Notes to Consolidated Financial Statements

A Accounting Policies

Nature of Operations

NYNEX Corporation ("NYNEX") is a global communications and media corporation that provides a full range of services in the northeastern United States and in high growth markets around the world. NYNEX has expertise in telecommunications, wireless communications, directory publishing, and video entertainment and information services. Intrastate communications services are regulated by various state public service commissions ("state commissions"), and interstate communications services are regulated by the Federal Communications Commission ("FCC").

The communications and media industry continues to experience fundamental changes at an ever-increasing pace. Telecommunications, information and entertainment services are converging in the market, driven by technology and released by landmark federal legislation that will remove historic regulatory barriers. These changes are likely to have a significant effect on the future financial performance of many companies in the industry. NYNEX cannot predict the effect of such competition on its business.

NYNEX is implementing a major restructuring of its business, has entered into domestic strategic alliances, and is expanding globally in select international markets in order to respond to competition. In addition, NYNEX is pursuing reforms in telecommunications policy at both the state and federal levels. In February, the Telecommunications Act of 1996 was signed into law. This legislation will lead to the development of competition in local and long distance telephone service, cable television, and information and entertainment services.

Basis of Presentation

The consolidated financial statements include the accounts of NYNEX and its subsidiaries. Investments in entities in which NYNEX does not have control, but has the ability to exercise significant influence over operations and financial policies, are accounted for using the equity method. Other investments are accounted for using the cost method.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP"). GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The 1994 and 1993 consolidated financial statements have been reclassified to conform to the current year's format.

In the second quarter of 1995, NYNEX discontinued using GAAP applicable to regulated entities for the operations of New York Telephone Company ("New York Telephone") and New England Telephone and Telegraph Company ("New England Telephone") (collectively, the "telephone subsidiaries") (see Note B).

In the third quarter of 1995, NYNEX deconsolidated certain assets and liabilities of NYNEX Mobile Communications Company ("NYNEX Mobile"), a wholly-owned subsidiary of NYNEX, in exchange for an equity interest in a cellular partnership between NYNEX and Bell Atlantic Corporation ("Bell Atlantic") (see Note F). As a result, NYNEX Mobile's results for the first half of 1995 were reported on a consolidated basis. For the second half of 1995, NYNEX's share of the partnership's results were reported on an equity basis included in Income (loss) from long-term investments.

Upon the deconsolidation of NYNEX Mobile, Management reassessed its determination of reportable segments and concluded that a dominant portion of NYNEX's operations is in a single industry segment. In the third quarter of 1995, NYNEX discontinued reporting segment information in accordance with Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise." This change had no effect on NYNEX's results of operations or financial position.

Cash and Temporary Cash Investments

Temporary cash investments are liquid investments with maturities of three months or less. Temporary cash investments are stated at cost, which approximates market value.

Inventories

The telephone subsidiaries' inventories consist of materials and supplies that are carried principally at average cost. Inventories purchased for resale are carried at the lower of cost or market (determined using weighted average cost). Certain other inventories are carried at the lower of cost or market (determined on a last-in, first-out basis).

Property, Plant and Equipment

Property, plant and equipment is stated at its original cost and is depreciated on a straight-line basis over its useful life. When depreciable plant is disposed of by the telephone subsidiaries, the carrying amount is charged to accumulated depreciation.

As a result of the implementation of Statement of Financial Accounting Standards No. 101, "Regulated Enterprises - Accounting for the Discontinuation of Application of FASB Statement No. 71" ("Statement No. 101"), in the second quarter of 1995, the telephone subsidiaries began recording depreciation expense using shorter asset lives based on expectations as to the revenue-producing lives of the assets (see Note B), calculated on a straight-line basis. Previously, depreciation rates used by the telephone subsidiaries were prescribed by the FCC and by the state commissions for interstate operations and for intrastate operations, respectively, and were calculated on a straight-line basis using the concept of "remaining life."

Capitalized Interest Cost
As a result of the application of Statement No. 101, capitalized interest for the telephone subsidiaries is recorded as a cost of telephone plant and equipment and a reduction of interest, in accordance with the provisions of Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Cost" ("Statement No. 34"). Previously, regulatory authorities allowed the telephone subsidiaries to capitalize interest, including an allowance on shareowner's equity, as a cost of constructing certain plant and as income, included in Other income (expense) - net. Such income was realized over the service life of the plant as the resulting higher depreciation expense was recovered through the rate-making process. All other subsidiaries account for capitalized interest in accordance with Statement No. 34.

Financial Instruments
NYNEX manages certain portions of its exposure to foreign currency and interest rate fluctuations through a variety of strategies and instruments. Generally, foreign currency derivatives and forwards are valued relative to the period ending spot rate. Gains and losses applicable to these derivatives are recorded to income currently with the exception of amounts related to foreign currency derivatives that have been identified as a hedge of a net investment in a foreign subsidiary, which are recorded as adjustments to Stockholders' equity until the related subsidiary is sold or substantially liquidated. The interest elements of these foreign currency derivatives are recognized to income ratably over the life of the contract. Interest rate swaps and related interest rate derivatives (swaptions, caps) identified as hedges are generally not carried at fair value. Rather, interest rate swap receipts or payments are recognized as adjustments to interest expense as received or paid. Swap termination payments and fees or premiums applicable to swaptions and caps are recognized as adjustments to interest expense over the lives of the agreements.

Computer Software Costs
The telephone subsidiaries capitalize initial right-to-use fees for central office switching equipment, including initial operating system and initial application software costs. For non-central office equipment, only the initial operating system software is capitalized. Subsequent additions, modifications, or upgrades of initial software programs, whether operating or application packages, are expensed. NYNEX CableComms capitalizes initial right-to-use fees for switching equipment, including initial operating system and initial application software costs. All nontelephone subsidiaries expense computer software acquired or developed for internal use as incurred.

Refinancing Charges
As a result of the application of Statement No. 101, the telephone subsidiaries no longer defer call premiums and other charges associated with the redemption of long-term debt, and previously deferred refinancing costs were eliminated (see Note B). The intrastate portion of these costs had been deferred and amortized over periods stipulated by the state commissions. The interstate portion had been expensed as required by the FCC.

Income Taxes
Effective January 1, 1993, NYNEX adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("Statement No. 109"). Statement No. 109 requires that deferred tax assets and liabilities be measured based on the enacted tax rates that will be in effect in the years in which temporary differences are expected to reverse.

For the telephone subsidiaries, prior to the application of Statement No. 101, the treatment of excess deferred taxes resulting from the reduction of tax rates in prior years was subject to federal income tax and regulatory rules. Deferred income tax provisions of the telephone subsidiaries were based on amounts recognized for rate-making purposes. The telephone subsidiaries recognized a deferred tax liability and established a corresponding regulatory asset for tax benefits previously flowed through to ratepayers. The major temporary difference that gave rise to the net deferred tax liability is depreciation, which for income tax purposes is determined based on accelerated methods and shorter lives. Statement of

Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("Statement No. 71"), required the telephone subsidiaries to reflect the additional deferred income taxes as regulatory assets to the extent that they would be recovered in the rate-making process. In accordance with the normalization provisions under federal tax law, the telephone subsidiaries reversed excess deferred taxes relating to depreciation of regulated assets over the regulatory lives of those assets. For other excess deferred taxes, the state commissions generally allowed amortization of excess deferred taxes over the reversal period of the temporary difference giving rise to the deferred taxes. As a result of the application of Statement No. 101, income tax-related regulatory assets and liabilities were eliminated (see Note B).

The Tax Reform Act of 1986 repealed the investment tax credit ("ITC"), effective January 1, 1986. As required by tax law, ITC for the telephone subsidiaries was deferred and is amortized as a reduction to tax expense over the estimated service lives of the related assets giving rise to the credits.

B Discontinuance of Regulatory Accounting Principles

In the second quarter of 1995, NYNEX discontinued accounting for the operations of the telephone subsidiaries in accordance with the provisions of Statement No. 71. As a result, NYNEX recorded an extraordinary non-cash charge of $2.9 billion, net of income taxes of $1.6 billion.

The operations of the telephone subsidiaries no longer met the criteria for application of Statement No. 71 due to a number of factors including: significant changes in regulation (achievement of price regulation rather than rate-of-return regulation in New York, Massachusetts and Maine, and ongoing efforts to achieve price regulation in the remaining jurisdictions); an intensifying level of competition; and the increasingly rapid pace of technological change. Under Statement No. 71, NYNEX had accounted for the effects of rate actions by federal and state regulatory commissions by establishing certain regulatory assets and liabilities, including the depreciation of its telephone plant and equipment using asset lives approved by regulators and the deferral of certain costs and obligations based on approvals received from regulators. NYNEX had continually assessed its position and the recoverability of its telecommunications assets with respect to Statement No. 71.

