other general corporate purposes. The debt securities of those subsidiaries continue to be accorded high ratings by primary rating agencies. After the announcement of the Bell Atlantic-GTE merger, the rating agencies placed the ratings of certain of our subsidiaries under review for potential downgrade. In January 2000, Standard & Poor's revised its regulatory separation policy as it applies to U.S. telephone companies. Under the revised policy, Standard & Poor's will no longer assign higher corporate credit ratings to telephone operating subsidiaries. Rating actions by Standard & Poor's on Bell Atlantic and its operating telephone subsidiaries reflect both the new policy and their continued CreditWatch listings, which resulted from the pending Bell Atlantic-GTE merger.

We also have a $2.0 billion Euro Medium Term Note Program, under which we may issue notes that are not registered with the Securities and Exchange Commission. The notes may be issued from time to time by our subsidiary, Bell Atlantic Global Funding, Inc. (BAGF), and will have the benefit of a support agreement between BAGF and Bell Atlantic. There have been no notes issued under this program.

In March 1999, we received cash proceeds of $380 million from a financing transaction involving cellular assets between BAM and Crown Castle International Corporation. A joint venture was formed for the primary purpose of financing BAM's investment in cellular towers. BAM, together with certain partnerships in which it is the managing partner (the managed entities), contributed to the joint venture approximately 1,460 cellular towers in exchange for approximately $380 million in cash and an equity interest of approximately 37.7% in the joint venture. BAM and the managed entities have leased back a portion of the towers, and the joint venture will lease the remaining space to third parties. The joint venture also plans to build new towers.

In 1999, we received cash proceeds totaling $119 million from the public offerings of Iusacell shares. See Note 4 to the consolidated financial statements for additional information on Iusacell and the share offerings.

In December 1998, we accepted an offer from Viacom to repurchase one-half of our investment in Viacom, or 12 million shares of their preferred stock (with a book value of approximately $600 million), for approximately $564 million in cash. The cash proceeds, together with additional cash, were used to purchase an outside party's interest in one of our fully consolidated subsidiaries. This transaction reduced Minority Interest by $600 million and included certain stock appreciation rights and costs totaling $32 million.

## Increase (Decrease) in Cash and Cash Equivalents

Our cash and cash equivalents at December 31, 1999 totaled $1,097 million, an increase of $860 million over 1998. This increase was primarily attributable to anticipated funding requirements in early 2000 in connection with an agreement with Metromedia Fiber Network, Inc. (MFN), a domestic and international provider of dedicated fiber optic networks in major metropolitan markets.

On March 6, 2000, we invested approximately $1.7 billion in MFN. This investment included $715 million to acquire approximately 9.5% of the equity of MFN through the purchase of newly issued shares at $28 per share. We also purchased approximately $975 million in subordinated debt securities convertible at our option, upon receipt of necessary government approvals, into common stock at a conversion price of $34 per share or an additional 9.6% of the equity of MFN. This investment completed a portion of our previously announced agreement with MFN, which included the acquisition of approximately $550 million of long-term capacity in MFN's fiber optic networks, beginning in 1999 through 2002. Of the $550 million, 10% was paid in November 1999 and 30% will be paid each October from 2000 through 2002.

## Market Risk

We are exposed to various types of market risk in the normal course of our business, including the impact of interest rate changes, foreign currency exchange rate fluctuations, changes in equity investment prices and changes in corporate tax rates. We employ risk management strategies using a variety of derivatives including interest rate swap agreements, interest rate caps and floors, foreign currency forwards and options and basis swap agreements. We do not hold derivatives for trading purposes.

It is our policy to enter into interest rate, foreign currency and other derivative transactions only to the extent necessary to achieve our desired objectives in limiting our exposures to the various market risks. Our objectives include maintaining a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters, hedging the value of certain international investments, and protecting against earnings and cash flow volatility resulting from changes in foreign exchange rates. We do not hedge our market risk exposure in a manner that would completely eliminate the effect of changes in interest rates, equity prices and foreign exchange rates on our earnings. While we do not expect that our liquidity and cash flows will be materially affected by these risk management strategies, our net income may be materially affected by certain market risk associated with the TCNZ and CWC exchangeable notes as discussed below.

### Exchangeable Notes

In 1998, we issued exchangeable notes as described in Note 10 to the consolidated financial statements and discussed earlier under "Mark-to-Market Adjustment for Exchangeable Notes." These financial instruments expose us to market risk, including:

- Equity price risk, because the notes are exchangeable into shares that are traded on the open market and routinely fluctuate in value.
- Interest rate risk, because the notes carry fixed interest rates.
- Foreign exchange rate risk, because the notes are exchangeable into shares that are denominated in a foreign currency.

Periodically, equity price and/or foreign exchange rate movements may require us to mark to market the exchangeable note liability to reflect the increase in the current share price over the established exchange price, resulting in a charge to income.

The following sensitivity analysis measures the effect on earnings and financial condition due to changes in the underlying share prices of the TCNZ and CWC stock.

- At December 31, 1999, the exchange price for the TCNZ shares (expressed as American Depositary Receipts) was $44.93 and the exchange price for the CWC shares (expressed as American Depositary Shares) was $58.03.
- For each $1.00 increase in value of the TCNZ shares or the CWC shares above the exchange price, our earnings would be reduced by approximately $55 million or $56 million, respectively. A subsequent decrease in value of the TCNZ shares or the CWC shares would correspondingly increase earnings, but not to exceed the amount of any previous reduction in earnings. Our earnings are not affected so long as the TCNZ and CWC share prices are at or below their exchange prices.
- Our cash flows would not be affected by mark-to-market transactions related to the exchangeable notes.
- If we decide to deliver shares in exchange for the notes, the exchangeable note liability (including any mark-to-market adjustments) will be eliminated and the investment will be reduced by the book value of the related number of shares delivered. Upon settlement, the excess of the liability over the book value of the related shares delivered will be recorded as a gain. We also have the option to settle these liabilities with cash upon exchange.

A proposed restructuring of our investment in CWC, as discussed in Note 3 to the consolidated financial statements, would change the securities to be delivered upon exchange for the CWC exchangeable notes. Under this restructuring, we would receive shares in the two acquiring companies in exchange for our CWC shares.

## Interest Rate Risk

The table that follows summarizes the fair values of our long-term debt, interest rate derivatives and exchangeable notes as of December 31, 1999 and 1998. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming 100-basis-point upward and downward parallel shifts in the yield curve. Our sensitivity analysis did not include the fair values of our commercial paper and bank loans because they are not significantly affected by changes in market interest rates.

(dollars in millions)

| At December 31, 1999 | Fair Value | Fair Value assuming +100 basis point shift | Fair Value assuming -100 basis point shift |
|---|---|---|---|
| Long-term debt and interest rate derivatives | $ 12,625 | $ 11,923 | $ 13,385 |
| Exchangeable notes | 6,417 | 6,335 | 6,498 |
| Total | $ 19,042 | $ 18,258 | $ 19,883 |
| **At December 31, 1998** | | | |
| Long-term debt and interest rate derivatives | $ 14,243 | $ 13,414 | $ 15,098 |
| Exchangeable notes | 5,818 | 5,618 | 6,018 |
| Total | $ 20,061 | $ 19,032 | $ 21,116 |

## Equity Price Risk

The fair values of certain of our investments, primarily in common stock, expose us to equity price risk. These investments are subject to changes in the market prices of the securities. As noted earlier, the fair values of our exchangeable notes are also affected by changes in equity price movements. The table that follows summarizes the fair values of our investments and exchangeable notes and provides a sensitivity analysis of the estimated fair values of these financial instruments assuming a 10% increase or decrease in equity prices.

(dollars in millions)

| At December 31, 1999 | Fair Value | Fair Value assuming 10% decrease in equity price | Fair Value assuming 10% increase in equity price |
|---|---|---|---|
| Cost investments, at fair value | $ 2,296 | $ 2,066 | $ 2,526 |
| Exchangeable notes | (6,417) | (6,050) | (6,822) |
| Total | $ (4,121) | $ (3,984) | $ (4,296) |
| **At December 31, 1998** | | | |
| Cost investments, at fair value | $ 29 | $ 26 | $ 32 |
| Exchangeable notes | (5,818) | (5,643) | (6,023) |
| Total | $ (5,789) | $ (5,617) | $ (5,991) |

## Foreign Currency Translation

The functional currency for nearly all of our foreign operations is the local currency. The translation of income statement and balance sheet amounts of these entities into U.S. dollars are recorded as cumulative translation adjustments, which are included in Accumulated Other Comprehensive Income (Loss) in our consolidated balance sheets. At December 31, 1999, our primary translation exposure was to the British pound and Italian lira. We have not hedged our accounting translation exposure to foreign currency fluctuations relative to these investments, except for our United Kingdom investment which is partially hedged.

Equity income from our international investments is affected by exchange rate fluctuations when an equity investee has assets and liabilities denominated in a currency other than the investee's functional currency. Our investment in the Philippines is exposed to fluctuations in the U.S. dollar/Filipino peso exchange rate. Iusacell, our consolidated investment in Mexico, also issues U.S. dollar denominated debt.

For the period October 1, 1996 through December 31, 1998, we considered Iusacell to operate in a highly inflationary economy and utilized the U.S. dollar as its functional currency. Beginning January 1, 1999, we discontinued highly inflationary accounting for our Iusacell subsidiary and resumed using the Mexican peso as its functional currency. As a result, in 1999 our earnings were affected by any foreign currency gains or losses associated with the U.S dollar denominated debt issued by Iusacell and our equity was affected by the translation from the Mexican peso.

## Foreign Exchange Risk

The fair values of our foreign currency derivatives and investments accounted for under the cost method are subject to fluctuations in foreign exchange rates. Our most significant foreign currency derivatives contain both a foreign currency forward and a U.S. dollar interest rate component. These agreements require an exchange of British pounds and U.S. dollars at the maturity of the contract.

