

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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## FORM 10-K

ANNUAL REPORT

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PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

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For the fiscal year ended December 31, 1988

Commission file number 1-1150

# New England Telephone and Telegraph Company

A New York  
Corporation

I.R.S. Employer  
No. 04-1664340

185 Franklin Street, Boston, Massachusetts 02107

Telephone Number 617 743-9800

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Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act: None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF NYNEX CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

DOCUMENTS INCORPORATED BY REFERENCE:

None.

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PART I

Item 1. BUSINESS.

General

New England Telephone and Telegraph Company (the "Company") was incorporated in 1883 under the laws of the State of New York, has its principal executive offices at 185 Franklin Street, Boston, Massachusetts 02107 (telephone number 617-743-9800) and is engaged in providing telecommunications services in Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. The Company is a wholly-owned subsidiary of NYNEX Corporation ("NYNEX").

Telecommunications Services

The Company is engaged in providing two types of telecommunications services, exchange telecommunications and exchange access services, in Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. These telecommunications services include public and private line voice and data transmission, transmission of radio and television signals and teletypewriter services.

Exchange telecommunications service is the transportation of telecommunications traffic between telephones and other customer premises equipment ("CPE")\* located within each of the 164 geographical areas (local access and transport areas or "LATAs") into which the former Bell System territory in the continental United States has been divided. These LATAs are generally centered on a city or other identifiable community of interest and, subject to certain exceptions, each LATA marks an area within which a local exchange company ("LEC") operating within such territory may provide telecommunications services. (See "Operations Under the Modification of Final Judgment" below.) IntraLATA service may include long distance service as well as local service.

Exchange access service refers to the link, provided by LECs, between a customer's CPE and the transmission facilities of interexchange carriers which provide telecommunications services. The Company is required to offer to all interexchange carriers and information service providers exchange access and information access, at certain locations, which are equal in quality, type and price to that provided to American Telephone and Telegraph Company ("AT&T") and its affiliates ("Equal Access").

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\* Customer premises equipment ("CPE") generally refers to equipment, such as telephone sets and private branch exchanges, used by a customer at the customer's premises to originate, route or receive telecommunications. (See "Operations Under the Modification of Final Judgment" below.)

Certain billing and collection services are also performed by the Company for interexchange carriers, primarily AT&T, that elect to subscribe to these services rather than perform such services themselves. Effective January 1, 1987, such billing and collection services were detariffed on an interstate basis and are offered to interexchange carriers on a contractual basis. (See "Federal Regulation - Other Federal Matters" below.) In 1988, approximately 3% of operating revenues were derived from such billing and collection services. The Company is currently providing billing and collection services to AT&T pursuant to a five-year contract which is scheduled to expire at the end of 1991. AT&T has announced its intention to provide an increasing portion of such services on its own behalf.

There are six LATAs served by the Company: Eastern Massachusetts, Western Massachusetts, Maine, New Hampshire, Rhode Island and Vermont.

Sizeable areas and many localities within the territories served by the Company are served by non-affiliated telephone companies which had approximately 173,000 network access lines in service in those territories on December 31, 1988. The Company does not furnish local service in the areas and localities served by such companies.

The following table sets forth for the Company the approximate number of network access lines in service at the end of each year:

	<u>In Thousands</u>				
	<u>1988</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>
Network Access Lines in Service . . . . .	5,432	5,188	4,975	4,804	4,651

For the year ending December 31, 1988, approximately 96% of the total operating revenues of the Company was derived from telecommunications services. In 1988, one customer, AT&T, accounted for approximately 22%, primarily in network access revenues. The remaining approximate 4% of total operating revenues was from other sources, primarily publishing rights fees for telephone directories.

#### Affiliated Business Operations

NYNEX Service Company. NYNEX Service Company ("NYNEX Service") was formed initially as a wholly-owned subsidiary of NYNEX. As of January 1, 1985, ownership of NYNEX Service was transferred to the Company and New York Telephone Company ("New York Telephone"), also a wholly-owned subsidiary of NYNEX. Voting rights for NYNEX Service are shared equally between the Company and New York Telephone, but the entitlement of the Company and New York Telephone to dividends and other distributions, including liquidation distributions, are in the proportion of one-third for the Company and two-thirds for New York Telephone. NYNEX Service provides staff and operational support services primarily for the Company and New York Telephone. Staff support services include marketing and technical planning, regulatory and legal services. Operational support services include the

provision of data processing and other information services and the development of operational methods and procedures. Under a reciprocal services agreement the Company provides certain administrative services for NYNEX Service.

NYNEX Service owns a one-seventh interest in Bell Communications Research, Inc. ("Bellcore"); each of the other regional holding companies ("RHCs") owns an equal interest. Bellcore furnishes the RHCs and certain of their subsidiaries, including the Company, technical and support services relating to exchange telecommunications and exchange access services (which include research and development) that can be provided more efficiently on a centralized basis.

NYNEX Information Resources Company. The Company entered into an agreement with NYNEX Information Resources Company ("NYNEX Information Resources"), a wholly-owned subsidiary of NYNEX, pursuant to which NYNEX Information Resources pays a publishing rights fee to the Company for the right to produce, publish and distribute alphabetical (White Pages) and classified (Yellow Pages) directories for the Company.

NYNEX Materiel Enterprises Company. NYNEX Materiel Enterprises Company, a wholly-owned subsidiary of NYNEX, undertakes for NYNEX and its subsidiaries, including the Company, various procurement support services. Such support services include product evaluation, contracting, purchasing, materials management and disposition, warehousing, transportation and equipment repairs. The Company, however, performs certain procurement services on its own behalf.

NYNEX Business Information Systems Company. NYNEX Business Information Systems Company ("NYNEX Business Systems"), a wholly-owned subsidiary of NYNEX, through its NYNEX Business Centers and its Office Systems Division, markets a wide range of business telecommunications systems and office automation products to business customers across the nation. NYNEX Business Systems acts as a non-exclusive sales agent for the Company for the sale of network services.

NYNEX Mobile Communications Company. NYNEX Mobile Communications Company ("NYNEX Mobile"), a wholly-owned subsidiary of NYNEX, through its operating subsidiaries, provides a variety of mobile telecommunications products and services, including products and services which incorporate cellular technology that permits a greater utilization of available frequencies in the provision of mobile radio services. NYNEX Mobile provides service in portions of the northeastern United States; however, "roaming agreements" exist between subsidiaries of NYNEX Mobile and other cellular carriers throughout the country to enable NYNEX Mobile customers and customers of such other cellular carriers to use cellular service when traveling in an area served by another participating carrier.

NYNEX Properties Company. NYNEX Properties Company, a wholly-owned subsidiary of NYNEX, serves as a broker for acquisitions and dispositions of properties owned and leased by the Company.

NYNEX Credit Company. NYNEX Credit Company, a wholly-owned subsidiary of NYNEX, makes available a range of financial services, including leases and installment sales, to customers of the Company.

NYNEX Systems Marketing Company. NYNEX Systems Marketing Company, a wholly-owned subsidiary of NYNEX, is an integrated sales force which markets the products and services of NYNEX and its subsidiaries, including the Company, to the largest customer accounts.

### Capital Expenditures

The Company makes large capital expenditures to meet the demand for telecommunications services and to further improve such services. Included in capital expenditures for the period 1984 through 1988 are costs incurred in connection with the requirement to provide Equal Access. (See "Telecommunications Services" above.) Capital expenditures (excluding the equity component of interest charged construction and additions under capital leases) for 1984 through 1988 are set forth below:

<u>In Millions</u>	
1988 . . . . .	\$958
1987 . . . . .	\$846
1986 . . . . .	\$739
1985 . . . . .	\$836
1984 . . . . .	\$755

The Company's capital expenditures for 1989 are currently projected to be at a level comparable to 1988 expenditures.

### Operations Under the Modification of Final Judgment

On August 24, 1982, the United States District Court for the District of Columbia (the "Court") approved as in the public interest and entered a consent decree entitled the Modification of Final Judgment, which arose out of antitrust litigation brought by the Department of Justice (the "DOJ"), and was agreed to by AT&T and the DOJ, with certain modifications which the Court had required (the "MFJ"). On February 28, 1983, the United States Supreme Court affirmed the Court's action.

NYNEX is one of seven holding companies formed in connection with the divestiture by AT&T of its 22 wholly-owned LECs, including the Company and New York Telephone (collectively, the "telephone subsidiaries"), pursuant to the MFJ. At divestiture, 100% ownership of the telephone subsidiaries was transferred by AT&T to NYNEX. On January 1, 1984, ownership of NYNEX and the other RHCs passed from AT&T directly to AT&T's shareholders. This was accomplished by a stock distribution whereby each AT&T shareholder received one share of each RHC for each ten shares of AT&T held. Effective

January 1, 1984, all contracts that established an ongoing economic integration between AT&T and the LECs, including the telephone subsidiaries, were terminated. At divestiture, AT&T also transferred to NYNEX 100% ownership of NYNEX Mobile Communications Company and a one-seventh interest in Bellcore. Bellcore serves as a central point of contact for coordinating the efforts of NYNEX and the other RHCs in meeting the national security and emergency preparedness requirements of the federal government, as required under the MFJ.

As initially approved, the MFJ restricted the RHCs, including NYNEX, to the provision of exchange telecommunications service, exchange access and information access services, the provision (but not manufacture) of CPE and the publishing of printed directory advertising. Although some restrictions placed on RHC operations have been removed or modified since entry of the MFJ, the RHCs are still required to seek Court approval in order to provide interLATA telecommunications services, to provide the content of information services, to manufacture or provide telecommunications products and to manufacture CPE. Court approval to engage in such activities is predicated upon a showing to the Court that there is no substantial possibility that an RHC could use its monopoly power to impede competition in the market it seeks to enter.

The Court has established procedures for dealing with requests by an RHC to enter new businesses. Such requests must first be submitted to the DOJ for its review. The Court will then consider the recommendation of the DOJ in deciding whether a specific request should be granted. In the event that the DOJ does not recommend approval, the RHC may seek approval directly from the Court.

Several significant decisions of the Court with respect to removal of the interLATA and information services restrictions and clarification of the manufacturing restriction have been appealed to the Court of Appeals for the District of Columbia Circuit. Argument of these appeals has been set or is expected to be set for late 1989.

#### Regulated Services

The Company is subject to the jurisdiction of the Federal Communications Commission ("FCC") with respect to interstate telecommunications services provided by the Company. In addition, the FCC prescribes a uniform system of accounts, depreciation rates and separations procedures. Separations procedures comprise the principles and standard methods used to separate property costs, revenues, expenses, taxes and reserves between those applicable to interstate services under the jurisdiction of the FCC and those applicable to intrastate services under the jurisdiction of the respective state regulatory authorities. (See "Federal Regulation" below.)

The Company is also subject to regulation by state commissions in each of the states in which it operates with respect to intrastate rates and services and other matters. (See "State Regulation" below.)

### Federal Regulation

#### Interstate Access Charges

Interstate access charges are tariff charges filed with the FCC which compensate LECs, including the Company, for the use of their telephone plant to originate and terminate interstate telecommunications traffic, primarily between end users and interexchange carriers providing interstate services. Such charges recover the LECs' access-related costs allocated to the interstate jurisdiction ("interstate costs") under the FCC's jurisdictional cost allocation rules. (See also "State Regulation - Intrastate Access Charges" below.)

With respect to the provision of access to the switched network, separate charges are applied to end users ("End User Common Line Charges" or "EUCLCs") and to interexchange carriers. End User Common Line Charges recover, through a fixed charge, a portion of the interstate costs of the line connecting an end user's premises with the LEC's central office. Effective in June 1985, residence and single line business end users began paying a monthly EUCLC of \$1. This charge increased to \$2 in June 1986, to \$2.60 on June 1, 1987 and to \$3.20 on December 1, 1988. The FCC has determined that the EUCLC should be increased to \$3.50 on April 1, 1989. Multi-line business end users began paying monthly EUCLCs of up to \$6 per line in May 1984. No increase was ordered for these EUCLCs. The LECs recover their remaining interstate costs of providing switched access service through mileage and usage sensitive charges to the interexchange carriers.

