



GTE Service Corporation
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Marion, Ohio 43302

October 2, 1998

Ms. Daisy Crockron – Chief
Docketing Department
The Public Utilities Commission of Ohio
180 East Broad Street - 10th Floor
Columbus, Ohio 43215-3793

Re: In the Matter of the Joint Application of Bell Atlantic Corporation and GTE
Corporation for Consent and Approval of a Change in Control, PUCO Case
No. 98-1398 -TP-UNC.

Member of the Commission:

Enclosed herewith for filing in the above-referenced matter are the original and
fifteen copies of the Joint Application of Bell Atlantic Corporation and GTE
Corporation for Consent and Approval of a Change in Control of GTE
Corporation to Bell Atlantic Corporation.

Very truly yours,

John W. Kennedy
Assistant Vice President –
Regulatory and Governmental Affairs

JWK:dkb

c: Thomas E. Lodge – Thompson, Hine and Flory
Robert S. Tongren - Ohio Consumers' Counsel

bcc: Jolynn Barry Butler – Public Utilities Commission of Ohio
Craig A. Glazer – Public Utilities Commission of Ohio
[REDACTED] – Public Utilities Commission of Ohio
Judy Jones – Public Utilities Commission of Ohio
Donald Mason – Public Utilities Commission of Ohio
Chris Pirik – Public Utilities Commission of Ohio
Scott Potter – Public Utilities Commission of Ohio

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Joint Application)
of Bell Atlantic Corporation and GTE)
Corporation for Consent and)
Approval of a Change in Control)

Case No. 98-____-TP-UNC

JOINT APPLICATION

Bell Atlantic Corporation ("Bell Atlantic") and GTE Corporation ("GTE") (collectively, the "Joint Applicants") hereby make this Application pursuant to Revised Code Section 4905.402, and request the approval of the Public Utilities Commission of Ohio of a transaction whereby GTE will become a wholly-owned subsidiary of Bell Atlantic. As a result of this transaction, Bell Atlantic will acquire indirect control of GTE North Incorporated ("GTE North") a "domestic telephone company" as defined in Revised Code Section 4905.402. Neither Bell Atlantic nor its affiliates are currently affiliated with GTE or its affiliates.

DESCRIPTION OF THE JOINT APPLICANTS

The Joint Applicants are Bell Atlantic (which will acquire indirect "control" of GTE North, as that term is defined in Revised Code §4905.402(A)(1)), and GTE Corporation, the parent company of GTE North (GTE North, although it is not incorporated in Ohio, is still a domestic "telephone company," as that term is defined in Revised Code §4905.402(A)(3)).

A. Bell Atlantic

Bell Atlantic Corporation is a corporation created and existing under the laws of the State of Delaware. Its principal office is located at 1095 Avenue of the Americas, New York, New York 10036. Bell Atlantic's subsidiaries provide telecommunications services on a regulated and unregulated basis in various locations throughout the United States and in several foreign

countries. Bell Atlantic's regulated local telephone subsidiaries provide service in thirteen states and the District of Columbia.

Although Bell Atlantic itself is not a regulated telephone company within Ohio or elsewhere, Bell Atlantic's local telephone subsidiaries are subject to public utility regulation in the states in which they operate as well as regulation by the Federal Communications Commission ("FCC") for the interstate services they provide to end users and interexchange carriers.

In 1997, Bell Atlantic had annual operating revenues of \$30 billion. It has a strong balance sheet and investment-grade credit rating. Its operating companies serve approximately 40.8 million access lines, providing in the Northeast and Mid-Atlantic. Bell Atlantic's cellular operations provide service to approximately 6 million customers.

Bell Atlantic Communications, Inc. ("BACT") is an operating affiliate of Bell Atlantic subject to Commission jurisdiction with authority to operate as a switchless reseller of long distance telecommunications services throughout Ohio. NYNEX Long Distance ("NLD") d/b/a Bell Atlantic Long Distance is also a switchless reseller of long distance telecommunications services in Ohio. Additionally, PrimeCo Personal Communications, L.P., a company in which Bell Atlantic holds a substantial interest, provides wireless telecommunications service in Ohio.

B. GTE

GTE Corporation is a corporation created and existing under the laws of the State of New York, with its principal office located at 1255 Corporate Drive, Irving, Texas 75038-2518. GTE's subsidiaries provide telecommunications services on a regulated and unregulated basis in various locations in the United States and in several foreign countries. GTE's regulated incumbent local telephone subsidiaries provide service in 28 states, including Ohio.

Although GTE itself is not a regulated telephone company within Ohio or elsewhere, GTE's incumbent local telephone subsidiaries, or operating companies, are subject to public utility regulation in the states in which they operate as well as regulation by the FCC for the interstate services they provide to end users and interexchange carriers. GTE North is such a local telephone subsidiary.

In 1997, GTE had annual operating revenues of \$23 billion. It has a strong balance sheet and investment-grade credit rating. Its operating companies serve approximately 22.3 million access lines throughout the country. GTE's cellular operations provide service to 4.6 million customers and its long distance operations provide service to almost 3 million customers.

GTE has the following regulated subsidiaries in Ohio:

1. GTE North

GTE North provides local telephone service, access service, and intraLATA toll service between its own exchanges and the exchanges of other local telephone companies. As noted above, GTE North is a "domestic telephone company" within the meaning of Revised Code §4905.402.

2. Other GTE Affiliates

In addition to GTE North, GTE has several other subsidiaries that are authorized by the Commission to provide regulated services in the State of Ohio ("the other GTE Affiliates"):

- GTE Communications Corporation ("GTECC," formerly known as GTE Card Services, Inc. d/b/a GTE Long Distance) is a switchless reseller of long distance telecommunications services. GTECC obtained authority to provide long distance services throughout Ohio in Case No. 96-252-CT-ACE, filed its final tariffs effective August 22, 1996, and is the holder of Certificate No. 90-5679. Although GTECC also

provides competitive local exchange service in certain states, it does not provide competitive local exchange service anywhere in Ohio.

- GTE Wireless Affiliates, specifically, GTE Mobilnet of Ohio LP, GTE Mobilnet of Cleveland Incorporated, and Ohio RSA # 3 LP (providing cellular telephone service in northeastern Ohio) and GTE Wireless of the Midwest Incorporated (providing personal communications service in southeastern Ohio) have been providing competitive wireless communications services in Ohio for several years.
- GTE Telecommunication Services Incorporated ("GTE TSI") is a switchless reseller of long distance telecommunications services in Ohio.

As is apparent from the descriptions of Bell Atlantic and GTE subsidiaries in Ohio, there is some overlap with respect to the companies' long distance reseller services, but none with respect to their core business as local exchange service carriers. Accordingly, Bell Atlantic and GTE do not compete against each other within Ohio to any meaningful extent, and do not compete at all in Ohio's local exchange market.

C. Service Addresses

Notices and other pleadings in connection with this Joint Application should be served on the Joint Applicants as follows:

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DESCRIPTION OF THE STOCK TRANSFER AND CHANGE OF CONTROL

A. Holding Company Stock Transfer

The mechanics of the merger of GTE and Bell Atlantic are described in the Merger Agreement, attached hereto as Exhibit 1. GTE will merge into Beta Gamma Corporation, a subsidiary of Bell Atlantic created solely to facilitate the merger. GTE will be the surviving subsidiary, and Bell Atlantic will be the surviving parent corporation. GTE's shareholders will receive 1.22 shares of Bell Atlantic for every share owned of GTE.

At closing, (i) the merged company's headquarters will be located in New York City; (ii) Charles R. Lee, currently Chairman and Chief Executive Officer of GTE, will become Chairman and co-Chief Executive Officer of the merged company; (iii) Ivan Seidenberg, currently Vice Chairman, President, and Chief Executive Officer of Bell Atlantic, will become President and co-Chief Executive Officer of the merged company; and (iv) the Boards of Directors of GTE and Bell Atlantic will each have selected half of the new Board of Directors for the merged company. Until July 1, 2002, the new Board of Directors will nominate GTE and Bell Atlantic directors for election to maintain equality on the Board.

For federal income tax purposes, the merger is intended to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986. Assuming the merger qualifies as such a reorganization, GTE shareholders will realize no gain or loss with respect to the exchange of their GTE shares for Bell Atlantic shares, except for cash received in lieu of fractional shares. Furthermore, the merger is intended to be accounted for as a pooling of interests transaction under Generally Accepted Accounting Principles and APD Opinion 16. As such, Bell Atlantic will retroactively restate for financial purposes its Consolidated Financial Statements to include the assets, shareholder equity, and results of operations of GTE as though GTE and Bell Atlantic had been combined at the beginning of all reported periods.

Since this is a stock transaction involving the two parent corporations, with the exchange of voting common shares of GTE for Bell Atlantic stock, it will not be necessary for Bell Atlantic to issue bonds, notes, or any other form of indebtedness to finance the merger, nor will it be necessary to sell any assets in Ohio to consummate the merger.

After the transaction is completed, Bell Atlantic, as the surviving parent will have indirectly acquired control of GTE North, but otherwise the corporate structure of GTE North, and its relationship to GTE, will remain unchanged.

B. Regulatory Obligations

Until the transaction is completed, Bell Atlantic and GTE will continue to operate as independent entities. The transaction will not occur until all necessary governmental and regulatory approvals and reviews have been obtained or completed. This process includes a review by the Department of Justice ("DOJ"), the FCC, and a number of state commissions.

When the transaction is completed, GTE North will remain a subsidiary of GTE. The authorizations and licenses currently held by the GTE North will remain in place. The transactions necessary to complete the merger will not change the relationship of GTE North with the Commission: GTE North will simply become a second-tier subsidiary of Bell Atlantic. Thus, the stock transaction will not entail any change in the rates, terms or conditions for the provision of any telecommunications services provided in Ohio. Further, no operations, lines, plants, franchises or permits of GTE North will merge with the lines, plants, franchises or permits of any Bell Atlantic entity; the transaction that is the subject of this application does not involve the merger of any telephone companies.

Therefore, the parent company merger will not interfere with the Commission's jurisdiction nor impede the satisfaction of its public policy goals. GTE North will remain subject to, and will continue to meet, all of its obligations and commitments under the Commission's rules, regulations and decisions.

REASONS FOR THE STOCK TRANSACTION

Bell Atlantic and GTE are merging because, over the long-term, they can better achieve their goals in the increasingly competitive telecommunications environment as a combined entity. Although Bell Atlantic and GTE have each pursued these goals separately, the changing nature of the telecommunications industry within the United States makes it desirable for them to pool their resources and expertise.

The telecommunications industry has changed because technology, customer expectations, and public policy have changed radically within the last five years. Advancing technology has expanded the options available to consumers, who then create a demand for new services and new service providers. These changes are continuing and accelerating. The Telecommunications Act of 1996 (the "1996 Act") and the actions of this Commission have recognized these changes and have, accordingly, opened the doors to competition.

Incumbent local exchange carriers, like GTE's and Bell Atlantic's operating companies, must not only meet the future needs of their current customers, they must also compete with the numerous alternative providers who are entering the marketplace. Moreover, in order to enter new territories and offer viable competitive services, incumbent companies must ensure that they have adequate resources.

Companies spanning the spectrum of sizes and services have recognized these complex dynamics and have taken significant steps to modify their business practices accordingly. For example, WorldCom has merged with UUNet, MFS, Brooks Fiber, and, most recently, MCI. Qwest has, within only a few years become a significant player in the telecommunications industry through strategic mergers, including its recent merger with LCI. Sprint has formed international alliances with, among others, France Telecom and Deutsche Telekom. As the Commission is also

aware, numerous local telephone company mergers have also taken place or are underway: Ameritech/SBC/SNET (currently the subject of Case No. 98-1082-TP-AMT), SBC/Pac Bell, and Bell Atlantic/NYNEX. Even AT&T, the largest telecommunications corporation in the United States, has decided that corporate mergers and alliances are essential in the new telecommunications environment. AT&T has bought Teleport and announced its plans to purchase TCI, and has formed alliances with numerous foreign carriers.

GTE and Bell Atlantic are thus merging so they can better achieve their mutual goals in this changing environment. First, each company wants to ensure that, in the face of competition, it will remain a strong, healthy provider of basic telecommunications services in its current territories. Second, each company wants to be a fully integrated telecommunications service provider, able to offer business and residential customers packaged voice, data, long distance, video, wireless and other advanced and innovative services. Third, each company wants a national presence, with the ability to compete not only for business customers in hotly contested markets, but also for residential consumers. Competition is a goal of both companies, consistent with both companies' longstanding commitments to universal service.

The merged company, operating with combined resources, management, personnel and technical expertise, will have more financial and operational strength than either company would have on its own. The merger will roughly double the size of each company, which will receive revenues from a widely distributed national base of customers and services. Bell Atlantic's and GTE's combined assets, management and personnel will result in more efficient corporate operations reflecting the best practices of both companies, creating a stronger and more competitive merged entity. Consequently, the merged company can, over the long-term, translate

these parent company benefits into stronger support for its operations in Ohio, thereby benefiting both business and residential customers.

THE STOCK TRANSACTION AND THE PUBLIC CONVENIENCE

A. Competition with Other Incumbent Local Telephone Companies

Bell Atlantic's territories are concentrated in the Northeast and Mid-Atlantic, and it does not have the dispersed facilities necessary to enter and compete effectively as a CLEC in key markets outside its region, such as Cleveland and Cincinnati. GTE, with its network dispersed geographically throughout the United States, is the "enabler" that will allow Bell Atlantic to enter new markets throughout the country. Moreover, the merged company will have a broader financial base, giving it the strength necessary to support entry into new markets and making it better able to offer consumers a highly attractive package of local, wireless, long distance and internet services.

B. Packaged Services

Before the 1996 Act, telecommunications markets were divided not only geographically but also by product line. Today, however, the markets for telecommunications services are demanding and being served by firms offering a full range of telecommunications services on a nationwide basis. The 1996 Act's deregulatory provisions have allowed four entities to form or plan expanded alliances capable of providing such packages across the country:

MCI/WorldCom/MFS/UUNet, AT&T/TCI/Teleport, SBC/PacTel/SNET/Ameritech and Sprint/Sprint Spectrum. The merger of Bell Atlantic and GTE will create a fifth new competitor with the nationwide presence and financial resources necessary to compete head-to-head with the big four telecommunications carriers in providing the full array of telecommunications services both around the country.

C. Internet and Data

Consumers in Ohio are also increasing their demands for data services, making it important to ensure that a sufficient number of healthy competitors provide such services throughout Ohio. The merger will advance this goal by strengthening GTE Internetworking (formerly known as BBN). GTE Internetworking is currently the fourth largest provider of Internet backbone services, but still far behind WorldCom, Cable & Wireless (spun off from MCI) and Sprint. The WorldCom, Cable & Wireless and Sprint data networks are significantly larger than GTE's data network. AT&T is also attempting to join the top ranks of Internet backbone providers. The merger will combine GTE Internetworking's facilities with the opportunity to access Bell Atlantic's large urban customer base, including the hundreds of Fortune 1000 businesses based in Bell Atlantic's territory with offices across the country. GTE Internetworking could potentially have access to a solid base of high volume data customers, enabling it to expand services faster and ensure a continued high level of competition in this critical sector.

D. Long Distance

The merger will increase competition in the long distance market in Ohio by presenting the Joint Applicants with a better opportunity to utilize a combination of GTE's national facilities and resale capabilities. Construction of a national long-distance network requires large volumes of traffic to achieve necessary economies of scale and scope. Not surprisingly, there are few long distance facilities-based networks that are truly national in reach today. With the FCC's approval of the merger of WorldCom and MCI, there are now only three fully national facilities-based carriers: MCI/WorldCom, AT&T and Sprint. Resellers of long distance service, like GTECC, are critically dependent today on one of these few network providers to supply their long distance

services. Thus, although it provides long distance service in Ohio through GTECC, GTECC is almost wholly dependent on WorldCom's facilities.

E. Synergies

The Joint Applicants will have the opportunity to realize synergies that will, over the long term, make the merged companies more efficient and responsive in the marketplace. These expected synergies include, among other things, the consolidation and elimination of redundant management functions, primarily in the headquarters functions, the consolidation of the two companies' capital and purchasing programs, and the combination of the two companies' development efforts for new systems and services.

F. Competition For Customers

As longstanding providers of local exchange service in their respective territories, GTE and Bell Atlantic have proven records of providing service not only to high volume business customers, but also, and primarily, to their residential and small business customers. The merged company will continue to serve all customers in their territories, unlike many other competitors in the market who are interested only in serving high-end business customers.

G. Corporate Citizenship

GTE and Bell Atlantic support their local communities. The merged company will continue to observe this tradition of corporate citizenship that has been a hallmark of GTE and Bell Atlantic policy for many years.

H. Impact on Employment

The merger is not expected to have a material impact on employment levels of GTE hourly workers and Bell Atlantic Associates, and all existing union contracts will be honored. Any labor reductions occasioned by the merger will come, most likely, from the consolidation and

elimination of redundant management positions. Any consolidation of management positions that does occur is expected to be accomplished to the extent possible, by attrition, retirement, and other voluntary measures.

I. Benefits from Best Practices

The merged company will be able to draw upon the expertise and abilities of the personnel from both companies, adopting each company's best practices to better serve the public. Bell Atlantic and GTE have operated networks and marketed services in geographically distinct markets: the South, Midwest and West for GTE, and the Mid-Atlantic and Northeast for Bell Atlantic. Accordingly, they have developed separate yet complementary skills. These complementary skills will, when combined, allow both companies to better maintain and improve the quality and efficiency of the service they provide.

J. Continued Regulatory Compliance

The stock transaction will not affect GTE North's status as a subsidiary of GTE, nor will it affect the regulatory authority of this Commission over GTE North in any respect. GTE North's customers will continue to obtain the same products and services as they did before the stock transaction, at the same rates they paid before the stock transaction. GTE North will continue to submit reports to the Commission as required and GTE North will remain subject to the Commission's jurisdiction. Following the stock transaction, as before, GTE North will, as necessary, apply to the Commission for appropriate authorization to change the rates, terms or conditions of service, or to introduce new services.

K. No Anti-Competitive Effect

Even though GTE and Bell Atlantic subsidiaries are authorized to provide long distance service in Ohio, their common ownership will not significantly impact competition for long

distance services. Combined, GTE and Bell Atlantic's subsidiaries serve only a small fraction of the total long distance market in Ohio. Long distance services are provided in Ohio by numerous other competitors, and the market as a whole is dominated by the three largest long distance companies, AT&T, MCI/WorldCom and Sprint. Accordingly, even though GTE and Bell Atlantic's separate subsidiaries in Ohio will now be commonly owned, there will be no anti-competitive effect in Ohio.

REVISED CODE SECTION 4905.402

Under Revised Code §4905.402(B), Bell Atlantic is obligated to obtain the prior approval of the Commission before acquiring indirect control of GTE North, and has therefore filed this Joint Application with GTE. Approval is to be granted "after review of the application" or "after any necessary hearing" once "the Commission is satisfied that approval of the application will promote public convenience and result in the provision of adequate service [by GTE North] for a reasonable rate, rental, toll or charge." For the reasons described in the foregoing, and for those described below, the Commission should promptly so find, and need not convene a hearing to do so.

A. This Joint Application Should Be Granted

The stock transaction that is the subject of this Joint Application is a parent company merger and is not expected to materially change or relocate, by operation of law or otherwise, the operations or legal status of GTE North. GTE North will remain subject to the jurisdiction of this Commission, and there will only be an indirect change of control over GTE North. Moreover, following the transaction, GTE North will be owned by the same shareholder -- GTE -- as it was immediately before the merger.

Accordingly, the Joint Applicants submit that the "acquisition of control" herein described will promote the public convenience and result in the continued provision of adequate service for a reasonable rate, rental, toll or charge by GTE North. Accordingly, the Commission should grant this Joint Application under Revised Code §4905.402.

B. No Hearing Is Necessary

Under Revised Code §4905.402(B) this Joint Application may, and should be, deemed approved if the Commission refrains from acting upon it for a period of thirty days. The Applicants submit that this application should be so treated.

The stock transaction that is the subject of this Joint Application will take place among two publicly-traded corporations over which this Commission has no general jurisdiction. Federal agencies, by contrast -- specifically the Federal Communications Commission and Department of Justice, among others -- exercise pervasive jurisdiction over the operating companies of GTE and Bell Atlantic, and must also approve the transaction that is the subject of this Joint Application.

Given the limited authority of this Commission, and the scrutiny that will be provided at the federal level, the transaction that is the subject of this Joint Application presents no issues that warrant a hearing in the State of Ohio. This Joint Application should be approved by operation of law or by order of the Commission.

CONCLUSION

For the foregoing reasons, Bell Atlantic Corporation and GTE Corporation pray that the Commission:

- A. Consider and conclude that no hearing upon this Joint Application is necessary; and

B. Either

- (i) REFRAIN** from issuing an order in this matter for a period of not less than thirty (30) days, as a result of which this Joint Application will be deemed **APPROVED** by operation of law; or alternatively,
- (ii) FIND** that for Bell Atlantic Corporation to acquire control of GTE Corporation and indirectly of GTE North Incorporated, all as described in this Joint Application, will promote the public convenience and result in the provision of adequate service for a reasonable rate, rental, toll or charge, and **APPROVE** this Application pursuant to Revised Code Section 4905.402(B).

Respectfully submitted,

BELL ATLANTIC CORPORATION

By: 

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Its Attorneys

EXHIBITS

In further support of this application, the Joint Applicants submit the following exhibits:

- | | |
|------------------|--|
| EXHIBIT 1 | Merger Agreement and Plan of Reorganization, Dated as of July 27, 1998 by and among Bell Atlantic Corporation, Beta Gamma Corporation and GTE Corporation (Without Schedules) |
| EXHIBIT 2 | GTE Corporation 1997 Annual Report |
| EXHIBIT 3 | Bell Atlantic Corporation 1997 Annual Report |
| EXHIBIT 4 | Pre- and Post-Merger Organizational Charts |
| EXHIBIT 5 | National and State Wireline Service Territory Maps |
| EXHIBIT 6 | National and State Wireless Service Area Maps |
| EXHIBIT 7 | Securities and Exchange Commission S-4 Form (to be filed when available) |

VERIFICATION

I, P. Alan Bulliner, Associate General Counsel and Corporate Secretary of Bell Atlantic Corporation, do solemnly swear that the facts stated in the foregoing Petition, and all exhibits incorporated by reference, insofar as they relate to Bell Atlantic Corporation, are to the best of my knowledge and belief, true and correct and that said statements of fact constitute a complete statement of the matter to which they relate.



Bell Atlantic Corporation

Subscribed and sworn to before me
this 25th day of September, 1998

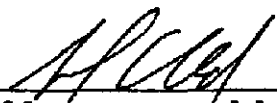


Notary Public

JEANETTE M. SULLIVAN
Notary Public, State of New York
No. 4889913
Qualified in Rockland County
Qualified in Westchester County
Commission Expires April 20, 1999

VERIFICATION

I, Geoffrey C. Gould, Vice President-Government and Regulatory Affairs for GTE Corporation, do solemnly swear that the facts stated in the foregoing Petition, and all exhibits incorporated by reference, insofar as they relate to GTE Corporation and its subsidiaries, are to the best of my knowledge and belief, true and correct and that said statements of fact constitute a complete statement of matters to which they relate.



Geoffrey C. Gould
Vice President-Government
and Regulatory Affairs
GTE Corporation

Subscribed and sworn to before
me this 1st day of October 1998.



Notary Public

My Commission Expires: 8/31/01

AGREEMENT AND PLAN

OF MERGER

DATED AS OF

JULY 27, 1998

AMONG

BELL ATLANTIC CORPORATION,

BETA GAMMA CORPORATION

AND

GTE CORPORATION

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AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of July 27, 1998 ("the date hereof"), is entered into by and among Bell Atlantic Corporation, a Delaware corporation ("Bell Atlantic"), Beta Gamma Corporation, a New York corporation and a wholly owned subsidiary of Bell Atlantic ("Merger Subsidiary"), and GTE Corporation, a New York corporation ("GTE").

WHEREAS, the Board of Directors of each of Bell Atlantic, Merger Subsidiary and GTE has determined that it is in the best interests of its stockholders that Bell Atlantic and GTE enter into a business combination under which a subsidiary of Bell Atlantic will merge with and into GTE pursuant to the Merger (as defined in Section 1.1 hereof) and Bell Atlantic and GTE desire to enter into the "merger of equals" transaction contemplated hereby, and, in connection therewith, to make certain representations, warranties and agreements;

WHEREAS, as a condition to, and immediately after, the execution of this Agreement, and as a condition to the execution of the Bell Atlantic Option Agreement (as defined below), GTE and Bell Atlantic are entering into a stock option agreement (the "GTE Option Agreement") in the form attached hereto as Exhibit A;

WHEREAS, as a condition to, and immediately after, the execution of this Agreement, and as a condition to the execution of the GTE Option Agreement, GTE and Bell Atlantic are entering into a stock option agreement (the "Bell Atlantic Option Agreement", and together with the GTE Option Agreement, the "Option Agreements") in the form attached hereto as Exhibit B;

WHEREAS, the Board of Directors of each of Bell Atlantic, Merger Subsidiary and GTE has determined that the Merger and the other transactions contemplated hereby are consistent with, and in furtherance of, its business strategies and goals and has approved the Merger upon the terms and conditions set forth herein;

WHEREAS, for federal income tax purposes, it is intended that the Merger shall constitute a tax-free reorganization under Section 368 of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, for accounting purposes, it is intended that the Merger shall be accounted for as a pooling of interests under United States generally accepted accounting principles ("GAAP");

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I — THE MERGER

SECTION 1.1 — *The Merger*. At the Effective Time (as defined in Section 1.2 hereof) and subject to and upon the terms and conditions of this Agreement and the New York Business Corporation Law ("NYBCL"), Merger Subsidiary will be merged with and into GTE (the "Merger"), whereby the separate corporate existence of Merger Subsidiary shall cease and GTE shall continue as the surviving corporation which shall be a wholly-owned subsidiary of Bell Atlantic. GTE as the surviving corporation after the Merger is herein sometimes referred to as the "Surviving Corporation" and Merger Subsidiary as the non-surviving corporation after the Merger is herein sometimes referred to as the "Merged Corporation." GTE, Bell Atlantic and Merger Subsidiary are herein referred to collectively as the "Parties" and each individually as a "Party."

SECTION 1.2 — *Effective Time*. As promptly as practicable after the satisfaction or waiver of the conditions set forth in Article VIII hereof and the consummation of the Closing referred to in Section 7.2(b) hereof, the Parties shall cause the Merger to be consummated by filing a Certificate of Merger with the Secretary of State of the State of New York with respect to the Merger, in such form as required by, and executed in accordance with, the relevant provisions of the NYBCL (the time of such filing being the "Effective Time").

SECTION 1.3 — *Effect of the Merger*. At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of the NYBCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of GTE and Merger Subsidiary shall continue with, or vest in, as the case may be, GTE as the Surviving Corporation, and all debts, liabilities and duties of GTE and Merger Subsidiary shall continue to be, or become, as the case may be, the debts, liabilities and duties of GTE as the Surviving Corporation. As of the Effective Time, the Surviving Corporation shall be a direct wholly-owned subsidiary of Bell Atlantic.

SECTION 1.4 — *Subsequent Actions*. If at any time after the Effective Time the Surviving Corporation shall consider or be advised that any deeds, bills of sale, assignments, assurances or any other actions or things are necessary or desirable to continue in, vest, perfect or confirm of record or otherwise in the Surviving Corporation its right, title or interest in, to or under any of the rights, properties, privileges, franchises or assets of either of its constituent corporations acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger or otherwise to carry out this Agreement, the officers and directors of the Surviving Corporation shall be directed and authorized to execute and deliver, in the name and on behalf of either of such constituent corporations, all such deeds, bills of

sale, assignments and assurances and to take and do, in the name and on behalf of each of such corporations or otherwise, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties, privileges, franchises or assets in the Surviving Corporation or otherwise to carry out this Agreement.

SECTION 1.5 — *Certificate of Incorporation; Bylaws; Directors and Officers of Surviving Corporation.* Unless otherwise agreed by GTE and Bell Atlantic before the Effective Time, at the Effective Time:

(a) the Certificate of Incorporation of GTE as the Surviving Corporation shall be the Certificate of Incorporation of GTE as in effect immediately prior to the Effective Time, until thereafter amended as provided by law and such Certificate of Incorporation;

(b) the Bylaws of GTE as the Surviving Corporation shall be the Bylaws of GTE immediately prior to the Effective Time, until thereafter amended as provided by law and the Certificate of Incorporation and the Bylaws of such Surviving Corporation; and

(c) the directors and officers of GTE immediately prior to the Effective Time shall continue to serve in their respective offices of the Surviving Corporation from and after the Effective Time, in each case until their successors are elected or appointed and qualified or until their resignation or removal. If at the Effective Time a vacancy shall exist on the Board of Directors or in any office of the Surviving Corporation, such vacancy may thereafter be filled in the manner provided by law and the Bylaws of the Surviving Corporation.

ARTICLE II — EFFECT ON STOCK OF THE SURVIVING CORPORATION AND THE MERGED CORPORATION

SECTION 2.1 — *Conversion of Securities.* The manner and basis of converting the shares of common stock of the Surviving Corporation and of the Merged Corporation at the Effective Time, by virtue of the Merger and without any action on the part of any of the Parties or the holder of any of such securities, shall be as hereinafter set forth in this Article II.

SECTION 2.2 — *Conversion of Shares.* (a) Subject to Section 2.7, each share of common stock, par value \$0.05 per share, of GTE ("GTE Common Stock") issued and outstanding immediately before the Effective Time (excluding those cancelled pursuant to Section 2.3) and all rights in respect thereof, shall at the Effective Time, without any action on the part of any holder thereof, be converted into and become 1.22 shares of common stock, par value \$0.10 per share, of Bell Atlantic ("Bell Atlantic Common Stock"). Such ratio of GTE Common Stock to Bell Atlantic Common Stock is herein referred to as the "Exchange Ratio."

(b) As of the Effective Time, all shares of GTE Common Stock converted pursuant to Section 2.2(a) shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate (each, an "Old Certificate") representing any such shares of GTE Common Stock shall cease to have any rights with respect thereto, except the right to receive shares of Bell Atlantic Common Stock, in accordance with Section 2.2(a), certain dividends or other distributions in accordance with Section 2.5(b) and any cash in lieu of fractional shares of Bell Atlantic Common Stock to be issued or paid in consideration therefor upon surrender of such certificate in accordance with Section 2.5, without interest.

(c) For all purposes of this Agreement, unless otherwise specified, each share of GTE Common Stock held by employee stock ownership plans of GTE (i) shall be deemed to be issued and outstanding, (ii) shall not be deemed to be held in the treasury of GTE and (iii) shall be converted into shares of Bell Atlantic Common Stock in accordance with the Exchange Ratio.

SECTION 2.3 — *Cancellation of Treasury Shares and Bell Atlantic-owned Shares.* At the Effective Time, each share of GTE Common Stock held in the treasury of GTE or owned by Bell Atlantic immediately prior to the Effective Time shall be cancelled and retired and no shares of stock or other securities of Bell Atlantic or the Surviving Corporation shall be issuable, and no payment or other consideration shall be made, with respect thereto.

SECTION 2.4 — *Conversion of Common Stock of the Merged Corporation into Common Stock of the Surviving Corporation.* At the Effective Time, each share of common stock of Merger Subsidiary issued and outstanding immediately prior to the Effective Time, and all rights in respect thereof, shall, without any action on the part of Bell Atlantic, forthwith cease to exist and be converted into 1,000 validly issued, fully paid and nonassessable shares of common stock, par value \$0.05 per share, of the Surviving Corporation (the "Surviving Corporation Common Stock"). Immediately after the Effective Time and upon surrender by Bell Atlantic of the certificate representing the shares of the common stock of Merger Subsidiary, GTE as the Surviving Corporation shall deliver to Bell Atlantic an appropriate certificate or certificates representing the Surviving Corporation Common Stock created by conversion of the common stock of Merger Subsidiary owned by Bell Atlantic.

SECTION 2.5 — *Exchange Procedures.* (a) Subject to the terms and conditions hereof, at or prior to the Effective Time Bell Atlantic and GTE shall jointly appoint an exchange agent (the "Exchange Agent") to effect the exchange of Old Certificates for Bell Atlantic Common Stock in accordance with the provisions of this Article II. At the Effective Time, Bell Atlantic shall deposit, or cause to be deposited, with the Exchange Agent certificates representing Bell Atlantic Common Stock for exchange for Old Certificates in accordance with the provisions of Section 2.2 hereof (such certificates, together with any dividends or distributions with

respect thereto, being herein referred to as the "Exchange Fund"). Commencing immediately after the Effective Time and until the appointment of the Exchange Agent shall be terminated, each holder of an Old Certificate may surrender the same to the Exchange Agent, and, after the appointment of the Exchange Agent shall be terminated, any such holder may surrender any such certificate to Bell Atlantic. Such holder shall be entitled upon such surrender to receive in exchange therefor a certificate or certificates representing the number of whole shares of Bell Atlantic Common Stock such holder has a right to receive in accordance with Section 2.2 hereof, certain dividends or other distributions in accordance with Section 2.5(b) hereof, and a cash payment in lieu of fractional shares, if any, in accordance with Section 2.7 hereof, and such Old Certificate shall forthwith be cancelled. The whole shares of Bell Atlantic Common Stock to be delivered to such holder shall be delivered in book entry form, unless such holder shall timely elect in writing to receive the certificates representing such shares.

Unless and until any such Old Certificate is so surrendered, and except as may be determined by Bell Atlantic for a period not to exceed six months after the Effective Time, no dividend or other distribution, if any, payable to the holders of record of Bell Atlantic Common Stock as of any date subsequent to the Effective Time shall be paid to the holder of such certificate in respect thereof. Except as otherwise provided in Section 2.6 hereof, upon the surrender of any such Old Certificate, however, the record holder of the certificate or certificates representing shares of Bell Atlantic Common Stock issued in exchange therefor shall receive from the Exchange Agent or from Bell Atlantic, as the case may be, payment of the amount of dividends and other distributions, if any, which as of any date subsequent to the Effective Time and until such surrender shall have become payable and were not paid with respect to such number of shares of Bell Atlantic Common Stock ("Pre-Surrender Dividends"). No interest shall be payable with respect to the payment of Pre-Surrender Dividends upon the surrender of Old Certificates. After the appointment of the Exchange Agent shall have been terminated, any holders of Old Certificates which have not received payment of Pre-Surrender Dividends shall look only to Bell Atlantic for payment thereof. Notwithstanding the foregoing provisions of this Section 2.5 (b), neither the Exchange Agent nor any Party shall be liable to a holder of an Old Certificate for any Bell Atlantic Common Stock, any dividends or distributions thereon or any cash payment for fractional shares as contemplated by Section 2.7, delivered to a public official pursuant to any applicable abandoned property, escheat or similar law or to a transferee pursuant to Section 2.6 hereof.

(b) Notwithstanding anything herein to the contrary, certificates surrendered for exchange by any "affiliate" of GTE shall not be exchanged until Bell Atlantic shall have received a signed agreement from such "affiliate" as provided in Section 7.14 hereof.

SECTION 2.6 — Transfer Books. The stock transfer books of GTE shall be closed at the Effective Time and no transfer of any shares of GTE Common Stock will thereafter be recorded on any of such stock transfer books. In the event of a transfer of ownership of GTE

Common Stock that is not registered in the stock transfer records of GTE at the Effective Time, a certificate or certificates representing the number of whole shares of Bell Atlantic Common Stock into which such shares of GTE Common Stock shall have been converted shall be issued to the transferee together with a cash payment in lieu of fractional shares, if any, in accordance with Section 2.7 hereof, and a cash payment in the amount of Pre-Surrender Dividends, if any, in accordance with Section 2.5 (b) hereof, if the Old Certificate therefor is surrendered as provided in Section 2.5 hereof, accompanied by all documents required to evidence and effect such transfer and by evidence of payment of any applicable stock transfer tax. The whole shares of Bell Atlantic Common Stock to be delivered to such holder shall be delivered in book entry form, unless such holder shall timely elect in writing to receive the certificates representing such shares.

SECTION 2.7 — *No Fractional Share Certificates.* (a) No scrip or fractional share certificate for Bell Atlantic Common Stock will be issued in certificated or book entry form upon the surrender for exchange of Old Certificates, and an outstanding fractional share interest will not entitle the owner thereof to vote, to receive dividends or to any rights of a stockholder of Bell Atlantic or of the Surviving Corporation with respect to such fractional share interest.

(b) As promptly as practicable following the Effective Time, the Exchange Agent shall determine the excess of (i) the number of whole shares of Bell Atlantic Common Stock to be issued and delivered to the Exchange Agent pursuant to Section 2.5 hereof over (ii) the aggregate number of whole shares of Bell Atlantic Common Stock to be distributed to holders of GTE Common Stock pursuant to Section 2.5 hereof (such excess being herein called "Excess Shares"). Following the Effective Time, the Exchange Agent, as agent for the holders of GTE Common Stock, shall sell the Excess Shares at then prevailing prices on the New York Stock Exchange (the "NYSE"), all in the manner provided in subsection (c) of this Section 2.7.

(c) The sale of the Excess Shares by the Exchange Agent shall be executed on the NYSE through one or more member firms of the NYSE and shall be executed in round lots to the extent practicable. The Exchange Agent shall use all reasonable efforts to complete the sale of the Excess Shares as promptly following the Effective Time as, in the Exchange Agent's reasonable judgment, is practicable consistent with obtaining the best execution of such sales in light of prevailing market conditions. The Exchange Agent shall, out of the proceeds from the sale of the Excess Shares, pay all commissions, transfer taxes and other out-of-pocket transaction costs, including the expenses and compensation of the Exchange Agent, incurred in connection with such sale of the Excess Shares. Until the net proceeds of such sale or sales have been distributed to the holders of GTE Common Stock, the Exchange Agent will hold such proceeds in trust for the holders of GTE Common Stock (the "Common Shares Trust"). The Exchange Agent shall determine the portion of the Common Shares Trust to which each holder of GTE Common Stock shall be entitled, if any, by multiplying the amount of the aggregate net proceeds comprising the Common Shares Trust by a fraction the

numerator of which is the amount of fractional share interests to which such holder of GTE Common Stock is entitled (after taking into account all shares of GTE Common Stock held at the Effective Time by such holder) and the denominator of which is the aggregate amount of fractional share interests to which all holders of GTE Common Stock are entitled.

(d) Notwithstanding the provisions of subsections (b) and (c) of this Section 2.7, GTE and Bell Atlantic may agree at their option, exercised prior to the Effective Time, in lieu of the issuance and sale of Excess Shares and the making of the payments contemplated in such subsections, that Bell Atlantic shall pay to the Exchange Agent an amount sufficient for the Exchange Agent to pay each holder of GTE Common Stock an amount in cash equal to the product obtained by multiplying (i) the fractional share interest to which such holder would otherwise be entitled (after taking into account all shares of GTE Common Stock held at the Effective Time by such holder) by (ii) the closing price for a share of Bell Atlantic Common Stock on the NYSE Composite Transaction Tape on the first business day immediately following the Effective Time, and, in such case, all references herein to the cash proceeds of the sale of the Excess Shares and similar references shall be deemed to mean and refer to the payments calculated as set forth in this subsection (d). In such event, Excess Shares shall not be issued or otherwise transferred to the Exchange Agent pursuant to Section 2.5 (a) hereof or, if previously issued, shall be returned to Bell Atlantic for cancellation.

(e) As soon as practicable after the determination of the amounts of cash, if any, to be paid to holders of GTE Common Stock with respect to any fractional share interests, the Exchange Agent shall make available such amounts, net of any required withholding, to such holders of GTE Common Stock, subject to and in accordance with the terms of Section 2.5 hereof.

(f) Any portion of the Exchange Fund and the Common Shares Trust which remains undistributed for six months after the Effective Time shall be delivered to Bell Atlantic, upon demand, and any holders of GTE Common Stock who have not theretofore complied with the provisions of this Article II shall thereafter look only to Bell Atlantic for satisfaction of their claims for Bell Atlantic Common Stock, any cash in lieu of fractional shares of Bell Atlantic Common Stock and any Pre-Surrender Dividends.

SECTION 2.8 — *Options to Purchase GTE Common Stock* (a) At the Effective Time, each option or warrant granted by GTE to purchase shares of GTE Common Stock which is outstanding and unexercised immediately prior to the Effective Time shall be assumed by Bell Atlantic and converted into an option or warrant to purchase shares of Bell Atlantic Common Stock in such amount and at such exercise price as provided below and otherwise having the same terms and conditions as are in effect immediately prior to the Effective Time (except to the extent that such terms, conditions and restrictions may be altered in accordance with their terms as a result of the transactions contemplated hereby):

(i) the number of shares of Bell Atlantic Common Stock to be subject to the new option or warrant shall be equal to the product of (x) the number of shares of GTE Common Stock subject to the original option or warrant and (y) the Exchange Ratio;

(ii) the exercise price per share of Bell Atlantic Common Stock under the new option or warrant shall be equal to (x) the exercise price per share of the GTE Common Stock under the original option or warrant divided by (y) the Exchange Ratio; and

(iii) upon each exercise of options or warrants by a holder thereof, the aggregate number of shares of Bell Atlantic Common Stock deliverable upon such exercise shall be rounded down, if necessary, to the nearest whole share and the aggregate exercise price shall be rounded up, if necessary, to the nearest cent.

The adjustments provided herein with respect to any options which are "incentive stock options" (as defined in Section 422 of the Code) shall be effected in a manner consistent with Section 424(a) of the Code.

(b) At the Effective Time, each stock appreciation right ("SAR") with respect to GTE Common Stock which is outstanding and unexercised immediately before the Effective Time shall be converted into an SAR with respect to shares of Bell Atlantic Common Stock on the same terms and conditions as are in effect immediately prior to the Effective Time, with the adjustments set forth in subsection (a) of this Section 2.8.

SECTION 2.9 — *Restricted Stock* At the Effective Time, any shares of GTE Common Stock awarded pursuant to any plan, arrangement or transaction, and outstanding immediately prior to the Effective Time shall be converted into shares of Bell Atlantic Common Stock in accordance with Section 2.2 hereof, subject to the same terms, conditions and restrictions as in effect immediately prior to the Effective Time, except to the extent that such terms, conditions and restrictions may be altered in accordance with their terms as a result of the transactions contemplated hereby.

SECTION 2.10 — *Certain Adjustments* If between the date hereof and the Effective Time, the outstanding shares of GTE Common Stock or of Bell Atlantic Common Stock shall be changed into a different number of shares by reason of any reclassification, recapitalization, split-up, combination or exchange of shares, or any dividend payable in stock or other securities shall be declared thereon with a record date within such period, the Exchange Ratio shall be adjusted accordingly to provide to the holders of GTE Common Stock and Bell Atlantic Common Stock the same economic effect as contemplated by this Agreement prior to such reclassification, recapitalization, split-up, combination, exchange or dividend.

ARTICLE III — CERTAIN ADDITIONAL MATTERS

SECTION 3.1 — *Certificate of Incorporation and Bylaws of Bell Atlantic.* At the Effective Time and subject to and upon the terms and conditions of this Agreement and the General Corporation Law of the State of Delaware ("DGCL"), Bell Atlantic shall cause the Certificate of Incorporation of Bell Atlantic and the Bylaws of Bell Atlantic to be amended and restated to incorporate the provisions set forth in Appendices I-A and I-B hereto, respectively. Such amendment and restatement of the Bell Atlantic Certificate of Incorporation and amendment and restatement of the Bell Atlantic Bylaws are referred to herein as the "Certificate Amendment" and the "Bylaws Amendment," respectively.

SECTION 3.2 — *Dividends.* Each of GTE and Bell Atlantic shall coordinate with the other the declaration of, and the setting of record dates and payment dates for, dividends on GTE Common Stock and Bell Atlantic Common Stock so that holders of GTE Common Stock do not (i) receive dividends on both GTE Common Stock and Bell Atlantic Common Stock received in connection with the Merger in respect of any calendar quarter or (ii) fail to receive a dividend on either GTE Common Stock or Bell Atlantic Common Stock received in connection with the Merger in respect of any calendar quarter.

SECTION 3.3 — *Headquarters.* GTE and Bell Atlantic agree that immediately following the Effective Time the headquarters of Bell Atlantic shall be located in New York, New York.

SECTION 3.4 — *Corporate Identity.* GTE and Bell Atlantic agree that at the Effective Time, the corporate name of Bell Atlantic shall be as shall have been agreed by the Parties.

ARTICLE IV — REPRESENTATIONS AND WARRANTIES OF GTE

Except as expressly disclosed in the GTE Filed SEC Reports (as defined below) (including all exhibits referred to therein) or as set forth in the disclosure schedule delivered by GTE to Bell Atlantic on the date hereof (the "GTE Disclosure Schedule") (each section of which qualifies the correspondingly numbered representation and warranty or covenant as specified therein), GTE hereby represents and warrants to Bell Atlantic as follows:

SECTION 4.1 — *Organization and Qualification; Subsidiaries.* Each of GTE and each of its Significant Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization. Each of the GTE Subsidiaries which is not a Significant Subsidiary is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, except for such failure which, when taken together with all other such failures, would not reasonably be expected to have a Material Adverse Effect on GTE. Each of GTE and its Subsidiaries has the

requisite corporate power and authority and any necessary governmental authority, franchise, license, certificate or permit to own, operate or lease the properties that it purports to own, operate or lease and to carry on its business as it is now being conducted, and is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of its properties owned, operated or leased or the nature of its activities makes such qualification necessary, except for such failure which, when taken together with all other such failures, would not reasonably be expected to have a Material Adverse Effect on GTE.

SECTION 4.2 — *Certificate of Incorporation and Bylaws.* GTE has heretofore furnished, or otherwise made available, to Bell Atlantic a complete and correct copy of the Certificate of Incorporation and the Bylaws, each as amended to the date hereof, of GTE. Such Certificate of Incorporation and Bylaws are in full force and effect. Neither GTE nor any of its Significant Subsidiaries is in violation of any of the provisions of its respective Certificate of Incorporation or, in any material respect, its Bylaws.

SECTION 4.3 — *Capitalization.* (a) The authorized capital stock of GTE consists of (i) 9,217,764 shares of preferred stock, par value \$50.00 per share, none of which are outstanding or reserved for issuance, (ii) 11,727,502 shares of preferred stock, no par value per share, none of which are outstanding and 700,000 of which have been reserved for issuance in accordance with the Rights Agreement (as defined below), and (iii) 2,000,000,000 shares of GTE Common Stock, of which, as of June 30, 1998, (A) 963,241,244 shares were issued and outstanding, (B) 25,658,980 shares were held in the treasury of GTE, (C) not more than 50,000,000 shares were issuable upon the exercise of options outstanding under the GTE option plans, and (D) 31,603,945 shares were reserved for issuance in connection with other GTE Plans (as defined in Section 4.11(b) below). Except for GTE Equity Rights issued to GTE employees in the ordinary course of business or, after the date hereof, as permitted by Section 6.2 hereof or pursuant to the Bell Atlantic Option Agreement, (i) since June 30, 1998, no shares of GTE Common Stock have been issued, except upon the exercise of options described in the immediately preceding sentence, and (ii) there are no outstanding GTE Equity Rights. For purposes of this Agreement, "GTE Equity Rights" shall mean subscriptions, options, warrants, calls, commitments, agreements, conversion rights or other rights of any character (contingent or otherwise) to purchase or otherwise acquire any shares of the capital stock of GTE from GTE or any of GTE's Subsidiaries at any time, or upon the happening of any stated event, except for rights granted under the Rights Agreement, dated as of December 7, 1989 (the "GTE Rights Agreement"), between GTE and the Rights Agent (as defined therein), and the Bell Atlantic Option Agreement. Section 4.3 of the GTE Disclosure Schedule sets forth a complete and accurate list of certain information with respect to all outstanding GTE Equity Rights as of June 30, 1998.

(b) Except as set forth in Section 4.3 of the GTE Disclosure Schedule, pursuant to the Bell Atlantic Option Agreement, or, after the date hereof, as permitted by Section 6.2

hereof, there are no outstanding obligations of GTE or any of GTE's Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of GTE.

(c) All of the issued and outstanding shares of GTE Common Stock are validly issued, fully paid and nonassessable.

(d) All of the outstanding capital stock of each of GTE's Significant Subsidiaries, and all of the outstanding capital stock of GTE's Subsidiaries owned directly or indirectly by GTE, is duly authorized, validly issued, fully paid and nonassessable. All of the outstanding capital stock of each of GTE's Significant Subsidiaries is owned by GTE free and clear of any liens, security interests, pledges, agreements, claims, charges or encumbrances. All of the outstanding capital stock of GTE's Subsidiaries owned directly or indirectly by GTE is owned free and clear of any liens, security interests, pledges, agreements, claims, charges or encumbrances, except where such liens, security interests, pledges, agreements, claims, charges or encumbrances would not, individually or in the aggregate, have a Material Adverse Effect on GTE. Except as hereafter issued or entered into in accordance with Section 6.2 hereof, there are no existing subscriptions, options, warrants, calls, commitments, agreements, conversion rights or other rights of any character (contingent or otherwise) to purchase or otherwise acquire from GTE or any of GTE's Subsidiaries at any time, or upon the happening of any stated event, any shares of the capital stock of any GTE Subsidiary, whether or not presently issued or outstanding (except for rights of first refusal to purchase interests in Subsidiaries which are not wholly owned by GTE), or any of GTE's direct or indirect interests in any Material Investment, and there are no outstanding obligations of GTE or any of GTE's Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of any of GTE's Subsidiaries or securities related to any investments, other than such as would not, individually or in the aggregate, have a Material Adverse Effect on GTE.

SECTION 4.4 — *Authority Relative to this Agreement.* GTE has the necessary corporate power and authority to enter into this Agreement and, subject to obtaining the requisite approval of the Merger Agreement by GTE's stockholders required by the NYBCL (the "GTE Stockholder Approval"), to perform its obligations hereunder. The execution and delivery of this Agreement by GTE, and the consummation by GTE of the transactions contemplated hereby, have been duly authorized by all necessary corporate action on the part of GTE, subject to obtaining the GTE Stockholder Approval. This Agreement has been duly executed and delivered by GTE and, assuming the due authorization, execution and delivery thereof by each of Bell Atlantic and Merger Subsidiary, constitutes a legal, valid and binding obligation of GTE, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the rights and remedies of creditors generally and to general principles of equity (regardless of whether considered in a proceeding in equity or at law).

SECTION 4.5 — *No Conflict; Required Filings and Consents.* (a) Except as described in subsection (b) below, the execution and delivery of this Agreement by GTE do not, and the performance of this Agreement by GTE will not, (i) violate or conflict with the Certificate of Incorporation or Bylaws of GTE, (ii) conflict with or violate any law, regulation, court order, judgment or decree applicable to GTE or any of its Subsidiaries or by which any of their respective property or assets (including investments) is bound or affected, (iii) violate or conflict with the Certificate of Incorporation or Bylaws of any of GTE's Subsidiaries, (iv) result in any breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination or cancellation of, or result in the creation of a lien or encumbrance on any of the properties or assets (including investments) of GTE or any of its Subsidiaries pursuant to, result in the loss of any material benefit under, or result in any modification or alteration of, or require the consent of any other party to, any contract, instrument, permit, license or franchise to which GTE or any of its Subsidiaries is a party or by which GTE, any of such Subsidiaries or any of their respective property or assets (including investments) is bound or affected, except, in the case of clauses (ii), (iii), and (iv) above, for conflicts, violations, breaches, defaults, results or consents which, individually or in the aggregate, would not have a Material Adverse Effect on GTE.

(b) Except for applicable requirements, if any, of state or foreign public utility commissions or laws or similar local or state or foreign regulatory bodies or laws, state or foreign antitrust or foreign investment laws and commissions, the Federal Communications Commission, stock exchanges upon which securities of GTE are listed, the Exchange Act, the premerger notification requirements of the HSR Act, filing and recordation of appropriate merger or other documents as required by the NYBCL and any filings required pursuant to any state securities or "blue sky" laws or the rules of any applicable stock exchanges, (i) neither GTE nor any of its Significant Subsidiaries is required to submit any notice, report or other filing with any federal, state, local or foreign government, any court, administrative, regulatory or other governmental agency, commission or authority or any non-governmental U.S. or foreign self-regulatory agency, commission or authority or any arbitral tribunal (each, a "Governmental Entity") in connection with the execution, delivery or performance of this Agreement and (ii) no waiver, consent, approval or authorization of any Governmental Entity is required to be obtained by GTE or any of its Significant Subsidiaries in connection with its execution, delivery or performance of this Agreement.

SECTION 4.6 — *SEC Filings; Financial Statements.* (a) GTE has filed all forms, reports and documents required to be filed with the Securities and Exchange Commission ("SEC") since January 1, 1995, and has heretofore delivered or made available to Bell Atlantic, in the form filed with the SEC, together with any amendments thereto, its (i) Annual Reports on Form 10-K for the fiscal years ended December 31, 1995, 1996 and 1997, (ii) all proxy statements relating to GTE's meetings of stockholders (whether annual or special) held since January 1, 1995, (iii) Quarterly Report on Form 10-Q for the fiscal quarter ended March

31, 1998, and (iv) all other reports or registration statements filed by GTE with the SEC since January 1, 1995, including without limitation all Annual Reports on Form 11-K filed with respect to the GTE Plans (collectively, the "GTE SEC Reports", with such GTE SEC Reports filed with the SEC prior to the date hereof being referred to as "GTE Filed SEC Reports"). The GTE SEC Reports (i) were prepared substantially in accordance with the requirements of the 1933 Act or the Exchange Act (as defined in Section 10.4 hereof), as the case may be, and the rules and regulations promulgated under each of such respective acts, and (ii) did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) The financial statements, including all related notes and schedules, contained in the GTE SEC Reports (or incorporated by reference therein) fairly present the consolidated financial position of GTE and its Subsidiaries as at the respective dates thereof and the consolidated results of operations and cash flows of GTE and its Subsidiaries for the periods indicated in accordance with GAAP applied on a consistent basis throughout the periods involved (except for changes in accounting principles disclosed in the notes thereto) and subject in the case of interim financial statements to normal year-end adjustments.

SECTION 4.7 — *Absence of Certain Changes or Events.* Except as disclosed in the GTE Filed SEC Reports and in Section 4.7 of the GTE Disclosure Schedule, since December 31, 1997, and except as permitted by this Agreement or consented to hereunder, GTE and its Subsidiaries have not incurred any material liability required to be disclosed on a balance sheet of GTE and its Subsidiaries or the footnotes thereto prepared in conformity with GAAP, except in the ordinary course of their businesses consistent with their past practices, and there has not been any change, or any event involving a prospective change, in the business, financial condition or results of operations of GTE or any of its Subsidiaries which has had, or is reasonably likely to have, a Material Adverse Effect on GTE, and GTE and its Subsidiaries have conducted their respective businesses in the ordinary course consistent with their past practices.

SECTION 4.8 — *Litigation.* There are no claims, actions, suits, proceedings or investigations pending or, to GTE's knowledge, threatened against GTE or any of its Subsidiaries, or any properties or rights of GTE or any of its Subsidiaries, by or before any Governmental Entity, except for those that are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on GTE or prevent, materially delay or intentionally delay the ability of GTE to consummate transactions contemplated hereby.

SECTION 4.9 — *Permits; No Violation of Law.* The businesses of GTE and its Subsidiaries are not being conducted in violation of any statute, law, ordinance, regulation, judgment, order or decree of any Governmental Entity (including any stock exchange or other self-regulatory body) ("Legal Requirements"), or in violation of any permits, franchises,

licenses, authorizations, certificates, variances, exemptions, orders, registrations or consents that are granted by any Governmental Entity (including any stock exchange or other self-regulatory body) ("Permits"), except for possible violations none of which, individually or in the aggregate, may reasonably be expected to have a Material Adverse Effect on GTE. No investigation or review by any Governmental Entity (including any stock exchange or other self-regulatory body) with respect to GTE or its Subsidiaries in relation to any alleged violation of law or regulation is pending or, to GTE's knowledge, threatened, nor has any Governmental Entity (including any stock exchange or other self-regulatory body) indicated an intention to conduct the same, except for such investigations which, if they resulted in adverse findings, would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on GTE. Except as set forth in Section 4.9 of the GTE Disclosure Schedule, neither GTE nor any of its Subsidiaries is subject to any cease and desist or other order, judgment, injunction or decree issued by, or is a party to any written Agreement, consent Agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or has adopted any board resolutions at the request of, any Governmental Entity that materially restricts the conduct of its business or which may reasonably be expected to have a Material Adverse Effect on GTE, nor has GTE or any of its Subsidiaries been advised that any Governmental Entity is considering issuing or requesting any of the foregoing. None of the representations and warranties made in this Section 4.9 are being made with respect to Environmental Laws.

SECTION 4.10 — *Joint Proxy Statement.* None of the information supplied or to be supplied by or on behalf of GTE for inclusion or incorporation by reference in the registration statement to be filed with the SEC by Bell Atlantic in connection with the issuance of shares of Bell Atlantic Common Stock in the Merger (the "Registration Statement") will, at the time the Registration Statement becomes effective under the 1933 Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. None of the information supplied or to be supplied by or on behalf of GTE for inclusion or incorporation by reference in the joint proxy statement, in definitive form, relating to the meetings of GTE and Bell Atlantic stockholders to be held in connection with the Merger, or in the related proxy and notice of meeting, or soliciting material used in connection therewith (referred to herein collectively as the "Joint Proxy Statement") will, at the dates mailed to stockholders and at the times of the GTE stockholders' meeting and the Bell Atlantic stockholders' meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Registration Statement and the Joint Proxy Statement (except for information relating solely to Bell Atlantic) will comply as to form in all material respects with the provisions of the 1933 Act and the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 4.11 — *Employee Matters; ERISA.* (a) Except where the failure to be true would not, individually or in the aggregate, have a Material Adverse Effect on GTE, (i) each GTE Plan has been operated and administered in accordance with applicable law, including but not limited to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code, (ii) each GTE Plan intended to be "qualified" within the meaning of Section 401(a) of the Code is so qualified, (iii) except as required by COBRA, no GTE Plan provides death or medical benefits (whether or not insured), with respect to current or former employees of GTE or of any trade or business, whether or not incorporated, which together with GTE would be deemed a "single employer" within the meaning of Section 4001 of ERISA (a "GTE ERISA Affiliate"), beyond their retirement or other termination of service, (iv) no liability under Title IV of ERISA has been incurred by GTE or any GTE ERISA Affiliate that has not been satisfied in full, and no condition exists that presents a material risk to GTE or any GTE ERISA Affiliate of incurring any such liability (other than PBGC premiums), (v) all contributions or other amounts due from GTE or any GTE ERISA Affiliate with respect to each GTE Plan have been paid in full, (vi) neither GTE nor any GTE ERISA Affiliate has engaged in a transaction in connection with which GTE or any of its Subsidiaries could reasonably be expected to be subject to either a civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a tax imposed pursuant to Section 4975 or 4976 of the Code, (vii) to the best knowledge of GTE there are no pending, threatened or anticipated claims (other than routine claims for benefits) by, on behalf of or against any GTE Plan or any trusts related thereto, and (viii) neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (A) result in any payment (including, without limitation, severance, unemployment compensation, golden parachute or otherwise) becoming due to any director or any employee of GTE or any of its Subsidiaries under any GTE Plan or otherwise, (B) materially increase any benefits otherwise payable under any GTE Plan or (C) result in any acceleration of the time of payment or vesting of any such benefits.

(b) For purposes of this Agreement, "GTE Plan" shall mean each deferred compensation, bonus or other incentive compensation, stock purchase, stock option or other equity compensation plan, program, agreement or arrangement; each severance or termination pay, medical, surgical, hospitalization, life insurance or other "welfare" plan, fund or program (within the meaning of section 3(1) of ERISA); each profit-sharing, stock bonus or other "pension" plan, fund or program (within the meaning of section 3(2) of ERISA); each employment, termination or severance agreement; and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by GTE or by any GTE ERISA Affiliate or to which GTE or any GTE ERISA Affiliate is party, whether written or oral, for the benefit of any employee or former employee of GTE or any GTE ERISA Affiliate.

SECTION 4.12 — *Labor Matters.* Neither GTE nor any of its Subsidiaries is the subject of any material proceeding asserting that it or any of its Subsidiaries has committed

an unfair labor practice or is seeking to compel it to bargain with any labor union or labor organization nor is there pending or, to the actual knowledge of its executive officers, threatened in writing, nor has there been for the past five years, any labor strike, dispute, walkout, work stoppage, slow-down or lockout involving it or any of its Subsidiaries, except in each case as is not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on GTE.

