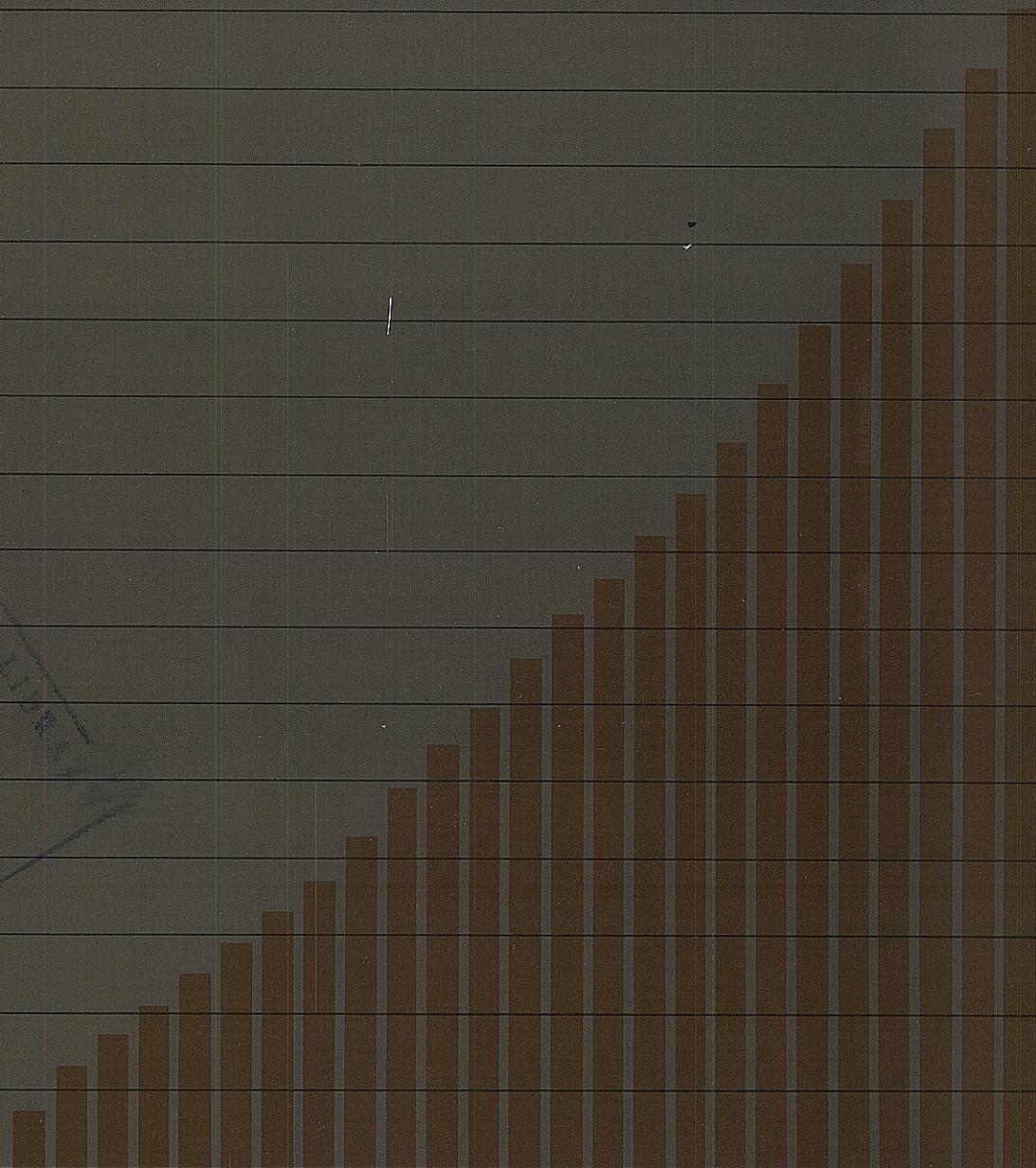




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The Annual Meeting of share owners will be held at 2 p.m. on Wednesday, April 19, 1972 at Currigan Hall, Denver Convention Complex, Denver, Colorado. Those who have only preferred shares are invited to attend but will have no voting rights. Any such persons who plan to attend the meeting should write to the Secretary of the Company for an admission card.

The financial results reported herein are for the American Telephone and Telegraph Company and its principal telephone subsidiaries, consolidated. Financial statements of AT&T alone and 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

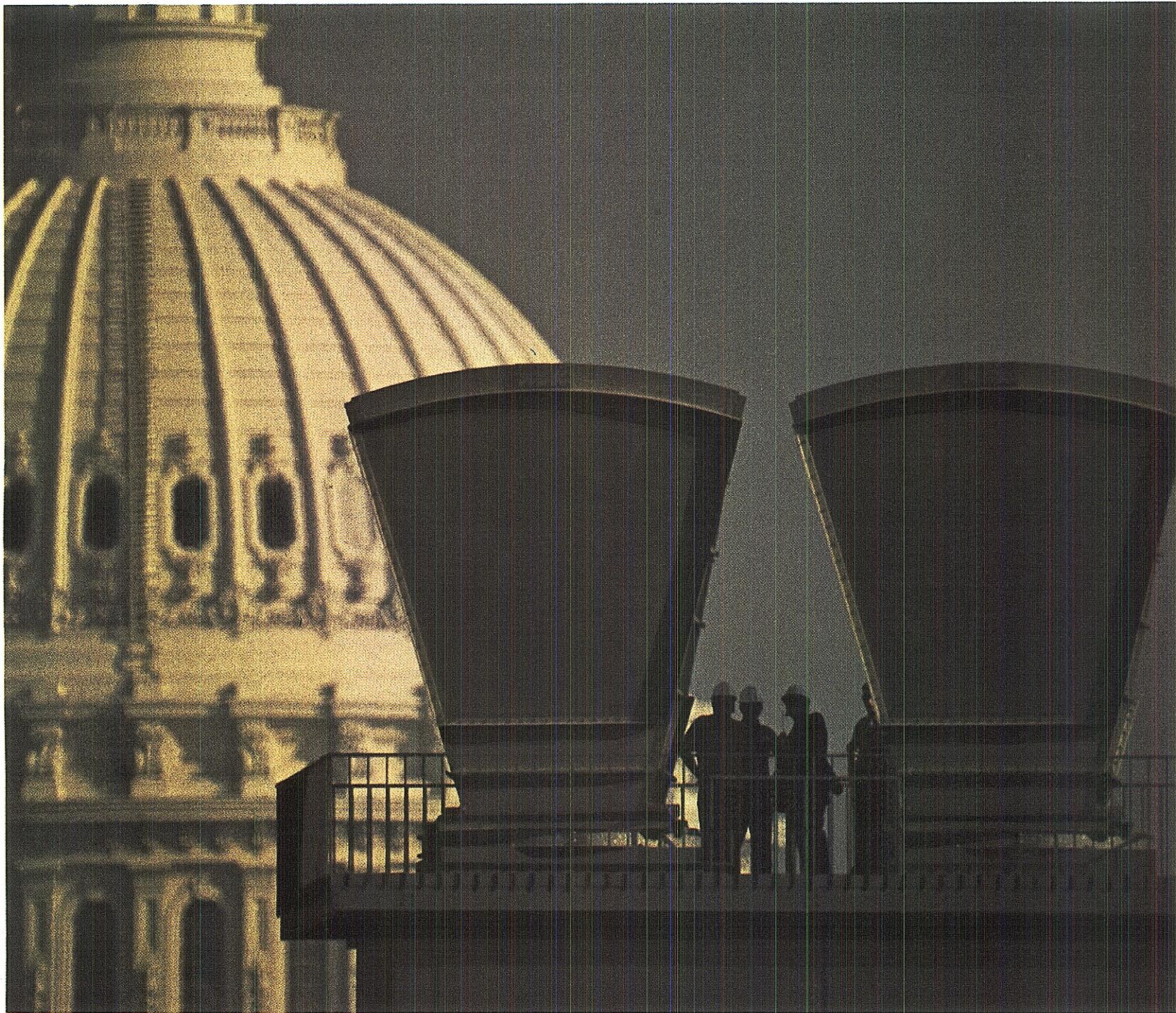
The Company maintains stock transfer offices at 180 Fulton St., New York, N. Y. 10007 and also at: 185 Franklin St., Boston, Mass. 02107; 225 West Randolph St., Chicago, Ill. 60606; and 140 New Montgomery St., San Francisco, Calif. 94105

COVER: An important landmark was passed in December, 1971 with the installation of the 100 millionth Bell System telephone. The cover design is symbolic of the remarkable rate of telephone growth in the period since World War II.



Results in Brief	1971	1970
Earnings Per Common Share	\$ 3.99	\$ 3.99
Income		Millions
Local Services	\$ 9,187	\$ 8,456
Toll Services	8,650	7,874
Other	1,112	998
	\$18,949	\$17,328
Expenses		
Operating	\$12,074	\$10,868
Taxes	3,348	3,265
Interest	1,287	1,003
	\$16,709	\$15,136
Net Income	\$ 2,240	\$ 2,192
Dividends Declared	\$ 1,486	\$ 1,428
Earnings Reinvested in the Business	\$ 754	\$ 764

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Dear Share Owner: Nineteen seventy-one earnings per share were \$3.99, compared to \$3.99 in 1970 and \$4.00 the year before. Thus—in the face of an unusual combination of high inflation and a slack economy—the Bell companies were able to maintain the performance level of the two prior years. This accomplishment in the face of adverse circumstances augurs well for a resumption of earnings growth as the economy gathers momentum and inflation slows.

The Bell System's revenues in 1971 exceeded 1970's by \$1.6 billion or 9.2 per cent. This rise, abetted by rate increases in a number of jurisdictions, produced one of the highest rates of growth we have experienced over the past decade. However, it was accompanied by sharp increases in expenses—most notably wage costs—that thwarted further earnings improvement.

