

Paul M. Fuglie
Director
Regulatory, Government, & Industry Affairs



GTE Long Distance

5221 N. O'Connor, HQL13B07
P.O. Box 152211
Irving, TX 75039
972 717-8373
Fax: 972 717-8611

November 18, 1996

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Betty Easley Conference Center, Room 110
Tallahassee, FL 32399-0850

961371-TX

Via Hand Delivery

Re: Application for Authority to Provide Alternative Local Exchange
Telecommunications Service Within the State of Florida for GTE
Card Services, Inc. d/b/a GTE Long Distance

Dear Ms. Bayo:

Enclosed for filing are the original and six copies of GTE Card Services, Inc.
d/b/a GTE Long Distance's Application for Authority to Provide Alternative Local
Exchange Telecommunications Services Within the State of Florida. Also enclosed is
a check in the amount of \$250.00 for the application fee.

Please acknowledge receipt and filing of the above by stamping the duplicate
copy of this letter and returning it to the undersigned.

Thank you for your assistance in this matter.

Sincerely,

GTE Long Distance

Paul M. Fuglie
Paul M. Fuglie

ACK ☒
AFA _____
APP _____
CAF _____
CMU _____
CTR _____
EAG _____
LEG _____
LIN _____
OPC _____
RCH _____
SEC _____
WAS _____
OTH _____

Enclosure

PMF/sms

cc: Mr. Bob Robinson

D. Bruce May, Holland & Knight

TAL-96290

RECEIVED & FILED

A part of GTE's RECORDS

Check received with filing and
forwarded to Fiscal for deposit.
Fiscal to forward a copy of check
to RAR with proof of deposit.

Initials of person who forwarded check:

DF

DOCUMENT NUMBER-DATE

12229 NOV 18 96

FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION
CAPITAL CIRCLE OFFICE CENTER - 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

APPLICATION FORM
for

AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF FLORIDA

INSTRUCTIONS

1. This form is used for an original application for a certificate and for approval of sale, assignment or transfer of an existing alternative local exchange certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee or transferee.
2. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.
3. Use a separate sheet for each answer which will not fit the allotted space.
4. If you have questions about completing the form, contact:

Florida Public Service Commission
Division of Communications, Certification & Compliance Section
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0866
(904) 413-6600
5. Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of \$250 made payable to the Florida Public Service Commission at the above address.

1. This is an application for (check one):

(X) Original authority (new company)

() Approval of transfer (to another certificated company)
Example, a certificated company purchases an existing company and desires to retain the original certificate authority.

() Approval of assignment of existing certificate (to a noncertificated company)
Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

() Approval for transfer of control (to another certificated company)
Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of applicant:

GTE Card Services Incorporated d/b/a GTE Long Distance Incorporated.

3. Name under which the applicant will do business (d/b/a):

GTE Long Distance Incorporated.

4. If applicable, please provide proof of fictitious name (d/b/a) registration.

See Composite Exhibit A for Fictitious Name Registration Number: G96026900028.

5. A. National mailing address including street name, number, post office box, city, state, zip code, and phone number.

GTE Long Distance Incorporated
1200 Walnut Hill Lane #2600
Irving, Texas 75038
(972) 714-0244

B. Florida mailing address including street name, number, post office box, city, state, zip code, and phone number.

8751 West Broward Blvd.
Plantation, FL 33324
(954) 473-5503

6. Structure of organization:

- | | |
|---|--|
| ☐ Individual | ☐ Corporation |
| ☒ Foreign Corporation | ☐ Foreign Partnership |
| ☐ General Partnership | ☐ Limited Partnership |
| ☐ Joint Venture | ☐ Other, Please explain _____ |

7. If applicant is an individual, partnership, or joint venture, please give name, title and address of each legal entity.

Not applicable.

8. State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

No.

9. If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

Corporate charter number: See Composite Exhibit A.

10. Please provide the name, title, address, telephone number, internet address, and facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application.

Paul Fuglie
Director of Regulatory and Industry Affairs
GTE Long Distance Incorporated
P.O. Box 15221
Irving, Texas 75015-2211
(T) 972-717-8373
(F) 972-717-8611
Paul.Fuglie@TECOPS.GTE.com (Internet)

and

D. Bruce May
Holland & Knight
P.O. Drawer 810
Tallahassee, FL 32302
(904) 224-7000
(904) 224-8832
dbmay@hklaw.com (Internet)

11. Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.

California and Texas.

12. Has the applicant been denied certification in any other state? If so, please list the state and reason for denial.

No.

13. Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty.

No.

14. Please indicate how a customer can file a service complaint with your company.

GTE Long Distance will provide customers with a toll free 800 number or similar access at no charge. The method of access will be included on customer bills and bill inserts. The access number will be available 24 hours per day, 7 days per week.

15. Please complete and file a price list in accordance with Commission Rule 25-24.825.

Prior to providing service, GTE Long Distance will file and maintain a current price list which will clearly set forth the information required by Florida Administrative Code Rule 25-24.825.

16. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

A. Financial capability.

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements for the most recent 3 years, including:

1. the balance sheet
2. income statement
3. statement of retained earnings.

Further, a written explanation, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.

3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should attest that the financial statements are true and correct.

GTE Long Distance is qualified financially to provide high quality local exchange service in Florida. By Order No. PSC-95-1335-FOF-TI dated November 1, 1995, in Docket No. 950069-TI, the Florida Public Service Commission ("FPSC") determined that GTE Card Services Incorporated d/b/a GTE Long Distance had the requisite financial, technical and managerial proficiency to provide telecommunications services in Florida. The circumstances surrounding GTE Long Distance's ability to serve have not changed and the company continues to have the financial, technical and managerial capacity to provide the services described in this application.

GTE Long Distance is a start up company. Thus, the availability of historical audited financial information is limited. Historical financial information that is available is attached as Composite Exhibit B. Finally, GTE Long Distance is a wholly-owned subsidiary of GTE Information Services, Incorporated, which is a wholly-owned subsidiary of GTE Corporation. GTE Long Distance is relying on the financial strength of GTE Corporation as represented in the consolidated financial statements contained in the annual reports and Securities and Exchange Commission 10-K reports attached hereto as Composite Exhibit C.

B. Managerial capability.

GTE Long Distance's local exchange operations will be under the direction of a highly skilled management team. Relevant biographies of the company's management are attached as Exhibit D.

C. Technical capability.

(If you will be providing local intra-exchange switched telecommunications service, then state how you will provide access to 911 emergency service. If the nature of the emergency 911 service access and funding mechanism is not equivalent to that

provided by the local exchange companies in the areas to be served, describe in detail the difference.)

GTE Long Distance is technically qualified to provide local exchange services in Florida. GTE Long Distance will utilize the facilities of the incumbent local exchange carriers ("LECs"), competitive access providers, where available, and its own facilities, as appropriate, to provide local exchange telephone and switched access service. The various features and functions available to customers of the incumbent LECs will initially be available to GTE Long Distance's customers through resold services. It is GTE Long Distance's intention to augment its service offerings in the future, adding new services as they become available from the incumbent LECs and as the company uses its own facilities to provide service. When GTE Long Distance offers local exchange services and exchange access services over its own facilities, it will provide access to specific types of services, including two-way lines, trunks, direct inward/outward dialing options, basic custom calling features, and wireless services.

Because GTE Long Distance will initially offer resold service of the incumbent LECs, it will rely on the incumbent LECs to provide access to 911 emergency service. GTE Long Distance is familiar and will comply with all rules and regulations of the FPSC pertaining to 911 services and will ensure that 911 services will be readily accessible to its customers in Florida.

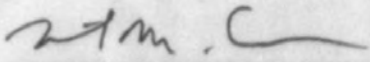
Except for those territories of the small local exchange companies which have retained earnings based regulation, as provided in Section 364.337(1), Florida Statutes, GTE Long Distance will provide statewide dial tone access to the public switched telecommunications network.

GTE Long Distance's technical qualifications are enhanced by its affiliation with GTE Corporation. GTE Corporation provides a wide variety of communication services ranging from local telephone service for the home and office to highly complex voice and data services for industry. In the United States, GTE Corporation serves approximately 17.4 million access lines in 28 states. In addition, GTE Corporation's affiliated telephone companies in Canada, the Dominican Republic and Venezuela serve 5.5 million access lines.

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.038".

Official:	 Signature	<u>Richard M. Cameron</u>
Title:	<u>Vice President - Operations</u>	<u>(972) 714-0244</u> Telephone Number
Address:	1200 Walnut Hill Lane Suite 2000 Irving, Texas 75038	

TAL-96238

FORM PSC/CUM 8 (11/95)
Required by Chapter 364.337 F.S.



FLORIDA DEPARTMENT OF STATE
Sandra B. Mortham
Secretary of State

January 26, 1996

GTE LONG DISTANCE INCORPORATED
1200 WALNUT HILL LANE #2600
IRVING, TX 75038

Subject: **GTE LONG DISTANCE INCORPORATED**

REGISTRATION NUMBER: **G96026900028**

This will acknowledge the filing of the above fictitious name registration which was registered on January 26, 1996. This registration gives no rights to ownership of the name.

Each fictitious name registration must be renewed every five years between July 1 and December 31 of the expiration year to maintain registration. Three months prior to the expiration date a statement of renewal will be mailed.

IT IS THE RESPONSIBILITY OF THE BUSINESS TO NOTIFY THIS OFFICE IN WRITING IF THEIR MAILING ADDRESS CHANGES. Whenever corresponding please provide assigned Registration Number.

For information regarding fictitious names on file or to search the record call (904) 488-9000.

Should you have any questions regarding this matter you may contact our office at (904) 487-6058.

Tony Williams
Annual Reports Section

Letter No. 596A00003600

APPLICATION FOR REGISTRATION OF FICTITIOUS NAME

APPROVED
AND
FILED

1996 JAN 26 PM 3:10

SECRETARY OF STATE
TALLAHASSEE, FLORIDA

This space for office use only

Section 1

- GTE LONG DISTANCE INCORPORATED
Fictitious Name to be Registered
- 1200 Walnut Hill Lane #2600
Mailing Address of Business
- City Irving, Texas, Florida 75038
Zip Code
- Florida County Multiple
- FEI Number: _____

Section 2

A. Owner(s) of Fictitious Name If Individual(s) (use an attachment if necessary):

- Last _____ First _____ M.I. _____

Address _____

City _____ State _____ Zip Code _____

SS# _____
- Last _____ First _____ M.I. _____

Address _____

City _____ State _____ Zip Code _____

SS# _____

B. Owner(s) of Fictitious Name If Corporation(s) (use an attachment if necessary):

- GTE CARD SERVICES INCORPORATED
Corporate Name

1200 WALNUT HILL LANE #2600
Address

IRVING TEXAS 75038
City State Zip Code

Corporate Document Number: P23378

FEI Number: _____

☐ Applied for ☐ Not applicable
- Corporate Name _____

Address _____

City _____ State _____ Zip Code _____

Corporate Document Number: _____

FEI Number: _____

☐ Applied for ☐ Not applicable

Section 3

I (we) the undersigned, being the sole (all the) party(ies) owning interest in the above fictitious name, certify that the information indicated on this form is true and accurate. I (we) further certify that the fictitious name shown in Section 1 of this form has been advertised at least once in a newspaper as defined in chapter 50, Florida Statutes, in the county where the applicant's principal place of business is located. I (we) understand that the signature(s) below shall have the same legal effect as if made under oath. (At Least One Signature Required)

H. Gordon Allen 1/22/96
Signature of Owner Date
H. Gordon Allen, President
Phone Number: _____

Signature of Owner Date
Phone Number: _____

Section 4

FOR CANCELLATION COMPLETE SECTION 4 ONLY: FOR FICTITIOUS NAME OWNERSHIP CHANGE COMPLETE SECTIONS 1 THROUGH 4:

I (we) the undersigned, hereby cancel the fictitious name _____
_____, which was registered on _____ and was assigned
registration number _____

Signature of Owner Date

Signature of Owner Date

Mark the applicable boxes

☐ Certificate of Status - \$10

☐ Certified Copy - \$30

FILING FEE: \$50

Note: Acknowledgements/certificates will be sent to the address in Section 1 only



FLORIDA DEPARTMENT OF STATE

Jim Smith
Secretary of State

October 17, 1994

C T CORPORATION SYSTEM
TALLAHASSEE, FL

Re: Document Number P23378

The Amendment to the Application of a Foreign Corporation for GTE INTERACTIVE SERVICES INCORPORATED which changed its name to GTE CARD SERVICES INCORPORATED, a Delaware corporation authorized to transact business in Florida, was filed on October 17, 1994.

Should you have any questions regarding this matter, please telephone (904) 487-6050, the Amendment Filing Section.

Kelley Shank
Corporate Specialist
Division of Corporation

Letter Number: 794A00045751

APPLICATION BY FOREIGN CORPORATION TO FILE AMENDMENT TO
APPLICATION FOR AUTHORIZATION TO TRANSACT BUSINESS IN
FLORIDA
(s.607.1504,F.S.)

SECTION I (1-3 must be completed)

1. GTE Interactive Services Incorporated
Name of corporation as it appears on the records of the Department of State.

2. Incorporated under laws of: Delaware

3. Date authorized to do business in Florida: March 14, 1989

FILED
1994 OCT 17 PM 12:31
SECRETARY OF STATE
TALLAHASSEE, FLORIDA

SECTION II (4-7 complete only the applicable changes)

4. If the amendment changes the name of the corporation, when was the change effected under the laws of its jurisdiction of incorporation?

5. Name of corporation after the amendment, adding suffix "corporation," "company," "incorporated," or appropriate abbreviation, if not contained in new name of the corporation:

GTE Card Services Incorporated

6. If the amendment changes the period of duration, indicate new period of duration.

7. If the amendment changes the jurisdiction of incorporation, indicate new jurisdiction.

H. Gordon Allen
Signature

10/11/94
Date

H. Gordon Allen
Typed or printed name

President
Title

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION

GTE Interactive Services Incorporated, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of GTE Interactive Services Incorporated resolutions were duly adopted setting forth a proposed amendment to the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, That the Certificate of Incorporation of this corporation be amended by changing the First Article thereof so that as amended said Article shall be and read as follows:

"The name of the corporation is GTE Card Services Incorporated."

SECOND: That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of said corporation was duly called and held, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said H. Gordon Allen

_____ has caused this certificate to be
signed by H. Gordon Allen, its President, this 11th day of October, 1994.

H. Bardo Allen

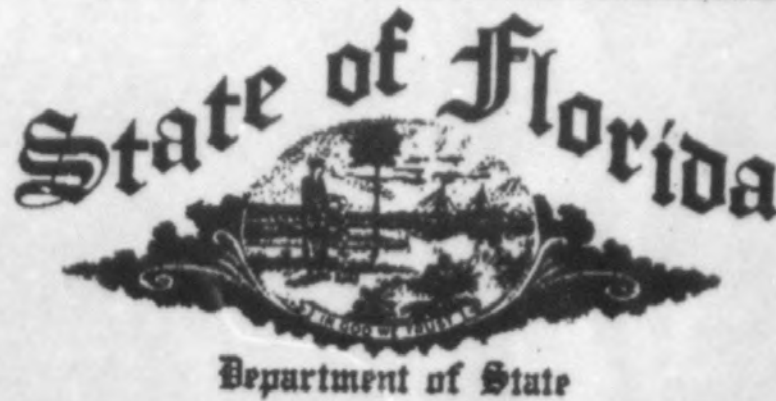
H. Gordon Allen
President

State of Texas
County of Garret

Subscribed & sworn to before me by H. Gordon
Allen this 11th day of October. 1994.

Comm. Expires: 5-1-96

Devine H. Maynard
Notary Public



I certify from the records of this office that GTE INTERACTIVE SERVICES INCORPORATED is a corporation organized under the laws of the State of Delaware, authorized to transact business within the State of Florida, qualified on March 14, 1989.

The document number of this corporation is P23378.

I further certify that said corporation has paid all filing fees due this office through December 31, 1989, and its status is active.

Given under my hand and the
Great Seal of the State of Florida,
at Tallahassee, the Capital; this the
14th day of March, 1989.



CR2EO22 (6-88)

Jim Smith
Secretary of State



Florida Department of State, George Firestone, Secretary of State
**APPLICATION BY FOREIGN CORPORATION FOR
 AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA**

1. GTE Interactive Services Incorporated
 (Name of corporation adding the word "INCORPORATED" or "CORPORATION" if not so contained in the name at present).
2. Delaware
 (Incorporated Under the Laws of)
3. November 30, 1988
 (Date of Incorporation)
4. January 9, 1988
 (Date first transacted business in Florida)
5. 101 E. Kennedy Blvd., Tampa, Florida 33602
 (Address of Principal Office)
6. C T Corporation System
 (Name of Florida Registered Agent)
8751 West Broward Blvd.
 (Street Address in Florida of Registered Agent)
Plantation Florida 33324
 (City) (State Florida) (Zip Code)
7. Marketing of interactive voice response systems, interactive video systems, and retail software applications; and the transaction of any other lawful business.
 (Nature of Business to be Transacted in Florida)

8. NAME OF OFFICERS

SEE EXHIBIT I.

SPECIFIC ADDRESSES

(P)
(V)
(S)
(T)

NAME OF DIRECTORS

SEE EXHIBIT I.

SPECIFIC ADDRESSES

(D)
(D)
(D)
(D)

9. I am familiar with and accept the obligations provided for in s. 607.325.
 C T CORPORATION SYSTEM

Acceptance by the Registered Agent: By: Michael E. Jones

Agent must sign on this line
 Michael E. Jones, Asst. Secretary

10. 2,000 shares, Common Stock, No Par Value
 (Total Authorized Shares (itemized by Class), Par Value of Shares, & without Par Value)

Two officers must sign this application

Sandra G. Parker
 Secretary or Assistant Secretary
 Sandra G. Parker

Cynthia H. Campbell
 President or Vice President
 Cynthia H. Campbell

State of Georgia

County of FULTON

The foreign instrument was acknowledged before me this Thirtieth (30th) day
 of January, 19 89, By Cynthia H. Campbell
 (Name of Officer)

President
 (Title of Officer) of GTE Interactive Services Incorporated
 (Name of Corporation)

A (AGI) Delaware
 (State or Country) Corporation, on behalf of the Corporation.

(Seal)

Christina L. Bailey
 Notary Public

Notary Public, Cobb County, Georgia
 My Commission Expires Jan. 11, 1998

FILED
 MAR 14 AM 5:26
 CLERK OF STATE
 TALLAHASSEE FLORIDA

EXHIBIT I

GTE Interactive Services Incorporated

OFFICERS

<u>Name and Office(s) Held</u>	<u>Address</u>
Cynthia H. Campbell President	610 Morgan Street Tampa, Florida 33601
Michael W. Yackira Vice President and Treasurer	First Florida Tower, 25th Floor 111 E. Madison Street Tampa, Florida 33602
Marilyn B. Vogel Vice President and General Counsel	One Stamford Forum Stamford, Connecticut 06904
Marianne Drost Secretary	One Stamford Forum Stamford, Connecticut 06904
Sandra G. Parker Assistant Secretary	GTE Place, W. Airfield Drive D/FW Airport, Texas 75261-9810
Ronald J. Tuccillo Assistant Secretary	One Stamford Forum Stamford, Connecticut 06904
Kevin D. Balsley Assistant Treasurer	GTE Place, W. Airfield Drive D/FW Airport, Texas 75261-9810
Richard M. Gombeski Assistant Treasurer	GTE Place, W. Airfield Drive D/FW Airport, Texas 75261-9810

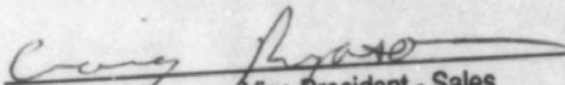
DIRECTORS

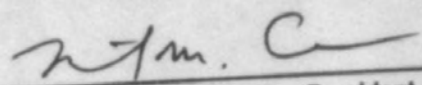
<u>Name</u>	<u>Address</u>
William E. Starkey	First Florida Tower, 25th Floor 111 E. Madison Street Tampa, Florida 33602
Michael W. Yackira	First Florida Tower, 25th Floor 111 E. Madison Street Tampa, Florida 33602
Robert E. Stewart	First Florida Tower, 25th Floor 111 E. Madison Street Tampa, Florida 33602
Cynthia H. Campbell	610 Morgan Street Tampa, Florida 33601
Joel P. Mellis	One Stamford Forum Stamford, Connecticut 06904

STATEMENT

We hereby attest that the attached Balance Sheets and Income Statements for the years ended December 31, 1994 and 1995 are true and correct and contain no material misrepresentations or omissions based upon present facts known to the undersigned officers.

Dated this 15th day of November, 1996.


by Craig B. Ryason, Vice President - Sales
for H. Gordon Allen, President


Richard M. Cameron, Vice President - Operations

STATE OF TEXAS }
 }
COUNTY OF DALLAS }

Subscribed and sworn to before me this 15th day of November, 1996.

Notary Public in and for the State of Texas
My Commission Expires: _____

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCECONSOLIDATED BALANCE SHEET
As of December 31, 1995

Current Assets	
Cash	0
Working Funds	0
Accounts Receivable:	
Affiliated Companies	19,547,571
Other	(95,635)
Allowance for Doubtful Accounts	0
Unbilled Receivables:	
Other	2,442,288
Other Prepaids	5,000
Other Current Assets	<u>330</u>
Total Current Assets	21,899,554
Property and Equipment	
Office Equipment	49,991
Accumulated Depreciation	(7,427)
Computer Equipment	2,571,988
Accumulated Depreciation	(261,731)
Fixed Assets Under Construction	<u>0</u>
Net Property Plant and Equipment	2,352,822
Total Assets	<u>24,252,376</u>

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

GTE CONFIDENTIAL

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCE

CONSOLIDATED BALANCE SHEET
As of December 31, 1995

Current Liabilities	
Accounts Payable:	15,855,818
Affiliated Companies	5,969,737
Other	488
Advance Billing	
Accrued Taxes:	508,518
State and Local - Other	5,840
State Income	(2,828,918)
Federal Income	(241,887)
Deferred FIT - Current	
Accrued Payroll and Related Benefits:	35,929
Accrued Payroll	2,026,750
Other Payroll Related Accruals	(1,100)
Amounts Withheld from Employees	<u>127,137</u>
Other Current Liabilities	21,458,312
Total Current Liabilities	
Deferred Credits and Reserves	(241,680)
Reserve Deferred FIT	<u>0</u>
Other Deferred Credits	(241,680)
Total Deferred Credits and Reserves	<u>21,216,632</u>
Total Liabilities	
Capital Stock and Retained Earnings	1,000
Common Stock	54,775,638
Additional Paid-In-Capital	<u>(51,740,894)</u>
Retained Earnings	<u>3,035,744</u>
Total Capital Stock and Retained Earnings	<u>24,252,376</u>
Total Liabilities and Owners' Equity	

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

GTE CONFIDENTIAL

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCE

CONSOLIDATED INCOME STATEMENT
As of December 31, 1995

Revenue:	\$13,449,995
Credit Card	<u>3,852,367</u>
Prepaid Calling Card	17,302,362
Total Revenues	<u>3,218,211</u>
	3,218,211
Cost of Sales: Network	
Total Cost of Sales	14,084,151
Gross Margin	
Administrative Expenses:	14,979,156
Sales and Marketing	<u>5,713,318</u>
General and Administrative	20,692,474
Total Administrative Expense	39,763
Other Period Expense	20,732,237
Total Period Expense	(6,648,086)
Earnings Before Interest and Taxes	
Interest (Income)/Expense	<u>(43)</u>
Interest Income - Other	(43)
Total Interest (Income)/Expense	<u>(6,648,043)</u>
Earnings Before Tax	<u>(2,323,602)</u>
Income Taxes	<u>(4,324,441)</u>
Net Income	

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

GTE CONFIDENTIAL

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCE

CONSOLIDATED BALANCE SHEET
As of December 31, 1994

Current Assets	0
Cash	0
Working Funds	
Accounts Receivable:	677,352
Affiliated Companies	5,728,495
Other	(50,000)
Allowance for Doubtful Accounts	
Unbilled Receivables:	950,000
Other	5,200
Other Prepays	62,069
Other Current Assets	490,218
Deferred Income Tax Benefits - Current	
Total Current Assets	7,863,334
Property, Plant and Equipment	1,451,387
Accumulated Depreciation	(45,041)
Fixed Assets Under Construction	0
Net Property Plant and Equipment	1,406,346
Total Assets	9,269,680

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

GTE CONFIDENTIAL

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCE

CONSOLIDATED BALANCE SHEET
As of December 31, 1994

Current Liabilities	
Accounts Payable:	
Affiliated Companies	9,084,849
Other	3,322,004
Affiliated Notes Payable	(1,970,177)
Accrued Taxes	(1,963,318)
Accrued Compensation	18,627
Other Current Liabilities	<u>1,982,488</u>
Total Current Liabilities	10,474,473
Non-Current Deferred Income Taxes	(915,479)
Other Deferred Credits	<u>791,194</u>
Total Other Liabilities and Deferred Credits	<u>(124,285)</u>
Capital Stock and Retained Earnings	
Common Stock	1,000
Additional Paid-In-Capital	54,775,638
Retained Earnings	<u>(55,857,146)</u>
Total Capital Stock and Retained Earnings	<u>(1,080,508)</u>
Total Liabilities and Owners' Equity	<u>9,269,680</u>

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

GTE CONFIDENTIAL

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCE

CONSOLIDATED INCOME STATEMENT
As of December 31, 1994

Revenue:	
Credit Card	11,747,034
Prepaid Calling Card	<u>224,148</u>
Total Revenues	11,971,182
Cost of Sales: Network	<u>98,036</u>
Total Cost of Sales	98,036
Operating Margin	11,873,147
Administrative Expenses:	
Sales and Marketing	9,628,506
General and Administrative	2,183,879
Research & Development	<u>0</u>
Total Administrative Expense	11,812,385
Other Period Expense	<u>36,134</u>
Total Period Expense	11,848,519
Earnings Before Interest and Taxes	24,628
Other Non-operating (Inc) Expense	
Other Non-operating (Inc)	<u>0</u>
Total Other Non-operating (Inc)	0
Interest (Income)/Expense	
Interest Income - Other	<u>3,877</u>
Total Interest (Income)/Expense	3,877
Earnings Before Tax	<u>0.751</u>
Income Taxes	<u>7,263</u>
Net Income	<u>13,488</u>

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

Composite
Exhibit A

Composite
Exhibit A

Composite
Exhibit C

FLORIDA PUBLIC SERVICE COMMISSION
CAPITAL CIRCLE OFFICE CENTER - 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

APPLICATION FORM
for

AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF FLORIDA

INSTRUCTIONS

1. This form is used for an original application for a certificate and for approval of sale, assignment or transfer of an existing alternative local exchange certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee or transferee.
2. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.
3. Use a separate sheet for each answer which will not fit the allotted space.
4. If you have questions about completing the form, contact:

Florida Public Service Commission
Division of Communications, Certification & Compliance Section
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0866
(904) 413-6600
5. Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of \$250 made payable to the Florida Public Service Commission at the above address.

1. This is an application for (check one):

(X) Original authority (new company)

() Approval of transfer (to another certificated company)
Example, a certificated company purchases an existing company and desires to retain the original certificate authority.

() Approval of assignment of existing certificate (to a noncertificated company)
Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

() Approval for transfer of control (to another certificated company)
Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of applicant:

GTE Card Services Incorporated d/b/a GTE Long Distance Incorporated.

3. Name under which the applicant will do business (d/b/a):

GTE Long Distance Incorporated.

4. If applicable, please provide proof of fictitious name (d/b/a) registration.

See Composite Exhibit A for Fictitious Name Registration Number: G96026900028.

5. A. National mailing address including street name, number, post office box, city, state, zip code, and phone number.

GTE Long Distance Incorporated
1200 Walnut Hill Lane #2600
Irving, Texas 75038
(972) 714-0244

B. Florida mailing address including street name, number, post office box, city, state, zip code, and phone number.

8751 West Broward Blvd.
Plantation, FL 33324
(954) 473-5503

6. Structure of organization:

- | | |
|---|--|
| ☐ Individual | ☐ Corporation |
| ☒ Foreign Corporation | ☐ Foreign Partnership |
| ☐ General Partnership | ☐ Limited Partnership |
| ☐ Joint Venture | ☐ Other, Please explain _____ |

7. If applicant is an individual, partnership, or joint venture, please give name, title and address of each legal entity.

Not applicable.

8. State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

No.

9. If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

Corporate charter number: See Composite Exhibit A.

10. Please provide the name, title, address, telephone number, internet address, and facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application.

Paul Fuglie
Director of Regulatory and Industry Affairs
GTE Long Distance Incorporated
P.O. Box 15221
Irving, Texas 75015-2211
(T) 972-717-8373
(F) 972-717-8611
Paul.Fuglie@TECOPS.GTE.com (Internet)

and

D. Bruce May
Holland & Knight
P.O. Drawer 810
Tallahassee, FL 32302
(904) 224-7000
(904) 224-8832
dbmay@hklaw.com (Internet)

11. Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.

California and Texas.

12. Has the applicant been denied certification in any other state? If so, please list the state and reason for denial.

No.

13. Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty.

No.

14. Please indicate how a customer can file a service complaint with your company.

GTE Long Distance will provide customers with a toll free 800 number or similar access at no charge. The method of access will be included on customer bills and bill inserts. The access number will be available 24 hours per day, 7 days per week.

15. Please complete and file a price list in accordance with Commission Rule 25-24.825.

Prior to providing service, GTE Long Distance will file and maintain a current price list which will clearly set forth the information required by Florida Administrative Code Rule 25-24.825.

16. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

A. Financial capability.

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements for the most recent 3 years, including:

1. the balance sheet
2. income statement
3. statement of retained earnings.

Further, a written explanation, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.

3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should attest that the financial statements are true and correct.

GTE Long Distance is qualified financially to provide high quality local exchange service in Florida. By Order No. PSC-95-1335-FOF-TI dated November 1, 1995, in Docket No. 950069-TI, the Florida Public Service Commission ("FPSC") determined that GTE Card Services Incorporated d/b/a GTE Long Distance had the requisite financial, technical and managerial proficiency to provide telecommunications services in Florida. The circumstances surrounding GTE Long Distance's ability to serve have not changed and the company continues to have the financial, technical and managerial capacity to provide the services described in this application.

GTE Long Distance is a start up company. Thus, the availability of historical audited financial information is limited. Historical financial information that is available is attached as Composite Exhibit B. Finally, GTE Long Distance is a wholly-owned subsidiary of GTE Information Services, Incorporated, which is a wholly-owned subsidiary of GTE Corporation. GTE Long Distance is relying on the financial strength of GTE Corporation as represented in the consolidated financial statements contained in the annual reports and Securities and Exchange Commission 10-K reports attached hereto as Composite Exhibit C.

B. Managerial capability.

GTE Long Distance's local exchange operations will be under the direction of a highly skilled management team. Relevant biographies of the company's management are attached as Exhibit D.

C. Technical capability.

(If you will be providing local intra-exchange switched telecommunications service, then state how you will provide access to 911 emergency service. If the nature of the emergency 911 service access and funding mechanism is not equivalent to that

provided by the local exchange companies in the areas to be served, describe in detail the difference.)

GTE Long Distance is technically qualified to provide local exchange services in Florida. GTE Long Distance will utilize the facilities of the incumbent local exchange carriers ("LECs"), competitive access providers, where available, and its own facilities, as appropriate, to provide local exchange telephone and switched access service. The various features and functions available to customers of the incumbent LECs will initially be available to GTE Long Distance's customers through resold services. It is GTE Long Distance's intention to augment its service offerings in the future, adding new services as they become available from the incumbent LECs and as the company uses its own facilities to provide service. When GTE Long Distance offers local exchange services and exchange access services over its own facilities, it will provide access to specific types of services, including two-way lines, trunks, direct inward/outward dialing options, basic custom calling features, and wireless services.

Because GTE Long Distance will initially offer resold service of the incumbent LECs, it will rely on the incumbent LECs to provide access to 911 emergency service. GTE Long Distance is familiar and will comply with all rules and regulations of the FPSC pertaining to 911 services and will ensure that 911 services will be readily accessible to its customers in Florida.

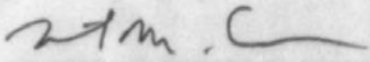
Except for those territories of the small local exchange companies which have retained earnings based regulation, as provided in Section 364.337(1), Florida Statutes, GTE Long Distance will provide statewide dial tone access to the public switched telecommunications network.

GTE Long Distance's technical qualifications are enhanced by its affiliation with GTE Corporation. GTE Corporation provides a wide variety of communication services ranging from local telephone service for the home and office to highly complex voice and data services for industry. In the United States, GTE Corporation serves approximately 17.4 million access lines in 28 states. In addition, GTE Corporation's affiliated telephone companies in Canada, the Dominican Republic and Venezuela serve 5.5 million access lines.

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.038".

Official:	 Signature	<u>Richard M. Cameron</u>
Title:	<u>Vice President - Operations</u>	<u>(972) 714-0244</u> Telephone Number
Address:	1200 Walnut Hill Lane Suite 2000 Irving, Texas 75038	

TAL-96238

FORM PSC/CUM 8 (11/95)
Required by Chapter 364.337 F.S.



FLORIDA DEPARTMENT OF STATE
Sandra B. Mortham
Secretary of State

January 26, 1996

GTE LONG DISTANCE INCORPORATED
1200 WALNUT HILL LANE #2600
IRVING, TX 75038

Subject: **GTE LONG DISTANCE INCORPORATED**

REGISTRATION NUMBER: **G96026900028**

This will acknowledge the filing of the above fictitious name registration which was registered on January 26, 1996. This registration gives no rights to ownership of the name.

Each fictitious name registration must be renewed every five years between July 1 and December 31 of the expiration year to maintain registration. Three months prior to the expiration date a statement of renewal will be mailed.

IT IS THE RESPONSIBILITY OF THE BUSINESS TO NOTIFY THIS OFFICE IN WRITING IF THEIR MAILING ADDRESS CHANGES. Whenever corresponding please provide assigned Registration Number.

For information regarding fictitious names on file or to search the record call (904) 488-9000.

Should you have any questions regarding this matter you may contact our office at (904) 487-6058.

Tony Williams
Annual Reports Section

Letter No. 596A00003600

APPLICATION FOR REGISTRATION OF FICTITIOUS NAME

APPROVED
AND
FILED

1996 JAN 26 PM 3:10

SECRETARY OF STATE
TALLAHASSEE, FLORIDA

This space for office use only

Section 1

- GTE LONG DISTANCE INCORPORATED
Fictitious Name to be Registered
- 1200 Walnut Hill Lane #2600
Mailing Address of Business
- City Irving, Texas, Florida 75038
Zip Code
- Florida County Multiple
- FEI Number: _____

Section 2

A. Owner(s) of Fictitious Name If Individual(s) (use an attachment if necessary):

- Last _____ First _____ M.I. _____

Address _____

City _____ State _____ Zip Code _____

SS# _____
- Last _____ First _____ M.I. _____

Address _____

City _____ State _____ Zip Code _____

SS# _____

B. Owner(s) of Fictitious Name If Corporation(s) (use an attachment if necessary):

- GTE CARD SERVICES INCORPORATED
Corporate Name

1200 WALNUT HILL LANE #2600
Address

IRVING TEXAS 75038
City State Zip Code

Corporate Document Number: P23378

FEI Number: _____

☐ Applied for ☐ Not applicable
- Corporate Name _____

Address _____

City _____ State _____ Zip Code _____

Corporate Document Number: _____

FEI Number: _____

☐ Applied for ☐ Not applicable

Section 3

I (we) the undersigned, being the sole (all the) party(ies) owning interest in the above fictitious name, certify that the information indicated on this form is true and accurate. I (we) further certify that the fictitious name shown in Section 1 of this form has been advertised at least once in a newspaper as defined in chapter 50, Florida Statutes, in the county where the applicant's principal place of business is located. I (we) understand that the signature(s) below shall have the same legal effect as if made under oath. (At Least One Signature Required)

H. Gordon Allen 1/22/96
Signature of Owner Date

H. Gordon Allen, President

Phone Number: _____

Signature of Owner

Date

Phone Number: _____

Section 4

FOR CANCELLATION COMPLETE SECTION 4 ONLY: FOR FICTITIOUS NAME OWNERSHIP CHANGE COMPLETE SECTIONS 1 THROUGH 4:

I (we) the undersigned, hereby cancel the fictitious name _____
_____, which was registered on _____ and was assigned
registration number _____

Signature of Owner

Date

Signature of Owner

Date

Mark the applicable boxes

☐ Certificate of Status - \$10

☐ Certified Copy - \$30

FILING FEE: \$50

Note: Acknowledgements/certificates will be sent to the address in Section 1 only



FLORIDA DEPARTMENT OF STATE

Jim Smith
Secretary of State

October 17, 1994

C T CORPORATION SYSTEM
TALLAHASSEE, FL

Re: Document Number P23378

The Amendment to the Application of a Foreign Corporation for GTE INTERACTIVE SERVICES INCORPORATED which changed its name to GTE CARD SERVICES INCORPORATED, a Delaware corporation authorized to transact business in Florida, was filed on October 17, 1994.

Should you have any questions regarding this matter, please telephone (904) 487-6050, the Amendment Filing Section.

Kelley Shank
Corporate Specialist
Division of Corporation

Letter Number: 794A00045751

APPLICATION BY FOREIGN CORPORATION TO FILE AMENDMENT TO
APPLICATION FOR AUTHORIZATION TO TRANSACT BUSINESS IN
FLORIDA
(s.607.1504,F.S.)

SECTION I (1-3 must be completed)

1. GTE Interactive Services Incorporated

Name of corporation as it appears on the records of the Department of State.

2. Incorporated under laws of: Delaware

3. Date authorized to do business in Florida: March 14, 1989

FILED
1994 OCT 17 PM 12:31
SECRETARY OF STATE
TALLAHASSEE, FLORIDA

SECTION II (4-7 complete only the applicable changes)

4. If the amendment changes the name of the corporation, when was the change effected under the laws of its jurisdiction of incorporation?

5. Name of corporation after the amendment, adding suffix "corporation," "company," "incorporated," or appropriate abbreviation, if not contained in new name of the corporation:

GTE Card Services Incorporated

6. If the amendment changes the period of duration, indicate new period of duration.

7. If the amendment changes the jurisdiction of incorporation, indicate new jurisdiction.

H. Gordon Allen
Signature

10/11/94
Date

H. Gordon Allen
Typed or printed name

President
Title

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION

GTE Interactive Services Incorporated, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of GTE Interactive Services Incorporated resolutions were duly adopted setting forth a proposed amendment to the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, That the Certificate of Incorporation of this corporation be amended by changing the First Article thereof so that as amended said Article shall be and read as follows:

"The name of the corporation is GTE Card Services Incorporated."

SECOND: That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of said corporation was duly called and held, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said H. Gordon Allen

_____ has caused this certificate to be
signed by H. Gordon Allen, its President, this 11th day of October, 1994.

H. Bardo Allen

H. Gordon Allen
President

State of Texas
County of Garret

Subscribed & sworn to before me by H. Gordon
Allen this 11th day of October. 1994.

Comm. Expires: 5-1-96

Devine H. Maynard
Notary Public

State of Florida



Department of State

I certify from the records of this office that GTE INTERACTIVE SERVICES INCORPORATED is a corporation organized under the laws of the State of Delaware, authorized to transact business within the State of Florida, qualified on March 14, 1989.

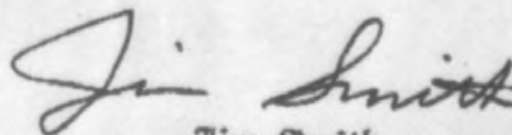
The document number of this corporation is P23378.

I further certify that said corporation has paid all filing fees due this office through December 31, 1989, and its status is active.

Given under my hand and the
Great Seal of the State of Florida,
at Tallahassee, the Capital, this the
14th day of March, 1989.



CR2EO22 (6-88)

A handwritten signature in cursive script, reading "Jim Smith".

Jim Smith
Secretary of State



Florida Department of State, George Firestone, Secretary of State
**APPLICATION BY FOREIGN CORPORATION FOR
 AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA**

1. GTE Interactive Services Incorporated
 (Name of corporation adding the word "INCORPORATED" or "CORPORATION" if not so contained in the name at present).
2. Delaware
 (Incorporated Under the Laws of)
3. November 30, 1988
 (Date of Incorporation)
4. January 9, 1988
 (Date first transacted business in Florida)
5. 101 E. Kennedy Blvd., Tampa, Florida 33602
 (Address of Principal Office)
6. C T Corporation System
 (Name of Florida Registered Agent)
8751 West Broward Blvd.
 (Street Address in Florida of Registered Agent)
Plantation Florida 33324
 (City) (State Florida) (Zip Code)
7. Marketing of interactive voice response systems, interactive video systems, and retail software applications; and the transaction of any other lawful business.
 (Nature of Business to be Transacted in Florida)

8. NAME OF OFFICERS

SEE EXHIBIT I.

SPECIFIC ADDRESSES

(P)

(V)

(S)

(T)

NAME OF DIRECTORS

SEE EXHIBIT I.

SPECIFIC ADDRESSES

(D)

(D)

(D)

(D)

9. I am familiar with and accept the obligations provided for in s. 607.325.
 C T CORPORATION SYSTEM

Acceptance by the Registered Agent: By: Michael E. Jones

Agent must sign on this line
 Michael E. Jones, Asst. Secretary

10. 2,000 shares, Common Stock, No Par Value
 (Total Authorized Shares (itemized by Class), Par Value of Shares, & without Par Value)

Two officers must sign this application

Sandra G. Parker
 Secretary or Assistant Secretary
 Sandra G. Parker

Cynthia H. Campbell
 President or Vice President
 Cynthia H. Campbell

State of Georgia

County of FULTON

The foreign instrument was acknowledged before me this Thirtieth (30th) day
 of January, 19 89, By Cynthia H. Campbell
 (Name of Officer)

President
 (Title of Officer) of GTE Interactive Services Incorporated
 (Name of Corporation)

A (AGI) Delaware
 (State or Country) Corporation, on behalf of the Corporation.

(Seal)

Christina L. Bailey
 Notary Public

Notary Public, Cobb County, Georgia
 My Commission Expires Jan. 11, 1998

FILED
 MAR 14 AM 5:26
 CLERK OF STATE
 TALLAHASSEE FLORIDA

EXHIBIT I

GTE Interactive Services Incorporated

OFFICERS

<u>Name and Office(s) Held</u>	<u>Address</u>
Cynthia H. Campbell President	610 Morgan Street Tampa, Florida 33601
Michael W. Yackira Vice President and Treasurer	First Florida Tower, 25th Floor 111 E. Madison Street Tampa, Florida 33602
Marilyn B. Vogel Vice President and General Counsel	One Stamford Forum Stamford, Connecticut 06904
Marianne Drost Secretary	One Stamford Forum Stamford, Connecticut 06904
Sandra G. Parker Assistant Secretary	GTE Place, W. Airfield Drive D/FW Airport, Texas 75261-9810
Ronald J. Tuccillo Assistant Secretary	One Stamford Forum Stamford, Connecticut 06904
Kevin D. Balsley Assistant Treasurer	GTE Place, W. Airfield Drive D/FW Airport, Texas 75261-9810
Richard M. Gombeski Assistant Treasurer	GTE Place, W. Airfield Drive D/FW Airport, Texas 75261-9810

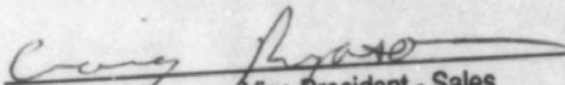
DIRECTORS

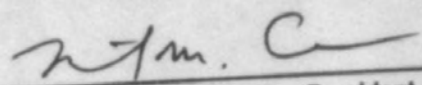
<u>Name</u>	<u>Address</u>
William E. Starkey	First Florida Tower, 25th Floor 111 E. Madison Street Tampa, Florida 33602
Michael W. Yackira	First Florida Tower, 25th Floor 111 E. Madison Street Tampa, Florida 33602
Robert E. Stewart	First Florida Tower, 25th Floor 111 E. Madison Street Tampa, Florida 33602
Cynthia H. Campbell	610 Morgan Street Tampa, Florida 33601
Joel P. Mellis	One Stamford Forum Stamford, Connecticut 06904

STATEMENT

We hereby attest that the attached Balance Sheets and Income Statements for the years ended December 31, 1994 and 1995 are true and correct and contain no material misrepresentations or omissions based upon present facts known to the undersigned officers.

Dated this 15th day of November, 1996.


by Craig B. Ryason, Vice President - Sales
for H. Gordon Allen, President


Richard M. Cameron, Vice President - Operations

STATE OF TEXAS }
 }
COUNTY OF DALLAS }

Subscribed and sworn to before me this 15th day of November, 1996.

Notary Public in and for the State of Texas
My Commission Expires: _____

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCECONSOLIDATED BALANCE SHEET
As of December 31, 1995

Current Assets	
Cash	0
Working Funds	0
Accounts Receivable:	
Affiliated Companies	19,547,571
Other	(95,635)
Allowance for Doubtful Accounts	0
Unbilled Receivables:	
Other	2,442,288
Other Prepaids	5,000
Other Current Assets	330
Total Current Assets	21,899,554
Property and Equipment	
Office Equipment	49,991
Accumulated Depreciation	(7,427)
Computer Equipment	2,571,988
Accumulated Depreciation	(261,731)
Fixed Assets Under Construction	0
Net Property Plant and Equipment	2,352,822
Total Assets	24,252,376

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

GTE CONFIDENTIAL

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCE

CONSOLIDATED BALANCE SHEET
As of December 31, 1995

Current Liabilities	
Accounts Payable:	15,855,818
Affiliated Companies	5,969,737
Other	488
Advance Billing	
Accrued Taxes:	508,518
State and Local - Other	5,840
State Income	(2,828,918)
Federal Income	(241,887)
Deferred FIT - Current	
Accrued Payroll and Related Benefits:	35,929
Accrued Payroll	2,026,750
Other Payroll Related Accruals	(1,100)
Amounts Withheld from Employees	<u>127,137</u>
Other Current Liabilities	21,458,312
Total Current Liabilities	
Deferred Credits and Reserves	(241,680)
Reserve Deferred FIT	<u>0</u>
Other Deferred Credits	(241,680)
Total Deferred Credits and Reserves	<u>21,216,632</u>
Total Liabilities	
Capital Stock and Retained Earnings	1,000
Common Stock	54,775,638
Additional Paid-In-Capital	<u>(51,740,894)</u>
Retained Earnings	<u>3,035,744</u>
Total Capital Stock and Retained Earnings	<u>24,252,376</u>
Total Liabilities and Owners' Equity	

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

GTE CONFIDENTIAL

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCE

CONSOLIDATED INCOME STATEMENT
As of December 31, 1995

Revenue:	\$13,449,995
Credit Card	<u>3,852,367</u>
Prepaid Calling Card	17,302,362
Total Revenues	<u>3,218,211</u>
	3,218,211
Cost of Sales: Network	
Total Cost of Sales	14,084,151
Gross Margin	
Administrative Expenses:	14,979,156
Sales and Marketing	<u>5,713,318</u>
General and Administrative	20,692,474
Total Administrative Expense	39,763
Other Period Expense	20,732,237
Total Period Expense	(6,648,086)
Earnings Before Interest and Taxes	
Interest (Income)/Expense	<u>(43)</u>
Interest Income - Other	(43)
Total Interest (Income)/Expense	<u>(6,648,043)</u>
Earnings Before Tax	<u>(2,323,602)</u>
Income Taxes	<u>(4,324,441)</u>
Net Income	

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

GTE CONFIDENTIAL

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCE

CONSOLIDATED BALANCE SHEET
As of December 31, 1994

Current Assets	0
Cash	0
Working Funds	
Accounts Receivable:	677,352
Affiliated Companies	5,728,495
Other	(50,000)
Allowance for Doubtful Accounts	
Unbilled Receivables:	950,000
Other	5,200
Other Prepays	62,069
Other Current Assets	490,218
Deferred Income Tax Benefits - Current	
Total Current Assets	7,863,334
Property, Plant and Equipment	1,451,387
Accumulated Depreciation	(45,041)
Fixed Assets Under Construction	0
Net Property Plant and Equipment	1,406,346
Total Assets	9,269,680

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

GTE CONFIDENTIAL

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCE

CONSOLIDATED BALANCE SHEET
As of December 31, 1994

Current Liabilities	
Accounts Payable:	
Affiliated Companies	9,084,849
Other	3,322,004
Affiliated Notes Payable	(1,970,177)
Accrued Taxes	(1,963,318)
Accrued Compensation	18,627
Other Current Liabilities	<u>1,982,488</u>
Total Current Liabilities	10,474,473
Non-Current Deferred Income Taxes	(915,479)
Other Deferred Credits	<u>791,194</u>
Total Other Liabilities and Deferred Credits	<u>(124,285)</u>
Capital Stock and Retained Earnings	
Common Stock	1,000
Additional Paid-In-Capital	54,775,638
Retained Earnings	<u>(55,857,146)</u>
Total Capital Stock and Retained Earnings	<u>(1,080,508)</u>
Total Liabilities and Owners' Equity	<u>9,269,680</u>

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

GTE CONFIDENTIAL

GTE CARD SERVICES INCORPORATED
dba GTE LONG DISTANCE

CONSOLIDATED INCOME STATEMENT
As of December 31, 1994

Revenue:	
Credit Card	11,747,034
Prepaid Calling Card	<u>224,148</u>
Total Revenues	11,971,182
Cost of Sales: Network	<u>98,036</u>
Total Cost of Sales	98,036
Operating Margin	11,873,147
Administrative Expenses:	
Sales and Marketing	9,628,506
General and Administrative	2,183,879
Research & Development	<u>0</u>
Total Administrative Expense	11,812,385
Other Period Expense	<u>36,134</u>
Total Period Expense	11,848,519
Earnings Before Interest and Taxes	24,628
Other Non-operating (Inc) Expense	
Other Non-operating (Inc)	<u>0</u>
Total Other Non-operating (Inc)	0
Interest (Income)/Expense	
Interest Income - Other	<u>3,877</u>
Total Interest (Income)/Expense	3,877
Earnings Before Tax	<u>0.751</u>
Income Taxes	<u>7,263</u>
Net Income	<u>13,488</u>

THIS STATEMENT IS UNAUDITED AND IS PREPARED FOR REGULATORY PURPOSES ONLY.

Composite
Exhibit A

Composite
Exhibit B

Composite
Exhibit C

- **Strategic focus**
- **Depth of management**
- **Attractive markets**
- **Financial strength**

GTE is the fourth-largest publicly owned telecommunications company in the world, the largest U.S.-based local telephone company, and the nation's second-largest cellular-service provider.

Contents

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Consolidated Financial Highlights^(a)

(Millions of Dollars, Except Per Share Amounts)

	1994	1993
Consolidated		
Revenues and sales	\$19,944	\$19,748
Operating income	4,846	2,565
Net income	2,451	900
Common shareholders' equity	10,473	9,482
Average common shares outstanding (in millions)	958	945
Return on common equity	24.8%	8.8%
Return on investment	13.1%	6.9%
Equity ratio	46.2%	42.6%
Per Common Share		
Net income	\$ 2.55	\$.93
Dividends declared	1.88	1.85
Book value	10.85	9.96

(a) During 1994, GTE substantially completed its two-year program to sell or trade a small percentage of non-strategic local-exchange telephone properties. As a result, 1994 results include after-tax gains of \$162 million, or \$1.17 per share, while 1993 results included similar gains of \$91 million, or \$1.10 per share. Results for 1993 also included one-time after-tax charges totaling \$1.3 billion, or \$1.37 per share, primarily to restructure operations. Excluding these special items, earnings per share were \$2.38 for 1994 compared with \$2.20 for 1993, an increase of 8%.

For comparability, the table below includes pro forma adjustments to remove the operating results, through the date of sale, of the non-strategic telephone properties sold as well as the 1993 one-time charges (See Notes 3 and 4 to Consolidated Financial Statements).

	1994	1993
	(Millions of Dollars)	
Revenues and sales	\$19,756	\$19,122
Operating income	4,794	4,346



Charles R. Lee

To Our Shareholders

Telecommunications is one of the world's most dynamic industries. It has incredible potential to improve people's lives. And GTE, I assure you, will play a constructive, highly profitable role as we execute our strategies to take advantage of the exciting opportunities ahead.

Profits were excellent in 1994. Most noteworthy were a 10% increase in operating income and 8% growth in earnings per share. Record operating performances from our core businesses drove these results. GTE's financial highlights are summarized on the facing page.

Our wireline and wireless businesses reported excellent network usage and customer growth, reflecting the attractive demographics of our markets. Our strengthened financial position and strong operating cash flow will allow us to continue to invest in advanced technologies, products and services that will expand our business initiatives and further improve our performance. I expect GTE to continue to deliver excellent financial performance in the years ahead.

Our talented and motivated employees remain committed to ensuring that our company is successful and that we take full advantage of the explosive opportunities available to us.

Not only is our future bright, but our direction is clear as well. Our strategies are based on five major initiatives:

1. Enhance Wireline Voice. Our existing telephone customer base is our most important asset. We're taking aggressive steps to enhance the value of this asset by providing new services that our customers want and need.

Telephone Operations performed with distinction in 1994. Network usage grew 9.4% and the number of access lines increased 4.9%.

At the start of 1994, Telephone Operations initiated a massive three-year program of process re-engineering—with the objective to reduce costs and become the easiest company to do business with in the industry. By 1997, we aim to reduce costs by \$1 billion a year.

On another front, GTE is stepping up its efforts to

achieve reform of telecommunications regulations.

We have expanded our activities in Washington, D.C., so that we can help shape new telecommunications legislation. GTE is committed to using every available avenue—the legislatures, the commissions, and if need be, the courts—to open new markets, to establish a level playing field and to ensure affordable telephone service for our customers.

Profits were excellent in 1994. Most noteworthy were a 10% increase in operating income and 8% growth in earnings per share. Record operating performances from our core businesses drove these results.

2. Accelerate Wireless Development. GTE is the second-largest cellular service provider in America. In 1994, revenues grew 41% and we added 754,000 customers, an increase of 48%. We expect this explosive growth to continue.

We're committed to effectively and efficiently expanding our wireless footprint. In late 1994, the Federal Communications Commission (FCC) began an auction process to make available radio bandwidth for new wireless personal communications services (PCS). GTE is selectively and prudently participating in these auctions to expand our existing cellular clusters and to offer wireless service in certain of our local wireline telephone markets.

We'll expand GTE wireless services to our large base of GTE telephone customers in Texas under an agreement reached in 1994 with SBC Communications. Under this agreement, both companies can market cellular services in each other's territories.

In February 1995, we signed a definitive agreement to exchange certain GTE cellular assets in Oregon, Minnesota, New Mexico and Washington for 100% of US WEST's cellular assets in San Diego, the 13th-largest U.S. cellular market.

3. Expand Data Services. Businesses and individuals need data transmitted quickly, efficiently and cost effectively. Data traffic, over both our wireline and wireless networks, will continue to be a significant growth segment for GTE.

Our World Class Network™ was launched in eight of our largest wireline markets in February 1994. A master plan for bundled services and competitive pricing under the GTE brand, it includes the installation of advanced technology that allows us to transmit signals at exceptional speeds. For large customers we've introduced MetroLAN™—which offers reduced rates through a flat fee for dedicated, high-capacity telecommunications lines regardless of the distance data travels.

On the wireless side, we began deploying CDPD (cellular digital packet data) technology—a fast, efficient digital transmission system that permits voice and data communications to be transmitted over the same network. We're now offering CDPD in the San Francisco area. By year-end 1995, we plan to deploy CDPD in some 15 additional markets.

4. Pursue International Opportunities. GTE has a long, successful history of managing telecommunications businesses in other countries. Appealing new global opportunities are emerging with potential for excellent returns.

In 1994, a GTE-led consortium built a cellular system in the north and south regions of Argentina—areas with a population of 22 million people—and initiated service. We also elevated our discussions about tele-

communications opportunities with numerous other countries in Latin America and Asia, two geographic areas of focus for us.

We signed a Memorandum of Understanding with China United Telecommunications Corporation (UNICOM), the company authorized by the Chinese government to create a second telecommunications network throughout China. This agreement will allow us to work together on projects relating to the development of this network, as UNICOM's strategic partner.

5. Enter Video Services. In 1994, we announced a plan to offer video services in key GTE markets and sought the necessary government approvals. In January 1995, a federal judge in Virginia ruled that we can offer video programming in all of our U.S. telephone territories, which span 28 states.

By 2003, our objective is to pass seven million homes in 66 of our key markets with video services. Our first phase of development involves bringing video services to homes in three key markets.

An Obsession with Quality. Our GTE Directories unit won the Malcolm Baldrige National Quality Award, the validation of a strategic imperative throughout GTE to improve quality. The Baldrige award is one of America's most notable business awards, established by Congress to recognize quality achievement. I'm delighted that our Directories' employees were able to bring it home for everyone throughout GTE.

On behalf of GTE, I would like to express my deep appreciation to James W. Walter, who is retiring from the GTE Board of Directors in April 1995. He became a member of the Board in 1969. His contributions to GTE have been enormous; his counsel has been exemplary. We'll miss him.

I also want to acknowledge the retirement of our former director, Bruce Carswell, who has served GTE so ably for the last 37 years, most recently as senior vice president—human resources and administration. He has been a great friend and wise counselor to all of us.

As GTE moves into 1995, our people are enthusiastic about the future of telecommunications—an industry that offers both highly profitable growth and the opportunity to improve the way our customers live and work. We remain focused on our objectives and dedicated to serving our customers and our communities. It's an exciting journey ahead for all of us.

Charles R. Lee

Charles R. Lee
Chairman and Chief Executive Officer
February 20, 1995

Highlights

GTE's major 1994 accomplishments reflect five key thrusts. We're focusing on enhancing wireline voice services, accelerating wireless development, expanding data services, pursuing international opportunities and entering video services. **In 1994 we:**

Achieved record operating results in our wireline and wireless businesses.

Increased operating income to a record \$4.8 billion, up 10% from 1993.

Raised our U.S. telephone network usage a healthy 9.4%, the largest increase since 1990, while our access line growth of 4.9% led the Regional Bell Operating Companies.

Added 754,000 mobile-cellular customers, bringing total U.S. cellular customers to over 2.3 million—with 321,000 additional customers internationally.

Initiated plans to build a video network that will serve 66 key markets within 10 years.

Developed and began rolling out our World Class Network services, which provide advanced communications for business customers nationwide.

Led a consortium that won major licenses to provide mobile-cellular telephone service to most of Argentina—areas with a population of 22 million—and built a complete cellular network in record time.

Signed up nearly 120,000 customers for GTE's new Tele-Go™ service, the nation's first residential personal communications service.

Launched our first line of interactive games designed to be played on a variety of video-game equipment and over GTE's planned video network.

Formed an alliance with SBC Communications enabling both our companies to provide convenient one-stop shopping for wireless and associated wireline services in our respective Texas markets.

Joined an international alliance of major wireless companies in the United States, Canada and Mexico to provide seamless, uninterrupted service for cellular customers wherever they travel.

Formed an alliance with Valores Industriales and Grupo Financiero Bancomer to explore telecommunications opportunities in Mexico, including possible entry into the country's long-distance market, scheduled to open to competition in 1997.

Signed an agreement with BELGACOM, Belgium's official telecommunications provider, and began developing systems and processes to produce yellow-pages directories and related products and services.

Received a contract from the U.S. Department of Health and Human Services to design and develop a national Medicare claims-processing system.

Initiated plans to offer our mainStreet® interactive information, shopping and banking service to 10 million customers in the top 20 television markets in the next six years.

Enhanced our Airfone digital service offering with the first service that lets airline passengers receive telephone calls while in flight. We also introduced facsimile services for passengers.

Interviews

with members of GTE's Office of the Chairman. The following interviews address questions frequently asked by shareholders. The participating executives—Chuck Lee, Kent Foster, Mike Maslin and Nick Trivisonno—share their perspectives and discuss GTE's priorities for the future.

CHUCK LEE

Q

Where does GTE fit within the telecommunications market?

A

LEE: We're the fourth-largest publicly held telecommunications company in the world. We're the largest U.S.-based local telephone company and the second-largest cellular-service provider in the United States. We're often compared with the seven Regional Bell Operating Companies (RBOCs), which were created with the 1984 breakup of AT&T. GTE, however, has a number of advantages over the RBOCs.

Q

What are GTE's advantages?

A

LEE: We have a strong international position—about 15% of our assets, considerably higher than the average RBOC. We have larger cellular/wireless holdings in terms of the population of the areas we serve than any individual RBOC. We have our own research facility, GTE Laboratories, which is a



Charles R. Lee
Chairman and CEO since
May 1992. Chuck Lee
joined GTE in 1983
as senior vice president
of finance. Planning
was added to his GTE
responsibilities in 1986,
and he became president
and chief operating
officer in 1988.

competitive advantage in a high-tech business like ours. We have a workforce that has the drive and determination to make things happen. And we have telephone service areas with outstanding demographics.

Q

In what ways are your service areas superior?

A

LEE: Our suburban regions are enjoying some of the strongest growth in the nation. Each RBOC provides service in a single region of our country, with large customer concentrations in central cities. In contrast, GTE is spread across 28 states, with large concentrations of customers in suburban and rural areas.

Q

How is GTE taking advantage of global opportunities?

A

LEE: We're building on our long experience. We run

two telephone systems in Canada: British Columbia and Quebec. We've operated the Dominican Republic's system for 40 years. And for the last three years we've managed Venezuela's telephone company—CANTV. Last year we headed a group that installed and is delivering cellular service in Argentina. Currently, we are exploring a number of other opportunities as well, in Latin America and in Asia.

Q

Given these strengths, why was GTE's stock performance so poor in 1994?

A

LEE: A combination of the impact of rising interest rates and investor concern about which companies will emerge as winners in the Information Age. Almost all telecommunications companies suffered low stock prices. Also, GTE's situation hasn't been well understood because we've been transforming our company over the last five years. We invested heavily to help pay for programs

that increase our competitiveness and have taken other steps to position ourselves for increased profitability. Our future is extremely bright.

Q

Many analysts are now rating GTE stock a good buy. How did you win so many positive analyst recommendations?

A

LEE: We've committed ourselves to being much more open and more vocal in communicating our story—and it's an excellent one to tell. In early November, we held a two-day meeting in Dallas for nearly 100 investment analysts and portfolio managers. It was the most comprehensive investment meeting the company has ever held. We gave in-depth presentations and showed our visitors many examples of new products and processes that strengthen our competitive position. They were able to meet many of our employees directly—and I know they went away impressed.

Q

What do analysts like about GTE?

A

LEE: They like the fact that we're on a solid earnings track. They like our diversity within telecommunications. They're becoming aware of our growth potential. And they're impressed with the quality of our people. A number

of analysts noted that GTE will benefit from four major trends in telecommunications.

Q

What trends were cited?

A

LEE: First, the telecommunications market is changing from regulation to open competition. Second, telephone service is expanding sharply as consumers use additional enhanced services, from call forwarding to faxing. Third, wireless usage is going through the roof. And fourth, the global market offers many growth opportunities for experienced telecommunications companies like GTE.



Kent B. Foster
A 25-year GTE veteran, Kent Foster moved up through a variety of assignments and became president of GTE Telephone Operations in 1989. He took on the added post of GTE vice chairman in October 1993.

KENT FOSTER

Q

Why is it an advantage for GTE to be primarily in the suburbs rather than in the big cities?

A

FOSTER: We get the growth characteristics of an urban market and some of the stability of a rural market. And many suburbs have excellent growth characteristics.

For example, take the suburban areas of Dallas, Los Angeles/Long Beach, Portland, Riverside/San Bernardino and Seattle. These five areas represent one-fourth of our total U.S. telephone lines, or about four million lines in total.

We've compared our suburban positions in these areas with the RBOCs' central city positions. We've looked at 15 separate measures, such as population growth and household incomes above \$75,000 and, in virtually all the categories, our markets come out ahead.

Q

What services will you market to business customers?

A

FOSTER: Data services will be a major growth segment for us. We expect significant annual growth during the next five years. Data services will provide the linkages that will change the way people work. They can, for example, enable a business to move from the central city to an office in the suburbs—and never lose touch with its customers.

Q

Are your business customers concentrated in certain markets?

A

FOSTER: Yes. One-third of the one million business customers we are targeting are in eight key markets—Dallas, Fort Wayne, Honolulu, Los Angeles, Portland, Raleigh/Durham, Seattle and Tampa. In these markets we've built fiber-optic rings for high-speed transmission. We have the capability, which we market as World Class Network, to provide

● **Markets.** Our market coverage is a key strength. We serve some of the fastest growing suburbs in the U.S. Seventy-five percent of our access lines are in metropolitan communities.





Communities surrounding Dallas are among the scores of affluent suburbs served in the United States by GTE Telephone Operations.

One-third of GTE's U.S. phone lines are in five markets.

Dallas
Honolulu
Los Angeles
Riverside/
San Bernardino
Tampa/
St. Petersburg

advanced data services, as well as voice and video. By packaging these services together and pricing them at highly competitive rates, we've experienced significant growth in this business.

Q

What's the key idea behind your big push in process re-engineering?

A

FOSTER: Our goal is to be the easiest company to do business with in our industry. To reach that goal, we're totally reorganizing Telephone Operations to focus on customers and markets. Implementation, which runs through 1996, involves more than 600 individual projects—half of them relating to new systems, half to process changes. By 1997, we'll have sliced \$1 billion from our annual operating costs and empowered our employees to better serve our customers. The real bottom line is about pleasing the customer—the ultimate competitive advantage.

Q

**How do you mean—
“please the customer”?**

A

FOSTER: Have you ever called a service company and been put off or given a run-around? If so, you know the problems we're solving. Imagine calling and having the first person you reach answer all your questions—and solve your service problems. Or you move into a new home and you simply plug in your phone and a service representative establishes service instantly for you through a single phone call to our office. That's what I mean by pleasing our customers.

