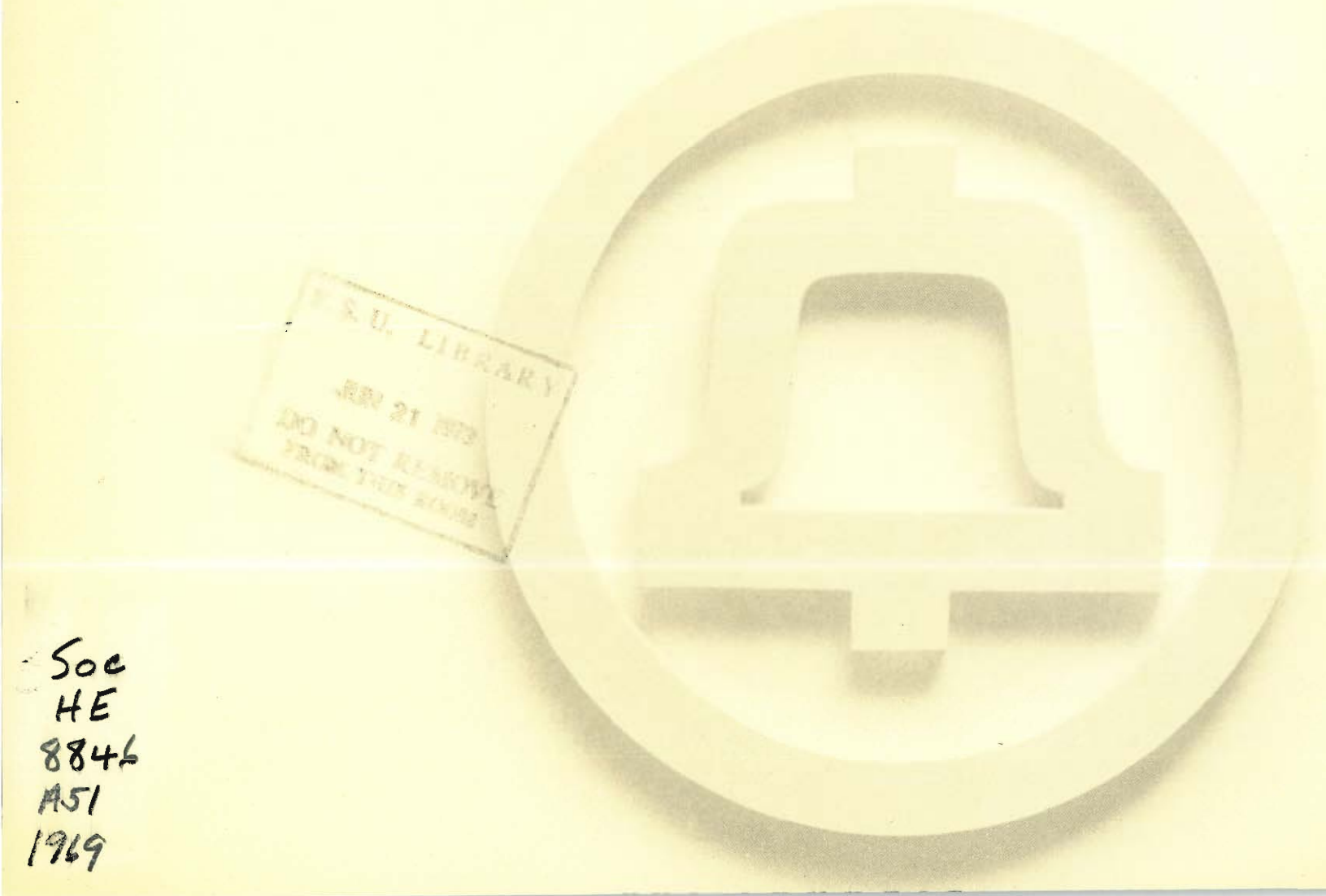

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William M. Batten
Chairman of the Board
J. C. Penney Company

Lloyd D. Brace
Former Chairman
of the Board
The First National Bank
of Boston

Edward W. Carter
President
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Chairman of the Board

Jay Taylor
Owner
Jay Taylor Cattle Company

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THE BOARD
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AND COMPTROLLER
Alexander L. Stott

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AND TREASURER
John J. Scanlon

SECRETARY
Robert W. Ehrlich

Bell System Results in Brief	1969	1968
EARNINGS PER AT&T SHARE	$ 4.00	$ 3.75
INCOME	MILLIONS	
Local Services	$ 7,774	$ 7,184
Toll Services	7,298	6,341
Other	1,002	889
	$16,074	$14,414
EXPENSES		
Operating	$ 9,612	$ 8,442
Taxes	3,497	3,300
Interest	702	560
	$13,811	$12,302
NET INCOME APPLICABLE TO AT&T SHARES*	$ 2,199	$ 2,052
DIVIDENDS DECLARED	$ 1,346	$ 1,312
EARNINGS REINVESTED IN THE BUSINESS	$ 853	$ 740

*After deduction for minority interests ($64 million in 1969; $60 million in 1968).

The Annual Meeting of share owners will be held at 2 p.m. on April 15, 1970 at the Convention Center, Cleveland, Ohio.

Annual reports of all the Bell telephone companies and of Western Electric, manufacturing and supply unit of the Bell System, are available on request. Share owners who are blind may obtain the AT&T report in braille or on talking records. Also available is an Annual Statistical Report, intended for those desiring further data on our operations. Kindly address requests to the Secretary.

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

The Company maintains stock transfer offices at the address above and also at
185 Franklin St., Boston, Mass. 02107;
225 West Randolph St., Chicago, Ill. 60606; and
140 New Montgomery St., San Francisco, Calif. 94105

Microwave and cable transmission facilities were greatly expanded in 1969 as demand for long distance services continued to surge. Our Long Lines Department added some 30 million circuit miles to the interstate network. The microwave tower shown under construction here is today relaying messages across the Nevada desert into California.

Dear Share Owner:

In 1969 the great ground swell of demand for communications services that the Bell System has experienced —virtually without interruption since World War II—continued unabated. During the year we added more telephones and handled more calls than in any previous year in our history. We established new highs in the number of long distance messages handled, in operating revenues, and in earnings per share. Moreover, we prepared the way for future progress with a $5.7 billion construction program—$1.0 billion more than in 1968—that added greatly to the capacity and usefulness of the Bell System network.

Nearly everywhere we were able to cope successfully with the enormous growth in demand while maintaining the quality and reliability of Bell System service. Here and there demand crested to heights that over-taxed the capacity of local facilities, and service was impaired. Where this occurred, we exerted—and are continuing to exert—every effort to restore service to the standards our past performance has taught the public to expect. This we are determined to do.

Revenues and earnings

The Bell System's 1969 revenues exceeded 1968's by $1.6 billion, the largest year-to-year increase ever. Earnings per share were $4.00, compared to $3.75 in 1968. The rate of return on total capital was 7.73 per cent, compared to 7.50 per cent in 1968. In November the directors voted to increase the AT&T dividend from $.60 to $.65 quarterly, beginning with the dividend paid in January 1970. This was the sixth increase in the dividend rate since the beginning of 1959. These increases reflect the growth in earning power of each AT&T share as a consequence of the reinvestment of approximately 40 per cent of earnings over recent years.

In the course of the year, the Bell System companies obtained some $2.46 billion in new capital, most of it from long-term bond issues, nearly all the remainder through bank borrowings and sale of commercial paper. The interest cost of debt issues sold last year ranged from 7.02 per cent to a high of 9.20 per cent. The average cost of all long-term Bell System debt outstanding rose from 4.46 per cent in 1968 to 4 79 per cent in 1969. At the end of the year, debt represented some 39 per cent of total Bell System capital. We anticipate that we shall continue to use debt financing together with other forms of financing in whatever mix market conditions and other factors indicate is in the best interest of our customers and share owners.

In keeping with this principle, the Board of Directors announced plans in January 1970 for an offering to share owners of approximately $1.57 billion principal amount of 30-year debentures, together with warrants of approximately five-year life, to purchase an aggregate of about 31.4 million additional AT&T shares. It is expected that the interest rate on the debenture will be generally comparable with the going rate on Bell System issues at the time the terms are set. Details will be announced following the filing of a registration statement with the Securities and Exchange Commission.

