

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT

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

For the fiscal year ended December 31, 1987

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

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 . . . X 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. Prior to its divestiture by American Telephone and Telegraph Company ("AT&T") on January 1, 1984, the Company was an associated company of the Bell System and a wholly owned subsidiary of AT&T. Since January 1, 1984, the Company has been a wholly owned subsidiary of NYNEX Corporation ("NYNEX"), which is one of the seven regional holding companies ("RHCs") formed by AT&T in connection with the divestiture of its 22 wholly owned local exchange companies ("LECs"). On January 1, 1984, ownership of NYNEX and the other RHCs passed from AT&T directly to AT&T's shareholders. (See "Operations Under the Consent Decree" below.)

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 LEC may provide telecommunications services. IntraLATA service may include toll service as well as local service.

Exchange access service refers to the link, provided by the LECs, between a customer's CPE and the transmission facilities of interexchange carriers which provide telecommunications services. In connection with divestiture, the Company is required to offer to all interexchange carriers and information service providers exchange access and information access, at

* Customer premises equipment ("CPE") is defined in the divestiture consent decree and 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 Consent Decree" below.)

certain locations, which are equal in quality, type and price to that provided to AT&T and its affiliates ("Equal Access").

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 have been detariffed on an interstate basis and are offered to interexchange carriers under contract. (See "Federal Regulation - Other Federal Matters" below.) In 1987, approximately 3% of operating revenues was derived from billing and collection services. 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 162,000 network access lines in service in those territories on December 31, 1987. 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>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>
Network Access Lines in Service	5,188	4,975	4,804	4,651	4,479

For the year ending December 31, 1987, approximately 94% of the total operating revenues of the Company was derived from telecommunications services. The remainder of total operating revenues of approximately 6% was derived from other sources, including billing and collection services and publishing rights fees for telephone directories. In 1987, one customer, AT&T, accounted for approximately 26% of operating revenues, primarily in network access revenues.

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 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. Bellcore is 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 divestiture consent decree.

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 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 divisions, 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 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 as lawfully permitted. 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 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, provides 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, formed as of January 1, 1988, is an integrated sales force targeted to market the products and services of NYNEX and its subsidiaries, including the Company, to the largest customer accounts.

Construction Expenditures

The Company makes large construction expenditures to meet the demand for telecommunications services and to further improve such services. Included in construction expenditures for 1987, 1986, 1985 and 1984 are costs incurred in connection with the requirement to provide Equal Access. (See "Telecommunications Services" above.) Construction expenditures for 1983 through 1987 are set forth below:

In Millions	
1987. \$854	1983. \$830
1986. \$743	
1985. \$843	
1984. \$765	

The Company's construction expenditures for 1988 are currently projected to be at a level comparable to 1987 expenditures.

Operations Under the Consent Decree

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 "Consent Decree"). On February 28, 1983, the United States Supreme Court affirmed the Consent Decree.

As initially approved, the Consent Decree restricted the RHCs and their subsidiaries, including the Company, 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. In February 1987, the DOJ filed with the Court its Triennial Report in which it recommended that certain restrictions imposed by the Consent Decree upon the RHCs and their subsidiaries, including the Company, be removed. On September 10, 1987, the Court denied the RHCs permission to provide certain "core" services which are expressly barred by the Consent Decree, that is, the provision of interLATA telecommunications services, the provision of information services and the manufacture of telecommunications equipment. However, the Court did permit the RHCs for the first time to provide noncore services without obtaining prior Court approval. The RHCs and their subsidiaries, including the Company, are still required to seek Court approval in order to provide any core service. Court approval to engage in a core activity 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. On March 7, 1988, the Court ruled that the RHCs and their subsidiaries, including the Company, are permitted to provide transmission information services as part of a "gateway" to information furnished by others, but are not permitted to generate or manipulate the content of information. The RHCs were also authorized to provide voice messaging and electronic mail services.

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.

Pursuant to these procedures prior to September 10, 1987, the Court had granted NYNEX permission to engage in the following business activities: to engage in foreign business ventures, to market office automation equipment through retail stores, to initiate and participate in real estate ventures, to engage in the print media business, to provide software and related services, to provide cellular monitoring and consulting services, to perform nontariffed billing and collection services, to provide financial services to third parties, to engage in foreign manufacturing, foreign telecommunications and other business ventures abroad, to enter the property/casualty insurance business to meet its own insurance needs and to provide certain training and educational services to the public. Also, as a result of a United States Court of Appeals decision, the RHCs generally are able to provide exchange services, such as paging and cellular services, outside their respective territories without obtaining the approval of the Court. The Court also specifically granted the Company permission to engage in certain of these activities.

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 all 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 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 and to \$2.60 on June 1, 1987. The FCC has determined that the EUCLC should be increased to \$3.20 on December 1, 1988, and 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 other 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 has 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 are 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.

Other Federal Matters

Effective February 15, 1985, the FCC allowed Equal Access Cost Recovery ("EACR") tariffs filed by the Company to go into effect, subject to an investigation of the cost support for the rates filed and subject to refund pursuant to an accounting order. 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 12.0% rate of return prescription through 1989. The interstate access rate of return is subject to represcription for 1990-91. 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 has recently reversed the FCC's enforcement mechanism order and has 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 Company 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 Company

and other LECs upon the fulfillment of certain requirements, including compliance with the equal interconnection provisions of the order, 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 Consent Decree, NYNEX and its subsidiaries, including the Company, would continue to be prohibited by the Consent Decree from providing such a service, except as specifically permitted by Court order. (See "Operations Under the Consent Decree" 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.

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 Company's provision of CPE, 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 non-regulated 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. The Company filed a cost allocation manual with the FCC on August 14, 1987. The FCC has approved the manual, effective January 1, 1988. As required by the FCC, certain amendments to the manual were filed on March 14, 1988, and are subject to FCC approval.

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.

State Regulation

Set forth below is a description of certain intrastate regulatory proceedings with respect to changes in rates and revenues. 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.

Intrastate Rates

Increases in intrastate revenues* authorized for the Company aggregated \$45.6 million in 1983, \$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.

As a result of divestiture, the Company was restructured and has new modes of operation and new tariff structures. The extent of the changes caused by restructuring generally does not permit meaningful comparisons of most post-divestiture and pre-divestiture intrastate revenue changes.