Q

**How is GTE moving into
video services?**

A

FOSTER: Last spring, we announced our strategy for competing in the video business. Our starting point is in three markets: Thousand Oaks, Calif.; St. Petersburg/Clearwater, Fla., and, Honolulu, Hawaii.

We'll move forward as our products and services prove themselves in the marketplace, not before. We have a 10-year goal of reaching seven million homes in 66 key markets—but only if our customers tell us they want these services and are willing to pay a fair price for them. My personal view is that we'll do very well in video, as long as we accurately gauge customer expectations.



Michael T. Masin
Elected vice chairman
in October 1993.
Mike Masin is responsible
for all external affairs,
finance, human resources,
legal, communications
and technology functions,
as well as international
business development.

MIKE MASIN

Q

**What's GTE's inter-
national strategy?**

A

MASIN: We're focusing our attention on high-growth markets where we see solid financial returns and where we can leverage our existing strengths. We're looking at opportunities worldwide, but focusing much of our effort on Latin America and Asia.

Q

Why Latin America?

A

MASIN: Clearly, the Americas are a very important area for us. Latin America's projected telecommunications growth rate is one of the highest in the world. The Mexican peso devaluation put the markets into some turmoil but, long term, the region is going to be an enormously vibrant area of the world. And we're really the only U.S. telephone company with significant operations throughout the Americas: Canada, the United States, the Dominican Republic, Venezuela and Argentina.

Q

What about Mexico?

A

MASIN: A number of our business units are holding active discussions in Mexico. Telephone Operations has signed an agreement

with Valores Industriales and Grupo Financiero Bancomer, in anticipation of opportunities when Mexico's telecommunications market opens in 1997. Mexico is a great opportunity for GTE, especially considering our properties in the Southwest. The potential for synergy is outstanding.

Q

**What is the significance
of your recent agree-
ment in China?**

A

MASIN: In January 1995, we signed an agreement with China UNICOM to be its strategic partner in the development of China's second telecommunications network. UNICOM is a government-established company charged with creating a full-service telecommunications network throughout China. It's an enormous undertaking and a great opportunity for GTE. We're also pursuing other opportunities in China as well, and are in the process of opening an office there.

Q

**Does GTE have other
interests in Asia?**

A

MASIN: We're also looking at opportunities in Indonesia, an important country of more than 190 million people. And we're taking a look at India. In Japan, we have minor ownership positions in several cellular

telephone companies. With Asia's tremendous growth, the demand for telecommunications products and services will be substantial—and we intend to be a part of it.

Q

Will all these opportunities come to fruition?

A

MASIN: No, that's not likely. As a corporation, we're beginning to focus our efforts on a few very special, very large opportunities. In addition, some of our business units have specific business prospects in their sights. We take a long view of foreign investment opportunities and realize there can be ups and downs.

The best example is our operation in the Dominican Republic, which has survived two revolutions and a U.S. invasion. Today, it's one of our most profitable operations.

Q

How did you go about getting acquainted with the Chinese?

A

MASIN: Following a 10-day visit GTE's senior international consultant, Dr. Henry Kissinger, and I made in early 1994, we held a two-and-a-half-day seminar in China in October for senior Chinese officials involved with telecommunications. It was our chance to tell the Chinese about GTE. And we did it in a unique way for an American

company—totally in the Chinese language. That had never happened there before. Seventeen of our employees who speak Chinese made the presentation.

Then a Chinese delegation came and visited our operations in Dallas, Tampa and Caracas, Venezuela. They also went to GTE Laboratories in Waltham, Mass. The Chinese have a great interest in GTE technology, especially in how we apply technology to solve telecommunications problems.

Q

How does GTE Laboratories solve telecommunications problems?

A

MASIN: GTE Labs is a very important resource for our company. First, it works with the business units to apply new, developing technology to their specific needs. And second, it helps the business units evaluate existing technology. They look at competing technologies and determine which is best. That's a critical function because, in this business, you make huge bets on technology.

Q

Turning to legislative issues, what is your strategy in Washington?

A

MASIN: We've always been a significant participant in Washington, but the stakes are getting higher. We're

going to increase our role. We recently brought on board Bill Barr to be our senior vice president and general counsel. Bill was U.S. Attorney General under President George Bush. As part of his responsibilities, he will oversee our Washington office and our efforts to ensure the enactment of fair and fully competitive telecommunications legislation. Everybody in management—from Chuck Lee on down—is committed to devoting whatever time is necessary to effectively present our views on pending legislation. Our industry is moving into a critical period, and we intend to be a significant voice in the legislation that will shape our industry's future.



Nicholas L. Trivisonno
Nick Trivisonno became executive vice president of strategic planning and group president in October 1993. He previously served as senior vice president, finance.

NICK TRIVISONNO

Q

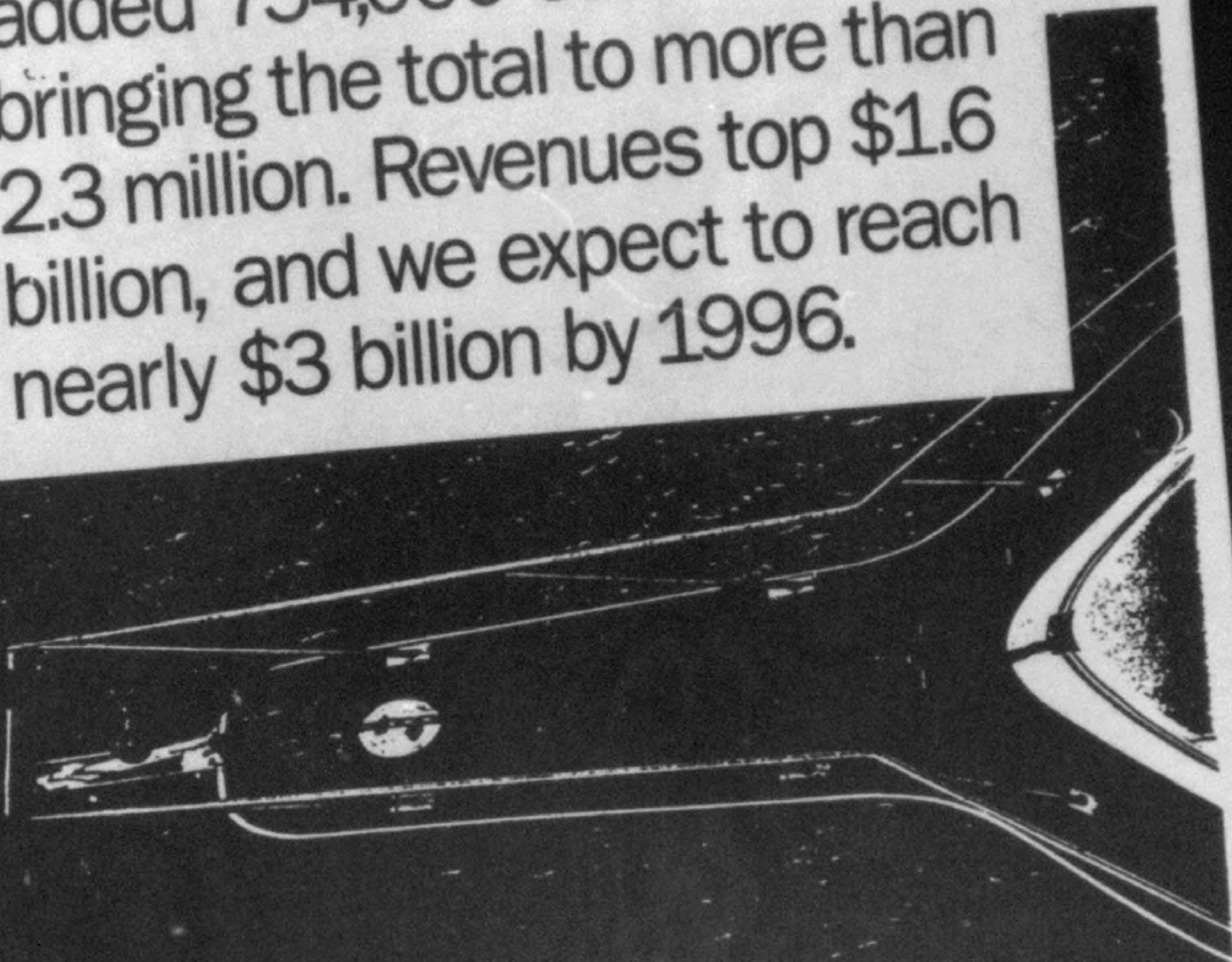
What's behind the explosion in wireless demand?

A

TRIVISONNO: Convenience, freedom, security, the ability to work more effectively. That's what wireless is all about. Also, digital technology is being implemented and will enable new services to be offered such as credit card validation, e-mail access, and many others. By 1997, GTE will be generally switched over to digital.

But what's really driving the growth is the quality and entrepreneurial spirit of our people. Our people

Wireless. The business is red hot. In 1994, we added 754,000 customers, bringing the total to more than 2.3 million. Revenues top \$1.6 billion, and we expect to reach nearly \$3 billion by 1996.



Wireless phones are now used almost everywhere, by people at leisure as well as by business people on the move.



GTE's new Tele-Go service had nearly 130,000 customers at year-end 1994.



are really charged up: they're energized and marketing oriented. And that's true throughout our organization.

Q

Is GTE trying to extend wireless to all wireline customers?

A

TRIVISONNO: We want to offer our customers bundled services so they can turn to us for all of their telecommunications needs. In many of our markets, we can do that right now. In others, we're looking at a number of alternatives. But our goal is customer driven—they want one-stop shopping and we plan to offer it.

Q

Aren't you already offering PCS services?

A

TRIVISONNO: Yes, it's called Tele-Go, and I'm very proud of it. It's really the first PCS service being offered to residential customers. We've priced

it right for this market, and customers tell us it's great. We had nearly 120,000 customers by the end of 1994, and we're just starting our marketing efforts.

Q

How will you offer wireless service in areas where you don't have a license?

A

TRIVISONNO: We're taking a look at each of our markets to see how best to serve our customers. For example, Dallas is very important to us because we have a strong wireline position there but no cellular. SBC, which has cellular in Dallas, doesn't have cellular in Houston—but we do. We both have the same objective, which is to provide wireless service to our telephone customers. So we joined forces in 1994 and now have an arrangement that allows us to provide wireless service in each other's territories.

We're exploring similar arrangements with other telephone companies.

In February 1995, we signed a definitive agreement with US WEST to exchange cellular properties. We will turn over assets in Oregon, Minnesota, New Mexico and Washington and receive 100% ownership of their San Diego property. San Diego will be a great market for us—it's the 13th largest in the nation and we already have major

wireline and wireless operations throughout California. This is a terrific strategic opportunity.

Q

What about data services for your customers?

A

TRIVISONNO: We signed a strategic marketing agreement with IBM that gives our wireless customers complete wireless access to a full range of services that were previously only available through wireline connections. Under the arrangement, we'll provide wireless access to the IBM Global Network (Advantis) in the U.S. If they sign up with IBM, they'll have wireless access to all available services including e-mail, Internet services, information providers and voice services.

Q

How is GTE Directories faring?

A

TRIVISONNO: Directories is a major business. The group produces about \$1.2 billion in gross advertising revenues and publishes directories in 14 countries. It's a truly international business. And with electronic publishing and distribution of information just emerging, it's a growth business as well.

I'm proud that our people won the Malcolm

Baldrige Award. The Baldrige Award recognizes outstanding quality-management systems—something our people are excellent at designing and implementing. But I want to emphasize that our people didn't set out to win the award. They set out to improve quality dramatically. I view this award as a validation of their tremendous efforts.

Q

How is Government Systems doing in light of the downsizing in the defense industry?

A

TRIVISONNO: We're doing well. The Department of Defense continues to require state-of-the-art Command, Control and Communications systems, which are our specialty. Our largest market has been, and will continue to be, the Department of Defense. However, our technical expertise, systems-integration skills and project-management capabilities are proving to be valuable for a number of federal and commercial customers. We're already having success with non-defense agencies of the U.S. government, such as the Department of Health and Human Services, which awarded GTE Government Systems a contract to design and develop a national Medicare claims-processing system in 1994. GTE Data Services will assist

in the development of the system.

Q

Where does Airfone fit in?

A

TRIVISONNO: Airfone is an extension of our wireline capability. It's a service that has the potential to touch virtually every traveler in the United States. So it's really important we deliver quality service. We want people to walk off an airplane saying that they got their work done—or had spoken with a loved one—all with the help of GTE's service. We've had rave reviews since we put our new cellular GenStar® system into place. We even offer fax services now.

Ten Things We Did In The Past Five Years To Get Ready For The Next Five Years

- 1** Acquired Providence Journal Corporation's mobile-cellular properties in Georgia, North Carolina, South Carolina and Virginia (1990).
- 2** Completed a merger with Contel Corp., making us the largest U.S.-based local-exchange telephone company and the second-largest mobile-cellular provider (1991).
- 3** Announced plans to sell our worldwide lighting and precision materials businesses and focus totally on telecommunications (1991); completed sale in 1993.
- 4** Acquired, through a consortium we led, operating control of the Venezuelan telephone company, CANTV (1991).
- 5** Led the industry in the conversion of switching and transmission equipment to digital technology. Our U.S. wireline network is now 91% digital (1994).
- 6** Launched the nation's largest trial of wireless personal communications services (1992) and subsequently began the nation's first commercial residential PCS service, with nearly 120,000 customers in 15 markets at year-end 1994.
- 7** Began building fiber-optic rings in 12 states (1993), giving customers access to the world's fastest digital transmission system. (GTE increased its data-services capabilities by launching its advanced World Class Network in eight markets in 1994.)
- 8** Established a video services group (1993), then initiated plans to build a video network that will be available to seven million homes in 66 key GTE markets within 10 years.
- 9** Implemented a comprehensive process re-engineering initiative (1994), the largest in the telecommunications industry, to streamline Telephone Operations and dramatically improve customer service. (The program will save GTE \$1 billion annually by 1997.)
- 10** Won contracts to become the wireless telecommunications service provider to most of Argentina, an area with 22 million people (1994).

● **International.** ●

We have more than 40 years of experience, with a higher portion of assets invested outside the U.S. than any other major telecommunications company in the U.S.



A consortium headed by GTE provides wireless services to most of Argentina, including Cordoba, second largest city in the country.



North and South America are a prime focus of GTE's international growth.



Telephone Operations

Our wireline business is a springboard for new services in an expanding marketplace

Plain old telephone service? There is no such thing. The information that comes over the phone line continues to multiply—adding up to more lines and more use. GTE Telephone Operations increased U.S. access lines 4.9% in 1994, while network usage grew 9.4%—in both cases topping 1993's gains.

Revenues totaled \$15.7 billion, up 3% excluding the impact of certain non-strategic properties sold. Operating income rose 5% to \$4.2 billion, driven by the strong increases in unit volumes and the initial benefits of our far-ranging re-engineering initiatives.

The dynamics of the telephone business are changing rapidly because of new technologies and lower barriers to entry, intensifying competition. We're implementing an aggressive strategy to enhance our wireline network, the traditional heart of GTE. Over the 1990-94 period, we invested \$17 billion. We expect to invest a similar amount over the 1995-99 period to further strengthen our ability to rapidly move vast amounts of data and video signals—as we continue to enhance the quality and scope of our voice services.

In 1994, we transformed an organization historically based on geographic areas and functions to one focused on markets and customers. Operations were realigned into three key customer segments: consumers, businesses and carriers (long-distance companies)—still another aspect of our drive to become the easiest company to do business with in our industry.

Our unique market reach provides a distinct competitive advantage. No other local phone company has as

much geographic dimension. We have a wireline presence in 164 MSAs (metropolitan statistical areas)—more than twice as many as any Regional Bell Operating Company. That presence is markedly more suburban than central city and offers more favorable growth prospects.

During the past two years we sold or traded nearly one million customer lines in the U.S., implementing a deliberate repositioning strategy to cluster properties and maximize growth opportunities. We're now in 28 states, versus portions of 40 states two years ago.

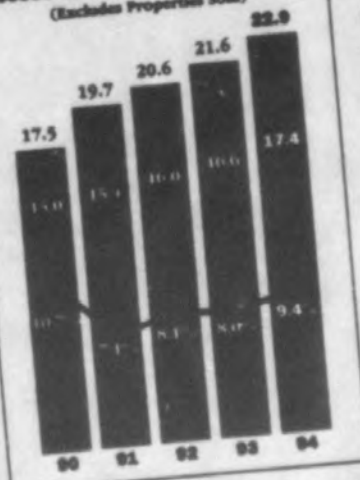
Continuing success in our markets requires superior service, competitive prices, low operating costs and the latest technology. Process re-engineering has contributed to quantum gains on each of those fronts. It enhances revenues, reduces costs, speeds service delivery and increases customer satisfaction.

For example, we're taking greater advantage of one of our core strengths: our national, highly digital network. We're performing functions like network monitoring, repairs and customer support services through national centers and a few linked regional centers.

At our new Network Operations Center in Irving, Texas, an elite corps of technicians—using a state-of-the-art, GTE-designed system—manages telecommunications traffic and fixes trouble on our network before it becomes a problem for our customers.

Meanwhile, we're demonstrably improving customer service. For example, we're giving our frontline employees the tools and training

Telephone Operations
Access Lines and Minutes of Use
(Excludes Properties Sold)



International (Includes CANVY beginning in 1991)
U.S. Access Lines (In Millions)
U.S. Minutes of Use Growth Rate



to satisfy customer needs on the first phone call. Our goal is to have the vast majority of service problems corrected electronically without a visit by a technician.

In a Sarasota, Fla., pilot project we're handling service orders with one contact almost 74% of the time, up from 23% previously. Our goal is to handle, by 1997, 80% of requests while the customer is still on the line—a truly remarkable achievement given the 50 million calls our service representatives handle annually. In virtually all other cases, a single visit by a technician will meet the customer's needs. Customer perceptions of GTE already show an upward trend.

Re-engineering and other efforts that help cut costs will generate operating savings of \$1 billion annually by 1997.

Video services will undoubtedly be a source of growth for GTE in the coming years. In fact, in January 1995 a federal judge in Virginia declared that GTE has the right to provide video programming to its in-franchise telephone customers. Our initial video plans include building optical-fiber and coaxial-cable networks in three markets—Thousand Oaks, Calif.; St. Petersburg/Clearwater, Fla.; and Honolulu, Hawaii.

Video entertainment games are big business these days—and they're a new addition to GTE. Our GTE Interactive Media subsidiary plans to roll out 20 new video games, aimed at all age groups. And we're collaborating with Nintendo of America to develop video games for use on home computers or for future

In Sarasota, Fla., portable computer and data communications equipment allow technicians to meet customer needs with a single visit.

transmission to homes over phone lines. This collaboration is especially exciting because it combines GTE's creative resources and leading-edge technology with Nintendo's

strength and considerable brand recognition.

Our mainStreet® service represents another growth area for GTE in the video arena. The mainStreet service is an interactive home information, shopping and banking service, and we expect it to be offered to 10 million cable subscribers in the top 20 television markets by the end of the decade.

Currently, mainStreet is the only commercially viable, affordable interactive service with the capability of being offered by virtually any cable system in the nation without an additional infrastructure investment.

Data services is one of the fastest growing areas of telecommunications, and our World Class Network, unveiled in February 1994, makes us a market leader in the industry. A master plan for providing advanced data services to business customers, the World Class Network reflects our investments in technology advances—SONET rings connected with ATM switches. (SONET is an acronym for synchronous optical network, and ATM stands for asynchronous transfer mode.) The technologies transmit voice, data and video signals via short bursts of light through glass fiber at exceptional speeds.

The World Class Network was launched initially in eight markets—Tampa, Honolulu, Raleigh/Durham,

Los Angeles, Seattle, Portland (Ore.), Dallas and Fort Wayne.

In preparation, we built 94 SONET fiber rings in those markets over the past two years. By year-end 1995, the network will debut in six additional markets, and we will have 125 SONET rings in place. The number will reach 275 by the end of 1998. Our primary target is large businesses.

In North Carolina, GTE received approval for a market trial that opens the door for the first business use of ATM services in that state. ATM is the high-speed switching and multiplexing technology integral to fiber-optic broadband services. The year-long market trial will assess market feasibility and evaluate the systems and capabilities needed to support ATM-based services.

Meanwhile, we've developed a high-speed data service called Metro-LAN. It offers reduced rates through a flat fee for dedicated high-capacity telecommunications lines, regardless of the distance data travels.

Videoconferencing—connecting meeting rooms or individual offices—is another growing service. Our Video Connect™ service introduced in early 1994 has made noteworthy strides. It is the first full-color, full-motion service available over the public-switched network rather than private dedicated lines.



Digital technology makes delivering residential and business services faster and more efficient. GTE's U.S. network—76% digital in 1990—is now 91% digital, a

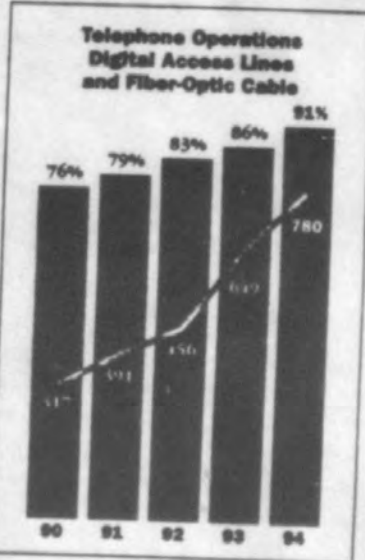
GTE owns 50.5% of BC TEL, which serves fast-growing Vancouver and the province of British Columbia.

higher percentage than any of the RBOCs. This allows GTE to expand information services to our customers—from extra features to advanced capabilities.

One example of the advanced capabilities being delivered over GTE's network is telemedicine, a form of interactive videoconferencing that enables doctors to diagnose and help treat patients who are literally miles, states or countries away.

The most recent demonstration of the power of this technology took place in January 1995, when physicians in Canada and Venezuela correctly diagnosed the perforated eardrum of a patient in the Dominican Republic. Telemedicine is already being used to deliver health care to rural hospitals, public health facilities, correctional institutions and other locations across the United States.

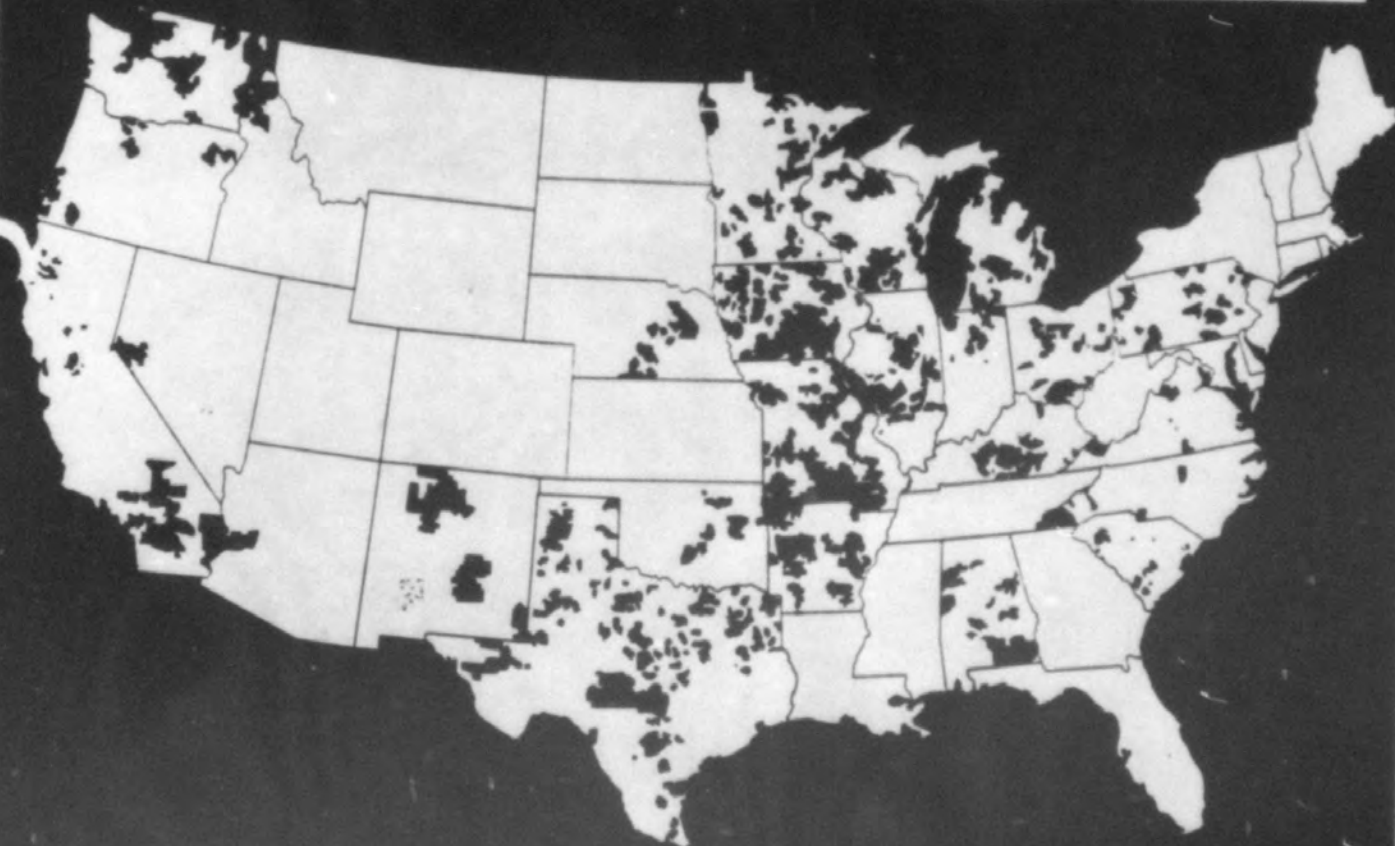
A prime example of a new low-cost, convenient service for residential customers is GTE Personal Secretary™ which offers answering machine, wake-up and reminder services—designed to make our customers' busy lives a bit more manageable.



■ U.S. Access Lines—Percent Digital
— U.S. Miles of Installed Fiber-Optic Cable (in Thousands)

Telephone and Cellular Service Areas

- ☒ Telephone
- ☐ Cellular
- ☐ Telephone & Cellular



- With our combined telephone and cellular properties, we have the potential to serve nearly 30% of the U.S. population.

Telecommunications Products & Services

Wireless outpaces projections;
other core businesses
deliver solid performance

Just 10 years ago cellular communications was in its infancy. Today, what is now known popularly as "wireless," covers virtually the entire United States with more than 20 million subscribers, and generates annual revenues exceeding \$12 billion.

During 1994, GTE added 754,000 wireless subscribers in the U.S., raising our customer base 48% to over 2.3 million while market penetration rose to 4.8%—both more than double their levels just two years ago. That explosive growth helped spark the record operating income achieved by our Telecommunications Products and Services group, over \$600 million, up 78% from 1993.

Telecommunications Products and Services encompasses personal communications services, aircraft-based telecommunications, government and defense communications systems and equipment, telecommunications-based information services and systems and Yellow Pages directories. Revenues and sales for the group rose 3% to \$4 billion in 1994.

GTE's wireless services in the U.S. are built on strong regional cellular clusters, at this point primarily in California, Texas, Florida and Tennessee. To improve efficiency, we bought, sold or traded a number of properties to increase our strength in our primary markets and create additional clustering for marketing advantage.

We currently serve areas with 53 million POPs in the U.S. (POPs is an industry term for the population of a market multiplied by the percentage of ownership.) Outside the U.S., we operate cellular networks through affiliates in Canada, the Dominican Republic, Venezuela and Argentina. Those

networks, with vast growth potential, currently have 15 million POPs and 321,000 subscribers.

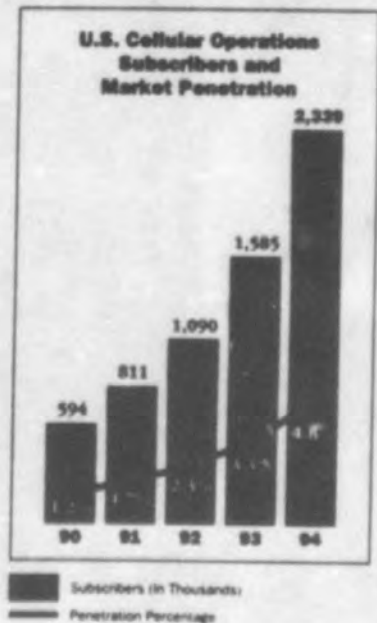
Investments in technology are helping fuel our growth. For example, in 1994 we began deploying CDPD (cellular digital packet data) technology—a fast, efficient, digital transmission system that overlays existing cellular networks and provides a reliable and secure method of transmitting data. Unlike other wireless data transmission methods, CDPD permits voice and data communications over the same network. We're now offering CDPD in the San Francisco area, the first availability of the service in California.

Bundling services for our customers is a key element of our strategies. A recently formed alliance with SBC Communications enables GTE to provide one-stop shopping for wireless and associated wireline services in our Texas markets. As a result, we will be able to offer wireless services to the majority of our telephone customers in Texas.

Tele-Go is a cutting-edge personal communications service. Launched in 1994, it is the first personal communications service in the U.S. targeted to the residential market. By combining wireline and wireless communications, Tele-Go allows a subscriber to be called anytime, anywhere.

At home, Tele-Go is a cordless phone, which can be used to place and receive calls over the local wireline network. Out of range of the base unit, the Tele-Go handset becomes a mobile-cellular phone. An automatic call-forwarding feature tells the network which mode the handset is in and routes calls accordingly.

U.S. Cellular Operations
Subscribers and
Market Penetration



International growth is a priority

in wireless just as it is in wireline, and in 1994 we scored a major victory in our pursuit of new markets. A consortium which we led won major contracts to provide mobile-cellular telephone service in regions of Argentina with a population of 22 million. The contracts rank among the largest cellular-license awards in South America to date. We built a network in record time and began operations during the year:

GTE Airfone celebrated its 10th anniversary in 1994 and recorded its 50 millionth call. During the year Airfone began rolling out our advanced digital GenStar system that lets airline passengers receive telephone calls at their seats. In addition, Airfone began offering passengers facsimile service.

GTE Government Systems has tremendous overall capabilities in telecommunications, with special expertise in applying technology and systems integration for large complex projects. As sales have declined in its traditional market—defense contracting—Government Systems has maintained its profitability by reducing costs and successfully entering the civilian agency government market. Contracts have been secured from civilian agencies such as the National Aeronautics and Space Administration and the National Weather Service.*



San Francisco became the launch site for a new wireless data service that allows voice and data to be sent over the same network.

Government Systems also serves international markets. For instance, it is helping to expand and upgrade the telecommunications infrastructure of Egypt under a contract from the U.S. Agency for International Development.

GTE Directories is one of the world's largest publishers of telephone directories, publishing and selling advertising for more than 1,000 different directories. It is a highly profitable business that produces gross annual advertising revenues and sales of some \$1.2 billion.

By capturing the 1994 Malcolm Baldrige National Quality Award, GTE Directories won recognition as one of the premier business organizations in the U.S. The award culminates a three-year effort to boost competitiveness, enhance customer service, empower employees and increase productivity—activities that we are pursuing throughout GTE.

Well positioned for continuing growth in the U.S., GTE Directories is also international in scope. In 1994, it was selected as a joint-venture partner with BELGACOM, Belgium's telecommunications provider, to form BELGACOM Directory Services. Overall, GTE publishes directories in 14 countries.

Our People

We subscribe to the belief
that our employees can provide
a key competitive advantage



GTE will continue to differentiate itself in the marketplace through the quality of its employees. We're constantly striving to ensure that we attain the best-in-class workforce in corporate America.

Our human resource practices are derived from innovative philosophies, strategies and processes that are designed to create new workplace approaches for our people—and make a positive impact on the company's bottom-line business results.

We're empowering our employees to solve problems and create new approaches. On any given day, almost 1,000 employee teams are striving to develop new ways to provide the best value to our customers in quality, service, speed, innovation and responsiveness.

Our goal is to empower our people to make decisions that directly affect their work—resulting in responsive, streamlined processes that translate into competitive products and services in the marketplace.

To maintain our highly skilled workforce, it's imperative that we communicate our objectives and ensure that all our employees are properly trained in order to successfully meet the challenges of our industry.

Our commitment to communications and training is substantial, with nearly 3.9 million hours of instruction in 1994 reflecting an investment of approximately \$150 million. Our training programs cover a wide spectrum from technology to customer responsiveness to management-leadership skills.

It's important in this day and age to maintain a motivated workforce. To provide the proper rewards and recognition systems throughout GTE, we have piloted very successful compensation programs touching all levels of our workforce. These incentives use, as a basis,



Winning the Baldrige Award (above) brings some GTE Directories employees together for a celebratory photo (page 22). From the left: Belinda Ball, Walter Vendsel, Mary Lawyer, Jim Runyon, Keith Howard, Gretchen Kaufman and Ples F. Robinson.

stringent quality, customer and financial objectives.

The quality of one's life is critical. GTE provides a comprehensive and flexible benefit program for employees and their families—creating a significant measure of security.

Organization renewal is an integral part of our objectives. Our Associate Development Program and College Relations Program are considered among the best such programs in industry today. We're attracting and retaining some of the best, diverse talent graduating from our universities and colleges.

GTE is strongly committed to equal employment opportunity, and

we are striving to utilize fully the potential of different cultural orientations in our workplace to meet newly emerging customer needs. Our employment policies and programs are designed to ensure flexibility with the diverse workforce of today. Significant resources are dedicated to attracting the best female and minority employees and then identifying opportunities for upward mobility for them. GTE's dedication to diversity and equal opportunity is a matter of the company's values, not legislation.

GTE and its employees have formed a true partnership. The company recognizes the needs of its employees and, in return, employees recognize the importance of their responsibility to better serve our customers.

This partnership manifests itself in many ways, but perhaps the best example is our GTE Directories' team that won the Malcolm Baldrige National Quality Award this year. We believe that the spirit and teamwork demonstrated by the Directories' employees are representative of all GTE people.

Corporate Citizenship

Our support of the communities we serve is an investment in human resources and economic vitality

We're deeply committed to the economic health of our communities.

Telecommunications has become one of the most important factors in the economic development of an area. It's a fundamental element of the infrastructure and a crucial tool for building business and community competitiveness.

We have formed strategic partnerships to help communities expand their local economy—with the bottom-line goal of creating new jobs. In 1994, we assisted communities across the nation in a variety of strategic efforts that resulted in the creation of more than 20,000 jobs.

Our support goes even further. We're also committed to education and the overall health of citizens. More than half the nearly \$23 million in contributions we made through the GTE Foundation in 1994 were channeled to education.

Our educational assistance programs help create a pool of technical talent from which we and other technology-based companies can recruit



employees and train the math and science teachers, computer scientists and engineers the nation will need in the years ahead.

Reflecting those goals, we have extended for three more seasons (1995-97) the funding of *Scientific American Frontiers* initiated in 1990 with *Scientific American* magazine.

This television series—one of the most highly rated educational programs on the Public

Broadcasting System—explores the world of science, with classroom participation by as many as 150,000 educators and 20 million students annually.

Our "Growth Initiatives for Teachers" program continues to inspire math and science teacher teams to develop hands-on projects to spur student learning. More than 1,100 teachers across the country have received in

excess of \$6.5 million in grants since 1983.

Our employees are deeply committed as well—an estimated one-third contribute their personal time to assist community organizations across the country.

Movie and television star Alan Alda has been the host of the acclaimed GTE-funded PBS series *Scientific American Frontiers* since 1993.

GTE's strategy is based on five major initiatives: enhancing the value of its wireline voice business; accelerating wireless development; aggressively expanding data services; pursuing international opportunities and entering video services.

In evaluating opportunities that meet these initiatives, GTE adheres to two clear investment criteria: Investments must be in telecommunications, the company's core business, and they must be expected to earn more than their cost of capital over time. Over the past several years, these initiatives and investment criteria have guided a series of actions designed to further improve GTE's competitive position and enhance its profitability. These actions have included implementation of process re-engineering—which runs through 1996—at Telephone Operations, the sale of non-strategic telephone properties, the investments in CANTV (the Venezuelan telephone company) and CTI (the Argentine cellular consortium), and the divestitures of GTE Spacenet and the Electrical Products Group. In January 1995, GTE expanded its international presence by entering into a long-term strategic alliance with China United Telecommunications Corporation. This joint venture is expected to include projects relating to the development of China's second telecommunications network. Through these and other actions, GTE has sharpened its focus on telecommunications and is better prepared to meet the challenges and opportunities of a more competitive marketplace that offers tremendous potential for profitable growth.

GTE's financial objective is to maximize shareholders' long-term total return. During 1994, GTE and most major telecommunications companies experienced declines in their stock prices. As a result, for the five-year period ending in 1994, average annualized total return, consisting of share price appreciation and dividends, was 2.5%, compared with 4.9% for the Regional Bell Operating Companies and

Financial Review

8.7% for the S&P 500 average. This marked the first such period since 1987 that total annualized return to GTE's shareholders did not exceed the return for the S&P 500 average.

GTE's policy is to provide a dividend payout ratio at the upper end of the range for comparable companies. Consistent with this policy, GTE maintained its dividend at \$1.88 per share in 1994.

Return on Equity

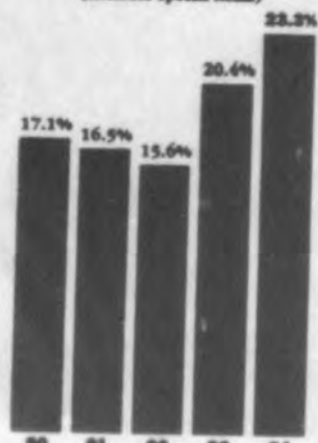
GTE's return on average common equity in 1994 reached 24.8% as compared with 8.8% in 1993. Excluding gains from non-strategic telephone property sales in both years as well as 1993 one-time charges, GTE's return on average common equity was 23.3% in 1994 compared with 20.4% in 1993. The 1994 improvement reflects strong operational performance at all of GTE's business units.

Capitalization

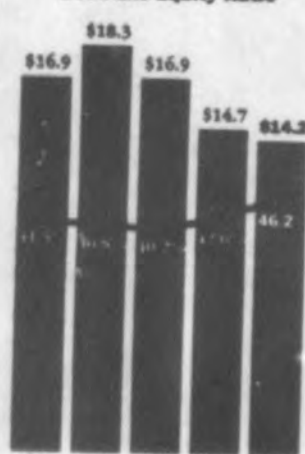
GTE targets a capital structure and overall credit position that is appropriate for an "A" rated company. This allows GTE's shareholders to enjoy the benefits of reasonable financial leverage, while also protecting debtholder interests and ensuring ready access to the capital markets. During the year, one rating agency reduced its rating of GTE's senior debt. However, two other agencies maintained their "A" rating and all rating agencies continue to view GTE's debt as investment grade.

Total equity as a percentage of total capitalization reached 46.2% in 1994, compared with 42.6% in 1993. This improvement reflects the continued strengthening of GTE's financial position through strong earnings growth, and the 1994 issuance of nearly \$500 million of monthly income preferred securities.

Consolidated Return on Common Equity
(Excludes Special Items)



Consolidated Debt and Equity Ratio



Capital Investment, Resources and Liquidity

GTE's cash flow (representing net income plus depreciation and amortization) increased to \$5.7 billion in 1994. Net cash from operations, after giving effect to working capital and other requirements, decreased

Total Debt
(in Billions of Dollars)
Equity Ratio

from \$5.3 billion in 1993 to \$4.7 billion in 1994. This decrease primarily reflects higher tax payments associated with the completion of the eight-year Mobile Subscriber Equipment contract, a major government telecommunications contract, as well as income tax payments related to the gains realized from non-strategic property sales. Cash flows from operations, along with more than \$400 million raised through employee stock purchase and dividend reinvestment plans, and \$1.2 billion provided from the sales of non-strategic assets, provided the funds required for dividends of \$1.8 billion and capital expenditures of \$4.2 billion.

In 1994, GTE substantially completed its two-year program to sell or trade a small percentage of local-exchange telephone properties that had been identified as non-strategic. A total of 448,000 access lines were sold in 1994, generating \$900 million in cash.

During 1994, the company completed a financing program that included the issuance of \$1.9 billion in long-term debt, primarily related to the refinancing of high-coupon redemptions begun in 1993. Since the beginning of 1992, GTE has reduced total debt by \$4.1 billion. The market financing program for 1995 is expected to decrease compared with 1994, reflecting the completion of the high-cost debt refundings.

In 1994, GTE reached agreement to acquire the 10% ownership of Contel Cellular Inc. currently held by the public for \$25.50 per share, or approximately \$250 million in cash. This transaction is expected to close during the first half of 1995.

Capital expenditures totaled \$4.2 billion in 1994 compared with \$3.9 billion in 1993. This increase reflected the expansion of the mobile-cellular and telephone networks to increase capacity and improve service. In 1995, capital expenditures are expected to increase slightly from the 1994 level. Accelerating investment in fiber optics and other enabling technologies for broadband services as well as the continuing expansion and enhancement of the mobile-cellular network is expected to more than offset the declining requirements for conversion to digital switching systems. In 1995, dividends and the capital requirements for GTE's businesses are expected to be funded substantially with cash from operations and proceeds from employee stock purchase and dividend reinvestment plans. However, GTE's strong financial position allows ready access to world wide capital markets for any additional requirements.

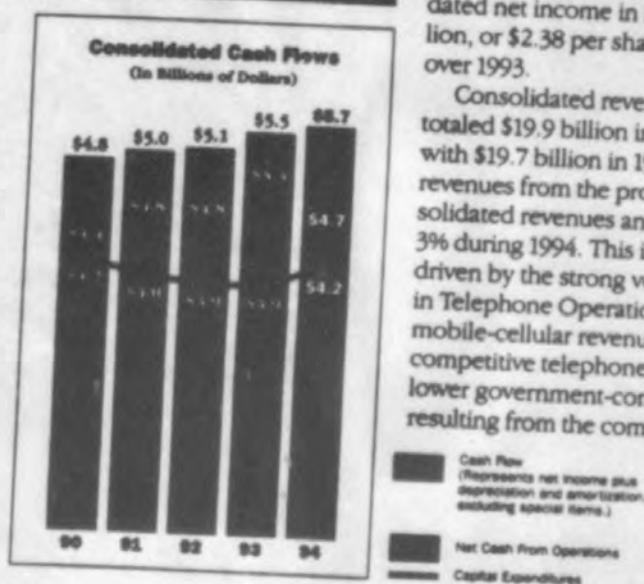
Results of Operations

Consolidated

1994 was an outstanding year for GTE, driven by the record operating results achieved in both Telephone Operations and mobile cellular. These results reflected excellent volume growth, as well as the favorable effects of cost-reduction programs throughout GTE. Excluding properties sold, telephone network usage increased 9.4%, the largest increase since 1990, while access line growth of 4.9% led the industry. Telephone Operations also made significant progress in implementing its three-year re-engineering program. This program is redesigning and streamlining processes to improve customer-responsiveness and product quality, reduce the time necessary to introduce new products and services and further reduce costs. These efforts enabled Telephone Operations to continue to reduce prices to its customers while further improving profitability. GTE's Telecommunications Products and Services businesses also experienced significantly improved profitability, led by the fast growing mobile-cellular business. During 1994, GTE added 754,000 new cellular customers, bringing total U.S. cellular customers to over 2.3 million—more than double the level just two years ago.

Consolidated net income in 1994 was \$2.5 billion, or \$2.55 per share, which included after-tax gains on sales of certain non-strategic local-exchange telephone properties of \$162 million, or 17 cents per share. In 1993, consolidated net income was \$900 million, or 93 cents per share. Results in 1993 included similar gains of \$91 million, or 10 cents per share, as well as one-time after-tax charges totaling \$1.3 billion, or \$1.37 per share, to restructure operations, complete voluntary separation programs at Telephone Operations and for the early retirement of high-coupon debt. Excluding the impact of these special items, consolidated net income in 1994 was \$2.3 billion, or \$2.38 per share, an 8% increase over 1993.

Consolidated revenues and sales totaled \$19.9 billion in 1994 compared with \$19.7 billion in 1993. Excluding the revenues from the properties sold, consolidated revenues and sales increased 3% during 1994. This improvement was driven by the strong volume growth in Telephone Operations and higher mobile-cellular revenues. Lower, more competitive telephone pricing, as well as lower government-communication sales resulting from the completion late in 1993



of the Mobile Subscriber Equipment contract, partially offset the strong volume growth in telephone and mobile cellular. Operating income in 1994 reached a record \$4.8 billion. Excluding the operating income attributable to the properties sold and other 1993 special items, operating income increased 10% over 1993. Net interest expense declined 12% to \$1.1 billion in 1994, reflecting reduced debt levels and the refinancing of high-coupon long-term debt completed early in 1994.

Telephone Operations

GTE Telephone Operations provides a wide variety of communications services ranging from local telephone service for the home and office to highly complex voice and data services for industry. In the United States, Telephone Operations served 17.4 million access lines in 28 states at the end of 1994. In addition, GTE's affiliated telephone companies in Canada, the Dominican Republic and Venezuela served 5.5 million access lines.

In 1994, revenues from Telephone Operations increased to \$15.9 billion, compared with \$15.8 billion in 1993. Excluding the revenues from the properties sold, 1994 revenues totaled \$15.7 billion, an increase of 3%, reflecting strong growth in unit volumes. Minutes of use of GTE's domestic local-exchange network for long distance calling grew at an annual rate of 9.4% while total access lines increased 4.9% over last year. These strong volume increases were partially offset by lower, more competitive pricing. In 1994, rates were lowered by more than \$300 million, continuing the trend over the past several years to price services more competitively. These price reductions have totaled almost \$900 million over the last three years.

Local revenues increased 2% to \$5.3 billion compared with \$5.2 billion in 1993. This growth was attributable to placing an additional 957,000 access lines in service in 1994. The increase in access lines in service was partially offset by the 448,000 lines sold during the year. Also contributing to the increase in local revenues is growth from new and non-traditional services. These services, including GTE Personal Secretary, Video Connect and custom calling features such as Caller ID, Call Block and Return

Call, have been made possible by enhancements to the existing telephone network. Growth of new and non-traditional services is expected to accelerate over the next several years as enhancements continue to be made to GTE's telephone network.

Revenues from network access and toll services of \$7.6 billion decreased 1% compared with 1993. This slight decline reflects the impact of the previously discussed sales of non-strategic properties and competitive price reductions, which more than offset the increased usage of GTE's local network for long-distance calling.

Equipment sales and services and other revenues increased 2% to \$2.9 billion, primarily reflecting growth in billing and other services provided for other telephone companies.

Operating income reached a record \$4.2 billion, a 5% increase compared with 1993, excluding the operating results of the properties sold and the 1993 special charges. This improvement reflected the increased revenues and continuing control over operating costs. Operating income as a percent of revenues increased to 26.6% in 1994, the fifth consecutive year of improvement. Significant additional cost reductions are expected to be realized in the future as additional re-engineering initiatives are implemented.

Productivity improvement continues to be a major objective for Telephone Operations. U.S. access lines per employee, a key indicator of productivity, were 252 at the end of 1994, an 8% increase over 1993 and 51% higher than the same measure only four years ago, excluding properties sold. These improvements reflect the impact of various programs to streamline operations and the initial implementation of the many initiatives underway as part of Telephone Operations' three-year re-engineering program. By the end of 1994, Telephone Operations had reduced its U.S. workforce to approximately 69,000

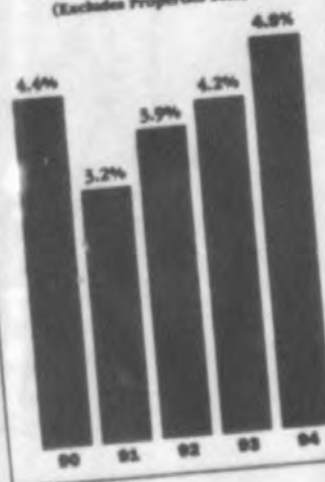
employees, a 23% reduction over the number of employees only four years ago. As additional re-engineering programs are implemented, the level of workforce reductions is expected to continue.

GTE has been increasing the use of state-of-the-art

**Telephone Operations
Revenues and Margin
(Excludes Properties Sold)**



**Telephone Operations
Access Line Growth Rate
(Excludes Properties Sold)**



Revenues and Sales
(in Billions of Dollars)
Operating Income as a
Percentage of Revenues
(Excludes Special Items)

technology to better provide quality services and gain operational efficiencies. Based on independent customer research, GTE Telephone Operations continues to be rated the highest among its peers in providing quality service to its large and medium-business customer markets. By the end of 1994, 91% of the U.S. access lines served by GTE's Telephone Operations were connected to digital switches compared with 76% only four years ago. During 1994, GTE also continued its accelerated installation of fiber-optic cable, bringing total miles installed throughout GTE's U.S. network to 780,000 miles, double the level of only three years ago. During 1994, GTE Telephone Operations unveiled its World Class Network in eight key markets to provide advanced communications for business customers. This program includes sophisticated high-speed, digital fiber-optic rings, a high-capacity switching network (known as SONET), and a new centralized operations center that monitors the entire network. These SONET rings are an integral part of the high-speed information network that enables GTE's Telephone Operations to provide advanced services such as high-speed data transmission and video conferencing.

During 1994, difficult economic conditions in Venezuela caused weaker results at CANTV, the Venezuelan telephone company that is operated and 20.4% owned by GTE. The weak economic conditions combined with the implementation of currency controls in mid-1994 have effectively closed access to international banks and capital markets. As a result, CANTV has been unable to secure planned financing and is currently in arrears on repayment of principal on its loan obligations. CANTV is engaged in negotiations with its major creditors to address these issues and continues to make payments of interest on these obligations.

Due to the high level of inflation experienced in Venezuela, CANTV's results are substantially influenced by its ability to increase tariffs. CANTV operates under a Concession Agreement with the Venezuelan government that provides, among other things, for quarterly tariff increases based on the previous rates of inflation in Venezuela. In 1994, tariff increases of 59% were implemented, as compared with a local inflation rate of 71%. In addition, at the end of 1994, CANTV obtained approval for a 25% tariff increase, effective January 1, 1995.

As a result of these difficult economic conditions, CANTV's results did not con-

tribute to GTE's earnings during 1994. Despite this, CANTV met the majority of its mandates under the Concession Agreement to expand, modernize and improve the telephone network. CANTV's revenues exceeded \$1.1 billion in 1994 as strong demand for its telephone and related telecommunications services continued. CANTV has taken steps to redefine and reduce its capital program, where appropriate, while at the same time continuing with its network modernization program. GTE believes that these economic difficulties are temporary and will be corrected, and continues to view its interest in CANTV as an excellent long-term investment.

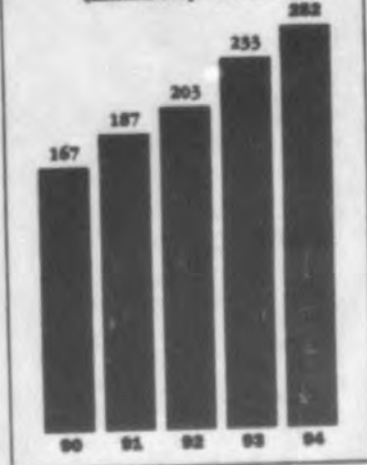
In 1993, revenues from Telephone Operations decreased slightly to \$15.8 billion. Excluding the operating results of the properties sold and special items, revenues increased slightly in 1993 as compared to 1992 reflecting volume increases partially offset by continued competitive price reductions, including lower access tariffs charged to long-distance companies. Operating income increased 4% reflecting the higher revenues and the favorable benefits of cost-control and reduction programs. Excluding the properties sold, minutes of use of GTE's domestic local-exchange network for long-distance calling increased 8.0% while total access lines in service increased 4.2%. Results for 1993, however, were significantly affected by the decision to re-engineer the way Telephone Operations provides service to its customers. This decision resulted in a one-time pre-tax charge of \$1.4 billion primarily to significantly enhance or replace existing systems, substantially reduce the workforce and consolidate facilities.

Telecommunications Products and Services

GTE Telecommunications Products and Services is comprised of units serving the U.S. and international markets and encompasses personal communications services, aircraft-based telecommunications, government and defense communications systems and equipment, telecommunications-based information services and systems and Yellow Pages directories. During 1994, GTE sold its satellite communications and health information services businesses.

Revenues and sales from Telecommunications Products and Services increased 3% in 1994 to \$4.0 billion compared with \$3.9 billion in 1993. This improvement was driven by an increase in mobile-cellular revenues of 41% to \$1.7 billion. Lower government-

Telephone Operations
U.S. Access Lines per Employee
(Excludes Properties Sold)



communication sales, resulting from the completion in late 1993 of the eight-year Mobile Subscriber Equipment contract, partially offset the strong mobile-cellular revenue growth.

Operating income increased 78%—rising to \$608 million in 1994, compared with \$341 million a year ago, excluding the one-time 1993 restructuring charge. This substantial improvement reflects the growth in mobile cellular as well as the favorable impact of the restructuring actions, primarily in the satellite-communications business, taken at the end of 1993. Operating income also benefited from cost reductions in the government communications systems business.

GTE's U.S. mobile-cellular operations, the fastest growing unit in this group, is the second-largest cellular-telephone operator in terms of "POPs" in the United States—serving a population of some 53 million "POPs." Customer growth continued at a high level throughout 1994 as a record 754,000 customers were added. Total customers served at the end of 1994 were 2,339,000, an increase of 48% over 1993. As a result, market penetration increased to 4.8% in 1994 compared with 3.3% in 1993.

Cellular service revenues reached \$1.5 billion, a 42% improvement over 1993. During the year, revenues per subscriber averaged \$68 per month, compared with \$71 per month in 1993. The decline in the average reflects the continuing growth of casual users in the subscriber base. Operating income more than doubled to \$294 million while operating cash flows, representing operating income before depreciation and amortization, reached \$559 million in 1994, a 57% increase over 1993. This improvement was achieved despite a substantial increase in costs associated with the record customer growth.

Outside the United States, GTE also operates mobile-cellular networks serving some 15 million POPs through international affiliates in Canada, the Dominican Republic, Venezuela and Argentina. In Argentina, a GTE-led consortium completed construction of a mobile-cellular telephone network and began providing service to the north and south regions of the coun-

try. GTE has a 25.5% ownership stake in the consortium. As of year-end 1994, these international networks served an additional 321,000 customers, a 59% increase over 1993.

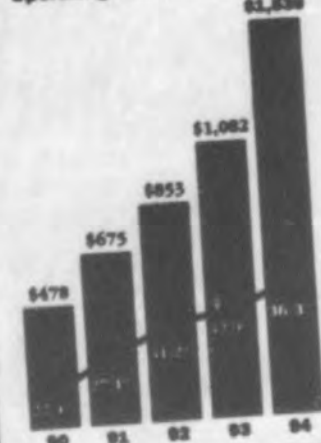
Results at GTE Directories, one of the largest publishers and distributors of telephone directories, declined in 1994 due to changes in the timing of the publication of certain directories and a decline in the number of orders placed in 1993. However, future orders for Yellow Pages advertising exhibited improvement in the latter part of 1994 reflecting an improving economy. During 1994, GTE Directories won the prestigious Malcolm Baldrige National Quality Award in the service category, exemplifying its commitment to quality. GTE Directories also entered into a joint venture agreement with BELGACOM, Belgium's official telecommunications provider, for the publication of yellow-pages directories and related products and services. At the end of 1994, GTE Directories' contract for the publication of directories in Hong Kong ended.

GTE's Government Systems unit received orders valued at \$1.2 billion during 1994, slightly more than the previous year. This reflects continued demand for telecommunications equipment and services despite the overall decline in U.S. government defense spending. Profitability at Government Systems improved in 1994 as substantial cost reductions more than offset a decline in revenues.

In 1993, revenues and sales from Telecommunications Products and Services were \$3.9 billion, a 5% decline from 1992. Lower government-communication sales, resulting from the wind-down of the Mobile Subscriber Equipment contract, more than offset higher revenues from the strong customer growth in the mobile-cellular business. Operating results for 1993 were negatively impacted by a one-time restructuring charge of \$398 million. This charge reflected a reduction in the carrying value of satellite communication and certain other assets to net realizable value. Excluding this one-time restructuring

charge, operating income increased to \$341 million in 1993 compared with \$182 million in 1992. This improvement reflected higher revenues and operating efficiencies in mobile cellular as well as cost reductions in the government communications systems business.

**U.S. Cellular Operations
Service Revenues and
Operating Cash Flow Margin**



**U.S. Cellular Operations
Customer Additions
(In Thousands)**



Service Revenues
(In Millions of Dollars)
Operating Cash Flow
Margin (Represents
operating income before
depreciation and amortization as
a percentage of service revenues)

Regulatory and Competitive Trends

Regulatory Developments:

Fundamental changes continue to significantly impact the telecommunications industry and GTE. During 1994, telecommunications legislation that would have changed the way the industry does business passed the House of Representatives, but was subsequently withdrawn from consideration. Telecommunications legislation has been introduced again in 1995.

Federal and state regulatory activity directed toward changing the traditional cost-based rate of return regulatory framework for intrastate and interstate telephone services has also continued. Regulatory authorities have adopted various alternative forms of regulation, which provide economic incentives to telephone service providers to improve productivity and provide the foundation for implementing pricing flexibility necessary to address competitive entry into GTE markets. In total, approximately 50% of Telephone Operations' U.S. regulated revenues are under some form of alternative regulation.

As of January 1, 1995, one-third of GTE's telephone access lines were in five states that have adopted incentive regulation plans for intrastate service, including California, the state containing GTE's largest operation. Beginning in 1994, under an agreement with the California Public Utilities Commission ("CPUC"), GTE California was allowed to retain 100% of any earnings up to a 15.5% rate of return on investment and refund 100% of any earnings above 15.5%. As part of this agreement and its normal annual price cap filing, GTE California reduced its rates by about \$100 million in 1994.

In September 1994, the CPUC issued a final order that generally authorizes toll competition (without pre-subscription) in California, effective January 1, 1995. It also provides for rate rebalancing with significant rate reductions for toll service and access charges while increasing basic local exchange rates closer to the actual cost of providing such service. Although the rate rebalancing is intended to be revenue neutral, its ultimate effect on revenue will depend, in part, on the extent to which rate reductions result in increased calling volumes. The decision does not permit rate increases to compensate for competitive losses of market share. GTE believes that the CPUC has over-estimated the calling volume that will be stimulated by reduced toll rates and has requested reconsideration of this aspect of the decision.

Many other states are currently investigating whether to authorize local and toll competition. Several have concluded that competition is in the public interest and four states, including Florida, have authorized plans that would

allow customers to presubscribe to a specific carrier to handle their toll calls. GTE is challenging these orders primarily based on the lack of equality that prohibits GTE's telephone subsidiaries from providing certain other types of toll service.

For the provision of all interstate services, GTE operates under the terms of the Federal Communications Commission ("FCC") price cap incentive plan whereby earnings above a 12.25% rate of return on investment are shared evenly with the customer. Earnings above a rate of return of 16.25% are returned entirely to the customer.

In 1994, the FCC released an order allowing competing carriers to interconnect to the local-exchange network for the purpose of providing switched and special access transport services. Under this ruling, competitive carriers are allowed to bypass portions of the local-exchange network.

Competition:

These 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. Today, GTE is subject to competition from numerous sources, including competitive access providers for network access services, specialized communications companies that have constructed new systems in certain markets to bypass the local-exchange network, and competing cellular telephone companies. Competition from interexchange carriers, wireless and cable TV companies, as well as more recent entry by media and computer companies, is expected to increase in the rapidly changing telecommunications marketplace.

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.

GTE Initiatives:

The increasingly competitive environment provides GTE with both challenges and opportunities. In order to respond aggressively to these competitive developments and benefit from the new opportunities, GTE has embarked on a series of initiatives.

One such initiative involves the implementation of the \$1.4 billion re-engineering plan for its U.S. Telephone Operations. During 1994, the initial year of the three-year plan, \$343 million was expended as significant progress was made in implementing this program. These expendi-

tures were primarily associated with the consolidation of certain customer service centers, separation benefits associated with employee reductions and incremental expenditures to redesign and streamline systems and processes. During the year, 67 customer contact, network operations and operator service centers were closed and express dial tone was installed in more than 50% of the access lines served by GTE's U.S. Telephone Operations. Express dial tone enables customers to activate service without a service call. During 1995, the level of re-engineering activities and related expenditures are expected to accelerate as pilot programs are rolled out and other major initiatives are completed. The overall re-engineering plan remains on schedule and is expected to result in annual savings of \$1 billion by 1997. Moreover, continued implementation of this program will position GTE to accelerate delivery of a full array of voice, video and data services and to reach its stated objective of being the easiest company to do business with in the industry.

During 1994, GTE also announced plans to construct a new fiber-optic and coaxial-cable video network over the next ten years that will pass seven million homes in 66 key GTE markets. GTE has requested FCC approval to construct facilities in the initial three markets and expects to receive approval and begin construction in 1995. In addition, GTE began offering interactive television service to cable television subscribers in Massachusetts through its new interactive video service, mainStreet. This new service, which allows customers to shop, bank and access various other information services from their home, will be available in many other markets within the next three years. Also, early in 1995, GTE and Nintendo, a leader in the video game industry, entered into a joint venture agreement to develop and market video games and explore new technologies.

In late 1994, the FCC began to auction new licenses for radio spectrum in 51 major markets and 492 basic trading areas across the United States to encourage the development of a new generation of wireless personal communications services ("PCS"). These services will both complement and compete with traditional wireline services and existing cellular service. GTE has registered with the FCC as a bidder on PCS licenses in each metropolitan trade area ("MTA") in which it is eligible to file, except for the MTAs in Texas, and is selectively participating in the auctions. In Texas, GTE and SBC Communications (formerly Southwestern Bell Corporation) have formed an alliance that will enable both companies to provide wireless services in each other's markets. The auctions are not expected to be completed until later in 1995.

In anticipation of these new PCS services, during 1994,

GTE introduced its Tele-Go service to provide anytime, anywhere wireless personal communications. This enhanced service works in concert with local telephone service by providing customers with personal communications that combine the capabilities of both wireline and wireless features. Nearly 120,000 customers in 15 markets throughout the United States signed up for this service during its initial roll-out in 1994.

GTE expects its future results to benefit from reduced costs and the introduction of these and other new products and services that will result in the increased usage of its wireline and wireless networks. However, it is likely that such improvements will be offset, in part, by continued strategic price reductions and the effects of increased competition.

Regulatory Accounting

GTE's telephone companies follow the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("FAS 71"). In general, FAS 71 requires companies to depreciate plant and equipment over lives approved by regulators which may extend beyond the assets' actual economic and technological lives. FAS 71 also requires deferral of certain costs and obligations based upon approvals received from regulators to permit recovery in the future. Consequently, the recorded net book value of certain assets and liabilities, primarily telephone plant and equipment, may be greater than that which would otherwise be recorded by unregulated enterprises. On an ongoing basis, GTE reviews the continued applicability of FAS 71 based on the current regulatory and competitive environment. Although recent developments suggest that the telecommunications industry will become increasingly competitive, the degree to which regulatory oversight of local-exchange carriers, including GTE, will be lifted and competition will be permitted to establish the cost of service to the consumer is uncertain. As a result, GTE continues to believe that accounting under FAS 71 is appropriate. If GTE were to determine that the use of FAS 71 was no longer appropriate, it would be required to write-off the deferred costs and obligations referred to above. It may also be necessary for GTE to reduce the carrying value of its plant and equipment to the extent that it exceeds fair market value. At this time, it is not possible to estimate the amount of the company's plant and equipment, if any, that would be considered unrecoverable in such circumstances. The financial impact of such a determination, however, which would be non-cash, could be material.

Report of Independent Public Accountants

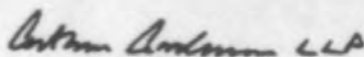
To the Board of Directors and
Shareholders of GTE Corporation:

We have audited the consolidated financial statements of GTE Corporation (a New York corporation) and subsidiaries as of December 31, 1994 and 1993 and for each of the three years in the period ended December 31, 1994 as set forth on pages 33 through 46 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, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Note 5 to the consolidated financial statements, effective January 1, 1992, the company changed its methods of accounting for postretirement benefits other than pensions and for income taxes.



Stamford, Connecticut
January 26, 1995

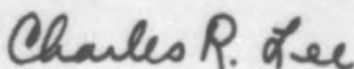
Management Report

To Our Shareholders:

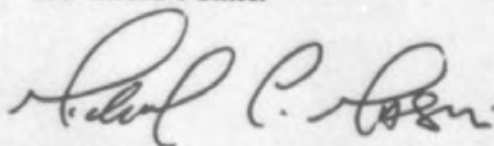
The management of GTE is responsible for the integrity and objectivity of the financial and operating information contained in this annual report, including the consolidated financial statements covered by the Report of Independent Public Accountants. These statements were prepared in conformity with 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 which 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 which require employees to maintain the highest level of ethical standards.