The table that follows summarizes the fair values of our foreign currency derivatives, cost investments, and the exchangeable notes as of December 31, 1999 and 1998. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming a 10% decrease and increase in the value of the U.S. dollar against the various currencies to which we are exposed. Our sensitivity analysis does not include potential changes in the value of our international investments accounted for under the equity method. As of December 31, 1999, the carrying value of our equity method international investments totaled approximately $2.2 billion.

(dollars in millions)

| At December 31, 1999 | Fair Value | Fair Value assuming 10% decrease in US $ | Fair Value assuming 10% increase in US $ |
|---|---|---|---|
| Cost investments and foreign currency derivatives | $ 2,273 | $ 2,502 | $ 2,091 |
| Exchangeable notes | (6,417) | (6,822) | (6,050) |
| Total | $ (4,144) | $ (4,320) | $ (3,959) |
| **At December 31, 1998** | | | |
| Cost investments and foreign currency derivatives | $ 154 | $ 140 | $ 172 |
| Exchangeable notes | (5,818) | (6,023) | (5,643) |
| Total | $ (5,664) | $ (5,883) | $ (5,471) |

## Other Factors That May Affect Future Results

### Proposed Bell Atlantic-GTE Merger

Bell Atlantic and GTE have announced a proposed merger of equals under a definitive merger agreement dated as of July 27, 1998. Under the terms of the agreement, GTE shareholders will receive 1.22 shares of Bell Atlantic common stock for each share of GTE common stock that they own. Bell Atlantic shareholders will continue to own their existing shares after the merger.

We expect the merger to qualify as a pooling of interests, which means that for accounting and financial reporting purposes the companies will be treated as if they had always been combined. At annual meetings held in May 1999, the shareholders of each company approved the merger. The completion of the merger is subject to a number of conditions, including certain regulatory approvals (all of which have been obtained except that of the FCC) and receipt of opinions that the merger will be tax-free.

We are targeting completion of the merger in the second quarter of 2000.

Future operating revenues, expenses and net income of the combined company may not follow the same historical trends, or reflect the same dependence on economic and competitive factors, as presented in our discussion of our own historical results of operations and financial condition. You should refer to Note 22 to the consolidated financial statements for pro forma income statements for the years ended December 31, 1999, 1998 and 1997 and a pro forma balance sheet for the year ended December 31, 1999.

## Recent Developments

### Proposed Domestic Wireless Transactions

*Vodafone AirTouch*

On September 21, 1999, we signed a definitive agreement with Vodafone AirTouch plc (Vodafone AirTouch) to create a national wireless business (Wireless Co.) composed of both companies' U.S. wireless assets. The completion of this transaction is subject to a number of conditions, including certain regulatory approvals. In February 2000, we signed an agreement with ALLTEL Corporation to exchange certain wireless interests. This agreement eliminates all of the overlapping cellular operations that would be created by the combination of Bell Atlantic and Vodafone AirTouch wireless properties. We expect to complete the transaction in April 2000. You should also read Note 21 to the consolidated financial statements for additional information about this proposed domestic wireless business.

*PrimeCo Personal Communications, L.P.*

On August 3, 1999, Bell Atlantic and Vodafone AirTouch announced an agreement to restructure our ownership interests in PrimeCo, a partnership that was formed by us and Vodafone AirTouch in 1994 and provides personal communications services in major cities across the United States. Under the terms of that agreement, we would assume full ownership of PrimeCo operations in five "major trading areas" (MTAs)–Richmond, VA, New Orleans, LA and the Florida MTAs of Jacksonville, Tampa and Miami. Vodafone AirTouch would assume full ownership of the remaining five PrimeCo MTAs–Chicago, IL, Milwaukee, WI and the Texas MTAs of Dallas, San Antonio and Houston.

Under the terms of the Wireless Co. agreement described earlier, Bell Atlantic and Vodafone AirTouch agreed to suspend the August 3, 1999 agreement to restructure PrimeCo ownership interests, with certain limited exceptions. As a result, no action will be taken to allocate most PrimeCo markets unless either we or Vodafone AirTouch give notice to initiate such an allocation. Neither party has given such notice.

In January 2000, we and Vodafone AirTouch purchased the remaining 20% partnership interest in the Texas MTAs of Dallas, San Antonio and Houston held by TXU Communications Holding Company (TXU). We invested $196 million to acquire 55% of the TXU partnership interest. Vodafone AirTouch will own the remaining 45% of the TXU partnership interest.

**Proposed Restructure of Cable & Wireless Communications plc**

On July 27, 1999, we announced our agreement to a proposal by Cable & Wireless plc (Cable & Wireless), NTL Incorporated (NTL) and CWC for the proposed restructuring of CWC. We currently have an 18.6% ownership interest in CWC.

Under the terms of the agreement, CWC's consumer cable telephone, television and Internet operations would be separated from its corporate, business, Internet protocol and wholesale operations. The consumer operations would be acquired by NTL and the other operations would be acquired by Cable & Wireless. In exchange for our interest in CWC, we would receive shares in the two acquiring companies, representing approximately 9.1% of the NTL shares currently outstanding and approximately 4.6% of the Cable & Wireless shares currently outstanding. Upon completion of the restructuring, our previously issued $3,180 million in CWC exchangeable notes would be exchangeable on and after July 1, 2002 for shares in NTL and Cable & Wireless in proportion to the shares received in the restructuring. Upon exchange by investors, we retain the option to settle in cash or by delivery of the Cable & Wireless and NTL shares. We expect the restructuring to result in a material non-cash gain.

The completion of the restructuring is subject to a number of conditions and, assuming satisfaction of those conditions, is expected to close in the first half of 2000.

**Pension Plan Amendments**

Effective January 19, 2000, we amended our management cash balance plan to provide employees having at least 15 years of service as of September 1, 1999 with a pension benefit that is the "greater of" their cash balance account or a benefit based on our former management pension plan. Employees will be given the greater of the two benefits when they retire or terminate from the company. In February 2000, we announced a special lump sum pension payment to management and associate employees who retired before January 1, 1995 and who are receiving pension annuities. The payments range from $2,500 to $20,000 depending on years in retirement and current pension amount. Retirees will have the option of electing the payment as a lump sum or an annuity. Together these two plan amendments will increase annual pension costs by approximately $65 million. We expect that favorable investment returns and changes in actuarial assumptions will compensate for these cost increases. For additional information about our employee benefits, see Note 16 to the consolidated financial statements.

**The Telecommunications Act of 1996 and Competition**

The telecommunications industry is undergoing substantial changes as a result of the 1996 Act, other public policy changes and technological advances. These changes are bringing increased competitive pressures in our current businesses, but will also open new markets to us.

The 1996 Act became law on February 8, 1996 and replaced the Modification of Final Judgment (MFJ). In general, the 1996 Act includes provisions that open local exchange markets to competition and permit Bell Operating Companies or their affiliates, including Bell Atlantic, to provide interLATA (long distance) services and to engage in manufacturing previously prohibited by the MFJ. Under the 1996 Act, our ability to provide in-region long distance service is largely dependent on satisfying certain conditions. The requirements include a 14-point "competitive checklist" of steps we must take which will help competitors offer local services through resale, through the purchase of unbundled network elements or through their own networks. We must also demonstrate to the FCC that our entry into the in-region long distance market would be in the public interest.

We are unable to predict definitively the impact that the 1996 Act will ultimately have on our business, results of operations or financial condition. The financial impact will depend on several factors, including the timing, extent and success of competition in our markets, the timing and outcome of various regulatory proceedings and any appeals, and the timing, extent and success of our pursuit of new opportunities resulting from the 1996 Act.

We anticipate that these industry changes, together with the rapid growth, enormous size and global scope of these markets, will attract new entrants and encourage existing competitors to broaden their offerings. Current and potential competitors in telecommunication services include long distance companies, other local telephone companies, cable companies, wireless service providers, foreign telecommunications providers, electric utilities, Internet service providers and other companies that offer network services. Many of these companies have a strong market presence, brand recognition and existing customer relationships, all of which contribute to intensifying competition and may affect our future revenue growth. In addition, a number of major industry participants have announced mergers, acquisitions and joint ventures which could substantially affect the development and nature of some or all of our markets.

*In-Region Long Distance*

On December 22, 1999, the FCC released an order approving our application for permission to enter the in-region long distance market in New York. The FCC concluded that we have satisfied the 14-point "competitive checklist" required under the 1996 Act for entry into the in-region long distance market, and that our entry into the long distance business in New York would benefit the public interest. Following the FCC's decision, AT&T and Covad sought a stay of the Commission's order. The stay request was denied, first by the FCC and later by the U.S. Court of Appeals. AT&T's and Covad's appeal of the order remains pending and is proceeding on an accelerated schedule, with argument scheduled for April 2000.

KPMG LLP (KPMG), which conducted an extensive third-party test of our operations support systems (OSS) in New York under the supervision of the New York Public Service Commission (PSC), has been retained by the Massachusetts Department of Telecommunications and Energy to conduct a third-party test of our OSS in Massachusetts. The Massachusetts test is designed to build on the KPMG test of the similar systems in New York.

KPMG has also been retained by the Pennsylvania Public Utility Commission to conduct a third-party test of our OSS in Pennsylvania and by the New Jersey Board of Public Utilities to conduct a test of the New Jersey OSS that builds on the concurrent testing of the similar systems in Pennsylvania. The Virginia State Corporation Commission has also retained KPMG for the same purpose.

The timing of our long distance entry in each of our remaining 13 jurisdictions depends on the receipt of FCC approval.

**FCC Regulation and Interstate Rates**

In 1999, the FCC continued to implement reforms to the interstate access charge system and to implement "universal service" and other requirements of the 1996 Act.

*Access Charges*

Interstate access charges are the rates long distance carriers pay for use and availability of our operating telephone companies' facilities for the origination and termination of interstate service. The FCC required a phased restructuring of access charges, which began in January 1998, so that the telephone companies' non-usage-sensitive costs will be recovered from long distance carriers and end-users through flat rate charges, and usage-sensitive costs will be recovered from long distance carriers through usage-based rates.

In addition, the FCC has required that different levels of usage-based charges for originating and for terminating interstate traffic be established. The final phase of this restructuring was completed on January 1, 2000.