Special access refers to the provision of non-switched access for private line services. Between January 1, 1984 and April 1985, the Company charged AT&T for special access pursuant to contractual agreements. Other interexchange carriers were charged pursuant to pre-existing tariffs based upon contracts executed in 1974. Effective November 13, 1984, pursuant to permission granted by the FCC, the Company increased the rates to interexchange carriers (not including AT&T) for special access by approximately 20 percent. In April 1985, in accordance with an order of the FCC, special access tariffs applicable to all interexchange carriers, including AT&T, became effective. Upon review, the United States Court of Appeals for the District of Columbia Circuit found that the rate increases permitted prior to June 3, 1985 were instituted without the requisite period of notice and therefore remanded the case to the FCC for a determination of the appropriate refunds. On January 15, 1988, the FCC issued an order inviting comments and requesting data in that proceeding. The FCC has separately instituted an investigation, which is still pending, with respect to all special access rates paid by all interexchange carriers, including AT&T, for the period from April 1985 through September 1985.

In July 1985, the Company filed revised switched and special access tariffs pursuant to FCC rules requiring annual access tariff updates. These revised tariffs took effect in October 1985. An FCC investigation of the October 1985 special access tariffs has been consolidated with the FCC's pending investigation of the special access tariffs which were effective from April 1985 through September 1985.

On October 3, 1986, the Company again filed revised switched and special access tariffs to comply with the annual updating requirements of the FCC. These filings reflected the reduction in the authorized rate of return by the FCC from 12.75% to 12%, effective as of January 1, 1987. (See "Other Federal Matters" below.) The tariffs took effect on January 1, 1987. An investigation of the special access tariffs that became effective on January 1, 1987 has been incorporated into the pending investigation of the special access tariffs that became effective in April 1985 and October 1985. In addition, certain components of the special access rates that became effective in January 1987 are subject to refund pursuant to an accounting order of the FCC.

On October 2, 1987, the Company filed revised switched and special access tariffs to comply with the FCC's annual filing requirement. The switched access rates became effective on January 1, 1988, and revised special access rates became effective on March 1, 1988. Both sets of rates were subject to investigations that were instituted into the Company's revenue requirement and rate development methodologies. Again, the special access rates were included in the investigation of the special access tariffs that became effective in April 1985 and October 1985. On December 27, 1988, the FCC released an order concluding its investigation of the 1988 switched and special access tariff filings and ordered the Company to refund approximately \$19.2 million to its access customers. The NYNEX telephone subsidiaries, including the Company, have petitioned the FCC for reconsideration of the decision and they have filed a notice of appeal with the United States Court of Appeals for the District of Columbia Circuit. No final decision has been rendered by the FCC with respect to the special access rate investigation initiated in 1985.

On December 30, 1988, the Company filed revised switched and special access rates to become effective on April 1, 1989. The FCC issued an order on March 22, 1989 requiring the Company to reduce these rates to take into account certain cost and demand disallowances and commencing an investigation of certain of the proposed special access rates.

#### Other Federal Matters

Effective February 15, 1985, the FCC allowed Equal Access Cost Recovery ("EACR") tariffs filed by the Company to go into effect. The EACR rates, to be filed annually, are intended to permit the Company to recover Equal Access costs from interexchange carriers. The EACR rates also provide a mechanism for the Company to obtain reimbursement from AT&T for those Equal Access costs, if any, not recovered through these tariffs by January 1, 1994.

In its interstate rate of return proceeding, on August 25, 1986, the FCC released an order prescribing 12% as the authorized interstate access rate of return for the Company for 1987 and 1988. The Company's interstate access tariffs which became effective on January 1, 1987 and January 1, 1988 reflected the new rate of return. On February 25, 1988, the FCC adopted an order extending the 12% rate of return prescription through 1989. In an order dated December 7, 1988, the FCC left open the possibility of further extending the 12% return beyond 1989. The FCC had ordered a rate of return enforcement mechanism under which refunds would be required if the overall interstate access rate of return exceeds 12.25% during 1987-88, or if earnings for any of three access categories (special access, switched access or common line) exceeds 12.4% during these years. However, the United States Court of Appeals for the District of Columbia Circuit overturned this mechanism and remanded the matter to the FCC to reformulate, if it elects to do so, a legally defensible mechanism.

The FCC adopted orders in 1986 and 1987 with respect to the provision by the telephone subsidiaries of enhanced telecommunications services ("enhanced services") and CPE. In May 1986, the FCC adopted an order in its Computer Inquiry III proceeding that provides for the eventual elimination of mandatory structural separation for the provision of enhanced services by the telephone subsidiaries and the other LECs upon the fulfillment of certain requirements, including compliance with the equal interconnection provisions of the order, the filing and approval of an open network architecture ("ONA") plan, and compliance with the regulations established in the FCC's Joint and Common Cost Proceeding (see below). (To the extent that a particular enhanced service is deemed to be an information service under the MFJ, NYNEX would continue to be prohibited by the MFJ from providing such a service, except as specifically permitted by Court order. (See "Operations Under the Modification of Final Judgment" above.)) Subsequently, acting on numerous petitions seeking reconsideration or clarification of various aspects of its May 1986 Order, the FCC reaffirmed its decision to replace structural separation for the enhanced service operations of the LECs with nonstructural safeguards. This order was itself generally affirmed by a further FCC order. In a December 1988 Order, the FCC approved NYNEX's ONA plan in substantial part, but identified a number of areas that must be revised by May 19, 1989. Until these modifications are approved, the NYNEX telephone subsidiaries, including the Company, will be allowed to provide enhanced services with the filing and approval of service-specific comparably efficient interconnection ("CEI") plans. The California Public Utility Commission has filed an appeal with the United States Court of Appeals for the Ninth Circuit challenging the FCC's preemption of state regulation of intrastate enhanced services pursuant to the Computer Inquiry III order. In separate actions which were transferred to the Ninth Circuit from other venues, other petitions have also challenged the FCC's adoption of nonstructural safeguards in lieu of structural separation. These appeals are pending. Also, in November 1986, the FCC adopted an order providing for the elimination of its mandatory structural separation requirements with respect to the provision of CPE by the NYNEX telephone subsidiaries, including the Company, subject to compliance with certain requirements generally similar to those imposed in the Computer Inquiry III order, including the filing and approval of CPE compliance plans. In December 1987, the FCC approved the NYNEX compliance plan.

The FCC adopted orders in December 1986 and September 1987 in its Joint and Common Cost Proceeding. This proceeding concerns the accounting controls (in lieu of structural separation) to be applied to the provision of nonregulated services. The FCC has adopted rules for determining the costs to be attributed to nonregulated services and removed from regulated rates. The FCC also prescribed rules governing carriers' accounting for transactions with affiliates. The FCC has made compliance with the Joint Cost Proceeding rules one of the preconditions for the Company's and other LECs' relief from structural separation requirements applicable to the provision of enhanced services and CPE. NYNEX Service filed, on behalf of the Company, a cost allocation manual with the FCC on August 14, 1987. The FCC approved the manual, as amended, effective January 1, 1988.

Effective January 1, 1987, the Company's provision of billing and collection services to interexchange carriers was detariffed on an interstate basis. The Company now provides these services on a contractual basis. Contracts have been signed between the Company and several interexchange carriers for the provision of these services, and negotiations are ongoing between the Company and other entities.

Effective January 1, 1987, the installation and maintenance of inside wire was deregulated and existing tariffs were withdrawn in the areas served by the Company. In their place, the Company is offering optional inside wire installation and maintenance plans.

On March 16, 1989, the FCC adopted incentive regulation in the form of price caps with respect to the interexchange services provided by AT&T effective July 1, 1989. The FCC stated that such price caps provide greater efficiencies and ratepayer benefits than traditional rate of return regulation. Incentive regulation, in contrast with rate of return regulation, focuses on prices carriers charge for their services rather than carrier profits. The FCC further indicated that it would shortly address whether to adopt price cap regulation for the LECs, with a view toward possible implementation in July 1990.

#### State Regulation

Set forth below is a description of certain intrastate regulatory proceedings with respect to changes in rates <sup>1/</sup> and revenues <sup>2/</sup>. The Company is unable to state with certainty the amounts or effective dates of any changes that may be ordered or the actual revenues which may result from any such changes.

<sup>1/</sup> The term "rates" refers to the actual amount of the rate change and does not reflect the effect of the rate change on revenues.

<sup>2/</sup> The term "revenues" refers to an estimated first year revenue amount, stated on an annual basis, which a rate change is intended to produce. In later years, the annual effect of a revenue change may differ due to restriction or stimulation in demand caused by higher or lower rates, respectively.

### Intrastate Rates

Summary. Increases in intrastate revenues authorized for the Company aggregated \$63.9 million in 1984 and \$49.2 million in 1985. The Company received no rate increases in 1986. In 1987, annual reductions aggregating approximately \$58.5 million in annual revenues were ordered for the Company of which approximately \$31.3 million is reflected in the financial statements for 1987.

Maine. On June 14, 1988, the Maine Public Utilities Commission ("MPUC") issued a Notice of Investigation with respect to the level of the Company's earnings and the reasonableness of the Company's rates. The Company filed its case with the MPUC on September 15, 1988. Hearings will commence in the second quarter 1989 and a final order is expected by September 1, 1989.

Massachusetts. On March 21, 1989, the Massachusetts Department of Public Utilities ("MDPU") issued a decision in its investigation of the Company's revenue requirement, which was commenced in January 1987. In its decision, the MDPU made specific findings regarding the ratemaking treatment of various Company revenues, expenses, and investments and reduced the Company's authorized return on equity from 15% to 13%. The MDPU did not compute a new revenue requirement, but ordered the Company to file within 30 days certain additional information and its own computation of the revenue requirement based on findings in the order.

The MDPU also established a time frame for changing rates to reflect its revenue requirement determination and the various cost studies that have been under review in the same proceeding. The Company was directed to complete its cost studies and file tariffs to change rates by September 15, 1989. The MDPU stated that it would complete its review of the tariffs by April 1990.

New Hampshire. On March 3, 1989, the Company filed with the New Hampshire Public Utilities Commission ("NHPUC") proposed rate schedule changes designed to generate approximately \$21.2 million in additional annual intrastate revenues. The Company's filing also proposes that, in the future, rate schedule changes should be regulated in accordance with a price regulation formula which measures inflation, average industry productivity, and cost factors beyond the Company's control. In a separate proceeding, the NHPUC is reviewing whether to authorize resale of certain long distance services. Hearings in these proceedings have not yet been scheduled.

Rhode Island. On April 29, 1988, the Rhode Island Public Utilities Commission ("RIPUC") approved a stipulation between the Company, the Attorney General of Rhode Island, the Division of Public Utilities and Carriers, and the Rhode Island Consumers' Council which modifies and supplements an earlier stipulation entered into in May 1987. The new stipulation provides: (1) that the Company will be prohibited from obtaining a general revenue increase before April 1, 1991; (2) that the Company's composite depreciation rate will be increased to 9%, retroactive to January 1, 1987; (3) that the Company will absorb expected increases in the Lifeline Service Program and a decrease in revenues arising from two recent RIPUC rate design decisions and (4) that the schedule for updating telephone switching equipment will be accelerated in several communities.

Vermont. In June 1987, the Governor of Vermont signed a bill that authorizes the Vermont Public Service Board ("VPSB") to relax or eliminate state regulatory requirements otherwise imposed on a telephone company where such a company negotiates a telecommunications contract with the Vermont Department of Public Service and such contract is approved by the VPSB. As an alternative approach, the bill permits the VPSB to relax or eliminate regulation of any individual telephone company service for which a competitive market is found to exist.

In October 1987, the Company and the Department of Public Service entered into a contract, extending through 1991, which would stabilize basic exchange rates, permit greater marketing and pricing flexibility for Company services, and eliminate rate of return regulation for the Company. On December 30, 1988, the VPSB approved a modified version of this contract, which does not regulate the Company on a rate of return basis, further stabilizes basic exchange rates and provides greater consumer and competitive protection, while preserving the Company's marketing and pricing flexibility.