The Bell System's total tax bill amounted to $3.5 billion in 1969, the equivalent of about $6.20 a share of AT&T stock. Our customers paid another $1.4 billion in Federal and other excise taxes. Total taxes amounted to $4.48 per telephone per month.

Service comes first

In 1969, for the first time in a great many years, the Bell System experienced severe public criticism of its service. In New York City—and in two or three other large metropolitan areas—we underestimated growth prospects and were simply not geared up to meet demand of the dimensions we experienced in some exchanges. We were wrong. We are sparing no efforts to make matters right.

When service difficulties first emerged last year, we promptly focused our energies on the trouble spots. We stepped up production and moved in crews from other Bell companies to help local telephone people catch up with demand. At this writing, not all our service difficulties have been eliminated. But we are making good progress. The job will get done. Intangible as it is, our service reputation is the most prized asset of our business and there is no more urgent priority than that of maintaining it.

It is not to minimize the seriousness of the problems our customers encountered—and still encounter in some places—that I report to share owners that service throughout most of the country was maintained at a high level in 1969 and continues so today.

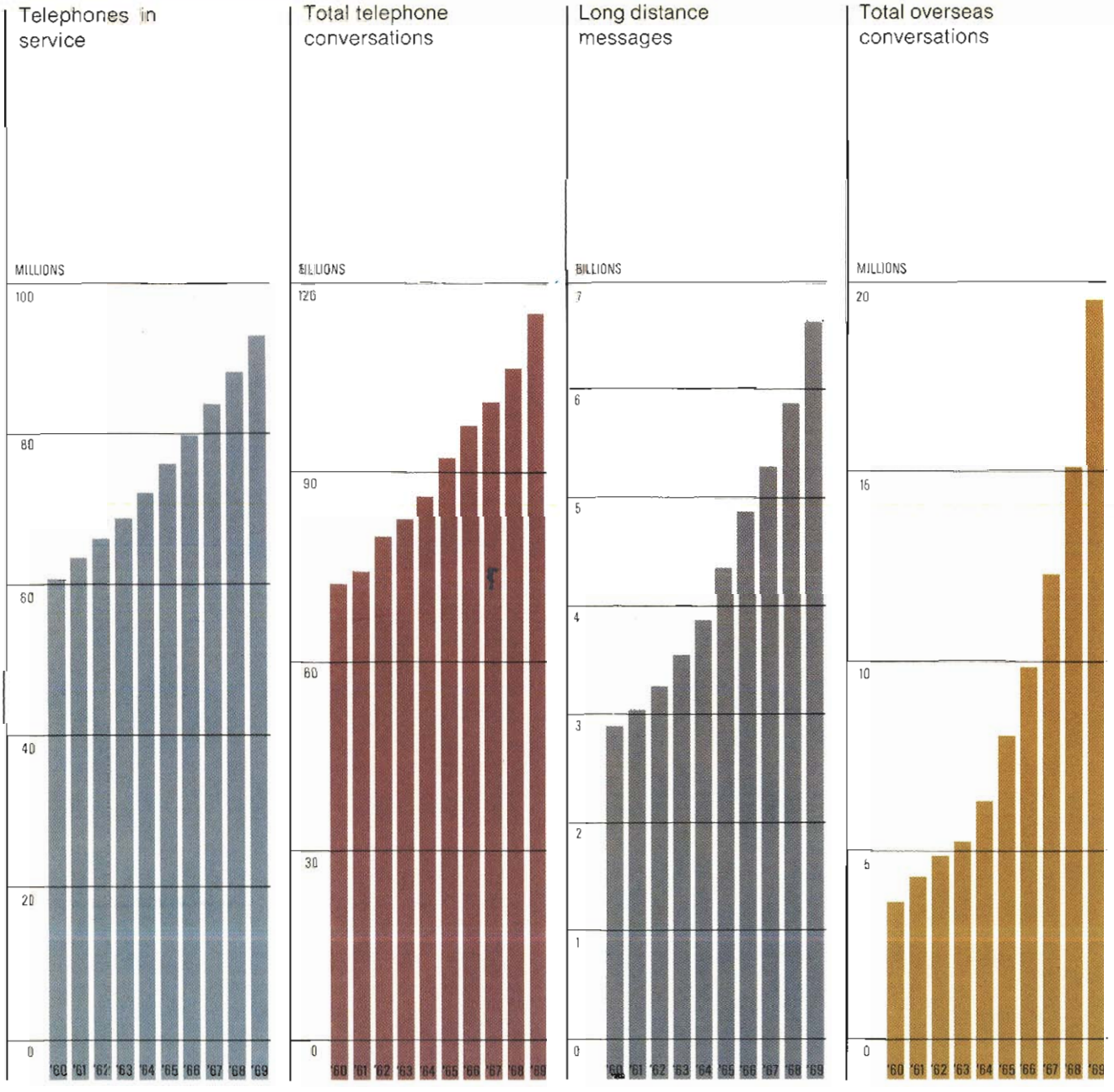
Press accounts of telephone service problems, localized though these problems were, tended to obscure the Bell companies' otherwise fine record of achievement during 1969. We handled an average of 350 million messages per business day, twice as many as we handled only 14 years ago. Long distance messages increased last year by 12.6 per cent over 1968 and accounted for nearly 40 per cent of the year's operating revenues. Although long distance rates have been trending downward for a great many years, average revenue per message continues to increase. More people are placing more calls over longer distances than ever before—and they are talking longer.

With each passing year we are using our long distance network more efficiently. Thanks to technological advances and improved network management, each circuit in our interstate network is today carrying 50 per cent more minutes of conversation than 10 years ago. Over the same period the number of times a customer is unable to complete a call at the first attempt has been sharply reduced and completion time has been shortened as well.

Overseas calling is growing twice as fast as long distance calling here in the United States. In 1969 we handled about 19.5 million messages. That is almost 10 times the number of messages we handled in 1956, the year our first transatlantic cable was installed. Our fifth transatlantic cable will be completed this month and will be operational shortly. In the Pacific two undersea cables link the mainland to Hawaii and another continues to the Far East. In addition, we lease about 75 per cent of Comsat's currently operational satellite circuits. But to meet the overseas communications requirements of the '70s, more satellite circuits are going to be needed and more high-capacity cables. Indeed so rapid is the growth of overseas communications that already we can see emerging a global telecommunications network that may one day link any one of the world's telephones with any other as readily as we do here in the U.S.

We added 4,724,000 telephones in 1969. To accomplish this increase, we were called on to remove 19,066,000 telephones and install 23,790,000, a reflection of the mobility of Americans.

Data-Phone® sets in service at year's end numbered 131,000, an increase of 56 per cent over last year in this fast-growing service that permits transmission of information in many forms—inventory and payroll data, scientific information, even electrocardiograms—over ordinary telephone lines.


Telephones in service
MILLIONS
100
80
60
40
20
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69
Total telephone conversations
BILLIONS
120
90
60
30
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69
Long distance messages
BILLIONS
7
6
5
4
3
2
1
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69
Total overseas conversations
MILLIONS
20
15
10
5
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69

Revised tariffs facilitating connection of customer-owned communications lines and devices to the Bell System telecommunications network were in effect in most states throughout the year. Customer-owned equipment now connected to the network under the provisions of these new tariffs includes computers, voice transmitting and receiving equipment, switchboards, private microwave systems, and mobile telephones.

For some years we have been working closely with the data-processing industry in the interest of discerning its emerging needs and have developed a wide variety of new services and devices to meet them. Indeed, the fastest-growing aspect of our business is data transmission, including, of course, our own Data-Phone service.

A century of service

Nineteen sixty-nine was the 100th anniversary of the Western Electric Company, our manufacturing and supply unit. It was also a record year for Western Electric.

Total WE sales came to $4.9 billion, compared with $4.0 billion in 1968. The Company purchased for the Bell Telephone companies and for its own use $2.1 billion in goods and services from more than 48,000 suppliers during the year. What makes Western Electric's centennial year performance all the more impressive is the way the company responded to sharply increased telephone company requirements over the course of the year. The Company added 26,600 employees and geared up many of its production lines for round-the-clock operation. By year's end the Company had delivered 35 per cent more cable and 39 per cent more lines of central office equipment than in 1968.

For the nation

A lifeline of communications—stretching around the world and thousands of miles into space—last year guided the first men to the moon and enabled millions the world over to witness this great adventure.