SECTION 4.13 — *Environmental Matters.* Except for such matters that, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect on GTE: (i) each of GTE and its Subsidiaries has complied with all applicable Environmental Laws (as defined below); (ii) the properties currently owned or operated by it or any of its Subsidiaries (including soils, groundwater, surface water, buildings or other structures) are not contaminated with any Hazardous Substances (as defined below); (iii) the properties formerly owned or operated by it or any of its Subsidiaries were not contaminated with Hazardous Substances during the period of ownership or operation by it or any of its Subsidiaries; (iv) neither it nor any of its Subsidiaries is subject to liability for any Hazardous Substance disposal or contamination on any third party property; (v) neither it nor any Subsidiary has been associated with any release or threat of release of any Hazardous Substance; (vi) neither it nor any Subsidiary has received any notice, demand, letter, claim or request for information alleging that it or any of its Subsidiaries may be in violation of or liable under any Environmental Law (including any claims relating to electromagnetic fields or microwave transmissions); (vii) neither it nor any of its Subsidiaries is subject to any orders, decrees, injunctions or other arrangements with any Governmental Entity or is subject to any indemnity or other agreement with any third party relating to liability under any Environmental Law or relating to Hazardous Substances; and (viii) there are not circumstances or conditions involving it or any of its Subsidiaries that could reasonably be expected to result in any claims, liability, investigations, costs or restrictions on the ownership, use, or transfer of any of its properties pursuant to any Environmental Law.

As used herein and in Section 5.13, the term "Environmental Law" means any law relating to: (A) the protection, investigation or restoration of the environment, health, safety, or natural resources, (B) the handling, use, presence, disposal, release or threatened release of any Hazardous Substance or (C) noise, odor, wetlands, pollution, contamination or any injury or threat of injury to persons or property in connection with any Hazardous Substance.

As used herein and in Section 5.13, the term "Hazardous Substance" means any substance that is: listed, classified or regulated pursuant to any Environmental Law, including any petroleum product or by-product, asbestos-containing material, lead-containing paint or plumbing, polychlorinated biphenyls, radioactive materials or radon.

SECTION 4.14 — *Board Action; Vote Required; Applicability of Section 912.* (a) The Board of Directors of GTE has unanimously determined that the transactions contemplated by this Agreement and the Option Agreements are in the best interests of GTE and its stockholders and has resolved to recommend to such stockholders that they vote in favor thereof.

(b) The approval of the Merger Agreement by two-thirds of the votes of all outstanding shares entitled to vote thereon by all holders of GTE Common Stock is the only vote of the holders of any class or series of the capital stock of GTE required to approve this Agreement, the Merger and the other transactions contemplated hereby. The provisions of Section 11.A of the Certificate of Incorporation of GTE will not apply to the transactions contemplated by this Agreement and the Option Agreements.

(c) The provisions of Section 912 of the NYBCL will not, assuming the accuracy of the representations contained in Section 5.20 hereof (without giving effect to the knowledge qualification therein), apply to this Agreement or any of the transactions contemplated hereby.

SECTION 4.15 — *Opinions of Financial Advisors.* GTE has received the opinions of Goldman, Sachs & Co. ("Goldman Sachs"), and Salomon Smith Barney Inc. ("Salomon Smith Barney"), each dated July 27, 1998, to the effect that, as of such date, the Exchange Ratio is fair from a financial point of view to the holders of GTE Common Stock.

SECTION 4.16 — *Brokers.* Except for Goldman Sachs, Salomon Smith Barney and Chase Securities Inc., the arrangements with which have been disclosed to Bell Atlantic prior to the date hereof, which have been engaged by GTE, no broker, finder or investment banker is entitled to any brokerage, finder's, investment banking or other fee or commission in connection with the transactions contemplated by this Agreement and the Option Agreements based upon arrangements made by or on behalf of GTE or any of its Subsidiaries.

SECTION 4.17 — *Tax Matters.* Except as set forth in Section 4.17 of the GTE Disclosure Schedule:

(a) All material federal, state, local and foreign Tax Returns (as defined herein) required to have been filed by GTE or its Subsidiaries have been filed with the appropriate governmental authorities by the due date thereof including extensions;

(b) The Tax Returns referred to in subpart (a) of this Section 4.17 correctly and completely reflect all material Tax liabilities of GTE and its Subsidiaries required to be shown thereon;

(c) All material Taxes (as defined herein) shown as due on those Tax Returns referred to in subpart (a) of this Section 4.17 as well as any material foreign withholding

Taxes imposed on or in respect of any amounts paid to or by GTE or any of its Subsidiaries, whether or not such amounts or withholding Taxes are referred to or shown on any Tax Returns referred to in Section 4.17 (a) hereof, have been fully paid or adequately reflected as a liability on GTE's or its Subsidiaries' financial statements included in the GTE SEC Reports;

(d) With respect to any period for which Tax Returns have not yet been filed, or for which Taxes are not yet due or owing, GTE and its Subsidiaries have made due and sufficient accruals for such Taxes in their respective books and records and financial statements;

(e) Neither GTE nor any of its affiliates has taken, agreed to take or omitted to take any action that would prevent or impede the Merger from qualifying as a tax-free reorganization under Section 368 of the Code;

(f) No deficiencies for any Taxes have been proposed, asserted or assessed against GTE or any of its Subsidiaries that are not adequately reserved for under GAAP, except for deficiencies that individually or in the aggregate would not have a Material Adverse Effect on GTE;

(g) GTE is not aware of any material liens for Taxes upon any assets of GTE or any of its Subsidiaries apart from liens for Taxes not yet due and payable; and

(h) As used in this Agreement, "Taxes" shall include all (x) federal, state, local or foreign income, property, sales, excise, use, occupation, service, transfer, payroll, franchise, withholding and other taxes or similar governmental charges, fees, levies or other assessments including any interest, penalties or additions with respect thereto, (y) liability for the payment of any amounts of the type described in clause (x) as a result of being a member of an affiliated, consolidated, combined or unitary group, and (z) liability for the payment of any amounts as a result of being party to any tax sharing agreement or as a result of any express or implied obligation to indemnify any other person with respect to the payment of any amounts of the type described in clause (x) or (y). As used in this Agreement, "Tax Return" shall include any declaration, return, report, schedule, certificate, statement or other similar document (including relating or supporting information) required to be filed or, where none is required to be filed with a taxing authority, the statement or other document issued by a taxing authority in connection with any Tax, including any information return, claim for refund, amended return or declaration of estimated Tax.

SECTION 4.18 — *Intellectual Property; Year 2000.*

(a) As used in this Agreement, "GTE Intellectual Property" means all of the following which are necessary to conduct the business of GTE and its Subsidiaries as presently conducted or as currently proposed to be conducted: (i) trademarks, trade dress, service

marks, copyrights, logos, trade names, corporate names and all registrations and applications to register the same; (ii) patents and pending patent applications; (iii) all computer software programs, databases and compilations (collectively, "Computer Software"); (iv) all technology, know-how and trade secrets; and (v) all material licenses and agreements to which GTE or any of its Subsidiaries is a party which relate to any of the foregoing.

(b) GTE or its Subsidiaries owns or has the right to use, sell or license all GTE Intellectual Property, free and clear of all liens or encumbrances, and all registrations of GTE Intellectual Property are valid and enforceable and have been duly recorded and maintained, except, in each case, as would not, individually or in the aggregate, have a Material Adverse Effect on GTE.

(c) To the knowledge of GTE, the conduct of GTE's and its Subsidiaries' business and the use of the GTE Intellectual Property does not materially infringe, violate or misuse any intellectual property rights or any other proprietary right of any person or give rise to any obligations to any person as a result of co-authorship, and neither GTE nor any of its Subsidiaries has received any notice, not satisfactorily resolved, of any claims or threats that GTE's or its Subsidiaries' use of any of the GTE Intellectual Property materially infringes, violates or misuses, or is otherwise in conflict with any intellectual property or proprietary rights of any third party or that any of the GTE Intellectual Property is invalid or unenforceable that would, individually or in the aggregate, have a Material Adverse Effect on GTE.

(d) GTE and its Subsidiaries have used reasonable efforts to maintain the confidentiality of their trade secrets and other confidential GTE Intellectual Property.

(e) GTE has undertaken a concerted effort to ensure that all of the Computer Software, computer firmware, computer hardware (whether general or special purpose), and other similar or related items of automated, computerized, and/or software system(s) that are to be used or relied on by GTE or by any of its Subsidiaries in the conduct of their respective businesses will not malfunction, will not cease to function, will not generate incorrect data, and will not provide incorrect results when processing, providing and/or receiving (i) date-related data into and between the twentieth and twenty-first centuries and (ii) date-related data in connection with any valid date in the twentieth and twenty-first centuries. GTE reasonably believes that such effort will be successful.

SECTION 4.19 — Insurance. Except as set forth in Section 4.19 of the GTE Disclosure Schedule, each of GTE and each of its Significant Subsidiaries is, and has been continuously since January 1, 1987 (or such later date as such Significant Subsidiary was organized or acquired by GTE), insured with financially responsible insurers in such amounts and against such risks and losses as are customary for companies conducting the business as conducted by GTE and its Subsidiaries during such time period. Except as set forth in Section 4.19 of the GTE Disclosure Schedule, since January 1, 1995, neither GTE nor any of its

Subsidiaries has received notice of cancellation or termination with respect to any material insurance policy of GTE or its Subsidiaries. The insurance policies of GTE and its Subsidiaries are valid and enforceable policies.

SECTION 4.20 — *Ownership of Securities.* As of the date hereof, neither GTE nor, to GTE's knowledge, any of its affiliates or associates (as such terms are defined under the Exchange Act), (i) beneficially owns, directly or indirectly, or (ii) is party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, shares of capital stock of Bell Atlantic, which in the aggregate represent 10% or more of the outstanding shares of Bell Atlantic Common Stock (other than shares held by GTE Plans and the Bell Atlantic Option Agreement).

SECTION 4.21 — *Certain Contracts.* (a) All contracts described in Item 601(b)(10) of Regulation S-K to which GTE or its Subsidiaries is a party or may be bound ("GTE Contracts") have been filed as exhibits to, or incorporated by reference in, GTE's Annual Report on Form 10-K for the year ended December 31, 1997. All GTE Contracts are valid and in full force and effect on the date hereof except to the extent they have previously expired in accordance with their terms or if the failure to be in full force and effect, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect on GTE. Neither GTE nor any of its Subsidiaries has violated any provision of, or committed or failed to perform any act which with or without notice, lapse of time or both would constitute a default under the provisions of, any GTE Contract, except in each case for those GTE Contracts which, individually and in the aggregate, would not reasonably be expected to result in a Material Adverse Effect on GTE.

(b) Set forth in Section 4.21 of the GTE Disclosure Schedule is a list of each contract, agreement or arrangement to which GTE or any of its Subsidiaries is a party or may be bound which is an arrangement limiting or restraining Bell Atlantic, GTE, any Bell Atlantic or GTE Subsidiary or any successor thereto from engaging or competing in any business which has, or could reasonably be expected to have in the foreseeable future, a Material Adverse Effect on GTE, or to GTE's knowledge, on Bell Atlantic.

SECTION 4.22 — *Rights Agreement.* (a) Neither Bell Atlantic nor Merger Subsidiary shall be deemed to be an Acquiring Person (as such term is defined in the Rights Agreement) and the Distribution Date (as defined in the Rights Agreement) shall not be deemed to occur and the Rights will not separate from GTE Common Stock, as a result of entering into this Agreement or the Option Agreements or consummating the Merger and/or the other transactions contemplated hereby or thereby.

(b) GTE has taken all necessary action with respect to all of the outstanding Rights (as defined in the Rights Agreement) so that, as of immediately prior to the Effective Time, as a result of entering into this Agreement or consummating the Merger and/or the other

transactions contemplated by this Agreement and the Option Agreements, (i) neither GTE nor Bell Atlantic will have any obligations under the Rights or the Rights Agreement and (ii) the holders of the Rights will have no rights under the Rights or the Rights Agreement.

ARTICLE V — REPRESENTATIONS AND WARRANTIES OF BELL ATLANTIC

Except as expressly disclosed in the Bell Atlantic Filed SEC Reports (as defined below) (including all exhibits referred to therein) or as set forth in the disclosure schedule delivered by Bell Atlantic to GTE on the date hereof (the "Bell Atlantic Disclosure Schedule" and together with the GTE Disclosure Schedule, the "Disclosure Schedules") (each section of which qualifies the correspondingly numbered representation and warranty or covenant as specified therein), Bell Atlantic hereby represents and warrants to GTE as follows:

SECTION 5.1 — *Organization and Qualification; Subsidiaries.* Each of Bell Atlantic and each of its Significant Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization. Each of the Bell Atlantic Subsidiaries which is not a Significant Subsidiary is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, except for such failure which, when taken together with all other such failures, would not reasonably be expected to have a Material Adverse Effect on Bell Atlantic. Each of Bell Atlantic and its Subsidiaries has the requisite corporate power and authority and any necessary governmental authority, franchise, license or permit to own, operate or lease the properties that it purports to own, operate or lease and to carry on its business as it is now being conducted, and is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of its properties owned, operated or leased or the nature of its activities makes such qualification necessary, except for such failure which, when taken together with all other such failures, would not reasonably be expected to have a Material Adverse Effect on Bell Atlantic.

SECTION 5.2 — *Certificate of Incorporation and Bylaws.* Bell Atlantic has heretofore furnished, or otherwise made available, to GTE a complete and correct copy of the Certificate of Incorporation and the Bylaws, each as amended to the date hereof, of Bell Atlantic. Such Certificate of Incorporation and Bylaws are in full force and effect. Neither Bell Atlantic nor any of its Significant Subsidiaries is in violation of any of the provisions of its respective Certificate of Incorporation or, in any material respect, its Bylaws.

SECTION 5.3 — *Capitalization.* (a) The authorized capital stock of Bell Atlantic consists of (i) 250,000,000 shares of Series A Preferred Stock, par value \$.10 per share, none of which are outstanding or reserved for issuance, and (ii) 2,250,000,000 shares of Bell Atlantic Common Stock, of which, as of June 30, 1998, (A) 1,553,473,710 shares were issued

and outstanding, (B) 22,722,614 shares were held in the treasury of Bell Atlantic and (C) 80,392,512 shares were issuable upon the exercise of options outstanding under the Bell Atlantic option plans listed in Section 5.3 of the Bell Atlantic Disclosure Schedule. Except for Bell Atlantic Equity Rights issued to Bell Atlantic employees in the ordinary course of business or, after the date hereof, as permitted by Section 6.2 hereof or pursuant to the Bell Atlantic Option Agreement, (i) since June 30, 1998, no shares of Bell Atlantic Common Stock have been issued, except upon the exercise of options and rights described in the immediately preceding sentence, and (ii) there are no outstanding Bell Atlantic Equity Rights. For purposes of this Agreement, "Bell Atlantic Equity Rights" shall mean subscriptions, options, warrants, calls, commitments, agreements, conversion rights or other rights of any character (contingent or otherwise) to purchase or otherwise acquire, any shares of the capital stock of Bell Atlantic from Bell Atlantic or any of Bell Atlantic's Subsidiaries at any time, or upon the happening of any stated event, excluding the GTE Stock Option. Section 5.3 of the Bell Atlantic Disclosure Schedule sets forth a complete and accurate list of certain information with respect to all outstanding Bell Atlantic Equity Rights as of June 30, 1998.

(b) Except as set forth in Section 5.3 of the Bell Atlantic Disclosure Schedule, pursuant to the GTE Stock Option or, after the date hereof, as permitted by Section 6.2 hereof, there are no outstanding obligations of Bell Atlantic or any of Bell Atlantic's Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of Bell Atlantic.

(c) All of the issued and outstanding shares of Bell Atlantic Common Stock are validly issued, fully paid and nonassessable.

(d) All of the outstanding capital stock of each of Bell Atlantic's Significant Subsidiaries, and all of the outstanding capital stock of Bell Atlantic's Subsidiaries owned directly or indirectly by Bell Atlantic, is duly authorized, validly issued, fully paid and nonassessable. All of the outstanding capital stock of each of Bell Atlantic's Significant Subsidiaries is owned by Bell Atlantic free and clear of any liens, security interests, pledges, agreements, claims, charges or encumbrances. All of the outstanding capital stock of Bell Atlantic's Subsidiaries owned directly or indirectly by Bell Atlantic is owned free and clear of any liens, security interests, pledges, agreements, claims, charges or encumbrances, except where such liens, security interests, pledges, agreements, claims, charges or encumbrances would not, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic. Except as hereafter issued or entered into in accordance with Section 6.2 hereof, there are no existing subscriptions, options, warrants, calls, commitments, agreements, conversion rights or other rights of any character (contingent or otherwise) to purchase or otherwise acquire from Bell Atlantic or any of Bell Atlantic's Subsidiaries at any time, or upon the happening of any stated event, any shares of the capital stock of any Bell Atlantic Subsidiary, whether or not presently issued or outstanding (except for rights of first refusal to purchase interests in Subsidiaries which are not wholly owned by Bell Atlantic), or any of GTE's direct or indirect interests in any Material Investment, and there are no outstanding obligations of Bell

Atlantic or any of Bell Atlantic's Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of any of Bell Atlantic's Subsidiaries or securities related to any investments, other than such as would not, individually or in the aggregate, have a Material Adverse Effect on GTE.

SECTION 5.4 — *Authority Relative to this Agreement.* Bell Atlantic has the necessary corporate power and authority to enter into this Agreement and, subject to obtaining the requisite stockholder approval of the issuance (the "Stock Issuance") of Bell Atlantic Common Stock pursuant to the Merger Agreement and the Certificate Amendment (collectively, the "Bell Atlantic Stockholder Approval"), to perform its obligations hereunder. The execution and delivery of this Agreement by Bell Atlantic and the consummation by Bell Atlantic of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Bell Atlantic, subject to obtaining the Bell Atlantic Stockholder Approval. This Agreement has been duly executed and delivered by Bell Atlantic and, assuming the due authorization, execution and delivery thereof by the other Parties, constitutes a legal, valid and binding obligation of Bell Atlantic, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the rights and remedies of creditors generally and to general principles of equity (regardless of whether considered in a proceeding in equity or at law).

SECTION 5.5 — *No Conflict; Required Filings and Consents.* (a) Except as described in subsection (b) below, the execution and delivery of this Agreement by Bell Atlantic do not, and the performance of this Agreement by Bell Atlantic will not, (i) violate or conflict with the Certificate of Incorporation or Bylaws of Bell Atlantic, (ii) conflict with or violate any law, regulation, court order, judgment or decree applicable to Bell Atlantic or any of its Subsidiaries or by which any of their respective property or assets (including investments) is bound or affected, (iii) violate or conflict with the Certificate of Incorporation or Bylaws of any of Bell Atlantic's Subsidiaries, or (iv) result in any breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination or cancellation of, or result in the creation of a lien or encumbrance on any of the properties or assets (including investments) of Bell Atlantic or any of its Subsidiaries pursuant to, result in the loss of any material benefit under, or result in any modification or alteration of, or require the consent of any other party to, any contract, instrument, permit, license or franchise to which Bell Atlantic or any of its Subsidiaries is a party or by which Bell Atlantic, any of such Subsidiaries or any of their respective property or assets (including investments) is bound or affected, except, in the case of clauses (ii), (iii) and (iv) above, for conflicts, violations, breaches, defaults, results or consents which, individually or in the aggregate, would not have a Material Adverse Effect on Bell Atlantic.

(b) Except for applicable requirements, if any, of state or foreign public utility commissions or laws or similar local or state foreign regulatory bodies or laws, state or foreign antitrust or foreign investment laws and commissions, the Federal Communications

Commission, stock exchanges upon which the securities of Bell Atlantic are listed, the Exchange Act, the premerger notification requirements of the HSR Act, filing and recordation of appropriate merger or other documents as required by the NYBCL and any filings required pursuant to any state securities or "blue sky" laws or the rules of any applicable stock exchanges, (i) neither Bell Atlantic nor any of its Significant Subsidiaries is required to submit any notice, report or other filing with any Governmental Entity in connection with the execution, delivery or performance of this Agreement and (ii) no waiver, consent, approval or authorization of any Governmental Entity is required to be obtained by Bell Atlantic or any of its Significant Subsidiaries in connection with its execution, delivery or performance of this Agreement

SECTION 5.6 — SEC Filings; Financial Statements. (a) Bell Atlantic has filed all forms, reports and documents required to be filed with the SEC since January 1, 1995, and has heretofore delivered or made available to GTE, in the form filed with the SEC, together with any amendments thereto, its (i) Annual Reports on Form 10-K for the fiscal years ended December 31, 1995, 1996 and 1997, (ii) all proxy statements relating to Bell Atlantic's meetings of stockholders (whether annual or special) held since January 1, 1995, (iii) Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1998, and (iv) all other reports or registration statements filed by Bell Atlantic with the SEC since January 1, 1995, including without limitation all Annual Reports on Form 11-K filed with respect to the Bell Atlantic Plans (collectively, the "Bell Atlantic SEC Reports", with such Bell Atlantic SEC Reports filed with the SEC prior to the date hereof being referred to as "Bell Atlantic Filed SEC Reports"). The Bell Atlantic SEC Reports (i) were prepared substantially in accordance with the requirements of the 1933 Act or the Exchange Act, as the case may be, and the rules and regulations promulgated under each of such respective acts, and (ii) did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) The financial statements, including all related notes and schedules, contained in the Bell Atlantic SEC Reports (or incorporated by reference therein) fairly present the consolidated financial position of Bell Atlantic and its Subsidiaries as at the respective dates thereof and the consolidated results of operations and cash flows of Bell Atlantic and its Subsidiaries for the periods indicated in accordance with GAAP applied on a consistent basis throughout the periods involved (except for changes in accounting principles disclosed in the notes thereto) and subject in the case of interim financial statements to normal year-end adjustments.

SECTION 5.7 — Absence of Certain Changes or Events. Except as disclosed in the Bell Atlantic Filed SEC Reports and in Section 5.7 of the Bell Atlantic Disclosure Schedule, since December 31, 1997, and except as permitted by this Agreement or consented to hereunder, Bell Atlantic and its Subsidiaries have not incurred any material liability required

to be disclosed on a balance sheet of Bell Atlantic and its Subsidiaries or the footnotes thereto prepared in conformity with GAAP, except in the ordinary course of their businesses consistent with their past practices, and there has not been any change, or any event involving a prospective change, in the business, financial condition or results of operations of Bell Atlantic or any of its Subsidiaries which has had, or is reasonably likely to have, a Material Adverse Effect on Bell Atlantic, and Bell Atlantic and its Subsidiaries have conducted their respective businesses in the ordinary course consistent with their past practices.

SECTION 5.8 — *Litigation.* There are no claims, actions, suits, proceedings or investigations pending or, to Bell Atlantic's knowledge, threatened against Bell Atlantic or any of its Subsidiaries, or any properties or rights of Bell Atlantic or any of its Subsidiaries, by or before any Governmental Entity, except for those that are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on Bell Atlantic or prevent, materially delay or intentionally delay the ability of GTE to consummate the transactions contemplated hereby.

SECTION 5.9 — *Permits; No Violation of Law.* The businesses of Bell Atlantic and its Subsidiaries are not being conducted in violation of any Legal Requirements or in violation of any Permits, except for possible violations none of which, individually or in the aggregate, may reasonably be expected to have a Material Adverse Effect on Bell Atlantic. No investigation or review by any Governmental Entity (including any stock exchange or other self-regulatory body) with respect to Bell Atlantic or its Subsidiaries in relation to any alleged violation of law or regulation is pending or, to Bell Atlantic's knowledge, threatened, nor has any Governmental Entity (including any stock exchange or other self-regulatory body) indicated an intention to conduct the same, except for such investigations which, if they resulted in adverse findings, would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Bell Atlantic. Except as set forth in Section 5.9 of the Bell Atlantic Disclosure Schedule, neither Bell Atlantic nor any of its Subsidiaries is subject to any cease and desist or other order, judgment, injunction or decree issued by, or is a party to any written Agreement, consent Agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or has adopted any board resolutions at the request of, any Governmental Entity that materially restricts the conduct of its business or which may reasonably be expected to have a Material Adverse Effect on Bell Atlantic, nor has Bell Atlantic or any of its Subsidiaries been advised that any Governmental Entity is considering issuing or requesting any of the foregoing. None of the representations and warranties made in this Section 5.9 are being made with respect to Environmental Laws.

SECTION 5.10 — *Joint Proxy Statement.* None of the information supplied or to be supplied by or on behalf of Bell Atlantic for inclusion or incorporation by reference in the Registration Statement will, at the time the Registration Statement becomes effective under the 1933 Act, contain any untrue statement of a material fact or omit to state any material fact

required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. None of the information supplied or to be supplied by or on behalf of Bell Atlantic for inclusion or incorporation by reference in the Joint Proxy Statement will, at the dates mailed to stockholders and at the times of the GTE stockholders' meeting and the Bell Atlantic stockholders' meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Registration Statement and the Joint Proxy Statement (except for information relating solely to GTE) will comply as to form in all material respects with the provisions of the 1933 Act and the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 5.11 — *Employee Matters; ERISA.* (a) Except where the failure to be true would not, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic, (i) each Bell Atlantic Plan has been operated and administered in accordance with applicable law, including but not limited to ERISA and the Code, (ii) each Bell Atlantic Plan intended to be "qualified" within the meaning of Section 401(a) of the Code is so qualified, (iii) except as required by COBRA, no Bell Atlantic Plan provides death or medical benefits (whether or not insured), with respect to current or former employees of Bell Atlantic or of any trade or business, whether or not incorporated, which together with Bell Atlantic would be deemed a "single employer" within the meaning of Section 4001 of ERISA (a "Bell Atlantic ERISA Affiliate"), beyond their retirement or other termination of service, (iv) no liability under Title IV of ERISA has been incurred by Bell Atlantic or any Bell Atlantic ERISA Affiliate that has not been satisfied in full, and no condition exists that presents a material risk to Bell Atlantic or any Bell Atlantic ERISA Affiliate of incurring any such liability (other than PBGC premiums), (v) all contributions or other amounts due from Bell Atlantic or any Bell Atlantic ERISA Affiliate with respect to each Bell Atlantic Plan have been paid in full, (vi) neither Bell Atlantic nor any Bell Atlantic ERISA Affiliate has engaged in a transaction in connection with which Bell Atlantic or any of its Subsidiaries could reasonably be expected to be subject to either a civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a tax imposed pursuant to Section 4975 or 4976 of the Code, (vii) to the best knowledge of Bell Atlantic there are no pending, threatened or anticipated claims (other than routine claims for benefits) by, on behalf of or against any Bell Atlantic Plan or any trusts related thereto, and (viii) neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (A) result in any payment (including, without limitation, severance, unemployment compensation, golden parachute or otherwise) becoming due to any director or any employee of Bell Atlantic or any of its Subsidiaries under any Bell Atlantic Plan or otherwise, (B) materially increase any benefits otherwise payable under any Bell Atlantic Plan or (C) result in any acceleration of the time of payment or vesting of any such benefits.

(b) For purposes of this Agreement, "Bell Atlantic Plan" shall mean each deferred compensation, bonus or other incentive compensation, stock purchase, stock option

or other equity compensation plan, program, agreement or arrangement; each severance or termination pay, medical, surgical, hospitalization, life insurance or other "welfare" plan, fund or program (within the meaning of section 3(1) of ERISA); each profit-sharing, stock bonus or other "pension" plan, fund or program (within the meaning of section 3(2) of ERISA); each employment, termination or severance agreement; and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by Bell Atlantic or by any Bell Atlantic ERISA Affiliate or to which Bell Atlantic or any Bell Atlantic ERISA Affiliate is party, whether written or oral, for the benefit of any employee or former employee of Bell Atlantic or any Bell Atlantic ERISA Affiliate.

SECTION 5.12 — *Labor Matters.* Neither Bell Atlantic nor any of its Subsidiaries is the subject of any material proceeding asserting that it or any of its Subsidiaries has committed an unfair labor practice or is seeking to compel it to bargain with any labor union or labor organization nor is there pending or, to the actual knowledge of its executive officers, threatened in writing, nor has there been for the past five years, any labor strike, dispute, walkout, work stoppage, slow-down or lockout involving it or any of its Subsidiaries, except in each case as is not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on Bell Atlantic.

SECTION 5.13 — *Environmental Matters.* Except for such matters that, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect on Bell Atlantic: (i) each of Bell Atlantic and its Subsidiaries has complied with all applicable Environmental Laws (as defined below); (ii) the properties currently owned or operated by it or any of its Subsidiaries (including soils, groundwater, surface water, buildings or other structures) are not contaminated with any Hazardous Substances (as defined below); (iii) the properties formerly owned or operated by it or any of its Subsidiaries were not contaminated with Hazardous Substances during the period of ownership or operation by it or any of its Subsidiaries; (iv) neither it nor any of its Subsidiaries is subject to liability for any Hazardous Substance disposal or contamination on any third party property; (v) neither it nor any Subsidiary has been associated with any release or threat of release of any Hazardous Substance; (vi) neither it nor any Subsidiary has received any notice, demand, letter, claim or request for information alleging that it or any of its Subsidiaries may be in violation of or liable under any Environmental Law (including any claims relating to electromagnetic fields or microwave transmissions); (vii) neither it nor any of its Subsidiaries is subject to any orders, decrees, injunctions or other arrangements with any Governmental Entity or is subject to any indemnity or other agreement with any third party relating to liability under any Environmental Law or relating to Hazardous Substances; and (viii) there are not circumstances or conditions involving it or any of its Subsidiaries that could reasonably be expected to result in any claims, liability, investigations, costs or restrictions on the ownership, use, or transfer of any of its properties pursuant to any Environmental Law.

No representation is made by Bell Atlantic in this Section 5.13 for which neither Bell Atlantic nor any of its Subsidiaries is (or would be, if a claim were brought in a formal proceeding) a named defendant, but as to which Bell Atlantic or any of its Subsidiaries may be liable for an allocable share of any judgment rendered pursuant to the POR. No representation is made by Bell Atlantic in subsection (i) of this Section 5.13 as to properties owned, leased or operated by AT&T or any of its Subsidiaries except for such properties which are, or at any time since November 1, 1983 were, owned, leased or operated by Bell Atlantic or any of its Subsidiaries.

SECTION 5.14 — *Board Action; Vote Required.* (a) The Board of Directors of Bell Atlantic has unanimously determined that the transactions contemplated by this Agreement and the Option Agreements are in the best interests of Bell Atlantic and its stockholders and has resolved to recommend to such stockholders that they vote in favor thereof.

(b) The approval of the Certificate Amendment by a majority of the votes entitled to be cast by all holders of Bell Atlantic Common Stock and the approval of the Stock Issuance pursuant thereto by a majority of the votes cast thereon, provided that the total votes cast thereon represents over 50% in interest of all securities of Bell Atlantic entitled to vote thereon, are the only votes of the holders of any class or series of the capital stock of Bell Atlantic required to approve this Agreement, the Merger, the Certificate Amendment, the Stock Issuance and the other transactions contemplated hereby.

SECTION 5.15 — *Opinions of Financial Advisors.* Bell Atlantic has received the opinions of Bear, Stearns & Co. Inc. ("Bear Stearns") and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), each dated July 27, 1998, to the effect that, as of such date, the Exchange Ratio is fair from a financial point of view to the holders of Bell Atlantic Common Stock.

SECTION 5.16 — *Brokers.* Except for Bear Stearns, Merrill Lynch and Morgan Stanley Dean Witter, the arrangements with which have been disclosed to GTE prior to the date hereof, which have been engaged by Bell Atlantic, no broker, finder or investment banker is entitled to any brokerage, finder's, investment banking or other fee or commission in connection with the transactions contemplated by this Agreement and the Option Agreements based upon arrangements made by or on behalf of Bell Atlantic or any of its Subsidiaries.

SECTION 5.17 — *Tax Matters.* Except as set forth in Section 5.17 of the Bell Atlantic Disclosure Schedule:

(a) All material federal, state, local and foreign Tax Returns required to have been filed by Bell Atlantic or its Subsidiaries have been filed with the appropriate governmental authorities by the due date thereof including extensions;

(b) The Tax Returns referred to in subpart (a) of this Section 5.17 correctly and completely reflect all material Tax liabilities of Bell Atlantic and its Subsidiaries required to be shown thereon;

(c) All material Taxes shown as due on those Tax Returns referred to in subpart (a) of this Section 5.17, as well as any material foreign withholding Taxes imposed on or in respect of any amounts paid to or by Bell Atlantic or any of its Subsidiaries, whether or not such amounts or withholding Taxes are referred to or shown on any Tax Returns referred to in Section 5.17 (a) hereof, have been fully paid or adequately reflected as a liability on Bell Atlantic's or its Subsidiaries' financial statements included in the Bell Atlantic SEC Reports;

(d) With respect to any prior period for which Tax Returns have not yet been filed, or for which Taxes are not yet due or owing, Bell Atlantic and its Subsidiaries have made due and sufficient accruals for such Taxes in their respective books and records and financial statements;

(e) Neither Bell Atlantic nor any of its affiliates has taken, agreed to take or omitted to take any action that would prevent or impede the Merger from qualifying as a tax-free reorganization under Section 368 of the Code;

(f) No deficiencies for any Taxes have been proposed, asserted or assessed against Bell Atlantic or any of its Subsidiaries that are not adequately reserved for under GAAP, except for deficiencies that individually or in the aggregate would not have a Material Adverse Effect on Bell Atlantic; and

(g) Bell Atlantic is not aware of any material liens for Taxes upon any assets of Bell Atlantic or any of its Subsidiaries apart from liens for Taxes not yet due and payable.

SECTION 5.18 — *Intellectual Property.*

(a) As used in this Agreement, "Bell Atlantic Intellectual Property" means all of the following which are necessary to conduct the business of Bell Atlantic and its Subsidiaries as presently conducted or as currently proposed to be conducted: (i) trademarks, trade dress, service marks, copyrights, logos, trade names, corporate names and all registrations and applications to register the same; (ii) patents and pending patent applications; (iii) Computer Software; (iv) all technology, know-how and trade secrets; and (v) all material licenses and agreements to which Bell Atlantic or any of its Subsidiaries is a party which relate to any of the foregoing.

(b) Bell Atlantic or its Subsidiaries owns or has the right to use, sell or license all Bell Atlantic Intellectual Property, free and clear of all liens or encumbrances, and all registrations of Bell Atlantic Intellectual Property are valid and enforceable and have been

duly recorded and maintained, except, in each case, as would not, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic.

(c) To the knowledge of Bell Atlantic, the conduct of Bell Atlantic's and its Subsidiaries' business and the use of the Bell Atlantic Intellectual Property does not materially infringe, violate or misuse any intellectual property rights or any other proprietary right of any person or give rise to any obligations to any person as a result of co-authorship, and neither Bell Atlantic nor any of its Subsidiaries has received any notice, not satisfactorily resolved, of any claims or threats that Bell Atlantic's or its Subsidiaries' use of any of the Bell Atlantic Intellectual Property materially infringes, violates or misuses, or is otherwise in conflict with any intellectual property or proprietary rights of any third party or that any of the Bell Atlantic Intellectual Property is invalid or unenforceable that would, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic.

(d) Bell Atlantic and its Subsidiaries have used reasonable efforts to maintain the confidentiality of their trade secrets and other confidential Bell Atlantic Intellectual Property.

(e) Bell Atlantic has undertaken a concerted effort to ensure that all of the Computer Software, computer firmware, computer hardware (whether general or special purpose), and other similar or related items of automated, computerized, and/or software system(s) that are to be used or relied on by Bell Atlantic or by any of its Subsidiaries in the conduct of their respective businesses will not malfunction, will not cease to function, will not generate incorrect data, and will not provide incorrect results when processing, providing and/or receiving (i) date-related data into and between the twentieth and twenty-first centuries and (ii) date-related data in connection with any valid date in the twentieth and twenty-first centuries. Bell Atlantic reasonably believes that such effort will be successful.

SECTION 5.19 — Insurance. Except as set forth in Section 5.19 of the Bell Atlantic Disclosure Schedule, each of Bell Atlantic and each of its Significant Subsidiaries is, and has been continuously since January 1, 1987 (or such later date as such Significant Subsidiary was organized or acquired by Bell Atlantic), insured with financially responsible insurers in such amounts and against such risks and losses as are customary for companies conducting the business as conducted by Bell Atlantic and its Subsidiaries during such time period. Except as set forth in Section 5.19 of the Bell Atlantic Disclosure Schedule, since January 1, 1995, neither Bell Atlantic nor any of its Subsidiaries has received notice of cancellation or termination with respect to any material insurance policy of Bell Atlantic or its Subsidiaries. The insurance policies of Bell Atlantic and its Subsidiaries are valid and enforceable policies.

SECTION 5.20 — Ownership of Securities. As of the date hereof, neither Bell Atlantic nor, to Bell Atlantic's knowledge, any of its affiliates or associates (as such terms are defined under the Exchange Act), (a) (i) beneficially owns, directly or indirectly, or (ii) is party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or

disposing of, in each case, shares of capital stock of GTE, which in the aggregate represent 10% or more of the outstanding shares of GTE Common Stock (other than shares held by Bell Atlantic Plans and the GTE Option Agreement), nor (b) is an "interested stockholder" of GTE within the meaning of Section 912 of the NYBCL. Except as set forth in Section 5.20 of the Bell Atlantic Disclosure Schedule, Bell Atlantic owns no shares of GTE Common Stock described in the parenthetical clause of Section 2.2 (a) hereof which would be canceled and retired without consideration pursuant to Section 2.3 (a) hereof.

SECTION 5.21 — *Certain Contracts.* (a) All contracts described in Item 601(b)(10) of Regulation S-K to which Bell Atlantic or its Subsidiaries is a party or may be bound ("Bell Atlantic Contracts") have been filed as exhibits to, or incorporated by reference in, Bell Atlantic's Annual Report on Form 10-K for the year ended December 31, 1997. All Bell Atlantic Contracts are valid and in full force and effect on the date hereof except to the extent they have previously expired in accordance with their terms or if the failure to be in full force and effect, individually and in the aggregate would not reasonably be expected to have a Material Adverse Effect on Bell Atlantic. Neither Bell Atlantic nor any of its Subsidiaries has violated any provision of, or committed or failed to perform any act which with or without notice, lapse of time or both would constitute a default under the provisions of, any Bell Atlantic Contract, except in each case for those Bell Atlantic Contracts which, individually and in the aggregate, would not reasonably be expected to result in a Material Adverse Effect on Bell Atlantic.

(b) Set forth in Section 5.21 of the Bell Atlantic Disclosure Schedule is a list of each contract, agreement or arrangement to which Bell Atlantic or any of its Subsidiaries is a party or may be bound which is an arrangement limiting or restraining Bell Atlantic, GTE, any Bell Atlantic or GTE Subsidiary or any successor thereto from engaging or competing in any business which has, or could reasonably be expected to have in the foreseeable future, a Material Adverse Effect on Bell Atlantic or, to Bell Atlantic's knowledge, on GTE.

SECTION 5.22 — *Merger Subsidiary.* Bell Atlantic and Merger Subsidiary represent and warrant to GTE as follows:

(a) **Organization and Corporate Power.** Merger Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of the State of New York. Merger Subsidiary is a direct, wholly owned subsidiary of Bell Atlantic.

(b) **Corporate Authorization.** Merger Subsidiary has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Merger Subsidiary of this Agreement and the consummation by Merger Subsidiary of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Merger Subsidiary. This Agreement has been duly executed and delivered by Merger Subsidiary and constitutes a valid

and binding agreement of Merger Subsidiary, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors generally, by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

(c) Non Contravention. The execution, delivery and performance by Merger Subsidiary of this Agreement and the consummation by Merger Subsidiary of the transactions contemplated hereby do not and will not contravene or conflict with the certificate of incorporation or by-laws of Merger Subsidiary.

(d) No Business Activities. Merger Subsidiary has not conducted any activities other than in connection with the organization of Merger Subsidiary, the negotiation and execution of this Agreement and the consummation of the transactions contemplated hereby. Merger Subsidiary has no Subsidiaries.

ARTICLE VI — CONDUCT OF BUSINESSES PENDING THE MERGER

SECTION 6.1 — *Transition Planning.* Ivan G. Seidenberg and Charles R. Lee, as Chief Executive Officers of Bell Atlantic and GTE, respectively, jointly shall be responsible for coordinating all aspects of transition planning and implementation relating to the Merger and the other transactions contemplated hereby. If either such person ceases to be Chief Executive Officer of his respective company for any reason, such person's successor as Chief Executive Officer shall assume his predecessor's responsibilities under this Section 6.1. During the period between the date hereof and the Effective Time, Messrs. Seidenberg and Lee jointly shall (i) examine various alternatives regarding the manner in which to best organize and manage the businesses of Bell Atlantic and GTE after the Effective Time, and (ii) coordinate policies and strategies with respect to regulatory authorities and bodies, in all cases subject to applicable law.

SECTION 6.2 — *Conduct of Business in the Ordinary Course.* Each of GTE and Bell Atlantic covenants and agrees that, subject to the provisions of Sections 7.16 and 7.17 hereof, between the date hereof and the Effective Time, unless the other shall otherwise consent in writing, and except as described in Section 6.2 of the Disclosure Schedules or as otherwise expressly contemplated hereby, the business of such Party and its Subsidiaries shall be conducted only in, and such entities shall not take any action except in, the ordinary course of business and in a manner consistent with past practice; and each of GTE and Bell Atlantic and their respective Subsidiaries will use their commercially reasonable efforts to preserve substantially intact their business organizations, to keep available the services of those of their present officers, employees and consultants who are integral to the operation of their

businesses as presently conducted and to preserve their present relationships with significant customers and suppliers and with other persons with whom they have significant business relations. By way of amplification and not limitation, except as set forth in Section 6.2 of the Disclosure Schedules or as otherwise expressly contemplated by this Agreement and the Option Agreements, and subject to the provisions of Sections 7.16 and 7.17, each of GTE and Bell Atlantic agrees on behalf of itself and its Subsidiaries that they will not, between the date hereof and the Effective Time, directly or indirectly, do any of the following without the prior written consent of the other:

(a) (i) except for (A) the issuance of shares of GTE Common Stock and Bell Atlantic Common Stock in order to satisfy obligations under the GTE Plans and Bell Atlantic Plans in effect on the date hereof and Bell Atlantic Equity Rights or GTE Equity Rights issued thereunder and under existing dividend reinvestment plans, which issuances shall be consistent with its existing policy and past practice; (B) grants of stock options with respect to GTE Common Stock or Bell Atlantic Common Stock to employees in the ordinary course of business and in amounts and in a manner consistent with past practice; and (C) the issuance of securities by a Subsidiary to any person which is directly or indirectly wholly owned by GTE or Bell Atlantic (as the case may be): issue, sell, pledge, dispose of, encumber, authorize, or propose the issuance, sale, pledge, disposition, encumbrance or authorization of any shares of capital stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of capital stock of, or any other ownership interest in, such Party or any of its Subsidiaries (excluding such as may arise upon the exercise of existing rights); (ii) amend or propose to amend the Certificate of Incorporation or Bylaws of such Party (other than by Bell Atlantic as contemplated hereby) or any of its Subsidiaries (other than wholly owned Subsidiaries) or adopt, amend or propose to amend any shareholder rights plan or related rights agreement; (iii) split, combine or reclassify any outstanding shares of GTE Common Stock and Bell Atlantic Common Stock, or declare, set aside or pay any dividend or distribution payable in cash, stock, property or otherwise with respect to shares of GTE Common Stock and Bell Atlantic Common Stock, except for cash dividends to stockholders of GTE and Bell Atlantic declared in accordance with existing dividend policy payable to stockholders of record on the record dates consistently used in prior periods; (iv) redeem, purchase or otherwise acquire or offer to redeem, purchase or otherwise acquire any shares of its capital stock, except that each of GTE and Bell Atlantic shall be permitted to acquire shares of GTE Common Stock or Bell Atlantic Common Stock, as the case may be, from time to time in open market transactions, consistent with past practice and in compliance with applicable law and the provisions of any applicable employee benefit plan, program or arrangement, for issuance upon the exercise of options and other rights granted, and the lapsing of restrictions, under such Party's respective employee benefit plans, programs and arrangements and dividend reinvestment plans; or (v) authorize or propose or enter into any contract, agreement, commitment or arrangement with respect to any of the matters prohibited by this Section 6.2 (a);

(b) (i) acquire (by merger, consolidation, or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof or make any investment in another entity (other than an entity which is a wholly owned Subsidiary of such Party as of the date hereof and other than incorporation of a wholly owned Subsidiary), except for acquisitions or investments which do not exceed \$500,000,000 in the aggregate for all such acquisitions or investments in any 12-month period; (ii) except in the ordinary course of business and in a manner consistent with past practice, sell, pledge, dispose of, or encumber or authorize or propose the sale, pledge, disposition or encumbrance of any assets of such Party or any of its Subsidiaries, except for transactions which do not exceed \$500,000,000 in the aggregate in any 12-month period and provided further that, unless and until it is mutually determined that pooling of interests accounting is not available for the Merger, no Party shall make any dispositions in excess of an aggregate of \$100,000,000 except for those dispositions that the management of either party has determined, with the concurrence of its independent accountants, to be either in the ordinary course of business or not in contemplation of the Merger, and therefore not a disposition to be measured, individually and in the aggregate with other dispositions, for material disposition of asset purposes, as required by Accounting Principals Bulletin No. 16 and the authoritative interpretations thereto; or (iii) authorize, enter into or amend any contract, agreement, commitment or arrangement with respect to any of the matters prohibited by this Section 6.2(b);

(c) incur indebtedness if, following the taking of such action, it is reasonably anticipated that such Party's outstanding senior indebtedness would be rated by Standard & Poor's at lower than A-, in the case of GTE, or at lower than A, in the case of Bell Atlantic.

(d) enter into (i) leveraged derivative contracts (defined as contracts that use a factor to multiply the underlying index exposure) or (ii) other derivative contracts except for the purpose of hedging known interest rate and foreign exchange exposures or otherwise reducing such Party's cost of financing;

(e) take any action with respect to the grant of any severance or termination pay, stay bonus, or other incentive arrangements (otherwise than pursuant to any GTE Plan, Bell Atlantic Plan (collectively with all GTE Plans, "Benefit Plans") or any policies, arrangements and agreements of such Party which were in effect on, or offered or approved to be offered by the board of directors or senior management of the respective Party prior to, the date hereof, or pursuant to any renewal or extension subsequent to the date hereof of the duration of the term of any such Benefit Plans, policies, arrangements or agreements), or with respect to any increase in benefits payable under its severance or termination pay policies, or stay bonus or other incentive arrangements in effect on the date hereof;

provided, however, that this subsection shall not prohibit GTE or Bell Atlantic or their respective subsidiaries from taking any actions whatsoever that are described in this Section 6.2(e) if (i) such actions are not Merger-related and are in amounts not materially

greater than past practice or as otherwise required by Legal Requirements or applicable provisions of the plan, policy or arrangement, and the Party taking such action consults with the other Party (where such consultation is reasonable and practicable) reasonably in advance of any such action, or (ii) such actions are Merger-related, are taken to meet business needs, are consistent with competitive market practices of large data transmission or telecommunications companies, and the other Party gives its consent to such actions (such consent not to be unreasonably withheld after being consulted by the Party proposing such action (where such consultation is reasonable and practicable) reasonably in advance of any such action);

provided, further, that on and after the date hereof, each of GTE and Bell Atlantic will use its best efforts in good faith to develop and adopt within 60 days of the date hereof, in concert with the other, a common set of principles and guidelines for the design and implementation of merger-related retention incentives and severance benefits for the purpose of enabling the respective companies to implement complementary plans, programs and arrangements, utilizing best competitive practices which each believes will facilitate the convergence of the benefits and employment practices and policies of the Parties and their respective subsidiaries during the period culminating in the Effective Time, and as soon as practicable after such adoption, each such Party shall comply, and cause their respective subsidiaries to comply, with such principles and guidelines (and any amendments thereto which are mutually agreed by the Parties thereafter);

(f) take any action with respect to increases in employee compensation, or make any payments under any GTE Plan or any Bell Atlantic Plan, as the case may be, to any director or employee of, or independent contractor or consultant to, such Party or any of its Subsidiaries, adopt or otherwise materially amend (except for amendments required or made advisable by Legal Requirements) any GTE Plan or Bell Atlantic Plan, as the case may be, or enter into or amend any employment or consulting agreement, or grant or establish any new awards under any such existing GTE Plan or Bell Atlantic Plan or agreement;

provided, however, that this subsection shall not prohibit GTE or Bell Atlantic or their respective subsidiaries from taking any actions whatsoever that are described in this Section 6.2(f) if (i) such actions are not Merger-related and are in amounts not materially greater than past practice or as otherwise required by Legal Requirements or applicable provisions of the plan, policy or arrangement, and, except in the case of increases in employee compensation in the ordinary course of business consistent with past practice, the Party taking such action consults with the other Party (where such consultation is reasonable and practicable) reasonably in advance of any such action, or (ii) such actions are taken to meet business needs, are consistent with competitive market practices of large data transmission or telecommunications companies, and the other Party gives its consent to such actions (such consent not to be unreasonably withheld after being consulted by the Party proposing such action (where such consultation is reasonable and practicable) reasonably in advance of any such action);

(g) change in any material respect its accounting policies, methods or procedures except as required by GAAP;

(h) take any action which it believes when taken could reasonably be expected to adversely affect or delay in any material respect the ability of any of the Parties to obtain any approval of any Governmental Entity required to consummate the transactions contemplated hereby;

(i) other than pursuant to this Agreement, take any action to cause the shares of their respective Common Stock to cease to be quoted on any of the stock exchanges on which such shares are now quoted;

(j) (i) other than as consistent with past practice, issue SARS, new performance shares, restricted stock, or similar equity based rights; (ii) materially modify (with materiality to be determined with respect to the Benefit Plan in question) any actuarial cost method, assumption or practice used in determining benefit obligations, annual expense and funding for any Benefit Plan, except to the extent required by GAAP; (iii) materially modify (with materiality to be determined with respect to the Benefit Plan trust in question) the investment philosophy of the Benefit Plan trusts or maintain an asset allocation which is not consistent with such philosophy, subject to any ERISA fiduciary obligation; (iv) subject to any ERISA fiduciary obligation, enter into any outsourcing agreement, or any other material contract relating to the Benefit Plans or management of the Benefit Plan trusts, provided that Bell Atlantic and GTE may enter into any such contracts that may be terminated within two years; (v) offer any new or extend any existing retirement incentive, "window" or similar benefit program; (vi) grant any ad hoc pension increase; (vii) establish any new or fund any existing "rabbi" or similar trust (except in accordance with the current terms of such trust), or enter into any other arrangement for the purpose of securing non-qualified benefits or deferred compensation; (viii) adopt any corporate owned life insurance program; or (ix) adopt or implement any "split dollar" life insurance program;

provided, however, that this subsection shall not prohibit GTE or Bell Atlantic or their respective subsidiaries from taking any actions whatsoever that are described in this Section 6.2(j) (with the exception of clause (j)(i)) if such actions are in amounts not materially greater than past practice or as otherwise required by Legal Requirements or applicable provisions of the plan, policy or arrangement, and the Party taking such action consults with the other Party (where such consultation is reasonable and practicable) reasonably in advance of any such action; or

(k) take any action which it believes when taken would cause its representations and warranties contained herein to become inaccurate in any material respect.

GTE and Bell Atlantic agree that any written approval obtained under this Section 6.2 may be relied upon by the other Party if signed by the Chief Executive Officer or any other executive officer of the Party providing such written approval.

SECTION 6.3 — *No Solicitation.* (a) From and after the date hereof, Bell Atlantic shall not, nor shall it permit any of its Subsidiaries to, nor shall it authorize or permit any of its officers, directors or employees or any investment banker, financial advisor, attorney, accountants or other representatives retained by it or any of its Subsidiaries to, directly or indirectly through another person, (i) solicit, initiate or encourage (including by way of furnishing information), or knowingly take any other action designed to facilitate, any Alternative Transaction (as hereinafter defined) or (ii) participate in any discussions regarding any Alternative Transaction; provided, however, that if, at any time prior to approval of the Stock Issuance and the Certificate Amendment by the holders of Bell Atlantic Common Stock, the Board of Directors of Bell Atlantic determines in good faith, after receipt of advice from outside counsel, that the failure to provide such information or participate in such negotiations or discussions would result in a reasonable possibility that the Board of Directors of Bell Atlantic would breach their fiduciary duties to stockholders under applicable law, Bell Atlantic may, in response to any such proposal that has been determined by it to be a Bell Atlantic Superior Proposal (as defined in Section 7.2(b)), that was not solicited by it and that did not otherwise result from a breach of this Section 6.3(a), and subject to Bell Atlantic giving GTE at least two business days written notice of its intention to do so, (x) furnish information with respect to Bell Atlantic and its Subsidiaries to any person pursuant to a customary confidentiality agreement containing terms no less restrictive than the terms of the Nondisclosure Agreement dated July 19, 1998 entered into between Bell Atlantic and GTE (the "Nondisclosure Agreement"), provided that a copy of all such information is delivered simultaneously to GTE, and (y) participate in negotiations regarding such proposal. Bell Atlantic shall promptly notify GTE orally and in writing of any request for information or of any proposal in connection with an Alternative Transaction, the material terms and conditions of such request or proposal (including a copy thereof, if in writing, and all other documentation and any related correspondence) and the identity of the person making such request or proposal. Bell Atlantic will keep GTE reasonably informed of the status and details (including amendments or proposed amendments) of such request or proposal on a current basis. Bell Atlantic shall immediately cease and terminate any existing solicitation, initiation, encouragement, activity, discussion or negotiation with any persons conducted heretofore by Bell Atlantic or its representatives with respect to the foregoing. Bell Atlantic (i) agrees not to release any Third Party (as defined below) from, or waive any provision of, or fail to enforce, any standstill agreement or similar agreements to which it is a party related to, or which could affect, an Alternative Transaction and agrees that GTE shall be entitled to enforce Bell Atlantic's rights and remedies under and in connection with such agreements and (ii) acknowledges that the provisions of clause (i) are an important and integral part of this Agreement. Nothing contained in this Section 6.3(a) or Section 7.2 shall prohibit Bell Atlantic (i) from taking and disclosing to its stockholders a position contemplated by Rule

14e-9 or Rule 14e-2(a) promulgated under the Exchange Act or (ii) from making any disclosure to its stockholders if, in the good faith judgment of the Board of Directors of Bell Atlantic, after receipt of advice from outside counsel, failure to disclose would result in a reasonable possibility that the Board of Directors of Bell Atlantic would breach its fiduciary duties to Bell Atlantic's stockholders under applicable law.

(b) From and after the date hereof, GTE shall not, nor shall it permit any of its Subsidiaries to, nor shall it authorize or permit any of its officers, directors or employees or any investment banker, financial advisor, attorney, accountants or other representatives retained by it or any of its Subsidiaries to, directly or indirectly through another person, (i) solicit, initiate or encourage (including by way of furnishing information), or knowingly take any other action designed to facilitate, any Alternative Transaction (as hereinafter defined) or (ii) participate in any discussions regarding any Alternative Transaction; provided, however, that if, at any time prior to approval of this Agreement by the holders of GTE Common Stock, the Board of Directors of GTE determines in good faith, after receipt of advice from outside counsel, that the failure to provide such information or participate in such negotiations or discussions would result in a reasonable possibility that the Board of Directors of GTE would breach their fiduciary duties to stockholders under applicable law, GTE may, in response to a proposal that has been determined by it to be a GTE Superior Proposal (as defined in Section 7.2(d)), that was not solicited by it and that did not otherwise result from a breach of this Section 6.3(b), and subject to GTE giving Bell Atlantic at least two business days written notice of its intention to do so, (x) furnish information with respect to GTE and its Subsidiaries to any person pursuant to a customary confidentiality agreement containing terms no less restrictive than the terms of the Nondisclosure Agreement, provided that a copy of all such information is delivered simultaneously to Bell Atlantic, and (y) participate in negotiations regarding such proposal. GTE shall promptly notify Bell Atlantic orally and in writing of any request for information or of any proposal in connection with an Alternative Transaction, the material terms and conditions of such request or proposal (including a copy thereof, if in writing, and all other documentation and any related correspondence) and the identity of the person making such request or proposal. GTE will keep Bell Atlantic reasonably informed of the status and details (including amendments or proposed amendments) of such request or proposal on a current basis. GTE shall immediately cease and terminate any existing solicitation, initiation, encouragement, activity, discussion or negotiation with any persons conducted heretofore by GTE or its representatives with respect to the foregoing. GTE (i) agrees not to release any Third Party from, or waive any provision of, or fail to enforce, any standstill agreement or similar agreements to which it is a party related to, or which could affect, an Alternative Transaction and agrees that Bell Atlantic shall be entitled to enforce GTE's rights and remedies under and in connection with such agreements and (ii) acknowledges that the provisions of clause (i) are an important and integral part of this Agreement. Nothing contained in this Section 6.3(b) or in Section 7.2 shall prohibit GTE (i) from taking and disclosing to its stockholders a position contemplated by Rule 14e-9 or Rule 14e-2(a) promulgated under the Exchange Act or (ii) from making any disclosure to its stockholders

if, in the good faith judgment of the Board of Directors of GTE, after receipt of advice from outside counsel, failure to disclose would result in a reasonable possibility that the Board of Directors of GTE would breach its fiduciary duties to GTE's stockholders under applicable law.

(c) For purposes of this Agreement, "Alternative Transaction" means, whether in the form of a proposal or intended proposal, a signed agreement or completed action, as the case may be, any of (i) a transaction or series of transactions pursuant to which any person (or group of persons) other than Bell Atlantic and its Subsidiaries and other than GTE and its Subsidiaries (a "Third Party") acquires or would acquire, directly or indirectly, beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) of more than 20% of the outstanding shares of Bell Atlantic or GTE, as the case may be, whether from Bell Atlantic or GTE or pursuant to a tender offer or exchange offer or otherwise, (ii) any acquisition or proposed acquisition of, or business combination with, Bell Atlantic or any of its Significant Subsidiaries or GTE or any of its Significant Subsidiaries, as the case may be, by a merger or other business combination (including any so-called "merger-of-equals" and whether or not Bell Atlantic or any of its Significant Subsidiaries or GTE or any of its Significant Subsidiaries, as the case may be, is the entity surviving any such merger or business combination) or (iii) any other transaction pursuant to which any Third Party acquires or would acquire, directly or indirectly, control of assets (including for this purpose the outstanding equity securities of Subsidiaries of Bell Atlantic or GTE, as the case may be, and any entity surviving any merger or business combination including any of them) of Bell Atlantic or any of its Subsidiaries or GTE or any of its Subsidiaries, as the case may be, for consideration equal to 20% or more of the fair market value of all of the outstanding shares of Bell Atlantic Common Stock or all of the outstanding shares of GTE Common Stock, as the case may be, on the date of this Agreement.

SECTION 6.4 — *Subsequent Financial Statements.* Prior to the Effective Time, each of GTE and Bell Atlantic (a) will consult with the other prior to making publicly available its financial results for any period and (b) will consult with the other prior to the filing of, and will timely file with the SEC, each Annual Report on Form 10-K, Quarterly Report on Form 10-Q and Current Report on Form 8-K required to be filed by such Party under the Exchange Act and the rules and regulations promulgated thereunder and will promptly deliver to the other copies of each such report filed with the SEC. As of their respective dates, none of such reports shall contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The respective audited financial statements and unaudited interim financial statements of each of GTE and Bell Atlantic, as the case may be, included in such reports will fairly present the consolidated financial position of such Party and its Subsidiaries as at the dates thereof and the results of their operations and cash flows for the periods then ended in accordance with GAAP applied on a consistent basis

and, subject, in the case of unaudited interim financial statements, to normal year-end adjustments.

SECTION 6.5 — *Control of Operations.* Nothing contained in this Agreement shall give Bell Atlantic, directly or indirectly, the right to control or direct GTE's operations prior to the Effective Time. Nothing contained in this Agreement shall give GTE, directly or indirectly, the right to control or direct Bell Atlantic's operations prior to the Effective Time. Prior to the Effective Time, each of Bell Atlantic and GTE shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its respective operations.

ARTICLE VII — ADDITIONAL AGREEMENTS

SECTION 7.1 — *Joint Proxy Statement and the Registration Statement.* (a) As promptly as practicable after the execution and delivery of this Agreement, the Parties shall prepare and file with the SEC, and shall use all reasonable efforts to have cleared by the SEC, and promptly thereafter shall mail to the holders of record of shares of Bell Atlantic Common Stock and GTE Common Stock, the Joint Proxy Statement, provided, however, that GTE and Bell Atlantic shall not mail or otherwise furnish the Joint Proxy Statement to their respective stockholders unless and until:

(i) they have received notice from the SEC that the Registration Statement is effective under the 1933 Act;

(ii) GTE shall have received a letter of PricewaterhouseCoopers L.L.P., dated a date within two business days prior to the date of the first mailing of the Joint Proxy Statement, and addressed to GTE, in form and substance reasonably satisfactory to GTE and customary in scope and substance for "cold comfort" letters delivered by independent public accountants in connection with registration statements on Form S-4 with respect to the financial statements of Bell Atlantic included in the Joint Proxy Statement and the Registration Statement; and

(iii) Bell Atlantic shall have received a letter of Arthur Andersen LLP, dated a date within two business days prior to the date of the first mailing of the Joint Proxy Statement, and addressed to Bell Atlantic, in form and substance reasonably satisfactory to Bell Atlantic and customary in scope and substance for "cold comfort" letters delivered by independent public accountants in connection with registration statements on Form S-4 with respect to the financial statements of GTE included in the Joint Proxy Statement and the Registration Statement.

(b) The Parties will cooperate in the preparation of the Joint Proxy Statement and the Registration Statement and in having the Registration Statement declared effective as soon as practicable.

