danmark investment.

Including the effects of these one-time items, 1998 net income increased $1,310 million, or 57.1%, and diluted earnings per share increased $1.17, or 56.3%, over the comparable prior year period. Net income before one-time items increased $230 million, or 10.9%, in 1997, and diluted earnings per share increased $0.21, or 11.0%, over 1996 results. Results in 1996 included an after-tax gain of $18 million, or $0.02 per share, resulting from the sale of our interest in Centertel, a cellular telephone company in Poland.

Segments The following discussion makes reference to a new segment reporting concept adopted in 1998. As discussed more fully in Note 14 to the consolidated financial statements on pages 51 to 53, based on how we manage our business, we have three reportable segments. Our largest segment is communications, which provides landline telephone service, cellular telephone and paging services, as well as call management and data services to business and residential customers. Our second segment is information and entertainment, which provides printed and online directories for business and residential users, security and alarm monitoring services for homes and businesses, and cable TV services. Our third reportable segment is international, which manages our investments in foreign ventures. The international segment has no revenues, as all accounting activity is recorded using the one-line equity method of accounting. We evaluate the performance of our two revenue-producing segments on a direct margin basis, which represents total revenues of that segment less direct expenses attributed to it (excluding corporate allocations, information technology costs, interest income or expense, income taxes and certain other costs).

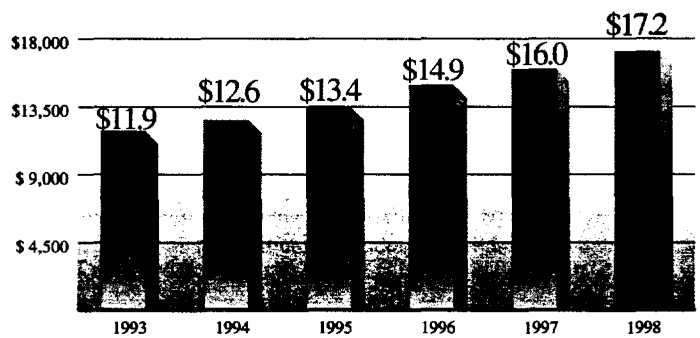
Our communications segment is characterized by stable revenue growth and solid earnings. Revenue growth in the information and entertainment segment is somewhat higher, in part due to acquisitions, but earnings growth is more modest due to the start-up nature of our cable TV operation and normal integration costs being incurred in our security services business. The international segment continues to contribute to earnings growth.

Total direct margin for reportable segments was $6,593 million in 1998, $6,049 million in 1997 and $5,332 million in 1996. Direct margin for the communications segment represented approximately 92% in 1998, 92% in 1997 and 90% in 1996, and margin from the information and entertainment segment represented the remaining 8%, 8% and 10% for those years.

Direct margin in the communications segment increased in both 1998 and 1997 due to increased profitability in the cellular business, increased revenues from high-margin call management services and steady growth in the landline communications business.

Our margins in the information and entertainment segment have been slowed by acquisitions we have made in our security services business. While these acquisitions have added to revenues, integration and consolidation of monitoring centers have impacted our margins. Further, the start-up nature of our cable TV business, which did not have any revenues until mid-1996 and now has more than 200,000 customers, has affected margins in this segment as well.

Revenues We derive most of our revenues from the provisioning of landline telephone service and supporting products, which represents approximately 75% of total revenues from operating segments. Other significant sources of revenue in 1998 included



Revenue Growth
(in billions)
Ameritech's total revenues increased 7.2% in 1998 to $17.2 billion, fueled by strong customer demand and new product launches.

cellular and paging, which contributed approximately 11% of total revenues, and directory advertising, which represents approximately 8% of total revenues.

Revenues increased by 7.2% to $17.2 billion in 1998. Revenue growth resulted from strong gains in local service and data services revenues, combined with continued growth in cellular, paging and security services. Rate reductions, resulting primarily from access charge reform for landline communications services, and lower revenues from long-distance services in our communications segment, partially offset the increase. Revenue growth in 1998 was 6.4% in our communications segment and 26.1% in our information and entertainment segment, due in part to asset acquisitions in the security services business.

Total revenues increased by 7.2% to $16.0 billion in 1997, driven by increased demand for a wide array of voice and data transmission services. Rate reductions partially offset these increases. Revenue growth in 1997 was 7.6% in our communications segment and was 11.7% in our information and entertainment segment.

	1998	1997	Increase (Decrease)	Percent Change
Local service	$ 7,020	$ 6,572	$ 448	6.8

Local service Local service revenues include basic monthly service fees and usage charges, fees for call management services, public phone revenues, and certain installation and connection charges. Local service rates generally have been regulated by the state public service commissions. These revenues are included in the results of our communications segment.

In the local service arena, demand for data services grew strongly in 1998, as evidenced by a 58% increase in the number of ISDN lines in service and 33% annual growth in high-capacity circuits. The proliferation of fax machines, Internet usage and computer communications resulted in data traffic exceeding voice traffic for the first time in our history. Demand for additional lines and call management services remained strong as revenues from call management services subscribed to on a monthly basis, such as Call Waiting and Caller ID, increased by 17% in 1998. Pay-per-use revenues for such services as automatic call back and three-way calling grew at a 61% annual rate. Access lines in service increased by 2.3% to 20,968,000 as of December 31, 1998, or 2.7% normalized for approximately 89,000 lines sold in November 1998 to Century Telephone.

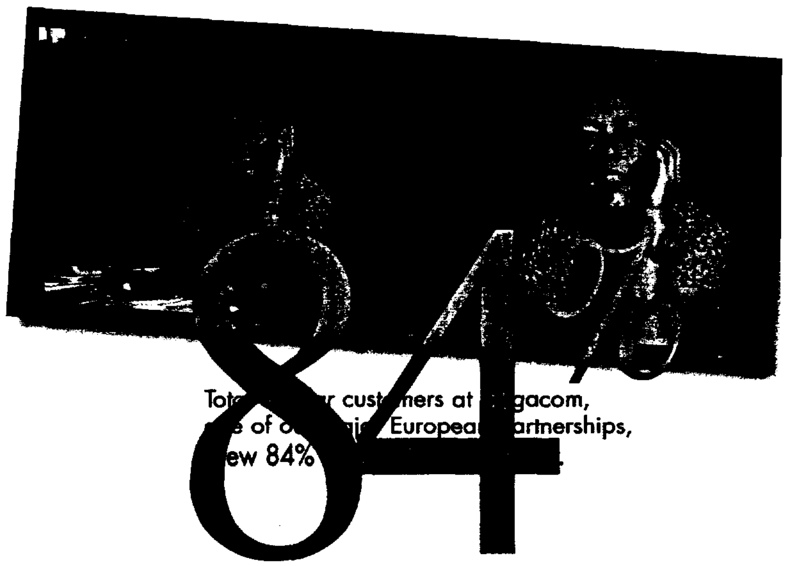
Local service revenues increased by $397 million, or 6.4%, in 1997 due largely to increased sales of call management services. These increases resulted from growth in both the number of features in service and the number of pay-per-use activations of call management services. Access line growth, driven in part by increased demand for second lines by residential and small business customers, also contributed to the revenue increase. Access line growth in 1997 was 4.1%, including approximately 133,000 lines added on November 1, 1997, from the acquisition of certain assets from Sprint Corporation (Sprint) in the Chicago area.

	1998	1997	Increase (Decrease)	Percent Change
Network access				
Interstate access	$ 2,481	$ 2,485	$ (4)	(0.2)
Intrastate access	551	619	(68)	(11.0)

Network access Network access revenues are fees charged to interexchange carriers, such as AT&T and MCI WorldCom, that use our local landline communications network to connect customers to their long-distance networks. In addition, end users pay flat rate access fees to connect to the long-distance networks. These revenues are generated from both interstate and intrastate services and are included in the results of our communications segment.