More than 600 Bell System circuits, spanning half a million miles, made up the largest share of this communications network. By undersea cables, satellites and high-frequency radio, circuits that extend beyond the U.S. were linked with the Bell System network at the Goddard Space Flight Center in Greenbelt, Maryland. From there, communications moved via the Bell network to the Manned Spacecraft Center in Houston.

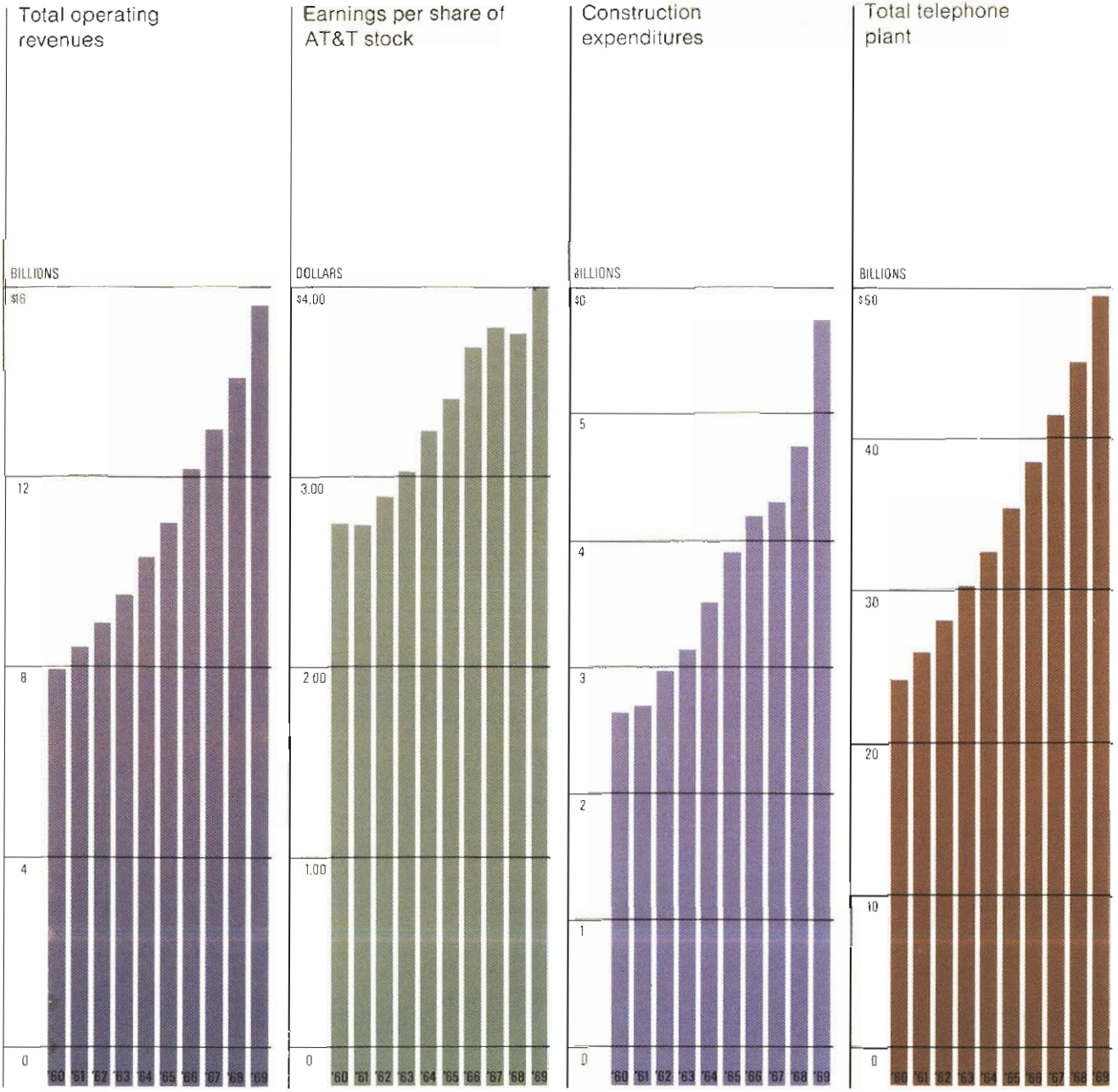
Much of the equipment that comprises the globe-girdling NASA communications system (NASCOM) was engineered by Bell Laboratories and installed under Western Electric direction. But the key Bell System contribution was to keep information moving along our lines and to assure that connecting links in our network were operating reliably.

In other undertakings for the Government last year, we continued work on the domestic portion of the Automatic Voice Network (AUTOVON), which connects with military installations overseas, and continued to provide systems engineering support to NASA through our subsidiary, Bellcomm.

Into the future

By any measure, 1969 was a big and busy year—a year in which much was demanded of Bell System people, and much accomplished. But not all of our business' more significant undertakings were reflected in the year's financial and operating results; for much of what we did was aimed not simply at satisfying current communications needs, but at equipping ourselves to meet an even higher level of demand that appears certain to develop in the years ahead.

We are—because we must be—a future-oriented enterprise. To assure our ability to meet the future's requirements, we must address ourselves to more and more distant time-horizons—not merely next year and the year after, but a decade or more hence. At the outset of the '70s we must begin to take the measure of society's communications needs on the eve of the '80s. To be ready then we must begin now—begin now to plot the research and development undertakings that


Total operating revenues
BILLIONS
$16
12
8
4
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69
Earnings per share of AT&T stock
DOLLARS
$4.00
3.00
2.00
1.00
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69
Construction expenditures
BILLIONS
$6
5
4
3
2
1
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69
Total telephone plant
BILLIONS
$50
40
30
20
10
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69

will assure that our facilities have the capacity and capability to match the volume and variety of demand we will encounter then; begin now to plot the configuration of our network to match emerging changes in the patterns of our customers' needs; begin now to design the management techniques and operating procedures that will assure our responsiveness to the demands of an era that will surely be more fast-paced and more complex than our own; begin now to assure ourselves that we will have the mix of talents and skills—and the incentives—that tomorrow's job will require; begin now to assess what changes are in prospect for American society and what they might mean to us in terms, not only of the services we offer, but of our responsibilities to the communities in which we operate.

When hurricane Camille lashed into the Gulf Coast, Bell System men and materials were quickly mobilized to restore the hard-hit telecommunications life-line. The cable splicers at right were among the hundreds of men who moved into the storm area—by airlift, by truck and car, and even on foot—to get the job done. Just one month after the storm struck, some 97 per cent of the 190,000 telephones knocked out along the stricken coast line were back in service

There are, of course, no certain guides to an uncertain future. But the down-to-earth practical necessity of the practice of futurism in our business is sufficiently conveyed by one simple fact: by conservative estimate, fully 75 per cent of the interstate circuit mileage that will be required in 1980 remains to be built.

Science and technology

The clearest evidence of the Bell System's orientation to the future is the very large commitment it makes to research and development—currently about $400 million a year. In 1969 the value of this effort was reflected once again in the variety of new products and services emerging from our laboratories and shops, and in scientific achievements that portend a further strengthening of our technological leadership.

Work continued during the year on the further development and installation of electronic switching systems—systems that provide much faster call processing, exceptional reliability and reduced maintenance costs. By the end of 1969, 70 commercial ESS offices were already in service. Around the mid-1970s, we expect to complete one new multi-million-dollar ESS office just about every working day.

Work continued also on the development of the Picturephone®—a service with which the System has been experimenting for several years. Plans have been announced for introducing the service commercially—initially between Pittsburgh and New York and on a limited basis elsewhere—about the middle of this year. In addition to enabling the user to see the person with whom he is talking—and with face-to-face intimacy—the latest Picturephone provides for display of computer output. With perhaps one million sets in use, Picturephone service may be a billion-dollar business by 1980.

Common purpose, common equipment and shared standards of performance stood the Bell Companies in good stead last year as demand for communications services rose abruptly in some parts of the country. In New York City, for example, hundreds of craftsmen from other Bell Companies joined New York Telephone Company people on the job. At right, an Indiana Bell crew in mid-Manhattan.