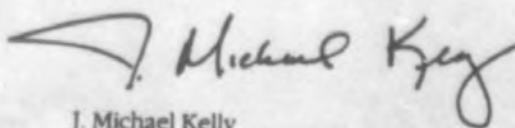
In addition, the Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with management, the internal auditors and the independent public accountants to review internal accounting controls, audit results and accounting principles and practices, and annually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



Charles R. Lee
Chairman and
Chief Executive Officer



Michael T. Masin
Vice Chairman



J. Michael Kelly
Senior Vice President—Finance and
Chief Financial Officer

Business Group Data
GTE Corporation and Subsidiaries

	1994	1993	1992	1991	1990	Five-Year Annual Growth Rate*
Results of Operations:						
<i>(Millions of Dollars, Except Per Share Amounts)</i>						
Revenues and sales	\$19,944	\$19,748	\$19,984	\$19,621	\$19,157	1.6%
Operating income ^(a)	4,846	2,565	4,216	3,742	3,787	1.3
Net income (loss) applicable to common stock ^(a)						
Continuing operations	2,441	972	1,761	1,492	1,579	3.3
Consolidated	2,441	882	(780)	1,543	1,671	—
Earnings (loss) per common share ^(a)						
Continuing operations	2.55	1.03	1.95	1.69	1.82	.9
Consolidated	2.55	.93	(.86)	1.75	1.93	—
Common dividends declared per share	1.88	1.85	1.76	1.64	1.52	6.3
Depreciation and amortization	3,432	3,419	3,289	3,254	3,189	2.5
Research and development	139	135	159	155	137	.5
Assets and Capital:						
Capital expenditures	4,192	3,893	3,909	3,965	4,158	.2
Long-term debt and redeemable preferred stock	12,272	13,175	14,356	16,252	14,130	(1.9)
Consolidated assets	42,500	41,575	42,144	42,437	40,178	2.3
Shareholders' equity ^(a)	10,483	9,593	10,076	11,313	10,727	(.6)
Consolidated Ratios and Other Information:						
Return on common equity ^(b)	24.8%	8.8%	(8.8)%	14.8%	17.1%	—
Return on investment ^(b)	13.1%	6.9%	1.3%	9.4%	10.4%	—
Average common equity	9,838	10,030	8,832	10,434	9,763	.1
Equity ratio	46.2%	42.6%	40.2%	40.8%	41.5%	—
Average investment	25,647	27,322	28,057	29,418	27,354	.2
Employees (in thousands)	111	117	129	159	174	(9.9)
International Operations (Included above):						
Revenues and sales	\$ 2,581	\$ 2,482	\$ 2,369	\$ 2,286	\$ 2,129	5.6%
Net income	276	328	244	227	240	8.2
Total assets	5,826	6,096	5,963	5,757	4,619	6.5
Corporate and Other:						
Restructuring and merger costs ^(a)	\$ —	\$ 72	\$ —	\$ 97	\$ —	—%
Capital expenditures	29	20	24	37	230	—
Total assets	2,285	1,856	2,786	3,689	3,380	(10.2)

Notes to Business Group Data appear on pages 33 and 34:

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

(a) Net income in 1994 includes after-tax gains of \$162 million, or \$.17 per share, on sales of certain non-strategic local-exchange telephone properties. Operating income in 1993 was reduced by a \$1.8 billion pre-tax restructuring charge primarily for the implementation of a re-engineering plan at Telephone Operations and the reduction in the carrying value of satellite communication and certain other assets to estimated net realizable value (see Note 3). Operating income was also reduced by \$74 million for the cost of voluntary separation programs at Telephone Operations. Consolidated net income in 1993 also includes an extraordinary charge of \$90 million for the early retirement of high-coupon debt as well as after-tax gains of \$91 million on the sales of certain non-strategic local-exchange telephone properties. These special items reduced consolidated net income in 1993 by \$1.2 billion, or \$1.27 per share.

The consolidated net loss in 1992 includes a non-cash, after-tax charge of \$2.4 billion, or \$2.70 per share, for the cumulative effect of accounting changes for postretirement health care and life insurance benefits and income taxes (see Note 5); and charges totaling \$100 million, or \$.11 per share, associated with the sale of the Electrical Products Group, which was accounted for as a discontinued operation (see Note 4).

Operating income in 1991 was reduced by pre-tax costs of \$342 million incurred in connection with the merger and integration of GTE Corporation and Contel Corporation. These costs, net of a gain on the transfer of certain cellular properties, reduced 1991 net income by \$204 million, or \$.23 per share.

Business Group Data

GTE Corporation and Subsidiaries

	1994	1993	1992	1991	1990	Five-Year Annual Growth Rate*
Telephone Operations:						
Revenues and sales						
Local network services	\$ 5,345	\$ 5,244	\$ 5,000	\$ 4,792	\$ 4,621	4.8%
Network access services	4,348	4,398	4,477	4,365	4,248	.8
Toll services	3,296	3,330	3,396	3,488	3,480	(1.0)
Equipment sales and services and other	2,916	2,857	2,989	3,007	3,044	(2.1)
Total revenues and sales	15,905	15,829	15,862	15,652	15,393	1.1
Operations and maintenance	8,644	8,796	8,979	8,841	8,773	(.1)
Depreciation and amortization	3,023	2,969	2,849	2,854	2,849	1.6
Restructuring and merger costs ^(a)	—	1,370	—	150	—	—
Operating income	4,238	2,694	4,034	3,807	3,771	—
Capital expenditures	3,398	3,296	3,330	3,491	3,437	(.5)
Total assets	33,774	33,746	33,154	32,446	30,390	2.7
Average total capital	22,110	23,244	22,937	23,423	22,521	.6
Return on common equity	19.8%	10.1%	1.6%	15.0%	16.0%	—
Access minutes of use (in millions)	58,717	55,476	51,976	47,979	44,533	7.9
Access lines (in thousands)	22,859	22,065	21,440	20,490	18,314	5.6
Total ^(c)	17,442	17,073	16,819	16,233	15,810	2.7
United States ^(c)	252	234	208	191	171	10.1
Per employee	90	95	104	109	116	(5.5)
Employees (in thousands)	69	73	81	85	93	(6.6)
Total						
United States						
Telecommunications Products and Services:						
Revenues and sales	\$ 4,039	\$ 3,919	\$ 4,122	\$ 3,969	\$ 3,764	4.0%
Depreciation and amortization	409	450	440	400	340	11.0
Restructuring and merger costs ^(a)	—	398	—	95	—	—
Operating income (loss)	608	(57)	182	32	16	—
Capital expenditures	765	577	555	437	491	15.4
Total assets	6,441	5,973	6,204	6,302	6,408	7.0
Average investment	4,210	4,060	4,252	4,432	3,418	13.4
U.S. Cellular Operations (included above)						
Service revenues	\$ 1,539	\$ 1,082	\$ 853	\$ 675	\$ 478	39.2%
Operating cash flow ^(d)	559	356	266	183	107	61.3
Operating cash flow margin ^(e)	36.3%	32.9%	31.2%	27.1%	22.4%	—
Adjusted "POPs" (in millions) ^(f)	53.0	53.0	53.1	52.2	51.7	—
Subscribers (in thousands)	2,339	1,585	1,090	811	594	42.2

Notes to Business Group Data continued from page 33.

- (b) Excluding the special items described in Note (a), consolidated return on common equity would have been 23.3%, 20.4%, 15.6%, 16.5% and 17.1% while consolidated return on investment would have been 12.5%, 11.2%, 9.5%, 10.1%, and 10.4% in the years 1994-90, respectively.
- (c) Access lines in 1994 and 1993 exclude 448 thousand and 440 thousand net lines, respectively, sold during those years. Total access lines include 2.3 million, 2.0 million, 1.8 million and 1.6 million lines served by CANTV in Venezuela in 1994-91, respectively. GTE acquired operating control of CANTV in 1991. Excluding the effect of the CANTV acquisition and the access lines sold during 1994 and 1993, the five-year total access line growth rate was 4.0%.
- (d) Represents operating income before depreciation and amortization.
- (e) Represents operating cash flow divided by service revenues.
- (f) Represents total United States population served times GTE's percentage interest in the market.

Consolidated Statements of Income

GTE Corporation and Subsidiaries

	Years Ended December 31		
	1994	1993	1992
<i>(Millions of Dollars)</i>			
Revenues and Sales:			
Telephone operations	\$15,905	\$15,829	\$15,862
Telecommunications products and services	4,039	3,919	4,122
Total revenues and sales	19,944	19,748	19,984
Costs and Expenses:			
Telephone operations	11,667	11,765	11,828
Telecommunications products and services*	3,431	3,578	3,940
Restructuring costs	—	1,840	—
Total costs and expenses	15,098	17,183	15,768
Operating income	4,846	2,565	4,216
Other (Income) Deductions:			
Interest expense—net	1,059	1,197	1,332
Other—net	(196)	(190)	130
Total other (income) deductions	863	1,007	1,462
Income before income taxes	3,983	1,558	2,754
Income tax provision	1,532	568	967
Income from continuing operations	2,451	990	1,787
Discontinued operations	—	—	(48)
Extraordinary charge—early retirement of debt	—	(90)	(52)
Cumulative effect of accounting changes	—	—	(2,441)
Net income (loss)	2,451	900	(754)
Preferred stock dividends of parent	10	18	26
Net income (loss) applicable to common stock	\$ 2,441	\$ 882	\$ (780)
Earnings (Loss) Per Common Share:			
Continuing operations	\$ 2.55	\$ 1.03	\$ 1.95
Discontinued operations	—	—	(.05)
Extraordinary charge—early retirement of debt	—	(.10)	(.06)
Cumulative effect of accounting changes	—	—	(2.70)
Consolidated	\$ 2.55	\$.93	\$ (.86)
Average common shares outstanding (in millions)	958	945	905

*Includes cost of sales of \$2,897, \$3,036 and \$3,143 for the years 1994-92, respectively.
See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets
GTE Corporation and Subsidiaries

December 31
1994 1993

Assets

Current Assets:

	(Millions of Dollars)	
Cash and temporary cash investments	\$ 323	\$ 322
Receivables, less allowances of \$207 and \$231	4,022	3,900
Inventories	676	659
Deferred income tax benefits	321	264
Other	292	803
Total current assets	<u>5,634</u>	<u>5,948</u>

Property, Plant and Equipment, at cost:

Telephone operations	44,287	43,099
Accumulated depreciation	<u>(17,656)</u>	<u>(16,737)</u>
	26,631	26,362
Telecommunications products and services and other	4,258	4,160
Accumulated depreciation	<u>(1,561)</u>	<u>(1,802)</u>
	2,697	2,358
Total property, plant and equipment, net	<u>29,328</u>	<u>28,720</u>

Investments and Other Assets:

Franchises, goodwill and other intangibles	2,149	2,102
Investments in unconsolidated companies	1,551	1,431
Prepaid pension costs and deferred charges	3,004	2,462
Long-term receivables and other assets	834	912
Total investments and other assets	<u>7,538</u>	<u>6,907</u>
Total assets	<u>\$ 42,500</u>	<u>\$ 41,575</u>

See Notes to Consolidated Financial Statements.

December 31
1994 1993

Liabilities and Shareholders' Equity

Current Liabilities:

	(Millions of Dollars)	
Short-term obligations, including current maturities	\$ 2,042	\$ 1,644
Accounts and payrolls payable	2,229	1,968
Accrued taxes	871	1,108
Dividends payable	472	469
Accrued restructuring costs	436	540
Advance billings	390	432
Accrued interest	238	227
Other	1,543	1,545
Total current liabilities	8,221	7,933

Long-Term Debt

12,163 13,019

Reserves and Deferred Credits:

Deferred income taxes	3,522	3,128
Employee benefit obligations	4,651	4,667
Restructuring costs and other	1,729	1,973
Total reserves and deferred credits	9,902	9,768

Minority Interests in Equity of Subsidiaries

1,622 1,106

Preferred Stock, subject to mandatory redemption

109 156

Shareholders' Equity:

Preferred stock	10	111
Common stock—shares issued and outstanding 965,084,925 and 951,761,892	48	48
Amounts paid in, in excess of par value	7,627	7,309
Reinvested earnings	3,422	2,769
Guaranteed ESOP obligations	(624)	(644)
Total shareholders' equity	10,483	9,593
Total liabilities and shareholders' equity	\$ 42,500	\$ 41,575

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

GTE Corporation and Subsidiaries

	Years Ended December 31		
	1994	1993	1992
Cash Flows from Operations:			
Income from continuing operations	\$ 2,451	\$ 990	\$ 1,787
Adjustments to reconcile income to net cash from operations:			
Depreciation and amortization	3,432	3,419	3,289
Restructuring costs	—	1,840	—
Deferred income taxes	248	(864)	37
Change in current assets and current liabilities, excluding the effects of acquisitions and dispositions	(1,029)	(13)	(268)
Other—net	(362)	(95)	(13)
Net cash from operations	4,740	5,277	4,832
Cash Flows from Investing:			
Capital expenditures	(4,192)	(3,893)	(3,909)
Acquisitions and investments	(244)	(46)	(84)
Proceeds from sales of assets	1,163	2,267	662
Other—net	4	(66)	55
Net cash used in investing	(3,269)	(1,738)	(3,276)
Cash Flows from Financing:			
GTE common stock issued	422	383	1,513
Long-term debt and preferred securities issued	2,345	2,325	590
Long-term debt and preferred securities retired	(2,481)	(4,836)	(2,002)
Dividends to shareholders of parent	(1,806)	(1,744)	(1,572)
Increase (decrease) in short-term obligations, excluding current maturities	25	304	(254)
Other—net	25	(3)	6
Net cash used in financing	(1,470)	(3,571)	(1,719)
Increase (decrease) in cash and temporary cash investments	1	(32)	(163)
Cash and temporary cash investments:			
Beginning of year	322	354	517
End of year	\$ 323	\$ 322	\$ 354

See Notes to Consolidated Financial Statements.

Consolidated Summary of Preferred Stock and Long-Term Debt

GTE Corporation and Subsidiaries

December 31
1994 1993

(Millions of Dollars)

Preferred Stock:

GTE Corporation

No Par, \$2.475 series, 4,000,000 shares outstanding at December 31, 1993

Other convertible and nonconvertible preferred stock at various rates

\$	—	\$	100
	10		11
\$	10	\$	111

Preferred Stock, subject to mandatory redemption:

GTE Corporation

Par value \$50 per share; 1,459,000 shares authorized at December 31, 1994:

Nonconvertible 1,459,000 and 1,681,000 shares outstanding, average rate 7.81%

Telephone Subsidiaries

Average rates 5.91% and 6.83%

\$	73	\$	84
	36		72
\$	109	\$	156

Long-Term Debt (exclusive of current maturities):

GTE Corporation

Sinking fund debenture, maturing in 2017, at a rate of 10.75%

Debentures, maturing 1998 through 2023, average rate 9.03%

Guaranteed ESOP obligations, maturing 1996-2005, average rate 9.67%

Other debt, average rate 3.19%

\$	200	\$	200
	3,350		3,350
	649		669
	—		553
	4,199		4,772

Telephone Subsidiaries

First mortgage bonds, sinking fund debentures and notes, maturing through 2031, average rates 7.74% and 7.66%

7,108	6,768
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Other Subsidiaries

Sinking fund debentures and notes, maturing through 2010, average rates 7.60% and 8.08%

Total principal amount

Less: discount and premium—net

Total long-term debt

933	1,552
12,240	13,092
(77)	(73)
\$12,163	\$13,019

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

GTE Corporation and Subsidiaries

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of GTE Corporation and subsidiaries ("GTE") include the accounts of all majority-owned subsidiaries. Investments in 20% to 50% owned companies are accounted for on the equity basis. Investments of less than 20% are generally accounted for on the cost basis.

All significant intercompany items have been eliminated, except for sales of construction and maintenance equipment and supplies by majority-owned subsidiaries to regulated telephone subsidiaries. These sales amounted to \$638 million, \$696 million and \$738 million in 1994-92, respectively, and were made at prices which compare favorably with those at which comparable equipment and supplies could have been obtained elsewhere.

Reclassifications of prior year data have been made in the accompanying consolidated financial statements where appropriate to conform to the 1994 presentation.

Regulatory Accounting

GTE's telephone subsidiaries follow the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("FAS 71"). This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, FAS 71 requires companies to depreciate plant and equipment over lives approved by regulators. It also requires deferral of certain costs and obligations based upon approvals received from regulators to permit recovery of such amounts in future years. GTE's telephone subsidiaries annually review the continued applicability of FAS 71 based upon the current regulatory and competitive environment.

Revenue Recognition

Revenues are generally recognized when services are rendered or products are delivered to customers. Long-term contracts are 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

GTE's telephone subsidiaries provide for depreciation on a straight-line basis over asset lives approved by regulators. Other subsidiaries provide for depreciation over the esti-

mated useful lives of assets using the straight-line method. Depreciation provisions in 1994-92 for GTE's telephone subsidiaries were equivalent to a composite average percentage of 7.0%, 6.9% and 6.9%, respectively.

Franchises, goodwill and other intangibles arising from acquisitions are amortized on a straight-line basis over the periods to be benefited, or 40 years, whichever is less. Amortization expense was \$71 million, \$83 million and \$89 million in 1994-92, respectively.

Foreign Currency Translation

Assets and liabilities of subsidiaries operating in foreign countries, except those operating in highly inflationary economies, 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. Gains and losses resulting from foreign currency transactions are included in net income. Translation gains and losses of affiliates operating in highly inflationary economies are included in net income as they occur.

Financial Instruments

GTE enters into a variety of financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates. Amounts to be paid or received under interest rate swaps are accrued as interest expense. Gains or losses on foreign currency contracts are recognized based on changes in exchange rates, as are offsetting foreign exchange gains or losses on the foreign currency obligations being hedged.

Employee Benefit Plans

Pension and postretirement health care and life insurance benefits earned during the year as well as interest on the accumulated benefit obligations are accrued currently. Prior service costs and credits resulting from changes in benefits are amortized over the average remaining service period of the employees expected to receive the benefits.

Income Taxes

Income tax expense is based on reported earnings before income taxes. Deferred income taxes are established for all temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and for tax purposes. Deferred tax balances are adjusted to reflect tax rates, based on currently enacted tax laws, that will be in effect in the years in which the temporary differences are expected to reverse.

Non-U.S. subsidiaries compute taxes at rates in effect in the countries in which they operate. Earnings of these subsidiaries may also be subject to additional income and withholding taxes when they are distributed as dividends. These additional taxes, net of applicable tax credits, are accrued currently, except with respect to earnings which are not expected to be remitted because they are permanently reinvested. Undistributed earnings of non-U.S. subsidiaries deemed to be permanently reinvested were approximately \$385 million at December 31, 1994.

Computer Software

The cost of computer software for internal use, except initial operating system software, is charged to expense as incurred. Initial operating system software is capitalized and amortized over the life of the related hardware.

Earnings Per Share

Earnings per common share is computed by dividing net income (loss) applicable to common stock by the weighted average number of common shares outstanding during the period. Common share equivalents have been excluded from this computation as they do not have a dilutive effect of 3% or more.

Cash and Temporary Cash Investments

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

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of inventories is determined principally by the average or first-in, first-out method of inventory valuation.

2. Investments in Unconsolidated Companies

In early 1994, a GTE-led international consortium, Compania de Telefonos del Interior ("CTI") was awarded two licenses to provide cellular services in the north and south interior regions of Argentina. Since that time, CTI completed construction of its initial networks, finalized interconnect agreements with the respective local exchange wireline carriers and initiated service. GTE, as manager, has a leading 25.5% ownership interest in CTI. As of December 31, 1994, GTE had an investment of \$77 million in CTI and guaranteed \$59 million of its debt.

GTE, as operator, also has a 20.4% ownership interest in Compania Anonima Nacional Telefonos de Venezuela ("CANTV"), the Venezuelan telephone company. CANTV is the exclusive provider for local, national long-distance and international long-distance telephone service in Venezuela. CANTV also provides other telecommunication and related services, including cellular telephone and directory advertising services. As of December 31, 1994, GTE had an investment in CANTV of \$1.1 billion.

GTE accounts for its investments in CTI and CANTV using the equity method. GTE's equity in the results of CTI and CANTV is included in "Other—net" in the accompanying consolidated statements of income. In addition to CTI and CANTV, GTE holds interests in several cellular partnerships that are accounted for using the equity method.

In 1992, GTE sold for \$530 million, or approximately book value, its remaining 19.9% interest in US Sprint, a joint venture formed in 1986 to market long-distance telephone and data-transmission services.

3. Restructuring Costs

Results for 1993 include one-time restructuring costs of \$1.8 billion, which reduced net income by \$1.2 billion, or \$1.22 per share.

These restructuring costs included \$1.4 billion at Telephone Operations primarily to implement its re-engineering plan. This plan is intended to redesign and streamline processes in order to improve customer responsiveness and product quality, reduce the time necessary to introduce new products and services and further reduce costs. The re-engineering plan included \$680 million to upgrade or replace existing customer service and administrative systems and enhance network software, \$410 million for employee separation benefits associated with workforce reductions and \$210 million primarily for the consolidation of facilities and operations and other related costs.

Implementation of the re-engineering plan began during 1994 and is expected to be completed by the end of 1996. Reductions of approximately 17,000 Telephone Operations employees are expected during that time.

During 1994, 67 customer contact, network operations and operator service centers were closed and employee reductions of nearly 3,000 occurred. During the year, expenditures of \$343 million were made in connection with the implementation of the re-engineering plan. These expenditures were primarily associated with the closure and relocation of the various centers described above, separation benefits from employee reductions and incremental expenditures to redesign and streamline processes. The level of re-engineering activities and related expenditures are expected to accelerate in 1995.

The 1993 restructuring charge also included a \$400 million reduction in the carrying value of satellite communication assets of GTE Spacenet ("Spacenet") and certain other assets to estimated net realizable value. This action primarily reflected the development of alternative transmission methods through technological advances and increased competition. During 1994, GTE sold Spacenet at a price that approximated its book value.

During 1993, Telephone Operations offered various voluntary separation programs to its domestic workforce. These programs resulted in a pre-tax charge of \$74 million which reduced net income by \$46 million, or \$0.05 per share.

4. Property Repositioning and Discontinued Operations

In December 1992, GTE announced a plan to pursue the sale or trade of local-exchange telephone properties (representing less than 5% of its U.S. access lines) in markets that may be of greater long-term strategic value to other telephone service providers. GTE substantially completed this program during 1994 with the sale of local-exchange telephone properties serving 448,000 access lines in nine states for \$900 million in cash. During 1993, GTE sold local-exchange telephone properties serving 530,000 access lines in eight states in return for 90,000 access lines in Illinois, Indiana and Michigan and \$1 billion in cash.

As a result of these transactions, GTE recorded pre-tax gains in 1994 and 1993 of \$264 million and \$168 million, respectively, which are included in "Other—net" in the accompanying consolidated statements of income.

For comparability, the following table includes pro forma adjustments to remove, from each of the three years presented, the operating results of the properties sold, through the date of sale. In addition, the table has been adjusted to exclude the 1993 impact of the one-time restructuring charge and the charge associated with the Telephone Operations' voluntary separation programs as described in Note 3 (in millions of dollars):

	1994	1993	1992
Revenues and Sales			
Telephone operations	\$15,717	\$15,203	\$15,144
Telecommunications products and services	4,039	3,919	4,122
Total revenues and sales	\$19,756	\$19,122	\$19,266
Operating Income			
Telephone operations	\$ 4,186	\$ 4,005	\$ 3,862
Telecommunications products and services	608	341	182
Total operating income	\$ 4,794	\$ 4,346	\$ 4,044

In January 1993, GTE sold its worldwide Electrical Products Group ("EPG"). The aggregate sales price, which included the assumption of debt, totaled approximately \$1.2 billion. As a result, in December 1992, GTE recorded after-tax charges totaling \$100 million, including an extraordinary charge of \$52 million resulting from the early retirement of high-coupon debt and a \$48 million charge associated with the sale of EPG. The EPG charge was net of \$315 million of after-tax gains resulting from the settlement of active and retired employee pension obligations. Revenues and sales of EPG were \$2.2 billion in 1992.

5. Accounting Changes

In 1992, GTE adopted Statements of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("FAS 106") and No. 109, "Accounting for Income Taxes" ("FAS 109").

FAS 106 requires the expected cost of postretirement health care and life insurance benefits to be recognized during the years that employees render service. GTE adopted FAS 106 on the immediate recognition basis effective

January 1, 1992 and recorded a one-time, non-cash charge of \$2.3 billion (net of deferred tax benefits of \$1.4 billion), or \$2.59 per share, to give effect to past service costs. Pursuant to FAS 71, a regulatory asset was not recorded due to GTE's assessment of the long-term competitive environment and the uncertainties surrounding the timing and extent of recovery.

FAS 109 changed the method by which companies account for income taxes. Among other things, the statement requires that deferred tax balances be adjusted to reflect new tax rates when they are enacted into law. The cumulative prior years' effect of this change reduced net income by \$100 million, or \$.11 per share, in 1992.

6. Shareholders' Equity

Preferred Stock

Preferred stock has voting rights generally on an equal basis with common stock. Dividends are cumulative on all preferred stock.

Common Stock

The authorized common stock of GTE at December 31, 1994 consisted of two billion shares with a par value of \$.05 per share. The following table sets forth the actual number of shares of common stock issued during each of the last three years (in thousands of shares):

	1994	1993	1992
Employee stock purchase plan	4,344	5,835	9,050
Dividend reinvestment plan	5,504	4,695	4,735
Public offering	—	—	33,000
Other	3,475	1,702	3,838
Total	13,323	12,232	50,623

In 1992, GTE sold 33 million shares of its common stock in a public offering at a price of \$32.875 per share. The net proceeds of \$1.1 billion were used to reduce short-term obligations. As of December 31, 1994, 42 million shares were reserved for issuance under various employee benefit and stock purchase plans and the dividend reinvestment plan.

Amounts Paid In, in Excess of Par Value

The following table sets forth the activity in amounts paid in, in excess of par value during each of the last three years (in millions of dollars):

	1994	1993	1992
Balance, beginning of year	\$7,309	\$7,134	\$6,232
Issuance of common stock	395	201	1,009
Other	(77)	(26)	(107)
Balance, end of year	\$7,627	\$7,309	\$7,134

Amounts paid in, in excess of par value includes the cumulative foreign currency translation adjustment of \$(207) million, \$(168) million and \$(126) million at December 31, 1994-92, respectively, and the cumulative unrealized gains (losses) on investments in debt and equity securities of \$(22) million and \$16 million at December 31, 1994 and 1993, respectively.

Reinvested Earnings

The following table sets forth the activity in reinvested earnings during each of the last three years (in millions of dollars):

	1994	1993	1992
Balance, beginning of year	\$ 2,769	\$ 3,621	\$ 5,977
Net income (loss) applicable to common stock	2,441	882	(780)
Cash dividends declared on common stock	(1,800)	(1,748)	(1,590)
Other	12	14	14
Balance, end of year	\$ 3,422	\$ 2,769	\$ 3,621

Stock Option Plans

GTE maintains stock option plans for management employees. The options may be granted separately or in conjunction with stock appreciation rights. 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 four 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.

The following table summarizes stock option activity during each of the last three years (number of options in thousands):

	Stock Options	Average Price
Balance, January 1, 1992	8,768	\$26.10
Options granted	876	32.11
Options exercised	(1,737)	20.99
Options cancelled or forfeited	(179)	28.22
Balance, December 31, 1992	7,728	27.88
Options granted	1,989	35.24
Options exercised	(1,195)	23.99
Options cancelled or forfeited	(50)	23.21
Balance, December 31, 1993	8,472	30.19
Options granted	4,118	32.53
Options exercised	(173)	25.09
Options cancelled or forfeited	(153)	33.12
Balance, December 31, 1994	12,264	\$31.01

At December 31, 1994, 6.3 million options were exercisable.

Shareholder Rights Plan

GTE maintains a shareholder rights plan to protect shareholders against unsolicited attempts to acquire control of GTE that do not offer what GTE believes to be an adequate price to all shareholders. Under the plan, each outstanding share of GTE Common Stock originally had

associated with it a right to purchase, upon the occurrence of certain events ("Rights"), one one-thousandth of a share of Series A Participating No Par Preferred Stock ("Preferred Stock") at \$200. As a result of the 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 will become exercisable only if a person or group, without GTE's consent, commences a tender or exchange offer for, or acquires 20% or more of the voting power of GTE, or acquires 10% or more of the voting power of GTE and executes an agreement with GTE to effect a merger or other business combination.

In the event that a person or group acquires 20% or more of GTE's voting power without GTE's consent (the "Acquiring Person"), each holder of a Right, other than the Acquiring Person will be entitled to acquire that number of one one-thousandth of a share of Preferred Stock equal to the number of shares of GTE's Common Stock having a market value of twice the exercise price of the Rights. Similarly, if without GTE's consent, GTE is acquired in a merger or other business combination transaction, each holder of a Right will be entitled to acquire voting shares of the acquiring company at twice the value of the exercise price. The Rights may be redeemed by GTE at a price of \$.01 per right, at any time prior to any person or group acquiring 10% or more of GTE's voting power without GTE's consent, and will expire on December 7, 1999.

7. Minority Interests and Redeemable Preferred Stock

During 1994, a subsidiary of GTE issued \$489 million of monthly income preferred securities with a cumulative annual dividend rate of 9.25%, and a maturity of 30 years. Preferred securities of subsidiaries of \$770 million and \$313 million at December 31, 1994 and 1993, respectively, are included in "Minority Interests in Equity of Subsidiaries" in the accompanying consolidated balance sheets.

Certain outstanding preferred stock issues of GTE are redeemable upon notice at the option of the company, in whole or in part, at a premium and certain issues may be redeemed without premiums through annual sinking funds.

GTE redeemed 222,000 shares in 1994; 222,000 shares in 1993; and 177,000 shares in 1992 of its preferred stock. Preferred shares redeemed by GTE's telephone subsidiaries totaled 1,697,657 in 1994; 242,974 in 1993; and 406,898 in 1992. The aggregate redemption requirements for preferred stock subject to mandatory redemption for GTE and its telephone subsidiaries are approximately \$9 million in each of the next five years.

GTE's aggregate voluntary redemption price at December 31, 1994, was \$112 million, including \$38 million for its telephone subsidiaries.

8. Debt

Estimated payments of long-term debt during the next five years are: \$603 million in 1995; \$369 million in 1996; \$677 million in 1997; \$1.4 billion in 1998; and \$1.1 billion in 1999.

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.

During 1993, GTE redeemed prior to scheduled maturity, \$2.1 billion of high-coupon first-mortgage bonds of five of its telephone subsidiaries. As a result, an after-tax extraordinary charge of \$90 million (net of tax benefits of \$53 million), or \$.10 per share, was recorded to reflect the expenses of calling these bonds.

Total short-term obligations, including loans for construction expected to be refinanced, were as follows (in millions of dollars):

	1994	1993
Commercial paper—average rates 6.0% and 3.5%	\$1,411	\$1,326
Notes payable to banks—average rates 8.3% and 9.5%	28	88
Current maturities of long-term debt	603	230
Total	\$2,042	\$1,644

GTE and its subsidiaries had available lines of credit aggregating \$4.1 billion at December 31, 1994.

9. Financial Instruments

GTE enters into interest rate and foreign currency contracts in order to reduce its exposure to fluctuations in interest and foreign exchange rates. At December 31, 1994, GTE had entered into interest rate swap agreements to convert \$469 million of floating rate long-term and short-term debt to fixed rates. In connection with a foreign currency bond maturing in July 1995, GTE entered into a swap agreement with a bank whereby it receives applicable foreign currency amounts to meet annual interest payments and repay the principal at maturity in exchange for payments of U.S. dollar amounts. At December 31, 1994, the principal amount of the outstanding contract was \$112 million.

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. GTE carefully evaluates and continually monitors the creditworthiness of its counterparties and believes the risk of non-performance is remote.

The fair values of financial instruments, other than long-term debt, closely approximate their carrying value. As

of December 31, 1994, the estimated fair value of long-term debt based on either quoted market prices or an option pricing model was lower than the carrying value by approximately \$300 million. The estimated fair value of long-term debt as of December 31, 1993, exceeded the carrying value by approximately \$1.2 billion.

10. Employee Benefit Plans

Retirement Plans

Most subsidiaries have trustee, 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 provide the plans with assets sufficient to meet the benefit obligations of the plans. The assets of the plans consist primarily of corporate equities, government securities and corporate debt securities.

The components of the net pension credit for 1994-92 were as follows (in millions of dollars):

	1994	1993	1992
Benefits earned during the year	\$ 269	\$ 295	\$ 288
Interest cost on projected benefit obligations	542	584	602
Return on plan assets:			
Actual	(29)	(2,073)	(732)
Deferred	(971)	1,110	(201)
Other—net	(168)	(174)	(197)
Net pension credit	\$(357)	\$ (258)	\$(240)

The expected long-term rate of return on plan assets was 8.5% for 1994 and 8.25% for 1993 and 1992.

The funded status of the plans and the prepaid pension costs at December 31, 1994 and 1993, were as follows (in millions of dollars):

	1994	1993
Plan assets at fair value	\$11,950	\$12,840
Projected benefit obligations	6,724	7,391
Excess of assets over projected obligations	5,226	5,449
Unrecognized net transition asset	(644)	(778)
Unrecognized net gain	(2,270)	(2,797)
Prepaid pension costs	\$ 2,312	\$ 1,874

The projected benefit obligations at December 31, 1994 and 1993, include accumulated benefit obligations of \$5.1 billion and \$5.5 billion and vested benefit obligations of \$4.5 billion and \$4.9 billion, respectively.

Assumptions used to develop the projected benefit obligations at December 31, 1994 and 1993 were as follows:

	1994	1993
Discount rate	8.25%	7.50%
Rate of compensation increase	5.50%	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 health care benefits paid under the GTE plans are generally based on comprehensive hospital, medical and surgical benefit provisions. GTE funds amounts for postretirement benefits as deemed appropriate from time to time.

The postretirement benefit cost for 1994-92 included the following components (in millions of dollars):

	1994	1993	1992
Benefits earned during the year	\$ 57	\$ 96	\$ 97
Interest on accumulated postretirement benefit obligations	259	290	293
Actual return on plan assets	6	(6)	(4)
Amortization of prior service benefits	(54)	(4)	—
Other—net	(14)	2	—
Postretirement benefit cost	\$254	\$378	\$386

The following table sets forth the plans' funded status and the accrued obligations as of December 31, 1994 and 1993 (in millions of dollars):

	1994	1993
Accumulated postretirement benefit obligations attributable to:		
Retirees	\$2,731	\$2,723
Fully eligible active plan participants	234	231
Other active plan participants	912	1,106
Total accumulated postretirement benefit obligations	3,877	4,060
Fair value of plan assets	244	181
Excess of accumulated obligations over plan assets	3,633	3,879
Unrecognized prior service benefits	656	710
Unrecognized net loss	(99)	(345)
Accrued postretirement benefit obligations	\$4,190	\$4,244

The assumed discount rates used to measure the accumulated postretirement benefit obligations were 8.25% at December 31, 1994 and 7.5% at December 31, 1993. The assumed health care cost trend rates in 1994 and 1993 were 12% and 13% for pre-65 participants and 9% and 9.5% for post-65 retirees, each rate declining on a graduated basis to an ultimate rate in the year 2004 of 6%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased 1994 costs by \$33 million and the accumulated postretirement

benefit obligations as of December 31, 1994 by \$343 million.

During 1993, GTE made certain changes to its postretirement health care and life insurance benefits for non-union employees retiring on or after January 1, 1995. These changes include, among others, newly established limits to GTE's annual contribution to postretirement medical costs and a revised cost sharing schedule based on a retiree's years of service. The net effect of these changes reduced the accumulated postretirement benefit obligations at December 31, 1993 by \$710 million. The resulting unrecognized prior service benefits are being amortized over the average remaining service lives of the employees.

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, \$66 million and \$72 million in the years 1994-92, respectively.

GTE 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 1994-92 totaled \$84 million, \$81 million and \$77 million, respectively. These payments were funded by \$46 million, \$46 million and \$44 million of dividends accumulated on the GTE stock held by the ESOP and by \$38 million, \$35 million and \$33 million of cash contributions by GTE in 1994-92, respectively.

11. Lease Commitments

GTE has non-cancelable leases covering certain buildings, office space and equipment. Rental expense was \$419 million, \$459 million, and \$590 million in 1994-92, respectively. Minimum rental commitments under non-cancelable leases through 1999 do not exceed \$200 million annually and aggregate \$804 million thereafter.

12. Interest Expense—Net

The components of interest expense—net are as follows (in millions of dollars):

	1994	1993	1992
Interest expense	\$1,139	\$1,298	\$1,475
Interest income	(52)	(61)	(100)
Allowance for funds used and interest capitalized during construction	(28)	(40)	(43)
Total	\$1,059	\$1,197	\$1,332

13. Other—Net

The components of other—net are as follows (in millions of dollars):

	1994	1993	1992
General and administrative corporate expenses	\$ 206	\$ 204	\$187
Minority interests	140	112	112
Preferred dividends of subsidiaries	18	22	23
Equity in income of unconsolidated companies	(74)	(164)	(93)
Gains on sales of non-strategic telephone properties	(264)	(168)	—
Gains on sales of non-strategic cellular properties and other	(222)	(196)	(99)
Total	<u>\$ (196)</u>	<u>\$ (190)</u>	<u>\$130</u>

14. Income Taxes

Income from continuing operations before income taxes is as follows (in millions of dollars):

	1994	1993	1992
Domestic	\$3,475	\$1,002	\$2,300
Foreign	508	556	454
Total	<u>\$3,983</u>	<u>\$1,558</u>	<u>\$2,754</u>

The income tax provision (benefit) is as follows (in millions of dollars):

	1994	1993	1992
Current:			
Federal	\$ 927	\$1,088	\$ 655
Foreign	192	183	171
State and local	165	161	104
	<u>1,284</u>	<u>1,432</u>	<u>930</u>
Deferred:			
Federal	269	(682)	105
Foreign	(1)	2	1
State and local	56	(100)	35
	<u>324</u>	<u>(780)</u>	<u>141</u>
Amortization of deferred investment tax credits—net	(76)	(84)	(104)
Total	<u>\$1,532</u>	<u>\$ 568</u>	<u>\$ 967</u>

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

The components of the deferred income tax provision (benefit) are as follows (in millions of dollars):

	1994	1993	1992
Depreciation and amortization	\$ (88)	\$ 32	\$ 125
Employee benefit obligations	(3)	(80)	(114)
Restructuring costs	299	(667)	—
Prepaid pension costs	144	111	75
Other—net	(28)	(176)	55
Total	<u>\$324</u>	<u>\$ (780)</u>	<u>\$ 141</u>

A reconciliation between taxes computed by applying the statutory federal income tax rate to pre-tax income and income taxes provided in the consolidated statements of income is as follows (in millions of dollars):

	1994	1993	1992
Amounts computed at statutory rates	\$1,394	\$545	\$ 936
State and local income taxes, net of federal tax benefits	144	40	91
Depreciation of telephone plant construction costs previously deducted for tax purposes—net	42	48	46
Minority interests and preferred stock dividends of subsidiaries	39	40	40
Amortization of investment tax credits—net	(76)	(84)	(104)
Rate differentials applied to reversing temporary differences	(34)	(30)	(35)
Other differences—net	23	9	(7)
Total provision	<u>\$1,532</u>	<u>\$568</u>	<u>\$ 967</u>

The tax effects of temporary differences that give rise to the current deferred income tax benefits and deferred income tax liabilities at December 31, 1994 and 1993 are as follows (in millions of dollars):

	1994	1993
Depreciation and amortization	\$ 4,163	\$ 4,180
Employee benefit obligations	(1,853)	(1,850)
Restructuring costs	(368)	(667)
Prepaid pension costs	783	639
Investment tax credits	226	321
Other—net	248	241
Total	<u>\$ 3,201</u>	<u>\$ 2,864</u>

15. Supplemental Cash Flow Disclosures

The changes in current assets and current liabilities, excluding the effects of acquisitions and dispositions, and the cash paid for interest and income taxes are as follows (in millions of dollars):

	1994	1993	1992
(Increase) decrease from current assets:			
Receivables—net	\$ (554)	\$ (706)	\$ (231)
Other current assets	(4)	168	69
Increase (decrease) from current liabilities:			
Accrued taxes and interest	(209)	465	(41)
Other current liabilities	(252)	60	(65)
Net cash used	<u>\$ (1,029)</u>	<u>\$ (13)</u>	<u>\$ (268)</u>
Cash paid during the year for:			
Interest	\$ 1,084	\$1,373	\$1,477
Income taxes	1,598	880	1,016

16. Business Group Data

Business segment data is shown on pages 33 and 34 of this Report.

GTE Quarterly Financial Data

GTE Corporation and Subsidiaries
(unaudited)

	1st QTR		2nd QTR ^(a)		3rd QTR ^(b)		4th QTR ^(c)	
	1994	1993	1994	1993	1994	1993	1994	1993
<i>(Millions of Dollars, Except Per Share Amounts)</i>								
Revenues and sales	\$4,746	\$4,826	\$4,955	\$4,916	\$4,995	\$4,943	\$5,248	\$5,063
Operating income (loss)	1,118	1,101	1,210	1,038	1,246	1,156	1,272	(730)
Net income (loss) applicable to common stock								
Before extraordinary charge	\$ 500	\$ 456	\$ 593	\$ 433	\$ 657	\$ 554	\$ 691	\$ (471)
Extraordinary charge—early retirement of debt	—	—	—	—	—	(90)	—	—
Consolidated	\$ 500	\$ 456	\$ 593	\$ 433	\$ 657	\$ 464	\$ 691	\$ (471)
Earnings (loss) per common share								
Before extraordinary charge	\$.52	\$.48	\$.62	\$.46	\$.69	\$.59	\$.72	\$ (.50)
Extraordinary charge—early retirement of debt	—	—	—	—	—	(.10)	—	—
Consolidated	\$.52	\$.48	\$.62	\$.46	\$.69	\$.49	\$.72	\$ (.50)
Dividends declared per common share	\$.47	\$.455	\$.47	\$.455	\$.47	\$.47	\$.47	\$.47
Stock market price								
High	\$35.25	\$37.75	\$33.63	\$37.38	\$33.25	\$39.00	\$31.38	\$39.88
Low	30.00	34.13	29.50	34.25	29.88	34.63	29.50	35.00
Close	31.00	37.00	31.00	36.13	30.38	38.38	30.38	35.00

- (a) Second quarter 1994 net income includes after-tax gains on sales of non-strategic telephone properties of \$71 million, or \$0.07 per share. Second quarter 1993 operating income includes a pre-tax charge of \$74 million resulting from Telephone Operations' voluntary separation programs. This charge reduced net income by \$46 million, or \$0.05 per share (see Notes 3 and 4 to Consolidated Financial Statements).
- (b) Third quarter 1994 net income includes after-tax gains on sales of non-strategic telephone properties of \$48 million, or \$0.05 per share (see Note 4 to Consolidated Financial Statements).
- (c) Fourth quarter results include after-tax gains on sales of non-strategic telephone properties of \$43 million, or \$0.05 per share, and \$91 million, or \$0.10 per share, in 1994 and 1993, respectively. Fourth quarter 1993 operating loss includes a pre-tax restructuring charge of \$1.8 billion. This charge reduced net income by \$1.2 billion, or \$1.22 per share (see Notes 3 and 4 to Consolidated Financial Statements).

Directors¹

Edwin L. Artzt
Chairman and Chief
Executive Officer,
The Procter & Gamble
Company
*Manufacturer of household and
industrial products*

James R. Barker
Chairman,
The Interlake Steamship Co.,
and Vice Chairman,
Mohr Marine Group, Inc.
and the Moran Towing
Company
Ship owners and operators

Edward H. Budd
Chairman of the Executive
Committee and Director,
Travelers Group
*Insurance and financial
services*

Kent B. Foster
Vice Chairman, GTE,
and President—
GTE Telephone Operations

James L. Johnson
Chairman Emeritus,
GTE

Richard W. Jones
Business Consultant,
PaineWebber Incorporated
Full-service brokerage firm

James L. Ketelsen
Retired Chairman,
Tenneco Inc.
*Industrial company with
varied interests*

Charles R. Lee
Chairman and
Chief Executive Officer,
GTE

Michael T. Masin
Vice Chairman,
GTE

Sandra O. Moose
Senior Vice President,
Director and Chair of the
East Coast as well as
New York Office
Administrator,
The Boston Consulting
Group, Inc.
*International management
consulting group*

Russell E. Palmer
Chairman and
Chief Executive Officer,
The Palmer Group
Private investment firm

Howard Sloan
Private Investor

Robert D. Storey
Partner,
Thompson, Hine & Flory
Law firm

James W. Walter²
Chairman of the Board,
Walter Industries, Inc.
*Manufacturer of home
construction building materials*

Charles Wohlstetter
Vice Chairman,
GTE

¹ Nicholas L. Trivisonno, Executive
Vice President—Strategic Plan-
ning and Group President, has
been nominated for election as a
director at the Annual Meeting
of Shareholders in April 1995.

² Mr. Walter is retiring from the
Board of Directors in April 1995.

Officers

Charles R. Lee
Chairman and
Chief Executive Officer

Kent B. Foster
Vice Chairman, and
President—
GTE Telephone Operations

Michael T. Masin
Vice Chairman

Nicholas L. Trivisonno
Executive Vice President—
Strategic Planning and
Group President

William P. Barr
Senior Vice President and
General Counsel

Bruce Carrwell
Senior Vice President—
Human Resources and
Administration
(retiring March 31, 1995)

J. Michael Kelly
Senior Vice President—
Finance

J. Randall MacDonald
Senior Vice President—
Human Resources and
Administration
(effective April 1, 1995)

Marianne Drost
Corporate Secretary

Geoffrey C. Gould
Vice President—
Government and Federal
Regulatory Affairs
(effective January 31, 1995)

John P. Z. Kent
Vice President—Taxes

Thomas F. Lysaught³
Vice President—Marketing

James Murphy
Vice President and Treasurer

Bruce Redditt
Corporate Vice President—
Public Affairs and
Communications

John C. Redmond³
Vice President—
Research and Engineering, and
President—
GTE Laboratories

Samuel F. Shawhan, Jr.
Vice President—
Government Affairs
(retiring August 1, 1995)

William D. Wilson
Vice President and Controller

D. Otis Wolkins³
Vice President—Quality

³ Officers of GTE Service
Corporation

GTE Corporate Information

Transfer Agent and Registrar

The Transfer Agent and Registrar for GTE's common stock, preferred stock and no par preferred stock is the First National Bank of Boston.

GTE Corporation
c/o Bank of Boston
P.O. Box 9191
Boston, MA 02205-9191
or

GTE Corporation
c/o BancBoston Trust Company
of New York
One Exchange Place
55 Broadway
New York, NY 10006

For overnight delivery services,
use the following address:

GTE Corporation
c/o The First National Bank
of Boston
Blue Hills Office Park
105 Royall Street
Canton, MA 02021

Stock Ownership Questions

Please address questions concerning ownership of common, preferred or no par preferred stock to our Transfer Agent, or call:

1-800-225-5160
in the United States
or call 1-617-575-2990
outside of the United States.

Shareholder Systematic Investment Plan

The Shareholder Systematic Investment Plan provides holders of the Corporation's stock with a convenient way to purchase additional common shares. Shareholders wishing information regarding the plan may write to:
GTE Corporation
c/o Bank of Boston
P.O. Box 9092
Boston, MA 02205-9092

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 automatic direct deposit service is offered at no charge. For more information, contact The Bank of Boston at 1-800-225-5160.

Annual Meeting

The 1995 Annual Meeting of Shareholders will be held on April 19, 1995, at The Italian Center, 1620 Newfield Avenue, Stamford, Connecticut.

Principal Financial Contact

For further information about GTE Corporation and its subsidiaries, please contact:
Investor Relations Department
GTE Corporation
One Stamford Forum
Stamford, CT 06904
203-965-2789
Int'l Telex: 4750071
Fax: 203-965-2520

Stock Exchange Listings

The common stock of GTE Corporation (symbol: GTE) is listed on the following major exchanges in the United States:

New York Stock Exchange
Chicago Stock Exchange
Pacific Stock Exchange

It also is traded on other, regional exchanges.

In Europe, GTE's common stock is listed on the following exchanges:

The Stock Exchange, London
Amsterdam Stock Exchange
Basel Stock Exchange
Geneva Stock Exchange
Lausanne Stock Exchange
Paris Stock Exchange
Zurich Stock Exchange

Additionally, it is listed on the Tokyo Stock Exchange.

The Corporation's 5.00% convertible preferred stock and \$2.00 convertible no par preferred stock are listed on the New York Stock Exchange.

Auditors

Arthur Andersen LLP
400 Atlantic Street
Stamford, CT 06912

10-K Report

A copy of our annual report on Form 10-K filed with the Securities and Exchange Commission may be obtained by writing to:

Corporate Secretary
GTE Corporation
One Stamford Forum
Stamford, CT 06904

Audio Annual Report

An audio cassette version of the 1994 annual report is available to visually impaired shareholders by contacting:
Director, Editorial and Financial Communications Services
GTE Corporation
One Stamford Forum
Stamford, CT 06904

1995
ANNUAL
REPORT

Welcome to GTE!

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WHAT'S
NEW

GTE



AT A
GLANCE



GTE
WORLDWIDE



WHAT WE
CAN DO



WORKING
AT GTE



FORUM

Introducing

Evolution
Society & Technology Evolving Through Time



GTE 1995 ANNUAL REPORT



GTE is one of the world's largest publicly held telecommunications companies, the largest U.S.-based local telephone company and a leading cellular-service provider.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

(Millions of Dollars. Except Per-Share Amounts)

	1995	1994
Consolidated		
Revenues and sales	\$19,957	\$19,528
Operating income	5,056	4,752
Income before extraordinary charges	2,538	2,441
Net income (loss)	(2,144)	2,441
Common shareholders' equity ^(b)	6,871	10,473
Average common shares outstanding (in millions)	970	958
Return on common equity ^(b)	(20.3%)	24.8%
Capital expenditures	4,034	4,192
Access minutes of use (in millions)	64,417	59,247
Access lines (in thousands)	24,135	22,805
Employees (in thousands)	106	111
Per Common Share		
Income before extraordinary charges	\$ 2.62	\$ 2.55
Net income (loss)	(2.21)	2.55
Dividends declared	1.88	1.88
Book value ^(b)	7.05	10.85

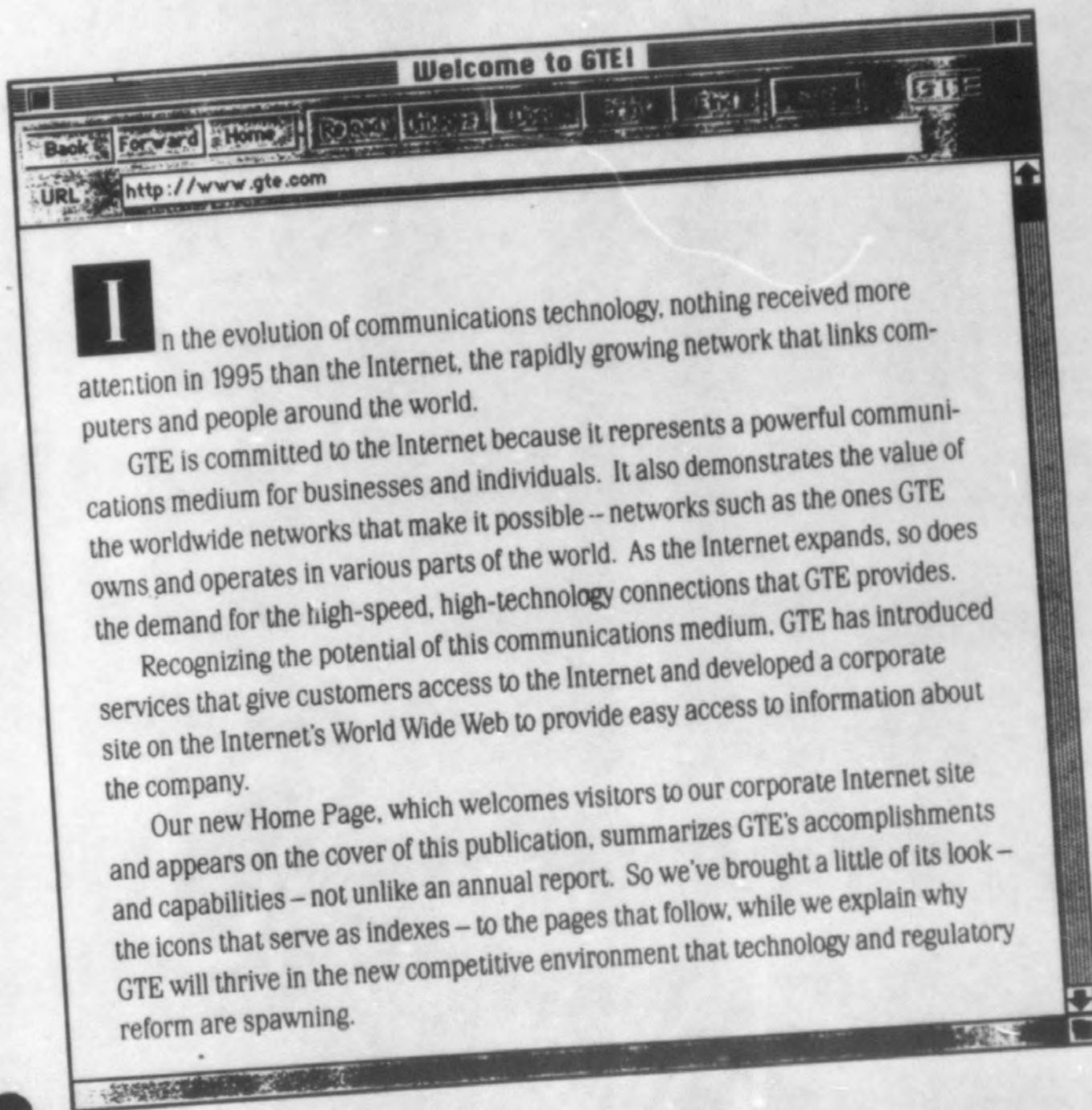
(a) The table below has been adjusted for comparison purposes to exclude from earnings per share the 1995 extraordinary charges of \$4.7 billion, or \$4.83 per share, and the 1995 and 1994 gains on sales of certain nonstrategic domestic telephone properties of \$11 million, or \$0.01 per share, and \$16.2 million, or \$1.7 per share, respectively. In addition, the table includes pro forma adjustments to revenue and operating income to remove the 1994 operating results of GTE Spacenet and the nonstrategic telephone properties sold during 1994.

(Millions of Dollars. Except Per-Share Amounts)	1995	1994	% Change
Revenues and sales	\$19,957	\$19,191	4.0
Operating income	5,056	4,700	7.6
Earnings per share	2.61	2.38	9.7

(b) During 1995, GTE discontinued using the regulatory accounting practices required by Statement of Financial Accounting Standards No. 71 and recorded after-tax, extraordinary charges of \$4.7 billion, or \$4.83 per share. Excluding these charges, common shareholders' equity, return on common equity and book value per share would have been \$11.6 billion, 23.3% and \$11.85 for 1995, respectively.

AN INVITATION

Visit GTE's Home Page.



In the evolution of communications technology, nothing received more attention in 1995 than the Internet, the rapidly growing network that links computers and people around the world.

GTE is committed to the Internet because it represents a powerful communications medium for businesses and individuals. It also demonstrates the value of the worldwide networks that make it possible -- networks such as the ones GTE owns and operates in various parts of the world. As the Internet expands, so does the demand for the high-speed, high-technology connections that GTE provides.

Recognizing the potential of this communications medium, GTE has introduced services that give customers access to the Internet and developed a corporate site on the Internet's World Wide Web to provide easy access to information about the company.

Our new Home Page, which welcomes visitors to our corporate Internet site and appears on the cover of this publication, summarizes GTE's accomplishments and capabilities -- not unlike an annual report. So we've brought a little of its look -- the icons that serve as indexes -- to the pages that follow, while we explain why GTE will thrive in the new competitive environment that technology and regulatory reform are spawning.

CHAIRMAN'S MESSAGE



We expect earnings-per-share growth of not less than 10% for the foreseeable future.

The most important story for 1995 is how well GTE performed. We executed our strategies across the board. As a result, operating income increased 8% to \$5.1 billion, revenues and sales rose 4% to \$20 billion, and earnings per share grew 10% to \$2.61 before special items.

Another sign of our excellent year was that GTE's common stock climbed from \$30.375 to \$43.875. That plus the dividend gave shareholders a total return of 52% in 1995.

To appreciate GTE's current position, you have to remember where we've come from. For several years we've pushed hard to get ready for open competition. We've divested, re-engineered, reorganized and focused on what we do best. Today, GTE is one of the world's pre-eminent telecommunications companies.

We're now entering the era we've been preparing for – when competition breaks out in full force. With passage of the telecommunications bill, competitors can enter our markets and we can enter theirs. We intend to be a winner, not just surviving but also growing revenues, producing strong earnings and maximizing shareholder value. We will succeed because of our four basic strengths, which separate us from our competition.

Strategic Focus: Two years ago we identified the five strategic thrusts most important to us: enhancing wireline voice services, accelerating wireless development, expanding data services, pursuing international opportunities and entering video services. We made significant strides in all areas during 1995, which are discussed in the pages that follow.

Management Depth: GTE has superb management depth. With last June's reorganization, we have created a structure that gives our managers sharper focus and encourages greater team effort. We put all of our domestic commercial operations, including wireline and wireless, under Kent Foster, president, GTE. And we consolidated substantially all international activities and technology resources under Michael Masin, vice chairman, and president – International.

Attractive Markets: While GTE is often compared with the regional Bell operating companies, there are major differ-



ences. Overall, we have broader scope and better markets. They operate in single geographic areas. We operate in 29 states, reaching more than a third of the U.S. population. Their traffic concentrates in big cities. We have more affluent, faster-growing suburbs.

Financial Strength: Our company has a current total market capitalization of \$60 billion. At GTE's last Analysts' Day conference, I re-emphasized that we will remain focused on our primary financial

objective – maximizing shareholder value. We're so confident about the outlook for GTE that we've gone on record with the following: We forecast an earnings-per-share growth rate of not less than 10% for the foreseeable future. We expect continued strong growth domestically, and we look for greater success internationally. We are on target with our massive re-engineering effort to achieve annual operating cost savings of \$1 billion by 1997. Certain factors that may affect these forward-looking statements are discussed on page 23.

Turning to our Board of Directors, I note with sadness the passing last May of Charles Wohlstetter, who became vice chairman when Contel merged with GTE. We also will miss James Walter, who retired from our Board after 26 years of service. They brought a wealth of experience and wisdom to our deliberations. Nicholas Trivisonno also left the Board last year after making many fine contributions to the company.

In closing, I invite our shareholders to join me in thanking all 106,000 GTE employees for a terrific year of effort and success. It is our employees – a skilled, dedicated group of men and women – who are executing a very crucial part of our strategy: To make GTE the easiest telecommunications company to do business with. This will be good for our customers and therefore rewarding to our shareholders.

Chuck Lee

Charles R. Lee
Chairman and Chief Executive Officer
February 20, 1996

HIGHLIGHTS

GTE's far-ranging actions and accomplishments reflect five key thrusts.



Outlining the future direction of the company in 1994, the Office of the Chairman listed five key strategic thrusts: enhancing wireline voice services, accelerating wireless development, expanding data services, pursuing international opportunities and entering video services. GTE's varied actions and accomplishments in 1995 reflect that agenda.

Operating income rose to a record high for the second straight year, totaling \$5.1 billion, up 8%, while revenues and sales rose 4% to \$20 billion.

Access line growth of 6%, outpacing industry gains, increased total U.S. access lines to 18.5 million, with another 5.6 million in international markets.

Network usage growth of 10% also surpassed industry performance; minutes of use topped 64 billion.

Cellular subscriber additions totaled 672,000 in the U.S., an increase of 29%, bringing the total mobile-cellular

customer base to more than three million, with another 536,000 in international markets.

GTE VoiceCall, a voice-activated calling service, was launched on a trial basis in Florida, enabling customers to place calls by speaking the name of the person they wish to reach into the phone.

Video networks, after Federal Communications Commission approval, moved toward start-up, initially in Florida and California.

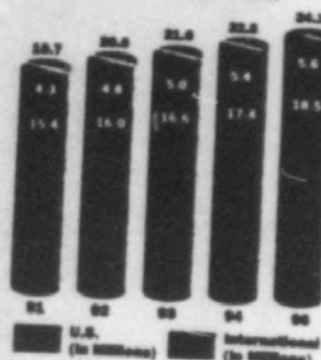
Video programming plans received another significant boost with the signing of an agreement to join The Walt Disney Company and three Bell companies in *Americast*™, a pioneering home-entertainment venture.

The world's first two-way international wireless roaming system – *GlobalRoam*™ – was introduced in collaboration with Deutsche Telekom AG, Germany's national telephone company.

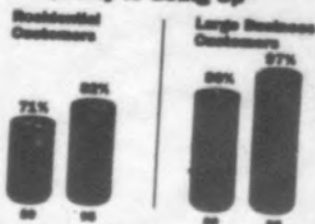
Internet access through GTE.net™ debuted in the Dallas-Ft. Worth metropolitan area, furthering GTE's plans to build a nationwide data-network infrastructure.

The addition of about 10,000 new advertisers helped GTE Directories post a 4.3% increase in domestic sales orders.

**Wireline Operations:
Access Lines**
(Excludes Proposition 60)



Quality is Going Up*



*Percentage of customers rating service good or excellent

In Latin America GTE's joint venture in Argentina built its cellular customer base to more than 100,000 customers, while in Venezuela the national telephone company, CANTV, which GTE manages and has a 20% interest in, achieved significant operational improvements; in Mexico a GTE joint venture obtained a license that could lead to construction of a fiber-optic network linking 60 cities; in Brazil GTE opened an office to pursue opportunities in that important market.

In Asia GTE formed a joint venture to provide a paging network in China, expanded its cellular-communications investments in Japan, and broadened its consulting relationships in Korea.



Chuck Lee

CHAIRMAN AND CEO

As chairman and chief executive officer, Charles R. Lee focuses much of his attention on strategic planning and the issues and trends influencing the global telecommunications industry as well as GTE's future.

Q What's ahead for GTE?

The focusing, cost-cutting and financial strengthening of the past few years are very important. Now the building blocks we've put into place are starting to pay off. We're concentrating on achieving strong growth with strong returns for our shareholders.

Q Why is the telecommunications law so important?

The rationale for reform is straightforward. Telecommunications advances greatly benefit consumers and American competitiveness. In today's economy — where silicon chips and fiber-optic lines are as important as oil and steel — we've been hamstrung by rules made 62 years ago when conditions were far different and we didn't have the tremendous technological capabilities we have now.

Q Are state regulations a problem?

Actually, regulation at the state level has been changing for the better. It builds in incentives. Shareholders participate in the savings produced through re-engineering programs and other economies. Consumers get lower prices



for some services, while we get better margins. About 60% of our access lines are already tied to incentive regulations adopted by various states.

Q How will open competition affect the industry?

In the past, local service providers functioned as monopolies in controlled markets. Now the marketplace is going to set the pace. It will be a free-for-all. Darwinian economics. Survival of the fittest.

Q Shouldn't that concern telecommunications shareholders?

Not ours, certainly. Open competition is going to change the face of GTE, but we've been getting ready for it and we welcome the new environment. Yes, our plans for the future assume some market share loss, but that will be more

than offset by new products and services and entering new businesses, such as long distance.

Q Where will competition be the hottest?

In attractive markets like California. It's already hot there. As of January 1, 1995, we faced new competition on certain long-distance calls within the state. We lost a 10% market share as expected. At the same time, California has been a very good market for new services, such as ISDN (integrated services data network).

Q What's the value of more competition to consumers?

Some people make a serious mistake by equating "value" only with price. It's a lot more. It's a combination of product, price and service. We're bringing our customers a series of new services that make their lives easier, at prices that are competitive. We'll be able to add more new services, and we intend to be nothing less than the easiest company to do business with in our industry.

Q Why do you consider the GTE brand a competitive weapon?

No regional Bell company can match the brand awareness we have among consumers on a national basis, and against the long-distance companies we rank well in our markets. We think consumers

We have clearly defined strategies, continuity and momentum.



will increasingly associate our brand with the positive attributes I just talked about. That will help bring in new customers. We've done a lot of things to become a very visible player in telecommunications, and we're going to become even more visible and more aggressive.

Q What are your views on the alliances occurring in the industry?

We have alliances right now with many companies, and there will be more. For example, in the U.S. we have an alliance with SBC Communications that extends our wireless coverage in Texas, and we're part of a joint venture that handles Yellow Pages advertising for 95 Bell Atlantic directories. We have several international alliances as well, such as the consortium in Venezuela through which we manage the telephone company there.

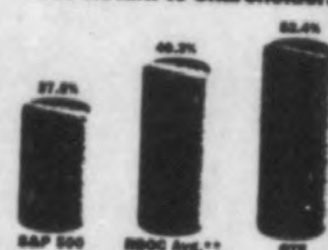
From another perspective, we call AT&T our biggest customer because they pay for access to our lines, but our relationship with them is, in fact, a kind of alliance – and we're competitors too.

In a retail/wholesale world, where companies make their networks available to each other at negotiated prices, there are many ways of working together – and competing at the same time.

Q What's behind Wall Street's more positive view of GTE?

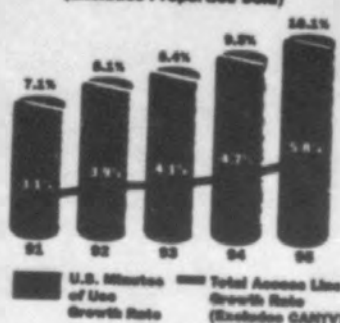
Solid performance, plus a change of perception. At one point Wall Street seemed to think the long-distance companies would prevail at the expense of

1995 Return to Shareholders*

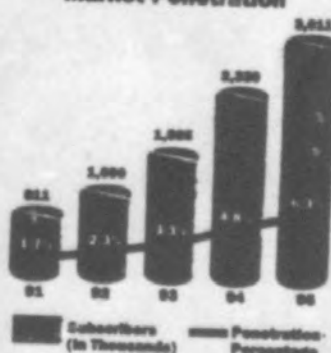


*Assumes dividends are reinvested
**Regional Bell operating companies

Wireline Operations: Minutes of Use and Access Line Growth Rates (Excludes Prepaid Service)



U.S. Cellular Operations: Subscribers and Market Penetration



local-exchange carriers, but there's a new sense that the companies closest to their customers – which describes GTE – will be in the best position to maximize profits. AT&T, MCI and Sprint basically get to their customers through us and other local service providers. We own the infrastructure. We deal directly with the customer every day.