Total network access revenues decreased in 1998, due primarily to rate reductions resulting from access charge reform effective July 1, 1997, and additional reductions that took effect July 1, 1998. In addition, access charge revenues decreased due to a change in reporting classification of certain pay phone revenues from interexchange carriers for their customers' use of our pay phones. This change in classification decreased network access revenues and increased miscellaneous revenues by approximately $106 million in 1998 compared with 1997. Approximately $87 million of this decrease related to interstate network access revenues. Minutes of use increased in 1998 for both interstate and intrastate access, due primarily to growth in the number of calls handled for interexchange carriers. Growth in network usage by alternative providers of intraLATA toll service in Illinois, Michigan and Wisconsin also contributed to the intrastate access volume increase. Minutes of use increased, over the comparable prior year period, by 6.0% for interstate and 10.5% for intrastate.

Interstate network access revenues increased by $120 million, or 5.1%, in 1997 due primarily to volume increases. The volume of calls that we handled for interexchange carriers increased, and demand for dedicated services grew as Internet service providers and other high-capacity users increased their utilization of our network. Intrastate network access revenues increased by $46 million, or 8.0%, due to greater use of our network by alternative providers of intraLATA toll services in Illinois, Michigan and Wisconsin. Rate reductions for both interstate and intrastate network access, resulting primarily from access charge reforms that took effect on July 1, 1997, partially offset these increases. Minutes of use increased, over the comparable period in 1996, by 6.1% for interstate and 15.4% for intrastate.



(dollars in millions, except per share amounts)

	1998	1997	Increase (Decrease)	Percent Change
Long-distance	$ 1,408	$ 1,384	$ 24	1.7

Long-distance Our current long-distance service revenues are derived from customer calls to locations outside of the customer's local calling areas but within the same local access and transport area (LATA). These revenues also are included in the results of our communications segment.

Long-distance revenues increased in 1998, reflecting growth in dedicated services and price increases. Volume decreases, resulting from increased competition in Illinois, Michigan and Wisconsin, partially offset the increase. Customers now may use an alternative provider of their choice for intraLATA toll calls in these markets, without dialing a special access code when placing the call.

Long-distance revenues decreased by $107 million, or 7.2%, in 1997, due to a decrease in the volume of intraLATA toll calls completed. Implementation of Dial 1 + capability in the Illinois, Michigan and Wisconsin markets was substantially complete in 1997, resulting in increased competition for these toll calls.

	1998	1997	Increase (Decrease)	Percent Change
Cellular, directory and other	$ 5,694	$ 4,938	$ 756	15.3

Cellular, directory and other Cellular, directory and other revenues include revenues derived from cellular communications, paging services, telephone directory publishing, cable TV, lease financing, billing and collection services, telephone equipment sales, and security installations and services. These revenues result from both our communications and information and entertainment segments, as well as from other business activities, such as lease financing, not included in the results of reportable segments.

Revenues from cellular, directory and other services increased in 1998, resulting primarily from solid growth in the number of cellular subscribers and pagers in service, as well as continued growth in our security and cable TV businesses. Revenues from Voice Mail and other nonregulated services, as well as a change in reporting classification of certain pay phone revenues, as previously discussed, also contributed to the increase. Also in 1998, we revised a partnership agreement covering the publication of directories in Illinois and northwest Indiana, resulting in increased directory advertising revenues.

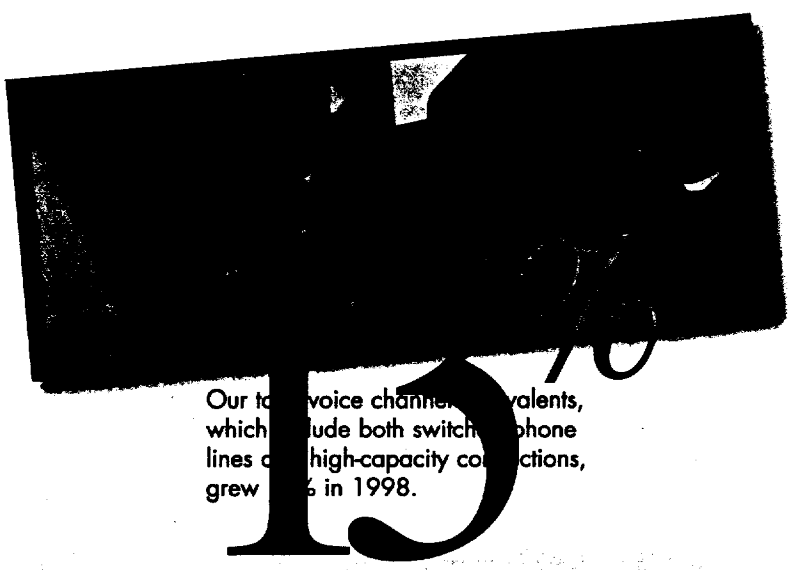
Competition from other cellular providers has intensified in our region, particularly in the Chicago market. However, the increased price competition and expanded service offerings have stimulated demand, driving additional subscriber growth. We continued to introduce our ClearPath℠ digital wireless service in cities throughout our region during 1998, offering customers enhanced call clarity, longer battery life and better call security.

Revenues from cellular, directory and other services increased by $625 million, or 14.5%, in 1997 due to strong growth in the number of cellular and paging subscribers. Introduction of ClearPath service in the Chicago and Detroit markets and successful retention of a high percentage of subscribers contributed to the revenue increase. Paging services grew at a strong rate due to increased marketing efforts and continued customer demand for added convenience. Increased revenues from equipment sales and inside wire installation and maintenance services also contributed to the increase, as did higher directory revenues, resulting primarily from volume growth and price increases.

Operating expenses Following is a discussion of operating expenses for Ameritech on a consolidated basis. Total operating expenses increased by 6.2% to $13.0 billion in 1998. Overall business growth and network expansion drove much of the increase. Higher access charge expenses and a restructuring charge also contributed to the increase. Total operating expenses increased by 6.9% to $12.2 billion in 1997, due primarily to increased employee-related and other operating expenses resulting from overall business growth.

	1998	1997	Increase (Decrease)	Percent Change
Employee-related expenses	$ 4,169	$ 3,959	$ 210	5.3

Employee-related expenses Employee-related expenses increased in 1998 due primarily to higher employee levels in the information and entertainment segment, combined with higher wage rates and overtime expenses in the communications segment. During 1998, we entered into new collective bargaining agreements with the International Brotherhood of Electrical Workers (IBEW) and the Communications Workers of America (CWA). The IBEW contract took effect on June 28, 1998, for a period of five years. The contract will be re-opened in 2001 to address certain economic wage issues for the final two years of the agreement. The CWA contract was effective August 9, 1998, and



expires on March 31, 2001. Both agreements provide for basic wage increases of 11.2% over the contract period (until 2001 for the IBEW) and also address benefits, pensions, work rules and other wage-related items. The IBEW represents approximately 12,000 employees in Illinois and northwest Indiana, while the CWA represents approximately 28,000 employees in all five states of our region.

Employee-related expenses increased by $248 million, or 6.7%, in 1997 due primarily to growth-related employee increases in the security services, cellular and cable TV businesses. Higher wage levels at the landline communications subsidiaries, partially offset by lower work force levels, also contributed to the overall increase.

	1998	1997	Increase (Decrease)	Percent Change
Depreciation and amortization	$ 2,717	$ 2,521	$ 196	7.8

Depreciation and amortization Continued network expansion for both wireline and wireless services in the communications segment, combined with increasing investments in newer technologies that have shorter depreciable lives, contributed to an increase in depreciation and amortization expense in 1998. Higher rates resulted from the use of shorter depreciable lives for newer technologies. Higher asset balances at our security services subsidiary, combined with higher amortization of intangibles from acquisitions, also contributed to the increase.