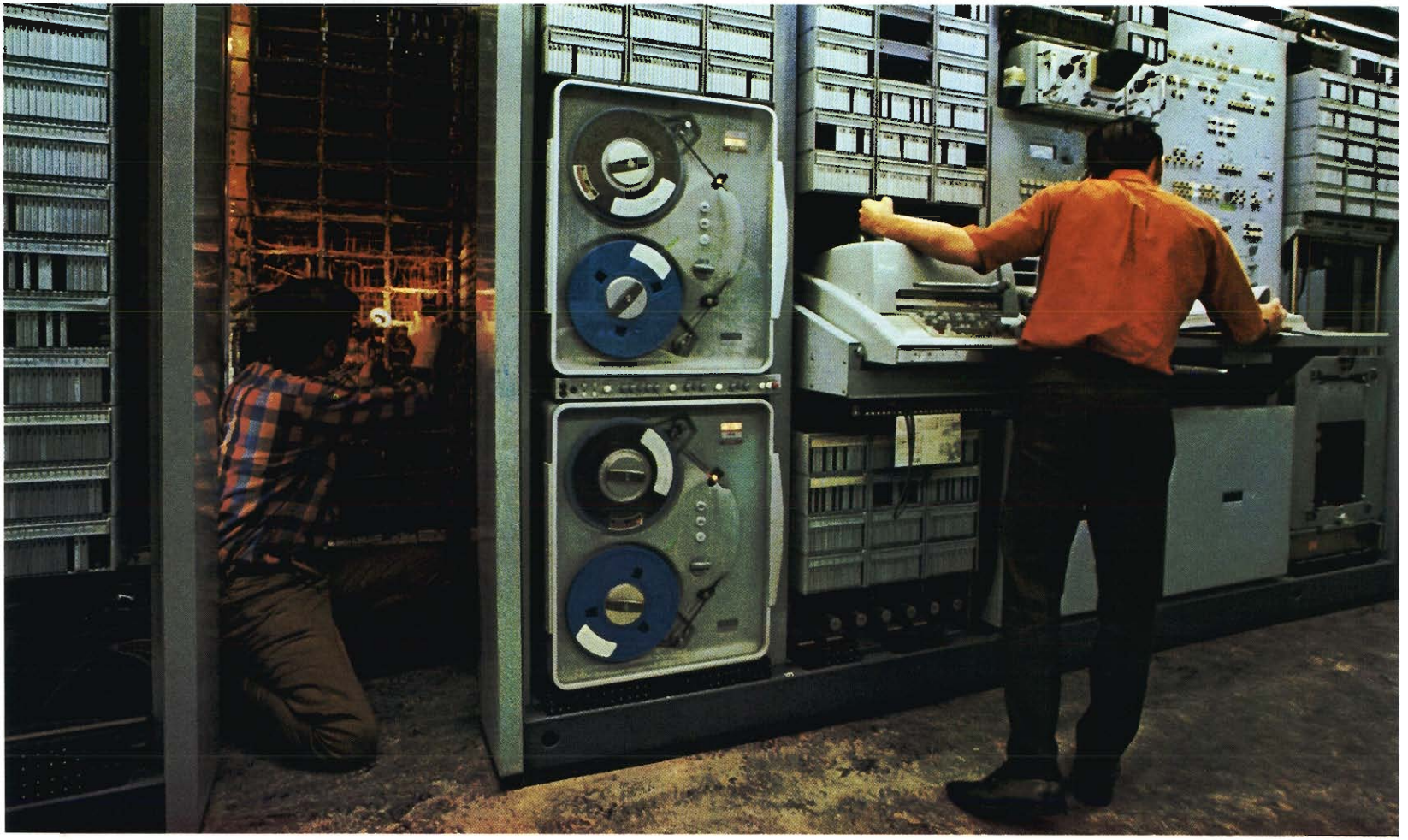

Indiana Bell
IND-69
6623 B
TRUCK
RADIO CITY
RADIO CIT

Because of the huge increases in demand we expect over the next few years, Bell scientists are engaged in intensive efforts to increase the information-handling capacity of existing transmission systems and in developmental work on entirely new types of systems.

For example, the newest type of coaxial cable system—L4—can carry as many as 32,000 simultaneous conversations. By 1973, the System will install between Pittsburgh and St. Louis an improved coaxial system—L5—capable of handling 90,000 conversations. A field trial for this cable will begin in 1970.

Still greater capacity—up to 250,000 circuits—will be offered by so-called millimeter wave guides. Although traffic volumes that would justify its installation are not anticipated before the latter half of the decade, construction of an experimental wave guide system has already begun in New Jersey.

Growing demand also will require that we greatly



expand the capabilities of our switching systems—particularly those used in the long distance network. Bell Laboratories currently is at work on a new all-electronic toll switching system, planned for introduction in the late 1970s. The new system will provide better and faster service and will be capable of handling such features as Picturephone and wideband data switching.

Our investment in basic research and exploratory development also paid dividends in 1969. For example, considerable excitement was generated by Bell Laboratories' announcement of discoveries involving the manipulation of so-called magnetic domains. When a strong magnetic field is applied to a class of materials known as ortho-ferrites, tiny cylinder-shaped areas of magnetism are formed, their polarity opposite to that of the material that surrounds them. These areas, each smaller in diameter than a human hair, can be maneuvered and positioned into an almost endless variety of patterns. Such properties could make possible extraordinarily small, efficient equipment. One Bell scientist has envisioned a data-storage file holding perhaps 15 million coded bits of information in one or two cubic inches, and run by forty-thousandths of a watt of power.

This new discovery is another in the stream of electronic components originated and developed at Bell Laboratories. Most notable of these was the transistor—a device that revolutionized communications and computer technology, creating new industries employing tens of thousands of people throughout the world.

Telephone service is, of course, based on scientific discovery; and large-scale basic research is the wellspring from which continuing progress in communications rises. Just what new prospects will emerge—for example—from the discovery that a mineral-like nonconductor, vanadium trioxide, can be transformed under pressure so that it can conduct electricity—or from the discovery of ways to generate pulses of light only a millionth of a millionth of a second in duration—is, of course, impossible to predict. One day—perhaps years hence—discoveries like these will be embodied in new devices and systems that will advance the capabilities of our telecommunications network.

Electronic switching systems—providing high-speed call processing, exceptional reliability and reduced maintenance costs—are being installed at an ever-increasing pace. At year's end, 70 electronic offices were in commercial service. In the mid-1970s we expect to complete one new ESS office almost every working day

Innovation in management

Just as we are working on tomorrow's technology today, so too are we devoting much current effort to designing management information systems that will assure that our operating companies will be able to respond promptly and efficiently to their customers' needs in the world of the future. We do not share the despairing view of some that increasing complexity and accelerating change necessarily jeopardize—and will eventually overwhelm—man's capacity to manage his affairs. We *can* manage complexity. We *can* manage fast change. The means are at hand in modern computer technology and the advanced operational techniques their application brings within our grasp.

Almost three years ago we began intensive development of a Business Information System (BIS) that will equip the telephone companies to collect, store and recover on demand the massive amounts of detailed information their operations will require in the future. When it is complete, this system will represent the largest single application of computer technology outside of government.

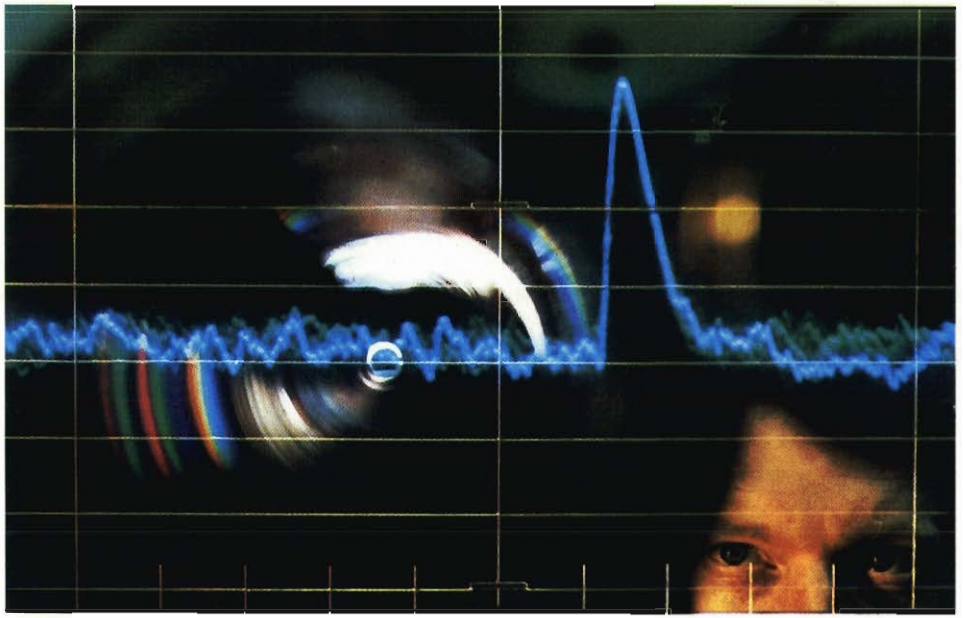
Currently the developers of BIS at Bell Laboratories are addressing themselves to the design of a number of sub-systems that will be completed and introduced into our operations at intervals over the years ahead. Among other things, BIS will be able to: instantly record customers' initial requests for service, provide far faster Directory Assistance and keep track of the use and availability of the millions of miles of trunks and circuits that interconnect the nation's telephone switching offices.