At year's end, there were signs of an upturn in the economy—and in our business. In November and December we added 34 per cent more telephones and handled 10 per cent more long distance calls than in the same months of 1970.

Three factors will determine how soon and how much Bell System earnings will improve. They are, first of all, the state of the economy and the stimulus to our business that a strong recovery will surely bring; second, the progress we will

In sight of the nation's Capitol (distance foreshortened by camera lens) Bell technicians complete a new link in the continent and ocean-spanning telecommunications network—more and more, a vital national resource.

be permitted to make in repricing our services at levels that realistically reflect their cost and value in today's dollars; and third, our own efforts to improve our operating performance and our service capabilities through sound management, technological innovation and effective marketing.

The first two of these factors involve uncertainties—uncertainties with respect to the impact of the Administration's New Economic Policy and uncertainties with respect to the regulatory constraints we shall experience in the months ahead. Insofar, however, as the future is up to us, I am not in the least uncertain about the Bell System's prospects.

In 1971, for example, we materially improved those prospects by adding new calling capacity to our local exchanges sufficient to serve 12 cities the size of Denver and by adding some 28 million circuit miles to our network of transmission facilities. Construction expenditures for the year totaled nearly \$7.6 billion. The program assures that we will have available the facilities to handle the increased demand an economic upturn will bring.

What follows is an account of what we did in 1971 to strengthen our service capabilities and to improve profitability.

Bell System Growth

At the end of World War II, the Bell System served some 22 million telephones. In late 1971 we added our 100 millionth. In most of the intervening years we added more new telephones than we did the year before. In 1969 telephone gain reached its highest level; we added 4,724,000. Since then, however, growth has slowed. We added 3,889,000 telephones in 1970 and 3,805,000 last year.

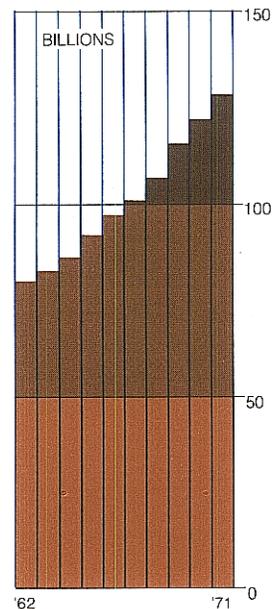
The relative "softness" in telephone growth we have experienced over the last two years is very largely attributable to the slowdown in business activity. By contrast, demand for residence telephones—and particularly for extensions—has continued strong. Indeed, toward the end of 1971, growth in residence telephones was above long-term growth trends, reflecting increased residential construction and presaging perhaps a return of consumer confidence in the nation's economy.

In 1971, the Bell companies handled eight per cent more long distance calls than they did in 1970. Again this growth—remarkable as it was considering the state of the economy—fell short of the growth we experienced up until the onset of the recession and that we expect to experience once again when the effects of the downturn have been overcome. Longer-haul traffic has been more markedly affected than short-haul traffic, in some measure reflecting business "economy" measures.

More and more customers are dialing their own long distance calls without operator assistance, a trend we seek to encourage through favorable rates that

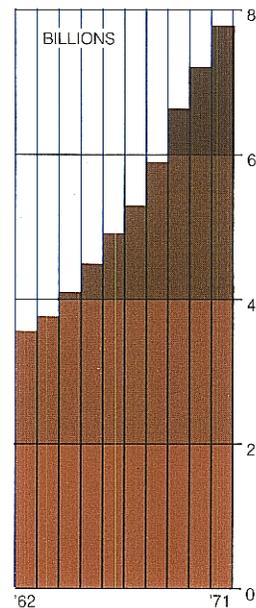
Telephone Conversations

Despite the economic slowdown, our business continued to grow last year.



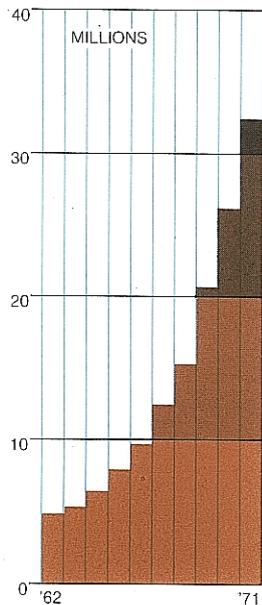
Long Distance Messages

The 8 per cent increase in long distance messages last year—remarkable as it was—did not match growth in the peak years of 1968 and 1969.



Overseas Conversations

Overseas calling continued to surge upward. In the past five years, this traffic has more than tripled.



reflect the lower costs involved. Five years ago 56 per cent of long distance calls were customer-dialed; in 1971, 72 per cent were. Each further percentage point of improvement in this ratio represents about \$35 million in additional annual expense savings at current calling rates. In addition, through better trouble-spotting techniques and alert network management, we continued to advance the efficiency of our network. We have doubled the number of circuit miles in our plant over the past five years. Over the same span of time we have decreased the cost per circuit mile in our interstate network by 20 per cent.

“Spectacular” is not too strong a word to describe current growth in overseas calling—particularly between the U.S. and some of the countries of Europe. In 1971 calling between the U.S. and the United Kingdom was up 47 per cent over 1970; between the U.S. and Germany, up 37 per cent. In the past five years total overseas telephone traffic has more than tripled.

Currently five underseas cables link the U.S. with Europe and two join the U.S. mainland with Hawaii. From Hawaii other cables reach out to Guam, Japan, Australia, and the Philippines. We believe new cables are needed in both oceans now.

Accordingly, in December we sought authorization to construct a 4,000-circuit cable that would extend from Green Hill, R.I., to St. Hilaire de Riez in France. We also applied earlier for permission to build an 845-circuit cable to Hawaii. Both proposals are in keeping with our advocacy of a roughly fifty-fifty mix of cable and satellite circuits as the best assurance of continuity of service in the event of a failure in one mode or the other. The FCC has not yet acted on these requests. Nor has it acted on our 1970 proposal for a domestic satellite system.

In 1971, six per cent of Bell System revenues came from so-called “private line” services. These services range in size from a single circuit connecting a factory, for example, with a downtown sales office to complex interstate networks interconnecting the facilities of major corporations. And since they travel the same cable and radio relay routes as our message telephone service, they contribute significantly to our ability to take maximum advantage of the economies of scale that high capacity transmission systems provide. By 1980, as more and more businesses and agencies of local, state and Federal governments seek to coordinate their activities on a “real time” basis, we anticipate that private line revenues will reach approximately \$2.0 billion a year.

Data transmission—on private line channels and on our general message network—continues, as it has for some years, to be our fastest growing service. It brought in revenues of some \$650 million in 1971—and market studies project a ten-fold increase in the decade ahead.

During the past five years, the volume of data transmitted over the Bell System's network has increased at an average rate of 50 per cent a year. We believe this growth rate will be maintained at least for the foreseeable future as data users respond to the rapidly developing potentialities of this service.

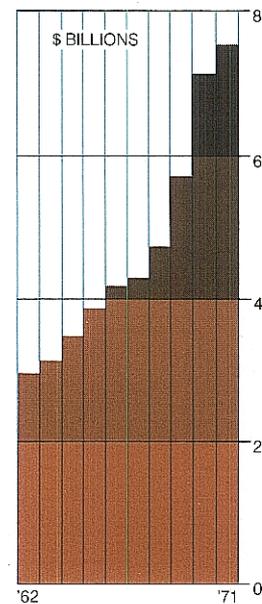
A development now nearing completion at Bell Telephone Laboratories puts the Bell System in a unique position to respond economically to the demand created by this market. What the Laboratories' engineers have done is find a way to "hitchhike" a digital bit stream on a portion of the frequency band below that which is used for voice on our existing microwave systems. This development alone will enable the Bell System to accommodate most requirements for so-called digital data service between now and the end of 1977. Known as Data-Under-Voice (DUV), it should help lay to rest the concerns of some in the computer industry that the telephone network, designed for voice and utilizing "analog" transmission for the most part, cannot match the speed, accuracy and economy of digital transmission systems—those that talk in computer language. Further, Data-Under-Voice will facilitate construction of the nationwide Digital Data Network we announced in 1970 and expand its scope. Initially we said we expected this network to be serving 60 cities by the middle of the decade; now we plan to reach up to 100 cities.

Construction Although growth slowed in 1971, the Bell companies' preparations for future growth did not. The \$7.6 billion construction program they carried out in the course of the year was the largest ever. The aims of the program were fivefold: to increase capacity, to improve service, to relocate services of moving customers, to replace plant and—by continuously incorporating advanced technology in our plant—to cut expenses.

By far the largest portion of 1971's construction expenditures—some \$5.1 billion—went to meet growth requirements. When demand slackens the Bell companies cannot hold back on needed construction until more propitious times. Their obligation is to be ready when demand comes. Thus detailed forecasts of demand—community by community—are the primary basis for growth projects. Intricate telephone equipment, much of it tailored to the communities it serves, takes relatively long lead times to engineer, manufacture and install. For these reasons, the Bell companies cannot significantly reduce construction expenditures in response to a slowdown in short-term demand without risking default on their responsibility to provide service when and where it is wanted. Admittedly this obligation burdens our earnings capability in periods of slackening demand. But share owners may be assured that every effort is made to provide facilities at the times and in the amounts that will assure meeting our service obligations in the most economical manner.

Construction Expenditures

Growth slowed in 1971, but our preparations for future growth did not. Our \$7.6 billion construction program helped assure that when demand picks up again, needed facilities will be available.