Depreciation and amortization expense increased by $156 million, or 6.6%, in 1997 due to continued network expansion, resulting from greater demand for network services and an increase in the cellular subscriber base, and to increased intangible asset amortization.

	1998	1997	Increase (Decrease)	Percent Change
Other operating expenses	$ 5,370	$ 5,140	$ 230	4.5

Other operating expenses Other operating expenses increased in 1998 due primarily to higher access charge expenses resulting from state commission rulings (which we are contesting) that require local exchange carriers to pay reciprocal compensation for calls by their customers to the Internet via Internet service providers (ISPs) who, in turn, are customers of competing local exchange carriers. Higher cost of sales resulting from growth-related customer increases at the cellular operation, combined with increased sales of customer premises equipment, also contributed to the increase. Decreased advertising expenses, reflecting the timing of promotions and other marketing campaigns, combined with lower right-to-use fees for switching system software, partially offset the increase.

Other operating expenses increased by $397 million, or 8.4%, in 1997 due to customer increases and higher cost of sales resulting from growth in sales of customer premises equipment. A one-time charge of $69 million resulting from a litigation settlement also contributed to the increase.

In May 1996, we commenced a 10-year agreement with IBM Global Services (IBM) to perform certain information technology services previously performed by Ameritech. As a result of this agreement, contract services expenses have increased from their 1996 level, while employee-related costs and depreciation expenses related to computer assets have moderated somewhat.

	1998	1997	Increase (Decrease)	Percent Change
Restructuring	$ 104	$ —	$ 104	n/m

Restructuring In March 1998, we announced plans to significantly reduce future operating expenses by the end of 2002. As part of this cost containment program, we recorded a pretax restructuring charge of $104 million ($64 million after-tax) to cover the costs of consolidating security monitoring centers and closing 53 company-owned cellular retail stores. The charge covers employee-related costs of approximately $54 million for termination of the employment of approximately 5,000 employees, as well as other costs of approximately $50 million related to lease terminations and asset write-downs. Approximately 10% of the charge relates to our information and entertainment segment, and the balance relates to our communications segment.

Approximately 3,200 employees whose employment relationship is to be severed work at our security services subsidiary. These employees are being displaced due primarily to the consolidation of our monitoring centers. Staffing requirements at new locations will require us to hire a significant number of new employees.

In 1998, 1,478 employees left Ameritech as part of this restructuring program.

	1998	1997	Increase (Decrease)	Percent Change
Taxes other than income taxes	$ 601	$ 579	$ 22	3.8

Taxes other than income taxes Taxes other than income taxes consist of property taxes, gross receipts taxes and other taxes not directly related to earnings.

Taxes other than income taxes increased in 1998 primarily as a result of higher property taxes, principally in Illinois and Michigan, combined with higher gross receipts taxes, principally in Ohio and Wisconsin. Lower capital stock taxes in Illinois, as well as lower property taxes in Ohio, resulting primarily from tax reforms, partially offset the increase.

Taxes other than income taxes decreased by $14 million, or 2.4%, in 1997 primarily due to property tax decreases in Ohio and Illinois, as well as lower capital stock taxes in Illinois resulting from tax reforms. Higher gross receipts taxes resulting from overall business growth partially offset these decreases.

(dollars in millions, except per share amounts)

OTHER INCOME AND EXPENSE

	1998	1997	Increase (Decrease)	Percent Change
Interest expense	$ 611	$ 505	$ 106	21.0

INTEREST EXPENSE Interest expense increased in 1998 due primarily to higher overall debt balances associated with our $3.1 billion investment in Tele Danmark. We funded this investment in part by issuing $2.5 billion in long-term debt. Lower interest on short-term debt, resulting primarily from a reduction in short-term debt balances following the sale of substantially all of our TCNZ shares, partially offset these increases.

Interest expense decreased by $9 million, or 1.8%, in 1997 due primarily to increased cash flow from operations, resulting in lower average short-term debt balances. This decrease was partially offset by the effect of higher short-term interest rates. Increased interest on long-term debt, resulting from higher average long-term debt balances, also partially offset the decrease.

	1998	1997	Increase (Decrease)	Percent Change
Other income, net	$ 2,055	$ 390	$ 1,665	426.9

OTHER INCOME, NET Other income, net includes earnings related to Ameritech's investments (when the equity method of accounting is followed), interest income and other nonoperating items.

Other income increased in 1998 due primarily to the effects of a one-time pretax gain of $1,543 million ($1,012 million after-tax) resulting from the public sale of substantially all of our stake in TCNZ, partially offset by a one-time pretax charge of $54 million ($34 million after-tax) for a currency-related fair-value adjustment related to our investment in Tele Danmark A/S, the national communications provider in Denmark. A one-time pretax gain of $170 million ($102 million after-tax) from the sale of certain telephone and directory assets to Century Telephone also contributed to the increase. Earnings from our new investment in Tele Danmark, combined with stronger earnings from our investments in Belgium and Hungary, contributed to the increase as well. Partially offsetting these increases were lower equity earnings from TCNZ, resulting from the sale of substantially all of our stake in this company in April 1998, as well as a one-time pretax charge of $38 million ($24 million after-tax) for the costs of redeeming $1.3 billion of long-term debt.

Other income increased by $64 million, or 19.6%, in 1997 primarily as the result of three one-time gains. We sold our stake in Sky TV, resulting in a pretax gain of $52 million ($37 million after-tax). We also realized a one-time pretax gain of $43 million ($27 million after-tax) related to the sale of a portion of our MATÁV shares in an initial public offering, and a one-time pretax gain of $42 million ($25 million after-tax) related to the sale of our investment in Bellcore. A one-time after-tax charge of $87 million for our share of the costs of a work force restructuring at Belgacom partially offset the increase.

Our investments in international ventures are subject to certain risks related to fluctuations in foreign currency exchange rates. In 1998 and 1997, we recognized some foreign exchange transaction gains and losses and currency translation adjustments related to these investments, due to fluctuations in the value of the U.S. dollar against the respective local currencies. While future fluctuations in currency exchange rates could impact future results of operations, we expect foreign operations to continue to provide strong financial results and earnings growth.

As previously noted, our international investments represent one of our three reportable segments. Equity income from these investments after one-time items described above, was $378 million in 1998, $289 million in 1997 and $233 million in 1996. This equity income does not require a full provision for additional U.S. income taxes due to substantial available foreign income tax credits arising from these same foreign tax jurisdictions. The increase in equity income in 1998 results primarily from the addition of Tele Danmark to our portfolio, which more than offset the equity income lost from TCNZ sold in April 1998. Enhanced profitability at Belgacom and MATÁV also contributed to the increase, as well as the effects of stronger local currencies. The increase in 1997 equity earnings when compared with 1996 was due to higher equity income from all of our foreign investments, but moderated due to the strength of the U.S. dollar against the local currencies.

	1998	1997	Increase (Decrease)	Percent Change
Income taxes	$ 2,031	$ 1,388	$ 643	46.3

INCOME TAXES Income tax expense increased in 1998 due primarily to the tax impacts of gains resulting from sales of investments, including our TCNZ shares. Our effective tax rate was 36.0% in 1998 compared with 37.7% in 1997. The lower effective rate in 1998 resulted primarily from the tax basis exceeding the book basis in our TCNZ shares sold.

Income taxes increased by $205 million, or 17.3%, in 1997 due to an increase in pretax earnings, as well as the effects of a one-time after-tax charge of $87 million related to our share of the costs of a work force restructuring at Belgacom. A decrease in the amortization of investment tax credits relative to pretax income and a change in tax law in New Zealand that subjected us to a withholding tax on dividend distributions also contributed to the increase.

Financial Condition, Liquidity and Capital Resources

Ameritech continued to generate strong cash flows from operations during 1998. These cash flows, combined with capital derived from external sources, enabled us not only to fund increased capital expenditures, but also to pursue significant new investment opportunities and to increase dividends paid per share by 6.2% over the prior year period.