*Price Caps*

Under the FCC price cap rules that apply to interstate access rates, each year our price cap index is adjusted downward by a fixed percentage intended to reflect increases in productivity (productivity factor) and adjusted upward by an allowance for inflation (GDP-PI). Our annual price cap filing effective July 1, 1999 reflects the effects of the current productivity factor of 6.5%.

In May 1999, the U.S. Court of Appeals reversed the FCC order that adopted the 6.5% productivity factor. The Court concluded that the FCC had not justified its choice of a productivity factor and directed the FCC to reconsider and explain the methods used in selecting the productivity factor. The Court granted the FCC a stay of its order, however, until April 1, 2000. As a result, the FCC is now conducting a proceeding to determine an appropriate productivity factor in response to the court's order.

At the same time, the FCC is considering a proposal to further restructure access rates by an industry coalition that includes both local exchange carriers (including Bell Atlantic) and long distance carriers. Among other things, that proposal would set into place a mechanism to transition to a set target of $.0055 per minute for switched access services. Once that target rate is reached, local exchange carriers would no longer be required to make further annual price cap reductions to their switched access prices. To allow time to consider this industry proposal, parties have requested that the Court further extend the stay of its price cap decision order until June 30, 2000.

The FCC has adopted rules for special access services that provide for added pricing flexibility and ultimately the removal of services from price regulation when certain competitive thresholds are met. In order to take advantage of this relief, however, carriers must forego the ability to take advantage of provisions in the current rules that provide relief in the event earnings fall below certain thresholds, and we have not filed for this relief. The order also allows certain services, including those included in the interexchange basket of services, to be removed from price regulation immediately. In response, effective October 1999, we removed approximately $90 million in annual revenues of our services in the interexchange basket from price regulation and from the operation of the productivity offset which otherwise would require annual price reductions.

*Universal Service*

In July 1999, the U.S. Court of Appeals reversed certain aspects of the FCC's order implementing the "universal service" provision of the 1996 Act. The universal service fund includes a multi-billion dollar interstate fund to link schools and libraries to the Internet and to subsidize high cost areas, low income consumers and rural healthcare providers. Previously, under the FCC's rules, all providers of interstate telecommunications services had to contribute to the schools and libraries fund based on their total interstate and intrastate retail revenues. The Court reversed the decision to include intrastate revenues as part of the basis for assessing contributions to that fund. As a result of this decision, our contributions to the universal service fund were reduced by approximately $107 million annually beginning on November 1, 1999, and our interstate access rates will be reduced accordingly because we will no longer have to recover these contributions in our rates. AT&T and MCI WorldCom, Inc. have since asked the U.S. Supreme Court to review this latter portion of the appeals court decision. Other parties have asked the U.S. Supreme Court to review additional aspects of the court of appeals decision.

In November 1999, the FCC adopted a new mechanism for providing universal service support to high cost areas served by large local telephone companies. This funding mechanism will provide additional support for local telephone services in several states served by Bell Atlantic. State regulatory commissions must take these funds into account in the rate-making process.

*Unbundling of Network Elements*

In November 1999, the FCC announced its decision setting forth new unbundling requirements. The FCC had previously identified seven elements that had to be provided to competitors on an unbundled basis. With respect to those seven elements, the FCC concluded that incumbent local exchange carriers, such as our operating telephone subsidiaries, do not have to provide unbundled switching (or combinations of elements that include switching, such as the so-called unbundled element "platform") under certain circumstances to business customers with four or more lines in certain offices in the top 50 Metropolitan Statistical Areas (MSAs). It also held that incumbents do not have to provide unbundled access to their directory assistance or operator services. The remaining elements on the FCC's original list still must be provided.

With respect to new elements, the FCC concluded that new equipment to provide advanced services such as Asymmetric Digital Subscriber Line (ADSL) does not have to be unbundled as a general matter. On the other hand, the FCC concluded that incumbents must provide dark fiber as an unbundled element, and that sub-loop unbundling should be provided. Finally, the FCC ruled that combinations of loops and transport must be made available under certain circumstances, but left to a further rulemaking that it initiated certain issues relating to the use of these combinations to substitute for special access services. While this rulemaking proceeds, the FCC adopted interim rules limiting the instances in which such combinations of elements must be made available. The FCC set a target date of June 30, 2000 to decide the further rulemaking.

In addition to the unbundling requirements released in November 1999, the FCC released an order on December 9, 1999 in a separate proceeding requiring incumbent local exchange companies also to unbundle and provide to competitors the higher frequency portion of their local loop. This provides competitors with the ability to provision data services on top of incumbent carriers' voice service.

**State Regulation**

*Pennsylvania*

On September 30, 1999, the Pennsylvania Public Utility Commission (PUC) issued a final decision in its "Global" proceeding on telecommunications competition matters. The decision proposes to require our operating telephone subsidiary in Pennsylvania, Bell Atlantic-Pennsylvania, to split into separate retail and wholesale corporations. It proposes reductions in access charges applicable to services provided to interexchange carriers and in both unbundled network element rates and wholesale rates applicable to services and facilities provided to competitive local exchange carriers. It requires Bell Atlantic-Pennsylvania to provide combinations of unbundled network elements beyond those required by the FCC. It reclassifies certain business services as "competitive," but restricts the pricing freedom that that classification is supposed to give Bell Atlantic-Pennsylvania. It sets a schedule of prerequisites for state endorsement of a Bell Atlantic-Pennsylvania application to the FCC for permission to offer in-region long distance service under Section 271 of the 1996 Act that are likely to delay that endorsement. Bell Atlantic-Pennsylvania has challenged the lawfulness of this order in the Pennsylvania Supreme Court, the Commonwealth Court of Pennsylvania and the Federal District Court.

On January 18, 2000, Bell Atlantic-Pennsylvania and fourteen other parties submitted to the PUC a Joint Petition for Settlement to resolve the appeals from the "Global" Order. If approved by the PUC, the settlement will eliminate the wholesale/retail separate subsidiary requirement and replace it with a requirement to establish an advanced services affiliate. The settlement would also expedite the process to obtain state endorsement of any Bell Atlantic - Pennsylvania application to the FCC for permission to offer long distance service. On February 2, 2000, the Commonwealth Court denied the PUC's request to consider the settlement and set an expedited briefing schedule for the appeals. On February 22, 2000, the PUC and Bell Atlantic-Pennsylvania appealed this determination to the Pennsylvania Supreme Court, and the matter is pending.

**Reciprocal Compensation**

State regulatory decisions have required us to pay "reciprocal compensation" under the 1996 Act for the increasing volume of one-way traffic from our customers to customers of other carriers, primarily calls to Internet service providers. In February 1999, the FCC confirmed that such traffic is largely interstate but concluded that it would not interfere with state regulatory decisions requiring payment of reciprocal compensation for such traffic and that carriers are bound by their existing interconnection agreements. The U.S. Court of Appeals has remanded the FCC's decision for a better explanation of why this traffic is interstate.

Based upon the FCC's February 1999 decision, the Massachusetts Department of Telecommunications and Energy modified its earlier decision, resulting in a reduction of our reciprocal compensation obligation. Both the New Jersey Board of Public Utilities and the West Virginia Public Service Commission also have issued favorable decisions on reciprocal compensation for Internet-bound traffic. The New York PSC issued a decision that high volume, convergent traffic (which includes Internet-bound traffic) has different cost characteristics and should be compensated at the lower end-office rate. The New York PSC determined that traffic in excess of a 3:1 ratio is presumed to be high volume, convergent traffic, although this presumption may be rebutted. The Virginia State Corporation Commission has denied jurisdiction over compensation for Internet access and has referred us and other parties to the FCC. Commissions in Delaware, Maryland, Pennsylvania, and Rhode Island have issued decisions requiring us to continue to pay reciprocal compensation on Internet-bound traffic. We currently estimate that our reciprocal compensation payment obligations will be approximately $500 million to $550 million in 2000.

## Other Matters

### New Accounting Standard–Derivatives and Hedging Activities

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivatives be measured at fair value and recognized as either assets or liabilities on our balance sheet. Changes in the fair values of derivative instruments will be recognized in either earnings or comprehensive income, depending on the designated use and effectiveness of the instruments. The FASB amended this pronouncement in June 1999 to defer the effective date of SFAS No. 133 for one year. We must adopt SFAS No. 133 no later than January 1, 2001.

On March 3, 2000, the FASB issued a Proposed SFAS, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which would amend SFAS No. 133. The proposed amendments address certain implementation issues and relate to such matters as the normal purchases and normal sales exception, the definition of interest rate risk, hedging recognized foreign-currency-denominated debt instruments, and intercompany derivatives.

We are currently evaluating the provisions of SFAS No. 133 and the proposed amendments. The impact of adoption will be determined by several factors, including the specific hedging instruments in place and their relationships to hedged items, as well as market conditions at the date of adoption.

### New Staff Accounting Bulletin–Revenue Recognition

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," which currently must be adopted by June 30, 2000. SAB No. 101 provides additional guidance on revenue recognition, as well as criteria for when revenue is generally realized and earned, and also requires the deferral of incremental direct selling costs. We are currently assessing the impact of SAB No. 101 on our results of operations and financial position.

### Year "2000" Update

We implemented a comprehensive program to evaluate and address the impact of the Year 2000 date transition on our operations. We did not experience any material interruption or failure of our normal business functions or operations as a result of an actual or perceived Year 2000 problem.

From the inception of our Year 2000 project through December 31, 1999, and based on the cost tracking methods we have historically applied to this project, we incurred total pre-tax expenses of approximately $230 million, and we have made capital expenditures of approximately $181 million. For 1999, total pre-tax expenses for our Year 2000 project were approximately $108 million and total capital expenditures were approximately $101 million.