Telephone plant and equipment was adjusted through an increase in accumulated depreciation, to reflect the difference between recorded depreciation and the amount of depreciation that would have been recorded had NYNEX not been subject to rate regulation. Gross plant was written off where fully depreciated, and non-plant regulatory assets and liabilities were eliminated from the balance sheet.

The after-tax extraordinary charge recorded consists of $2.2 billion for the adjustment to telephone plant and equipment and $0.7 billion for the write-off of non-plant regulatory assets and liabilities.

The net decrease of $3.6 billion to telephone plant and equipment was supported by a depreciation analysis, which identified inadequate depreciation reserve levels which NYNEX believes resulted principally from the cumulative under-depreciation of telephone plant and equipment as a result of the regulatory process. An impairment analysis was performed that did not identify any additional amounts not recoverable from future operations. ITC amortization was accelerated as a result of the reduction in asset lives of the associated telephone plant and equipment.

The major elements of the write-off of non-plant regulatory net assets were as follows:

(In millions)	Pretax	After-tax
Compensated absences	$ 173.2	$ 109.4
Deferred pension costs	381.1	239.5
Refinancing costs	255.6	166.5
Deferred taxes	—	55.7
Other	130.8	85.6
Total	$ 940.7	$ 656.7

With the adoption of Statement No. 101, NYNEX now uses estimated asset lives for certain categories of telephone plant and equipment that are shorter than those approved by regulators. These shorter asset lives result from NYNEX's expectations as to the revenue-producing lives of the assets. A comparison of average asset lives before and after the discontinuance of Statement No. 71 for the most significantly affected categories of telephone plant and equipment is as follows:

	Average lives (in years)	
	Composite Regulator-Approved Asset Lives	Economic Asset Lives
Digital Switching	16.5	12.0
Circuit – Other	10.5	8.0
Aerial Metallic Cable	21.0	17.0
Underground Metallic Cable	25.0	15.0
Buried Metallic Cable	24.0	17.0
Fiber	26.0	20.0

The application of Statement No. 101 does not change the telephone subsidiaries' accounting and reporting for regulatory purposes.

C Income Tax

The components of income tax expense (benefit) are as follows:

(In millions)	1995*	1994	1993**
Federal:			
Current	**$ 469.2**	$ 488.7	$ 466.9
Deferred – net	**67.8**	(191.5)	(611.9)
Deferred tax credits – net	**(42.0)**	(49.8)	(59.7)
	495.0	247.4	(204.7)
State and local:			
Current	**51.3**	18.7	88.1
Deferred – net	**89.0**	31.3	(59.2)
	140.3	50.0	28.9
Foreign	**5.6**	6.3	3.1
Total	**$ 640.9**	$ 303.7	$ (172.7)

* Does not include the deferred tax benefit of $1.6 billion associated with the Extraordinary item for the discontinuance of regulatory accounting principles.

** Does not include the deferred tax benefit of $67.5 million associated with the Cumulative effect of change in accounting for postemployment benefits.

A reconciliation between the federal income tax expense (benefit) computed at the statutory rate and NYNEX's effective tax expense (benefit) is as follows:

(In millions)	1995	1994	1993
Federal income tax expense (benefit) computed at the statutory rate	**$ 598.6**	$ 383.7	$ (155.8)
a. Amortization of investment tax credits	**(31.3)**	(55.9)	(65.8)
b. Amortization of excess deferred federal taxes due to change in the tax rates	**(8.2)**	(48.1)	(66.8)
c. State and local income taxes, net of federal tax benefit	**91.2**	32.5	18.8
d. Depreciation of certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted for income tax purposes in prior years	**5.0**	20.5	31.6
e. Capital loss carryforwards and reversal of valuation allowance on capital loss carryforwards	**(16.1)**	(58.6)	87.1
f. Other items – net	**1.7**	29.6	(21.8)
Income tax expense (benefit)	**$ 640.9**	$ 303.7	$ (172.7)

Not included in "c" above are gross receipts taxes that New York Telephone is subject to in lieu of a state income tax. Temporary differences for which deferred income taxes have not been provided by the telephone subsidiaries are represented principally by "d" above. Upon the discontinuance of Statement No. 71 (see Note B), items "b" and "d" above have been eliminated.

The components of current and non-current deferred tax assets and liabilities at December 31, 1995 and 1994 are as follows:

(In millions)	1995		1994	
	Assets	Liabilities	Assets	Liabilities
Depreciation and amortization	**$ —**	**$ 1,676.8**	$ —	$ 3,150.0
Leveraged leases	**—**	**976.2**	—	917.7
Restructuring charges	**286.1**	**—**	502.9	—
Employee benefits	**1,440.0**	**178.3**	1,228.2	189.7
Unamortized ITC	**68.0**	**—**	168.2	—
Deferred publishing revenues	**167.0**	**—**	134.4	—
Other	**374.6**	**542.2**	229.8	646.2
Total deferred taxes	**2,335.7**	**3,373.5**	2,263.5	4,903.6
Valuation allowance*	**(29.7)**	—	(42.2)	—
Net deferred tax assets	**$ 2,306.0**	**(2,306.0)**	$ 2,221.3	(2,221.3)
Net deferred tax liabilities	**—**	**$ 1,067.5**	—	$ 2,682.3

* A valuation allowance was established in 1993 primarily for capital losses generated from the exit from the information products and services business. During 1995 and 1994, the valuation allowance decreased by $12.5 and $71.7 million, respectively, primarily due to tax planning strategies.

During 1995, income tax-related regulatory assets and liabilities were eliminated as a result of the discontinued application of Statement No. 71 (see Note B).

At December 31, 1994, the telephone subsidiaries had recorded approximately $631 million in deferred charges and deferred taxes representing the cumulative amount of income taxes on temporary differences that were previously flowed through to ratepayers. This deferral had been increased for the tax effect of future revenue requirements and was being amortized over the lives of the related depreciable assets concurrently with their recovery in rates. The telephone subsidiaries had recorded a regulatory liability at December 31, 1994 of approximately $519 million, in Other long-term liabilities and deferred credits and in Other current liabilities. A substantial portion of the regulatory liability related to the 1986 reduction in the statutory federal income tax rate and unamortized ITC. This liability had been increased for the tax effect of future revenue requirements.

D Employee Benefits

Pensions

Substantially all NYNEX employees are covered by one of two noncontributory defined benefit pension plans (the "Plans"). Benefits for management employees are based on a modified career average pay plan while benefits for nonmanagement employees are based on a nonpay-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. Total pension (benefit) for 1995, 1994 and 1993 was $(269.3), $(290.6), and $(167.0) million, respectively. The components are as follows:

(In millions)	1995	1994	1993
Estimated return on plan assets:			
Actual	**$ (3,079)**	$ 74	$ (1,964)
Deferred portion	**1,872**	(1,265)	833
Net	**(1,207)**	(1,191)	(1,131)
Service cost	**179**	237	199
Interest cost on projected benefit obligation	**984**	884	928
Other – net	**(225)**	(221)	(163)
Net pension (benefit)	**$ (269)**	$ (291)	$ (167)

The pension benefit for 1995, 1994, and 1993 includes the effect of plan amendments and changes in actuarial assumptions for the discount rate and future compensation levels.

The following table sets forth the Plans' funded status and amounts recognized in the consolidated balance sheets:

December 31, (In millions)	1995	1994
Actuarial present value of accumulated benefit obligation, including vested benefits of $12,319 and $10,147, respectively	**$ 13,323**	$ 11,048
Plan assets at fair value, primarily listed stock, corporate and governmental debt and real estate	**$ 15,782**	$ 13,681
Less: Actuarial present value of projected benefit obligation	**14,546**	12,070
Excess of plan assets over projected benefit obligation	**1,236**	1,611
Unrecognized prior service cost	**(1,685)**	(2,029)
Unrecognized net gain	**(1,010)**	(862)
Unrecognized transition asset	**(428)**	(488)
Accrued pension cost	**$ (1,887)**	$ (1,768)

The assumptions used to determine the projected benefit obligation at December 31, 1995 and 1994 include a discount rate of 7.25% and 8.50%, respectively, and an increase in future compensation levels of 4.1% and 4.5%, respectively, for management employees, and 4.0% in both years for nonmanagement employees. The expected long-term rate of return on pension plan assets used to calculate pension expense was 8.9% in 1995, 1994 and 1993. The actuarial projections included herein anticipate plan improvements for active employees in the future.

As a result of work force reductions primarily through retirement incentives in 1995 and 1994, partially offset by the 1995 formation of the Bell Atlantic NYNEX Mobile cellular partnership ("BANM") (see Note F), NYNEX incurred additional pension costs of $396.9 and $758.2 million, respectively. In 1995, this cost was comprised of a charge for special termination benefits of $725.4 million and a curtailment gain of $328.5 million, partially offset by 1993 severance reserves of $78.5 million which were transferred to the pension liability. In 1994, this cost was comprised of a charge for special termination benefits of $1,142.5 million and a curtailment gain of $384.3 million, partially offset by 1993 severance reserves of $314.8 million.