Cash flows from operating activities Cash flows from operations increased by $300 million to $4.8 billion in 1998, due primarily to overall business growth, combined with working capital improvements. These factors also led to an increase in cash flows from operations of $767 million to $4.5 billion in 1997.

Cash used in investing activities Although capital expenditures increased by more than $300 million in 1998, reflecting continued investment in the core communications segment and the infrastructure for new businesses, investments in other communications ventures represented the single largest use of company funds in 1998. The largest of these was our $3.1 billion investment in Tele Danmark. Following our investment and a repurchase of shares by Tele Danmark from the Kingdom of Denmark, we hold a 41.6% stake in the company. This increase in cash outflows was partially offset by the proceeds from our sale of substantially all of our TCNZ shares. This transaction was structured as an installment sale, with approximately half of the proceeds due at the time of sale in April 1998 and the other half due by March 31, 1999. The initial installment resulted in proceeds of approximately $1.1 billion, and the second installment will result in additional proceeds in 1999 of approximately $1.0 billion. Also in 1998, we received proceeds of approximately $473 million from the repayment by General Electric Company of the note related to our GEIS investment and proceeds of approximately $221 million from the sale of assets to Century Telephone.

Investments in new businesses also increased in 1997, with acquisitions totaling more than $1 billion for the year. In April and June 1997, we acquired assets of three companies engaged in security services. Consideration for these assets consisted of approximately $82 million in cash and the issuance of a total of 3,009,602 common shares with a dollar value of approximately $100 million. In October 1997, we acquired security assets of Rollins Protective Services, a division of Rollins, Inc., and security assets of Republic Security Company Holdings, a subsidiary of Republic Industries, Inc. We used approximately $800 million in cash to make these purchases.

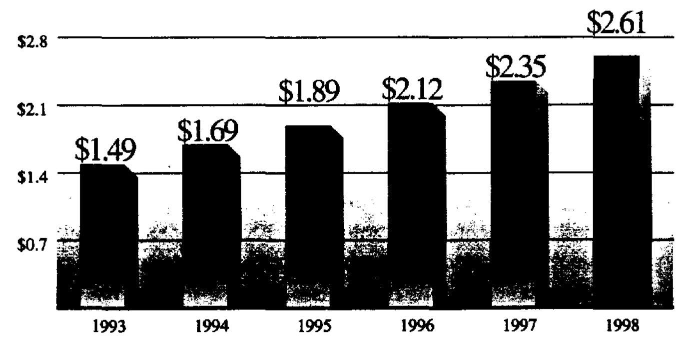
In November 1997, we acquired from Sprint the assets of its local exchange business in suburban Chicago, formerly known as Central Telephone Company of Illinois. We paid $160 million in cash.

Other investing activities in 1997 included proceeds from our sales of investments, including our stake in Bellcore, our investment in Sky TV and a portion of our stake in MATÁV through an initial public offering. In addition to these sales, we also received proceeds of approximately $152 million from a stock repurchase program at TCNZ.

Investing activities in 1996 consisted primarily of our investment with several partners in Belgacom. A consortium led by Ameritech purchased a 49.9% stake in Belgacom from the Belgian government for a purchase price of approximately $2.5 billion. Ameritech invested approximately $865 million for its 35% consortium share, representing approximately 17.5% of Belgacom. Investing activities in 1996 also included additional investments in security services assets.

Capital expenditures increased in all three years due primarily to increased spending at the landline communications subsidiaries to meet increased demand for data, custom calling and private line services and to comply with regulatory requirements. Capital spending also increased due to continued enhancement and expansion of the cellular network.

We believe that investment in the core communications segment will facilitate the introduction of new products and services, enhance our responsiveness to ever-increasing competitive challenges and increase the operating efficiency and productivity of our network. We are deploying capital based on customer demands, our business plans and regulatory commitments. We place a high priority on technologies that will enable us to provide customers with new products and services.



Earnings Growth
(in billions, before one-time items)
Ameritech's earnings climbed 11.4% in 1998 to $2.61 billion.
This marked our sixth straight year of double-digit earnings growth.

Cash flows from financing activities Financing activities in 1998 included issuance of $2.5 billion of long-term debt and $325 million of preferred stock by a wholly owned subsidiary, primarily to finance our investment in Tele Danmark. In January 1998, we issued $1.75 billion of long-term debt in five separate tranches through our financing subsidiary, Ameritech Capital Funding (ACF). In addition, we issued $750 million of Eurodollar notes in February 1998, due in 2003. Short-term debt decreased by $417 million, primarily reflecting the application of proceeds from our sale of TCNZ shares. In December 1998, we redeemed approximately $1.3 billion of long-term debt issued by our landline communications subsidiaries in Illinois, Michigan, Ohio and Wisconsin to take advantage of favorable market conditions. We funded these redemptions using short-term debt. Financing activities also included dividend payments and stock repurchases, as discussed below.

In 1997, we issued $650 million of long-term debt through our financing subsidiary, primarily to fund our acquisitions of security assets from Rollins and Republic, and one of our wholly owned subsidiaries issued $250 million of preferred stock in June 1997 in a private placement.

Financing activities in 1996 consisted primarily of debt issuances by two of our landline communications subsidiaries in Indiana and Wisconsin aggregating $275 million.

Stock repurchase program Our board of directors has periodically authorized management to repurchase shares of Ameritech common stock in the open market or through private transactions. During 1998, we repurchased in the open market 9.6 million shares of stock for approximately $500 million. During 1997, we repurchased 19.0 million shares of common stock for an aggregate purchase price of $602 million, and during 1996, we repurchased in the open market 17.4 million shares of common stock for an aggregate price of $492 million. As of December 31, 1998, management is authorized to make further repurchases of up to $1.5 billion; however, we have agreed with SBC in conjunction with our merger agreement to repurchase shares only in connection with share issuance requirements under certain benefit plans.

Dividends Ameritech paid dividends of $1,323 million in 1998. This was an increase of $81 million, or 6.5%, over 1997. In December 1998, Ameritech's board of directors approved a 5.8% increase in the quarterly dividend payable February 1, 1999. We paid dividends of $1,242 million in 1997, an increase of $71 million, or 6.1%, over 1996. Our dividend policy is consistent with the need to balance returns to shareowners and investments of capital necessary in a competitive environment.

Financing options As of December 31, 1998, we maintained available lines of credit totaling $1.8 billion, a committed credit facility of $2.0 billion and shelf registrations for issuance of up to $1.2 billion in unsecured debt securities.

In October 1998, Moody's Investor Service advised us that it had lowered the debt ratings of three of our landline communications subsidiaries from Aaa to Aa1. The change resulted not from any action taken by Ameritech or its subsidiaries, but from Moody's efforts to bring the ratings of wholly owned subsidiaries more in line with the parent holding company ratings in the telecommunications industry. The ratings of our other two landline communications subsidiaries remained at Aa1. We believe the impact of these adjustments will not be significant.

Standard & Poor's has advised us that our credit ratings may be downgraded in the event our merger with SBC is completed. Moody's has, however, reaffirmed our strong credit ratings irrespective of the merger.

Management believes that we have adequate internal and external resources available to finance our business development, network expansion, dividends, acquisitions and investments.

Other Matters

Regulatory considerations

The Telecommunications Act of 1996 In general, the Telecommunications Act of 1996 (the 1996 Act) includes provisions designed to open local exchange markets to competition and to afford the Bell operating companies (BOCs) and their affiliates the competitive opportunity to provide interLATA (long-distance) services. Under the 1996 Act, the BOCs' ability to provide in-region long-distance services is dependent upon their satisfaction of, among other conditions, a 14-point "competitive checklist" of specific requirements for opening the local market to competition.