SECTION 7.2 — *Bell Atlantic and GTE Stockholders' Meetings.*

(a) As promptly as practicable after the Registration Statement is declared effective under the Securities Act, Bell Atlantic shall duly give notice of, convene and hold a meeting of its stockholders (the "Bell Atlantic Stockholders' Meeting") in accordance with the DGCL for the purpose of obtaining the Bell Atlantic Stockholder Approval and shall, subject to the provisions of Section 7.2(b) hereof, through its Board of Directors, recommend to its stockholders the approval of the Stock Issuance and adoption of the Certificate Amendment.

(b) Neither the Board of Directors of Bell Atlantic nor any committee thereof shall (i) except as expressly permitted by this Section 7.2(b), withdraw, qualify or modify, or propose publicly to withdraw, qualify or modify, in a manner adverse to GTE, the approval or recommendation of such Board of Directors or such committee of the Certificate Amendment or the Stock Issuance, (ii) approve or recommend, or propose publicly to approve or recommend, any Alternative Transaction or (iii) cause Bell Atlantic to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement (each, a "Bell Atlantic Acquisition Agreement") related to any Alternative Transaction. Notwithstanding the foregoing, in the event that prior to the adoption of the Stock Issuance and the Certificate Amendment by the holders of Bell Atlantic Common Stock the Board of Directors of Bell Atlantic determines in good faith, after it has received a Bell Atlantic Superior Proposal (as defined below) and after receipt of advice from outside counsel, that the failure to do so would result in a reasonable possibility that the Board of Directors of Bell Atlantic would breach its fiduciary duties to Bell Atlantic stockholders under applicable law, the Board of Directors of Bell Atlantic may (subject to this and the following sentences) inform Bell Atlantic stockholders that it no longer believes that such adoption is advisable and no longer recommends approval (a "Bell Atlantic Subsequent Determination"), but only at a time that is after the fifth business day following GTE's receipt of written notice advising GTE that the Board of Directors of Bell Atlantic has received a Bell Atlantic Superior Proposal specifying the material terms and conditions of such Bell Atlantic Superior Proposal (and including a copy thereof with all accompanying documentation, if in writing), identifying the person making such Bell Atlantic Superior Proposal and stating that it intends to make a Bell Atlantic Subsequent Determination. After providing such notice, Bell Atlantic shall provide a reasonable opportunity to GTE to make such adjustments in the terms and conditions of this Agreement as would enable Bell Atlantic to proceed with its recommendation to its stockholders without a Bell Atlantic Subsequent Determination; provided, however, that any such adjustment shall be at the discretion of the Parties at the time. For purposes of this Agreement, a "Bell Atlantic Superior Proposal" means any proposal (on its most recently

amended or modified terms, if amended or modified) made by a Third Party to enter into an Alternative Transaction which the Board of Directors of Bell Atlantic determines in its good faith judgment (based on, among other things, the advice of a financial advisor of nationally recognized reputation) to be more favorable to Bell Atlantic's stockholders than the Merger taking into account all relevant factors (including whether, in the good faith judgment of the Board of Directors of Bell Atlantic, after obtaining the advice of a financial advisor of nationally recognized reputation, the Third Party is reasonably able to finance the transaction, and any proposed changes to this Agreement that may be proposed by GTE in response to such Alternative Transaction). Notwithstanding any other provision of this Agreement, Bell Atlantic shall submit the Stock Issuance and the Certificate Amendment to its stockholders whether or not the Board of Directors of Bell Atlantic makes a Bell Atlantic Subsequent Determination.

(c) As promptly as practicable after the Registration Statement is declared effective under the Securities Act, GTE shall duly give notice of, convene and hold a meeting of its stockholders (the "GTE Stockholders' Meeting") in accordance with the NYBCL for the purpose of obtaining the GTE Stockholder Approval and shall, subject to the provisions of Section 7.2(d) hereof, through its Board of Directors, recommend to its stockholders the approval and adoption of this Agreement and the Merger.

(d) Neither the Board of Directors of GTE nor any committee thereof shall (i) except as expressly permitted by this Section 7.2(d), withdraw, qualify or modify, or propose publicly to withdraw, qualify or modify, in a manner adverse to Bell Atlantic, the approval or recommendation of such Board of Directors or such committee of the Merger or this Agreement, (ii) approve or recommend, or propose publicly to approve or recommend, any Alternative Transaction, or (iii) cause GTE to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement (each, a "GTE Acquisition Agreement") related to any Alternative Transaction. Notwithstanding the foregoing, in the event that prior to the adoption of this Agreement by the holders of GTE Common Stock the Board of Directors of GTE determines in good faith, after it has received a GTE Superior Proposal (as defined below) and after receipt of advice from outside counsel, that the failure to do so would result in a reasonable possibility that the Board of Directors of GTE would breach its fiduciary duties to GTE stockholders under applicable law, the Board of Directors of GTE may (subject to this and the following sentences) inform GTE stockholders that it no longer believes that the Merger is advisable and no longer recommends approval (a "GTE Subsequent Determination"), but only at a time that is after the fifth business day following Bell Atlantic's receipt of written notice advising Bell Atlantic that the Board of Directors of GTE has received a GTE Superior Proposal specifying the material terms and conditions of such GTE Superior Proposal (and including a copy thereof with all accompanying documentation, if in writing), identifying the person making such GTE Superior Proposal and stating that it intends to make a GTE Subsequent Determination. After providing such notice, GTE shall provide a reasonable opportunity to Bell Atlantic to make such adjustments in the

terms and conditions of this Agreement as would enable GTE to proceed with its recommendation to its stockholders without a GTE Subsequent Determination; provided, however, that any such adjustment shall be at the discretion of the Parties at the time. For purposes of this Agreement, a "GTE Superior Proposal" means any proposal (on its most recently amended or modified terms, if amended or modified) made by a Third Party to enter into an Alternative Transaction which the Board of Directors of GTE determines in its good faith judgment (based on, among other things, the advice of a financial advisor of nationally recognized reputation) to be more favorable to GTE's stockholders than the Merger taking into account all relevant factors (including whether, in the good faith judgment of the Board of Directors of GTE, after obtaining the advice of a financial advisor of nationally recognized reputation, the Third Party is reasonably able to finance the transaction, and any proposed changes to this Agreement that may be proposed by Bell Atlantic in response to such Alternative Transaction). Notwithstanding any other provision of this Agreement, GTE shall submit this Agreement to its stockholders whether or not the Board of Directors of GTE makes a GTE Subsequent Determination.

SECTION 7.3 — *Consummation of Merger; Additional Agreements.*

(a) Upon the terms and subject to the conditions hereof and as soon as practicable after the conditions set forth in Article VIII hereof have been fulfilled or waived, each of the Parties required to do so shall execute in the manner required by the NYBCL and deliver to and file with the Secretary of State of the State of New York such instruments and agreements as may be required by the NYBCL and the Parties shall take all such other and further actions as may be required by law to make the Merger effective, and Bell Atlantic shall take all such other and further actions as may be required by law to make the Certificate Amendment and the Bylaws Amendment effective. Prior to the filings referred to in this Section 7.3(a), a closing (the "Closing") will be held at the offices of Bell Atlantic (or such other place as the Parties may agree) for the purpose of confirming all the foregoing. The Closing will take place upon the fulfillment or waiver of all of the conditions to closing set forth in Article VIII of this Agreement, or as soon thereafter as practicable (the date of the Closing being herein referred to as the "Closing Date").

(b) Each of the Parties will comply in all material respects with all applicable laws and with all applicable rules and regulations of any Governmental Entity in connection with its execution, delivery and performance of this Agreement and the transactions contemplated hereby. Each of the Parties agrees to use all commercially reasonable efforts to obtain in a timely manner all necessary waivers, consents and approvals and to effect all necessary registrations and filings, and to use all commercially reasonable efforts to take, or cause to be taken, all other actions and to do, or cause to be done, all other things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement and the Option Agreements and to effect all necessary filings under the 1933 Act, the Exchange Act and the HSR Act. Without limiting the generality of

the foregoing, each of GTE and Bell Atlantic shall promptly prepare and file a Premerger Notification in accordance with the HSR Act, shall promptly comply with any requests for additional information, and shall use its commercially reasonable efforts to obtain termination of the waiting period thereunder as promptly as practicable.

(c) Each of Bell Atlantic and GTE shall, in connection with the efforts referenced in Section 7.3(a) and (b), (i) cooperate in all respects with each other in connection with any filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a private party; (ii) promptly inform the other party of any material communication received by such party from, or given by such party to any Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the transactions contemplated hereby and (iii) consult with each other in advance of any meeting or conference with any such Governmental Entity or, in connection with any proceeding by a private party, with any other person, and to the extent permitted by the applicable Governmental Entity or other person, give the other Party the opportunity to attend and participate in such meetings and conferences.

(d) In furtherance and not in limitation of the covenants of the parties contained in Sections 7.3(a), (b) and (c), if any administrative or judicial action or proceeding, including any proceeding by a private party, is instituted (or threatened to be instituted) challenging any transaction contemplated by this Agreement or the Option Agreements as violative of any applicable law, or if any statute, rule, regulation, executive order, decree, injunction or administrative order is enacted, entered or promulgated or enforced by a Governmental Entity which would make the Merger or the other transactions contemplated hereby or by the Option Agreements illegal or otherwise prohibit or materially impair or delay consummation of the transactions contemplated hereby or thereby, each of Bell Atlantic and GTE shall cooperate in all respects with each other and use all commercially reasonable efforts to contest and resist any such action or proceeding, to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the transactions contemplated by this Agreement and to have such statute, rule, regulation, executive order, decree, injunction or administrative order repealed, rescinded or made inapplicable. Notwithstanding the foregoing or any other provision of this Agreement, nothing in this Section 7.3 shall limit a party's right to terminate this Agreement pursuant to Section 9.1 so long as such Party has up to then complied in all respects with its obligations under this Section 7.3.

(e) If any objections are asserted with respect to the transactions contemplated hereby under any applicable law or if any suit is instituted by any Governmental Entity or any private party challenging any of the transactions contemplated hereby as violative of any applicable law, each of Bell Atlantic and GTE shall use its commercially reasonable efforts to resolve any such objections or challenge as such Governmental Entity or private party may

have to such transactions under such law so as to permit consummation of the transactions contemplated by this Agreement.

SECTION 7.4 — *Notification of Certain Matters.* Each of GTE and Bell Atlantic shall give prompt notice to the other of the following:

(a) the occurrence or nonoccurrence of any event whose occurrence or nonoccurrence would be likely to cause either (i) any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect at any time from the date hereof to the Effective Time, or (ii) directly or indirectly, any Material Adverse Effect on such Party;

(b) any material failure of such Party, or any officer, director, employee or Agent of any thereof, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder, and

(c) any facts relating to such Party which would make it necessary or advisable to amend the Joint Proxy Statement or the Registration Statement in order to make the statements therein not misleading or to comply with applicable law; provided, however, that the delivery of any notice pursuant to this Section 7.4 shall not limit or otherwise affect the remedies available hereunder to the Party receiving such notice.

SECTION 7.5 — *Access to Information.* (a) From the date hereof to the Effective Time, each of GTE and Bell Atlantic shall, and shall cause its respective Subsidiaries, and its and their officers, directors, employees, auditors, counsel and agents to afford the officers, employees, auditors, counsel and agents of the other Party complete access at all reasonable times to such Party's and its Subsidiaries' officers, employees, auditors, counsel agents, properties, offices and other facilities and to all of their respective books and records, and shall furnish the other with all financial, operating and other data and information as such other Party may reasonably request, including in connection with confirmatory due diligence.

(b) Each of GTE and Bell Atlantic agrees that all information so received from the other Party shall be deemed received pursuant to the Nondisclosure Agreement and such Party shall, and shall cause its Subsidiaries and each of its and their respective officers, directors, employees, financial advisors and agents ("Party Representatives"), to comply with the provisions of the Nondisclosure Agreement with respect to such information and the provisions of the Nondisclosure Agreement are hereby incorporated herein by reference with the same effect as if fully set forth herein, provided that such information may be used for any purpose contemplated hereby.

SECTION 7.6 — *Public Announcements.* GTE and Bell Atlantic shall use all reasonable efforts to develop a joint communications plan and each Party shall use all reasonable efforts to ensure that all press releases and other public statements with respect to

the transactions contemplated hereby shall be consistent with such joint communications plan or, to the extent inconsistent therewith, shall have received the prior written approval of the other.

SECTION 7.7 — *Transfer Statutes.* Each of GTE and Bell Atlantic agrees to use its commercially reasonable efforts to comply promptly with all requirements of the New Jersey and Connecticut Property Transfer Statutes, to the extent applicable to the transactions contemplated hereby, and to take all actions necessary to cause the transactions contemplated hereby to be effected in compliance with the New Jersey and Connecticut Property Transfer Statutes. GTE and Bell Atlantic agree that they will consult with each other to determine what, if any, actions must be taken prior to or after the Effective Time to ensure compliance with such statutes. Each of GTE and Bell Atlantic agrees to provide the other with any documents to be submitted to the relevant state agencies prior to submission and agrees not to take any action to comply with the New Jersey and Connecticut Property Transfer Statutes without the other's prior consent, which consent shall not be unreasonably withheld. Each Party shall bear its respective costs and expenses incurred in connection with compliance with the New Jersey and Connecticut Property Transfer Statutes. For purposes of this section, the New Jersey and Connecticut Property Transfer Statutes means the New Jersey Industrial Site Recovery Act, 1993 N.J. Laws 139, and the Connecticut Transfer Act, Conn. Gen. Stat. Ann. § 22a-134(b).

SECTION 7.8 — *Indemnification, Directors' and Officers' Insurance.* For a period of six years after the Effective Time, Bell Atlantic shall cause GTE to, and Bell Atlantic shall, maintain in effect the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by GTE and Bell Atlantic, respectively (provided that Bell Atlantic may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, no less advantageous to the insured in any material respect) with respect to all possible claims arising from facts or events which occurred on or before the Effective Time. Bell Atlantic shall cause GTE to maintain in effect (a) the current provisions regarding indemnification of officers and directors contained in the charter and bylaws of GTE and each of its Subsidiaries until the statutes of limitations for all possible claims have run; provided that Bell Atlantic need not cause GTE to maintain in effect indemnification provisions contained in the charter and bylaws of its Subsidiaries if and to the extent that Bell Atlantic assumes such indemnity obligations; and (b) any directors, officers or employees indemnification agreements of GTE and its respective Subsidiaries. Bell Atlantic shall cause GTE to, and Bell Atlantic shall, indemnify the directors and officers of GTE and Bell Atlantic, respectively, to the fullest extent to which GTE and Bell Atlantic are permitted to indemnify such officers and directors under their respective charters and bylaws and applicable law. As of the Effective Time, Bell Atlantic shall unconditionally and irrevocably guarantee for the benefit of such directors, officers and employees the obligations of GTE under the foregoing indemnification arrangements.

SECTION 7.9 — *Employee Benefit Plans.* (a) Except as otherwise provided herein or set forth in Section 6.2 of the Disclosure Schedules, GTE and Bell Atlantic agree that, unless otherwise mutually determined, the GTE Plans and the Bell Atlantic Plans in effect at the date hereof shall remain in effect after the Effective Time with respect to classes of employees covered by such plans immediately prior to the Effective Time.

From time to time from the date hereof to the Effective Time, the management of Bell Atlantic and GTE shall consult with one another for the purpose of reviewing such Benefit Plans for management (non-represented) employees of Bell Atlantic and GTE and their respective subsidiaries ("Management Employees"), and determining which of such Benefit Plans represent best competitive practices, which should be terminated at the Effective Time (or following a transition period thereafter), and which of such Benefit Plans should be redesigned and/or extended to other employees at (or after) the Effective Time. Notwithstanding the foregoing or any other provision of this Agreement, (1) after the Effective Time, Bell Atlantic shall cause the compensation and benefits provided to similarly-situated Management Employees of each business unit to be at least as valuable as the aggregate compensation and benefit package provided to such employees of that business unit immediately prior to the Effective Time, except to the extent (i) such benefits and/or compensation plans are replaced by one or more benefits and/or compensation plans at least as valuable as those which are provided to similarly situated employees of comparable business units of the other Party or its subsidiaries, or (ii) corresponding benefits for similarly situated employees of the other Party or its subsidiaries are eliminated, (2) from the Effective Time until the first anniversary thereof, Bell Atlantic shall not, and shall ensure that each of its Subsidiaries shall not, discontinue, or change eligibility provisions or levels of benefits under, severance plans, policies and arrangements in which such Management Employees participated immediately prior to the Effective Time, and further agrees that any of such plans, policies or arrangements that expire during such one-year period shall be extended for the duration of such one-year period, and (3) for the 18-month period immediately following the Effective Time, with respect to those GTE Management Employees who were relocated as part of the consolidation of GTE's world headquarters to Texas, Bell Atlantic shall not, and shall ensure that each of its Subsidiaries shall not, discontinue, or change the relocation benefits program which was applicable to such Management Employees as of the Effective Time. In addition, with respect to all Management Employees, at and after the Effective Time (i) each such employee shall receive full credit for their credited service with their respective employer prior to the Effective Time for all purposes, including eligibility (including eligibility for early retirement, disability and other benefits), vesting, level of benefits and benefit accrual (except to the extent such benefit accrual would be duplicative); (ii) any provisions which restrict benefits by reason of pre-existing conditions, waiting periods or evidence of insurability shall be waived and (iii) such employees shall receive credit under such plan for co-payments and deductible during the applicable plan year.

(b) Except as otherwise set forth in Sections 2.8 and 2.9 hereof, in the case of the GTE Plans under which the employees' interests are based upon GTE Common Stock, or the respective market prices thereof (but which interests do not constitute stock options), GTE and Bell Atlantic agree that such interests shall, from and after the Effective Time, be based on Bell Atlantic Common Stock in accordance with the Exchange Ratio.

(c) With respect to all GTE Plans which have entitlement or vesting terms that are based upon the market price or value per share of GTE Common Stock, GTE and Bell Atlantic agree that from and after the Effective Time, such market price or value per share shall be adjusted by multiplying it by the inverse of the Exchange Ratio.

(d) With respect to any GTE Plans maintained or contributed to outside the United States for the benefit of non-United States citizens or residents, the principles set forth in this Section 7.9 and in Section 6.2 of the Disclosure Schedules shall apply to the extent the application of such principles does not violate applicable foreign law.

(e) Without limiting the applicability of Sections 2.8 and 2.9 hereof, each of the Parties shall take all actions as are necessary to ensure that GTE will not at the Effective Time be bound by any stock options, SARS, warrants or other rights or agreements which would entitle any person, other than Bell Atlantic, to own any capital stock of the Surviving Corporation or to receive any payment in respect thereof, and all GTE Plans conferring any rights with respect to GTE Common Stock or other capital stock of GTE shall be deemed hereby to be amended to be in conformity with this Section 7.9.

SECTION 7.10 — Succession. (a) At the Effective Time, pursuant to the terms of the Employment Agreements (as defined below) and subject to Section 5.11 of the Bylaws of Bell Atlantic reflecting the Bylaws Amendment (the "Amended Bylaws") (i) Charles R. Lee shall hold the positions of Chairman and Co-Chief Executive Officer of Bell Atlantic and (ii) Ivan G. Seidenberg shall hold the positions of President and Co-Chief Executive Officer of Bell Atlantic. Pursuant to the terms of the Employment Agreements and subject to Section 5.11 of the Amended Bylaws (A) on June 30, 2002, Mr. Seidenberg shall become the sole Chief Executive Officer of Bell Atlantic and (B) on June 30, 2004, Mr. Lee shall cease to be Chairman of Bell Atlantic and such position will be assumed by Mr. Seidenberg. If either of such persons is unable or unwilling to hold such offices as set forth above, his successor shall be selected by the Board of Directors of Bell Atlantic in accordance with the Amended Bylaws. The authority, duties and responsibilities of the positions set forth above shall be set forth in the Employment Agreements, which Employment Agreements shall also set forth in their entirety the rights and remedies of Mr. Seidenberg and Mr. Lee with respect to employment by Bell Atlantic. Neither Mr. Seidenberg nor Mr. Lee shall have any right, remedy or cause of action under this Section 7.10, nor shall they be third party beneficiaries of this Section 7.10.

(b) As soon as practicable after the date hereof, Bell Atlantic shall enter into employment agreements effective as of the Effective Time (the "Employment Agreements") with Messrs. Lee and Seidenberg containing arrangements concerning management succession satisfactory to each Party.

SECTION 7.11 — *Stock Exchange Listing.* Each of the Parties shall use its best efforts to obtain, prior to the Effective Time, the approval for listing on the NYSE, effective upon official notice of issuance, of the shares of Bell Atlantic Common Stock into which the GTE Common Stock will be converted pursuant to Article II hereof and which will be issuable upon exercise of options pursuant to Section 2.8 hereof.

SECTION 7.12 — *Post-Merger Bell Atlantic Board of Directors.* (a) At the Effective Time, 50% of the directors of Bell Atlantic shall be directors selected by Bell Atlantic, to the extent possible from current directors of Bell Atlantic, and 50% shall be selected by GTE, to the extent possible from current directors of GTE.

The persons to serve initially on the Board of Directors of Bell Atlantic at the Effective Time who are GTE Directors (as defined below) shall be selected solely by and at the absolute discretion of the Board of Directors of GTE prior to the Effective Time; and the persons to serve on the Board of Directors of Bell Atlantic at the Effective Time who are Bell Atlantic Directors (as defined below) shall be selected solely by and at the absolute discretion of the Board of Directors of Bell Atlantic prior to the Effective Time. In the event that, prior to the Effective Time, any person so selected to serve on the Board of Directors of Bell Atlantic after the Effective Time is unable or unwilling to serve in such position, the Board of Directors which selected such person shall designate another of its members to serve in such person's stead in accordance with the provisions of the immediately preceding sentence.

(b) From and after the Effective Time and until July 1, 2002, the Board of Directors of Bell Atlantic and each Committee of the Board of Directors of Bell Atlantic as constituted following each election of Directors shall consist of an equal number of GTE Directors and Bell Atlantic Directors and subject to the fiduciary duties of the Directors, the Board of Directors shall nominate for election at each stockholders meeting at which Directors are elected, an equal number of GTE Directors and Bell Atlantic Directors. If, at any time prior to July 1, 2002, the number of GTE Directors and Bell Atlantic Directors serving, either as directors or as members of any Committee of the Board of Directors of Bell Atlantic, would not be equal, then, subject to the fiduciary duties of the directors, the Board of Directors shall appoint to fill any existing vacancy or vacancies, as appropriate, such person or persons as may be requested by the remaining GTE Directors (if the number of GTE Directors is, or would otherwise become, less than the number of Bell Atlantic Directors) or by the remaining Bell Atlantic Directors (if the number of Bell Atlantic Directors is, or would otherwise become, less than the number of GTE Directors) to ensure that there shall be an equal number of GTE Directors and Bell Atlantic Directors. The provisions of the preceding two sentences

shall not apply in respect of any vacancy which occurs after July 1, 2002. The term "GTE Director" means (i) any person serving as a director of GTE on the date hereof who becomes a director of Bell Atlantic at the Effective Time and (ii) any person who subsequently becomes a director of Bell Atlantic and who is designated by the GTE Directors pursuant to this paragraph; and the term "Bell Atlantic Director" means (i) any person serving as a director of Bell Atlantic on the date hereof who continues as a director of Bell Atlantic after the Effective Time and (ii) any person who becomes a director of Bell Atlantic and who is designated by the Bell Atlantic Directors pursuant to this paragraph. From the Effective Time through July 1, 2002, the Board of Directors shall consist of an even number of Directors and such number of Directors shall not be amended unless, immediately following such amendment, the number of GTE Directors then in office is equal to the number of Bell Atlantic Directors then in office.

(c) Each of GTE and Bell Atlantic shall take such action as shall reasonably be deemed by either thereof to be advisable to give effect to the provisions set forth in this section, including but not limited to incorporating such provisions in the Bylaws of Bell Atlantic in effect at the Effective Time.

SECTION 7.13 — *No Shelf Registration.* Bell Atlantic shall not be required to amend or maintain the effectiveness of the Registration Statement for the purpose of permitting resale of the shares of Bell Atlantic Common Stock received pursuant hereto by the persons who may be deemed to be "affiliates" of GTE or Bell Atlantic within the meaning of Rule 145 promulgated under the 1933 Act. The shares of Bell Atlantic Common Stock issuable upon exercise of options pursuant to Section 2.8 hereof shall be registered under the 1933 Act and such registration shall be effective at the time of issuance.

SECTION 7.14 — *Affiliates.* (a) Each of GTE and Bell Atlantic (i) has disclosed to the other in Section 7.14 of the Disclosure Schedules all persons who are, or may be, as of the date hereof its "affiliates" for purposes of Rule 145 under the Securities Act or SEC Accounting Series Release 135, and (ii) shall use all reasonable efforts to cause each person who is identified as an "affiliate" of it in Section 7.14 of the Disclosure Schedules to deliver to the other as promptly as practicable but in no event later than 31 days prior to the Closing Date, a signed Agreement substantially in the form attached hereto as Exhibit 7.14(a), in the case of GTE, and 7.14(b), in the case of Bell Atlantic. GTE and Bell Atlantic shall notify each other from time to time of any other persons who then are, or may be, such an "affiliate" and use all reasonable efforts to cause each additional person who is identified as an "affiliate" to execute a signed Agreement as set forth in this Section 7.14(a).

(b) If the transactions contemplated by this Agreement and the Option Agreements would otherwise qualify for pooling of interests accounting treatment, shares of GTE Common Stock and shares of Bell Atlantic Common Stock held by such "affiliates" of GTE or Bell Atlantic, as the case may be, shall not be transferable during the 30 day period prior to the Effective Time, and shares of Bell Atlantic Common Stock issued to, or as of the Effective

Time held by, such "affiliates" of GTE and Bell Atlantic shall not be transferable until such time as financial results covering at least 30 days of combined operations of GTE and Bell Atlantic have been published within the meaning of Section 201.01 of the SEC's Codification of Financial Reporting Policies, regardless of whether each such "affiliate" has provided the signed Agreement referred to in Section 7.14 (a), except to the extent permitted by, and in accordance with, SEC Accounting Series Release 135 and SEC Staff Accounting Bulletins 65 and 76. Any Bell Atlantic Common Stock held by any such "affiliate" shall not be transferable, regardless of whether such "affiliate" has provided the applicable signed Agreement referred to in Section 7.14(a), if such transfer, either alone or in the aggregate with other transfers by "affiliates", would preclude the ability of the Parties to account for the transactions contemplated by this Agreement and the Option Agreements as a pooling of interests. Bell Atlantic shall not register the transfer of any shares of Bell Atlantic Common Stock unless such transfer is made in compliance with the foregoing.

SECTION 7.15 — *Blue Sky.* GTE and Bell Atlantic will use their best efforts to obtain prior to the Effective Time all necessary blue sky permits and approvals required to permit the distribution of the shares of Bell Atlantic Common Stock to be issued in accordance with the provisions of this Agreement.

SECTION 7.16 — *Pooling of Interests.* Each of the Parties will use its best efforts to (a) cause the transactions contemplated by this Agreement to be accounted for as a pooling of interests in accordance with GAAP, and such accounting treatment to be accepted by Bell Atlantic's independent certified public accountants, by the NYSE and by the SEC, respectively, and (b) not take any action which could reasonably be expected to cause such accounting treatment not to be obtained; provided that the foregoing shall not apply to any conduct or the effect of any conduct to obtain all necessary waivers, approvals and consents, and to avoid any contractual, legal, regulatory or other issues, impediments or delays, to consummate the transactions contemplated by this Agreement and the Option Agreements. Nothing in this Agreement shall restrict the rights of any Party pursuant to the Option Agreements.

SECTION 7.17 — *Tax-Free Reorganization.* (a) Each of the Parties will use its best efforts to cause the Merger to qualify as a tax-free reorganization under Section 368 of the Code. (b) Bell Atlantic will deliver an Officer's Certificate substantially in the form of Exhibit 7.17(b)(i) executed as of the Closing Date and GTE will deliver an Officer's Certificate substantially in the form of Exhibit 7.17(b)(ii) executed as of the Closing Date

ARTICLE VIII — CONDITIONS TO MERGER

SECTION 8.1 — *Conditions to Obligations of Each Party to Effect the Merger.* The respective obligations of each Party to effect the Merger shall be subject to the following conditions:

(a) *Stockholder Approval.* Each of the GTE Stockholder Approval and the Bell Atlantic Stockholder Approval shall have been obtained;

(b) *Legality.* No federal, state or foreign statute, rule, regulation, executive order, decree, injunction or administrative order shall have been enacted, entered, promulgated or enforced by any Governmental Entity which is in effect and has the effect of (i) making the Merger illegal or otherwise prohibiting the consummation of the Merger or (ii) creating a Material Adverse Effect on GTE or Bell Atlantic, with or without including its ownership of GTE and its Subsidiaries after the Effective Time;

(c) *HSR Act; California PUC.* Any waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated and the decision and order of the California Public Utilities Commission ("CPUC") authorizing the Merger and making any required determinations under Section 854(a)-(c) of the California Public Utilities Code, including its determination as to any required allocation of economic benefits, if any, of the Merger, between shareholders and ratepayers, shall have become final;

(d) *Regulatory Matters.* All authorizations, consents, orders, permits or approvals of, or declarations or filings with, and all expirations of waiting periods imposed by, any Governmental Entity (all of the foregoing, "Consents") which are necessary for the consummation of the transactions contemplated hereby, other than Consents which, if not obtained, would not have a Material Adverse Effect on Bell Atlantic, with or without including its ownership of GTE and its Subsidiaries after the Merger, or GTE, shall have been filed, have occurred or have been obtained (all such Consents being referred to as the "Requisite Regulatory Approvals") and all such Requisite Regulatory Approvals shall be in full force and effect, provided, however, that a Requisite Regulatory Approval shall not be deemed to have been obtained if in connection with the grant thereof there shall have been an imposition by any Governmental Entity of any condition, requirement, restriction or change of regulation, or any other action directly or indirectly related to such grant taken by such Governmental Entity, which would reasonably be expected to have a Material Adverse Effect on either of (A) GTE or (B) Bell Atlantic (either with or without including its ownership of GTE and its Subsidiaries after the Merger);

(e) *Registration Statement Effective.* The Registration Statement shall have become effective prior to the mailing by each of GTE and Bell Atlantic of the Joint Proxy

Statement to its respective stockholders, no stop order suspending the effectiveness of the Registration Statement shall then be in effect, and no proceedings for that purpose shall then be threatened by the SEC or shall have been initiated by the SEC and not concluded or withdrawn;

(f) *Blue Sky.* All state securities or blue sky permits or approvals required to carry out the transactions contemplated hereby shall have been received;

(g) *Stock Exchange Listing.* The shares of Bell Atlantic Common Stock into which the GTE Common Stock will be converted pursuant to Article II hereof and the shares of Bell Atlantic Common Stock issuable upon the exercise of options pursuant to Section 2.8 hereof shall have been duly approved for listing on the NYSE, subject to official notice of issuance;

(h) . *Pooling.* Unless unable to be delivered due to actions taken by the Parties which constitute mutually agreed commercially reasonable efforts or commercially reasonable efforts with respect to wireless operations, (i) Bell Atlantic shall have received a letter from PricewaterhouseCoopers L.L.P., dated as of the Closing Date, to the effect that the transactions contemplated hereby will qualify for pooling of interests accounting treatment; and (ii) GTE shall have received a letter from Arthur Andersen LLP, dated as of the Closing Date, to the effect that the transactions contemplated hereby will qualify for pooling of interests accounting treatment;

(i) *Consents Under GTE Agreements.* GTE shall have obtained the consent or approval of any person whose consent or approval shall be required under any agreement or instrument in order to permit the consummation of the transactions contemplated hereby except those which the failure to obtain would not, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic, including its ownership of GTE and its Subsidiaries after the Merger; and

(j) *Consents Under Bell Atlantic Agreements.* Bell Atlantic shall have obtained the consent or approval of any person whose consent or approval shall be required under any agreement or instrument in order to permit the consummation of the transactions contemplated hereby except those which the failure to obtain would not, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic, including its ownership of GTE and its Subsidiaries after the Merger.

SECTION 8.2 — *Additional Conditions to Obligations of GTE.* The obligations of GTE to effect the Merger are also subject to the fulfillment of the following conditions:

(a) *Representations and Warranties.* The representations and warranties of Bell Atlantic contained in this Agreement shall be true and correct on the date hereof and (except to the extent such representations and warranties speak as of a date earlier than the date hereof)

shall also be true and correct on and as of the Closing Date, except for changes permitted under Section 6.2 hereof or otherwise contemplated by this Agreement and the Option Agreements, with the same force and effect as if made on and as of the Closing Date, provided, however, that for purposes of this Section 8.2(a) only, such representations and warranties shall be deemed to be true and correct unless the failure or failures of such representations and warranties to be so true and correct (without regard to materiality qualifiers contained therein), individually or in the aggregate, results or would reasonably be expected to result in a Material Adverse Effect on Bell Atlantic, either with or without including its ownership of GTE and its Subsidiaries after the Merger;

(b) *Agreements and Covenants.* Bell Atlantic and Merger Subsidiary shall have performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by them on or before the Effective Time, provided, however, that for purposes of this Section 8.2 (b) only, such agreements and covenants shall be deemed to have been complied with unless the failure or failures of such agreements and covenants to have been complied with (without regard to materiality qualifiers contained therein), individually or in the aggregate, results or would reasonably be expected to result in a Material Adverse Effect on Bell Atlantic, either with or without including its ownership of GTE and its Subsidiaries after the Merger;

(c) *Certificates.* GTE shall have received a certificate of an executive officer of Bell Atlantic to the effect set forth in paragraphs (a) and (b) above;

(d) *Tax Opinion.* GTE shall have received an opinion of O'Melveny & Myers LLP, special counsel to GTE, dated as of the Closing Date, in form and substance reasonably satisfactory to GTE, substantially to the effect that, on the basis of the facts, representations and assumptions set forth in such opinion, the Merger constitutes a tax-free reorganization under Section 368 of the Code and therefore: (A) no gain or loss will be recognized for federal income tax purposes by Bell Atlantic, GTE or Merger Subsidiary as a result of the formation of Merger Subsidiary and the Merger; and (B) no gain or loss will be recognized for federal income tax purposes by the stockholders of GTE upon their exchange of GTE Common Stock solely for Bell Atlantic Common Stock pursuant to the Merger (except with respect to cash received in lieu of a fractional share interest in Bell Atlantic Common Stock). In rendering such opinion, O'Melveny & Myers LLP may require and rely upon representations and covenants including representations and covenants substantially in the form of those contained in the GTE officer's certificate and the Bell Atlantic officer's certificate attached hereto as Exhibit 7.17(b)(ii) and Exhibit 7.17(b)(i), respectively;

(e) *Affiliate Agreements.* GTE shall have received the agreements required by Section 7.14 hereof to be delivered by the Bell Atlantic "affiliates," duly executed by each "affiliate" of Bell Atlantic; and

(f) *Bylaws Amendment, Board of Directors.* Bell Atlantic shall have taken all such actions as shall be necessary so that (i) the Bylaws Amendment shall become effective not later than the Effective Time; and (ii) at the Effective Time, the composition of Bell Atlantic's Board shall comply with Section 7.12 hereof (assuming GTE has designated the GTE Directors as contemplated by Section 7.12 hereof).

SECTION 8.3 — *Additional Conditions to Obligations of Bell Atlantic.* The obligations of Bell Atlantic to effect the Merger are also subject to the fulfillment of the following conditions:

(a) *Representations and Warranties.* The representations and warranties of GTE contained in this Agreement shall be true and correct on the date hereof and (except to the extent such representations and warranties speak as of a date earlier than the date hereof) shall also be true and correct on and as of the Closing Date, except for changes permitted under Section 6.2 hereof or otherwise contemplated by this Agreement and the Option Agreements, with the same force and effect as if made on and as of the Closing Date, provided, however, that for purposes of this Section 8.3 (a) only, such representations and warranties shall be deemed to be true and correct unless the failure or failures of such representations and warranties to be so true and correct (without regard to materiality qualifiers contained therein), individually or in the aggregate, results or would reasonably be expected to result in a Material Adverse Effect on GTE or Bell Atlantic (only after including its ownership of GTE and its Subsidiaries after the Merger);

(b) *Agreements and Covenants.* GTE shall have performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by them on or before the Effective Time, provided, however, that for purposes of this Section 8.3 (b) only, such agreements and covenants shall be deemed to have been complied with unless the failure or failures of such agreements and covenants to have been complied with (without regard to materiality qualifiers contained therein), individually or in the aggregate, results or would reasonably be expected to result in a Material Adverse Effect on GTE;

(c) *Certificates.* Bell Atlantic shall have received a certificate of an executive officer of GTE to the effect set forth in paragraphs (a) and (b) above;

(d) *GTE Rights Agreement.* The rights issued pursuant to the GTE Rights Agreement shall not have become non-redeemable, exercisable, distributed or triggered pursuant to the terms of such Agreement and would not become so upon consummation of the transactions contemplated hereby;

(e) *Tax Opinion.* Bell Atlantic shall have received an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special counsel to Bell Atlantic, dated as of the Effective Time, in form and substance reasonably satisfactory to Bell Atlantic, substantially to the effect that,

on the basis of the facts, representations and assumptions set forth in such opinion, the Merger constitutes a tax-free reorganization under Section 368 of the Code and therefore: (A) no gain or loss will be recognized for federal income tax purposes by Bell Atlantic, GTE or Merger Subsidiary as a result of the formation of Merger Subsidiary and the Merger; and (B) no gain or loss will be recognized for federal income tax purposes by the stockholders of Bell Atlantic as a result of the Merger, including the Certificate Amendment. In rendering such opinion, Skadden, Arps, Slate, Meagher & Flom LLP may require and rely upon representations and covenants including representations and covenants substantially in the form of those contained in the GTE officer's certificate and the Bell Atlantic officer's certificate attached hereto as Exhibits 7.17(b)(ii) and 7.17(b)(i) respectively.

(f) *Affiliate Agreements.* Bell Atlantic shall have received the agreements required by Section 7.14 hereof to be delivered by the GTE "affiliates," duly executed by each "affiliate" of GTE.

ARTICLE IX — TERMINATION, AMENDMENT AND WAIVER

SECTION 9.1 — Termination. This Agreement may be terminated at any time before the Effective Time, in each case as authorized by the respective Board of Directors of GTE or Bell Atlantic:

(a) By mutual written consent of each of GTE and Bell Atlantic;

(b) By either GTE or Bell Atlantic if the Merger shall not have been consummated on or before July 26, 1999 (the "Initial Termination Date" and as such may be extended pursuant to this paragraph, the "Termination Date"), provided, however, that if on the Termination Date the conditions to the Closing set forth in Sections 8.1(b)(i), (c) or (d) shall not have been fulfilled, but all other conditions to the Closing shall be fulfilled or shall be capable of being fulfilled, then the Termination Date shall be extended to March 31, 2000, (the "Extended Termination Date"); and provided further that if on the Extended Termination Date the conditions to the Closing set forth in Sections 8.1(b)(i), (c) or (d) shall not have been fulfilled, but all other conditions to the Closing shall be fulfilled or shall be capable of being fulfilled, then the Termination Date shall be extended to June 30, 2000 (the "Final Termination Date"), unless within five days prior to the Extended Termination Date any Party reasonably determines that it is substantially unlikely that the conditions to the Closing set forth in Sections 8.1(b)(i), (c) and (d) will be fulfilled by the Final Termination Date and delivers to the other Parties a notice to such effect. The right to terminate this Agreement under this Section 9.1(b) shall not be available to any Party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of any condition to be satisfied;

(c) By either GTE or Bell Atlantic if after the date hereof a court of competent jurisdiction or Governmental Entity shall have issued an order, decree or ruling or taken any other action (which order, decree or ruling the Parties shall use their commercially reasonable efforts to lift), in each case permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and the Option Agreements, and such order, decree, ruling or other action shall have become final and nonappealable;

(d) (i) by GTE, (A) if Bell Atlantic shall have breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement, which breach or failure to perform (1) is incapable of being cured by Bell Atlantic prior to the Termination Date and (2) renders any condition under Section 8.1 or 8.2 incapable of being satisfied prior to the Termination Date, or (B) if a condition under Sections 8.1 or 8.2 to GTE's obligations hereunder cannot be satisfied prior to the Termination Date;

(ii) by Bell Atlantic, (A) if GTE shall have breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement, which breach or failure to perform (1) is incapable of being cured by GTE prior to the Termination Date and (2) renders any condition under Sections 8.1 and 8.3 incapable of being satisfied prior to the Termination Date, or (B) if a condition under Sections 8.1 or 8.3 to Bell Atlantic's obligations hereunder cannot be satisfied prior to the Termination Date;

(e) By either GTE or Bell Atlantic if the Board of Directors of the other or any committee of the Board of Directors of the other (i) shall fail to include in the Joint Proxy Statement its recommendation without modification or qualification that stockholders approve this Agreement and the Merger, in the case of GTE, or the Stock Issuance and the Certificate Amendment, in the case of Bell Atlantic Stock, (ii) shall withdraw or modify in any adverse manner its approval or recommendation of this Agreement or the Merger, in the case of GTE, or the Certificate Amendment or the Stock Issuance in the case of Bell Atlantic, (iii) shall fail to reaffirm such approval or recommendation upon such Party's request, (iv) shall approve or recommend any Alternative Transaction or (v) shall resolve to take any of the actions specified in this Section 9.1(e); or

(f) By either GTE or Bell Atlantic if any of the required approvals of the stockholders of GTE or of Bell Atlantic shall fail to have been obtained at a duly held stockholders meeting of either of such companies, including any adjournments thereof.

SECTION 9.2 — *Effect of Termination.* (a) In the event of termination of this Agreement as provided in Section 9.1 hereof, and subject to the provisions of Section 10.1 hereof, this Agreement shall forthwith become void and there shall be no liability on the part of any of the Parties, except (i) as set forth in this Section 9.2 and in Sections 4.10, 4.16, 5.10,

5.16 and 10.3 hereof, and (ii) nothing herein shall relieve any Party from liability for any willful breach hereof.

(b) If this Agreement (i) is terminated by GTE pursuant to Section 9.1(e) hereof, (ii) could have been (but was not) terminated by GTE pursuant to Section 9.1(e) hereof and is subsequently terminated by Bell Atlantic or GTE pursuant to Section 9.1(f) because of the failure to obtain the Bell Atlantic Stockholder Approval, (iii)(A) could not have been terminated by GTE pursuant to Section 9.1(e) hereof but is subsequently terminated by Bell Atlantic or GTE pursuant to Section 9.1(f) because of the failure to obtain the Bell Atlantic Stockholder Approval, (B) prior to the Bell Atlantic Stockholders' Meeting there shall have been an offer or proposal for, an announcement of any intention with respect to (including the filing of a statement of beneficial ownership on Schedule 13D discussing the possibility of or reserving the right to engage in), or any agreement with respect to, a transaction that would constitute an Alternative Transaction (as defined in Section 6.3(c) hereof, except that for the purposes of this Section 9.2(b), the applicable percentage in clause (i) of such definition shall be fifty percent (50%)) involving Bell Atlantic or any of Bell Atlantic's Subsidiaries, and (C) within 12 months after the termination of this Agreement, Bell Atlantic enters into a definitive agreement with any Third Party with respect to an Alternative Transaction, or (iv) is terminated by GTE as a result of Bell Atlantic's material breach of Section 7.1, Section 7.2(a) or Section 7.2(b) hereof which, in the case of Section 7.1 and Section 7.2(a) only, is not cured within 30 days after notice thereof to Bell Atlantic, Bell Atlantic shall pay to GTE a termination fee of one billion eight hundred million dollars (\$1,800,000,000) (the "GTE Termination Fee").

(c) If this Agreement (i) is terminated by Bell Atlantic pursuant to Section 9.1(e) hereof, (ii) could have been (but was not) terminated by Bell Atlantic pursuant to Section 9.1(e) hereof and is subsequently terminated by GTE or Bell Atlantic pursuant to Section 9.1(f) because of the failure to obtain the GTE Stockholder Approval, (iii)(A) could not have been terminated by Bell Atlantic pursuant to Section 9.1(e) hereof but is subsequently terminated by GTE or Bell Atlantic pursuant to Section 9.1(f) because of the failure to obtain the GTE Stockholder Approval, (B) prior to the GTE Stockholders' Meeting there shall have been an offer or proposal for, an announcement of any intention with respect to (including the filing of a statement of beneficial ownership on Schedule 13D discussing the possibility of or reserving the right to engage in), or any agreement with respect to, a transaction that would constitute an Alternative Transaction (as defined in Section 6.3(c) hereof, except that for the purposes of this Section 9.2(c), the applicable percentage in clause (i) of such definition shall be fifty percent (50%)) involving GTE or any of GTE's Subsidiaries, and (C) within 12 months after the termination of this Agreement, GTE enters into a definitive agreement with any Third Party with respect to an Alternative Transaction, or (iv) is terminated by Bell Atlantic as a result of GTE's material breach of Section 7.1, Section 7.2(c) or Section 7.2(d) hereof which, in the case of Section 7.1 and Section 7.2(c) only, is not cured within 30 days after notice

thereof to GTE, GTE shall pay to Bell Atlantic a termination fee of one billion eight hundred million dollars (\$1,800,000,000) (the "Bell Atlantic Termination Fee").

(d) Each termination fee payable under Sections 9.2(b) and (c) above shall be payable in cash, payable no later than one business day following the delivery of notice of termination to the other Party, or, if such fee shall be payable pursuant to clause (iii) of either of Section 9.2(b) or (c), such fee shall be payable no later than one business day following the day such Party enters into the definitive agreement referenced in such clause (iii).

(e) GTE and Bell Atlantic agree that the agreements contained in Sections 9.2(b) and (c) above are an integral part of the transactions contemplated by this Agreement and the Option Agreements and constitute liquidated damages and not a penalty. In the event of any dispute as to whether any fee due under such Sections 9.2(b) and (c) is due and payable, the prevailing party shall be entitled to receive from the other Party the costs and expenses (including legal fees and expenses) in connection with any action, including the filing of any lawsuit or other legal action, relating to such dispute. Interest shall be paid on the amount of any unpaid fee at the publicly announced prime rate of Citibank, N.A. from the date such fee was required to be paid.

SECTION 9.3 — Amendment. This Agreement may be amended by the Parties pursuant to a writing adopted by action taken by all of the Parties at any time before the Effective Time; provided, however, that, after approval of the Merger Agreement by the stockholders of GTE or Bell Atlantic, whichever shall occur first, no amendment may be made which would (a) alter or change the amount or kinds of consideration to be received by the holders of GTE Common Stock upon consummation of the Merger, (b) alter or change any term of the Certificate of Incorporation of GTE or the Certificate of Incorporation of Bell Atlantic (except for the implementation at the Effective Time of the Certificate Amendment) or (c) alter or change any of the terms and conditions of this Agreement if such alteration or change would adversely affect the holders of any class or series of securities of GTE or Bell Atlantic. This Agreement may not be amended except by an instrument in writing signed by the Parties.

SECTION 9.4 — Waiver. At any time before the Effective Time, any Party may (a) extend the time for the performance of any of the obligations or other acts of the other Parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a Party to any such extension or waiver shall be valid only as against such Party and only if set forth in an instrument in writing signed by such Party.

ARTICLE X — GENERAL PROVISIONS

SECTION 10.1 — *Non-Survival of Representations, Warranties and Agreements.* The representations, warranties and agreements in this Agreement shall terminate at the Effective Time or upon the termination of this Agreement pursuant to Section 9.1 hereof, as the case may be, except that (a) the agreements set forth in Article I and Sections 2.2, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 7.8, 7.9 and 7.12 hereof shall survive the Effective Time indefinitely, (b) the agreements and representations set forth in Sections 4.10, 4.16, 5.10, 5.16, 7.5 (b), 9.2 and 10.3 hereof shall survive termination indefinitely and (c) nothing contained herein shall limit any covenant or Agreement of the Parties which by its terms contemplates performance after the Effective Time.

SECTION 10.2 — *Notices.* All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made as of the date of receipt and shall be delivered personally or mailed by registered or certified mail (postage prepaid, return receipt requested), sent by overnight courier or sent by telecopy, to the Parties at the following addresses or telecopy numbers (or at such other address or telecopy number for a Party as shall be specified by like notice):

(a) if to GTE:

GTE Corporation
One Stamford Forum
Stamford, Connecticut 06904
Attention: William P. Barr
Executive Vice President-Government
and Regulatory and General Counsel
Telecopy No.: (203) 965-3464

with a copy to:

O'Melveny & Myers LLP
153 East 53rd Street, 54th Floor
New York, New York 10066
Attention: Jeffrey J. Rosen, Esq.
Telecopy No.: (212) 326-2061

(b) if to Bell Atlantic:

Bell Atlantic Corporation
1095 Avenue of the Americas, 39th Floor
New York, New York 10036
Attention: Vice President and General Counsel
Telecopy: (212) 597-2587

with a copy to:

Bell Atlantic Network Services, Inc.
1717 Arch Street, 32N
Philadelphia, Pennsylvania 19103
Attention: Assistant General Counsel - Mergers and Acquisitions
Telecopy: (215) 963-9195

and

Skadden, Arps, Slate, Meagher & Flom LLP
919 Third Avenue
New York, New York 10022-3897
Attention: Peter Allan Atkins, Esq.
Telecopy No.: (212) 735-2000

SECTION 10.3 — Expenses. Except as otherwise provided in this Agreement, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the Party incurring such costs and expenses, except that those expenses incurred in connection with the printing of the Joint Proxy Statement and the Registration Statement, as well as the filing fees related thereto and any filing fee required in connection with the filing of Premerger Notifications under the HSR Act, shall be shared equally by GTE and Bell Atlantic. GTE will pay any real property transfer or similar Taxes imposed on the stockholders of GTE in connection with this Agreement and the transactions contemplated hereby.

SECTION 10.4 — Certain Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

(a) "1933 Act" means the Securities Act of 1933, as the same may be amended from time to time, and "Exchange Act" means the Securities Exchange Act of 1934, as the same may be amended from time to time.

(b) "affiliate" of a person means a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the first mentioned person.

(c) "commercially reasonable efforts" shall mean those efforts necessary or advisable to advance the interests of the Parties in achieving the purposes and specific requirements and satisfying the conditions of this Agreement, provided that such efforts will not require or include either expense or conduct not ordinarily incurred or engaged in by Parties seeking to implement agreements of this type unless part of a separate mutual understanding of the Parties not contained in this Agreement whether reached before or after the Agreement is executed.

(d) "control" (including the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of stock, as trustee or executor, by contract or credit arrangement or otherwise.

(e) "HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as the same may be amended from time to time.

(f) "knowledge" of any Party shall mean the actual knowledge of the executive officers of such Party.

(g) "Material Adverse Effect" means any change in or effect on the business of the referenced corporation or any of its Subsidiaries that is or will be materially adverse to the business, operations (including the income statement), properties (including intangible properties), condition (financial or otherwise), assets, liabilities or regulatory status of such referenced corporation and its Subsidiaries taken as a whole, but shall not include (I) the effects of changes that are generally applicable in (A) the telecommunications industry, (B) the United States economy or (C) the United States securities markets if, in any of (A), (B) or (C), the effect on GTE or Bell Atlantic, determined without including its ownership of GTE after the Merger, (as the case may be) and its respective Subsidiaries, taken as a whole, is not materially disproportionate relative to the effect on the other and its Subsidiaries, taken as a whole. All references to Material Adverse Effect on Bell Atlantic or its Subsidiaries contained in Article IV, V or VI of this Agreement shall be deemed to refer solely to Bell Atlantic and its Subsidiaries without including its ownership of GTE and its Subsidiaries after the Merger.

(h) "Material Investment" means (a) as to GTE, any person which GTE directly or indirectly holds the stock of, or other equity interest in, provided the lesser of the fair market value or book value of such interest exceeds \$100 million, excluding, however, any person which is a Subsidiary of GTE; and (b) as to Bell Atlantic, any person which Bell Atlantic directly or indirectly holds the stock of, or other equity interest in, provided the lesser

of the fair market value or book value of such interest exceeds \$100 million, excluding, however, any Person which is a Subsidiary of Bell Atlantic.

(i) "person" means an individual, corporation, partnership, association, trust, estate, limited liability company, labor union, unincorporated organization, entity or group (as defined in the Exchange Act).

(j) "POR" means the Plan of Reorganization approved by the United States Court for the District of Columbia on August 5, 1983 and the Agreement Concerning Contingent Liabilities, Tax Matters and Termination of Certain Agreements dated as of November 1, 1983, as amended and supplemented.

(k) "Significant Subsidiary" with respect to GTE means any Subsidiary which on the date of determination is a "significant subsidiary" within the meaning of Rule 1-02(w) of Regulation S-X promulgated under the Exchange Act and, with respect to Bell Atlantic means any Subsidiary which on the date of determination is a "significant subsidiary" within the meaning of Rule 1-02(w) of Regulation S-X promulgated under the Exchange Act.

(l) "Subsidiary", "GTE Subsidiary", or "Bell Atlantic Subsidiary" means any corporation or other legal entity of which GTE or Bell Atlantic, as the case may be (either alone or through or together with any other Subsidiary or Subsidiaries), owns, directly or indirectly, more than 50% of the stock or other equity interests the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity. For purposes of this Agreement, Grupo Iusacell S.A. de C.V. shall be deemed to be a Material Investment, and not a Subsidiary, of Bell Atlantic.

SECTION 10.5 — *Headings.* The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 10.6 — *Severability.* If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the maximum extent possible.

SECTION 10.7 — *Entire Agreement; No Third-Party Beneficiaries.* This Agreement, the Nondisclosure Agreement and the Stock Option Agreements constitute the entire

agreement and, except as expressly set forth herein, supersedes any and all other prior agreements and undertakings, both written and oral, among the Parties, or any of them, with respect to the subject matter hereof and, except for Section 7.8 (Indemnification, Directors' and Officers' Insurance) and Section 7.12 (Post-Merger Bell Atlantic Board of Directors), is not intended to confer upon any person other than GTE, Bell Atlantic, and Merger Subsidiary and, after the Effective Time, their respective stockholders, any rights or remedies hereunder.

SECTION 10.8 — *Assignment.* This Agreement shall not be assigned by operation of law or otherwise.

SECTION 10.9 — *Governing Law.* This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware applicable to contracts executed in and to be performed entirely within that State, without regard to the conflicts of laws provisions thereof; provided that the Merger shall be governed by the laws of the State of New York applicable to contracts executed in and to be performed entirely within that State, without regard to the conflicts of laws provisions thereof.

SECTION 10.10 — *Counterparts.* This Agreement may be executed in two or more counterparts, and by the different Parties in separate counterparts, each of which when executed shall be deemed to be an original, but all of which shall constitute one and the same Agreement.

SECTION 10.11 — *Interpretation.*

(a) Whenever the words "include", "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation."

(b) Words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(c) A reference to any party to this Agreement or any other agreement or document shall include such party's successors and permitted assigns.

(d) A reference to any legislation or to any provision of any legislation shall include any modification or re-enactment thereof, any legislative provision substituted therefor and all regulations and statutory instruments issued thereunder or pursuant thereto.

(e) All references to "\$" and dollars shall be deemed to refer to United States currency unless otherwise specifically provided.

IN WITNESS WHEREOF, GTE, Bell Atlantic and Beta Gamma Corporation have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

GTE CORPORATION

By: s/ Charles R. Lee
Name: Charles R. Lee
Title: Chairman and Chief Executive Officer

By: s/ Marianne Drost
Name: Marianne Drost
Title: Secretary

BELL ATLANTIC CORPORATION

By: s/ Ivan Seidenberg
Name: Ivan Seidenberg
Title: Vice Chairman, President and Chief
Executive Officer

BETA GAMMA CORPORATION

By: s/ Ivan Seidenberg
Name: Ivan Seidenberg
Title: President and Chief Executive Officer

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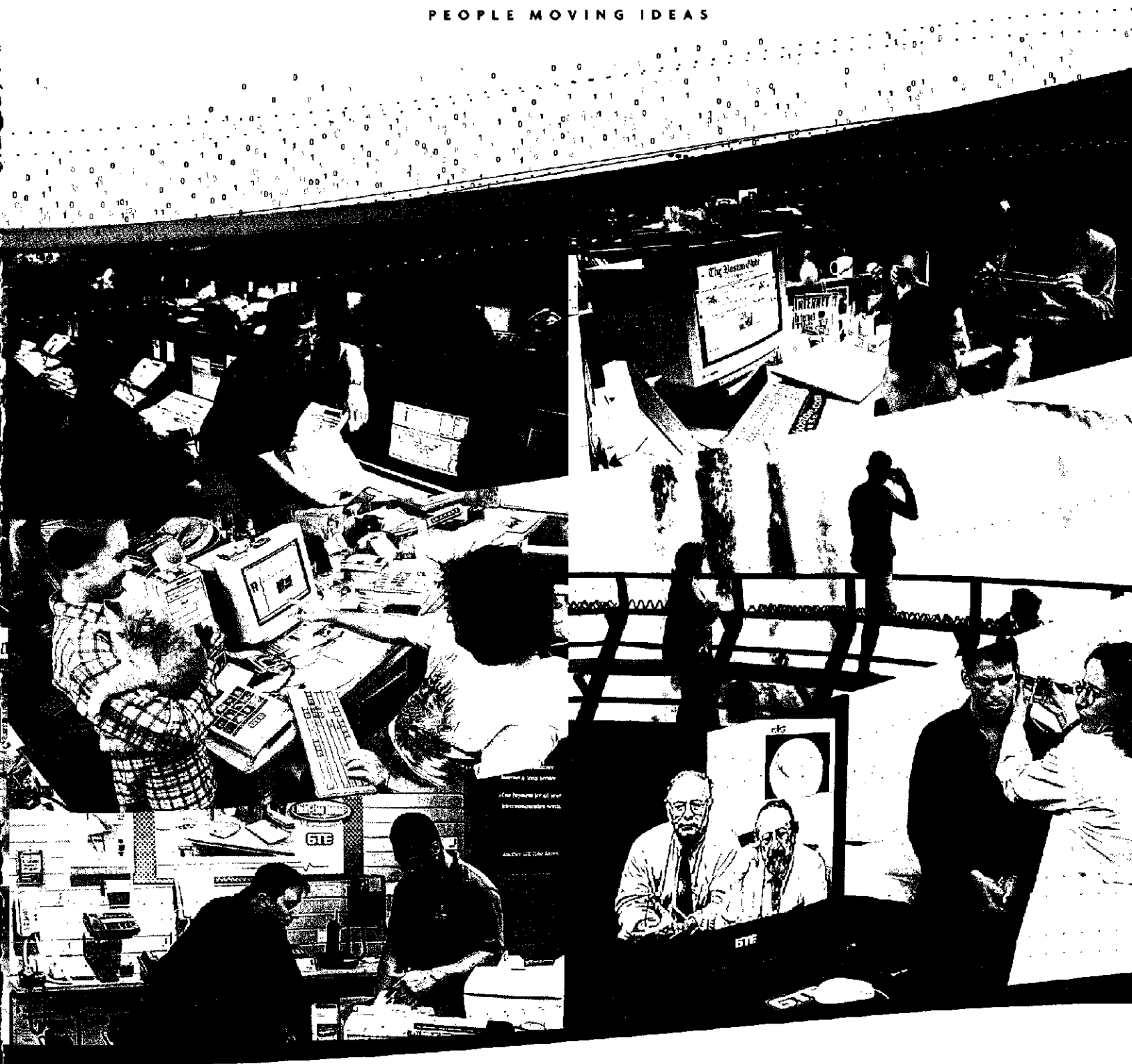
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PEOPLE MOVING IDEAS



CONSOLIDATED FINANCIAL HIGHLIGHTS •

(Millions of Dollars, Except Per-Share Amounts)

	1997	1996	% Change
Revenues and Sales	\$23,260	\$21,339	9.0
Operating Income	5,611	5,488	2.2
Net Income*	2,794	2,798	(.1)
Earnings Per Common Share*			
Basic	2.92	2.89	1.0
Diluted	2.90	2.88	.7
Common Shareholders' Equity	8,038	7,336	9.6
Average Common Shares Outstanding (in millions)	958	969	(1.1)
Return on Common Equity	37.6%	40.2%	-
Capital Expenditures	5,128	4,088	25.4
Access Minutes of Use (in millions)	79,640	70,452	13.0
Access Lines (in thousands)	27,670	25,766	7.4
Employees (in thousands)	114	102	11.8

* Costs associated with the new data initiatives reduced net income by \$242 million, or \$.25 per share in 1997. Excluding these costs, basic earnings per share from core operations would have been \$3.17. The 1996 results include a pretax gain of \$12 million, which increased net income by \$9 million, or \$.01 per share, in connection with the program to sell or trade a small percentage of nonstrategic domestic local-exchange telephone properties. Excluding this gain and the costs related to the new data initiatives, net income would have grown 8.8% while earnings per share would have grown 10.1%.

ABOUT GTE • With 1997 revenues of more than \$23 billion, GTE is one of the world's largest telecommunications companies and a leading provider of integrated telecommunications services. In the United States, GTE provides local service in 28 states and wireless service in 17 states, nationwide long-distance service and internetworking services ranging from dial-up Internet access for residential and small-business consumers to Web-based applications for *Fortune* 500 companies, and video service in selected markets. Outside the United States, the company serves over seven million telecommunications customers. • In addition, GTE is a leader in government and defense communications systems and equipment, directories, telecommunications-based information services, and aircraft-passenger telecommunications.