Q So what advantage does GTE offer over the regional Bells?

To reiterate, we're better positioned in the marketplace.

First, our geographic dispersion protects us, to a large degree, from regional economic upheavals.

Second, many of our most attractive markets are in major suburban areas, which gives us the best of two worlds – the growth and affluent characteristics of big city suburbs combined with less competitive pressures in the rural areas we serve.

Third, as I've already mentioned, we have stronger brand recognition. In addition, I'm convinced we have a people and technology edge.

Q Any final word for investors?

I believe GTE is a great investment, not just today but also for many years to come. We have clearly defined strategies, continuity and momentum.

THE GTE BRAND

WIRELESS

VOICE



GTE



IMAGE VIDEO



GTE

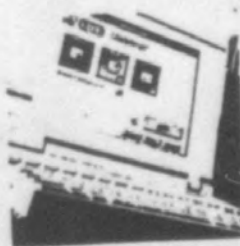
Three letters symbolize shared strengths.
The GTE brand carries an increasingly
powerful punch in the marketplace.



As the telecommunications marketplace moves toward "one-stop shopping," the GTE brand – and what it stands for – has assumed a growing role in distinguishing us from our competitors. The brand tells customers what they can expect: easy-to-use features, innovative applications, solid value, exceptional service. It now encompasses all GTE operations. Today, the familiar GTE logo supporting the brand is seen in more places and on more products and services than ever before. We're promoting the brand with the most extensive national advertising in our history, and consumer surveys show high brand awareness in our markets.



GTE's brand is not only visible at work locations and on GTE products but also in popular leisure settings, such as the Reunion Arena (above), home of the Dallas Stars, and Super Bowl XXX. GTE has provided communications services for the Super Bowl for 11 years.





Kent Foster

PRESIDENT, GTE

Assuming responsibility for both U.S. telephone operations and mobile-cellular, Kent B. Foster became president, GTE, in June 1995. He also oversees GTE Airfone, Information Services (including GTE Directories) and corporate marketing and quality programs.

Q How will the new telecommunications law affect competition?

Both the business and residential markets will become wide open to competition, which will be good for consumers – and a challenge to us. We accept it willingly and are confident that we will be the company of choice in the markets we serve.

Q Will you lose market share?

The gains will far outweigh the losses. We'll gain from strong market growth, by entering the long-distance and home-entertainment markets, and as a wholesaler of wireline and wireless services. At the same time, we expect to lose some market share, just as AT&T after its 1984 breakup lost market share to Sprint and MCI.

Q Will wholesaling revenues be large?

Yes, although it will be a balancing act to set rates. The rates must be attractive to the customer, the company that's selling our service, and ourselves.



Q Why would a competitor buy access rather than build?

Most markets already have two local networks in place, the local telephone company and the local cable company. New networks are expensive.

Q How will GTE enter long distance?

Initially, we'll resell the services of established long-distance providers. Long term, we'll look at what our customers want, and do what is necessary to provide the best service in the most economical way.

Q Why the rush to offer long distance?

We want to move quickly to maximize our home advantage. We know customers want one service provider and one bill at the end of the month.

We'll offer wireline, wireless and long distance. We're also going into video home entertainment, although at a more measured pace.

Q What's the outlook for Airfone and Directories?

They add another set of high-value services and strongly contribute to GTE's goal of providing a single point of contact for all services. They're doing well, and we see good growth ahead.

Q What are GTE's key competitive advantages?

We'll be able to offer customers the best package – quality, price, service, technology.

Q What about the Internet?

The potential for Internet-related business is tremendous, and services will continue to grow. We began offering Internet access to customers in 1995, but access alone is only the beginning. We plan to provide a range of services, and we are developing Internet-related applications that will become part of a broader, integrated offering that includes voice, video and data services.

Q What's your take on GTE's future?

This is a great market, a great environment. We have huge opportunities, and we're well positioned to take advantage of them.

DOMESTIC

Our customers want one-stop shopping, and we're well on our way to providing it.



Our customers tell us they want their telecommunications services – including local, long-distance, wireless and data transmission services – from a single source.

To meet that demand and tap growing market opportunities more efficiently, we combined the strengths and capabilities of our domestic operations into a single organization in 1995.

Domestic operations encompasses four business units: U.S. Telephone Operations (wireline services), Mobilonet (wireless services), Information Services (directories and credit/calling card services) and Airfone (airborne communications).

These domestic operations posted combined revenues of \$16.5 billion in 1995, up 5.3%. All made substantial strides in our drive to deliver features, conveniences and top-quality performance that make customers' lives easier.

Wireline: Enhancements sustain gains.

Growing numbers of our customers don't buy just basic phone services. They add one or more of the dozen-plus custom-calling features we offer, and 10% of the households we serve now have a second line. An estimated 50% of all U.S. households

will have multiple phone lines by the year 2000, due to the growing number of home offices, computers and other factors.

Features that we offer range from caller identification to a voice messaging service that turns an ordinary touchtone



At GTE's Technology Solutions Center in Fort Wayne, Ind., Brenda Coleman, a GTE manager, demonstrates the latest video conferencing technology to a business customer. Visitors from the Midwest come to the center, one of eight in the U.S., to see advanced telecommunications products and services.

phone into an alarm clock, message center and answering machine. Voice-activated services are now in market test.

Complementing such enhanced features, we continue to upgrade customer service. Streamlined processes enabled representatives at our Customer Call Centers to handle an average of 10,000 calls each in 1995 – 20% more than in 1994 – while maintaining high service quality standards.

One aim is to fulfill customer needs during a single phone call, and progress has been excellent. With expansion of the "One Touch" concept, almost a third of all customers who report trouble to repair centers now get their problems solved while they're still on the line. Three years ago the ratio was one out of 200. Quick response eliminated the need for 3.5 million service order and repair dispatches in 1995.

In the business market, we opened a new center in Dallas as a single point of contact to better serve our biggest national business customers. Revenues from CentraNet®, our enhanced

Demand for Wireless and Data Services is Soaring

Wireless Industry Revenues in the U.S. (In Billions)



Networked PCs in the U.S. (In Millions)





New and nontraditional products and services added \$850 million to revenues, an increase of 33% over 1994.

version of Centrex service for businesses of all sizes, are exceeding targets. CentraNet allows equipment at a GTE central facility to switch calls for customers, replacing their traditional on-site PBX systems.

Wireless: Efficiency rises; robust growth continues.

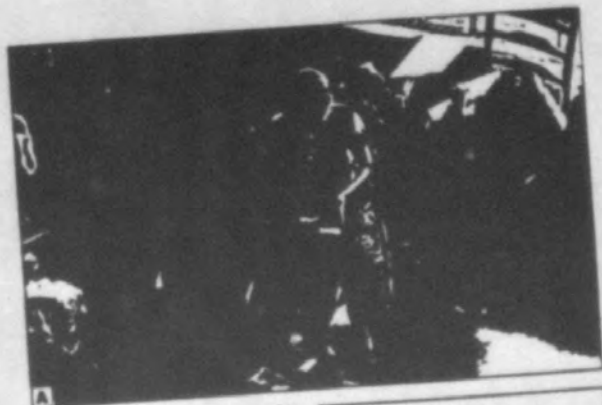
GTE Mobilnet continued to increase the reach and efficiency of its operations as it added 672,000 customers during 1995. At the same time, to raise future retention rates, it launched marketing programs targeted to higher-value customers.

Completion of the merger of Contel Cellular and GTE Mobilnet (in all states except California, pending regulatory approval) unified wireless operations, enhancing the marketing impact of the GTE brand name. Meanwhile, Mobilnet achieved gains in operating efficiency both as a result of that move and improved clustering of markets, primarily through property exchanges and acquisitions.

Expanding its market presence, GTE holds licenses to offer personal communications services (PCS) in the high-potential Seattle, Atlanta and Cincinnati markets. PCS, a new

Some ways we're making customers' lives easier

- **Express dialtone.** Customers who have moved can obtain full phone service at their new address within two hours by plugging a phone into a wall jack; nearly two-thirds of our access lines have this capability - *photo A*.
- **SmartCall® services.** Customers can choose from an array of optional features, such as caller ID, call waiting and 3-way calling - *photo B*.
- **GlobalRoam™.** International travelers can place and receive wireless calls from numerous countries, and the calls will automatically be billed to the home cellular number - *photo C*.
- **InContact™.** Customers can connect home, business and cellular phones, voice mail and pager with one number (initially available in three markets).
- **"One Touch" service.** Almost a third of all customers who report trouble to repair centers have their problems solved while they're still on the line; three years ago the ratio was one out of 200.



DOMESTIC

*We'll spend \$18 billion by 2001
to make improvements in basic services and
add new features and capabilities.*



generation of wireless technology, improves the clarity of voice messages and provides added services – such as paging, voice mail and data transmission.

Availability of cellular digital packet data (CDPD) technology continued to increase. CDPD is a wireless service that transmits data over the existing cellular network.

Conversion of our cellular networks to code division multiple access (CDMA) technology is starting in key markets in 1996. This advanced digital technology allows higher traffic over a single channel than other digital technologies.

Data: Soaring ISDN demand speeds growth.

Revenue from data products rose more than 60% in 1995, with particularly strong contributions from integrated services digital network (ISDN) sales, up 150%. ISDN service is available in 54% of our markets.

Data on ISDN lines move six to 10 times faster than on regular phone lines – a capability increasingly sought by home-based businesses and Internet users as well as companies of all sizes.

GTE's ISDN-based World Class Network, which provides advanced data services, has been deployed in 15 metropolitan markets and has been well received by business customers.

Video: Florida will switch on this spring.

The first of two planned GTE video systems will begin operations this spring in the Tampa Bay area of Florida. Construction of the second, in Thousand Oaks, Calif., just north of Los Angeles, is under way, with the start-up of service scheduled



At GTE's Phone Mart in Largo, Fla., sales associates Theresa Turner and Alan Larkin discuss product features. Eighty-six of GTE's 119 Phone Marts across the U.S. posted more than \$1 million in sales during 1995. Larkin, with transactions totaling \$1.6 million, led the entire U.S. sales force.

for mid-1996. In August we joined The Walt Disney Company and three regional Bell companies – Ameritech, BellSouth and SBC Communications – as an equal partner in Americast™, a venture that is developing video programming and interactive services for millions of American households. The venture will substantially strengthen the appeal of our video products as we expand.

Airfone: Digital service boards more aircraft.

The transition to GTE's Advanced Digital Airfone® Service, introduced in 1994, picked up speed in 1995. By mid-1996 nearly 90% of the aircraft served by GTE Airfone will be equipped with the technologically advanced service. Advanced Digital Airfone Service gives travelers an Airborne Office™, enabling them to be more productive. They can



In both our wireline and wireless operations, the demographics of our markets are excellent.

make and receive calls while in flight, send and receive data and faxes, access e-mail, conduct conference calls and surf the Internet.

Twenty domestic and international carriers offer GTE's airborne communications services and/or equipment.

Directories: New advertisers boost sales orders.

Posting an increase in domestic sales orders of 4.3% in 1995, GTE Directories reinforced its number-two position in the U.S. directories industry and continued its international expansion. It capitalized on opportunities for its core Yellow Pages product, welcoming about 10,000 new advertisers in the U.S., and achieved gains in nontraditional services.

With the addition of more than 200 directories as a result of a recent acquisition, the unit now provides products and services in 47 states and the District of Columbia, including all of GTE's markets.

A new joint venture to publish independent Yellow Pages directories in Hungary represents its most recent expansion in international markets. Directories currently publishes or provides services for about 2,400 titles, and total circulation exceeds 80 million copies. Including GTE's international operations, directory products

and services reach 15 countries and generate revenues of nearly \$1.4 billion.

GTE Directories' broadened initiatives in nontraditional areas include Card Services and New Media Services.



GTE Directories is testing smaller directories, with local white page listings, for cellular customers.

A profile of our markets

- Our wireline operations, in 28 states, and wireless operations, in 15 of those states plus Tennessee, serve markets encompassing more than a third of the U.S. population.
- Our wireless services are available in 74 MSAs (metropolitan statistical areas), with 52 million potential customers – and another 15 million internationally.
- Internationally, we provide phone services in four countries; other GTE services are provided in dozens of countries around the globe.
- Within our U.S. territories we serve more than 12.4 million residential and 6.1 million business lines.
- 45% of our U.S. access lines are in California, Florida and Texas, the three largest Sunbelt states, and a third are in five key metropolitan markets: Dallas, Honolulu, Los Angeles, Riverside/San Bernardino, Calif., and Tampa/St. Petersburg, Fla.

Card Services offers several credit card products and now has more than one million accounts. It also offers prepaid telephone calling cards.

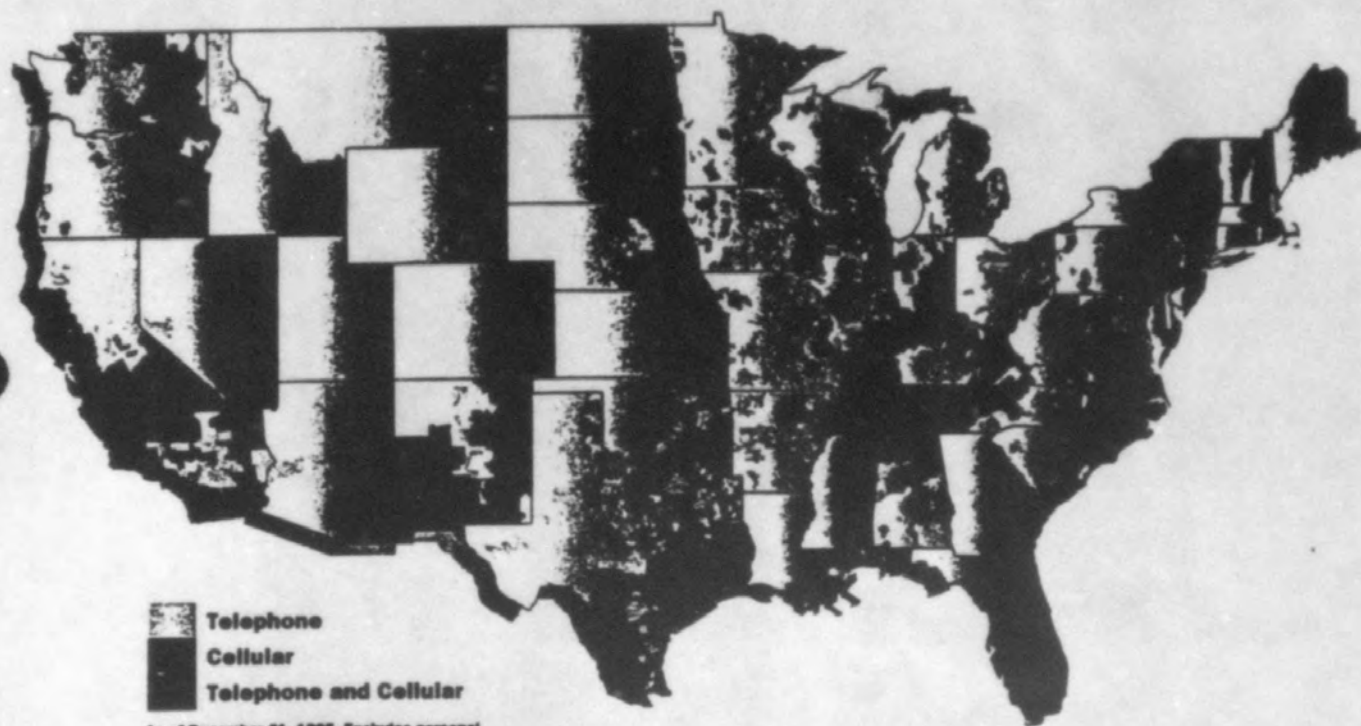
New Media Services is developing online information and interactive services, such as its SuperPages™ online directory. SuperPages provides a high-quality marketing medium for the many businesses attempting to promote services via the Internet. It positions GTE Directories as a leader in the Internet directory industry, and can be located on the World Wide Web at <http://superpages.gte.net>.

GTE'S SERVICE AREAS



Hawaii

Alaska



Telephone
Cellular
Telephone and Cellular

As of December 31, 1996. Excludes personal communications services licenses in the Seattle, Atlanta and Cincinnati major trading areas (MTAs).



BRITISH COLUMBIA
3,700,000*
2,287,000**
219,000***



QUEBEC
550,000*
280,000**
13,000***



DOMINICAN REPUBLIC
7,800,000*
569,000**
33,000***



VENEZUELA
21,000,000*
2,472,000**
168,000***



ARGENTINA
22,000,000*
103,000***

*Population in franchise areas **Access lines ***Cellular customers



Mike Masin

VICE CHAIRMAN, GTE;
PRESIDENT—INTERNATIONAL

Under GTE's new management structure, Michael T. Masin became president—International in June 1995 in addition to serving as vice chairman. He also continues to oversee GTE's legal, human resources, communications and technology functions (including GTE Government Systems and GTE Laboratories).

Q How did last June's restructuring affect GTE's international operations?

It brought together substantially all of our international operations under one roof. Now we can focus our efforts and leverage our considerable international resources to maximize the value of our existing operations and pursue new opportunities.

Q International profits were down in 1995. What have you done to turn performance around?

A series of things. We've made some management changes where necessary. We've refocused some units. We've used GTE's enormous domestic resources and experience to help guide necessary changes. Equally important, everyone in our new international organization is working together to help meet objectives. This year will be critical to our international units as they reposition themselves for profitable growth.



Q What about new opportunities?

We're making good progress in Latin America, one of our targeted areas for growth. In Mexico, we've positioned ourselves well for the open competition coming in the months ahead. We have a solid team and aggressive business objectives. In Brazil, we're also set to participate in the opening of the telecommunications sector, which is likely to begin this year.

Q What's happening in Asia?

We're focusing a great deal of our energy on China, the world's biggest market. We recently announced a joint venture with a Chinese partner, Guangzhou Guangtong Resources Company, to develop a paging network in China, and we're in negotiations on other significant projects as well. We're also studying opportunities in South Korea

and Taiwan, and determining how we can leverage our valuable cellular investments in Japan to best advantage.

Q Why did you put GTE Laboratories and GTE Government Systems under a new management structure?

Much of the tremendous change in our industry is driven by technology, and Chuck Kent and I recognized that GTE has unique technology resources—not only in Government Systems and our Laboratories but also in a number of major business units. We know those resources can give GTE a competitive advantage in this fast-moving world, particularly when they are centrally coordinated to support GTE's overall objectives.

Q Any final observation?

Last year was a watershed year for GTE in many respects—outstanding financial and operational performance and creation of substantial value for our shareholders. But equally important, I see our company as having positioned itself very well for the new competitive world we've entered. GTE has a very clear sense of its future and, most importantly, its virtually unlimited potential.

Over 40 years of international success is a matchless foundation for profitable growth.



Having operated outside the U.S. for over 40 years, GTE is uniquely situated internationally. Today, we manage operations with more than \$4 billion of annual revenue and over six million customers. We are the only U.S. telecommunications company with major operating units both north and south of the U.S. At the same time, we are leveraging our longstanding business activities in Asia to capitalize on the enormous opportunities in that region.

In 1995, GTE's income from all international operations totaled \$220 million before extraordinary charges, down 20%. Most of the decline was due to intense competitive pressures, which resulted in reduced long-distance prices for several of our operating units. However, in 1995 our international units made major strides in repositioning themselves to meet our commitment to double net income over the next five years*.

Canada: Gains in British Columbia and Québec.

Serving British Columbia, BC Telecom sustained an earnings uptrend, while Québec Telephone achieved a modest earnings gain in 1995. In an increasingly competitive environment, the Canadian companies have seen profit margins tighten and have lost some market share. They are responding by intensifying marketing efforts and re-engineering operations using GTE's domestic experience as a model. They also are working with regulators to rebalance rates. The forecasts for the companies are optimistic, given their solid positions and the favorable projections for the Canadian economy.

Dominican Republic: On track to rising earnings.

In recent years CODETEL has been a strong performer. Over the past two years it has faced more vigorous competition and unprecedented profit-margin pressures. CODETEL is regaining its momentum through cost reductions, rate adjustments, initiatives to revitalize its organization, enhanced capabilities and emphasis on newer, higher-margin services.



GTE demonstrated its international services and capabilities at Telecom 95, a quadrennial exhibit and conference in Geneva, Switzerland, for the global telecommunications industry. A three-story, interactive multimedia exhibit, with touch-screen monitors, attracted over 1,000 visitors daily.

Venezuela: Upgrading for an economic rebound.

During a period of monetary devaluations and other severe economic strains in Venezuela, CANTV has improved operating performance, increased its profitability and continued to make prudent capital investments to achieve better returns as the nation's economy recovers. We remain very optimistic about CANTV's future.

Argentina: 100,000 cellular customers.

To win cellular licenses in Argentina in 1994, we assembled a "Quick Start" team and committed ourselves to rapid development of a system covering provinces with a population of 22 million people. By December 1995, CTI, our cellular operation, passed a milestone - 100,000 customers - overcoming a multitude of economic, regulatory and other start-up hurdles. CTI's long-term prospects are excellent.

*See the discussion of forward-looking statements on page 23.



*The scope of our resources
and expertise gives us
a competitive advantage.*

Because our technological capabilities increasingly converge in serving customer needs, we realigned those capabilities in a new organization that includes GTE Government Systems, GTE Worldwide Telecommunications Services and GTE Laboratories. This structure ensures that the extensive activities of the three organizations, together with the substantial technology resources of our business units, will be coordinated effectively in pursuing business objectives. No other local phone company has comparable scope in technology.

GTE Laboratories:

Paving the way to advanced services.

Over the past five years, the people of GTE Laboratories have been awarded more than 260 patents for applied research and development projects. Their work encompasses broadband, wireless, software, intelligent systems and operations automation — areas critical to GTE's success.

Recent successes of special note include:

- **TONICS** — a system that integrates network management and operations functions, which helps speed installation of new technology and provide superior quality, and
- **GRANET** — a comprehensive software package used to create cellular and radio networks providing personal communications services.

Development of cellular fraud-control systems is among GTE Labs' other areas of expertise. It is the Cellular Telecommunications Industry Association's designated technical analysis laboratory and serves as adviser to the entire industry.



At GTE Laboratories in Waltham, Mass., engineer Phil Roscoe examines a print generated by GRANET, a graphics-based software tool developed by GTE to help engineers worldwide plan cellular networks and predict their performance.

GTE Government Systems:

Adapting to the needs of the private sector.

As Department of Defense needs have diminished, GTE Government Systems is adapting leading-edge military applications for other governmental agencies and commercial uses. Along with GTE Worldwide Telecommunications Services, it has customers in more than 20 countries.

Information security is one example of an expertise with considerable growth potential in the private sector. A system designed to assure secure transaction processing for the National Security Agency is now being adapted for commercial use on the Internet and other sites for electronic commerce.

Government Systems also collaborates with other GTE business units to enhance their services. It has assisted the construction of cell sites for GTE's cellular networks in the U.S. and Argentina and provided engineering-design services for GTE Airfone's Advanced Digital Airfone Service.

Preparing our employees for an era of enhanced services is a priority.



With a new competitive era dawning, preparing our workforce – at every level – is a priority. We have intensified our programs to equip GTE's people to succeed in the changing marketplace, while broadening the scope of our efforts to assure a work environment that helps nurture achievement.

To date more than 8,500 GTE managers have completed courses in GTE's three-phase management development curriculum, designed particularly to foster leadership. Participation has been accelerated so that 25,000 GTE managers will complete the curriculum by the end of 1997.

Education and training programs that reach all employees use advanced communications technologies and self-directed modules to ensure "just-in-time" training.

Taking a longer view, we are identifying the specific capabilities GTE will need in the 21st century and the actions required to assure that all are in place. Toward that same goal, we continue to bring new and diverse talent into the organization, from entry to senior levels. In addition, we are enhancing our

compensation plans, not only to recruit effectively but also to provide incentives and rewards to all employees commensurate with our on-going drive to improve performance and service to customers.

To help employees fulfill family obligations, we use a wide array of special programs, such as non-traditional work hours,

Corporate Citizenship: Joining technology and education

While GTE supports a wide variety of programs that benefit the communities we serve, our focus increasingly is on technology-related goals. We are helping schools and other non-profit organizations enhance their ability to use technology more effectively in teaching, placing particular emphasis on efforts that contribute to the creation of technical talent – which is vital to U.S. economic leadership.

The programs include online access and electronic forums based on the PBS television show *Scientific American Frontiers* (which we sponsor), funding for technology-based literacy training, and a new emphasis on technology as a criterion for the annual "Growth Initiatives for Teachers" awards for math and science teachers.

In 1995, contributions through the GTE Foundation totaled \$23 million, and more than half were directed to education.

telecommuting, emergency and school holiday child care, and college planning seminars.

Improving the quality of health care while containing costs remains a key objective, and GTE is in the corporate vanguard. We have become part of a path-breaking alliance to rate and improve the quality of care at health maintenance organizations. In December, ABC's "Nightline" reported that GTE "is being held up as a model of how a company can move its workers into managed care while cutting costs and maintaining quality." By the end of 1996, nearly two-thirds of our employees will be enrolled in managed-care options.



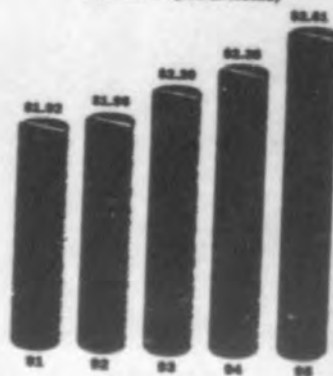
GTE's Family Health Center in Temple, Tex., exemplifies the innovative steps the company is taking to meet varied employee health care needs.

Return to Shareholders

GTE's primary financial objective is to maximize shareholders' long-term total return, consisting of share-price appreciation and dividends. Total return to GTE shareholders in 1995 was 52.4% compared with 49.3% for the regional Bell operating companies and 37.5% for the S&P 500 index. For the five-year period ending in 1995, average annualized total return was 14.4% compared with 14.5% for the regional Bell operating companies and 16.5% for the S&P 500 index. GTE's outstanding stock-price appreciation in 1995 significantly narrowed these differences compared with the same measure in 1994. GTE's commitment to shareholder value is supported by clear investment criteria: investments must be in the company's core business, telecommunications, 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 1995.

Over the past several years, GTE has taken aggressive action to improve its competitive position and enhance its profitability. GTE has: combined its domestic wireline and wireless businesses under common leadership to begin offering "one-stop shopping" for all telecommunications services; combined all international operations into one unit to focus on developing growth opportunities, especially in Latin America and Asia; implemented process re-engineering—which will be substantially completed in 1996; and sold nonstrategic telephone properties. GTE is now better prepared to meet the challenges and opportunities of a fully competitive marketplace with tremendous potential for highly profitable growth.

Consolidated Earnings Per Share
(Excludes Special Items)



impact of the nonstrategic telephone properties sold. During 1995, GTE added 887,000 new cellular customers, bringing total

cellular customers, both domestic and international, to 3.5 million—nearly double the level just two years ago.

Consolidated revenues and sales totaled \$20.0 billion in 1995 compared with \$19.5 billion in 1994. Excluding the revenues from the properties sold and the satellite-communications business divested in 1994, consolidated revenues and sales increased 4% in 1995 (see Note 5 to Consolidated Financial Statements). Strong volume growth in telephone operations and substantial increases in cellular customers more than offset lower, more competitive pricing. In the U.S., new price reductions and regulatory actions, primarily in California, reduced revenues by approximately \$450 million in 1995, bringing cumulative price reductions over the past three years to \$1.1 billion. However, such reductions are expected to moderate in 1996. Outside the U.S., regulatory and competitive pressures increased in Canada and the Dominican Republic as price reductions and rate rebalancing plans were implemented.

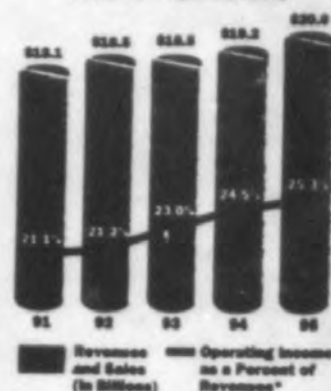
Operating income for 1995 reached a record \$5.1 billion, up 8% excluding the operating income attributable to the properties sold. The increase was due to higher revenues, improved cellular operating margins and ongoing cost reductions from process re-engineering activities. Net interest expense declined slightly as the favorable effects of lower interest rates were partially offset by higher debt balances. Other expense totaled \$5 million in 1995 compared with \$280 million of other income in 1994, primarily reflecting gains recorded in 1994 in connection with telephone property sales. GTE's effective income tax rate declined from 38.6% in 1994 to 36.6% in 1995 primarily as a result of a settlement with the IRS of certain open tax years.

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 Consolidated Financial Statements. For a discussion of the reclassifications made to the prior-year consolidated financial statements, disclosure of recently issued accounting pronouncements and use of financial instruments and contingencies, see Notes 1, 10 and 16 to Consolidated Financial Statements.

In 1994, consolidated revenues and sales totaled \$19.5 billion compared with \$19.3 billion in 1993. Excluding the revenues from the properties sold, consolidated revenues and sales increased 4% during 1994. Strong volume growth for both domestic and international wireline and wireless services drove the improvement. Lower, more competitive domestic telephone pricing, particularly in rates charged to interexchange carriers for access to GTE's local-exchange network, partially offset the strong volume growth. The completion late in 1993 of a major U.S. defense communications contract also offset the volume growth.

Operating income in 1994 increased 11% over 1993 excluding the impact of properties sold and other 1993 special items. This improvement was due to the revenue growth as well as

Consolidated Revenues and Margins (Excludes Properties Sold)



*Excludes special items

1994 as well as one-time after-tax charges totaling \$1.3 billion, or \$1.37 per share, to restructure operations, complete voluntary separation programs and for the early retirement of high-coupon debt.

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 12% to \$5.8 billion compared with \$5.2 billion in 1994. This growth was attributable to placing an additional 1.2 million access lines in service in 1995, a 5.8% increase over last year, driven by 12% growth in second residential lines over 1994. The growth in second lines is primarily attributable to strong consumer demand for fax machines, access to the Internet and online computer services. The increase in revenues was also attributable to a rate rebalancing order issued by the California Public Utilities Commission (CPUC) effective January 1, 1995. The order provided for increases in basic local rates in exchange for significant rate reductions for toll service and access charges. Although this rate rebalancing was intended by the CPUC to be revenue neutral, the actual increase in volumes did not fully compensate for the toll and access rate reductions.

The rollout of new and nontraditional services also drove the increase in local revenues. These services, which include CentraNet® data and custom-calling features, such as Personal Secretary and SmartCall® increased 33% to \$850 million in 1995. These new high-margin services are expected to contribute a larger percentage of GTE's total revenue stream in future years as a result of strong business and consumer demand.

cost-reduction efforts at all business units. Consolidated net income was \$2.4 billion, or \$2.55 per share, which included after-tax gains on sales of certain nonstrategic domestic local-exchange telephone properties of \$162 million, or 17 cents per share. Excluding the impact of special items in both years, consolidated net income in 1994 was \$2.3 billion, or \$2.38 per share, an 8% increase over 1993.

In 1993, consolidated net income was \$882 million, or 93 cents per share. Results in 1993 included gains of \$91 million, or 10 cents per share, similar to those in

Network Access Service Revenues

Interstate and intrastate network access service revenues are based on fees charged to interexchange carriers that use GTE's U.S. local-exchange network in providing long-distance services to their customers. Network access service revenues of \$4.4 billion remained relatively unchanged from 1994. The impact of the 10.1% growth in minutes of use of GTE's domestic local-exchange network for long-distance calling was offset by competitive and regulatory-mandated rate reductions and the effect of the previously discussed 1994 sales of nonstrategic properties.

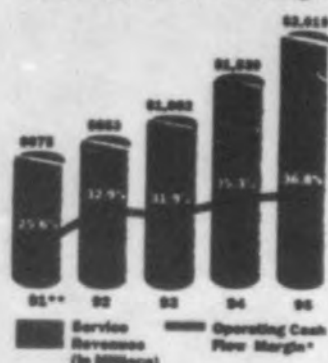
Toll Service Revenues

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). Toll service revenues decreased 22% to \$2.5 billion compared with \$3.3 billion in 1994. This decline was primarily attributable to price reductions to meet competition and regulatory-mandated rate reductions, particularly the previously discussed rate rebalancing actions in California, Canada and the Dominican Republic.

Cellular Service Revenues

Cellular service revenues exceeded \$2 billion for the first time in the company's history, rising 32% to \$2.2 billion. 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 1995 reached 3,011,000, an increase of 29% over 1994. Customer growth slowed at the end of 1995 as various targeted marketing programs successfully focused on the addition of higher-value customers. Cellular market penetration increased to 6.3% in 1995 compared with 4.8% in 1994. This growth was tempered by a decline in revenues per customer in the U.S., reflecting continuing growth of casual and security users in the customer base. During the year revenues per customer in the U.S. averaged \$63 per month compared with \$68 in 1994.

U.S. Cellular Operations: Service Revenues and Operating Cash Flow Margin



*Represents operating income before depreciation and amortization as a percent of service revenues
**Excludes merger integration costs

Directory Services Revenues

Directory services revenues are based on fees charged to publish, print, distribute and sell advertising for Yellow Pages telephone directories. GTE annually publishes or provides sales and other directory-related services for approximately 2,400 different directories in 47 states and 15 foreign countries. Directory service

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revenues increased slightly to \$1.4 billion in 1995, reflecting improved volume in the U.S. partially offset by the completion in 1994 of a contract for the publication of directories in Hong Kong.

Other Services and Sales

Other services and sales include revenues from: GTE Government Systems, which provides telecommunication systems and equipment to U.S. governmental defense and civilian agencies as well as commercial users; GTE Airfone, which provides aircraft-based telecommunication services; and telephone and cellular equipment sales and services. Other services and sales revenues increased slightly to \$3.6 billion in 1995, reflecting the growth in non-network related equipment sales partially offset by the overall decline in U.S. government defense spending. GTE Government Systems received orders valued at \$1.2 billion during 1995, a slight increase compared with 1994, reflecting higher international orders partially offset by the decline in U.S. defense spending.

Cost of Services and Sales

Cost of services and sales declined 2% to \$7.5 billion in 1995 compared with \$7.7 billion in 1994, primarily reflecting the impact of the three-year process re-engineering program at the U.S. telephone operations. This program is redesigning and streamlining processes to improve customer responsiveness and product quality, reduce the time necessary to introduce new products and services, and further reduce costs.

Several re-engineering programs enhanced productivity. Consolidation of work centers and the rollout of technologically-advanced systems reduced labor-intensive processes. For example, Express Dial Tone, which enables a customer to start local service without waiting for a service call, was implemented in most major service territories. Also, GTE's "One Touch" process, which allows a wide range of customer needs to be satisfied by contacting just one service representative, is now available in most of GTE's domestic telephone service areas. U.S. access lines per employee, a key indicator of productivity, totaled 289 at year-end 1995, a 15% increase over 1994 and 55% higher than four years ago, excluding properties sold.

By the end of 1995, GTE's Telephone Operations had reduced its U.S. workforce to approximately 64,000 employees, a 25% decline from four years ago. Since the re-engineering program began two years ago, the workforce has been reduced by over 12,000 employees and contractors. A further workforce reduction of approximately 5,000, bringing the total to 17,000, is expected to be substantially completed by the end of 1996.

Selling, General and Administrative Expenses

Selling, general and administrative expenses rose slightly to \$3.7 billion in 1995. The growth in operating costs, particularly in cellular services, was substantially offset by ongoing cost containment and reduction programs, which have been implemented across all business units.

Depreciation and Amortization

Depreciation and amortization increased 7% to \$3.7 billion in 1995 compared with \$3.4 billion in 1994. The increase reflects the expansion of the telephone network to meet demand for additional lines, enhanced calling features and switched data services and to continue the deployment of enabling technologies for broadband services. The mobile-cellular network was also expanded to provide significantly higher capacity and improve service quality.

Other Income and Expense

Other income and expense is comprised primarily of gains on sale of properties, minority interests and earnings of unconsolidated subsidiaries, which include cellular partnerships, and international ventures. In 1995 GTE reported other expense of \$5 million compared with other income of \$280 million in 1994. Results in 1994 included \$264 million of gains on sales of nonstrategic telephone properties compared with \$16 million in 1995.

During 1995, difficult economic conditions continued in Venezuela, which significantly affected CANTV, the Venezuelan telephone company that is 20.4% owned and operated by GTE. The weak economy, combined with currency controls that began in mid-1994, limited CANTV's access to international banking and capital markets during most of 1995. However, in September 1995, CANTV and a group of creditors completed the refinancing of approximately \$1 billion of CANTV's obligations. As a result, investments in the expansion and modernization of Venezuela's telecommunications system have continued. These investments, along with an overall reduction in debt, were funded by operating cash flow.

Due to the high level of inflation experienced in Venezuela, CANTV's results are substantially influenced by its ability to increase tariffs. CANTV operates under a Concession Agreement with the Venezuelan government that provides, among other things, for quarterly tariff increases based on previous rates of inflation in Venezuela. In 1995, CANTV successfully obtained tariff increases that mitigated the effects of high local inflation and improved its operating margins when compared with 1994. CANTV believes that it can continue to obtain tariff increases in 1996.

Because of the difficult economic conditions, CANTV made only a relatively small contribution to GTE's 1995 earnings. The network modernization program continued to produce excellent results in service quality and productivity. Residential customer satisfaction has doubled to 80% and productivity, as measured by lines per employee, has increased 75% since the GTE led consortium began operations in late 1991. CANTV's cumulative mandates under the Concession Agreement to expand, modernize and improve the telephone network have been met or exceeded.

In December 1995, the Venezuelan government devalued the local currency by 71%. However, due to the mix of local currency and U.S. dollar denominated assets and liabilities, the devaluation did not have a significant impact on GTE's results. GTE believes

these economic difficulties are temporary and will be corrected, and continues to view its interest in CANTV as an excellent long-term investment.

Regulatory and Competitive Trends

Significant regulatory and legislative developments during 1995 and early 1996 opened various sectors of the telecommunications marketplace to greater levels of competition.

In February 1996, federal telecommunications reform legislation was signed into law—addressing a wide range of competitive and regulatory issues that will affect the future development of local and long-distance services, cable television and information services.

The Telecommunications Act of 1996 overhauls 62 years of telecommunications law, replacing government regulation with competition as the chief way of assuring that telecommunications services are delivered to customers. The law removes many of the statutory and court-ordered barriers to competition between segments of the industry, enabling local-exchange, long-distance and cable companies to go head-to-head in offering voice, video and information services.

The new law also sets guidelines to open local-exchange markets, loosens restrictions barring local telephone companies from entering the cable market, preserves universal service while equalizing the responsibility for contribution among all carriers, and lifts controls on cable prices.

A key provision of the law also eliminates the legal restraints of the GTE Consent Decree which has kept GTE's telephone operating companies from providing interLATA services. This action will simplify GTE's ability to market local and interLATA services to customers. GTE plans to offer interLATA services early in 1996.

Another key aspect of the federal legislation requires local telephone companies to allow customers to pre-subscribe to a specific carrier to handle their intraLATA calls. Pre-subscribed customers will simply dial "1" before the telephone number in order to complete intraLATA calls. This action will significantly increase competition in that market.

An order issued by the CPUC that became effective on January 1, 1995 authorized toll competition, without pre-subscription in California. The order also provided for rate rebalancing with significant rate reductions for toll services while increasing local service rates closer to the actual cost of providing such service. As expected, the net effect on GTE of the implementation of this order was a decrease of approximately \$220 million on revenues in California for 1995 and a loss of approximately 10% of its toll market share.

During 1995 the CPUC accelerated the issuance of regulations that facilitated competition in local markets beginning in January 1996. Several carriers have already received approval to enter local markets. GTE and the other major local-exchange carrier

in California will also be able to provide local service in each other's territory.

In addition to California, several other state legislatures have enacted laws favoring competition, which will open the local-exchange market and free existing local-exchange carriers from rate-of-return pricing restrictions. In Florida, legislation was enacted removing an earnings cap beginning in January 1996 concurrent with the opening of the local-exchange market to competition. In Texas, GTE agreed to a six-year price plan while opening the local-exchange market to competition. This plan removes an earnings cap, establishes a universal service mechanism, and requires certain capital spending levels to provide enhanced service capabilities. During 1995 several other states began to consider opening the local-exchange market to competition and associated issues involved in interconnection arrangements, universal service and other issues.

As of the beginning of 1996 approximately 60% of GTE's domestic access lines no longer operate under traditional rate-of-return regulations and have adopted incentive regulation plans for intrastate service.

Interstate access prices charged to interexchange carriers are based on an annual price cap filing with the Federal Communications Commission (FCC), which is effective in July of each year. The pricing formulas allow a local-exchange carrier to select higher productivity factors, which reduce prices, in return for reducing or eliminating a rate-of-return cap. GTE selected a 4% productivity factor in jurisdictions representing approximately half of its access lines and a 5.39% factor for others. The jurisdictions that have a 5.39% productivity factor do not have an earnings ceiling. The other jurisdictions require 50% sharing with customers for returns between 12.25% and 13.25% and a 100% refund for returns in excess of this range. The FCC is considering how the price cap plan should be modified in the future in order to adapt the system to the emergence of competition.

Internationally, the pace of regulatory and competitive change has also accelerated. In Canada, the Canadian Radio-television and Telecommunications Commission, the telecommunications regulatory authority, issued an order opening the market for toll services to full competition. To meet this competition, GTE has implemented aggressive marketing of customer services and technologically advanced product service offerings to minimize loss of market share. In addition, cost saving efforts through planned workforce reductions are being implemented. In the Dominican Republic competitive pressures for international and local toll traffic have begun to impact revenues and operating margins. However, government-approved local rate increases as well as the implementation of productivity improvement programs are expected to offset the impact of competition.

These recent legislative, judicial and regulatory developments, as well as the pace of technological change, have continued to influence industry trends and broaden competition. In virtually all aspects of their businesses, GTE's wireline and wireless operations face increasing competition from numerous sources, including interexchange carriers, competitive access providers for network access services, specialized communications companies that have constructed new systems in certain markets to bypass the local-exchange network, and wireless communications providers. Competition from local-exchange carriers, interexchange carriers, wireless and cable TV companies, as well as more recent entry by media and computer companies, is expected to increase in the rapidly changing telecommunications marketplace.

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.

GTE Initiatives

In 1995, GTE continued to position itself to respond aggressively to competitive developments and benefit from new opportunities.

During 1995, GTE continued the implementation of the \$1.4 billion re-engineering program for its U.S. Telephone Operations. Since the program began in 1994, 258 work centers have been consolidated to 58 and the company's workforce has been reduced by more than 12,000. Costs of \$858 million have been charged to the restructuring reserve—\$585 million related to customer service processes, \$103 million related to administrative processes and \$170 million related to the consolidation of facilities. These costs were primarily associated with the closure and relocation of various centers, software enhancements and separation benefits associated with the workforce reductions. The continued implementation of this program positions GTE to accelerate delivery of a full array of voice, video and data services and to reach its stated objective of being the easiest company to do business with in the industry.

In May 1995, the FCC approved GTE's applications to construct new fiber-optic and coaxial-cable video networks in Ventura County, Calif., and Pasco and Pinellas Counties, Fla. GTE expects to begin delivery of video services to customers during 1996.

In August 1995, GTE signed a definitive agreement to join The Walt Disney Company, Ameritech Corporation, BellSouth Corporation and SBC Communications, Inc. as an equal partner in Americast, a venture designed to provide video programming and interactive services for millions of American households. GTE's involvement strengthens the venture by increasing its combined reach from 50 million to 68 million access lines in 33 states.

GTE and its three other telecommunications partners will distribute, through their local broadband networks, video programming developed by The Walt Disney Company. In addition, GTE will invest in the necessary equipment to deliver program-

ming to its customers. These activities will strengthen GTE's existing activities in video. GTE Interactive Media and GTE mainStreet give GTE the ability to develop, market, publish and distribute video games and interactive programs as well as explore new technologies.

In late 1995, GTE entered the Internet access business. Initially the service will be targeted to schools, universities and business customers. GTE.net, a first step, paves the way for a nationwide data-network infrastructure, allowing GTE to enter new markets and to develop new products and services.

In March 1995, GTE acquired the Seattle, Atlanta and Cincinnati markets for wireless PCS through an auction by the FCC for 1.8 GHz broadband spectrum licenses. Once construction of the network is complete, this will provide GTE with new market coverage and create a more complete "footprint" in several large markets. The Seattle market, already served by GTE wireline service, will be enhanced with wireless offerings, enabling GTE to provide a full bundle of communication services to consumers. The new spectrum in Atlanta and Cincinnati will allow GTE to build on its cluster strategy and to expand an already strong cellular presence.

To capitalize on opportunities for long-term profitable growth, GTE is actively pursuing expansion of its international operations. Specifically, GTE has formed an alliance in Mexico to pursue opportunities when Mexico's telecommunications market opens to competition in 1997. The alliance intends to provide national and international long-distance services.

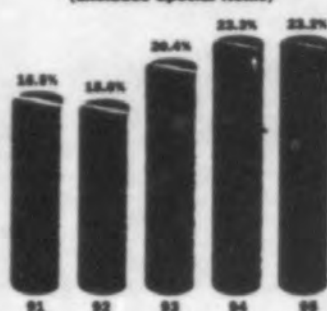
In China, GTE has formed an alliance with China United Telecommunication Corporation for various projects relating to the development of China's second telecommunications network. Additionally in 1996, GTE established a joint venture with a leading Chinese wireless telecommunications operator. GTE will initially invest approximately \$28 million, which will be used to design, build and install wireless networks, provide training and offer technical consulting. The venture's first project is to support a wireless paging system that will eventually encompass 25 cities, including Beijing.

Early in 1995, GTE, as leader of the CTI consortium, completed the construction of a network to provide wireless service to most of Argentina. CTI ended 1995 with over 100,000 customers served by the network. Long-term financing was arranged for CTI in late 1995.

Capital Investment, Resources and Liquidity

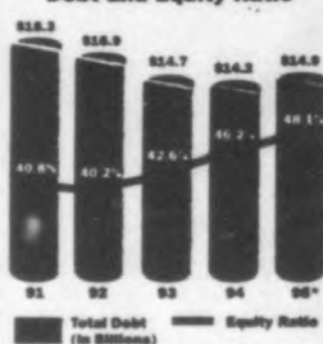
Return on Equity

GTE's return on average common equity was 23.2% in 1995 compared with 23.3% in 1994, before considering the extraordinary charges in 1995 and the gains on the sales of certain nonstrategic domestic local-exchange telephone properties in both years.

Consolidated Return on Equity
(Excludes Special Items)

requirements of GTE's employee benefit and dividend reinvestment programs. At the end of 1995, 3.6 million shares had been repurchased under this program.

Total equity as a percentage of total capitalization was 37.9% at the end of 1995 compared with 46.2% in 1994, primarily reflecting the impact of the extraordinary charges recorded at the end of 1995. Excluding the extraordinary charges, total equity would have been 48.1% of total capitalization at the end of 1995.

Consolidated Debt and Equity Ratio

*Excludes extraordinary charges

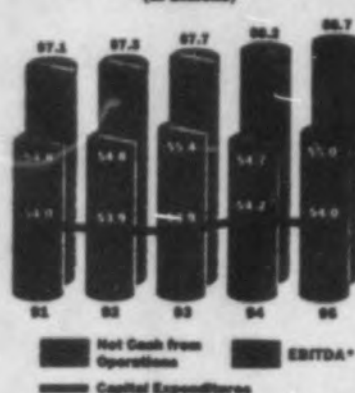
At the end of 1995, GTE redeemed, in advance of scheduled maturity, \$932 million of its telephone operating subsidiaries' high-coupon debt issues and 12 series of preferred stock totaling \$71 million. The refinancing of the high-coupon debt and preferred stock will be completed during 1996.

Capital expenditures totaled \$4.0 billion in 1995, about 4% below the level of expenditures in 1994. The declining requirements for conversion to digital switching systems offset expansion and

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 reasonable financial leverage, while also protecting debtholder interests and ensuring ready access to the capital markets. During 1995, GTE announced plans to repurchase up to 20 million shares of its currently issued common stock from time to time, depending on market conditions. The shares will be used to satisfy the

enhancements of the cellular network, as well as investments in fiber optics and other enabling technologies for broadband services. In 1996, capital expenditures are expected to increase slightly for the deployment of broadband video networks in California and Florida, buildout of the new wireless PCS networks and other requirements for new revenue growth initiatives and expanded service capabilities. In 1996, GTE expects to fund dividends and the capital requirements for its businesses substantially with cash from operations. However, GTE's strong financial position allows ready access to worldwide capital markets for any additional requirements.

Consolidated Cash Flows
(In Billions)

*Represents operating income plus depreciation and amortization, excluding special items

Forward-Looking Statements

GTE has projected earnings-per-share growth of not less than 10% for the foreseeable future. GTE has also projected that revenue will grow by a range of 6% to 8%. In addition, GTE expects net income from existing international operations to double in the next five years.

Risk Factors

GTE's forward-looking statements are based on a series of projections and estimates regarding the economy and the telecommunications industry in general and on key performance indicators which impact the company directly. The projections and estimates regarding the telecommunications industry relate to pricing of services, the effects of competition and the success of new products and services and new businesses such as long distance.

Key performance indicators that have a direct bearing on GTE's ability to attain these projections include continuing annual growth in: telephone access lines and minutes of use; cellular volume and customers; and new and nontraditional revenues at levels that meet internal forecasts. Also, in developing its forward-looking statements, GTE has made certain assumptions relating to productivity improvements and the outcome of various commercial, legal and regulatory proceedings and lack of disruption to its markets.

If GTE's actual performance differs materially from its projections and estimates regarding the economy, the telecommunications industry and key performance indicators, 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 consolidated financial statements of GTE Corporation (a New York corporation) and subsidiaries as of December 31, 1995 and 1994 and for each of the three years in the period ended December 31, 1995 as set forth on pages 25 through 38 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 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."

Arthur Andersen LLP

Stamford, Connecticut
January 25, 1996

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 which 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 which 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

Charles R. Lee
Chairman and
Chief Executive Officer

J. Michael Kelly

J. Michael Kelly
Senior Vice President—Finance and
Chief Financial Officer

SELECTED FINANCIAL DATA

GTE Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Amounts)	1995	1994	1993	1992	1991	Five-Year Annual Growth Rate*
Results of Operations						
Revenues and sales						
Local services	\$ 5,839	\$ 5,234	\$ 5,159	\$ 4,932	\$ 4,746	4.5%
Network access services—interstate	2,741	2,722	2,690	2,774	2,713	.2
—intrastate	1,622	1,626	1,708	1,703	1,652	.4
Toll services	2,548	3,285	3,321	3,388	3,482	(4.9)
Cellular services	2,191	1,666	1,178	929	726	32.9
Directory services	1,383	1,372	1,436	1,405	1,466	1.7
Other services and sales	3,633	3,623	3,838	4,394	4,321	(4.9)
Total revenues and sales	19,957	19,528	19,332	19,525	19,106	1.2
Cost of services and sales	7,537	7,677	7,848	8,229	8,157	(1.6)
Selling, general and administrative	3,689	3,667	3,817	3,977	3,826	(.3)
Depreciation and amortization	3,675	3,432	3,419	3,289	3,254	2.6
Restructuring and merger costs	—	—	1,840 ^(a)	—	342 ^(b)	—
Operating income	5,056	4,752	2,408 ^(c)	4,030	3,527	5.9
Net income (loss) ^(d)						
Continuing operations ^(d)	2,538	2,441	972	1,761	1,492 ^(b)	9.8
Consolidated ^(e)	(2,144)	2,441	882	(780) ^(f)	1,543 ^(g)	—
Earnings (loss) per common share ^(h)						
Continuing operations ^(d)	2.62	2.55	1.03	1.95	1.69 ^(b)	7.2
Consolidated ^(e)	(2.21)	2.55	.93	(.86) ^(f)	1.75 ^(g)	—
Common dividends declared per share	1.88	1.88	1.85	1.76	1.64	4.4
Book value per share	7.05 ^(e)	10.85	9.96	10.61	12.21	(8.2)
Average common shares outstanding (in millions)	970	958	945	905	882	2.5
Assets and Capital						
Consolidated assets	37,019 ^(e)	42,500	41,575	42,144	42,437	(1.2)
Long-term debt and redeemable preferred stock	12,744	12,236	13,103	14,277	16,153	(3.9)
Shareholders' equity	6,871 ^(e)	10,483	9,593	10,076	11,313	(6.9)
Cash from continuing operations	5,033	4,740	5,373	4,832	4,643	2.8
Capital expenditures	4,034	4,192	3,893	3,909	3,965	.1
Consolidated Ratios and Other Information						
Return on common equity ^(f)	(20.3)%	24.8%	8.8%	(8.8)%	14.8%	—
Return on investment ^(f)	(4.2)%	13.1%	6.9%	1.3%	9.4%	—
Average common equity	10,539	9,838	10,030	8,832	10,434	1.0
Equity ratio	37.9% ^(e)	46.2%	42.6%	40.2%	40.8%	—
Average investment	27,150	25,647	27,322	28,057	29,418	(1.3)
Research and development	137	139	135	159	155	(1.4)
Employees (in thousands)						
Total	106	111	117	129	159	(9.9)
United States	85	89	94	104	124	(9.6)
International Operations (Included above)^(g)						
Revenues and sales	\$ 2,583	\$ 2,616	\$ 2,520	\$ 2,401	\$ 2,317	3.9
Income before extraordinary charges	220	276	328	244	227	1.3
Total assets	6,210	5,826	6,096	5,963	5,757	4.5

Notes to Selected Financial Data appear on page 26.

SELECTED FINANCIAL DATA

GTE Corporation and Subsidiaries

(Millions of Dollars)	1995	1994	1993	1992	1991	Five-Year Annual Growth Rate*
Network Statistics						
Access minutes of use (in millions)	64,417	59,247	55,864	52,180	48,169	7.5%
Access lines (in thousands)						
Total ^(a)	24,135	22,805	22,043	21,427	20,481	5.1
United States ^(b)	18,527	17,442	17,073	16,819	16,233	3.0
Switched	16,665	16,037	15,929	15,835	15,338	2.0
U.S. lines per employee	289	252	234	208	191	10.7
Cellular subscribers (in thousands)						
Total	3,547	2,660	1,787	1,204	881	41.9
United States	3,011	2,339	1,585	1,090	811	39.6
Adjusted "POPs" (in millions) ^(c)						
Total	82.4	68.0	63.4	60.8	59.9	—
United States	67.4	53.0	53.0	53.1	52.2	4.0
U.S. Telephone Operations						
Revenues and sales	\$13,375	\$13,212	\$13,162	\$13,160	\$12,950	.9
Operating income ^(a)	3,621	3,490	1,962 ^(c)	3,284	3,073 ^(b)	1.9
Operating cash flow margin	47.8%	46.4%	34.7%	44.1%	43.4%	—
Capital expenditures	2,564	2,821	2,811	2,859	3,004	(2.4)
U.S. Cellular Operations						
Service revenues	\$ 2,019	\$ 1,539	\$ 1,082	\$ 853	\$ 675	32.7
Operating income	410	278	124	77	(29) ^(b)	—
Operating cash flow margin ^(d)	36.8%	35.3%	31.9%	32.9%	21.4%	—
Capital expenditures	709	610	389	376	260	21.2

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

(a) See Note 4 on 1993 Restructuring Costs.

(b) Reflects costs incurred in connection with the merger and integration of GTE Corporation and Contel Corporation, including \$150 million and \$29 million at U.S. Telephone and U.S. Cellular Operations, respectively. These costs, net of a gain on the transfer of certain cellular properties, reduced 1991 net income by \$204 million, or \$.23 per share.

(c) Includes a \$74 million pre-tax charge (\$46 million after-tax, or \$.05 per share) for the cost of voluntary separation programs at U.S. Telephone Operations.

(d) 1995, 1994 and 1993 include after-tax gains of \$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) 1992 reflects a noncash, after-tax charge of \$2.4 billion, or \$2.70 per share, for the cumulative effect of accounting changes for postretirement health care and life insurance benefits as well as income taxes, as a result of the adoption of Statements of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and No. 109, "Accounting for Income Taxes," respectively.

1992 also includes charges totaling \$100 million, or \$.11 per share, associated with the sale of the Electrical Products Group, which was accounted for as a discontinued operation. 1991 includes net income from discontinued operations of \$51 million, or \$.06 per share (see Note 5 on Property Repositioning and Discontinued Operations).

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

	1995	1994	1993	1992	1991	Five-Year Annual Growth Rate*
Net income (in millions)	\$2,527	\$2,279	\$2,077	\$1,761	\$1,696	10.2%
Earnings per share	2.61	2.38	2.20	1.95	1.92	7.6
Return on common equity	23.2%	23.3%	20.4%	15.6%	16.5%	—
Return on investment	12.8%	12.5%	11.2%	9.5%	10.1%	—

(g) Includes GTE's international affiliates as well as international activities from domestic companies.

(h) Access lines in 1994 and 1993 exclude 448,000 and 440,000 net lines, respectively, sold during those years. Total access lines include 2.5 million, 2.3 million, 2.0 million, 1.8 million and 1.6 million lines served by CANTV in 1995-1991, respectively. GTE acquired operating control of CANTV in 1991. Excluding the effect of the CANTV acquisition and the access lines sold during 1994 and 1993, the five-year total access line growth rate was 4.3%.

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

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

FINANCIAL STATEMENTS

Consolidated Statements of Income GTE Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Amounts)

	Years Ended December 31		
	1995	1994	1993
Revenues and Sales			
Local services	\$ 5,839	\$ 5,234	\$ 5,159
Network access services	4,363	4,348	4,398
Toll services	2,548	3,285	3,321
Cellular services	2,191	1,666	1,178
Directory services	1,383	1,372	1,438
Other services and sales	3,633	3,623	3,838
Total revenues and sales	19,957	19,528	19,332
Operating Costs and Expenses			
Cost of services and sales	7,537	7,677	7,848
Selling, general and administrative	3,689	3,667	3,817
Depreciation and amortization	3,675	3,432	3,419
Restructuring	—	—	1,840
Total operating costs and expenses	14,901	14,776	16,924
Operating Income	5,056	4,752	2,408
Other (Income) Expense			
Interest—net	1,047	1,059	1,197
Other—net	5	(280)	(329)
Income before income taxes	4,004	3,973	1,540
Income taxes	1,466	1,532	568
Income before extraordinary charges	2,538	2,441	972
Extraordinary charges	(4,682)	—	(90)
Net Income (Loss)	\$ (2,144)	\$ 2,441	\$ 882
Earnings (Loss) Per Common Share			
Before extraordinary charges	\$ 2.62	\$ 2.55	\$ 1.03
Extraordinary charges	(4.83)	—	(.10)
Net Income (Loss)	\$ (2.21)	\$ 2.55	\$.93
Average common shares outstanding (in millions)	970	958	945

See Notes to Consolidated Financial Statements.

FINANCIAL STATEMENTS

Consolidated Balance Sheets QTE Corporation and Subsidiaries

(Millions of Dollars)	December 31	
	1995	1994
Assets		
Current Assets		
Cash and temporary investments	\$ 332	\$ 323
Receivables, less allowances of \$263 and \$207	4,227	4,022
Inventories and supplies	719	676
Deferred income tax benefits	330	321
Other	284	292
Total current assets	<u>5,892</u>	<u>5,634</u>
Property, plant and equipment, net	22,437	29,328
Employee benefit plans	3,058	2,529
Franchises, goodwill and other intangibles	2,765	2,149
Investments in unconsolidated companies	1,745	1,551
Other assets	1,122	1,309
Total assets	<u>\$37,019</u>	<u>\$42,500</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term obligations, including current maturities	\$ 2,156	\$ 2,042
Accounts payable and accrued expenses	3,858	4,010
Taxes payable	890	871
Accrued restructuring costs	512	436
Dividends payable	476	472
Other	420	390
Total current liabilities	<u>8,312</u>	<u>8,221</u>
Long-term debt	12,744	12,163
Employee benefit plans	4,638	4,651
Deferred income taxes	1,203	3,522
Minority interests in equity of subsidiaries	2,230	1,658
Other liabilities	1,021	1,729
Total liabilities	<u>30,148</u>	<u>31,944</u>
Preferred Stock, subject to mandatory redemption	—	73
Shareholders' Equity		
Preferred stock	—	10
Common stock—shares issued 977,483,844 and 965,084,925	49	48
Additional paid-in capital	8,049	7,627
Retained earnings (deficit)	(534)	3,422
Guaranteed ESOP obligations	(603)	(624)
Treasury stock—2,423,284 shares in 1995, at cost	(90)	—
Total shareholders' equity	<u>6,871</u>	<u>10,483</u>
Total liabilities and shareholders' equity	<u>\$37,019</u>	<u>\$42,500</u>

See Notes to Consolidated Financial Statements.

FINANCIAL STATEMENTS

Consolidated Statements of Cash Flows QTE Corporation and Subsidiaries

(Millions of Dollars)	Years Ended December 31		
	1995	1994	1993
Operations			
Income before extraordinary charges	\$ 2,538	\$ 2,441	\$ 972
Adjustments to reconcile income before extraordinary charges to net cash from operations:			
Depreciation and amortization	3,675	3,432	3,419
Deferred income taxes	484	248	(864)
Restructuring costs	—	—	1,840
Changes in current assets and current liabilities, excluding the effects of acquisitions and dispositions:			
Receivables—net	(561)	(554)	(706)
Other current assets	(92)	(4)	168
Accrued taxes and interest	(25)	(209)	465
Other current liabilities	(598)	(262)	60
Other—net	(388)	(352)	19
Net cash from operations	<u>5,033</u>	<u>4,740</u>	<u>5,373</u>
Investing			
Capital expenditures	(4,034)	(4,192)	(3,893)
Acquisitions and investments	(798)	(244)	(46)
Proceeds from sales of assets	314	1,163	2,267
Other—net	17	4	(66)
Net cash used in investing	<u>(4,501)</u>	<u>(3,269)</u>	<u>(1,738)</u>
Financing			
Common stock issued	385	422	383
Purchase of treasury stock	(133)	—	—
Dividends	(1,827)	(1,806)	(1,744)
Long-term debt and preferred securities issued	1,098	2,345	2,325
Long-term debt and preferred securities retired	(1,553)	(1,178)	(4,539)
Increase (decrease) in short-term obligations, excluding current maturities	1,529	(1,278)	7
Other—net	(22)	25	(99)
Net cash used in financing	<u>(523)</u>	<u>(1,470)</u>	<u>(3,667)</u>
Increase (decrease) in cash and temporary investments	9	1	(32)
Cash and temporary investments			
Beginning of year	323	322	354
End of year	<u>\$ 332</u>	<u>\$ 323</u>	<u>\$ 322</u>
Cash paid during the year for			
Interest	\$ 1,133	\$ 1,084	\$ 1,373
Income taxes	<u>985</u>	<u>1,598</u>	<u>880</u>

See Notes to Consolidated Financial Statements.

FINANCIAL STATEMENTS

Consolidated Statements of Shareholders' Equity QTE 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, 1992	\$ 112	\$ 47	\$ 7,134	\$ 3,621	\$ (657)	\$ (181)	\$ 10,076
Net income				882			882
Dividends declared				(1,748)			(1,748)
Common stock issued under employee and shareholder plans (6,614,705 shares)		1	201				202
Treasury stock issued (5,616,851 shares)						181	181
Other	(1)		(26)	14	13		—
Shareholders' Equity, December 31, 1993	111	48	7,309	2,769	(644)	—	9,593
Net income				2,441			2,441
Dividends declared				(1,800)			(1,800)
Common stock issued under employee and shareholder plans (13,323,033 shares)			395				395
Retirement of preferred stock (4,000,000 shares)	(100)						(100)
Other	(1)		(77)	12	20		(46)
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 stock issued under employee and shareholder plans (12,398,919 shares)		1	369				370
Purchase of treasury stock (3,589,200 shares)						(133)	(133)
Treasury stock issued (1,165,916 shares)						43	43
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

See Notes to Consolidated Financial Statements.

FINANCIAL NOTES

Notes to Consolidated Financial Statements GTE Corporation and Subsidiaries

1. Summary of Significant Accounting Policies

Description of Business

GTE Corporation and subsidiaries (GTE) is the largest U.S.-based local telephone company. GTE's domestic and international operations serve 24.1 million access lines in the United States, Canada, the Dominican Republic and Venezuela. Domestically, GTE is a leading mobile-cellular operator with the potential of serving 67 million cellular and personal communications service customers. Outside the United States, GTE operates mobile-cellular networks serving some 15 million POPs through affiliates in Canada, the Dominican Republic, Venezuela and Argentina. GTE is also a leader in government and defense communications systems and equipment, aircraft-passenger telecommunications, directories and telecommunications-based information services and systems.

Basis of Presentation

GTE prepares its consolidated financial statements in accordance with generally accepted accounting principles, which require that management 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.

GTE's telephone subsidiaries discontinued applying the provisions 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 (see Note 2). The 1995 financial statement presentation reflects account classifications consistent with unregulated enterprises operating in a competitive environment. Specifically, intercompany sales and related costs of materials and equipment to regulated telephone operations have been eliminated. In addition, uncollectible revenue accounts have been reclassified from revenues and sales to selling, general and administrative expenses. Reclassifications of prior-year data have been made, where appropriate, to conform to the 1995 presentation.

Revenue Recognition

Revenues are generally recognized when services are rendered or products are delivered to customers. Long-term contracts are 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

GTE's telephone subsidiaries have historically provided for depreciation on a straight-line basis over asset lives approved by regulators. Beginning in 1996, GTE's telephone subsidiaries will provide for depreciation on a straight-line basis over the estimated economic lives of their assets (see Note 2). All other subsidiaries provide for depreciation over the estimated economic lives of assets using the straight-line method.