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The outcome of the refund matters described above under "Regulated Services", as well as the time frame within which each will be resolved, is not presently determinable. As of December 31, 1988, the aggregate amount of such revenues which was estimated to be subject to possible refund was approximately \$45 million.

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### Competition

Advances in technology, as well as regulatory and court decisions, have expanded the types of communications products and services available in the market, as well as the number of alternatives to telecommunications services provided by the Company. New technology may provide a means for both residence and business customers to decrease or avoid use of the local network for exchange access and exchange telecommunications. To an increasing extent, interexchange carriers and end users have competitive alternatives to the use of the local exchange network of the Company in order to originate and complete both interstate and intrastate communications.

With respect to interstate communications, the extent of the FCC's actions to permit the recovery of an increasing proportion of the interstate costs directly from end users through EUCLCs will necessarily determine the amount of residual costs to be recovered from interexchange carriers. (See "Federal Regulation - Interstate Access Charges" above.) To the extent that EUCLCs fail to recover an increasing proportion of such interstate costs, and absent other tariff alternatives, the rates paid by interexchange carriers will be higher. An increasing number of large companies with substantial capital, technological and marketing resources presently are able to provide such telecommunications services to themselves and to other companies.

With respect to intrastate communications, interexchange carriers are required to pay access charges for intrastate interLATA access. Similar efforts to decrease or avoid use of the local network will occur due to advances in technology and will increase to the extent such access charges are not properly priced in relation to the actual costs of providing access.

State regulators determine whether interexchange and other carriers are permitted to provide intraLATA services. The VPSB, MPUC and the MDPU have authorized intrastate intraLATA competition for certain services in Vermont, Maine and Massachusetts.

The ultimate impact of competition on the provision of telecommunications services and equipment will depend, to a considerable degree, on future federal and state regulatory actions to permit flexible pricing of competitive services, court decisions, possible federal and state legislation and the Company's ability to incorporate the latest technology in the products and services it markets. The Company is unable to predict the effect of such competition on its future revenues, expenses, rate of return, profit or growth.

#### Employee Relations

The Company has approximately 27,500 employees. Approximately 18,300 employees are represented by unions. Of those so represented, approximately 99% are represented by the International Brotherhood of Electrical Workers ("IBEW") and approximately 1% by the Communications Workers of America ("CWA"), both of which are affiliated with the AFL-CIO.

In August 1986, the Company entered into three-year labor contracts with those employees represented by unions. These contracts provided for wage increases of 2.5% in the first year and 1.0% in each of the second and third years together with capped cost-of-living adjustments in the second and third years and improvements in pensions, medical and health care, income protection and employment security.

In August 1989, the existing three-year labor contracts will expire. The outcome of the collective bargaining negotiations cannot be ascertained at this time.

#### Item 2. PROPERTIES.

The properties of the Company do not lend themselves to simple description by character and location of principal units.

At December 31, 1988, the gross book value of telephone plant was \$9.7 billion, consisting principally of: central office equipment (40%); outside aerial and underground facilities (38%); other telephone equipment, mainly station connections (9%); land and buildings (6%); and the remainder was principally plant under construction and furniture and general purpose computer equipment (7%).

Substantially all of the Company's central office equipment is located in buildings owned by the Company situated on land which it owns in fee. Many administrative offices, garages and business offices are in rented quarters.

Item 3. LEGAL PROCEEDINGS

Contingent Liabilities Agreement

The Plan of Reorganization, which was approved by the Court in August 1983 in connection with divestiture ("the Plan"), provides for the recognition and payment of liabilities that are attributable to pre-divestiture events (including transactions to implement divestiture), but that do not become certain until after divestiture. These contingent liabilities relate principally to litigation and other claims against AT&T, its affiliates and the LECs with respect to rates, taxes, contracts and torts (including business torts, such as alleged violations of the antitrust laws).

With respect to such liabilities, AT&T and the LECs will share the costs of any judgment or other determination of liability entered by a court or administrative agency against any of them, whether or not a given entity is a party to the proceeding and regardless of whether an entity is dismissed from the proceeding by virtue of settlement or otherwise. Other costs to be shared would include the costs of defending the claim (including attorneys' fees and court costs) and the cost of interest or penalties with respect to any such judgment or determination.\* Except as described below, responsibility for such contingent liabilities will generally be divided among AT&T and the LECs on the basis of their relative net investment as of the effective date of divestiture. Under this general rule of allocation, the Company will pay approximately 3.5% of any judgment or determination of liability.

Where all or part of a liability relates exclusively to pre-divestiture interstate operations, responsibility will be allocated among AT&T and the LECs in proportion to their relative net investment devoted to interstate services as of the effective date of divestiture. Under this rule of allocation, the Company will pay approximately 3.6% of any judgment or determination of liability.

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\* To simplify the administration of relatively small proceedings (other than claims relating to Federal income taxes or to tax-timing and investment tax credit adjustments attributable to state and local income taxes), the responsibility is shared only for amounts exceeding \$1 million for each judgment or determination of liability. The responsibility for judgments or determinations of \$1 million or less, and the first \$1 million of other judgments or determinations, remains with the entities that are actually parties to the particular proceeding.

Where all or part of a liability relates exclusively to pre-divestiture intrastate operations, responsibility will be allocated among AT&T and the LECs in proportion to their operations in that state. The allocation will be in proportion to AT&T's and the LECs' relative net investment devoted to intrastate services as of the effective date of divestiture. Under this rule of allocation, the Company will pay the following approximate percentages of any judgment or determination of liability: 99.5% in Massachusetts and 100% in Maine, New Hampshire, Rhode Island and Vermont. AT&T would be liable for the remainder of any judgment or determination of liability.

Where there is a liability relating to Federal income tax deficiencies or overpayments for the former Bell System's pre-divestiture consolidated tax return years, the amount initially will be divided between AT&T and the individual LECs in accordance with pre-divestiture tax allocation agreements. To the extent that any portion of an amount thus allocated relates to tax-timing adjustments, that portion of the liability will be further allocated to the entity that will receive the benefit or detriment of such tax-timing adjustment. To the extent that any portion of an amount relates to investment tax credits, that portion of the liability will be assigned between AT&T and a LEC on the basis of the Plan's assignment of the assets that gave rise to the investment tax credits. All other amounts allocated to that LEC under the tax allocation agreements will be assigned between AT&T and that LEC on the basis of the relative net investment held, as of the effective date of divestiture, by that LEC and by the AT&T-owned subsidiaries created to receive that LEC's interLATA facilities and CPE.

#### Antitrust Actions

The Company will be responsible for sharing in any judgment rendered, subject to the allocation rules described above, in a number of pending private antitrust actions of varying magnitudes, which allege, among other things, violations of federal and state antitrust laws and claim substantial monetary damages and a variety of equitable relief. One case challenges the Bell System's procurement practices with respect to particular items of equipment and the validity of Bell System tariffs that had required protective connecting arrangements for the interconnection of customer-provided terminal equipment to the network. Another case is based upon allegations relating to predatory pricing of terminal equipment and procurement practices, as well as allegations concerning the protective connecting arrangements. Also, a private action was filed challenging the Bell System's practices with respect to the assignment of 1-800 numbers. In addition, there are a few miscellaneous private actions which challenge various actions on the part of former Bell System companies that allegedly violated the antitrust laws.

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While counsel cannot give complete assurance as to the outcome of the antitrust and other litigation described above and other pending litigation, in the opinion of management based upon the advice of counsel, the ultimate resolution of all such matters is not expected to have a material adverse effect on the Company's financial position or results of operations.

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## PART II

## Item 6. SELECTED FINANCIAL DATA\*

Dollars in Millions	<u>1988</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>
Operating revenues. . . . .	\$3,640	\$3,457	\$3,289	\$3,110	\$2,868
Operating expenses. . . . .	\$2,845	\$2,596	\$2,429	\$2,308	\$2,156
Interest expense. . . . .	\$ 179	\$ 173	\$ 166	\$ 164	\$ 179
Net income. . . . .	\$ 457	\$ 435	\$ 410	\$ 380	\$ 325
Telephone plant - net . . . . .	\$6,291	\$6,048	\$5,867	\$5,733	\$5,448
Total assets. . . . .	\$7,786	\$7,083	\$6,869	\$6,620	\$6,323
Long-term debt. . . . .	\$2,008	\$2,012	\$1,828	\$1,801	\$1,730
Share owner's equity. . . . .	\$2,981	\$2,821	\$2,718	\$2,625	\$2,532
Capital expenditures**. . . . .	\$ 958	\$ 846	\$ 739	\$ 836	\$ 755
Return to equity. . . . .	15.70%	15.56%	15.22%	14.51%	13.55%
Ratio of earnings to fixed charges+. . . . .	4.27	4.81	4.98	4.59	3.78

\* Certain financial information for years prior to 1988 have been reclassified to reflect the changes made pursuant to the Uniform System of Accounts Rewrite (see Note (B) to the financial statements).

\*\* Excludes additions under capital lease obligations and the equity component of interest charged construction.

+ For the purpose of this ratio: (i) earnings have been calculated by adding to Earnings before interest expense and income taxes the estimated interest portion of rentals; and (ii) fixed charges are comprised of Interest expense and the estimated interest portion of rentals.

<u>SELECTED OPERATING DATA</u>	<u>1988</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>
In thousands					
Network access lines in service at December 31. . . . .	5,432	5,188	4,975	4,804	4,651

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

For the year ended December 31, 1988 as compared to December 31, 1987:

Operating Revenues

Operating revenues increased \$183.7 million, or 5.3%, over 1987.

Local and Long distance service (previously referred to as "toll service") increased \$177 million principally related to increased customer demand, partially offset by a \$31 million decrease created by state regulatory actions related to the Federal income tax rate reduction. Network access revenues increased \$44 million primarily due to continued strong growth in usage and increased common line revenues. Other revenues decreased \$6 million principally due to a \$7 million decrease in revenues for network facilities shared with AT&T, and a \$4 million decrease in rents and other miscellaneous revenues; these decreases were partially offset by a \$5 million increase in billing and collection revenues. The revenues, as well as expenses, associated with network facilities shared with AT&T are expected to continue to decline over time. The Company is currently providing billing and collection services to AT&T pursuant to a five-year contract which is scheduled to expire at the end of 1991. AT&T has indicated its intentions to ultimately provide its own billing and collection services, however, discussions are ongoing with respect to the Company's provision of these services subsequent to 1991.

Operating Expenses

Operating expenses increased \$249.2 million or 9.6% over 1987.

Operating expenses, excluding Depreciation and amortization, increased \$194.5 million primarily due to: (1) a \$66 million increase in costs for centralized and contracted services; (2) a \$57 million increase in materials, supplies and other expenses; (3) a \$55 million increase associated with the net capital to expense shifts resulting from the implementation of the USOAR (see Note (B) to the financial statements); (4) a \$40 million increase in labor and employee related costs, resulting primarily from salary and wage increases which were moderated by a reduction in force and (5) a \$6 million net increase in Taxes other than income taxes due to revised state tax laws effective in 1988 involving both personal property and gross receipts taxes. These increases were partially offset by a decrease of \$25 million for network facilities shared with AT&T, and a decrease of \$5 million in the Provision for uncollectible revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. (continued)

In August 1989, the existing three-year labor contracts will expire. The outcome of the collective bargaining negotiations, and its consequent effect on expense, cannot be ascertained at this time.

Depreciation and amortization expense increased \$54.7 million, or 7.9%. This increase was due principally to: (1) a \$45 million increase associated with increased plant investment and (2) as a result of the implementation of the USOAR, a \$10 million increase associated with the amortization of leasehold improvements and capitalized leases and a \$5 million increase applicable to the net capital to expense shifts (see Note (B) to the financial statements). These increases were partially offset by a \$5 million decrease in depreciation expense attributable to the accelerated amortization of station connections in the State of Vermont in 1987.