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WE'RE NOT JUST YOUR LOCAL TELEPHONE COMPANY ANYMORE • Featured on the cover and throughout this annual report is a constant stream of information, flowing from GTE customers who live and work around the world. Have an idea? Let us move it for you.

OUR COVER: WHAT'S THE BIG IDEA? ■ Years ago, GTE was a local telephone company moving voice over copper wires. Today, we're that – and much more.

■ Sometimes we move voice along a strand of fiber-optic cable stretched between telephones. Or send it through the air to your wireless phone. We move voice, video and digitized data along the Internet, pipe it beneath the ocean, and cable it underground to your phone, fax or TV. ■ Whether you're tracking fish shipments from the Chesapeake Bay, ordering inventory in Shanghai or making a call to a friend down the street – we're there.

■ We're People Moving Ideassm.



COLD ■ John Patten has placed "in the money" in competitions including Alaska's Iditarod and Minnesota's Beargrease Sled Dog Marathon using a lightweight dog sled that he designed and built at his Saw Tooth Mountain Sled Works in Grand Marais, Minnesota. The Sled Works is one of 11 million businesses featured in GTE's SuperPages®, putting them on the map – no matter where in the world they're located.

HOT ■ Deep in the heart of *Rub Al Khali* – Saudi Arabia's "Empty Quarter" – sits Shaybah, a major oil and gas field managed by Saudi ARAMCO. There, GTE employees routinely brave sandstorms and 130-degree heat to provide a communications infrastructure including radio, fiber-optic and local area networks, and basic telephone service.

LOW ■ Since 1952, visitors to Carlsbad Caverns have been able to make phone calls 755 feet below the wind-swept New Mexico desert. GTE installed a special cable, reinforced to withstand its own ponderous weight and hidden from view. The cable carries conversations from two pay phones, from the cafeteria and gift shop phone system and from 14 emergency phones located along miles of subterranean trails.



HIGH ■ GTE installed fiber-optic cables that link the observatories atop Hawaii's Mauna Kea, 13,796 feet above sea level, to research stations at the base of this inactive volcano. Transmitting images from the farthest known reaches of outer space, GTE's voice, video and data capabilities help scientists understand the universe and share this information with the rest of our world – practically at light speed.

CHAIRMAN'S MESSAGE ■

The telecommunications industry is undergoing fundamental and profound change, driven largely by technological developments, rising customer expectations, and greater levels of competition.

We have spent the past several years positioning GTE to thrive in this new environment. And in 1997, we mapped out a strategy to capture the new opportunities we see to truly become a growth company. To win, we believe GTE must:

- Create a national, versus a multi-regional, presence;
- Enhance our international capabilities;
- Offer a broad array of services, with increased focus on enhanced data and leading-edge Internet services;
- Develop the marketing and sales expertise to compete in key national markets; and
- Provide unparalleled customer service to build the trust and confidence of consumers as more and more choices flood the marketplace.

In the midst of so much change, one thing remains constant: The key to our success is in providing customers with excellent products and service. We understand the important role we play in serving our customers' needs, because we are a company that *moves the most precious cargo of all: ideas and information.*

That's why *People Moving Ideas* is both the theme of this annual report and our new national advertising campaign. These three words capture the spirit and direction of today's GTE: We are a company on the move. We're people who move ideas, one person to another, one company to another, anywhere in the world.

During 1997, we took several important steps to fulfill our vision to turn GTE into a true growth company. At the same time, we made substantial gains across virtually all areas of our core businesses.

STRONG RESULTS FROM CORE OPERATIONS ■ We know what it takes to compete and win in the changing telecommunications marketplace. At year-end 1997, we had a record 1.5 million new domestic telephone customer lines, 889,000 new long-distance customers, 738,000 new wireless customers, 202,000 new Internet-access customers, 114,000 new directory advertising customers, and 73,000 new video and competitive services customers.

We are very pleased with the financial and operating results of our core business for 1997. Our consolidated revenues and sales for the year increased \$1.92 billion, or 9%, to \$23.3 billion, the highest annual revenue growth ever reported by our company.

Our earnings per share (EPS) from core operations increased 10% for the third consecutive year. Net income from core operations was \$3.04 billion, or \$3.17 per share. However, because of the dilutive effect of our data initiatives and other critical growth investments, our net income was reduced to \$2.79 billion, or \$2.92 per share. Without these investments, our core EPS growth would have exceeded 15% for the year. Making the right investments today provides the foundation for future profitable growth and ensures that we are a leader in providing integrated communications services in the marketplace.

With the steps we've taken to strengthen our competitive position and with the continued strong performance of our core businesses, we expect our revenue growth rates to hit double digits in 1998 and EPS growth to be in the 13% to 15% range in 1999. Certain factors that may affect these forward-looking statements are discussed on pages 26 and 27.

STEPS TOWARD LONG-TERM GROWTH ■ In addition to delivering strong results in core operations in 1997, we took steps to position ourselves for future profitable growth as outlined in our overall strategy:

- We must have a national presence. In May 1997, we launched GTE Communications Corporation, a competitive local-exchange carrier that will market the full spectrum of GTE services in key markets, without regard to franchise boundaries.

- We must be a leader in providing value-added, enhanced data services. Industry-wide data revenues are now growing at about 15% annually, roughly three times faster than traditional voice services. The Internet continues to grow exponentially. All told, industry-wide data revenues are expected to quadruple from roughly \$100 billion in 1997 to over \$400 billion in 2006.

To seize data-related growth opportunities, we have moved aggressively to position GTE as the industry's leading provider of advanced data internetworking services.

In 1997, this strategy included the acquisition of BBN Corporation – a leading supplier of end-to-end Internet solutions – as well as the development of a high-speed, national fiber-optic network. In addition, in November we purchased Genuity Inc. – a premier, value-added provider of distributed application Web hosting services that enable customers to transfer their business applications to the Internet.

In 1998, we will expand and capitalize on our position in the data market, which will provide a significant new source of revenues.

- We must provide bundled services – a complete, convenient package of telecommunications services, all on a single bill. Studies repeatedly show that consumers want "one-stop" shopping.

In 1996, GTE became the first of its peers to offer local, long-distance, wireless and Internet-access services on a single bill. By year-end 1997, we offered the convenience of "one-stop" shopping in 21 markets throughout the country.

▪ And finally, we must continue to enhance our international capabilities. This market represents a significant opportunity for us. The international market is more than twice as big as the U.S. market and it's growing twice as fast.

WE ARE HELPING TO DEFINE A NEW TELECOMMUNICATIONS INDUSTRY ▪ While our industry is experiencing unprecedented growth, we are also experiencing significant restructuring. Alliances, mergers and acquisitions are changing the competitive landscape on an almost daily basis.

Within this context, in October, GTE offered to buy MCI for \$40 per share in cash. In November, MCI announced that it had signed an agreement to merge with WorldCom in a deal reported to be worth \$51 per share in stock for most shareholders and the same amount in cash for shareholders of BT (formerly British Telecom), which owns about 20% of MCI.

I believe acquiring MCI would have been – and still would be – an excellent strategic fit for GTE. The acquisition would have significantly accelerated our overall growth. But it only made sense at the *right* price. The WorldCom offer exceeded the price that made sense for GTE.

We're confident about GTE's ability to succeed in the competitive marketplace *without* entering into a major transaction or combination with another company. In other words, we can go it alone and win.

However, we will continue to hold discussions with other companies regarding possible alliances and combinations that will help accelerate growth or enhance our strategic plans. This is an integral part of doing business in the evolving telecommunications industry.

A FEW FINAL WORDS ▪ In a period of unprecedented change in the telecommunications industry, GTE has not only stayed ahead of the curve, we have helped define the curve. We are leading the effort to ensure that Congress' intention to create a level playing field among competitors is fulfilled as the Telecommunications Act of 1996 is implemented. This successful effort is making a significant impact on the accomplishment of our goal to create a profitable growth company, and has helped inspire the cultural shift to a much more aggressive posture in the marketplace. This transformation of GTE to a growth company is absolutely key to building greater shareholder value long term.

This transformation has not been easy. I want to express my thanks to three special groups.

To all of GTE's shareholders, I thank you for your support and confidence as GTE navigates through a changing and challenging industry – but an industry full of opportunity.

To our employees, thank you for your dedication, your hard work and your positive and professional attitude.

And to our customers, thank you for allowing us to serve you. We pledge even higher levels of service for you in the future.

With the continued support of our shareholders, our team of world-class employees and our loyal customer base, GTE's growth prospects have never been better. The only question is: How far and how high we will go?

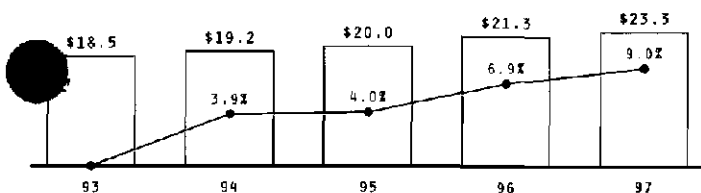


Charles R. Lee

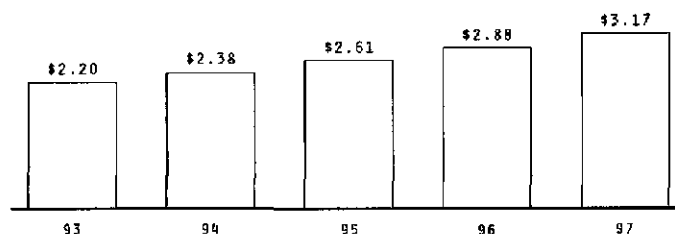
CHARLES R. LEE
Chairman and Chief Executive Officer
February 20, 1998

CONSOLIDATED REVENUES AND REVENUE GROWTH RATES (excludes properties sold)

- Revenues and Sales (in billions)
- Revenue Growth Rates



EARNINGS PER COMMON SHARE (excludes special items and data initiatives)



GTE PEOPLE ■

Building a stronger sense of partnership is a key goal of GTE's human resources policies and programs. Enhancing the capabilities of our people is equally important.

With the introduction of our Partnership Shares program, our domestic employees now receive stock options.

Partnership Shares is the largest employee stock option program in the telecommunications industry and one of the 10 largest in corporate America. More than 91,000 GTE employees received options in 1997.

Some 40,000 of our employees are union represented, primarily by either the Communications Workers of America or the International Brotherhood of Electrical Workers. We've partnered with these unions to strengthen our GTE team. As a result, we've initiated special programs to increase employee involvement in identifying and resolving business issues and to share information vital to improved performance.

In November, reflecting our longstanding leadership in employee health care benefits, we were the first company to adopt the "Consumer Bill of Rights and Responsibilities" developed by a presidential health care advisory commission. GTE was praised by President Clinton for this action during a White House ceremony.

In 1997, we continued to demonstrate our deep commitment to developing our workforce by completing the nationally recognized Management Development Core Course Series. These courses, in which more than 22,000 employees participated over the past four years, have been the centerpiece of our strategy to develop the next generation of GTE's leaders. The successor Leadership Development Series is scheduled to start in early 1998. Similarly, the majority of our front-line workers participated in the Front-Line Core Course series. This series will continue to play a vital role in our efforts to educate our front-line employees about GTE's competitive market strategies.

We continue our commitment to balance work and family needs. For example, we offer special seminars, broadcast to GTE locations via our internal TV network. These seminars assist employees in

financial planning and in selecting colleges for their children. We also provide many employees with the flexibility of telecommuting.

GTE is committed to making diversity a critical consideration in the recruitment, hiring, career development and promotion of our employees. We also recognize that our success in the marketplace largely depends on a workforce that is able to anticipate and meet the needs of diverse customers.

SOCIAL RESPONSIBILITY ■

Preparing the future workforce is the strategy driving GTE's giving program. Each year through the GTE Foundation, we contribute to nearly 4,000 nonprofit organizations. Grants in 1997, totaling more than \$27 million, concentrated on supporting math and science education – equipping students with skills needed in the 21st century.

The GTE Growth Initiatives for Teachers Program, for example, helps educators boost student achievement by harnessing technology. The *Scientific American* FRONTIERS series on PBS, underwritten by GTE, reaches millions of viewers in homes and classrooms with stories on scientific breakthroughs.

Our giving also extends to special partnerships with the United Negro College Fund and Literacy Volunteers of America. Beyond education, we also support initiatives that enhance the arts and build healthy, vibrant communities.

We also are helping our communities to grow by supporting economic development initiatives and assisting with job creation and retention. In addition, our employees serve as volunteers in hundreds of nonprofit organizations – reinforcing our company's commitment to the communities we serve.

TIMELY ■ When Colette Petros was diagnosed with multiple sclerosis, she wanted to learn more about possible treatments. Colette logged onto the Internet at the Antelope Valley College Library in California's Mohave Desert, where she is a student, and uncovered the latest medical research. She shared this with her physician, who prescribed a more promising treatment plan. A GTE grant helped the college connect to the World Wide Web.



CARING ■ For 25 years, a gravel parking lot covered what were once salmon spawning beds in McCollum County Park, near Everett, Washington. Seeking to restore the 1.35-acre site to its original wetlands habitat, the Adopt-A-Stream Foundation had 400 truckloads of fill hauled away. Volunteers from GTE and other local organizations assisted in planting 4,000 native plants and constructing a beaver dam. Today, a new freshwater marsh is home to great blue herons, sandpipers, ducks, pileated woodpeckers, frogs, salamanders and salmon.

DOMESTIC OPERATIONS ■

Domestic Operations took a number of definitive steps in 1997 to become a national provider of integrated telecommunications services and to position GTE to take advantage of growth opportunities in the data marketplace.

On the data front, we acquired BBN Corporation – the company that helped pioneer the Internet. In May, we began developing a new, state-of-the-art, nationwide fiber-optic network. This network of the future will enable GTE to provide outstanding end-to-end voice, video and data services to customers.

To be a national provider of integrated services, we made several organizational changes during the year. These changes will provide us with maximum flexibility to meet the competitive challenges ahead.

We remodeled our Telephone Operations group and built three new business units:

- GTE Network Services is managing our extensive local telephone network and retains marketing, sales and service responsibilities for carrier, business and residential customers. This unit will continue to serve the more than 21.5 million residential and business customers of GTE within its wireline service territories.
- We formed GTE Communications Corporation – which is our competitive local-exchange carrier, or CLEC. It will be able to market the full spectrum of GTE services, including local, long-distance, wireless and data services, without regard to franchise boundaries. This unit will allow us to compete on a level playing field with other companies entering our markets as CLECs, and will help us become a national provider of telecommunications and data services. At year-end 1997, this group was aggressively marketing a full array of bundled services in California and Florida, with plans to market in additional states by year-end 1998.
- In addition, we formed GTE Business Development and Integration – a unit that will review marketing strategy and market response on behalf of all business units. This unit will also be responsible for many staff functions, such as information technology, and will reduce expenses and eliminate any potential duplication of efforts.

While we are taking definitive steps to achieve our overall vision, we experienced strong growth across all our business units.

Revenues from our domestic business units grew to \$20.4 billion, an increase of 10% over 1996 results.

GTE Network Services achieved strong results in 1997. Revenues from new and expanded services – including caller ID, video, voice messaging and call waiting – soared an impressive 55%. Overall, network usage jumped 13% in 1997. Residential second lines, a key measure of future demand, grew an impressive 16%. Business lines increased 9%.

GTE Wireless is an integral part of our effort to provide a total integrated communications package to customers nationwide. During 1997, its customer base increased by 20%, reaching a total of 4.5 million customers by year end. In 1997, we responded quickly to significant price competition in several markets, introducing new pricing plans and promotions. We reduced customer turnover and fraud, even as we entered new territories. We introduced digital personal communications services in three new markets: Cincinnati, Seattle and Spokane. We now offer wireless service in 17 states.

GTE Directories encompasses more than 2,300 directory titles with a circulation of 70 million copies. This unit also has expanded into a multi-product company and in 1997 became the first major publisher to offer customers value-priced integrated bundling of print directory, electronic directory, cable-TV advertising and Internet-access services – through a single sales call. Monthly usage of our Internet-based SuperPages® interactive service grew by nearly 16%, reaching monthly levels of four million visits and 53 million hits.

GTE Technology and Systems brings our successful GTE Laboratories and GTE Government Systems units under one roof. This unit is moving quickly to provide leadership and coordination of technology planning and resources throughout GTE. GTE Government Systems continued to successfully market our unique expertise to governments and defense agencies.

GTE Internetworking was created in 1997 after the acquisition of BBN Corporation. This unit is quickly positioning GTE as the industry's leading provider of advanced data and Internet-related services, including network management, security and other value-added services. Further enhancing our data capabilities, we acquired Genuity Inc., a company that specializes in complex Web-hosting services. Genuity brings to GTE strategically located network data centers and load-balancing proprietary software that ensures efficient delivery of data access across the Internet.

GTE Airfone strengthened its position this year as the industry leader in inflight communications with the addition of Continental Airlines to its roster of clients. Airfone offers a full array of air/ground communications services, including conference calling, seat-to-seat calling, data and fax capabilities, and a wide variety of information services, including LIVE CNN. Airfone® service is now installed in more than 2,300 aircraft.

We're pleased with the progress we made this past year, but we're even more excited about our unlimited growth prospects in the years ahead.

KENT B. FOSTER
President

SUPER FAST INTERNET ACCESS

LOCAL SERVICE

21.5 MILLION
ACCESS LINES IN THE U.S.



Michael McIlrath, a sponge diver in Tarpon Springs, Florida, uses one of GTE's 21.5 million telephone lines to make a call. In addition to nationwide long-distance and Internet-access services, GTE has local and wireless service

areas that cover approximately 30% of the U.S. population. Fully 60% of the U.S. population lies within easy reach (100 miles or less) of GTE's existing territories.

ASPI* Alan Wallace, chairman of a public relations agency, is one of GTE's first customers in the Mariner's Village condominium complex in Marina Del Rey, California, to receive new, blazingly fast Internet-access service, called asymmetrical digital subscriber line (ADSL) technology. ADSL transmits huge volumes of data between home and office computers at speeds up to 1.5 megabits-per-second, taking the pain out of working over the Internet at slower speeds.



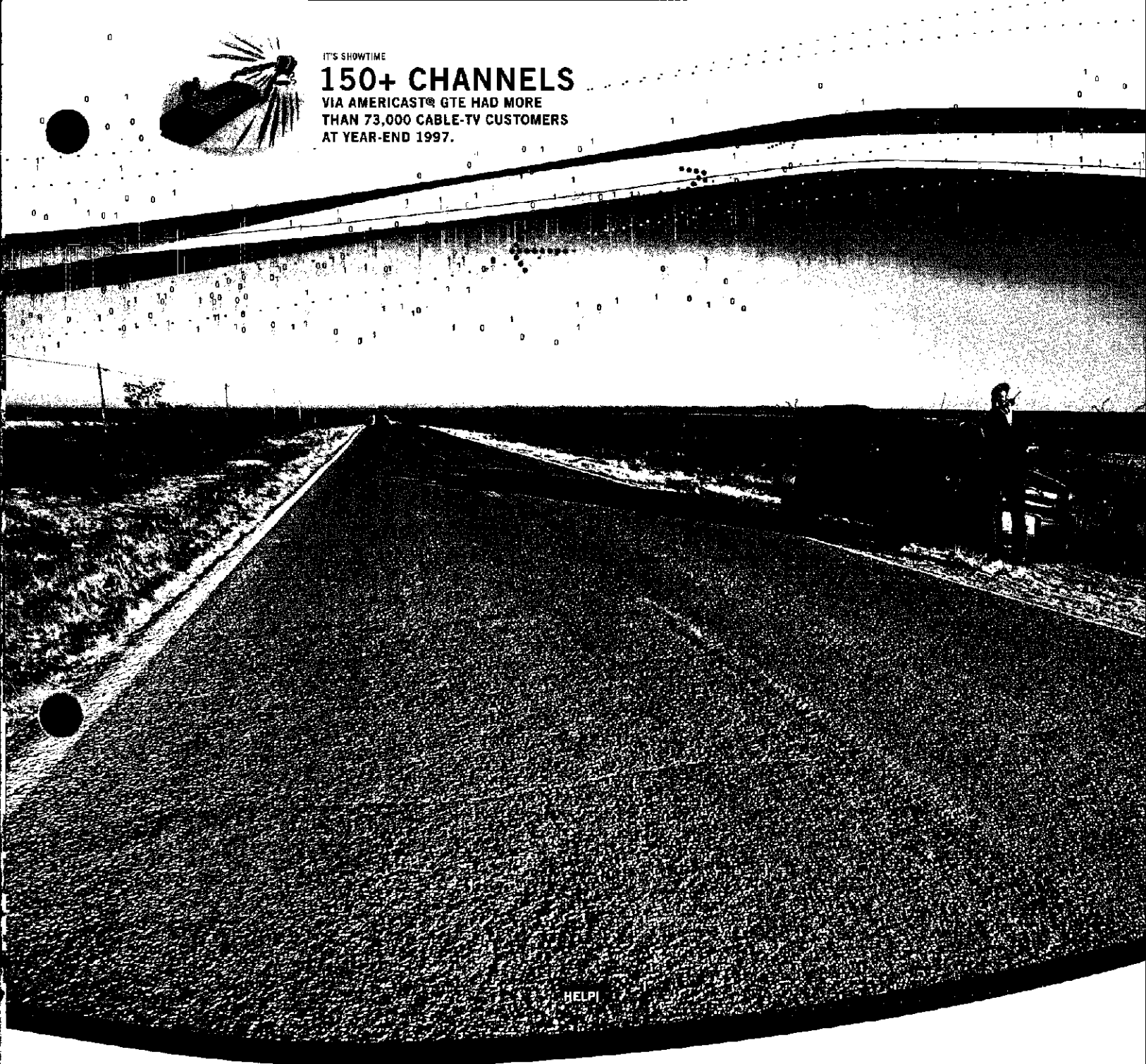
FRIENDLY* GTE Phone Mart® stores provide one-stop shopping and total communications solutions. Services range from wireline to wireless, digital pagers, faxes, cable subscription, and the Internet. Phone Mart® stores are also friendly places to get technical questions answered. Of GTE's 148 stores, 115 had revenues of \$1 million or more, bringing total retail revenues to more than \$350 million in 1997, a 37% increase over 1996.



IT'S SHOWTIME

150+ CHANNELS

VIA AMERICAST® GTE HAD MORE
THAN 73,000 CABLE-TV CUSTOMERS
AT YEAR-END 1997.



Some days, things just don't go right. Like getting stranded on a desert highway in New Mexico. Having a wireless phone can make life a little easier. GTE's wireless businesses

serve 5.7 million people living on this crowded planet – and a few who find themselves in some pretty remote places as well.



Chinda Nelson, a nurse practitioner, uses a video otoscope to examine the inner ear of a young adult at the Metropolitan Ministries, a homeless shelter partially supported by the GTE Foundation. A telemedicine monitor video-links an image of the ear and transmits it over GTE wirelines to consulting doctors at the University of South Florida Pediatrics Clinic.

VOICE MAIL

"HERE'S THE LATEST"

ELECTRIFYING

272,000

INTERNETWORKING CUSTOMERS



The frenetic staff of Boston.com churns out a daily on-line version of *The Boston Globe* newspaper. The information service also works with over 40 content providers – from other publications to TV and radio outlets – to provide advertisers with a direct link to New Englanders in search of everything from Red Sox scores to real estate classifieds, updated weather reports,

The Federal Aviation Administration (FAA) selected GTE to design, install and operate a new Aeronautical Information System. FAA personnel and military pilots at 250 locations across the U.S. will use the system to prepare and file flight plans with the FAA, and to communicate weather briefings and advisories online, making it faster and easier to communicate critical flight-related data.



traffic conditions and online exhibits for Boston's Museum of Fine Arts. GTE Internetworking is the site's Internet service and Web-hosting provider, offering secure network management and reliability – a requirement for this popular site, which receives as many as one million page views each day.



Josephine Easton, a realtor, uses GTE Real Estate Solutions software to download "real-time" information on the local housing market to a prospective customer. Using a laptop computer, she has fast, direct access to multiple listings, public databases, e-mail and dial-up Internet-access services from her home, office or on the road, providing her with a competitive edge.



FAILSAFE

**GTE'S INTERNET SECURITY ENCRYPTION
SYSTEM IS USED BY THE U.S. DEPARTMENT
OF DEFENSE.**



PRODUCTIVE

GTE provides over 13,000 Boeing Company employees with dial-up Internet-access service and offers a fast integrated services digital network (ISDN) system to promote telecommuting. We also helped to configure and install a private Central Office telephone switching system. GTE is bidding on

customizing a wireless headset system that will allow jet aircraft assemblers to communicate with suppliers – and each other across the factory floor more efficiently, boosting productivity and quality in its plants in Washington and Kansas.



GTE enables Purdue University in West Lafayette, Indiana, to use a special PictureTel™ system to conduct interactive distance learning, videolinking faculty and students at other campuses to increase office hours and the quality of education. GTE also meets other Purdue communications needs from basic phone service to trial ADSL Internet access and a managed switching facility on the campus, which serves 36,000 students and 12,000 faculty and staff.

COAST-TO-COAST

1.7 MILLION
LONG-DISTANCE CUSTOMERS



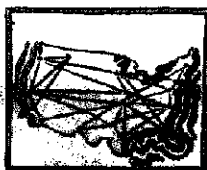
UP...UP...AND AWAY

2,300+
AIRFONE® INSTALLATIONS
WE'RE THE LEADER IN
IN-FLIGHT CALLING.



World-renowned potter Nancy Youngblood Lugo (right) uses skills passed down over the centuries through her family to create a decorative clay pot. One of her creations is seen here baking in a traditional open fire kiln in her studio on the Santa Clara Reservation in Española, New Mexico. GTE local and long-distance phone service, together with the Internet, help Nancy keep in touch with family, friends and gallery outlets. Her husband, George (above), is a GTE employee who helps to maintain telephone voice transmissions over the rugged Jemez Mountains to Greater Santa Fe and beyond.

Detective David Wilson (left) and officer David Tull of the Irving, Texas, Police Department use the Bastille™, GTE's new, secure, Web-based software, to track a missing child across state lines. When fully deployed, the Bastille™ will help law enforcement agencies to collaborate on everything from monitoring gangs to tracking "most wanted" suspects.



GTE IS CREATING A

15,000-MILE
DATA NETWORK.



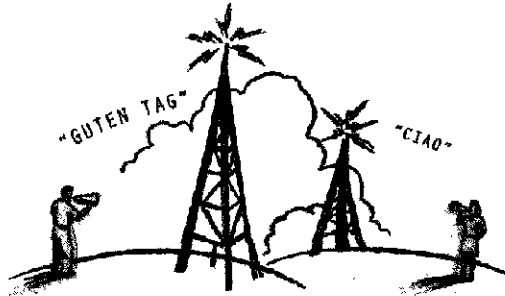
CONNECTED

CONNECTED • Mike Rabaut is an associate professor of computer science and the father of three children, including Sarah (left). Because his wife often works out of town, he leaves his campus office early to be home when the kids get out of school. He has this flexibility and remains productive, thanks to GTE's

far-reaching network, which includes local and long-distance service and Internet access. All of this allows Mike to telecommute from his home office, where he edits Web files, faxes papers, reconfigures college routers and e-mails students.

SAVVY • Wendy Ballentine receives a facial from Erin Fox at Pazazz Hair Design. Pazazz advertises in GTE's The Everything Pages® telephone directory. Pazazz also reaches potential customers through advertising in GTE's SuperPages® interactive service and GTE i-cast® cable TV.





ON THE ROAD

GLOBALROOMSM SERVICE
 ALLOWS USERS TO MAKE AND RECEIVE CALLS
 THROUGH THEIR HOME WIRELESS PHONE
 NUMBER WHILE TRAVELING IN EUROPE AND ASIA.

INTERNATIONAL OPERATIONS ■

International operations had a very successful year of continued improvement of existing operations while pursuing new profitable growth opportunities.

Overall, GTE's international operations continue to make significant contributions to the company's financial performance.

Reported revenues were \$2.9 billion, up 7% from 1996, and consolidated net income reached \$366 million, up 8% over 1996. Results in 1997 included the cost of start-up operations in Asia.

Looking at our international operations on a managed basis, revenues reached \$5.2 billion in 1997, up 20% from 1996.

At the end of 1997, GTE's international operations served more than 6.1 million access lines, 1.2 million cellular subscribers and 382,000 paging customers throughout the world.

BC Telecom and QuébecTel – our affiliated companies in Canada – both had strong performances as they successfully managed the transition to a fully competitive marketplace.

CODETEL – the national telephone company of the Dominican Republic, which GTE wholly owns – maintained its solid performance in the face of increasing competition.

CANTV – Venezuela's national telephone company, which we manage and in which we have nearly a 26% ownership interest – also had an outstanding year financially and now is preparing for competition that will arrive in the next few years. At the end of 1996, CANTV became a public company with the listing of its share equivalents on the New York Stock Exchange. The initial share equivalents were offered publicly on November 22, 1996

at \$23. At the end of 1997, the share equivalents were trading at \$41.625, an increase of 81% since the initial offering.

Our international joint ventures continued to grow. For example, CTI – a wireless telephone company in Argentina – more than tripled its cellular customer base during the year. In China, service over our paging network expanded to 20 major metropolitan areas. Elsewhere in Asia, GTE is investing in everything from personal communications systems in Taiwan to helping India and Sri Lanka companies build telecommunications infrastructures.

GTE expanded its directories presence in Europe in 1997 with new acquisitions in Poland and Austria. We joined with Swedish publisher Telia AB to purchase Polish independent publisher U S WEST Polska from U S WEST International. GTE also purchased Herold Business Data, Austria's largest telephone directory publisher, in a joint venture with Post & Telekom Austria.

In addition, we realigned our international units to strengthen our business development efforts, and appointed a new management team to spearhead our drive. We're focusing particularly on new opportunities in Latin America, Europe and Asia.

We're confident that International will continue to present GTE with unlimited growth opportunities.

MICHAEL T. MASIN

Vice Chairman and President – International



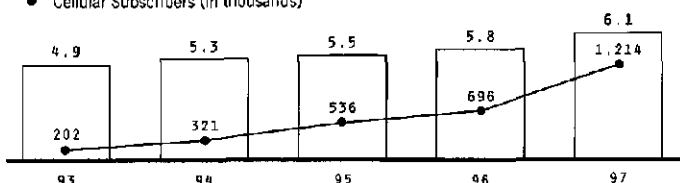
AT YOUR SERVICE ■ GTE owns 50.8% of BC Telecom, which provides a full range of sophisticated telecommunications services to the Canadian province of British Columbia. BC Telecom crowned a successful year by being the sole host telecommunications provider to Vancouver's November 1997 Asia-Pacific Economic Council Summit, which brought together presidents, prime ministers and trade ministers of Canada, Mexico, the U.S. and most Pacific Rim countries.



INTERNATIONAL OPERATIONS:

ACCESS LINES AND CELLULAR SUBSCRIBERS (including affiliates)

- Access Lines (in millions)
- Cellular Subscribers (in thousands)



INTERNATIONAL

OVER 7 MILLION
CUSTOMERS OUTSIDE THE U.S. FROM
CANADA TO CHINA AND ARGENTINA

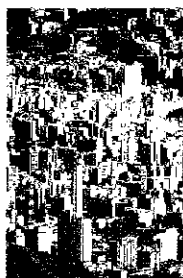


Since late 1995, GTE has partnered with a major Chinese wireless company to help modernize telecommunications in China with a nationwide paging network. Today, the network is

CODETEL—the Dominican Republic telecommunications company owned and operated by GTE—has 649,000 access lines in a country of 8.2 million people. In 1997, it launched the Latin Internet Exchange, a high-speed Internet and data superhighway designed to make Santo Domingo a regional hub for data traffic throughout the Caribbean and Central and South America.



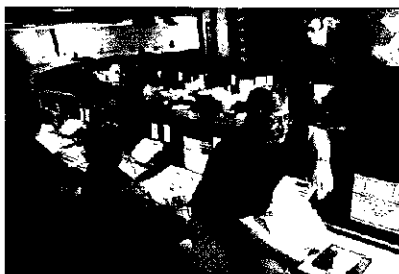
active in 20 major metropolitan areas, including Shanghai (above), Guangzhou and Beijing. With 1.2 billion people, China presents GTE with a major market opportunity.



CANTV—Venezuela's national telecommunications company—has 2.7 million access lines reflecting fast growth and dynamic performance. In 1997, CANTV began construction of a 1,400 kilometer undersea fiber optic cable along Venezuela's coastline. This cable will enable the rapid deployment of the country's voice, video, and data superhighway.

WIRELESS

5.7 MILLION
CUSTOMERS WORLDWIDE



GTE has Network Operations Centers (NOCs) in the Dominican Republic, where its CODETEL subsidiary is located, in Venezuela at CANTV, and near the Dallas/Fort Worth International Airport in Texas. The NOCs manage GTE's wireline and wireless network as well as private networks for 2,500 clients in the U.S. and throughout Latin America, enabling GTE to monitor and correct network problems from thousands of miles away.

ELECTRONIC COMMERCE

GTE's CYBERTRUST™

TEAM IS WORKING WITH AMERICAN EXPRESS®,
MASTERCARD INTERNATIONAL® AND BANKS
AROUND THE WORLD – INCLUDING CHINA,
TAIWAN, JAPAN AND THE U.S. – TO OFFER SAFE
ELECTRONIC COMMERCE VIA THE INTERNET.



OR CALLING FROM THE RAIN FOREST OF IGUAÇÚ FALLS,
IN ARGENTINA, GTE'S COMPAÑIA DE TELÉFONOS DEL
INTERIOR (CTI) AFFILIATE COVERS THE TERRITORY WITH

DYNAMIC ▪ Pacific Cellular Corporation Ltd., a consor-
tium in which GTE is a stakeholder, launched a nation-
wide personal communications services venture in Taiwan
only in 1998. Over 140,000 customers presubscribed to
service. GTE is the only foreign strategic partner in
consortium.



ONE OF LATIN AMERICA'S MOST EXTENSIVE WIRELESS
NETWORKS ▪ CTI more than tripled its wireless customer base
in the interior regions during 1997 to over 328,000 users.



BONJOUR ▪ The QuébecTel Group Inc. in Canada covers
the northeastern portion of Québec's vast territory. GTE
owns 50.6% of the company. In 1997, "Globetrotter™,"
the QuébecTel-owned Internet service provider, extended
its reach and enjoyed tremendous commercial success.
QuébecTel also acquired Aide à la Micro-Informatique
(AMI) Inc., a high-tech systems integration firm,
strengthening the company's technological power.

GTE AT A GLANCE ■

MAJOR DOMESTIC OPERATIONS ■

GTE Network Services is GTE's nationwide regulated wireline telephone operation. It served more than 21.5 million residential and business lines at the end of 1997. The business unit is also responsible for all wholesale operations to other telecommunications companies.

GTE Communications Corporation is GTE's competitive local-exchange carrier (CLEC). It markets the full spectrum of GTE's services, including local, long-distance, wireless and data services, without regard to franchise boundaries.

- **GTE Long Distance** provides long-distance services to customers in all 50 states.
- **GTE Video Services** provides advanced high-quality video services to residential and business customers in California, Florida and Hawaii (including cable modem Internet access in some markets).

GTE Wireless is a leading provider of wireless telecommunications products and services in 73 metropolitan statistical areas, 53 rural statistical areas and three major trading areas. Some 61.3 million people live in the areas GTE is licensed to serve and it has 4.5 million customers.

GTE Internetworking Inc. offers managed access to the Internet and a variety of value-added services for businesses and other organizations. It offers Internet services with global reach, as well as Internet and Intranet business application solutions. It includes BBN Technologies, which provides the core research and development efforts that continue to drive the evolution of the Internet.

GTE Directories annually publishes or provides sales and other directory-related services for more than 2,300 directory titles with a circulation of 70 million copies.

- **GTE New Media Services** develops and markets online advertising and information services, including SuperPages®, an interactive service for consumers and advertisers on the Internet's World Wide Web.

GTE Technology & Systems serves as a consolidated source of technology-related information, coordination, support and guidance for all GTE business units.

- **GTE Government Systems** is a leading supplier of communications and intelligence systems for defense, government and industry primarily in the United States. It also provides field engineering services, logistics support and the installation, operation and maintenance of telecommunications and information systems.
- **GTE Laboratories** is the central research and development facility for GTE Corporation.

GTE Airfone, the leading provider of airborne communications systems, provides clear, reliable inflight telecommunications services to passengers on more than 2,300 aircraft. Passengers can use the Airfone® service to make and receive calls, send and receive data and faxes, and access e-mail and voice mail. Since the first call in 1984, the Airfone service has logged more than 76 million calls.

MAJOR INTERNATIONAL OPERATIONS ■

GTE International networks connect more than 250 locations on five continents. GTE has more than 40 years of international experience and serves more than seven million customers.

BC Telecom provides local, long-distance and wireless services in the province of British Columbia, Canada, to three million customers. GTE has a 50.8% controlling interest in BC Telecom.

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) is a full-service telecommunications provider offering local, wireless, national and international long-distance services throughout Venezuela. GTE is part of a multinational consortium that owns a controlling minority interest in CANTV.

Compañía Dominicana de Teléfonos (CODETEL) provides local, wireless, national and international long-distance services throughout the Dominican Republic.

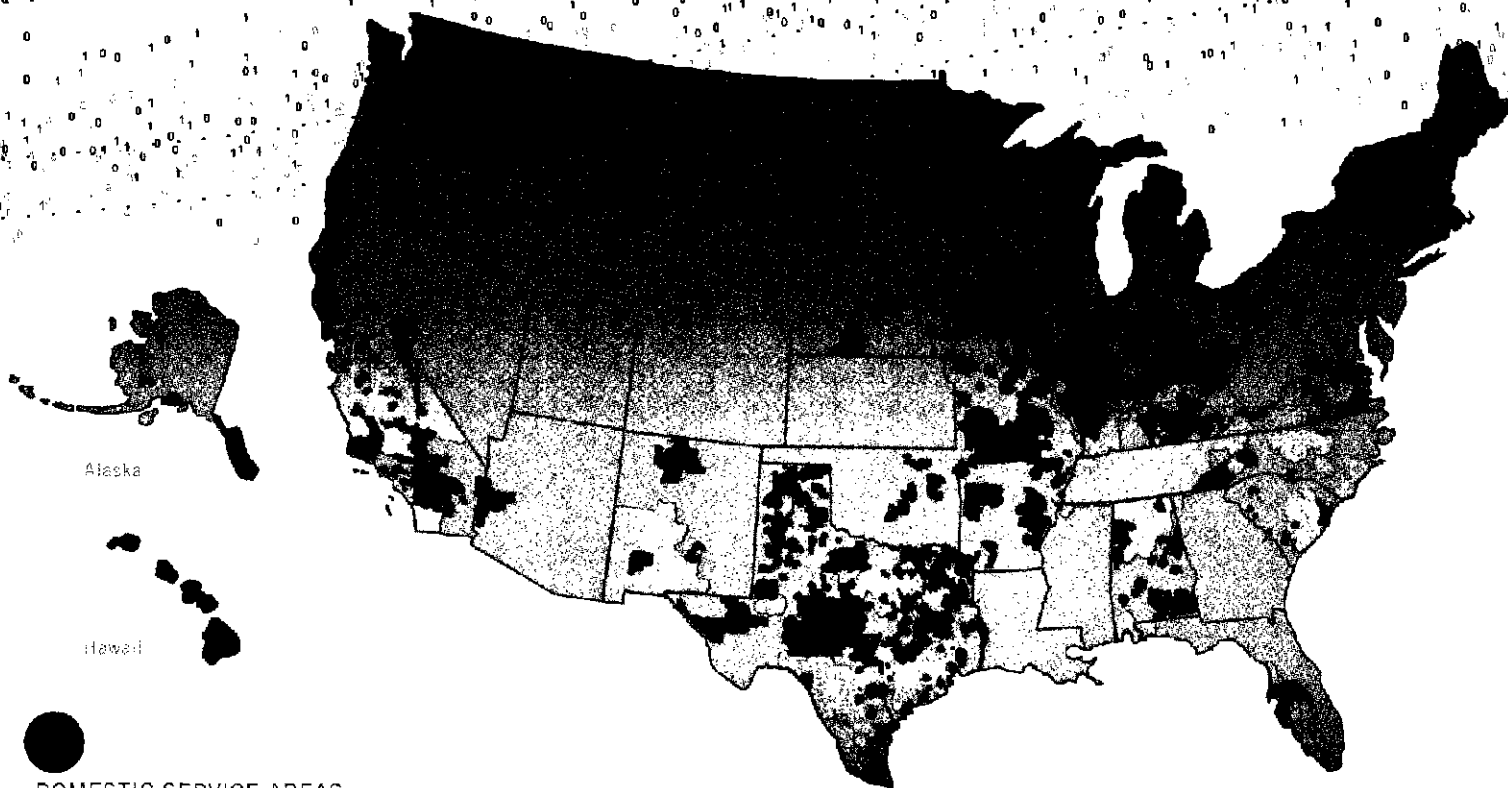
Compañía de Teléfonos del Interior (CTI) provides wireless services in the north and south interior regions of Argentina. CTI has more than 328,000 wireless customers. GTE is part of a multinational consortium that owns a controlling minority interest in CTI.

GTE China provides paging services in 20 major metropolitan areas, including Beijing.

QuébecTel Group Inc. provides local, long-distance and wireless services to more than 300,000 customers in the northeastern region of Québec, Canada. GTE has a 50.6% controlling interest in QuébecTel.

GTE International Telecom Services includes business initiatives involving the publishing and sale of directory-related services in Europe, Canada, Asia and Latin America, as well as an Engineer, Furnish and Install (EF&I) business unit.

GTE SERVICE AREAS •



DOMESTIC SERVICE AREAS •

- Wireline ● Wireline and PCS ● Wireless ● Wireline and Wireless
- Personal Communications Services (PCS) ● Long-distance, dial-up Internet-access and Directories in all 50 states

INTERNATIONAL SERVICE AREAS •

Central America and Caribbean • Dominican Republic ▣ CODETEL: Full-service provider Business Unit Operations ▣ Belize ▣ Costa Rica ▣ Mexico	South America • Venezuela ▣ CANTV: Full-service provider Argentina ▣ CTI: National wireless provider (outside Buenos Aires)	North America • Canada ▣ QuébecTel Group Inc.: Full-service provider in northeastern region of Québec	North America • Canada ▣ BC Telecom: Full-service provider	Europe / Middle East • Business Unit Operations ▣ Austria ▣ Belgium ▣ Poland ▣ Spain ▣ Hungary ▣ Saudi Arabia	Asia Pacific • China ▣ GTE China: Paging venture in 20 major metropolitan areas Taiwan ▣ Member of national wireless consortium Japan ▣ Participant in wireless consortium ▣ Engineer, Furnish & Install activities Northern Mariana Islands ▣ Full-service provider Business Unit Operations ▣ Sri Lanka ▣ Brunei

Selected Financial Data

GTE Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Amounts)	1997	1996	1995	1994	1993	Five-Year Annual Growth Rate ^a
Results of Operations						
Revenues and sales						
Local services	\$ 6,607	\$ 6,060	\$ 5,743	\$ 5,137	\$ 5,062	6.5%
Network access services	4,923	4,618	4,363	4,348	4,398	1.8
Toll services	2,429	2,500	2,548	3,285	3,321	(7.6)
Cellular services	2,817	2,562	2,191	1,666	1,178	26.2
Directory services	1,507	1,527	1,383	1,372	1,438	1.6
Other services and sales	4,977	4,072	3,729	3,720	3,935	1.8
Total revenues and sales	23,260	21,339	19,957	19,528	19,332	3.5
Cost of services and sales	9,203	8,071	7,537	7,677	7,848	1.8
Selling, general and administrative	4,560	4,010	3,689	3,667	3,817	2.4
Depreciation and amortization	3,886	3,770	3,675	3,432	3,419	3.5
Restructuring costs	—	—	—	—	1,840 ^(a)	—
Operating income	5,611	5,488	5,056	4,752	2,408 ^(b)	12.7
Net income (loss)						
Income before extraordinary charges ^(d)	2,794 ^(c)	2,798	2,538	2,441	972	17.1
Consolidated ^(e)	2,794	2,798	(2,144) ^(e)	2,441	882 ^(f)	—
Earnings (loss) per common share						
Income before extraordinary charges ^(d)	2.92 ^(c)	2.89	2.62	2.55	1.03	15.8
Consolidated ^(e)	2.92	2.89	(2.21) ^(e)	2.55	.93 ^(f)	—
Diluted earnings (loss) per common share						
Income before extraordinary charges ^(d)	2.90	2.88	2.61	2.54	1.03	15.8
Consolidated ^(e)	2.90	2.88	(2.20)	2.54	.93	—
Common dividends declared per share	1.88	1.88	1.88	1.88	1.85	1.1
Book value per share	8.39	7.62	7.05 ^(e)	10.85	9.96	(6.6)
Average common shares outstanding (in millions)	958	969	970	958	945	1.1
Assets and Capital						
Consolidated assets	42,142	38,422	37,019 ^(e)	42,500	41,575	(1.1)
Long-term debt and redeemable preferred stock	14,494	13,210	12,744	12,236	13,103	.4
Shareholders' equity	8,038	7,336	6,871 ^(e)	10,483	9,593	(6.5)
Net cash from operations	6,244	5,899	5,033	4,740	5,373	4.7
Capital expenditures	5,128	4,088	4,034	4,192	3,893	4.3
Consolidated Ratios and Other Information						
Return on common equity ^(g)	37.6%	40.2%	(20.3)%	24.8%	8.8%	—
Return on investment ^(h)	14.5%	15.6%	(4.2)%	13.1%	6.9%	—
Average common equity	7,433	6,960	10,539	9,838	10,030	(5.3)
Equity ratio	36.5%	38.1%	37.9% ^(e)	46.2%	42.6%	—
Average investment	26,857	24,395	27,150	25,647	27,322	(1.4)
Research and development	122	122	137	139	135	(4.6)
Employees (in thousands)						
Total	114	102	106	111	117	(3.0)
United States	94	83	85	89	94	(2.6)
International Operations (included above) ⁽ⁿ⁾						
Revenues and sales	\$ 2,902	\$ 2,711	\$ 2,477	\$ 2,483	\$ 2,420	4.0
Income before extraordinary charges	366	339	206	265	321	5.2
Total assets	6,877	6,516	5,808	5,727	5,449	5.4

Notes to Selected Financial Data appear on page 19.

Selected Financial Data

GTE Corporation and Subsidiaries

(Millions of Dollars)	1997	1996	1995	1994	1993	Five-Year Annual Growth Rate*
Network Statistics						
Access minutes of use (in millions)	79,640	70,452	64,193	59,247	55,864	8.6%
Access lines (in thousands)						
Total ⁽ⁱ⁾	27,670	25,766	24,050	22,739	21,972	5.5
United States ⁽ⁱ⁾	21,539	20,007	18,512	17,427	17,059	5.2
Switched	18,378	17,416	16,650	16,022	15,915	3.1
Wireless subscribers (includes PCS in thousands)						
Total	5,701	4,445	3,547	2,660	1,787	36.1
United States	4,487	3,749	3,011	2,339	1,585	32.7
Adjusted "POPs" (in millions)^(j)						
Total	78.9	78.3	76.7	68.0	63.4	6.1
United States	61.3	61.9	61.7	53.0	53.0	3.9
Domestic Wireline Operations						
Revenues and sales	\$15,134	\$13,965	\$13,375	\$13,212	\$13,162	2.6
Operating income ^(k)	4,491	3,982	3,621	3,490	1,962 ^(b)	11.2
Operating cash flow margin ^(k)	47.7%	48.3%	47.8%	46.4%	34.7%	—
Capital expenditures	3,607	2,690	2,564	2,821	2,811	2.7
Domestic Cellular Operations						
Service revenues	\$ 2,549	\$ 2,347	\$ 2,019	\$ 1,539	\$ 1,082	25.9
Operating income	449	461	410	278	124	45.6
Operating cash flow margin ^(k)	33.5%	36.0%	36.8%	35.3%	31.9%	—
Capital expenditures	297	600	709	610	389	.8

*Least-squares method; percentages have been omitted where not meaningful.

(a) During 1993, GTE recorded one-time restructuring costs of \$1.8 billion, which reduced net income by \$1.2 billion, or \$1.22 per share.

(b) Includes a \$74 million pretax charge (\$46 million after-tax, or \$.05 per share) for the cost of voluntary separation programs at domestic telephone operations.

(c) Includes costs associated with the new data initiatives that reduced net income by \$242 million, or \$.25 per share.

(d) 1996, 1995, 1994 and 1993 include after-tax gains of \$8 million, or \$.01 per share; \$11 million, or \$.01 per share; \$162 million, or \$.17 per share; and \$91 million, or \$.10 per share, respectively, on sales of certain nonstrategic domestic local-exchange telephone properties.

(e) See Note 2 on Extraordinary Charges.

(f) During 1993, GTE redeemed, prior to scheduled maturity, \$2.1 billion of high-coupon first-mortgage bonds of five of its telephone subsidiaries. These redemptions resulted in an after-tax extraordinary charge of \$90 million (net of tax benefits of \$53 million), or \$.10 per share.

(g) Excluding the special items described in footnotes (a) through (f), net income, earnings per common share, diluted earnings per share, return on common equity and return on investment would have been:

	1997	1996	1995	1994	1993	Five-Year Annual Growth Rate*
Net income (in millions)	\$3,036	\$2,790	\$2,527	\$2,279	\$2,077	11.2%
Earnings per common share	3.17	2.88	2.61	2.38	2.20	10.0
Diluted earnings per common share	3.16	2.87	2.60	2.37	2.19	10.0
Return on common equity	40.6%	40.1%	23.2%	23.3%	20.4%	—
Return on investment	15.6%	15.5%	12.8%	12.5%	11.2%	—

(h) Includes GTE's international subsidiaries and affiliates.

(i) Access lines exclude 448,000 and 440,000 net lines sold during 1994 and 1993, respectively. Total access lines include 2.7 million, 2.5 million, 2.4 million, 2.3 million and 2.0 million lines served by CANTV in Latin America in 1997-93, respectively. Excluding the effect of CANTV and the access lines sold during 1994 and 1993, the five-year total access line growth rate was 5.9%.

(j) Represents population to be served times GTE's percentage interest in wireless markets.

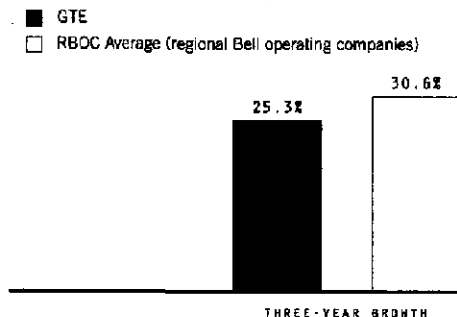
(k) Represents operating income before depreciation and amortization divided by revenues.

Financial Review

Return to Shareholders

GTE's primary objective is to maximize shareholders' long-term total return, consisting of share-price appreciation and dividends. Total return to GTE shareholders in 1997 increased to 20% compared with 8% appreciation in 1996. GTE generated a three-year 1997 average total return of 25.3% compared with the regional Bell operating companies of 30.6%.

RETURN TO SHAREHOLDERS (assumes dividends are reinvested)



GTE's commitment to shareholder value is supported by clear investment criteria: investments must be in the Company's integrated telecommunications business, and they must be expected to earn more than their cost of capital over time. GTE's commitment to shareholder value is also supported by a policy of maintaining a dividend payout ratio that is competitive with peer companies. Consistent with this policy, GTE maintained its dividend at \$1.88 per share in 1997, resulting in a dividend payout ratio of 64%.

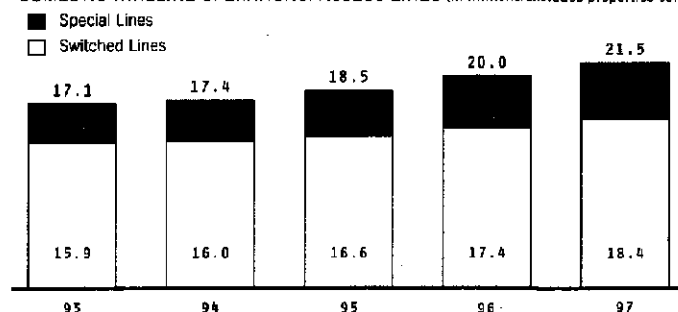
Consolidated Operations

GTE had another strong year in 1997. Domestically, GTE realized record growth in access lines and network usage and strong growth in wireless customers. Internationally, network services revenues grew 7%, driven by increased usage of network access lines, higher rates in the Canadian operations and wireless subscriber growth in Canada and the Dominican Republic.

Consolidated net income in 1997 was \$3.0 billion, or \$3.17 per share, excluding the impact of data initiatives. This is a 10% earnings per share growth compared with consolidated net income in 1996 of \$2.8 billion, or \$2.88 per share, excluding the impact of gains (\$8 million, or \$.01 per share) associated with the sale of nonstrategic domestic telephone properties. Including the effects of the new 1997 data initiatives, reported earnings per share of \$2.92 was achieved on \$2.8 billion of net income.

Consolidated revenues and sales grew 9% in 1997 to \$23.3 billion compared with \$21.3 billion reported in 1996. Strong volume growth in network services operations and substantial increases in wireless customers more than offset lower, more competitive pricing. Outside the U.S., local rate rebalancing programs in Canada and the Dominican Republic more than offset toll revenue losses resulting from competitive pressures.

DOMESTIC WIRELINE OPERATIONS: ACCESS LINES (in millions/excludes properties sold)



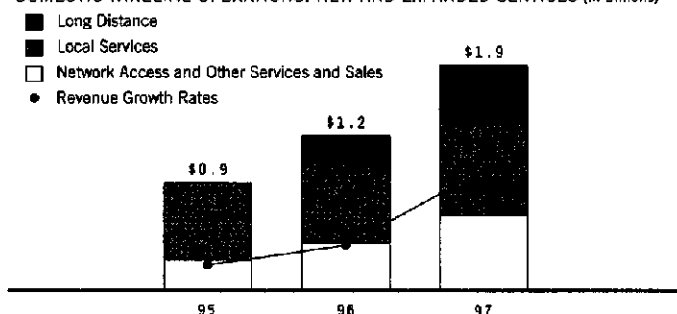
GTE's Network Services experienced record growth, adding 1.5 million access lines, an increase of 77%, and achieving a 13.0% increase in minutes of use.

During 1997, GTE added 738,000 new domestic wireless customers, bringing total domestic wireless customers to 4,487,000 and total worldwide wireless customers to 5,701,000, representing a 28.3% growth rate over the 4,445,000 served at the end of 1996.

The rollout of new and expanded services also drove the increase in revenues. These services, which include interlata long-distance, CentraNet®, data and custom-calling features, such as caller ID, call waiting and voice messaging, increased these revenues 55% to \$1.9 billion in 1997. This compares with \$1.2 billion of revenues recorded in 1996. These new services are expected to continue to contribute a larger percentage of GTE's total revenue stream in future years as a result of strong business and consumer demand.

Financial Review

DOMESTIC WIRELINE OPERATIONS: NEW AND EXPANDED SERVICES (in billions)



Operating income for 1997 reached a record \$5.6 billion, up 2% from the \$5.5 billion reported in 1996. The increase was accomplished while investing in new strategic opportunities, such as the data initiatives, that began in 1997. Excluding the data initiatives, 1997 operating income from core operations was \$6.0 billion, representing 9% growth over last year. Investments in other initiatives, such as long distance, PCS, video and GTE SuperPages®, as well as GTE's new sales, service and marketing activities, reduced operating income by \$456 million. Net interest expense increased from 1996 levels due to higher debt balances, partly offset by favorable interest rates. Other expense totaled \$48 million in 1997 compared with \$50 million in 1996. The slight improvement reflects GTE's increased ownership in and higher earnings from CANTV, the Venezuelan telephone company in which GTE has a 25.9% equity interest, and income from unconsolidated domestic wireless subsidiaries. GTE's effective income tax rate in 1997 increased to 36.8% from 36.6% in 1996.

In 1996, consolidated revenues and sales totaled \$21.3 billion compared with \$20.0 billion in 1995. Strong volume growth in telephone operations and substantial increases in cellular customers more than offset lower, more competitive pricing. In the U.S., price reductions and regulatory actions reduced revenues by approximately \$160 million and \$450 million in 1996 and 1995, respectively.

Operating income in 1996 increased 8.5% over 1995. The increase was due to higher revenues and ongoing cost reductions from process re-engineering activities. The increase was partially offset by higher costs associated with the expansion of core wireline and wireless businesses, as well as investments in new initiatives. Income was \$2.8 billion, or \$2.88 per share, in 1996, an increase of 10% compared with \$2.5 billion, or \$2.61 per share, in 1995, excluding special items.

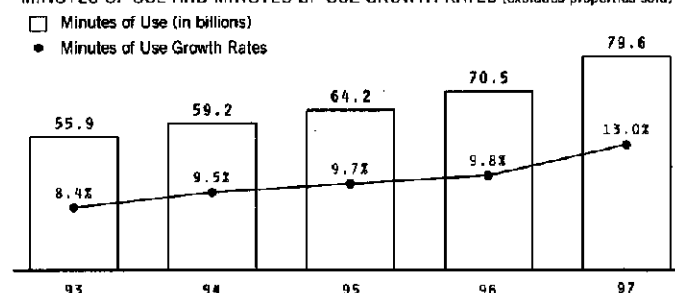
For a discussion of the use of financial instruments and contingencies, see Notes 9 and 16 to Consolidated Financial Statements. During 1995, GTE adopted accounting principles appropriate for nonregulated companies and recorded extraordinary charges totaling \$4.7 billion, or \$4.83 per share, as discussed in Note 2 to the Consolidated Financial Statements.

Local Service Revenues

Local service revenues are based on fees charged to customers for providing local telephone exchange service within designated franchise areas. Local service revenues increased 9% to \$6.6 billion in 1997. This growth was attributable to adding a record 1.5 million domestic access lines in service during 1997, a 7.7% growth rate, including a 426,000, or 8.9%, increase in business lines and a 267,000, or 16.0%, increase in residential second lines. The growth in second lines is attributable to strong consumer demand for access to the Internet, online computer services and fax machines. Additionally, 159,000 international access lines were added in 1997.

DOMESTIC WIRELINE OPERATIONS:

MINUTES OF USE AND MINUTES OF USE GROWTH RATES (excludes properties sold)



Network Access Service Revenues

Interstate and intrastate network access service revenues are based on fees charged to interexchange carriers that use GTE's local-exchange network in providing long-distance services to their customers. Network access service revenues of \$4.9 billion grew 7% from \$4.6 billion in 1996. The impact of the 13.0% growth in minutes of use of GTE's domestic local-exchange network for long-distance calling was partially offset by competitive and regulatory-mandated rate reductions totaling \$120 million.

Toll Service Revenues

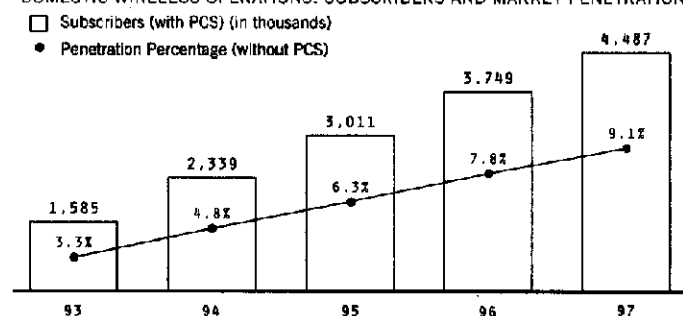
Toll service revenues are based on fees charged for service beyond a customer's local calling area but within the local access transport area (LATA), and also include revenues of GTE Long Distance service introduced in 1996. Toll service revenues decreased 3% to \$2.4 billion from the 1996 level. This decline was primarily attributable to price reductions to meet less expensive competitive access and regulatory-mandated rate reductions. Partially offsetting these reductions were \$274 million of higher revenues related to GTE Long Distance service.

Financial Review

Cellular Service Revenues

Cellular service revenues grew 10% to \$2.8 billion from \$2.6 billion in 1996. The growth in revenues was primarily attributable to the growth in customers both in the U.S. and internationally. Total U.S. customers served at the end of 1997 reached 4,487,000, an increase of 20% over 1996. Cellular market penetration increased to 9.1% in 1997 compared with 7.8% in 1996. The revenue growth was tempered by a decline in revenues per customer per month in the U.S., reflecting price competition and continued growth of casual and security users in the customer base. During the year, revenues per customer in the U.S. averaged \$51 per month compared with \$60 in 1996, a 15.0% decline.

DOMESTIC WIRELESS OPERATIONS: SUBSCRIBERS AND MARKET PENETRATION



Directory Services Revenues

Directory services revenues result primarily from the sale of Yellow Pages advertising and also include fees charged to print, publish and distribute telephone directories. GTE annually publishes or provides sales and other directory-related services for approximately 2,600 different directories in 47 states and 16 foreign countries. Directory services revenues declined slightly, 1% to \$1.5 billion in 1997.