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 \$87 million, \$71 million and \$83 million in 1995-93, respectively. Accumulated amortization was \$404 million and \$319 million at December 31, 1995 and 1994, respectively.

Goodwill resulting from investments in unconsolidated subsidiaries is also 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, except those operating in highly inflationary economies, 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 accumulated 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.

FINANCIAL NOTES

Income Taxes

Deferred tax assets and liabilities are established for temporary differences between financial and tax reporting bases 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 any deferred tax asset for which realization is not likely.

Deferred income taxes are not provided on undistributed earnings of foreign subsidiaries, aggregating approximately \$381 million at December 31, 1995, as such earnings are expected to be permanently reinvested in those companies.

Computer Software

The cost of computer software for internal use, except initial operating system software, is charged to expense as incurred. Initial operating system software is capitalized and amortized over the life of the related hardware.

Earnings Per Share

Earnings per common share is computed by dividing net income (loss) applicable to common stock by the weighted average number of common shares outstanding during the period. Common share equivalents have been excluded from this computation since they do not have a dilutive effect of 3% or more.

Cash and Temporary Investments

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

Inventories and Supplies

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

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (FAS 121) in March 1995, which is effective January 1, 1996. FAS 121 requires that an impairment loss be recognized when circumstances indicate that the carrying amount of an asset may not be recoverable. Historically, GTE has used a methodology similar to FAS 121 in determining the amount of an impairment. Accordingly, the issuance of FAS 121 will not have a significant impact on GTE's consolidated financial statements.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based

Compensation" (FAS 123). As permitted by FAS 123, GTE will continue to apply the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and adopt the disclosure requirements of FAS 123 beginning in 1996. Accordingly, the issuance of FAS 123 will not impact GTE's consolidated financial statements.

2. Extraordinary Charges

In response to recently enacted and pending legislation and the increasingly competitive environment in which GTE's telephone subsidiaries expect to operate, GTE discontinued the use of FAS 71 in the fourth quarter of 1995. During 1995, 10 states in which GTE's telephone subsidiaries operate, including California, Florida and Texas, passed or initiated legislation allowing local competition. Furthermore, there has been a shift in the manner in which GTE's telephone subsidiaries are regulated; at the beginning of 1996, approximately 70% of GTE's domestic telephone service revenues were subject to alternative forms of regulation.

In general, FAS 71 required GTE's telephone subsidiaries to depreciate their telephone plant and equipment over lives approved by regulators that, in many cases, extended beyond the assets' economic lives. FAS 71 also required the deferral of certain costs based upon approvals received from regulators to recover such costs in the future. As a result of these requirements, the recorded net book value of GTE's assets, primarily telephone plant and equipment, were in many cases higher than that which would otherwise have been recorded based on their economic lives.

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 represents a reduction in the net book value of telephone plant and equipment of GTE's domestic telephone subsidiaries through an increase in accumulated depreciation. The amount of the charge was based on an analysis of the discounted cash flows expected to be generated by the embedded telephone plant and equipment over their remaining economic lives. In addition to the one-time charge, GTE, beginning in 1996, will shorten the depreciable lives of its telephone plant and equipment as follows as a result of the discontinuation of FAS 71:

Asset Category	Depreciable Lives	
	Before	After
Copper	20-30	15
Switching	17-19	10
Circuit	11-13	8
Fiber	25-30	20

FINANCIAL NOTES

In addition, during 1995, GTE redeemed, prior to their stated maturity, 12 series of its preferred stock totaling \$71 million 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.

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.

3. Investments in Unconsolidated Companies

GTE's investments in unconsolidated subsidiaries include its investment in Compania Anonima Nacional Telefonos de Venezuela (CANTV) and Compania de Telefonos del Interior (CTI), as well as its investments in cellular partnerships in the United States and other international investments.

GTE has a 20.4% ownership interest in CANTV, the Venezuelan telephone company. CANTV is the primary provider for local, national long-distance and international long-distance telephone service in Venezuela. CANTV also provides other telecommunication and related services, including cellular telephone and directory advertising services. At December 31, 1995 and 1994, GTE had an investment in CANTV of \$1.2 billion and \$1.1 billion, including \$758 million and \$779 million of goodwill, respectively.

In early 1994, CTI, an international consortium, was awarded two licenses to provide cellular services in the north and south interior regions of Argentina. GTE has a 25.5% ownership interest in CTI. At December 31, 1995 and 1994, GTE had an investment in CTI of \$88 million and \$77 million and guaranteed \$109 million of its debt at December 31, 1995.

Other investments in unconsolidated subsidiaries, primarily cellular partnerships, were \$461 million and \$340 million at December 31, 1995 and 1994, including \$24 million and \$25 million of goodwill, respectively.

4. Restructuring Costs

Results for 1993 include one-time restructuring costs of \$1.8 billion, which reduced net income by \$1.2 billion, or \$1.22 per share. These restructuring costs relate primarily to Telephone Operations' plan to improve customer-responsiveness and product quality, reduce the time necessary to introduce new products and services and further reduce costs. The implementation of the plan is expected to result in costs of \$900 million to re-engineer customer service

processes and \$300 million to re-engineer administrative processes. The restructuring costs also include \$170 million to consolidate facilities and operations and other related costs. Implementation of the re-engineering plan began during 1994 and is expected to be substantially completed by the end of 1996.

Since the inception of the plan, 258 work centers have been consolidated to 58 and workforce reductions of approximately 12,000 have occurred. Costs of \$858 million have been incurred since the plan's inception, including \$585 million related to customer service processes, \$103 million related to administration processes and \$170 million related to the consolidation of facilities and operations. These expenditures were primarily associated with the closure and relocation of the various centers, software enhancements and separation benefits related to employee reductions.

The 1993 restructuring charge also included a \$400 million reduction in the carrying value of the satellite communication assets of GTE Spacenet (Spacenet) and certain other assets to estimated net realizable value. During 1994, GTE sold Spacenet at a price that approximated its book value.

5. Property Repositioning and Discontinued Operations

During 1994, GTE substantially completed its plan to pursue the sale or exchange of nonstrategic domestic local-exchange telephone properties in markets that may be of greater long-term strategic value to other telephone service providers. Telephone properties serving 448,000 access lines in nine states were sold for \$900 million in cash. During 1993, GTE sold telephone properties serving 530,000 access lines in eight states in return for 90,000 access lines in Illinois, Indiana and Michigan and \$1 billion in cash.

The consolidated statements of income for the years ended December 31, 1994 and 1993 include the results of operations, through the date of sale, of Spacenet and the telephone properties sold during 1994 and 1993. For comparability, the following table includes pro forma adjustments to remove the operating results of Spacenet and the telephone properties sold. In addition, the table has been adjusted to exclude the 1993 impact of the one-time restructuring costs described in Note 4 and a pre-tax charge of \$74 million associated with voluntary separation programs offered during 1993 by Telephone Operations to its domestic workforce:

(Millions of Dollars)	1995	1994	1993
Revenues and sales.....	\$19,957	\$19,191	\$18,472
Operating income.....	3,056	4,700	4,246

FINANCIAL NOTES

As a result of these transactions, GTE recorded pre-tax gains in 1994 and 1993 of \$264 million and \$168 million, respectively. In addition, during 1995, GTE sold approximately 10,000 access lines for \$30 million in cash, resulting in a pre-tax gain of \$16 million. These gains are included in "Other—net" in the accompanying consolidated statements of income.

In January 1993, GTE sold its previously discontinued worldwide Electrical Products Group. The aggregate sales price, which included the assumption of debt, totaled approximately \$1.2 billion.

6. Shareholders' Equity

Preferred Stock

During 1995, GTE retired prior to stated maturity, its non-redeemable preferred stock of approximately \$10 million (see Note 2). Preferred stock had voting rights generally on an equal basis with common stock. Dividends were cumulative on all preferred stock.

Common Stock

The authorized common stock of GTE at December 31, 1995 consisted of two billion shares with a par value of \$.05 per share. In August 1995, GTE's Board of Directors authorized repurchasing up to 20 million shares of GTE common stock in the open market or in privately negotiated transactions. The repurchase of shares will occur from time to time through year-end 1996, depending on market conditions. The shares will be used to satisfy the requirements of GTE's employee benefit and dividend reinvestment programs.

Additional Paid-In Capital

Additional paid-in capital includes the cumulative foreign currency translation adjustment of (\$192) million, (\$207) million and (\$168) million at December 31, 1995-93, respectively, and the cumulative unrealized gains (losses) on investments in debt and equity securities of \$20 million, (\$22) million and \$16 million at December 31, 1995-93, respectively.

7. Stock Option and Shareholder Rights Plans

Stock Option Plans

GTE maintains stock option plans for key management employees. The options may be granted separately or in conjunction with stock appreciation rights. 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 four 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.

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, 1992	7,728	\$ 27.88
Options granted	1,989	35.24
Options exercised	(1,195)	23.99
Options cancelled or forfeited	(50)	23.21
Balance, December 31, 1993	8,472	30.19
Options granted	4,118	32.53
Options exercised	(173)	25.09
Options cancelled or forfeited	(153)	33.12
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

At December 31, 1995, 6.9 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. The Rights are 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.

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8. Minority Interests

Minority interests in equity of subsidiaries includes the following:

(Millions of Dollars)	1995	1994
Minority interests in consolidated subsidiaries:		
BC TEL (50.7% GTE ownership)	\$ 721	\$ 659
Quebec Telephone (50.3% GTE ownership) ..	81	79
Cellular partnerships and other	117	114
Preferred securities issued by subsidiaries	1,311	806
Total minority interests in equity of subsidiaries	\$2,230	\$1,658

Preferred securities issued by subsidiaries at December 31, 1995 and 1994 include \$1.0 billion and \$489 million, respectively, of Monthly Income Preferred Securities which are subject to mandatory redemption. These securities issued by GTE Delaware, a limited partnership holding solely GTE debentures, have cumulative annual dividend rates of 8.75% and 9.25% and maturities of 30 years.

9. Debt

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

(Millions of Dollars)	1995	1994
GTE Corporation:		
Debentures, maturing 1998 through 2023, average rate 9.0%	\$ 3,350	\$ 3,350
Guaranteed ESOP obligations, maturing 1997-2005, average rate 9.7%	624	649
Sinking fund debenture, maturing in 2017, at a rate of 10.8%	200	200
	4,174	4,199
Telephone Subsidiaries:		
First mortgage bonds, sinking fund debentures and notes, maturing through 2031, average rates 7.6% and 7.7%	6,741	7,343
Other Subsidiaries:		
Sinking fund debentures and notes, maturing through 2010, average rates 7.7% and 7.6%	1,078	1,301
Commercial paper expected to be refinanced on a long-term basis	1,306	—
Total principal amount	13,299	12,843
Less: discount and premium—net	(62)	(77)
Total	13,237	12,766
Less: current maturities	(493)	(603)
Total long-term debt	\$12,744	\$12,163

Estimated payments of long-term debt during the next five years are: \$493 million in 1996; \$744 million in 1997; \$1,272 million in 1998; \$1,037 million in 1999, and \$889 million in 2000.

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.

Total short-term obligations were as follows:

(Millions of Dollars)	1995	1994
Commercial paper—average rates 5.9% and 6.0%	\$1,650	\$1,411
Notes payable to banks—average rates 9.7% and 8.3%	13	28
Current maturities of long-term debt	493	603
Total	\$2,156	\$2,042

GTE and its subsidiaries had available lines of credit aggregating \$4.5 billion at December 31, 1995.

10. Financial Instruments

GTE enters into 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. Amounts to be paid or received under interest rate swaps are accrued as interest expense. Gains or losses on foreign currency 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 purchased options indexed to GTE's common stock, which hedge GTE's 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 purchased options offset SAR expense or income in GTE's consolidated statements of income.

At December 31, 1995, GTE had entered into interest rate swap agreements to convert \$516 million of floating rate long-term and short-term debt to fixed rates. There were no material foreign exchange contracts outstanding at December 31, 1995. Purchased options having a contract value of \$256 million were outstanding at December 31, 1995.

FINANCIAL NOTES

During 1995, GTE entered into forward contracts to sell U.S. Treasury bonds in order to hedge against changes in market interest rates during the period between the redemption and the refinancing of \$850 million of the debt that GTE called and anticipates refinancing during the first half of 1996. Any gain or loss recognized upon the expiration or settlement of the forward contract will be amortized over the life of the associated refinanced debt 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. GTE carefully evaluates and continually monitors the creditworthiness of its counterparties and believes the risk of non-performance is remote.

The fair values of financial instruments, other than long-term debt, closely approximate their carrying value. As of December 31, 1995 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 \$900 million. The estimated fair value of long-term debt as of December 31, 1994 was lower than the carrying value by approximately \$300 million.

11. Property, Plant and Equipment

GTE's property, plant and equipment is summarized as follows at December 31:

(Millions of Dollars)	1995	1994
Land	\$ 372	\$ 385
Buildings	4,195	3,971
Plant and equipment	41,115	38,824
Work in progress and other	5,265	5,365
Total	50,947	48,545
Accumulated depreciation	(28,510)	(19,217)
Total property, plant and equipment—net ..	\$ 22,437	\$ 29,328

Depreciation provisions in 1995-93 for GTE's telephone subsidiaries were equivalent to a composite average percentage of 7.2%, 7.0% and 6.9%, respectively.

12. Employee Benefit Plans

Retirement Plans

GTE sponsors noncontributory defined benefit 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 provide the plans with assets sufficient to meet the benefit obligations of the plans. The assets of the plans consist primarily of corporate equities, government securities and corporate debt securities.

The components of the net pension credit for 1995-93 were as follows:

(Millions of Dollars)	1995	1994	1993
Benefits earned during the year ..	\$ 213	\$ 269	\$ 295
Interest cost on projected benefit obligations	568	542	584
Return on plan assets:			
Actual	(2,420)	(29)	(2,073)
Deferred	1,413	(971)	1,110
Other—net	(177)	(168)	(174)
Total—net	\$ (403)	\$ (357)	\$ (258)

The expected long-term rate of return on plan assets was 8.5% for 1995 and 1994, and 8.25% for 1993.

The funded status of the plans and the net prepaid pension cost at December 31, 1995 and 1994, were as follows:

(Millions of Dollars)	1995	1994
Vested benefit obligations	\$ 5,361	\$ 4,545
Accumulated benefit obligations	\$ 5,996	\$ 5,090
Plan assets at fair value	\$13,685	\$11,950
Less: Projected benefit obligations	7,732	6,724
Excess of assets over projected obligations ..	5,963	5,226
Unrecognized net transition asset	(533)	(644)
Unrecognized net gain	(2,602)	(2,270)
Total—net	\$ 2,828	\$ 2,312

Included in the above table are prepaid pension costs of \$3.1 billion and \$2.5 billion and accrued pension liabilities of \$230 million and \$217 million for 1995 and 1994, respectively.

FINANCIAL NOTES

Assumptions used to develop the projected benefit obligations at December 31, 1995 and 1994 were as follows:

	1995	1994
Discount rate	7.50%	8.25%
Rate of compensation increase	5.25%	5.50%

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 health care benefits paid under the GTE plans are generally based on comprehensive hospital, medical and surgical benefit provisions. GTE funds amounts for postretirement benefits as deemed appropriate from time to time.

The postretirement benefit cost for 1995-93 included the following components:

(Millions of Dollars)	1995	1994	1993
Benefits earned during the year	\$ 46	\$ 57	\$ 96
Interest on accumulated postretirement benefit obligations	258	259	290
Actual return on plan assets	(41)	6	(6)
Amortization of prior service benefits	(50)	(54)	(4)
Other—net	17	(14)	2
Total—net	\$230	\$254	\$378

The following table sets forth the plans' funded status and the accrued postretirement benefit obligations as of December 31, 1995 and 1994:

(Millions of Dollars)	1995	1994
Accumulated postretirement benefit obligations attributable to:		
Retirees	\$2,815	\$2,731
Fully eligible active plan participants	254	234
Other active plan participants	969	912
Total accumulated postretirement benefit obligations	4,038	3,877
Less: Fair value of plan assets	353	244
Excess of accumulated obligations over plan assets	3,685	3,633
Unrecognized prior service benefits	563	656
Unrecognized net loss	(114)	(99)
Total	\$4,134	\$4,190

The assumed discount rates used to measure the accumulated postretirement benefit obligations were 7.5% at December 31, 1995 and 8.25% at December 31, 1994. The assumed health care cost trend rates in 1995 and 1994 were 11% and 12% for pre-65 participants and 8.5% and 9% for

post-65 retirees, each rate declining on a graduated basis to an ultimate rate in the year 2004 of 6%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased 1995 costs by \$34 million and the accumulated postretirement benefit obligation as of December 31, 1995 by \$381 million.

During 1993, GTE made certain changes to its postretirement health care and life insurance benefits for nonunion employees retiring on or after January 1, 1995. These changes include, among others, newly established limits to GTE's annual contribution to postretirement medical costs and a revised cost sharing schedule based on a retiree's years of service. The resulting unrecognized prior service benefits are being amortized over the remaining service lives of the employees.

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 \$85 million, \$76 million and \$66 million in the years 1995-93, respectively.

GTE 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 provide a portion of 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 1995-93 totaled \$88 million, \$84 million and \$81 million, respectively. These payments were funded by \$45 million, \$46 million and \$46 million of dividends accumulated on the GTE stock held by the ESOP and by \$43 million, \$38 million and \$35 million of cash contributions by GTE in 1995-93, respectively.

13. Interest—Net

The components of interest—net are as follows:

(Millions of Dollars)	1995	1994	1993
Interest expense	\$1,151	\$1,139	\$1,298
Interest capitalized	(49)	(28)	(40)
Interest income	(55)	(52)	(61)
Total	\$1,047	\$1,059	\$1,197

FINANCIAL NOTES

14. Other—Net

The components of other—net are as follows:

(Millions of Dollars)	1995	1994	1993
Minority interests	\$ 227	\$ 140	\$ 112
Preferred dividends	22	28	40
Equity in (income) loss of unconsolidated companies:			
CANTV	(36)	(9)	(83)
CTI	33	18	—
Cellular partnerships and other	(104)	(83)	(81)
Gains on sales of nonstrategic telephone properties	(16)	(264)	(168)
Gains on sales of nonstrategic cellular properties and other	(121)	(110)	(149)
Total	\$ 3	\$ (280)	\$ (329)

15. Income Taxes

Income before income taxes is as follows:

(Millions of Dollars)	1995	1994	1993
Domestic	\$3,550	\$3,465	\$ 984
Foreign	454	508	556
Total	\$4,004	\$3,973	\$1,540

The income tax provision (benefit) is as follows:

(Millions of Dollars)	1995	1994	1993
Current:			
Federal	\$ 711	\$ 927	\$1,088
Foreign	173	192	183
State and local	98	165	161
	982	1,284	1,432
Deferred:			
Federal	439	269	(682)
Foreign	14	(1)	2
State and local	90	56	(100)
	543	324	(780)
Amortization of deferred investment tax credits—net	(59)	(76)	(84)
Total	\$1,466	\$1,532	\$ 568

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 pre-tax income and

income taxes provided in the consolidated statements of income is as follows:

(Millions of Dollars)	1995	1994	1993
Amounts computed at statutory rates	\$1,401	\$1,391	\$539
State and local income taxes, net of federal tax benefits	122	144	40
Minority interests and preferred stock dividends	43	42	46
Amortization of investment tax credits—net	(59)	(76)	(84)
Other differences—net	(41)	31	27
Total provision	\$1,466	\$1,532	\$568

The tax effects of temporary differences that give rise to the current deferred income tax benefits and deferred income tax liabilities at December 31, 1995 and 1994 are as follows:

(Millions of Dollars)	1995	1994
Depreciation and amortization	\$ 1,605	\$ 4,165
Employee benefit obligations	(1,899)	(1,853)
Restructuring costs	(197)	(368)
Employee benefit plans	971	783
Investment tax credits	138	226
Other—net	255	248
Total	\$ 873	\$ 3,201

16. Commitments and Contingencies

GTE has noncancelable operating leases covering certain buildings, office space and equipment. Rental expense was \$384 million, \$419 million, and \$459 million in 1995-93, respectively. Minimum rental commitments under non-cancelable leases through 2000 do not exceed \$225 million annually and aggregate \$829 million thereafter.

GTE and its unconsolidated subsidiaries 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

GTE Corporation and Subsidiaries (Unaudited)

(Millions of Dollars. Except Per-Share Amounts)	1st QTR		2nd QTR ^(a)		3rd QTR ^(b)		4th QTR ^(c)	
	1995	1994	1995	1994	1995	1994	1995	1994
Revenues and sales	\$4,665	\$4,658	\$4,932	\$4,840	\$4,996	\$4,879	\$5,364	\$5,151
Operating income	1,164	1,067	1,235	1,175	1,333	1,228	1,324	1,282
Income before extraordinary charges	\$ 543	\$ 500	\$ 581	\$ 593	\$ 695	\$ 657	\$ 719	\$ 691
Extraordinary charges	—	—	—	—	—	—	(4,682)	—
Net income (loss)	\$ 543	\$ 500	\$ 581	\$ 593	\$ 695	\$ 657	\$(3,963)	\$ 691
Earnings (loss) per common share: Before extraordinary charges	\$.56	\$.52	\$.60	\$.62	\$.72	\$.69	\$.74	\$.72
Extraordinary charges	—	—	—	—	—	—	(4.83)	—
Net income (loss)	\$.56	\$.52	\$.60	\$.62	\$.72	\$.69	\$(4.09)	\$.72
Dividends declared per common share	\$.47	\$.47	\$.47	\$.47	\$.47	\$.47	\$.47	\$.47
Stock market price:								
High	\$34.88	\$35.25	\$34.88	\$33.63	\$39.50	\$33.25	\$45.13	\$31.38
Low	30.00	30.00	31.88	29.50	34.13	29.88	38.50	29.50
Close	33.25	31.00	34.13	31.00	39.13	30.38	43.88	30.38

- (a) Second-quarter 1994 net income includes after-tax gains on sales of nonstrategic domestic local-exchange telephone properties of \$71 million, or \$0.7 per share (see Note 5 to Consolidated Financial Statements).
- (b) Third-quarter 1995 and 1994 net income includes after-tax gains on sales of nonstrategic domestic local-exchange telephone properties of \$11 million, or \$0.1 per share, and \$48 million, or \$0.5 per share, respectively (see Note 5 to Consolidated Financial Statements).
- (c) Fourth-quarter 1995 results include after-tax, extraordinary charges of \$4.7 billion, or \$4.83 per share, primarily as a result of the discontinuance of regulatory accounting under Statement of Financial Accounting Standards No. 71 (see Note 2 to Consolidated Financial Statements). Fourth-quarter 1994 results include after-tax gains on sales of nonstrategic domestic local-exchange telephone properties of \$43 million, or \$0.5 per share (see Note 5 to Consolidated Financial Statements).

DIRECTORS AND OFFICERS

Directors

Edwin L. Artzt

Chairman of the Executive Committee and Director, The Procter & Gamble Company
Manufacturers of household and industrial products

James R. Barker

Chairman, The Interlake Steamship Co., and Vice Chairman, Mormac Marine Group, Inc. and the Moran Towing Company
Ship owners and operators

Edward H. Budd

Chairman of the Executive Committee and Director, Travelers Group
Insurance and financial services

Kent B. Foster

President, GTE

James L. Johnson

Chairman Emeritus, GTE

Richard W. Jones

Business Consultant, PaineWebber Incorporated
Full-service brokerage firm

James L. Keteisen

Retired Chairman, Tenneco Inc.
Industrial company with varied interests

Charles R. Lee

Chairman and Chief Executive Officer, GTE

Michael T. Masin

Vice Chairman, GTE; President—International

Sandra O. Moose

Senior Vice President, Director and Chair of the East Coast Practice, The Boston Consulting Group, Inc.
International management consulting group

Russell E. Palmer

Chairman and Chief Executive Officer, The Palmer Group
Private investment firm

Howard Sloan

Private Investor

Robert D. Storey

Partner, Thompson, Hine and Flory
Law firm

Corporate Officers

Charles R. Lee

Chairman and Chief Executive Officer

Kent B. Foster

President, GTE

Michael T. Masin

Vice Chairman; President—International

William P. Barr

Senior Vice President and General Counsel

Robert C. Calafell

Senior Vice President—Corporate Planning and Development

Armen Der Marderosian

Senior Vice President—Technology and Systems

J. Michael Kelly

Senior Vice President—Finance and Chief Financial Officer

J. Randall MacDonald

Senior Vice President—Human Resources and Administration

Dan J. Cohrs

Vice President and Treasurer

Geoffrey C. Gould

Vice President—Government and Federal Regulatory Affairs

John P. Z. Kent

Vice President—Taxes

Thomas F. Lysaught

Vice President—Marketing

Lawrence R. Whitman

Vice President and Controller

D. Otis Watkins

Vice President—Quality

Patricia D. Yoder

Vice President—Public Affairs and Communications

Marianne Drost

Corporate Secretary

Senior Officers of Business Units

Thomas W. White

President, Telephone Operations

John C. Appel

Executive Vice President, Telephone Operations

Michael B. Eastman

Executive Vice President, Telephone Operations

Gerald K. Dinsmore

Senior Vice President—Finance and Planning, Telephone Operations

Mark S. Feighner

President, GTE Mobilnet

Earl A. Goode

President, GTE Information Services and GTE Directories

Bruce E. Haddad

Senior Vice President International—Latin America

John R. Messier

President, GTE Government Systems

Horace A. Lindsay

President, GTE Airfone

C. David Decker

President, GTE Laboratories

C O R P O R A T E I N F O R M A T I O N

Corporate Headquarters

GTE Corporation
One Stamford Forum
Stamford, CT 06904
203-965-2000

Shareholder Services

The First National Bank of Boston, Transfer Agent and Registrar for GTE's common stock, should be contacted with any questions relating to shareholder accounts. This includes the following:

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

Shareholders may call toll-free at 1-800-225-5160 anytime, 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 1-617-575-2990.

Or write to:

Bank of Boston
c/o Boston EquiServe, L.P.
P.O. Box 9121
Mail Stop 45-02-60
Boston, MA 02205-9121

For overnight delivery services, use the following address:

Bank of Boston
c/o Boston EquiServe, L.P.
Blue Hills Office Park
150 Royall Street
Canton, MA 02021

The Bank of Boston address where shareholders, banks and brokers may deliver certificates is One Exchange Place, 55 Broadway in New York City.

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 the Bank of Boston at 1-800-225-5160.

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 the Bank of Boston at 1-800-225-5160.

Annual Meeting

The 1996 Annual Meeting of Shareholders will be held at 2 p.m. on Wednesday, April 17, 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
Int'l Telex: 4750071
Fax: 203-965-2520

Stock Exchange Listings

GTE Corporation is listed on the New York Stock Exchange (symbol: GTE). GTE is also listed on the Chicago, Pacific and other regional stock exchanges in the U.S. 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

To obtain an additional copy of this annual report or a copy of the annual Form 10-K filed with the Securities and Exchange Commission, call 1-800-225-5160.

An audiocassette version of the 1995 annual report is available to visually impaired shareholders by contacting:

Manager,
Public Relations Services
GTE Corporation
One Stamford Forum
Stamford, CT 06904
203-965-3188

Other Securities

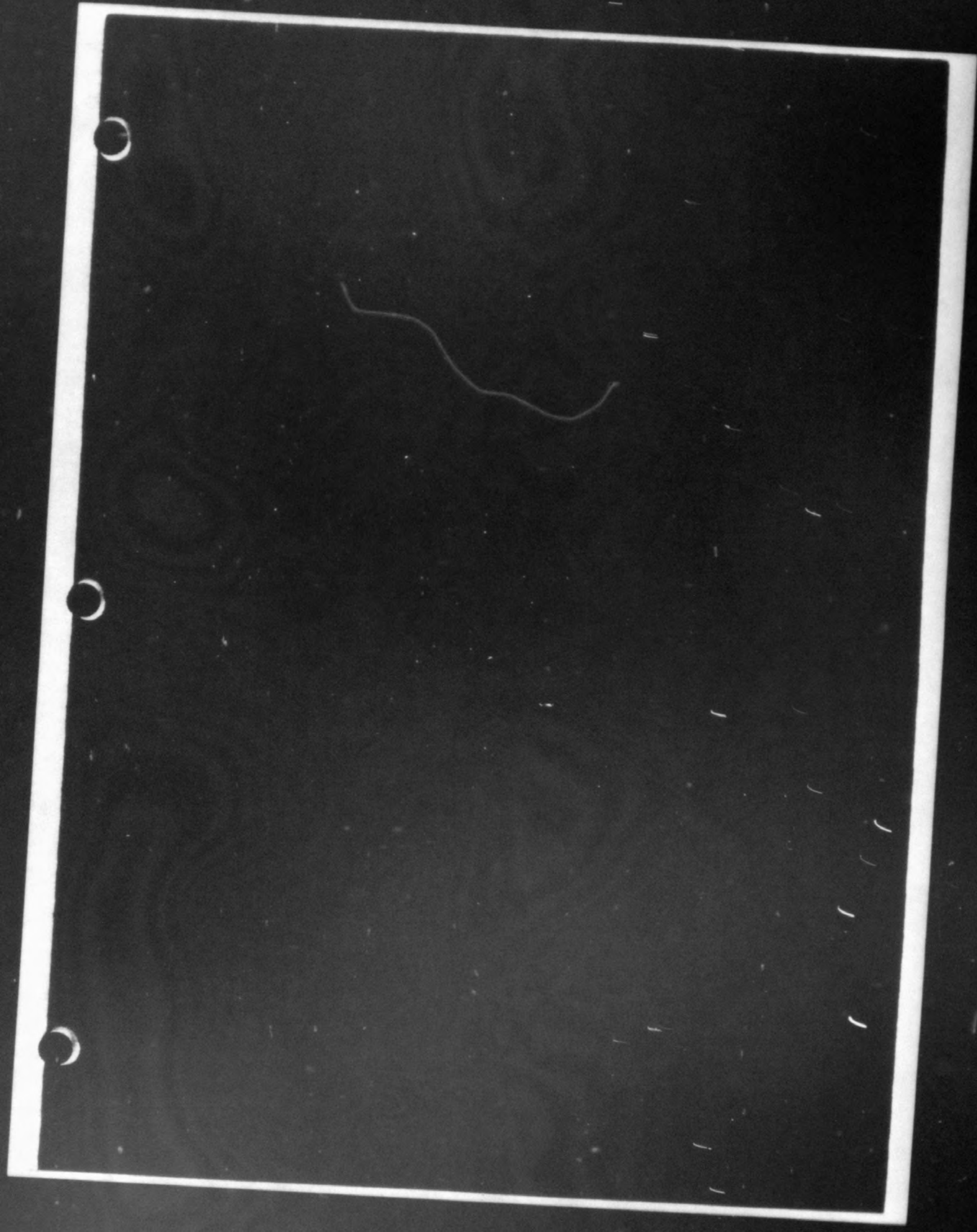
Questions regarding the bonds, debentures and preferred securities of GTE or its subsidiaries should be directed to:

Treasury Department
GTE Corporation
One Stamford Forum
Stamford, CT 06904
203-965-3425

Information Via the Internet

Internet World Wide Web users can access information on GTE through the following universal resource:
<http://www.gte.com>

GTE CORPORATION
ONE STAMFORD FORUM
STAMFORD, CT 06904
203-965-2000



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1993
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-2755

GTE CORPORATION
(Exact name of Registrant as specified in its Charter)

New York
(State or other jurisdiction of
incorporation or organization)

13-1678633
(I.R.S. Employer Identification No.)

One Stamford Forum
Stamford, Connecticut
(Address of principal executive offices) (Zip Code)

Area Code 203 965-2000
(Telephone Number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

Title of each class
Common Stock, par value \$.05 per share

Name of each domestic exchange
on which registered

Preferred Stock Purchase Rights

New York Stock Exchange, Inc.
Chicago Stock Exchange, Incorporated
The Pacific Stock Exchange Incorporated
New York Stock Exchange, Inc.
Chicago Stock Exchange, Incorporated
The Pacific Stock Exchange Incorporated
New York Stock Exchange, Inc.
New York Stock Exchange, Inc.

\$2.00 Convertible No Par Preferred Stock
\$2.475 No Par Cumulative Preferred Stock
5.00% Cumulative Convertible Preferred Stock,
par value \$50 per share

New York Stock Exchange, Inc.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT

4.00% Cumulative Convertible Preferred Stock
4.36% Cumulative Convertible Preferred Stock
4.75% Cumulative Convertible Preferred Stock
5.05% Cumulative Convertible Preferred Stock
5.28% Cumulative Convertible Preferred Stock
5.35% Cumulative Convertible Preferred Stock
5.50% Cumulative Convertible Preferred Stock
4.40% Cumulative Preferred Stock
7.75% Cumulative Preferred Stock
7.85% Cumulative Preferred Stock

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

The aggregate market value of GTE's voting stock held by non-affiliates at January 31, 1994 amounted to \$33,110,436,301.

GTE had 953,465,876 shares of \$.05 par value common stock outstanding at January 31, 1994.

Document Incorporated by Reference:

GTE's Proxy Statement for Annual Meeting of Shareholders to be held on April 20, 1994 (Incorporated in Part III).

PART I

Item 1. Business.

BUSINESS OF GTE COMPANIES

GTE Corporation ("GTE") has two major business segments: telephone operations and telecommunications products and services. GTE also has subsidiaries engaged in financing, insurance, leasing and other activities offering financial and related services primarily to GTE operating companies. One of these subsidiaries, GTE Service Corporation, furnishes at cost, advisory and consulting services related to administration, operations, accounting methods and procedures, insurance, personnel, financing, Federal and state taxes and other matters. GTE and its subsidiaries had approximately 117,000 employees, at December 31, 1993.

TELEPHONE OPERATIONS

Telephone Operations in the United States

GTE's telephone operating subsidiaries in the United States served approximately 17.1 million access lines in 33 states as of December 31, 1993 and provided many types of communications services, ranging from local telephone service for the home and office to highly complex voice and data services for various industries. Subsidiaries accounting for the largest portion of total domestic telephone revenues include GTE California, 21%; GTE North, 19%; GTE Southwest, 9%; and GTE Florida, 9%. The largest cities served include Long Beach, Santa Monica and Los Angeles, California; Tampa and St. Petersburg, Florida; Honolulu, Hawaii; Lexington, Kentucky; Fort Wayne, Indiana; and Erie, Pennsylvania.

In December 1992, GTE announced a plan to sell or trade a small percentage of local-exchange telephone properties (representing less than five percent of its U.S. access lines) in markets that may be of greater long-term strategic value to other telephone service providers. As part of this program, during 1993, GTE sold local-exchange properties serving approximately 530,000 access lines in eight states in return for 90,000 access lines in Illinois, Indiana and Michigan and \$1 billion in cash. Also during 1993, GTE entered into definitive agreements for the sale of additional local-exchange telephone properties serving approximately 400,000 access lines in nine states. The transfers of ownership are expected to occur on a state-by-state basis throughout 1994, and are subject to various government and regulatory approvals.

Local network service revenues are comprised mainly of fees charged to customers for providing local-exchange service within the designated franchise area. GTE telephone subsidiaries also provide toll service within designated geographic areas called Local Access and Transport Areas ("LATAs") under agreements with connecting local-exchange carriers ("LECs") in conformity with individual state regulatory orders. GTE and other LECs compensate each other pursuant to access charge tariffs that are subject to review by state regulatory commissions.

earnings over 16.5%. As part of this agreement and its normal annual price cap filing, GTE California will reduce its rates by about \$100 million in 1994. Additionally, as further discussed under "Telephone Competition", the CPUC is expected to issue a final decision in 1994 generally authorizing intralata toll competition and ordering significant rate restructuring in California. Although intended to be revenue neutral, the ultimate effect on revenue will depend, in part, on the extent to which toll and access rate reductions result in increased calling volumes.

For the provision of interstate services, GTE operates under the terms of the FCC's price cap incentive plan. The "price cap" mechanism serves to limit the rates a carrier may charge, rather than just regulating the rate of return which may be achieved. Under this approach, the maximum prices that the LEC may charge are increased or decreased each year by a price index based upon inflation less a predetermined productivity target. LECs may, within certain ranges, price individual services above or below the overall cap.

Under its price cap regulatory plan, the FCC also adopted a productivity sharing feature. Under this feature, GTE's telephone subsidiaries must share equally with its ratepayers any realized interstate return on investment above 12.25% up to 16.25%. All returns higher than 16.25% must be refunded to ratepayers by temporarily lowering prospective prices. During 1994, the FCC is scheduled to review the LEC price cap plan to determine whether it should be continued or modified.

Telephone Operations Outside the United States

GTE, through its ownership of common stock of Anglo-Canadian Telephone Company ("Anglo"), has voting control of BC TEL and Quebec Telephone. At December 31, 1993, BC TEL served approximately 2.1 million access lines in the province of British Columbia, Canada and Quebec Telephone served approximately 300,000 access lines in the province of Quebec, Canada.

In addition, GTE, through GTE Holdings (Canada) Limited, a Canadian holding company, owns the common stock of Compania Dominicana de Telefonos, C. por A., a telephone company furnishing local and long-distance telephone service in the Dominican Republic. This company served approximately 600,000 access lines at December 31, 1993.

In late 1991, GTE acquired, through a multinational consortium, a 20.4% ownership interest in Compania Anonima Nacional Telefonos de Venezuela ("CANTV"), the government-owned telephone company in Venezuela. CANTV is the exclusive provider for local, national and international long-distance telephone service in Venezuela. CANTV also provides other telecommunication and related services, including cellular telephone and directory advertising services. GTE and its four partners have a 40% ownership interest and operating control of CANTV, while GTE, as the owner of 51% of the consortium, is managing CANTV. During 1993, CANTV placed 250,000 new lines in service for customers and added over 5,000 public telephones while continuing to improve the quality of its services and network. CANTV served approximately 2.0 million access lines at December 31, 1993.

In September 1993, the FCC announced its decision to auction licenses in 51 major markets and 492 basic trading areas across the United States to encourage the development of a new generation of wireless personal communications services ("PCS"). As discussed further in the description of GTE's Personal Communications Services business, these services will both complement and compete with traditional wireline services.

In Cerritos, California, GTE is testing and comparing the capabilities of copper wire, coaxial cable, and fiber-optics. The Cerritos test has enhanced GTE's expertise in the areas of pay-per-view video service, video-on-demand and local videoconferencing, and led to a new interactive service, GTE Main Street, which allows customers to shop, bank and access various other information services from their homes. In 1992, the FCC issued a "video dialtone" ruling that allows telephone companies to transmit video signals over their networks. In August 1993, the U.S. District Court in Alexandria, Virginia ruled that a regional telephone company is permitted to provide video programming within its telephone service area. If upheld, this decision would overturn the provision in the Cable Communications Policy Act of 1984 that prevents telephone companies from providing video programming within their existing service areas.

The GTE Consent Decree, which was issued in connection with the 1983 acquisition of GTE Sprint (since divested) and GTE Spacenet, prohibits GTE's domestic telephone operating subsidiaries from providing long-distance service beyond the boundaries of the LATA. This prohibition restricts their direct provision of long-distance service to relatively short distances. However, GTE Hawaiian Telephone and GTE Alaska are permitted to provide services between Hawaii, Alaska and international points. The degree of competition allowed in the intraLATA market is subject to state regulation. However, regulatory constraints on intraLATA competition are gradually being relaxed in many of the states in which GTE telephone operating subsidiaries provide service.

In September 1993, the CPUC issued an initial decision authorizing intraLATA toll competition in California. The CPUC also ordered significant rate reductions for access, toll and other services subject to competition and increases in rates for local-exchange services in order to bring rates closer to the costs of providing these services. The decision did not permit rate increases to compensate for any future competitive losses. In October, the CPUC rescinded its decision pending further consideration. A final decision is expected in 1994.

In November 1993, the CPUC also announced its intention to reexamine its policies regarding the regulation of intrastate telecommunications services in order to stimulate the development of the information infrastructure and the state's economy. As part of its overall strategy, the CPUC will explore opening all markets to competition within the next three years.

These and other actions to eliminate the existing legal and regulatory barriers, together with rapid advances in technology, are facilitating a convergence of the computer, media and telecommunications industries. In addition to allowing new forms of competition, these developments are also

the United States, GTE also operates mobile-cellular networks through international subsidiaries and affiliates in Canada, Venezuela and the Dominican Republic.

In addition, in November 1993, a GTE-led consortium, Compania de Telefonos del Interior ("CTI"), was ranked first in competitive bidding for two cellular licenses by the National Telecommunications Commission of Argentina. It is expected that a contract to award the licenses will be executed late in the first quarter of 1994. GTE, as operator, has a leading 23 percent ownership interest in CTI, and its partners include AT&T Network Systems and three Argentinean companies along with Trust Company of the West. It is anticipated that CTI will have an initial two year exclusivity to provide cellular services in the north and south interior regions of Argentina. GTE will hold a ten year contract to manage and operate the system, which will serve a population of 22 million in the northern and southern regions of the country.

GTE's ownership position in U.S. markets was obtained through the FCC lottery and settlement process as well as through purchases. GTE's cellular operations serve a population of approximately 53 million "POPs", approximately 19 million of which are in the top 30 U.S. markets. ("POPs" refers to the population of a market area multiplied by a company's percentage ownership in the cellular system serving that market.) In 1993, GTE's cellular operations increased their customer base by 45% to 1,385,000 customers.

GTE's FCC cellular licenses, were generally granted for an initial ten year term and are renewable for successive ten year terms. FCC license renewal applications were filed for the two GTE markets with license expirations in 1993. Both applications presently are being processed by the FCC; neither were opposed. The majority of GTE's FCC cellular licenses will expire and require renewal application filings over the next five year period.

In 1993, CCI, Mobilnet and other leading mobile communications companies announced the formation of MobiLink, which is a set of cellular service standards designed to provide customers consistent levels of service and greater satisfaction across most of the U.S. and Canada. Today, the MobiLink association of carriers covers some 81% of the population of the U.S. and 89% of Canada.

Also in 1993, GTE's cellular operations began providing wireless data services to major customers and undertook developing, along with other carriers, a standard for digital data services. This new service offering, called Cellular Digital Packet Data provides for a standard, efficient method of digital data services using existing cellular radio frequencies.

GTE's cellular operations experience direct competition from the second cellular licensee in each market. Competition is principally on the basis of service quality, price and coverage area. In addition to the direct cellular competitor in each market, Enhanced Specialized Mobile Radio ("ESMR") operators also represent potential competition. In 1993, one

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1993
or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-2755

GTE CORPORATION

(Exact name of Registrant as specified in its Charter)

New York
(State or other jurisdiction of
incorporation or organization)

13-1678633
(I.R.S. Employer Identification No.)

One Stamford Forum
Stamford, Connecticut 06904
(Address of principal executive offices) (Zip Code)

Area Code 203 965-2000
(Telephone Number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

<u>Title of each class</u>	<u>Name of each domestic exchange on which registered</u>
Common Stock, par value \$0.05 per share	New York Stock Exchange, Inc. Chicago Stock Exchange, Incorporated The Pacific Stock Exchange Incorporated
Preferred Stock Purchase Rights	New York Stock Exchange, Inc. Chicago Stock Exchange, Incorporated The Pacific Stock Exchange Incorporated
\$2.00 Convertible No Par Preferred Stock	New York Stock Exchange, Inc.
\$2.475 No Par Cumulative Preferred Stock	New York Stock Exchange, Inc.
5.00% Cumulative Convertible Preferred Stock, par value \$50 per share	New York Stock Exchange, Inc.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT

4.00% Cumulative Convertible Preferred Stock
4.36% Cumulative Convertible Preferred Stock
4.75% Cumulative Convertible Preferred Stock
5.05% Cumulative Convertible Preferred Stock
5.28% Cumulative Convertible Preferred Stock
5.35% Cumulative Convertible Preferred Stock
5.50% Cumulative Convertible Preferred Stock
4.40% Cumulative Preferred Stock
7.75% Cumulative Preferred Stock
7.85% Cumulative Preferred Stock

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

The aggregate market value of GTE's voting stock held by non-affiliates at January 31, 1994 amounted to \$33,110,436,301.

GTE had 953,465,876 shares of \$0.05 par value common stock outstanding at January 31, 1994.

Document Incorporated by Reference:

GTE's Proxy Statement for Annual Meeting of Shareholders to be held on April 20, 1994 (Incorporated in Part III).

PART I

Item 1. Business.

BUSINESS OF GTE COMPANIES

GTE Corporation ("GTE") has two major business segments: telephone operations and telecommunications products and services. GTE also has subsidiaries engaged in financing, insurance, leasing and other activities offering financial and related services primarily to GTE operating companies. One of these subsidiaries, GTE Service Corporation, furnishes at cost, advisory and consulting services related to administration, operations, accounting methods and procedures, insurance, personnel, financing, Federal and state taxes and other matters. GTE and its subsidiaries had approximately 117,000 employees, at December 31, 1993.

TELEPHONE OPERATIONS

Telephone Operations in the United States

GTE's telephone operating subsidiaries in the United States served approximately 17.1 million access lines in 33 states as of December 31, 1993 and provided many types of communications services, ranging from local telephone service for the home and office to highly complex voice and data services for various industries. Subsidiaries accounting for the largest portion of total domestic telephone revenues include GTE California, 21%; GTE North, 19%; GTE Southwest, 9%; and GTE Florida, 9%. The largest cities served include Long Beach, Santa Monica and Los Angeles, California; Tampa and St. Petersburg, Florida; Honolulu, Hawaii; Lexington, Kentucky; Fort Wayne, Indiana; and Erie, Pennsylvania.

In December 1992, GTE announced a plan to sell or trade a small percentage of local-exchange telephone properties (representing less than five percent of its U.S. access lines) in markets that may be of greater long-term strategic value to other telephone service providers. As part of this program, during 1993, GTE sold local-exchange properties serving approximately 530,000 access lines in eight states in return for 90,000 access lines in Illinois, Indiana and Michigan and \$1 billion in cash. Also during 1993, GTE entered into definitive agreements for the sale of additional local-exchange telephone properties serving approximately 400,000 access lines in nine states. The transfers of ownership are expected to occur on a state-by-state basis throughout 1994, and are subject to various government and regulatory approvals.

Local network service revenues are comprised mainly of fees charged to customers for providing local-exchange service within the designated franchise area. GTE telephone subsidiaries also provide toll service within designated geographic areas called Local Access and Transport Areas ("LATAs") under agreements with connecting local-exchange carriers ("LECs") in conformity with individual state regulatory orders. GTE and other LECs compensate each other pursuant to access charge tariffs that are subject to review by state regulatory commissions.

Interstate and intrastate revenues are generated by providing access services to interexchange carriers. The interstate service revenues are based on switched, common-line, and special access tariffs approved by the Federal Communications Commission ("FCC"). The FCC tariffs include end-user access charges on residential and business customers. State access is based on similar rate structures that are subject to approval by state regulatory commissions.

In most cases the telephone subsidiaries have legal rights to operate in the areas served subject to conditions, restrictions and limitations of various kinds. In some cases, subsidiaries operate at sufferance or under rights which are open to question, and in some cases municipalities have the right to acquire the telephone system within the municipal limits on certain terms and conditions. The advances in technology and the extent of alternative provision of service are beginning to erode certain of the benefits derived from these franchise rights.

Rates and Regulation - U.S.

The telephone operating subsidiaries in the United States are subject to regulation by the various state regulatory agencies for the majority of their operations. These subsidiaries are also subject to the jurisdiction of the FCC with respect to interstate communications, accounting and related matters.

Rates in effect for various services differ among the telephone subsidiaries and among the exchanges within their respective territories, depending upon type of service, size of community and other factors.

Activity directed toward changing the traditional cost-based rate of return regulatory framework for intrastate and interstate telephone services has continued. Various forms of alternative regulation have been adopted, which provide economic incentives to telephone service providers to improve productivity and provide the foundation for the pricing flexibility necessary to address competitive entry into GTE markets. In total, approximately 50 percent of Telephone Operations' U.S. regulated revenues are under some form of alternative regulation.

As of December 31, 1993, almost one-third of GTE's access lines were in four states which have adopted incentive regulation plans for intrastate service, including California, the state containing GTE's largest operation. In general, these plans allow the company to retain all earnings at or below a base rate of return on investment. Earnings above that rate of return, but below a certain specified level, are shared with the customer in varying amounts. Earnings above that specified level must be returned in full to customers.

During 1993, the California Public Utilities Commission ("CPUC") approved a settlement agreement allowing GTE California to retain 100% of any earnings up to a 15.5% rate of return on investment and refund 100% of any earnings above 15.5% beginning in 1994. Under its prior agreement, GTE was required to share 50% of any earnings over a 13% rate of return and 100% of any

earnings over 16.5%. As part of this agreement and its normal annual price cap filing, GTE California will reduce its rates by about \$100 million in 1994. Additionally, as further discussed under "Telephone Competition", the CPUC is expected to issue a final decision in 1994 generally authorizing intralata toll competition and ordering significant rate restructuring in California. Although intended to be revenue neutral, the ultimate effect on revenue will depend, in part, on the extent to which toll and access rate reductions result in increased calling volumes.

For the provision of interstate services, GTE operates under the terms of the FCC's price cap incentive plan. The "price cap" mechanism serves to limit the rates a carrier may charge, rather than just regulating the rate of return which may be achieved. Under this approach, the maximum prices that the LEC may charge are increased or decreased each year by a price index based upon inflation less a predetermined productivity target. LECs may, within certain ranges, price individual services above or below the overall cap.

Under its price cap regulatory plan, the FCC also adopted a productivity sharing feature. Under this feature, GTE's telephone subsidiaries must share equally with its ratepayers any realized interstate return on investment above 12.25% up to 16.25%. All returns higher than 16.25% must be refunded to ratepayers by temporarily lowering prospective prices. During 1994, the FCC is scheduled to review the LEC price cap plan to determine whether it should be continued or modified.

Telephone Operations Outside the United States

GTE, through its ownership of common stock of Anglo-Canadian Telephone Company ("Anglo"), has voting control of BC TEL and Quebec Telephone. At December 31, 1993, BC TEL served approximately 2.1 million access lines in the province of British Columbia, Canada and Quebec Telephone served approximately 300,000 access lines in the province of Quebec, Canada.

In addition, GTE, through GTE Holdings (Canada) Limited, a Canadian holding company, owns the common stock of Compania Dominicana de Telefonos, C. por A., a telephone company furnishing local and long-distance telephone service in the Dominican Republic. This company served approximately 600,000 access lines at December 31, 1993.

In late 1991, GTE acquired, through a multinational consortium, a 20.4% ownership interest in Compania Anonima Nacional Telefonos de Venezuela ("CANTV"), the government-owned telephone company in Venezuela. CANTV is the exclusive provider for local, national and international long-distance telephone service in Venezuela. CANTV also provides other telecommunication and related services, including cellular telephone and directory advertising services. GTE and its four partners have a 40% ownership interest and operating control of CANTV, while GTE, as the owner of 51% of the consortium, is managing CANTV. During 1993, CANTV placed 250,000 new lines in service for customers and added over 5,000 public telephones while continuing to improve the quality of its services and network. CANTV served approximately 2.0 million access lines at December 31, 1993.

In September 1993, an explosion occurred at a construction site in Venezuela where a subcontractor of a Venezuelan company, AT&T Andinos, was installing a fiber-optic cable for CANTV. The trenching activities apparently ruptured a natural gas line. The ensuing explosion caused injuries and fatalities to passengers in vehicles that were on the highway adjacent to the construction site. An investigation conducted by Venezuelan authorities found no criminal liability on the part of CANTV executives. Two civil lawsuits for wrongful death and personal injury have been brought by one of the injured persons and the estates of two individuals who died from their injuries. The lawsuits were filed in the United States District Court in Miami, Florida, against GTE Corporation, CANTV, AT&T and AT&T Andinos. The financial impact of these lawsuits, if any, is not expected to be material to the financial position of CANTV or GTE.

Venezuela has from time to time experienced social tensions and civil unrest, including two coup attempts during 1992. Although in the past these events have not been directed at CANTV, it is not possible to predict the effect of any such events on CANTV in the future.

Telephone Competition

GTE's telephone subsidiaries hold franchises, licenses and permits adequate for the conduct of their business in the territories which they serve. Rapid advances in technology, together with a number of regulatory and judicial actions continue to accelerate and expand the level of competition and opportunities available to GTE.

In September 1993, the FCC issued an order that allows competing communications carriers to interconnect to a local-exchange network for the purpose of providing switched access transport services effective February 1994. This ruling follows an FCC ruling in 1992 that allowed competitors to interconnect in order to provide private line services. Both of these orders permit competition for the transport of traffic between a LEC's switching office and large end-user's facilities. The FCC order also allows the LECs additional flexibility in pricing competitive services. In December 1993, the FCC approved LEC tariffs implementing revised rate structures for dedicated and common transport services. These revisions better reflect the actual cost characteristics of transport services and improve the LEC's ability to compete with alternative access providers.

During 1994, Telephone Operations will begin implementation of a re-engineering plan that will redesign and streamline processes. Implementation of the re-engineering program will allow GTE's U.S. Telephone Operations to continue to respond aggressively to competitive and regulatory developments through reduced costs, improved service quality, competitive prices and new product offerings. Moreover, implementation of this program will position GTE to accelerate the delivery of a full array of voice, video and data services. The re-engineering program will be implemented over three years, with expected workforce reductions of approximately 17,000 during that time frame.

In September 1993, the FCC announced its decision to auction licenses in 51 major markets and 492 basic trading areas across the United States to encourage the development of a new generation of wireless personal communications services ("PCS"). As discussed further in the description of GTE's Personal Communications Services business, these services will both complement and compete with traditional wireline services.

In Cerritos, California, GTE is testing and comparing the capabilities of copper wire, coaxial cable, and fiber-optics. The Cerritos test has enhanced GTE's expertise in the areas of pay-per-view video service, video-on-demand and local videoconferencing, and led to a new interactive service, GTE Main Street, which allows customers to shop, bank and access various other information services from their homes. In 1992, the FCC issued a "video dialtone" ruling that allows telephone companies to transmit video signals over their networks. In August 1993, the U.S. District Court in Alexandria, Virginia ruled that a regional telephone company is permitted to provide video programming within its telephone service area. If upheld, this decision would overturn the provision in the Cable Communications Policy Act of 1984 that prevents telephone companies from providing video programming within their existing service areas.

The GTE Consent Decree, which was issued in connection with the 1983 acquisition of GTE Sprint (since divested) and GTE Spacenet, prohibits GTE's domestic telephone operating subsidiaries from providing long-distance service beyond the boundaries of the LATA. This prohibition restricts their direct provision of long-distance service to relatively short distances. However, GTE Hawaiian Telephone and GTE Alaska are permitted to provide services between Hawaii, Alaska and international points. The degree of competition allowed in the intraLATA market is subject to state regulation. However, regulatory constraints on intraLATA competition are gradually being relaxed in many of the states in which GTE telephone operating subsidiaries provide service.

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These and other actions to eliminate the existing legal and regulatory barriers, together with rapid advances in technology, are facilitating a convergence of the computer, media and telecommunications industries. In addition to allowing new forms of competition, these developments are also

creating new opportunities to develop interactive communications networks. GTE supports these initiatives to assure greater competition in telecommunications, provided that overall the changes allow an opportunity for all service providers to participate equally in a competitive marketplace under comparable conditions.

GTE intends to continue to respond aggressively to regulatory and legal developments that allow for continued competition and opportunities in the marketplace. GTE expects its financial results to benefit from reduced costs and the introduction of new products and services that will result in increased usage of its telephone and mobile-cellular networks. However, it is likely that such improvements will be offset, in part, by continued strategic price reductions and the effects of increased competition.

Support Services

Included in GTE's Telephone Operations are two major unregulated subsidiaries which provide support to the GTE telephone subsidiaries.

GTE Data Services Incorporated ("Data Services"), GTE's software development and information processing subsidiary, provides data processing and information management services to GTE's telephone subsidiaries and other non-affiliated companies. During 1993, Data Services won several major outside contracts, including the renewal of one with an estimated value of \$46 million to continue serving as fiscal agent for the state of Missouri's Division of Medical Services for seven years. Another was a \$22 million award to provide a license for its Customer Billing Services System to Mercury Communications Ltd., the second-largest long-distance telephone company in Great Britain.

GTE Supply is responsible for the procurement and distribution of supplies for GTE's domestic telephone operating companies, as well as other non-affiliated telephone companies.

TELECOMMUNICATIONS PRODUCTS AND SERVICES

Telecommunications Products and Services consists of Personal Communications Services, which is comprised of GTE Mobilnet ("Mobilnet"), Contel Cellular Inc. ("CCI") and GTE Airfone, GTE Government Systems and GTE Information Services.

Personal Communications Services

Mobilnet and CCI provide mobile-cellular telephone service and market cellular products. Mobilnet is 100% owned by GTE while CCI is a 90% owned GTE company. The remaining shares of CCI are traded on the NASDAQ National Market System.

GTE is the second-largest provider of mobile-cellular telephone services in the United States in terms of population in the areas served. It holds a controlling interest in 77 metropolitan markets, known as metropolitan statistical areas ("MSAs"), and 42 rural service areas ("RSAs"). Outside

the United States, GTE also operates mobile-cellular networks through international subsidiaries and affiliates in Canada, Venezuela and the Dominican Republic.

In addition, in November 1993, a GTE-led consortium, Compania de Telefonos del Interior ("CTI"), was ranked first in competitive bidding for two cellular licenses by the National Telecommunications Commission of Argentina. It is expected that a contract to award the licenses will be executed late in the first quarter of 1994. GTE, as operator, has a leading 23 percent ownership interest in CTI, and its partners include AT&T Network Systems and three Argentinean companies along with Trust Company of the West. It is anticipated that CTI will have an initial two year exclusivity to provide cellular services in the north and south interior regions of Argentina. GTE will hold a ten year contract to manage and operate the system, which will serve a population of 22 million in the northern and southern regions of the country.

GTE's ownership position in U.S. markets was obtained through the FCC lottery and settlement process as well as through purchases. GTE's cellular operations serve a population of approximately 53 million "POPs", approximately 19 million of which are in the top 30 U.S. markets. ("POPs" refers to the population of a market area multiplied by a company's percentage ownership in the cellular system serving that market.) In 1993, GTE's cellular operations increased their customer base by 45% to 1,585,000 customers.

GTE's FCC cellular licenses, were generally granted for an initial ten year term and are renewable for successive ten year terms. FCC license renewal applications were filed for the two GTE markets with license expirations in 1993. Both applications presently are being processed by the FCC; neither were opposed. The majority of GTE's FCC cellular licenses will expire and require renewal application filings over the next five year period.

In 1993, CCI, Mobilnet and other leading mobile communications companies announced the formation of MobiLink, which is a set of cellular service standards designed to provide customers consistent levels of service and greater satisfaction across most of the U.S. and Canada. Today, the MobiLink association of carriers covers some 81% of the population of the U.S. and 89% of Canada.

Also in 1993, GTE's cellular operations began providing wireless data services to major customers and undertook developing, along with other carriers, a standard for digital data services. This new service offering, called Cellular Digital Packet Data provides for a standard, efficient method of digital data services using existing cellular radio frequencies.

GTE's cellular operations experience direct competition from the second cellular licensee in each market. Competition is principally on the basis of service quality, price and coverage area. In addition to the direct cellular competitor in each market, Enhanced Specialized Mobile Radio ("ESMR") operators also represent potential competition. In 1993, one

such ESMR provider began the process of modifying its networks in major markets all over the U.S. to provide service offerings which are very similar to cellular and PCS. Through the use of digital technology, this ESMR operator plans sufficient capacity increases to provide direct competition to cellular service.

In 1993, GTE continued to make progress in advanced telecommunications. In Tampa, Florida, GTE concluded the largest market trial of residential PCS conducted in the United States. The knowledge and experience gained during this trial will enhance GTE's ability to compete in this emerging market.

In 1993, the FCC also released a Report and Order to allocate additional frequencies in the 1.8 GHz to 2.1 GHz frequency band to enable up to seven additional wireless competitors to enter the market. These new licenses will be the subject of auction on the basis of two licenses in each of 51 large serving areas across the U.S. called "Major Trading Areas" ("MTAs"), and five licenses in each of 492 smaller serving areas called "Basic Trading Areas" ("BTAs"). Mobile-cellular telephone service providers such as GTE are eligible for these new MTA licenses in areas where they do not currently have significant cellular holdings and for a single BTA license in all BTAs. The service offerings under the additional frequencies will be similar in nature to mobile-cellular telephone service and will offer direct competition once established. The FCC plans to auction these licenses during 1994; thus it is not possible at this time to predict the precise scope, timing or nature of this competition. GTE will be permitted full participation in the license auctions in areas outside of its existing cellular service areas and limited participation in areas in which GTE has a cellular presence. GTE expects to actively participate in these auctions.

The frequency bands being allocated to these new licenses are currently occupied by point-to-point microwave radio users. GTE, both within its local-exchange telephone operations and its cellular operations, is an extensive user of these facilities for the backhaul of telephone traffic. Under the proposed FCC rules, the incumbent users of these frequencies will be relocated to higher frequencies to make way for the new PCS services. The FCC rules allow for up to a two year negotiation period between the incumbent and the new licensee for the new licensee to provide adequate compensation to the incumbent for the cost of that relocation. Failing agreement between the two parties during that two year negotiation period, the FCC rules provide for a third year for arbitration.

GTE has filed extensive comments in all of the FCC proceedings regarding PCS to ensure that incumbents are not unfairly disadvantaged and to ensure that the new services are made available to the public in the most cost- and time-efficient manner.

GTE Airfone ("Airfone") operates an air-to-ground telephone service for passengers on board aircraft under a license granted by the FCC in 1991.

Five other licenses have been granted by the FCC for air-to-ground service, and two companies, In-Flight Phone Corporation and Claircom, had initiated activity by the end of 1992. At the end of 1993, Airfone

service was installed on approximately 2,000 U.S. and Canadian commercial aircraft. The convenience of the Seatfone system, which is installed in the backs of passengers' seats, has significantly increased calling rates over cordless telephones located at central places in the aircraft.

The Airfone telecommunications system has also been installed on several U.S. and non-U.S. commercial aircraft that fly trans-oceanic routes providing airline passengers with telephone service worldwide through satellite connections.

At the end of 1993, Airfone began deployment of its new advanced digital GenStar System, which will enhance quality and make possible a new array of features not available to airline passengers in the past, including data and fax service, ground-to-air calling, and a variety of information services. A lighted menu screen makes it easy and efficient for passengers to use these enhanced features. Also, 1993 marked a significant milestone in the history of airborne telecommunications with the first-ever completion of a ground-to-air call on the Airfone service. Airfone has been competing for contracts to install its digital GenStar system, and as of January 1994, had won agreements with TWA, Delta Air Lines, United Airlines and USAir Shuttle to outfit about 1,700 aircraft. Late in 1993, American Airlines and America West, which are presently equipped with Airfone equipment, reached an agreement with other providers for onboard telephone service.

Also, in September 1993, Airfone and Magnavox announced a joint alliance to provide digital airborne telecommunications for the general aviation market. Under this alliance, Magnavox will design the digital radios with an exclusive connection to Airfone's new advanced all-digital system. The "MagnaStar system" will be available in mid-1994.

Airfone will continue to actively compete for digital service contracts based on quality, reliability, new feature offerings and flexibility for future capabilities.

GTE Government Systems

In January 1994, GTE combined GTE Spacenet Corporation ("Spacenet") with GTE Government Systems in order to achieve greater synergy and operating efficiencies.

GTE Government Systems' primary business is the development, manufacturing and integration of customized command, control, communications and intelligence systems for the defense and national security agencies of the U.S. Government and selected foreign governments. In addition, GTE Government Systems provides information systems, telecommunications services and electronic system operation and maintenance support services for civilian agencies of the Federal Government and the commercial marketplace.

During 1993, GTE Government Systems received orders valued at \$1.1 billion and continued to expand its customer base within government agencies to include a \$31 million award to provide telecommunications equipment and

support services for 21 U.S. General Services Administration locations in California and Nevada, and a \$12 million contract to supply computer maintenance services to U.S. Department of Agriculture offices. GTE Government Systems also won several significant contracts from its military customers including the Air Force, Army and the Department of Defense. Among these were a supplemental award of \$87 million for field services in support of intelligence systems; a \$33 million supplemental award to supply digital telecommunications systems to selected Army posts in the United States; and a \$20 million award from the Army for continued technology upgrades to transportable tactical message switches. These successes and other programs helped GTE Government Systems end 1993 with a backlog of slightly more than \$1.0 billion, a decline from the \$1.4 billion at December 31, 1992. This decrease primarily reflects the substantial completion of deliveries under the Mobile Subscriber Equipment contract awarded in 1985.

GTE Government Systems continues to witness a decline in the budgets of its traditional customers within the Department of Defense and other national security agencies of the U.S. Government. This situation is expected to continue for the next several years as a diminished geopolitical threat and increased emphasis on non-defense related domestic programs divert funds to other governmental agencies. However, there will continue to be opportunities within the defense market for GTE Government Systems products and services, especially in the areas of communications networks and information processing.

GTE Government Systems has broadened its marketing strategy to seek a stronger presence with its traditional military customers and to expand its presence and contract base with the civilian agencies of the Federal Government. Capabilities, products and services are being transitioned to non-defense applications. Initiatives are also underway in the commercial marketplace, including a joint venture with Northern Telecom to introduce asynchronous transfer mode switches into the public switched network markets. In all markets success depends on GTE Government Systems' ability to successfully compete for contracts which increasingly are being awarded with more emphasis on price rather than unique technical solutions.

Principal U.S. competitors include: LORAL, ITT, Boeing, CSC, Martin-Marietta, AT&T, TRW, Harris, E-Systems, Lockheed/Sanders and GE/RCA. Major foreign competitors include Thomson-CSF, Ericsson and Siemens.

Spacenet provides a broad range of telecommunications services and system solutions for businesses, news organizations, educational institutions and government agencies throughout the United States and in over 30 other countries. The company currently operates eight communications satellites for the United States domestic market.