Maine. On March 25, 1987, the Maine Public Utilities Commission ("MPUC") approved a stipulated agreement between the Company, the Office of the Public Advocate and the MPUC staff. The stipulated agreement required the Company to reduce rates by \$9.2 million on an annual basis effective April 1, 1987. The stipulated agreement reflects the impact of the Tax Reform Act of 1986, new composite depreciation rates and federally mandated Separations changes. The stipulated agreement also provided for a one-time credit to customers which totaled approximately \$1.0 million.

On November 6, 1987, the Company entered into another stipulated agreement with the same parties with respect to transactions between affiliated companies. The stipulated agreement resulted in an additional \$900,000 annual reduction in revenues, effective January 1, 1988.

Massachusetts. On June 1, 1987, the Massachusetts Department of Public Utilities ("MDPU") issued an order directing the Company and seventeen other large gas, electric and telephone companies to reduce their rates effective July 1, 1987, to reflect the impact of the Tax Reform Act of 1986. The Company filed tariffs, which became effective on July 1, 1987, in compliance with the MDPU's order. The tariffs reflect a reduction of approximately 2.9% on most services, or approximately \$42.0 million in revenues on an annual basis.

In a separate proceeding, the MDPU is continuing its investigation of the Company's intrastate revenue requirements in Massachusetts, and it is not known at this time when an order will be issued.

*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.

New Hampshire. On July 15, 1987, the New Hampshire Public Utilities Commission ("NHPUC") issued a final order in its investigation of the Company's capital structure, in effect, finding that the Company's current capital structure is reasonable.

The NHPUC directed the Company to reduce rates effective November 1, 1987, to reflect an annual reduction in revenues of approximately \$2.0 million. The revenue reduction included the effects of the Tax Reform Act of 1986, certain Separations changes mandated by the FCC, and the represcription of depreciation rates in New Hampshire.

Rhode Island. On May 7, 1987, the Company entered into a stipulated agreement with the Attorney General of Rhode Island, the Division of Public Utilities and Carriers, and the Rhode Island Consumers' Council providing for an annual decrease in the Company's revenues of \$5.3 million, effective June 1, 1987. On June 30, 1987, the Rhode Island Public Utilities Commission approved the stipulated agreement. The stipulated agreement provides for a 5.9% reduction in basic local exchange rates. The net revenue reduction included the effects of the Tax Reform Act of 1986, federally mandated Separations changes, and the represcription of depreciation rates in Rhode Island.

Vermont. Based on a 1986 agreement with the Vermont Public Service Board ("VPSB"), the Company provided Vermont customers with a one-time credit of \$5.4 million, of which \$1.8 million is reflected in the financial statements for 1987.

In June 1987, the Governor of Vermont signed a bill that authorizes the 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 this 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.

On October 14, 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 not regulate the Company on a rate of return basis. On October 27, 1987, the contract was filed with the VPSB, which is expected to hold public hearings prior to issuing a decision whether to approve the contract.

In a separate proceeding, the VPSB authorized higher depreciation rates which became effective on April 1, 1987.

Intrastate Access Charges

Massachusetts. In July 1987, the MDPU ordered that all intrastate switched and special access charges be reduced by approximately 3% to reflect charges in the federal tax laws. This order resulted in a reduction in annual revenues of approximately \$1.2 million.

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, 1987, the aggregate amount of such revenues which was estimated to be subject to possible refund was approximately \$21.9 million.

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. Interexchange carriers and end users now 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. Delays or changes in the scheduled implementation of EUCLCs will further encourage interexchange carriers and end users to seek alternative means of originating and completing interstate communications. 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 and resellers are also 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 and the MDPU have authorized intrastate intraLATA competition for certain services in Vermont and Massachusetts, respectively.

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 28,500 employees. Approximately 18,400 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, new three-year collective bargaining contracts for represented employees were executed between the Company and the IBEW and the CWA. These contracts provide 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.

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, 1987, the gross book value of telephone plant was \$9.1 billion, consisting principally of: central office equipment (39%); outside aerial and underground facilities (38%); other telephone equipment, mainly station connections (11%); land and buildings (7%); and the remainder was principally plant under construction and furniture and office equipment (5%).

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.

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

* 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.

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 validity of Bell System tariffs that had required protective connecting arrangements for the interconnection of customer-provided terminal equipment to the network. This case also includes allegations relating to predatory pricing of terminal equipment and procurement practices. Another case challenges the Bell System's procurement practices with respect to particular items of equipment. In December 1987, 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 a variety of conduct on the part of former Bell System companies that allegedly violated the antitrust laws.

The outcome of the antitrust and other litigation described above and other pending litigation is not presently determinable, but, in the opinion of management based on the advice of counsel, the ultimate resolution of such matters will not have a material adverse impact on the Company's financial position.

We hereby certify that the condensed return of its business and financial condition contained on pages 18 to 40 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 30, 1988. 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

PART II

Item 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA*

Dollars in Millions	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>
Operating revenues.	\$3,421	\$3,259	\$3,086	\$2,844	\$3,088
Operating expenses.	\$2,394	\$2,234	\$2,121	\$1,945	\$2,174
Interest expense.	\$ 172	\$ 166	\$ 164	\$ 179	\$ 181
Net income.	\$ 435	\$ 410	\$ 380	\$ 325	\$ 327
Telephone plant - net	\$6,048	\$5,867	\$5,733	\$5,448	\$5,669
Total assets.	\$7,027	\$6,812	\$6,595	\$6,321	\$6,511
Long-term debt.	\$1,955	\$1,771	\$1,774	\$1,726	\$1,718
Share owner's equity.	\$2,821	\$2,718	\$2,625	\$2,532	\$2,580
Total construction.	\$ 854	\$ 743	\$ 843	\$ 765	\$ 830
Return to equity.	15.56%	15.22%	14.51%	13.55%	12.75%
Ratio of earnings to fixed charges+.	4.81	4.98	4.59	3.78	3.84

SELECTED OPERATING DATA

In thousands

Network access lines in service at December 31.	5,188	4,975	4,804	4,651	4,479
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* Financial data for 1984 through 1987 reflect post-divestiture results of New England Telephone and Telegraph Company (the "Company"). Financial data for 1983 reflect the historical financial data of the Company as a wholly owned subsidiary of American Telephone and Telegraph Company ("AT&T"). The extent of the changes required as a result of divestiture generally does not permit meaningful comparisons of post-divestiture and pre-divestiture financial data.