The world's largest telephone building (housing both offices and switching equipment) rises on 42nd St. in Manhattan with New York Harbor as its backdrop. Aims of our System-wide construction program are increased capacity, better service, lower cost



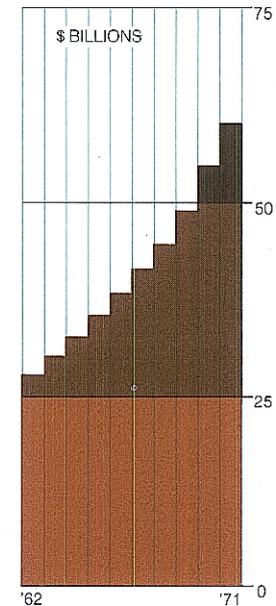
The 3.8 million telephones the Bell System gained in 1971 represent the difference between the 25.3 million telephones we installed and the 21.5 million we took out. "Customer movement"—keeping up with America's restless population—accounted for about \$1.2 billion of the year's construction outlays. "Plant replacement"—restoring storm-damaged facilities, moving cable lines to make way for new highways—cost about \$400 million more.

Finally, we spent about \$900 million for "modernization." These expenditures were required to maintain the ceaseless process of renewal that has been going on since the telephone business began and that will continue so long as there remains a better way. Nineteen seventy-one, for example, saw a quickening of the pace at which the Bell System's switching facilities, hitherto electromechanical, are being replaced by electronic switching systems (ESS) that are analogous in many of their operations to the most advanced computers. As the year drew to a close, new multi-million dollar electronic central offices were being installed at a rate of about two every week. By the middle of the decade, we shall be completing ESS offices on the average of one every working day. "Revolutionary" when the first one was installed six years ago, ESS is now a mature system, amply fulfilling its promise of quicker, more flexible service. Meantime—in a development effort rivaling that required to bring ESS into being in the first place—Bell Laboratories is turning its talents to the development of a high-speed electronic switching system to handle long distance calls. The first one will be ready in 1976.

Better service at lower costs is being achieved by the replacement of manually operated switchboards with the push-button consoles of Traffic Service Position Systems (TSPS). These systems, largely electronic, allow customers to dial person-to-person, credit card, collect, third number and pay station toll calls with a minimum of operator assistance. By the end of 1971 about 5500 TSPS positions had been installed in 40 different Bell System locations. TSPS' automatic features enable operators to handle 25 to 35 per cent more calls—and with far less manual work.

Like advances are being accomplished in transmission. Last year, for example, some 240 miles of a new 22-tube coaxial cable were buried along a route between Pittsburgh and St. Louis. When equipped with an advanced transmission system, called L-5, it will have a capacity of 90,000 circuits—two and a half times that of the most advanced system now in use. Service is scheduled for early 1974. Later in the decade we will be introducing wave guide systems with an initial capacity of 240,000 conversations. Systems employing the laser—systems potentially capable of carrying several hundreds of thousands of conversations over a single beam of light—may be introduced still later. One of the more promising areas of laser research is developing out of experimentation with fiber optics (see photo, page 15).

Total Telephone Plant
Plant expansion undertakings are rigorously appraised in light of their potential contributions to future profitability. Objective is to spend no more and no less than necessary to assure good service now and in the future.



Advanced information systems under development (see text, page 22) will enhance our ability to manage complex, large-scale operations. At right a customer's initial order for service is fed into a central computer, assuring "on time" performance while equipment inventories are kept low

But higher capacity is only one feature of new transmission systems emerging from the Laboratories. Equally important are the advances they make possible in communications quality and the cost-saving opportunities they provide.

For example, a new low-capacitance cable developed for the T-2 transmission system is able to send digital signals more than twice as far as earlier cables before the signals must be regenerated. In addition, the cable is designed to minimize crosstalk and to greatly reduce the possibility of moisture entering the system and causing service interruptions. Scheduled for commercial service in 1972, the high-capacity system is now undergoing field trials. It will carry voice, data or facsimile messages for distances up to 500 miles economically.

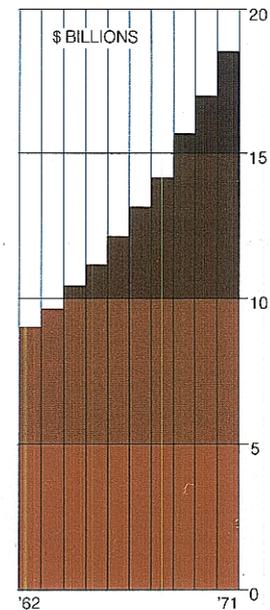
Competition In recent years, two landmark regulatory decisions have opened our business to increased competition and some share owners have expressed concern about how this competition would affect their investment. It is true that we face increasing competition—in the supply of terminal equipment and in providing private line services. In effect, what we said to the FCC in the course of its hearings on these matters was this: if you find it in the public interest to open up these sectors of telecommunications to competition, then it's all right with us so long as you make the ground rules the same for all parties, including us. The FCC has said in turn that that's the way it will be, and, on that basis, I haven't the least doubt about the Bell System's ability to give a good account of itself.

Now for some specifics—first with respect to terminal devices. In the nearly three years since revised tariffs have been in effect facilitating the connection of customer-owned equipment to the Bell System network, some 1800 non-Bell private branch exchanges (PBX's) have been hooked up to our lines—and the number is increasing. In terms of the total PBX market, however, this competition has not yet had a significant impact. Competitors' PBX's currently serve less than one per cent of the PBX stations in the Bell companies' territories.

But we are not complacent. For example, a big new facility in Denver which brings together under one roof Bell Laboratories, Western Electric and AT&T people responsible for designing, making and marketing PBX's attests to our determination to compete effectively in this field. Nineteen seventy-one saw the first fruits of this teamwork in the form of three new PBX systems—one a modular-design electronic unit that permits growth from 40 to 270 lines, another a 57-line, 12-trunk unit for small and medium-sized offices and the third a compact unit designed for the hotel-motel field where competition has been particularly intense.

For a number of years, private microwave systems have represented the principal competition to the Bell System's intercity private line services. Last May,

Total Revenues
Revenues in 1971 exceeded those of prior years. Despite a sluggish national economy, Bell System growth continued.



Imaginative new marketing programs are aimed at improving revenues and cutting costs. An example: PhoneCenters, like this one in Hallandale, Fla., where customers "shop" for telephone instruments in modern, attractive showrooms, then simply take them home to their "pre-wired" apartments and plug them in.



however, the Federal Communications Commission opened the way to broader competition, concluding that a general policy in favor of the entry of new carriers in the specialized communications field would serve the public interest.

In the course of the proceedings, AT&T had pointed out that a policy of virtually unrestricted entry for specialized common carriers might require the Bell companies—as a matter of competitive necessity—to depart from their long-standing policy of nationwide average pricing of their private line services. The Commission took specific account of this consideration, observing that “where services may be in direct competition, departure from nationwide pricing practices may be in order and in such circumstances will not be opposed by the Commission.”

Historically, our interstate private line charges have been the same for like distances everywhere in the country even though the costs of providing service may vary widely from route to route, depending on traffic volumes. This policy has served the nation well. By encouraging the extension of modern communications services to small communities as well as large, it has contributed notably to the current widespread development of telecommunications in this country.

This policy may no longer be viable, however, in light of the Commission’s order. Clearly the Bell System can adhere to a policy of nationwide average pricing of its private line services only at the risk of significant losses of business to competitors who are free to offer their services on low-cost routes without obligation to serve high-cost routes as well.

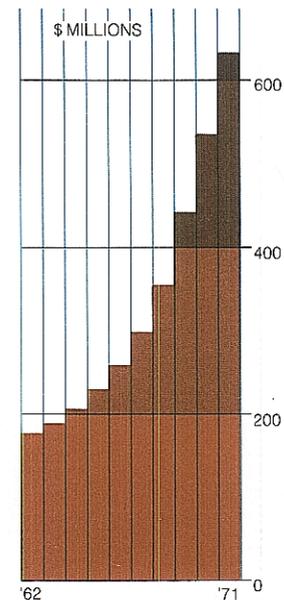
Accordingly, the Bell System is currently undertaking a fundamental review of its charges for interstate private line services, with a view to determining the appropriateness of an entirely new rate schedule that would relate our charges on specific routes more directly to the costs involved. We intend to press forward with active development of this new rate schedule with a view to its introduction on a nationwide basis as soon as completion of the necessary market and cost studies will permit.

This service pricing development is part of a larger move toward more equitable restructuring of rates generally. A broad dispersion of the cost burden was necessary over the years to encourage service development. Now it seems eminently fair to ask customers to take on a more realistic share of costs that they themselves occasion.

A number of Bell companies are pressing in rate actions, for example, for authorization to raise to more compensatory levels their charges for service connections, moves and changes, and for coin service. And—in view of studies indicating that a majority of calls to Directory Assistance are attributable to a relatively small percentage of our customers—we are considering instituting a charge for this service.

Data Service Revenues

Data communication continues to be the fastest growing segment of our business. Market studies project a tenfold increase in the 1970's.



Bell laboratories last year announced new development known as Data-Under-Voice (see text, page 6). This and other technology assure us of economical means of fully serving needs of the data market over the foreseeable future.



Research and Development

Some other industries have sharply curtailed their research and development commitments in recent years; the Bell System has not. With prospects like those just described—and in view of our long experience of the efficacy of managed innovation—it can readily be seen why we have not. In 1971 our expenditures for research and development amounted to some \$480 million, most of it for Bell Laboratories activities.

The Laboratories' work ranges from basic scientific investigations to the design of "hardware." A single aim—better communications service—provides focus for these diverse undertakings. Close linkages with the Western Electric Company on the one hand and with the Bell operating companies on the other assure the continuing relevance of R & D activities to the Bell System's needs. For example, some 2,700 Bell Laboratories technical people work in branch laboratories associated with Western Electric factories. Their close working relationships with Western Electric engineers help assure that considerations of "manufacturability" are fully taken into account in product design. Likewise, Bell Laboratories field representatives at telephone company operating locations monitor the quality and performance of new installations in the interest of prompt corrections of design and production problems and the identification of needed improvements.