Postretirement Benefits Other Than Pensions

NYNEX provides certain health care and life insurance benefits for retired employees and their families. Substantially all of NYNEX's employees may become eligible for these benefits if they reach pension eligibility while working for NYNEX.

Effective January 1, 1993, NYNEX adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("Statement No. 106"). Statement No. 106 changed the practice of accounting for postretirement benefits from recognizing costs as benefits are paid to accruing the expected cost of providing these benefits during an employee's working life. NYNEX is recognizing the transition obligation for retired employees and the earned portion for active employees over a 20-year period. The cost of health care benefits and group life insurance was determined using the unit credit cost actuarial method.

Net postretirement benefit cost for 1995, 1994, and 1993 includes the following components:

(In millions)	1995	1994	1993
Service cost	$ 44.0	$ 56.6	$ 45.6
Interest cost	385.2	373.0	333.6
Estimated return on plan assets	(194.6)	(41.3)	(92.6)
Deferred asset gain (loss)	102.1	(47.1)	9.4
Amortization of transition obligation	177.4	178.7	177.6
Net postretirement benefit cost	$ 514.1	$ 519.9	$ 473.6

The following table sets forth the funded status and amounts recognized for postretirement benefit plans:

December 31, (In millions)	1995	1994
Accumulated postretirement benefit obligation attributable to:		
Retirees	$ (4,025.7)	$(3,880.0)
Fully eligible plan participants	(705.0)	(648.2)
Other active plan participants	(896.2)	(516.9)
Total accumulated postretirement benefit obligation	(5,626.9)	(5,045.1)
Fair value of plan assets	1,230.8	1,081.8
Accumulated postretirement benefit obligation in excess of plan assets	(4,396.1)	(3,963.3)
Unrecognized net loss (gain)	257.7	(21.1)
Unrecognized prior service cost	136.2	146.1
Unrecognized transition obligation	2,853.4	3,048.8
Accrued postretirement benefit cost	$ (1,148.8)	$ (789.5)

The actuarial assumptions used to determine the 1995 and 1994 obligation for postretirement benefit plans under Statement No. 106 are as follows: discount rate of 7.25% and 8.50%, respectively; weighted average expected long-term rate of return on plan assets of 8.4% in both years; weighted average salary growth rate of 4.0% and 4.2%, respectively; medical cost trend rate of 11.6% and 12.6% in 1995 and 1994, respectively, grading down to 4.5% in 2008; and dental cost trend rate of 4.0% and 4.5% in 1995 and 1994, respectively, grading down to 3.0% in 2002.

A one percent increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of net postretirement benefit cost for 1995, 1994, and 1993 by $30.0, $30.0, and $29.2 million, respectively, and would have increased the accumulated postretirement benefit obligation at December 31, 1995 and 1994 by $360.0 and $361.6 million, respectively.

As a result of work force reductions, NYNEX recorded an additional $519.5 million of postretirement benefit cost in 1993 accounted for as a curtailment. Due to the work force reduction retirement incentives in 1995 and 1994 and the 1995 formation of BANM, NYNEX incurred additional postretirement benefit costs of $182.2 and $429.0 million, respectively. In 1995, this cost was comprised of a curtailment loss of $109.3 million and a charge for special termination benefits of $72.9 million, partially offset by $72.7 million accrued for in 1993. In 1994, this cost was comprised of a curtailment loss of $325.3 million and a charge for special termination benefits of $103.7 million, partially offset by $178.9 million accrued for in 1993.

NYNEX established two separate Voluntary Employees' Beneficiary Association Trusts ("VEBA Trusts"), one for management and the other for nonmanagement, to begin prefunding postretirement health care benefits. At December 31, 1992, NYNEX had transferred excess pension assets, totaling $486 million, to health care benefit accounts within the pension plans and then contributed those assets to the VEBA Trusts. No additional contributions were made in 1995, 1994 and 1993. The assets in the VEBA Trusts consist primarily of equity and fixed income securities. Additional contributions to the VEBA Trusts are evaluated and determined by Management.

Regulatory Treatment

With respect to interstate treatment, in 1994 the FCC's 1993 order denying exogenous treatment of additional costs recognized under Statement No. 106 was overturned in the court. Tariff revisions were filed by the telephone subsidiaries with the FCC in 1994 to amend price cap indices to reflect additional exogenous costs recognized under Statement No. 106, including $42 million of costs already accrued, increased annual costs of $21 million and increased rates of $2.2 million. Commencing December 30, 1994, the telephone subsidiaries began collecting these revenues, subject to possible refund pending resolution of the FCC Common Carrier Bureau's investigation. The annual update to the price cap rates, effective August 1, 1995, included tariff revisions to recover approximately $21 million of exogenous costs resulting from the implementation of Statement No. 106.

With respect to intrastate treatment, in January 1994 the New York State Public Service Commission ("NYSPSC") approved New York Telephone's plan for regulatory accounting and rate-making treatment. They allowed the adoption of both Statement No. 106 and Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("Statement No. 87"), on a revenue requirement neutral basis, providing for the amortization of existing deferred pension costs within a ten-year period, and eliminating the need for additional deferrals of Statement No. 106 and Statement No. 87 costs. The NYSPSC required New York Telephone to write-off $75 million of previously deferred pension costs in 1993. In December 1994, New York Telephone amortized $39 million of deferred pension costs according to this accounting plan. Upon the discontinuance of Statement No. 71, remaining deferred pension costs were eliminated (see Note B).

New England Telephone implemented a similar plan in each of its states, providing for immediate adoption of Statement No. 106 and Statement No. 87 on a revenue requirement neutral basis, amortization of existing deferred pension costs within a ten-year period, and discontinuance of additional deferrals of Statement No. 106 and Statement No. 87 costs. In December 1994, New England Telephone amortized $12.1 million of deferred pension costs according to this accounting plan. Upon the discontinuance of Statement No. 71, remaining deferred pension costs were eliminated (see Note B).

Postemployment Benefits

NYNEX adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" ("Statement No. 112"), in the fourth quarter of 1993, retroactive to January 1, 1993. Statement No. 112 applies to postemployment benefits, including workers' compensation, disability plans and disability pensions, provided to former or inactive employees, their beneficiaries, and covered dependents after employment but before retirement. Statement No. 112 changed NYNEX's method of accounting from recognizing costs as benefits are paid to accruing the expected costs of providing these benefits. The initial effect of adopting Statement No. 112 was reported as a cumulative effect of a change in accounting principle and resulted in a one-time, non-cash charge of $189.2 million ($121.7 million after-tax) in 1993.

E Property, Plant and Equipment – Net

The components of property, plant and equipment-net are as follows:

December 31, (In millions)	1995	1994
Buildings	**$ 2,943.7**	$ 2,847.9
Telephone plant and equipment	**30,100.9**	29,902.0
Furniture and other equipment	**1,543.3**	1,548.6
Other	**141.0**	148.6
Total depreciable property, plant and equipment	**34,728.9**	34,447.1
Less: accumulated depreciation	**18,679.3**	14,843.7
	16,049.6	19,603.4
Land	**142.7**	155.6
Plant under construction and other	**863.0**	864.4
Total property, plant and equipment – net	**$ 17,055.3**	$20,623.4

The discontinued application of Statement No. 71 resulted in a net decrease to telephone plant and equipment of $3.6 billion, primarily through an increase in accumulated depreciation (see Note B).

F Long-term Investments

A reconciliation of NYNEX's equity and cost method investments is as follows:

(In millions)	1995	1994
Beginning of year, equity method	**$ 301.2**	$ 245.2
Additional investments	**1,095.4**	177.2
Equity in net income (loss)	**33.8**	(9.4)
Dividends received	**(4.7)**	(4.2)
Other	**71.8**	(107.6)
End of year, equity method	**1,497.5**	301.2
Cost method investments	**1,788.7**	1,698.2
Total long-term investments	**$ 3,286.2**	$ 1,999.4

NYNEX's long-term investments include equity and cost method investments in domestic and international interests, including cellular, real estate, telecommunications, and publishing ventures.

Effective January 1, 1994, NYNEX adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("Statement No. 115"). Statement No. 115 specifically excludes equity securities accounted for under the equity method and equity securities accounted for under the cost method that do not have readily determinable fair market values.

Bell Atlantic NYNEX Mobile Cellular Partnership

Effective July 1, 1995, NYNEX and Bell Atlantic completed the combination of substantially all of their domestic cellular properties by contributing them to a partnership, BANM, to own and operate these properties. The combination represents the consummation of the transaction that was agreed to and announced in June 1994. Bell Atlantic owns approximately 62.4% of BANM, and NYNEX owns approximately 37.6%. The partnership is controlled jointly by NYNEX and Bell Atlantic.