In late 1997, a U.S. District Court in Texas ruled that certain line-of-business restrictions in the 1996 Act, including the requirement in Section 271 that the BOCs must comply with the competitive checklist before being permitted to provide long-distance services to local phone customers, constituted an unconstitutional bill of attainder by virtue of their exclusive applicability to the BOCs. The U.S. Court of Appeals for the Fifth Circuit reversed that decision in September 1998, and in January 1999 the U.S. Supreme Court declined to hear an appeal of the appellate court decision.

In two other cases, similar constitutional challenges were rejected by the U.S. Court of Appeals for the District of Columbia Circuit (the D.C. Circuit Court). In May 1998, the D.C. Circuit Court found that Section 274 of the 1996 Act, which covers electronic publishing activities, did not constitute an unconstitutional bill of attainder. A petition for certiorari, seeking review of that decision, is pending before the U.S. Supreme Court. In December 1998, the D.C. Circuit Court ruled against another bill of attainder constitutional challenge to the long-distance provisions of Section 271 of the 1996 Act.

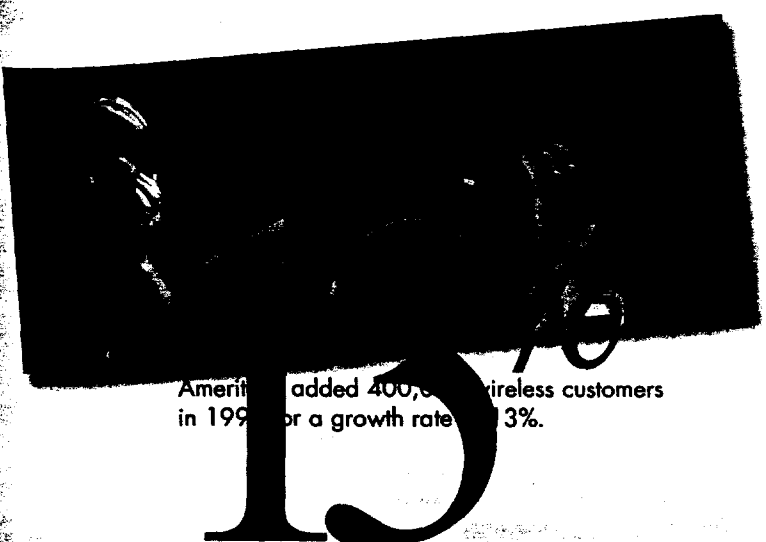
Local interconnection and unbundled access In January 1999, the U.S. Supreme Court issued its opinion on various cross-appeals of the 1997 decision of the U.S. Circuit Court of Appeals for the Eighth Circuit (the Eighth Circuit Court) relating to the FCC's 1996 order on the local interconnection provisions of the 1996 Act (the Interconnection Order).

The Supreme Court reversed portions of the Eighth Circuit Court's earlier decision that had vacated several provisions of the Interconnection Order. The Court decided that the FCC has rulemaking authority to implement the local competition provisions of the 1996 Act, including pricing methodology. This overturned the Eighth Circuit Court's ruling that the states were vested with exclusive jurisdiction over the pricing for local interconnection, unbundled network elements and local service resale provided by incumbent local exchange carriers (ILECs) to competitive local exchange carriers (CLECs). The Supreme Court also reinstated the FCC's "pick and choose" rules allowing CLECs to select among individual provisions from other existing interconnection agreements.

The Supreme Court upheld the FCC's determination that the definition of a network element could include items beyond physical facilities and equipment, such as operational support systems, operator services, directory assistance and vertical services such as call forwarding and caller identification. It further ruled that the FCC could bar ILECs from separating already combined network elements. However, the Supreme Court overturned the FCC's rule identifying and requiring ILECs to offer specific network elements, finding that the FCC had not adequately considered, as required by the 1996 Act, whether those specific unbundled network elements were "necessary" or whether the failure to provide access to them might "impair" the ability of CLECs to provide competitive services. We believe that this ruling supports our view that the objectives of the 1996 Act, including development and deployment of advanced technologies desired by customers, will best be served by encouraging infrastructure investments, rather than through unlimited blanket access to all existing ILEC network elements.

Since the Eighth Circuit Court's 1997 opinion, local interconnection matters and unbundled network element pricing have been resolved primarily through negotiated interconnection agreements or state commission arbitration proceedings. The substantive validity of the FCC's pricing rules, including its total element long-run incremental cost (TELRIC) pricing methodology, was not before the Supreme Court, and will be addressed by the Eighth Circuit Court on remand. Pending judicial resolution of the appropriate pricing methodologies and a determination by the FCC of which unbundled network elements are "necessary," our landline communications subsidiaries expect to continue to negotiate and enter into interconnection agreements and pursue, through appropriate state or federal proceedings, timely recovery of their costs.

We also may seek review by the U.S. Supreme Court of the separate Eighth Circuit Court decision last year regarding shared transport. In 1998, the Eighth Circuit Court upheld the FCC's determination that "shared transport," which would include access to all of an ILEC's transport facilities, is a network element that should be made available to competitors on an unbundled basis.



The outcome of future regulatory and judicial developments in this area is subject to continuing uncertainty. We believe that the pricing rules and methodologies generally adopted by our in-region state commissions with respect to our existing interconnection agreements should not differ materially from those that may be applied under proposed FCC pricing methodologies. We further expect that future judicial or regulatory decisions will define reasonable limiting standards, consistent with the purposes of the 1996 Act, as to which of our existing network elements must be made available to competitors. We can give no assurance, however, that future regulatory and judicial determinations may not have a material adverse effect on future revenues and margins in our communications segment.

Reciprocal compensation A number of CLECs are engaged in regulatory and judicial proceedings with various ILECs, including our landline communications subsidiaries, with respect to the payment of reciprocal compensation to the CLECs for calls originating on the ILECs' networks for dial-up connections to access the Internet via ISPs served by the CLECs' networks. The CLECs have asserted that such reciprocal compensation is provided for by interconnection agreements between the CLECs and the ILECs. Together with other ILECs, we have maintained that we are not required to make such reciprocal compensation payments pursuant to those agreements because such traffic is interstate access service, not local.

A U.S. District Court in Illinois has ruled that our Illinois landline communications subsidiary is required to make reciprocal compensation payments in these circumstances under its applicable interconnection agreements. This order is on appeal to the U.S. Court of Appeals for the Seventh Circuit. Cases that involve appeals by other subsidiaries of adverse regulatory determinations are pending in U.S. District Courts in Michigan and Wisconsin. Pending the outcome of such appeals, our Illinois, Michigan and Wisconsin landline communications subsidiaries currently are making reciprocal compensation payments, under protest, to CLECs pursuant to existing interconnection agreements. The Public Utilities Commission of Ohio also ruled that our Ohio landline communications subsidiary is required to make reciprocal compensation payment, but has stayed its order pending rehearing.

On October 30, 1998, the FCC issued a Memorandum Opinion and Order in which it found that a service offering by another ILEC, permitting ISPs to furnish their customers with high-speed access to the Internet through a dedicated connection, is an interstate service that is properly tariffed at the federal level. In so ruling, the FCC considered the totality of the communication as an end-to-end transmission between an end user and the Internet Web site accessed by the end user, and rejected the argument that such a communication should be separated into two components (consisting of an ILEC-provided intrastate telecommunications service that terminated at the ISP's local server, and an interstate information service provided by the ISP). The FCC expressly limited its decision only to the high-speed, dedicated access connection between an end user subscriber and an ISP as described in the proposed tariff, and made no determination whether ILECs generally should be required to pay reciprocal compensation for Internet calls via ISPs. The FCC has indicated its intention to provide separate guidance in the near future on the jurisdictional nature of dial-up access via a LEC's local switch.