The single aim of BIS is improved customer service.

Its development by no means implies that we are turning the business over to a computer. Quite the opposite. By assigning to computers the jobs they can do best we hope to free our people for the job *they* can do best —providing considerate, prompt individualized service.

We are also using the computer to help us forecast future service demands and develop plans to meet them. The computer can store huge amounts of data, all of it instantly recoverable on demand. It permits us to appraise the interaction of hundreds of variables. And it facilitates the development and operation of mathematical models that simulate the probable consequences of alternate management decisions. Today management scientists at AT&T and Bell Laboratories are using computer methods to explore the market consequences of prospective service offerings, to weigh the merits of alternate rate plans and help chart optimum financing methods. Again, the computer isn't running our business and never will. But it can vastly improve the amount and the organization of the information that managers need to manage and decision-makers to decide.

Huge increases in demand for telecommunications service will soon call for transmission systems possessing capacities far exceeding those of the present. For example, by the late 1970s traffic volumes may justify the installation of a so-called millimeter wave guide system capable of transmitting up to 250,000 messages — voice, TV, Picturephone, data — simultaneously. In the composite photograph below, a Bell scientist studies key elements of the wave guide system.



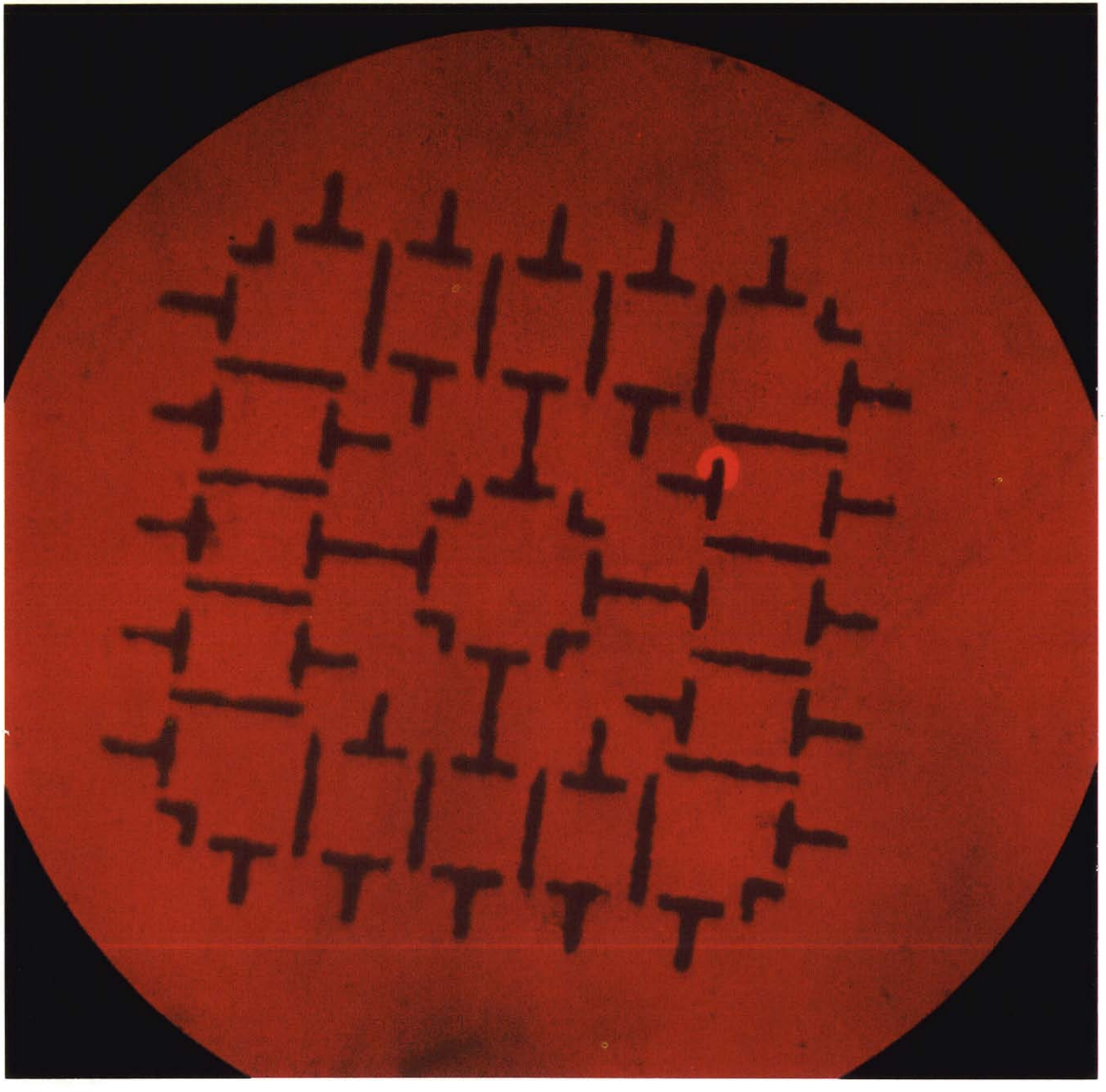
Not all the factors that affect our future are susceptible to quantification and mathematical manipulation. Indeed, our future, like that of other institutions in American society, will depend in very large measure on our ability to sense the currents of change in the world around us and to learn how to cope with them. In short, our responsibility to provide an ever-improving communications service requires that we be especially alert to the problems and opportunities created by changes in the social environment in which our service is provided and used. Accordingly, in 1969 we established at AT&T a Department of Environmental Affairs. This new organization is undertaking programs of research and action aimed at helping the Bell companies to anticipate—and respond to—environmental changes that could affect our operations. The initial focus of the new department's program is on the deeply troubling problems of our big cities and the special efforts they may require of us to assure our ability to hire, train and motivate the kind of work force we need to provide an efficient, high-quality communications service.