Spacenet offers a multi-level service portfolio for data, video and voice networks which typically includes design, integration, implementation, operations, program and network management. Spacenet's capabilities combine satellite with other advanced technologies and protocols.

Spacenet's market focus is on commercial and governmental organizations which have essential needs for high-quality telecommunications services with rapid transmission of time-critical information to support their normal operations or to provide strategic advantage in competitive markets.

Spacenet's sales and business initiatives address three target segments: satellite services; domestic networks; and international sales. Satellite services focus on the sale of transponder services, typically to broadcasters, educators and resellers. Domestic network services focus on VSAT networks for retail, finance, energy and manufacturing industries and for government customers. International sales focus on private, high-performance satellite-based networks for communications to remote locations, or total telecommunications solutions including hub earth stations, switching systems, and total project integration for underdeveloped or remote locations.

Competition for satellite-delivered interactive data services has come primarily from private and multitrunk terrestrial leased lines. Domestic competitors in satellite services include GM Hughes, AT&T, and General Electric. With the exception of the latter, Spacenet's domestic competitors are active in the international market in addition to U.S.-based Scientific Atlanta and regional competitors throughout the world.

Because of competing terrestrial transmission technologies (i.e. fiber optics) in the domestic market, Spacenet has shifted its focus over the last several years to the growing international market especially in Eastern Europe, Latin America and the Pacific Rim.

As a result of the development of alternative transmission technology and increased competition, during the fourth quarter of 1993, the carrying value of Spacenet's satellite communication assets was reduced to estimated net realizable value.

GTE Information Services

GTE Information Services provides information marketing and networking services through its business units.

GTE Directories Corporation ("GTE Directories") is the largest unit of GTE Information Services. It annually publishes or provides sales and other directory-related services for more than 1,200 directory titles in 42 states and 14 foreign countries with a total circulation of approximately 49 million copies. A full-service directory publisher for 57 years, GTE Directories publishes, prints, distributes, and sells advertising for directories. GTE Directories competes directly within the yellow pages industry which consists of nine major and numerous smaller U.S.-based directory publishers. Indirectly, GTE Directories competes with other advertising-based media such as cable, newspapers, television, radio, and direct mail.

Other units of GTE Information Services develop and market computer-based services in several industries including health care, state and local government, cellular telephone and telecommunications. As a result, they face competition from many companies offering competitive computer software and related services.

GTE Telecommunications Services ("GTETSI") is a major provider of comprehensive, integrated information services to the cellular telephone industry throughout North America. The array of services spans fraud analysis, roamer validation, roamer rating, roamer call forwarding, clearinghouse services, network management, network services, subscriber activations services and corporate accounts invoicing services. GTETSI provides transaction processing, software applications and network and support services that facilitate the "roaming" of cellular subscribers and the management of cellular markets.

GTETSI serves both large and small customers in virtually all operational wireline markets and 35 percent of the non-wireline markets throughout North America. It has one competitor which focuses primarily upon the non-wireline markets. GTETSI competes through product innovation, technology deployment, provision of flexible product solutions and quality customer service.

GTE Health Systems is a provider of integrated information management applications to the health care industry. Primary product lines include financial and clinical software applications for hospitals.

GTE Government Information Services ("GTEGIS") develops and markets Emergency-911 systems for local governments. It provides applications software, network design and management, professional services, and complete installation, maintenance and support services targeted to local government agencies.

In addition, GTEGIS markets cellular call box systems. These stand-alone, solar-powered call boxes provide vital communication services on highways, municipalities, campuses and other critical locations.

AG COMMUNICATION SYSTEMS

AG Communication Systems began operations in January 1989 as a joint venture of GTE and AT&T. GTE held a 51 percent interest in the venture, through December 31, 1993. Effective January 1, 1994, AT&T assumed 80 percent ownership and will assume 100 percent ownership in the year 2004, through the purchase of GTE's remaining ownership interest.

AG Communication Systems designs, engineers, manufactures, distributes, installs and maintains GTD-5 telecommunication switches and ancillary products, and provides services for telecommunication markets. The joint venture also develops software for AT&T and manufactures completed products or subassemblies for other companies.

The main participants in this industry are Northern Telecom and AT&T in the United States, as well as European and Far Eastern competitors. As a result of intense competition, prices are determined competitively in the marketplace.

RESEARCH AND NEW PRODUCT DEVELOPMENT

GTE's research and development work is centered principally at GTE Laboratories Incorporated. Further activities in research and new product development and improvement are conducted at the various GTE business units. The areas of research and product development are focused on telecommunications operations and applications. The following highlight the key areas of involvement: automation of telecommunication operations, network management, intelligent network migration, broadband information transport, network architecture design and planning, wireless communications, advanced database capabilities, network quality improvements, exchange video distribution, and support for industry standards development.

For the years 1993 - 1991, expenditures for all company-sponsored research and product development and improvement for continuing operations were approximately \$135 million, \$159 million and \$155 million, respectively. Additionally, approximately \$204 million, \$167 million and \$143 million, respectively, was expended for customer-sponsored research and product development and improvement during the same periods. In total, GTE engaged approximately 2,100 professional scientists and engineers full time, or substantially full time, on such activities.

ENVIRONMENTAL MATTERS

GTE and some of its present and former subsidiaries, along with other unrelated corporations, have been named as potentially responsible parties at a number of federal and state "Superfund Sites" - sites, lawfully used in the past, but now determined to require remediation or with respect to some presently or formerly owned sites requiring remediation under the Resource Conservation and Recovery Act ("RCRA"). GTE has reviewed each Superfund and RCRA site in which it has an involvement to establish an expected remediation cost. Based on this review, the remediation cost at any individual site or at all sites in the aggregate are not expected to be material. Factors used to evaluate expected GTE costs include remediation estimates, number of viable parties involved, degree of GTE's involvement and past experience at sites being remediated. No present value discounting is used. Additionally, operations of some of GTE's subsidiaries have been subjected to new and increasingly stringent environmental requirements.

While GTE's annual expenditures for site cleanups and environmental compliance have not been and are not expected to be material, they are increasing. These costs include GTE's share of cleanup expenses for Superfund Sites, outlays required to keep existing operations in compliance with environmental regulations and an underground storage tank replacement program.

Although the complexity of environmental regulations, and the widespread imposition of multi-party joint and several liabilities at Superfund Sites, makes it difficult to assess GTE's share of liability, management believes it has made adequate provision in its financial statements.

INDUSTRY SEGMENTS

Reference is made to Item 6 "Selected Financial Data" included elsewhere herein for information about GTE's operations by major business segment and GTE's foreign operations for the years 1993-1989.

Item 2. Properties.

PROPERTIES OF GTE COMPANIES

GTE owns no plant, real property, franchises, or concessions except indirectly through its investments in subsidiaries.

TELEPHONE OPERATIONS

The properties of GTE's telephone subsidiaries consist principally of land, structures and equipment required to provide various telecommunications services and are generally in good operating condition. Substantially all of the properties of the telephone subsidiaries are subject to the liens of their respective mortgages securing funded debt.

From January 1, 1989 to December 31, 1993, GTE's telephone subsidiaries made capital expenditures of approximately \$17 billion for new plant and facilities required to meet telecommunication service needs and to modernize associated plant and facilities. These additions were equal to 39 percent of gross plant of \$43.1 billion at December 31, 1993. Gross retirements amounted to \$9.7 billion during the same period.

Access lines in service is an important factor in measuring telephone growth. At year-end 1993, access lines served in the United States totaled 17.1 million. In addition, GTE's affiliated telephone companies in Canada, the Dominican Republic and Venezuela served 5.0 million access lines. At December 31, 1993, 84 percent of GTE's access lines were connected to digital switches, compared with 70 percent in 1989. During 1993, GTE also accelerated the installation of fiber-optic cable, bringing total miles installed throughout GTE's domestic network to 649,000 miles, more than double the amount installed only three years ago.

In view of increased competition and rapid technological change, GTE's telephone subsidiaries continue to seek opportunities to improve recovery of their large investments in telephone plant. Although gross investment in plant increased at a three percent annual rate between 1989 and 1993, 39 percent of GTE's investment in telephone plant had been recovered through depreciation by the end of 1993 compared with only 34 percent in 1989.

TELECOMMUNICATIONS PRODUCTS AND SERVICES

At year-end 1993, the Telecommunications Products and Services Group operated 51 plants and had eight laboratories in the United States.

In 1993, GTE substantially completed the two year conversion of its mobile-cellular switching and transmission equipment to advanced digital technology throughout its operations. The new equipment will enable GTE to offer an array of new digital wireless services in the future and to participate in the evolving nationwide wireless communication network.

OTHER

GTE Laboratories Incorporated operates a research facility in Massachusetts.

All of the aforementioned properties are generally in good operating condition and adequate to satisfy the needs of the businesses.

Item 3. Legal proceedings.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5.

Market for the Registrant's Common Equity and Related Shareholder Matters.

At January 31, 1994, there were approximately 567,000 common shareholders of record.

GTE QUARTERLY FINANCIAL DATA (Millions of Dollars) GTE Corporation and Subsidiaries (unaudited)

	1st QTR		2nd QTR		3rd QTR		4th QTR(b)	
	1993	1992	1993	1992	1993	1992	1993	1992
Revenues and sales	\$ 4,826	\$ 4,823	\$ 4,916	\$ 5,063	\$ 4,943	\$ 4,965	\$ 5,063	\$ 5,133
Operating income (loss)(a)	1,101	1,006	1,038	1,038	1,156	1,093	(730)	1,079
Net income (loss) applicable to common stock								
Continuing operations(a)	\$ 456	\$ 385	\$ 433	\$ 405	\$ 554	\$ 459	\$ (471)	\$ 512
Discontinued operations(c)	—	—	—	—	—	—	—	(48)
Extraordinary charge-early retirement of debt	—	—	—	—	—	—	—	(52)
Cumulative effect of accounting changes(d)	—	(2,441)	—	—	(90)	—	—	—
Consolidated	\$ 456	\$ (2,056)	\$ 433	\$ 405	\$ 464	\$ 459	\$ (471)	\$ 412
Earnings (loss) per common share								
Continuing operations(a)	\$.48	\$.43	\$.46	\$.45	\$.59	\$.52	\$ (.50)	\$.55
Discontinued operations(c)	—	—	—	—	—	—	—	(.05)
Extraordinary charge-early retirement of debt	—	—	—	—	(.10)	—	—	(.06)
Cumulative effect of accounting changes(d)	—	(2.70)	—	—	—	—	—	—
Consolidated	\$.48	\$ (2.27)	\$.46	\$.45	\$.49	\$.52	\$ (.50)	\$.44
Dividends declared per common share	\$.455	\$.425	\$.455	\$.425	\$.47	\$.455	\$.47	\$.455
Stock market price								
High	\$ 37.75	\$ 34.75	\$ 37.38	\$ 33.25	\$ 39.00	\$ 35.75	\$ 39.88	\$ 35.00
Low	34.13	29.75	34.25	28.88	34.63	31.75	35.00	32.38
Close	37.00	30.38	36.13	31.88	38.38	34.13	35.00	34.63

(a) Second quarter 1993 operating income was reduced by a pre-tax charge of \$74 million resulting from Telephone Operations' voluntary separation programs. This charge reduced net income by \$46 million, or \$.05 per share. Fourth quarter 1993 operating loss includes a pre-tax restructuring charge of \$1.8 billion. This charge reduced net income by \$1.2 billion, or \$1.22 per share (see Note 3 to the Financial Statements).

(b) Fourth quarter results include after-tax gains on sales of non-strategic telephone properties of \$91 million in 1993 and cellular properties of \$90 million in 1993 and \$55 million in 1992.

(c) Reflects a charge associated with the sale of the Electrical Products Group (see Note 4 to the Financial Statements).

(d) Reflects a one-time, non-cash, after-tax charge associated with the 1992 adoption of the new accounting rules for postretirement health care and life insurance benefits and income taxes (see Note 5 to the Financial Statements). The cumulative charge per common share was computed based on average common shares outstanding for the full year. Based on average common shares outstanding for the first quarter of 1992, the cumulative charge per share was \$2.74.

Stock Ownership Questions

Please address questions concerning ownership of common, preferred or no par preferred stock to:

GTE Corporation
C/O Bank of Boston

P.O. Box 9191
Boston, MA 02205-9191

or call: 1-800-225-5160 in the United States or call:
1-617-575-2990 outside of the United States

Shareholder Systematic Investment Plan

The Shareholder Systematic Investment Plan provides holders of the Corporation's common stock with a convenient way to purchase additional shares. Shareholders wishing information regarding the plan may write to:

GTE Corporation
C/O Bank of Boston

P.O. Box 9092
Boston, MA 02205-9092

Principal Financial Contact

For further information about GTE Corporation and its subsidiaries, please contact:

Investor Relations Department

GTE Corporation
One Stamford Forum

Stamford, CT 06904

(203) 965-2789

Int'l Telex: 4750071

Facsimile: (203) 965-2520

10-K Report

A copy of our annual report on Form 10-K filed with the Securities and Exchange Commission may be obtained by writing to the Corporate Secretary's Office, GTE Corporation, One Stamford Forum, Stamford, CT 06904.

Stock Exchange Listings

The common stock of GTE Corporation (symbol: GTE) is listed on the New York Stock Exchange, Inc., the Chicago Stock Exchange, Incorporated, and The Pacific Stock Exchange Incorporated and is traded on other exchanges in the United States. It is also listed in Europe on The Stock Exchange, London; the Amsterdam Stock Exchange; the Basel Stock Exchange; the Geneva Stock Exchange; the Lausanne Stock Exchange; the Paris Stock Exchange; and the Zurich Stock Exchange. Additionally, it is listed on the Tokyo Stock Exchange.

The Corporation's 5.00% convertible preferred stock, \$2.00 convertible no par preferred stock and \$2.475 no par preferred stock are listed on the New York Stock Exchange, Inc.

The information in this report is not given in connection with any sales or offer to buy any securities.

Transfer Agent and Registrar

The Transfer Agent and Registrar for GTE's Common Stock, Preferred Stock and No Par Preferred Stock is the First National Bank of Boston.

GTE Corporation
C/O Bank of Boston
P.O. Box 9191
Boston, MA 02205-9191

or

GTE Corporation
C/O BancBoston Trust Company
of New York
One Exchange Place
55 Broadway
New York, NY 10006

For overnight delivery services, use the following address:

GTE Corporation
C/O The First National Bank of Boston
Blue Hills Office Park
150 Royall Street
Canton, MA 02021

Annual Meeting

The 1994 Annual Meeting of Shareholders will be held on April 20, 1994, at the Italian Center,
1620 Newfield Avenue, Stamford, Connecticut.

BUSINESS GROUP DATA

GTE Corporation and Subsidiaries

	1993	1992	1991	1990	1989	Five-Year Annual Growth Rate +
	(Millions of Dollars)					
Results of Operations:						
Revenues and sales	\$ 19,748	\$19,984	\$19,621	\$19,157	\$18,251	2.8%
Operating income(a)	2,565	4,216	3,742	3,787	3,577	—
Net income (loss) applicable to common stock (a)						
Continuing operations	972	1,761	1,492	1,579	1,503	—
Consolidated	882	(780)	1,543	1,671	1,611	—
Earnings (loss) per common share(a)						
Continuing operations	1.03	1.95	1.69	1.82	1.75	—
Consolidated	.93	(.86)	1.75	1.93	1.87	—
Common dividends declared per share	1.85	1.76	1.64	1.52	1.40	7.5
Depreciation and amortization	3,419	3,289	3,254	3,189	3,010	3.0
Research and development	135	159	155	137	134	2.2
Assets and Capital:						
Capital expenditures	3,893	3,909	3,965	4,158	3,963	(.2)
Long-term debt and redeemable preferred stock	13,175	14,356	16,252	14,130	13,137	2.6
Consolidated assets	41,575	42,144	42,437	40,178	36,921	3.3
Shareholders' equity(a)	9,593	10,076	11,313	10,727	9,984	(.6)
Consolidated Ratios and Other Information:						
Return on common equity(b)	8.8 %	(8.8) %	14.8 %	17.1 %	16.7 %	—
Return on investment(b)	6.9 %	1.3 %	9.4 %	10.4 %	10.5 %	—
Average common equity	10,030	8,832	10,434	9,763	9,636	.3
Average investment	27,322	28,057	29,418	27,354	25,058	3.0
Employees (in thousands)	117	129	159	174	174	(8.3)
Foreign Operations (included above):						
Revenues and sales	\$ 2,482	\$ 2,369	\$ 2,286	\$ 2,129	\$ 1,950	8.6%
Net income	328	244	227	240	195	24.4
Total assets	6,096	5,963	5,757	4,619	4,471	9.7
Corporate and Other:						
Restructuring and merger costs(a)	\$ 72	\$ —	\$ 97	\$ —	\$ —	—%
Capital expenditures	20	24	37	230	229	—
Total assets	1,856	2,786	3,689	3,380	3,205	(9.6)

Notes to Business Group Data appear on page 22.

BUSINESS GROUP DATA

GTE Corporation and Subsidiaries

	1993	1992	1991	1990	1989	Five-Year Annual Growth Rate +
(Millions of Dollars)						
Telephone Operations:						
Revenues and sales(c)						
Local network services	\$ 5,244	\$ 5,000	\$ 4,792	\$ 4,621	\$ 4,188	5.4%
Network access services	4,398	4,477	4,365	4,248	4,213	1.8
Long distance services	3,330	3,396	3,488	3,480	3,415	1.5
Equipment sales and services and other	2,857	2,989	3,007	3,044	3,256	(.7)
Total revenues and sales	15,829	15,862	15,652	15,393	15,072	2.3
Operations and maintenance	8,796	8,979	8,841	8,773	8,771	1.8
Depreciation and amortization	2,969	2,849	2,854	2,849	2,773	1.5
Restructuring and merger costs(a)	1,370	—	150	—	—	—
Operating income	2,694	4,034	3,807	3,771	3,528	—
Capital expenditures	3,296	3,330	3,491	3,437	3,410	(.5)
Total assets	33,746	33,154	32,446	30,390	29,887	3.5
Average total capital	23,244	22,937	23,423	22,521	21,543	2.4
Return on common equity(d)	10.1%	1.6%	15.0%	16.0%	16.0%	—
Access minutes of use (in millions)	55,616	51,976	47,979	44,533	39,994	9.2
Access lines (in thousands)	22,065	21,440	20,490	18,314	17,567	6.2
Total(e)	17,073	16,819	16,233	15,810	15,215	3.3
United States(e)	234	208	191	171	159	9.6
Per employee	95	104	109	116	118	(4.4)
Employees (in thousands)	73	81	85	93	96	(5.8)
Total						
United States						
Telecommunications Products and Services:						
Revenues and sales(c)	\$ 3,919	\$ 4,122	\$ 3,969	\$ 3,764	\$ 3,179	5.1%
Depreciation and amortization	450	440	400	340	237	18.0
Restructuring and merger costs(a)	398	—	95	—	—	—
Operating income (loss)	(57)	182	32	16	49	—
Capital expenditures	577	555	437	491	324	10.4
Total assets	5,973	6,204	6,302	6,408	3,829	9.1
Average investment	4,060	4,252	4,432	3,418	1,916	20.8

Notes to Business Group Data appear on page 22.

Notes to Business Group Data :

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

(a) Operating income in 1993 was reduced by a \$1.8 billion pre-tax restructuring charge primarily for the implementation of a re-engineering plan at Telephone Operations and the reduction in the carrying value of satellite communication and certain other assets to estimated net realizable value (see Note 3). Operating income was also reduced by \$74 million for the cost of voluntary separation programs at Telephone Operations. Consolidated net income in 1993 also includes an extraordinary charge of \$90 million for the early retirement of high-coupon debt as well as a \$91 million after-tax gain on the sales of certain non-strategic telephone properties. These special items reduced consolidated net income by \$1.2 billion, or \$1.27 per share.

The consolidated net loss in 1992 includes a non-cash, after-tax charge of \$2.4 billion, or \$2.70 per share, for the cumulative effect of accounting changes for postretirement health care and life insurance benefits and income taxes (see Note 5); and charges totaling \$100 million, or \$.11 per share, associated with the sale of EPG, which was accounted for as a discontinued operation (see Note 4).

Operating income in 1991 was reduced by pre-tax costs of \$342 million incurred in connection with the merger and integration of GTE Corporation and Contel Corporation. These costs, net of a gain on the transfer of certain cellular properties, reduced 1991 net income by \$204 million, or \$.23 per share.

(b) Consolidated return on common equity and return on investment in 1993 would have been 20.4% and 11.2%, respectively, excluding the impact of the special items. Excluding the impact of the required accounting changes and one-time charges related to the sale of EPG, 1992 consolidated return on common equity and return on investment would have been 15.6% and 9.5%, respectively. Consolidated return on common equity and return on investment would have been 16.5% and 10.1% in 1991, respectively, before the one-time net charge related to the Contel merger.

(c) Services provided to AT&T constituted approximately 11%, 13% and 15% of Telephone Operations' revenues in 1993, 1991, respectively. Sales to the federal government represent approximately 7%, 9% and 10% of consolidated revenues and sales in 1993-1991, respectively, primarily through sales by Telecommunications Products and Services.

(d) Telephone Operations' return on common equity in 1993 would have been 17.6%, excluding the impact of the special items. Excluding the impact of required accounting changes, Telephone Operations' return on common equity in 1992 would have been 14.7%.

(e) Access lines at the end of 1993 exclude 440,000 net lines sold during the year. Total access lines include 2.0 million, 1.8 million and 1.6 million lines served by CANTV in Venezuela in 1993-1991, respectively. GTE acquired operating control of CANTV in 1991. Excluding the effect of the CANTV acquisition and the access lines sold during 1993, the five-year access line growth rate was 4.0%.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

FINANCIAL REVIEW

RETURN TO SHAREHOLDERS

GTE's primary financial objective is to maximize shareholders' long-term total return. For the five-year period ending in 1993, average annualized total return, consisting of share price appreciation and dividends, was 15.2%, compared with 14.5% for the S&P 500 average. GTE's annualized five-year return has been above the S&P 500 average for nine of the last ten years.

GTE's commitment to shareholder value is supported by a policy of maintaining a dividend payout ratio at the upper end of the range for comparable companies. The common stock dividend was increased by 3.3% in August 1993, the 39th increase in 40 years.

Shareholder value has also been enhanced by following clear investment criteria: investments must be in the company's core business, telecommunications, and they must be expected to earn more than their cost of capital over time. Over the past several years, these criteria have guided strategic initiatives such as a major commitment toward the continued improvement in the competitive position of Telephone Operations by "re-engineering" the many complex processes and systems currently in use, divestiture of the Electrical Products Group (EPG) business, investing in CANTV (the Venezuelan telephone company), and merging with Contel. Through these and other actions, GTE has sharpened its focus on telecommunications, a dynamic industry offering tremendous opportunities for profitable growth.

RETURN ON EQUITY

GTE's 1993 return on average common equity, before considering the impact of charges for restructuring, voluntary separation programs and early retirement of debt, as well as telephone property repositioning gains, reached 20.4%. This return was achieved in spite of uncertain economic conditions and ongoing competitive pricing actions at GTE Telephone Operations.

CAPITALIZATION

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

During 1990 and 1991, acquisition activity temporarily reduced the common equity ratio and other measures of debtholder protection. In 1992, GTE set in motion a plan to reduce debt (and auction preferred stock) by \$4 billion by the end of 1994. During 1992, a total of \$1.8 billion of debt was repaid, largely through a \$1.1 billion equity offering and proceeds from the sale of GTE's remaining interest in US Sprint. The balance of the \$4 billion debt-reduction program was completed one year ahead of schedule as a result of the sale of EPG which generated proceeds of \$1.2 billion, and sales of certain non-strategic telephone properties for \$1 billion.

Common equity as a percentage of total capitalization reached 40.3%, as compared with 38.1% in 1992, primarily reflecting the impact of the debt reduction program. Excluding non-recurring restructuring and extraordinary charges, common equity would have been 43.0% of total capitalization at the end of 1993.

CAPITAL INVESTMENT, RESOURCES AND LIQUIDITY

GTE's cash flow from operations increased from \$4.8 billion in 1992 to \$5.3 billion in 1993 and, together with nearly \$400 million raised through employee stock purchase and dividend reinvestment plans, provided the funds required for dividends of \$1.7 billion and capital expenditures of \$3.9 billion.

In 1993, GTE redeemed in advance of scheduled maturity \$2.1 billion of high-coupon debt issues and recognized an extraordinary charge of \$90 million for the expenses associated with these redemptions. GTE also issued \$2.3 billion of long-term debt during 1993, which was used to refinance maturing issues and to begin refinancing the high-coupon redemptions. The remaining refinancing related to high-coupon redemptions is expected to be completed during the first half of 1994.

During 1993, GTE made substantial progress in its program to sell or trade a small percentage of local-exchange telephone properties (representing less than 5% of its U. S. access lines) that had been identified as non-strategic. GTE completed about half of the expected transactions through the sale or exchange of 440,000 net access lines for \$1 billion in cash. GTE also entered into definitive agreements for the sale of over 400,000 additional access lines for \$.9 billion in cash. These transactions are subject to various government and regulatory approvals and the transfers of ownership, and are expected to occur on a state-by-state basis throughout 1994. GTE plans to continue to reduce debt with the net proceeds from these transactions.

Capital expenditures in 1994 are expected to increase slightly from the 1993 level, as accelerating investment in fiber optics and other enabling technologies for broadband services together with continued expansion of the cellular business more than offset the declining requirements for conversion to digital switching. Cash requirements to implement the re-engineering plan at Telephone Operations are expected to be largely offset by cost savings. Dividends and the capital requirements for GTE's businesses should continue to be funded largely with cash from operations and the funds generated from the employee stock purchase and dividend reinvestment plans. However, GTE's strong financial position allows ready access to worldwide capital markets for any additional requirements.

The issuance of long-term debt during 1994 is expected to be related largely to refinancing activity and is likely to increase compared with 1993 when refinancing also accounted for most of the new issuances.

RESULTS OF OPERATIONS

CONSOLIDATED

Overall, 1993 was an excellent year for GTE paced by strong customer growth and usage in both Telephone Operations and mobile cellular. GTE's competitive position in Telephone Operations was also enhanced through its cost reduction program which allowed for additional price reductions while, at the same time, improving the level of service to its customers. Improved profitability at GTE's Telecommunications Products and Services businesses was led by the fast growing mobile-cellular

business. GTE's cellular service revenues exceeded \$1 billion for the first time and customer growth reached 45% as 495,000 new customers were added during 1993. Significant improvements were also made by CANTV, the Venezuelan telephone company of which GTE owns 20.4% and maintains operating control. During 1993, CANTV placed 250,000 new lines in service and met or exceeded its goals in the areas of quality improvement and customer service.

Results for 1993, however, were significantly affected by the decisions to re-engineer the way Telephone Operations provides service to its customers and to reduce the carrying value of satellite communication and certain other assets. As a result, a one-time, pre-tax restructuring charge of \$1.8 billion, which reduced net income by \$1.2 billion, or \$1.22 per share, was recorded at the end of 1993.

This pre-tax restructuring charge includes \$1.4 billion at Telephone Operations primarily to implement its re-engineering plan. This plan will redesign and streamline processes in order to improve customer-responsiveness and product quality, reduce the time necessary to introduce new products and services and further reduce costs. This non-recurring charge includes costs to enhance or replace existing systems, substantially reduce the workforce and consolidate facilities. The re-engineering plan will be implemented over the next three years, with expected reductions of approximately 17,000 Telephone Operations employees during that time. The re-engineering effort is expected to result in savings of approximately \$1 billion annually after full implementation in 1996. The restructuring charge also includes a \$400 million reduction in the carrying value of satellite communication assets of GTE Spacenet (Spacenet) and certain other assets to estimated net realizable value, primarily reflecting technological advances and increased competition. GTE will also combine its Spacenet business with GTE Government Systems to leverage the combined strength of these two businesses.

Income from continuing operations in 1993 was \$990 million, or \$1.03 per share, which includes gains on sales of certain non-strategic telephone properties of \$91 million, or 10 cents per share. Excluding the impact of the restructuring charge and telephone property gains, as well as a \$46 million after-tax charge, or 5 cents per share, associated with Telephone Operations' voluntary separation programs, income from continuing operations would have been \$2.1 billion, or \$2.20 per share, representing a 13% increase over 1992. Consolidated net income in 1993 was \$900 million, or 93 cents per share, which includes an after-tax extraordinary charge of \$90 million, or 10 cents per share, for the early retirement of \$2.1 billion of high-coupon debt.

Consolidated revenues and sales totaled \$19.7 billion in 1993, compared with \$20 billion in 1992. Although volume growth in Telephone Operations and mobile-cellular was strong, the slight decline in consolidated revenues reflects competitive price reductions made by Telephone Operations as well as lower government-communications sales resulting from the wind-down of the eight year Mobile Subscriber Equipment contract. Operating income, excluding the impact of the restructuring and voluntary separation charges, increased 6% to \$4.5 billion in 1993. Net interest expense declined 10% to \$1.2 billion in 1993, reflecting reduced debt levels and lower interest rates.

In 1992, income from continuing operations totaled \$1.8 billion, or \$1.95 per share. Results for 1992 also included after-tax charges totaling \$100 million, including an extraordinary charge of \$52 million resulting from the early retirement of high-coupon debt and \$48 million associated with the sale of EPG. Effective

January 1, 1992, GTE adopted new accounting rules for postretirement health care and life insurance benefits (FAS 106) and income taxes (FAS 109). These accounting changes resulted in a cumulative, non-cash, after-tax charge of \$2.4 billion, or \$2.70 per share, which gave rise to a net loss of \$754 million, or 86 cents per share, for the full year.

TELEPHONE OPERATIONS

GTE Telephone Operations provides a wide variety of communications services ranging from local telephone service for the home and office to highly complex voice and data services for industry. In the United States, Telephone Operations served 17.1 million access lines in 33 states at the end of 1993. In addition, GTE's affiliated telephone companies in Canada, the Dominican Republic and Venezuela, served 5 million access lines.

In 1993, revenues from Telephone Operations were \$15.8 billion, compared with \$15.9 billion in 1992. This slight decline primarily reflects continued competitive price reductions, including lower access tariffs charged to long-distance companies, which more than offset strong volume increases. In 1993, rates were lowered by more than \$300 million, continuing the program to price services more competitively. These price reductions have totaled more than \$750 million over the last three years. Minutes of use of GTE's domestic local-exchange network for long-distance calling grew at an annual rate of 7% while total access lines increased 4% over last year, excluding the impact of the sale of certain non-strategic telephone properties at the end of 1993. These solid volume improvements were achieved despite continued economic weakness in southern California, GTE's largest service area.

Revenues from network access and long-distance services of \$7.7 billion decreased 2% compared with 1992. The slight revenue decline reflects the previously discussed competitive price reductions which more than offset the increased usage of GTE's local network for long-distance calling.

Local revenues increased 5% to \$5.2 billion compared with \$5 billion in 1992. This growth was attributable to placing an additional 795,000 access lines in service in 1993.

Other telephone revenues are derived primarily from sales of regulated and nonregulated equipment and services. In 1993, these revenues totaled \$2.9 billion, 4% lower than in the prior year, reflecting weak economic conditions as well as a favorable settlement last year.

Operating income, excluding the one-time restructuring charge, and the \$74 million charge associated with voluntary separation programs completed during the year, increased 3% as cost-control and reduction programs more than offset the slight revenue decline. Excluding the special charges, 1993 marks the fourth consecutive year that operating expenses have declined at U. S. Telephone Operations due to cost-containment programs. During this same period, usage of GTE's local network for long-distance calling increased 39%, while access lines in service increased 15%. With the implementation of Telephone Operations' re-engineering plan, it is expected that significant additional cost reductions will be realized in the years to come.

Productivity improvement continues to be a major objective for Telephone Operations. U. S. access lines per employee, a key indicator of productivity, were 234 at the end of 1993, a 13% increase over 1992 and 47% higher than the same measure only four years ago. This improvement reflects ongoing programs to

streamline operations, including the impact in 1993 of various voluntary separation programs accepted by some 6,400 employees, or nearly 8% of the U. S. workforce. By the end of 1993, Telephone Operations had reduced its U. S. workforce to approximately 73,000 employees, a 27% reduction since these programs began in 1988. When completed in 1996, the re-engineering program is expected to have further reduced GTE's U. S. Telephone Operations workforce by more than 20%.

In addition, GTE has been increasing the use of state-of-the-art technology to better provide quality services and gain operational efficiencies. By the end of 1993, 84% of the access lines served by GTE's Telephone Operations were connected to digital switches compared with 70% only four years ago. During the year, GTE also accelerated the installation of fiber-optic cable, bringing total miles installed throughout GTE's network to 649,000 miles, more than double the amount installed only three years ago. This high capacity cable enables GTE to provide certain advanced network features such as high-speed data transmission and video conferencing.

GTE Telephone Operations also continues to improve the rate at which it is recovering its investment in telephone plant. While gross investment in plant grew at a 3% annual rate during the 1989-1993 period, the percentage of GTE's investment in plant recovered through depreciation increased to 39% at the end of 1993 compared with 34% in 1989.

In 1992, revenues from Telephone Operations increased slightly over 1991 to \$15.9 billion while operating income improved 6% to \$4 billion, reflecting continuing control over operating-cost levels. The revenue increase reflected increased usage of GTE's network for local and long-distance calling in both domestic and international operations. Minutes-of-use of GTE's domestic local-exchange network for long-distance calling increased 8% and total access lines in service increased 4%. These solid volume improvements were largely offset by price reductions, including a lowering of interstate access rates charged to interexchange carriers to price these services more competitively. The higher percentage growth in operating income reflected a lower level of domestic operating expenses resulting from ongoing cost reduction programs, including cost efficiencies from the consolidation of GTE and Contel's telephone operations.

COMPETITION AND REGULATORY TRENDS

The year was marked by important changes in the U.S. telecommunications industry. Rapid advances in technology, together with government and industry initiatives to eliminate certain legal and regulatory barriers are accelerating and expanding the level of competition and opportunities available to GTE. As a result, Telephone Operations faces increasing competition in virtually all aspects of its business. Specialized communications companies have constructed new systems in certain markets to bypass the local-exchange network. Additional competition from interexchange carriers as well as wireless and cable TV companies continues to evolve for both intrastate and interstate communications.

Implementation of its re-engineering plan will allow GTE's U.S. Telephone Operations to continue to respond aggressively to these competitive and regulatory developments through reduced costs, improved service quality, competitive prices and new product offerings. Moreover, implementation of this program will position GTE to accelerate delivery of a full array of voice, video and data services. During the

year, GTE continued to introduce new business and consumer services utilizing advanced technology, offering new features and pricing options while at the same time reducing costs and prices. GTE's Telephone Operations has surpassed U.S. industry benchmarks for quality service in large and medium business markets based on customer surveys as measured by independent researchers.

In 1993, GTE also continued to make progress in advanced telecommunications technology. In Tampa, Florida, GTE concluded the largest market trial of residential personal communications services (PCS) conducted by any local-exchange carrier in the United States. The knowledge and experience gained during this trial will enhance GTE's ability to compete in this emerging market. During 1993, the Federal Communications Commission (FCC) announced its decision to auction licenses during 1994 in 51 major markets and 492 basic trading areas across the United States to encourage the development of a new generation of wireless PCS. These services will both complement and compete with traditional wireline and wireless services. GTE will be permitted to fully participate in the license auctions in areas outside of its existing cellular service areas. Limited participation will be permitted in areas in which GTE has an existing cellular presence. GTE expects to actively participate in these auctions.

In Cerritos, California, GTE is testing and comparing the capabilities of copper wire, coaxial cable, and fiber optics. The Cerritos test has enhanced GTE's expertise in the areas of pay-per-view video service, video-on-demand and local video conferencing, and led to a new interactive video service, GTE Main Street, which allows customers to shop, bank and access various other information services from their homes. In 1992, the FCC issued a "video dialtone" ruling that allows telephone companies to transmit video signals over their networks. The FCC also recommended that Congress amend the Cable Act of 1984 to permit telephone companies to supply video programming in their service areas.

Activity directed toward changing the traditional cost-based rate of return regulatory framework for intrastate and interstate telephone services has continued. Various forms of alternative regulation have been adopted, which provide economic incentives to telephone service providers to improve productivity and provide the foundation for the pricing flexibility necessary to address competitive entry into GTE markets. In total, approximately 50% of Telephone Operations' U. S. regulated revenues are under some form of alternative regulation.

As of December 31, 1993, almost one-third of GTE's access lines were in four states which have adopted incentive regulation plans for intrastate service, including California, the state containing GTE's largest operation. In general, these plans allow the company to retain all earnings at or below a base rate of return. Earnings above that rate of return, but below a certain specified level, are shared with the customer in varying amounts. Earnings above that specified level must be returned in full to customers. For the provision of all interstate services, GTE operates under the terms of the FCC price cap incentive plan.

During 1993, the California Public Utilities Commission (CPUC) approved a settlement agreement allowing GTE California to retain 100% of any earnings up to a 15.5% rate of return on investment and refund 100% of any earnings above 15.5% beginning in 1994. Under its prior agreement, GTE was required to share 50% of any earnings over a 13% rate of return and refund 100% of any earnings over 16.5%. As part of this agreement and its normal annual price cap filing, GTE California will reduce its rates by about \$100 million in 1994. Additionally, the CPUC is expected

to issue a final decision in early 1994 generally authorizing intralata toll competition and ordering significant rate restructuring in California. Although intended to be revenue neutral, the ultimate effect on revenue will depend, in part, on the extent to which toll and access rate reductions result in increased calling volumes.

In September 1993, the FCC released an order allowing competing carriers to interconnect to the local-exchange network for the purpose of providing switched access transport services. This ruling complements similar interconnect arrangements for private line services ordered during 1992. The order encourages competition for the transport of telecommunications traffic between local exchange carriers' (LECs) switching offices and interexchange carrier locations. In addition, the order allows LECs flexibility in pricing competitive services.

These and other actions to eliminate existing legal and regulatory barriers, together with rapid advances in technology, are facilitating a convergence of the computer, media, and telecommunications industries and creating an opportunity for the development of interactive communications networks. GTE supports these initiatives to assure greater competition in telecommunications, provided that overall the changes allow an opportunity for all service providers to participate equally in a competitive marketplace under comparable conditions.

GTE expects its future results to benefit from reduced costs and the introduction of new products and services that will result in the increased usage of its telephone network. However, it is likely that such improvements will be offset, in part, by continued strategic price reductions and the effects of increased competition.

GTE's telephone companies follow the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71). In general, FAS 71 requires companies to depreciate plant and equipment over lives approved by regulators. It also requires deferral of certain costs and obligations based upon approvals received from regulators. In the event that recoverability of these costs becomes unlikely or uncertain, whether resulting from actual or anticipated increases in competition or specific regulatory, legislative or judicial actions, continued application of FAS 71 would no longer be appropriate. If GTE's telephone companies no longer qualify for the provisions of FAS 71, the financial effects of the required accounting change (which would be non-cash) could be material.

TELECOMMUNICATIONS PRODUCTS AND SERVICES

GTE Telecommunications Products and Services develops and markets a wide variety of telecommunications systems and services through its mobile-cellular communications, government and defense communications systems and equipment, satellite and aircraft-passenger telecommunications, Yellow Pages directories and telecommunications-based information services and systems.

Revenues and sales from Telecommunications Products and Services declined 5 percent in 1993 to \$3.9 billion. Lower government-communications sales, resulting from the wind-down of the Mobile Subscriber Equipment contract, more than offset higher revenues from the continued strong customer growth in the mobile-cellular business. Excluding the one-time restructuring charge of \$398 million, operating income increased substantially, rising to \$341 million in 1993 compared with \$182 million in 1992. The sharp improvement reflects higher revenues and operating

efficiencies in mobile cellular as well as cost reductions in the government systems business. Operating income also benefited from improved results in the information services businesses reflecting, in part, the absence of costs related to the disposal of several small operations last year.

GTE's U. S. mobile-cellular operations, the fastest growing unit in this group, is the second-largest cellular-telephone operator in the United States - serving a population of some 53 million "POPs". Customer growth continued at a high level throughout 1993 as a record high 495,000 customers were added. Total customers served at the end of 1993 were 1,585,000, an increase of 45% over the number of customers served at the end of 1992.

Cellular service revenues exceeded \$1 billion for the first time, totaling \$1.1 billion, a 27% improvement over 1992. During the year, revenues per subscriber averaged \$71 per month, compared with \$76 per month in 1992. The current average reflects the growth of casual users in the subscriber base. Operating cash flows, representing operating income before depreciation and amortization, reached \$356 million in 1993, a 34% increase over 1992. This improvement was achieved despite a substantial increase in costs associated with the record-high customer growth, much of which took place in late 1993.

Outside the United States, GTE also operates mobile-cellular networks through international subsidiaries in Canada, Venezuela and the Dominican Republic.

Results at GTE Directories, the largest unit in GTE Information Services and one of the largest publishers and distributors of telephone directories, improved slightly in 1993. Increased volume in international operations was largely offset by a slight decline in domestic orders for Yellow Pages advertising during 1993, reflecting the weak economy, particularly in southern California.

During 1993, GTE's Government Systems unit received orders valued at \$1.1 billion, a slightly lower level than the previous year. This reflects continued demand for telecommunications equipment and services despite the general decline in U.S. government defense spending. However, order backlog at the end of 1993 has declined from a year ago reflecting the successful completion of equipment deliveries on the Mobile Subscriber Equipment contract.

In 1992, revenues and sales from Telecommunications Products and Services totaled \$4.1 billion, 4% higher than 1991. Operating income, including a \$36 million charge resulting from the adoption of FAS 106, increased substantially to \$182 million in 1992. This compared with operating income of \$127 million in 1991, which excluded the one-time Contel merger integration costs of \$95 million. These improvements reflected higher revenues and operating efficiencies, particularly in the mobile-cellular business.

Item 8. Financial Statements and Supplementary Data.

Reference is made to the financial statements included elsewhere herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant (a).

Executive Officers of GTE

<u>Name(b)</u>	<u>Title</u>	<u>Age</u>	<u>Date Assumed Present Position</u>
Charles R. Lee	Chairman and Chief Executive Officer	54	May 1992
Kent B. Foster	Vice Chairman, GTE and President GTE Telephone Operations	50	October 1993
Michael T. Masin (c)	Vice Chairman	49	October 1993
Nicholas L. Trivisonno	Executive Vice President - Strategic Planning and Group President	46	October 1993
Bruce Carswell	Senior Vice President - Human Resources and Administration	64	May 1981
J. Michael Kelly (d)	Senior Vice President - Finance	37	February 1994
Terry S. Parker	Senior Vice President	49	October 1993
Edward C. Schmults	Senior Vice President - External Affairs and General Counsel	63	February 1984
John P. Z. Kent	Vice President - Taxes	53	July 1989
Edward C. MacEwen	Vice President - Corporate Communications	54	April 1985
James Murphy	Vice President and Treasurer	56	August 1986
Samuel F. Shawhan, Jr.	Vice President - Government Affairs	61	July 1984
Marianne Drost	Secretary	44	August 1985

- (a) Reference is made to pages 20 to 25 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 20, 1994, which is incorporated herein by reference, for information concerning directors of GTE.
- (b) With the exception of Michael T. Masin and J. Michael Kelly, each of the officers named has been employed by GTE or a GTE subsidiary for more than five years.
- (c) Mr. Masin was elected Vice Chairman on October 20, 1993. He had been a director of GTE since 1989. Prior to joining GTE as Vice Chairman, he was the Managing Partner of the New York Office of O'Melveny & Myers and Co-chair of the firm's international practice group. Mr. Masin joined the firm in 1969 and became a partner in 1977.
- (d) Mr. Kelly was elected Senior Vice President - Finance on February 24, 1994. He had been Vice President and Controller since December 1991 and Vice President-Finance and Business Development for GTE's Telecommunications Products and Services Group since March 1991. Prior to joining GTE, he was Vice President and Controller for Contel Corporation ("Contel"). From 1988 to 1990 he was Controller of Contel Federal Systems. He joined Contel in 1987 as Controller of the Applied Systems Division of Contel Federal Systems.

- Item 11. Executive Compensation.
See pages 6 to 17 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 20, 1994, which is incorporated herein by reference.
- Item 12. Security Ownership of Certain Beneficial Owners and Management.
See pages 17 to 19 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 20, 1994, which is incorporated herein by reference.
- Item 13. Certain Relationships and Related Transactions.
See page 17 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 20, 1994, which is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) 1. Financial Statements:

Consolidated Financial Statements - GTE Corporation and
Subsidiaries:

See GTE's consolidated financial statements and report of
independent accountants thereon in the Financial Statements
section included elsewhere herein.

2. Financial Statement Schedules:

Schedules Supporting the Consolidated Financial Statements
for the Years Ended December 31, 1993 - 1991 (as required):

V - Property, Plant and Equipment

VI - Accumulated Depreciation of Property,
Plant and Equipment

VIII - Valuation and Qualifying Accounts

IX - Short-Term Borrowings

X - Supplementary Income Statement
Information

Note: Schedules other than those listed above are omitted as not
applicable, not required, or the information is included in
the consolidated financial statements or notes thereto.

3. Exhibits:

See "Index of Exhibits" included elsewhere herein.

(b) GTE filed a report on Form 8-K dated November 11, 1993 under Item 5,
"Other Events". No financial information was filed with this
report.

SIGNATURES

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

GTE CORPORATION

(Registrant)

By J. Michael Kelly
(J. Michael Kelly)
Senior Vice President - Finance

Date March 2, 1994

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

(1) Principal executive officer:

Date March 2, 1994

By Charles R. Lee
(Charles R. Lee)
Chairman of the Board and
Chief Executive Officer

(2) Principal financial and
accounting officer:

Date March 2, 1994

By J. Michael Kelly
(J. Michael Kelly)
Senior Vice President - Finance

SIGNATURES - (Continued):

(4) Directors:

Date March 11, 1994

By Edwin L. Artzt
(Edwin L. Artzt - Director)

Date March 11, 1994

By James R. Barker
(James R. Barker - Director)

Date March 11, 1994

By Edward H. Budd
(Edward H. Budd - Director)

Date March 11, 1994

By Kent B. Foster
(Kent B. Foster - Director)

Date March 11, 1994

By James L. Johnson
(James L. Johnson - Director)

Date March 11, 1994

By Richard W. Jones
(Richard W. Jones - Director)

Date March 11, 1994

By James L. Ketelsen
(James L. Ketelsen - Director)

Date March 2, 1994

By Charles R. Lee
(Charles R. Lee - Director)

Date March 3, 1994

By Michael T. Masin
(Michael T. Masin - Director)

Date March 11, 1994

By Sandra O. Moose
(Sandra O. Moose - Director)

Date March 11, 1994

By Russell E. Palmer
(Russell E. Palmer - Director)

Date March 11, 1994

By Howard Sloan
(Howard Sloan - Director)

SIGNATURES - (Continued):

(4) Directors - (Continued):

Date March 11, 1994

By Robert D. Storey
(Robert D. Storey - Director)

Date March 11, 1994

By James W. Walter
(James W. Walter - Director)

Date March 11, 1994

By Charles Wohlstetter
(Charles Wohlstetter - Director)

CONSOLIDATED STATEMENTS OF INCOME
GTE Corporation and Subsidiaries

	Years Ended December 31		
	1993	1992	1991
	(Millions of Dollars)		
Revenues and Sales:			
Telephone operations	\$15,829	\$15,862	\$15,652
Telecommunications products and services	3,919	4,122	3,969
Total revenues and sales	19,748	19,984	19,621
Costs and Expenses:			
Telephone operations	11,765	11,828	11,695
Telecommunications products and services*	3,578	3,940	3,842
Restructuring and merger costs	1,840	—	342
Total costs and expenses	17,183	15,768	15,879
Operating income	2,565	4,216	3,742
Other (Income) Deductions:			
Interest expense—net	1,197	1,332	1,384
Other—net	(190)	130	167
Total other (income) deductions	1,007	1,462	1,551
Income before income taxes	1,558	2,754	2,191
Income tax provision	568	967	662
Income from continuing operations	990	1,787	1,529
Discontinued operations	—	(48)	51
Extraordinary charge—early retirement of debt	(90)	(52)	—
Cumulative effect of accounting changes	—	(2,441)	—
Net income (loss)	900	(754)	1,580
Preferred stock dividends of parent	18	26	37
Net income (loss) applicable to common stock	\$ 882	\$ (780)	\$ 1,543
Earnings (Loss) Per Common Share:			
Continuing operations	\$ 1.03	\$ 1.95	\$ 1.69
Discontinued operations	—	(.05)	.06
Extraordinary charge—early retirement of debt	(.10)	(.06)	—
Cumulative effect of accounting changes	—	(2.70)	—
Consolidated	\$.93	\$ (.86)	\$ 1.75
Average common shares (in millions)	945	905	882

*Includes cost of sales of \$3,036, \$3,143 and \$3,160 for the years 1993-1991, respectively.
See Notes to Financial Statements.

CONSOLIDATED BALANCE SHEETS
GTE Corporation and Subsidiaries

December 31
1993 1992
(Millions of Dollars)

Assets		
<i>Current Assets:</i>		
Cash and temporary cash investments	\$ 322	\$ 354
Receivables, less allowances of \$231 and \$154	3,900	3,565
Inventories	659	814
Deferred income tax benefits	264	111
Net assets of discontinued operations	—	1,114
Assets held for sale and other	803	338
Total current assets	5,948	6,296
<i>Property, Plant and Equipment, at cost:</i>		
Telephone subsidiaries	43,099	43,354
Accumulated depreciation	(16,737)	(16,054)
Other subsidiaries	26,362	27,300
Accumulated depreciation	4,160	4,075
.....	(1,802)	(1,555)
Total property, plant and equipment, net	2,358	2,520
.....	28,720	29,820
<i>Investments and Other Assets:</i>		
Franchises, goodwill and other intangibles	2,102	2,167
Investments in unconsolidated companies	1,431	1,361
Deferred charges	2,462	1,683
Long-term receivables and other assets	912	817
Total investments and other assets	6,907	6,028
Total assets	\$41,575	\$42,144

See Notes to Financial Statements

CONSOLIDATED BALANCE SHEETS
GTE Corporation and Subsidiaries

December 31
1993 1992
(Millions of Dollars)

Liabilities and Shareholders' Equity		
<i>Current Liabilities:</i>		
Short-term obligations, including current maturities		
Accounts and payrolls payable	\$ 1,644	\$ 2,692
Accrued taxes	1,968	1,917
Accrued restructuring costs	1,108	571
Dividends payable	540	—
Accrued interest	469	447
Advance billings	227	297
Other	432	399
Total current liabilities	1,545	1,188
<i>Long-Term Debt</i>		
	7,933	7,511
<i>Reserves and Deferred Credits:</i>		
Deferred income taxes	13,019	14,182
Deferred investment tax credits	2,807	3,271
Employee benefit obligations	321	414
Other	4,667	4,436
Total reserves and deferred credits	1,973	1,203
<i>Minority interests in equity of subsidiaries</i>	9,768	9,124
<i>Preferred Stock, subject to mandatory redemption</i>	1,106	1,077
<i>Shareholders' Equity:</i>		
Preferred stock	156	174
Common stock — shares issued 951,761,892 and 945,147,187	111	112
Amounts paid in, in excess of par value	48	47
Reinvested earnings	7,309	7,134
Guaranteed ESOP obligation	2,769	3,621
Common stock held in treasury — 5,616,851 shares in 1992, at cost	(644)	(657)
Total shareholders' equity	—	(181)
Total liabilities and shareholders' equity	9,593	10,076
	\$41,575	\$42,144

See accompanying summary on page 43 for details of preferred stock and long-term debt.
See Notes to Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
GTE Corporation and Subsidiaries

	Years Ended December 31		
	1993	1992	1991
	(Millions of Dollars)		
Cash Flows from Operations:			
Income from continuing operations	\$ 990	\$1,787	\$ 1,529
Adjustments to reconcile income to net cash from continuing operations:			
Depreciation and amortization	3,419	3,289	3,254
Restructuring and merger costs	1,840	—	342
Deferred taxes and investment tax credits	(864)	37	37
Change in current assets and current liabilities, excluding the effects of acquisitions and dispositions	(13)	(268)	(732)
Other—net	(95)	(13)	213
Net cash from continuing operations	5,277	4,832	4,643
Net cash from discontinued operations	—	—	141
Net cash from operations	5,277	4,832	4,784
Cash Flows from Investing:			
Capital expenditures	(3,893)	(3,909)	(3,965)
Acquisitions and investments	(46)	(84)	(1,132)
Proceeds from sales of assets	2,267	662	177
Other—net	(66)	55	(104)
Net cash used in investing	(1,738)	(3,276)	(5,024)
Cash Flows from Financing:			
GTE common stock issued	383	1,513	412
Long-term debt issued	2,325	590	3,958
Long-term debt and preferred stock retired	(4,836)	(2,002)	(1,539)
Dividends to shareholders of parent	(1,744)	(1,572)	(1,447)
Increase (decrease) in short-term obligations, excluding current maturities	304	(254)	(1,094)
Other—net	(3)	6	5
Net cash provided from/(used in) financing	(3,571)	(1,719)	295
Increase (decrease) in cash and temporary cash investments	(32)	(163)	55
Cash and temporary cash investments:			
Beginning of year	354	517	462
End of year	\$ 322	\$ 354	\$ 517

See Note 15 for supplemental cash flow disclosures.
See Notes to Financial Statements.

CONSOLIDATED STATEMENTS OF AMOUNTS PAID IN, IN EXCESS
OF PAR VALUE AND REINVESTED EARNINGS
GTE Corporation and Subsidiaries

	Years Ended December 31		
	1993	1992	1991
	(Millions of Dollars)		
Amounts Paid In, in Excess of Par Value*:			
Balance, beginning of year			
Issuance of common stock	\$7,134	\$6,232	\$ 6,139
Other	201	1,009	101
	(26)	(107)	(8)
Balance, end of year	<u>\$7,309</u>	<u>\$7,134</u>	<u>\$ 6,232</u>
Reinvested Earnings:			
Balance, beginning of year			
Net income (loss) applicable to common stock	\$3,621	\$5,977	\$ 5,830
Cash dividends declared on common stock	882	(780)	1,543
Other	(1,748)	(1,590)	(1,410)
	14	14	14
Balance, end of year	<u>\$2,769</u>	<u>\$3,621</u>	<u>\$ 5,977</u>

*Includes the cumulative foreign currency translation adjustment of \$(168), \$(126) and \$(19) at December 31, 1993-1991, respectively, and the unrealized gains on investments in debt and equity securities of \$16 at December 31, 1993. See Notes to Financial Statements.

CONSOLIDATED SUMMARY OF PREFERRED STOCK AND LONG-TERM DEBT
GTE Corporation and Subsidiaries

	December 31	
	1993	1992
	(Millions of Dollars)	
Preferred Stock:		
<i>GTE Corporation:</i>		
No Par, 11,923,949 shares authorized at December 31, 1993:		
\$2.475 series, 4,000,000 shares outstanding	\$ 100	\$ 100
Other convertible and nonconvertible at various rates.....	11	12
	<u>\$ 111</u>	<u>\$ 112</u>
Preferred Stock, subject to mandatory redemption:		
<i>GTE Corporation:</i>		
Par value \$50 per share, 1,681,000 shares authorized at December 31, 1993:		
Nonconvertible 1,681,000 and 1,903,000 shares outstanding, average rate 7.81%	\$ 84	\$ 95
<i>Telephone Subsidiaries:</i>		
Average rates 6.83% and 6.91%	72	79
	<u>\$ 156</u>	<u>\$ 174</u>
Long-Term Debt (exclusive of current maturities):		
<i>GTE Corporation:</i>		
Sinking fund debenture, maturing in 2017, at a rate of 10.75%	\$ 200	\$ 200
Debentures, maturing 1998 through 2023, average rates 9.03% and 9.24%	3,350	2,850
Guaranteed ESOP obligation, maturing 1995-2005, average rate 9.67%	669	683
Other debt, average rates 3.19% and 3.56%	553	1,100
	<u>4,772</u>	<u>4,833</u>
<i>Telephone Subsidiaries:</i>		
First mortgage bonds, sinking fund debentures and notes, maturing through 2031, average rates 7.66% and 8.50%	6,768	8,097
<i>Other Subsidiaries:</i>		
Sinking fund debentures and notes, maturing through 2009, average rates 8.08% and 8.27%	1,552	1,372
Total principal amount	13,092	14,302
Less: discount and premium—net	(73)	(120)
Total long-term debt	<u>\$13,019</u>	<u>\$14,182</u>

Preferred stock of telephone subsidiaries not subject to mandatory redemption is included in "Minority interests in equity of subsidiaries" and amounted to \$313 and \$314 at December 31, 1993 and 1992, respectively.
See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

GTE Corporation and Subsidiaries

I. SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of GTE Corporation and subsidiaries ("GTE") include the accounts of all majority-owned subsidiaries. Investments in 20% to 50% owned companies are accounted for on the equity basis. Investments of less than 20% are generally accounted for on the cost basis.

All significant intercompany items have been eliminated, except for sales of construction and maintenance equipment and supplies by majority-owned subsidiaries to regulated telephone subsidiaries. These sales amounted to \$696 million, \$738 million and \$619 million in 1993-1991, respectively, and were made at prices which compare favorably with those at which comparable equipment and supplies could have been obtained elsewhere. Reclassifications of prior year data have been made in the accompanying consolidated financial statements where appropriate to conform to the 1993 presentation.

Regulatory Accounting

GTE's telephone companies follow the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("FAS 71"). This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. GTE's telephone companies annually review the continued applicability of FAS 71 based upon the current regulatory and competitive environment.

Revenue Recognition

Revenues are recognized when earned. In Telephone Operations, this is generally based on the usage of GTE's local-exchange networks or facilities or under revenue sharing arrangements with other telecommunications carriers. For other products and services, revenue is recognized when products are delivered or services are rendered to customers. Long-term contracts are 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, if any, on such contracts are charged to income currently.

Depreciation and Amortization

Depreciation is provided over the estimated useful lives of assets using the straight-line method. Depreciation provisions in 1993-1991 for the telephone subsidiaries were equivalent to a composite average percentage of 6.9%, 6.9% and 7.2%, respectively.

Franchises, goodwill and other intangibles arising from acquisitions are amortized on a straight-line basis over the periods to be benefited, or 40 years, whichever is less.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of inventories is determined principally by the average or first-in, first-out method of inventory valuation.

Inventories at December 31 were as follows (in millions of dollars):

	1993	1992
Finished goods.....	\$ 112	\$ 155
Work in progress	232	252
Raw materials.....	94	133
Materials and supplies of telephone subsidiaries.....	221	274
Total.....	<u>\$ 659</u>	<u>\$ 814</u>

NOTES TO FINANCIAL STATEMENTS

Foreign Currency Translation

Assets and liabilities of subsidiaries operating in foreign countries, except those operating in highly inflationary economies, 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, while gains and losses resulting from foreign currency transactions are included in net income. Translation gains and losses of affiliates operating in highly inflationary economies are included in net income as they occur.

Employee Benefit Plans

The current service cost of retirement plans and postretirement health care and life insurance benefits are accrued currently. Prior service costs and credits resulting from changes in benefits are amortized over the average remaining service period of the employees expected to receive benefits. In years prior to 1992, the estimated cost of postretirement health care and life insurance benefits were accounted for on a pay-as-you-go basis.

Income Taxes

Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. As further described in Note 5, in 1992 GTE adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). In accordance with FAS 109, deferred income taxes have been established for all temporary differences between the book and tax basis of assets and liabilities, including those which had not been previously recognized in accordance with rate-making practices. In addition, deferred tax balances are adjusted to reflect tax rates, based on currently enacted tax laws, that will be in effect in the years in which the temporary differences are expected to reverse.

Non-U.S. subsidiaries compute taxes at rates in effect in the various countries in which they operate. Earnings of these subsidiaries may also be subject to additional income and withholding taxes when they are distributed as dividends. These additional taxes, net of applicable tax credits, are accrued currently, except with respect to earnings which are not expected to be remitted because they are permanently reinvested. Undistributed earnings of non-U.S. subsidiaries deemed to be permanently reinvested were approximately \$338 million at December 31, 1993.

Earnings Per Share

Earnings per common share is computed by dividing net income (loss) applicable to common stock by the weighted average number of common shares outstanding during the period. Common share equivalents have been excluded from this computation since they do not have a dilutive effect of 3% or more.

Cash and Temporary Cash Investments

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

2. INVESTMENTS IN UNCONSOLIDATED COMPANIES

In November 1993, a GTE-led international consortium, Compania de Telefonos del Interior ("CTI") was ranked first in competitive bidding for two cellular licenses by the National Telecommunications Commission of Argentina. It is expected that a contract to award the licenses will be executed in early 1994. GTE, as operator, has a leading 23% ownership interest in CTI, and its partners include AT&T Network Systems and three Argentinean companies along with Trust Company of the West. It is anticipated that CTI will have an initial two year exclusivity to provide cellular services in the north and south interior regions of Argentina. The consortium will invest, through CTI, between \$600 and \$700 million in the venture.

In 1992, GTE sold for \$530 million, or approximately book value, its remaining 19.9% interest in US Sprint, a joint venture formed in 1986 to market long-distance telephone and data-transmission services.

NOTES TO FINANCIAL STATEMENTS

In December 1991, a GTE-led international consortium ("Venworld"), consisting of AT&T International (U.S.); T.I. Telefonica Internacional de Espana (Spain) and two Venezuelan companies, acquired a 40% ownership interest in Compania Anonima Nacional Telefonos de Venezuela ("CANTV") from the Venezuelan government for approximately \$1.9 billion. GTE's share of the purchase price was \$961 million, based upon its 51% ownership of Venworld. CANTV is the exclusive provider for local, national long-distance and international long-distance telephone service in Venezuela. CANTV also provides other telecommunication and related services, including cellular telephone and directory advertising services.

The acquisition of the CANTV shares was accounted for as a purchase and the acquisition cost was allocated based on the fair value of the net assets acquired. The purchase price in excess of the estimated underlying fair value of identifiable net assets acquired is being amortized on a straight-line basis over 40 years. GTE's equity in the earnings of CANTV has been included in "Other-net" in the accompanying consolidated statements of income from the date of acquisition.

3. RESTRUCTURING AND MERGER COSTS

Results for 1993 include a one-time pre-tax restructuring charge of \$1.8 billion which reduced net income by \$1.2 billion, or \$1.22 per share.

This restructuring charge includes \$1.4 billion at Telephone Operations primarily to implement its re-engineering plan. The re-engineering plan will redesign and streamline processes to improve customer-responsiveness and product quality, reduce the time necessary to introduce new products and services and further reduce costs. The re-engineering plan includes \$680 million to upgrade or replace existing customer service and administrative systems and enhance network software, \$410 million for employee separation benefits associated with workforce reductions and \$210 million primarily for the consolidation of facilities and operations and other related costs.

The re-engineering plan will be implemented over the next three years, with expected reductions of approximately 17,000 Telephone Operations employees during that time.

The restructuring charge also includes a \$400 million reduction in the carrying value of satellite communication assets of GTE Spacenet ("Spacenet") and certain other assets to estimated net realizable value. This action primarily reflects the development of alternative transmission methods through technological advances and increased competition. GTE will also combine its Spacenet business with GTE Government Systems to leverage the combined strength of these two businesses.

During 1993, Telephone Operations offered various voluntary separation programs to its domestic workforce. These programs resulted in a pre-tax charge of \$74 million which reduced net income by \$46 million, or \$.05 per share.

The table below has been adjusted for comparison purposes to exclude from income from continuing operations the 1993 impact of the one-time restructuring charge and the charge associated with the Telephone Operations' voluntary separation programs. Results for 1993 have also been adjusted to exclude gains on sales of certain non-strategic telephone properties as described in Note 4, which increased income from continuing operations by \$91 million, or \$.10 per share (in millions of dollars, except per share amounts):

	1993	1992
Operating income	\$ 4,479	\$ 4,216
Income from continuing operations	2,095	1,787
Earnings per common share from		
continuing operations	2.20	1.95

In March 1991, the merger of GTE and Contel Corporation ("Contel") was consummated. As a result, GTE issued 204 million shares of its common stock in a tax-free exchange for all of the outstanding common stock of Contel. The merger was accounted for as a pooling of interests and, accordingly, the accompanying consolidated financial statements reflect the merged operations for all periods presented. In connection with the merger, GTE recorded a one-time pre-tax charge of \$342 million for the costs of consummating the merger and integrating operations.

NOTES TO FINANCIAL STATEMENTS

4. PROPERTY REPOSITIONING AND DISCONTINUED OPERATIONS

In December 1992, GTE announced a plan to pursue the sale or trade of a small percentage of local-exchange telephone properties (representing less than 5% of its U.S. access lines) in markets that may be of greater long-term strategic value to other telephone service providers. As part of this program, during 1993, GTE sold local-exchange telephone properties serving 530,000 access lines in eight states in return for 90,000 access lines in Illinois, Indiana and Michigan and \$1 billion in cash. The net proceeds from these sales were used to reduce debt. As a result of these transactions, GTE recorded a pre-tax gain of \$168 million which is included in "Other-net" in the accompanying consolidated statements of income.

During 1993, GTE also entered into definitive agreements for the sale of additional local-exchange telephone properties serving over 400,000 access lines in nine states. These transactions are subject to various government and regulatory approvals. The transfers of ownership are expected to occur on a state-by-state basis throughout 1994. The net proceeds from each of these transactions, which are expected to exceed the net book value of the properties to be sold, will be used to further reduce debt. At December 31, 1993, the net book value of the properties to be sold of \$543 million is included in "Assets held for sale and other" in the accompanying consolidated balance sheets.