## Cautionary Statement Concerning Forward-Looking Statements

In this Management's Discussion and Analysis, and elsewhere in this Annual Report, we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, along with those discussed elsewhere in this Annual Report, could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- materially adverse changes in economic conditions in the markets served by us or by companies in which we have substantial investments;
- material changes in available technology;
- the final outcome of federal, state, and local regulatory initiatives and proceedings, including arbitration proceedings, and judicial review of those initiatives and proceedings, pertaining to, among other matters, the terms of interconnection, access charges, universal service, and unbundled network element and resale rates;
- the extent, timing, success, and overall effects of competition from others in the local telephone and toll service markets;
- the timing and profitability of our entry into the in-region long distance market;
- the timing of, and regulatory or other conditions associated with, the completion of the merger with GTE and our ability to combine operations and obtain revenue enhancements and cost savings following the merger; and
- the timing of, and regulatory or other conditions associated with, the completion of the wireless transaction with Vodafone AirTouch, and the ability of the new wireless enterprise to combine operations and obtain revenue enhancements and cost savings.

## Report of Management

We, the management of Bell Atlantic Corporation, are responsible for the consolidated financial statements and the information and representations contained in this report. The financial statements have been prepared in conformity with generally accepted accounting principles and include amounts based on management's best estimates and judgments. Financial information elsewhere in this report is consistent with that in the financial statements.

Management has established and maintained a system of internal control which is designed to provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period. The system of internal control includes widely communicated statements of policies and business practices, which are designed to require all employees to maintain high ethical standards in the conduct of our business. The internal controls are augmented by organizational arrangements that provide for appropriate delegation of authority and division of responsibility and by a program of internal audits.

The financial statements have been audited by Pricewaterhouse-Coopers LLP, independent accountants. Their audit was conducted in accordance with generally accepted auditing standards and included an evaluation of our internal control structure and selective tests of transactions. The Report of Independent Accountants appears on this page.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, meets periodically with the independent accountants, management and internal auditors to review accounting, auditing, internal controls, litigation and financial reporting matters. Both the internal auditors and the independent accountants have free access to the Audit Committee without management present.

Ivan Seidenberg

Ivan G. Seidenberg
Chairman of the Board
and Chief Executive Officer

Frederic V. Salerno

Frederic V. Salerno
Senior Executive Vice President
and Chief Financial Officer/
Strategy and Business Development

Doreen A. Toben

Doreen A. Toben
Vice President – Controller

## Report of Independent Accountants

**To the Board of Directors and Shareowners of**
**Bell Atlantic Corporation:**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareowners' investment, and cash flows present fairly, in all material respects, the financial position of Bell Atlantic Corporation and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for computer software costs in accordance with AICPA Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," effective January 1, 1999.

PricewaterhouseCoopers LLP

New York, New York

February 14, 2000, except for Note 24,
as to which the date is March 22, 2000

## Selected Financial Data

(dollars in millions, except per share amounts)

| | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|
| **Results of Operations** | | | | | |
| Operating revenues | $ 33,174 | $ 31,566 | $ 30,194 | $ 29,155 | $ 27,927 |
| Operating income | 8,495 | 6,627 | 5,341 | 6,079 | 5,418 |
| Income before extraordinary items and cumulative effect of change in accounting principle | 4,208 | 2,991 | 2,455 | 3,129 | 2,826 |
| Per common share-basic | 2.72 | 1.90 | 1.58 | 2.02 | 1.85 |
| Per common share-diluted | 2.66 | 1.87 | 1.56 | 2.00 | 1.84 |
| Net income (loss) | 4,202 | 2,965 | 2,455 | 3,402 | (97) |
| Per common share-basic | 2.71 | 1.89 | 1.58 | 2.20 | (.06) |
| Per common share-diluted | 2.65 | 1.86 | 1.56 | 2.18 | (.06) |
| Cash dividends declared per common share | 1.54 | 1.54 | 1.51 | 1.44 | 1.40 |
| **Financial Position** | | | | | |
| Total assets | $ 62,614 | $ 55,144 | $ 53,964 | $ 53,361 | $ 50,623 |
| Long-term debt | 18,463 | 17,646 | 13,265 | 15,286 | 15,744 |
| Employee benefit obligations | 9,326 | 10,384 | 10,004 | 9,588 | 9,388 |
| Minority interest, including a portion subject to redemption requirements | 458 | 330 | 911 | 2,014 | 1,221 |
| Preferred stock of subsidiary | 201 | 201 | 201 | 145 | 145 |
| Shareowners' investment | 15,880 | 13,025 | 12,789 | 12,976 | 11,214 |

Significant events affecting our historical earnings trends include the following:

- 1999 data include a loss on mark-to-market adjustment for exchangeable notes (see Note 10) and merger-related costs.
- 1998 and 1997 data include retirement incentive costs (see Note 16), merger-related costs and other special items (see Note 2).
- 1996 data include retirement incentive costs (see Note 16), other special items, and the adoption of a change in accounting for directory publishing.
- 1995 data include retirement incentive costs (see Note 16), and an extraordinary charge for the discontinuation of regulatory accounting principles.

Per share amounts have been adjusted to reflect a two-for-one stock split on June 1, 1998.

## Consolidated Statements of Income Bell Atlantic Corporation and Subsidiaries

(dollars in millions, except per share amounts)

| Years Ended December 31, | 1999 | 1998 | 1997 |
|---|---|---|---|
| **Operating Revenues** | $ 33,174 | $ 31,566 | $ 30,194 |
| **Operating Expenses** | | | |
| Employee costs, including benefits and taxes | 8,241 | 9,266 | 9,047 |
| Depreciation and amortization | 6,221 | 5,870 | 5,865 |
| Other operating expenses | 10,217 | 9,803 | 9,941 |
| | 24,679 | 24,939 | 24,853 |
| **Operating Income** | 8,495 | 6,627 | 5,341 |
| Income (loss) from unconsolidated businesses | 143 | (415) | (124) |
| Other income and (expense), net | 54 | 122 | (3) |
| Interest expense | 1,263 | 1,335 | 1,230 |
| Mark-to-market adjustment for exchangeable notes | (664) | - | - |
| Income before provision for income taxes and extraordinary item | 6,765 | 4,999 | 3,984 |
| Provision for income taxes | 2,557 | 2,008 | 1,529 |
| **Income Before Extraordinary Item** | 4,208 | 2,991 | 2,455 |
| Extraordinary item | | | |
| Early extinguishment of debt, net of tax | (6) | (26) | - |
| **Net Income** | 4,202 | 2,965 | 2,455 |
| Redemption of minority interest | - | (30) | - |
| Redemption of investee preferred stock | - | (2) | - |
| **Net Income Available to Common Shareowners** | $ 4,202 | $ 2,933 | $ 2,455 |
| | | | |
| **Basic Earnings Per Common Share:** | | | |
| **Income Before Extraordinary Item** | $ 2.72 | $ 1.90 | $ 1.58 |
| Extraordinary item | (.01) | (.01) | - |
| **Net Income** | $ 2.71 | $ 1.89 | $ 1.58 |
| Weighted-average shares outstanding (in millions) | 1,553 | 1,553 | 1,552 |
| | | | |
| **Diluted Earnings Per Common Share:** | | | |
| **Income Before Extraordinary Item** | $ 2.66 | $ 1.87 | $ 1.56 |
| Extraordinary item | (.01) | (.01) | - |
| **Net Income** | $ 2.65 | $ 1.86 | $ 1.56 |
| Weighted-average shares-diluted (in millions) | 1,583 | 1,578 | 1,571 |



*See Notes to Consolidated Financial Statements*

## Consolidated Balance Sheets Bell Atlantic Corporation and Subsidiaries

| At December 31, | 1999 | 1998 |
|---|---|---|
| | (dollars in millions, except per share amounts) | |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 1,097 | $ 237 |
| Short-term investments | 839 | 786 |
| Accounts receivable, net of allowances of $619 and $593 | 7,025 | 6,560 |
| Inventories | 664 | 566 |
| Prepaid expenses | 673 | 522 |
| Other | 298 | 411 |
| | 10,596 | 9,082 |
| Plant, property and equipment | 89,238 | 83,064 |
| Less accumulated depreciation | 49,939 | 46,248 |
| | 39,299 | 36,816 |
| Investments in unconsolidated businesses | 6,275 | 4,276 |
| Other assets | 6,444 | 4,970 |
| Total assets | $ 62,614 | $ 55,144 |
| **Liabilities and Shareowners' Investment** | | |
| Current liabilities | | |
| Debt maturing within one year | $ 5,455 | $ 2,988 |
| Accounts payable and accrued liabilities | 6,465 | 6,105 |
| Other | 1,547 | 1,438 |
| | 13,467 | 10,531 |
| Long-term debt | 18,463 | 17,646 |
| Employee benefit obligations | 9,326 | 10,384 |
| Deferred credits and other liabilities | | |
| Deferred income taxes | 3,892 | 2,254 |
| Unamortized investment tax credits | 197 | 222 |
| Other | 730 | 551 |
| | 4,819 | 3,027 |
| Minority interest, including a portion subject to redemption requirements | 458 | 330 |
| Preferred stock of subsidiary | 201 | 201 |
| Commitments and contingencies (Notes 2, 3, 8, and 9) | | |
| Shareowners' investment | | |
| Series preferred stock ($.10 par value; none issued) | - | - |
| Common stock ($.10 par value; 1,576,246,325 shares and 1,576,246,325 shares issued) | 158 | 158 |
| Contributed capital | 13,550 | 13,368 |
| Reinvested earnings | 2,806 | 1,371 |
| Accumulated other comprehensive income (loss) | 450 | (714) |
| | 16,964 | 14,183 |
| Less common stock in treasury, at cost | 640 | 593 |
| Less deferred compensation-employee stock ownership plans | 444 | 565 |
| | 15,880 | 13,025 |
| Total liabilities and shareowners' investment | $ 62,614 | $ 55,144 |