Developing our human resources

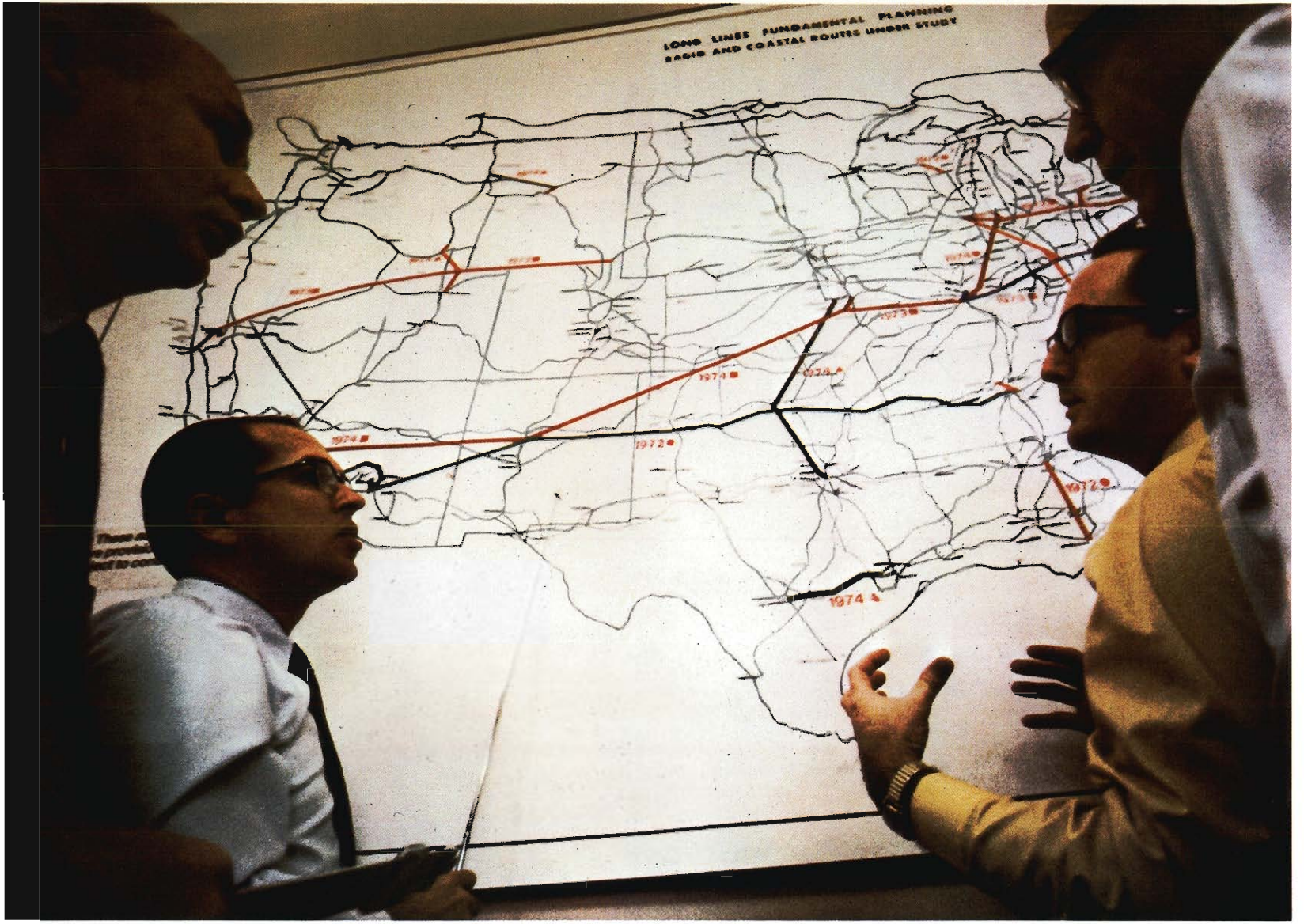
It is conventional in reports like this to observe that no factor is more important to the future of the business than the skills and dedication of its people. Certainly this is true of the Bell System.

At the same time, it should be said that no organization seriously committed as ours is to the constant improvement of its service to the public can safely neglect the cultivation of what is surely its most vital resource and surest guarantor of future progress—and that is the urge to do things well.

To nurture this spirit and see that it grows seems to me the number one responsibility of Bell System management today. Ours is an organization of nearly a million people. Over the decade ahead thousands of new people will be joining our ranks. The kind of busi-



Much excitement was generated last year by a Bell Laboratories discovery that may have broad implications for both communications and computer technology—the discovery that, under application of a strong magnetic field, tiny cylinder-shaped areas of magnetism are formed in a class of materials known as orthoferrites. The ability to maneuver and position the cylinders may make it possible to develop extremely small and highly efficient information-handling equipment. In this micro-photograph a magnetized cylinder (light area) can be seen to the right of center.



With long distance messages increasing at an ever-faster rate, with conservative estimates suggesting that fully 75 per cent of the interstate circuit mileage we will require by 1980 remains to be built, planning for the future has become a more and more exacting process.

Above, engineers of AT&T's Long Lines Department discuss planned and proposed new cable and microwave radio relay routes and some of the thousands of critical decisions that will have to be made to assure their rapid installation at the most reasonable cost.

ness we shall be ten years hence will depend in large measure on the kind of people they are. That is why we were deeply concerned in 1969—and shall be for years to come—with efforts to improve our ability to attract good people to our business, develop their skills and employ them productively in ways that will be satisfying to them. Necessarily we shall be giving much attention to the way jobs are structured, for there is no stronger motivation to good work than a job the employee himself finds interesting, worth doing. And we shall be giving much attention, too, to designing productive work assignments for people who come to us from backgrounds that do not readily equip them for industrial employment but for whom it is important that our country—and therefore our business—offer opportunities.

In 1969, as for many years past, the Bell companies sought to assure the future vitality of our business by helping to further the education of their technical and management people. Today especially a fast-changing technology demands that engineers and scientists continuously update their professional proficiency. Environmental changes, no less fast-paced, demand that our managers grow continuously in their perception of the world around us. To these ends the Bell companies offer a broad spectrum of company-sponsored educational programs, including special summer sessions at selected colleges for managerial employees and full-time curricula leading to advanced degrees for selected engineers and managers. In addition to these continuing programs, there have been established—at Lisle, Illinois—a Bell System Center for Technical Education and—at Princeton, New Jersey—a Corporate Education Center for the Western Electric Company. The Lisle center offers a wide range of technical and management courses for telephone company engineers and operating people, while the Western Electric facility brings together in an especially designed educational complex a variety of major engineering and management training programs previously conducted at a number of separate locations. In Atlanta, a new training facility has been established to familiarize telephone company plant management people with new technology and to enhance their supervisory skills. And at Bell Laboratories, more than 3000 employees are participating in a program of continuing graduate-level education.

The confidence with which the Bell System confronts the 1970s is firmly based on the known talents of a management team that—with hardly an exception—has learned the telephone business from the ground up. Included on that team are some 35,000 young managers, scientists and engineers who have joined us in the past 10 years. Their restless questioning and their conviction that there is always a better way constitute our best assurance of continuing management vigor.

Telecommunications policy

The 1970s will, I am sure, offer tremendous opportunities, not only to the Bell System but to the entire telecommunications industry. Whether those opportunities will in fact be fully realized will depend, however, on the soundness of the management policies and the regulatory policies that guide the industry.

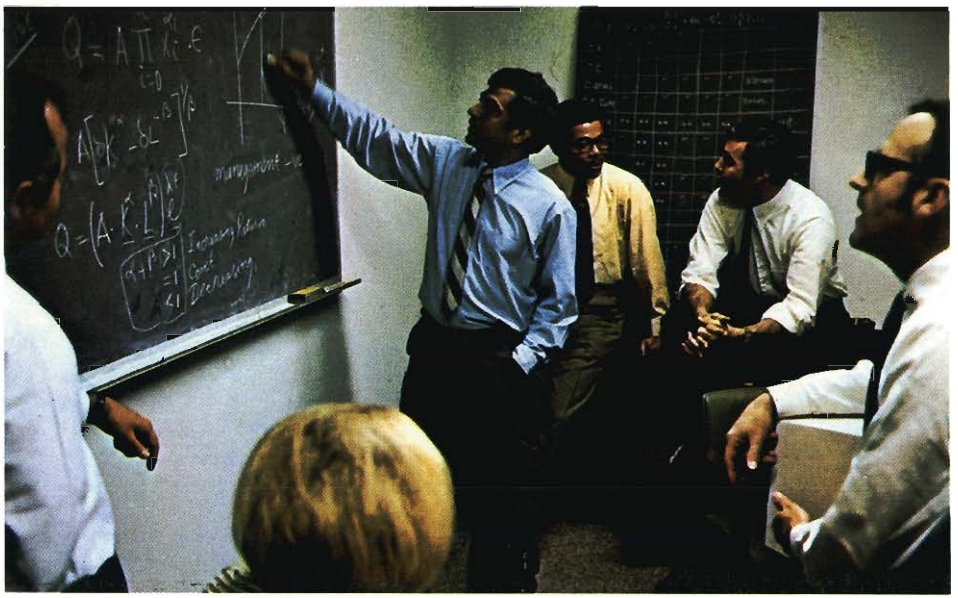
In an impressive response to the telephone companies' sharply increased requirements, Western Electric last year quickly expanded its production capacity, added thousands of employees, and produced equipment far in excess of what first-of-the-year estimates indicated would be needed. Below: some of the millions of miles of copper wire produced at the firm's new plant in Phoenix, Arizona.

Clearly, for example, the decade ahead is going to require that we commit more and more of our resources to a necessarily uncertain future. On this point, we were greatly encouraged last year by the FCC's recognition of our need for higher earnings on our interstate services. In the course of its review of those earnings under its "continuing surveillance" procedure, our representatives called the Commission's attention to the continued inflation we had experienced since its previous finding in 1967 and to the current very high cost of capital. But equally significant, we felt, was the need to ready ourselves to meet the highly volatile demand that is becoming increasingly characteristic of these times and the need, too, to make substantial investments against the long-term future. In any case, the Commission's announcement concluding this proceeding clearly stated that interstate earnings above 7.5 per cent are "not unreasonable." The $150 million reduction in interstate rates agreed upon in this proceeding went into effect on January 1, 1970.