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

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

For the year ended December 31, 1987 as compared to December 31, 1986:

Operating Revenues

Total 1987 operating revenues increased \$162.2 million, a 5.0% increase over 1986.

Local service revenues increased \$36.0 million, or 2.8%, due primarily to increased demand of \$59 million, which was partially offset by state regulatory action related to the Federal income tax rate reduction that resulted in decreased revenues of approximately \$23 million.

Network access revenues increased \$8.9 million, or .9%, due primarily to a \$35 million increase in usage sensitive switched access revenues and a \$6 million increase in special access revenues. These increases were partially offset by a \$30 million decrease in Common Line revenues.

Toll service revenues increased \$77.3 million, or 9.0%, due principally to increased demand of \$91 million partially offset by a state regulatory action related to the Federal income tax rate reduction which resulted in decreased revenues of approximately \$13 million.

Other operating revenues increased \$45.3 million, or 26.4%, primarily due to a \$48 million increase in revenues for billing and collection services which are provided under contract to interexchange carriers, primarily AT&T, and a \$9 million increase in publishing rights fees from an affiliate. These increases were partially offset by a \$21 million reduction in rental revenues from network facilities shared with AT&T.

Operating Expenses

Total operating expenses increased \$159.5 million, or 7.1%, over 1986.

Maintenance expense increased \$51.7 million, or 7.5%, primarily as a result of increases in wage expense, related overhead costs, and contracted services.

Depreciation expense increased \$78.7 million, or 12.8%. Of this increase, \$35 million is attributable to increased plant investment and \$44 million is due to depreciation represcription involving both revised depreciation rates and the amortization of depreciation reserve deficiencies. Revised interstate depreciation rates were approved by the Federal Communications Commission ("FCC") during 1987, retroactive to January 1, 1987. State regulatory authorities also approved revised intrastate depreciation rates in four states in 1987. Revised rates were effective on April 1, 1987 in Maine and Vermont; on July 1, 1987 in New Hampshire; and on August 1, 1987 in Rhode Island.

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

In Massachusetts, state regulatory authorities are reviewing the Company's proposed intrastate rates, with a resolution expected during the first half of 1988.

Marketing and customer services expenses increased \$29.1 million, or 11.6%, principally due to increases in contracted services expenses of \$12 million to affiliates and others, advertising expenses of \$7 million and salary and wage expenses of \$5 million.

Provisions for pensions and other employee benefits decreased \$26.0 million, or 14.4%. The decrease was attributed primarily to a reduction in pension costs of \$38 million due to actuarial experience and lower funding levels which will result in deferred regulatory recognition of a portion of the Company's pension costs. Partially offsetting this decrease was a \$12 million increase in medical, dental and other benefit plan expenses.

The remaining operating expenses increased \$26.0 million, or 5.2%, due principally to increased costs for contracted and centralized services of \$36 million and salaries and wages of \$6 million. These increases were partially offset by a decrease of \$21 million in rental expense for network facilities shared with AT&T.

Operating Taxes

Total operating taxes decreased \$30.0 million, or 6.4%. The Tax Reform Act of 1986 decreased the statutory Federal income tax rate from 46% to a blended rate of 39.95%, thereby reducing Federal income tax expense by approximately \$34 million. In 1988 and thereafter, the Federal income tax rate will be 34%.

Interest Expense

Interest expense increased \$6.8 million, or 4.1%. This increase was due to an increase in non-capital interest expense and an increase in average short term debt. These increases were partially offset by the refinancing of certain long-term obligations in March 1986 at lower interest rates.

Anticipated Effects of Inflation

In the years immediately preceding 1987, there had been a sharp decline in the rate of inflation nationwide. In 1987, the inflation rate increased slightly from 1986, but this increase did not completely offset the declines experienced in 1986 and prior years. As a result, 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 form of property, plant and equipment. The generation of replacement capital could be impeded by a protracted period of high levels of inflation, which has not been experienced by the Company in recent years. A substantial portion of the

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

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 other costs.

Anticipated Effects of Statement of Financial Accounting Standards No. 96 "Accounting for Income Taxes"

In 1987, Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" ("Statement No. 96"), was issued by the Financial Accounting Standards Board requiring implementation by the Company no later than 1989. The Company has not completed all of the analyses required to estimate the effect of Statement No. 96. However, the adoption of Statement No. 96 by the Company is not expected to have a material effect on the results of operations due to anticipated regulatory decisions.

Anticipated Effects of the Uniform System of Accounts Rewrite

Effective January 1, 1988, the FCC rescinded Part 31 of the Uniform System of Accounts and replaced it with Part 32, Uniform System of Accounts for Telephone Companies (the "USOAR"). The USOAR not only changed the chart of accounts for the Company but also the accounting for interstate purposes of certain transactions.

Certain expenditures which were previously capitalized are now expensed under the USOAR. Specifically, these costs consist of various payroll-related and construction-related expenditures which were previously charged to capital accounts and were amortized over the life of the asset and included in the rate base.

The USOAR requires expense recognition as compensated absences are earned by employees. Previously, a liability was recorded for financial reporting purposes with a corresponding deferred charge that was recognized in the rate-making process as expense when paid. The expense recognition for the deferred charge that exists at December 31, 1987 will occur over a ten year period to lessen the effect on revenue requirements.

In addition, management anticipates recovering increased costs in the various intrastate jurisdictions through the rate-making process.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Management

The financial statements on the following pages have been prepared in conformity with generally accepted accounting principles and, in the judgment of management, present fairly the Company's financial position and results of operations.

The integrity and objectivity of data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility of management, as is all other information included in the Annual Report on Form 10-K unless indicated otherwise. Accordingly, management maintains a system of internal accounting controls which is reviewed and evaluated on an ongoing basis. Our internal auditors monitor compliance with the system of internal accounting controls in connection with the annual plan of internal audits. However, there are inherent limitations that should be recognized in considering the assurances provided by any system of internal accounting controls. The concept of reasonable assurance recognizes that the costs of a system of internal accounting controls should not exceed, in management's judgment, the benefits to be derived from the system. Management believes that the Company's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and are recorded properly to maintain accountability for assets and to permit the preparation of financial statements in conformity with generally accepted accounting principles. Management also believes that this system provides reasonable assurance that access to assets is permitted only in accordance with management's authorizations, that the recorded assets are compared with the existing assets at reasonable intervals and that appropriate action is taken with respect to any differences. Management also seeks to assure the objectivity and integrity of its financial data by careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communications programs aimed at assuring that its policies, standards and managerial authorities are understood throughout the organization.