Interest Expense

Interest expense increased \$6.9 million, or 4.0%. This increase was due primarily to a \$14 million increase resulting from the issuance of long-term debt in the fourth quarter of 1987, which was partially offset by a decrease in non-capital interest expense and a decrease in average short-term debt.

Income Taxes

Income taxes decreased \$92.8 million, or 33.6%. This decrease was due to a reduction in Federal income taxes of \$86 million and state income taxes of \$7 million. The Federal income tax reduction was attributable primarily to the reduction of the Federal tax rate from a blended rate of 39.95% in 1987 to 34% in 1988, lower pre-tax income and the reversal of excess deferred income taxes, using the average rate assumption method, from previous years that had been deferred at a tax rate which was higher than the current statutory rate. The reduction in State income tax was principally due to lower pre-tax income.

At December 31, 1988, the Company recorded both a deferred regulatory asset and a deferred regulatory liability in connection with the implementation of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" ("Statement No. 96"), (See Note (C) to the financial statements). Management anticipates full recovery of the asset and payment of the liability as the temporary differences between financial reporting and tax accounting reverse. The implementation of Statement No. 96 had no effect on results of operations.

Anticipated Effects of Inflation

In 1988, the nation experienced a modest increase in the rate of inflation following a period of fairly stable rates since the middle of the decade. The increase did not have a significant effect on the Company's results of operations. The Company has a substantial portion of assets in the

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. (continued)

form of property, plant and equipment. The generation of replacement capital can be impeded by a protracted period of high levels of inflation, which has not been experienced in recent years. A substantial portion of the Company's operations are subject to a rate-making process prescribed by various regulatory commissions. Only the historical cost of telephone plant is recoverable in revenues as depreciation. Therefore, the cost of net telephone plant, stated in terms of replacement cost over the average historical cost of net telephone plant, is not presently recoverable in rates as depreciation.

Although the rate-making process gives no recognition to the replacement cost of telephone plant, based on past practices, the Company believes that it will be allowed to earn a return on the increased cost of net investment when replacement of facilities actually occurs, as well as recover increased depreciation charges in future rates. Management does not anticipate that the effects of inflation will have a material effect on the recoverability of the Company's costs.

Anticipated Effects of Proposed Statement of Financial Accounting Standards "Employers' Accounting for Postretirement Benefits Other Than Pensions"

In February 1989, the Financial Accounting Standards Board (the "Board") issued for comment a Proposed Statement of Financial Accounting Standards, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (the "Proposed Statement"). The Board tentatively concluded that certain postretirement benefits represent a form of deferred compensation and that the cost and corresponding obligation should be recognized based on services rendered. Currently, the Company accounts for a substantial portion of these costs on a pay as you go basis (see Note (D) to the financial statements). The tentative conclusions set forth in the Proposed Statement are subject to change pending the outcome of public comments received by the Board and the scheduled public hearings.

Should the Proposed Statement be adopted by the Board, implementation is not expected to be required prior to 1992 and would be applicable to companies providing certain postretirement benefits. As such, the Company would be subject to the provisions of the Proposed Statement.

At present, the Company is developing studies that analyze the effect of the Proposed Statement on the financial statements, as well as the effect, if any, that future regulatory actions may have on the recognition of these costs.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Management

Management of New England Telephone and Telegraph Company (the "Company") has the responsibility for preparing the accompanying financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles, applied on a consistent basis and, in management's opinion, are fairly presented. The financial statements include amounts that are based on management's best estimates and judgements. Management also prepared the other information in this Annual Report on Form 10-K, and is responsible for its accuracy and consistency with the financial statements.

The financial statements have been audited by Coopers & Lybrand, independent accountants, whose appointment was approved by the Company's shareowner. Management has made available to Coopers & Lybrand all the Company's financial records and related data, as well as the minutes of shareowner's and directors' meetings. Furthermore, management believes that all representations made to Coopers & Lybrand during its audit were valid and appropriate.

Management of the Company has established and maintains systems of internal control that provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The systems of internal control provide for appropriate division of responsibility and are documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process. Management continually monitors the systems of internal control for compliance, considers recommendations for improvement from both the internal auditors and Coopers & Lybrand and updates such policies and procedures as necessary. Monitoring includes a strong internal auditing program to independently assess the effectiveness of the internal controls and recommend possible improvements thereto. Management believes that the systems of internal control of the Company are adequate to accomplish the objectives discussed herein.

The Audit Committee of the Board of Directors, which is comprised of directors who are not employees, meets periodically with management, the internal auditors and Coopers & Lybrand to review the manner in which they are performing their responsibilities and to discuss matters relating to auditing, internal accounting controls and financial reporting. Periodically, both the internal auditors and Coopers & Lybrand meet privately with the Audit Committee and have access to the Audit Committee at any time.

Management also recognizes its responsibility for conducting Company activities under the highest standards of personal and corporate conduct. This responsibility is accomplished by fostering a strong ethical climate as

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA. (continued)

characterized in the code of business conduct of the Company, which is publicized throughout the Company. The code of conduct addresses, among other things, standards of personal conduct, potential conflicts of interest, compliance with domestic laws, including Federal securities laws relating to disclosure of financial information and the Foreign Corrupt Practices Act, accountability for Company property and the confidentiality of proprietary information.

P. C. O'Brien  
President and Chief Executive Officer

W. R. Scott, Jr.  
Vice President - Finance and Comptroller

REPORT OF INDEPENDENT ACCOUNTANTS

To the Share Owner and Board of Directors of  
New England Telephone and Telegraph Company:

We have audited the financial statements and financial statement schedules of New England Telephone and Telegraph Company listed in Item 14(a) (1) and (2), of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New England Telephone and Telegraph Company as of December 31, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

Coopers & Lybrand

Boston, Massachusetts  
February 7, 1989

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY  
STATEMENTS OF INCOME AND RETAINED EARNINGS

Dollars in Millions

	<u>For the Year Ended December 31,</u>		
	<u>1988</u>	<u>1987</u>	<u>1986</u>
<u>OPERATING REVENUES</u>			
Local service. . . . .	\$1,392.1	\$1,311.2	\$1,276.0
Long distance. . . . .	998.7	934.0	856.9
Network access [Note (I)]. . . . .	1,008.9	965.3	956.2
Other [Notes (I) and (J)]. . . . .	240.6	246.1	199.9
Total operating revenues . . . . .	<u>3,640.3</u>	<u>3,456.6</u>	<u>3,289.0</u>
<u>OPERATING EXPENSES</u>			
Maintenance and support. . . . .	1,080.6	1,010.9	992.5
Depreciation and amortization. . . . .	747.8	693.1	614.4
Marketing and customer services. . . . .	449.2	440.0	433.7
Taxes other than income taxes [Note (K)] . . . . .	112.1	106.0	107.4
Provision for uncollectible revenues . . . . .	31.3	35.8	30.5
Other expenses . . . . .	423.7	309.7	250.6
Total operating expenses . . . . .	<u>2,844.7</u>	<u>2,595.5</u>	<u>2,429.1</u>
Operating income . . . . .	795.6	861.1	859.9
Other income - net . . . . .	<u>24.2</u>	<u>22.5</u>	<u>23.6</u>
Earnings before interest and income taxes . . . . .	819.8	883.6	883.5
Interest expense [Notes (F) and (G)] . . . . .	<u>179.4</u>	<u>172.5</u>	<u>165.7</u>
Earnings before income taxes . . . . .	<u>640.4</u>	<u>711.1</u>	<u>717.8</u>
<u>Income Taxes</u>			
Federal. . . . .	141.3	227.1	261.5
State and local. . . . .	42.0	49.0	46.0
Total income taxes [Note (C)]. . . . .	<u>183.3</u>	<u>276.1</u>	<u>307.5</u>
NET INCOME . . . . .	<u>\$ 457.1</u>	<u>\$ 435.0</u>	<u>\$ 410.3</u>
<u>RETAINED EARNINGS</u>			
Beginning of year. . . . .	\$1,029.6	\$ 927.3	\$ 833.8
Net income . . . . .	457.1	435.0	410.3
Dividends declared . . . . .	(347.2)	(332.7)	(316.8)
End of year. . . . .	<u>\$1,139.5</u>	<u>\$1,029.6</u>	<u>\$ 927.3</u>

See accompanying notes to financial statements.

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY  
BALANCE SHEETS  
Dollars in Millions

	<u>December 31,</u>	
<u>ASSETS</u>	<u>1988</u>	<u>1987</u>
<b>Current assets:</b>		
Cash . . . . .	\$ 12.8	\$ 10.2
Receivables . . . . .		
Customers (net of allowance of \$25.1 . . . . .		
and \$20.5, respectively) [Note (I)] . . . . .	630.7	584.0
Affiliates [Note (J)] . . . . .	-	4.2
Other . . . . .	22.4	32.4
Deferred charges [Note (C)] . . . . .	121.3	89.7
Material and supplies . . . . .	59.6	61.1
Prepaid expenses and other . . . . .	<u>22.3</u>	<u>16.8</u>
Total current assets . . . . .	<u>869.1</u>	<u>798.4</u>
 <b>Telephone plant</b>		
In service . . . . .	9,493.4	8,904.3
Under construction . . . . .	<u>167.2</u>	<u>158.6</u>
	9,660.6	9,062.9
Less: accumulated depreciation . . . . .	<u>3,369.6</u>	<u>3,015.0</u>
	<u>6,291.0</u>	<u>6,047.9</u>
 <b>Deferred charges and other [Notes (C), (D) and (J)] . . . . .</b>	<u>625.9</u>	<u>236.6</u>
 <b>TOTAL ASSETS . . . . .</b>	<u>\$7,786.0</u>	<u>\$7,082.9</u>

See accompanying notes to financial statements.

## NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY

BALANCE SHEETS

Dollars in Millions

December 31,

1988                      1987LIABILITIES AND SHARE OWNER'S EQUITY

## Current liabilities:

## Accounts payable

AT&T [Note (I)] . . . . .	\$ 99.6	\$ 97.9
Affiliates [Note (J)] . . . . .	118.7	94.9
Compensated Absences . . . . .	77.8	77.9
Trade and other . . . . .	303.5	199.2
Short-term debt [Note (G)] . . . . .	104.1	40.9
Dividends payable . . . . .	86.8	83.2
Taxes accrued . . . . .	60.9	75.7
Advance billing and customers' deposits . . . . .	22.7	27.1
Interest accrued . . . . .	45.3	45.5
Deferred income taxes [Note (C)] . . . . .	<u>38.2</u>	<u>4.0</u>
Total current liabilities . . . . .	<u>957.6</u>	<u>746.3</u>

Long-term debt [Note (F)] . . . . .	2,008.0	2,011.6
Deferred income taxes [Note (C)] . . . . .	860.2	1,184.3
Unamortized investment tax credits . . . . .	267.2	305.0
Other long-term liabilities [Note (C)] . . . . .	<u>712.4</u>	<u>15.0</u>
Total liabilities . . . . .	<u>4,805.4</u>	<u>4,262.2</u>

## Commitments and contingencies [Notes (H) (L) and (M)]

## Share owner's equity:

Common stock - one share, without par value [Note (E)] . . . . .	1,841.1	1,791.1
Retained earnings . . . . .	<u>1,139.5</u>	<u>1,029.6</u>
Total share owner's equity . . . . .	<u>2,980.6</u>	<u>2,820.7</u>

TOTAL LIABILITIES AND SHARE OWNER'S EQUITY . . . . .	<u>\$7,786.0</u>	<u>\$7,082.9</u>
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See accompanying notes to financial statements.