A number of state commissions have similarly recognized earnings levels above their previous findings and have granted rate increases to this end. A word should be said here in response to the number of people who have told us they do not readily understand why rate increases are called for in the states at the same time we are able to reduce rates on interstate calling. The answer is simple: the cost of providing long-haul service is going down; the cost of local exchange service is going up. Interstate service has been particularly responsive to advances in technology that permit "packaging" large numbers of long-haul circuits together for maximum economy. Rates for local service, on the other hand, reflect the costs of individual telephones and individual lines as well as costly and complex switching facilities and interoffice trunking facilities. In short, the cost characteristics of the two services are quite different. We are exerting no less effort to reduce the costs of local service; the very stubbornness of these costs means that we shall be exerting more.

The development of communications service in the '70s would in our view be severely hampered were we required to price our services in keeping with some arbitrary formula rather than on the basis of judgments that take realistic account of market conditions and competitive prospects. Fortunately it does not appear that this will happen. Last spring, the FCC's review of the pricing principles applicable to our interstate services resulted in an agreement stipulating that factors other than cost may properly be taken into account in establishing rate levels for these services—assuming, of course, that revenues from each service are sufficient to cover the costs it occasions and at the same time make an appropriate contribution to earnings. (Under the terms of this agreement, we filed increases in rates for our TV program transmission services that became effective on October 2 and increases in rates for Telpak and teletypewriter exchange service that became effective on February 1. These increases, plus a scheduled increase in audio transmission rates, will total about $87 million. They are completely offset by reductions in

Rapid growth, accelerating change, increasing complexity — all require that we continually appraise our management methods and techniques. Among hundreds of Bell System managers exploring ways of improving decision-making processes are the several young members of AT&T's Management Sciences Division shown in conference here.



interstate long distance rates that also became effective on February 1.) This agreement on pricing principles came after intensive and protracted discussion over a period of many months and appears to offer the degree of discretion that will permit flexible and realistic operation in the competitive environment of the 1970s.

The development of a vigorous system of public broadcasting ranks high among the hoped-for communications developments of the 1970s. To this end, the Bell System has offered to construct a 91-point network for the Corporation for Public Broadcasting and to provide interconnection services equivalent to those we provide the commercial networks, but at rates that are substantially lower. These proposed rates cover only the added costs specifically occasioned by the projected requirements of public broadcasting. Still lower rates would only be possible by requiring our other customers to pay part of these costs. This we are unwilling to do. Our responsibility to our customers requires us to oppose any plan that would saddle them with costs that are properly applicable to public broadcasting. The Corporation for Public Broadcasting has not yet sent us an order authorizing construction of the network it seeks. In the meantime, discussions with the CPB and the Federal Communications Commission continue in the hope of working out an arrangement that will be fair to all.

Finally, it appears to me that fulfilling the promise of the 1970s requires a thinking through of the role of competition in providing communications services.

On this point, it should be understood that the Bell System does not seek "protection" from competition. Where competition would benefit the public—in terms of lower costs or services that would not otherwise be available—competition should be encouraged. But the ground rules should be the same for all parties.

At the same time, however, it should be said that

A fledgling Directory Assistance operator is instructed by her supervisor. The Bell System is engaged today in a systematic study of the whole process by which capable people are attracted, retained and productively employed in ways that will be satisfying to them.

competition simply for competition's sake is an insufficient basis for compromising the principles to which this country so largely owes the advanced development of its communications services and their low cost.

I raise this point because recent months have seen a proliferation of proposals put forward by organizations seeking to provide communications services—in some instances in competition with each other—along selected routes already served by common carriers. And a number of proposals have been offered urging the use of satellites to provide services we currently provide on our terrestrial facilities.

We believe each of these proposals ought to be examined on its specific merits.

In the course of these examinations, a number of questions with a critical bearing on the future of communications will inevitably come to the fore. Are the advantages to particular customers such systems might offer sufficient to warrant denying the larger public the economies of scale that derive from shared use of common facilities? Will the authorization of competing intercity systems undermine the common carriers' system of nationwide average pricing that permits us to charge the same price for calls along sparsely used routes even though the costs are higher, as we do along heavily trafficked routes of equivalent distance? And is it not inevitable that abandonment of this pricing system, were it to become a matter of competitive necessity, would work to the disadvantage of the country's smaller towns and less heavily populated states—and ultimately to the disadvantage of the public as a whole?

These are difficult and vexing questions and can best be answered by a consideration of concrete proposals addressed to clearly specified service results. For our part, we are willing to stand by decisions that reflect a sound appraisal of the public benefits and costs involved in each. Obviously, the paramount consideration with respect to such determinations must be the long-run interests of the general users of communications services, the public at large.

More particularly with respect to satellites for domestic communication, we believe that the communications common carriers—including AT&T—should have the opportunity to establish such systems whenever it is to the advantage of their customers to do so. Our present nationwide communications network is made more reliable, flexible and economical by fitting together various types of transmission facilities—cable pairs, multi-channel coaxial cables and microwave systems—using each where it serves best. We believe satellite facilities also can play a part in enhancing the usefulness of the network. Therefore, we are actively planning for the use of satellites as part of our domestic system.

The concern with the future reflected in this report stems from our recognition that it is not alone this year's results or next year's that will be the ultimate test of the performance of this generation of Bell System management. Rather will that test be the degree to which our policies will have enhanced the long-term service capabilities of the business. In short, more than what competitors do or regulators decide, it is our own sense of purpose and the vigor and intelligence with which we pursue it that will be the main determinants of our future. To my mind the best assurance of progress in performance and profitability is our own continuing effort to enhance the usefulness and versatility of our national telecommunications network and the ease and economy with which it is used. Organized as we are for innovation and equipped with communications skills unmatched anywhere, I am confident that the Bell System is singularly well prepared to realize the great opportunities that the decade ahead will surely afford.

H. I. Romnes

Chairman of the Board

February 10, 1970

THE BELL SYSTEM CONSOLIDATED FINANCIAL STATEMENTS on the following pages consolidate the accounts of American Telephone and Telegraph Company and its telephone subsidiaries. These companies maintain their accounts in accordance with the Uniform System of Accounts prescribed for telephone companies by the Federal Communications Commission.

For the companies consolidated, all significant intercompany items are excluded from these statements. Investment in subsidiaries not consolidated as stated in the Balance Sheets includes the equity of such subsidiaries, and the interest in their earnings is included in the Income Statements.

Most of the telephone equipment, apparatus and materials used by the companies consolidated has been manufactured or procured for them by Western Electric Company, Incorporated, the principal subsidiary not consolidated. Contracts with the telephone companies provide that Western's prices to them shall be as low as to its most favored customers for like materials and services under comparable conditions. Items purchased from Western by the telephone companies are entered in their accounts at cost to them, which includes the return realized by Western on its investment devoted to this business.