In December 1991, GTE adopted a plan to divest its Electrical Products Group ("EPG") in order to focus its resources on the telecommunications industry. In January 1993, GTE sold its worldwide Electrical Products businesses in three separate transactions. The aggregate sales price, which included the assumption of debt, totaled approximately \$1.2 billion. As a result of these transactions, in December 1992, GTE recorded after-tax charges totaling \$100 million, including an extraordinary charge of \$52 million resulting from the early retirement of high-coupon debt and a \$48 million charge associated with the sale of EPG. The EPG charge was net of \$315 million of after-tax gains resulting from the settlement of active and retired employee pension obligations. Revenues and sales of EPG were \$2.2 billion in 1992.

The amount shown as discontinued operations in the accompanying consolidated statement of income for 1991 represents the results of EPG's operations prior to the plan of discontinuance. These 1991 results included revenues and sales of \$2.2 billion, income before income taxes of \$105 million and net income of \$51 million.

5. ACCOUNTING CHANGES

In 1992, GTE adopted Statements of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("FAS 106") and No. 109, "Accounting for Income Taxes."

FAS 106 requires the expected cost of postretirement health care and life insurance benefits to be recognized during the years that employees render service. GTE adopted FAS 106 in its consolidated financial statements on the immediate recognition basis effective January 1, 1992 and recorded a one-time, non-cash charge of \$2.3 billion (net of deferred tax benefits of \$1.4 billion), or \$2.59 per share, to give effect to past service costs. Pursuant to FAS 71, a regulatory asset was not recorded due to GTE's assessment of the long-term competitive environment and uncertainties surrounding the timing and extent of recovery.

FAS 109 changed the method by which companies account for income taxes. Among other things, the statement requires that deferred tax balances be adjusted to reflect new tax rates when they are enacted into law. The cumulative prior years' effect of this change reduced net income by \$100 million, or \$.11 per share, in 1992.

NOTES TO FINANCIAL STATEMENTS

6. SHAREHOLDERS' EQUITY

Common Stock

The authorized common stock of GTE at December 31, 1993 consisted of two billion shares with a par value of \$.05 per share.

The following table sets forth the number of shares of common stock issued in the last three years (in thousands of shares):

	1993	1992	1991
Employee stock purchase plan	5,835	9,050	7,370
Other employee and shareholder plans	5,924	7,737	6,901
Conversion of Contel stock options	220	448	1,063
Contel merger	—	—	203,900
Public offering	—	33,000	—
Other	253	388	282
Total	12,232	50,623	219,516

In 1992, GTE sold 33 million shares of its common stock in a public offering at a price of \$32.875 per share. The net proceeds of \$1.1 billion were used to reduce short-term obligations. As of December 31, 1993, 55 million shares were reserved for issuance under the various employee benefit and shareholder stock purchase plans.

Preferred Stock

Preferred stock has voting rights generally on an equal basis with common stock except for the \$2.475 series, which is entitled to one-half of a vote for each share. Dividends are cumulative on all preferred stock.

Stock Option Plans

GTE maintains stock option plans for key management employees. The options may be granted separately or in conjunction with stock appreciation rights. 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 four 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.

The following table summarizes stock option activity during the last three years (number of options in thousands):

	Stock Options	Average Price
Balance, January 1, 1991	8,172	\$ 19.78
Options granted	3,595	31.52
Options exercised	(1,984)	15.28
Options cancelled or forfeited	(1,015)	15.54
Balance, December 31, 1991	8,768	26.10
Options granted	876	32.11
Options exercised	(1,737)	20.99
Options cancelled or forfeited	(179)	28.22
Balance, December 31, 1992	7,728	27.88
Options granted	1,989	35.24
Options exercised	(1,195)	23.99
Options cancelled or forfeited	(50)	23.21
Balance, December 31, 1993	8,472	\$ 30.19

At December 31, 1993, 4.9 million options were exercisable.

NOTES TO FINANCIAL STATEMENTS

Shareholder Rights Plan

GTE maintains a Shareholder Rights Plan to protect shareholders against unsolicited attempts to acquire control of GTE that do not offer what GTE believes to be an adequate price to all shareholders. Under the plan, each outstanding share of GTE Common Stock has associated with it a Right to Purchase, upon the occurrence of certain events, one one-thousandth of a share of Series A Participating No Par Preferred Stock ("Preferred Stock") at \$200. The Rights will become exercisable only if a person or group, without GTE's consent, commences a tender or exchange offer for, or acquires 20% or more of the voting power of GTE, or acquires 10% or more of the voting power of GTE and executes an agreement with GTE to effect a merger or other business combination.

In the event that a person or group acquires 20% or more of GTE's voting power without GTE's consent (the "Acquiring Person"), each holder of a Right, other than the Acquiring Person will be entitled to acquire that number of one one-thousandth of a share of Preferred Stock equal to the number of shares of GTE's Common Stock having a market value of twice the exercise price of the Rights. Similarly, if without GTE's consent, GTE is acquired in a merger or other business combination transaction, each holder of a Right will be entitled to acquire voting shares of the acquiring company at twice the value of the exercise price. The Rights may be redeemed by GTE at any time prior to any person or group acquiring 10% or more of GTE's voting power and will expire on December 7, 1999.

7. PREFERRED STOCK, SUBJECT TO MANDATORY REDEMPTION

Certain outstanding preferred stock issues of GTE are redeemable upon notice at the option of the company, in whole or in part, at a premium and certain issues may be redeemed without premiums through annual sinking funds. GTE redeemed 222,000 shares in 1993; 177,000 shares in 1992; and 111,000 shares in 1991 of its preferred stock. Preferred shares redeemed by GTE's telephone subsidiaries totaled 242,974 in 1993; 406,898 in 1992; and 293,417 in 1991. The aggregate redemption requirements for preferred stock subject to mandatory redemption for GTE and its telephone subsidiaries are approximately \$11 million in each of the next five years.

GTE's aggregate voluntary redemption price at December 31, 1993, was \$170 million, including \$83 million for its telephone subsidiaries.

8. DEBT

During 1993, GTE redeemed prior to scheduled maturity, \$2.1 billion of high-coupon first-mortgage bonds of five of its telephone subsidiaries. As a result, an after-tax extraordinary charge of \$90 million (net of tax benefits of \$53 million), or \$.10 per share, was recorded to reflect the expenses of calling these bonds. During 1993, GTE also redeemed \$913 million of high-coupon debt with the proceeds from the EPG divestiture (see Note 4). This debt was included in short-term obligations at December 31, 1992.

Long-term debt as of December 31, 1993 includes \$1.8 billion of commercial paper which will be refinanced by the use of existing revolving credit or other financing arrangements that will extend their maturities beyond one year. Estimated payments of long-term debt during the next five years are: \$230 million in 1994; \$623 million in 1995; \$375 million in 1996; \$469 million in 1997; and \$784 million in 1998.

Telephone companies 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.

Total short-term obligations, including loans for construction expected to be refinanced, were as follows (in millions of dollars):

	1993	1992
Commercial paper—average rates 3.5% and 4.4%	\$ 1,326	\$ 782
Notes payable to banks—average rates 9.5% and 6.2%	88	328
Current maturities of long-term debt	230	669
Debentures retired with EPG proceeds— average rate 9.7%	—	913
Total	<u>\$ 1,644</u>	<u>\$ 2,692</u>

GTE and its subsidiaries had unused lines of credit aggregating \$5.4 billion at December 31, 1993, which support outstanding commercial paper and other short-term financing needs.

NOTES TO FINANCIAL STATEMENTS

9. FINANCIAL INSTRUMENTS

GTE enters into interest rate and foreign currency contracts in order to reduce its exposure to fluctuations in interest and foreign exchange rates. As of December 31, 1993, interest rate and foreign currency swap agreements aggregated approximately \$786 million.

The fair values of financial instruments, other than long-term debt, closely approximate their carrying value. As of December 31, 1993 and 1992, 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 \$1.2 billion and \$870 million, respectively.

10. EMPLOYEE BENEFIT PLANS

Retirement Plans

Most subsidiaries have trustee, 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 provide the plans with assets sufficient to meet the benefit obligations of the plans. The assets of the plans consist primarily of corporate equities, government securities and corporate debt securities.

The net pension credit for 1993-1991 was comprised of the following components (in millions of dollars):

	1993	1992	1991
Service cost-benefits earned during the period	\$ 295	\$ 288	\$293
Interest cost on projected benefit obligations	584	602	541
Actual return on plan assets	(2,073)	(732)	(2,093)
Other-net	936	(398)	1,183
Net pension credit	(258)	(240)	(76)
Adjustment to reflect differing regulatory treatment.....	58	54	48
Net pension credit recognized.....	<u>\$ (200)</u>	<u>\$ (186)</u>	<u>\$ (28)</u>

The expected long-term rate of return on plan assets was 8.25% for 1993 and 1992 and 8.0% in 1991. The regulatory adjustment reflects the use of the aggregate cost method for California intrastate operations as required by the California Public Utilities Commission.

The funded status of the plans at December 31, 1993 and 1992, was as follows (in millions of dollars):

	1993	1992
Plan assets at fair value	\$12,840	\$13,578
Projected benefit obligation	7,391	8,469
Excess of assets over projected obligation.....	5,449	5,109
Unrecognized net transition asset	(778)	(1,287)
Unrecognized net gain	(2,797)	(2,885)
Prepaid pension cost	<u>\$ 1,874</u>	<u>\$ 937</u>

NOTES TO FINANCIAL STATEMENTS

The projected benefit obligations at December 31, 1993 and 1992 include accumulated benefit obligations of \$5.5 billion and \$6.2 billion and vested benefit obligations of \$4.9 billion and \$5.6 billion, respectively. Assumptions used to develop the projected benefit obligations at December 31, 1993 and 1992 were as follows:

	1993	1992
Discount rate	7.5%	8.0%
Rate of compensation increase	5.25%	6.0%

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 health care benefits paid under the GTE plans are generally based on comprehensive hospital, medical and surgical benefit provisions, while the life insurance benefits are currently based on annual earnings at the time of retirement. GTE funds amounts for postretirement benefits as deemed appropriate from time to time.

The postretirement benefit cost for the years 1993 and 1992 included the following components (in millions of dollars):

	1993	1992
Benefits earned during the year	\$ 96	\$ 97
Interest on accumulated postretirement benefit obligation	290	293
Actual return on plan assets	(6)	(4)
Other-net	(2)	—
Postretirement benefit cost	<u>\$378</u>	<u>\$386</u>

During 1991, the cost of postretirement health care and life insurance benefits on a pay-as-you-go basis was \$111 million.

The following table sets forth the plans' funded status and the accrued obligation as of December 31, 1993 and 1992 (in millions of dollars):

	1993	1992
Accumulated postretirement benefit obligation attributable to:		
Retirees	\$ 2,723	\$ 2,094
Fully eligible active plan participants	231	375
Other active plan participants	1,106	1,650
Total accumulated postretirement benefit obligation	4,060	4,119
Fair value of plan assets	181	61
Excess of accumulated obligation over plan assets	3,879	4,058
Unrecognized prior service benefit	710	—
Unrecognized net loss	(345)	—
Accrued postretirement benefit obligation	<u>\$ 4,244</u>	<u>\$ 4,058</u>

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.5% at December 31, 1993 and 8.0% at December 31, 1992. The assumed health care cost trend rates in 1993 and 1992 were 13% and 14% for pre-65 participants and 9.5% and 10% for post-65 retirees, each rate declining on a graduated basis to an ultimate rate in the year 2004 of 6%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased 1993 costs by \$66 million and the accumulated postretirement benefit obligation as of December 31, 1993 by \$430 million.

NOTES TO FINANCIAL STATEMENTS

During 1993, GTE made certain changes to its postretirement health care and life insurance benefits for non-union employees that are effective January 1, 1995. These changes include, among others, newly established limits to GTE's annual contribution to postretirement medical costs and a revised sharing schedule based on a retiree's years of service. The net effect of these changes reduced the accumulated benefit obligation at December 31, 1993 by \$710 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 \$66 million, \$72 million and \$70 million in the years 1993-1991, respectively.

GTE 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 at 9.67%, made by the ESOP for the years 1993-1991 totaled \$81 million, \$77 million and \$74 million, respectively. These payments were funded by \$46 million, \$44 million and \$41 million of dividends accumulated on the GTE stock held by the ESOP and by \$35 million, \$33 million and \$33 million of cash contributions by GTE in 1993-1991, respectively.

11. LEASE COMMITMENTS

GTE has non-cancelable leases covering certain buildings, office space and equipment. Rental expense was \$459 million, \$590 million, and \$632 million in 1993-1991, respectively. Minimum rental commitments under non-cancelable leases through 1998 do not exceed \$240 million annually and aggregate \$939 million thereafter.

12. INTEREST EXPENSE—NET

The components of interest expense-net are as follows (in millions of dollars):

	1993	1992	1991
Interest expense	\$ 1,298	\$ 1,475	\$ 1,575
Interest income	(61)	(100)	(135)
Allowance for funds used and interest capitalized during construction	(40)	(43)	(56)
Total	<u>\$ 1,197</u>	<u>\$ 1,332</u>	<u>\$ 1,384</u>

NOTES TO FINANCIAL STATEMENTS

13. OTHER—NET

The components of other-net are as follows (in millions of dollars):

	1993	1992	1991
General and administrative			
corporate expenses	\$ 204	\$ 187	\$ 192
Minority interests	112	112	103
Preferred dividends of subsidiaries	22	23	25
Equity in income of unconsolidated			
companies	(164)	(93)	(48)
Gains on sales of telephone properties	(168)	—	—
Gains on sales of cellular properties,			
real estate and other	(196)	(99)	(105)
Total	<u>\$ (190)</u>	<u>\$ 130</u>	<u>\$ 167</u>

14. INCOME TAXES

Income from continuing operations before income taxes is as follows (in millions of dollars):

	1993	1992	1991
Domestic	\$ 1,002	\$ 2,300	\$ 1,794
Foreign	556	454	397
Total	<u>\$ 1,558</u>	<u>\$ 2,754</u>	<u>\$ 2,191</u>

The income tax provision (benefit) is as follows (in millions of dollars):

	1993	1992	1991
Current:			
Federal	\$ 1,088	\$ 655	\$ 362
Foreign	183	171	163
State and local	161	104	100
	<u>1,432</u>	<u>930</u>	<u>625</u>
Deferred:			
Federal	(682)	105	123
Foreign	2	1	7
State and local	(100)	35	16
	<u>(780)</u>	<u>141</u>	<u>146</u>
Amortization of deferred			
investment tax credits—net	(84)	(104)	(109)
Total	<u>\$ 568</u>	<u>\$ 967</u>	<u>\$ 662</u>

NOTES TO FINANCIAL STATEMENTS

The amortization of deferred investment tax credits-net, relates to the amortization of investment tax credits previously deferred by GTE's regulated telephone subsidiaries.
The components of deferred income tax expense (benefit) are as follows (in millions of dollars):

	1993	1992	1991
Depreciation and amortization.....	\$ 32	\$ 125	\$ 110
Employee benefit obligations	(80)	(114)	13
Prepaid pension cost	111	75	28
Restructuring cost	(667)	—	—
Other —net.....	(176)	55	(5)
Total	\$ (780)	\$ 141	\$ 146

A reconciliation between taxes computed by applying the statutory federal income tax rate to pre-tax income and income taxes provided in the consolidated statements of income is as follows (in millions of dollars):

	1993	1992	1991
Amounts computed at statutory rates.....	\$ 545	\$ 936	\$ 745
State and local income taxes, net of federal tax benefits	40	91	78
Depreciation of telephone plant construction costs previously deducted for tax purposes—net	48	46	59
Minority interests and preferred stock dividends of subsidiaries.....	40	40	39
Amortization of investment tax credits—net	(84)	(104)	(109)
Rate differentials applied to reversing temporary differences.....	(30)	(35)	(84)
Other differences—net	9	(7)	(65)
Total provision	\$ 568	\$ 967	\$ 662

The tax effects of temporary differences that give rise to the deferred tax liability and deferred tax (asset) at December 31, 1993 and 1992 are as follows (in millions of dollars):

	1993	1992
Depreciation and amortization.....	\$ 4,180	\$ 3,969
Employee benefit obligations	(1,850)	(1,635)
Prepaid pension cost	639	240
Restructuring cost	(667)	—
Other—net	241	386
Total	\$ 2,543	\$ 2,960

NOTES TO FINANCIAL STATEMENTS

15. SUPPLEMENTAL CASH FLOW DISCLOSURES

The changes in the components of current assets and current liabilities, excluding the effects of acquisitions and dispositions, and the cash paid for interest and income taxes are as follows (in millions of dollars):

	1993	1992	1991
(Increase) decrease from assets:			
Receivables—net	\$ (706)	\$ (231)	\$ (534)
Other current assets	168	69	(51)
Increase (decrease) from liabilities:			
Accrued taxes and interest	465	(41)	(80)
Other current liabilities	60	(65)	(67)
Net cash used	<u>\$ (13)</u>	<u>\$ (268)</u>	<u>\$ (732)</u>
Cash paid during the year for:			
Interest	\$ 1,373	\$ 1,477	\$ 1,535
Income taxes	880	1,016	721

16. BUSINESS GROUP DATA

Industry segment data is shown on pages 20 through 22 of this Report.

REPORT OF INDEPENDENT
PUBLIC ACCOUNTANTS

To the Board of Directors
and Shareholders of GTE Corporation:

We have audited the consolidated financial statements of GTE Corporation (a New York corporation) and subsidiaries as of December 31, 1993 and 1992, and for each of the three years in the period ended December 31, 1993, as set forth on pages 20 through 22 and pages 38 through 55 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, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Note 5 to the consolidated financial statements, effective January 1, 1992, the company changed its methods of accounting for post-retirement benefits other than pensions and for income taxes.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedules listed under Item 14 are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These supporting schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Stamford, Connecticut
February 1, 1994

Arthur Andersen & Co.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
For the Year Ended December 31, 1993
(Millions of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
	Balance at Beginning of Year	Additions at Cost (1)	Retirements or Sales	Other Debits or Credits	Balance at End of Year
Classifications					
TELEPHONE SUBSIDIARIES:					
Operating properties, at original cost:					
Tangible property -					
Land	\$ 238	\$ 6	\$ 2	\$ (6)	\$ 236
Buildings	3,068	127	106	(28)	3,061
Central office equipment	15,487	1,463	1,049	(358)	15,543
Station apparatus	715	61	53	(18)	705
Cable, underground conduit, etc.	655	31	35	(11)	650
Furniture and fixtures	18,236	1,211	780	(475)	18,192
Telephone plant under construction	813	92	58	(24)	823
Telephone processing equipment	1,122	(15)	100	(10)	1,116
Other regulated plant	668	(3)	-	12	663
Non-regulated property, plant & equipment	27	(192)	114	(124)	5
Total tangible property	43,288	3,361	2,516	(1,099)	43,014
Intangible property	66	-	1	-	65
Total telephone subsidiaries	43,354	3,361	2,517 (2)	(1,099) (3)	43,099
OTHER SUBSIDIARIES:					
(See Schedule V, page 2)					
Total consolidated	\$47,429	\$3,972	\$2,720	\$ (1,422)	\$47,259

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
For the Year Ended December 31, 1993
(Millions of Dollars)

NOTES:

- (1) A reconciliation to amounts shown as capital expenditures in the Consolidated Statements of Cash Flows included elsewhere herein is as follows:

	\$3,972
Plant Additions (per Schedule V, page 1)	
Add (deduct):	(40)
Allowance for funds used and interest capitalized during construction	(4)
Retirements - net of \$1,593 in accumulated depreciation	<u>(35)</u>
Other - net	<u>\$3,893</u>
Total Capital Expenditures	

- (2) Includes \$1,050 million of property, plant and equipment related to non-strategic telephone properties which were sold in 1993. See Note 4 to the Consolidated Financial Statements included elsewhere herein.
- (3) Includes the reclassification of \$869 million of property, plant and equipment to other current assets in anticipation of sales of other non-strategic telephone properties in 1994.
- (4) Includes the reduction in the carrying value of satellite communication assets of GTE Spacenet and certain other assets to estimated net realizable value.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
For the Year Ended December 31, 1993
(Millions of Dollars)

Schedule V
Page 1

Column A	Column B	Column C	Column D	Column E	Column F
Classifications	Balance at Beginning of Year	Additions at Cost (1)	Retirements or Sales	Other Debits or (Credits)	Balance at End of Year
TELEPHONE SUBSIDIARIES:					
Operating properties, at original cost:					
Tangible property -					
Land					
Buildings	\$ 238	\$ 6	\$ 2	\$ (6)	\$ 236
Central office equipment	3,068	127	106	(28)	3,061
Station apparatus	15,487	1,463	1,049	(358)	15,543
Station connections	715	61	53	(18)	705
Cable, underground conduit, etc.	655	31	35	(1)	650
Furniture and fixtures	18,236	1,211	780	(475)	18,192
Vehicles and other work equipment	813	92	58	(24)	823
Telephone plant under construction	1,122	83	100	11	1,116
Data processing equipment	668	(15)	-	(10)	643
Other regulated plant	686	113	278	12	533
Non-regulated property, plant & equipment	27	(3)	(59)	(78)	5
Total tangible property	<u>1,573</u>	<u>192</u>	<u>114</u>	<u>(124)</u>	<u>1,527</u>
Intangible property	43,288	3,361	2,516	(1,099)	43,034
Total telephone subsidiaries	<u>66</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>65</u>
OTHER SUBSIDIARIES:	43,354	3,361	2,517 (2)	(1,099) (3)	43,099
(See Schedule V, page 2)	<u>4,075</u>	<u>611</u>	<u>203</u>	<u>(323) (4)</u>	<u>4,160</u>
Total consolidated	<u>\$47,429</u>	<u>\$3,972</u>	<u>\$2,720</u>	<u>\$(1,422)</u>	<u>\$47,259</u>

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
For the Year Ended December 31, 1993
(Millions of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Classifications	Balance at Beginning of Year	Additions at Cost	Retirements or Sales	Other Debits or (Credits)	Balance at End of Year
OTHER SUBSIDIARIES (at cost):					\$ 125
Land	\$ 131	\$ 9	\$ 4	\$ (11)	668
Buildings and building equipment	616	72	12	(8)	2,436
Machinery, equipment and tools	2,327	577	158	(310)	390
Data processing equipment	358	58	21	(5)	191
Furniture and fixtures	194	9	4	(8)	139
Leasehold improvements	95	30	4	18	211
Work in progress - other	354	(144)	-	1	4,160
	<u>\$4,075</u>	<u>\$611</u>	<u>\$203</u>	<u>\$ (323) (4)</u>	<u>\$4,160</u>

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
For the Year Ended December 31, 1993
(Millions of Dollars)

NOTES:

- (1) A reconciliation to amounts shown as capital expenditures in the Consolidated Statements of Cash Flows included elsewhere herein is as follows:
- | | |
|---|----------------|
| Plant Additions (per Schedule V, page 1) | \$3.972 |
| Add (deduct): | |
| Allowance for funds used and interest capitalized during construction | (40) |
| Retirements - net of \$1,593 in accumulated depreciation | (4) |
| Other - net | <u>(35)</u> |
| Total Capital Expenditures | <u>\$3.893</u> |
- (2) Includes \$1,050 million of property, plant and equipment related to non-strategic telephone properties which were sold in 1993. See Note 4 to the Consolidated Financial Statements included elsewhere herein.
- (3) Includes the reclassification of \$869 million of property, plant and equipment to other current assets in anticipation of sales of other non-strategic telephone properties in 1994.
- (4) Includes the reduction in the carrying value of satellite communication assets of GTE Spacenet and certain other assets to estimated net realizable value.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
For the Year Ended December 31, 1992
(Millions of Dollars)

Column A	Column B Balance at Beginning of Year	Column C Additions at Cost (1)	Column D Retirements or Sales	Column E Other Debits or (Credits)	Column F Balance at End of Year
<u>Classifications</u>					
TELEPHONE SUBSIDIARIES:					
Operating properties, at original cost:					\$ 238
Tangible property -				\$ (4)	3,068
Land	\$ 226	\$ 16	\$ -	(59)	15,487
Buildings	2,994	159	26	61	715
Central office equipment	14,387	1,782	743	(6)	655
Station apparatus	696	77	52	(24)	18,236
Station connections	740	29	90	(21)	813
Cable, underground conduit, etc.	17,181	1,330	254	(74)	1,122
Furniture and fixtures	876	71	60	(46)	668
Vehicles and other work equipment	1,117	105	54	(206)	686
Telephone plant under construction	1,376	(502)	15	(9)	27
Data processing equipment	621	89	13	(1)	1,573
Other regulated plant	44	(3)	278	135	43,288
Non-regulated property, plant & equipment	1,518	198	1,585	(254)	66
Total tangible property	41,776	3,351	4	-	43,354
Intangible property	70	-	1,589	(254)	4,075
Total telephone subsidiaries	41,846	3,351	179	(102)	\$47,429
OTHER SUBSIDIARIES:					
(See Schedule V, page 2)					
Total consolidated	3,766	590	\$1,768	\$ (356)	\$45,612
	\$45,612	\$3,941			

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
 SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
 For the Year Ended December 31, 1992
 (Millions of Dollars)

Schedule V
 Page 2

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Classifications</u>	<u>Balance at Beginning of Year</u>	<u>Additions at Cost</u>	<u>Retirements or Sales</u>	<u>Other Debits or (Credits)</u>	<u>Balance at End of Year</u>
OTHER SUBSIDIARIES (at cost):					
Land	\$ 116	\$ 11	\$ -	\$ 4	\$ 131
Buildings and building equipment	517	41	4	62	616
Machinery, equipment and tools	2,280	289	110	(132)	2,327
Data processing equipment	330	51	32	9	358
Furniture and fixtures	205	10	9	(12)	194
Leasehold improvements	113	11	20	(9)	95
Work in progress - other	<u>205</u>	<u>177</u>	<u>4</u>	<u>(24)</u>	<u>354</u>
	<u>\$3,766</u>	<u>\$590</u>	<u>\$179</u>	<u>\$ (102)</u>	<u>\$4,075</u>

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
For the Year Ended December 31, 1992
(Millions of Dollars)

NOTE:

- (1) A reconciliation to amounts shown as capital expenditures in the Consolidated Statements of Cash Flows included elsewhere herein is as follows:

Plant Additions (per Schedule V, page 1)	\$3,941
Add (deduct):	
Allowance for funds used and interest capitalized during construction	(43)
Retirements - net of \$1,689 in accumulated depreciation (per Schedule VI)	(79)
Other - net	<u>90</u>
Total Capital Expenditures	<u>\$3,909</u>

GTE CORPORATION AND SUBSIDIARIES
 SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
 For the Year Ended December 31, 1991
 (Millions of Dollars)

Schedule V
 Page 1

Column A	Column B	Column C	Column D	Column E	Column F
Classifications	Balance at Beginning of Year	Additions at Cost (1)	Retirements or Sales	Other Debits or (Credits)	Balance at End of Year
TELEPHONE SUBSIDIARIES:					
Operating properties, at original cost:					
Tangible property -					
Land					
Buildings	\$ 222	\$ 7	\$ 4	\$ 1	\$ 226
Central office equipment	2,854	157	25	8	2,994
Station apparatus	14,180	1,181	960	(14)	14,387
Station connections	695	57	82	26	696
Cable, underground conduit, etc.	1,840	27	1,118	(9)	740
Furniture and fixtures	16,250	1,285	334	(20)	17,181
Vehicles and other work equipment	845	94	16	(47)	876
Telephone plant under construction	1,103	133	71	(48)	1,117
Data processing equipment	1,095	312	-	(31)	1,376
Other regulated plant	533	101	42	29	621
Non-regulated property, plant & equipment	49	2	14	7	44
	<u>1,422</u>	<u>191</u>	<u>109</u>	<u>14</u>	<u>1,518</u>
Total tangible property	41,088	3,547	2,775	(84)	41,776
Intangible property	<u>70</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70</u>
Total telephone subsidiaries	41,158	3,547	2,775	(84)	41,846
OTHER SUBSIDIARIES:					
(See Schedule V, page 2)					
	<u>3,479</u>	<u>640</u>	<u>376</u>	<u>23</u>	<u>3,766</u>
Total consolidated	<u>\$44,637</u>	<u>\$4,187</u>	<u>\$3,151</u>	<u>\$(61)</u>	<u>\$45,612</u>

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
For the Year Ended December 31, 1991
(Millions of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Classifications	Balance at Beginning of Year	Additions at Cost	Retirements or Sales	Other Debits or (Credits)	Balance at End of Year
OTHER SUBSIDIARIES (at cost):	\$ 98	\$ 10	\$ -	\$ 8	\$ 116
Land	787	59	-	(329)	517
Buildings and building equipment	1,376	289	112	727	2,280
Machinery, equipment and tools	555	54	31	(248)	330
Data processing equipment	218	15	13	(15)	205
Furniture and fixtures	110	13	7	(3)	113
Leasehold improvements	<u>335</u>	<u>200</u>	<u>213</u>	<u>(117)</u>	<u>205</u>
Work in progress - other	<u>\$3,479</u>	<u>\$640</u>	<u>\$376</u>	<u>\$ 23</u>	<u>\$3,766</u>

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
For the Year Ended December 31, 1991
(Millions of Dollars)

NOTE:

- (1) A reconciliation to amounts shown as capital expenditures in the Consolidated Statements of Cash Flows included elsewhere herein is as follows:

Plant Additions (per Schedule V, page 1) \$ 4,187

Add (deduct):

Allowance for funds used and interest
capitalized during construction (56)

Retirements - net of \$2,884 in (267)

accumulated depreciation (per Schedule VI) 108

Discontinued Operations (7)

Other - net

\$ 3,965

Total Capital Expenditures

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE VI - ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT
For the Year Ended December 31, 1993
(Millions of Dollars)

Schedule VI

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Year	Charged to Income (1)	Retirements, Renewals and Replacements	Other Changes	Balance at End of Year
TELEPHONE SUBSIDIARIES	\$16,054	\$2,967			
OTHER SUBSIDIARIES	<u>1,555</u>	<u>369</u>	\$1,835(2)	\$(449)(3)	\$16,737
Total Consolidated	<u>\$17,609</u>	<u>\$3,336</u>	<u>181</u>	<u>59</u>	<u>1,802</u>
			<u>\$2,016</u>	<u>\$(390)</u>	<u>\$18,539</u>

NOTES:

(1) See Note 1 to the Consolidated Financial Statements included elsewhere herein for GTE's depreciation policies. A reconciliation of depreciation and amortization shown in the Consolidated Statements of Cash Flows included elsewhere herein is set forth below:

Provision for depreciation as shown above
Amortization of franchises, goodwill and other intangibles

Total consolidated

\$3,336

83

\$3,419

(2) Includes \$370 million of accumulated depreciation related to non-strategic telephone properties which were sold in 1993.

(3) Other Changes for Telephone Subsidiaries primarily reflect the reclassification of \$326 million of accumulated depreciation to other current assets in anticipation of sales of other non-strategic telephone properties in 1994.

GTE CORPORATION AND SUBSIDIARIES
 SCHEDULE VI - ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT
 For the Year Ended December 31, 1992
 (Millions of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Year	Charged to Income (1)	Retirements, Renewals and Replacements	Other Changes	Balance at End of Year
TELEPHONE SUBSIDIARIES	\$14,877	\$2,819	\$1,547	\$ (95)	\$16,054
OTHER SUBSIDIARIES	<u>1,412</u>	<u>355</u>	<u>142</u>	<u>(70)</u>	<u>1,555</u>
Total Consolidated	<u>\$16,289</u>	<u>\$3,174</u>	<u>\$1,689</u>	<u>\$(165)</u>	<u>\$17,609</u>

NOTE:

- (1) See Note 1 to the Consolidated Financial Statements included elsewhere herein for GTE's depreciation policies. A reconciliation of depreciation and amortization shown in the Consolidated Statements of Cash Flows included elsewhere herein is set forth below:

Provision for depreciation as shown above	\$3,174
Amortization of franchises, goodwill and other intangibles	<u>115</u>
Total consolidated	<u>\$3,289</u>

GTE CORPORATION AND SUBSIDIARIES
 SCHEDULE VI - ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT
 For the Year Ended December 31, 1991
 (Millions of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Year	Charged to Income (1)	Retirements, Renewals and Replacements	Other Changes	Balance at End of Year
TELEPHONE SUBSIDIARIES	\$14,762	\$2,865	\$2,759	\$ 9	\$14,877
OTHER SUBSIDIARIES	<u>1,187</u>	<u>299</u>	<u>125</u>	<u>51</u>	<u>1,412</u>
Total Consolidated	<u>\$15,949</u>	<u>\$3,164</u>	<u>\$2,884</u>	<u>\$60</u>	<u>\$16,289</u>

NOTE:

(1) See Note 1 to the Consolidated Financial Statements included elsewhere herein for GTE's depreciation policies. A reconciliation of depreciation and amortization shown in the Consolidated Statements of Cash Flows included elsewhere herein is set forth below:

Provision for depreciation as shown above	\$3,164
Amortization of franchises, goodwill and other intangibles	<u>90</u>
Total consolidated	<u>\$3,254</u>

GTE CORPORATION AND SUBSIDIARIES
 SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
 For the Years Ended December 31, 1993 - 1991
 (Millions of Dollars)

Schedule VIII
 Page 1

Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Year	Charged (Credited) to Income	Charged to Other Accounts	Deductions from Reserves (1)
				Balance at End of Year
<u>December 31, 1993</u>				
Allowance for uncollectible accounts	<u>\$ 154</u>	<u>\$ 329</u>	<u>\$ 124 (2)</u>	<u>\$ 376</u>
Accrued business repositioning and discontinuance costs	<u>\$ 277</u>	<u>\$ -</u>	<u>\$ 104 (3)</u>	<u>\$ 118</u>
Accrued merger costs (4)	<u>\$ 96</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 67</u>
Accrued telephone restructuring costs (4)	<u>\$ -</u>	<u>\$1,370</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 1992</u>				
Allowance for uncollectible accounts	<u>\$ 115</u>	<u>\$ 311</u>	<u>\$ 219 (2)</u>	<u>\$ 491</u>
Accrued business repositioning and discontinuance costs	<u>\$ 103</u>	<u>\$ 197</u>	<u>\$ 3 (3)</u>	<u>\$ 26</u>
Accrued merger costs (4)	<u>\$ 249</u>	<u>\$ -</u>	<u>\$ 120 (5)</u>	<u>\$ 273</u>
<u>December 31, 1991</u>				
Allowance for uncollectible accounts	<u>\$ 94</u>	<u>\$ 291</u>	<u>\$ 265 (2)</u>	<u>\$ 535</u>
Accrued business repositioning costs	<u>\$ 110</u>	<u>\$ -</u>	<u>\$ 3 (3)</u>	<u>\$ 10</u>
Accrued merger costs (4)	<u>\$ -</u>	<u>\$ 342</u>	<u>\$ 111 (6)</u>	<u>\$ 204</u>

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 1993-1991

NOTES:

- (1) Charges for purpose for which reserve was created.
- (2) Recoveries of amounts written off in prior years.
- (3) Primarily reclassifications from other accounts.
- (4) See Note 3 to the Consolidated Financial Statements included elsewhere herein.
- (5) Represents prepaid pension costs associated with early retirement programs related to the merger.
- (6) Primarily relates to capitalized costs expected to be recovered through the regulatory process.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE IX - SHORT-TERM BORROWINGS
For The Years Ended December 31, 1993 - 1991
(Millions of Dollars)

COLUMN A Aggregate Short-Term Borrowing by Business Group	COLUMN B Balance at End of Period	COLUMN C Weighted Average Interest Rates	COLUMN D Maximum Amount Outstanding During the Period	COLUMN E Average Amount Outstanding During the Period (1)	COLUMN F Weighted Average Interest Rates During the Period (2)
<u>December 31, 1993</u>					
Parent Company	\$ -	- %	\$1,481	\$ 730	3.25%
Telephone Subsidiaries	1,403	3.85	2,964	1,140	4.08
Other Subsidiaries	<u>11</u>	5.73	391	<u>233</u>	3.47
Consolidated	<u>\$1,414</u>	<u>3.87%</u>	<u>\$3,518</u>	<u>\$2,103</u>	<u>3.72%</u>
<u>December 31, 1992</u>					
Parent Company	\$ 126	3.56%	\$2,067	\$ 804	3.78%
Telephone Subsidiaries	753	5.48	1,091	805	4.61
Other Subsidiaries	<u>231</u>	3.98	293	<u>217</u>	4.02
Consolidated	<u>\$1,110</u>	<u>4.95%</u>	<u>\$3,063</u>	<u>\$1,826</u>	<u>4.18%</u>
<u>December 31, 1991</u>					
Parent Company	\$ 535	4.93%	\$1,217	\$ 587	5.67%
Telephone Subsidiaries	787	5.34	970	764	6.29
Other Subsidiaries	<u>42</u>	8.56	2,070	<u>807</u>	7.40
Consolidated	<u>\$1,364</u>	<u>5.28%</u>	<u>\$2,807</u>	<u>\$2,158</u>	<u>6.53%</u>

Note:

Telephone operating companies finance part of their construction programs through the use of interim short-term loans, including commercial paper, which are generally refinanced at a later date by issues of long-term debt or equity. Other short-term obligations are required to meet the working capital requirements of GTE. The amounts shown above exclude current maturities of long-term debt of \$230, \$669 and \$927 at December 31, 1993-1991, respectively. The amounts shown above at December 31, 1992 exclude \$913 of high-coupon debt retired in early 1993 with the proceeds from the Electrical Products Group divestiture.

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE IX - SHORT-TERM BORROWINGS
For the Years Ended December 31, 1993 - 1991

NOTES:

- (1) Computed by dividing the total of month-end balances of outstanding short-term borrowings by 13.
- (2) Computed by multiplying the monthly weighted average interest rate for each month by the corresponding outstanding short-term borrowings, dividing the total by 13 and dividing the result by the average amount outstanding during the period.

GTE CORPORATION AND SUBSIDIARIES
 SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION

For the Years Ended December 31, 1993 - 1991

(Millions of Dollars)

	CHARGED TO EXPENSE		
	1993	1992	1991
Maintenance and repairs	<u>\$2,136</u>	<u>\$2,097</u>	<u>\$2,206</u>
Taxes other than income taxes:			
State and local property	\$ 412	\$ 378	\$ 370
Gross receipts	137	128	102
Franchise and other	67	93	88
Less - portion of above taxes charged to plant	<u>(34)</u>	<u>(34)</u>	<u>(62)</u>
Total	<u>\$ 582</u>	<u>\$ 565</u>	<u>\$ 498</u>

GTE CORPORATION AND SUBSIDIARIES
CALCULATION OF EARNINGS (LOSS) PER COMMON SHARE (1)
(In Thousands)

	Years ended December 31				
	1993	1992	1991	1990	1989
Net income (loss) from:					
Continuing operations	\$ 971,978	\$1,760,704	\$1,491,317	\$1,578,599	\$1,502,867
Discontinued operations	-	(48,000)	51,499	91,933	108,408
Extraordinary charge - early retirement of debt	(89,990)	(52,000)	-	-	-
Cumulative effect of accounting changes	-	(2,440,612)	-	-	-
Consolidated net income (loss)	<u>881,988</u>	<u>(779,908)</u>	<u>1,542,816</u>	<u>1,670,532</u>	<u>1,611,275</u>
Adjustments to net income (loss):					
Add: Preferred dividend requirements on dilutive convertible preferred stocks	237	827	1,048	1,241	2,914
Interest expense, net of tax effect, on employees' stock plans	<u>1,915</u>	<u>6,257</u>	<u>4,778</u>	<u>5,079</u>	<u>2,877</u>
Total adjustments	<u>2,152</u>	<u>7,084</u>	<u>5,826</u>	<u>6,320</u>	<u>5,791</u>
Adjusted consolidated net income (loss) from:					
Continuing operations	974,130	1,767,788	1,497,143	1,584,919	1,508,658
Discontinued operations	-	(48,000)	51,499	91,933	108,408
Extraordinary charge - early retirement of debt	(89,990)	(52,000)	-	-	-
Cumulative effect of accounting changes	-	(2,440,612)	-	-	-
Adjusted consolidated net income (loss)	<u>\$ 884,140</u>	<u>\$ (772,824)</u>	<u>\$1,548,642</u>	<u>\$1,676,852</u>	<u>\$1,617,066</u>
Average common shares	<u>944,678</u>	<u>904,516</u>	<u>881,727</u>	<u>866,790</u>	<u>861,172</u>
Adjustments to common shares:					
Add: Dilutive convertible preferred stocks	288	772	973	1,161	2,912
Employees' stock and stock option plans	<u>4,024</u>	<u>7,808</u>	<u>7,513</u>	<u>6,142</u>	<u>7,268</u>
Total adjustments	<u>4,312</u>	<u>8,580</u>	<u>8,486</u>	<u>7,303</u>	<u>10,180</u>
Adjusted average common shares	<u>948,990</u>	<u>913,096</u>	<u>890,213</u>	<u>874,093</u>	<u>871,352</u>
EARNINGS (LOSS) PER COMMON SHARE:					
Primary (2)					
Continuing operations	\$1.03	\$1.95	\$1.69	\$1.82	\$1.75
Discontinued operations	-	(.05)	.06	.11	.12
Extraordinary charge - early retirement of debt	(.10)	(.06)	-	-	-
Cumulative effect of accounting changes	<u>\$.93</u>	<u>\$(-.86)</u>	<u>\$1.75</u>	<u>\$1.93</u>	<u>\$1.87</u>
Consolidated					
Fully diluted (3)					
Continuing operations	\$1.02	\$1.94	\$1.68	\$1.81	\$1.74
Discontinued operations	-	(.05)	.06	.11	.12
Extraordinary charge - early retirement of debt	(.09)	(.06)	-	-	-
Cumulative effect of accounting changes	<u>\$.93</u>	<u>\$(-.85)</u>	<u>\$1.74</u>	<u>\$1.92</u>	<u>\$1.86</u>
Consolidated					

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
CALCULATION OF EARNINGS (LOSS) PER COMMON SHARE

NOTES:

- (1) Average common shares and per share amounts reflect the 2-for-1 stock split which became effective on May 23, 1990.
- (2) Computed by dividing net income (loss) applicable to common stock for the years by the average common shares outstanding. Common stock equivalents are excluded from this computation since they do not have a 3% dilutive effect.
- (3) Computed assuming conversion or exercise of those preferred stocks and stock plans that would have a dilutive effect.
 - (a) Average common shares outstanding are adjusted to reflect the shares which would be issued upon conversion of preferred stocks using the "if converted" method. Equivalent common shares to be added to average shares for the employees' stock plans and stock ownership plan are computed according to the "treasury stock" method.
 - (b) Net income (loss) for the years is adjusted to reflect the increase in income for the preferred dividends declared for the years on the convertible preferred stocks, and the interest accrued, net of tax effect, on funds received from installments under the employees' stock plans.

GTE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF THE RATIO OF EARNINGS TO FIXED CHARGES
 (Thousands of Dollars)

(Unaudited)

	Years Ended December 31				
	1991	1992	1991	1990	1989
Net earnings available for fixed charges:	\$ 989,803	\$1,787,035	\$1,528,102	\$1,622,261	\$1,550,450
Income from continuing operations					719,854
Add (deduct) -	567,747	966,589	662,860	697,963	1,282,691
Income taxes	1,298,234	1,475,670	1,574,746	1,510,909	(18,121)
Interest expense	(3,421)	(4,931)	(14,791)	(18,316)	33,775
Capitalized interest (net of amortization)	22,162	23,429	25,317	28,697	
Preferred stock dividends of subsidiaries					15,676
Additional income requirement on preferred stock dividends of subsidiaries	12,739	12,671	11,006	12,357	79,554
Minority interests	112,335	112,425	103,626	83,471	<u>199,408</u>
Portion of rent expense representing interest	<u>153,058</u>	<u>196,533</u>	<u>210,698</u>	<u>206,959</u>	3,863,287
	3,152,657	4,569,421	4,101,564	4,144,301	<u>(211,816)</u>
	<u>(236,944)</u>	<u>(248,979)</u>	<u>(247,284)</u>	<u>(224,240)</u>	
Deduct - Minority interests					
Adjusted earnings available for fixed charges from continuing operations	<u>\$2,915,713</u>	<u>\$4,320,442</u>	<u>\$3,854,280</u>	<u>\$3,920,061</u>	<u>\$3,651,471</u>
Fixed Charges:					
Interest charges	\$1,298,234	\$1,475,670	\$1,574,746	\$1,510,909	\$1,282,691
Preferred dividends of subsidiaries	22,162	23,429	25,317	28,697	33,775
Additional income requirement on preferred dividends of subsidiaries	12,739	12,671	11,006	12,357	15,676
Portion of rent expense representing interest	<u>153,058</u>	<u>196,533</u>	<u>210,698</u>	<u>206,959</u>	<u>199,408</u>
	1,486,193	1,708,303	1,821,767	1,758,922	1,531,550
	<u>(78,421)</u>	<u>(86,504)</u>	<u>(89,479)</u>	<u>(91,730)</u>	<u>(80,287)</u>
Deduct - Minority interests	<u>\$1,407,772</u>	<u>\$1,621,799</u>	<u>\$1,732,288</u>	<u>\$1,667,192</u>	<u>\$1,451,263</u>
Adjusted fixed charges					
Ratio of Earnings to Fixed Charges - continuing operations	<u>2.07</u>	<u>2.66</u>	<u>2.22</u>	<u>2.35</u>	<u>2.52</u>

GTE CORPORATION AND SUBSIDIARIES

Significant Subsidiaries of Registrant at December 31, 1993

<u>Company(a)</u>	<u>Incorporated In</u>	<u>Percent of Voting Control Owned by Direct Parent</u>
Contel Corporation	Delaware	100.00
Contel Cellular Inc.	Delaware	97.80
Contel of California, Inc.	California	99.48
GTE Spacenet Corporation	Delaware	100.00
Contel Federal Systems, Inc.	Delaware	100.00
GTE Government Systems Corporation	Delaware	100.00
GTE Products of Connecticut Corporation	Connecticut	100.00
GTE Laboratories Incorporated	Delaware	100.00
GTE Leasing Corporation	Delaware	100.00
GTE Communications Services Incorporated	Delaware	100.00
Anglo-Canadian Telephone Company	Quebec	86.39
BC Telecom Inc.	Canada	50.46
BC Tel	Canada	100.00
Microtel Limited	Canada	100.00
Canadian Telephones and Supplies Ltd.	British Columbia	100.00
Quebec - Telephone	Quebec	50.32
GTE Holdings (Canada) Limited	Canada	100.00
Compania Dominicana de Telefonos, C. por A.	Dominican Republic	100.00
GTE International Telecommunications Incorporated	Delaware	100.00
VenWorld Telecom, C.A.	Venezuela	51.00
Compania Anonima Nacional Telefonos de Venezuela (CANTV)	Venezuela	40.00
GTE California Incorporated	California	99.60
GTE Florida Incorporated	Florida	100.00
GTE Midwest Incorporated	Delaware	100.00
GTE North Incorporated	Wisconsin	100.00
GTE Northwest Incorporated	Washington	100.00
GTE South Incorporated	Virginia	100.00
GTE Southwest Incorporated	Delaware	100.00
GTE Hawaiian Telephone Company Incorporated	Hawaii	100.00
GTE Directories Corporation	Delaware	100.00
GTE Data Services Incorporated	Delaware	100.00
GTE Finance Corporation	Delaware	100.00
GTE Information Services Incorporated	Delaware	100.00
GTE Interactive Services Incorporated	Delaware	100.00
GTE Intelligent Network Services Incorporated	Delaware	100.00
GTE Investment Management Corporation	Delaware	100.00
GTE Mobile Communications Incorporated	Delaware	100.00
GTE Airfone Incorporated	Delaware	100.00
GTE Mobilnet Incorporated	Delaware	100.00
GTE Cellular Communications Corporation	California	100.00
GTE Realty Corporation	Delaware	100.00
GTE REinsurance Company Limited	Bermuda	100.00
GTE Service Corporation	New York	100.00
GTE Telecom Incorporated	Delaware	100.00
GTE Telecom Marketing Corporation	Delaware	100.00
GTE Vantage Incorporated	Delaware	100.00

(a) The earnings of all subsidiaries listed are included in GTE's consolidated financial statements.

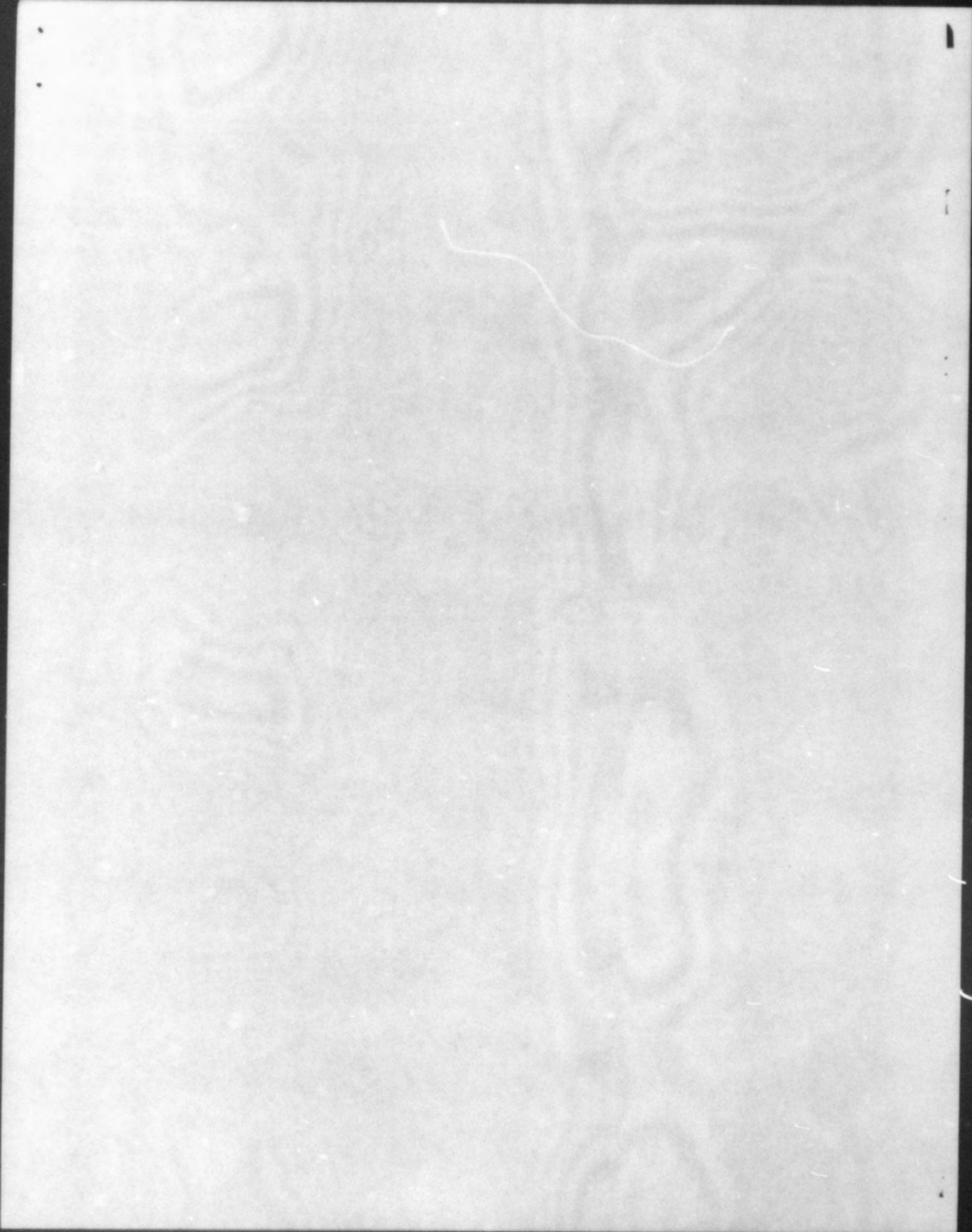
CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report, dated February 1, 1994, on the consolidated financial statements and supporting schedules of GTE Corporation and subsidiaries included in this Form 10-K, into the following previously filed Registration Statements:

1. Form S-8 of GTE Corporation (File No. 33-1521)
2. Form S-8 of GTE Corporation (File No. 33-20178)
3. Form S-8 of GTE Corporation (File No. 33-29419)
4. Form S-8 of GTE Corporation (File No. 33-34756)
5. Form S-4 of GTE Corporation (File No. 33-37530)
6. Form S-8 of GTE Corporation (File No. 33-39297)
7. Form S-3 of GTE Corporation (File No. 33-40247)
8. Form S-8 of GTE Corporation (File No. 33-45048)
9. Form S-8 of GTE Corporation (File No. 33-46612)
10. Form S-3 of GTE Corporation (File No. 33-50263)
11. Form S-8 of GTE Corporation (File No. 33-50111)

ARTHUR ANDERSEN & CO.

Stamford, Connecticut
March 15, 1994



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 1994

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-2735

GTE Corporation

(Exact name of Registrant as specified in its Charter)

New York

(State or other jurisdiction of
incorporation or organization)

13-1678633

(I.R.S. Employer Identification No.)

One Stamford Forum

Stamford Connecticut

(Address of principal executive offices)

06904

(Zip Code)

Telephone number and area code: (203) 965-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value of \$.05 per share	New York Stock Exchange, Inc. Chicago Stock Exchange, Incorporated The Pacific Stock Exchange Incorporated
Preferred Stock Purchase Rights	New York Stock Exchange, Inc. Chicago Stock Exchange, Incorporated The Pacific Stock Exchange Incorporated
\$2.00 Convertible No Par Preferred Stock	New York Stock Exchange, Inc.
5.00% Cumulative Convertible Preferred Stock, par value \$50 per share	New York Stock Exchange, Inc.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

4.00% Cumulative Convertible Preferred Stock	5.35% Cumulative Convertible Preferred Stock
4.36% Cumulative Convertible Preferred Stock	5.50% Cumulative Convertible Preferred Stock
4.75% Cumulative Convertible Preferred Stock	4.40% Cumulative Preferred Stock
5.05% Cumulative Convertible Preferred Stock	7.75% Cumulative Preferred Stock
5.28% Cumulative Convertible Preferred Stock	7.85% Cumulative Preferred Stock

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. ☒

The aggregate market value of GTE's voting stock held by non-affiliates at January 31, 1995 amounted to \$32,727,437,274.

GTE had 967,064,265 shares of \$.05 par value common stock outstanding at January 31, 1995.

DOCUMENT INCORPORATED BY REFERENCE

GTE's Proxy Statement for Annual Meeting of Shareholders to be held on April 19, 1995 (Incorporated in Part III).

PART I

Item 1. Business.

BUSINESS OF GTE COMPANIES

GTE Corporation ("GTE") has two major business segments: telephone operations and telecommunications products and services. GTE also has subsidiaries engaged in financing, insurance, leasing and other activities offering financial and related services primarily to GTE operating companies. One of these subsidiaries, GTE Service Corporation, furnishes at cost, advisory and consulting services related to administration, operations, accounting methods and procedures, insurance, personnel, financing, Federal and state taxes and other matters. GTE and its subsidiaries had approximately 111,000 employees, at December 31, 1994.

TELEPHONE OPERATIONS

Telephone Operations in the United States

GTE's telephone operating subsidiaries in the United States served approximately 17.4 million access lines in 28 states as of December 31, 1994 and provided many types of communications services, ranging from local telephone service for the home and office to highly complex voice and data services for various industries. Subsidiaries accounting for the largest portion of total domestic telephone revenues are GTE California, 21%; GTE North, 20%; GTE Florida, 10%; and GTE Southwest, 9%. The largest cities served include Los Angeles, Long Beach and Santa Monica California; Tampa and St. Petersburg, Florida; Honolulu, Hawaii; Lexington, Kentucky; Fort Wayne, Indiana; and Erie, Pennsylvania.

During 1994, GTE substantially completed its previously announced plan to sell or trade a small percentage of local-exchange telephone properties (representing less than five percent of its U.S. access lines) in markets that may be of greater long-term strategic value to other telephone service providers. As part of this program, in 1994 GTE sold 448,000 access lines in nine states for \$900 million in cash. In addition, during 1993, GTE sold local-exchange properties serving 530,000 access lines in eight states in return for 90,000 access lines in Illinois, Indiana and Michigan and \$1 billion in cash.

Local network service revenues are comprised mainly of fees charged to customers for providing local-exchange service within the designated franchise area. GTE telephone subsidiaries also provide toll service within designated geographic areas called Local Access and Transport Areas ("LATAs") under agreements with connecting local-exchange carriers ("LECs") in conformity with individual state regulatory orders. GTE and other LECs compensate each other pursuant to access charge tariffs that are subject to review by state regulatory commissions.

Interstate and intrastate revenues are generated by providing access services to interexchange carriers. The interstate service revenues are

based on switched, common-line, and special access tariffs approved by the Federal Communications Commission ("FCC"). The FCC tariffs include end-user access charges to residential and business customers. State access is based on similar rate structures that are subject to approval by state regulatory commissions.

In most cases the telephone subsidiaries have legal rights to operate in the areas served subject to conditions, restrictions and limitations of various kinds. In some cases, subsidiaries operate at sufferance or under rights which are open to question, and in some cases municipalities have the right to acquire the telephone system within the municipal limits on certain terms and conditions. Advances in technology and an increase in alternative provision of service are beginning to erode certain of the benefits derived from these franchise rights.

Rates and Regulation - U.S.

The telephone operating subsidiaries in the United States are subject to regulation by the various state regulatory agencies for the majority of their operations. These subsidiaries are also subject to the jurisdiction of the FCC with respect to interstate communications, accounting and related matters.

Rates in effect for various services differ among the telephone subsidiaries and among the exchanges within their respective territories, depending upon type of service, size of community and other factors.

Federal and state regulatory activity directed toward changing the traditional cost-based rate of return regulatory framework for intrastate and interstate telephone services has continued. Regulatory authorities have adopted various forms of alternative regulation, which provide economic incentives to telephone service providers to improve productivity and provide the foundation for implementing pricing flexibility necessary to address competitive entry into GTE markets. In total, approximately 50 percent of Telephone Operations' U.S. regulated revenues are under some form of alternative regulation.

As of January 1, 1995, one-third of GTE's telephone access lines were in five states that have adopted incentive regulation plans for intrastate service, including California, the state containing GTE's largest operation. Beginning in 1994, under an agreement with the California Public Utilities Commission ("CPUC"), GTE California was allowed to retain 100% of any earnings up to a 15.5% rate of return on investment and required to refund 100% of any earnings above 15.5%. As part of this agreement and its normal annual price cap filing, GTE California reduced its rates by about \$100 million in 1994.

A number of other states are currently investigating whether to authorize local and toll competition. Several have concluded that competition is in the public interest and five states in which GTE provides telephone service, including Florida, have authorized plans that would allow customers to pre-subscribe to a specific carrier to handle intraLATA toll calls. GTE is challenging the implementation of these orders primarily based on the lack of equality since GTE's telephone subsidiaries are prohibited from providing interLATA toll service.

For the provision of interstate services, GTE operates under the terms of the FCC's price cap incentive plan. The "price cap" mechanism serves to limit the rates a carrier may charge, rather than just regulating the rate of return which may be achieved. Under this approach, the maximum prices that the LEC may charge are increased or decreased each year by a price index based upon inflation less a predetermined productivity target. LECs may, within certain ranges, price individual services above or below the overall cap.

Under its price cap regulatory plan, the FCC also adopted a productivity sharing feature. Under this feature, GTE's telephone subsidiaries must share equally with its ratepayers any realized interstate return on investment above 12.25%. All returns higher than 16.25% result in a reduction in the maximum price which can be charged, that is, the price cap in the subsequent year.

The GTE Consent Decree, which was issued in connection with the 1983 acquisition of GTE Sprint and GTE Spacenet (both since divested), prohibits GTE's domestic telephone operating subsidiaries from providing long-distance service beyond the boundaries of the LATA. This prohibition restricts their direct provision of long-distance service to relatively short distances. However, GTE Hawaiian Telephone and GTE Alaska are permitted to provide services between Hawaii, Alaska and international points.

Telephone Operations Outside the United States

GTE, through its ownership of common stock of Anglo-Canadian Telephone Company ("Anglo"), has voting control of BC TEL and Quebec Telephone. At December 31, 1994, BC TEL served approximately 2.3 million access lines in the province of British Columbia, Canada and Quebec Telephone served approximately 300,000 access lines in the province of Quebec, Canada.

In addition, GTE, through GTE Holdings (Canada) Limited, a Canadian holding company, owns the common stock of Compania Dominicana de Telefonos, C. por A., a telephone company furnishing local and long-distance telephone service in the Dominican Republic. This company served approximately 600,000 access lines at December 31, 1994.

In late 1991, GTE acquired, through a multinational consortium, a 20.4% ownership interest in Compania Anonima Telefonos de Venezuela ("CANTV"), the government-owned telephone company in Venezuela. CANTV is the exclusive provider for local, national and international long-distance telephone service in Venezuela. CANTV also provides other telecommunication and related services, including cellular telephone and directory advertising services. GTE and its four consortium partners have a 40% ownership interest and operating control of CANTV, while GTE, as the owner of 51% of the consortium, is managing CANTV. During 1994, CANTV placed approximately 250,000 new lines in service for customers and added almost 5,000 public telephones while continuing to improve the quality of its services and network. CANTV had approximately 2.3 million access lines in service at December 31, 1994.

During 1994, difficult economic conditions in Venezuela caused weaker results at CANTV. The weak economic conditions combined with the implementation of currency controls in mid-1994 have effectively closed access to international banking and capital markets. As a result, CANTV has been unable to secure planned financing and is currently in arrears on repayment of principal on its loan obligations. CANTV is engaged in negotiations with major creditors to address these issues and continues to make payments of interest on these obligations.

In September 1993, an explosion occurred at a construction site in Venezuela where a subcontractor of a Venezuelan company, AT&T Andinos, was installing a fiber-optic cable for CANTV. In connection with the explosion, two civil lawsuits for wrongful death and personal injury have been brought by one of the injured persons and the estates of two individuals who died from their injuries. The lawsuits were filed in the United States District Court in Miami, Florida, against GTE, CANTV, AT&T and AT&T Andinos. The financial impact of these lawsuits, if any, is not expected to be material to the financial position of CANTV or GTE.

Support Services

Included in GTE's Telephone Operations are two major unregulated subsidiaries; GTE Data Services Incorporated ("Data Services") and GTE Supply. Data Services, GTE's software development and information processing subsidiary, provides data processing and information management services to GTE's telephone subsidiaries and other non-affiliated companies. GTE Supply is responsible for the procurement and distribution of supplies for GTE's domestic telephone operating companies, as well as other non-affiliated telephone companies.

During 1994, Data Services continued to expand the level of service that it provides to non-affiliated companies by winning several new contracts, including one for \$19 million to develop a new Medicare transaction system. In addition, work began on a \$20 million contract, awarded in late 1993, to provide processing services to National Electronic Information Corp., the nation's largest commercial health care claims clearing house. Data Services also continued its strategic alliance to cooperatively develop, share and market telecommunications information management systems, by providing a license for its Customer Billing Services System to Mercury Communications Ltd. and Bell Canada.

During 1994, GTE Supply was awarded a multi-year contract by Cincinnati Bell valued at over \$30 million to provide telecommunications equipment and supplies.

Telephone Competition and Regulatory Developments

GTE's telephone subsidiaries hold franchises, licenses and permits adequate for the conduct of their business in the markets which they serve. Advances in technology, together with a number of regulatory and judicial actions, continue to accelerate and expand the level of competition and opportunities available to GTE. Presently, GTE is subject to competition from numerous sources, including competitive access providers for network access services, specialized communications companies that have constructed new systems in certain markets to bypass the local-exchange network, and

competing cellular telephone companies. Competition from interexchange carriers, wireless and cable TV companies, as well as more recent entry by media and computer companies, is expected to increase in the rapidly changing telecommunications marketplace.

GTE continues to support 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.

Interconnection

During 1992-1994, the FCC took a number of steps to increase competition for LEC access services. These steps, known as Expanded Interconnection requirements, allow competing communications carriers to interconnect to the local-exchange network for the purpose of providing switched access transport services and private line services. Expanded Interconnection requires LECs to permit competitors to connect directly to LEC central offices, and to connect to the LEC network under terms and conditions more favorable than those available to other customers. Competitors are thereby able to compete more effectively than previously to replace LEC services between large users and interexchange carriers ("IXCs"), or between large users and the LEC switch. The FCC accompanied its Expanded Interconnection mandate with a slight relaxation of the rigid pricing rules that govern the manner in which LECs price their access services. In 1994, the FCC also reaffirmed the switched access rate structure changes adopted in 1993 that allow LECs to better reflect the actual cost characteristics of transport services and improve the LEC's ability to compete with alternative access providers.

Wireless Services

In 1994, the FCC initiated spectrum auctions for the development of a new generation of wireless voice, data, and messaging services which are generally referred to as broadband Personal Communications Services ("PCS"). During the fourth quarter of 1994, the FCC began to auction licenses in 51 major markets and 492 basic trading areas. Over 2,000 licenses will be auctioned across the United States, with as many as six new licensees in any one area.

PCS will both complement and directly compete with traditional wireline and cellular services. GTE is permitted to fully participate in the PCS auctions in areas outside of its existing cellular areas and is generally permitted limited participation in areas in which GTE has an existing cellular presence. GTE is selectively participating in the auctions, seeking licenses that are of strategic importance to its operations. In Texas, GTE and SBC (formerly Southwestern Bell Corporation) have formed an alliance that will enable both companies to provide wireless services in each others markets. The auctions are expected to continue into mid-1995.

Other Federal and State Developments

As a consequence of the November 1994 general elections, key committee leadership and control of the legislative process within the 104th Congress have changed. The debate on telecommunications legislation, however, is expected to continue to emphasize the need for increased competition in all

markets, streamlined deregulatory language, definitive timetables for allowing entry into open markets, and removal of the telephone company/cable television cross ownership rules. Although passage of telecommunications legislation in 1995 is not assured, there is significant bipartisan support for legislative change in this area.