Other Services and Sales

Other services and sales include revenues from: GTE Government Systems, which provides integrated telecommunication systems and customized solutions and equipment to U.S. government defense and civilian agencies as well as commercial users both domestically and internationally; GTE Airfone, which provides aircraft-based telecommunication services for passengers; and telephone and cellular equipment sales and services. In addition, other services and sales includes revenue from data initiatives of \$279 million in 1997. GTE continued strengthening its data initiatives by acquiring BBN Corporation (BBN) based in Cambridge, Massachusetts. BBN is a leading provider of high performance end-to-end Internet solutions such as World Wide Web site hosting, network security, consulting, systems integration, and dedicated and dial-up Internet access for government and commercial customers. Its 2,200 employees have extensive experience in leading-edge Internet and other telecommunications applications. Twenty-eight years ago, BBN created ARPANET, the forerunner of the Internet. In total, other services and sales revenues increased to \$5.0 billion in 1997, reflecting an increase of 22% due to the new data initiatives and higher non-network related equipment and systems sales. During 1997, GTE Government Systems received orders valued at \$1.4 billion, an 18% increase over 1996.

Cost of Services and Sales

Cost of services and sales increased 14% to \$9.2 billion in 1997 compared with \$8.1 billion in 1996, primarily reflecting the growth in sales of telecommunication systems and equipment as well as increased costs associated with the new initiatives that GTE started over the past two years. Partly offsetting these increases are productivity improvements such as the rollout of technologically-advanced systems, thereby reducing labor-intensive processes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 14% in 1997 to \$4.6 billion from \$4.0 billion in 1996. The growth in these operating costs is primarily related to higher selling and advertising costs, which grew 34% from 1996 levels. In addition, the increase is associated with the strong customer growth and support of the data and other new initiatives, within GTE's core wireline and wireless operations. Partially offsetting these increases were ongoing cost containment and reduction programs in general and administrative costs, which have been implemented across all business units, in addition to a reduction in pension costs due to the purchase of annuities for certain retirees.

Depreciation and Amortization

Depreciation and amortization increased 3% to \$3.9 billion in 1997 compared with \$3.8 billion in 1996. The increase reflects the expansion of the wireline network to meet demand for additional lines, enhanced calling features and switched data services, and the continued deployment of enabling technologies for broadband services. The wireless network was also expanded to provide significantly higher capacity and to improve service quality. These increases were partially offset by a reduction in depreciation rates in 1997 to reflect higher salvage values related to certain telephone plant and equipment.

Other Income and Expense

In 1997, GTE reported other expense of \$48 million compared with \$50 million in 1996. Other income and expense is comprised primarily of minority interests and earnings of unconsolidated subsidiaries, including international ventures and cellular partnerships.

Minority interests increased \$6 million in 1997 to \$245 million as a result of higher earnings in the Canadian operations. The increase in minority interest was more than offset by higher income from unconsolidated subsidiaries.

Financial Review

Equity in income of unconsolidated subsidiaries improved considerably in 1997 and 1996. Higher earnings in 1997 of 13% were provided by CANTV. GTE's results from CANTV were favorably affected by operating improvements stemming from timely rate increases, productivity gains resulting from employee reductions, and other cost controls. In addition, 1997 results were favorably impacted by GTE's increase in its ownership level of CANTV from 20.4% to 25.9% in the fourth quarter of 1996. In contrast, during 1995, CANTV operated within a weak economy with currency controls and limited access to international banking and capital markets. As a result of these conditions, CANTV made a relatively small contribution to GTE's 1995 earnings.

Due to the high level of inflation in Venezuela, CANTV's financial performance is highly dependent on its ability to increase tariffs. In 1997-96, CANTV successfully obtained tariff increases, generally in accordance with the Concession Agreement with the Venezuelan government.

Regulatory and Competitive Trends

Much of the regulatory and legislative activity that occurred in the U.S. in 1997 was a direct result of the Telecommunications Act of 1996 (1996 Act) adopted by Congress. The 1996 Act is intended to promote competition in all sectors of the telecommunications marketplace, while preserving and advancing universal telephone service.

The 1996 Act presents GTE with both challenges and opportunities. GTE is facing additional competition from numerous sources, such as other incumbent local-exchange carriers, new competitive local-exchange carriers, wireless carriers, cable television service providers, and long-distance companies. However, GTE is now permitted to provide a full array of local, long-distance, Internet-access, wireless, and video services both within and outside of its traditional operating areas, and thus generate new sources of revenue from customers previously beyond reach. In fact, GTE now provides long-distance and Internet-access services to 1,717,000 and 272,000 customers, respectively.

GTE is a strong supporter of competition in all telecommunications markets. The Company's position remains constant: the benefits of competition should not be divided between customers or industry segments. There must be fair, reasonable rules at the state and federal level that enable all service providers to participate equitably in the marketplace and benefit everyone. GTE believes the FCC and a number of state regulatory agencies did not establish these comparable conditions. GTE has consequently exercised its right to challenge regulatory actions it believes unfairly disadvantage its customers and shareholders.

In July 1997, the U.S. Eighth Circuit Court released its decision on the challenge filed in 1996 by GTE and numerous other parties to rules developed by the FCC to implement the interconnection provisions of the 1996 Act. The prices for both resold service and network elements were required to be set using a methodology created by the FCC. The court challenge asserted the FCC's rules were inconsistent with the 1996 Act. The July 1997 court decision found that the FCC overstepped its authority in a number of areas, and upheld GTE's position that state regulatory agencies bear the primary responsibility for determining the prices which competing firms must pay when interconnecting their networks. On January 26, 1998, the U.S. Supreme Court announced that it would review this decision. Oral argument in the Supreme Court is expected to take place in October 1998, with a final decision likely to be issued no later than June 1999.

This favorable ruling did not impede the progress of competition. GTE has processed over 100,000 requests from competitors for resold lines, is currently processing over 20,000 orders per month and expects higher volumes per month in the future. GTE has finalized more than 350 interconnection agreements with various competitive local-exchange carriers, and is currently in the process of negotiating approximately 900 additional agreements. A number of these interconnection agreements, adopted as a result of the arbitration process established by the 1996 Act, incorporate prices or terms and conditions based upon the FCC's rules that were overturned by the Eighth Circuit Court. Thus, GTE has exercised its right to challenge a number of such agreements. GTE has lawsuits pending in federal district court in 14 states.

In May 1997, the FCC released two new major decisions related to implementation of the 1996 Act's provisions: the universal service and access charge reform orders. The universal service order established the support mechanisms to ensure continued availability of affordable local telephone service and created new programs to provide discounted telecommunications services to schools, libraries and rural health care providers. GTE and numerous other parties have challenged the FCC's decision before a Federal Court of Appeals on the grounds that the FCC did not follow the requirements of the 1996 Act to develop a sufficient, explicit and competitively neutral universal service program. A decision is expected in 1998.

The FCC access charge order revamped the rate structure through which local and long-distance companies charge customers for using the local phone network to make long-distance calls. The FCC ordered \$18.5 billion in cuts for long-distance companies to be accomplished by increasing the access charges for businesses and residential customers with more than one phone line. GTE and numerous other parties also challenged this decision before a federal appeals court, charging the FCC: did not eliminate the universal service subsidies implicit in interstate access charges as directed by the 1996 Act; and created additional subsidy charges paid only by businesses and multiline residential customers.

Financial Review

Also in May 1997, the FCC released a decision completing a periodic review of its price cap regulatory oversight of interstate access charges. GTE and numerous other local-exchange carriers have challenged this decision before a Federal Court of Appeals based on the belief that the FCC established a fundamentally unfair price reduction formula and required retroactive price reductions. A decision on this challenge is also expected in 1998.

Approximately 62% of GTE's domestic access lines are in 10 states that have adopted incentive regulation plans for intrastate service, including California, Florida and Texas, the states where GTE's largest operations are located. Approximately 72% of the regulated revenues for GTE's domestic telephone operations are under some form of alternative regulation, including 100% of the interstate revenues. GTE filed interstate access revisions during 1997 that became effective June 3, 1997 and July 1, 1997. Overall, these filings resulted in a net annual price reduction of \$103 million. In 1997, the FCC also ordered significant changes that altered the structure of access charges collected by GTE, effective January 1, 1998. Generally, the FCC reduced and restructured the per minute charges paid by long-distance carriers and implemented new per line charges. The FCC also created an access charge structure that resulted in different access charges for residential primary and secondary lines and single line and multiline business lines. In aggregate, the reductions in usage sensitive access charges paid by long-distance carriers were offset by new per line charges and the charges paid by end-users.

Internationally, the pace of regulatory and competitive change continued to accelerate during 1997, which allows GTE the opportunity to more fully participate in the \$600 billion annual world telecom market. Currently, 20% of the world market operates in a competitive mode, and by the year 2000, this will have shifted to 80%. Much of this shift is associated with the 1997 World Trade Organization (WTO) agreement on trade in basic telecommunications. This agreement was signed by 69 countries that represent 94% of global telecommunications services.

Across Latin America, intensive efforts to institute market liberalization are underway with Brazil, Mexico, Ecuador and Guatemala leading the way. In Venezuela, where GTE is a major participant in a wide range of telecom services through CANTV, the market is scheduled for competitive liberalization in November 2000. In Argentina, important regulatory changes have instituted "calling party pays" in the cellular market. In addition, a decision is in the courts that could allow GTE's cellular venture CTI to carry its customers' long-distance calls. Further, CTI has gained the right to bid for a license to offer PCS service in Buenos Aires, which would extend its service coverage to the entire country. In the Dominican Republic, CODETEL maintains its solid position as a full service provider of choice in an increasingly competitive telecom market.

Europe opened its market to extensive competition on January 1, 1998, as part of its WTO commitment. GTE continues to evaluate the many opportunities made available by this opening of one of the most prosperous telecom markets in the world.

In Asia, where GTE's position is growing, massive untapped markets are just beginning to emerge. GTE is involved in providing fixed wireless service in northern India, PCS service in Taiwan and paging service in China. Although China and Taiwan have not currently committed to the WTO agreement, these countries, along with all of Asia, continue their movement toward market liberalization. From its base in Asia, GTE will share in the region's growth.

In Canada, GTE already provides a wide range of telecom services through its BC TEL and Québec Tel operations. These companies provide the opportunity for further growth as Canada's market flourishes under that country's competitive initiatives, which include the implementation of a price cap regime, rebalancing of local rates and the opening of competition in local service in British Columbia effective January 1, 1998. The Canadian telephone operations currently follow accounting prescribed by Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71). Given the changes discussed above, GTE's Canadian telephone operations are studying whether the use of FAS 71 continues to be appropriate. If they were to determine that the use of FAS 71 was no longer appropriate, they would be required to write-off certain deferred costs and obligations and reduce the carrying value of their plant and equipment to the extent that it is considered unrecoverable. The financial impact of such a determination, which would be non cash, could be material.

Around the globe, GTE continues to support the orderly transition to competitive telecommunications markets that allow all efficient service providers to work together under unbiased laws and regulations to bring the best in telecommunications services to the consumer.

GTE Growth Initiatives

In 1997, GTE continued to position itself to respond aggressively to competitive developments and benefit from new opportunities.

In May 1997, GTE announced plans to become a leading national provider of data communications services that included the acquisition of BBN Corporation, a leading supplier of end-to-end Internet solutions. BBN Corporation brings valuable skills, a leading position in the Internet market and an impressive list of *Fortune* 500 clients. In addition, GTE announced a strategic alliance with Cisco Systems, Inc. to jointly develop enhanced data and Internet services for customers; and the purchase of a national, state-of-the-art fiber-optic network from Qwest Communications. This expansion of data services continued in November 1997 with the announcement of the acquisition of Genuity Inc. (Genuity), a subsidiary of Bechtel Enterprises. Genuity is a premier value-added provider of distributed application hosting solutions.

Financial Review

During 1997, GTE established an organization that could take advantage of the new opportunities available as a result of the changing regulatory environment. GTE Communications Corporation is the enabling marketing and sales organization, permitting GTE to go beyond its traditional franchise boundaries and compete effectively in the marketplace. By packaging products and services, such as traditional wireline, wireless, long-distance and Internet services on one bill, GTE is positioned to capture high value, high margin customers, both inside and outside of franchise territories. GTE Communications Corporation is initially reselling other companies' facilities, including those of GTE's in-franchise local-exchange carriers. However, as the marketplace dictates, variations of service delivery may occur that could include the following possibilities: a GTE network, supporting all information transport (voice, video and data) over wireline and wireless; a series of alliances; or through least cost routing as a reseller.

In addition, GTE activated its first PCS wireless network in Cincinnati in February. PCS wireless networks were also activated in April and May, in Seattle and Spokane, respectively, completing the PCS market launch. At year end there were 19,000 customers.

GTE is also actively pursuing expansion of its international operations to capitalize on opportunities for long-term profitable growth.

GTE expanded paging service through a joint venture with a major Chinese wireless telecommunications operator. This service now encompasses 20 major metropolitan areas. This effort has generated over 135,000 customers. In January 1997, the government of Taiwan awarded a digital cellular license to Pacific Cellular Corporation, a consortium in which GTE holds a minority interest as the only foreign stakeholder. GTE expects to invest approximately \$135 million into this venture. The planned network will include approximately 1,200 cell sites, representing the largest network on any frequency in the country. Service was launched in January 1998.

Capital Investment, Resources and Liquidity

Return on Equity

GTE's return on average common equity was 40.6% in 1997 compared with 40.1% in 1996, excluding the impact of data initiatives and the 1996 gains on the sales of certain nonstrategic domestic telephone properties.

Capitalization

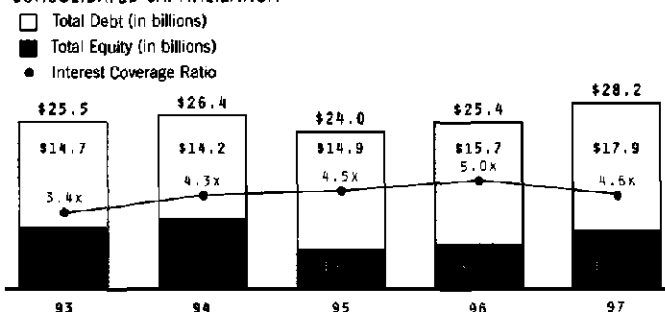
GTE targets a capital structure and overall credit position that is appropriate for an "A" rated company. This allows GTE's shareholders to enjoy the benefits of prudent and reasonable financial leverage, while also protecting debtholder interests and ensuring ready access to the capital markets.

In June 1996, Moody's raised its rating on GTE Corporation's senior debt to A3 from Baa1 and in March 1997, Standard & Poor's raised its rating on GTE Corporation's senior debt to A from A-. In October 1997, due to the proposed offer to merge with MCI, the rating was reduced to Baa1 by Moody's. Although MCI has approved an alternate offer, GTE's offer remains open. Due to the uncertainty of the closing of the other offer for MCI and GTE's open offer, four major rating agencies have continued a negative "watch listing" on GTE's debt rating.

During 1997, GTE renegotiated its two syndicated credit facilities totaling \$4.0 billion, including a five-year line of \$2.5 billion for GTE Corporation and a 364-day line of \$1.5 billion for certain domestic telephone operating subsidiaries. Fifty-four banks representing 12 countries participated in these syndicated facilities, which will be used primarily to back up commercial paper borrowings. In December 1997, GTE negotiated bilateral credit agreements for an additional \$2.0 billion in credit capacity. These facilities, which are shared by GTE Corporation and certain domestic telephone operating subsidiaries, are aligned with the maturity date of the existing 364-day line. The additional capacity provides greater flexibility to incur additional indebtedness of a shorter-term duration during periods when it may not be desirable to access the capital markets to refinance short-term debt.

In June 1997, GTE's Board of Directors approved the filing of a \$3 billion shelf registration statement with the Securities and Exchange Commission that included the establishment of a public Medium-Term Note (MTN) program. The benefits of an MTN program include lower rates than traditional debentures due to more flexibility with regard to amounts issued, timing and speed to market. Notes issued under the MTN program have received the same credit ratings as GTE Corporation's debentures.

CONSOLIDATED CAPITALIZATION

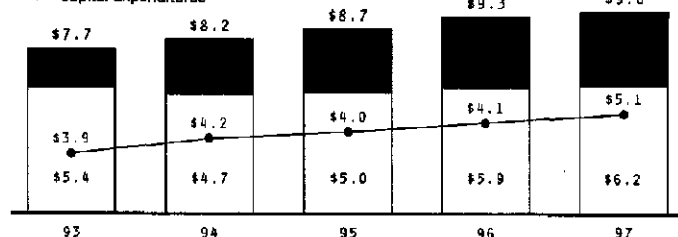


Total equity as a percentage of total capitalization was 36.5% at the end of 1997 compared with 38.1% in 1996.

Financial Review

CONSOLIDATED CASH FLOWS (in billions)

- EBITDA (see definition in "Cash Flow" below)
- Net Cash from Operations
- Capital Expenditures



Cash Flow

GTE's cash flow from operations increased to \$6.2 billion in 1997 from \$5.9 billion in 1996, reflecting the improved 1997 operating results from domestic and international operations. The improvement in operating results is reflected in the "Earnings before income taxes plus depreciation and amortization" (EBITDA) performance measure. EBITDA represents operating income, adjusted to include the net earnings from unconsolidated subsidiaries less minority interest, plus depreciation and amortization. For 1997, EBITDA amounted to \$9.6 billion, reflecting a favorable increase of \$249 million.

Capital expenditures totaled \$5.1 billion in 1997, a 25% increase from the \$4.1 billion spent in 1996. The majority of the 1997 new investments were made to meet demands of growth, modernize facilities and continue to position GTE as the low-cost provider of high-quality voice, data and video telecommunications services. Other expenditures were made to improve and expand GTE's wireless and data networks, including an approximately \$264 million initial investment to build a state-of-the-art national fiber-optic network. GTE expects capital expenditures to remain at approximately the same level in 1998. Reduced capital requirements within GTE's core wireline business are expected to be partially offset by increased expenditures on GTE's new data initiatives.

Additional cash used in investing activities totaled \$845 million during 1997. Acquisitions and investments in the new data initiatives accounted for a majority of the increase and included approximately \$625 million to acquire all of the outstanding shares of BBN. In addition, approximately \$90 million was used to acquire Genuity Inc., whose applications enable customers to transfer their business applications to the Internet.

In 1997-95, GTE announced plans to repurchase up to 20, 25 and 20 million shares, respectively, of its currently issued common stock from time to time, depending on market conditions. The shares will be used to satisfy the requirements of GTE's employee benefit and dividend reinvestment programs. Of the announced repurchase plans, a total of 38.8 million shares had been repurchased under the 1996 and 1995 programs. Cash used for the purchase of these shares was \$1.7 billion. Repurchases under the 1997 program will continue in the future, considering the Company's targeted credit profile, stock price and related factors.

In 1996, GTE's cash flow from operations increased to \$5.9 billion from \$5.0 billion in 1995, reflecting improved 1996 operating results.

Capital expenditures totaled \$4.1 billion in 1996, about \$50 million more than the 1995 level. The 1996 total reflected expenditures used for the deployment of broadband video networks in California and Florida, buildout of the new wireless PCS networks and other requirements to support new revenue growth initiatives and expanded service capabilities, partially offset by lower spending on domestic cellular networks. Other investing activity included \$190 million for the purchase of CANTV shares during the initial public offering by the government of Venezuela and subsequent market purchases.

In 1998, the funding of dividends and capital requirements for GTE's businesses will be substantially sourced by cash from operations, although GTE's strong financial position allows ready access to worldwide capital markets for any additional cash requirements.

Forward-Looking Statements

GTE estimates that core earnings per share from operations will grow not less than 10% in 1998, and that for 1999 and beyond consolidated earnings per share, including the effects of the data initiatives, will grow at an accelerated level of 30% to 50% higher than the previous guidance of 10%. Consolidated revenue growth will accelerate from the current 9% growth rate to 10% to 12% over the longer term, with much of that growth driven by expanded services like long-distance, video, value-added data communications and Internet-related services. In addition, the new marketing and sales initiative will generate significant revenue growth through sales of bundled services. Operating margins for domestic telephone operations are expected to be consistent with margins achieved in 1997.

GTE has projected domestic wireless operations will grow consistent with the industry. Cellular revenues per customer, however, is expected to continue a downward trend as more residential customers sign up and new competitors enter the market.

GTE continues to project that the amount of net income contributed by its international operations in 1995 will double by the year 2000.

Financial Review

Risk Management

GTE views derivative financial instruments as risk management tools and, in accordance with Company policy, does not utilize them for speculative or trading purposes. GTE is also not a party to any leveraged derivatives. GTE is exposed to market risk from changes in interest rates and foreign currency exchange rates, as well as changes in the market price of GTE's common stock. GTE manages its exposure to market risks through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments that have been authorized pursuant to the Company's policies and procedures. The use of these derivatives allows GTE to reduce its overall exposure to market risk, as the gains and losses on these contracts substantially offset the gains and losses on the liabilities being hedged. In addition, GTE enters into derivative financial instruments with a diversified group of major financial institutions in order to manage its exposure to nonperformance on such instruments.

GTE uses derivative financial instruments to manage its exposure to interest rate movements and to reduce borrowing costs. GTE's net exposure to interest rate risk primarily consists of floating rate instruments that are benchmarked to U.S. and European short-term money market interest rates. GTE manages this risk by using interest rate swaps to convert floating-rate long-term and short-term debt to synthetic fixed rate instruments. GTE also uses forward interest rate swaps and forward contracts to sell U.S. Treasury bonds to hedge interest rates on anticipated long-term debt issuances.

Based on GTE's interest rate sensitive derivative financial instruments outstanding at December 31, 1997, a 100 basis point increase in interest rates as of December 31, 1997 would result in a net increase in the market value of these instruments of \$96 million. Conversely, a 100 basis point decrease in interest rates would result in a \$108 million net reduction in the market value of these instruments. Any increase or decrease in the market value of GTE's interest rate sensitive derivative financial instruments would be substantially offset by a corresponding decrease or increase in the market value of the underlying liability or anticipated debt issuance.

GTE uses foreign currency derivative instruments to reduce its exposure to adverse changes in foreign currency rates. The use of these derivatives allows GTE to reduce its overall exposure to exchange rate fluctuations, as the gains and losses on these contracts substantially offset the gains and losses on the liabilities being hedged. The Company's exposure to foreign exchange rates primarily exists with the British pound and the Canadian dollar. As of December 31, 1997, GTE's exposure resulting from fluctuations in foreign currency exchange rates was not material.

In the past, GTE issued stock options to certain of its employees that had tandem stock appreciation rights. To minimize GTE's exposure to compensation expense related to these stock appreciation rights, GTE purchased long-term call options on its common stock. As of December 31, 1997, a \$5 change in the per-share price of GTE's common stock would impact GTE's pretax earnings by \$50 million. However, gains and losses recognized on granted employee options are substantially offset by gains and losses recognized on the purchased call options.

Year 2000 Conversion

The Year 2000 issue has an industry-wide impact. GTE has had an active Year 2000 Program in place. The GTE Year 2000 methodology and processes were certified in 1997 by the Information Technology Association of America. This program is necessary because the Year 2000 issue would impact systems, networks and business processes at GTE. This program includes: inventory; assessment and analysis of systems, networks and business processes; remediation of any impacted software; and validation testing. The current estimate for the cost of remediation for GTE and affiliates is approximately \$350 million. Year 2000 remediation costs are expensed in the year incurred. Through 1997, expenditures totaled \$67 million. GTE currently has approximately 1,200 full time equivalents (company employees and contractors) mobilized throughout its business units to address the Year 2000 issue. Continued success is dependent on the timely delivery of Year 2000 compliant products and services from its suppliers. GTE currently believes that its essential processes, systems and business functions will be ready for the millennium transition.

Risk Factors

GTE's forward-looking statements are based upon a series of projections and estimates regarding the economy, the telecommunications industry, the effects of federal, state and local regulations on the industry in general and within GTE's markets, as well as key performance indicators that affect the company directly. These projections and estimates regarding the economy and the telecommunications industry relate to the demand for and pricing of services, the effects of competition, the impact of universal service and the success of new products, services and new businesses such as bundled services through the new marketing and sales initiative, value-added data communications, Internet-related services, long distance and video.

With regard to the effects of regulation, GTE has assumed fair and reasonable resolutions to any pending and potential federal, state and local regulatory initiatives and proceedings, including arbitration proceedings before various state regulatory commissions. GTE has assumed that the favorable rulings of the Court of Appeals for the Eighth Circuit regarding the terms of interconnection, unbundled network elements and resale rates will be upheld by the U.S. Supreme Court, which announced it would review this decision.

The risk management discussion and the estimated exposures included herein are forward-looking statements of market risk assuming certain adverse market conditions occur. Actual results in the future may differ significantly from these estimated exposures due to actual developments in the global financial markets. The analysis methods used by the company to assess and mitigate risk should not be considered projections or forecasts of future events or losses.

In developing its forward-looking statements, GTE has made certain assumptions relating to key performance indicators that have a direct bearing on GTE's ability to attain these projections. These assumptions include the continued annual growth of telephone access lines and minutes of use, new and expanded services, wireless volumes, and customer growth. They also assume productivity improvements and the absence of disruption to GTE's markets.

If future events and actual performance differ from that assumed for the risk factors noted above, GTE's actual results could vary significantly from the performance projected in the forward-looking statements.

Report of Independent Public Accountants

To the Board of Directors and
Shareholders of GTE Corporation:

We have audited the accompanying consolidated balance sheets of GTE Corporation (a New York corporation) and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997 as set forth on pages 29 through 39 of this report. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GTE Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 1995 the Company discontinued applying the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation."



Stamford, Connecticut
January 27, 1998

Management Report

To Our Shareholders:

The management of GTE is responsible for the integrity and objectivity of the financial and operating information contained in this annual report, including the consolidated financial statements covered by the Report of Independent Public Accountants. These statements were prepared in conformity with generally accepted accounting principles and include amounts that are based on the best estimates and judgments of management.

The Company has a system of internal accounting controls that provides management with reasonable assurance that transactions are recorded and executed in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are maintained so as to permit preparation of financial statements in accordance with generally accepted accounting principles. This system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors. The Company also has instituted policies and guidelines that require employees to maintain the highest level of ethical standards.

In addition, the Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with management, the internal auditors and the independent public accountants to review internal accounting controls, audit results and accounting principles and practices, and annually recommends to the Board of Directors the selection of independent public accountants.



Charles R. Lee
Chairman and
Chief Executive Officer



J. Michael Kelly
Executive Vice President—
Finance and Planning

Consolidated Statements of Income

GTE Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Amounts)	Years Ended December 31		
	1997	1996	1995
Revenues and Sales			
Local services	\$ 6,607	\$ 6,060	\$ 5,743
Network access services	4,923	4,618	4,363
Toll services	2,429	2,500	2,548
Cellular services	2,817	2,562	2,191
Directory services	1,507	1,527	1,383
Other services and sales	4,977	4,072	3,729
Total revenues and sales	23,260	21,339	19,957
Operating Costs and Expenses			
Cost of services and sales	9,203	8,071	7,537
Selling, general and administrative	4,560	4,010	3,689
Depreciation and amortization	3,886	3,770	3,675
Total operating costs and expenses	17,649	15,851	14,901
Operating Income	5,611	5,488	5,056
Other (Income) Expense			
Interest—net	1,145	1,026	1,047
Other—net	48	50	5
Income before income taxes	4,418	4,412	4,004
Income taxes	1,624	1,614	1,466
Income before extraordinary charges	2,794	2,798	2,538
Extraordinary charges	—	—	(4,682)
Net Income (Loss)	\$ 2,794	\$ 2,798	\$ (2,144)
Earnings (Loss) Per Common Share			
Before extraordinary charges	\$ 2.92	\$ 2.89	\$ 2.62
Extraordinary charges	—	—	(4.83)
Net Income (Loss)	\$ 2.92	\$ 2.89	\$ (2.21)
Diluted Earnings (Loss) Per Common Share			
Before extraordinary charges	\$ 2.90	\$ 2.88	\$ 2.61
Extraordinary charges	—	—	(4.81)
Net Income (Loss)	\$ 2.90	\$ 2.88	\$ (2.20)
Average Common Shares Outstanding (in millions)			
Basic	958	969	970
Diluted	962	972	973

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

GTE Corporation and Subsidiaries

(Millions of Dollars)	December 31	
	1997	1996
Assets		
Current Assets		
Cash and cash equivalents	\$ 551	\$ 405
Receivables, less allowances of \$333 and \$299	4,782	4,482
Inventories and supplies	846	673
Deferred income tax benefits	51	200
Other	307	273
Total current assets	6,537	6,033
Property, plant and equipment, net	24,080	22,902
Prepaid pension costs	4,361	3,639
Franchises, goodwill and other intangibles	3,232	2,507
Investments in unconsolidated companies	2,335	2,035
Other assets	1,597	1,306
Total assets	\$42,142	\$38,422
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term obligations, including current maturities	\$ 3,398	\$ 2,497
Accounts payable and accrued expenses	4,672	4,156
Taxes payable	771	754
Dividends payable	466	472
Other	534	435
Total current liabilities	9,841	8,314
Long-term debt	14,494	13,210
Employee benefit plans	4,756	4,688
Deferred income taxes	1,782	1,474
Minority interests	2,253	2,316
Other liabilities	978	1,084
Total liabilities	34,104	31,086
Shareholders' Equity		
Common stock—shares issued 984,252,887 and 980,911,281	49	49
Additional paid-in capital	7,317	7,248
Retained earnings	2,372	1,370
Guaranteed ESOP obligations	(550)	(575)
Treasury stock—26,253,088 and 17,813,275 shares, at cost	(1,150)	(756)
Total shareholders' equity	8,038	7,336
Total liabilities and shareholders' equity	\$42,142	\$38,422

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

GTE Corporation and Subsidiaries

(Millions of Dollars)	Years Ended December 31		
	1997	1996	1995
Operations			
Income before extraordinary charges	\$ 2,794	\$ 2,798	\$ 2,538
Adjustments to reconcile income before extraordinary charges to net cash from operations:			
Depreciation and amortization	3,886	3,770	3,675
Deferred income taxes	456	415	484
Changes in current assets and current liabilities, excluding the effects of acquisitions and dispositions:			
Receivables—net	(622)	(571)	(561)
Other current assets	(220)	26	(92)
Accrued taxes and interest	86	(109)	(25)
Other current liabilities	405	(220)	(598)
Other—net	(541)	(210)	(388)
Net cash from operations	6,244	5,899	5,033
Investing			
Capital expenditures	(5,128)	(4,088)	(4,034)
Acquisitions and investments	(927)	(476)	(798)
Proceeds from sales of assets	73	337	314
Other—net	9	(50)	17
Net cash used in investing	(5,973)	(4,277)	(4,501)
Financing			
Common stock issued	288	444	385
Purchase of treasury stock	(576)	(967)	(133)
Dividends paid	(1,802)	(1,825)	(1,827)
Long-term debt and preferred securities issued	2,407	2,038	1,098
Long-term debt and preferred securities retired	(2,417)	(582)	(1,553)
Increase (decrease) in short-term obligations, excluding current maturities	2,015	(725)	1,529
Other—net	(40)	68	(22)
Net cash used in financing	(125)	(1,549)	(523)
Increase in cash and cash equivalents	146	73	9
Cash and cash equivalents:			
Beginning of year	405	332	323
End of year	\$ 551	\$ 405	\$ 332
Cash paid during the year for			
Interest	\$ 1,282	\$ 1,088	\$ 1,133
Income taxes	1,057	1,325	985

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

GTE Corporation and Subsidiaries

(Millions of Dollars)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Guaranteed ESOP Obligations	Treasury Stock	Total
Shareholders' Equity,							
December 31, 1994	\$ 10	\$48	\$7,627	\$ 3,422	\$(624)	\$ —	\$10,483
Net loss				(2,144)			(2,144)
Dividends declared				(1,824)			(1,824)
Common and treasury stock issued under employee and shareholder plans (13,564,835 shares)		1	369			43	413
Purchase of treasury stock (3,589,200 shares)						(133)	(133)
Retirement of preferred stock (265,895 shares)	(10)						(10)
Other			53	12	21		86
Shareholders' Equity,							
December 31, 1995	—	49	8,049	(534)	(603)	(90)	6,871
Net income				2,798			2,798
Dividends declared			(915)	(905)			(1,820)
Common and treasury stock issued under employee and shareholder plans (11,570,646 shares)			110			340	450
Purchase of treasury stock (23,533,200 shares)						(1,006)	(1,006)
Other			4	11	28		43
Shareholders' Equity,							
December 31, 1996	—	49	7,248	1,370	(575)	(756)	7,336
Net income				2,794			2,794
Dividends declared				(1,800)			(1,800)
Common and treasury stock issued under employee and shareholder plans (6,620,993 shares)			146			142	288
Purchase of treasury stock (11,719,200 shares)						(536)	(536)
Other			(77)	8	25		(44)
Shareholders' Equity,							
December 31, 1997	\$ —	\$49	\$7,317	\$2,372	\$(550)	\$(1,150)	\$ 8,038

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Description of Business

GTE Corporation and subsidiaries (GTE) is one of the largest telecommunications companies in the world. GTE's domestic and international operations serve 277 million access lines in the United States, Canada, the Dominican Republic and Venezuela. GTE is a leading wireless operator in the United States, with the potential of serving 61.3 million wireless and personal communications services customers. Outside the United States, GTE operates wireless networks serving some 176 million POPs through subsidiaries in Canada and the Dominican Republic and affiliates in Venezuela and Argentina. GTE provides internetworking services ranging from dial-up Internet access for residential and small business consumers to Web-based applications for *Fortune* 500 companies. GTE is also a leader in government and defense communications systems and equipment, directories, telecommunications-based information services and systems and aircraft-passenger telecommunications.

Basis of Presentation

GTE prepares its consolidated financial statements in accordance with generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts. Actual results could differ from those estimates.

The consolidated financial statements of GTE include the accounts of all majority-owned subsidiaries. All significant intercompany amounts have been eliminated. Investments in 20%-50% owned companies are accounted for on the equity basis. Investments of less than 20% are generally accounted for on the cost basis.

Reclassifications of prior-year data have been made, where appropriate, to conform to the 1997 presentation.

Revenue Recognition

Revenues are generally recognized when services are rendered or products are delivered to customers. Long-term contracts are generally accounted for using the percentage of completion method, with revenues recognized in the proportion that costs incurred bear to the estimated total costs at completion. Expected losses on such contracts, if any, are charged to income currently.

Depreciation and Amortization

All subsidiaries provide for depreciation on a straight-line basis over the estimated economic lives of their assets. Prior to 1996, GTE's telephone subsidiaries provided for depreciation on a straight-line basis over asset lives approved by regulators (see Note 2).

Franchises, goodwill and other intangibles are amortized on a straight-line basis over the periods to be benefited or 40 years, whichever is less. Amortization expense for consolidated subsidiaries was \$143 million, \$90 million and \$87 million in 1997-95, respectively. Accumulated amortization was \$677 million and \$488 million at December 31, 1997 and 1996, respectively.

Goodwill resulting from investments in unconsolidated subsidiaries is amortized on a straight-line basis over the periods to be benefited or 40 years, whichever is less.

Foreign Currency Translation

Assets and liabilities of subsidiaries operating in foreign countries are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the period. The effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are included in shareholders' equity. Translation gains and losses of affiliates operating in highly-inflationary economies are included in net income as they occur.

Employee Benefit Plans

Pension and postretirement health care and life insurance benefits earned during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits. Material curtailment/settlement gains and losses associated with employee separations are recognized in the period in which they occur.

Income Taxes

Deferred tax assets and liabilities are established for temporary differences between the way certain income and expense items are reported for financial reporting and tax purposes and are subsequently adjusted to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is established for deferred tax assets for which realization is not likely.

Deferred income taxes are not provided on undistributed earnings of foreign subsidiaries, aggregating approximately \$612 million at December 31, 1997, as such earnings are expected to be permanently reinvested in these companies.

Earnings Per Common Share

In the fourth quarter of 1997, GTE adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (FAS 128), which supersedes Accounting Principles Board Opinion No. 15. Under FAS 128, earnings per common share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. Prior-period amounts have been restated, where appropriate, to conform to the requirements of FAS 128 (see Note 15).

Cash and Cash Equivalents

Cash and cash equivalents include investments in short-term, highly liquid securities, which have maturities when purchased of three months or less.

Financial Instruments

GTE uses a variety of financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates and in compensation expense related to GTE's common stock price appreciation. The Company does not use financial instruments for speculative or trading purposes, nor is the Company a party to leveraged derivatives. Amounts to be paid or received under interest rate swaps are accrued as interest expense. Gains or losses on foreign exchange contracts are recognized based on changes in exchange rates, as are offsetting foreign exchange gains or losses on the foreign currency obligations being hedged. Gains or losses on long-term call options on GTE's common stock, which hedge GTE's

Notes to Consolidated Financial Statements

exposure to compensation expense related to outstanding stock appreciation rights (SARs), are recognized based on fluctuations in the market price of GTE's common stock. Gains or losses recognized on these call options offset SARs expense or income in GTE's consolidated statements of income.

Inventories and Supplies

Inventories and supplies are stated at the lower of cost, determined principally by the average cost method, or net realizable value.

2. Extraordinary Charges

In response to legislation and the increasingly competitive environment in which telephone subsidiaries operate, GTE discontinued the use of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71), in the fourth quarter of 1995.

As a result of the decision to discontinue FAS 71, GTE recorded a noncash, after-tax extraordinary charge of \$4.6 billion (net of tax benefits of \$2.8 billion), or \$4.79 per share, in the fourth quarter of 1995. The charge primarily represented a reduction in the net book value of telephone plant and equipment of domestic telephone subsidiaries through an increase in accumulated depreciation. GTE shortened the depreciable lives of its telephone plant and equipment in 1996, which ranged from 11 to 30 years, to 8 to 20 years for circuit equipment, switching equipment, copper and fiber-optic cable.

In addition, during 1995, GTE redeemed, prior to their stated maturity, 12 series of its preferred stock totaling \$71 million, including \$10 million of perpetual preferred, and \$932 million of its telephone operating subsidiaries' long-term debt. These redemptions resulted in an after-tax extraordinary charge of \$41 million (net of tax benefits of \$21 million), or \$.04 per share.

3. Investments in Unconsolidated Companies

GTE's investments in unconsolidated subsidiaries include its investments in Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) and Compañía de Teléfonos del Interior (CTI) as well as its investments in cellular partnerships in the U.S. and other international investments.

During the fourth quarter of 1996, GTE increased its ownership in CANTV from 20.4% to 25.9% through the purchase of \$190 million of additional shares in connection with the initial public offering of CANTV shares by the Venezuelan government and subsequent market purchases. CANTV is the primary provider for local, national long-distance and international long-distance telephone service in Venezuela. CANTV also provides other telecommunications and related services, including cellular, Internet access and directory advertising services. At December 31, 1997 and 1996, GTE had an investment in CANTV of \$1.6 billion and \$1.5 billion, including \$787 million and \$812 million of goodwill, respectively.

GTE has a 25.5% ownership interest in CTI, an international consortium providing cellular services in the north and south interior regions of Argentina. At December 31, 1997 and 1996, GTE had an investment in CTI of \$208 million and \$113 million, respectively, and through December 31, 1997 provided \$182 million in guarantees to banks and other shareholders.

Other investments in unconsolidated subsidiaries, primarily cellular partnerships, were \$482 million and \$400 million at December 31, 1997 and 1996, respectively, including goodwill of approximately \$23 million and \$24 million, respectively.

4. Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (FAS 130). FAS 130 establishes standards for reporting and display of comprehensive income and its components in the financial statements. FAS 130 is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The adoption of this standard will have no impact on GTE's results of operations, financial position or cash flows.

In June 1997, the FASB issued Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (FAS 131). FAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. FAS 131 is effective for financial statements for fiscal years beginning after December 15, 1997. Financial statement disclosures for prior periods are required to be restated. GTE expects changes in its disclosure. The adoption of FAS 131 will have no impact on GTE's consolidated results of operations, financial position or cash flows.

5. Shareholders' Equity

Preferred Stock

During 1995, GTE retired, prior to its stated maturity, perpetual preferred stock of approximately \$10 million (see Note 2).

Common Stock

The authorized common stock of GTE at December 31, 1997 consisted of two billion shares with a par value of \$.05 per share. In 1997, GTE's Board of Directors authorized the repurchase of up to 20 million shares of currently issued GTE common stock in the open market or in privately negotiated transactions. This program is in addition to the 25 million share repurchase program announced in August 1996.

Additional Paid-In Capital

Dividends for the first and second quarters of 1996 were paid entirely from additional paid-in capital as a result of the extraordinary charges taken as of December 31, 1995 in connection with the discontinuance of FAS 71 (see Note 2). Beginning in the third quarter of 1996, dividends were paid from retained earnings.

Additional paid-in capital includes cumulative foreign currency translation adjustments of \$(263) million, \$(173) million and \$(192) million at December 31, 1997-95, respectively, and the cumulative unrealized gains on investments in debt and equity securities of \$20 million, \$5 million and \$20 million at December 31, 1997-95, respectively.

Notes to Consolidated Financial Statements

6. Stock Option and Shareholder Rights Plans

Stock Option Plans

GTE maintains broad-based stock option plans that cover substantially all employees. Prior to 1997, options were granted separately or in conjunction with stock appreciation rights (SARs). Beginning in 1997, the granting of SARs was discontinued. The options allow the purchase of GTE common stock at the market price on the date of grant and have a term of 10 years. The options vest over periods not exceeding seven years.

The number of shares that are available for granting in each year is limited to four-tenths of one percent of GTE's outstanding common stock as of December 31 of the preceding year. Any unused amount is carried forward and made available for granting in the subsequent year.

In 1995, the FASB issued FAS No. 123, "Accounting for Stock-Based Compensation" (FAS 123). As permitted by FAS 123, GTE continues to apply the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). The differences between the recognition and measurement provisions of FAS 123 and APB 25 would impact GTE's results of operations by less than \$.03 per share.

The following table summarizes stock option activity during each of the last three years:

(Number of Options in Thousands)	Stock Options	Average Price
Balance, December 31, 1994	12,264	\$31.01
Options granted	5,728	33.54
Options exercised	(2,375)	29.17
Options cancelled or forfeited	(183)	33.16
Balance, December 31, 1995	15,434	32.21
Options granted	13,268	41.96
Options exercised	(2,634)	30.29
Options cancelled or forfeited	(154)	37.51
Balance, December 31, 1996	25,914	37.36
Options granted	22,208	45.28
Options exercised	(3,951)	33.58
Options cancelled or forfeited	(1,046)	40.31
Balance, December 31, 1997	43,125	\$41.71

At December 31, 1997, 13.4 million options were exercisable.

Shareholder Rights Plan

GTE maintains a shareholder rights plan. Under the original provisions of this plan, a right to purchase one one-thousandth of a share of series A participating no par preferred stock for \$200 (a "Right") was granted for each outstanding share of GTE common stock. As a result of a two-for-one stock split effected after the adoption of the plan, each share of GTE common stock is currently entitled to one-half of a Right. The Rights become exercisable only if a person or group, without GTE's prior consent, (i) acquires or commences a tender or exchange offer for 20% or more of GTE common stock, or (ii) acquires 10% or more of GTE common stock and executes an agreement with GTE to effect a merger or other business combination. The Rights have certain anti-takeover effects designed to cause substantial dilution to a person or group that attempts

to acquire GTE on terms not approved by GTE's Board of Directors. The Rights may be redeemed by GTE at a price of \$.01 per Right, at any time prior to becoming exercisable. Rights that are not redeemed or exercised will expire on December 7, 1999.

7. Minority Interests

Minority interests in equity of subsidiaries as of December 31 was as follows:

(Millions of Dollars)	1997	1996
Minority interests in consolidated subsidiaries:		
BC TEL (50.8% GTE ownership)	\$ 789	\$ 784
Québec Telephone (50.6% GTE ownership)	85	84
Cellular partnerships and other	170	139
Preferred securities issued by subsidiaries	1,209	1,309
Total minority interests in equity of subsidiaries	\$2,253	\$2,316

Preferred securities issued by subsidiaries include two issues, Series A and B, totaling \$1.0 billion of Monthly Income Preferred Securities. These securities, issued by GTE Delaware, a limited partnership holding solely GTE junior subordinated debentures, are subject to optional redemption at a price of \$25 per share. Series A and B become callable beginning October 17, 1999 and March 6, 2000 and have cumulative annual dividend rates of 9.25% and 8.75% with maturities in 2024 and 2025, respectively.

8. Debt

Long-term debt as of December 31 was as follows:

(Millions of Dollars)	1997	1996
GTE Corporation:		
Debentures, maturing 1998 through 2027, average rates 8.7% and 9.0%	\$ 4,150	\$ 3,350
Guaranteed ESOP obligations, maturing 1999 through 2005, average rate 9.7%	555	593
Sinking fund debenture at a rate of 10.8%	—	200
Other borrowings, maturing 2000 through 2010, average rates 6.1% and 6.0%	807	411
	5,512	4,554
Telephone Subsidiaries:		
First mortgage bonds, debentures and notes, maturing through 2031, average rates 7.5% and 7.6%	7,412	7,835
Other Subsidiaries:		
Debentures and notes, maturing through 2012, average rates 7.3% and 7.5%	696	1,062
Commercial paper expected to be refinanced on a long-term basis, average rates 6.0% and 5.3%	1,963	631
Total principal amount	15,583	14,082
Less: Premium and (discount)—net	13	12
Total	15,596	14,094
Less: Current maturities	(1,102)	(884)
Total long-term debt	\$14,494	\$13,210

Notes to Consolidated Financial Statements

Estimated payments of long-term debt during the next five years are: \$1,102 million in 1998; \$1,274 million in 1999; \$863 million in 2000; \$791 million in 2001; and \$832 million in 2002.

GTE's telephone subsidiaries finance part of their construction programs through the use of short-term loans, including commercial paper, which are refinanced at later dates by issues of long-term debt or equity.

First mortgage bonds issued by GTE's telephone subsidiaries are secured by a lien on substantially all telephone property, plant and equipment.

Total short-term obligations as of December 31 were as follows:

(Millions of Dollars)	1997	1996
Commercial paper—average rates 6.1% and 5.6%	\$2,259	\$1,580
Notes payable to banks—average rates 6.9% and 6.5%	37	33
Current maturities of long-term debt	1,102	884
Total	\$3,398	\$2,497

GTE and its subsidiaries had available unused lines of credit aggregating \$6.4 billion at December 31, 1997.

9. Financial Instruments

As of December 31, 1997 and 1996, GTE had entered into interest rate swap agreements primarily to convert \$1,425 million and \$800 million, respectively, of floating rate long-term and short-term debt to fixed rates. GTE had entered into foreign exchange contracts having a contract value of \$579 million and \$484 million at December 31, 1997 and 1996, respectively. Call options on GTE's common stock having a notional contract value of \$380 million and \$428 million were outstanding at December 31, 1997 and 1996, respectively.

At December 31, 1997 and 1996, GTE had entered into forward interest rate swap agreements and forward contracts to sell U.S. Treasury Bonds to hedge against changes in market interest rates on \$1,460 million and \$400 million, respectively, of planned long-term debt issuances expected to be completed within the next twelve months. Gains and losses recognized upon the expiration or settlement of forward interest rate swap agreements and forward contracts to sell U.S. Treasury Bonds are amortized over the life of the associated long-term debt issuance as an offset or addition to interest expense.

The risk associated with these off-balance-sheet financial instruments arises from the possible inability of counterparties to meet the contract terms and from movements in interest and exchange rates as well as the market price of GTE's common stock. GTE carefully evaluates and continually monitors the creditworthiness of its counterparties and believes the risk of nonperformance is remote.

The fair values of financial instruments, other than long-term debt, closely approximate their carrying value. As of December 31, 1997 and 1996, the estimated fair value of long-term debt based on either reference to quoted market prices or an option pricing model, exceeded the carrying value by approximately \$600 million and \$450 million, respectively.

10. Property, Plant and Equipment

Property, plant and equipment as of December 31 was as follows:

(Millions of Dollars)	1997	1996
Land	\$ 369	\$ 364
Buildings	4,534	4,395
Plant and equipment	45,715	42,963
Work in progress and other	5,872	5,759
Total	56,490	53,481
Accumulated depreciation	(32,410)	(30,579)
Total property, plant and equipment—net	\$ 24,080	\$ 22,902

Depreciation expense in 1997-95 for GTE's telephone subsidiaries was equivalent to a composite average percentage of 6.8%, 7.0% and 7.2%, respectively. During 1997, depreciation was partially offset by a reduction in depreciation rates to reflect higher salvage values related to certain telephone plant and equipment.

11. Employee Benefit Plans

Retirement Plans

GTE sponsors noncontributory defined benefit pension plans covering substantially all employees. The benefits to be paid under these plans are generally based on years of credited service and average final earnings. GTE's funding policy, subject to the minimum funding requirements of employee benefit and tax laws, is to contribute such amounts as are determined on an actuarial basis to accumulate funds sufficient to meet the plans' benefit obligation to employees upon their retirement. The assets of the plans consist primarily of corporate equities, government securities and corporate debt securities. During 1997, pension costs and obligations were reduced due to the purchase of annuities for certain retirees.

The components of the net pension credit for 1997-95 were as follows:

(Millions of Dollars)	1997	1996	1995
Benefits earned during the year	\$ 259	\$ 250	\$ 213
Interest cost on projected benefit obligations	618	593	568
Return on plan assets:			
Actual	(2,689)	(2,079)	(2,420)
Deferred	1,496	943	1,413
Other—net	(122)	(138)	(177)
Net pension credit	\$ (438)	\$ (431)	\$ (403)

The expected long-term rate of return on plan assets was 9.0% for 1997, 9.0% for 1996 and 8.5% for 1995. The funded status of the plans and the net prepaid pension cost at December 31, 1997 and 1996, were as follows:

(Millions of Dollars)	1997	1996
Vested benefit obligations	\$ 5,930	\$ 5,644
Accumulated benefit obligations	\$ 6,766	\$ 6,260
Plan assets at fair value	\$16,934	\$15,097
Less: Projected benefit obligations	8,649	8,067
Excess of assets over projected obligations	8,285	7,030
Unrecognized net transition asset	(318)	(427)
Unrecognized net gain	(3,910)	(3,230)
Net prepaid pension cost	\$ 4,057	\$ 3,373

Notes to Consolidated Financial Statements

Included in the previous table are prepaid pension costs of \$4.4 billion and \$3.6 billion and accrued pension liabilities of \$304 million and \$266 million for 1997 and 1996, respectively.

Assumptions used to develop the projected benefit obligations at December 31 were as follows:

	1997	1996
Discount rate	7.25%	7.50%
Rate of compensation increase	5.00%	5.25%

Postretirement Benefits Other Than Pensions

Substantially all of GTE's employees are covered under postretirement health care and life insurance benefit plans. In addition, many retirees outside the U.S. are covered by government sponsored and administered programs. The determination of benefit cost for postretirement health plans is generally based on comprehensive hospital, medical and surgical benefit plan provisions. GTE funds amounts for postretirement benefits as deemed appropriate from time to time. Plan assets consist primarily of corporate equities, government securities and corporate debt securities.

The postretirement benefit cost for 1997-95 included the following components:

(Millions of Dollars)	1997	1996	1995
Benefits earned during the year	\$ 43	\$ 49	\$ 46
Interest on accumulated postretirement benefit obligations	240	255	258
Actual return on plan assets	(44)	(21)	(41)
Amortization of prior service benefits	(75)	(53)	(50)
Other—net	8	(2)	17
Postretirement benefit cost	\$172	\$228	\$230

The following table sets forth the plans' funded status and the accrued postretirement benefit obligations as of December 31:

(Millions of Dollars)	1997	1996
Accumulated postretirement benefit obligations attributable to:		
Retirees	\$2,954	\$2,812
Fully eligible active plan participants	219	293
Other active plan participants	931	960
Total accumulated postretirement benefit obligations	4,104	4,065
Less: Fair value of plan assets	524	416
Excess of accumulated obligations over plan assets	3,580	3,649
Unrecognized prior service benefits	731	554
Unrecognized net loss	(248)	(62)
Accrued postretirement benefit obligations	\$4,063	\$4,141

The assumed discount rates used to measure the accumulated postretirement benefit obligations were 7.25% and 7.5% at December 31, 1997 and December 31, 1996, respectively. The assumed health care cost trend rate was 8.25% in 1997 and 8.75% in 1996 and is assumed to decrease gradually to an ultimate rate of 6.0% in the year 2004. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased 1997 costs by approximately \$27 million and the accumulated postretirement benefit obligations as of December 31, 1997 by approximately \$340 million.

Savings and Stock Ownership Plans

GTE sponsors employee savings plans under section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Under the plans, GTE provides matching contributions in GTE common stock based on qualified employee contributions. Matching contributions charged to income were \$76 million, \$80 million and \$85 million in the years 1997-95, respectively.

GTE also maintains an Employee Stock Ownership Plan (ESOP). In 1989, the ESOP borrowed \$700 million to acquire, at market value, 24.6 million shares of GTE common stock, which will be used to meet GTE's contributions to certain employee savings plans through the year 2004. The unpaid balance of the loan, which has been guaranteed by GTE, is included in the accompanying consolidated balance sheets as long-term debt with a similar reduction in shareholders' equity. The debt service payments, including interest, made by the ESOP for the years 1997-95 totaled \$96 million, \$92 million and \$88 million, respectively. These payments were funded by \$49 million, \$45 million and \$45 million of dividends accumulated on the GTE stock held by the ESOP and by \$47 million, \$47 million and \$43 million of cash contributions by GTE in 1997-95, respectively.

12. Interest—Net

The (income) and expense components of interest—net are as follows:

(Millions of Dollars)	1997	1996	1995
Interest expense	\$1,283	\$1,146	\$1,151
Interest capitalized	(48)	(61)	(49)
Interest income	(90)	(59)	(55)
Total	\$1,145	\$1,026	\$1,047

13. Other—Net

The (income) and expense components of other—net are as follows:

(Millions of Dollars)	1997	1996	1995
Minority interests	\$ 245	\$ 239	\$ 227
Preferred dividends	12	17	22
Equity in income of unconsolidated companies	(217)	(201)	(107)
Gains on sales of nonstrategic telephone properties	—	(12)	(16)
Other	8	7	(121)
Total	\$ 48	\$ 50	\$ 5

In 1996, GTE completed its program to sell or exchange nonstrategic domestic local-exchange telephone properties (representing less than 5% of its U.S. access lines). Telephone properties serving 11,700 and 10,000 access lines were sold in 1996 and 1995, respectively, for cash of \$30 million in each year. Pretax gains, associated with these sales, were recorded by GTE in 1996 and 1995 of \$12 million and \$16 million, respectively.

Notes to Consolidated Financial Statements

14. Income Taxes

Income before income taxes is as follows:

(Millions of Dollars)	1997	1996	1995
Domestic	\$3,720	\$3,799	\$3,550
Foreign	698	613	454
Total	\$4,418	\$4,412	\$4,004

The income tax provision (benefit) is as follows:

(Millions of Dollars)	1997	1996	1995
Current:			
Federal	\$ 725	\$ 851	\$ 711
Foreign	256	241	173
State and local	187	107	98
	1,168	1,199	982
Deferred:			
Federal	451	399	439
Foreign	(26)	(38)	14
State and local	65	97	90
	490	458	543
Amortization of deferred investment tax credits—net	(34)	(43)	(59)
Total	\$1,624	\$1,614	\$1,466

The amortization of deferred investment tax credits—net, relates to the amortization of investment tax credits previously deferred by GTE's telephone subsidiaries.

A reconciliation between taxes computed by applying the statutory federal income tax rate to pretax income and income taxes provided in the consolidated statements of income is as follows:

(Millions of Dollars)	1997	1996	1995
Amounts computed at statutory rates	\$1,546	\$1,544	\$1,401
State and local income taxes, net of federal tax benefits	164	133	122
Minority interests and preferred stock dividends	44	44	43
Amortization of investment tax credits—net	(34)	(43)	(59)
Other differences—net	(96)	(64)	(41)
Total provision	\$1,624	\$1,614	\$1,466

The tax effects of temporary differences that give rise to the deferred income tax benefits and deferred income tax liabilities at December 31 are as follows:

(Millions of Dollars)	1997	1996
Depreciation and amortization	\$ 1,830	\$ 1,696
Employee benefit obligations	(1,873)	(1,870)
Prepaid pension cost	1,439	1,189
Investment tax credits	60	95
Other—net	275	164
Total	\$ 1,731	\$ 1,274

15. Earnings (Loss) per Common Share

The reconciliation of basic and diluted per-share computations is as follows:

(Millions of Dollars, Except Per-Share Amounts)	1997	1996	1995
Net income (loss) from:			
Income before extraordinary charges	\$2,794	\$2,798	\$ 2,538
Extraordinary charges	—	—	(4,682)
Net income (loss)	2,794	2,798	(2,144)
Adjustment to net income (loss):			
Add: Interest expense, net of tax effect, on employees' stock plans	—	—	2
Total adjustments	—	—	2
Adjusted net income (loss) from:			
Income before extraordinary charges	2,794	2,798	2,540
Extraordinary charges	—	—	(4,682)
Adjusted net income (loss)	\$2,794	\$2,798	\$(2,142)
Average common shares	958	969	970
Adjustment to common shares:			
Add: Employees' stock and stock option plans	4	3	3
Total adjustments	4	3	3
Adjusted average common shares	962	972	973
Earnings (loss) per common share:			
Basic			
Income before extraordinary charges	\$ 2.92	\$ 2.89	\$ 2.62
Extraordinary charges	—	—	(4.83)
Net income (loss)	\$ 2.92	\$ 2.89	\$ (2.21)
Diluted			
Income before extraordinary charges	\$ 2.90	\$ 2.88	\$ 2.61
Extraordinary charges	—	—	(4.81)
Net income (loss)	\$ 2.90	\$ 2.88	\$ (2.20)

Certain outstanding options to purchase common shares were not included in the respective computations of diluted earnings (loss) per common share because the options' exercise prices were greater than the average market price of the common shares. For each of the years presented these outstanding options consisted of the following: during 1997, 8.5 million shares at an average price of \$48.59 expiring in 2007, during 1996, 8.7 million shares at an average price of \$43.69 expiring in 2006 and during 1995, 0.2 million shares at an average price of \$38.33 expiring in 2005.

Notes to Consolidated Financial Statements

16. Commitments and Contingencies

GTE has noncancelable operating leases covering certain buildings, office space and equipment. Rental expense was \$399 million, \$392 million and \$384 million in 1997-95, respectively. Minimum rental commitments under noncancelable leases through 2002 do not exceed \$244 million annually and aggregate \$663 million thereafter.

GTE and its unconsolidated affiliates are subject to a number of proceedings arising out of the conduct of its business, including those relating to regulatory actions, commercial transactions, government contracts and environmental, safety and health matters. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations or the financial position of GTE.

Recent judicial and regulatory developments, as well as the pace of technological change, have continued to influence industry trends, including accelerating and expanding the level of competition. As a result, GTE's wireline and wireless operations face increasing competition in virtually all aspects of their business. GTE supports greater competition in telecommunications provided that, overall, the actions to eliminate existing legal and regulatory barriers allow an opportunity for all service providers to participate equally in a competitive marketplace under comparable conditions.

Quarterly Financial Data (Unaudited)

(Millions of Dollars Except Per-Share Amounts)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
1997				
Revenues and sales	\$5,281	\$5,692	\$5,940	\$6,347
Operating income	1,346	1,406	1,487	1,372
Net income	665	671	756	702
Earnings per				
common share ^(a) :				
Basic	\$.69	\$.70	\$.79	\$.73
Diluted	\$.69	\$.70	\$.79	\$.73
Dividends declared per				
common share	\$.47	\$.47	\$.47	\$.47
Stock market price:				
High	\$49.38	\$47.50	\$48.38	\$52.25
Low	43.13	41.13	42.88	40.50
Close	46.63	43.88	45.38	52.25

(Millions of Dollars Except Per-Share Amounts)	1st Qtr ^(a)	2nd Qtr	3rd Qtr	4th Qtr
1996				
Revenues and sales	\$4,951	\$5,293	\$5,344	\$5,751
Operating income	1,250	1,339	1,445	1,454
Net income	616	642	756	784
Earnings per				
common share ^(a) :				
Basic	\$.63	\$.66	\$.78	\$.81
Diluted	\$.63	\$.66	\$.78	\$.81
Dividends declared per				
common share	\$.47	\$.47	\$.47	\$.47
Stock market price:				
High	\$49.25	\$45.63	\$45.00	\$46.50
Low	40.50	40.88	37.75	38.25
Close	43.38	44.75	38.50	45.38

- (a) In the fourth quarter of 1997, GTE adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," accordingly prior-period amounts have been restated to conform to the new requirements (see Notes 2 and 15 to the Consolidated Financial Statements).
- (b) First-quarter 1996 net income includes an after-tax gain on the sale of nonstrategic domestic local-exchange telephone properties of \$8 million, or \$.01 per share (see Note 13 to the Consolidated Financial Statements).