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY  
STATEMENTS OF CASH FLOWS  
 Dollars in Millions

	<u>For the Year Ended December 31,</u>		
	<u>1988</u>	<u>1987</u>	<u>1986</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income. . . . .	\$ 457.1	\$ 435.0	\$ 410.3
Adjustments to reconcile Net Income to net cash provided (used) by operating activities:			
Depreciation and amortization . . . . .	747.8	693.1	614.4
Deferred income taxes - net . . . . .	(14.3)	53.9	133.7
Deferred tax credits - net. . . . .	(37.7)	(42.8)	(10.9)
Interest charged construction . . . . .	(10.5)	(9.3)	(8.5)
Receivables . . . . .	(32.5)	41.6	(33.2)
Material and supplies . . . . .	1.5	(4.2)	(6.8)
Deferred charges. . . . .	(32.7)	43.6	(8.1)
Other current assets. . . . .	(5.5)	3.7	.2
Accounts payable. . . . .	129.7	(36.8)	(22.2)
Taxes accrued . . . . .	(14.8)	(62.7)	97.7
Advance billing and customers' deposits . . . . .	(4.4)	(4.5)	.1
Interest accrued. . . . .	(.2)	4.7	5.7
Other - net . . . . .	27.0	(90.5)	(8.8)
Total adjustments . . . . .	<u>753.4</u>	<u>589.8</u>	<u>753.3</u>
Net cash provided by operating activities. . . . .	<u>1,210.5</u>	<u>1,024.8</u>	<u>1,163.6</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures. . . . .	(957.9)	(845.5)	(739.3)
Equity infusion in NYNEX Service Company . . . . .	(15.0)	(20.0)	(25.0)
Other investing activities. . . . .	<u>.1</u>	<u>.8</u>	<u>1.9</u>
Net cash used in investing activities . . . . .	<u>(972.8)</u>	<u>(864.7)</u>	<u>(762.4)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Advances from NYNEX . . . . .	93.1	(29.7)	(79.0)
Dividends paid. . . . .	(343.6)	(328.7)	(314.4)
Issuance of long-term debt. . . . .	-	198.7	344.0
Increase in short-term borrowing. . . . .	-	(2.0)	2.0
Repayment of long-term debt . . . . .	(34.6)	(4.4)	(353.3)
Equity infusion from NYNEX. . . . .	<u>50.0</u>	<u>-</u>	<u>-</u>
Net cash used in financing activities . . . . .	<u>(235.1)</u>	<u>(166.1)</u>	<u>(400.7)</u>
Net increase (decrease) in Cash . . . . .	2.6	(6.0)	.5
Cash at beginning of year . . . . .	10.2	16.2	15.7
Cash at end of year . . . . .	<u>\$ 12.8</u>	<u>\$ 10.2</u>	<u>\$ 16.2</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(A) Accounting Policies

Basis of Presentation

New England Telephone and Telegraph Company (the "Company") is a wholly owned subsidiary of NYNEX Corporation ("NYNEX") and provides exchange telecommunications and exchange access services.

The Company holds a 33 1/3% ownership interest in NYNEX Service Company ("NYNEX Service") and shares voting rights equally with the other owner, New York Telephone Company. The Company uses the equity method of accounting for its investment in NYNEX Service.

The financial statements have been prepared in conformity with generally accepted accounting principles applicable to regulated utilities. Such accounting principles are consistent in all material respects with accounting rules prescribed by the Federal Communications Commission (the "FCC"), except for certain intrastate items accorded a different accounting treatment by state regulatory commissions.

In 1988, the Company adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" which requires inclusion of a statement of cash flows as part of the financial statements. The statement of cash flows replaces the statement of sources of funds supporting construction activity, which was previously required under generally accepted accounting principles. The statements of sources of funds supporting construction activity for 1987 and 1986 have been replaced with statements of cash flows for the respective years.

The financial statements for 1987 and 1986 have been reclassified to conform to the current year's format. Significant reclassifications to the financial statements were required due to the implementation of the Uniform System of Accounts Rewrite (the "USOAR"), effective January 1, 1988 (see Note (B) below). These reclassifications, primarily in Operating Expenses, were necessary to address the changes in expense classifications mandated by the USOAR.

Telephone Plant

Telephone plant is stated at its original cost.

When depreciable plant is disposed of, the amount at which such plant has been carried in telephone plant in service, as well as salvage and the cost to remove such plant, is charged to accumulated depreciation.

## NOTES TO FINANCIAL STATEMENTS (continued)

Material and Supplies

Material and supplies are carried principally at average cost.

Depreciation

Depreciation rates used for interstate operations are prescribed by the FCC. All rates are calculated on a straight-line basis using the remaining life method. During 1987, the FCC increased the rates used by the Company, thereby accelerating the depreciation of certain plant and equipment. For intrastate operations, public utility commissions in the states of Vermont and Maine prescribed different depreciation rates than those prescribed by the FCC; the effective date of the revised rates for both states was April 1, 1987. The Massachusetts Department of Public Utilities ("MDPU") is currently considering revised depreciation rates. The Company is continuing to use depreciation rates authorized in its 1984 rescription, pending a final determination by the MDPU.

Station Connections

Certain costs of installing telephone service on a customer's premises have been expensed since January 1981, as prescribed by the FCC. The amortization of previously capitalized investment in station connections will be completed in 1992.

Interest Charged Construction

Regulatory authorities in Maine, Massachusetts, New Hampshire and Rhode Island allow the Company to accrue interest, including an allowance on share owner's equity, as a cost of constructing certain plant and as an element of income, which is included in Other income - net. Such income is not realized in cash currently, but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered through the rate-making process. In Vermont, telephone plant under construction is included in the rate base, thereby eliminating the need for any interest accrual mechanism. The FCC requires the same method as Vermont for short term telephone plant under construction. Long term plant under construction does, however, accrue interest under FCC procedures.

Compensated Absences

Effective January 1, 1988, the Uniform System of Accounts Rewrite, (see Note (B)), required the Company, for interstate purposes, to change its accounting for compensated absences to record costs in the year in which benefits are earned. Previously, the Company recorded the current year's liability for compensated absences with a corresponding deferred charge and recorded the expense when paid. As a result of implementation of the USOAR, the deferred charge as of December 31, 1987 will be recovered over a ten year period for interstate purposes. Management anticipates recovery, through the rate-making process, of substantially all of these costs in the intrastate jurisdictions.

## NOTES TO FINANCIAL STATEMENTS (continued)

Income Taxes

NYNEX and its subsidiaries, including the Company, file a consolidated Federal income tax return. The Company's provision for Federal income taxes currently payable is allocated in accordance with its contribution to the consolidated group's taxable income and tax credits.

During 1988, the Company implemented the provisions of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" ("Statement No. 96"). Financial statements for the years prior to 1988 were not restated and the cumulative effect of the change in accounting for income taxes had no effect on results of operations because of the effects of regulation and tax law restrictions.

Income tax rules allow recognition of certain transactions for tax purposes in time periods other than the period during which the transactions will be recognized in the determination of net income for financial reporting purposes. Appropriate income tax charges and their subsequent reversal, reflected as Federal income taxes deferred - net [see Note (C)], prevent the tax effect of these temporary differences from distorting net income. Deferred income tax provisions for the Company are recorded in the Statements of Income and Retained Earnings based upon amounts recognized for rate-making purposes. In accordance with the provisions of Statement No. 96, the Company recognizes a deferred tax liability for tax benefits that are flowed through to ratepayers when temporary differences originate and establishes a corresponding regulatory asset. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The major temporary difference that gives rise to the net deferred tax liability is depreciation.

Depreciation for income tax purposes is determined based on accelerated methods and shortened lives which cause such depreciation to be higher during the early years and lower in the later years of depreciable life than the corresponding depreciation charges as reflected in these financial statements. The accumulated tax effects of all temporary differences are shown in the accompanying balance sheets as Deferred income taxes.

The provisions of the Tax Reform Act of 1986 decreased the statutory Federal income tax rate from a blended rate of 39.95% in 1987 to 34.00% effective January 1, 1988. The provisions of Statement No. 96 require that deferred tax liabilities currently be adjusted to reflect the tax liability based upon the tax rates that will be in effect in the years in which temporary differences are expected to reverse. However, for the Company, the treatment of excess deferred taxes resulting from the reduction of tax rates is subject to federal income tax rules and regulatory actions. In accordance with the normalization provisions of

NOTES TO FINANCIAL STATEMENTS (continued)

Income Taxes (continued)

the Tax Reform Act of 1986, the Company will reverse the excess deferred taxes relating to depreciation of regulated assets over the regulatory lives of those assets that gave rise to the deferred taxes. For other excess deferred taxes, the regulatory agencies generally allow the amortization of excess deferred taxes over the reversal period of the temporary difference giving rise to the deferred taxes.

Subject to regulatory actions and tax rules, the provisions of Statement No. 96 require the recognition of a regulatory liability associated with these excess deferred taxes and unamortized Investment Tax Credits ("ITC") as described in Note (C). ITC resulted from provisions of Federal tax law which allowed for a reduction in tax liability based on certain property, plant and equipment expenditures. ITC for the Company is required by tax law to be accounted for under the deferral method. Under the provisions of Statement No. 96, the deferral of ITC results in a temporary difference. The effect of this temporary difference serves to reduce the deferred tax liability. This temporary difference will reverse as the underlying ITC is amortized as a reduction in tax expense over the lives of the assets giving rise to the credits. The Tax Reform Act of 1986 repealed the ITC effective January 1, 1986, but provided transition rules which allows the Company to earn certain ITC in 1986 and in subsequent years.

(B) Uniform System of Accounts Rewrite

Effective January 1, 1988 the FCC rescinded Part 31 of the Uniform System of Accounts and replaced it with the USOAR. The USOAR not only changed the chart of accounts for the Company but also the accounting for certain transactions.

Certain expenditures which were previously capitalized are now expensed under the USOAR. These expenditures consist primarily of various payroll-related and construction-related expenses which previously were charged to capital accounts, amortized over the life of the asset and included in the rate base. Additionally, the USOAR provided for certain expense to capital shifts. (Collectively, all such shifts between capital and expense are referred to herein as "net capital to expense shifts").

The net capital to expense shifts associated with the implementation of the USOAR have been approved for interstate rate-making purposes by the FCC. Such shifts have also been approved for intrastate rate-making purposes in several of the intrastate jurisdictions in which the Company operates. Management anticipates that all such costs associated with the net capital to expense shifts will eventually be recoverable through the rate-making process in all such intrastate jurisdictions.

## NOTES TO FINANCIAL STATEMENTS (continued)

For 1988, the net capital to expense shifts increased operating expenses by approximately \$60 million. With the corresponding implementation of the regulatory actions mentioned in the preceding paragraph, the net capital to expense shifts had no significant effect on results of operations.

## (C) Income Taxes

The components of income tax expense are as follows:

Dollars in Millions	1988	1987	1986
<b>Federal:</b>			
Current. . . . .	\$194.3	\$225.8	\$149.6
Deferred - net . . . . .	(15.3)	44.1	122.8
Deferred tax credits - net . . . . .	<u>(37.7)</u>	<u>(42.8)</u>	<u>(10.9)</u>
	141.3	227.1	261.5
<b>State:</b>			
Current. . . . .	41.0	39.2	35.1
Deferred - net . . . . .	<u>1.0</u>	<u>9.8</u>	<u>10.9</u>
	42.0	49.0	46.0
<b>Total. . . . .</b>	<u>\$183.3</u>	<u>\$276.1</u>	<u>\$307.5</u>

Deferred tax expense significantly decreased in 1988 due to the reduced Federal tax rate and the amortization of excess deferred taxes.

In 1987, due to the effects of represcription, depreciation for financial reporting purposes more closely approximated depreciation for income tax purposes, therefore, deferred tax expense also significantly decreased from the prior year.

## NOTES TO FINANCIAL STATEMENTS (continued)

Federal income tax expense for each of the years ended December 31, 1988, 1987 and 1986 was less than the amounts computed by applying the statutory Federal income tax rate to pre-tax income. The reasons for the differences are as follows:

	1988	1987	1986
Statutory rate . . . . .	34.00%	39.95%	46.00%
a. Amortization of excess deferred Federal income taxes due to the change in the tax rates . . . . .	(5.04)	(1.66)	-
b. Amortization of investment tax credits over the life of the plant which gave rise to the credits. . . . .	(6.19)	(6.03)	(6.30)
c. Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted for income tax purposes (1986 only), net of applicable depreciation . .	2.68	3.50	.70
d. Interest charged construction, which is excluded from taxable income, net of applicable depreciation . . . . .	(.50)	(.27)	(.30)
e. Other differences. . . . .	(1.21)	(1.09)	(.60)
Effective tax rate . . . . .	<u>23.74%</u>	<u>34.40%</u>	<u>39.50%</u>

The amortization of investment tax credits was \$37.1, \$39.9 and \$42.5 million in 1988, 1987 and 1986, respectively.