NYNEX contributed certain cellular assets and liabilities of NYNEX Mobile, a wholly-owned subsidiary of NYNEX, in exchange for an equity interest in BANM. Subject to post-closing adjustments, NYNEX deconsolidated approximately $640 million of net assets and recorded an equity method investment in the partnership.

As a condition to the completion of the combination, in July 1995, NYNEX Mobile sold certain of its cellular properties overlapping with Bell Atlantic's cellular properties to SNET Cellular, Inc. As a result of the formation of the partnership, NYNEX recorded a net after-tax gain of $67.4 million resulting primarily from the sale of overlapping cellular properties and a pension curtailment.

Other Long-term Investments

1995 investments included the following: a $282.5 million additional investment in the venture between NYNEX, Bell Atlantic, AirTouch Communications Inc. and U S WEST Inc. which will provide national wireless personal communications services; an additional $35.6 million investment in the Tele-TV Partnerships between NYNEX, Bell Atlantic, and Pacific Telesis Group formed to develop programming and other products and services for transmission over wireline and wireless networks; a $33.9 million investment in Bayan Telecommunications Holdings Corporation ("BayanTel"), a newly-formed holding company whose subsidiaries have been awarded licenses to provide telecommunications services in certain regions of the Philippines; a $28.5 million additional investment in FLAG Limited ("FLAG") which will construct a submarine cable system from the United Kingdom to Japan; a $55.0 million investment in P.T. Excelcomindo Pratama ("Excelcom"), a newly formed Indonesian corporation which holds a license to operate a nationwide cellular business in Indonesia; and a $50.0 million investment in BANX Partnership between NYNEX and Bell Atlantic which will invest in wireless cable systems.

NYNEX did not make any significant long-term investments in 1994.

G Financial Commitments and Guarantees

As of December 31, 1995, NYNEX had invested approximately $46.5 million in FLAG. NYNEX is the managing sponsor of FLAG and holds a 38% equity interest and a 41% funding obligation in the venture. Under the terms of the FLAG project documentation and the related financing agreements, NYNEX's obligation to furnish its pro rata share of funding would require additional cash contributions of approximately $181 million to FLAG. The contributions are anticipated to be completed by the end of 1997.

A $950 million limited recourse debt facility was made available to the project by a number of major lending institutions. As of December 31, 1995, $50 million of this facility was utilized. Under the terms of the financing, the funding FLAG shareholders have entered into contingent sponsor support agreements which could require additional payments in an aggregate amount of $500 million by such shareholders on a pro rata basis upon the occurrence of certain limited events of default. These events of default represent risks of a type that equity shareholders typically are required to assume in construction projects, and which the FLAG shareholders consider to be unlikely to occur. The maximum contingent payment each funding shareholder may be required to make may be reduced in the future on a pro rata basis based primarily on the remaining amount of FLAG's outstanding debt which, in turn, is dependent upon the level of sales.

NYNEX's allocable percentage of the contingent sponsor support commitment is 51%, up to a maximum of $255 million. This includes an additional 10% share that NYNEX assumed on behalf of another shareholder in return for a fee. In addition, NYNEX has backstopped, for a fee, the guarantee of the parent corporation of a third shareholder of its contingent sponsor support obligation in an amount not to exceed $95 million. This backstop obligation would be triggered only upon a failure by such parent corporation to fulfill the obligations under its primary guarantee, if required to do so upon the default of its subsidiary to make any payment under the aforementioned contingent sponsor support agreement. This contingent obligation of NYNEX is itself supported by a reimbursement agreement between NYNEX and the shareholder and further supported by a direct guarantee by that shareholder's parent corporation in favor of NYNEX.

NYNEX maintains a 33% equity interest in the Tele-TV Partnerships (the "Partnerships"), and Bell Atlantic and Pacific Telesis Group are equal partners in this venture. As of December 31, 1995, NYNEX had invested approximately $37 million into the Partnerships. NYNEX is obligated to make additional cash contributions on a pro rata basis of approximately $79 million, currently anticipated to be completed by the end of 1998.

NYNEX holds a 15% interest in BayanTel. As of December 31, 1995, NYNEX had invested approximately $34 million in BayanTel and is committed to invest an additional $14 million over the next two years.

In December 1995, NYNEX invested $55 million in Excelcom for a 23% interest, and in January 1996, NYNEX invested an additional $60 million. Under the terms of the partnership agreement, NYNEX is currently obligated to invest an additional $72 million by October 1997.

As of December 31, 1995, New York Telephone had deferred $188 million of revenues ($161 million under an NYSPSC-approved regulatory plan associated with commitments for fair competition, universal service, service quality and infrastructure improvements, and $27 million for a 1994 service improvement plan obligation). These revenues will be recognized as commitments are met or obligations are satisfied under the plans. If New York Telephone is unable to meet certain of these commitments, the NYSPSC has the authority to require New York Telephone to refund these revenues to customers.

In December 1995, Telesector Resources Group, Inc. ("Telesector Resources"), a NYNEX subsidiary, entered into purchase agreements with various suppliers to purchase, on behalf of the telephone subsidiaries, equipment and software to upgrade the network. The purchase agreements are over five years with a commitment of approximately $550 million.

H Long-term Debt

Interest rates and maturities on long-term debt outstanding are as follows:

(In millions)	Interest Rates	Maturities	December 31, 1995	1994
Refunding Mortgage Bonds:	3 3/8% - 7 3/4%	1997 - 2006	**$ 620.0**	$ 675.0
	6% - 7 1/2%	2007 - 2011	**425.0**	425.0
Debentures:	4 1/2% - 7 3/8%	1999 - 2008	**780.0**	780.0
	7% - 9 3/5%	2010 - 2017	**898.6**	918.7
	6 5/7% - 9 3/8%	2022 - 2033	**1,900.0**	2,250.0
Notes	4% -10 1/7%	1997 - 2009	**2,736.7**	2,683.3
Other			**1,951.9**	30.5
Unamortized discount – net			**(36.5)**	(47.9)
			9,275.7	7,714.6
Long-term capital lease obligations			**61.2**	69.9
Total long-term debt			**$ 9,336.9**	$ 7,784.5

The annual requirements for principal payments on long-term debt, excluding capital leases, are $497.8, $481.2, $265.0, $491.0 and $232.0 million for the years 1996 through 2000, respectively.

The Refunding Mortgage Bonds and $3.2 billion of the telephone subsidiaries' Debentures outstanding at December 31, 1995 are callable, upon thirty days' notice, by the respective telephone subsidiary, after the required term of years.

Substantially all of New York Telephone's assets are subject to lien under New York Telephone's Refunding Mortgage Bond indenture. At December 31, 1995, New York Telephone's total assets were approximately $11.6 billion.

Pursuant to the indentures for certain of its debentures, New York Telephone has covenanted that it will not issue additional funded debt securities ranking equally with or prior to such debentures unless it has maintained an earnings coverage of 1.75 for interest charges (excluding extraordinary items) for a period of any 12 consecutive months out of the 15-month period prior to the date of proposed issuance. As a result of the 1993 and 1994 business restructuring charges (see Note R), beginning in March 1994, New York Telephone did not meet the earnings coverage requirement. As of December 31, 1994 and 1995, New York Telephone met the earnings coverage requirement.

On November 10, 1995, NYNEX and NYNEX Credit Company ("Credit Company") entered into a $2.75 billion unsecured revolving credit facility, with Chemical Bank as the administrative agent. (Credit Company may borrow up to $300 million under this facility.) Further, NYNEX may request an increase in the aggregate commitments under the facility of up to $500 million. The initial term is for five years, but the borrowers may request two extensions of the facility, in each case for an additional year. Currently, a fee of .075% per annum is paid by NYNEX on the aggregate outstanding commitments. Under the terms of the agreement, the proceeds may be used to fund working capital and/or any lawful corporate purposes, including support of outstanding commercial paper. NYNEX had no borrowings under this credit facility at December 31, 1995. However, $1.9 billion of outstanding commercial paper borrowings was classified as Long-term debt at December 31, 1995 and presented in "Other" in the table above because NYNEX has the intent to refinance the commercial paper borrowings on a long-term basis and has the ability to do so under the credit facility.

At December 31, 1995, the following unissued debt securities were registered with the Securities and Exchange Commission (the "SEC"): $250 million of New York Telephone unsecured securities, $500 million of New England Telephone unsecured securities, and $637 million of NYNEX Capital Funding medium-term debt securities (when issued, these securities will be guaranteed by NYNEX).

At December 31, 1995, NYNEX had $950 million of unissued, unsecured debt and equity securities registered with the SEC. The proceeds from the sale of these securities would be used to provide funds to NYNEX and/or NYNEX's nontelephone subsidiaries for their respective general corporate purposes.