We believe that this recent FCC Order is consistent with our view that Internet traffic is appropriately classified as interstate and that reciprocal compensation is not required for dial-up access in the circumstances described above. We also believe that our view ultimately should be upheld in pending or future appellate judicial proceedings or through FCC determination. However, there can be no assurance as to that outcome or that our landline communications subsidiaries will not be required to begin or continue to make such reciprocal compensation payments under existing interconnection agreements. In addition to reciprocal compensation now being paid by our Illinois, Michigan and Wisconsin landline communications subsidiaries, we are making periodic accruals of amounts that may become payable in Ohio and Indiana in the event our view is not ultimately upheld.

Universal service, access charge reform and price caps In May 1997, the FCC issued three closely related orders that established rules to implement the universal service provisions of the 1996 Act (the Universal Service Order) and to revise both interstate access charge pricing (the Access Reform Order) and the price cap plan for ILECs (the Price Cap Order).

Universal service The FCC's Universal Service Order provides that all interstate telecommunications providers will be required to contribute to universal service funding, based on retail telecommunications revenues. The Universal Service Order establishes a multi-billion dollar interstate universal service fund to help link eligible schools and libraries and low-income consumers and rural health care providers to the global telecommunications network (including the Internet). The FCC directed the phase-in of these funds through 1999.

Access charge reform In its Access Reform Order, the FCC restructured interstate access pricing and adopted changes to its tariff structure that require ILECs to use rates that reflect the type of costs incurred.

In addition to the changes introduced in connection with the Access Reform Order, we have implemented state changes that mirror the federal access reform structure. Various interexchange carriers opposing such changes have filed complaints before the Illinois, Michigan and Wisconsin state commissions seeking lower access charges. The state commissions in Illinois (the Illinois Commerce Commission) and Michigan (the Michigan Public Service Commission or MPSC), in response to such a complaint, have ordered us to split the intrastate primary interexchange carrier charge (PICC) into two separate per-line components, with one-half of the total charge payable by the intraLATA toll carrier and the other half by the interLATA toll carrier. Accordingly, the revenues we receive from this charge will decrease to the extent that we are the intraLATA toll carrier. In addition, the MPSC required that these changes be made retroactive to January 1, 1998, when the initial tariffs for this charge were filed. We have appealed the MPSC's order.

Price caps Our interstate access services are subject to price cap regulation, which limits prices rather than profits. The Price Cap Order effectively reduced access charges by increasing the price cap productivity offset factor to 6.5% from the previous 5.3% and by applying this factor uniformly to all access providers. The order also required ILECs subject to price cap regulation to set their 1997 price cap index assuming that the 6.5% factor had been in effect since July 1996. Certain parties have sought judicial review of the Price Cap Order, and a decision by the D.C. Circuit Court with respect to these matters currently is pending.

We currently cannot predict the precise impact of these regulatory changes on our business, especially as their nature and timing may evolve in connection with judicial and FCC consideration of other provisions of the 1996 Act.

Number portability On May 5, 1998, the FCC entered an order to allow telecommunications carriers, such as our landline communications subsidiaries, to recover over a five-year period their carrier-specific costs of implementing long-term number portability. Long-term number portability allows customers to retain their local telephone numbers in the event they change local exchange carriers. We are completing implementation of long-term number portability in compliance with an FCC-mandated schedule. Our number portability surcharge became effective on February 1, 1999.

Acquisitions of Security Services Assets by SecurityLink
On September 25, 1998, the FCC issued a Memorandum Opinion and Order on Remand and Order to Show Cause relating to an asset acquisition by our security services subsidiary (SecurityLink) in 1996. The FCC found that we had gained "financial control" over the entity from which SecurityLink acquired the security services assets, in violation of the 1996 Act, and required that, within 30 days after issuance of the Order, we show cause why the FCC should not require SecurityLink to divest the assets acquired in this transaction. Previously, the FCC had ruled that the same transaction was permissible under the 1996 Act, and the D.C. Circuit Court had vacated and remanded that decision to the FCC. On October 26, 1998, we filed our response with the FCC, contending that divestiture would not be an appropriate remedy.

Previously, on July 8, 1998, the FCC issued a Memorandum Opinion and Order and Order to Show Cause, finding that three separate asset acquisitions by SecurityLink in 1997 (made after the first FCC ruling on security services described above and before the D.C. Circuit Court decision) violated the same provision of the 1996 Act, and ordering SecurityLink to show cause why the FCC should not require divestiture of the assets acquired in such transactions. We filed our response with the FCC on August 7, 1998, contending that divestiture would not be an appropriate remedy.

The FCC's decision on these Orders to Show Cause is pending.

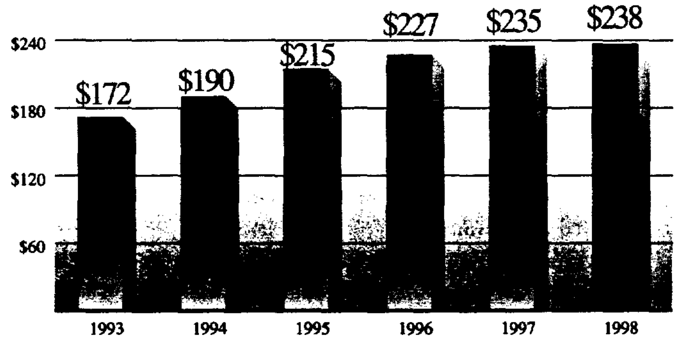
COMPETITIVE ENVIRONMENT Technological developments, marketplace demand and legislative, regulatory and judicial actions have expanded the types of services and products available from an increasing number of companies, creating growth opportunities in the global communications industry. Our competitive strategy, including our proposed merger with SBC, is to position ourselves to take advantage of such growth opportunities by continuing to branch into new services that are logical extensions of our business and by exporting our expertise to customers around the world.

These same factors also have resulted in increasing competition in all areas of our business. In pursuing business opportunities both inside and outside the United States, we compete against other local service providers, long-distance service providers, cable TV companies, wireless and Internet service providers (including companies that provide all or some combination of these services), and other entrants from a range of industries. As we have expanded our paging and cellular services, the number and type of competitors have grown. Our telephone directory publishing business faces competition from not only other directory publishing businesses and traditional advertising media, such as television, radio, direct mail, magazines and newspapers, but also providers of new technologies, such as Internet and other online services. Many of our competitors have substantial scale and geographic scope, significant capital, technological and marketing resources, and wide-ranging service offerings.

With the passage of the 1996 Act and other regulatory initiatives, our local service markets have been more extensively opened to new competitors, many of which are believed to have initially targeted high-volume business customers in densely populated areas. Interconnection agreements with competitive service providers require our landline communications subsidiaries to provide interconnection or access to unbundled network elements at cost-based rates and telecommunications services at discounted, wholesale rates. These agreements and applicable tariffs may result in some downward pressure on local service revenues, as a portion of our revenue shifts from local service at retail prices to network access and wholesale services at lower rates and as some competitors provide services using their own networks, in whole or in part. We cannot predict with certainty the impact that these and other developments ultimately may have on our future business, results of operations or financial condition.

YEAR 2000 READINESS The Year 2000 issue exists because many computer systems and applications, including those embedded in equipment and facilities, use two-digit rather than four-digit date fields to designate an applicable year. As a result, the systems and applications may not properly recognize the year 2000 or process data that includes it, potentially causing data miscalculations or inaccuracies or operational malfunctions or failures.

We have established a centrally managed, companywide initiative to identify, evaluate and address Year 2000 issues. Begun in May 1996, our Year 2000 effort covers our network and supporting infrastructure for our provision of local switched and data telecommunications services, cellular and paging services, cable TV service and security services. Also within the scope of this initiative are our operational and financial information technology (IT) systems and applications, end-user computing resources and building systems, such as security, elevator, and heating and cooling systems. In addition, the project includes a review of the Year 2000 compliance efforts of our key suppliers and other principal business partners and, as appropriate, the development of joint business support and continuity plans for Year 2000 issues. While this initiative is broad in scope, it is structured to identify and prioritize our efforts for mission-critical systems, network elements and products and key business partners.