*See Notes to Consolidated Financial Statements*

## Consolidated Statements of Changes in Shareowners' Investment Bell Atlantic Corporation and Subsidiaries

(dollars in millions, except per share amounts, and shares in thousands)

| Years Ended December 31, | 1999 | | 1998 | | 1997 | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| **Common Stock** | | | | | | |
| Balance at beginning of year | 1,576,246 | $ 158 | 1,576,053 | $ 157 | 1,574,001 | $ 157 |
| Shares issued | | | | | | |
| Employee plans | - | - | 193 | 1 | 2,044 | - |
| Shareowner plans | - | - | - | - | 8 | - |
| Balance at end of year | 1,576,246 | 158 | 1,576,246 | 158 | 1,576,053 | 157 |
| **Contributed Capital** | | | | | | |
| Balance at beginning of year | | 13,368 | | 13,177 | | 13,216 |
| Shares issued | | | | | | |
| Employee plans | | 138 | | 178 | | (22) |
| Issuance of stock by subsidiaries | | 44 | | 13 | | - |
| Other | | - | | - | | (17) |
| Balance at end of year | | 13,550 | | 13,368 | | 13,177 |
| **Reinvested Earnings** | | | | | | |
| Balance at beginning of year | | 1,371 | | 1,262 | | 1,282 |
| Net income | | 4,202 | | 2,965 | | 2,455 |
| Dividends declared ($1.54, $1.54, and $1.51 per share) | | (2,391) | | (2,392) | | (2,363) |
| Shares issued | | | | | | |
| Employee plans | | (359) | | (443) | | (121) |
| Tax benefit of dividends paid to ESOPs | | 9 | | 11 | | 13 |
| Redemption of minority interest | | - | | (30) | | - |
| Redemption of investee preferred stock | | - | | (2) | | - |
| Other | | (26) | | - | | (4) |
| Balance at end of year | | 2,806 | | 1,371 | | 1,262 |
| **Accumulated Other Comprehensive Income (Loss)** | | | | | | |
| Balance at beginning of year | | (714) | | (553) | | (321) |
| Foreign currency translation adjustment | | (68) | | (146) | | (234) |
| Unrealized gains on marketable securities | | 1,225 | | 2 | | 2 |
| Minimum pension liability adjustment | | 7 | | (17) | | - |
| Other comprehensive income (loss) | | 1,164 | | (161) | | (232) |
| Balance at end of year | | 450 | | (714) | | (553) |
| **Treasury Stock** | | | | | | |
| Balance at beginning of year | 22,887 | 593 | 22,952 | 591 | 22,540 | 589 |
| Shares purchased | 12,142 | 723 | 20,743 | 1,002 | 24,148 | 920 |
| Shares distributed | | | | | | |
| Employee plans | (11,446) | (675) | (20,779) | (999) | (23,260) | (899) |
| Shareowner plans | (14) | (1) | (26) | (1) | (52) | (2) |
| Acquisition agreements | - | - | (3) | - | (424) | (17) |
| Balance at end of year | 23,569 | 640 | 22,887 | 593 | 22,952 | 591 |
| **Deferred Compensation–ESOPs** | | | | | | |
| Balance at beginning of year | | 565 | | 663 | | 769 |
| Amortization | | (121) | | (98) | | (106) |
| Balance at end of year | | 444 | | 565 | | 663 |
| **Total Shareowners' Investment** | | $15,880 | | $13,025 | | $12,789 |
| **Comprehensive Income** | | | | | | |
| Net income | | $ 4,202 | | $ 2,965 | | $ 2,455 |
| Other comprehensive income (loss) per above | | 1,164 | | (161) | | (232) |
| **Total Comprehensive Income** | | $ 5,366 | | $ 2,804 | | $ 2,223 |



*See Notes to Consolidated Financial Statements*

## Consolidated Statements of Cash Flows Bell Atlantic Corporation and Subsidiaries

(dollars in millions)

| Years Ended December 31, | 1999 | 1998 | 1997 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Net income | $ 4,202 | $ 2,965 | $ 2,455 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation and amortization | 6,221 | 5,870 | 5,865 |
| Deferred income taxes, net | 928 | 264 | 237 |
| Mark-to-market adjustment for exchangeable notes | 664 | - | - |
| Loss (income) from unconsolidated businesses | (143) | 415 | 124 |
| Dividends received from unconsolidated businesses | 116 | 170 | 192 |
| Amortization of unearned lease income | (151) | (120) | (110) |
| Investment tax credits | (25) | (29) | (38) |
| Extraordinary item, net of tax | 6 | 26 | - |
| Other items, net | 169 | 227 | 88 |
| Changes in certain assets and liabilities, net of effects from acquisition/disposition of businesses | | | |
| Accounts receivable | (423) | (220) | (140) |
| Inventories | (92) | (111) | (74) |
| Other assets | (379) | (108) | 65 |
| Employee benefit obligations | (1,046) | 354 | 416 |
| Accounts payable and accrued liabilities | 345 | 376 | (93) |
| Other liabilities | 264 | (8) | (128) |
| Net cash provided by operating activities | 10,656 | 10,071 | 8,859 |
| **Cash Flows from Investing Activities** | | | |
| Capital expenditures | (8,675) | (7,446) | (6,638) |
| Proceeds from sale of plant, property and equipment | 211 | 12 | 6 |
| Purchases of short-term investments | (855) | (1,028) | (844) |
| Proceeds from sale of short-term investments | 795 | 968 | 427 |
| Investments in unconsolidated businesses, net | (901) | (603) | (833) |
| Acquisition of businesses, less cash acquired | (505) | (62) | (62) |
| Proceeds from disposition of businesses | 612 | 637 | 547 |
| Investment in leased assets | (170) | (269) | (162) |
| Proceeds from leasing activities | 110 | 155 | 83 |
| Proceeds from Telecom Corporation of New Zealand Limited share repurchase plan | - | - | 153 |
| Other, net | (251) | (49) | (16) |
| Net cash used in investing activities | (9,629) | (7,685) | (7,339) |
| **Cash Flows from Financing Activities** | | | |
| Dividends paid | (2,399) | (2,379) | (2,340) |
| Net change in short-term borrowings with original maturities of three months or less | 2,645 | (4,038) | 1,580 |
| Proceeds from borrowings | 662 | 6,328 | 633 |
| Principal repayments of borrowings and capital lease obligations | (942) | (651) | (902) |
| Early extinguishment of debt | (257) | (790) | - |
| Proceeds from financing of cellular assets | 380 | - | - |
| Proceeds from sale of common stock | 314 | 559 | 711 |
| Purchase of common stock for treasury | (723) | (1,002) | (920) |
| Minority interest | - | (632) | - |
| Reduction in preferred stock of subsidiary | - | - | (10) |
| Proceeds from sale of stock of subsidiary | 119 | - | - |
| Proceeds from sale of preferred stock by subsidiary | - | - | 66 |
| Net change in outstanding checks drawn on controlled disbursement accounts | 34 | 133 | (265) |
| Net cash used in financing activities | (167) | (2,472) | (1,447) |
| Increase (decrease) in cash and cash equivalents | 860 | (86) | 73 |
| Cash and cash equivalents, beginning of year | 237 | 323 | 250 |
| Cash and cash equivalents, end of year | $ 1,097 | $ 237 | $ 323 |



*See Notes to Consolidated Financial Statements*

## Note 1

## Description of Business and Summary of Significant Accounting Policies

### Description of Business

Bell Atlantic is an international telecommunications company that operates in four segments: Domestic Telecom, Global Wireless, Directory and Other Businesses. For further information concerning our business, see Note 18.

The telecommunications industry is undergoing substantial changes as a result of new legislation, public policy changes, technological advances, and various mergers and alliances. We are participating in this transformation in several ways, including:

- The provision of in-region long distance service in New York beginning in January 2000.
- Our forthcoming merger of equals with GTE Corporation (see Note 22).
- The combination of the U.S. wireless assets of both our company and Vodafone AirTouch plc (see Note 21).

### Consolidation

The consolidated financial statements include our controlled or majority-owned subsidiaries. Investments in businesses which we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. Investments in which we do not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method. Certain of our cost method investments are classified as available-for-sale securities and adjusted to fair value under Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

All significant intercompany accounts and transactions have been eliminated.

*Telecom Corporation of New Zealand Limited*

Effective May 31, 1999, our representatives resigned from the Board of Directors of Telecom Corporation of New Zealand Limited (TCNZ), an unconsolidated business in which we hold a 24.94% ownership interest, and we agreed to vote our shares neutrally. As a result, we no longer have significant influence over TCNZ's operating and financial policies and, therefore, have changed the accounting for our investment from the equity method to the cost method. You can find additional information about our TCNZ investment in Notes 3 and 10.

### Common Stock Split

On May 1, 1998, the Board of Directors declared a two-for-one split of Bell Atlantic common stock, effected in the form of a 100% stock dividend to shareholders of record on June 1, 1998 and payable on June 29, 1998. Shareholders of record received an additional share of common stock for each share of common stock held at the record date. We retained the par value of $.10 per share for all shares of common stock. The prior period financial information (including share and per share data) contained in this report has been adjusted to give retroactive recognition to this common stock split.

### Use of Estimates

We prepare our financial statements under generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts or certain disclosures. Actual results could differ from those estimates.

### Revenue Recognition

We recognize wireline and wireless services revenues based upon usage of our network and facilities and contract fees. We recognize products and other services revenues when the products are delivered and accepted by the customers and when services are provided in accordance with contract terms.

### Maintenance and Repairs

We charge the cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, to Operating Expenses.

### Earnings Per Common Share

Basic earnings per common share are based on the weighted-average number of shares outstanding during the year. Diluted earnings per common share include the dilutive effect of shares issuable under our stock-based compensation plans, which represent the only potential dilutive common shares.

### Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents, except cash equivalents held as short-term investments. Cash equivalents are stated at cost, which approximates market value.

### Short-Term Investments

Our short-term investments consist primarily of cash equivalents held in trust to pay for certain employee benefits. Short-term investments are stated at cost, which approximates market value.

### Inventories

We include in inventory new and reusable materials of the operating telephone subsidiaries which are stated principally at average original cost, except that specific costs are used in the case of large individual items. Inventories of our other subsidiaries are stated at the lower of cost (determined principally on either an average or first-in, first-out basis) or market.

### Plant and Depreciation

We state plant, property and equipment at cost. Our operating telephone subsidiaries' depreciation expense is principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

The asset lives used by our operating telephone subsidiaries are presented in the following table:

| Average Lives (in years) | |
|---|---|
| Buildings | 20–60 |
| Central office equipment | 5–12 |
| Outside communications plant | 8–65 |
| Furniture, vehicles and other | 3–15 |

Note 1 continued

When we replace or retire depreciable telephone plant, we deduct the carrying amount of such plant from the respective accounts and charge accumulated depreciation. Gains or losses on disposition are amortized with the remaining net investment in telephone plant.