DIRECTORS AND OFFICERS ■

DIRECTORS ■

Edwin L. Artzt,¹ Chairman of the Executive Committee and Director, The Procter & Gamble Company
James R. Barker,² Chairman, The Interlake Steamship Co., and Vice Chairman, Mormac Marine Group, Inc. and the Moran Towing Company
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Kent B. Foster,⁵ President, GTE
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Kent B. Foster, President
Michael T. Masin, Vice Chairman and President - International
Thomas W. White, Senior Executive Vice President - Market Operations
William P. Barr, Executive Vice President - Government and Regulatory Advocacy and General Counsel
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Dan J. Cohrs, Vice President and Chief Planning and Development Officer
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Geoffrey C. Gould, Vice President - Government and Regulatory Affairs
John P. Z. Kent, Vice President - Taxes
Thomas F. Lysaught, Vice President - Marketing
Daniel P. O'Brien, Vice President and Treasurer
D. Otis Wolkins, Vice President - Quality Services
Marianne Drost, Corporate Secretary

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Clarence F. Bercher, President, GTE Communications Corporation
C. David Decker, President, GTE Laboratories
Gerald K. Dinsmore, President, Business Development & Integration
Michael B. Esstman, Senior Vice President, International Telecom Services
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Earl A. Goode, President, GTE Information Services and GTE Directories
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Fares F. Salloum, Senior Vice President, International Operations
Ignacio Santillana, Senior Vice President, International Business Development



1 ARTZT



2 BARKER



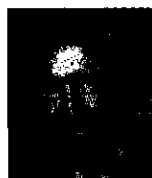
3 BUDD



4 DANIELL



5 FOSTER



6 JOHNSON



7 JONES



8 KETELSEN



9 LEE



10 MASIN



11 MOOSE



12 PALMER



13 STOREY

CORPORATE INFORMATION ■

Corporate Headquarters

GTE Corporation
One Stamford Forum
Stamford, CT 06904
203.965.2000

Information Via the Internet

World Wide Web users can access
information about GTE at:
<http://www.gte.com>

Shareholder Systematic Investment Plan. Under this plan, GTE shareholders may reinvest their dividends or make optional payments toward the purchase of additional shares of common stock. Shareholders wishing information about this plan should contact BankBoston, N.A. at 800.225.5160.

Dividend Direct Deposit Service. GTE offers its registered shareholders the option of having dividends deposited directly into their checking or savings accounts at any financial institution participating in the Automated Clearing House (ACH) system. This service is provided at no charge. To sign up for this service, shareholders should contact BankBoston, N.A. at 800.225.5160.

Dividends and Earnings. GTE has generally paid its dividends on the first day of January, April, July and October. Earnings have generally been announced the third week of January, April, July and October. Shareholders may call 800.225.5160 at BankBoston, N.A. to hear quarterly financial highlights.

Shareholder Services. BankBoston, N.A., Transfer Agent and Registrar for GTE's common stock, should be contacted with any questions relating to shareholder accounts. This includes:

- Account Information • Dividends • Market Prices
- Transfer Instructions • Statements and Reports • Change of Address
- Lost Certificates

Shareholders may call toll free at 800.225.5160 any time, seven days a week. Customer Service Representatives are available Monday through Friday between the hours of 8 a.m. and 5 p.m. Eastern Time. Outside the United States call 781.575.2990.

Or write to:

BankBoston, N.A.
c/o Boston EquiServe, L.P.
P.O. Box 8031
Boston, MA 02266-8031

Shareholders with e-mail addresses can send inquiries to:
<http://www.equiserve.com>

For overnight delivery services, use the following address:

BankBoston, N.A.
c/o Boston EquiServe, L.P.
Blue Hills Office Park
150 Royall Street
Mail Stop 4502-60
Canton, MA 02021

The BankBoston, N.A. address where shareholders, banks and brokers may obtain lost certificates:

Securities Transfers and Reporting Services
55 Broadway
New York, NY 10006

Annual Meeting. The 1998 Annual Meeting of Shareholders will be held at 2 p.m. on Wednesday, April 15, at the Italian Center, 1620 Newfield Avenue, Stamford, Connecticut.

Investor Relations. Security analysts, institutional investors and other members of the financial community requesting information about GTE should contact:

Investor Relations Department
GTE Corporation
One Stamford Forum
Stamford, CT 06904
203.965.2789
International Telex: 4750071
Fax: 203.965.2520
<http://www.gte.com>

Stock Exchange Listings. GTE Corporation (symbol: GTE) is listed on the New York Stock Exchange, the Chicago, Pacific and other regional stock exchanges in the United States and on stock exchanges in Amsterdam, Basel, Geneva, Lausanne, London, Paris, Zurich and Tokyo.

Auditors

Arthur Andersen LLP
400 Atlantic Street
Stamford, CT 06912

Requests for Annual Reports. Shareholders may obtain an additional printed copy of this annual report or a copy of the annual Form 10-K filed with the Securities and Exchange Commission, by calling 800.225.5160.

An audiocassette version of the 1997 annual report is available to visually impaired shareholders by contacting:

Public Affairs and Communications
GTE Corporation
One Stamford Forum
Stamford, CT 06904
203.965.3436

Other Securities. Questions regarding the bonds, debentures and preferred securities of GTE or its subsidiaries should be directed to:

Treasury Department
Capital Markets
GTE Corporation
One Stamford Forum
Stamford, CT 06904
203.965.3425

Products and Services Hotline. Shareholders may call 800.828.7280 to receive information concerning GTE products and services.

Diversity at GTE. GTE strives to be a workplace of choice in which people of diverse backgrounds are valued, challenged, acknowledged and rewarded, leading to higher levels of fulfillment and productivity. A copy of our *Diversity at GTE* brochure is available upon request from the Corporate Secretary's Office.

PEOPLE MOVING IDEAS





New Company
New Opportunities

1997

Annual Report

www.BellAtlantic.com

The New Bell Atlantic – formed through the merger of Bell Atlantic and NYNEX – is at the forefront of the new communications and information industry. With nearly 40 million domestic access lines and more than six million wireless customers worldwide, the company is a premier provider of advanced wireline voice and data services, a market leader in wireless services and the world's largest publisher of directory information. Bell Atlantic is also one of the world's largest investors in high-growth global communications markets, with operations and investments in 21 countries.

Additional investor information is available by contacting Investor Relations on 212 395-1525. We also have a shareowner newsline on 800 BEL-5595 and a fax-on-demand service on 800 329-7310. Or visit us on the World Wide Web at www.BellAtlantic.com/invest

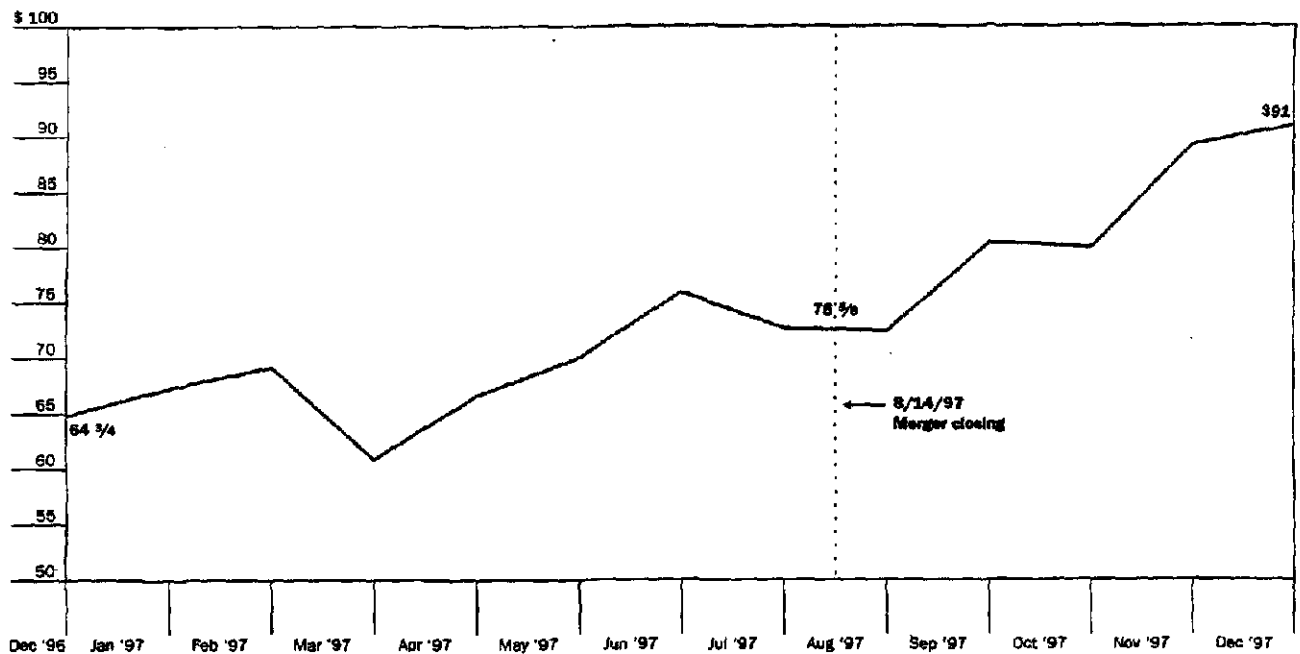
The 1997 Annual Report, printed on non-glossy, recycled paper, reflects our continuing commitment to provide concise and cost-effective reporting of financial performance to our shareowners.

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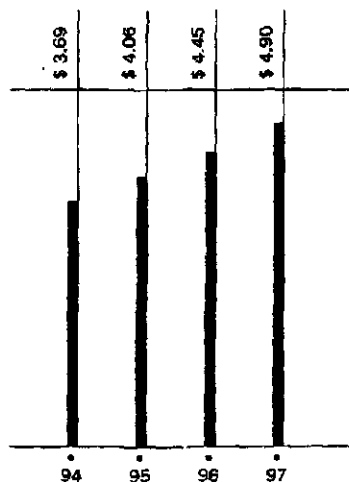
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In 1997 We successfully completed the merger of Bell Atlantic and NYNEX, creating a company with a diverse portfolio of communications assets in some of the most attractive markets in the world. This combination of market reach, financial resources and customer focus positions us to address expanding market opportunities and become one of the premier investments in the global communications industry.

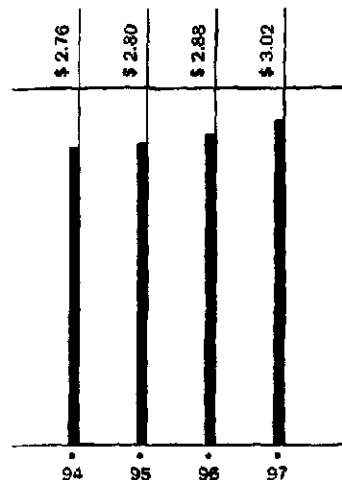
1997 Stock Price Performance



Earnings per Share*



Dividends per Share



*Diluted basis; before special items

To Our Shareowners



Raymond W. Smith



Ivan G. Seidenberg

"The merger of our two companies gives Bell Atlantic shareowners a matchless investment in the most valuable assets in the communications industry"

By any measure, 1997 was an excellent year for Bell Atlantic's shareowners.

We achieved our third consecutive year of double-digit growth in earnings before special items and delivered a 46.5 percent total return to shareowners.

With strong volumes in our core businesses, we were able to sustain our performance even in the face of increased competition and significant price reductions mandated by regulators. We made great strides in preparing for a more competitive environment by opening our local networks and improving our cost structure. And we raised the standard of service we deliver to customers, with dramatic improvements in virtually every measurement of service excellence.

The year's most strategic accomplishment, however, will continue to pay off long past 1997. By successfully merging Bell Atlantic and NYNEX, we are convinced we have created a company that is best-positioned to benefit from the historic expansion of communications markets that will drive the global economy for years to come.

The merger of our two companies gives Bell Atlantic shareowners a matchless investment in the most valuable assets in the communications industry: high-quality "first-mile" connections to high-demographic, information-hungry customers – Fortune 500 companies, Federal and state governments, colleges and research centers and many millions of households – in the most attractive markets in the world.

Building scale and scope in key business sectors was the fundamental rationale for the merger of Bell Atlantic and NYNEX. Together, this collection of assets gives us the ability to leverage the tremendous potential of these markets into worldwide growth opportunities through global alliances, joint ventures, and partnerships. Our "currency" in forming these arrangements will be our access to the scarcest resource of all: millions and millions of customers in prime communications markets.

The benefits of our merger are immediate *and* long-term.

We structured the merger to create shareowner value, with accretion in value to owners of both companies. We saw that – by uniting our regional market, lowering our cost structure and enhancing our strategic position in new markets – we could accelerate our long-term growth rate beyond what either company could have achieved on its own. We have identified about \$1.8 billion in annual expense synergies, capital savings and incremental revenue opportunities to be achieved by 2000 – nearly twice what we believed possible before closing the merger in August 1997.

Thanks to the extraordinary efforts of a focused and aggressive management team, we have moved quickly to integrate the operations of our two companies – meaning we are making good on our synergy commitments today.

Our goal was to begin to think and act as a single company as soon as possible – and we've succeeded.

Looking ahead, we are committed to delivering double-digit earnings growth while we make the transition to full competition and fund new business initiatives required for future growth.

For 1998, strong volumes expected from our core wireline and wireless businesses – combined with \$450 million in anticipated expense synergies – enable us to target earnings within our long-term growth objective of 10 to 12 percent despite significant investments in competitive readiness. In particular, synergies will help us absorb both the costs associated with opening our local networks as a precondition for long distance entry, as well as the price reductions mandated by state and federal regulators that will impact revenue growth at least through the first half of the year.

We also are preparing for competition by stepping up our capital investment in high-bandwidth landline and digital wireless networks, which will better position us for new revenue opportunities – particularly the exploding demand for high-speed data connectivity. The size of our new market opportunities is what separates the new Bell Atlantic from the pack.

Because of the superior demographics and information-intensive economies across all our market segments, we start from a position of strength. The combined markets for long distance and data connectivity in our regional telecommunications business alone expand our market opportunity to more than \$60 billion – more than twice the size of our \$27 billion telecom business today. And, fueled by surging customer demand and new digital technologies, the wireless industry continues to be one of the world's great investment opportunities despite increased competition. We are confident that our global wireless portfolio will continue to experience healthy increases in subscribers and profitability as we fully participate in this high-growth market.

Being a full-service provider in the world's best communications markets is the biggest merger synergy of all. We intend to capitalize on these growth opportunities by delivering world-class customer service, building on our strong brand identity and leveraging our low-cost position. Our goal is to be the premier provider of network services in the industry – the key, we believe, to maximizing our current investments as well as to forming the joint ventures and alliances that will permit us to serve customers on a global basis.

The influx of capital into the communications industry in 1997 is evidence of investors' confidence that the expansion of markets – spurred by new digital technologies, new customer requirements, and a more open global regulatory environment – represents a historic growth opportunity for investors.

The job of any leadership team is to put its company – and its shareowners – in a position to benefit from this growth.

Our most important achievement of 1997 is that we have repositioned Bell Atlantic to be one of the very few companies with the right markets, the right assets, and the right priorities to succeed, no matter how the industry develops.

A critical part of that strategic repositioning is putting in place a management team and structure that will deliver on this promise.

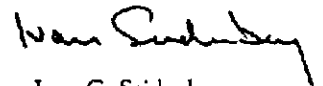
We will ensure that the Bell Atlantic leadership team remains one of the strongest and most focused in the industry.

Bell Atlantic may be a new company, with new opportunities, but our commitment to shareowners is the same: to continue our proven track record of sustainable growth in the value of your investment. We firmly believe that our market value will reflect our conviction that we have built one of the great companies in perhaps the most dynamic industry in the global economy.

Stay tuned.



Raymond W. Smith
Chairman of the Board
and Chief Executive Officer



Ivan G. Seidenberg
Vice Chairman, President
and Chief Operating Officer

February 27, 1998

Telecom

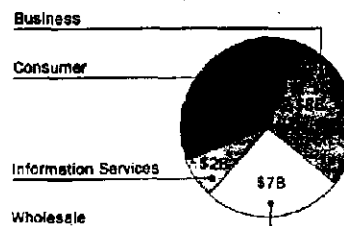
Business Profile

Premier provider of advanced voice, data, and information services from Maine to Virginia – the world's most information-intensive marketplace.

Major market segments include:

Consumer
Business
Wholesale
Information Services

Revenues of \$27 billion



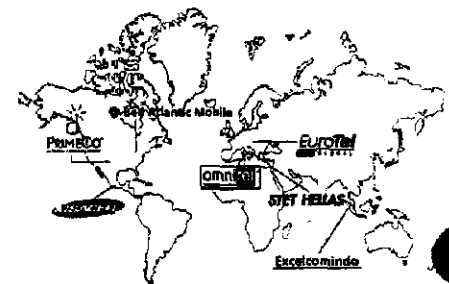
- Assets of more than \$41 billion
- Nearly 40 million access lines
- 22 million households
- Region includes 34% of Fortune 500 companies and Federal Government

Global Wireless

One of the world's largest and most successful wireless companies, with domestic operations in 25 states and international investments in Latin America, Europe and the Pacific Rim.

The portfolio includes the following companies:

	Ownership %	Total Subscribers (000)
Bell Atlantic Mobile	100	5,356
Grupo Iusacell (Mexico)	42.1	400
PrimeCo Personal Communications	50	387
Omnitel Pronto Italia (Italy)	17.45	2,400
EuroTel Praha (Czech Republic)	24.5	347
EuroTel Bratislava (Slovakia)	24.5	91
STET Hellas (Greece)	20	390
Excelcomindo (Indonesia)	23.1	133



- Assets of more than \$7.5 billion
- More than 175 million proportionate POPs
- Proportionate revenues of \$3.7 billion
- 6.3 million proportionate subscribers

International

A mix of mature and start-up communications businesses in Europe and the Pacific Rim. The portfolio consists principally of the following investments:

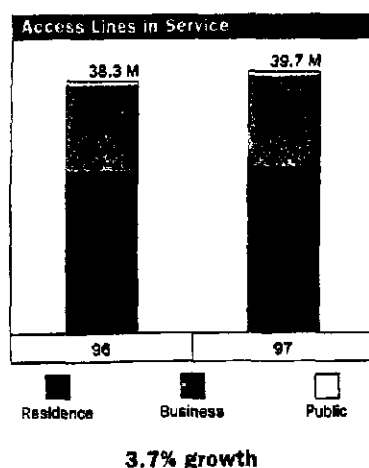
	Ownership %
Telecom Corporation of New Zealand	24.95
Cable & Wireless Communications	18.5
FLAG	37.87
TelecomAsia	18.2
BayanTel	20
Global Directory Services	various



- Assets of nearly \$2 billion
- Market value of investments exceeds \$4 billion

1997 Performance Highlights

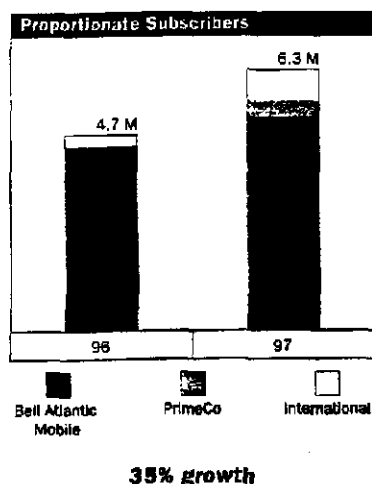
- Revenue growth of nearly 3%; revenue growth excluding the effect of \$500 million in mandated federal and state price reductions approached 5%
- Revenues driven by solid growth in access lines and access minutes of use, with strong increases in vertical services in the consumer market and high-speed, high-bandwidth services in the business market
- Expense growth contained to 1.2% including nearly \$300 million of costs associated with opening our network to competitors
- \$5.5 billion capital investment as part of network modernization program
- Significantly improved service results in virtually all measurements throughout the region



Strategic Priorities

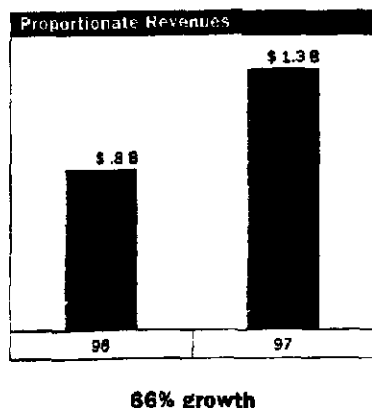
- Maximize value of "first-mile" assets through higher penetration of vertical services and entry into new markets such as long distance and data communications
- Improve operating efficiency through cost savings initiatives
- Achieve higher asset returns and capital productivity
- Build brand equity and focus on customer care and service excellence

- Added more than 1.6 million proportionate subscribers in 1997
- International ventures contributed 30% of new subscribers, with significant subscriber growth in all markets
- Bell Atlantic Mobile (BAM) operating income grew 29% with an operating cash flow margin of 43%
- Deployed advanced digital technology throughout 75% of domestic cellular markets
- Market-leading network quality and coverage
- Expanded distribution channels



- Be the leading provider in every market served
- Drive growth and profitability through effective marketing, product innovation, and operating efficiency initiatives
- Provide world class customer service
- Deliver superior network quality

- Increased contribution to corporate earnings growth
- Continued solid operating performance in Telecom Corporation of New Zealand
- Formed Cable & Wireless Communications in April through the merger of Mercury Communications, NYNEX CableComms, and Bell Cablemedia
- Successfully launched the commercial service of FLAG, the world's largest undersea fiberoptic cable, in December. FLAG recorded nearly \$400 million in revenues, reflecting cumulative pre-sales since the beginning of the project



- Maximize the value of current investments by exporting our core competencies to improve operating performance
- Capitalize on market demands for expanded global connectivity
- Selectively pursue global alliances and partnerships

Selected Financial Data

		(Dollars in Millions, Except Per Share Amounts)			
	1997 ^(a)	1996 ^(b)	1995 ^(c)	1994 ^(c)	1993 ^(d)
Results of Operations					
Operating revenues	\$ 30,193.9	\$ 29,155.2	\$ 27,926.8	\$ 27,098.0	\$ 26,553.4
Operating income	5,341.5	6,078.6	5,417.4	4,522.4	3,204.6
Income before extraordinary items and cumulative effect of changes in accounting principles	2,454.9	3,128.9	2,826.1	2,224.9	1,320.7
Per common share—basic	3.16	4.05	3.70	2.94	1.76
Per common share—diluted	3.13	4.01	3.68	2.93	1.75
Net income (loss)	2,454.9	3,402.0	(96.8)	68.2	(593.2)
Per common share—basic	3.16	4.40	(.13)	.09	(.79)
Per common share—diluted	3.13	4.36	(.13)	.09	(.78)
Cash dividends declared per common share ^(e)	3.02	2.88	2.80	2.76	2.68
Financial Position					
Total assets	\$ 53,964.1	\$ 53,361.1	\$ 50,623.1	\$ 54,020.2	\$ 58,844.8
Long-term debt	13,265.2	15,286.0	15,744.1	14,590.2	14,144.0
Employee benefit obligations	10,004.4	9,588.0	9,388.4	8,980.2	7,666.4
Minority interest, including a portion subject to redemption requirements	911.2	2,014.2	1,221.1	648.0	213.7
Preferred stock of subsidiary	200.5	145.0	145.0	85.0	—
Shareowners' investment	12,789.1	12,976.4	11,213.6	13,063.5	15,010.5

Selected Financial Data prior to 1997 has been restated to reflect the merger of Bell Atlantic Corporation and NYNEX Corporation completed on August 14, 1997 and accounted for as a pooling of interests.

(a) 1997 data include merger-related costs and other special items (see Note 1 and Management's Discussion and Analysis).

(b) 1996 data include retirement incentive costs (see Note 16), and the adoption of a change in accounting for directory publishing (see Note 3).

(c) 1995 and 1994 data include retirement incentive costs (see Note 16), and an extraordinary charge for the discontinuation of regulatory accounting principles (see Note 4).

(d) 1993 data include restructuring costs and the adoption of changes in accounting for income taxes and postemployment benefits.

(e) Cash dividends declared per common share represent the historical dividends of Bell Atlantic Corporation. Cash dividends declared in 1996 include a payment of \$.005 per common share for redemption of all rights granted under our Shareholder Rights Plan.

*(Tables shown in Dollars in Millions)***Overview**

The year 1997 marked a period of significant change for our company. We completed the merger with NYNEX Corporation (NYNEX) on August 14, 1997, creating one of the world's largest telecommunications companies. The merger was accounted for as a pooling of interests, meaning that for accounting and financial reporting purposes the companies are treated as if they had always been combined. Therefore, we have restated our financial information for all dates and periods prior to the merger. The financial statements presented reflect the new presentation used by our company. You should read Note 1 to the consolidated financial statements on pages 28 and 29 for additional information on the merger transaction.

We reported net income of \$2,454.9 million or basic earnings per share (EPS) of \$3.16 and diluted EPS of \$3.13 in 1997, compared to net income of \$3,402.0 million or basic EPS of \$4.40 and diluted EPS of \$4.36 in 1996, and a net loss of \$96.8 million or basic and diluted loss per share of \$.13 in 1995.

Basic earnings per share are calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share are calculated based on the assumption that potential common shares, such as stock options, were also outstanding during the reporting period.

Our reported results for all three years were affected by special items. After adjusting for such items, net income was \$3,846.8 million or \$4.96 basic EPS and \$4.90 diluted EPS in 1997, \$3,474.2 million or \$4.49 basic EPS and \$4.45 diluted EPS in 1996, and \$3,120.7 million or \$4.08 basic EPS and \$4.06 diluted EPS in 1995. The most significant of these items are discussed below. Per share amounts referred to in the following discussion are diluted EPS.

Year 1997*Merger-related Costs*

During 1997, we recognized merger-related costs of approximately \$519 million (\$381 million after-tax or \$.49 per share), consisting of \$200 million of direct incremental costs, \$223 million for employee severance costs and \$96 million of transition and integration costs. Direct incremental costs consist of expenses associated with completing the merger transaction such as professional and regulatory fees, compensation arrangements and shareholder-related costs. Employee severance costs represent 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. Transition and integration costs consist of costs associated with integrating the operations of Bell Atlantic and NYNEX, and we expect over the three years following the closing of the merger that such costs will aggregate between \$400 million to \$500 million (pre-tax).

Other Charges and Special Items

During 1997, we recorded pre-tax charges of approximately \$1,041 million (\$686 million after-tax or \$.87 per share) in connection with consolidating operations and combining organizations and for special items arising during the year. These charges were principally associated with certain video investments and operations, the write-down of obsolete fixed assets, the consolidation of certain redundant real estate properties, contingencies for various regulatory, legal and tax matters and other miscellaneous items. Other special items recognized during 1997 included gains on the sales of our ownership interests in several businesses, a net tax benefit related to a change in state tax law and other tax issues, and charges associated with our equity share of formation costs incurred by Cable & Wireless Communications PLC (CWC).

We also incurred pre-tax costs of approximately \$513 million (\$325 million after-tax or \$.41 per share) associated with our current retirement incentive program.

Year 1996

In 1996, we incurred pre-tax charges of approximately \$315 million (\$198 million after-tax or \$.25 per share) for regulatory issues, a net loss on the disposition of certain nonstrategic investments and other matters arising during the year.

We also incurred pre-tax costs of approximately \$236 million (\$147 million after-tax or \$.19 per share) associated with the retirement incentive program.

Effective January 1, 1996, we changed our method of accounting for directory publishing revenues and expenses. We adopted the point-of-publication method, meaning that we now recognize directory revenues and expenses upon publication rather than over the lives of the directories. We recorded an after-tax increase in income of \$273.1 million, or \$.35 per share, in 1996, representing the cumulative effect of this accounting change.

Year 1995

In 1995, we incurred pre-tax charges of approximately \$228 million (\$172 million after-tax or \$.22 per share) for regulatory and other issues, and we recognized a net pre-tax gain of approximately \$336 million (\$204 million after-tax or \$.27 per share) on the sale of certain cellular properties and other asset dispositions.

We also incurred pre-tax costs of approximately \$514 million (\$327 million after-tax or \$.43 per share) associated with the retirement incentive program.

In the second quarter of 1995, we recognized an extraordinary charge of \$2,919.4 million, or \$3.80 per share, in connection with our decision to discontinue the use of regulatory accounting principles for two of our operating telephone subsidiaries (New York Telephone and New England Telephone) under Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (see Note 4 to the consolidated financial statements on page 32). Results for 1995 also included an extraordinary charge of \$3.5 million, or \$.01 per share, for the early extinguishment of debt.

Accounting for Investments

Grupo Iusacell, S.A. de C.V.

In February 1997, we consummated a restructuring of our investment in Grupo Iusacell, S.A. de C.V. (Iusacell), a Mexican wireless company, to permit us to assume control of the Board of Directors and management of Iusacell. As a result of the restructuring, we changed the accounting for our Iusacell investment from the equity method to full consolidation in the first quarter of 1997.

United Kingdom Operations

In the second quarter of 1997, we transferred our interests in cable television and telecommunications operations in the United Kingdom to 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. Prior to the transfer, we included the accounts of these operations in our consolidated financial statements. We account for our investment in CWC under the equity method.

See Note 6 to the consolidated financial statements on pages 33 and 34 for additional information on the Iusacell restructuring and CWC transaction.

These and other items affecting the comparison of our results of operations for the years ended December 31, 1997, 1996 and 1995 are discussed in the following sections.

Results of Operations

Operating Revenues

Years Ended December 31,	1997	1996	1995
Local services	\$ 13,113.2	\$12,559.1	\$ 12,115.3
Network access services	7,158.6	7,112.6	6,952.2
Long distance services	2,190.1	2,373.6	2,474.3
Ancillary services	1,845.4	1,738.0	1,450.8
Directory and information services	2,298.0	2,224.3	2,050.8
Wireless services	3,328.5	2,713.6	2,147.8
Other services	260.1	434.0	735.6
Total Operating Revenues	\$30,193.9	\$29,155.2	\$27,926.8

Local Services Revenues

		Increase
1997-1996	\$ 554.1	4.4%
1996-1995	\$ 443.8	3.7%

Local services revenues are earned by our operating telephone subsidiaries from the provision of local exchange, local private line, public telephone (pay phone) and value-added services. Value-added services are a family of services which expand the utilization of the network. These services include products such as Caller ID, Call Waiting and Return Call.

Higher usage of our network facilities was the primary reason for the increase in local services revenues in 1997 and 1996. This growth was generated by an increase in access lines in service of 3.7% in 1997 and 3.6% in 1996, and stronger business message volumes. Access line growth reflects primarily higher demand for Centrex services and an increase in additional residential lines. Higher revenues from private line and switched data services also contributed to the revenue growth in both years.

Revenue growth in 1997 and 1996 was boosted by increased revenues from value-added services. This increase was principally the result of higher customer demand and usage.

Revenue growth from volume increases was partially offset in 1996 by rate reductions primarily in New York and Massachusetts, and by the effect of service rebates paid to customers in New York.

For a discussion of the Telecommunications Act of 1996 (the Act) and its impact on the local exchange market, see "Other Factors That May Affect Future Results" beginning on page 19.

Network Access Services Revenues

		<i>Increase</i>
1997-1996	\$ 46.0	.6%
1996-1995	\$ 160.4	2.3%

Network access services revenues are earned from carriers for their use of our local exchange facilities in providing usage services to their customers, and from end-user subscribers. Switched access revenues are derived from fixed and usage-based charges paid by carriers for access to our network. Special access revenues arise from access charges paid by carriers and end-users who have private networks. End-user access revenues are earned from our customers who pay for access to our network.

Network access services revenues increased in 1997 and 1996 because of higher customer demand as reflected by growth in access minutes of use of 7.3% in 1997 and 9.6% in 1996. Growth in access revenues in 1997 and 1996 also reflects higher network usage by alternative providers of intraLATA toll services. This revenue growth was negatively affected in both years by price reductions as mandated by federal and state price cap and incentive plans.

The Federal Communications Commission (FCC) regulates the rates that we charge long distance carriers and end-user subscribers for interstate access services. We are required to file new access rates with the FCC each year, under the rules of its Interim Price Cap Plan. We implemented required price decreases for interstate access services totaling approximately \$380 million on an annual basis for the period August 1995 through June 1996 and \$63 million on an annual basis for the period July 1996 through June 1997. Effective July 1, 1997, we implemented annual price decreases on interstate access services of approximately \$430 million. An additional price reduction of \$49.5 million was implemented in December 1997, following the resolution of certain issues previously under review by the FCC. The rates included in our 1997 filings will be in effect through June 1998. In addition, effective January 1, 1998, our operating telephone subsidiaries adjusted their annual rates by approximately \$200 million to recover contributions that they will owe to the new universal service fund. These revenues will be entirely offset by the contribution amount, which will be included in Other Operating Expenses.

Revenues were also affected by reductions of approximately \$174 million in 1997 and \$132 million in 1996 for contingencies associated with regulatory matters.

For a further discussion of FCC rulemakings concerning price caps, access charges and universal service, see "Other Factors That May Affect Future Results—Recent Developments—FCC Orders" beginning on page 20.

Long Distance Services Revenues

		<i>(Decrease)</i>
1997-1996	\$ (183.5)	(7.7)%
1996-1995	\$ (100.7)	(4.1)%

Long distance services revenues are earned primarily from calls made outside a customer's local calling area, but within the same service area of our operating telephone subsidiaries (intraLATA toll). Other long distance services that we provide include 800 services, Wide Area Telephone Service (WATS), corridor services and long distance services outside of our region.

Company-initiated price reductions and increased competition for intraLATA toll, WATS and private line services both contributed substantially to the reduction in long distance services revenues in 1997 and 1996. We continue to implement price reductions on certain long distance services as part of our response to competition. Competition for intraLATA toll services decreased revenues to a greater degree in 1997 as a result of the introduction of presubscription in many states throughout our region. Revenue reductions from presubscription were partially offset by increased network access services revenues for usage of our network from alternative providers of intraLATA toll services. Higher calling volumes generated by an increase in access lines in service also mitigated revenue decreases.

By December 1997, all of our operating telephone subsidiaries had implemented intraLATA presubscription, except in Maryland, Massachusetts and Virginia. We expect to offer intraLATA presubscription coincident with our offering of long distance services in those states, or by February 8, 1999, as required by the Act. We believe that competition for long distance services, including competitive pricing and customer selection of alternative providers of intraLATA toll services in the states currently offering presubscription, will continue to affect revenue trends. You should read "Other Factors That May Affect Future Results—Competition—IntraLATA Toll Services" on page 21 for a further discussion of presubscription.

Ancillary Services Revenues

		<i>Increase</i>
1997-1996	\$ 107.4	6.2%
1996-1995	\$ 287.2	19.8%

Our company provides ancillary services which include systems integration services, equipment and construction services for other telecommunications carriers, billing and collection services for long distance carriers, customer premises equipment (CPE) services, facilities rental services and voice messaging.

The growth in ancillary services revenues in 1997 and 1996 included higher revenues as a result of new contracts with business customers for systems integration services and higher demand for CPE and voice messaging services, principally Home Voice Mail. We also recognized additional revenues in both years as a result of the introduction of customer late payment charges by our operating telephone subsidiaries.

Revenue growth in 1996 was also affected by the impact of state regulatory issues in 1996 and 1995, resulting in a year-over-year revenue increase of approximately \$137 million. In 1997, the effect of these state regulatory issues reduced revenue growth by approximately \$64 million, as compared to 1996.

Directory and Information Services Revenues

		<i>Increase</i>
1997-1996	\$ 73.7	3.3%
1996-1995	\$ 173.5	8.5%

We earn directory and information services revenues primarily from local advertising and marketing services provided to businesses in our White and Yellow Pages directories within our region, international directory services, and electronic publishing services. We also provide database services and directory marketing services outside of our region. Revenues from our Internet services businesses are also included in this revenue category.

As previously described in the "Overview" section, we changed our method of accounting for directory publishing revenues and expenses in 1996. The effect of this change caused an increase in revenues of approximately \$125 million in 1996. Excluding the effect of this accounting change, 1996 directory and information services revenues grew 2.4% over 1995.

Revenue growth in both 1997 and 1996 was principally attributable to volume increases and higher rates charged for directory publishing services. The year 1997 also reflects improved revenue growth from our Internet services.

Wireless Services Revenues

		<i>Increase</i>
1997-1996	\$ 614.9	22.7%
1996-1995	\$ 565.8	26.3%

Wireless services include revenues generated from our consolidated subsidiaries that provide cellular and paging communications services, including Bell Atlantic Mobile, domestically, and Iusacell in Mexico. As described earlier, as a result of the restructuring of our Iusacell investment, we account for this investment as a fully consolidated subsidiary beginning in 1997, while in 1996 and 1995 we accounted for this investment under the equity method.

Growth in our domestic cellular customer base of 21.4% in 1997 and 31.3% in 1996 was the primary reason for the increase in wireless services revenues in both years. Customer growth in both years, particularly in 1997, was affected by competition from new wireless carriers. Revenue growth resulting from our increased customer base was partially offset by a decline in average revenue per subscriber as a result of increased penetration of the lower usage customer market, and in 1997, competitive pricing factors. The consolidation of approximately \$228 million of Iusacell's operating revenues also contributed to revenue growth in 1997.

Other Services Revenues

		<i>(Decrease)</i>
1997-1996	\$ (173.9)	(40.1)%
1996-1995	\$ (301.6)	(41.0)%

Other services include revenues from our telecommunications consulting, real estate and financing businesses. As described earlier, we account for our CWC investment under the equity method, beginning in the second quarter of 1997. Prior to this transaction, our cable television and telecommunications operations in the United Kingdom were accounted for as a fully consolidated subsidiary.

The decline in other services revenues in 1997 was caused primarily by the effect of the CWC transaction and by the sale of our real estate properties business in the second quarter of the year. Revenues in 1996 declined principally as a result of the sale of our domestic computer maintenance subsidiary in October 1995.

Operating Expenses

Years Ended December 31,	1997	1996	1995
Employee costs	\$ 9,047.2	\$ 8,703.9	\$ 8,811.3
Depreciation and amortization	5,864.4	5,379.0	5,326.1
Taxes other than income	1,606.9	1,499.9	1,589.3
Other operating expenses	8,333.9	7,493.8	6,782.7
Total Operating Expenses	\$ 24,852.4	\$ 23,076.6	\$ 22,509.4

For purposes of our discussion, reference to the network subsidiaries includes our operating telephone subsidiaries, subsidiaries that provide centralized services and support, and network-related subsidiaries providing systems integration, CPE distribution, inside wiring, long distance, and directory and information services.

Employee Costs

		<i>Increase (Decrease)</i>
1997-1996	\$ 343.3	3.9 %
1996-1995	\$ (107.4)	(1.2)%

Employee costs consist of salaries, wages and other employee compensation, employee benefits and payroll taxes.

Employee costs increased in 1997 as a result of merger-related costs recorded in the third quarter. As described earlier, we recognized approximately \$223 million in 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. We also recorded approximately \$53 million of direct incremental merger-related costs associated with compensation arrangements. The 1997 expense increase also reflects higher costs of approximately \$277 million in connection with our retirement incentive program. For a further discussion of retirement incentives, see below.

Other items contributing to the increase in employee costs in 1997, but to a lesser extent, were annual salary and wage increases and the effect of increased work force levels principally as a result of higher business volumes at our network and domestic wireless subsidiaries. Work force levels grew by approximately 3,800 or 2.8% from the prior year, with approximately 2,600 of the increase attributable to our wireless subsidiaries. The effect of consolidating our Iusacell investment also contributed to the expense increase in 1997.

These increases were partially offset by reductions due to lower overtime pay for repair and maintenance activity at our network subsidiaries and the effect of accounting for our CWC investment under the equity method.

In addition, pension and benefit costs were lower in 1997 due to a number of factors, including changes in actuarial assumption, favorable returns on plan assets, lower than expected medical claims experience and plan amendments including the conversion of a pension plan to a cash balance plan. Effective January 1, 1998, we established common pension and saving plans benefit provisions for all management employees. As a result, continuing NYNEX management

employees will receive the same benefit levels as previously given under Bell Atlantic management plans. This change included the conversion of the NYNEX management pension plan to a cash balance plan. The change to the cash balance plan is expected to result in lower pension costs in 1998.

The reduction in employee costs in 1996 was principally caused by lower retirement incentive costs of approximately \$278 million, as compared to 1995. This expense decrease was partially offset by the effect of annual salary and wage increases, higher work force levels and increased overtime pay for repair and maintenance activity.

Retirement Incentives

In 1993, we announced a restructuring plan which included an accrual of approximately \$1.1 billion (pre-tax) for severance and postretirement medical benefits under a force reduction plan. Beginning in 1994, retirement incentives have been offered as a voluntary means of implementing substantially all of the work force reductions planned in 1993.

We estimated that additional costs of approximately \$2.2 billion would be incurred as employees elected to leave the business through 1998 under the retirement incentive program rather than through the severance provisions of the 1993 force reduction plan. This determination was based on the expectation that the total number of employees who would elect to leave under the current retirement incentive program through its completion in 1998 would be in the range of 19,000 to 21,000, consisting of approximately 9,000 to 10,000 management and 10,000 to 11,000 associate employees.

Since the inception of the retirement incentive program, additional costs totaled approximately \$1,957 million (pre-tax) as of December 31, 1997, consisting of \$513 million in 1997, \$236 million in 1996, \$514 million in 1995 and \$694 million in 1994. As of December 31, 1997, employees who have left the business under the retirement incentive program totaled 19,275, consisting of 9,329 management and 9,946 associate employees. The retirement incentive program covering management employees ended on March 31, 1997 and the program covering associate employees is scheduled to end in August 1998. In the first quarter of 1998, we expect between 1,700 to 1,800 associate employees to elect to leave under the retirement incentive program, resulting in an estimated pre-tax charge in the range of \$250 million to \$300 million.

Based on the experience of employee take rates under the program and management's most recent assessment of work volume and productivity trends, we are currently considering and discussing with the unions possible changes in the program for associate employees. We now expect that, if the current program is fully implemented, the total number of employees electing to leave under the program, and the associated additional charges, would be substantially greater than previously estimated.

As of December 31, 1997, the remaining reserves associated with the 1993 restructuring plan were approximately \$39 million for employee severance and \$54 million for postretirement medical benefits. Other reserves established in the 1993 restructuring plan related to process re-engineering, exit costs and asset write-offs. The utilization of these other reserves amounted to approximately \$5 million in 1997, \$134 million in 1996 and \$328 million in 1995. See Note 16 to the consolidated financial statements on pages 44-47 for additional information on retirement incentives.

Depreciation and Amortization

		<i>Increase</i>
1997-1996	\$ 485.4	9.0%
1996-1995	\$ 52.9	1.0%

Depreciation and amortization expense increased in 1997 primarily as a result of the recording of approximately \$297 million for the write-down of obsolete fixed assets in the third quarter of 1997. Depreciation expense was also higher in 1997 due to growth in depreciable plant and changes in the mix of plant assets at our network and domestic wireless subsidiaries. The effect of consolidating our Iusacell investment also contributed to the expense increase in 1997. These expense increases were partially offset by lower rates of depreciation and the effect of the CWC transaction.

The increase in depreciation and amortization expense in 1996 was principally caused by higher depreciable plant balances at our network and domestic wireless subsidiaries. This expense increase was substantially offset by lower rates of depreciation and the effect of the sale of our domestic computer maintenance subsidiary in October 1995.

Taxes Other Than Income

		<i>Increase (Decrease)</i>
1997-1996	\$ 107.0	7.1 %
1996-1995	\$ (89.4)	(5.6)%

Taxes other than income consist principally of taxes for gross receipts, property, capital stock and business licenses.

The increase in taxes other than income in 1997 was substantially due to charges recorded in the third quarter of 1997 for state and local tax contingencies of approximately \$55 million and for taxes incurred as part of direct incremental merger-related costs of approximately \$25 million.

Taxes other than income declined in 1996 principally as a result of a tax settlement recorded in 1995, and the effect of a change in the gross receipts tax law in New York in 1995.

Other Operating Expenses

		<i>Increase</i>
1997-1996	\$ 840.1	11.2%
1996-1995	\$ 711.1	10.5%

Other operating expenses consist of contract services, rent, network software costs, the provision for uncollectible accounts receivable and other costs.

The rise in other operating expenses in 1997 was largely due to the recording of merger-related costs and other special items aggregating approximately \$634 million in the twelve-month period. The charges contributing to the increases in other operating expenses included; direct incremental merger-related costs of \$122 million, transition merger-related costs of \$90 million, video-related charges of \$69 million, costs to consolidate certain redundant real estate properties of \$55 million, charges for regulatory, legal and other contingencies of \$126 million and other miscellaneous expense items of \$172 million.

Other operating expenses in 1997 also included increased costs at our network subsidiaries to comply with certain requirements of the Act to permit our eventual entry into the in-region long distance business. Costs associated with opening our network to competitors, including local number portability, totaled approximately \$290 million in 1997 and \$125 million in 1996. In 1997, we also recognized higher interconnection payments to competitive local exchange and wireless carriers to terminate calls on their networks, higher expenses as a result of increased business volumes at our domestic wireless and systems integration subsidiaries and higher costs associated with entering new businesses such as out-of-region long distance and Internet services. The effect of consolidating Iusacell also contributed to the expense growth in 1997. Expense increases in 1997 were offset, in part, by the effect of the CWC transaction and lower network software purchases.

Other operating expenses were higher in 1996, as compared to 1995, largely due to additional costs incurred at the network subsidiaries to upgrade network software, enhance billing and operating systems, market and advertise services and comply with certain aspects of the Act. The change in accounting for directory publishing expenses in 1996 and costs associated with entering the out-of-region long distance and Internet businesses also caused an increase in other operating expenses in 1996. Other operating expenses also included higher volume business costs at our domestic wireless and systems integration subsidiaries. Expense increases in 1996 were partially offset by the effect of the sale of our domestic computer maintenance business in late 1995 and the effect of lower charges associated with regulatory issues and certain asset and investment dispositions.

We expect to continue to incur costs associated with compliance with the Act in 1998 at about the same level as in 1997.

Income (Loss) from Unconsolidated Businesses

	<i>Increase (Decrease)</i>
1997-1996	\$ (138.3)
1996-1995	\$ 36.3

Income (loss) from unconsolidated businesses includes income and losses from investments accounted for under the equity method and goodwill amortization related to these investments. As described earlier, beginning in the second quarter of 1997 we account for our investment in CWC under the equity method, and in the first quarter of 1997 we fully consolidated our investment in Iusacell.

We recognized a loss from unconsolidated businesses in 1997 principally as a result of special charges of approximately \$162 million related to certain video investments and operations. In 1997, we determined that we would no longer pursue a multi-channel, 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 is no longer needed to support our current video strategy. We also wrote down our remaining investment in CAI Wireless Systems, Inc.

The year 1997 also included \$59.3 million for our equity share of formation costs incurred by CWC and higher equity losses associated with our investment in a personal communications services (PCS) joint venture, PrimeCo Personal Communications, L.P. (PrimeCo). In November 1996, PrimeCo launched commercial service in 16 major cities throughout the country, expanding its PCS service to 28 cities by the end of 1997. The change between 1997 and 1996 was also affected by a pre-tax gain of approximately \$66 million recognized in the first quarter of 1996 on the disposition of a nonstrategic investment.

These factors were offset, in part, by pre-tax gains on the sales of our ownership interests in several businesses, including approximately \$42 million related to the disposition 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, net of reserves, on the sale of our two-sevenths interest in Bell Communications Research, Inc. (Bellcore). We also recognized a small gain on the sale of Iusacell's interest in an Ecuadorian cellular company in 1997.

Results for 1997 were positively affected by the consolidation of our Iusacell investment and improved operating results from our investments in Omnitel Pronto Italia S.p.A. (Omnitel), an international wireless investment, and FLAG Ltd. (FLAG), a

company, in which we are the managing sponsor, that has completed construction of an undersea fiberoptic cable system between Europe and Asia and launched its commercial service in the fourth quarter of 1997.

Income from unconsolidated businesses in 1996 was higher than in 1995, principally due to the recognition of a pre-tax gain on the sale of a nonstrategic investment and lower equity losses from our Iusacell investment, reflecting net foreign exchange gains and a reduction in the amortization of goodwill. These increases were partially offset by higher equity losses associated with our investments in several joint ventures, including PrimeCo and Omnitel.

Other Income and (Expense), Net

	<i>Increase (Decrease)</i>
1997-1996	\$ 96.3
1996-1995	\$ (503.9)

Other income and (expense), net, consists primarily of interest and dividend income, minority interest in net income (loss) of consolidated businesses, and gains and losses on non-operating assets and investments.

The principal items affecting the change in other income and expense in 1997 were the effects of accounting for our equity investment in CWC and the consolidation of our Iusacell investment, as described earlier.

The change in other income and expense in 1996 was primarily attributable to a pre-tax gain of approximately \$384 million recorded in 1995 on the sale of certain cellular properties and a change in the method of recording capitalized interest costs by two of our operating telephone subsidiaries. In connection with the discontinued application of SFAS No. 71 in 1995, these operating telephone subsidiaries began recognizing capitalized interest costs as a reduction to interest expense beginning in 1996. Previously, these subsidiaries recorded an allowance for funds used during construction as an item of other income.

Interest Expense

	<i>Increase (Decrease)</i>	
1997-1996	\$ 148.0	13.7 %
1996-1995	\$ (182.6)	(14.4) %

Interest expense increased in 1997 principally as a result of higher borrowing levels at our network and wireless subsidiaries. A reduction in capitalized interest costs associated with our PrimeCo investment and the effect of the Iusacell consolidation also contributed to the rise in interest expense in the year.

We were able to reduce our interest expense in 1996 as a result of lower rates of interest and lower average borrowing levels during the year. The aforementioned change in the method of recording capitalized interest costs by two of our operating telephone subsidiaries also contributed to the reduction in interest expense in 1996.

See Note 9 to the consolidated financial statements on pages 36-38 for additional information about our debt portfolio.

Effective Income Tax Rates

Years Ended December 31,	
1997	38.4%
1996	36.3%
1995	37.7%

The effective income tax rate is the provision for income taxes as a percentage of income before provision for income taxes, extraordinary items and cumulative effect of change in accounting principle.

The higher effective income tax rate in 1997 resulted from the effect of certain merger-related costs and special charges for which there were no corresponding tax benefits. Adjustments to the valuation allowance resulting from our re-evaluation of tax planning strategies in light of the merger also contributed to the higher effective income tax rate in 1997. These factors were partially offset by the effect of a change in the New Jersey state tax law, which resulted in the recognition of a deferred state income tax benefit of approximately \$75 million in the third quarter of 1997.

In 1997, a New Jersey law was enacted that repealed the gross receipts tax applicable to telephone companies and extended the net-income-based corporate business tax to include telephone companies. This change is not expected to have a material effect on future results of operations.

The effective income tax rate was lower in 1996, as compared to 1995, due principally to changes in foreign investee results for which there were no corresponding tax benefits or expense. The 1996 rate also reflects prior period adjustments, including research and development credits. The 1995 rate reflects a provision for various state tax issues recorded in 1995. The effect of these factors was partially offset by the reduction in the amortization of investment tax credits and the elimination of the benefit of the income tax rate differential applied to reversing timing differences, both as a result of the discontinued application of regulatory accounting principles by two of our operating telephone subsidiaries in June 1995.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for each period is provided in Note 17 to the consolidated financial statements on pages 47-48.

Financial Condition

Years Ended December 31,	1997	1996	1995
Cash Flows From (Used In):			
Operating activities	\$ 8,858.7	\$ 8,780.8	\$ 7,894.4
Investing activities	(7,338.6)	(7,574.0)	(6,564.1)
Financing activities	(1,446.7)	(1,420.3)	(1,147.8)

We use the net cash generated from our operations and from external financing to fund capital expenditures for network expansion and modernization, pay dividends, and invest in new businesses. While current liabilities exceeded current assets at December 31, 1997 and 1996, our sources of funds, primarily from operations and, to the extent necessary, from readily available external financing arrangements, are sufficient to meet ongoing operating and investing requirements. We expect that presently foreseeable capital requirements will continue to be financed primarily through internally generated funds. Additional debt or equity financing may be needed to fund additional development activities or to maintain our capital structure to ensure our financial flexibility.

Cash Flows From Operating Activities

Our primary source of funds continued to be cash generated from operations. Improved cash flows from operating activities during 1997 resulted mainly from improved operating income before certain charges in connection with the merger and with consolidating operations and combining organizations. Cash flows from operations improved in 1996 due principally to growth in operating income and timing differences in the payment of accounts payable and accrued taxes.

Cash Flows Used in Investing Activities

Capital expenditures continued to be our primary use of cash resources. Our capital expenditures consisted principally of investments in our network subsidiaries. We invested approximately \$5.5 billion in 1997 and \$4.9 billion in each of 1996 and 1995 to support our network businesses in order to facilitate the introduction of new products and services, enhance responsiveness to competitive challenges and increase the operating efficiency and productivity of the network. We expect capital expenditures in 1998 to aggregate to approximately \$7.0 billion, including approximately \$6.0 billion to be invested in our network subsidiaries.

We continue to make substantial investments in our unconsolidated businesses. During 1997, we invested \$833.0 million in unconsolidated businesses including approximately \$426 million in PrimeCo to fund its operations and the continued build-out of its PCS network, \$138 million in FLAG and \$269 million in leasing and other partnerships. Cash investing activities in unconsolidated businesses in 1996 totaled \$1,071.2 million, which included investments of approximately \$257 million in PrimeCo, \$315 million in

Omnitel, primarily to increase our ownership interest, \$224 million in other international telecommunications investments and \$275 million in leasing and other partnerships. Cash investments in unconsolidated businesses in 1995 consisted principally of approximately \$612 million in PrimeCo to fund the initial purchase of PCS licenses, \$170 million in international telecommunications investments and \$258 million in leasing and other partnerships.

Our short-term investments consist principally of cash equivalents held in trust accounts for the payment of certain employee benefits. During 1997 and 1996, we invested \$843.6 million and \$418.1 million in short-term investments, principally in trusts to pre-fund vacation pay and associate health and welfare benefits. In 1997, we increased our pre-funding of benefits trusts to cover employees of the former NYNEX companies. Proceeds from the sales of short-term investments were \$426.9 million in 1997, compared to \$132.5 million in 1996.

During 1997, we received cash proceeds totaling \$546.5 million from the sales of our real estate properties and our interests in Bellcore, Infostrada, Sky Network Television Limited of New Zealand and other joint ventures.

In 1996, we received cash proceeds of approximately \$128 million from the sales of nonstrategic investments. Cash proceeds from dispositions of businesses in 1995 consisted principally of approximately \$453 million from the sale of certain cellular properties and approximately \$250 million in connection with the sales of our computer maintenance business and our interests in certain European computer maintenance operations.

During 1997, we received cash proceeds of \$153.3 million from Telecom Corporation of New Zealand's (TCNZ) share repurchase plan. TCNZ completed its repurchase plan in December 1997. As a result of the repurchase plan, we increased our ownership interest in TCNZ from 24.82% to 24.95%, the maximum permitted level.

Cash Flows Used in Financing Activities

As in prior years, dividend payments were a significant use of capital resources. We determine the appropriateness of the level of our dividend payments on a periodic basis by considering such factors as long-term growth opportunities, internal cash requirements and the expectations of our shareowners. In September 1997, we announced a quarterly dividend payment of \$.77 per share, an annual rate of \$3.08 per share, as contemplated in the merger with NYNEX. The new dividend payment is equivalent to what former NYNEX shareowners would have received from the NYNEX quarterly dividend of \$.59 per share. Cash dividends declared in the first and second quarters of 1997 were \$.74 per share. In 1996, cash dividends were \$.72 per share each quarter, or \$2.88 for the year; dividends declared in 1996 included \$.005

per common share for redemption of all rights granted under our Shareholder Rights Plan. In 1995, cash dividends were \$.70 per share each quarter, or \$2.80 for the year.

We increased our long-term debt (including capital lease obligations) and short-term debt by approximately \$1,438 million from December 31, 1996, compared to a reduction in debt of approximately \$197 million from 1995 to 1996. The increase in 1997 was principally attributable to an increase in telephone plant construction, new investments in PrimeCo and other wireless subsidiaries, and the consolidation of our Iusacell investment. Additional pre-funding of employee benefits trusts also contributed to the increase in debt levels. The effects of these capital expenditures and the pre-funding of benefits trusts were partially offset by proceeds from the TCNZ share repurchase plan and from sales of our real estate properties and other investments.

In January 1998, one of our operating telephone subsidiaries issued \$250.0 million of debentures, and in February 1998 the proceeds were used to redeem \$200.0 million of bonds and to reduce short-term debt levels.

Our debt ratio was 60.5% as of December 31, 1997, compared to 58.3% as of December 31, 1996 and 62.1% as of December 31, 1995.

At December 31, 1996, we classified approximately \$1.8 billion of commercial paper borrowings as Long-Term Debt as a result of our intent to refinance these borrowings on a long-term basis using an unsecured revolving credit facility. This revolving credit facility was canceled in 1997. As a result, all commercial paper was classified as Debt Maturing Within One Year in 1997.

As of December 31, 1997, we had unused bank lines of credit in excess of \$4.8 billion and our subsidiaries have shelf registrations for the issuance of up to \$2.7 billion of unsecured debt securities. We also had \$509.7 million in borrowings outstanding under bank lines of credit at December 31, 1997. We have established a \$1.0 billion Euro Medium-Term Note Program for the issuance of debt securities through a subsidiary. The debt securities of our subsidiaries continue to be accorded high ratings by primary rating agencies.

In the second quarter of 1997, we reduced our Series B Preferred Stock of Subsidiary by 100,000 shares through the purchase of the stock by a wholly owned subsidiary for \$10.0 million. In December 1997, our subsidiary Bell Atlantic New Zealand Holdings, Inc. (BANZHI) issued 650,000 shares of Series C Variable Term Preferred Stock at \$100 per share with an initial annual dividend rate of 4.40%. In 1995, BANZHI issued 600,000 shares of Series B Preferred Stock at a share price of \$100 with an annual dividend rate of \$5.80 per share. Preferred share sales resulted in cash inflows of \$65.5 million in 1997 and \$59.5 million in 1995.

As a result of the consolidation of our Iusacell investment in the first quarter of 1997 and the transfer of our interests in United Kingdom operations to CWC for an equity interest in CWC in the second quarter of 1997, our consolidated balance sheet at December 31, 1997 reflects increases and decreases in certain categories of assets and liabilities; however, these transactions had no material effect on our financial condition.

In February 1998, we issued approximately \$2.5 billion in exchangeable notes. The notes have a maturity of five years and may be exchangeable into shares of TCNZ, with the exchange price established at a premium to the TCNZ share price at the time of the offering. The notes are noncallable for a period of at least three years, and are not exchangeable by investors for an initial period of 18 months. Upon exchange by investors, we retain the option to settle in cash or by delivery of shares. Proceeds from the offering are being used for general corporate purposes, including the repayment of a portion of our short-term debt. This transaction is not expected to have a material effect on our financial condition or results of operations in 1998.

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 and changes in corporate tax rates. We employ risk management strategies including the use of derivatives such as interest rate swap agreements, interest rate caps and floors, foreign currency forwards and options, and basis swap agreements to manage these exposures. We do not hold derivatives for trading purposes. The analysis below presents the hypothetical changes in fair values related to our financial instruments held as of December 31, 1997, which are subject to these market risks.

Interest Rate Risk Management

Our objective in managing interest rate risk is to maintain a mix of fixed and variable rate debt that will lower our overall borrowing costs within reasonable risk parameters. Our short-term commercial paper and bank loans expose our earnings to changes in short-term interest rates since interest rates on these obligations are either variable or fixed for such a short period of time as to effectively become variable.

Interest rate swaps are used to convert a portion of our debt portfolio from a variable rate to a fixed rate or from a fixed rate to a variable rate. We have also entered into interest rate swap agreements to hedge the value of certain international investments. These swap agreements generally have both interest rate and foreign currency components. The interest rate components typically require us to pay a floating rate of interest and receive a fixed rate.

As of December 31, 1997, the fair value of our long-term debt and interest rate derivatives was approximately \$14.4 billion. The aggregate hypothetical fair value of these financial instruments assuming a 100-basis-point upward parallel shift in the yield curve is estimated to be \$13.6 billion. The aggregate hypothetical fair value of these financial instruments assuming a 100-basis-point downward parallel shift in the yield curve is estimated to be \$15.2 billion. The fair values of our commercial paper and bank loans are not significantly affected by changes in market interest rates.

Foreign Exchange Risk Management

Our objective in managing foreign exchange risk is to protect against earnings and cash flow volatility resulting from changes in foreign exchange rates. Short-term transactions in foreign currency and foreign currency commitments expose us to changes in foreign exchange rates. We have entered into forward contracts to limit this risk by making the terms of the forward exchange contracts comparable with the terms of the related foreign currency transactions.

At December 31, 1997, our primary exposure with respect to these transactions was to U.S. dollar/ Italian lira, U.S. dollar/ German mark and U.S. dollar/ Dutch guilder exchange rates.

Certain other foreign currency transactions were entered into to hedge the value of certain international investments. As noted in the "Interest Rate Risk Management" section above, certain of our interest rate swap agreements also contain a foreign currency component whereby the final principal exchange is designated in a foreign currency. At December 31, 1997, we had exposure to U.S. dollar/ British pound and U.S. dollar/ Thai baht exchange rates. In addition, our equity investment in the Philippines holds debt denominated in a currency other than the Filipino peso and recognizes foreign currency gains or losses when translating those liabilities. Our equity income related to this investment is subject to fluctuations in the U.S. dollar/ Filipino peso exchange rate.

We are subject to risk from changes in foreign exchange rates for our equity investees which use a foreign currency as their functional currency and are translated to U.S. dollars. Such changes result in cumulative translation adjustments which are included in Shareowners' Investment. At December 31, 1997, we had translation exposure to various foreign currencies with the most significant being the New Zealand dollar, Italian lira and British pound.