I Short-term Debt

NYNEX's short-term borrowings and related weighted average interest rates are as follows:

December 31, (In millions)	1995	1994	Weighted average interest rates 1995	Weighted average interest rates 1994
Commercial paper and short-term debt	$ —	$1,987.4	6.0%	6.0%
Debt maturing within one year	497.8	132.3	7.3%	6.8%
Current portion of long-term capital lease obligations	8.8	9.1		
Total short-term debt	$506.6	$2,128.8		

As previously discussed, at December 31, 1995, NYNEX had an unused line of credit amounting to $2.75 billion through an unsecured revolving credit facility with an initial term of five years. This line of credit, together with cash and temporary cash investments, may be used to support outstanding commercial paper. As such, $1.9 billion of outstanding commercial paper borrowings was classified as Long-term debt at December 31, 1995.

$350 million of New England Telephone's Debentures are repayable on November 15, 1996, in whole or in part, at the option of the holder, and as such are classified as Short-term debt at December 31, 1995.

J Minority Interest

December 31, (In millions)	1995	1994
Portion subject to redemption requirements	$ 731.2	$ 390.5
Portion non-redeemable	346.2	176.7
Total	$ 1,077.4	$ 567.2

Financing of Operations in the United Kingdom

On December 31, 1993, a financing arrangement was entered into for the southern cable franchises in the United Kingdom (the "South"). Prior to this financing, two partnerships were formed: South CableComms, L.P. ("SC"), and Chartwell Investors L.P. ("Chartwell"), both Delaware limited partnerships. These partnerships and their subsidiaries are legal entities separate and distinct from NYNEX, as are their assets and liabilities. Two wholly-owned subsidiaries of NYNEX contributed assets, consisting of cash and stock, with an aggregate initial market value of $130 million and a book value of $109 million at December 31, 1993, to SC in exchange for general partnership interests, and Chartwell contributed $20 million in cash to SC in exchange for a limited partner interest.

Prior to March 31, 1995, the financing arrangements for the South were similar in substance to, but structurally different from, those for the northern cable franchises in the United Kingdom (the "North"). On March 31, 1995, the financing structure for the South was changed to closely resemble the structure for the North (see explanation of transaction below) as it existed at December 1994. In preparation for this restructure, SC distributed to its partners intercompany loans receivable of $295 million in the form of dividends. These loans were payable to SC from the southern cable franchises. Of these dividends, $214 million was distributed to Chartwell and $81 million was distributed to the two wholly-owned subsidiaries of NYNEX (the "NYNEX South general partners"). The NYNEX South general partners in turn distributed the $81 million to NYNEX, who in turn contributed it to two other wholly-owned NYNEX subsidiaries (the "NYNEX South members").

In connection with the financing restructure to facilitate an initial public offering ("IPO"), a new entity was formed, South CableComms L.L.C. ("SCLLC"), a Delaware limited liability company. Chartwell contributed its existing partnership interests in SC having a book value of $8 million and loans of $214 million to SCLLC, and, as a result, is no longer a partner in SC. The NYNEX members contributed the aforementioned $81 million of loans to SCLLC.

All of the partners of Chartwell and members of SCLLC have committed to make future capital contributions as required by the various documents, and with respect to Chartwell's commitment, such contributions must be matched by NYNEX subsidiaries. As of December 31, 1995, total cumulative contributions to SCLLC were as follows: $200 million from the NYNEX South members and $295 million from Chartwell; and total cumulative contributions to SC were as follows: $474 million from the NYNEX South general partners and $128 million from SCLLC.

SC's purpose is to manage and protect a portfolio of assets, which is being used to fund the construction, operations and working capital requirements of cable television and telecommunications systems in certain licensed areas in the South. SCLLC's purpose is to provide funding arrangements to SC and its operating companies in the South with the proceeds of capital contributions received from its members. A wholly-owned subsidiary of NYNEX manages and controls the business and operations of SCLLC. SC and SCLLC are included in NYNEX's consolidated financial statements, and Chartwell's interest in SCLLC is reflected in "Minority interest, including a portion subject to redemption requirements."

NYNEX also contributed cash to Chartwell in exchange for an initial 20% limited partnership interest. The purpose of Chartwell is to invest up to $426 million (based on the applicable year-end exchange rate) over a five-year contribution term in SCLLC, and the funding of Chartwell consists of equity and amounts made available to it, subject to the satisfaction of funding conditions, under existing arrangements with financial institutions. A portion of the funding is collateralized by Chartwell's assets, is non-recourse to the partners of Chartwell, and bears interest at market rates. It includes representations, warranties, covenants and events of default customary in financings of this nature. The remaining term of the funding arrangement is eight years, with repayments beginning in 1999, and Chartwell is entitled to receive cumulative preferential distributions from SCLLC sufficient to meet these repayment requirements. The redemption requirements are $30 million for 1999 and $52 million for 2000. For financial reporting purposes, NYNEX's investment in Chartwell is reflected in "Long-term investments" and is accounted for under the equity method.

On December 19, 1994, a financing arrangement was entered into for the North. Prior to this financing, three entities were formed: North CableComms L.P. ("NCLP"), a Delaware limited partnership; North CableComms, L.L.C. ("NCLLC"), a Delaware limited liability company; and Winston Investors L.L.C. ("Winston"), a Delaware limited liability company. These entities and their subsidiaries are legal entities separate and distinct from NYNEX, as are their assets and liabilities. Three subsidiaries of NYNEX ("NYNEX North general partners") contributed stock to NCLP in exchange for general partnership interests (with an aggregate market value of $827 million and an aggregate book value of $142 million at December 19, 1994). NCLLC contributed $79 million in cash to NCLP in exchange for a limited partnership interest. Two wholly-owned subsidiaries of NYNEX ("NYNEX North members") contributed in the aggregate $82 million in cash, and Winston contributed $225 million in cash, each for member interests in NCLLC.

All of the partners of NCLP and members of NCLLC have committed to make future capital contributions as required by the various documents, and with respect to Winston's commitment, such contributions must be matched by NYNEX contributions. As of December 31, 1995, total cumulative contributions to NCLLC were as follows: $214 million from the NYNEX North members and $385 million from Winston; and total cumulative contributions to NCLP were as follows: $401 million from the NYNEX North general partners and $209 million from NCLLC.

NCLP's purpose is to manage and protect a portfolio of assets, which is being used to fund the construction, operations and working capital requirements of cable television and telecommunications systems in certain licensed areas in the North. NCLLC's purpose is to provide funding arrangements to NCLP and its operating companies in the North with the proceeds of capital contributions received from its members. A wholly-owned subsidiary of NYNEX manages and controls the business and operations of NCLLC. NCLP and NCLLC are included in NYNEX's consolidated financial statements, and Winston's interest in NCLLC is reflected in "Minority interest, including a portion subject to redemption requirements."

NYNEX also contributed cash to Winston in exchange for an initial 20% equity interest. The purpose of Winston is to invest up to $1.1 billion (based on the applicable year-end exchange rate) over a five-year contribution term in NCLLC, and the funding of Winston consists of equity and amounts available to it, subject to the satisfaction of funding conditions, under existing arrangements with financial institutions. A portion of the funding is collateralized by Winston's assets, is non-recourse to the partners of Winston, and bears interest at market rates. It includes representations, warranties, covenants and events of default customary in financings of this nature. The remaining term of the funding arrangement is nine years, with repayments beginning in 2000, and Winston is entitled to receive cumulative preferential distributions from NCLLC sufficient to meet these repayment requirements. The redemption requirements are $36 million for 2000. For financial reporting purposes, NYNEX's investment in Winston is reflected in "Long-term investments" and is accounted for under the equity method.

NYNEX provides certain performance guarantees to Chartwell and Winston, and for the first five years, a completion guarantee that requires a specified number of homes be passed by the network in the South and in the North by December 31, 1998 and 1999, respectively (subject to one-year extensions). At December 31, 1995 and 1994, the related construction program was progressing toward the appropriate targets for release from the completion guarantee. In order to gain release from the completion guarantee, NYNEX must demonstrate that various financial ratios, based on, among other things, operating cash flows, and other tests such as material compliance with communication licenses, are satisfied. If the construction program does not meet such tests and these shortfalls are not cured within a specified time period, the completion guarantee will necessitate payments to be made directly to Chartwell or Winston, as appropriate. NYNEX also provides indemnifications to these entities, among others, in respect of certain liabilities, including all liability, loss or damage incurred as a result of any breach of the agreements set forth, and tax indemnifications relating to events prior to the creation of SC, SCLLC, NCLP and NCLLC. In addition, NYNEX is required to maintain certain financial and operating standards and may, at any time, elect to purchase the equity interest in Chartwell and Winston on certain terms.