These financial statements have been examined by Coopers & Lybrand, Independent Certified Public Accountants.

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. Both the internal auditors and Coopers & Lybrand periodically meet privately with the Audit Committee and have access to the Audit Committee at any time.

P. C. Manus
Vice President - Finance and Comptroller

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have examined the financial statements and the financial statement schedules of New England Telephone and Telegraph Company as listed in Item 14(a) of this Form 10-K. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of New England Telephone and Telegraph Company as of December 31, 1987 and 1986, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis. In addition, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein.

COOPERS & LYBRAND

Boston, Massachusetts
February 5, 1988

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY
STATEMENTS OF INCOME AND RETAINED EARNINGS
Dollars in Millions

	<u>For the Year Ended December 31,</u>		
	<u>1987</u>	<u>1986</u>	<u>1985</u>
OPERATING REVENUES			
Local service			
Service and equipment charges.	\$1,056.1	\$1,023.7	\$ 966.5
Message charges.	188.8	187.8	168.6
Public telephones and other.	95.8	93.2	86.8
Network access [Note (H)].	965.3	956.4	884.8
Toll service			
Message charges.	588.9	534.2	487.2
WATS, private lines and other.	345.1	322.5	280.8
Other [Notes (H) and (I)]	216.8	171.5	235.2
Provision for uncollectibles	(35.8)	(30.5)	(23.5)
Total operating revenues	<u>3,421.0</u>	<u>3,258.8</u>	<u>3,086.4</u>
OPERATING EXPENSES			
Maintenance.	744.9	693.2	651.2
Depreciation	693.1	614.4	563.8
Marketing and customer services.	279.7	250.6	220.3
Provisions for pensions and other employee benefits [Note (C)]	154.5	180.5	208.1
Network and operator services.	153.1	145.6	138.8
Centralized services [Note (I)].	139.8	119.3	96.7
Financial operations	130.2	126.1	104.1
Other.	98.5	104.6	137.8
Total operating expenses	<u>2,393.8</u>	<u>2,234.3</u>	<u>2,120.8</u>
Net operating revenues	<u>1,027.2</u>	<u>1,024.5</u>	<u>965.6</u>
OPERATING TAXES			
Federal income [Note (B)].	227.1	261.5	237.8
State income [Note (B)].	49.0	46.0	42.1
Property	49.6	46.7	44.9
Other [Note (J)]	116.1	117.6	118.6
Total operating taxes	<u>441.8</u>	<u>471.8</u>	<u>443.4</u>
Operating income	585.4	552.7	522.2
OTHER INCOME AND DEDUCTIONS-NET	<u>22.1</u>	<u>23.3</u>	<u>21.3</u>
Income before interest expense	607.5	576.0	543.5
INTEREST EXPENSE	<u>172.5</u>	<u>165.7</u>	<u>164.0</u>
NET INCOME	<u>\$ 435.0</u>	<u>\$ 410.3</u>	<u>\$ 379.5</u>
RETAINED EARNINGS			
Beginning of year.	\$ 927.3	\$ 833.8	\$ 755.7
Net income	435.0	410.3	379.5
Dividends.	(332.7)	(316.8)	(301.4)
End of year.	<u>\$1,029.6</u>	<u>\$ 927.3</u>	<u>\$ 833.8</u>

See notes to financial statements.

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY
BALANCE SHEETS
Dollars in Millions

	December 31,	
<u>ASSETS</u>	1987	1986
Telephone plant		
In service	\$8,904.3	\$8,301.5
Under construction	158.6	178.4
	9,062.9	8,479.9
Less: accumulated depreciation.	3,015.0	2,613.3
	6,047.9	5,866.6
Current assets		
Cash	10.2	16.2
Receivables		
Customers (net of allowance of \$20.5 and \$16.8, respectively) [Note (H)].	584.0	612.6
Affiliates [Note (I)].	4.2	7.2
Other.	32.4	42.4
Material and supplies.	61.1	56.9
Charges deferred for one year.	158.2	129.5
Prepaid expenses and other current assets. . .	16.8	15.5
	866.9	880.3
Other assets and deferred charges [Note (I)] . .	112.5	65.5
TOTAL ASSETS	\$7,027.3	\$6,812.4

See notes to financial statements.

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY
BALANCE SHEETS
 Dollars in Millions

	December 31, 1987	1986
<u>SHARE OWNER'S EQUITY, LIABILITIES AND DEFERRED CREDITS</u>		
Share owner's equity		
Common stock - one share, without par value [Note (D)]	\$1,791.1	\$1,791.1
Retained earnings.	<u>1,029.6</u>	<u>927.3</u>
	<u>2,820.7</u>	<u>2,718.4</u>
Long-term debt [Note (E)].	<u>1,955.2</u>	<u>1,770.7</u>
Current liabilities		
Accounts payable		
AT&T [Note (H)].	97.9	136.5
Affiliates [Note (I)].	94.9	92.2
Compensated absences	77.9	72.7
Trade and other.	199.2	205.3
Dividends payable.	83.2	79.2
Taxes accrued.	75.7	138.4
Interest accrued	45.3	40.7
Debt maturing within one year [Note (F)]	41.9	40.7
Advance billing and customers' deposits.	27.1	31.6
Income taxes deferred for one year	3.4	14.5
	<u>746.5</u>	<u>851.8</u>
Deferred credits		
Accumulated deferred income taxes.	1,184.9	1,118.3
Unamortized investment tax credits	305.0	347.9
Other.	15.0	5.3
	<u>1,504.9</u>	<u>1,471.5</u>
Commitments and contingencies [Notes (G) (K) and (L)]		
TOTAL SHARE OWNER'S EQUITY, LIABILITIES AND DEFERRED CREDITS		
	<u>\$7,027.3</u>	<u>\$6,812.4</u>

See notes to financial statements.

NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY
 STATEMENTS OF SOURCES OF FUNDS
 SUPPORTING CONSTRUCTION ACTIVITY
 Dollars in Millions

	For the Year Ended December 31,		
	<u>1987</u>	<u>1986</u>	<u>1985</u>
Funds from operations:			
Met Income	\$ 435.0	\$ 410.3	\$ 379.5
Add expenses not requiring funds currently:			
Depreciation	693.1	614.4	563.8
Deferred income taxes - net	53.9	133.7	96.9
Deferred tax credits - net	(42.8)	(10.9)	34.2
Deduct income not providing funds currently:			
Interest charged construction . . .	15.9	14.2	12.9
Total funds from operations	<u>1,123.3</u>	<u>1,133.3</u>	<u>1,061.5</u>
Less: dividends	<u>332.7</u>	<u>316.8</u>	<u>301.4</u>
	<u>790.6</u>	<u>816.5</u>	<u>760.1</u>
Funds from external financing:			
Equity investment by parent	-	-	14.6
Issuance of long-term debt	198.6	344.0	197.0
Change in short-term borrowings - net.	1.2	(76.7)	(69.0)
	<u>199.8</u>	<u>267.3</u>	<u>142.6</u>
Less: retirement of long-term debt . .	-	351.5	154.6
debt maturing within one year . .	<u>30.0</u>	<u>-</u>	<u>-</u>
	<u>169.8</u>	<u>(84.2)</u>	<u>(12.0)</u>
Changes in working capital (excluding debt maturing within one year and income taxes deferred for one year):			
Cash	6.0	(.5)	6.5
Receivables	41.6	(33.2)	38.0
Material and supplies	(4.2)	(3.3)	(3.7)
Charges deferred for one year	(28.7)	(7.4)	(9.0)
Prepaid expenses and other current assets	(1.3)	.2	(4.5)
Accounts payable	(36.8)	(22.2)	.4
Taxes accrued	(62.7)	97.7	(8.5)
Dividends payable	4.0	2.4	76.8
Interest accrued	4.6	5.7	8.7
Advance billing and customers' deposits	(4.5)	.1	1.4
	<u>(82.0)</u>	<u>39.5</u>	<u>106.1</u>
Other changes:			
Other assets and deferred charges . .	(47.0)	(39.3)	(16.3)
Other - net	7.1	(3.4)	(7.4)
	<u>(39.9)</u>	<u>(42.7)</u>	<u>(23.7)</u>
Funds supporting construction activity .	<u>838.5</u>	<u>729.1</u>	<u>830.5</u>
Add: interest charged construction . .	<u>15.9</u>	<u>14.2</u>	<u>12.9</u>
Total Construction	<u>\$ 854.4</u>	<u>\$ 743.3</u>	<u>\$ 843.4</u>

See 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.

The 1986 and 1985 financial statements have been reclassified to conform to the current year's format.

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.

Material and Supplies

Material and supplies are carried principally at average cost.

Depreciation

Depreciation rates used for interstate operations are prescribed by the FCC. Most rates are calculated on a straight-line basis using the concept of "remaining life". 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.

NOTES TO FINANCIAL STATEMENTS (continued)

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 the 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 and Deductions - 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

The Company accrues a liability for employees' rights to receive compensation for future absences. The Company, in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("Statement No. 71"), defers such costs in the balance sheets until the compensation is paid and recovered through rates.

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.

Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the periods 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 (B)], prevent the tax effect of these timing differences from

NOTES TO FINANCIAL STATEMENTS (continued)

Income Taxes (continued)

distorting net income. Deferred income taxes - net are recorded for timing differences when recognized currently by regulators in the rate-making process, principally on the following transactions:

(a) 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 the financial statements. The accumulated tax effects of these timing differences are shown in the accompanying balance sheets as Deferred credits - Accumulated deferred income taxes. [See Note (B).]

(b) Call premiums on the repurchase or redemption of long-term debt, as well as associated expenses, are expensed currently for income tax purposes and deferred and amortized for financial statement purposes. The tax effect of this timing difference is included in the accompanying balance sheets as Deferred credits - Accumulated deferred income taxes. [See Note (E).]

Effective January 1, 1987, the provisions of the Tax Reform Act of 1986 decreased the statutory rate from 46% to a blended rate of 39.95%. As a result, the Company has deferred income taxes from previous years that have been provided at a tax rate which is higher than the current statutory rate. Under the Company's current accounting for financial reporting purposes, this excess would normally be reversed as the transactions giving rise to these differences reversed.

In accordance with provisions of the Tax Reform Act of 1986, the Company is required to 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.

The reversal of the remaining excess deferred taxes of the Company is subject to regulatory action. Currently, the excess is being amortized over the regulatory life of the asset giving rise to the deferred taxes.

Investment tax credits resulted from provisions of Federal tax law which allowed for a reduction in tax liability based on certain property, plant and equipment expenditures. Corresponding reductions in tax expense were deferred and amortized as reductions in tax expense over the life of the assets which gave rise to the credits. The Tax Reform Act of 1986 repealed the investment tax credit effective January 1, 1986 but provided transition rules which allow the Company to earn certain investment tax credits in 1986 and continuing in subsequent years.

NOTES TO FINANCIAL STATEMENTS (continued)

(B) Income Taxes

The components of operating income tax expense are as follows:

Dollars in Millions	1987	1986	1985
Federal:			
Current.	\$225.8	\$149.6	\$123.5
Deferred - net	44.1	122.8	80.1
Deferred tax credits - net	(42.8)	(10.9)	34.2
	<u>227.1</u>	<u>261.5</u>	<u>237.8</u>
State:			
Current.	39.2	35.1	25.3
Deferred - net	9.8	10.9	16.8
	<u>49.0</u>	<u>46.0</u>	<u>42.1</u>
Total.	<u>\$276.1</u>	<u>\$307.5</u>	<u>\$279.9</u>

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 significantly decreased.

Income tax expense included in Other Income and Deductions - Net was \$0.1, \$7.0 and \$6.4 million in 1987, 1986 and 1985, respectively.