The aggregate hypothetical change in the fair values of our foreign currency derivatives and cost investments from a 10% increase or 10% decrease in the value of the U.S. dollar against the various currencies that we are exposed to at December 31, 1997 was not material. This calculation does not include potential changes in the value of our international

investments accounted for under the equity method. As of December 31, 1997, those international investments totaled approximately \$1.8 billion.

The fair values of our investments accounted for under the cost method may also be at risk from adverse changes in foreign exchange rates. We currently hold an international portfolio of telecommunication-related infrastructure projects that includes cost investments in Thailand and Indonesia. During the past several months, Asian financial markets have experienced a high degree of volatility, which has had a negative effect on the fair values of these international investments. However, we believe that the declines from recorded book values are temporary and that the spot currency markets are not a clear and reliable indicator of the rates which the local economies may support in the future. While we expect to recover our investments in these countries, we will continue to monitor the Asian financial markets closely and manage our investments in order to maximize our future results, all within the parameters of established risk management processes. The ultimate impact of these market uncertainties will be dependent upon future events, including the level of volatility in these markets, the duration of these unsettled market conditions and the state of the underlying economies in the affected countries. Should we determine the downturn of financial markets in these countries to be other than temporary, the impact could be material to our financial condition and results of operations.

Other Risk Management

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 entered into several basis swap agreements which provide for the receipt of a variable interest rate (LIBOR-based) in exchange for a rate calculated based on a tax-exempt market index (J.J. Kenney). We account for these swaps at fair value and record changes in unrealized gains and losses in our statement of income.

It is our policy to enter into interest rate, foreign currency and other transactions only to the extent necessary to achieve the desired objectives of our management in limiting our exposures to the various market risks discussed above. We do not hedge all of our market risk exposures in a manner that would completely eliminate the impact of changes in interest rates and foreign exchange rates on our net income. We do not expect that our results of operations or liquidity will be materially affected by these risk management strategies.

The notional amounts of our derivative contracts are used only to calculate contractual payments to be exchanged and are not a measure of our credit risk or our future cash requirements. Credit risk related to derivatives is limited to nonperformance by counterparties to our contracts. We manage that credit risk

by limiting our exposure to any one financial institution and by monitoring our counterparties' credit ratings. We believe that the risk of loss due to nonperformance by counterparties is remote and that any losses would not be material to our financial condition or results of operations.

In addition, we are typically exposed to other types of risk in the course of our business such as political risks to assets located in foreign countries.

Credit risks and other potential risks have not been included in the above analysis.

Other Factors That May Affect Future Results

Bell Atlantic – NYNEX Merger

The merger of Bell Atlantic and NYNEX was completed on August 14, 1997. We are targeting recurring expense savings of approximately \$450 million in 1998, \$750 million by 1999 and \$1.1 billion by 2000 and approximately \$300 million a year in capital savings as a result of the merger by consolidating and integrating networks and operating systems, eliminating approximately 3,100 management positions, centralizing procurement, reducing the need for contract services, consolidating real estate, combining information systems and eliminating duplicative operations. We also expect to add approximately \$400 million a year in revenues from our current product portfolio by using our best marketing and advertising practices. We are targeting 1998 earnings growth within the 10% to 12% range, excluding merger-related transition and integration costs.

Telecommunications Industry Changes

The telecommunications industry is undergoing substantial changes as a result of the 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 Act became law on February 8, 1996 and replaced the Modification of Final Judgment (MFJ). In general, the Act includes provisions that open local exchange markets to competition and permit Bell Operating Companies (BOCs) or their affiliates, including Bell Atlantic, to provide interLATA (long distance) services and to engage in manufacturing previously prohibited by the MFJ. Under the 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 service through resale, 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.

A U. S. District Court recently found that the line-of-business restrictions in the Act, including the requirement that BOCs alone comply with a competitive checklist before being allowed to provide long distance, are unconstitutional because they apply only to BOCs. The court has stayed its order pending appeals by the U. S. Department of Justice (DOJ) and other parties. Although we believe that the court's decision will be upheld on appeal, we are continuing to work through the regulatory process at both the state and federal levels in order to be in a position to enter the in-region long distance market in 1998. We expect to petition the FCC for permission to enter the in-region long distance market in New York early in the second half of this year and in one or more other states by the end of the year. We anticipate entering the in-region long distance market in at least one jurisdiction during the second half of 1998, but there can be no assurance that any approval will be forthcoming in time to permit us to do so. The timing of our long distance entry in each of our 14 jurisdictions depends on the receipt of FCC approval and on the ultimate outcome of the appeals of the district court's decision.

A U. S. Court of Appeals has found that the FCC unlawfully attempted to preempt state authority in implementing key provisions of the Act and that several provisions of the FCC's rules that we challenged are inconsistent with the statutory requirements. In particular, it affirmed that the states have exclusive jurisdiction over the pricing provisions of local interconnection and resale arrangements, that the FCC cannot lawfully allow competitors to "pick and choose" isolated terms out of negotiated interconnection agreements, and that the FCC cannot require incumbent local exchange carriers to provide competitors a pre-assembled network platform at network element prices or to combine unbundled network elements for competitors. The U. S. Supreme Court has agreed to hear appeals by the DOJ and other parties of that decision.

We are unable to predict definitively the impact that the 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 the various appeals, and the timing, extent and success of our pursuit of new opportunities resulting from the 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. You should also read the "Competition" section on page 21 for additional information.

Recent Developments - FCC Orders

In 1997, the FCC adopted orders to reform the interstate access charge system, to modify its price cap system and to implement the "universal service" requirements of the Act.

Access Charges

Interstate access charges are the rates long distance carriers pay for use and availability of the operating telephone subsidiaries' facilities for the origination and termination of interstate service. The FCC's order adopted changes to the access tariff structures in order to permit the operating telephone subsidiaries to recover a greater portion of their interstate costs through rates that reflect the manner in which those costs are incurred. The FCC required a phased restructuring of access charges, beginning in January 1998, so that the operating telephone subsidiaries' nonusage-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 will require establishment of different levels of usage-based charges for originating and for terminating interstate traffic.

A portion of the operating telephone subsidiaries' interstate costs are also recovered through flat monthly charges to subscribers (subscriber line charges). Under the FCC's order, subscriber line charges for primary residential and single line businesses will remain unchanged initially, but such charges for additional residential lines and multi-line businesses will rise.

The FCC has begun an investigation of the tariffs filed by the operating telephone subsidiaries and other local exchange carriers to implement this new rate structure. We are unable to predict the results of this investigation.

Price Caps

The FCC also adopted modifications to its price cap rules which affect access rate levels. Under those rules, 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 (the GDP-PI). In the twelve month period ended June 30, 1996, our Productivity Factor was 5.3%. The FCC created a single Productivity Factor of 6.5% for all price cap companies, eliminated requirements to share a portion of future

interstate earnings in excess of the authorized rate of return with customers and required that rates be set as if the higher Productivity Factor had been in effect since July 1996. Any local exchange company that earns an interstate rate of return below 10.25% in a calendar year will be permitted to increase its interstate rates in the following year. The FCC also ordered elimination of recovery for amortized costs associated with our implementation of equal access to all long distance carriers and removal of certain general overhead costs that it concluded were associated with other unregulated services.

The FCC is expected to adopt an order in 1998 to address the conditions under which the FCC would relax or remove existing access rate structure requirements and price cap restrictions as increased local market competition develops. We are unable to predict the results of this further proceeding.

Universal Service

The FCC also adopted rules implementing the "universal service" provision of the Act, which was designed to ensure that a basket of designated services is widely available and affordable to all customers, including low-income customers and customers in areas that are expensive to serve. The FCC's universal service support in 1998 will approximate \$1.5 billion for high-cost areas. The support amount thereafter cannot yet be determined. The FCC, in conjunction with the Federal-State Joint Board on Universal Service, will adopt a methodology for determining high-cost areas for nonrural carriers, and the proper amount of federal universal service support for high-cost areas. A new federal high-cost universal service support mechanism will become effective in 1999.

The FCC also adopted rules to implement the Act's requirements to provide discounted telecommunications services to schools and libraries and to ensure that not-for-profit rural health care providers have access to such services at rates comparable to those charged their urban counterparts. All telecommunications carriers must contribute funding for these universal service programs.

The federal universal service funding needs as of January 1, 1998 require each of our operating telephone subsidiaries to contribute approximately 2% of its interstate retail revenues for high-cost and low-income subsidies. Each of our operating telephone subsidiaries will also be contributing a portion of its total interstate retail revenues for schools, libraries and not-for-profit health care. Our operating telephone subsidiaries will recover these contributions through interstate charges to long distance carriers and end-users. Effective in 1998, our domestic wireless subsidiary will also be required to contribute to these universal service programs and will recover the cost of its contributions from end-users.

Competition

IntraLATA Toll Services

IntraLATA toll calls originate and terminate within the same LATA, but generally cover a greater distance than a local call. These services are generally regulated by state regulatory commissions rather than federal authorities. All of our state regulatory commissions (except in the District of Columbia, where intraLATA toll service is not provided) permit other carriers to offer intraLATA toll services within the state.

Until the implementation of presubscription, intraLATA toll calls were completed by our operating telephone subsidiaries unless the customer dialed a code to access a competing carrier. Presubscription changes this dialing method and enables customers to make these toll calls using another carrier without having to dial an access code.

The Act generally prohibits, with certain exceptions, a state from requiring presubscription until the earlier of such time as the BOC is authorized to provide long distance services originating in the state or three years from the effective date of the Act.

New York Telephone Company substantially completed implementation of intraLATA presubscription in the first quarter of 1996, and fully completed intraLATA presubscription implementation by September 1996. By December 1997, our operating telephone subsidiaries in Delaware, Maine, New Hampshire, New Jersey, Pennsylvania, Rhode Island, Vermont and West Virginia had also implemented presubscription. We expect to offer intraLATA presubscription in Maryland, Massachusetts and Virginia coincident with our offering of long distance services in those states, or by February 8, 1999, as required by the Act.

Implementation of presubscription for intraLATA toll services has begun to have a material negative effect on intraLATA toll service revenues in those jurisdictions where, as noted above, presubscription has been implemented before we are permitted to offer long distance services. The adverse impact on intraLATA toll services revenues is expected to be partially offset by an increase in intraLATA access revenues.

Local Exchange Services

Local exchange services have historically been subject to regulation by state regulatory commissions. Applications from competitors to provide and resell local exchange services have been approved in all of our state jurisdictions. The Act is expected to significantly increase the level of competition in all of our local exchange markets.

Year "2000" Systems Modifications

We have initiated a comprehensive program to evaluate and address the impact of the year 2000 on our operations in order to ensure that our network and computer systems recognize calendar year 2000. This program includes steps to (a) identify each item or element that will require date code remediation, (b) establish a plan for remediation or replacement, (c) implement the fix, (d) test the remediated product and (e) provide management with assurance of a seamless transition to the year 2000. The identification and planning phases are substantially complete and remediation and testing are in process. We expect to complete the major portion of our internal date remediation activity in 1998.

For the years 1998 and 1999, we expect to incur total pre-tax expenses of approximately \$200 million to \$300 million associated with both internal and external staffing resources for the necessary planning, remediation and testing and other expenses to prepare our systems for the year 2000. However, a portion of these expenses will not be incremental, but rather will represent the redeployment of existing information technology resources. Estimated expenses include (a) anticipated license fees for replacement software that will generally provide increased functionality as well as year 2000 compliance, and (b) direct remediation costs to provide priority to year 2000 compliance during the next two years. The cost of planning and initial remediation incurred through 1997 has not been significant. Certain other costs, which will be capitalized, represent ongoing investment in systems upgrades, the timing of which is being accelerated in order to facilitate year 2000 compliance. These cost estimates have been included in our earnings targets.

We expect to complete this effort on a timely basis without disruption to our customers or operations.

Cautionary Statement Concerning Forward - Looking Statements

Information contained above in this Management's Discussion and Analysis and elsewhere in this Annual Report with respect to expected financial results and future events and trends is forward-looking, based on our estimates and assumptions and subject to risks and uncertainties. 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 could affect the future results of our company and could cause those results to differ materially from those expressed in the forward-looking statements:


(i) materially adverse changes in economic conditions in the markets served by us or by companies in which we have substantial investments, or changes in available technology; (ii) the final outcome of FCC rulemakings, and judicial review of those rulemakings, with respect to the access and interconnection that we must provide other carriers under the Act; (iii) the final outcome of FCC rulemakings with respect to access charge reform and universal service; (iv) future state regulatory actions in our operating areas; (v) the extent, timing and success of competition from others in the local telephone and intraLATA toll service markets; (vi) the timing and profitability of our entry into the in-region long distance market and (vii) the success and expense of the remediation efforts of the company and its suppliers in achieving year 2000 compliance.

Report of Management

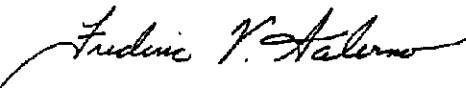
We, the management of Bell Atlantic Corporation, are responsible for the consolidated financial statements and the information and representations contained in this report. We believe the financial statements have been prepared in conformity with generally accepted accounting principles and the information in this report is consistent with those statements.

To meet our responsibility for the preparation of reliable financial statements, we maintain a strong internal control structure. It includes the appropriate control environment, accounting systems and control procedures. The internal control structure is designed to provide reasonable assurance that assets are safeguarded from unauthorized use, that transactions are properly recorded and executed under our authorizations, and that the financial records permit the preparation of reliable financial statements. There are, however, inherent limitations that should be recognized in considering the assurances provided by the internal control structure. The concept of reasonable assurance recognizes that the costs of the internal control structure should not exceed the benefits to be derived. The internal control structure is reviewed and evaluated on a regular basis. Compliance is monitored by our internal auditors through an annual plan of internal audits.

The Board of Directors has the responsibility to review the financial statements. This is done by its Audit Committee, which is composed of four outside directors. The Audit Committee meets periodically with management and the Board of Directors. It also meets with representatives of the internal auditors and independent accountants and reviews the work of each to ensure that their respective responsibilities are being carried out and to discuss related matters. Both the internal auditors and independent accountants have direct access to the Audit Committee.



Raymond W. Smith
Chairman of the Board
and Chief Executive Officer



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

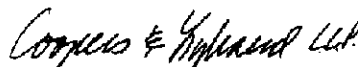
Report of Independent Accountants**To the Board of Directors and Shareowners of
Bell Atlantic Corporation:**

We have audited the accompanying consolidated balance sheets of Bell Atlantic Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in shareowners' investment, and cash flows for each of the three years in the period ended December 31, 1997. The consolidated financial statements give retroactive effect to the merger of Bell Atlantic Corporation and NYNEX Corporation on August 14, 1997, which has been accounted for as a pooling of interests, as described in Note 1 to the consolidated financial statements. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bell Atlantic Corporation and subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, in 1996, the Company changed its method of accounting for directory publishing revenues and expenses. Also, as discussed in Notes 2 and 4 to the consolidated financial statements, in the second quarter of 1995, the Company discontinued accounting for the operations of certain telephone subsidiaries in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation."



1301 Avenue of the Americas
New York, New York
February 9, 1998

Consolidated Statements of Income

Years Ended December 31,	1997	(Dollars in Millions, Except Per Share Amounts)	
		1996	1995
Operating revenues	\$ 30,193.9	\$ 29,155.2	\$ 27,926.8
Operating expenses			
Employee costs, including benefits and taxes	9,047.2	8,703.9	8,811.3
Depreciation and amortization	5,864.4	5,379.0	5,326.1
Taxes other than income	1,606.9	1,499.9	1,589.3
Other operating expenses	8,333.9	7,493.8	6,782.7
	24,852.4	23,076.6	22,509.4
Operating income	5,341.5	6,078.6	5,417.4
Income (loss) from unconsolidated businesses	(124.1)	14.2	(22.1)
Other income and (expense), net	(3.3)	(99.6)	404.3
Interest expense	1,230.0	1,082.0	1,264.6
Income before provision for income taxes, extraordinary items, and cumulative effect of change in accounting principle	3,984.1	4,911.2	4,535.0
Provision for income taxes	1,529.2	1,782.3	1,708.9
Income before extraordinary items and cumulative effect of change in accounting principle	2,454.9	3,128.9	2,826.1
Extraordinary items			
Discontinuation of regulatory accounting principles, net of tax	—	—	(2,919.4)
Extinguishment of debt, net of tax	—	—	(3.5)
	—	—	(2,922.9)
Cumulative effect of change in accounting principle			
Directory publishing, net of tax	—	273.1	—
Net income (loss)	\$ 2,454.9	\$ 3,402.0	\$ (96.8)
Basic Earnings Per Common Share:			
Income before extraordinary items and cumulative effect of change in accounting principle	\$ 3.16	\$ 4.05	\$ 3.70
Extraordinary items	—	—	(3.83)
Cumulative effect of change in accounting principle	—	.35	—
Net income (loss)	\$ 3.16	\$ 4.40	\$ (.13)
Weighted-average shares outstanding (in millions)	775.9	773.3	764.3
Diluted Earnings Per Common Share:			
Income before extraordinary items and cumulative effect of change in accounting principle	\$ 3.13	\$ 4.01	\$ 3.68
Extraordinary items	—	—	(3.81)
Cumulative effect of change in accounting principle	—	.35	—
Net income (loss)	\$ 3.13	\$ 4.36	\$ (.13)
Weighted-average shares—diluted (in millions)	785.5	780.1	768.2

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

		(Dollars in Millions, Except Per Share Amounts)	
At December 31,		1997	1996
Assets			
Current assets			
Cash and cash equivalents	\$	322.8	\$ 249.4
Short-term investments		720.6	300.5
Accounts receivable, net of allowances of \$611.9 and \$566.7		6,340.8	6,168.9
Inventories		550.3	478.4
Prepaid expenses		634.0	716.3
Other		432.3	543.3
		9,000.8	8,456.8
Plant, property and equipment		77,437.2	75,679.5
Less accumulated depreciation		42,397.8	39,544.7
		35,039.4	36,134.8
Investments in unconsolidated businesses		5,144.2	4,922.2
Other assets		4,779.7	3,847.3
Total assets	\$	53,964.1	\$ 53,361.1
Liabilities and Shareowners' Investment			
Current liabilities			
Debt maturing within one year	\$	6,342.8	\$ 2,884.2
Accounts payable and accrued liabilities		5,966.4	6,160.6
Other		1,355.0	1,305.1
		13,664.2	10,349.9
Long-term debt		13,265.2	15,286.0
Employee benefit obligations		10,004.4	9,588.0
Deferred credits and other liabilities			
Deferred income taxes		2,106.2	1,846.9
Unamortized investment tax credits		250.7	288.8
Other		772.6	865.9
		3,129.5	3,001.6
Minority interest, including a portion subject to redemption requirements		911.2	2,014.2
Preferred stock of subsidiary		200.5	145.0
Commitments and contingencies (Notes 6, 7 and 8)			
Shareowners' investment			
Series preferred stock (\$.10 par value; none issued)		-	-
Common stock (\$.10 par value; 788,026,395 shares and 787,000,254 shares issued)		78.8	78.7
Contributed capital		13,255.6	13,295.0
Reinvested earnings		1,261.7	1,279.8
Foreign currency translation adjustment		(553.4)	(319.4)
		14,042.7	14,334.1
Less common stock in treasury, at cost		590.5	589.3
Less deferred compensation-employee stock ownership plans		663.1	768.4
		12,789.1	12,976.4
Total liabilities and shareowners' investment	\$	53,964.1	\$ 53,361.1

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Shareowners' Investment

Years Ended December 31,	1997		(Dollars in Millions, Except Per Share Amounts, and Shares in Thousands)		1996		1995	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock								
Balance at beginning of year	787,000	\$ 78.7	771,680	\$ 77.2	436,406	\$ 436.4		
Pooling of interests with NYNEX Corporation	-	-	-	-	325,299	(360.2)		
Balance at beginning of year, restated	787,000	78.7	771,680	77.2	761,705	76.2		
Shares issued:								
Employee plans	1,022	.1	4,542	.5	5,615	.6		
Shareowner plans	4	-	1,484	.1	2,167	.2		
Acquisition agreements	-	-	-	-	375	-		
Common shares issued to subsidiary	-	-	9,398	.9	1,818	.2		
Shares retired	-	-	(104)	-	-	-		
Balance at end of year	788,026	78.8	787,000	78.7	771,680	77.2		
Contributed Capital								
Balance at beginning of year		13,295.0		12,452.9		5,428.4		
Pooling of interests with NYNEX Corporation		-		-		7,097.6		
Balance at beginning of year, restated		13,295.0		12,452.9		12,526.0		
Shares issued:								
Employee plans		(22.1)		263.5		306.0		
Shareowner plans		-		94.2		118.9		
Acquisition agreements		(.3)		-		13.7		
Sale of stock by subsidiary		-		-		155.2		
Dividends		-		(.2)		(761.5)		
Common shares issued to subsidiary		-		490.0		94.6		
Other		(17.0)		(5.4)		-		
Balance at end of year		13,255.6		13,295.0		12,452.9		
Reinvested Earnings								
Balance at beginning of year		1,279.8		184.6		1,144.4		
Pooling of interests with NYNEX Corporation		-		-		605.8		
Balance at beginning of year, restated		1,279.8		184.6		1,750.2		
Net income (loss)		2,454.9		3,402.0		(96.8)		
Dividends declared and redemption of stock rights (\$3.02, \$2.88, and \$2.80 per share)		(2,363.4)		(2,295.7)		(1,473.4)		
Shares issued:								
Employee plans		(121.0)		(19.4)		(11.8)		
Tax benefit of dividends paid to ESOPs		12.9		14.8		16.4		
Other		(1.5)		(6.5)		-		
Balance at end of year		1,261.7		1,279.8		184.6		
Foreign Currency Translation Adjustment								
Balance at beginning of year		(319.4)		(541.3)		(330.8)		
Pooling of interests with NYNEX Corporation		-		-		3.2		
Balance at beginning of year, restated		(319.4)		(541.3)		(327.6)		
Translation adjustments (net of tax benefit of \$1.8, \$4.7, and \$1.1)		(234.0)		221.9		(213.7)		
Balance at end of year		(553.4)		(319.4)		(541.3)		
Treasury Stock								
Balance at beginning of year	11,270	589.3	1,881	97.9	220	11.0		
Pooling of interests with NYNEX Corporation	-	-	-	-	-	-		
Balance at beginning of year, restated	11,270	589.3	1,881	97.9	220	11.0		
Shares purchased	12,074	919.8	1,789	118.3	211	11.2		
Shares distributed:								
Employee plans	(11,630)	(899.0)	(1,693)	(111.6)	(43)	(2.1)		
Shareowner plans	(26)	(1.8)	(1)	(.1)	(234)	(11.6)		
Acquisition agreements	(212)	(17.8)	-	-	(91)	(5.4)		
Common shares held by subsidiary	-	-	9,398	490.9	1,818	94.8		
Shares retired	-	-	(104)	(6.1)	-	-		
Balance at end of year	11,476	590.5	11,270	589.3	1,881	97.9		
Deferred Compensation-ESOPs								
Balance at beginning of year		768.4		861.9		586.2		
Pooling of interests with NYNEX Corporation		-		-		364.2		
Balance at beginning of year, restated		768.4		861.9		950.4		
Amortization		(105.3)		(93.5)		(88.5)		
Balance at end of year		663.1		768.4		861.9		
Total Shareowners' Investment		\$ 12,789.1		\$ 12,976.4		\$ 11,213.6		

Consolidated Statements of Cash Flows

Years Ended December 31,	1997	1996	1995
(Dollars in Millions)			
Cash Flows From Operating Activities			
Net income (loss)	\$ 2,454.9	\$ 3,402.0	\$ (96.8)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,864.4	5,379.0	5,326.1
Extraordinary items, net of tax	-	-	2,922.9
Cumulative effect of change in accounting principle, net of tax	-	(273.1)	-
Gain on sale of cellular properties, net of tax	-	-	(244.2)
Income (loss) from unconsolidated businesses	124.1	(14.2)	22.1
Dividends received from unconsolidated businesses	192.1	194.8	179.0
Amortization of unearned lease income	(110.3)	(100.6)	(92.1)
Deferred income taxes, net	236.9	284.2	(13.8)
Investment tax credits	(38.1)	(57.3)	(70.5)
Other items, net	88.2	274.1	48.0
Changes in certain assets and liabilities, net of effects from acquisition/disposition of businesses:			
Accounts receivable	(139.5)	(184.0)	(591.0)
Inventories	(73.8)	(116.1)	(70.8)
Other assets	65.2	(244.8)	(241.0)
Accounts payable and accrued liabilities	(93.3)	382.6	290.3
Employee benefit obligations	415.5	206.5	425.5
Other liabilities	(127.6)	(352.3)	100.7
Net cash provided by operating activities	8,858.7	8,780.8	7,894.4
Cash Flows From Investing Activities			
Purchases of short-term investments	(843.6)	(418.1)	(135.0)
Proceeds from sale of short-term investments	426.9	132.5	136.9
Additions to plant, property and equipment	(6,637.7)	(6,394.7)	(6,304.7)
Proceeds from sale of plant, property and equipment	5.5	15.4	4.9
Investment in leased assets	(161.6)	(201.3)	(245.4)
Proceeds from leasing activities	83.0	99.9	179.0
Proceeds from notes receivable	63.1	213.3	264.5
Acquisition of businesses, less cash acquired	(61.8)	(10.0)	(41.4)
Proceeds from Telecom Corporation of New Zealand Limited share repurchase plan	153.3	-	-
Investments in unconsolidated businesses, net	(833.0)	(1,071.2)	(1,040.5)
Proceeds from disposition of businesses	546.5	127.8	701.4
Other, net	(79.2)	(67.6)	(83.8)
Net cash used in investing activities	(7,338.6)	(7,574.0)	(6,564.1)
Cash Flows From Financing Activities			
Proceeds from borrowings	633.0	109.4	429.0
Principal repayments of borrowings and capital lease obligations	(901.4)	(375.8)	(583.8)
Early extinguishment of debt	-	-	(200.0)
Net change in short-term borrowings with original maturities of three months or less	1,580.3	77.1	(89.0)
Dividends paid and redemption of stock rights	(2,340.4)	(2,204.1)	(2,117.4)
Proceeds from sale of common stock	710.7	328.3	299.6
Purchase of common stock for treasury	(919.8)	(118.3)	(11.2)
Minority interest	(.1)	687.8	289.2
Reduction in preferred stock of subsidiary	(10.0)	-	-
Proceeds from sale of preferred stock by subsidiary	65.5	-	59.5
Proceeds from sale of stock by subsidiary	-	-	610.3
Net change in outstanding checks drawn on controlled disbursement accounts	(264.5)	75.3	166.0
Net cash used in financing activities	(1,446.7)	(1,420.3)	(1,147.8)
Increase (decrease) in cash and cash equivalents	73.4	(213.5)	182.5
Cash and cash equivalents, beginning of year	249.4	462.9	280.4
Cash and cash equivalents, end of year	\$ 322.8	\$ 249.4	\$ 462.9

See Notes to Consolidated Financial Statements

1. 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. The stockholders of each company approved the merger at special meetings held in November 1996.

In this Annual Report, Bell Atlantic Corporation is referred to as "we" or "Bell Atlantic." Reference to Bell Atlantic is also made in connection with information about Bell Atlantic prior to the merger. NYNEX Corporation is referred to as "NYNEX."

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 350.2 million shares of Bell Atlantic common stock.

NYNEX provides a full range of communications services in the northeastern United States and in high growth markets around the world. NYNEX has expertise in telecommunications, wireless communications, directory publishing and information services.

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 have restated our financial information for all dates and periods prior to the merger.

The combined results reflect certain reclassifications to conform to the presentation used by Bell Atlantic and certain adjustments to conform accounting methodologies between Bell Atlantic and NYNEX. Results of operations for certain periods prior to the merger have been combined and conformed as follows:

	Six months ended June 30, 1997 (unaudited)	(Dollars in Millions) Years Ended December 31,	
		1996	1995
Operating revenues:			
Bell Atlantic	\$ 6,854.6	\$ 13,081.4	\$ 13,429.5
NYNEX	6,815.1	13,453.8	13,406.9
Reclassifications (a)	.1	.7	—
Cellular consolidation (b)	1,454.5	2,619.3	1,090.4
Combined	\$ 15,124.3	\$ 29,155.2	\$ 27,926.8
Net income (loss):			
Bell Atlantic	\$ 1,014.5	\$ 1,881.5	\$ 1,858.3
NYNEX	540.1	1,477.0	(1,849.9)
Cellular consolidation (b)	3.3	(7.6)	(10.5)
SFAS No. 106 adjustment (c)	39.1	62.4	79.0
Gain on sale of stock by subsidiary (d)	—	—	(155.2)
Other (e)	(2.0)	(11.3)	(18.5)
Combined	\$ 1,595.0	\$ 3,402.0	\$ (96.8)

(a) Reclassifications have been made to conform to our post-merger presentation.

(b) An adjustment has been made to conform accounting methodologies and to consolidate the accounts of cellular operations that were jointly controlled by NYNEX and Bell Atlantic prior to the merger and accounted for by both companies using the equity method.

(c) An adjustment has been made to reflect the adoption by NYNEX of the immediate recognition of the transition benefit obligation under Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1993, to conform to the method used by Bell Atlantic.

(d) An adjustment has been made to reflect the initial public offering of stock by a subsidiary of NYNEX as a capital transaction to conform to the accounting methodology that we adopted for recording such transactions.

(e) Other adjustments have been made to conform the accounting policies of the companies, and to record the related tax effects of these adjustments.

*Note 1 continued***Merger-Related Costs**

In the third quarter of 1997 we recorded merger-related pre-tax costs of approximately \$200 million (\$182 million after-tax) for direct incremental costs and approximately \$223 million (\$140 million after-tax) 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 shareholder-related costs. Employee severance costs, as recorded under SFAS No. 112, "Employers' Accounting for Postemployment Benefits," represent the 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.

2. Description of Business and Summary of Significant Accounting Policies

Description of Business

The merger of Bell Atlantic and NYNEX creates a telecommunications company that operates in a region stretching from Maine to Virginia (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, Pennsylvania, New Jersey, Maryland, Delaware, District of Columbia, West Virginia and Virginia). Our nine operating telephone subsidiaries provide local telephone services including voice and data transport, enhanced and custom calling features, network access, directory assistance, private lines and public telephones. We also provide systems integration, customer premises equipment distribution, directory and electronic publishing and financing services. We currently offer long distance services in selected areas outside of our geographic region.

We provide domestic wireless services in 25 states and have international wireless investments in Latin America, Europe and the Pacific Rim.

We have other international investments in telecommunications companies in New Zealand, Thailand and the Philippines. We own an interest in an integrated telecommunications and television entertainment service company in the United Kingdom, and we are the managing sponsor of a company that has constructed an undersea fiberoptic cable between Europe and Asia.

We operate predominantly in a single industry segment – communications and related services.

The telecommunications industry is undergoing substantial changes as a result of the Telecommunications Act of 1996, other public policy changes and technological advances. These changes are likely to bring increased competitive pressures, but will also open new markets to us, such as long distance services in our geographic region, upon completion of certain requirements of the Telecommunications Act of 1996.

Consolidation

The consolidated financial statements include our controlled or majority-owned subsidiaries. Investments in businesses in which we do not have 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. All significant intercompany accounts and transactions have been eliminated.

Grupo Iusacell, S.A. de C.V.

In February 1997, we consummated a restructuring of our investment in Grupo Iusacell, S.A. de C.V. (Iusacell), a Mexican wireless company, to permit us to assume control of the Board of Directors and management of Iusacell (see Note 6). As a result of the restructuring, we changed the accounting for our Iusacell investment from the equity method to full consolidation.

United Kingdom Operations

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 (see Note 6). Prior to the transfer, we included the accounts of these operations in our consolidated financial statements. We account for our investment in CWC under the equity method.

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

Our operating telephone subsidiaries recognize revenues when services are rendered based on usage of our local exchange network and facilities. Our other subsidiaries recognize revenues when products are delivered or services are rendered to customers.

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

All earnings per share computations and presentations are in accordance with SFAS No. 128, "Earnings per Share."

*Note 2 continued***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.

Our operating telephone subsidiaries discontinued accounting for their operations under SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," in August 1994 (Pennsylvania, New Jersey, Maryland, Delaware, District of Columbia, West Virginia and Virginia) and June 1995 (New York and New England) (see Note 4). For financial reporting purposes, we no longer use asset lives set by regulators. As a result, we began using shorter estimated asset lives for certain categories of plant and equipment.

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

Average Lives (in years)

Buildings	15-60
Central office equipment	4-12
Cable, wiring and conduit	8-65
Other equipment	5-40

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 60 years; and other equipment, 5 to 40 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.

Computer Software Costs

Our operating telephone subsidiaries capitalize 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 is capitalized. Subsequent additions, modifications, or upgrades of initial software programs, whether operating or application packages, are expensed as incurred.

Capitalization of Interest Costs

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. Before we discontinued accounting under SFAS No. 71, our operating telephone subsidiaries recorded an allowance for funds used during construction, which included both interest and equity return components, as a cost of plant and as an item of other income.

Goodwill

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. We amortize goodwill on a straight-line basis over periods not exceeding 40 years. We assess the impairment of 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.

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 present these translation adjustments as a separate component of Shareowners' Investment. We report exchange gains and losses on intercompany foreign currency transactions of a long-term nature in Shareowners' Investment. 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

Note 2 continued

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. Effective October 1, 1996, we consider Iusacell to operate in a highly inflationary economy.

Derivative Instruments

We have entered into derivative transactions to manage our exposure to fluctuations in foreign exchange rates, interest rates and corporate tax rates. We have implemented strategies using a variety of derivatives including foreign currency forwards and options, foreign currency swaps, interest rate swap agreements, interest rate caps and floors and basis swap agreements.

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 with changes in value 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 Shareowners' Investment as foreign currency translation adjustments 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.

We have entered into basis swap agreements which protect a portion of our leveraged lease portfolio from the effects of increases in corporate tax rates. We account for our basis swap agreements 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 sheets. 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 and would then be accounted for at fair value, with changes in that value included in income.

Sale of Stock by Subsidiary

Changes in our ownership percentage in a subsidiary caused by issuances of the subsidiary's stock are recognized in consolidation 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 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. These credits are being amortized as a reduction to the Provision for Income Taxes over the estimated service lives of the related assets.

Advertising Costs

Advertising costs are expensed as incurred.

Stock-Based Compensation

We account for stock-based employee compensation plans under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Effective January 1, 1996, we adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

Note 2 continued

Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for the reporting and display of comprehensive income, requiring its components to be reported in a financial statement that is displayed with the same prominence as other financial statements. We will adopt this standard in the first quarter of 1998. The adoption of SFAS No. 130 will have no impact on our consolidated results of operations, financial condition or cash flows.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting financial information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. Operating segments are defined as components of an enterprise about which separate financial information is available and evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in assessing performance. We are required to disclose this information for the first time when we publish our 1998 annual report, but earlier adoption of the statement is permitted. We are in the process of evaluating the segment disclosures for purposes of reporting under SFAS No. 131. The adoption of SFAS No. 131 will have no impact on our consolidated results of operations, financial condition or cash flows.

3. Change in Accounting Principle - Directory Publishing

Effective January 1, 1996, we changed our method of accounting for directory publishing revenues and expenses from the amortized method to the point-of-publication method. Under the point-of-publication method, revenues and expenses are recognized when the directories are published rather than over the lives of the directories, as under the amortized method. We believe the point-of-publication method is preferable because it is the method generally followed by publishing companies.

This accounting change resulted in a one-time, noncash increase in net income of \$273.1 million (net of income tax of \$179.0 million), or \$.35 per share, which is reported as a cumulative effect of a change in accounting principle at January 1, 1996. On an annual basis, the financial impact of applying this method in 1996 was not significant, and it would not have been significant had it been applied in 1995.

4. Discontinuation of Regulatory Accounting Principles

In August 1994, our operating telephone subsidiaries in Pennsylvania, New Jersey, Maryland, Delaware, District of Columbia, West Virginia and Virginia discontinued the use of regulatory accounting principles under SFAS No. 71. As a result, we recorded a noncash, extraordinary charge of \$2,150.0 million, which is net of an income tax benefit of \$1,498.4 million.

In June 1995, our operating telephone subsidiaries in New York and New England also discontinued the use of regulatory accounting principles under SFAS No. 71. For these subsidiaries, we recorded a noncash, extraordinary charge of \$2,919.4 million, which is net of an income tax benefit of \$1,617.6 million.

The extraordinary charges consisted principally of adjustments to telephone plant and equipment through an increase to accumulated depreciation of \$2,306.9 million in 1995 and \$2,128.9 million in 1994 to reflect the difference between recorded depreciation and the amount of depreciation that would have been recorded had the operating telephone subsidiaries not been subject to rate regulation. Investment tax credit amortization of \$44.2 million in 1995 and \$136.2 million in 1994 was accelerated as a result of the reduction in asset lives of the associated telephone plant and equipment. We also eliminated nonplant regulatory assets and liabilities of \$656.7 million in 1995 and \$157.3 million in 1994, principally related to deferred debt refinancing, vacation pay and pension costs, which were being amortized as they were recognized in the ratemaking process.

5. Plant, Property and Equipment

The following table displays the details of plant, property and equipment which is stated at cost:

	(Dollars in Millions)	
At December 31,	1997	1996
Land	\$ 405.7	\$ 440.3
Buildings	6,284.8	6,284.4
Central office equipment	29,167.2	27,226.8
Cable, wiring and conduit	26,759.0	25,780.1
Other equipment	12,323.4	11,126.8
Other	1,228.1	3,131.8
Construction-in-progress	1,269.0	1,689.3
	77,437.2	75,679.5
Accumulated depreciation	(42,397.8)	(39,544.7)
Total	\$ 35,039.4	\$ 36,134.8

Plant, property and equipment at December 31, 1997 and 1996 includes real estate property and equipment under operating leases, or held for lease, of \$52.8 million and \$365.4 million, and accumulated depreciation of \$14.8 million and \$101.0 million.

6. Investments in Unconsolidated Businesses

Our investments in unconsolidated businesses are comprised of the following:

(Dollars in Millions)					
At December 31,	1997		1996		
	Ownership	Investment	Ownership	Investment	
Equity investees:					
PrimeCo Personal Communications, L.P.	50.00%	\$ 919.9	50.00%	\$ 725.8	
Cable & Wireless Communications PLC	18.50	665.8	—	—	
Telecom Corporation of New Zealand Limited	24.95	417.7	24.82	689.2	
Omnitel Pronto Italia S.p.A.	17.45	313.2	17.45	331.5	
Grupo Iusacell, S.A. de C.V.	—	—	41.90	333.1	
FLAG Ltd.	37.87	236.6	37.87	67.5	
Other	various	714.7	various	794.1	
Total equity investees		3,267.9		2,941.2	
Cost investees	various	1,876.3	various	1,981.0	
Total		\$ 5,144.2		\$ 4,922.2	

PrimeCo Personal Communications, L.P.

PrimeCo Personal Communications, L.P. (PrimeCo) is a partnership between Bell Atlantic, AirTouch Communications and U S West Media Group which provides personal communications services (PCS) in 28 major cities across the United States. PrimeCo began offering services to customers in November 1996. Under the terms of the partnership agreement, PrimeCo entered into a leveraged lease financing arrangement for certain equipment. This leveraged lease financing obligation has been guaranteed by the partners in the joint venture. Our share of this guarantee is approximately \$151 million. In 1997, we invested approximately \$426 million in PrimeCo to fund its operations and the continued build-out of its PCS network.

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.

An entity holding our United Kingdom operations completed an Initial Public Offering (IPO) of 305 million equity units in June 1995 for approximately \$610 million. We recorded an increase to Contributed Capital on the IPO of \$155.2 million, net of deferred taxes of \$109.0 million, in recognition of the net increase in our interests in the United Kingdom operations.

Telecom Corporation of New Zealand Limited

Telecom Corporation of New Zealand Limited (TCNZ) is that country's principal provider of telecommunications services. At the date of acquisition of our interest in 1990, goodwill was approximately \$285 million. We are amortizing this amount on a straight-line basis over a period of 40 years.

During 1997, we sold portions of our stock investment to TCNZ in connection with its share repurchase plan, resulting in cash proceeds of approximately \$153 million. These transactions reduced our investment and increased our ownership interest in TCNZ. Our investment in TCNZ was also reduced by approximately \$100 million as of December 31, 1997 as a result of foreign currency translation losses. We recorded these losses as a component of Shareowners' Investment.

In connection with our investment in TCNZ, in February 1998 we issued approximately \$2.5 billion in notes which may be exchangeable into shares of TCNZ stock. The notes have a maturity of five years, are noncallable for a period of at least three years, and are not exchangeable by investors for an initial period of 18 months. Upon exchange by investors, we retain the option to settle in cash or by delivery of shares.

Omnitel Pronto Italia S.p.A.

Omnitel Pronto Italia S.p.A. (Omnitel) operates a cellular 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. Approximately \$250 million of our investment represents goodwill, which is being amortized on a straight-line basis over a period of 25 years.

*Note 6 continued***Grupo Iusacell, S.A. de C.V.**

Grupo Iusacell, S.A. de C.V. (Iusacell) is the second largest telecommunications company in Mexico. At acquisition, goodwill amounted to approximately \$760 million, which is being amortized on a straight-line basis over a period of 25 years. In February 1997, we consummated a restructuring of our investment to permit us to assume control of the Board of Directors and management of Iusacell. Under the terms of the restructuring, we exchanged certain Series B and D shares of Iusacell stock for Series A shares, enabling us to elect a majority of the Board of Directors. This exchange of shares did not affect our economic ownership percentage of Iusacell. We also paid a premium of \$50.0 million to the principal shareowner. We also converted approximately \$33 million of subordinated debt into Series A shares, thereby increasing our economic ownership from 41.9% to 42.1%, and we are obligated until September 30, 1999 to provide Iusacell up to \$150 million in subordinated convertible financing as Iusacell may require from time to time. As a result of the restructuring, we changed the accounting for our Iusacell investment from the equity method to full consolidation in the first quarter of 1997.

FLAG Ltd.

Fiberoptic Link Around the Globe Ltd. (FLAG) is an under-sea fiberoptic cable system, providing digital communications links between Europe and Asia. We are the managing sponsor of FLAG and hold approximately a 38% equity interest in the venture and a 41% funding obligation. In 1997, we invested approximately \$138 million in FLAG to fund the construction of its network. FLAG launched commercial service in the fourth quarter of 1997.

FLAG has borrowed \$615.1 million as of December 31, 1997 under a limited recourse debt facility which provides for maximum available borrowings of \$950.0 million. Under the terms of this facility, we and the other funding shareholders of FLAG had entered into a contingent sponsor support agreement which could require aggregate payments to the lenders of \$500.0 million upon the occurrence of certain limited events of default by FLAG. Our share of this guarantee totaled \$350.0 million at December 31, 1997, which included obligations we had assumed on behalf of other shareholders in return for a fee.

In the first quarter of 1998, FLAG refinanced its existing debt through an \$800.0 million credit facility. As a result of this refinancing, we are now released from our obligations under the contingent sponsor support agreement.

Other Equity Investees

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

In 1997, we sold our ownership interests in several businesses resulting in pre-tax gains of approximately \$54 million for Infostrada, an Italian wireline joint venture; \$42 million for Sky Network Television Limited of New Zealand; and \$46 million for Bell Communications Research, Inc. (Bellcore).

Included in Operating Expenses are amounts billed by Bellcore. Such expenses were \$191.2 million in 1997, \$182.0 million in 1996 and \$197.5 million in 1995 for various network planning, engineering and software development projects.

Dividends received from equity investees amounted to \$132.1 million in 1997, \$134.8 million in 1996 and \$115.6 million in 1995.

Cost Investees

In 1993, we invested \$1.2 billion in Viacom Inc. (Viacom) for 24 million shares of Viacom Series B Cumulative Preferred Stock, carrying an annual dividend of 5%. The stock is convertible into shares of Viacom Class B nonvoting common stock at a price of \$70 per share. For additional information on our investment in Viacom, see Note 11.

Other cost investments consist principally of a wireless investment in Indonesia and a telecommunications investment in Thailand.

Dividends received from cost investees amounted to \$60.0 million in 1997, \$60.0 million in 1996 and \$63.4 million in 1995.

7. Leasing Arrangements**As Lessor**

We are the lessor in leveraged and direct financing lease agreements under which commercial aircraft, rail equipment, industrial equipment, power generating facilities, real estate, and telecommunications and other equipment are leased for remaining terms of 2 to 39 years. Minimum lease payments receivable represent unpaid rentals, less principal and interest

on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, the related principal and interest have been offset against the minimum lease payments receivable. Minimum lease payments receivable are subordinate to the debt and the debt holders have a security interest in the leased equipment.

Finance lease receivables, which are included in Current Assets - Other and Noncurrent Assets - Other Assets in our consolidated balance sheets, are comprised of the following:

At December 31,	1997			(Dollars in Millions) 1996		
	Leveraged Leases	Direct Finance Leases	Total	Leveraged Leases	Direct Finance Leases	Total
Minimum lease payments receivable	\$ 2,674.6	\$ 223.5	\$ 2,898.1	\$ 2,436.9	\$ 268.6	\$ 2,705.5
Estimated residual value	1,969.7	36.2	2,005.9	1,925.6	36.3	1,961.9
Unearned income	(1,874.7)	(70.7)	(1,945.4)	(1,806.1)	(87.2)	(1,893.3)
	<u>\$ 2,769.6</u>	<u>\$ 189.0</u>	<u>2,958.6</u>	<u>\$ 2,556.4</u>	<u>\$ 217.7</u>	<u>2,774.1</u>
Allowance for doubtful accounts			(24.9)			(23.8)
Finance lease receivables, net			<u>\$ 2,933.7</u>			<u>\$ 2,750.3</u>
Current			<u>\$ 39.2</u>			<u>\$ 36.9</u>
Noncurrent			<u>\$ 2,894.5</u>			<u>\$ 2,713.4</u>

Accumulated deferred taxes arising from leveraged leases, which are included in Deferred Income Taxes, amounted to \$2,233.8 million at December 31, 1997 and \$1,976.4 million at December 31, 1996.

The following table is a summary of the components of income from leveraged leases:

Years Ended December 31,	(Dollars in Millions)		
	1997	1996	1995
Pre-tax lease income	\$ 97.4	\$ 87.5	\$ 91.8
Income tax expense	30.7	22.1	29.3
Investment tax credits	2.9	3.5	3.9

This table displays the future minimum lease payments to be received from noncancelable leases, net of nonrecourse loan payments related to leveraged and direct financing leases in excess of debt service requirements, for the periods shown at December 31, 1997:

Years	(Dollars in Millions)	
	Capital Leases	Operating Leases
1998	\$ 100.3	\$ 3.5
1999	74.7	3.4
2000	63.5	3.2
2001	66.3	2.9
2002	93.7	3.1
Thereafter	2,499.6	.9
Total	<u>\$ 2,898.1</u>	<u>\$ 17.0</u>

*Note 7 continued***As Lessee**

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense under operating leases amounted to \$572.6 million in 1997, \$531.9 million in 1996 and \$531.3 million in 1995. In 1997, 1996 and 1995, we incurred initial capital lease obligations of \$11.4 million, \$16.4 million and \$14.3 million.

Capital lease amounts included in plant, property and equipment are as follows:

At December 31,	(Dollars in Millions)	
	1997	1996
Capital leases	\$ 307.2	\$ 304.7
Accumulated amortization	(163.5)	(147.8)
Total	\$ 143.7	\$ 156.9

This table displays the aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 1997:

Years	(Dollars in Millions)	
	Capital Leases	Operating Leases
1998	\$ 44.0	\$ 294.3
1999	35.2	262.9
2000	44.9	232.6
2001	31.5	197.0
2002	25.6	179.9
Thereafter	492.5	1,522.6
Total minimum rental commitments	673.7	\$ 2,689.3
Less interest and executory costs	503.4	
Present value of minimum lease payments	170.3	
Less current installments	20.6	
Long-term obligation at December 31, 1997	\$ 149.7	

As of December 31, 1997, the total minimum sublease rentals to be received in the future under noncancelable operating subleases was \$273.6 million.

8. Commitments and Contingencies

In connection with certain incentive plan commitments with state regulatory commissions, we have deferred revenues which will be recognized as the commitments are met or obligations are satisfied under the plans. In addition, several state and federal regulatory proceedings may require our operating telephone subsidiaries to refund a portion of the revenues collected in the current and prior periods. There are also various legal actions pending to which we are a party. We have established reserves for specific liabilities in connection with regulatory and legal matters which we currently deem to be probable and estimable.

We do not expect that the ultimate resolution of pending regulatory and legal matters in future periods will have a material effect on our financial condition, but it could have a material effect on results of operations.

9. Debt**Debt Maturing Within One Year**

The following table displays the details of debt maturing within one year:

At December 31,	(Dollars in Millions)	
	1997	1996
Notes payable:		
Commercial paper	\$ 5,067.7	\$ 1,611.0
Bank loans	509.7	480.8
Long-term debt maturing within one year	765.4	792.4
Total debt maturing within one year	\$ 6,342.8	\$ 2,884.2
Weighted-average interest rates for notes payable outstanding at year-end	5.9%	5.7%

Capital expenditures, primarily construction of telephone plant, are partially financed, pending long-term financing, through bank loans and the issuance of commercial paper payable within 12 months.

At December 31, 1997, we had in excess of \$4.8 billion of unused bank lines of credit. The availability of these lines, for which there are no formal compensating balances, is at the discretion of each bank. Certain of these lines of credit contain requirements for the payment of commitment fees. Substantially all of the assets of Iusacell, totaling approximately \$500 million at December 31, 1997, are subject to lien under a credit facility with certain bank lenders.

Note 9 *continued***Long-Term Debt**

This table shows our outstanding long-term debt obligations:

At December 31,	Interest Rates	Maturities	(Dollars in Millions)	
			1997	1996
Telephone subsidiaries' debentures	4.375% - 7.00%	1998 - 2033	\$ 3,867.0	\$ 3,867.0
	7.125% - 7.75%	2002 - 2033	2,705.0	2,705.0
	7.85% - 9.375%	2010 - 2031	2,179.0	2,179.0
			8,751.0	8,751.0
Notes payable	5.05% - 12.42%	1998 - 2012	3,516.6	3,564.7
Refunding mortgage bonds	4.25% - 7.75%	1998 - 2011	985.0	1,045.0
Mortgage and installment notes	10.50% - 11.00%	1998 - 2003	22.5	59.8
Commercial paper and bank loans			-	1,773.7
Employee stock ownership plan loans:				
Bell Atlantic Corporation senior notes	8.17%	2000	313.4	412.2
NYNEX Corporation debentures	9.55%	2010	327.3	348.6
Capital lease obligations - average rate 10.8% and 10.7%			170.3	188.4
Unamortized discount and premium, net			(55.5)	(65.0)
Total long-term debt, including current maturities			14,030.6	16,078.4
Less maturing within one year			765.4	792.4
Total long-term debt			\$ 13,265.2	\$ 15,286.0

The telephone subsidiaries' debentures outstanding at December 31, 1997 include \$2,317.0 million that are callable. The call prices range from 103.15% to 100.00% of face value, depending upon the remaining term to maturity of the issue. All of our refunding mortgage bonds, totaling \$985.0 million are also callable as of December 31, 1997. In addition, our long-term debt includes \$735.0 million that will become redeemable for limited periods at the option of the holders. Of this amount, \$385.0 million becomes redeemable in 1999 and \$175.0 million in 2002. One debenture totaling \$175.0 million becomes redeemable in 2000 and again in 2002. The redemption prices will be 100.0% of face value plus accrued interest.

Maturities of long-term debt outstanding at December 31, 1997, excluding capital lease obligations and unamortized discount and premium, are \$744.8 million in 1998, \$1,287.2 million in 1999, \$892.0 million in 2000, \$372.7 million in 2001, \$840.0 million in 2002 and \$9,779.1 million thereafter. These amounts include the redeemable debt at the earliest possible redemption dates.

Our medium-term notes are issued by Bell Atlantic Financial Services, Inc. (FSI), a wholly owned subsidiary. FSI debt securities (aggregating \$503.6 million at December 31, 1997) have the benefit of a Support Agreement dated October 1, 1992 between Bell Atlantic and FSI under which Bell Atlantic will make payments of interest, premium (if any) and principal on the FSI debt should FSI fail to pay. The holders of FSI debt do not have recourse to the stock or assets of our operating telephone subsidiaries, however, they have recourse to dividends paid to Bell Atlantic by any of our consolidated subsidiaries as

well as assets not covered by the exclusion. The carrying value of the available assets reflected in our consolidated financial statements was approximately \$13.7 billion at December 31, 1997. A similar Support Agreement dated February 1, 1998 between Bell Atlantic and FSI also provides guarantees for the payment of interest, premium (if any), principal and the cash value of exchange property on approximately \$2.5 billion of exchangeable notes that we issued in connection with our investment in TCNZ (see Note 6). The holders of these notes also have recourse to the \$13.7 billion of assets previously mentioned. Substantially all of the assets of New York Telephone Company, totaling approximately \$12.6 billion at December 31, 1997, are subject to lien under New York Telephone Company's refunding mortgage bond indenture.

At December 31, 1996, we had a \$2.0 billion unsecured revolving credit facility under which we were permitted to use the proceeds for various corporate purposes, including support of outstanding commercial paper and bank loans. Since we had both the intent and the ability to refinance a portion of our commercial paper and bank loans on a long-term basis using the credit facility, \$1,773.7 million of outstanding commercial paper and bank loans were included in Long-Term Debt at December 31, 1996. This revolving credit facility was canceled in 1997. As a result, all commercial paper was classified as Debt Maturing Within One Year in 1997.

We recorded extraordinary charges associated with the early extinguishment of debentures. These charges reduced net income by \$3.5 million (net of an income tax benefit of \$2.5 million) in 1995. On January 13, 1998, New York Telephone Company issued \$250.0 million of 6.125% debentures due on

Note 9 *continued*

January 15, 2010. The proceeds of this issuance were used in February 1998 to redeem \$200.0 million of refunding mortgage bonds due in 2006 and to reduce short-term debt levels. In connection with this redemption, we will record an extraordinary charge of \$1.5 million in the first quarter of 1998.

Information on our Employee Stock Ownership Plan Loans is provided in Note 16.

10. Financial Instruments**Derivatives**

We limit our use of derivatives to managing risk that could negatively impact our financing and operating flexibility, making cash flows more stable over the long run and achieving savings over other means of financing. Our risk management strategy is designed to protect against adverse changes in foreign exchange rates, interest rates and corporate tax rates, and to otherwise facilitate our financing strategies. We use several types of derivatives in managing these risks, including foreign currency forwards and options, interest rate swap agreements, interest rate caps and floors, and basis swap agreements. Derivative agreements are linked to specific liabilities or assets and hedge the related economic exposures. We do not hold derivatives for trading purposes. In 1997 and 1996, we recognized income of \$17.3 million and \$12.7 million before taxes in our statements of income related to all of our risk management activities.

Interest Rate Risk Management

The following table provides additional information about our interest rate swap agreements, interest rate caps and floors, and basis swap agreements. Certain of our interest rate swap agreements (included below as "Foreign Currency/Interest Rate Swaps") also contain a foreign exchange component which has been described in the "Foreign Exchange Risk Management" section below. We use these interest rate swap agreements to hedge the value of certain international investments. The agreements generally require us to receive payments based on fixed interest rates and make payments based on variable interest rates. The structured note swap agreements convert several structured medium-term notes to conventional fixed rate liabilities while reducing financing costs. The effective fixed interest rates on these notes averaged 6.1% and 6.2% at December 31, 1997 and 1996. Other interest rate swap agreements, which sometimes incorporate options, and interest rate caps and floors are all used to adjust the interest rate profile of our debt portfolio and allow us to achieve a targeted mix of floating and fixed rate debt. The basis swap agreements hedge a portion of our leveraged lease portfolio against adverse changes in corporate tax rates. The agreements require us to receive payments based on an interest rate index (LIBOR-based) and make payments based on a tax-exempt market index (J.J.Kenney). We account

for these basis swap agreements at fair value and recognized income of \$4.2 million and \$20.2 million in 1997 and 1996 related to mark-to-market adjustments.

The notional amounts shown below are used to calculate interest payments to be exchanged. These amounts are not actually paid or received, nor are they a measure of our potential gains or losses from market risks. They do not represent our exposure in the event of nonperformance by a counterparty or our future cash requirements. Our financial instruments are grouped below based on the nature of the hedging activity.

	Notional		(Dollars in Millions) Weighted-Average Rate	
At December 31,	Amount	Maturities	Receive	Pay
Interest Rate Swap Agreements:				
Foreign Currency/Interest Rate Swaps:				
1997	\$ 375.4	1998-2002	4.5%	6.2%
1996	928.4	1997-2002	3.3	5.9
Other Interest Rate Swaps:				
Pay fixed				
1997	\$ 260.0	1999-2005	5.7%	5.9%
1996	221.2	1997-2005	5.7	6.0
Pay variable				
1997	\$ 783.7	1999-2006	6.6%	6.1%
1996	530.7	1997-2004	6.5	6.4
Structured Note Swap Agreements:				
1997	\$ 60.0	1999		
1996	105.0	1997-2004		
Interest Rate Cap/Floor Agreements:				
1997	\$ 262.0	1999-2001		
1996	140.0	1999-2001		
Basis Swap Agreements:				
1997	\$ 1,001.0	2003-2004		
1996	1,001.0	2003-2004		

Foreign Exchange Risk Management

Our foreign exchange risk management includes the use of foreign currency forward contracts, options and foreign currency swaps. Forward contracts and options call for the sale or purchase, or the option to sell or purchase, certain foreign currencies on a specified future date. These contracts are typically used to hedge short-term foreign currency transactions and commitments. The total notional amounts of our foreign currency forward contracts and option contracts were \$14.5 million and \$352.1 million at December 31, 1997 and 1996, all of which had maturities of six months or less. Certain of the interest rate swap agreements noted above contain both a foreign currency and an interest rate component. The agreements require the exchange of payments based on specified interest rates in addition to the exchange of currencies at the maturity of the contract. The required payments for both components are based on the notional

Note 10 continued

amounts of the contracts which have been included in the table above. Foreign currency swaps, with a notional value of \$60.0 million and a scheduled maturity of 2003, were outstanding at December 31, 1996. These swaps also contained both a foreign currency and an interest rate component. These foreign currency swaps, which were terminated in 1997, required quarterly payments in U.S. dollars and receipts in British pounds.

Our net equity position in unconsolidated foreign businesses as reported in our consolidated balance sheets totaled \$1,784.2 million and \$1,611.3 million at December 31, 1997 and 1996. Our most significant investments at December 31, 1997 had operations in New Zealand, the United Kingdom, Italy and Bermuda. 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. Our equity income is subject to exchange rate fluctuations when our equity investee has balances denominated in a currency other than the investee's functional currency. We recognized \$(30.1) million, \$6.8 million and \$(29.0) million related to such fluctuations in Income (Loss) From Unconsolidated Businesses for the years ended December 31, 1997, 1996 and 1995. We continually monitor the relationship between gains and losses recognized on all of our foreign currency contracts and on the underlying transactions being hedged to mitigate market risk.

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments, short-term investments, trade receivables, certain notes receivable, preferred stock, and derivative contracts. Our policy is to place our temporary cash investments with major financial institutions. Counterparties to our derivative contracts are also major financial institutions and organized exchanges. The financial institutions have all been accorded high ratings by primary rating agencies. We limit the dollar amount of contracts entered into with any one financial institution and monitor our counterparties' credit ratings. We generally do not give or receive collateral on swap agreements due to our credit rating and those of our counterparties. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial condition.

Concentrations of credit risk with respect to trade receivables other than those from AT&T are limited due to the large number of customers. For the years ended December 31, 1997, 1996 and 1995, revenues generated from services provided to AT&T (primarily network access and billing and collection) were \$2,632.3 million, \$2,570.3 million and \$2,791.3 million.

Fair Values of Financial Instruments

The tables below provide additional information about our material financial instruments:

Financial Instrument	Valuation Method
Cash and cash equivalents and short-term investments	Carrying amounts
Debt (excluding capital leases)	Market quotes for similar terms and maturities or future cash flows discounted at current rates
Cost investments in unconsolidated businesses and notes receivable	Future cash flows discounted at current rates, market quotes for similar instruments or other valuation models
Interest rate swap and other agreements	Gains or losses to terminate agreements or amounts paid to replicate agreements at current rates
Foreign currency forward and option contracts	Market quotes or gains or losses to terminate agreements

	(Dollars in Millions)			
	1997		1996	
At December 31,	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt	\$ 19,437.7	\$ 19,988.9	\$ 17,981.8	\$ 18,150.7
Cost investments in unconsolidated businesses	1,693.0	1,464.6	1,785.3	1,968.5
Notes receivable, net	32.9	33.2	93.6	93.8
Interest rate swap and other agreements:				
Assets	26.3	31.8	11.8	23.0
Liabilities	24.8	31.8	39.5	53.3
Foreign currency forward and option contracts:				
Assets	.2	—	19.9	19.9
Liabilities	.2	.2	2.3	2.3

* No position in any individual foreign currency exceeded \$.2 million at December 31, 1997 and \$19.8 million at December 31, 1996. The carrying amounts shown for derivatives include deferred gains and losses.