During February 1995, two entities were formed: NYNEX CableComms Group PLC ("UK CableComms"), a public limited liability company incorporated under the laws of England and Wales, and NYNEX CableComms Group Inc. ("US CableComms"), a Delaware corporation (both being referred to collectively as "CableComms"). Prior to the IPO discussed below, both were wholly-owned subsidiaries of NYNEX. Both are separate and distinct legal entities. The sole assets of UK CableComms and US CableComms are 90% and 10%, respectively, of the outstanding stock of NYNEX CableComms Holdings, Inc. which holds, through various subsidiaries and partnerships, interests in cable television and telecommunications franchises, assets and operations in the United Kingdom.

An IPO was completed in June 1995 of 305 million equity units of CableComms. These units are traded as "stapled units" and are comprised of one ordinary share of UK CableComms and one share of common stock of US CableComms (the "Combined Offering"). Of the 305 million units issued, 170,222,000 were issued as units at a price of 137 pence per unit in the United Kingdom, and 13,477,800 were issued as American Depository Shares ("ADS") at $21.81 per ADS in the United States, each ADS comprising 10 units. The Combined Offering represented 33% of the total units outstanding, with NYNEX retaining the balance. Net proceeds from the offering were approximately $610 million. CableComms is using the proceeds to repay outstanding revolving loans under credit facilities, to fund a portion of the cost of construction of its network, and for operating cash flow and interest.

NYNEX's policy is to recognize in income any gains or losses related to the sale of stock by an investee. NYNEX recognized an after-tax gain on the IPO of $155.1 million in the second quarter of 1995, net of $109.0 million in deferred taxes, in recognition of the net increase in the value of NYNEX's investment in CableComms.

Other Financing

In November 1993, NYNEX invested $1.2 billion in Viacom Inc. ("Viacom") for 24 million shares of Viacom Series B Cumulative Preferred Stock

("Viacom Preferred"), carrying an annual dividend of five percent. The stock is convertible into shares of Viacom Class B non-voting common stock at a price of $70 per share.

In December 1995, NYNEX entered into a contract for the non-recourse securitization that permits a monetization of approximately 50% of its investment in the Viacom Preferred, of which 8% was implemented in 1995. NYNEX realized proceeds of $100 million from this monetization which were used to reduce outstanding commercial paper. In connection with this transaction, NYNEX has invested in three newly formed Delaware limited liability companies: a majority owned and controlled subsidiary, "Weatherly Holdings L.L.C.", and its 50% owned and controlled subsidiary, "Kipling Associates L.L.C." (Weatherly Holdings L.L.C. and Kipling Associates L.L.C. are collectively referred to as the "Monetization Subsidiaries"), and a third-party owned and controlled entity, "Mandalay Investors L.L.C." (the "Outside Member"), which has invested in the Monetization Subsidiaries. These companies are legal entities separate and distinct from NYNEX, as are their assets and liabilities.

At the time of formation, NYNEX contributed, in the aggregate, two million shares of Viacom Preferred with a book value of $100 million and $35 million in cash for its member interests in the Monetization Subsidiaries. The Outside Member contributed $100 million in cash for its member interest in Kipling Associates L.L.C. and $10 thousand in cash for its member interest in Weatherly Holdings L.L.C. The Monetization Subsidiaries have approximately $12 million in cash which has been loaned to NYNEX, cash equivalents, the Viacom Preferred, certain intercompany financial obligations and approximately 2.4 million shares of NYNEX common stock. The purpose of the Monetization Subsidiaries is to manage and protect their financial assets for sale or distribution at a later date. The Monetization Subsidiaries are included in NYNEX's consolidated financial statements, and the Outside Member's interest in the Monetization Subsidiaries is reflected in "Minority interest, including a portion subject to redemption requirements." NYNEX has invested $10 thousand in cash in the Outside Member for a less than 1% ownership interest, which is accounted for under the cost method and is included in "Long-term investments."

In connection with the monetization of the Viacom Preferred, NYNEX has provided certain indemnifications to the Monetization Subsidiaries and the Outside Member including certain tax indemnifications. The term of the monetization transaction is five years at which time the Outside Member's interest in the Monetization Subsidiaries will be redeemed through the liquidation of the Monetization Subsidiaries' assets. Under the terms of an extension agreement, NYNEX has the ability and intends to increase the amount of the monetization up to $600 million by March 31, 1996 under terms and conditions that are substantially the same as the December 1995 transaction. NYNEX may, upon meeting certain funding requirements, elect to purchase the member interests of the Outside Member in the Monetization Subsidiaries or terminate the transaction and cause the liquidation of the assets of the Monetization Subsidiaries.

K Stockholders' Equity

Preferred Stock
NYNEX's certificate of incorporation provides authority for the issuance of 75 million shares of Preferred stock, $1.00 par value, in one or more series with such designations, preferences, rights, qualifications, limitations, and restrictions as NYNEX's Board of Directors may determine.

Common Stock
On July 15, 1993, the Board of Directors of NYNEX declared a two-for-one common stock split in the form of a 100 percent stock dividend, payable September 15, 1993 to holders of record at the close of business on August 16, 1993.

As of November 1, 1993, NYNEX discontinued purchasing shares of its common stock and began issuing new shares in connection with employee savings plans, the Dividend Reinvestment and Stock Purchase Plan, stock compensation plans, and stock option plans.

Dividends Declared from Additional Paid-In Capital
The second, third, and a portion of the fourth quarter 1995 dividends were declared from Additional paid-in capital.

Shareholder Rights Agreement
In October 1989, NYNEX adopted a Shareholder Rights Agreement, pursuant to which shareholders received a dividend distribution of one right for each outstanding share of NYNEX's common stock. As a result of the two-for-one common stock split, the rights have been adjusted so that shareholders

receive one right for every two shares of common stock. Each right entitles the shareholder to buy 1/100 of a share of $1.00 par value Series A Junior Participating Preferred Stock from NYNEX at an exercise price of $250 per right. 5 million shares of this Preferred Stock have been authorized, with 3 million shares reserved for exercise of the rights. The rights, which are subject to adjustment, will not be exercisable or separable from the common stock until ten days following a public announcement that a person or group has acquired beneficial ownership of 15% or more of NYNEX's outstanding common stock or ten business days following the commencement of, or public announcement of the intent to commence, a tender or exchange offer by a beneficial owner of 15% or more of the outstanding common stock.

If any person becomes the beneficial owner of 15% or more of the outstanding common stock, each holder of a right will receive, upon exercise at the right's then current exercise price, common stock having a value equal to twice the exercise price. If NYNEX is acquired in a merger or business combination, or if 50% or more of NYNEX's assets or earning power is sold, each right holder will receive, upon exercise at the right's then current exercise price, common stock in the new company having a value equal to twice the exercise price of the right.

NYNEX may exchange rights for shares of common stock or redeem rights in whole at a price of $.01 per right at any time prior to their expiration on October 31, 1999.

Leveraged Stock Ownership Plan

In February 1990, NYNEX established a leveraged employee stock ownership plan ("LESOP") and loaned $450 million to the LESOP Trust ("internal LESOP note"). The LESOP Trust used the proceeds to purchase, at fair market value, 5.6 million shares of NYNEX's common stock held in treasury. NYNEX issued and guaranteed $450 million of 9.55% Debentures, the proceeds of which were principally used to repurchase 5.4 million shares in the open market, completing the stock repurchase plan. The Debentures require payments of principal annually and are due May 1, 2010. Interest payments are due semiannually. The Debentures and the internal LESOP note are recorded as Long-term debt and as Deferred compensation, respectively. Deferred compensation will be reduced as shares are released and allocated to participants.

NYNEX maintains savings plans that cover substantially all of its employees. Under these plans, NYNEX matches a certain percentage of eligible employee contributions. Under provisions of the Savings Plan for Salaried Employees, NYNEX's matching contributions are allocated to employees in the form of NYNEX stock from the LESOP Trust, based on the proportion of principal and interest paid by the LESOP Trust in a year to the remaining principal and interest due over the life of the internal LESOP note. Compensation expense is recognized based on the shares allocated method. LESOP shares are not considered outstanding until they are allocated to participants.

NYNEX's matching contributions to the savings plans and any change in the required contribution as a result of leveraging this obligation are recorded as compensation expense. Compensation expense applicable to the savings plans for 1995, 1994 and 1993 was $77.2, $88.2 and $81.3 million, respectively, and has been reduced by $25.9, $26.1, and $26.2 million, respectively, for the dividends paid on LESOP shares used to service the internal LESOP note. As of December 31, 1995 and 1994, the number of shares allocated to the LESOP were 2.2 and 1.9 million, respectively, and the number of shares held by the LESOP for future allocation were 8.6 and 9.1 million, respectively.

L Stock Option Plans

NYNEX has stock option plans for key management employees under which options to purchase NYNEX common stock are granted at a price equal to or greater than the market price of the stock at the date of grant. The 1990 Stock Option Plan, which expired on December 31, 1994, permitted the grant of options through December 1994 to purchase up to 4 million shares. In January 1995, NYNEX established the 1995 Stock Option Plan, that permits the grant of options no later than December 31, 1999 to purchase up to 20 million shares of common stock; options may not be exercisable for a period less than one year or greater than ten years from date of grant.