Not all the Laboratories' work is hardware-related. Increasingly, the Laboratories is applying its talents to the analysis of complex operating problems—for example, balancing the elements in the networks serving large metropolitan areas—and to the development of computer-based programs to facilitate economic management of telephone company resources. To this end, the Laboratories has developed aids to construction program administration, traffic usage forecasting, the sizing and siting of wire centers, the planning of directory distribution, etc.

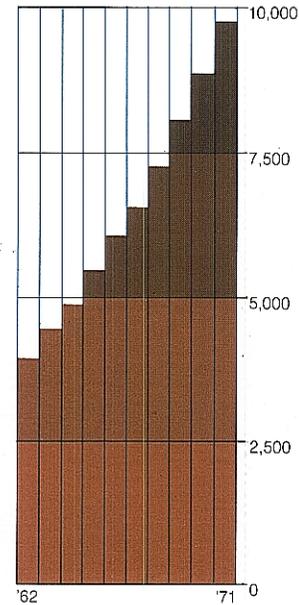
For all of its attention to these "practical" matters, the Laboratories is by no means neglecting its responsibility for exploring the outermost reaches of technology. Indeed, its scientists are at work on "generations" of technology far beyond that embodied in current electronic switching systems, advanced as they are. The "magnetic bubble" technology described in last year's report is one example. Another is a "super-conducting shift register," a device that, operating in an environment of liquid helium, can transfer a "bit" of information faster (ten-trillionths of a second) and with less power consumption (one-tenth of a millionth of a watt) than any information processing device thus far developed. According to the Laboratories: "These properties are attractive, but actual use will require much further investigation."

Western Electric, our manufacturing and supply unit, again in 1971 met its objective of providing the Bell companies with equipment of higher quality and lesser cost than that available from other potential suppliers.

(continued, p. 18)

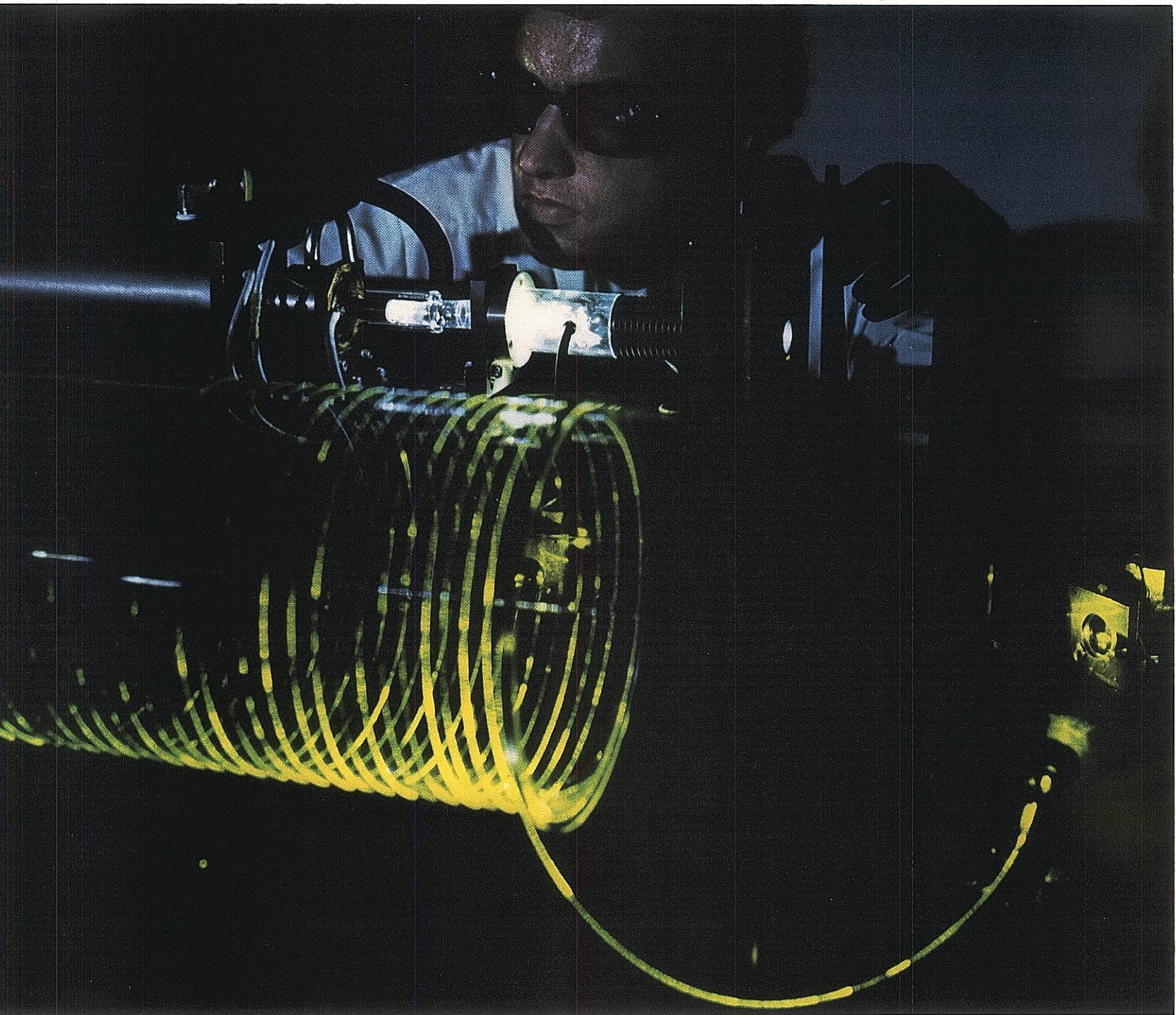
Bell System Patents

The prolific and fruitful nature of Bell System research and development is reflected in the hundreds of patents awarded our engineers and scientists each year. Chart shows number of patents in force for each of the last ten years.



Today, tens of thousands of conversations can be transmitted simultaneously over microwave and coaxial cable systems. In the not distant future, systems employing wave guides and possibly lasers will carry messages in the hundreds of thousands.

At right, a Bell Laboratories research scientist studies laser light transmission through cabled glass fibers.



Goals we live by “Our first responsibility today remains what it has always been: service to the public. It is the Bell System’s objective to provide the best possible communications service we know how to give and to do so at the most reasonable rates over the long run. . . . The United States is almost alone among the nations of the world in entrusting the development and the operation of its communications services to private enterprise. Thus the realistic need to insure profitability through improved efficiency and continuous innovation is as strong a motivation in our business as it is in any other. And it is largely to this motivation that our nation owes the present scope and versatility of its communications services and their low cost. In short, it is our commitment to service that requires that we earn profits that will justify the continuing confidence of investors in our business. It is this commitment that requires that our financing policies take first account of the interest of our existing share owners and the need to maintain the integrity of their investment. It requires that we set as our goal earnings that are comparable with those of other industries of like risk and like prospects. It requires that we pay dividends that are generally within the range paid out by other progressive, growing businesses. It requires that we continuously increase the earning power of our shares, by profitably reinvesting in the business that portion of our earnings that remains after dividends. At the same time, it requires that we shun any action that is merely expedient, offering temporary

advantage or momentary favor at the cost of sound long-term growth. But when all is said and done, our responsibility to investors places no greater obligation on us than this: that we address ourselves continuously to the enhancement of our business’ capabilities and the value of our service to the public.

“We have some other responsibilities too. They are not new, but some of them are newly urgent in the public mind. We have a responsibility to be good citizens in the communities we serve. It is basic to this responsibility that we extend every reasonable effort to be sure that our facilities enhance and do not impair the physical environment in which we operate. But beyond that we have a responsibility to the future—to do what we can to help restore where it has been lost and maintain where it has not a social environment in which we can do our best.

“Finally, we have responsibilities to the nation at large: first, to take scrupulous account of the consequences of what we do on the general economy; second, to respond to the nation’s needs whenever and wherever our skills are truly needed; and third, to give our wholehearted support to the great goals our country has set for itself: a growing economy, a decent order in our society, the freedom and scope for every individual to fulfill his personal capacities, and an environment that will sustain the continuing enhancement of the quality of our national life.”

—H. I. Romnes

From remarks at the Annual Meeting of Share Owners, Dallas, Texas, April 22, 1971

