CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

	Year Ended September 30, (Twelve Months)		Nine Months Ended September 30,		Year Ended December 31, (Twelve Months)
	1997	**1996**	**1996**	**1995**	**1995**
		Unaudited		*Unaudited*	
OPERATING ACTIVITIES:					
Net income (loss)	$ 541	$ (793)	$ 224	$ 150	$ (867)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Business restructuring charge	(201)	2,515	(98)	–	2,613
Asset impairment and other charges	81	293	105	–	188
Depreciation and amortization	1,450	1,326	937	1,104	1,493
Provision for uncollectibles	127	73	54	50	69
Deferred income taxes	9	(996)	(251)	92	(653)
Purchased in-process research and development	1,024	–	–	–	–
(Increase) decrease in accounts receivable	(389)	(3,114)	(1,506)	405	(1,203)
Increase in inventories and contracts in process	(273)	(309)	(524)	(1,304)	(1,089)
Increase (decrease) in accounts payable	(16)	1,021	629	(121)	271
Changes in other operating assets and liabilities	(315)	1,040	537	(744)	(241)
Other adjustments for noncash items–net	(92)	(77)	(111)	(137)	(103)
Net cash provided by (used in) operating activities	1,946	979	(4)	(505)	478
INVESTING ACTIVITIES:					
Capital expenditures	(1,635)	(1,432)	(939)	(784)	(1,277)
Proceeds from the sale or disposal of property, plant and equipment	108	119	15	14	118
Purchases of equity investments	(149)	(96)	(46)	(36)	(86)
Sales of equity investments	12	102	102	–	–
Dispositions of businesses	181	58	58	10	10
Acquisitions of businesses, net of cash acquired	(1,568)	(234)	(234)	–	–
Other investing activities–net	(70)	(155)	(22)	26	(107)
Net cash used in investing activities	(3,121)	(1,638)	(1,066)	(770)	(1,342)
FINANCING ACTIVITIES:					
Repayments of long-term debt	(16)	(53)	(39)	(32)	(46)
Issuance of long-term debt	52	1,499	1,499	–	–
Proceeds of issuance of common stock	260	2,887	2,887	–	–
Dividends paid	(192)	(48)	(48)	–	–
Proceeds (repayments) of debt sharing agreement–net	–	(67)	–	948	881
Transfers from (to) AT&T	–	(190)	13	92	(111)
(Increase) decrease in short-term borrowings–net	191	(1,525)	(1,436)	89	–
Net cash provided by financing activities	295	2,503	2,876	1,097	724
Effect of exchange rate changes on cash and cash equivalents	(11)	(16)	(13)	11	8
Net increase (decrease) in cash and cash equivalents	(891)	1,828	1,793	(167)	(132)
Cash and cash equivalents at beginning of period	2,241	413	448	580	580
Cash and cash equivalents at end of period	$ 1,350	$ 2,241	$ 2,241	$ 413	$ 448

See Notes to Consolidated Financial Statements.