The Company has made income tax payments of \$240.7, \$334.7 and \$92.9 million during 1988, 1987 and 1986, respectively.

## NOTES TO FINANCIAL STATEMENTS (continued)

Temporary differences for which deferred income tax provisions have not been provided are represented principally by "c", "d" and "e" above. The tax effects of these amounts were not recorded currently by the Company because regulatory commission procedures result in such costs being charged to customers when the temporary differences reverse and the taxes are paid. At December 31, 1987, the cumulative net amount of these items was \$440.1 million.

As a result of implementing Statement No. 96, the Company was required to record approximately \$409.4 million in deferred taxes representing the cumulative amount of income taxes on temporary differences which were previously flowed through to ratepayers. The Company also recorded a corresponding regulatory asset in Deferred charges and other on the balance sheet for these items, representing amounts which will be recovered through the rate-making process. These deferrals have been increased, in accordance with Statement No. 96, for the tax effect of the future revenue requirement and will be amortized over the lives of the related depreciable assets concurrently with their recovery in rates.

In addition, Statement No. 96 required the Company to record a regulatory liability as of December 31, 1988 of approximately \$684.9 million, primarily representing previously recorded excess deferred Federal income taxes resulting from the reduction of the statutory Federal income tax rate from 46% to 34%, which is recorded in Other long-term liabilities. A substantial portion of the regulatory liability represents the excess deferred taxes on depreciable assets and unamortized ITC. These amounts have been increased in accordance with Statement No. 96, for the tax effect of the impact on the future revenue requirement and will be amortized over the lives of the related depreciable assets in accordance with the average rate assumption method required by the Tax Reform Act of 1986.

## NOTES TO FINANCIAL STATEMENTS (continued)

## (D) Pension and Employee Benefits

Substantially all of the Company's employees are covered by one of two noncontributory NYNEX defined benefit pension plans (the "Plans"). Benefits for management employees are based on a modified career average pay plan while the benefits for non-management employees are based on a non-pay related plan. Contributions are made, to the extent deductible under the provisions of the Internal Revenue Code, to an irrevocable trust for the sole benefit of pension plan participants.

Effective January 1, 1987, the Company adopted the provisions of Statement of Financial Accounting Standards No. 87, "Employers Accounting for Pension" ("Statement No. 87"). Under Statement No. 87, pension costs did not differ significantly from that which would have been calculated under the actuarial method previously used for financial reporting purposes. As required by Statement No. 87, the Company changed from the Aggregate Cost Method to the Projected Unit Credit Method for the management employees and the Unit Credit Method for non-management employees for financial reporting purposes.

Total Company expense for 1988, 1987 and 1986 was \$.1, \$16.3 and \$54.5 million, respectively. Amounts were computed as follows: for 1988 and 1987, the expected long-term rate of return on pension fund assets was 8%; for 1986, an assumed investment earnings rate of 8 1/4% was used followed by a graduated decline to 5 1/2% for 1998 and thereafter. Pension expense for 1988 and 1987 reflect deferrals of \$.3 and \$8.9 million, respectively, as a result of state regulatory decisions that require pension expense to be equivalent to amounts contributed to the Plans. There was no deferral of pension expense in 1986.

The assumptions used to determine the projected benefit obligations as of December 31, 1988 and 1987, include a discount rate of 9% and a 4% to 6% increase in future compensation levels. From time to time, the Plans have been amended to increase the level of Plan benefits. The actuarial projections included herein anticipate similar action in the future. As of December 31, 1986, a discount rate of 8% was used. The primary reason for the decrease in 1988 pension expense was due to the increase in the discount rate from 8% to 9%.

During 1988 and 1987, there were amendments to both Plans designed primarily to comply with revisions to applicable laws and to reflect benefit changes. The effect of these amendments was to decrease 1988 and 1987 costs by \$.3 and \$.6 million, respectively. In addition, 1987 costs decreased approximately \$28.7 million, principally as the result of recognition of prior years actuarial experience and a change in the methodology for calculating the actuarial value of assets.

## NOTES TO FINANCIAL STATEMENTS (continued)

During the first quarter of 1988, the Company offered a voluntary early retirement opportunity, enabling eligible management employees to elect early retirement. This transaction was accounted for under the provisions of Statement of Financial Accounting Standards No. 88.

"Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination of Benefits" and increased the projected benefit obligation by \$8.0 million, of which \$5.4 million was deferred in accordance with state regulatory decisions which only allow recognition of cash contributions. Management anticipates future recovery of these costs in the rate-making process.

The Company also provides certain health care and life insurance benefits for retired employees and their families. Substantially all of the Company's employees may become eligible for these benefits if they reach normal retirement age while working for the Company. Most of these benefits are provided through an insurance company whose premiums are based, and costs are recorded, principally on the amount of benefits paid during the year. Total costs of providing benefits for active and retired employees and their families were \$100.0, \$97.8 and \$85.6 million in 1988, 1987 and 1986, respectively. The major portion of the costs of providing benefits for the approximately 14,000 retirees is not separable from the costs of providing benefits for the approximately 27,200 active employees.

(E) Common Stock

In 1988, the equity capital of the Company increased by \$50 million through an equity investment made by NYNEX. In 1987 and 1986, there were no changes in the equity capital of the Company.

We hereby certify that the condensed return of its business and financial condition contained on pages 18 to 43 inclusive of this Form 10-K Annual Return is full, just and true.



*Treasurer*



*Vice President - Finance and Comptroller*

THE COMMONWEALTH OF MASSACHUSETTS Suffolk s.s.  
Boston, March 31, 1989. Then personally appeared the above-named J.H. Cogswell, Treasurer and W. Russell Scott, Vice President - Finance and Comptroller, and severally made oath that the foregoing certificate by them subscribed is true to the best of their knowledge, information and belief.

Before me.



*Notary Public*

My Commission expires June 4, 1993

## NOTES TO FINANCIAL STATEMENTS (continued)

## (F) Long-term Debt

Interest rates and maturities on long-term debt outstanding at December 31, 1988 are as follows:

Dollars in Millions	Interest rates				Total Outstanding
	3 1/4% to 4 5/8%	6 1/8% to 7 3/8%	8% to 9%	9 1/2% to 13 2/3%	
<b>Debtures:</b>					
1991-1999 . . . . .	\$120.0	\$ -	\$ -	\$ -	\$ 120.0
2002-2010 . . . . .	110.0	425.0	545.0	55.0	1,135.0
2017-2026 . . . . .	-	-	350.0	200.0	550.0
<b>Notes:</b>					
1992				200.0	200.0
Other . . . . .	-	-	-	19.3	19.3
	<u>\$230.0</u>	<u>\$425.0</u>	<u>\$895.0</u>	<u>\$474.3</u>	<u>2,024.3</u>
Unamortized discount - net . . . . .					(16.3)
Total . . . . .					<u>\$2,008.0</u>

In 1991 and 1993, respectively, \$30.0 and \$45.0 million, of Debtures will mature. In 1992, \$200.0 million of Notes will mature.

The Company's Debtures are callable upon thirty days' notice, at the option of the Company, five years after the issue date.

Call premiums on the repurchase or redemption of Debtures, as well as associated expenses incurred prior to 1988, which are included in Deferred charges and other, are amortized over periods stipulated by the FCC. These deferrals are included in Deferred charges and other in the accompanying balance sheets and amount to \$54.0 and \$55.6 million, as of December 31, 1988 and 1987, respectively.

At December 31, 1988, the Company had \$500.0 million of unissued, senior, unsecured debt securities registered with the Securities and Exchange Commission.

The Company has made cash interest payments of \$177.2, \$165.3 and \$156.4 million in 1988, 1987 and 1986, respectively.

## NOTES TO FINANCIAL STATEMENTS (continued)

## (G) Short-term debt

In 1988 and 1987, to the extent external financing was required, the Company financed construction of telephone plant principally through the issuance of long-term debt and through advances from NYNEX.

Short-term debt and related weighted average interest rates are as follows:

Dollars in Millions	December 31,			Weighted average interest rate		
	1988	1987	1986	1988	1987	1986
Advances from NYNEX. . .	\$100.1	\$ 7.0	\$ 36.7	9.30%	6.98%	7.88%
Bank loans . . . . .	-	-	2.0	-	-	7.40%
Debentures payable . . .	-	30.0	-	-	3.13%	-
Other. . . . .	4.0	3.9	1.1	9.81%	10.02%	10.25%
Total . . . . .	<u>\$104.1</u>	<u>\$ 40.9</u>	<u>\$ 39.8</u>			

Dollars in Millions	1988	1987	1986	1988#	1987#	1986#
Average amount of advances from NYNEX outstanding during the year. . . . .	\$ 75.3+	\$143.4+	\$ 70.8+	7.98%	6.81%	7.13%
Average amount of notes payable outstanding during the year. . . . .	\$ -	\$ 1.8+	\$ 1.7+	-	8.02%	8.15%
Maximum amount of advances from NYNEX payable at any month end during the year . . . . .	\$128.8	\$261.2	\$203.0			
Maximum amount of notes payable at any month end during the year. . . . .	\$ -	\$ 2.0	\$ 2.0			

Interest expense on advances from NYNEX was \$6.0, \$9.8 and \$5.0 million in 1988, 1987 and 1986, respectively.

# Computed by dividing the aggregate related interest expense by the average daily face amount of advances and notes payable.

+ Computed by dividing the sum of the aggregate principal amounts outstanding each day during the year by the total number of calendar days in the year.

## NOTES TO FINANCIAL STATEMENTS (continued)

## (H) Lease Commitments

The Company leases certain facilities and equipment used in its operations. As a result of adopting the USOAR on January 1, 1988, capital leases have been recorded in the financial statements under the provisions of Statement of Financial Accounting Standards No. 13, "Accounting for Leases". Prior to January 1, 1988, capital leases had been recorded in the financial statements in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation", and as a result, lease payments for both capital and operating leases were reflected in rental expense. Rental expense was \$51.5, \$42.2 and \$49.9 million for 1988, 1987 and 1986, respectively. Included in rental expense is \$.3, \$17.1 and \$38.0 million for 1988, 1987 and 1986, respectively, representing a portion of the costs incurred under an agreement with AT&T for the use of shared network facilities. The Company can terminate or extend the period of use of these facilities by providing notice in accordance with the terms of the agreement. Furthermore, the amounts payable vary according to the volume of use of these facilities. Accordingly, no amounts for such shared network facilities have been included in the above schedule of minimum lease commitments. At December 31, 1988, the minimum lease commitments under noncancelable operating and capital leases for the periods shown are as follows:

Dollars in Millions

<u>Year</u>	<u>Operating</u>	<u>Capital</u>
1989 . . . . .	\$ 32.3	\$ 7.8
1990 . . . . .	19.2	6.4
1991 . . . . .	** 23.7	4.2
1992 . . . . .	26.4	3.2
1993 . . . . .	23.4	2.7
Thereafter . . . . .	<u>391.0</u>	<u>7.2</u>
Total minimum lease payments . . . . .	<u>\$516.0</u>	31.5
Less: executory costs . . . . .		<u>5.9</u>
Net minimum lease payments . . . . .		25.6
Less: interest . . . . .		<u>6.5</u>
Present value of net minimum lease payments		<u>\$19.1</u>

\*\* The majority of the net increase in minimum operating lease payments starting in year 1991 is related to the expiration of leases and consolidation of quarters to a new Headquarters Building, which will begin occupancy in 1991.