Bell System Telephones, 1876-1971

96.6 MILLION

60.7 MILLION

35.3 MILLION

17.5 MILLION

15.2 MILLION

8.1 MILLION

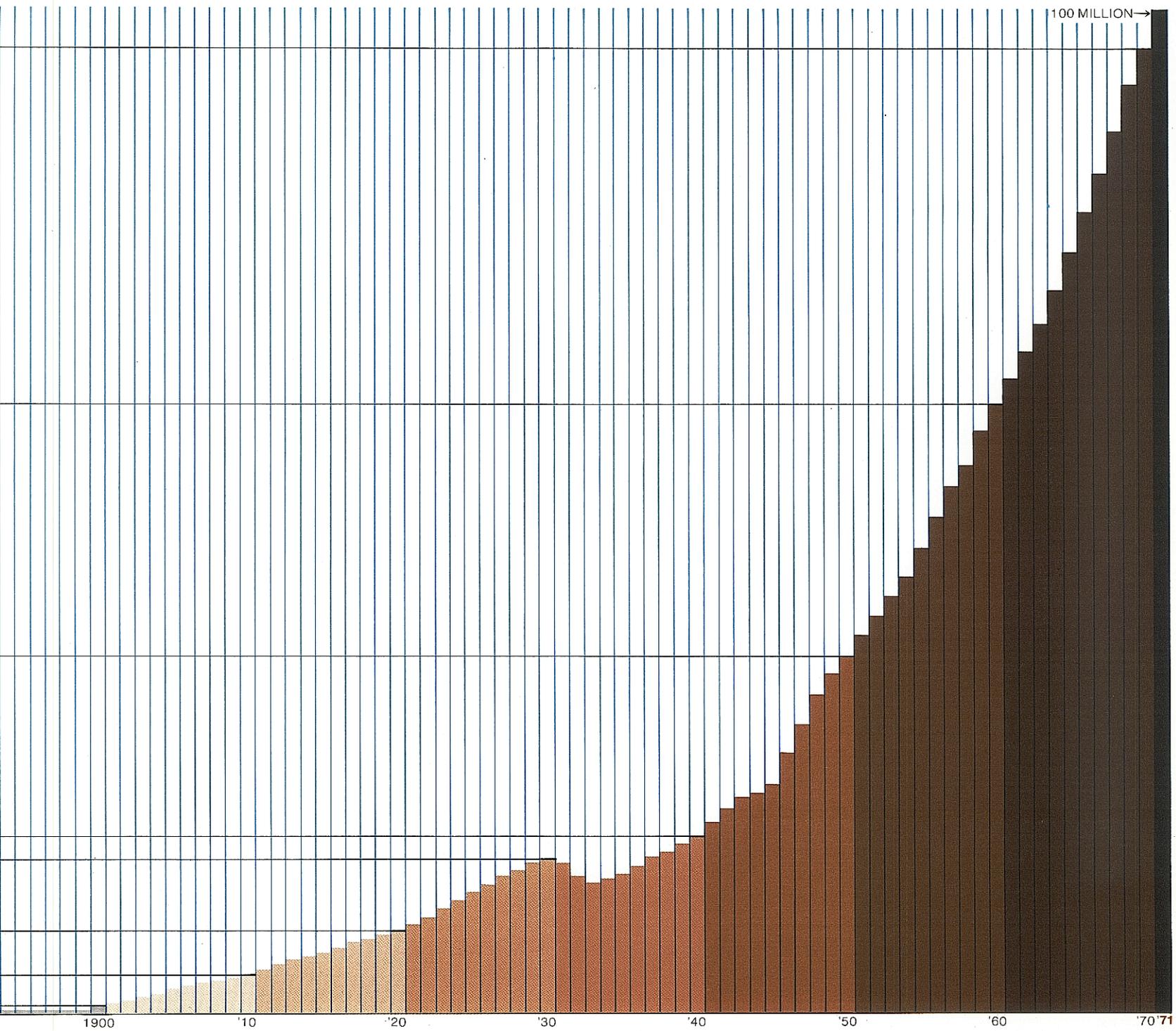
3.9 MILLION

802 THOUSAND

1876

'80

'90



Moreover, the firm introduced cost-cutting technology that will provide savings of about \$74 million annually—a new record. Western Electric sales last year amounted to \$6.0 billion, compared to \$5.9 billion in 1970. (A full accounting of Western Electric accomplishments last year is contained in its 1971 Annual Report. Address requests to the Secretary, American Telephone and Telegraph Company, 195 Broadway, New York, N.Y. 10007.)

Financing

In 1971 depreciation and reinvested earnings contributed less than half of the capital the Bell companies needed to support their construction programs; the rest we obtained through the sale of debt issues and through an offering to share owners of rights to \$1.37 billion of convertible preferred shares. With this sale of equity we were able to maintain our ratio of debt to total capital at just over 45 per cent.

The interest cost of Bell System debt issues sold last year ranged from a low of 6.49 per cent to a high of 8.28 per cent. At year's end our embedded cost of debt was about six per cent.

Over the next several years we anticipate that our external financing requirements will run in the order of \$4.0 billion annually. In 1972 the Company has been able to take advantage of the availability of funds that in the normal course would not be expected to be invested in Bell System debt issues by placing \$1.0 billion of its securities with a group of large institutional investors. This issue consists of \$625 million in cumulative nonconvertible preferred stock and \$375 million of 25-year notes, both at a rate of 7¾ per cent. This issue, incorporating as it does a modest complement of equity, serves both to mitigate the increase in our debt ratio during 1972—which is important to maintenance of our top credit rating—and to remove our need to undertake a common equity offering in the near future.

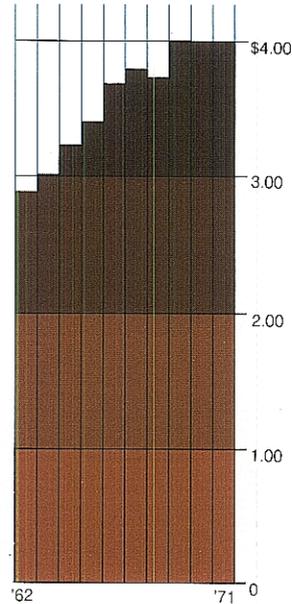
For the longer run, however, we recognize that maintaining a sound financial structure requires a sufficient showing of earnings improvement to assure our ability to mount equity offerings in the order of \$1.5 billion a year.

It is to this end that we are accelerating our efforts to improve results through cost-saving technology, operating improvements and rigorous expense controls. And it is to this end that we are continuing to press hard for greater recognition on the part of regulatory authorities that our present rate of return is inadequate for a business that each year must raise such large amounts of money to finance its construction programs.

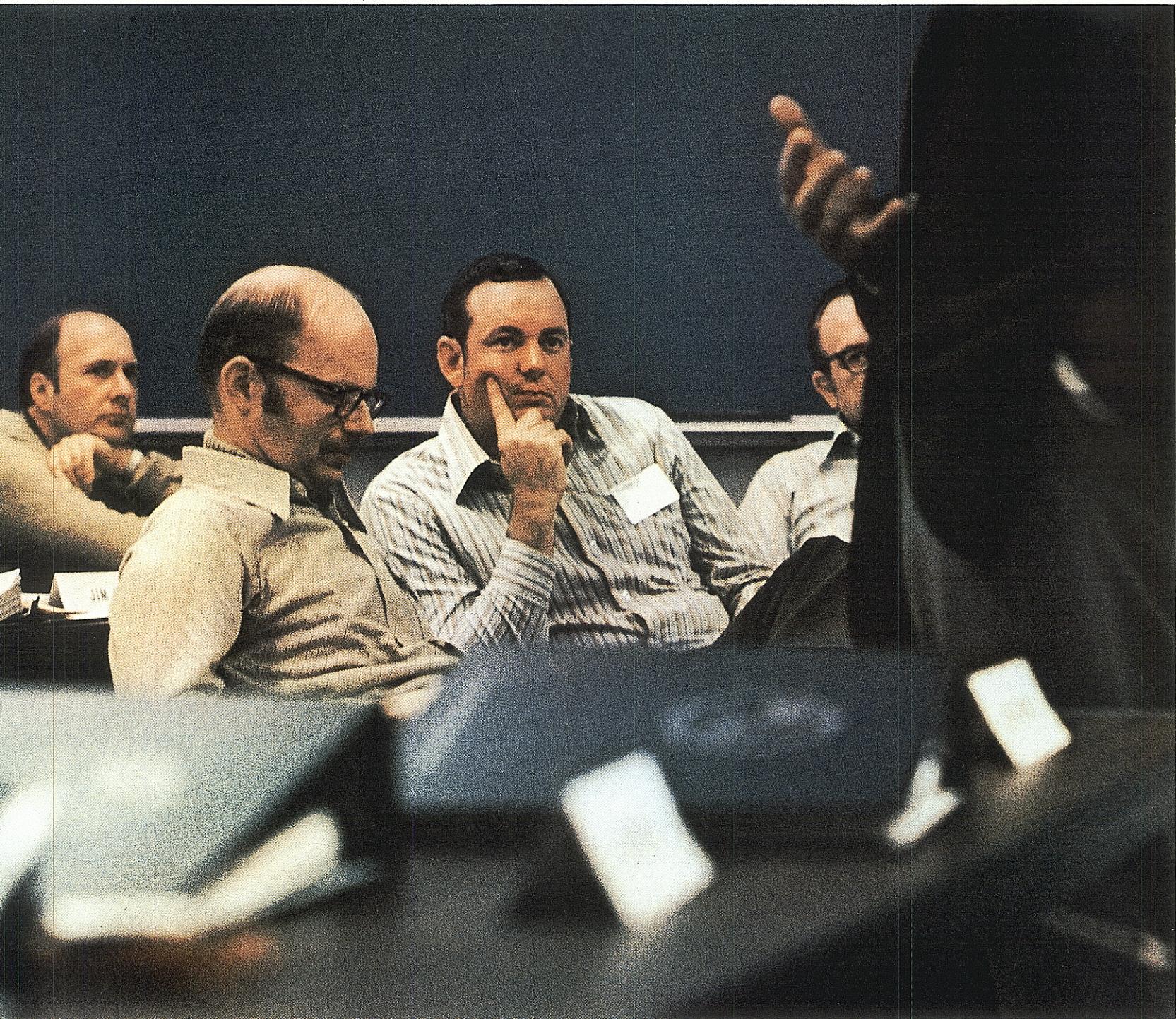
Between the beginning of 1970 and the imposition of the wage-price freeze, intrastate regulatory authorities approved rate increases amounting to \$920 million a year. While we did not, of course, seek to have any new rate increases made

Common Share Earnings

In ten years, earnings per common share have risen from \$2.90 to \$3.99. Earnings plateau of last three years reflects inflation, slackened national economy.



“Planning for Profit” is the subject of a course for middle and upper management at our training center in Lisle, Illinois. The System expended well over \$300 million on employee education and training last year—40 per cent of the total aimed at enhancing professional and managerial competence.



effective during the freeze itself, we continued to press for needed rate increases with a view to their being made effective as soon thereafter as possible. At year's end an additional \$209 million had been approved and applications for rate increases aggregating \$1.6 billion were pending in 28 different state jurisdictions.