Plant, property and equipment of our other subsidiaries is depreciated on a straight-line basis over the following estimated useful lives: buildings, 20 to 40 years, and other equipment, 1 to 20 years.

When the depreciable assets of our other subsidiaries are retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts, and any gains or losses on disposition are recognized in income.

We capitalize interest associated with the acquisition or construction of plant assets. Capitalized interest is reported as a cost of plant and a reduction in interest cost.

**Computer Software Costs**

Effective January 1, 1999, we adopted Statement of Position (SOP) No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Under SOP No. 98-1, we capitalize the cost of internal use software which has a useful life in excess of one year. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of internal-use software. Capitalized computer software costs are amortized using the straight-line method over a period of 3 to 5 years. The effect of adopting SOP No. 98-1 was an increase in net income of approximately $230 million in 1999. We also capitalized approximately $600 million as an intangible asset in 1999.

Prior to 1999, our operating telephone subsidiaries capitalized initial right-to-use fees for central office switching equipment, including initial operating system and initial application software costs. For noncentral office equipment, only the initial operating system software was capitalized. Subsequent additions, modifications, or upgrades of initial software programs, whether operating or application packages, were expensed as incurred.

**Costs of Start-Up Activities**

Effective January 1, 1999, we adopted SOP No. 98-5, "Reporting on the Costs of Start-Up Activities." Under this accounting standard, we expense costs of start-up activities as incurred, including pre-operating, pre-opening and other organizational costs. The adoption of SOP No. 98-5 did not have a material effect on our results of operations or financial condition because our policy has been generally to expense all start-up activities.

**Goodwill and Other Intangibles**

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. We amortize goodwill and other identifiable intangibles on a straight-line basis over their estimated useful life, not exceeding 40 years. We assess the impairment of other identifiable intangibles and goodwill related to our consolidated subsidiaries under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. A determination of impairment (if any) is made based on estimates of future cash flows. In instances where goodwill has been recorded for assets that are subject to an impairment loss, the carrying amount of the goodwill is eliminated before any reduction is made to the carrying amounts of impaired long-lived assets and identifiable intangibles. On a quarterly basis, we assess the impairment of enterprise level goodwill under Accounting Principles Board (APB) Opinion No. 17 "Intangible Assets." A determination of impairment (if any) is made based primarily on estimates of market value.

**Sale of Stock by Subsidiary**

We recognize in consolidation changes in our ownership percentage in a subsidiary caused by issuances of the subsidiary's stock as adjustments to Contributed Capital.

**Income Taxes**

Bell Atlantic and its domestic subsidiaries file a consolidated federal income tax return. For periods prior to the Bell Atlantic–NYNEX merger, NYNEX filed its own consolidated federal income tax return.

Our operating telephone subsidiaries use the deferral method of accounting for investment tax credits earned prior to the repeal of investment tax credits by the Tax Reform Act of 1986. We also defer certain transitional credits earned after the repeal. We amortize these credits over the estimated service lives of the related assets as a reduction to the Provision for Income Taxes.

**Advertising Costs**

We expense advertising costs as they are incurred.

**Stock-Based Compensation**

We account for stock-based employee compensation plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and follow the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

**Foreign Currency Translation**

The functional currency for nearly all of our foreign operations is the local currency. For these foreign entities, we translate income statement amounts at average exchange rates for the period, and we translate assets and liabilities at end-of-period exchange rates. We record these translation adjustments in Accumulated Other Comprehensive Income (Loss) in our consolidated balance sheets. We report exchange gains and losses on intercompany foreign currency transactions of a long-term nature in Accumulated Other Comprehensive Income (Loss). Other exchange gains and losses are reported in income.

When a foreign entity operates in a highly inflationary economy, we use the U.S. dollar as the functional currency rather than the local currency. We translate nonmonetary assets and liabilities and related expenses into U.S. dollars at historical exchange rates. We translate all other income statement amounts using average exchange rates for the period. Monetary assets and liabilities are translated at end-of-period exchange rates, and any gains or losses are reported in income. For the period October 1, 1996, through December 31, 1998, we considered Grupo Iusacell S.A. de C.V., a fully consolidated subsidiary in

Note 1 continued

Mexico, to operate in a highly inflationary economy and utilized the U.S. dollar as its functional currency. Beginning January 1, 1999, we discontinued highly inflationary accounting for this entity and resumed using the Mexican peso as its functional currency.

**Derivative Instruments**

We have entered into derivative transactions to manage our exposure to fluctuations in foreign currency exchange rates, interest rates, and corporate tax rates. We employ risk management strategies using a variety of derivatives including foreign currency forwards and options, interest rate swap agreements, interest rate caps and floors, and basis swap agreements. We do not hold derivatives for trading purposes.

*Fair Value Method*

We use the fair value method of accounting for our foreign currency derivatives, which requires us to record these derivatives at fair value in our consolidated balance sheets, and changes in value are recorded in income or Shareowners' Investment. Depending upon the nature of the derivative instruments, the fair value of these instruments may be recorded in Current Assets, Other Assets, Current Liabilities, and Deferred Credits and Other Liabilities in our consolidated balance sheets.

Gains and losses and related discounts or premiums arising from foreign currency derivatives (which hedge our net investments in consolidated foreign subsidiaries and investments in foreign entities accounted for under the equity method) are included in Accumulated Other Comprehensive Income (Loss) and reflected in income upon sale or substantial liquidation of the investment. Certain of these derivatives also include an interest element, which is recorded in Interest Expense over the lives of the contracts. Gains and losses from derivatives which hedge our short-term transactions and cost investments are included in Other Income and Expense, Net, and discounts or premiums on these contracts are included in income over the lives of the contracts. Gains and losses from derivatives hedging identifiable foreign currency commitments are deferred and reflected as adjustments to the related transactions. If the foreign currency commitment is no longer likely to occur, the gain or loss is recognized immediately in income.

Earnings generated from our leveraged lease portfolio may be affected by changes in corporate tax rates. In order to hedge a portion of this risk, we use basis swap agreements, which we account for using the fair value method of accounting. Under this method, these agreements are carried at fair value and included in Other Assets or Deferred Credits and Other Liabilities in our consolidated balance sheet. Changes in the unrealized gain or loss are included in Other Income and Expense, Net.

*Accrual Method*

Interest rate swap agreements and interest rate caps and floors that qualify as hedges are accounted for under the accrual method. An instrument qualifies as a hedge if it effectively modifies and/or hedges the interest rate characteristics of the underlying fixed or variable interest rate debt. Under the accrual method, no amounts are recognized in our consolidated balance sheets related to the principal balances. The interest differential to be paid or received, which is accrued as interest rates change, and premiums related to caps and floors, are recognized as adjustments to Interest Expense over the lives of the agreements. These interest accruals are recorded in Current Assets and Current Liabilities in our consolidated balance sheets. If we terminate an agreement, the gain or loss is recorded as an adjustment to the basis of the underlying liability and amortized over the remaining original life of the agreement. If the underlying liability matures, or is extinguished and the related derivative is not terminated, that derivative would no longer qualify for accrual accounting. In this situation, the derivative is accounted for at fair value, and changes in the value are recorded in income.

**New Accounting Standard–Derivatives and Hedging Activities**

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivatives be measured at fair value and recognized as either assets or liabilities on our balance sheet. Changes in the fair values of derivative instruments will be recognized in either earnings or comprehensive income, depending on the designated use and effectiveness of the instruments. The FASB amended this pronouncement in June 1999 to defer the effective date of SFAS No. 133 for one year. We must adopt SFAS No. 133 no later than January 1, 2001.

On March 3, 2000, the FASB issued a Proposed SFAS, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which would amend SFAS No. 133. The proposed amendments address certain implementation issues and relate to such matters as the normal purchases and normal sales exception, the definition of interest rate risk, hedging recognized foreign-currency-denominated debt instruments, and intercompany derivatives.

We are currently evaluating the provisions of SFAS No. 133 and the proposed amendments. The impact of adoption will be determined by several factors, including the specific hedging instruments in place and their relationships to hedged items, as well as market conditions at the date of adoption.

**New Staff Accounting Bulletin–Revenue Recognition**

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," which currently must be adopted by June 30, 2000. SAB No. 101 provides additional guidance on revenue recognition, as well as criteria for when revenue is generally realized and earned, and also requires the deferral of incremental direct selling costs. We are currently assessing the impact of SAB No. 101 on our results of operations and financial position.

## Note 2

### Bell Atlantic - NYNEX Merger

On August 14, 1997, Bell Atlantic Corporation and NYNEX Corporation completed a merger of equals under a definitive merger agreement entered into on April 21, 1996 and amended on July 2, 1996. Under the terms of the amended agreement, NYNEX became a wholly owned subsidiary of Bell Atlantic. NYNEX stockholders received 0.768 of a share of Bell Atlantic common stock for each share of NYNEX common stock that they owned. This resulted in the issuance of 700.4 million shares of Bell Atlantic common stock.

The merger qualified as a tax-free reorganization and has been accounted for as a pooling of interests. Under this method of accounting, the companies are treated as if they had always been combined for accounting and financial reporting purposes and, therefore, we restated our financial information for all dates and periods prior to the merger.

**Bell Atlantic – NYNEX Merger-Related Costs**

In the third quarter of 1997, we recorded merger-related pre-tax costs of $200 million for direct incremental costs, and $223 million for employee severance costs.

Direct incremental costs consist of expenses associated with completing the merger transaction, such as professional and regulatory fees, compensation arrangements, and shareowner-related costs.

Employee severance costs, as recorded under SFAS No. 112, "Employers' Accounting for Postemployment Benefits," represent the anticipated benefit costs for the separation by the end of 1999 of approximately 3,100 management employees who are entitled to benefits under pre-existing separation pay plans. During 1997, 1998, and 1999, 245, 856, and 231 management employees were separated with severance benefits. Accrued postemployment benefit liabilities are included in our consolidated balance sheets as a component of Employee Benefit Obligations.