NOTES TO FINANCIAL STATEMENTS (continued)

Federal income tax expense for each of the years ended December 31, 1987, 1986 and 1985 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:

	1987	1986	1985
Statutory rate	39.95%	46.0%	46.0%
a. Amortization of investment tax credits over the life of the assets which gave rise to the credits.	(6.03)	(6.3)	(6.3)
b. Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted for income tax purposes in prior years, net of applicable depreciation . .	1.09	.7	(.2)
c. Interest charged construction, which is excluded from taxable income, net of applicable depreciation	(.27)	(.3)	(.2)
d. Other differences.	<u>(.34)</u>	<u>(.6)</u>	<u>(.2)</u>
Effective tax rate	<u>34.40%</u>	<u>39.5%</u>	<u>39.1%</u>

The amortization of investment tax credits was \$39.9, \$42.5 and \$39.5 million in 1987, 1986 and 1985, respectively.

The cumulative net amount of income tax timing differences for which deferred income taxes are not provided are represented principally by (b), (c) and (d) above. The tax effects of these amounts are not recorded currently by the Company because regulatory commission procedures result in such costs being charged to customers when the timing differences reverse and the taxes are paid. As of December 31, 1987, the cumulative net amount of these items was \$440.1 million.

In 1987, Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" ("Statement No. 96"), was issued by the Financial Accounting Standards Board requiring implementation by the Company no later than 1989. The Company has not completed all of the analyses required to estimate the effect of Statement No. 96. However, the adoption of Statement No. 96 by the Company is not

NOTES TO FINANCIAL STATEMENTS (continued)

expected to have a material effect on the results of operations due to anticipated regulatory decisions.

(C) 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 costs for 1987, 1986 and 1985 were \$16.3, \$54.5 and \$74.2 million, respectively. Amounts were computed as follows: for 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; for 1985 costs were developed using an assumed investment earnings rate of 8 1/4%, followed by a graduated decline to 5 1/4% for 1998 and thereafter. Pension costs for 1987 reflect the deferral of \$8.9 million as a result of state regulatory decisions that require pension expense to be equivalent to amounts contributed to the Plans.

The assumptions used to determine the projected benefit obligations as of December 31, 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.

During 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 1987 costs by approximately \$0.6 million. In addition, 1987 costs decreased approximately \$28.7 million, principally as the result of recognition

NOTES TO FINANCIAL STATEMENTS (continued)

of prior years actuarial experience and a change in the methodology for calculating the actuarial value of assets.

During 1986, 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 increase 1986 costs by approximately \$3.2 million. Changes in the assumed earnings rate, discussed above, had the effect of decreasing 1986 costs by approximately \$9.2 million. The remaining decrease in 1986 costs was principally the result of recognition of 1985 actuarial experience, the use of an updated mortality table and the charging of investment costs to the Plans' trusts and the transfer of employees to NYNEX Service.

The actuarial present value of accumulated Plan benefits and the fair value of net assets available for Plan benefits are required disclosures. However, such disclosures are not presented for the Company as the structure of the Plans does not readily permit the Plans' assets and the accumulated benefits data to be disaggregated. Based on the actuarial valuation of the Plans as of January 1, 1987 and 1986 utilizing assumed rates of return averaging 8.0% and 8.2%, respectively, the fair value of the net assets available for Plan benefits exceeded the actuarial present value of vested and nonvested accumulated Plan benefits.

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 principally on the amount of benefits paid during the year. Total costs of providing benefits for active and retired employees and their families were \$97.8, \$85.6 and \$92.1 million in 1987, 1986 and 1985, 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 27,400 active employees.

(D) Common Stock

In 1987 and 1986, there were no changes in the equity capital of the Company. In 1985 the equity capital of the Company increased by \$9.6 million through an equity investment made by NYNEX and by \$5.0 million in connection with the NYNEX Corporation Employee Stock Ownership Plan.

NOTES TO FINANCIAL STATEMENTS (continued)

(E) Long-Term Debt

Interest rates and maturities on long-term debt outstanding at December 31, 1987 are as follows:

Dollars in Millions	Interest rates				Total Outstanding
	3 1/8% to 4 5/8%	6 1/8% to 7 3/8%	8% to 9%	9 1/2% to 13 2/3%	
Debentures:					
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
Notes:					
1992				200.0	200.0
Other.	-	-	-	23.7	23.7
	<u>\$230.0</u>	<u>\$425.0</u>	<u>\$895.0</u>	<u>\$478.7</u>	<u>2,028.7</u>
Unamortized (discount) premium - net.					(73.5)
Total					<u>\$1,955.2</u>

In 1991, \$30.0 million of the Debentures will mature.

On October 5, 1987, the Company issued its Five Year 9 1/2% Notes, due October 1, 1992, in the aggregate principal amount of \$200.0 million.

The Company's Debentures 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 Debentures, as well as associated expenses, are deferred and amortized, to the extent permitted, over periods stipulated by the FCC. These deferrals are included as a reduction to Long-term debt in the accompanying balance sheets and amount to \$53.4 and \$54.9 million as of December 31, 1987 and 1986, respectively.

At December 31, 1987, the Company had \$500.0 million of unissued, senior, unsecured debt securities registered with the Securities and Exchange Commission.

NOTES TO FINANCIAL STATEMENTS (continued)

(F) Debt Maturing Within One Year

In 1987 and 1986, 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.

Debt maturing within one year and related weighted average interest rates are as follows:

Dollars in Millions	December 31,			Weighted average interest rate		
	1987	1986	1985	1987	1986	1985
Advances from NYNEX. . .	\$ 7.0	\$ 36.7	\$115.7	6.98%	7.88%	8.02%
Bank loans	-	2.0	-	-	7.40%	-
Debentures payable . .	30.0	-	-	3.13%	-	-
Other short-term debt. <u>4.9</u>	<u>4.9</u>	<u>2.0</u>	<u>1.7</u>			
Total . . .	<u>\$41.9</u>	<u>\$ 40.7</u>	<u>\$117.4</u>			
Dollars in Millions	1987	1986	1985	1987#	1986#	1985#
Average amount of advances from NYNEX outstanding during the year.	\$143.4+	\$ 70.8+	\$ 22.3+	6.81%	7.13%	7.94%
Average amount of notes payable outstanding during the year.	\$ 1.8+	\$ 1.7+	\$ 17.7+	8.02%	8.15%	8.34%
Maximum amount of advances from NYNEX payable at any month end during the year	\$261.2	\$203.0	\$115.7			
Maximum amount of notes payable at any month end during the year.	\$ 2.0	\$ 2.0	\$111.0			

Interest expense on advances from NYNEX was \$9.8, \$5.0 and \$1.8 million in 1987, 1986 and 1985, 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)