Productivity Gains

(revenues per employee in thousands)

Revenues per employee increased to $238,000 in 1998, representing a 38% improvement over the past five years.

Work is progressing in the following phases: inventory, assessment, remediation, testing, deployment and monitoring. Although the pace of the work varies among our business units and the phases often are conducted in parallel, as of December 31, 1998, the inventory and assessment phases have been substantially completed, the remediation phase is nearing completion, and the testing and deployment phases are well under way.

As of December 31, 1998, the majority of our network elements requiring corrective activity, including substantially all of our core network switches and other network components that we regard as mission-critical, have been made Year 2000 ready and deployed back into production. As of December 31, 1998, more than 90% of our total identified IT applications, including substantially all that we have determined to be mission-critical, have been remediated, and a majority of all corrected applications have completed certification testing and been deployed back into production. We have also made substantial progress in Year 2000 readiness preparations for our remaining infrastructure components (buildings and physical facilities, internal voice telephone systems, and desktop PCs), and these efforts are scheduled to be completed in mid-1999. Final integration testing for certain critical systems and processes is scheduled to be completed by the end of the third quarter of 1999.

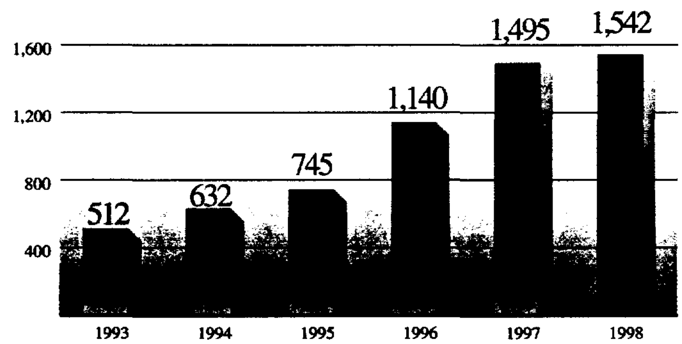
With the majority of our various systems remediated and a substantial portion of those already tested and deployed back into production, we believe we are well positioned to complete the remediation and deployment of our remaining systems, any additional testing that may be necessary, and the development of our business contingency and continuity plans in advance of the Year 2000 transition. However, our ability to meet that goal remains dependent upon a variety of factors, including the timely provision of necessary upgrades and modifications by our suppliers and contractors. In some instances, upgrades or modifications are not expected to be available until mid- or late-1999.

We have sought Year 2000 readiness information from various third-party suppliers on whom we depend for certain products or essential services (such as electric utilities, interexchange carriers, etc.), but we have no method of ensuring that these suppliers will convert their critical systems and processes in a timely manner. We are developing business contingency and continuity plans (see discussion below), and are continuing to work with our key suppliers as part of a supplier compliance program to seek to minimize such risks.

As is the case for other communications services providers, there exists a worst case scenario possibility that a failure to correct a Year 2000 program in one or more of our mission-critical network elements or IT applications could cause a significant disruption of or interruption in certain of our normal business functions. Based on our assessments and work to date, we believe that any such material disruption to our operations due to failure of an internal system is unlikely. However, due to the uncertainty inherent in Year 2000 issues generally and those that are beyond our control in particular (e.g., the final Year 2000 readiness of our suppliers, customers, utilities, interconnecting carriers, and joint venture and investment interests), there can be no assurance that one or more such failures would not have a material impact on our results of operations, liquidity or financial condition.

There also may be Year 2000 issues in customer premises equipment (CPE), including CPE that we have sold or maintained and CPE that is used in connection with 911 services. Although the customer generally is responsible for CPE, customers could attribute a Year 2000 disruption in their CPE to a malfunction of our network service. We have taken steps to encourage many of our customers potentially at risk to undertake the necessary assessment and remedial activities to avoid a Year 2000 problem with their equipment and systems.

We currently estimate that we will incur expenses of approximately $250 million through 2001 in connection with our anticipated Year 2000 efforts, of which approximately $108 million had been incurred through December 31, 1998. The timing of our expenses may vary and is not necessarily indicative of readiness efforts or progress to date. We anticipate that a portion of our Year 2000 expenses will not be incremental costs, but rather will represent the redeployment of existing IT resources. We also expect to incur certain capital improvement costs (totaling approximately $30 million) to support this project. Such capital costs ($12 million as of December 31, 1998) are being incurred sooner than originally planned but, for the most part, would have been required in the normal course of business.



Paging Growth
(pagers in service in thousands)
Ameritech's total number of pagers in service doubled over the past three years and tripled over the past five years.

We have significant minority investments in large telecommunications providers in Belgium, Denmark and Hungary. Each of those companies has plans in place and activities under way to address Year 2000 issues, and we are offering advice in these efforts as practical. Based on information reported to us, the estimated proportionate share of these companies' Year 2000 conversion costs that will flow through to our earnings is not expected to be material. As is the case for many companies outside the United States, we believe that the Year 2000 readiness efforts of these carriers has not progressed as far as our own, and we expect that the Year 2000 readiness conversion and testing activities at some of these companies will continue into late 1999.

As part of our Year 2000 initiative, we are evaluating scenarios that may occur as a result of the century change and are in the process of developing contingency and business continuity plans tailored for Year 2000-related occurrences. Contingency planning to maintain and restore service in the event of natural disasters, power failures and software-related problems has been part of our standard operation for many years, and we are working to leverage this experience in the development of contingency and continuity plans tailored to meet Year 2000-related challenges. This work is being performed through centrally managed, companywide teams organized by critical business functions (including ordering, provisioning, maintenance, billing and power). Our contingency and business continuity plans are expected to assess the potential for business disruption in various scenarios, and to provide for key operational back-up, recovery and restoration alternatives.

The above information is based on our current best estimates, which were derived using numerous assumptions of future events, including the availability and future costs of certain technological and other resources, third-party modification actions and other factors. Given the complexity of these issues and possible unidentified risks, actual results may vary materially from those anticipated and discussed above. Specific factors that might cause such differences include, among others, the availability and cost of personnel trained in this area, the ability to locate and correct all affected computer code, the timing and success of Year 2000 remedial efforts of our customers and suppliers, and similar uncertainties.

Euro conversion On January 1, 1999, 11 of the 15 member countries of the European Union formed the Economic and Monetary Union (EMU) and established fixed conversion rates between their sovereign currencies and the future European currency unit, the euro. The participating countries agreed to adopt the euro as their common legal currency on that date. The sovereign "legacy" currencies of these countries will continue in circulation within the respective countries until at least January 1, 2002, but not later than July 1, 2002. At the time of final conversion, new euro-denominated bills and coins will be used exclusively.

Our international business segment consists of several significant minority investments in Europe, including Belgacom in Belgium, Tele Danmark in Denmark and MATÁV in Hungary. Of these, only Belgium is among the countries that will convert to the euro; Tele Danmark, however, has operating affiliates in several participating countries. Management at these companies must address several issues related to the conversion, including increased price transparency, the tax treatment of conversion gain or loss, changes to business processes and modification of information systems to process euro-denominated transactions during the transition period.

Management at our European affiliates has informed us that efforts to convert computer systems and business processes are well under way and are scheduled to be complete by the time the conversion takes place. Based on information reported to us, the estimated proportionate share of euro-related costs that will flow through to our earnings is not expected to be material.

Effects of foreign currency fluctuations Our foreign operations and investments in international ventures are subject to certain risks related to fluctuation in foreign currency exchange rates. For the three years ended December 31, 1998, due to fluctuations in the U.S. dollar, we recognized some foreign exchange transaction gains and losses and currency translation adjustments related to these investments. Foreign exchange transaction gains and losses incurred by wholly owned subsidiaries affected operating income. Transaction gains and losses incurred by other international ventures (primarily equity-method investments) affected other income, net. Translation adjustments resulted in a change in the investment balance and a corresponding change in accumulated other comprehensive income on the consolidated balance sheet. While future fluctuations in currency exchange rates could impact results of operations or financial position, we expect foreign investments to continue to provide strong financial results and earnings growth.