Both the 1990 and the 1995 Stock Option Plans for key management employees allow for the granting of stock appreciation rights ("SARs") in tandem with options granted. Upon exercise of a SAR, the holder may receive shares of common stock or cash equal to the excess of the market price of the common stock at the exercise date over the option price. SARs may be exercised in lieu of the underlying option only when those options become exercisable.

Effective March 31, 1992, NYNEX established stock option plans for nonmanagement employees and for management employees other than those eligible to participate in the 1990 and 1995 Stock Option Plans. Employees were granted options, with the number of options varying according to employee level, to purchase a fixed number of shares of NYNEX common stock at the market price of the stock on the grant date. Fifty percent of the options could be exercised one year from the grant date, with the remaining fifty percent exercisable two years from the grant date. These options expire ten years from the grant date. In October 1994 and January 1996, employees were granted additional options under these plans.

The following summarizes the activity for those shares under option under the various stock option plans including the related SARs:

Stock Options	Shares	Price Range Per Share
Outstanding at December 31, 1992	9,453,140	$27.60 to $88.13
Granted prior to stock split	806,891	$70.63 to $88.88
Exercised prior to stock split	(644,196)	$31.34 to $88.13
Canceled prior to stock split	(79,473)	$69.13 to $88.13
Stock split	9,519,950	
Granted after stock split	16,595	$42.32 to $46.07
Exercised after stock split	(281,500)	$16.50 to $44.07
Canceled after stock split	(106,605)	$21.91 to $44.07
SSI net activity*	(16,412)	$13.80 to $18.98
Outstanding at December 31, 1993	18,668,390	$13.80 to $46.07
Granted	14,724,360	$37.94 to $39.88
Exercised	(261,131)	$21.91 to $36.13
Canceled	(716,391)	$32.97 to $44.07
Outstanding at December 31, 1994	32,415,228	$24.69 to $46.07
Granted	3,169,470	$33.00 to $50.19
Exercised	(3,559,057)	$24.69 to $42.66
Canceled	(353,216)	$35.32 to $44.07
Outstanding at December 31, 1995	31,672,425	$32.75 to $50.19

*NYNEX acquired Stockholder Systems, Inc. ("SSI") in 1990, and SSI employees could exercise SSI options for NYNEX common stock. SSI was sold in 1994, and SSI options are no longer exercisable.

For the year ended December 31, (Number of shares)	1995	1994	1993
Stock appreciation rights:			
Outstanding at beginning of year	**1,864**	1,864	29,247
Granted	**—**	—	—
Exercised	**(1,864)**	—	(7,551)
Canceled	**—**	—	(23,571)
Stock split	**—**	—	3,739
Outstanding at end of year	**—**	1,864	1,864

There were 20,977,556 and 16,604,260 stock options exercisable at December 31, 1995 and 1994, respectively. In January 1996, options to purchase approximately 11 million shares of common stock were granted under the stock option plans established on March 31, 1992, and options to purchase approximately 5 million shares of common stock were granted under the 1995 Stock Option Plan.

M Leases

NYNEX leases certain facilities and equipment used in its operations. Rental expense was $381.4, $310.5 and $337.0 million for 1995, 1994 and 1993, respectively. At December 31, 1995, the minimum lease commitments under noncancelable leases for the periods shown are as follows:

(In millions)	Operating	Capital
1996	$ 142.0	$ 19.7
1997	113.4	15.8
1998	102.8	14.9
1999	86.4	11.5
2000	69.0	11.3
Thereafter	389.7	381.6
Total minimum lease payments	$ 903.3	454.8
Less: executory costs	—	11.4
Net minimum lease payments	—	443.4
Less: interest	—	370.8
Present value of net minimum lease payments	—	$ 72.6

Credit Company is the lessor in leveraged and direct financing lease agreements under which commercial aircraft, railroad cars, industrial equipment, power generators, residential real estate, telecommunications and computer equipment are leased for terms of 3 to 35 years. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party non-recourse debt relating to leveraged lease transactions. Since Credit Company has no general liability for this debt, the related principal and interest have been offset against the minimum lease payments receivable. Minimum lease payments receivable are subordinate to the debt, and the debt holders have a security interest in the leased equipment.

At December 31, 1995 and 1994, the net investment in leveraged leases was $407.7 and $406.7 million, respectively, and in direct financing leases was $186.1 and $133.7 million, respectively. The components of Credit Company's net investment in these leases are included in Deferred charges and other assets and are as follows:

December 31, (In millions)	1995	1994
Minimum lease payments receivable	**$1,826.7**	$1,561.2
Unguaranteed residual value	**1,165.2**	1,027.6
Initial direct costs	**1.3**	1.2
Less: Unearned income	**1,301.6**	1,127.2
Deferred income taxes	**1,073.5**	900.2
Allowance for uncollectibles	**24.3**	22.2
Net investment	**$ 593.8**	$ 540.4

At December 31, 1995, future minimum lease payments receivable, in millions, in excess of debt service requirements on non-recourse debt related to leveraged and direct financing leases, are collectible as follows: $70.7 in 1996; $70.9 in 1997; $68.0 in 1998; $59.6 in 1999; $44.5 in 2000; and $1,513.0 thereafter.

N Financial Instruments

Risk Management, Off-Balance-Sheet Risk and Concentrations of Credit Risk

NYNEX has entered into transactions in financial instruments with off-balance-sheet risk, to reduce its exposure to market and interest rate risk in its short-term and long-term securities. NYNEX entered into various interest rate, currency, and basis swap transactions, with an aggregate notional amount of $2.9 billion and $2.3 billion at December 31, 1995 and 1994, respectively, to manage interest rate, foreign exchange rate, and tax exposures. These transactions mature at various dates from 1995 through 2004.

Risk in these transactions involves both risk of counterparty nonperformance under the contract terms and risk associated with changes in market values, interest rates, and foreign exchange rates. The counterparties to these contracts consist of major financial institutions and organized exchanges. NYNEX continually monitors its positions and the credit ratings of its counterparties and limits the amount of contracts it enters into with any one party. While NYNEX may be exposed to credit losses in the event of nonperformance by these counterparties, it does not anticipate such losses, due to the aforementioned control procedures. The settlement of these transactions is not expected to, but may, have a material effect upon NYNEX's financial position or results of operations.

A description of NYNEX's financial instruments is presented in Management's Discussion and Analysis on pages 20–22.

Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of NYNEX's financial instruments at December 31, 1995 and 1994. Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," defines fair value as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced liquidation or sale.

	1995		1994	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-Derivatives:				
Long-term investments:				
Practicable to estimate fair value	**$ 492.1**	**$1,055.8**	$ 492.2	$ 990.8
Not practicable	**1,296.6**	**1,296.6**	1,206.0	1,206.0
Long-term debt	**7,336.3**	**7,712.9**	7,714.6	7,083.5
Derivatives:*				
Assets	**11.4**	**18.2**	11.8	18.3
Liabilities	**(36.9)**	**(50.0)**	(7.5)	(100.5)

*The carrying amounts in the table are included in Deferred charges and other assets, Other current liabilities, and Other long-term liabilities and deferred credits.

The fair value of the derivative contracts includes the remaining unamortized costs of foreign exchange hedges, which are ($34.9) and ($43.6) million for 1995 and 1994, respectively. These values reflect the implicit incremental borrowing costs associated with NYNEX's overseas investments in the United Kingdom and Thailand. The following methods and assumptions were used to estimate the fair value of each type of financial instrument for which estimation was practicable.

Long-term investments

The estimated fair value of some investments accounted for under the cost method is based on quoted market prices for those or similar investments. For other investments for which there are no quoted market prices, a reasonable estimate of fair market value could not be made without incurring excessive costs. It is not practicable to estimate the fair value of NYNEX's investment in the Viacom Preferred or NYNEX's investments in untraded entities because of the nature of the investments. Accordingly, the carrying value is presented as the fair value.

Long-term debt
The estimated fair value of long-term debt is based on quoted market prices or discounted future cash flows using the weighted average coupon rate and current interest rates.

Derivatives
The estimated fair value of most derivatives is based on amounts NYNEX would receive or pay to terminate such agreements taking into account current mid-market rates. The estimated fair value of the basis swaps is based on the amounts NYNEX would pay to replicate such agreements taking into account current rates.