A. L. STOTT
Vice President and Comptroller

	THOUSANDS OF DOLLARS YEAR 1969	YEAR 1968
OPERATING REVENUES		
Local service	$ 7,774,392	$ 7,184,077
Toll service	7,297,842	6,341,158
Miscellaneous	705,803	648,759
Principally from directory advertising		
Less: Provision for uncollectibles	94,270	73,980
Total operating revenues	15,683,767	14,100,014
OPERATING EXPENSES		
Maintenance	2,942,952	2,470,708
Depreciation	2,315,710	2,138,141
Portion of the cost, computed on the straight line method, of depreciable plant charged against current operations, approximately 5.3%		
Traffic	1,334,049	1,239,829
Costs, principally operators' wages, incurred in the handling of messages		
Commercial	510,864	447,548
Primarily costs of local business office operations		
Marketing	687,233	619,651
Accounting	496,201	451,525
Research and fundamental development (a)	106,084	94,692
Provision for pensions and other employee benefits (b)	799,371	620,583
Other operating expenses	660,028	548,671
Less: Expenses charged construction	240,649	189,122
Total operating expenses	9,611,843	8,442,226
Net operating revenues	6,071,924	5,657,788
OPERATING TAXES		
Federal income	1,978,579	1,951,662
State, local and social security	1,518,304	1,348,348
Total operating taxes	3,496,883	3,300,010
Operating income *(carried forward)*	$ 2,575,041	$ 2,357,778

For notes, see page 24

	THOUSANDS OF DOLLARS	
	YEAR 1969	YEAR 1968
Operating income *(brought forward)*	$ 2,575,041	$ 2,357,778
OTHER INCOME (c)	389,817	314,531
Income before interest deductions	2,964,858	2,672,309
INTEREST DEDUCTIONS	702,043	560,405
NET INCOME BEFORE MINORITY INTERESTS	2,262,815	2,111,904
Minority interests	64,117	60,139
NET INCOME APPLICABLE TO AT&T CO. SHARES	$ 2,198,698	$ 2,051,765
EARNINGS PER SHARE *Based on average AT&T Co. shares outstanding, 549,264,000 in 1969 and 546,688,000 in 1968*	$4.00	$3.75

Statements of Consolidated Reinvested Earnings Applicable to American Telephone and Telegraph Company Shares

	THOUSANDS OF DOLLARS	
	YEAR 1969	YEAR 1968
BALANCE AT BEGINNING OF YEAR	$ 8,239,364	$ 7,454,502
ADDITIONS:		
Net income	2,198,698	2,051,765
Miscellaneous—net	—	45,148
DEDUCTIONS:		
Dividends declared *Per share: 1969, $2.45 ($.65 quarterly dividend payable January 1970); 1968, $2.40*	1,345,697	1,312,051
Miscellaneous—net	6,857	—
BALANCE AT END OF YEAR	$ 9,085,508	$ 8,239,364

ASSETS

	THOUSANDS OF DOLLARS DECEMBER 31, 1969	DECEMBER 31, 1968
TELEPHONE PLANT AND OTHER INVESTMENTS		
Telephone Plant—at cost		
Land, buildings and equipment		
In service	$47,482,327	$43,429,356
Under construction	1,708,638	1,511,209
Held for future use	53,524	34,426
	49,244,489	44,974,991
Less: Accumulated depreciation	11,235,038	10,220,088
	38,009,451	34,754,903
Other Investments		
Investment in subsidiaries not consolidated (d)	2,159,759	2,021,767
Other (e)	190,499	228,671
	40,359,709	37,005,341
CURRENT ASSETS		
Cash and temporary cash investments	848,132	789,822
Receivables—less allowance for uncollectibles:		
1969, $20,577,000; 1968, $17,482,000	2,053,129	1,810,243
Material and suppliers	226,681	170,720
	3,127,942	2,770,785
PREPAID EXPENSES AND DEFERRED CHARGES	415,470	374,591
TOTAL ASSETS	$43,903,121	$40,150,717

For notes, see page 24

LIABILITIES AND CAPITAL

	THOUSANDS OF DOLLARS DECEMBER 31, 1969	DECEMBER 31, 1968
EQUITY		
American Telephone and Telegraph Company		
Common shares—par value $16⅔ per share (f)	$ 9,154,401	$ 9,154,398
Authorized 600,000,000 shares		
Outstanding 549,264,000 shares		
Premium on shares	5,288,923	5,288,919
Reinvested earnings—see page 21	9,085,508	8,239,364
	23,528,832	22,682,681
Minority interests	785,504	745,772
	24,314,336	23,428,453
DEBT (f)		
Long-term	14,149,000	12,834,000
Notes payable	1,719,029	595,930
	15,868,029	13,429,930
CURRENT LIABILITIES		
Accounts payable	1,348,407	1,132,044
Advance billing and customers' deposits	388,648	358,295
Dividends payable	369,137	335,559
Taxes accrued	769,381	754,979
Interest accrued	211,863	176,168
	3,087,436	2,757,045
DEFERRED CREDITS		
Unamortized investment credit	571,492	480,634
Other	61,828	54,655
	633,320	535,289
TOTAL LIABILITIES AND CAPITAL	$43,903,121	$40,150,717

Source of Funds	THOUSANDS OF DOLLARS YEAR 1969	YEAR 1968
Operations		
Net income applicable to AT&T Co. shares	$2,198,698	$2,051,765
Depreciation	2,315,710	2,138,141
	4,514,408	4,189,906
Increase in debt	2,438,099	1,528,930
Decrease in working capital	—	312,265
Other	90,034	146,957
	$7,042,541	$6,178,058

Disposition of Funds	THOUSANDS OF DOLLARS YEAR 1969	YEAR 1968
Telephone plant	$5,570,258	$4,596,863
Dividends on AT&T Co. shares	1,345,697	1,312,051
Increase in working capital	26,766	—
Increase in other investments	99,820	269,144
	$7,042,541	$6,178,058

Notes to Bell System Financial Statements

(a) Principally cost of work carried on for American Telephone and Telegraph Company by Bell Telephone Laboratories. In addition, Western Electric Company incurs costs for development work

(b) The Company and its subsidiaries have non-contributory plans covering all employees that provide for service pensions and death benefits. These companies have accrual programs under which actuarially determined regular payments are made to trust funds that are irrevocably devoted to service pension and death benefit purposes. The total provision for these service pensions and death benefits, including amounts charged construction, was $562,027,000 in 1969 and $433,184,000 in 1968. About $80,000,000 of the increase in 1969 is the result of amendments to the plan effective June 1, 1969, principally the elimination of an adjustment of pensions for the old-age benefit under the Social Security Act.

(c) Includes earnings of Western Electric Company and its subsidiaries in the amounts of $227,025,000 in 1969 and $192,120,000 in 1968. Also includes $92,097,000 in 1969 and $75,659,000 in 1968 for interest charged construction.

(d) Equity in subsidiaries not consolidated of which $2,006,248,000 at December 31, 1969 and $1,882,223,000 at December 31, 1968 was in Western Electric Company.

(e) At December 31, 1969 includes $111,762,000 cost of investments in and advances to three other associated telephone companies, The Southern New England Telephone Company, The Cincinnati & Suburban Bell Telephone Company, and Bell Telephone Company of Canada, and $57,915,000 investment at cost in Communications Satellite Corporation.

(f) Interest rates and maturities on long-term debt outstanding at December 31, 1969, in millions of dollars, were as follows:

Maturities	2⅝% to 3⅞%	4% to 6⅞%	7% to 9⅛%	Total
1970-1979	$1,210	$ —	$ —	$ 1,210
1980-1989	2,480	583	—	3,063
1990-1999	642	3,497	150	4,289
2000-2010	—	4,412	1,175	5,587
Total	$4,332	$8,492	$1,325	$14,149

The above table includes $140 million 2¾% Debentures due December 1, 1970, which will be refinanced.

Notes payable consist of borrowings from banks and commercial paper due twelve months or less from date of issue. At December 31, 1969 the average rate of interest on these notes was 8.6%.

Since December 31, 1969 the Company has announced an offering to shareowners of about $1,570,000,000 of 30 year debentures, together with warrants of approximately five year life to purchase approximately 31,400,000 additional shares of the Company. In addition, eight subsidiaries have sold or announced their intention to sell an aggregate of $955,000,000 of long-term debt, maturing in the year 2000 or thereafter. The total proceeds of these offerings will be used to repay notes payable and for general corporate purposes, including extensions, additions and improvements to plant.

Report of Independent Certified Public Accountants

TO THE SHARE OWNERS OF AMERICAN TELEPHONE AND TELEGRAPH COMPANY:

We have examined the consolidated balance sheet of American Telephone and Telegraph Company and its telephone subsidiaries as of December 31, 1969, the related income statement, statement of reinvested earnings, and the statement of source and disposition of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and included such tests of the accounting records of each of the companies consolidated and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated statements of the Company and its telephone subsidiaries for the year 1968. We did not examine the consolidated financial statements of the Company's principal nonconsolidated subsidiary, Western Electric Company, Incorporated and Subsidiaries, which statements were examined by other independent accountants whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for Western Electric Company, Incorporated and Subsidiaries, is based upon such report.

In our opinion, the consolidated financial statements on pages 20 to 24 present fairly the consolidated financial position at December 31, 1969 and 1968, the consolidated results of operations and the consolidated source and disposition of funds for the years then ended of American Telephone and Telegraph Company and its telephone subsidiaries, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

2 Broadway, New York, N. Y., February 10, 1970

AT&T

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

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