In January of 1971, the FCC authorized an interim increase in interstate rates designed to produce \$175 million a year in additional revenues—this in the course of a proceeding in which we are seeking a \$385 million revenue improvement. In this same proceeding, an FCC examiner proposed in August that our rate of return on interstate business be permitted to fluctuate between 7.9 and 8.8 per cent and that 8.25 per cent was justifiable under current economic conditions. This recommendation, as we said at the time, moved in the right direction but not far enough. Consequently we have emphasized to the full Commission, as we have in all our rate cases, that meeting investors' expectations today requires a 9.5 per cent return on total capital and that the confidence of present share owners and our hopes for a balanced financing program in the future require a 12.5 per cent return on equity. At year's end, the Commission had not yet rendered its decision in this case, which was initiated a year ago last November.

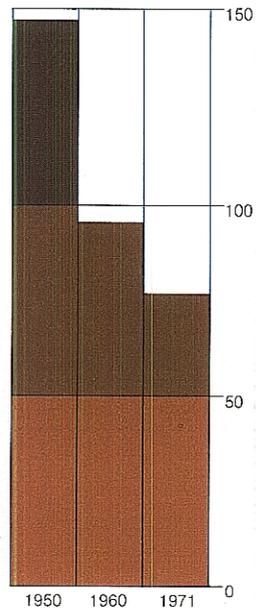
To some the Bell System's current drive for increased rates may appear untimely, coinciding as it does with a concerted national effort to stem inflation. What should not be forgotten, however, is that for almost a dozen years, the general level of telephone rates in this country remained virtually unchanged. In the case of long distance, they had actually gone down. We have fought the good fight against inflation year in and year out and we intend to keep on fighting it. But we cannot continue to absorb the cost surges of recent years without serious jeopardy to our ability to attract the capital to meet future service requirements. Getting our rates up to levels that realistically reflect the cost and value of our service is a prime objective of management and one we intend to pursue vigorously.

Human Resource Development Bell System employment—1,000,600 at year's end—declined slightly in 1971 and productivity improved. A reduced turn-over rate, a more experienced work force and better training all contributed to the significant improvement.

A traditional index of productivity in the telephone business is the number of employees it takes to serve 10,000 telephones. In 1950 it took 148. In 1960 it took 96. Today it takes 77.

For the most part this dramatic improvement stemmed from the very large capital investments we have made to embody advanced technology in our plant. But new increments of productivity improvements by this route have been

Employees per 10,000 Telephones
Dramatic productivity improvement has stemmed from our very large investments in advanced technology. Today, the System is placing equal emphasis on the search for ways to enhance and enlarge the capabilities of employees.



At year's end Bell System employees numbered 1,000,600. There is, we are convinced, a productive potential in our people that can contribute as much or more to our future progress as technical research and development have through the years.



harder and harder to come by. Thus, in recent years the downward sweep of the curve on our chart of employees per 10,000 telephones has begun to flatten out. What have remained stubbornly resistant to dramatic improvement—as they have generally throughout industry—are the labor-intensive segments of the business: connecting and disconnecting telephones, installing outside plant, providing Directory Assistance and a variety of clerical functions. That is why we are today committing as much effort to the search for ways to enhance and enlarge the capabilities of employees as we do to the advancement of our technology.

In 1971 Bell System expenditures for employee education and training amounted to well over \$300 million. About 60 per cent of this total was for skills training—for installers, repairmen, cable splicers, switchmen, operators, machine operators, computer programmers. The remainder was aimed at enhancing our professional and managerial competence.

But more than training, it is the way our jobs are structured—the degree to which they enlarge or limit opportunities for initiative—that is the key to continued productivity improvement. For too long, perhaps, industry assumed that productivity improvements were best achieved by simplifying work, fragmenting jobs. But in the last decade or so, evidence has accumulated that best results are likely to be achieved by “enriching” jobs, making them more challenging.

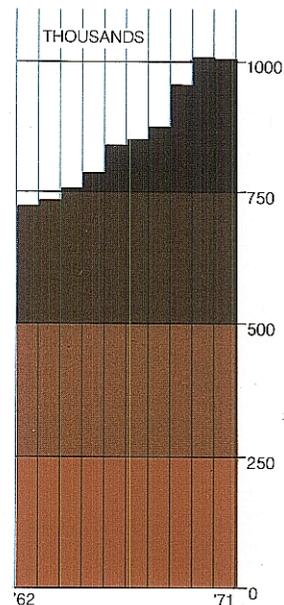
This is the concept behind a Bell System program called “The Work Itself,” which aims to make job assignments more responsible and thereby more rewarding. Admittedly, this concept is not universally applicable but results in the Bell System over the past several years have been excellent. In instance after instance, job enrichment has resulted not only in increased productivity but in improved attendance, less turn-over, fewer errors, improved morale.

We are also seeking to expand the capabilities of the Bell System’s million-plus people by the development of better tools and improved operating procedures. Two quite different examples will illustrate the point.

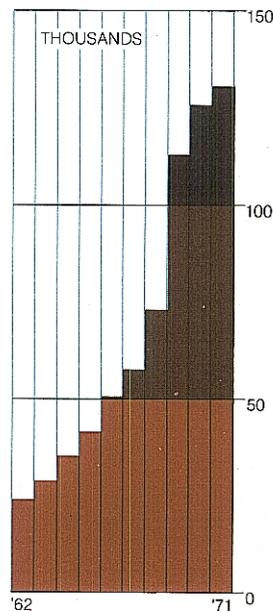
For some years now we have been developing a Business Information System (BIS) that is designed to equip the telephone companies to collect, store and recover on demand the massive amounts of information their operations will require in the future. When it is complete, this system—or system of systems—will represent the largest application of computer technology in private industry.

Viewed narrowly, BIS might be seen as just another example of how capital-supported technology contributes to improved productivity. But BIS is not an end in itself. It is being developed, not so much for what it will accomplish, but for what it is going to permit our people to accomplish. By assigning to computers the jobs they can do best, we hope to free our people for the jobs they can do

✓ **Total Employees**
Total Bell System employees passed the 1 million mark in 1970, showed little change in '71 as economy slowed.

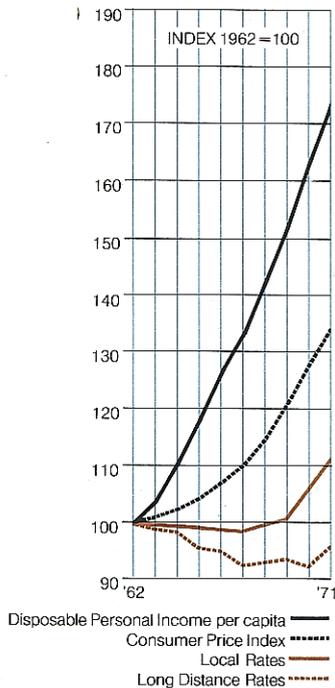


Minority Employees
Bell System commitment to equal employment opportunity is reflected in the very rapid growth in minority employees.



Consumer Prices and Telephone Rates Since 1962

Rate relief is important if we are to continue to attract the capital that will enable us to serve well. Until very recently, local telephone rates had remained virtually unchanged for a dozen years; long distance rates had actually gone down.



best—the jobs that require judgement and initiative and personal consideration.

At the other end of the scale—because it involves no capital expenditure at all—is a development introduced in 1971 that we call “Snip-and-Take.” Year after year, and millions of times each year, Bell System installers have been climbing into their trucks and driving out to remove the telephone instruments of customers who are moving—a costly and not very “productive” procedure in this era of high mobility. Now several Bell companies are asking their customers to snip the cords on their phones and take the sets with them when they move from one location to another. Once the customer is ready for service at his new residence, the phones are already on the premises and require only installation. Credit for bringing the phones along is given on the next bill. As “Snip-and-Take” proves itself, it will be adopted on a System-wide basis.

In 1971 we reached new three-year contract agreements with nearly all the unions representing Bell System employees. Our aim in negotiating these contracts was agreement on a schedule of wages and benefits that would permit the Bell System to attract and keep the kinds of people it needs to do a quality job for the public. I believe that aim was met. Regrettably, however, it was not met without a brief nationwide strike and a more extended one in New York.

Late in the year the Equal Employment Opportunity Commission filed with the FCC some 20,000 pages of testimony purporting to support its year-old charges of discrimination against minorities and women. We believe that our performance over the past decade (see chart) attests to our resolve to make equal employment a reality in our business. The task is a complex and far-reaching one and, while no organization of our size can claim to be without flaw, we have been working hard for a great many years to assure equal opportunity and we are confident the record will show that we have made—and continue to make—good progress.

The Bell companies, each through its own separately administered program, again provided needed support for community and educational causes in 1971. Total contributions by all companies amounted to \$15.6 million, less than a tenth of a per cent of operating revenues. (AT&T’s share of the total was \$1.3 million.) About 60 per cent of these contributions went to community chests, united funds, youth organizations and similar groups. Aid to education accounted for another 25 per cent of our grants, principally in support of colleges and universities to which we look for the future leadership of the business. The remainder went to a variety of civic, cultural and other worthy causes.

* * *

It is not mere convention that impels me to conclude this my final report as Chairman of AT&T with an expression of confidence in the future. Earlier

in these pages I noted that in 1971 the Bell System added its 100 millionth telephone. At the risk of endowing it with more significance than it deserves, I would nonetheless venture the surmise that this event may symbolize a turning point in our business history. It comes at a time when our business confronts changes in its operating environment and new complexities beyond the imaginings of its founders, a time when the precedents of the past provide at best an uncertain guide to the future. Thus in expressing my confidence in the Bell System's future I do not minimize the problems we confront or the changes in our accustomed ways that may be demanded of us.

I base my confidence on three things. I base it first of all on what I believe to be one of the most meaningful accomplishments of recent years, and that is a significant strengthening of our long-range planning resources and our decision-making processes. The long look ahead has always been characteristic of our business. It is a particular necessity in times of change like these.