NOTES TO FINANCIAL STATEMENTS (continued)

(I) Transactions with AT&T

In 1988, 1987 and 1986, AT&T provided approximately 22%, 23% and 27%, respectively, of the Company's total operating revenues, primarily Network access revenues. Included in Other revenues are charges for billing and collection services performed under contract by the Company for AT&T. In connection with such services, the Company purchases the related receivables with recourse.

(J) Transactions with Affiliates

The Company receives a number of management and support services from NYNEX and NYNEX Service. NYNEX Service owns a one-seventh interest in Bell Communications Research, Inc. ("Bellcore"). Bellcore furnishes to NYNEX and its subsidiaries, including the Company, technical and support services relating to exchange telecommunications and exchange access services, a portion of which is research and development.

NYNEX Service performs data processing and related services on behalf of the Company and New York Telephone Company on a centralized basis. For 1988, 1987 and 1986, the Company recorded charges of \$341.2, \$294.5 and \$256.4 million, respectively, in connection with internal data processing and related services provided by NYNEX Service and for the management and support services provided by NYNEX Corporate. In addition, the Company recorded \$44.4, \$40.8, and \$41.2 million, respectively, for services provided by Bellcore, of which a portion relates to research and development. Furthermore, in 1988, 1987 and 1986, the Company made equity investments of \$15.0, \$20.0 and \$34.6 million, respectively, in NYNEX Service. The investment, which was \$76.7 and \$61.7 million, at December 31, 1988 and 1987, respectively, is reflected in Deferred charges and other in the accompanying balance sheets.

The Company was charged approximately \$376.0, \$312.7 and \$322.7 million in 1988, 1987 and 1986, respectively, by NYNEX Materiel Enterprises for the purchase of materials (including items charged to plant accounts) and for various other procurement support activities including materials management, warehousing and transportation services.

The Company has an agreement with NYNEX Information Resources Company ("NYNEX Information Resources") pursuant to which NYNEX Information Resources publishes directories previously published by the Company and in return pays to the Company a publishing rights fee for the right to

## NOTES TO FINANCIAL STATEMENTS (continued)

produce, publish and distribute alphabetical and classified directories for the Company. For the years ended December 31, 1988, 1987 and 1986, publishing rights fees included in Other revenues, amounted to \$90.8, \$83.2 and \$74.4 million, respectively.

In 1988, NYNEX Systems Marketing Company was created and provides the Company with sales and marketing services. In 1988, the Company recorded \$15.5 million in sales expense for such services. Previously, this service had been provided by NYNEX Business Information Systems Company. In 1987 and 1986 the Company recorded \$17.9 and \$13.2 million, respectively in sales expense for such services.

## (K) Taxes other than income taxes

The major components of Taxes other than income taxes are as follows:

Dollars in Millions	1988	1987	1986
Gross receipts . . . . .	\$ 40.7	\$ 55.0	\$ 60.1
Property . . . . .	70.0	49.6	46.7
Other . . . . .	1.4	1.4	.6
Total . . . . .	<u>\$112.1</u>	<u>\$106.0</u>	<u>\$107.4</u>

## (L) Revenues Subject to Possible Refund

The Company is involved in several regulatory matters, primarily involving the rates and charges for provision of certain interstate access and other related services, which may possibly require the refund of a portion of the revenues collected for such services in the current and prior periods. As of December 31, 1988, the aggregate amount of such revenues which was estimated to be subject to possible refund was approximately \$45 million. The outcome of each pending matter, as well as the timeframe within which each will be resolved, is not presently determinable.

## (M) Litigation and Other Contingencies

Various legal actions and regulatory proceedings are pending which may affect the Company, including matters involving antitrust treble damage and tax deficiency claims. While counsel cannot give complete assurance as to the outcome of these matters, in the opinion of management based upon the advice of counsel, the ultimate resolution of all such matters is not expected to have a material adverse effect on the Company's financial position or results of operations.

## SUPPLEMENTARY INFORMATION

## Quarterly Financial Information (Unaudited)

Dollars in Millions

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income
<u>1988</u>			
1st. . . . .	\$ 895.1	\$187.4	\$104.7
2nd. . . . .	901.9	204.0	116.3
3rd. . . . .	930.0	212.3	120.4
4th. . . . .	<u>913.3</u>	<u>191.9</u>	<u>115.7</u>
Total . . . . .	<u>\$3,640.3</u>	<u>\$795.6</u>	<u>\$457.1</u>
<u>1987*</u>			
1st. . . . .	\$ 829.7	\$215.5	\$109.7
2nd. . . . .	855.3	205.8	107.2
3rd. . . . .	891.0	223.0	114.7
4th. . . . .	<u>880.6</u>	<u>216.8</u>	<u>103.4</u>
Total . . . . .	<u>\$3,456.6</u>	<u>\$861.1</u>	<u>\$435.0</u>

All adjustments (consisting only of normal recurring accruals) necessary for a fair statement of income for each period have been included in the table above.

\* The 1987 Quarterly financial information has been restated to conform to current year's format.

Item 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

During 1987 and 1988, the Company did not change its auditors, and there was no disagreement on any matter of accounting principles or practices or financial statement disclosure which would have required the filing of a Current Report on Form 8-K.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) Documents filed as a part of this Annual Report on Form 10-K.

Pages In This  
Annual Report On  
Form 10-K

(1) Financial Statements filed as part of this report are listed in the Table of Contents on page 2 and contained in Item 8 herein.

(2) Financial Statement Schedules. The following financial statement schedules of the Registrant are included herein in response to Item 14:

V	- Telephone Plant.....	48-51
VI	- Accumulated Depreciation, Depletion, and Amortization of Telephone Plant.....	52
VIII	- Allowance for Uncollectibles.....	53

Financial statement schedules other than those listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

(3) Exhibits. Exhibits identified in parentheses below, on file with the Securities and Exchange Commission ("SEC"), are incorporated herein by reference as exhibits hereto.

Exhibit  
Number

(3)a Certificate of Incorporation of the Company as amended December 22, 1980 (Exhibit (3)a to Form 10-K for 1980; File No. 1-1150).

- (3)b By-Laws of the Company as amended April 21, 1987 (Exhibit (3)b to Form S-3, Post-effective Amendment No. 1 to Registration Statement No. 33-3469.)
- (4) No instrument which defines the rights of holders of long and intermediate term debt of the Company is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, the Company hereby agrees to furnish a copy of any such instrument to the SEC upon request.
- (10)(i)1 Reorganization and Divestiture Agreement among American Telephone and Telegraph Company, NYNEX Corporation and Affiliates dated as of November 1, 1983 (Exhibit (10)(i)1 to Form 10-K of NYNEX Corporation for 1983, File No. 1-8608).
- (10)(i)2 Shared Network Facilities Agreement among American Telephone and Telegraph Company, AT&T Communications of New England, Inc. and New England Telephone and Telegraph Company dated as of November 1, 1983 (Exhibit (10)(i)21 for Form 10-K of NYNEX Corporation for 1983, File No. 1-8608).
- (10)(i)3 Agreement Concerning Contingent Liabilities, Tax Matters and Termination of Certain Agreements among American Telephone and Telegraph Company, Bell System Operating Companies, Regional Holding Companies and Affiliates dated as of November 1, 1983 (Exhibit (10)(i)8 to Form 10-K of NYNEX Corporation for 1983, File No. 1-8608).
- (10)(i)4 Post-Divestiture Shared Services Force Transfer Agreement between American Telephone and Telegraph Company and New England Telephone and Telegraph Company dated as of January 1, 1984 (Exhibit (10)(i)39 to Form 10-K of NYNEX Corporation for 1983, File No. 1-8608).
- (10)(i)5 Agreement concerning the sharing of Contingent Liabilities dated as of January 28, 1985. (Exhibit (19)(i)1 to Form 10-K of NYNEX Corporation for 1984, File No. 1-8608).
- (10)(ii)(B)1 Service Agreement concerning provision of technical, regulatory, government relations, marketing and other services between New England Telephone and Telegraph Company and NYNEX Service Company effective January 1, 1984 (Exhibit (10)(ii)(B)2 to Form 10-K of NYNEX Corporation for 1983, File No. 1-8608).
- (10)(ii)(B)2 Directory Publishing Agreement between New England Telephone and Telegraph Company and NYNEX Information Resources Company dated as of January 1, 1984 (Exhibit (10)(ii)(B)4 to Form 10-K of NYNEX Corporation for 1983, File No. 1-8608).

- (10)(ii)(B)3 Agreement concerning centralized procurement services between New England Telephone and Telegraph Company and NYNEX Material Enterprises Company dated as of December 30, 1983 (Exhibit (10)(ii)(B)6 to Form 10-K of NYNEX Corporation for 1983, File No. 1-8608).
  - (12) Computation of Ratio of Earnings to Fixed Charges.
  - (24) Consent of Independent Accountants.
  - (25) Powers of attorney.
- (b) Reports on Form 8-K.

The Company did not file any Current Report on Form 8-K during 1988.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

New England Telephone and Telegraph Company

By

W. R. SCOTT, JR.  
W. R. Scott, Jr., Vice President-  
Finance and Comptroller

March 27, 1989

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Principal Executive Officer:

P. C. O'Brien\* President and Chief Executive Officer

Principal Financial and  
Accounting Officer:

W. R. Scott, Jr.\* Vice President-Finance and Comptroller

Directors:

R. F. Burke\*  
Kenneth M. Curtis\*  
G. M. Freche\*  
Luther F. Hackett\*  
Ronald A. Homer\*  
R. A. Jalkut\*  
Anna Faith Jones\*  
Paul C. O'Brien\*  
David B. Perini\*  
Donald A. Roach\*  
Hester L. Sargent\*  
Ira Stepanian\*  
Kimon S. Zachos\*

\*By

W. R. SCOTT, JR.  
(W.R. Scott, Jr., as attorney-in-fact,  
and on his own behalf as Principal  
Financial and Accounting Officer)

March 27, 1989

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY  
FINANCIAL STATEMENT SCHEDULE  
SCHEDULE V - TELEPHONE PLANT  
(Dollars in Millions)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Classification*	Balance at 12/31/87	Additions at Cost Note (a)	Retirements Note (b)	Other Changes Note (c)	Balance at 12/31/88
Land. . . . .	\$ 31.1	\$ .5	\$ .1	\$ -	\$ 31.5
Motor Vehicles. . . . .	63.8	.3	10.1	.9	54.9
Special Purpose Vehicles. . . . .	.2	-	-	-	.2
Garage Work Equipment . . . . .	2.1	.9	(.2)	-	3.2
Other Work Equipment. . . . .	38.5	5.4	1.2	-	42.7
Buildings . . . . .	530.8	27.0	1.4	-	556.4
Furniture . . . . .	26.0	5.0	(.6)	-	31.6
Office Equipment. . . . .	151.4	19.3	3.8	.5	167.4
General Purpose Computers . . . . .	219.6	3.5	(.1)	(13.8)	209.4
Analog Electronic Switching . . . . .	762.3	30.3	30.3	2.7	765.0
Digital Electronic Switching. . . . .	645.9	302.4 (f)	2.1	.6	946.8
Electro-Mechanical Switching. . . . .	451.6	12.7	193.0	3.3	274.6
Operator Systems. . . . .	25.6	9.7	1.7	13.8	47.4
Radio Systems . . . . .	58.1	1.4	5.1	-	54.4
Circuit Equipment . . . . .	1,588.7	234.1 (f)	83.6	2.5	1,741.7
Station Apparatus . . . . .	12.2	-	-	-	12.2
Customer Premises Wiring. . . . .	618.5	-	3.6	-	614.9
Public Telephone Terminating Equipment. . . . .	48.0	3.1	5.8	3.1	48.4
Other Terminal Equipment. . . . .	90.2	12.4	2.3	-	100.3
Company Used Station Apparatus Transfers. . . . .	4.0	-	3.0	-	1.0
Poles . . . . .	391.8	31.6	6.3	-	417.1
Aerial Cable. . . . .	1,547.2	135.7	18.9	-	1,664.0
Underground Cable . . . . .	704.6	67.1	3.1	-	768.6
Buried Cable. . . . .	229.1	17.6	2.6	-	244.1
Submarine Cable . . . . .	8.2	.2	.2	-	8.2
Intrabuilding Network Cable . . . . .	3.5	1.5	-	-	5.0
Aerial Wire . . . . .	24.5	3.0	.8	-	26.7
Conduit Systems . . . . .	549.0	31.4	.6	-	579.8
Leasehold Improvements. . . . .	28.3	3.7	1.3	-	30.7
Capital Leases . . . . .	49.1	- (e)	4.2	-	44.9
Total Telephone Plant in Service. . . . .	8,903.9	959.8	384.2	13.6	9,493.1
Telephone Plant Under Construction. . . . .	158.6	800.9	792.3(d)	-	167.2
Property Held for Future Use. . . . .	.4	-	.1	-	.3
Total Telephone Plant . . . . .	<u>\$9,062.9</u>	<u>\$1,760.7</u>	<u>\$1,176.6</u>	<u>\$ 13.6</u>	<u>\$9,660.6</u>

See page 4 of 4 for description of (a), (b), (c), (d), (e), and (f).