Our investment in Viacom, which is included in "Cost investments in unconsolidated businesses" in the table above, is in a preferred stock which is not publicly traded, and therefore the fair value indicated above includes amounts calculated using certain theoretical convertible valuation models. These models, however, do not ascribe or attribute any value to any strategic aspect of the investment. We were unable to determine the fair value of other investments, with carrying values of \$183.3 million and \$195.7 million at December 31, 1997 and 1996, without incurring excessive costs.

11. Minority Interest

		(Dollars in Millions)	
At December 31,	1997	1996	
Portion subject to redemption requirements	\$ 618.3	\$ 1,504.4	
Portion nonredeemable	292.9	509.8	
	\$ 911.2	\$ 2,014.2	

United Kingdom Operations

As a result of the transfer of our interests in cable television and telecommunications operations in the United Kingdom to CWC in the second quarter of 1997, we now account for this investment under the equity method (see Note 6). Prior to this transaction, we included the accounts of these operations in our consolidated financial statements. The change in Minority Interest from 1996 to 1997 is principally due to this transaction.

Viacom Monetization Transaction

In connection with our investment in Viacom preferred stock (see Note 6), we entered into nonrecourse contracts whereby we raised capital based on the value of our investment in Viacom ("monetized" our investment) and realized proceeds of \$100.0 million in 1995 and \$500.0 million in 1996. In order to accomplish this transaction, a fully consolidated subsidiary was created to manage and protect certain assets for sale or distribution at a later date. In order to induce an outside party to contribute cash in exchange for an interest in this subsidiary, we contributed certain financial assets as collateral. These assets included 12 million shares of Viacom preferred stock with a book value of \$600.0 million and 11.2 million shares of our common stock. The outside party's contribution included \$600.0 million in cash for an interest in the subsidiary which is reflected in Minority Interest in our consolidated balance sheets. The common stock held by the subsidiary is reflected as an issuance of common shares in 1995 and 1996 in our consolidated statement of changes in shareowners' investment and as Treasury Stock in our consolidated balance sheets.

The term of the monetization transaction is five years (ending December 31, 2000) at which time the outside party's interest in the subsidiary will be redeemed through the liquidation of the subsidiary's assets. We may, upon meeting certain funding requirements, elect to purchase the outside party's interest or terminate the transaction and cause the liquidation of all the assets.

Absent certain defaults or other defined events, only we have the option to unwind and liquidate the existing structure. The outside party has certain consent rights that could, under certain circumstances, limit our rights to acquire, sell, refinance or distribute the assets of our subsidiary or affect

certain other fundamental changes in situations other than in the ordinary course of business. However, such rights are not expected to affect the management and control of these assets. In addition, absent certain defaults or other events, we have the right to refinance the transaction, purchase the outside party's interest and thereafter acquire, sell, refinance or distribute any remaining assets.

The outside party has certain rights to consent to or prohibit certain actions by our subsidiary, including changes in the basic structure, operations or assets. However, the outside party is not involved in managing the assets and only has recourse (absent certain defaults) for income or return of capital derived from the assets. The outside party does not have redemption rights but can cause liquidation upon the occurrence of a breach by us or our subsidiary of our undertakings, or the occurrence of certain other defined events.

Other Minority Interests

Minority interest for 1997 and 1996 also included the minority interests in certain partnerships consolidated by Bell Atlantic Mobile. The minority partner's interest in Iusacell is reflected in 1997 as a result of consolidating our Iusacell investment in 1997 (see Note 6).

12. Preferred Stock of Subsidiary

Our subsidiary Bell Atlantic New Zealand Holdings, Inc. (BANZHI) has the authority to issue 5,000,000 shares of Serial Preferred Stock. BANZHI has issued three series of preferred stock. BANZHI and another subsidiary indirectly own our investment in Telecom Corporation of New Zealand Limited.

In 1994, BANZHI issued 850,000 shares of Series A Preferred Stock at \$100 per share with an annual dividend rate of \$7.08 per share. In 1995, 600,000 shares of Series B Preferred Stock were issued at \$100 per share with an annual dividend rate of \$5.80 per share. At December 31, 1997, 95,000 shares (\$9.5 million) of Series B Preferred Stock were held by a wholly owned subsidiary. Both series are subject to mandatory redemption on May 1, 2004 at a redemption price per share of \$100, together with any accrued and unpaid dividends.

In 1997, 650,000 shares of Series C Variable Term Preferred Stock were issued at \$100 per share. At December 31, 1997, these shares had an initial annual dividend rate of 4.40%.

13. Shareowners' Investment

Our certificate of incorporation provides authority for the issuance of up to 250 million shares of Series Preferred Stock, \$.10 par value, in one or more series, with such designations, preferences, rights, qualifications, limitations and restrictions as the Board of Directors may determine.

We are authorized to issue up to 2.25 billion shares of common stock.

On January 23, 1996, the Board of Directors adopted a resolution ordering the redemption of all rights granted under our Shareholder Rights Plan, approved by the Board in 1989.

Shareholders of record as of April 10, 1996 were paid the redemption price of \$.01 per Right (\$.005 per share as a result of a two-for-one stock split declared on March 16, 1990) on May 1, 1996.

A portion of NYNEX's 1995 dividends was declared from Contributed Capital.

During 1995, we issued 92,898 shares of common stock to complete the terms of an acquisition of a cellular telephone system in 1992. Prior to delivery, these shares were carried in our consolidated balance sheets as Common Stock Issuable.

14. Earnings per 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.

The number of shares included in the diluted earnings per share computation for potential common shares issuable under stock-based compensation plans was 9.6 million in 1997, 6.8 million in 1996 and 3.9 million in 1995.

Stock options to purchase 0.1 million shares and 14.9 million shares of common stock were outstanding at December 31, 1997 and 1996, which were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. The number of antidilutive stock options outstanding at December 31, 1995 was not material.

15. Stock Incentive Plans

We have stock-based compensation plans that include fixed stock option and performance-based share plans. We apply APB Opinion No. 25 and related interpretations in accounting for our plans. We have adopted the disclosure-only provisions of SFAS No. 123. We recognize no compensation expense for our fixed stock option plans. Compensation expense charged to income for our performance-based share

plans was \$23.4 million in 1997, \$10.6 million in 1996 and \$8.7 million in 1995. If we had elected to recognize compensation expense based on the fair value at the grant dates for 1995 and subsequent fixed and performance-based plan awards consistent with the provisions of SFAS No. 123, net income and earnings per share would have been changed to the pro forma amounts indicated below:

Years Ended December 31,		(Dollars in Millions, Except Per Share Amounts)		
		1997	1996	1995
Net income (loss)	As reported	\$ 2,454.9	\$ 3,402.0	\$ (96.8)
	Pro forma	2,393.6	3,355.8	(117.8)
Basic earnings (loss) per share	As reported	\$ 3.16	\$ 4.40	\$ (.13)
	Pro forma	3.08	4.34	(.15)
Diluted earnings (loss) per share	As reported	\$ 3.13	\$ 4.36	\$ (.13)
	Pro forma	3.05	4.30	(.15)

These results may not be representative of the effects on pro forma net income for future years.

Note 15 continued

We determined the pro forma amounts using the Black-Scholes option-pricing model based on the following weighted-average assumptions:

	1997	1996	1995
Dividend yield	4.86%	4.72%	5.75%
Expected volatility	14.87%	15.16%	15.62%
Risk-free interest rate	6.35%	5.42%	7.61%
Expected lives (in years)	5	5	5

The weighted-average value of options granted was \$8.60 per option during 1997, \$5.92 per option during 1996 and \$5.82 per option during 1995.

The NYNEX stock options outstanding and exercisable at the date of the merger were converted to Bell Atlantic stock options. The NYNEX option activity and share prices have been restated, for all years presented, to Bell Atlantic shares using the exchange ratio of 0.768 Bell Atlantic common stock to one share of NYNEX common stock. Our stock incentive plans are described below:

Fixed Stock Option Plans

We have fixed stock option plans for key management employees under which options to purchase Bell Atlantic common stock are granted at a price equal to the market price of the stock at the date of grant.

Under the 1985 Incentive Stock Option Plan (ISO Plan), key employees may be granted incentive and/or nonqualified stock options to purchase shares of common stock and certain key employees may receive reload options upon tendering shares of common stock to exercise options. In 1994, we adopted the Options Plus Plan. Under this plan, we granted nonqualified stock options to approximately 800 managers below the rank of officer in place of a portion of each such manager's annual cash bonus in 1994 and 1995. The Options Plus Plan was then discontinued. The Stock Compensation Plan for Outside Directors entitles each outside director to receive up to 2,500 stock options per year. Options are exercisable after three years or less and the maximum term is ten years.

Fixed stock option plans covering key management employees of the former NYNEX companies include the 1990 and the 1995 Stock Option Plans. The 1990 Stock Option Plan, which expired on December 31, 1994, permitted the grant of options through December 1994 to purchase shares of common stock. In January 1995, NYNEX established the 1995 Stock Option Plan which permits the grant of options no later than December 31, 1999 to purchase shares of common stock. Options under the 1995 Stock Option Plan are exercisable after three years or less and the maximum term is ten years.

In 1992, NYNEX established stock option plans for associates and for management employees other than those eligible to participate in the other stock option plans. These employees were granted options, with the number of options granted varying according to employee level, to purchase a fixed number of shares of common stock at the market price of the stock on the grant date. Options under this plan are exercisable after two years or less and the maximum term is ten years.

This table is a summary of the status of the fixed stock option plans:

	Stock Options	Weighted-Average Exercise Price
Outstanding, December 31, 1994	32,812,229	\$ 44.79
Granted	6,233,123	49.70
Exercised	(4,065,511)	48.59
Canceled/forfeited	(621,879)	51.51
Outstanding, December 31, 1995	34,357,962	49.86
Granted	15,933,184	66.55
Exercised	(4,444,703)	49.30
Canceled/forfeited	(549,944)	63.01
Outstanding, December 31, 1996	45,296,499	55.85
Granted	7,835,105	66.19
Exercised	(13,119,045)	52.79
Canceled/forfeited	(442,592)	58.78
Outstanding, December 31, 1997	39,569,967	58.56
Options exercisable, December 31:		
1995	22,643,942	49.68
1996	28,241,432	55.35
1997	31,825,285	56.53

Note 15 *continued*

The following table summarizes information about fixed stock options outstanding as of December 31, 1997:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
\$ 30.00-39.99	19,708	.7 years	\$ 35.48	19,708	\$ 35.48
40.00-49.99	6,636,342	4.6	46.20	6,636,342	46.20
50.00-59.99	12,282,991	6.5	51.98	11,755,114	51.88
60.00-69.99	19,608,830	8.4	65.92	13,350,627	65.71
70.00-79.99	862,876	9.6	75.55	63,494	73.27
80.00-89.99	135,113	9.8	84.03		
90.00-99.99	24,107	10.0	90.45		
Total	39,569,967	7.2	58.56	31,825,285	56.53

Performance-Based Share Plans

Our performance-based share plans provide for the granting of awards to certain key employees, including employees of the former NYNEX companies in the form of Bell Atlantic common stock. Employees receive the distribution of shares or cash at the end of the applicable performance measurement period or the employees elect to defer the distribution of the awards for one or more years. Awards are based on the total return of Bell Atlantic common stock in comparison to the total return on the stock of a number of other telecommunications companies and other strategic performance indicators. Authority to make new grants expired in December 1994. Final awards were credited to pre-merger employees of Bell Atlantic in January 1996 and to employees of the former NYNEX companies in March 1994.

We also have deferred compensation plans that allow certain employees and members of the Board of Directors to defer all or a portion of their compensation. Some of these plans provide for returns based on the performance of, and eventual settlement in, Bell Atlantic common stock. Compensation expense for all of these plans is recorded based on the fair market value of the shares as they are credited to participants' accounts.

Effective January 1, 1998, the Income Deferral Plan replaces all performance-based share plans, including the deferred compensation plans, and expands the award distribution options for these employees.

This table is a summary of the status of the share portion of our performance-based share plans:

	Shares
Outstanding, December 31, 1994	1,094,165
Additional shares credited	87,387
Shares distributed	(193,499)
Canceled/forfeited	(21,634)
Outstanding, December 31, 1995	966,419
Additional shares credited	60,699
Shares distributed	(170,917)
Canceled/forfeited	(230,058)
Outstanding, December 31, 1996	626,143
Additional shares credited	81,890
Shares distributed	(105,042)
Canceled/forfeited	(53,146)
Outstanding, December 31, 1997	549,845

A total of 75,878,886 shares may be distributed under the fixed stock option plans and the performance-based share plans. As of December 31, 1997 and 1996, a total of 20,406,827 and 21,915,417 shares of common stock were available for the granting of stock options under the fixed stock option plans and for distributions of shares under the performance-based share plans.

In addition to plans described above, Iusacell maintains a separate stock option plan for its key employees in which it awards options to acquire Iusacell common stock. The effect of this plan on our consolidated results of operations was not significant.

16. Employee Benefits

In 1997, following the completion of the merger, we continued to maintain separate benefit plans for employees of the former NYNEX companies. The assets of the Bell Atlantic and NYNEX pension and savings plans have been commingled in a master trust. The following disclosures present financial information for the combined Bell Atlantic and NYNEX benefit plans using weighted-average assumptions to calculate benefit costs and obligations. The actuarial assumptions used are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions may impact future benefit costs and obligations.

Effective January 1, 1998, we established common pension and savings plans benefit provisions for all management employees. As a result, continuing NYNEX management employees will receive the same benefit levels as previously given under Bell Atlantic management plans. Pension and other postretirement benefits for our associate employees (approximately 70% of our work force) are subject to collective bargaining agreements, and no changes were bargained in 1997. Modifications in associate benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans. Substantive commitments for future amendments are reflected in the pension costs and benefit obligations.

Pension Plans

We sponsor noncontributory defined benefit pension plans covering substantially all of our management and associate employees. Benefits for associate employees are determined by a flat dollar amount per year of service according to job classification. Management employees are covered under cash balance plans with pension benefits determined by compensation credits related to age and service and interest credits on individual account balances. The cash balance plan covering the NYNEX management employees was adopted on September 5, 1997, with an effective date of December 31, 1997. The cash balance plan covering all other management employees became effective on December 31, 1995. Prior to this change, the pension benefit for management employees was based on a stated percentage of adjusted career average earnings.

Under the cash balance plan, each management employee's opening account balance was determined by converting the accrued pension benefit as of the effective date to a lump-sum amount based on the prior plan's provisions. The lump-sum value was then multiplied by a transition factor based on age and service to arrive at the opening balance.

Our objective in funding the plans is to accumulate funds at a relatively stable level over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and foreign corporate equity securities, U.S. and foreign government and corporate debt securities and real estate.

A summary of the components of pension cost is as follows:

Years Ended December 31,	1997	(Dollars in Millions)	
		1996	1995
Service cost	\$ 355.8	\$ 398.6	\$ 343.8
Interest cost	1,877.3	1,831.2	1,808.4
Actual return on plan assets	(6,202.7)	(4,215.4)	(5,638.5)
Net amortization and deferral	3,575.6	1,827.0	3,292.1
Net periodic pension income	(394.0)	(158.6)	(194.2)
Retirement incentive cost, net	397.1	216.3	422.3
Other gains, net	-	-	(103.9)
Total pension cost	\$ 3.1	\$ 57.7	\$ 124.2

The change in net periodic pension income from year to year was caused by a number of variables, including changes in actuarial assumptions (see table below), favorable returns on plan assets and plan amendments. We recognized retirement incentive costs in 1997, 1996 and 1995 as a result of work force reductions primarily through retirement incentives offered to management and associate employees of the former NYNEX companies. The costs were comprised of special termination benefits charges of \$687.7 million in 1997, \$481.3 million in 1996 and \$723.5 million in 1995. These amounts were partially offset by curtailment gains of \$221.8 million in 1997, \$174.4 million in 1996 and \$222.7 million in 1995 and by severance reserves of \$68.8 million in 1997, \$90.6 million in 1996 and \$78.5 million in 1995. The severance reserves were established in 1993 and transferred to the pension liability as employees accepted the retirement incentive offer. Other gains represent net curtailment gains associated with the termination of pension benefits for certain employees in 1995.

Notes to Consolidated Financial Statements *continued*

Note 16 *continued*

The following table shows the pension plans' funded status reconciled with amounts in our consolidated balance sheets:

At December 31,	(Dollars in Millions)	
	1997	1996
Actuarial present value of benefit obligations:		
Benefits based on service to date and present salary levels		
Vested	\$ 23,889.3	\$ 21,389.6
Nonvested	1,923.3	2,192.7
Accumulated benefit obligation	25,812.6	23,582.3
Additional benefits related to estimated future salary levels	919.4	1,353.4
Projected benefit obligation	26,732.0	24,935.7
Fair value of plan assets	35,253.0	31,075.5
Plan assets in excess of projected benefit obligation	(8,521.0)	(6,139.8)
Unrecognized net gain	9,521.4	7,025.4
Unamortized prior service cost	1,493.1	1,465.9
Unamortized net transition asset	439.0	520.9
Additional minimum liability for nonqualified plans	42.2	24.7
Accrued pension obligation	\$ 2,974.7	\$ 2,897.1

We used the following weighted-average assumptions to calculate pension costs and benefit obligations:

At December 31,	1997	1996	1995
Discount rate	7.25%	7.75%	7.25%
Rate of future increases in compensation levels	4.00	4.40	4.40

In addition, the expected long-term rate of return on plan assets used to calculate pension costs for 1997, 1996 and 1995 was 8.90%, 8.60% and 8.60%.

Postretirement Benefits Other Than Pensions

Our postretirement health and life insurance benefit plans cover substantially all of our management and associate employees. Postretirement health benefit costs are based on comprehensive medical and dental plan provisions. Postretirement life insurance costs are based on annual basic pay at retirement.

In 1996, we restructured certain postretirement health and life insurance obligations and assets to create a single plan. The remaining postretirement benefits continue to be provided by separate plans. The restructure did not affect plan benefits or postretirement benefit costs or obligations.

We fund the postretirement health and life insurance benefits of current and future retirees. Plan assets consist principally of investments in domestic and foreign corporate equity securities and U.S. Government and corporate debt securities.

Postretirement benefit cost includes the following components:

Years Ended December 31,	(Dollars in Millions)		
	1997	1996	1995
Service cost	\$ 98.4	\$ 122.5	\$ 107.8
Interest cost	626.3	653.0	682.8
Actual return on plan assets	(673.3)	(358.3)	(525.3)
Net amortization and deferral	433.9	207.1	423.4
Net periodic postretirement benefit cost	485.3	624.3	688.7
Retirement incentive cost, net	89.5	4.4	71.6
Other gains, net	-	-	(17.2)
Total postretirement benefit cost	\$ 574.8	\$ 628.7	\$ 743.1

The change in net periodic postretirement benefit cost from year to year was caused by a number of variables, including changes in actuarial assumptions (see table below), changes in plan provisions, favorable medical claims experience and favorable returns on plan assets. We recognized retirement incentive costs in 1997, 1996 and 1995 as a result of work force reductions primarily through retirement incentives offered to management and associate employees of the former NYNEX companies. The costs were comprised of special termination benefit charges of \$60.0 million in 1997, \$39.8 million in 1996 and \$72.9 million in 1995 and curtailment losses of \$139.5 million in 1997, \$95.7 million in 1996 and \$45.0 million in 1995. These amounts were partially offset by postretirement medical benefit reserves of \$110.0 million in 1997, \$131.1 million in 1996 and \$46.3 million in 1995. The postretirement medical reserves were established in 1993 and transferred to the postretirement benefit liability as employees accepted the retirement incentive offer. Other gains represent net curtailment gains associated with the termination of postretirement benefits for certain employees in 1995.

Note 16 *continued*

The following table shows the postretirement benefit plans' funded status reconciled with the amounts recognized in our consolidated balance sheets:

At December 31,	(Dollars in Millions)	
	1997	1996
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$ 6,018.2	\$ 5,683.7
Fully eligible plan participants	884.7	877.3
Other active plan participants	1,949.3	2,056.2
Total APBO	8,852.2	8,617.2
Fair value of plan assets	3,824.6	3,209.9
APBO in excess of plan assets	5,027.6	5,407.3
Unrecognized net gain	1,512.1	1,061.7
Unamortized prior service cost	(192.3)	(224.7)
Accrued postretirement benefit obligation	\$ 6,347.4	\$ 6,244.3
Total APBO by plan:		
Health and welfare	\$ 7,957.9	\$ 7,815.1
Life insurance	894.3	802.1
Total	\$ 8,852.2	\$ 8,617.2
Fair value of plan assets by plan:		
Health and welfare	\$ 3,003.7	\$ 2,516.4
Life insurance	820.9	693.5
Total	\$ 3,824.6	\$ 3,209.9

We used the following weighted-average assumptions to calculate the postretirement benefit costs and benefit obligations:

At December 31,	1997	1996	1995
Discount rate	7.25%	7.75%	7.25%
Rate of future increases in compensation levels	4.00	4.40	4.40
Medical cost trend rate:			
For the year ending	6.50	8.30	10.30
Ultimate (year 2001 for 1997, 2008 for 1996 and 1995)	5.00	4.75	4.75
Dental cost trend rate:			
For the year ending	3.50	3.75	4.00
Ultimate (year 2002)	3.00	3.50	3.50

In addition, the expected long-term rate of return on plan assets used to calculate postretirement benefit costs for 1997, 1996 and 1995 was 8.70%, 8.35% and 8.35%. The medical cost trend rate significantly affects the reported postretirement benefit costs and benefit obligations. A one-percentage-point increase in the assumed health care cost trend rates for each future year would have increased 1997 postretirement benefit costs by \$59.3 million and would have increased the accumulated postretirement benefit obligation as of December 31, 1997 by \$649.6 million.

Retirement Incentives

In 1993, we announced a restructuring plan which included an accrual of approximately \$1.1 billion (pre-tax) for severance and postretirement medical benefits under a force reduction plan. Beginning in 1994, retirement incentives have been offered as a voluntary means of implementing substantially all of the work force reductions planned in 1993.

Since the inception of the retirement incentive program, additional costs totaled approximately \$1,957 million (pre-tax) as of December 31, 1997, comprised of \$513 million in 1997, \$236 million in 1996, \$514 million in 1995 and \$694 million in 1994. These costs include the pension and postretirement benefit amounts shown in the tables above, as well as vacation pay costs and other items. As described above, the retirement incentive costs have been reduced by severance and postretirement medical benefits reserves established in 1993 and transferred to the pension and postretirement benefits liabilities as employees accepted the retirement incentive offer. As of December 31, 1997, the remaining reserves associated with the 1993 restructuring plan were approximately \$39 million for employee severance and \$54 million for postretirement medical benefits.

As of December 31, 1997, employees who have left the business under the retirement incentive program totaled 19,275, consisting of 9,329 management employees and 9,946 associate employees. The retirement incentive program covering management employees ended on March 31, 1997 and the program covering associate employees is scheduled to end in August 1998.

Savings Plans and Employee Stock Ownership Plans

We sponsor savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis and to encourage employees to acquire and maintain an equity interest in our company. Under these plans, we match a certain percentage of eligible employee contributions with shares of our common stock. We maintain three leveraged employee stock ownership plans (ESOPs). In 1989, two leveraged ESOPs were established to purchase our common stock and fund our matching contribution. In 1990, NYNEX established a leveraged ESOP to fund matching contributions to management employees and purchased shares of NYNEX common stock. At the date of the merger, NYNEX common stock outstanding was converted to Bell Atlantic shares using an exchange ratio of 0.768 of a share of Bell Atlantic common stock to one share of NYNEX common stock.

Notes to Consolidated Financial Statements *continued*

Note 16 *continued*

The leveraged ESOP trusts established in 1989 were funded by the issuance of \$790.0 million in ESOP Senior Notes. The annual interest rate on the ESOP Senior Notes is 8.17%. The ESOP Senior Notes are payable in semiannual installments, which began on January 1, 1990 and end in the year 2000. The NYNEX leveraged ESOP trust was established through a company loan of \$450 million, the proceeds of which were used to purchase common shares of NYNEX stock held in treasury. NYNEX issued and guaranteed \$450 million of 9.55% Debentures, the proceeds of which were principally used to repurchase common shares in the open market. The Debentures require annual payments of principal and are due on May 1, 2010. Interest payments are due semiannually. The leveraged ESOP trusts repay the debt, including interest, with funds from our contributions to the ESOP trusts, as well as dividends received on unallocated and allocated shares of common stock.

The obligations of the leveraged ESOP trusts, which we guarantee, are recorded as Long-term Debt and the offsetting deferred compensation is classified as a reduction of Shareowners' Investment. As the ESOP trusts make principal payments, we reduce the long-term debt balance. The deferred compensation balance is reduced by the amount of employee compensation recognized as the ESOP shares are allocated to participants.

Common stock is allocated from the leveraged ESOP trusts based on the proportion of principal and interest paid on ESOP debt in a year to the remaining principal and interest due over the term of the debt. At December 31, 1997, the number of unallocated and allocated shares of common stock was 11.2 million and 13.9 million. All leveraged ESOP shares are included in earnings per share computations.

We recognize leveraged ESOP cost based on the modified shares allocated method for the leveraged ESOP trusts that held securities before December 15, 1989 and the shares allocated method for the leveraged ESOP trust that held securities after December 15, 1989.

ESOP cost and trust activity consist of the following:

Years Ended December 31,	1997	(Dollars in Millions)	
		1996	1995
Compensation	\$ 105.4	\$ 93.5	\$ 88.4
Interest incurred	57.0	69.4	84.4
Dividends	(36.9)	(42.1)	(47.0)
Other trust earnings and expenses, net	(.5)	(.2)	(.5)
Net leveraged ESOP cost	125.0	120.6	125.3
Additional (reduced)			
ESOP cost	(2.3)	14.6	19.2
Total ESOP cost	\$ 122.7	\$ 135.2	\$ 144.5
Dividends received for debt service	\$ 66.7	\$ 68.3	\$ 69.7
Total company contributions to leveraged ESOP trusts	\$ 136.5	\$ 141.8	\$ 152.3

In addition to the ESOPs described above, we maintain savings plans for associate employees of the former NYNEX companies and certain other subsidiaries. Compensation expense associated with these savings plans was \$71.1 million in 1997, \$69.1 million in 1996 and \$62.8 million in 1995.

17. Income Taxes

The components of income tax expense from continuing operations are presented in the following table:

Years Ended December 31,	1997	(Dollars in Millions)	
		1996	1995*
Current:			
Federal	\$ 1,207.4	\$ 1,450.2	\$ 1,602.3
State and local	222.2	195.4	234.8
Total	1,429.6	1,645.6	1,837.1
Deferred:			
Federal	279.2	235.9	(65.1)
State and local	(42.3)	48.3	51.3
Total	236.9	284.2	(13.8)
Investment tax credits	(38.1)	(57.3)	(70.5)
Other credits	(99.2)	(90.2)	(43.9)
Total income tax expense	\$ 1,529.2	\$ 1,782.3	\$ 1,708.9

* Does not include the effect of investment tax credit amortization that was accelerated in connection with the discontinued application of SFAS No. 71.

Note 17 *continued*

During 1997, two states in our operating region enacted significant changes in their tax laws. In New Jersey, a law was enacted that repealed the gross receipts tax applicable to telephone companies and extended the net-income-based corporate business tax to include telephone companies. This resulted in a decrease in deferred state income tax expense of \$75.4 million. In Maryland, a law was enacted that changed the determination of taxable income. This resulted in an increase in deferred state income tax expense of \$8.3 million.

The following table shows the principal reasons for the difference between the effective income tax rate and the statutory federal income tax rate:

Years Ended December 31,	1997	1996	1995
Statutory federal income tax rate	35.0%	35.0%	35.0%
Investment tax credits	(.6)	(.8)	(1.1)
Rate differential applied to reversing timing differences	-	-	(.2)
State income taxes, net of federal tax benefits	2.6	3.1	3.9
Other, net	1.4	(1.0)	.1
Effective income tax rate	38.4%	36.3%	37.7%

Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Significant components of deferred tax liabilities (assets) are shown in the following table:

		(Dollars in Millions)	
At December 31,	1997	1996	
Deferred tax liabilities:			
Depreciation	\$ 3,564.5	\$ 3,646.8	
Leveraged leases	2,225.3	2,022.0	
Partnership investments	329.9	244.0	
Other	1,044.2	1,024.3	
	7,163.9	6,937.1	
Deferred tax assets:			
Employee benefits	(4,065.0)	(4,021.1)	
Investment tax credits	(94.3)	(103.9)	
Allowance for uncollectible accounts receivable	(117.4)	(90.6)	
Other	(1,114.8)	(1,060.1)	
	(5,391.5)	(5,275.7)	
Valuation allowance	79.4	44.8	
Net deferred tax liability	\$ 1,851.8	\$ 1,706.2	

Deferred tax assets include approximately \$3,125.8 million at December 31, 1997 and \$2,740.2 million at December 31, 1996 related to postretirement benefit costs recognized under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This deferred tax asset will gradually be realized over the estimated lives of current retirees and employees.

The valuation allowance primarily represents tax benefits of capital loss carryforwards, certain state NOL carryforwards and other deferred tax assets which may expire unutilized. During 1997, the valuation allowance increased \$34.6 million. This increase was primarily a result of a change in tax planning strategies.

18. Additional Financial Information

The tables below provide additional financial information related to our consolidated financial statements:

Income Statement Information

		(Dollars in Millions)		
Years Ended December 31,	1997	1996	1995	
Interest expense incurred, net of amounts capitalized	\$ 1,275.2	\$ 1,124.1	\$ 1,305.0	
Capitalized interest	81.0	128.5	73.2	
Advertising expense	397.0	357.5	314.8	

Interest expense incurred includes \$45.2 million in 1997, \$42.1 million in 1996 and \$40.4 million in 1995 related to our lease financing business. Such interest expense is classified as Other Operating Expenses.

Notes to Consolidated Financial Statements continued
Note 18 continued
Balance Sheet Information

		(Dollars in Millions)	
At December 31,	1997	1996	
Accounts payable and accrued liabilities:			
Accounts payable	\$ 3,575.4	\$	3,513.1
Accrued expenses	1,089.7		1,357.6
Accrued vacation pay	618.1		611.7
Accrued salaries and wages	279.9		236.7
Interest payable	245.8		230.0
Accrued taxes	157.5		211.5
Total	\$ 5,966.4	\$	6,160.6
Other current liabilities:			
Advance billings and customer deposits	\$ 643.0	\$	638.3
Dividend payable	597.8		574.8
Other	114.2		92.0
Total	\$ 1,355.0	\$	1,305.1

Cash Flow Information

		(Dollars in Millions)		
Years Ended December 31,	1997	1996	1995	
Cash paid during the year for:				
Income taxes, net of amounts refunded	\$ 1,402.8	\$ 1,667.9	\$ 1,668.1	
Interest, net of amounts capitalized	1,215.4	1,162.5	1,307.5	
Noncash investing and financing activities:				
Acquisition of plant under capital leases	11.4	16.4	14.3	
Acquisition of plant through mortgage assumption	—	16.0	—	
Common stock issued for performance-based share plans	10.0	13.1	8.1	
Common stock issued for dividend reinvestment plan	—	79.2	106.1	
Common stock issued and debt assumed for acquisitions	21.9	—	19.0	
Noncash investment in unconsolidated businesses	—	9.0	—	
Contribution of net assets to unconsolidated businesses	681.8	—	16.4	
Accrued contributions to partnerships	73.0	220.1	139.8	

19. Quarterly Financial Information (Unaudited)

		(Dollars in Millions, Except Per Share Amounts)				
		Income (Loss) Before Cumulative Effect of Change in Accounting Principle		Net		
Quarter Ended	Operating Revenues	Operating Income	Amount	Per Share—Basic	Per Share—Diluted	Income (Loss)
1997:						
March 31	\$ 7,416.5	\$ 1,458.5	\$ 698.2	\$.90	\$.89	\$ 698.2
June 30	7,707.8	1,847.9	896.8	1.16	1.14	896.8
September 30*	7,373.9	421.0	(80.1)	(.10)	(.10)	(80.1)
December 31	7,695.7	1,614.1	940.0	1.21	1.19	940.0
1996:						
March 31	\$ 7,044.0	\$ 1,346.2	\$ 690.0	\$.90	\$.88	\$ 963.1
June 30	7,329.4	1,599.2	829.8	1.07	1.06	829.8
September 30	7,376.6	1,667.2	871.8	1.13	1.12	871.8
December 31	7,405.2	1,466.0	737.3	.95	.94	737.3

* Results of operations for the third quarter of 1997 include merger-related costs (see Note 1).

We restated results of operations for 1996 and the first and second quarters of 1997 as a result of our merger with NYNEX which was accounted for as a pooling of interests (see Note 1).

Income before cumulative effect of change in accounting principle per common share is computed independently for each quarter and the sum of the quarters may not equal the annual amount.

Board of Directors and Executive Officers

Board of Directors

Lawrence T. Babbio, Jr.
President and Chief Executive Officer – Network Group
Chairman – Global Wireless Group
Bell Atlantic Corporation

Richard L. Carrion
Chairman of the Board, President and Chief Executive Officer
Popular, Inc.

James G. Cullen
President and Chief Executive Officer – Telecom Group
Bell Atlantic Corporation

Lodewijk J.R. de Vink
President and Chief Operating Officer
Warner-Lambert Company

James H. Gilliam, Jr.
Executive Vice President and General Counsel
Beneficial Corporation

Stanley P. Goldstein
Chairman of the Board and Chief Executive Officer
CVS Corporation

Helene L. Kaplan
Of Counsel
Skadden, Arps, Slate, Meagher & Flom

Thomas H. Kean
President, Drew University
Former Governor of New Jersey

Elizabeth T. Kennan
President Emeritus
Mount Holyoke College

John F. Maypole
Managing Partner
Peach State Real Estate Holding Company

Joseph Neubauer
Chairman, and Chief Executive Officer
ARAMARK Corporation

Executive Officers

Raymond W. Smith
Chairman of the Board and Chief Executive Officer

Ivan G. Seidenberg
Vice Chairman, President and Chief Operating Officer

Lawrence T. Babbio, Jr.
President and Chief Executive Officer – Network Group
Chairman – Global Wireless Group

James G. Cullen
President and Chief Executive Officer – Telecom Group

Jacquelyn B. Gates
Vice President – Ethics and Corporate Compliance

Alexander H. Good
Executive Vice President – Strategy and Corporate Development

Melvin Meskin
Vice President – Controller

Patrick F.X. Mulhearn
Vice President – Corporate Communications

Thomas H. O'Brien
Chairman and Chief Executive Officer
PNC Bank Corp.

Eckhard Pfeiffer
President and Chief Executive Officer
Compaq Computer Corporation

Hugh B. Price
President and Chief Executive Officer
National Urban League

Rozanne L. Ridgway
Former Assistant Secretary of State for Europe and Canada

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

Ivan G. Seidenberg
Vice Chairman, President and Chief Operating Officer
Bell Atlantic Corporation

Walter V. Shipley
Chairman of the Board and Chief Executive Officer
The Chase Manhattan Corporation

Raymond W. Smith
Chairman of the Board and Chief Executive Officer
Bell Atlantic Corporation

John R. Stafford
Chairman of the Board, President and Chief Executive Officer
American Home Products Corporation

Morrison DeS. Webb
Executive Vice President – External Affairs and Corporate
Communications
Bell Atlantic Corporation

Shirley Young
Vice President, China Strategic Development
General Motors Corporation

Donald J. Sacco
Executive Vice President – Human Resources

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

Doreen A. Toben
Vice President and Chief Financial Officer – Telecom Group

Chester N. Watson
Vice President – Internal Auditing

Morrison DeS. Webb
Executive Vice President – External Affairs and Corporate
Communications

Ellen C. Wolf
Vice President – Treasurer

James R. Young
Executive Vice President – General Counsel

Investor Information

Annual Shareowners Meeting

May 1, 1998 – 2 p.m.
The Playhouse Theatre
Wilmington, Delaware

Shareowner Services

Questions about stock-related matters including account changes, stock transfers and other requests for assistance with regard to your stock ownership should be directed to our transfer agent, Boston EquiServe:

Bell Atlantic Shareowner Services
Boston EquiServe
c/o BankBoston
P.O. Box 8038
Boston, MA 02266-8038
Phone 800 631-2355

Persons outside the U.S. may call collect: 781 575-3994

Persons using a telecommunications device for the deaf (TDD) may call: 800 829-8259

Shareowners with e-mail addresses can send inquiries to: Shareholder-EquiServe@EquiServe.com

Bell Atlantic contacts:

Peter Crawford Vice President – Investor Relations and
Shareowner Services
212 395-1955

Maria Dominguez Director – Shareowner Services
212 395-1846

Bell Atlantic Direct Invest

Bell Atlantic offers a direct stock purchase and share ownership plan. The plan allows current and new investors to purchase Bell Atlantic stock conveniently and economically.

To receive a Plan Prospectus and enrollment form, contact Boston EquiServe.

Dividend Direct Deposit Service

Bell Atlantic offers an electronic funds transfer service to shareowners wishing to deposit dividends directly into checking or savings accounts on dividend payment dates.

For more information, contact Boston EquiServe.

Shareowner News

For earnings highlights, dividend announcements and other pertinent information, you may call our newswire: 800 BEL-5595

Website Information

Corporate www.BellAtlantic.com
Investor Information www.BellAtlantic.com/invest

Common Stock Price and Dividend Information

- Ticker symbol (NYSE): BEL
- Shareowners of record at December 31, 1997: 1,233,500

	Market Price		Cash
	High	Low	Dividend Declared
1997			
First Quarter	\$ 71 $\frac{1}{4}$	\$ 59 $\frac{1}{4}$	\$.74
Second Quarter	78 $\frac{1}{4}$	56 $\frac{1}{4}$.74
Third Quarter	81 $\frac{1}{4}$	68	.77
Fourth Quarter	91 $\frac{1}{4}$	74 $\frac{1}{4}$.77
1996			
First Quarter	\$ 74 $\frac{1}{4}$	\$ 61 $\frac{1}{4}$	\$.72*
Second Quarter	67 $\frac{1}{4}$	59	.72
Third Quarter	64	55 $\frac{1}{4}$.72
Fourth Quarter	68	58 $\frac{1}{4}$.72

* Includes payment of \$.005 per common share for redemption of rights under our Shareholder Rights Plan.

Form 10-K

To receive a copy of the 1997 Bell Atlantic Annual Report on Form 10-K, which is filed with the Securities and Exchange Commission, contact:

Bell Atlantic Investor Relations
1095 Avenue of the Americas
36th Floor
New York, New York 10036
Phone: 212 395-1525
Fax: 212 921-2917

Equal Opportunity Policy

The Company has over 140,000 employees and maintains a long-standing commitment to equal opportunity and valuing the diversity of its employees, suppliers, and customers. The Company strives to create a working environment free of discrimination with respect to age, color, disability, gender, national origin, race, religion, citizenship status, marital status, sexual orientation, disabled veteran and veteran of the Vietnam era status.

For a summary of annual profile reports filed with the EEOC, contact Mr. Charles Christian, 1717 Arch Street, 28th Floor South, Philadelphia, Pennsylvania 19103.

Bell Atlantic Corporation
1095 Avenue of the Americas
New York, New York 10036
212-395-2121
World Wide Web: www.BellAtlantic.com



GTE CORPORATION AND SUBSIDIARIES
February 28, 1998
 (INCLUDES ALL ACTIVE COMPANIES 50% OR MORE OWNED)

ISSUED BY CORPORATE SECRETARY'S DEPARTMENT

GTE Corporation									
TELEPHONE	OPERATING	COMPANIES	TELEPHONE	GTE Data Services	GTE Wireless	GTE Internetworking	GTE Information	Central Federal	GTE China
GTE Alaska Incorporated	GTE Anglo Holding Company Incorporated	GTE Holdings (Canada) Limited (Alberta)	GTE Communications Corporation	GTE Data Services Incorporated	Control Cellular International, Inc.	GTE Intelligent Network Services Incorporated	GTE Information Services Incorporated	Central Federal Systems, Inc.	GTE China Incorporated
GTE Arkansas Incorporated	La Compagnie de Telephone Anglo-Canadienne Anglo-Canadian Telephone Company	Compania Dominicana de Telefonos, C. por A. (Dominican Republic)	GTE Communications Corporation of Virginia	GTE Data Services International Incorporated	GTE Mobile Communications International Incorporated	GTE Intelligent Network Services Incorporated	General Telephone Directory Company C. por A.	GTE Government Systems Corporation	GTE International Telecommunications Services LLC
GTE California Incorporated	BC TELECOM Inc.	Qualtel Telecommunications, C. por A. (Dominican Republic)	GTE Customer Networks, Inc.	GTE Airfone of Canada Incorporated	GTE Mobile Communications Service Corporation	EBN Corporation	GTE Data Services GmbH (Germany)	GTE CyberTrust Solutions Incorporated	GTS Branch LLC
Comtel Advanced Systems, Inc.	BC TEL	GTE International Telephone Incorporated	GTE Main Street Incorporated		GTE Mobile of Alabama Incorporated	BBN International Corporation	GTE Directories (Belgium) Limited	GTE Federal Services Corporation	GTE Holdings Mexico, S. de R.L. de C.V.
GTE Florida Incorporated	BC TEL Systems Support Inc.	Informatica y Telecomunicaciones, C. por A. (Dominican Republic)	GTE Media Ventures Incorporated		GTE Mobile of Memphis Incorporated	BBN International Corporation	GTE Directories (Brazil)	GTE Government Systems Overseas Corporation	GTE Data Services Mexico, S.A. de C.V.
GTE Florida Business Communications Corporation	BC Information Ltd.	GTE International Telecommunications Incorporated	CometVision, Inc.		GTE Mobile of Nashville Incorporated	BBN Securities Corporation	GTE Directories (B) SDN BHD (Brunei)	GTE Overseas Systems and Services Corporation	GTE Data Services Mexico, S.A. de C.V.
GTE Funding Incorporated	Pacific Place Communications Ltd.	GTE de Brasil Limitada	GTE Vantage Incorporated		GTE Mobile of Raleigh Incorporated	BBN (U.K.) Limited	GTE Directories Corporation	Telecom Systems	GTE Information Services (UK) Limited (England)
GTE Hawaiian Telephone Company Incorporated	Report International Services, Inc.	GTE Mexico, L.L.C.	GTE Vantage Incorporated		GTE Mobile of San Diego Incorporated	Realtek Corporation	GTE Directories Distribution Corporation	Central Page International Holdings, Inc.	Panorama Polska Sp. z o.o. (Poland)
GTE Hawaiian Tel Insurance Company Incorporated	Canadian Telephone and Supplies Ltd.	GTE PCS International Incorporated			GTE Mobile of South Carolina Incorporated		GTE Directories Corporation	Central Page International, Inc. (Grand Cayman)	GTE Supply Mexico, S.A. de C.V.
GTE Hawaiian Tel International Incorporated	Microtel Limited (inactive)	GTE Verapuerto Incorporated			GTE Mobile of Tennessee Incorporated		GTE Directories Corporation	Page Europe S.p.A. (Italy)	Guangzhou Guangsheng GTE Communications Development Company Ltd. (China)
The Micronesian Telecommunications Corporation (Northern Mariana Islands)	SCH Integrated Systems, Inc. (Malaysia)	GTE Verapuerto Incorporated			GTE Mobile of Texas Incorporated		GTE Directories Corporation	MTX Rate (Italy)	GTE Leasing Corporation
GTE Pacific Incorporated (Northern Mariana Islands)	Asaph Speciales Ltd.	GTE Verapuerto Incorporated			GTE Mobile of Utah Incorporated		GTE Directories Corporation	GTE Telecom Incorporated	GTE Leasing Acceptance Corporation
GTE Midwest Incorporated	BC TEL Mobility Cellular Inc.	GTE Verapuerto Incorporated			GTE Mobile of Virginia Incorporated		GTE Directories Corporation	GTE Telecom International Incorporated	Kaleng Oran Terminal, Inc.
GTE North Incorporated	BC TEL Properties Inc.	GTE Verapuerto Incorporated			GTE Mobile of Washington Incorporated		GTE Directories Corporation	GTE Telecom International Systems Corporation	GTE Products of Connecticut Corporation
GTE Northwest Incorporated	BC TEL Risk Management Inc.	GTE Verapuerto Incorporated			GTE Mobile of Wisconsin Incorporated		GTE Directories Corporation	GTE Telecom Saudi Arabia LTD	GTE Communication Systems Corporation
GTE West Coast Incorporated	B.C. Mobile Ltd.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming Incorporated		GTE Directories Corporation		GTE International Incorporated
GTE South Incorporated	BSM Information Systems Management (U.S.) Corporation	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		GTE Far East (Services) Limited (Hong Kong)
GTE Southwest Incorporated	BSM Information Systems Management (B.C.) International Corp.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		GTE Overseas Corporation
Central of Minnesota, Inc.	PS Regional Health Care Systems Ltd.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		GTE Laboratories Incorporated
Central of the South, Inc.	Singa Gateway Corporation	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		GTE Operations Support Incorporated
Central Service Corporation	Symcom Consulting Inc.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		Yaleco, Inc.
	Microtel International Inc.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		GTE Yarnstar Corporation
	MPRI TeleTech Ltd (inactive)	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		
	161908 CANADA INC.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		
	Pacific Design Engineering Inc.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		
	SRI Strategic Resources Inc.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		
	Telecom Leasing Canada (TLC) Limited	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		
	375,745 B.C. Ltd.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		
	The OutbackTel Group Inc.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		
	Outback-Telephone	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		
	OutbackTel Communications Inc.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		
	OutbackTel Mobile Inc.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		
	OutbackTel International Inc.	GTE Verapuerto Incorporated			GTE Mobile of Wyoming II Incorporated		GTE Directories Corporation		

NETWORK SERVICES

COMMUNICATIONS CORPORATION

BUSINESS DEVELOPMENT AND INTEGRATION

WIRELESS PRODUCTS AND SERVICES

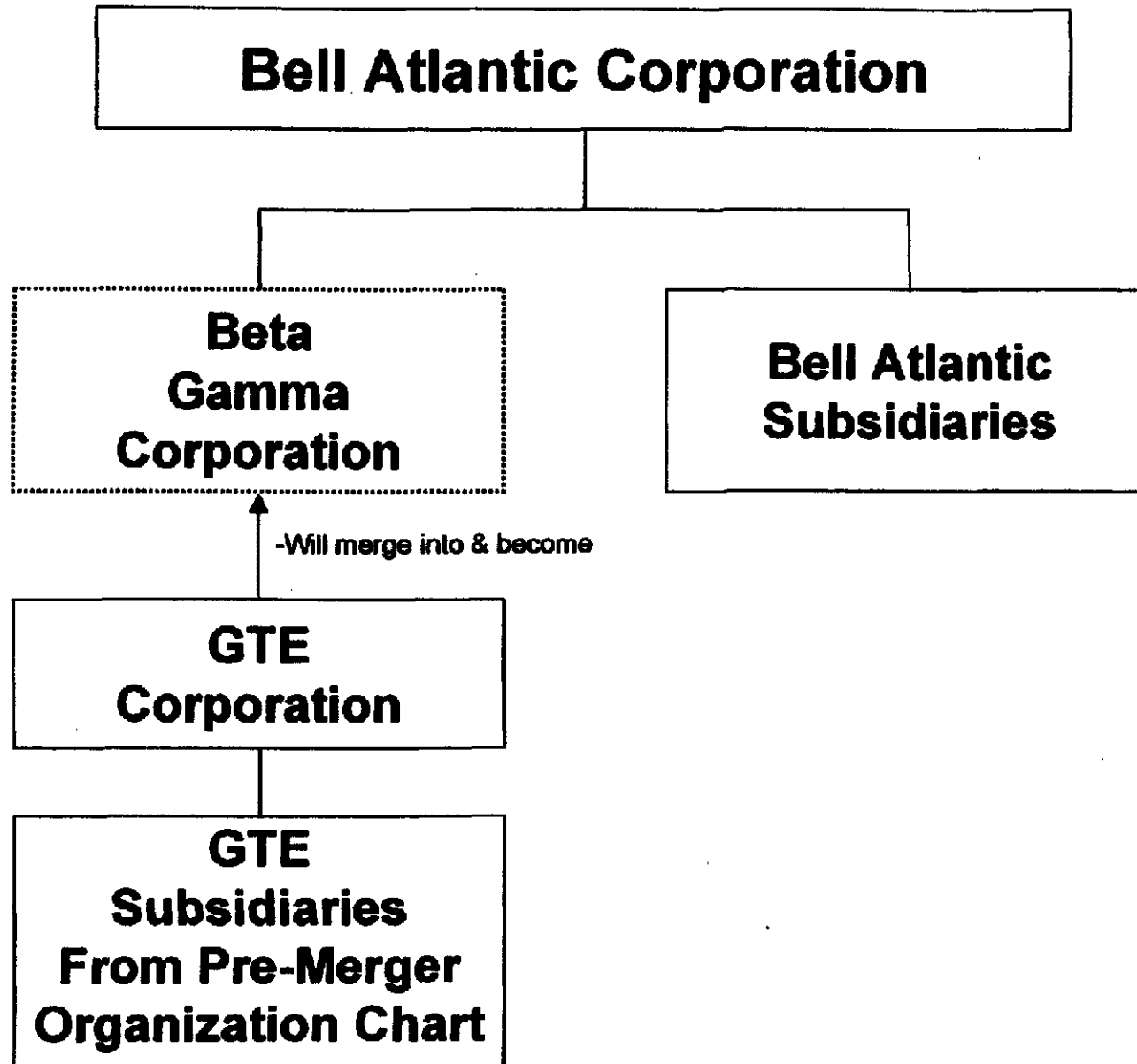
INTERNETWORKING OPERATIONS

INFORMATION SERVICES

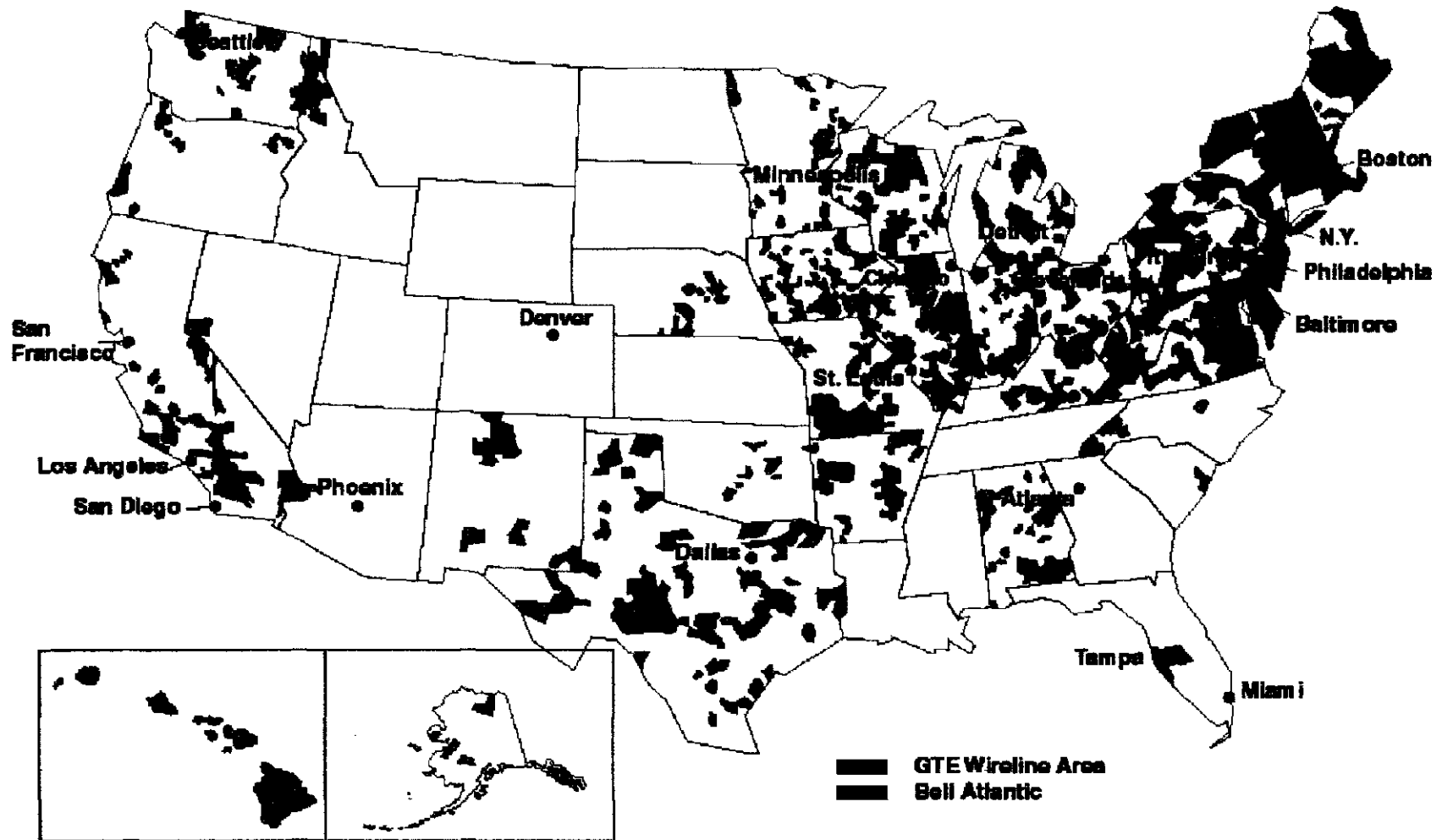
GOVERNMENT SYSTEMS

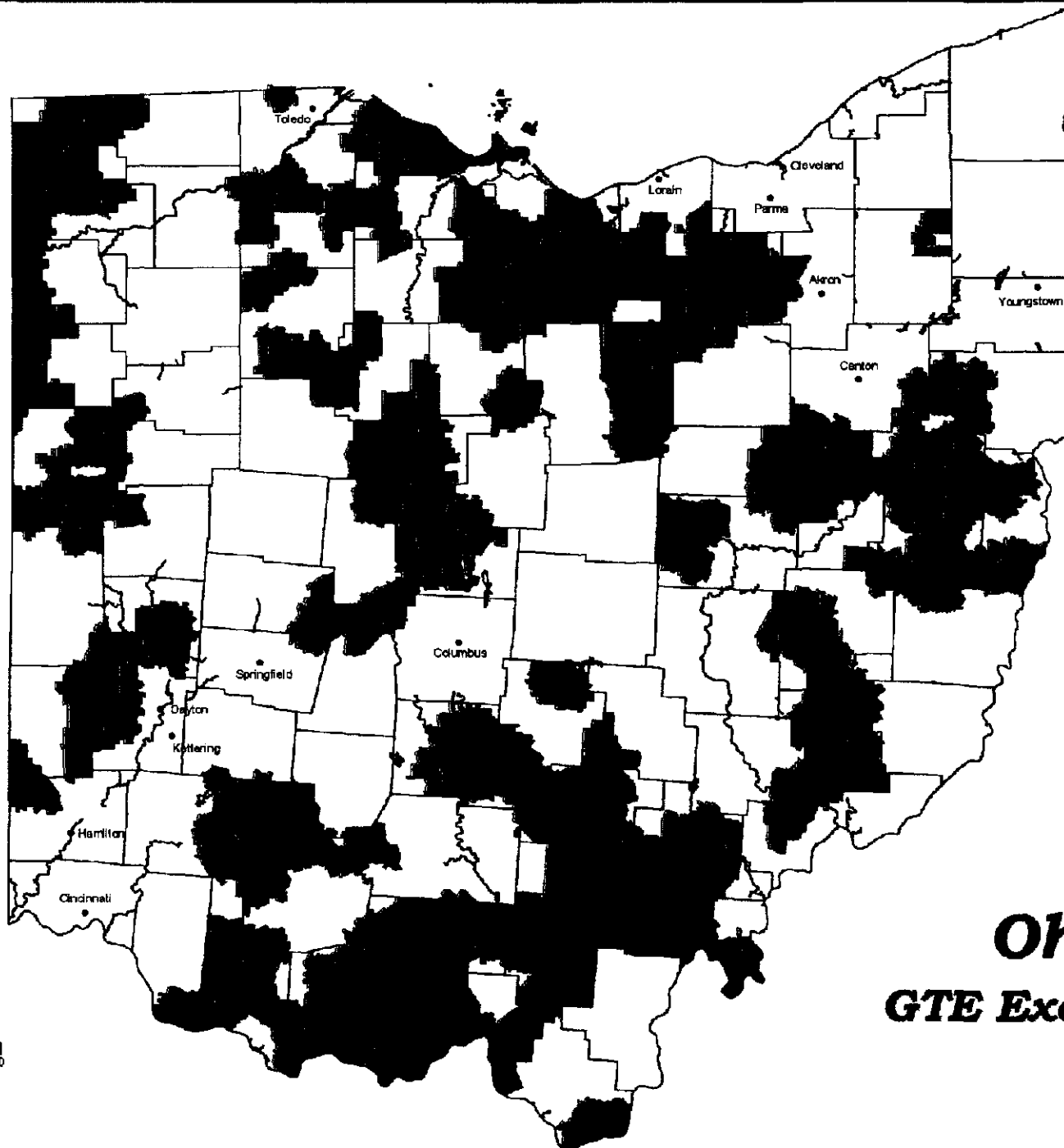
OTHER OPERATIONS

Post-Merger Organizational Chart



Wireline Operations



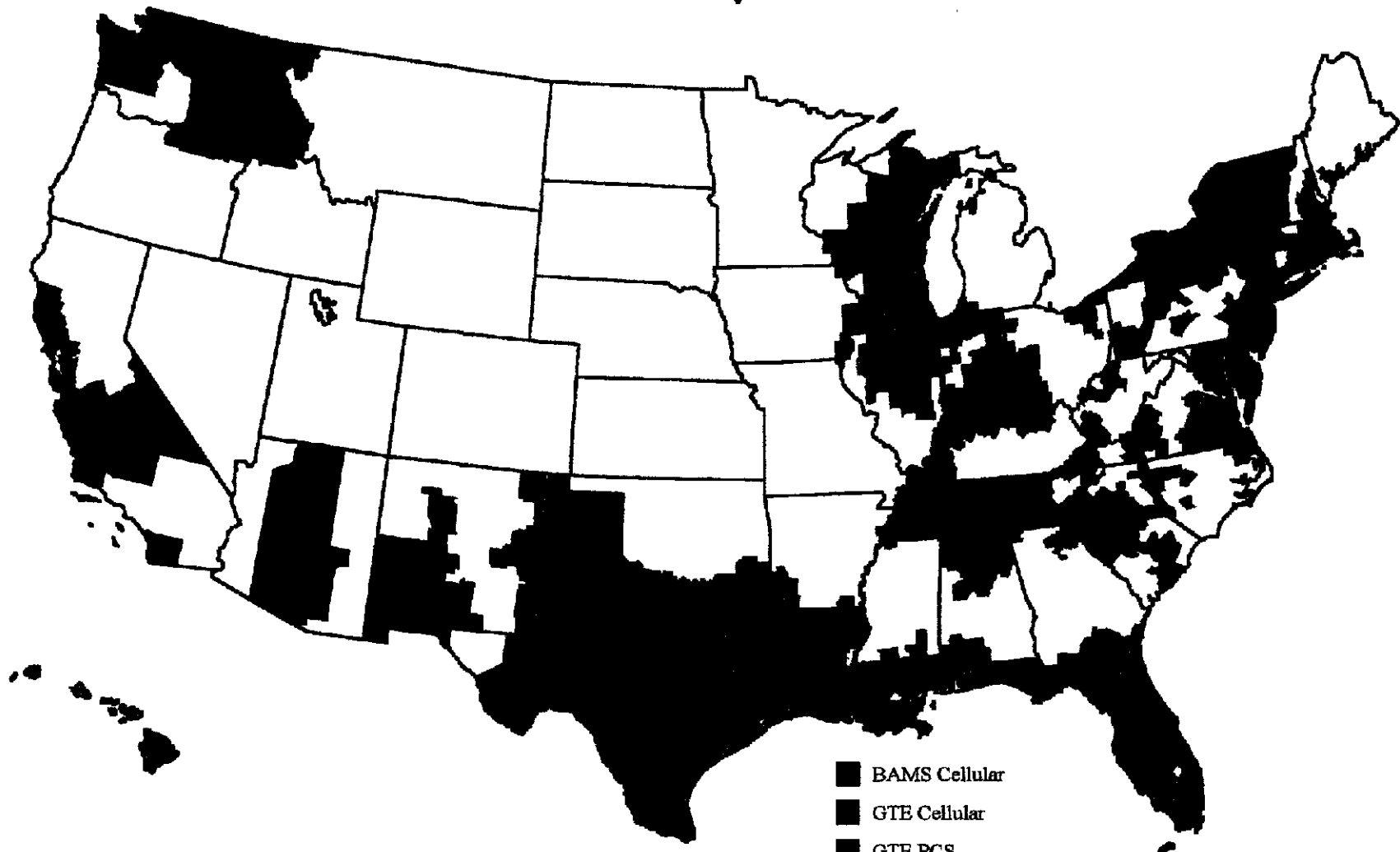


Ohio

GTE Exchanges

Miles
0 10 20

Wireless Operations



- BAMS Cellular
- GTE Cellular
- GTE PCS
- GTE/BAMS Overlap
- GTE/PrimeCo Overlap
- PrimeCo Personal Communications

Ohio Wireless Operations