Second, I base my confidence in the future on what I conceive to be the Bell System's greatest resource and that is the growing number of its people who are thinking in new ways, seeking to match our business to new times. In these people—and I have met them at every level of our business—I sense the questing spirit that, more than any asset that we own, will assure our mastery of change and the great opportunities that lie ahead.

Finally, I base my confidence in the Bell System's future—indeed my conviction that it will be a great one—on the capabilities and character of those whose responsibility it will be to lead this enterprise into its second century.

A handwritten signature in cursive script, reading "A. L. Romney". The signature is written in dark ink and is positioned above the printed name.

Chairman of the Board

February 9, 1972

THE 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 by the Federal Communications Commission.

These financial statements have been prepared in conformity with generally accepted accounting principles, which differ from the accounting prescribed by the Federal Communications Commission, principally with respect to

investments, as discussed in Notes to Consolidated Financial Statements.

Lybrand, Ross Bros. & Montgomery, Certified Public Accountants, have examined these financial statements and their report is shown below. The other auditors referred to in their report are Arthur Young & Company as auditors of Western Electric Company and Southwestern Bell Telephone Company, and Arthur Andersen & Co. as auditors of Illinois Bell Telephone Company.

A. L. Stott
Vice President and Comptroller

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, 1971 and the related statements of income and reinvested earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the Company and its telephone subsidiaries for the year 1970, which have been restated as described in note (a) to the financial statements. The financial statements of two telephone subsidiaries included in the consolidated financial statements for the year 1971 (constituting total assets of \$7,960,911,000 and total operating revenues of \$2,968,491,000 included in the consolidated totals) were examined by other auditors. The consolidated financial statements for the years 1971 and 1970 of Western Electric Company, Incorporated and Subsidiaries, the Company's principal nonconsolidated

subsidiary (which statements reflect net income of \$258,412,000 and \$253,447,000 included in consolidated net income for 1971 and 1970) were also examined by other auditors. The reports of other auditors have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in the consolidated financial statements for subsidiaries examined by them is based solely upon such reports.

In our opinion, based upon our examination and the reports of other auditors, the consolidated financial statements on pages 26 to 32 present fairly the consolidated financial position at December 31, 1971 and 1970, the consolidated results of operations and the consolidated changes in financial position 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

1251 Avenue of the Americas, New York, N.Y.
February 9, 1972

Consolidated Statements of Income and Reinvested Earnings

	Thousands of Dollars	
OPERATING REVENUES	Year 1971	Year 1970
Local service	\$ 9,186,952	\$ 8,455,967
Toll service	8,650,009	7,874,069
Miscellaneous	828,137	764,810
<i>Principally from directory advertising</i>		
Less: Provision for uncollectibles	154,333	139,965
Total operating revenues	<u>18,510,765</u>	<u>16,954,881</u>
OPERATING EXPENSES		
Maintenance	3,776,617	3,373,303
Depreciation	2,764,240	2,531,972
<i>Portion of the cost of depreciable plant charged against current operations, approximately 5.2% in 1971 and 5.3% in 1970</i>		
Traffic	1,586,748	1,469,573
<i>Costs, principally operators' wages, incurred in the handling of messages</i>		
Commercial	646,515	577,454
<i>Primarily costs of local business office operations</i>		
Marketing	806,766	754,845
Accounting	555,078	513,420
Research and fundamental development	133,963	120,358
Provision for pensions and other employee benefits (b)	1,221,957	1,018,993
Other operating expenses	900,214	786,051
Less: Expenses charged construction	317,501	277,595
Total operating expenses	<u>12,074,597</u>	<u>10,868,374</u>
Net operating revenues (carried forward)	<u>\$ 6,436,168</u>	<u>\$ 6,086,507</u>

	Thousands of Dollars	
	Year 1971	Year 1970
Net operating revenues (<i>brought forward</i>)	\$ 6,436,168	\$6,086,507
OPERATING TAXES		
Federal income	1,466,709	1,573,396
State, local and social security	1,880,970	1,691,408
Total operating taxes	<u>3,347,679</u>	<u>3,264,804</u>
Operating income	3,088,489	2,821,703
OTHER INCOME (c)	437,998	373,840
Income before interest deductions	<u>3,526,487</u>	<u>3,195,543</u>
INTEREST DEDUCTIONS	<u>1,286,790</u>	<u>1,003,301</u>
NET INCOME	<u>2,239,697</u>	<u>2,192,242</u>
EARNINGS PER COMMON SHARE <i>based on average common shares outstanding,</i> <i>549,304,000 in 1971 and 549,266,000 in 1970, after recognition of preferred dividend</i> <i>requirement in 1971 of \$48,830,000 for the period from July 12 through December 31, 1971</i>	\$3.99	\$3.99
Add—Reinvested earnings at beginning of year:		
As previously reported	9,845,653	9,085,508
Adjustment for adoption of equity method of accounting (d)	33,614	30,772
As restated	<u>9,879,267</u>	<u>9,116,280</u>
Deduct—Dividends declared:		
Preferred—from July 12, 1971 through January 31, 1972	57,984	—
Common—\$2.60 per share	1,428,191	1,428,092
Miscellaneous—net	17,627	1,163
	<u>1,503,802</u>	<u>1,429,255</u>
REINVESTED EARNINGS AT END OF YEAR	<u>\$10,615,162</u>	<u>\$9,879,267</u>

Consolidated Balance Sheets

	Thousands of Dollars	
	December 31, 1971	December 31, 1970
ASSETS		
TELEPHONE PLANT AND OTHER INVESTMENTS		
Telephone Plant—at cost		
Land, buildings and equipment		
In service	\$57,615,595	\$52,150,445
Under construction	2,878,235	2,584,619
Held for future use	74,124	78,138
	<u>60,567,954</u>	<u>54,813,202</u>
Less: Accumulated depreciation	13,370,886	12,262,989
	<u>47,197,068</u>	<u>42,550,213</u>
Other investments (e)		
At equity	3,112,363	2,764,748
At cost	148,122	307,585
	<u>50,457,553</u>	<u>45,622,546</u>
CURRENT ASSETS		
Cash and temporary cash investments—less drafts outstanding: 1971, \$213,732,000; 1970, \$211,180,000 (f)	922,752	872,610
Receivables—less allowance for uncollectibles: 1971, \$30,578,000; 1970, \$27,712,000	2,318,430	2,186,727
Material and supplies	313,541	287,629
	<u>3,554,723</u>	<u>3,346,966</u>
PREPAID EXPENSES AND DEFERRED CHARGES	<u>535,653</u>	<u>494,431</u>
TOTAL ASSETS	<u>\$54,547,929</u>	<u>\$49,463,943</u>

	Thousands of Dollars	
	December 31, 1971	December 31, 1970
LIABILITIES AND CAPITAL		
EQUITY		
American Telephone and Telegraph Company		
Preferred shares—at stated value \$50 per share (par value \$1 per share) (g)	\$ 1,373,158	\$ —
<i>Authorized 50,000,000 shares</i>		
<i>Outstanding at December 31, 1971, 27,463,000 shares, \$4 cumulative convertible</i>		
Common shares—at par value \$16 ² / ₃ per share (g) (h)	9,155,163	9,154,586
<i>Authorized 750,000,000 shares</i>		
<i>Outstanding at December 31, 1971, 549,310,000 shares</i>		
Premium on shares	5,300,752	5,294,506
<i>Proceeds in excess of preferred stated value and common par value</i>		
Reinvested earnings—see page 27.	10,615,162	9,879,267
	<u>26,444,235</u>	<u>24,328,359</u>
Minority interests	846,792	798,276
	<u>27,291,027</u>	<u>25,126,635</u>
DEBT (i)		
Long-term	21,228,326	18,248,326
Notes payable—interim financing	1,600,010	2,205,335
	<u>22,828,336</u>	<u>20,453,661</u>
CURRENT LIABILITIES		
Accounts payable	1,428,731	1,354,415
Advance billing and customers' deposits	464,367	423,628
Dividends payable	397,142	369,142
Taxes accrued	736,697	728,582
Interest accrued	347,013	283,613
	<u>3,373,950</u>	<u>3,159,380</u>
DEFERRED CREDITS		
Unamortized investment credit	644,436	591,294
Deferred income taxes	389,451	114,358
Other	20,729	18,615
	<u>1,054,616</u>	<u>724,267</u>
TOTAL LIABILITIES AND CAPITAL	<u>\$54,547,929</u>	<u>\$49,463,943</u>

Consolidated Statements of Changes in Financial Position

	Thousands of Dollars	
	Year 1971	Year 1970
Source of Funds:		
From Operations		
Net income	\$2,239,697	\$2,192,242
Add—Expenses not requiring funds:		
Depreciation	2,764,240	2,531,972
Deferred income taxes	275,093	76,392
Investment credit—net	53,142	19,802
Less—Income not providing funds	338,157	286,739
Total funds from operations	<u>4,994,015</u>	<u>4,533,669</u>
From Financing		
Issuance of shares and warrants	1,379,981	5,768
Issuance of long-term debt	3,180,000	4,239,326
Proceeds of notes payable—net..	(605,325)	486,306
	<u>\$8,948,671</u>	<u>\$9,265,069</u>
Application of Funds:		
Telephone plant	\$7,205,042	\$6,927,493
Dividends	1,486,175	1,428,092
Repayment of long-term debt...	200,000	140,000
Increase in cost of other investments	56,391	549,798
Change in working capital	(6,813)	147,080
Other—net	7,876	72,606
	<u>\$8,948,671</u>	<u>\$9,265,069</u>
The change in working capital is accounted for by:		
	Year 1971	Year 1970
Increase in current assets		
Cash and temporary cash investments, net of drafts	\$ 50,142	\$201,374
Receivables	131,703	133,598
Material and supplies	25,912	60,948
	<u>207,757</u>	<u>395,920</u>
Increase in current liabilities		
Accounts payable	74,316	182,904
Advance billing and customers' deposits	40,739	34,980
Dividends payable	28,000	5
Taxes accrued	8,115	(40,799)
Interest accrued	63,400	71,750
	<u>214,570</u>	<u>248,840</u>
Change in working capital	<u>\$ (6,813)</u>	<u>\$147,080</u>

Notes to Consolidated Financial Statements

(a) **Accounting Policies**—The financial statements reflect the application of certain accounting policies described in this note. Other policies and practices are covered in notes (b) through (f).