(G) Lease Commitments

The Company leases certain facilities and equipment used in its operations and reflects lease payments as rental expense for the periods to which they relate. Rental expense was \$42.2, \$49.9 and \$64.7 million for 1987, 1986 and 1985, respectively. At December 31, 1987, the minimum lease commitments under noncancelable operating and capital leases for the periods shown are as follows:

Dollars in Millions

Year	Operating	Capital
1988	\$ 26.0	\$ 8.2
1989	18.6	7.8
1990	16.2	6.4
1991	** 21.4	4.2
1992	24.6	3.2
Thereafter	<u>407.6</u>	<u>9.9</u>
Total minimum lease payments	<u>\$514.4</u>	39.7
Less: executory costs		<u>7.3</u>
Net minimum lease payments		32.4
Less: interest		<u>8.6</u>
Present value of net minimum lease payments		<u>\$23.8</u>

** The majority of the 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.

Included in rental expense is \$17.1, \$38.0 and \$51.8 million for 1987, 1986 and 1985, 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.

In accordance with Statement No. 71, all capital leases have been recorded in the financial statements as of January 1, 1987. Prior to January 1, 1987, capital leases with inception dates before January 1, 1983 were accounted for as operating leases. Had such leases been capitalized during 1986, the amount of net assets and related obligations included in the balance sheet would have increased by \$21.1 million at December 31, 1986.

NOTES TO FINANCIAL STATEMENTS (continued)

(H) Transactions with AT&T

In 1987, 1986 and 1985, AT&T provided approximately 26%, 29% and 31%, 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.

(I) 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, a portion of which is research and development, relating to exchange telecommunications and exchange access services.

Effective January 1, 1986, the Company and New York Telephone Company transferred certain personnel performing internal data processing and related services to NYNEX Service. Under the terms of the transfer, NYNEX Service performs data processing and related services on behalf of the Company and New York Telephone Company on a centralized basis. For 1987, 1986 and 1985, the Company recorded charges of \$335.3, \$297.6 and \$106.3 million, respectively, in connection with these services. In March 1987 and December 1986, the Company made an equity investment of \$20.0 and \$34.6 million, respectively, in NYNEX Service. The investment, which was \$61.7 and \$41.7 million at December 31, 1987 and 1986, respectively, is reflected in Other assets and deferred charges in the accompanying balance sheets.

The Company was charged approximately \$312.7, \$322.7 and \$344.5 million in 1987, 1986 and 1985, 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 produce, publish and distribute alphabetical and classified directories for the Company. For the years ended December 31, 1987, 1986 and 1985, publishing rights fees included in Other operating revenues amounted to \$83.2, \$74.4 and \$73.9 million, respectively.

NOTES TO FINANCIAL STATEMENTS (continued)

Pursuant to an agreement with NYNEX Business Information Systems Company ("NBISC") the Company is provided with sales and marketing services in return for sales commissions. For 1987, 1986 and 1985, the Company recorded \$17.9, \$13.2 and \$10.5 million, respectively, in sales commissions, to NBISC.

(J) Other Operating Taxes

The major components of Other operating taxes are as follows:

Dollars in Millions	1987	1986	1985
Gross receipts	\$ 55.0	\$ 60.1	\$ 58.6
Payroll-related.	59.8	56.9	59.4
Other.	1.3	.6	.6
Total.	<u>\$116.1</u>	<u>\$117.6</u>	<u>\$118.6</u>

(K) Revenues Subject to Possible Refund

There exists several regulatory matters, generally 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, 1987, the aggregate amount of such revenues which was estimated to be subject to possible refund was approximately \$21.9 million. The outcome of each pending matter, as well as the time frame within which each will be resolved, is not presently determinable.

(L) 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. The outcome of these matters is not presently determinable, but, in the opinion of management, based on the advice of counsel, the ultimate resolution of such matters will not have a material adverse impact on the Company's financial position.

SUPPLEMENTARY INFORMATION

Quarterly Financial Information (Unaudited)

<u>Dollars in Millions</u>			
<u>Calendar Quarter</u>	<u>Total Operating Revenues</u>	<u>Operating Income</u>	<u>Net Income</u>
<u>1987</u>			
1st.	\$ 822.6	\$143.0	\$109.7
2nd.	848.6	138.5	107.2
3rd.	883.2	158.5	114.7
4th.	<u>866.6</u>	<u>145.4</u>	<u>103.4</u>
Total	<u>\$3,421.0</u>	<u>\$585.4</u>	<u>\$435.0</u>
<u>1986</u>			
1st.	\$ 791.3	\$133.5	\$ 96.5
2nd.	811.2	133.1	103.6
3rd.	830.7	142.6	110.5
4th.	<u>825.6</u>	<u>143.5</u>	<u>99.7</u>
Total	<u>\$3,258.8</u>	<u>\$552.7</u>	<u>\$410.3</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.

Item 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

During 1986 and 1987, 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.

(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:

	<u>Page(s) In This Annual Report On Form 10-K</u>
V - Telephone Plant.....	45-47
VI - Accumulated Depreciation, Depletion, and Amortization of Telephone Plant.....	48
VIII - Allowance for Uncollectibles.....	49

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 Certified Public Accountants.

(25) Powers of attorney.

(b) Reports on Form 8-K.

The Company's Current Report on Form 8-K, dated September 10, 1987 and filed September 18, 1987, reporting on Item 5.

The Company's Current Report on Form 8-K, dated September 28, 1987 and filed October 6, 1987, reporting on Item 7.