Disclosures about market risk We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. To manage our exposure to these fluctuations, we occasionally enter into various hedging transactions that have been authorized according to documented policies and procedures. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity, and we never use leveraged derivatives.

The amounts shown below represent an estimated potential loss that we could incur from adverse changes in either interest rates or foreign exchange rates, based upon the value-at-risk estimation model. The value-at-risk model uses historical foreign exchange rates and interest rates to estimate the volatility and correlation of these rates in future periods. It estimates a loss in fair market value using the variance/co-variance statistical modeling technique. The model addresses numerous market risk exposures, but specifically excludes equity-method investments, which in our case are significant. The fair value losses shown in the table below are for a one-day time period with a confidence level of 95% (signifying our degree of confidence that actual one-day losses would not exceed such estimated losses, in each case, based on the model). Such estimated losses have no impact on our results of operations or financial condition.

	December 31	
	1998	1997
Risk category		
Interest rates	$ 39	$ 25
Foreign exchange	—	—

The value-at-risk model assumes that all movements in these rates will be adverse and disregards the possibility that interest rates and foreign currency exchange rates could move in our favor. Actual experience has shown that gains and losses tend to offset each other over time, and we believe it is unlikely that we could experience losses such as these over an extended period of time. These amounts should not be considered projections of future losses, since actual results may differ significantly depending upon activity in the global financial markets.

The fair value at risk increased in 1998 due primarily to a net increase in fixed-rate debt, and to an increase in the volatility of interest rates, mostly resulting from market activity in the third and fourth quarters of 1998. We issued $2.5 billion of fixed-rate debt in the first quarter of 1998, principally to fund our investment in Tele Danmark, and in December 1998 we redeemed $1.3 billion of fixed-rate debt issued by four of our landline communications subsidiaries. Value at risk related to foreign exchange has not changed significantly since December 31, 1997, but as previously noted, the value-at-risk model does not consider our significant foreign equity-method investments.

New accounting pronouncements

AICPA SOP 98-1 In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP provides authoritative guidance for the capitalization of certain costs related to computer software developed or obtained for our internal applications, such as:

- external direct costs of materials and services, such as programming costs;
- payroll costs for employees devoting time to the software project; and,
- interest costs to be capitalized.

Costs incurred during the preliminary project stage, as well as training and data conversion costs, are to be expensed as incurred. The SOP is effective for fiscal years beginning after December 15, 1998. We will adopt SOP 98-1 in the first quarter of 1999 and estimate that the impact of adoption will be to decrease software-related expenses for Ameritech and all of its subsidiaries by $200 million to $250 million in the year of adoption. We have historically expensed most computer software costs as incurred and will be required to continue to expense all Year 2000 modification costs as incurred.

FAS 133 In June 1998, the Financial Accounting Standards Board (FASB) issued FAS 133, "Accounting for Derivative Instruments and Hedging Activities." This statement provides standardized accounting and disclosure guidance for derivative instruments and the derivative portion of certain similar contracts. It amends FAS 52, "Foreign Currency Translation," and FAS 107, "Disclosures about Fair Values of Financial Instruments," and it supersedes a number of other financial accounting standards.

The statement requires entities that use derivative instruments to measure these instruments at fair value and record them as assets or liabilities on the balance sheet. It also requires entities to reflect the gains or losses associated with changes in the fair value of these derivatives, either in earnings or as a separate component of comprehensive income, depending on the nature of the underlying contract or transaction.

FAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, and is to be adopted as of the beginning of the fiscal year. At the time of adoption, all derivative instruments are to be measured at fair value and recorded on the balance sheet. Any differences between fair value and carrying amount at that time will be recorded as a cumulative effect of a change in accounting principle, in either net income or other comprehensive income, as appropriate. Adoption of this statement may or may not have a material impact on our results of operations or financial position, depending on the nature and magnitude of derivative activity in which we engage and the changes in market conditions with respect to foreign currencies, interest rates or other underlying values. We have not yet quantified the impacts of the initial adoption of FAS 133 on our results of operations or financial condition, nor have we determined when we will implement the new standard.

Private securities litigation reform act safe harbor statement

Some of the information presented in, or in connection with, this report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that involve potential risks and uncertainties. Our future results could differ materially from those discussed here. Some of the factors that could cause or contribute to such differences include:

- changes in economic and market conditions that impact the demand for our products and services, or for products and services by companies in which we have substantial investments;
- the effects of vigorous competition in the local exchange, intraLATA toll, cellular, data, cable TV, directory advertising or security services markets;
- federal regulatory developments that impact the telecommunications, security services and cable TV industries, and pending regulatory issues in state jurisdictions, as well as the outcome of any related judicial reviews;
- the timing of and costs associated with entry into the interLATA long-distance market;
- the timing of, and potential regulatory or other considerations relating to, the consummation of our proposed merger with SBC;
- the potential impact of issues related to Year 2000 software compliance;
- risks inherent in international operations, including possible economic, political or monetary instability, as well as the potential impact of Year 2000 compliance and euro currency conversion issues; and,
- the impact of new technologies and the potential effect of delays in development or deployment of such technologies.

The words "expect," "believe," "anticipate," "estimate," "project," and "intend" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are found at various places throughout the Management's Discussion and Analysis and elsewhere in this report.

You should not place undue reliance on these forward-looking statements, which are applicable only as of the date hereof. We have no obligation to revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof or to reflect the occurrence of unanticipated events.

Report of Management

Shareowners, Ameritech Corporation

The consolidated financial statements were prepared in accordance with generally accepted accounting principles, which required the use of estimates and judgment. Management prepared these statements and other information in the annual report and is responsible for their integrity and objectivity.

Our consolidated financial statements have been audited by Arthur Andersen LLP. Management has made available to Arthur Andersen LLP all of our financial records and related data, as well as the minutes of meetings of shareowners and directors. We believe that all representations made to Arthur Andersen LLP were valid and appropriate.

Management maintains a system of internal control over the preparation of our published financial statements that provides reasonable assurance as to the integrity and reliability of the consolidated financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The internal control system provides appropriate division of responsibility, and written policies and procedures are communicated to employees and updated as necessary. Management is responsible for proactively fostering a strong ethical climate so that the company's affairs are conducted according to the highest standards of personal and corporate conduct.

The company maintains a strong internal auditing program to assess the effectiveness of internal controls and recommend possible improvements. As part of their audit of the consolidated financial statements, Arthur Andersen LLP considered the internal control system to determine the nature, timing and extent of necessary audit tests. Management has considered the recommendations of our internal auditors and Arthur Andersen LLP concerning the company's system of internal control, and has responded appropriately.

Management assessed the company's internal control system in relation to criteria for effective internal control. These criteria consist of five interrelated components, which are: control environment, risk assessment, control activities, information and communication, and monitoring. Based on its assessment, management believes that, as of December 31, 1998, our system of internal control has met these criteria.

The board of directors, through its audit committee which consists solely of outside directors, serves in an oversight capacity to assure the integrity and objectivity of the financial reporting process. The role of the committee includes monitoring accounting and financial controls and assuring the independence of Arthur Andersen LLP. Both the internal auditors and the independent public accountants have complete access to the committee and periodically meet with the committee, with and without management present.

Sincerely,

Richard C. Notebaert
Chairman and Chief Executive Officer
January 21, 1999

Oren G. Shaffer
Executive Vice President and
Chief Financial Officer

Report of Independent Public Accountants

Board of Directors, Ameritech Corporation

We have audited the accompanying consolidated balance sheets of Ameritech Corporation (a Delaware corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareowners' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ameritech Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Arthur Andersen LLP
Chicago, Illinois
January 21, 1999