Consolidation—The consolidated financial statements include the accounts of the American Telephone and Telegraph Company and its telephone subsidiaries. All significant inter-company transactions are excluded from these statements. Investments in unconsolidated subsidiaries are carried at equity. Commencing in 1971, certain other investments (where it is deemed that the Company's ownership gives it the ability to exercise significant influence over operating and financial policies) are also carried at equity. The 1970 financial statements have been restated to reflect this change in accounting, which did not have a material effect on 1970 or 1971 net income. All other investments are carried at cost.

Purchases from Western Electric—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.

Depreciation—Depreciation is provided on a straight-line basis. Accelerated depreciation has been adopted for income tax purposes on eligible plant placed in service after December 31, 1969, and provision is made (\$272,869,000 in 1971 and \$74,938,000 in 1970) for the related deferred income taxes ("normalization").

Capitalization of Certain Taxes and Expenses—The companies have consistently followed the practice of deducting for income tax purposes certain taxes and payroll-related construction costs which are capitalized in the financial statements. In addition, interest charged construction is excluded

from taxable income. The resulting effect on income taxes, to the extent it is not offset by a related reduction in depreciation expense for tax purposes, is reflected in Net Income.

Investment Credit—The investment credit has been deferred and is being amortized by credits to operating income over the service life of the plant which gave rise to the credit.

Research and Fundamental Development—Basic research and fundamental development costs are expensed currently. The cost of specific development and design work incurred by Western Electric Company is related to products manufactured and is included in the cost of the product.

(b) **Provision for Pensions and Death Benefits**—The Company and its telephone subsidiaries have non-contributory plans covering all employees and providing for service pensions and certain 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 to construction, was \$779,871,000 in 1971 and \$674,036,000 in 1970. Amendments to the Plan on June 1, 1971 and October 1, 1971 provided for improved benefits and resulted in increased pension accruals beginning October 1, 1971. The cost of these changes was about \$43,711,000

in 1971 (\$174,435,000 on an annual basis). Changes in the Plan in 1971 have increased the actuarially computed value of vested benefits, which are general obligations of the companies. For the Company and certain telephone subsidiaries such obligations exceed the total of their trust funds by approximately \$119,346,000 as of the latest valuation available. The accrual programs contemplate that there will be available in the funds amounts sufficient to provide benefits as stated in the Plan.

(c) **Other Income**—Includes principally the proportionate interest in earnings of companies, the investment in which is carried on the equity basis, of \$274,513,000 in 1971 and \$269,078,000 in 1970; interest charged construction of \$206,053,000 in 1971 and \$145,241,000 in 1970; less minority interests in net income of subsidiaries of \$66,585,000 in 1971 and \$65,249,000 in 1970.

(d) **Reinvested Earnings**—Adjustment represents equity in prior years' earnings in excess of dividends of The Southern New England Telephone Company, Cincinnati Bell Inc., Cuban American Telephone and Telegraph Company and The Champaign Telephone Company. See footnote 3 to note (e).

(e) **Other Investments**—Other investments at equity as of December 31, 1971, with dollars expressed in thousands, comprise:

Company	Percent Ownership	Market Value ²	Equity			
			Shares at Cost ³	Net Assets Over Cost	Advances	Total
Western Electric Co., Inc. ¹	100.0	\$ —	\$1,326,001	\$1,446,106	\$ —	\$2,772,107
The Southern New England Tel. Co.	17.3	68,715	47,562	19,634	7,500	74,696
Bell Telephone Laboratories, Inc.	50.0	—	67,000	—	—	67,000
Empire City Subway Co. (Limited)	100.0	—	33,258	6,131	20,000	59,389
195 Broadway Corporation	100.0	—	45,015	34	7,475	52,524
Cincinnati Bell Inc.	26.0	40,593	24,345	14,192	3,600	42,137
Cuban American Tel. & Tel. Co.	50.0	—	163	1,146	—	1,309
The Champaign Tel. Co.	50.0	—	557	695	—	1,252
All Other	—	—	38,064	1,478	2,407	41,949
			<u>\$1,581,965</u>	<u>\$1,489,416</u>	<u>\$40,982</u>	<u>\$3,112,363</u>

¹Total assets and liabilities of Western Electric Co., Inc. and its Subsidiaries at December 31, 1971 were \$4,012,214,000 and \$1,240,107,000, respectively. Net income for 1971 was \$258,412,000.

²Where applicable, based on N.Y. Stock Exchange closing price or last over-the-counter quotations for 1971.

³The Uniform System of Accounts of the Federal Communications Commission requires that Other Investments be carried on the books of the companies at cost. In accordance with generally accepted accounting principles, Other Investments are included at equity in the accompanying balance sheets.

Other investments at cost include \$57,915,000 relating to Communications Satellite Corporation (Comsat). The Company owns 29% of the voting stock of Comsat and has representation on the Board of Directors. However the equity method of accounting for this investment is not deemed appropriate because the Company is precluded from exercising significant influence over operating and financial policies of Comsat under terms of the enabling legislation establishing Comsat.

(f) **Cash and Temporary Cash Investments**—Cash and temporary cash investments have been reduced by the amount of drafts outstanding with a corresponding reduction in accounts payable. It is the practice for some of the telephone companies to make certain payments by draft and to record such drafts as an account payable until such time as the banks honoring the drafts have presented them for payment. The American Telephone and Telegraph Company maintains cash and temporary cash investments not only to meet its own obligations but to maintain funds which the subsidiary companies may draw upon on a day-to-day basis.

(g) **Preferred Shares**—Each \$4 convertible preferred share is convertible into approximately 1.05 common shares of the Company. During 1971, of the 27,465,236 preferred shares originally issued, 2,080 shares were converted into 2,189 common shares. See note (j).

(h) **Common Shares**—At December 31, 1971 warrants were outstanding to purchase 31,342,937 common shares of the Company, at \$52 per share, at any time through May 15, 1975. Warrants to purchase 32,513 shares were exercised during 1971.

(i) **Debt**—Interest rates and maturities on long-term debt outstanding at December 31, 1971, in millions of dollars, were as follows:

Maturities	2½% to 3¾%	4% to 6%	7% to 9¾%	Total
1972-1979	\$ 870	\$ 200	\$ 300	\$ 1,370
1980-1989	2,480	583	—	3,063
1990-1999	642	3,497	150	4,289
2000-2011	—	4,612	7,894	12,506
Total	\$3,992	\$8,892	\$8,344	\$21,228

The above table includes \$35 million 2¾% debentures due September 1, 1972, 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, 1971 the average rate of interest on these notes was 5.0%.

Since December 31, 1971 nine subsidiaries have sold or announced their intention to sell \$1,275,000,000 of long-term debt of which \$400,000,000 matures in 1979, \$400,000,000 after 2004 and \$475,000,000 at dates not yet determined. The proceeds of such sales will be applied toward repayment of interim debt and for general corporate purposes, including extensions, additions and improvements to plant. See note (j).

(j) **American Telephone & Telegraph Company Financing Subsequent to 1971**—The Company has agreed to sell privately at various dates in 1972, \$1,000,000,000 in securities, consisting of \$625,000,000 of cumulative, non-convertible preferred shares and \$375,000,000 of 25 year notes, both at a 7¾% rate. As of January 31, 1972, \$291,878,000 of the preferred shares and \$175,122,000 of the notes had been issued and delivered pursuant to the agreement.

Officers

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H. I. Romnes

VICE CHAIRMAN OF THE BOARD
John D. deButts

EXECUTIVE VICE PRESIDENTS
Robert D. Lilley
William L. Lindholm
Cornelius W. Owens

VICE PRESIDENTS
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Edward B. Crosland
Richard R. Hough
Hubert L. Kertz
Benjamin H. Oliver, Jr.
F. Mark Garlinghouse
Kenneth G. McKay
Daniel E. Emerson
Alvin von Auw
Edward G. Greber
Samuel E. Bonsack
Paul M. Lund
David K. Easlick
Rex R. Reed

VICE PRESIDENT AND COMPTROLLER
Alexander L. Stott

VICE PRESIDENT AND TREASURER
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SECRETARY
Robert W. Ehrlich

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Chairman of the Board, J. C. Penney Company

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Former Chairman of the Board, The First National Bank of Boston

Edward W. Carter
President, Broadway-Hale Stores, Inc.

Archie K. Davis
Chairman of the Board, Wachovia Bank and Trust Company, N.A.

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Vice Chairman of the Board

Ben S. Gilmer
Former President of the Company

Edward B. Hanify
Partner, Ropes & Gray

J. Victor Herd
Director and Member of Executive Committee, The Continental Corporation

William A. Hewitt
Chairman, Deere & Company

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Honorary Chairman of the Corporation, Massachusetts Institute of Technology

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Executive Vice President

William L. Lindholm
Executive Vice President

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Chairman of the Board, Cummins Engine Company, Inc.

William B. Murphy
President, Campbell Soup Company

Thomas F. Patton
Honorary Chairman of the Board, Republic Steel Corporation

Monroe J. Rathbone
Former Chairman of the Board, Standard Oil Company (New Jersey)

H. I. Romnes
Chairman of the Board and President

Jay Taylor
Owner, Jay Taylor Cattle Company



American Telephone and Telegraph Company

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