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY  
FINANCIAL STATEMENT SCHEDULE  
SCHEDULE V - TELEPHONE PLANT  
(Dollars in Millions)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Classification*	Balance at 12/31/86	Additions at Cost Note (a)	Retirements Note (b)	Other Changes Note (c)	Balance at 12/31/87
Land . . . . .	\$ 30.7	\$ .4	\$ -	\$ -	\$ 31.1
Motor Vehicles . . . . .	76.1	1.4	14.4	.7	63.8
Special Purpose Vehicles . . . . .	.2	-	-	-	.2
Garage Work Equipment . . . . .	1.8	.5	.2	-	2.1
Other Work Equipment . . . . .	35.7	3.5	1.1	.4	38.5
Buildings . . . . .	504.4	28.4	2.0	-	530.8
Furniture . . . . .	25.9	3.7	3.6	-	26.0
Office Equipment . . . . .	141.9	16.9	8.7	1.3	151.4
General Purpose Computers . . . . .	230.7	3.6	14.7	-	219.6
Analog Electronic Switching . . . . .	705.6	105.2	50.8	2.3	762.3
Digital Electronic Switching . . . . .	597.9	89.1	43.1	2.0	645.9
Electro-Mechanical Switching . . . . .	418.0	62.3	30.1	1.4	451.6
Operator Systems . . . . .	23.7	3.5	1.7	.1	25.6
Radio Systems . . . . .	53.8	8.0	3.9	.2	58.1
Circuit Equipment . . . . .	1,470.6	219.3 (f)	105.9	4.7	1,588.7
Station Apparatus . . . . .	12.2	-	-	-	12.2
Customer Premises Wiring . . . . .	621.0	-	2.5	-	618.5
Public Telephone Terminating Equipment . . . . .	47.5	3.6	4.9	1.8	48.0
Other Terminal Equipment . . . . .	74.6	16.3	.9	.2	90.2
Company Used Station Apparatus Transfers . . . . .	7.0	-	3.0	-	4.0
Poles . . . . .	361.7	37.1	7.0	-	391.8
Aerial Cable . . . . .	1,417.1	150.0 (g)	19.9	-	1,547.2
Underground Cable . . . . .	642.3	63.7	1.4	-	704.6
Buried Cable . . . . .	211.2	19.8	1.9	-	229.1
Submarine Cable . . . . .	8.1	.3	.2	-	8.2
Intrabuilding Network Cable . . . . .	2.4	1.1	-	-	3.5
Aerial Wire . . . . .	21.5	3.7	.7	-	24.5
Conduit Systems . . . . .	518.9	31.6	1.5	-	549.0
Leasehold Improvements . . . . .	26.9	1.5	.1	-	28.3
Capital Leases . . . . .	11.8	38.1(e)	.8	-	49.1
<b>Total Telephone Plant in Service . .</b>	<b>8,301.2</b>	<b>912.6</b>	<b>325.0</b>	<b>15.1</b>	<b>8,903.9</b>
Telephone Plant Under Construction . .	178.4	637.9	657.7(d)	-	158.6
Property Held for Future Use . . . . .	.3	.1	-	-	.4
<b>Total Telephone Plant . . . . .</b>	<b><u>\$8,479.9</u></b>	<b><u>\$1,550.6</u></b>	<b><u>\$ 982.7</u></b>	<b><u>\$ 15.1</u></b>	<b><u>\$9,062.9</u></b>

See page 4 of 4 for description of (a), (b), (c), (d), (e), (f) and (g).

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY  
FINANCIAL STATEMENT SCHEDULE  
SCHEDULE V - TELEPHONE PLANT  
(Dollars in Millions)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Classification*	Balance at 12/31/85	Additions at Cost Note (a)	Retirements Note (b)	Other Changes Note (c)	Balance at 12/31/86
Land . . . . .	\$ 29.5	\$ 1.4	\$ .2	\$ -	\$ 30.7
Motor Vehicles . . . . .	80.5	-	4.4	-	76.1
Special Purpose Vehicles . . . . .	.2	-	-	-	.2
Garage Work Equipment . . . . .	1.6	.2	-	-	1.8
Other Work Equipment . . . . .	33.7	4.3	2.3	-	35.7
Buildings . . . . .	489.2	17.0	1.8	-	504.4
Furniture . . . . .	27.3	.8	2.2	-	25.9
Office Equipment . . . . .	131.0	20.2	8.4	(.9)	141.9
General Purpose Computers . . . . .	254.9	5.4	19.7	(9.9)	230.7
Analog Electronic Switching . . . . .	666.9	84.1	47.6	2.2	705.6
Digital Electronic Switching . . . . .	565.1	71.3	40.4	1.9	597.9
Electro-Mechanical Switching . . . . .	394.9	50.0	28.2	1.3	418.0
Operator Systems . . . . .	22.4	2.8	1.6	.1	23.7
Radio Systems . . . . .	50.8	6.4	3.6	.2	53.8
Circuit Equipment . . . . .	1,389.8	175.4 (f)	99.2	4.6	1,470.6
Station Apparatus . . . . .	12.2	-	-	-	12.2
Customer Premises Wiring . . . . .	629.5	-	8.5	-	621.0
Public Telephone Terminating Equipment . . . . .	45.9	3.8	3.5	1.3	47.5
Other Terminal Equipment . . . . .	68.8	7.7	2.5	.6	74.6
Company Used Station Apparatus Transfers . . . . .	10.2	-	3.0	(.2)	7.0
Poles . . . . .	332.9	34.1	5.3	-	361.7
Aerial Cable . . . . .	1,294.9	143.5 (g)	21.4	.1	1,417.1
Underground Cable . . . . .	586.5	58.5	2.7	-	642.3
Buried Cable . . . . .	198.4	17.5	4.7	-	211.2
Submarine Cable . . . . .	8.0	.2	.1	-	8.1
Intrabuilding Network Cable . . . . .	.4	2.0	-	-	2.4
Aerial Wire . . . . .	19.6	2.6	.7	-	21.5
Conduit Systems . . . . .	489.3	29.1	(.5)	-	518.9
Leasehold Improvements . . . . .	26.0	1.0	.1	-	26.9
Capital Leases . . . . .	8.4	4.3(e)	.9	-	11.8
Total Telephone Plant in Service . . . . .	7,868.8	743.6	312.5	1.3	8,301.2
Telephone Plant Under Construction . . . . .	170.1	515.8	507.5(d)	-	178.4
Property Held for Future Use . . . . .	.1	.2	-	-	.3
Total Telephone Plant . . . . .	<u>\$8,039.0</u>	<u>\$1,259.6</u>	<u>\$ 820.0</u>	<u>\$ 1.3</u>	<u>\$8,479.9</u>

See page 4 of 4 for description of (a), (b), (c), (d), (e), (f) and (g):

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY  
FINANCIAL STATEMENT SCHEDULE  
SCHEDULE V - TELEPHONE PLANT  
(Dollars in Millions)  
FOOTNOTES

- \* Financial information for years prior to 1988 has been restated to reflect the changes made pursuant to the USOAR (see Note (B) to the financial statements).
- (a) These additions, other than additions to Land and Buildings, include material purchased from NYNEX affiliates. Additions shown also include interest charged construction.
  - (b) Items of telephone plant when retired or sold are deducted from the property accounts at the amounts at which they are included therein, estimated if not known.
  - (c) Includes (1) the original cost (estimated if not known) of reused material which is concurrently credited to material and supplies; (2) reclassifications between the Telephone Plant in Service classifications listed and (3) for 1986, the transfer of assets to NYNEX Service Company.
  - (d) Principally Central Office Equipment completed and transferred to plant in service accounts as "Additions at Cost" in Column C.
  - (e) Capital Leases are excluded from capital expenditures and Statements of Cash Flows.
  - (f) Plant additions are principally the result of the Company's upgrading of Central Office Equipment.
  - (g) Primarily due to upgrading of outside plant to meet customer demand.

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY  
FINANCIAL STATEMENT SCHEDULE  
SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION, AND AMORTIZATION OF TELEPHONE PLANT  
(Dollars in Millions)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Description	Balance at Beginning of Period	Additions	Retirements Note (a)	Other Changes Note (b)	Balance at End of Period
Year 1988.....	\$3,015.0	\$747.8	\$392.0	\$(1.2)	\$3,369.6
Year 1987.....	\$2,613.3	\$714.0(c)	\$327.5	\$15.2	\$3,015.0
Year 1986.....	\$2,306.3	\$614.4	\$317.6	\$10.2	\$2,613.3

- (a) Retirements on this Schedule VI do not equal retirements per the related Schedule V due to the effects of accounting for cost of removal and salvage as prescribed by the FCC.
- (b) Comprises principally (1) depreciation provision for vehicles and other work equipment charged initially to clearing accounts and apportioned to Maintenance, Telephone Plant and other accounts on the basis of the usage of such equipment and (2) accumulated depreciation related to used plant acquired during the year and (3) for 1986, the transfer of depreciation reserve in connection with the transfer of assets to NYNEX Service Company.
- (c) Additions on this Schedule VI do not equal Depreciation and amortization per the Statements of Income and Retained Earnings due to the effects of accounting for Capital Leases in conjunction with Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation."

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY  
 FINANCIAL STATEMENT SCHEDULE  
 SCHEDULE VIII - ALLOWANCE FOR UNCOLLECTIBLES

COLUMN A	COLUMN B	COLUMN C ADDITIONS		COLUMN D	COLUMN E
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses(a)	(2) Charged to Other Accounts Note (b)	Deductions Note (c)	Balance at End of Period
Year 1988 . . . . .	\$20.5	\$31.3	\$22.6	\$49.3	\$25.1
Year 1987 . . . . .	\$16.8	\$35.8	\$17.4	\$49.5	\$20.5
Year 1986 . . . . .	\$11.8	\$30.5	\$18.0	\$43.5	\$16.8

(a) Includes amounts previously written off credited directly to the allowance for uncollectibles account when recovered.

(b) Includes amounts to establish a reserve for purchased accounts receivable.

(c) Amounts written off as uncollectible.



## New England Telephone

A **NYNEX** Company

185 Franklin Street, Room 1104A  
Boston, Massachusetts 02107

**Joseph R. Plati**  
Director-Taxes

April 14, 1989

City Clerk/Town Clerk

Dear Sir:

Enclosed is a copy of Form 10K Annual Report of New England Telephone and Telegraph Company to the Securities and Exchange Commission for the year 1988 filed in accordance with Massachusetts General Laws (Ter. Ed.), Chapter 166 Section 12A.

Very truly yours,

*Joseph R. Plati*

Enclosure

8281A/89/0343A

9. S-459

Comm. from Joseph R. Plati, Director of Taxes,  
New England Telephone, transmitting a copy of  
the Form 10K Annual Report of New England Tele-  
phone & Telegraph Co. for the year 1988.

IN City Council,

June 12, 1989

*Placed on file*