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

P. C. MANUS
(P. C. Manus, Vice President-
Finance and Comptroller)

March 28, 1988

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

Principal Financial and
Accounting Officer:

P. C. Manus* Vice President-Finance
and Comptroller

*By

P. C. MANUS
(P.C. Manus, as attorney-in-fact, and
on his own behalf as Principal Financial
and Accounting Officer)

Directors:

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

March 28, 1988

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
Buildings	534.3	30.1	2.1	-	562.3
Central Office Equipment	3,269.7	487.4	235.4	10.7	3,532.4
Station Apparatus	19.3	-	3.0	-	16.3
Station Connections	620.9	-	2.5	-	618.4
Large Private Branch Exchanges	74.6	16.3	1.0	.2	90.1
Public Telephone Equipment	47.4	3.6	4.9	1.8	47.9
Pole Lines	358.6	37.0	7.0	-	388.6
Aerial Cable	1,419.5	151.1	20.0	-	1,550.6
Underground Cable	642.3	63.7	1.4	-	704.6
Buried Cable	211.2	19.8	1.9	-	229.1
Submarine Cable	8.2	.3	.2	-	8.3
Aerial Wire	21.5	3.7	.7	-	24.5
Underground Conduit	519.0	31.6	1.5	-	549.1
Furniture and Office Equipment	273.8	9.7	20.7	-	262.8
Other Communications Equipment	124.7	14.5	6.3	1.3	134.2
Vehicles and Other Work Equipment	113.7	5.3	15.6	1.1	104.5
Capital Leases	11.8	38.1(e)	.8	-	49.1
Total Telephone Plant in Service	8,301.2	912.6	325.0	15.1	8,903.9
Telephone Plant Under Construction	178.4	637.9	657.7(d)	-	158.6
Property Held for Future Telephone Use3	.1	-	-	.4
Total Telephone Plant	<u>\$8,479.9</u>	<u>\$1,550.6</u>	<u>\$ 982.7</u>	<u>\$ 15.1</u>	<u>\$9,062.9</u>

- (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, and (2) reclassifications between the Telephone Plant in Service classifications listed.
- (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 construction expenditures and Statements of Sources of Funds Supporting Construction Activity.

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
Buildings	518.2	18.0	1.9	-	534.3
Central Office Equipment	3,090.0	390.0	220.6	10.3	3,269.7
Station Apparatus	22.6	-	3.1	(.2)	19.3
Station Connections	629.3	-	8.4	-	620.9
Large Private Branch Exchanges	68.8	7.7	2.5	.6	74.6
Public Telephone Equipment	45.8	3.8	3.5	1.3	47.4
Pole Lines	329.8	34.1	5.3	-	358.6
Aerial Cable	1,295.3	145.5	21.4	.1	1,419.5
Underground Cable	586.5	58.5	2.7	-	642.3
Buried Cable	198.4	17.5	4.7	-	211.2
Submarine Cable	8.1	.2	.1	-	8.2
Aerial Wire	19.6	2.6	.7	-	21.5
Underground Conduit	489.4	29.1	(.5)	-	519.0
Furniture and Office Equipment	300.4	6.7	23.4	(9.9)	273.8
Other Communications Equipment	112.8	19.7	6.9	(.9)	124.7
Vehicles and Other Work Equipment	115.9	4.5	6.7	-	113.7
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 Telephone Use1	.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>

- (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 (3) 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 construction expenditures and Statements of Sources of Funds Supporting Construction Activity.

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 12/31/84	Additions at Cost Note (a)	Retirements Note (b)	Other Changes Note (c)	Balance at 12/31/85
Land	\$ 27.6	\$ 1.9	\$ -	\$ -	\$ 29.5
Buildings	497.0	24.5	3.3	-	518.2
Central Office Equipment	2,861.4	415.0	194.4	8.0	3,090.0
Station Apparatus	14.1	11.4	2.9	-	22.6
Station Connections	642.2	-	12.9	-	629.3
Large Private Branch Exchanges	53.5	16.2	1.4	.5	68.8
Public Telephone Equipment	43.5	4.4	3.1	1.0	45.8
Pole Lines	303.1	30.8	4.1	-	329.8
Aerial Cable	1,181.0	135.3	21.1	.1	1,295.3
Underground Cable	537.3	52.8	3.6	-	586.5
Buried Cable	188.9	14.3	4.8	-	198.4
Submarine Cable	8.1	.1	.1	-	8.1
Aerial Wire	17.6	2.8	.8	-	19.6
Underground Conduit	467.9	24.0	2.5	-	489.4
Furniture and Office Equipment	258.9	72.9	31.4	-	300.4
Other Communications Equipment	113.6	8.6	9.8	.4	112.8
Vehicles and Other Work Equipment	119.2	3.9	7.2	-	115.9
Capital Leases	<u>3.2</u>	<u>5.8(e)</u>	<u>.6</u>	<u>-</u>	<u>8.4</u>
Total Telephone Plant in Service	7,338.1	824.7	304.0	10.0	7,868.8
Telephone Plant Under Construction	146.1	630.0	606.0(d)	-	170.1
Property Held for Future Telephone Use	<u>-</u>	<u>.1</u>	<u>-</u>	<u>-</u>	<u>.1</u>
Total Telephone Plant	<u>\$ 7,484.2</u>	<u>\$ 1,454.8</u>	<u>\$ 910.0</u>	<u>\$ 10.0</u>	<u>\$ 8,039.0</u>

- (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, and (2) reclassifications between the Telephone Plant in Service classifications listed.
- (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 construction expenditures and Statements of Sources of Funds Supporting Construction Activity.

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 1987.....	\$2,613.3	\$729.2 (c)	\$327.5	\$ -	\$3,015.0
Year 1986.....	\$2,306.3	\$628.9	\$317.6	\$(4.3)	\$2,613.3
Year 1985.....	\$2,036.3	\$577.8	\$308.2	\$.4	\$2,306.3

- (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 per the Statements of Income and Retained Earnings due principally to the effects of accounting of 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 1987	\$16.8	\$35.8	\$17.4	\$49.5	\$20.5
Year 1986	\$11.8	\$30.5	\$18.0	\$43.5	\$16.8
Year 1985	\$16.7	\$23.5	\$31.6	\$60.0	\$11.8

- (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
Phone (617) 743-4207

April 14, 1988

Joseph R. Plati
Division Staff Manager-Taxes

City Clerk/Town Clerk

Dear Sir:

Enclosed is a copy of Annual Report to the Share Owners of New England Telephone and Telegraph Company for the year 1987 filed in accordance with Massachusetts General Laws (Ter. Ed.), Chapter 166 Section 12A.

Very truly yours,

Joseph R. Plati

Enclosure

RECEIVED BY
OFFICE OF CITY CLERK
1988 MAY 26 PM 4:44
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Comm. from Joseph R. Plati, Div. Staff Mgr.-
Taxes, New England Telephone, transmitting
a copy of the Annual Report to the Share
Holders of New England Telephone & Tele-
graph Co. for the year 1987.

In City Council,

June 6, 1988

6-6-88

Placed on file.