O Additional Financial Information

(In millions)	1995	1994	1993
Taxes other than income:			
Property	$ 359.8	$ 351.9	$ 399.6
Gross receipts	508.2	495.3	500.1
Payroll-related	65.9	65.4	65.1
Other	81.7	80.6	74.1
Total	$ 1,015.6	$ 993.2	$ 1,038.9

December 31, (In millions)	1995	1994
Accounts payable:		
Trade	$ 981.4	$ 1,146.5
Taxes	118.3	97.9
Compensated absences	310.2	305.9
Dividends	255.8	249.9
Payroll	129.5	131.3
Interest	131.8	125.6
Other	975.2	611.1
Total	$ 2,902.2	$ 2,668.2
Other current liabilities:		
Advance billings and customers' deposits	$ 281.5	$ 291.3
Deferred income taxes	6.3	1.1
Other	295.9	761.1
Total	$ 583.7	$ 1,053.5

Total research and development costs charged to expense for 1995, 1994 and 1993 were $279.1, $159.7 and $162.8 million, respectively.

In 1995, 1994 and 1993, AT&T Corp. ("AT&T") provided approximately 14%, 15% and 16%, respectively, of NYNEX's total operating revenues, primarily Network access revenues and Other revenues from billing and collection services performed by the telephone subsidiaries for AT&T.

Telesector Resources owns a one-seventh interest in Bell Communications Research, Inc. ("Bellcore"). Bellcore furnishes technical and support services to NYNEX relating to exchange telecommunications and exchange access services. For 1995, 1994 and 1993, NYNEX recorded charges of $93.8, $112.2 and $128.5 million, respectively, in connection with these services.

P Supplemental Cash Flow Information

The following information is provided in accordance with Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows":

December 31, (In millions)	1995	1994	1993
Income tax payments	$ 478.3	$ 519.4	$ 591.8
Interest payments	$ 740.7	$ 630.0	$ 623.6
Non-cash transactions:			
Additions to property, plant and equipment under capital lease obligations	$ .3	$ 10.6	$ —
Contribution of certain cellular net assets in exchange for an equity investment in Bell Atlantic NYNEX Mobile cellular partnership (see Note F)	$ 611.6	$ —	$ —
Common Stock issued for dividend reinvestment and stock purchase plan and stock compensation plans	$ 110.2	$ 107.1	$ 29.6
Short-term debt classified as Long-term debt (see Note H)	$ 1,939.4	$ —	$ 588.6

Q Revenues Subject to Possible Refund

Several state and federal regulatory matters, including affiliate transaction issues in New York Telephone's 1990 intrastate rate case ($188.0 million), may possibly require the refund of a portion of the revenues collected in the current and prior periods. As of December 31, 1995, the aggregate amount of such revenues that was estimated to be subject to possible refund was approximately $260.7 million, plus related interest. The outcome of each pending matter, as well as the time frame within which each will be resolved, is not presently determinable.

R Business Restructuring

In 1995 and 1994, $514.1 and $693.5 million, respectively, of pretax pension enhancement charges were recorded. These charges are a portion of an estimated $2.0 billion of pretax charges to be recorded for pension enhancements as employees leave NYNEX through retirement incentives. The pension enhancement charges were included in the Consolidated Statements of Income as Selling, general and administrative.

In the fourth quarter of 1993, $2.1 billion of pretax business restructuring charges were recorded, primarily related to efforts to redesign operations and work force reductions. These charges include: $1.1 billion for severance and postretirement medical costs; $626 million for re-engineering service delivery; $283 million for sale or discontinuance of information product and services businesses; and $106 million for restructuring at other nontelephone subsidiaries. The restructuring charges were included in the Consolidated Statements of Income as follows: Maintenance and support — $192 million; Marketing and customer services — $53 million; Selling, general and administrative — $1.8 billion; and Other income (expense) – net — $31 million.

S Litigation and Other Contingencies

Various legal actions and regulatory proceedings are pending that may affect NYNEX. While counsel cannot give assurance as to the outcome of any of these matters, in the opinion of Management based upon the advice of counsel, the ultimate resolution of these matters in future periods is not expected to have a material effect on NYNEX's financial position but could have a material effect on annual operating results.

Supplementary Information

Quarterly Financial Data (Unaudited)

(In millions, except per share amounts)	For the quarter ended March 31,	June 30,	September 30,	December 31,
1995				
Operating revenues	$ 3,354.2	$ 3,495.6	$ 3,252.8	$ 3,304.3
Operating income	$ 573.0	$ 396.7	$ 627.9	$ 494.6
Earnings before extraordinary item	$ 250.2	$ 240.8	$ 342.9	$ 235.6
Extraordinary item for the discontinuance of regulatory accounting principles, net of taxes	$ —	$(2,919.4)	$ —	$ —
Net income (loss)	$ 250.2	$(2,678.6)	$ 342.9	$ 235.6
Earnings per share before extraordinary item	$ .59	$ .56	$ .80	$ .55
Extraordinary item per share	$ —	$ (6.84)	$ —	$ —
Earnings (loss) per share	$ .59	$ (6.28)	$ .80	$ .55
Dividends per share	$ .59	$ .59	$ .59	$ .59
Market price:*				
High	$ 41.500	$ 43.125	$ 48.750	$ 54.000
Low	$ 35.875	$ 39.375	$ 39.250	$ 46.000
1994				
Operating revenues	$ 3,273.3	$ 3,311.6	$ 3,330.8	$ 3,390.9
Operating income	$ 595.5	$ 129.2	$ 583.0	$ 448.5
Net income	$ 290.6	$ 1.2	$ 302.5	$ 198.3
Earnings per share	$ .70	$ —	$ .72	$ .47
Dividends per share	$ .59	$ .59	$ .59	$ .59
Market price:*				
High	$ 41.375	$ 39.750	$ 39.125	$ 39.750
Low	$ 34.250	$ 33.250	$ 35.625	$ 36.250

* Market price obtained from the New York Stock Exchange-Composite Transactions Index.

Results for the first, second, third and fourth quarters of 1995 include $83.8, $165.9, $38.0 and $226.4 million, respectively, of pretax charges for pension enhancements, which were reflected in operating expenses. The after-tax effect of these charges was $53.8, $106.2, $23.7 and $143.1 million, respectively.

Results for the second quarter of 1995 include the effects of the discontinuance of regulatory accounting principles, recorded as an extraordinary item (see Note B); a $264.1 million ($155.1 million after-tax) "Gain on sale of stock by subsidiary" related to an initial public offering of equity in NYNEX CableComms (see Note J); and $210.5 million ($155.0 million after-tax) of special charges to meet various tax, benefit and legal obligations and contingencies, $199.0 million of which was included in operating expenses and $11.5 million of which was in Other income (expense) - net. Results for the third quarter of 1995 include a $123.8 million ($65.8 million after-tax) net gain resulting primarily from the sale of certain NYNEX Mobile assets and actuarial changes associated with BANM, and $102.6 million ($66.0 million after-tax) of special charges to meet various tax and legal obligations and contingencies. The third quarter pretax effect was distributed as follows: a $62.0 million gain in Other income (expense) - net, $39.0 million in operating expenses, and $1.8 million in interest expense. Results for the fourth quarter of 1995 include a net $33.8 million of pretax credits in operating expenses ($22.0 million after-tax) primarily due to revised estimates associated with benefit accruals, and a $13.7 million ($8.9 million after-tax) reduction in Interest expense on the revenue set aside as ordered by the NYSPSC, partially offset by a $15.0 million ($9.7 million after-tax) charge in operating expenses for a gross receipts tax settlement and a $17.4 million charge in Other income (expense) - net for an unrealized mark to market valuation adjustment on a financial instrument.

In the third quarter of 1995, NYNEX deconsolidated certain assets and liabilities of NYNEX Mobile, in exchange for an equity interest in BANM (see Note F). For the third and fourth quarters of 1995, NYNEX's interest in BANM is reported under the equity method. Results for the first quarter of 1995 include NYNEX Mobile operating revenues and operating expenses of $189.3 and $174.5 million, respectively. Results for the second quarter of 1995 include NYNEX Mobile operating revenues and operating expenses of $210.5 and $161.7 million, respectively.

In the third quarter of 1995, there was a change in the presentation of gross receipts taxes that were collected from customers. In the first two quarters of 1995, these taxes were included in operating revenues and expenses. In the last two quarters, as a result of a tax law change, these taxes were no longer required to be collected.

Results for the second, third and fourth quarters of 1994 include $449.3, $31.2 and $213.0 million, respectively, of pretax charges for pension enhancements, which were reflected in operating expenses. The after-tax effect of these charges was $291.5, $20.5 and $140.8 million, respectively.

Results for the fourth quarter of 1994 include $51.9 million of pretax credits to pension and medical expense associated with plan amendments and favorable plan experience, and $30.1 million for research tax credits and federal and state tax credits, partially offset by a $10.8 million pretax charge for costs associated with planned exits from media communication ventures. The total pretax effect was distributed as follows: a $41.8 million benefit in operating expenses, a $30.1 million benefit in income taxes and a $0.7 million charge in Other income (expense) - net. The after-tax effect of these net benefits was an increase in net income of $55.9 million, of which $1.2 million was applicable to the fourth quarter.

For further discussion of these items, see Management's Discussion and Analysis of Financial Condition and Results of Operations.