**Other Initiatives**

During 1997, we recorded other charges and special items totaling $1,041 million (pre-tax) in connection with consolidating operations and combining organizations, and for other special items arising during the year.

*Video-Related Charges*

In 1997, we recognized total pre-tax charges of $243 million related to certain video investments and operations. We determined that we would no longer pursue a multichannel, multipoint, distribution system (MMDS) as part of our video strategy. As a result, we recognized liabilities for purchase commitments associated with the MMDS technology and costs associated with closing the operations of our Tele-TV partnership because this operation no longer supports our video strategy. We also wrote-down our remaining investment in CAI Wireless Systems, Inc.

*Write-Down of Assets and Real Estate Consolidation*

In the third quarter of 1997, we recorded pre-tax charges of $355 million for the write-down of obsolete or impaired fixed assets and for the cost of consolidating redundant real estate properties. As part of our merger integration planning, we reviewed the carrying values of long-lived assets. This review included estimating remaining useful lives and cash flows and identifying assets to be abandoned. In the case of impaired assets, we analyzed cash flows related to those assets to determine the amount of the impairment. As a result of these reviews, we recorded charges of $275 million for the write-off of some assets and $25 million for the impairment of other assets. These assets primarily included computers and other equipment used to transport data for internal purposes, copper wire used to provide telecommunications service in New York, and duplicate voice mail platforms. None of these assets is held for disposal. At December 31, 1999 and 1998, the impaired assets had no remaining carrying value.

In connection with our merger integration efforts, we consolidated real estate to achieve a reduction in the total square footage of building space that we utilize. We sold properties, subleased some of our leased facilities, and terminated other leases, for which we recorded a charge of $55 million in the third quarter of 1997. Most of the charge related to properties in Pennsylvania and New York, where corporate support functions were consolidated into fewer work locations.

*Regulatory, Tax and Legal Contingencies and Other Special Items*

In 1997, we also recorded reductions to operating revenues and charges to operating expenses totaling $526 million (pre-tax), which consisted of the following:

- Revenue reductions consisted of $179 million for federal regulatory matters. These matters relate to specific issues that are currently under investigation by federal regulatory commissions. We believe that it is probable that the ultimate resolution of these pending matters will result in refunds to our customers.
- Charges to operating expenses totaled $347 million and consisted of $75 million for interest on federal and other tax contingencies; $55 million for other tax matters; and $52 million for legal contingencies and a state regulatory audit issue. These contingencies were accounted for under the rules of SFAS No. 5, "Accounting for Contingencies." These charges also included $95 million related to costs incurred in standardizing and consolidating our directory businesses and $70 million for other post-merger initiatives.

Other charges arising in 1997 included $59 million for our equity share of formation costs previously announced by Cable & Wireless Communications plc (CWC). We own an 18.6% interest in CWC and account for our investment under the equity method of accounting.

In 1997, we recognized pre-tax gains of $142 million on the sales of our ownership interests of several nonstrategic businesses. These gains included $42 million on the sale of our interest in Sky Network Television Limited of New Zealand; $54 million on the sale of our 33% stake in an Italian wireline venture, Infostrada; and $46 million on the sale of our two-sevenths interest in Bell Communications Research, Inc.

Note 2 continued

The following table provides a reconciliation of the liabilities associated with Bell Atlantic-NYNEX merger-related costs and other charges and special items described above:

(dollars in millions)

| | 1997 | | | | | 1998 | | | 1999 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Beginning of Year | Charged to Expense or Revenue | Deductions | Adjustments | End of Year | Deductions | Adjustments | End of Year | Deductions | Adjustments | End of Year |
| **Merger-Related** | | | | | | | | | | | |
| Direct incremental costs | $ - | $ 200 | $ (165)a | $ - | $ 35 | $ (5)a | $ (26) | $ 4 | $ (1)a | $ (3) | $ - |
| Severance obligation | 111 | 223 | (24)a | 20 | 330 | (61)a | 47 | 316 | (35)a | (15) | 266 |
| **Other Initiatives** | | | | | | | | | | | |
| Video-related costs | - | 243 | (227)b | 5 | 21 | (3)a | (12) | 6 | (2)a | (4) | - |
| Write-down of fixed assets and real estate consolidation | - | 355 | (312)b | - | 43 | (18)b | (2) | 23 | (8)d | (13) | 2 |
| Regulatory, tax and legal contingencies, and other special items | - | 526 | (144)b | - | 382 | (118)c | (15) | 249 | (7)e | (37) | 205 |
| | $ 111 | $ 1,547 | $ (872) | $ 25 | $ 811 | $ (205) | $ (8) | $ 598 | $ (53) | $ (72) | $ 473 |

- Adjustments refer to deductions to the liability that reduced expense, or additions to the liability that increased expense resulting from changes in circumstances or experience in implementing the planned activities. In 1999, adjustments include the favorable settlement of tax matters.
- Deductions refer to the utilization of the liability through payments, asset write-offs, or refunds to customers.

a–primarily comprised of cash payments
b–primarily comprised of asset write-offs
c–comprised of cash payments of $66 million, refunds to customers of $42 million, and asset write-offs of $10 million
d–comprised of cash payments of $3 million and asset write-offs of $5 million
e–comprised of cash payments of $4 million and asset write-offs of $3 million

At December 31, 1999, direct incremental and video-related liabilities were fully utilized through either payments or adjustments. We expect that the remaining real estate liabilities will extend through 2003. Liabilities for regulatory, tax and legal contingencies, and other special items will be utilized as the respective matter is settled. The obligation for severance benefits, which has been determined under SFAS No. 112, represents expected payments to employees who leave the company with benefits provided under pre-existing separation pay plans. The severance obligation is adjusted through annual costs, which are actuarially determined based upon financial market interest rates, experience, and management's best estimate of future benefit payments. In 1997, the merger-related severance costs increased our existing severance obligation. At December 31, 1999, the merger-related separations were completed and the remaining liability balance represents our obligation for ongoing separations under the pre-existing separation pay plans, in accordance with SFAS No. 112.

## Note 3

### Investments in Unconsolidated Businesses

Our investments in unconsolidated businesses comprise the following:

(dollars in millions)

| At December 31, | Ownership | 1999 Investment | Ownership | 1998 Investment |
|---|---|---|---|---|
| **Equity Investees** | | | | |
| Omnitel Pronto Italia S.p.A | 23.14% | $ 1,262 | 19.71% | $ 521 |
| PrimeCo Personal Communications, L.P. | 50.00 | 1,078 | 50.00 | 1,012 |
| Cable & Wireless Communications plc | 18.59 | 643 | 18.50 | 675 |
| FLAG | 37.67 | 161 | 37.67 | 178 |
| Telecom Corporation of New Zealand Limited | - | - | 24.95 | 373 |
| Other | Various | 723 | Various | 739 |
| Total equity investees | | 3,867 | | 3,498 |
| **Cost Investees** | | | | |
| Telecom Corporation of New Zealand Limited | 24.94 | 2,103 | - | - |
| Viacom Inc. | - | - | - | 603 |
| Other | Various | 305 | Various | 175 |
| Total cost investees | | 2,408 | | 778 |
| Total | | $ 6,275 | | $ 4,276 |

Dividends received from investees amounted to $116 million in 1999, $170 million in 1998, and $192 million in 1997.

**Omnitel Pronto Italia S.p.A.**
Omnitel Pronto Italia S.p.A. (Omnitel) operates a wireless mobile telephone network in Italy. We account for this investment under the equity method because we have significant influence over Omnitel's operating and financial policies. Since 1994, we have invested approximately $1.2 billion in Omnitel. Approximately $630 million of this amount was invested in June 1999, which increased our ownership interest from 19.71% to 23.14%. Goodwill related to this investment totals approximately $995 million which is being amortized on a straight-line basis over a period of 25 years. At December 31, 1999, remaining goodwill was approximately $900 million.

**PrimeCo Personal Communications, L.P.**
PrimeCo Personal Communications, L.P. (PrimeCo) is a partnership established in 1994 between Bell Atlantic and Vodafone AirTouch plc (Vodafone AirTouch), which provides personal communications services (PCS) in major cities across the United States.

Since 1994, we have invested approximately $2 billion in PrimeCo to fund its operations and the build-out of its PCS network. Under the terms of the partnership agreement, PrimeCo entered into a leveraged lease financing arrangement for certain equipment which has been guaranteed by the partners in the joint venture. Our share of this guarantee is approximately $126 million.

On August 3, 1999, Bell Atlantic and Vodafone AirTouch announced an agreement to restructure our ownership interests in PrimeCo. Under the terms of that agreement, we would assume full ownership of PrimeCo operations in five "major trading areas" (MTAs) - Richmond, VA, New Orleans, LA and the Florida MTAs of Jacksonville, Tampa and Miami. Vodafone AirTouch would assume full ownership of the remaining five PrimeCo MTAs - Chicago, IL, Milwaukee, WI and the Texas MTAs of Dallas, San Antonio and Houston.

Under the terms of the Wireless Co. agreement (see Note 21), Bell Atlantic and Vodafone AirTouch agreed to suspend the August 3, 1999 agreement to restructure PrimeCo ownership interests, with certain limited exceptions. As a result, no action will be taken to allocate most PrimeCo markets unless either we or Vodafone AirTouch give notice to initiate such an allocation. Neither party has given such notice.

In January 2000, we and Vodafone AirTouch purchased the remaining 20% partnership interest in the Texas MTAs of Dallas, San Antonio and Houston held by TXU Communications Holding Company (TXU). We invested $196 million to acquire 55% of the TXU partnership interest. Vodafone AirTouch will own the remaining 45% of the TXU partnership interest.

**Cable & Wireless Communications plc**
In the second quarter of 1997, we transferred our interests in cable television and telecommunications operations in the United Kingdom to Cable & Wireless Communications plc (CWC) in exchange for an 18.5% ownership interest in CWC. This transaction was accounted for as a nonmonetary exchange of similar productive assets and, as a result, no gain or loss was recorded. We account for our investment in CWC under the equity method because we have significant influence over CWC's operating and financial policies. Prior to the transfer, we included the accounts of these operations in our consolidated financial statements.

On July 27, 1999, we announced our agreement to a proposal by Cable & Wireless plc (Cable & Wireless), NTL Incorporated (NTL) and CWC for the proposed restructuring of CWC. Under the terms of the agreement, CWC's consumer cable telephone, television and Internet operations would be separated from its corporate, business, Internet protocol and wholesale operations. The consumer operations would be acquired by NTL and the other operations would be acquired by Cable & Wireless. In exchange for our interest in CWC, we would receive shares in the two acquiring companies, representing approximately 9.1% of the NTL shares currently outstanding and approximately 4.6% of the Cable & Wireless shares currently outstanding. Our investments in NTL and Cable & Wireless will be accounted for under the cost method.

We expect the restructuring to result in a material non-cash gain. The completion of the restructuring is subject to a number of conditions and, assuming satisfaction of those conditions, is expected to close in the first half of 2000.

In August 1998 we issued $3,180 million of 4.25% senior exchangeable notes due on September 15, 2005. Prior to the proposed restructuring described above, the notes are exchangeable into 277.6 million ordinary shares of CWC stock at the option of the holder, beginning on July 1, 2002. However, upon completion of the proposed restructuring, the CWC exchangeable notes would be exchangeable on and after July 1, 2002 for shares in NTL and Cable

**Note 3 continued**

& Wireless in proportion to the shares received in the restructuring. Upon exchange by investors, we retain the option to settle in cash or by delivery of the Cable & Wireless and NTL shares. You can find additional information on the CWC exchangeable notes in Note 10.

**FLAG**

Fiberoptic Link Around the Globe (FLAG) is an undersea fiberoptic cable system, providing digital communications links between Europe and Asia. FLAG launched commercial service in the fourth quarter of 1997. We have invested approximately $227 million in FLAG since 1994. At December 31, 1999, our ownership interest was comprised of our interest in FLAG Ltd. and our interest in its parent company, FLAG Telecom Holdings Limited (FLAG Telecom). In January 2000, we exchanged our shares in FLAG Ltd. for an interest in FLAG Telecom resulting in an aggregate interest in FLAG Telecom of approximately 38%. There was no impact to our financial statements or our effective ownership interest as a result of this transaction.

In February 2000, Flag Telecom conducted an initial public offering. The primary offering consisted of approximately 28 million newly issued common shares. Certain existing shareowners also participated in a secondary offering in which approximately 8 million of their common shares were sold. We did not acquire any new shares in the primary offering, nor did we participate in the secondary offering. As a result, our current ownership interest has been reduced to approximately 30%.

FLAG had outstanding borrowings of $615 million as of December 31, 1997 under a limited recourse debt facility, which it refinanced in the first quarter of 1998 through a new $800 million credit facility. This refinancing resulted in an after-tax extraordinary charge of $15 million. The refinancing also released us from certain obligations under a contingent sponsor support agreement signed in connection with the debt facility outstanding in 1997.

**Other Equity Investments**

We also have global wireless investments in the Czech Republic, Slovakia, Greece, and Indonesia. These investments are in joint ventures to build and operate wireless networks in these countries. We also have an investment in a company in the Philippines which provides telecommunications services in certain regions of that country. The remaining investments include real estate partnerships, publishing joint ventures, and several other domestic and international joint ventures.

In 1998, other equity investees also included Bell Atlantic Mobile's (BAM) investment in domestic wireless properties doing business under the Frontier Cellular name. Frontier Cellular was a joint venture between BAM and Frontier Corporation (Frontier). In December 1999, BAM completed its purchase of Frontier's interests for $374 million and assumed approximately $105 million in debt, resulting in purchased goodwill of approximately $265 million. As a result of this transaction, we increased our ownership interest from 50% to 100% and, therefore, have changed the accounting for our investment in Frontier Cellular from the equity method to full consolidation. The change in accounting methodology resulted in a reduction to Investments in Unconsolidated Businesses of $87 million in 1999.

**Summarized Financial Information**

The following tables display the summarized audited financial information for our equity investees. These amounts are shown on a 100 percent basis.

(dollars in millions)

| Years Ended December 31, | 1999 | 1998 |
|---|---|---|
| Results of operations | | |
| Operating revenues | $ 10,584 | $ 8,832 |
| Operating income | 2,124 | 1,474 |
| Income before extraordinary item | 698 | 577 |
| Net income | 698 | 520 |
| Bell Atlantic's equity share of income | $ 72 | $ 25 |

| At December 31, | 1999 | 1998 |
|---|---|---|
| Financial position | | |
| Current assets | $ 3,736 | $ 4,680 |
| Noncurrent assets | 18,613 | 18,986 |
| Current liabilities | 4,484 | 4,830 |
| Noncurrent liabilities | 8,877 | 10,027 |
| Minority interest | 169 | 155 |
| Stockholders' equity | 8,819 | 8,654 |
| Bell Atlantic's equity share of investees | $ 3,867 | $ 3,498 |

***Cost Investees***

Certain of our cost investments are carried at their fair value, principally our investment in Telecom Corporation of New Zealand Limited (TCNZ), as described below. Other cost investments are carried at their original cost, except in cases where we have determined that a decline in the estimated fair value of an investment is other than temporary as described below under the section "Other Cost Investments."

*Telecom Corporation of New Zealand Limited*

TCNZ is that country's principal provider of telecommunications services. We account for our investment in TCNZ under the cost method because we do not have significant influence over TCNZ's operating and financial policies (see Note 1).

In February 1998, we issued $2,455 million of 5.75% senior exchangeable notes due on April 1, 2003. The notes were exchangeable into 437.1 million ordinary shares of TCNZ stock at the option of the holder, beginning September 1, 1999. As of December 31, 1999, no notes have been delivered for exchange. You can find additional information on the TCNZ exchangeable notes in Note 10.

*Viacom Inc.*

Since 1993, we have held an investment in Viacom Inc. (Viacom), an entertainment and publishing company. This investment consisted of 24 million shares of Viacom Series B Cumulative Preferred Stock that we purchased for $1.2 billion. The preferred stock, which carried an annual dividend of 5%, was convertible into shares of Viacom Class B Nonvoting Common Stock at a price of $70 per share.

In December 1998, we accepted an offer from Viacom to repurchase one-half of our Viacom investment, or 12 million shares of the preferred stock (with a book value of approximately $600 million) for approximately $564 million in cash. This transaction resulted in a small loss, which was recorded in Income (Loss) from Unconsolidated

Note 3 continued

Businesses in 1998. This preferred stock had been held by a fully consolidated subsidiary, which had been created as part of a transaction to monetize a portion of our Viacom investment during 1995 and 1996. This monetization transaction involved entering into nonrecourse contracts whereby we raised $600 million based, among other things, on the value of our investment in Viacom. To accomplish the monetization, two fully consolidated subsidiaries were created to manage and protect certain assets for distribution at a later date. In addition, an outside party contributed $600 million in cash in exchange for an interest in one of these subsidiaries, and we contributed a $600 million note that was collateralized by certain financial assets, including the 12 million shares of Viacom preferred stock and 22.4 million shares of our common stock. The outside party's contribution was reflected in Minority Interest, and the issuance of common stock was reflected as Treasury Stock.

The cash proceeds from the repurchase of the 12 million shares of Viacom preferred stock, together with additional cash, was used to repay the note that had been contributed to one of the subsidiaries. The total amount of cash was distributed to the outside party, under a pre-existing agreement, to redeem most of that party's interest in the subsidiary. We then purchased the remaining portion of the outside party's interest. The transaction was accounted for as a charge to Reinvested Earnings and a reduction from Net Income in calculating Net Income Available to Common Shareowners in the amount of $30 million. As a result of our purchase of the outside party's interest, we reduced Minority Interest by $600 million in 1998. However, the subsidiaries continue to hold shares of our common stock, which have been reported as Treasury Stock at December 31, 1999.

The remaining 12 million shares of preferred stock were repurchased by Viacom in a second transaction in January 1999 for approximately $612 million in cash. This transaction did not have a material effect on our consolidated results of operations.

*Other Cost Investments*

Other cost investments include our Asian investments–TelecomAsia, a wireline investment in Thailand, and Excelcomindo, a wireless investment in Indonesia. In the third quarter of 1998, we recorded pre-tax charges of $485 million to Income (Loss) From Unconsolidated Businesses to adjust our carrying values of TelecomAsia and Excelcomindo. The charges were necessary because we determined that the decline in the estimated fair values of each of these investments were other than temporary. We determined the fair values of these investments by discounting estimated future cash flows.

In the case of TelecomAsia, we recorded a charge of $348 million to adjust the carrying value of the investment to its estimated fair value. We considered the following factors in determining the charge:

- The continued weakness of the Thai currency as compared to historical exchange rates had placed additional financial burdens on the company in servicing U.S. dollar-denominated debt.
- The economic instability and prospects for an extended recovery period had resulted in weaker than expected growth in TelecomAsia's business. This was indicated by slower than expected growth in total subscribers and usage. These factors resulted in reduced expectations of future cash flows and, accordingly, a reduction in the value of our investment.
- The business plan for TelecomAsia contemplated cash flows from several lines of business. Given TelecomAsia's inclination to focus on its core wireline business, these other lines of business would not contribute future cash flows at previously expected levels.

In the case of Excelcomindo, we recorded a charge of $137 million to adjust the carrying value of the investment to its estimated fair value. We considered the following factors in determining this charge:

- The continued weakness of the Indonesian currency as compared to historical exchange rates had placed additional financial burdens on the company in servicing U.S. dollar-denominated debt. The political unrest in Indonesia contributed to the currency's instability.
- The economic instability and prospects for an extended recovery period had resulted in weaker than expected growth in Excelcomindo's business. One significant factor was the inflexible tariff regulation despite rising costs due to inflation. This and other factors resulted in reduced expectations of future cash flows and, accordingly, a reduction in the value of our investment.
- Issues with cash flow required Excelcomindo's shareholders to evaluate the future funding of the business.