In the absence of Federal legislation in 1994, the Federal and state regulatory commissions and the courts continued to influence industry developments. In June 1994, the U.S. Court of Appeals for the District of Columbia Circuit overturned an earlier order by the FCC establishing the framework used by competing carriers to interconnect to the local-exchange network for the purpose of providing switched access and private line services. The court ruled that mandatory physical collocation was illegal and remanded the issue of virtual collocation to the FCC for further consideration. In July 1994, the FCC adopted a new order that eliminated mandatory physical collocation.

On January 13, 1995, the United States District Court for the Eastern District of Virginia issued an injunction declaring that GTE Telephone Operations has the right to provide video programming to the company's franchise customers. The court's decision means that GTE is now permitted to offer video programming over its own video dialtone networks, as well as to compete as a franchised cable operator in GTE's telephone territories.

The degree of competition allowed in the intraLATA market is subject to state regulation. However, regulatory constraints on intraLATA competition are gradually being relaxed in many of the states in which GTE telephone operating subsidiaries provide service. During 1994, there were several actions in various states which will increase the level of competition that GTE will face in the future and reform GTE's regulatory environment.

In September 1994, the CPUC issued a final order that generally authorized toll competition (without pre-subscription) in California, effective January 1, 1995. It also provides for rate rebalancing with significant rate reductions for toll service and access charges while increasing basic local-exchange rates closer to the actual cost of providing such service. Although the rate rebalancing is intended to be revenue neutral, its ultimate effect on revenue will depend, in part, on the extent to which rate reductions result in increased calling volumes. The decision does not permit rate increases to compensate for competitive losses of market share. GTE believes that the CPUC has over-estimated the calling volume that will be stimulated by reduced toll rates and has requested reconsideration of this aspect of the decision.

In December 1994, the CPUC adopted an initial procedural plan to begin implementation of its strategy to ensure future development of advanced telecommunications infrastructure and applications within California. This strategy involves opening all local-exchange markets to full competition by January 1, 1997. The CPUC's strategy also recognizes the need to streamline regulation and allow additional pricing flexibility to local-exchange carriers.

In other developments, the state regulatory commissions in Florida and Kentucky will require GTE to implement 1+ intraLATA pre-subscription within its service area by December 1996 and June 1998, respectively, permitting customers to choose different carriers for interLATA and intraLATA toll

service. These decisions are in addition to similar decisions made earlier by the Alaska, Minnesota and Michigan commissions. GTE plans to challenge these decisions on the grounds that local competition and intraLATA pre-subscription should not be allowed until GTE is permitted to compete in the interLATA market on an equal basis.

In Wisconsin, GTE has elected to operate under an incentive regulation plan effective January 1, 1995. This plan, which is the result of legislation passed in 1994, opens all LEC markets to competition, requires mandatory access rate reductions, and freezes basic local rates for three years. In return, GTE will operate under a price cap plan which eliminates traditional rate of return regulation and provides GTE with a greater earnings potential than would have been typical under the former regulatory plan.

As the trend towards increased competition continues at both the federal and state levels, GTE will continue to be an active participant in helping shape future policies that address the issues of local and intraLATA competition, universal service goals and support mechanisms, and the necessary changes to GTE's regulatory environment.

The increasingly competitive environment provides GTE with both challenges and opportunities. In order to respond aggressively to the competitive developments and benefit from the new opportunities, GTE has embarked on a series of initiatives.

Video Services

In Cerritos, California, GTE concluded testing of the capabilities of copper wire, coaxial cable and fiber optics for both video and telephony delivery. In July, 1994, GTE moved to a business-as-usual operation of the Cerritos video network, including the continued provision of near pay-per-view (Center ScreenSM) and interactive (mainStreetTM) services. In order to continue to provide these services and video signal transport to the local cable operator, GTE challenged the constitutionality of the federal statute which barred the participation of telephone companies and their affiliates in the delivery of video programming directly to customers within their telephone service territories. As a result of that challenge, the United States District Court for the Eastern District of Virginia ruled in favor of GTE and declared the federal statute unconstitutional. This ruling allows GTE to offer video programming in all of its domestic telephone territories and to provide video signal transport to affiliates.

In 1994, GTE announced plans to build a new video network over the next ten years which will pass seven million homes in 66 key GTE markets. GTE has requested FCC approval to construct facilities in the initial three markets and expects to begin construction in 1995. During 1995, GTE expects to invest approximately \$190 million to build a fiber optic and coaxial cable video network for nearly 300,000 homes in the three initial markets.

GTE Interactive Media and Nintendo of America, Inc. announced in January 1995, a joint arrangement to develop, market, publish and distribute video games, as well as to explore new technologies. Nintendo will help GTE gain access to the retail video game distribution channel and GTE will accelerate Nintendo's entry into network gaming.

GTE's mainStreet service is an interactive home information, shopping and banking service expected to be offered to 10 million cable subscribers in the top 20 television markets by the end of the decade.

Data Services

During 1994, GTE Telephone Operations unveiled its World Class Network in eight key markets to provide advanced communications for business customers. This program includes sophisticated high-speed, digital fiber-optic rings, a high-capacity switching network (known as SONET), and a new centralized operations center that monitors the entire network. These SONET rings are an integral part of the high-speed information network that enables GTE's Telephone Operations to provide advanced services such as high-speed data transmission and video conferencing.

Restructuring and Cost Control

During 1994, GTE began implementation of a three-year \$1.4 billion re-engineering plan for its U.S. Telephone Operations. In the initial year of the plan, \$343 million was expended to implement this program. These expenditures were primarily associated with the consolidation of certain customer service centers, separation benefits associated with employee reductions and incremental expenditures to redesign and streamline systems and processes. During the year, 67 customer contact, network operations and operator service centers were closed and express dial tone was installed in more than 50% of the access lines served by GTE's U.S. Telephone Operations. Express dial tone enables customers to activate service without a service call. During 1995, the level of re-engineering activities and related expenditures are expected to accelerate as pilot programs are rolled out and other major initiatives are completed. The overall re-engineering plan remains on schedule and is expected to result in annual savings of approximately \$1 billion by 1997. Moreover, continued implementation of this program will position GTE to accelerate delivery of a full array of voice, video and data services and to reach its stated objective of being the easiest company to do business with in the industry.

GTE intends to continue to respond aggressively to regulatory and legal developments that allow for increased competition and opportunities in the marketplace. GTE expects its financial results to benefit from reduced costs and the introduction of new products and services that will result in increased usage of its telephone and mobile-cellular networks. However, it is likely that such improvements will be offset, in part, by continued strategic pricing reductions and the effects of increased competition.

TELECOMMUNICATIONS PRODUCTS AND SERVICES

Telecommunications Products and Services includes Personal Communications Services, GTE Airfone, GTE Government Systems and GTE Information Services.

Personal Communications Services

Personal Communications Services is comprised of GTE Mobilnet ("Mobilnet"), Contel Cellular Inc. ("CCI") and GTE Telecommunications Services Inc. ("GTE TSI"). Mobilnet and CCI provide mobile-cellular telephone service and

market cellular products to over 2.3 million subscribers. GTE TSI provides services to the cellular telephone industry throughout North America. Mobilnet and GTE TSI are 100% owned by GTE. CCI is 90% owned by GTE. The remaining shares of CCI are traded on the NASDAQ National Market System. In 1994, GTE reached agreement to acquire the 10% ownership of CCI that it does not already own for approximately \$250 million in cash. This transaction is expected to close during the first half of 1995.

GTE is the second largest provider of mobile-cellular telephone services in the United States in terms of population in the areas served. GTE holds a controlling interest in 76 metropolitan markets, known as metropolitan statistical areas ("MSAs"), and 38 rural service areas ("RSAs"). Outside the United States, GTE also operates mobile-cellular networks through international subsidiaries and affiliates in Canada, Venezuela, Argentina and the Dominican Republic.

In 1994, a GTE-led consortium, Compania de Telefonos del Interior ("CTI"), was awarded two cellular licenses by the National Telecommunications Commission of Argentina, to provide cellular services in the north and south interior regions of Argentina - areas with a total population of 22 million. During the year, construction of the cellular networks was completed and service was initiated. GTE, as operator, has a 25.5% ownership interest in CTI, and holds a ten-year contract to manage the system. CTI has an initial two-year service exclusivity from May 1994.

GTE's ownership position in U.S. markets was obtained through the FCC lottery and settlement process as well as through purchases and exchanges of licenses with other cellular service providers. GTE's cellular operations serve a population of approximately 53 million "POPs", approximately 19 million of which are in the top 30 U.S. markets. ("POPs" refers to the population of a market area multiplied by a company's percentage ownership in the cellular system serving that market.) In 1994, GTE's U.S. cellular operations increased their customer base by 48% to 2,339,000 customers.

GTE's FCC cellular licenses, were generally granted for an initial ten-year term and are renewable for successive ten-year terms. FCC license renewal applications continue to be filed and are presently being processed by the FCC with no opposition. The majority of GTE's FCC cellular licenses will expire and require renewal application filings over the next five-year period.

In 1994, GTE commercially deployed a new Cellular Digital Packet Data service ("CDPD") in one of its markets and expects to deploy the service in most of its major markets during 1995. CDPD provides a more cost effective means than traditional circuit switched data for users to remotely access their host systems or other services. The service is also a fast, efficient way for cellular users to transmit short bursts of data, such as credit card verifications for retail businesses, service and order information for field sales representatives and delivery tracking for transportation businesses.

Also, in 1994, GTE launched its new Tele-Go service to provide anytime, anywhere personal voice communication services targeted to the residential market. This enhanced service works in concert with local telephone

service by providing customers with personal communications that combine the capabilities of both traditional telephone and cellular features. The Tele-Go handset is a standard analog cellular telephone modified to operate as a cordless phone when within range of the Enhanced Cordless Basestation ("ECB") installed in the customer's premises. This provides economical service through access to the Public Switched Telephone Network via the wired telephone service in the home. When outside of the range of the ECB unit, the handset functions as a normal portable cellular telephone. GTE invested more than \$50 million during 1994 to bring Tele-Go service to 15 markets by year-end. Nearly 120,000 customers had signed up for this service by December 31, 1994.

GTE's cellular operations experience direct competition from the second cellular licensee in each market. Competition is principally on the basis of service quality, price and coverage area. In addition to the direct cellular competitor in each market, Enhanced Specialized Mobile Radio operators also represent potential competition.

In 1993, the FCC released a Report and Order to allocate additional frequencies in the 1.8 GHz to 2.1 GHz frequency band to enable up to six additional wireless competitors to enter the market. These new licenses are the subject of auction on the basis of two licenses (each at 30 MHz of spectrum) in each of 51 large service areas across the U.S. called "Major Trading Areas" ("MTAs"), and four licenses (three at 10 MHz of spectrum each and one at 30 MHz) in each of 492 smaller service areas called "Basic Trading Areas" ("BTAs"). Mobile-cellular telephone service providers such as GTE are eligible for these new MTA and BTA licenses in areas where they do not currently have significant cellular holdings and for a single 10 MHz BTA license anywhere. The service offerings at these new frequencies will be similar in nature to mobile-cellular telephone service and will offer direct competition once established.

The frequency bands being allocated to these new licenses are currently occupied by point-to-point microwave radio users. GTE, both within its local-exchange telephone operations and its cellular operations, is an extensive user of these facilities for the backhaul of telephone traffic.

Under the proposed FCC rules, the incumbent users of these frequencies will be relocated to higher frequencies to make way for the new PCS services. The FCC rules allow for up to a two-year negotiation period between the incumbent and the new licensee and the new licensee is to provide adequate compensation to the incumbent for the cost of that relocation. Failing agreement between the two parties during that two-year negotiation period, the FCC rules provide for a third year for arbitration.

The FCC began auctioning these licenses in December 1994 with completion expected during 1995. GTE is selectively participating in these auctions.

GTE TSI provides transaction processing, software applications and network support services that facilitate the "roaming" of cellular subscribers and the management of cellular markets. GTE TSI serves both large and small customers in virtually all operational wireline markets and 35% of the non-wireline markets. GTE TSI competes through product innovation, technology deployment, provision of flexible product solutions and quality customer service.

GTE Airfone

GTE Airfone ("Airfone") operates a telecommunications service for passengers on board aircraft under a license granted by the FCC in 1991.

Five other licenses have been granted by the FCC for air-to-ground service, and two companies, In-Flight Phone Corporation and Claircom, have initiated service. At the end of 1994, Airfone service was installed on 2,130 U.S., Canadian and Mexican commercial aircraft.

During 1994, Airfone continued deployment of its new advanced digital GenStar System, which enhances quality and makes possible a new array of features to airline passengers. These new features include data and fax service, ground-to-air calling, and a variety of information services. A lighted menu screen makes it easy and efficient for passengers to use these enhanced features. Airfone has been competing for contracts to install its digital GenStar system, and as of December 1994 has won agreements with United, Delta, TWA, US Air Shuttle, Sunbird, Reno, Mexicana, Aeromexico and Varig Airlines. At December 31, 1994, approximately 500 aircraft have been installed with the GenStar System.

Also, beginning in 1994, Airfone and Magnavox, pursuant to a joint alliance, began marketing the Magnastar digital product for the corporate general aviation market. The Magnastar system includes a digital radio, designed by Magnavox, which links exclusively to the Airfone all-digital GenStar System. As of December 31, 1994, over 100 Magnastar units have been sold.

Late in 1993, American Airlines and America West reached an agreement with other providers for onboard telecommunications service. As of December 1994, a majority of their fleets were still equipped with Airfone equipment.

Airfone will continue to actively compete for digital service contracts based on quality, reliability, new feature offerings and flexibility for future capabilities.

GTE Government Systems

GTE Government Systems Corporation ("GSC") develops, manufactures and integrates customized command, control, communications and intelligence systems for the defense and national security agencies of the U.S. Government and selected foreign governments. In addition, GSC provides information systems, telecommunications services and electronic system operation and maintenance support services for civilian agencies of the Federal government and for commercial users, both domestically and internationally. As a major part of this business focus, GSC provides and manages integrated system solutions tailored to customer information processing and telecommunications requirements.

During 1994, GSC received orders valued at \$1.2 billion, consistent with the previous year despite a declining defense market. As the overall budgets for the defense market continue to decline, GSC is seeking a stronger presence with its traditional military customers and is aggressively offsetting defense declines with market penetration of the civilian agencies

of the Federal government and selected niches in the domestic commercial marketplace. Capabilities, products and services are being transitioned to non-defense applications. With technologies and other core competencies, GSC is addressing complex telecommunications and information processing challenges in markets such as health care, banking and finance, public safety and insurance. In addition, GSC is pursuing selected programs and markets in the international defense and commercial telecommunications arenas.

Principal U.S. competitors include: LORAL, ITT, Boeing, CSC, Martin-Marietta, AT&T, TRW, Harris, E-Systems, Raytheon and Motorola. Major foreign competitors include Thomson-CSF, Ericsson and Siemens.

GTE Information Services

GTE Information Services is comprised of GTE Directories Corporation and GTE Card Services.

GTE Directories Corporation ("GTE Directories") annually publishes or provides sales and other telephone directory-related services for more than 1,000 different directory titles in 42 states and 13 foreign countries with a total circulation of approximately 46 million copies. A full-service directory publisher for nearly 60 years, GTE Directories publishes, prints, distributes, and sells advertising for telephone directories. GTE Directories competes directly within the Yellow Pages industry which consists of nine major and numerous smaller U.S.-based directory publishers. Indirectly, GTE Directories competes with other advertising-based media such as cable, newspapers, television, radio, and direct mail.

GTE Directories has three primary customer groups: the businesses that purchase advertising in its directories and other related products; the consumers who use the directories and other advertising and information services GTE Directories provides; and the telephone companies and other entities that contract for directory publishing production, printing, distribution and/or sales services.

In recent years, GTE Directories has developed, tested and supported new products and services that are strategically positioned to increase the use and retention of the printed directory and/or expand its advertiser base. These products and services, such as On Call audiotex services, Quick Tips talking information service, Special Editions direct-mail coupon booklets and Response Plus interactive voice response service, offer useful information to consumers and added flexibility for advertisers. This strategy enables GTE Directories to build stronger customer relationships by providing products that allow year-round customer contact.

In 1994, GTE Directories signed a joint venture agreement with BELGACOM, Belgium's official telecommunications provider, for the publication of yellow-pages directories and related products and services. In accordance with the agreement, GTE Directories will acquire a 20 percent ownership interest and provide assistance to BELGACOM's new subsidiary, BELGACOM Directory Services.

Also in 1994, GTE Directories won the Malcolm Baldrige National Quality Award in the service category - one of only 22 U.S. corporations and the

only directory publishing company to ever win this award. The Baldrige Award is an annual award presented by the U.S. Department of Commerce to recognize U.S. companies that excel in quality management and quality achievement.

Under the management of GTE Directories is GTE Card Services. GTE Card Services has been marketing a combination calling card/credit card in conjunction with Associates National Bank since September 1992. With its primary markets in GTE telephone operations' service areas and contiguous areas, GTE Card Services has approximately 900,000 card holders.

GTE Card Services also entered the prepaid calling card market in 1994 with the introduction of several GTE prepaid calling cards. The prepaid calling card is a telephone calling card with a preset amount of calling available that is prepaid by the customer when the card is purchased. This card will compete in the long distance market by providing an alternative means of purchasing and controlling long distance usage for both the business and residential user. Prepaid calling cards represent a \$4 billion market worldwide, but are relatively new to the U.S. marketplace. GTE Card Services will compete in this marketplace through leverage of GTE's brand name and utilization of GTE's exclusive marketing relationship with the National Football League and other licensees.

RECENT DEVELOPMENTS

In January 1995, GTE expanded its international presence by entering into a long-term strategic alliance with China United Telecommunications Corporation (UNICOM). UNICOM is a government-established company charged with creating a wireline and wireless full-service telecommunications network throughout China. This joint venture is expected to include telecommunications projects relating to the development of China's "second network".

RESEARCH AND NEW PRODUCT DEVELOPMENT

GTE's research and development work is centered principally at GTE Laboratories Incorporated. Activities in research and new product development and improvement are also conducted at the various GTE business units. The areas of research and product development are focused on telecommunications operations and applications. The key areas of emphasis include: the automation of telecommunication operations, network management, intelligent network migration, broadband information transport, network architecture design and planning, wireless communications, advanced database capabilities, network quality improvements, exchange video distribution, and support for industry standards development.

For the years 1994 - 1992, expenditures for all company-sponsored research and product development and improvement were approximately \$139 million, \$135 million and \$159 million, respectively. Additionally, approximately \$157 million, \$204 million and \$167 million, respectively, was expended for customer-sponsored research and product development and

improvement during the same periods. In total, GTE engaged approximately 1,800 professional scientists and engineers on such activities.

ENVIRONMENTAL MATTERS

GTE and some of its present and former subsidiaries, along with other unrelated corporations, have been named as potentially responsible parties at a number of federal and state "Superfund Sites" - sites, lawfully used in the past, but now determined to require remediation or with respect to some presently or formerly owned sites requiring remediation under the Resource Conservation and Recovery Act ("RCRA"). GTE has reviewed each Superfund and RCRA site in which it has an involvement to establish an expected remediation cost. Based on this review, the remediation cost at any individual site or at all sites in the aggregate is not expected to be material. Factors used to evaluate expected GTE costs include remediation estimates, number of viable parties involved, degree of GTE's involvement and past experience at sites being remediated. No present value discounting is used. Although the complexity of environmental regulations, and the widespread imposition of multi-party joint and several liabilities at Superfund Sites, makes it difficult to assess GTE's share of liability, management believes it has made adequate provision in its financial statements.

While GTE's annual expenditures for site cleanups and environmental compliance have not been and are not expected to be material, they are increasing. These costs include GTE's share of cleanup expenses for Superfund Sites, outlays required to keep existing operations in compliance with increasingly stringent environmental regulations and an underground storage tank replacement program.

INDUSTRY SEGMENTS

Reference is made to Item 6 "Selected Financial Data" included elsewhere herein for information about GTE's operations by major business segment and GTE's foreign operations for the years 1994-1990.

n 2. Properties.

PROPERTIES OF GTE COMPANIES

GTE owns no plant, real property, franchises, or concessions except indirectly through its investments in subsidiaries.

On a consolidated basis, GTE's property, plant and equipment is summarized as follows at December 31:

	<u>1994</u>	<u>1993</u>
	(Millions of Dollars)	
Telephone operations:		
Land	\$ 239	\$ 236
Buildings	3,000	3,061
Central office equipment	16,008	15,543
Outside plant	18,892	18,192
Other	<u>6,148</u>	<u>6,067</u>
Total	44,287	43,099
Accumulated depreciation	<u>(17,656)</u>	<u>(16,737)</u>
	<u>26,631</u>	<u>26,362</u>
Telecommunications products and services and other:		
Land	131	125
Buildings	754	668
Network and data processing equipment	2,783	2,826
Furniture and fixtures and leasehold improvements	312	330
Work in progress and other	<u>278</u>	<u>211</u>
Total	4,258	4,160
Accumulated depreciation	<u>(1,561)</u>	<u>(1,802)</u>
	<u>2,697</u>	<u>2,358</u>
Total property, plant and equipment, net	<u>\$29,328</u>	<u>\$28,720</u>

TELEPHONE OPERATIONS

The properties of GTE's telephone subsidiaries consist principally of land, structures and equipment required to provide various telecommunications services and are generally in good operating condition. Substantially all of the properties of the telephone subsidiaries are subject to the liens of their respective mortgages securing funded debt.

From January 1, 1990 to December 31, 1994, GTE's telephone subsidiaries made capital expenditures of \$17.0 billion for new plant and facilities required to meet telecommunication service needs and to modernize plant and facilities. These additions were equal to 38 percent of gross plant of \$44.3 billion at December 31, 1994. Gross retirements amounted to \$10.4 billion during the same period.

Access lines in service is an important factor in measuring telephone growth. At year-end 1994, access lines served in the United States totaled 17.4 million. In addition, at December 31, 1994, GTE's affiliated telephone companies in Canada, the Dominican Republic and Venezuela served 5.5 million access lines. At December 31, 1994, 91 percent of GTE's U.S. access lines were connected to digital switches, compared with 76 percent in 1990. During 1994, GTE also accelerated the installation of fiber-optic cable, bringing total miles installed throughout GTE's domestic network to 780,000 miles, double the amount installed only three years ago.

In view of increased competition and rapid technological change, GTE's telephone subsidiaries continue to seek opportunities to improve recovery of their large investment in telephone plant. Although gross investment in telephone plant increased at a two percent annual rate between 1990 and 1994, 40 percent of GTE's investment in telephone plant had been recovered through depreciation by the end of 1994 compared with only 36 percent in 1990.

TELECOMMUNICATIONS PRODUCTS AND SERVICES

At year-end 1994, the Telecommunications Products and Services Group operated 15 plants and had 4 laboratories in the United States.

OTHER

GTE Laboratories Incorporated operates a research facility in Massachusetts.

All of the aforementioned properties are generally in good operating condition and adequate to satisfy the needs of the businesses.

Item 3. Legal proceedings.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

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PART II

Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters.

At January 31, 1995, there were approximately 562,000 common shareholders of record.

GTE Quarterly Financial Data GTE Corporation and Subsidiaries (unaudited)

	1st QTR		2nd QTR(a)		3rd QTR(b)		4th QTR(c)	
	1994	1993	1994	1993	1994	1993	1994	1993
(Millions of Dollars, Except Per Share Amounts)								
Revenues and sales	\$ 4,746	\$ 4,826	\$ 4,955	\$ 4,916	\$ 4,995	\$ 4,943	\$ 5,248	\$ 5,063
Operating income (loss)	1,118	1,101	1,210	1,038	1,246	1,156	1,272	(730)
Net income (loss) applicable to common stock								
Before extraordinary charge	\$ 500	\$ 456	\$ 593	\$ 433	\$ 657	\$ 554	\$ 691	\$ (471)
Extraordinary charge—early retirement of debt	--	--	--	--	--	(90)	--	--
Consolidated	\$ 500	\$ 456	\$ 593	\$ 433	\$ 657	\$ 464	\$ 691	\$ (471)
Earnings (loss) per common share								
Before extraordinary charge	\$.52	\$.48	\$.62	\$.46	\$.69	\$.59	\$.72	\$ (.50)
Extraordinary charge—early retirement of debt	--	--	--	--	--	(.10)	--	--
Consolidated	\$.52	\$.48	\$.62	\$.46	\$.69	\$.49	\$.72	\$ (.50)
Dividends declared per common share	\$.47	\$.455	\$.47	\$.455	\$.47	\$.47	\$.47	\$.47
Stock market price								
High	\$35.25	\$37.75	\$33.63	\$37.38	\$33.25	\$39.00	\$31.38	\$39.88
Low	30.00	34.13	29.50	34.25	29.88	34.63	29.50	35.00
Close	31.00	37.00	31.00	36.13	30.38	38.38	30.38	35.00

(a) Second quarter 1994 net income includes after-tax gains on sales of non-strategic telephone properties of \$71 million, or \$.07 per share. Second quarter 1993 operating income includes a pre-tax charge of \$74 million resulting from Telephone Operations' voluntary separation programs. This charge reduced net income by \$46 million, or \$.05 per share (see Notes 3 and 4 to Consolidated Financial Statements).

(b) Third quarter 1994 net income includes after-tax gains on sales of non-strategic telephone properties of \$48 million, or \$.05 per share (see Note 4 to Consolidated Financial Statements).

(c) Fourth quarter results include after-tax gains on sales of non-strategic telephone properties of \$43 million, or \$.05 per share, and \$91 million, or \$.10 per share, in 1994 and 1993, respectively. Fourth quarter 1993 operating loss includes a pre-tax restructuring charge of \$1.8 billion. This charge reduced net income by \$1.2 billion, or \$1.22 per share (see Notes 3 and 4 to Consolidated Financial Statements).

Transfer Agent and Registrar

The Transfer Agent and Registrar for GTE's common stock, preferred stock and no par preferred stock is the First National Bank of Boston.

GTE Corporation
c/o Bank of Boston
P.O. Box 9191
Boston, MA 02205-9191

or

GTE Corporation
c/o BancBoston Trust Company of New York
55 Broadway
New York, NY 10006

For overnight delivery services, use the following address:

GTE Corporation
c/o The First National Bank of Boston
Blue Hills Office Park
105 Royall Street
Canton, MA 02021

Stock Ownership Questions

Please address questions concerning ownership of common, preferred or no par preferred stock to our Transfer Agent, or call:
1-800-225-5160
in the United States
or call 1-617-575-2990
outside of the United States.

Shareholder Systematic Investment Plan

The Shareholder Systematic Investment Plan provides holders of the Corporation's stock with a convenient way to purchase additional common shares. Shareholders wishing information regarding the plan may write to:

GTE Corporation
c/o Bank of Boston
P.O. Box 9092
Boston, MA 02205-9092

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 automatic direct deposit service is offered at no charge. For more information, contact The Bank of Boston at 1-800-225-5160.

Annual Meeting

The 1995 Annual Meeting of Shareholders will be held on April 19, 1995, at The Italian Center, 1620 Newfield Avenue, Stamford, Connecticut.

Principal Financial Contact

For further information about GTE Corporation and its subsidiaries, please contact:
Investor Relations Department

GTE Corporation
One Stamford Forum
Stamford, CT 06904
203-965-2789
Int'l Telex: 4750071
Fax: 203-965-2520

Stock Exchange Listings

The common stock of GTE Corporation (symbol: GTE) is listed on the following major exchanges in the United States: New York Stock Exchange; Chicago Stock Exchange; and Pacific Stock Exchange

It also is traded on other, regional exchanges.

In Europe, GTE's common stock is listed on the following exchanges: The Stock Exchange, London; Amsterdam Stock Exchange; Basel Stock Exchange; Geneva Stock Exchange Lausanne Stock Exchange; Paris Stock Exchange; and Zurich Stock Exchange

Additionally, it is listed on the Tokyo Stock Exchange.

The Corporation's 5.00% convertible preferred stock and \$2.00 convertible no par preferred stock are listed on the New York Stock Exchange.

Auditors

Arthur Andersen LLP
400 Atlantic Street
Stamford, CT 06912

10-K Report

A copy of our annual report on Form 10-K filed with the Securities and Exchange Commission may be obtained by writing to:

Corporate Secretary
GTE Corporation
One Stamford Forum
Stamford, CT 06904

Audio Annual Report

An audio cassette version of the 1994 annual report is available to visually impaired shareholders by contacting:

Director, Editorial and Financial Communications Services
GTE Corporation
One Stamford Forum
Stamford, CT 06904

Item 6. Selected Financial Data.

Business Group Data
GTE Corporation and Subsidiaries

	1994	1993	1992	1991	1990	Five-Year Annual Growth Rate*
(Millions of Dollars, Except Per Share Amounts)						
Results of Operations:						
Revenues and sales	\$19,944	\$19,748	\$19,984	\$19,621	\$19,157	1.6%
Operating income(a)	4,846	2,565	4,216	3,742	3,787	1.3
Net income (loss) applicable to common stock(a)						
Continuing operations	2,441	972	1,761	1,492	1,579	3.3
Consolidated	2,441	882	(780)	1,543	1,671	--
Earnings (loss) per common share(a)						
Continuing operations	2.55	1.03	1.95	1.69	1.82	.9
Consolidated	2.55	.93	(.86)	1.75	1.93	--
Common dividends declared per share	1.88	1.85	1.76	1.64	1.52	6.3
Depreciation and amortization	3,432	3,419	3,289	3,254	3,189	2.5
Research and development	139	135	159	155	137	.5
Assets and Capital:						
Capital expenditures	4,192	3,893	3,909	3,965	4,158	.2
Long-term debt and redeemable preferred stock	12,272	13,175	14,356	16,252	14,130	(1.9)
Consolidated assets	42,500	41,575	42,144	42,437	40,178	2.3
Shareholders' equity(a)	10,483	9,593	10,076	11,313	10,727	(.6)
Consolidated Ratios and Other Information:						
Return on common equity(b)	24.8%	8.8%	(8.8)%	14.8%	17.1%	--
Return on investment(b)	13.1%	6.9%	1.3%	9.4%	10.4%	--
Average common equity	9,838	10,030	8,832	10,434	9,763	.1
Equity ratio	46.2%	42.6%	40.2%	40.8%	41.5%	--
Average investment	25,647	27,322	28,057	29,418	27,354	.2
Employees (in thousands)	111	117	129	159	174	(9.9)
International Operations (Included above):						
Revenues and sales	\$ 2,581	\$ 2,482	\$ 2,369	\$ 2,286	\$ 2,129	5.6%
Net income	276	328	244	227	240	8.2
Total assets	5,826	6,096	5,963	5,757	4,619	6.5
Corporate and Other:						
Restructuring and merger costs(a)	\$ --	\$ 72	\$ --	\$ 97	\$ --	--%
Capital expenditures	29	20	24	37	230	--
Total assets	2,285	1,856	2,786	3,689	3,380	(10.2)

Notes to Business Group Data appear on pages 21 and 22:

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

(a) Net income in 1994 includes after-tax gains of \$162 million, or \$.17 per share, on sales of certain non-strategic local-exchange telephone properties. Operating income in 1993 was reduced by a \$1.8 billion pre-tax restructuring charge primarily for the implementation of a re-engineering plan at Telephone Operations and the reduction in the carrying value of satellite communication and certain other assets to estimated net realizable value (see Note 3). Operating income was also reduced by \$74 million for the cost of voluntary separation programs at Telephone Operations. Consolidated net income in 1993 also includes an extraordinary charge of \$90 million for the early retirement of high-coupon debt as well as after-tax gains of \$91 million on the sales of certain non-strategic local-exchange telephone properties. These special items reduced consolidated net income in 1993 by \$1.2 billion, or \$1.27 per share.

The consolidated net loss in 1992 includes a non-cash, after-tax charge of \$2.4 billion, or \$2.70 per share, for the cumulative effect of accounting changes for postretirement health care and life insurance benefits and income taxes (see Note 5); and charges totaling \$100 million, or \$.11 per share, associated with the sale of the Electrical Products Group, which was accounted for as a discontinued operation (see Note 4).

Operating income in 1991 was reduced by pre-tax costs of \$342 million incurred in connection with the merger and integration of GTE Corporation and Contel Corporation. These costs, net of a gain on the transfer of certain cellular properties, reduced 1991 net income by \$204 million, or \$.23 per share.

Business Group Data
GTE Corporation and Subsidiaries

	1994	1993	1992	1991	1990	Five-Year Annual Growth Rate*
(Millions of Dollars)						
Telephone Operations:						
Revenues and sales	\$ 5,345	\$ 5,244	\$ 5,000	\$ 4,792	\$ 4,621	4.8%
Local network services	4,348	4,398	4,477	4,365	4,248	.8
Network access services	3,296	3,330	3,396	3,488	3,480	(1.0)
Toll services	2,916	2,857	2,989	3,007	3,044	(2.1)
Equipment sales and services and other	15,905	15,829	15,862	15,652	15,393	1.1
Total revenues and sales	8,644	8,796	8,979	8,841	8,773	(.1)
Operations and maintenance	3,023	2,969	2,849	2,854	2,849	1.6
Depreciation and amortization	--	1,370	--	150	--	--
Restructuring and merger costs(a)	4,238	2,694	4,034	3,807	3,771	--
Operating income	3,398	3,296	3,330	3,491	3,437	(.5)
Capital expenditures	33,774	33,746	33,154	32,446	30,390	2.7
Total assets	22,110	23,244	22,937	23,423	22,521	.6
Average total capital	19.8%	10.1%	1.6%	15.0%	16.0%	--
Return on common equity	58,717	55,476	51,976	47,979	44,533	7.9
Access minutes of use (in millions)	22,859	22,065	21,440	20,490	18,314	5.6
Access lines (in thousands)	17,442	17,073	16,819	16,233	15,810	2.7
Total(c)	252	234	208	191	171	10.1
United States(c)	90	95	104	109	116	(5.5)
Per employee	69	73	81	85	93	(6.6)
Employees (in thousands)						
Total						
United States						
Telecommunications Products and Services:						
Revenues and sales	\$ 4,039	\$ 3,919	\$ 4,122	\$ 3,969	\$ 3,764	4.0%
Depreciation and amortization	409	450	440	400	340	11.0
Restructuring and merger costs(a)	--	398	--	95	--	--
Operating income (loss)	608	(57)	182	32	16	--
Capital expenditures	765	577	555	437	491	15.4
Total assets	6,441	5,973	6,204	6,302	6,408	7.0
Average investment	4,210	4,060	4,252	4,432	3,418	13.4
U.S. Cellular Operations (included above)						
Service revenues	\$ 1,539	\$ 1,082	\$ 853	\$ 675	\$ 478	39.2%
Operating cash flow(d)	559	356	266	183	107	61.3
Operating cash flow margin(e)	36.3%	32.9%	31.2%	27.1%	22.4%	--
Adjusted "POPs" (in millions)(f)	53.0	53.0	53.1	52.2	51.7	--
Subscribers (in thousands)	2,339	1,585	1,090	811	594	42.2

Notes to Business Group Data continued from page 21.

(b) Excluding the special items described in Note (a), consolidated return on common equity would have been 23.3%, 20.4%, 15.6%, 16.5% and 17.1% while consolidated return on investment would have been 12.5%, 11.2%, 9.5%, 10.1%, and 10.4% in the years 1994-90, respectively.

(c) Access lines in 1994 and 1993 exclude 448 thousand and 440 thousand net lines, respectively, sold during those years. Total access lines include 2.3 million, 2.0 million, 1.8 million and 1.6 million lines served by CANTV in Venezuela in 1994-91, respectively. C acquired operating control of CANTV in 1991. Excluding the effect of the CANTV acquisition and the access lines sold during 1994 and 1993, the five-year total access line growth rate was 4.0%.

(d) Represents operating income before depreciation and amortization.

(e) Represents operating cash flow divided by service revenues.

(f) Represents total United States population served times GTE's percentage interest in the market.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

GTE's strategy is based on five major initiatives: enhancing the value of its wireline voice business; accelerating wireless development; aggressively expanding data services; pursuing international opportunities and entering video services. In evaluating opportunities that meet these initiatives, GTE adheres to two clear investment criteria: Investments must be in telecommunications, the company's core business, and they must be expected to earn more than their cost of capital over time. Over the past several years, these initiatives and investment criteria have guided a series of actions designed to further improve GTE's competitive position and enhance its profitability. These actions have included implementation of process re-engineering--which runs through 1996--at Telephone Operations, the sale of non-strategic telephone properties, the investments in CANTV (the Venezuelan telephone company) and CTI (the Argentine cellular consortium), and the divestitures of GTE Spacenet and the Electrical Products Group. In January 1995, GTE expanded its international presence by entering into a long-term strategic alliance with China United Telecommunications Corporation. This joint venture is expected to include projects relating to the development of China's second telecommunications network. Through these and other actions, GTE has sharpened its focus on telecommunications and is better prepared to meet the challenges and opportunities of a more competitive marketplace that offers tremendous potential for profitable growth.

GTE's financial objective is to maximize shareholders' long-term total return. During 1994, GTE and most major telecommunications companies experienced declines in their stock prices. As a result, for the five-year period ending in 1994, average annualized total return, consisting of share price appreciation and dividends, was 2.5%, compared with 4.9% for the Regional Bell Operating Companies and 8.7% for the S&P 500 average. This marked the first such period since 1987 that total annualized return to GTE's shareholders did not exceed the return for the S&P 500 average.

GTE's policy is to provide a dividend payout ratio at the upper end of the range for comparable companies. Consistent with this policy, GTE maintained its dividend at \$1.88 per share in 1994.

Return on Equity

GTE's return on average common equity in 1994 reached 24.8% as compared with 8.8% in 1993. Excluding gains from non-strategic telephone property sales in both years as well as 1993 one-time charges, GTE's return on average common equity was 23.3% in 1994 compared with 20.4% in 1993. The 1994 improvement reflects strong operational performance at all of GTE's business units.

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 reasonable financial leverage, while also protecting debtholder interests and ensuring ready access to the capital markets.

During the year, one rating agency reduced its rating of GTE's senior debt. However, two other agencies maintained their "A" rating and all rating agencies continue to view GTE's debt as investment grade.

Total equity as a percentage of total capitalization reached 46.2% in 1994, compared with 42.6% in 1993. This improvement reflects the continued strengthening of GTE's financial position through strong earnings growth, and the 1994 issuance of nearly \$500 million of monthly income preferred securities.

Capital Investment, Resources and Liquidity

GTE's cash flow (representing net income plus depreciation and amortization) increased to \$5.7 billion in 1994. Net cash from operations, after giving effect to working capital and other requirements, decreased from \$5.3 billion in 1993 to \$4.7 billion in 1994. This decrease primarily reflects higher tax payments associated with the completion of the eight-year Mobile Subscriber Equipment contract, a major government telecommunications contract, as well as income tax payments related to the gains realized from non-strategic property sales. Cash flows from operations, along with more than \$400 million raised through employee stock purchase and dividend reinvestment plans, and \$1.2 billion provided from the sales of non-strategic assets, provided the funds required for dividends of \$1.8 billion and capital expenditures of \$4.2 billion.

In 1994, GTE substantially completed its two-year program to sell or trade a small percentage of local-exchange telephone properties that had been identified as non-strategic. A total of 448,000 access lines were sold in 1994, generating \$900 million in cash.

During 1994, the company completed a financing program that included the issuance of \$1.9 billion in long-term debt, primarily related to the refinancing of high-coupon redemptions begun in 1993. Since the beginning of 1992, GTE has reduced total debt by \$4.1 billion. The market financing program for 1995 is expected to decrease compared with 1994, reflecting the completion of the high-cost debt refundings.

In 1994, GTE reached agreement to acquire the 10% ownership of Contel Cellular Inc. currently held by the public for \$25.50 per share, or approximately \$250 million in cash. This transaction is expected to close during the first half of 1995.

Capital expenditures totaled \$4.2 billion in 1994 compared with \$3.9 billion in 1993. This increase reflected the expansion of the mobile-cellular and telephone networks to increase capacity and improve service. In 1995, capital expenditures are expected to increase slightly from the 1994 level. Accelerating investment in fiber optics and other enabling technologies for broadband services as well as the continuing expansion and enhancement of the mobile-cellular network is expected to more than offset the declining requirements for conversion to digital switching systems. In 1995, dividends and the capital requirements for GTE's businesses are expected to be funded substantially with cash from operations and proceeds from employee stock purchase and dividend reinvestment plans. However, GTE's strong financial position allows ready access to world wide capital markets for any additional requirements.

Results of Operations

Consolidated

1994 was an outstanding year for GTE, driven by the record operating results achieved in both Telephone Operations and mobile cellular. These results reflected excellent volume growth, as well as the favorable effects of cost-reduction programs throughout GTE. Excluding properties sold, telephone network usage increased 9.4%, the largest increase since 1990, while access line growth of 4.9% led the industry. Telephone Operations also made significant progress in implementing its three-year re-engineering program. This program is redesigning and streamlining processes to improve customer-responsiveness and product quality, reduce the time necessary to introduce new products and services and further reduce costs. These efforts enabled Telephone Operations to continue to reduce prices to its customers while further improving profitability. GTE's Telecommunications Products and Services businesses also experienced significantly improved profitability, led by the fast growing mobile-cellular business. During 1994, GTE added 754,000 new cellular customers, bringing total U.S. cellular customers to over 2.3 million--more than double the level just two years ago.

Consolidated net income in 1994 was \$2.5 billion, or \$2.55 per share, which included after-tax gains on sales of certain non-strategic local-exchange telephone properties of \$162 million, or 17 cents per share. In 1993, consolidated net income was \$900 million, or 93 cents per share. Results in 1993 included similar gains of \$91 million, or 10 cents per share, as well as one-time after-tax charges totaling \$1.3 billion, or \$1.37 per share, to restructure operations, complete voluntary separation programs at Telephone Operations and for the early retirement of high-coupon debt. Excluding the impact of these special items, consolidated net income in 1994 was \$2.3 billion, or \$2.38 per share, an 8% increase over 1993.

Consolidated revenues and sales totaled \$19.9 billion in 1994 compared with \$19.7 billion in 1993. Excluding the revenues from the properties sold, consolidated revenues and sales increased 3% during 1994. This improvement was driven by the strong volume growth in Telephone Operations and higher mobile-cellular revenues. Lower, more competitive telephone pricing, as well as lower government-communication sales resulting from the completion late in 1993 of the Mobile Subscriber Equipment contract, partially offset the strong volume growth in telephone and mobile cellular. Operating income in 1994 reached a record \$4.8 billion. Excluding the operating income attributable to the properties sold and other 1993 special items, operating income increased 10% over 1993. Net interest expense declined 12% to \$1.1 billion in 1994, reflecting reduced debt levels and the refinancing of high-coupon long-term debt completed early in 1994.

Telephone Operations

GTE Telephone Operations provides a wide variety of communications services ranging from local telephone service for the home and office to highly complex voice and data services for industry. In the United States, Telephone Operations served 17.4 million access lines in 28 states at the

end of 1994. In addition, GTE's affiliated telephone companies in Canada, the Dominican Republic and Venezuela served 5.5 million access lines.

In 1994, revenues from Telephone Operations increased to \$15.9 billion, compared with \$15.8 billion in 1993. Excluding the revenues from the properties sold, 1994 revenues totaled \$15.7 billion, an increase of 3%, reflecting strong growth in unit volumes. Minutes of use of GTE's domestic local-exchange network for long distance calling grew at an annual rate of 9.4% while total access lines increased 4.9% over last year. These strong volume increases were partially offset by lower, more competitive pricing. In 1994, rates were lowered by more than \$300 million, continuing the trend over the past several years to price services more competitively. These price reductions have totaled almost \$900 million over the last three years.

Local revenues increased 2% to \$5.3 billion compared with \$5.2 billion in 1993. This growth was attributable to placing an additional 957,000 access lines in service in 1994. The increase in access lines in service was partially offset by the 448,000 lines sold during the year. Also contributing to the increase in local revenues is growth from new and non-traditional services. These services, including GTE Personal Secretary, Video Connect and custom calling features such as Caller ID, Call Block and Return Call, have been made possible by enhancements to the existing telephone network. Growth of new and non-traditional services is expected to accelerate over the next several years as enhancements continue to be made to GTE's telephone network.

Revenues from network access and toll services of \$7.6 billion decreased 1% compared with 1993. This slight decline reflects the impact of the previously discussed sales of non-strategic properties and competitive price reductions, which more than offset the increased usage of GTE's local network for long-distance calling.

Equipment sales and services and other revenues increased 2% to \$2.9 billion, primarily reflecting growth in billing and other services provided for other telephone companies.

Operating income reached a record \$4.2 billion, a 5% increase compared with 1993, excluding the operating results of the properties sold and the 1993 special charges. This improvement reflected the increased revenues and continuing control over operating costs. Operating income as a percent of revenues increased to 26.6% in 1994, the fifth consecutive year of improvement. Significant additional cost reductions are expected to be realized in the future as additional re-engineering initiatives are implemented.

Productivity improvement continues to be a major objective for Telephone Operations. U.S. access lines per employee, a key indicator of productivity, were 252 at the end of 1994, an 8% increase over 1993 and 51% higher than the same measure only four years ago, excluding properties sold. These improvements reflect the impact of various programs to streamline operations and the initial implementation of the many initiatives underway as part of Telephone Operations' three-year re-engineering program. By the end of 1994, Telephone Operations had reduced its U.S. workforce to approximately 69,000 employees, a 23% reduction over the number of employees only four years ago. As additional re-engineering

programs are implemented, the level of workforce reductions is expected to continue.

GTE has been increasing the use of state-of-the-art technology to better provide quality services and gain operational efficiencies. Based on independent customer research, GTE Telephone Operations continues to be rated the highest among its peers in providing quality service to its large and medium-business customer markets. By the end of 1994, 91% of the U.S. access lines served by GTE's Telephone Operations were connected to digital switches compared with 76% only four years ago. During 1994, GTE also continued its accelerated installation of fiber-optic cable, bringing total miles installed throughout GTE's U.S. network to 780,000 miles, double the level of only three years ago. During 1994, GTE Telephone Operations unveiled its World Class Network in eight key markets to provide advanced communications for business customers. This program includes sophisticated high-speed, digital fiber-optic rings, a high-capacity switching network (known as SONET), and a new centralized operations center that monitors the entire network. These SONET rings are an integral part of the high-speed information network that enables GTE's Telephone Operations to provide advanced services such as high-speed data transmission and video conferencing.

During 1994, difficult economic conditions in Venezuela caused weaker results at CANTV, the Venezuelan telephone company that is operated and 20.4% owned by GTE. The weak economic conditions combined with the implementation of currency controls in mid-1994 have effectively closed access to international banks and capital markets. As a result, CANTV has been unable to secure planned financing and is currently in arrears on repayment of principal on its loan obligations. CANTV is engaged in negotiations with its major creditors to address these issues and continues to make payments of interest on these obligations.

Due to the high level of inflation experienced in Venezuela, CANTV's results are substantially influenced by its ability to increase tariffs. CANTV operates under a Concession Agreement with the Venezuelan government that provides, among other things, for quarterly tariff increases based on the previous rates of inflation in Venezuela. In 1994, tariff increases of 59% were implemented, as compared with a local inflation rate of 71%. In addition, at the end of 1994, CANTV obtained approval for a 25% tariff increase, effective January 1, 1995.

As a result of these difficult economic conditions, CANTV's results did not contribute to GTE's earnings during 1994. Despite this, CANTV met the majority of its mandates under the Concession Agreement to expand, modernize and improve the telephone network. CANTV's revenues exceeded \$1.1 billion in 1994 as strong demand for its telephone and related telecommunications services continued. CANTV has taken steps to redefine and reduce its capital program, where appropriate, while at the same time continuing with its network modernization program. GTE believes that these economic difficulties are temporary and will be corrected, and continues to view its interest in CANTV as an excellent long-term investment.

In 1993, revenues from Telephone Operations decreased slightly to \$15.8 billion. Excluding the operating results of the properties sold and special items, revenues increased slightly in 1993 as compared to 1992 reflecting volume increases partially offset by continued competitive price

reductions, including lower access tariffs charged to long-distance companies. Operating income increased 4% reflecting the higher revenues and the favorable benefits of cost-control and reduction programs. Excluding the properties sold, minutes of use of GTE's domestic local-exchange network for long-distance calling increased 8.0% while total access lines in service increased 4.2%. Results for 1993, however, were significantly affected by the decision to re-engineer the way Telephone Operations provides service to its customers. This decision resulted in a one-time pre-tax charge of \$1.4 billion primarily to significantly enhance or replace existing systems, substantially reduce the workforce and consolidate facilities.

Telecommunications Products and Services

GTE Telecommunications Products and Services is comprised of units serving the U.S. and international markets and encompasses personal communications services, aircraft-based telecommunications, government and defense communications systems and equipment, telecommunications-based information services and systems and Yellow Pages directories. During 1994, GTE sold its satellite communications and health information services businesses.

Revenues and sales from Telecommunications Products and Services increased 3% in 1994 to \$4.0 billion compared with \$3.9 billion in 1993. This improvement was driven by an increase in mobile-cellular revenues of 41% to \$1.7 billion. Lower government-communication sales, resulting from the completion in late 1993 of the eight-year Mobile Subscriber Equipment contract, partially offset the strong mobile-cellular revenue growth.

Operating income increased 78%--rising to \$608 million in 1994, compared with \$341 million a year ago, excluding the one-time 1993 restructuring charge. This substantial improvement reflects the growth in mobile cellular as well as the favorable impact of the restructuring actions, primarily in the satellite-communications business, taken at the end of 1993. Operating income also benefited from cost reductions in the government communications systems business.

GTE's U.S. mobile-cellular operations, the fastest growing unit in this group, is the second-largest cellular-telephone operator in terms of "POPs" in the United States--serving a population of some 53 million "POPs." Customer growth continued at a high level throughout 1994 as a record 754,000 customers were added. Total customers served at the end of 1994 were 2,339,000, an increase of 48% over 1993. As a result, market penetration increased to 4.8% in 1994 compared with 3.3% in 1993.

Cellular service revenues reached \$1.5 billion, a 42% improvement over 1993. During the year, revenues per subscriber averaged \$68 per month, compared with \$71 per month in 1993. The decline in the average reflects the continuing growth of casual users in the subscriber base. Operating income more than doubled to \$294 million while operating cash flows, representing operating income before depreciation and amortization, reached \$559 million in 1994, a 57% increase over 1993. This improvement was achieved despite a substantial increase in costs associated with the record customer growth.

Outside the United States, GTE also operates mobile-cellular networks serving some 15 million POPs through international affiliates in Canada, the Dominican Republic, Venezuela and Argentina. In Argentina, a GTE-led consortium completed construction of a mobile-cellular telephone network and began providing service to the north and south regions of the country. GTE has a 25.5% ownership stake in the consortium. As of year-end 1994, these international networks served an additional 321,000 customers, a 59% increase over 1993.

Results at GTE Directories, one of the largest publishers and distributors of telephone directories, declined in 1994 due to changes in the timing of the publication of certain directories and a decline in the number of orders placed in 1993. However, future orders for Yellow Pages advertising exhibited improvement in the latter part of 1994 reflecting an improving economy. During 1994, GTE Directories won the prestigious Malcolm Baldrige National Quality Award in the service category, exemplifying its commitment to quality. GTE Directories also entered into a joint venture agreement with BELGACOM, Belgium's official telecommunications provider, for the publication of yellow-pages directories and related products and services. At the end of 1994, GTE Directories' contract for the publication of directories in Hong Kong ended.

GTE's Government Systems unit received orders valued at \$1.2 billion during 1994, slightly more than the previous year. This reflects continued demand for telecommunications equipment and services despite the overall decline in U.S. government defense spending. Profitability at Government Systems improved in 1994 as substantial cost reductions more than offset a decline in revenues.

In 1993, revenues and sales from Telecommunications Products and Services were \$3.9 billion, a 5% decline from 1992. Lower government-communication sales, resulting from the wind-down of the Mobile Subscriber Equipment contract, more than offset higher revenues from the strong customer growth in the mobile-cellular business. Operating results for 1993 were negatively impacted by a one-time restructuring charge of \$398 million. This charge reflected a reduction in the carrying value of satellite communication and certain other assets to net realizable value. Excluding this one-time restructuring charge, operating income increased to \$341 million in 1993 compared with \$182 million in 1992. This improvement reflected higher revenues and operating efficiencies in mobile cellular as well as cost reductions in the government communications systems business.

Regulatory and Competitive Trends

Regulatory Developments:

Fundamental changes continue to significantly impact the telecommunications industry and GTE. During 1994, telecommunications legislation that would have changed the way the industry does business passed the House of Representatives, but was subsequently withdrawn from consideration. Telecommunications legislation has been introduced again in 1995.

Federal and state regulatory activity directed toward changing the traditional cost-based rate of return regulatory framework for intrastate and interstate telephone services has also continued. Regulatory authorities have adopted various alternative forms of regulation, which

provide economic incentives to telephone service providers to improve productivity and provide the foundation for implementing pricing flexibility necessary to address competitive entry into GTE markets. In total, approximately 50% of Telephone Operations' U.S. regulated revenues are under some form of alternative regulation.

As of January 1, 1995, one-third of GTE's telephone access lines were in five states that have adopted incentive regulation plans for intrastate service, including California, the state containing GTE's largest operation. Beginning in 1994, under an agreement with the California Public Utilities Commission ("CPUC"), GTE California was allowed to retain 100% of any earnings up to a 15.5% rate of return on investment and refund 100% of any earnings above 15.5%. As part of this agreement and its normal annual price cap filing, GTE California reduced its rates by about \$100 million in 1994.

In September 1994, the CPUC issued a final order that generally authorizes toll competition (without pre-subscription) in California, effective January 1, 1995. It also provides for rate rebalancing with significant rate reductions for toll service and access charges while increasing basic local exchange rates closer to the actual cost of providing such service. Although the rate rebalancing is intended to be revenue neutral, its ultimate effect on revenue will depend, in part, on the extent to which rate reductions result in increased calling volumes. The decision does not permit rate increases to compensate for competitive losses of market share. GTE believes that the CPUC has over-estimated the calling volume that will be stimulated by reduced toll rates and has requested reconsideration of this aspect of the decision.

Many other states are currently investigating whether to authorize local and toll competition. Several have concluded that competition is in the public interest and four states, including Florida, have authorized plans that would allow customers to presubscribe to a specific carrier to handle their toll calls. GTE is challenging these orders primarily based on the lack of equality that prohibits GTE's telephone subsidiaries from providing certain other types of toll service.

For the provision of all interstate services, GTE operates under the terms of the Federal Communications Commission ("FCC") price cap incentive plan whereby earnings above a 12.25% rate of return on investment are shared evenly with the customer. Earnings above a rate of return of 16.25% are returned entirely to the customer.

In 1994, the FCC released an order allowing competing carriers to interconnect to the local-exchange network for the purpose of providing switched and special access transport services. Under this ruling, competitive carriers are allowed to bypass portions of the local-exchange network.

Competition:

These 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. Today, GTE is subject to

competition from numerous sources, including competitive access providers for network access services, specialized communications companies that have constructed new systems in certain markets to bypass the local-exchange network, and competing cellular telephone companies. Competition from interexchange carriers, wireless and cable TV companies, as well as more recent entry by media and computer companies, is expected to increase in the rapidly changing telecommunications marketplace.

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.

GTE Initiatives:

The increasingly competitive environment provides GTE with both challenges and opportunities. In order to respond aggressively to these competitive developments and benefit from the new opportunities, GTE has embarked on a series of initiatives.

One such initiative involves the implementation of the \$1.4 billion re-engineering plan for its U.S. Telephone Operations. During 1994, the initial year of the three-year plan, \$343 million was expended as significant progress was made in implementing this program. These expenditures were primarily associated with the consolidation of certain customer service centers, separation benefits associated with employee reductions and incremental expenditures to redesign and streamline systems and processes. During the year, 67 customer contact, network operations and operator service centers were closed and express dial tone was installed in more than 50% of the access lines served by GTE's U.S. Telephone Operations. Express dial tone enables customers to activate service without a service call. During 1995, the level of re-engineering activities and related expenditures are expected to accelerate as pilot programs are rolled out and other major initiatives are completed. The overall re-engineering plan remains on schedule and is expected to result in annual savings of \$1 billion by 1997. Moreover, continued implementation of this program will position GTE to accelerate delivery of a full array of voice, video and data services and to reach its stated objective of being the easiest company to do business with in the industry.

During 1994, GTE also announced plans to construct a new fiber-optic and coaxial-cable video network over the next ten years that will pass seven million homes in 66 key GTE markets. GTE has requested FCC approval to construct facilities in the initial three markets and expects to receive approval and begin construction in 1995. In addition, GTE began offering interactive television service to cable television subscribers in Massachusetts through its new interactive video service, mainStreet. This new service, which allows customers to shop, bank and access various other information services from their home, will be available in many other markets within the next three years. Also, early in 1995, GTE and Nintendo, a leader in the video game industry, entered into a joint venture agreement to develop and market video games and explore new technologies.

In late 1994, the FCC began to auction new licenses for radio spectrum in 51 major markets and 492 basic trading areas across the United States to encourage the development of a new generation of wireless personal

communications services ("PCS"). These services will both complement and compete with traditional wireline services and existing cellular service. GTE has registered with the FCC as a bidder on PCS licenses in each metropolitan trade area ("MTA") in which it is eligible to file, except for the MTAs in Texas, and is selectively participating in the auctions. In Texas, GTE and SBC Communications (formerly Southwestern Bell Corporation) have formed an alliance that will enable both companies to provide wireless services in each other's markets. The auctions are not expected to be completed until later in 1995.

c. In anticipation of these new PCS services, during 1994, GTE introduced its Tele-Go service to provide anytime, anywhere wireless personal communications. This enhanced service works in concert with local telephone service by providing customers with personal communications that combine the capabilities of both wireline and wireless features. Nearly 120,000 customers in 15 markets throughout the United States signed up for this service during its initial roll-out in 1994.

GTE expects its future results to benefit from reduced costs and the introduction of these and other new products and services that will result in the increased usage of its wireline and wireless networks. However, it is likely that such improvements will be offset, in part, by continued strategic price reductions and the effects of increased competition.

Regulatory Accounting

GTE's telephone companies follow the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("FAS 71"). In general, FAS 71 requires companies to depreciate plant and equipment over lives approved by regulators which may extend beyond the assets' actual economic and technological lives. FAS 71 also requires deferral of certain costs and obligations based upon approvals received from regulators to permit recovery in the future. Consequently, the recorded net book value of certain assets and liabilities, primarily telephone plant and equipment, may be greater than that which would otherwise be recorded by unregulated enterprises. On an ongoing basis, GTE reviews the continued applicability of FAS 71 based on the current regulatory and competitive environment. Although recent developments suggest that the telecommunications industry will become increasingly competitive, the degree to which regulatory oversight of local-exchange carriers, including GTE, will be lifted and competition will be permitted to establish the cost of service to the consumer is uncertain. As a result, GTE continues to believe that accounting under FAS 71 is appropriate. If GTE were to determine that the use of FAS 71 was no longer appropriate, it would be required to write-off the deferred costs and obligations referred to above. It may also be necessary for GTE to reduce the carrying value of its plant and equipment to the extent that it exceeds fair market value. At this time, it is not possible to estimate the amount of the company's plant and equipment, if any, that would be considered unrecoverable in such circumstances. The financial impact of such a determination, however, which would be non-cash, could be material.

Item 8. Financial Statements and Supplementary Data.

Reference is made to the financial statements included elsewhere herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant as of December 31, 1994 (a).

<u>Executive Officers of GTE</u>		<u>Age</u>	<u>Date Assumed Present Position</u>
<u>Name(b)</u>	<u>Title</u>		
Charles R. Lee	Chairman and Chief Executive Officer	55	May 1992
Kent B. Foster	Vice Chairman, GTE and President GTE Telephone Operations	51	October 1993
Michael T. Masin (c)	Vice Chairman	50	October 1993
Nicholas L. Trivisonno	Executive Vice President - Strategic Planning and Group President	47	October 1993
William P. Barr (d)	Senior Vice President and General Counsel	44	July 1994
Bruce Carswell (e)	Senior Vice President - Human Resources and Administration	65	May 1981
J. Michael Kelly (f)	Senior Vice President - Finance	38	February 1994
Terry S. Parker (g)	Senior Vice President	50	October 1993
Jeffrey S. Rubin (h)	Senior Vice President - Corporate Planning and Development	51	May 1994
John P. Z. Kent	Vice President - Taxes	54	July 1989
James Murphy	Vice President and Treasurer	57	August 1986
G. Bruce Redditt (i)	Vice President - Public Affairs and Communications	44	April 1994
Samuel F. Shawhan, Jr.	Vice President - Government Affairs	62	July 1984
William D. Wilson	Vice President and Controller	47	June 1994
Marianne Drost	Secretary	45	August 1985

- (a) Reference is made to pages 20 to 26 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 19, 1995, which is incorporated herein by reference, for information concerning directors of GTE.
- (b) With the exception of Michael T. Masin, William P. Barr, J. Michael Kelly, Jeffrey S. Rubin and G. Bruce Redditt, each of the officers named has been employed by GTE or a GTE subsidiary for more than five years.
- (c) Mr. Masin was elected Vice Chairman on October 20, 1993. He had been a director of GTE since 1989. Prior to joining GTE as Vice Chairman, he was the Managing Partner of the New York Office of O'Melveny & Myers and Co-chair of the firm's international practice group. Mr. Masin joined the firm in 1969 and became a partner in 1977.
- (d) Mr. Barr was elected Senior Vice President and General Counsel effective July 5, 1994. Prior to joining GTE, he was a partner in the Washington, D.C. office of the law firm of Shaw, Pittman, Potts & Trowbridge since 1993. He served as Attorney General of the United States from 1991 to 1993. Mr. Barr joined the Department of Justice as Assistant Attorney General in charge of the Office of Legal Counsel in 1989, and subsequently served as Deputy Attorney General prior to his appointment as Attorney General.

Item 10. Directors and Executive Officers of the Registrant (Continued).

- (e) Mr. Carswell will retire on March 31, 1995. He will be succeeded on that date by J. Randall MacDonald who is currently serving as Vice President - Employee Relations and Organization Development for GTE Service Corporation.
- (f) Mr. Kelly was elected Senior Vice President - Finance on February 24, 1994. He had been Vice President and Controller since December 1991 and Vice President-Finance and Business Development for GTE's Telecommunications Products and Services Group since March 1991. Prior to joining GTE, he was Vice President and Controller for Contel Corporation ("Contel") which merged with a subsidiary of GTE in 1991. From 1988 to 1990 he was Controller of Contel Federal Systems. He joined Contel in 1987 as Controller of the Applied Systems Division of Contel Federal Systems.
- (g) Effective February 3, 1995, Mr. Parker is no longer an executive officer of GTE.
- (h) Mr. Rubin was elected Senior Vice President - Corporate Planning and Development effective May 2, 1994, and resigned that position effective February 28, 1995. Prior to joining GTE he was Executive Vice President and Chief Financial Officer of NYNEX Corporation since 1993. Mr. Rubin joined NYNEX in 1990 as Vice President - Finance and was named Senior Vice President and Chief Financial Officer in 1992.
- (i) Mr. Redditt was elected Vice President - Public Affairs and Communications effective April 25, 1994. He had served as Vice President - Public Affairs for the Telops Group since joining GTE from Contel after the merger in 1991. Mr. Redditt previously served as Vice President - Corporate Communications for Contel.

Item 11. Executive Compensation.

See pages 6 to 18 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 19, 1995, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

See pages 18 to 20 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 19, 1995, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

See page 18 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 19, 1995, which is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) 1. Financial Statements:

Consolidated Financial Statements - GTE Corporation and
Subsidiaries:

See GTE's consolidated financial statements and report of
independent accountants thereon in the Financial Statements
section included elsewhere herein.

2. Financial Statement Schedules:

Schedules Supporting the Consolidated Financial Statements
for the Years Ended December 31, 1994 - 1992 (as required):

II - Valuation and Qualifying Accounts

Note: Schedules other than the one listed above are omitted as not
applicable, not required, or the information is included in
the consolidated financial statements or notes thereto.

3. Exhibits:

See "Index of Exhibits" included elsewhere herein.

(b) GTE filed no reports on Form 8-K during the fourth quarter of 1994.

SIGNATURES

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

GTE CORPORATION
(Registrant)

By William D. Wilson
(William D. Wilson)
Vice President and Controller

Date February 28, 1995

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

(1) Principal executive officer:

Date February 28, 1995

By Charles R. Lee
(Charles R. Lee)
Chairman of the Board and
Chief Executive Officer

(2) Principal financial officer:

Date February 28, 1995

By J. Michael Kelly
(J. Michael Kelly)
Senior Vice President - Finance

(3) Principal accounting officer:

Date February 28, 1995

By William D. Wilson
(William D. Wilson)
Vice President and Controller

SIGNATURES - (Continued):

(4) Directors:

Date <u>March 4, 1995</u>	By <u>Edwin L. Artz</u> (Edwin L. Artzt - Director)
Date <u>March 4, 1995</u>	By <u>James R. Barker</u> (James R. Barker - Director)
Date <u>March 4, 1995</u>	By <u>Edward H. Budd</u> (Edward H. Budd - Director)
Date <u>March 4, 1995</u>	By <u>Kent B. Foster</u> (Kent B. Foster - Director)
Date <u>March 7, 1995</u>	By <u>James L. Johnson</u> (James L. Johnson - Director)
Date <u>March 4, 1995</u>	By <u>Richard W. Jones</u> (Richard W. Jones - Director)
Date <u>March 4, 1995</u>	By <u>James L. Ketelsen</u> (James L. Ketelsen - Director)
Date <u>February 28, 1995</u>	By <u>Charles R. Lee</u> (Charles R. Lee - Director)
Date <u>February 28, 1995</u>	By <u>Michael T. Masin</u> (Michael T. Masin - Director)
Date <u>March 4, 1995</u>	By <u>Sandra O. Moose</u> (Sandra O. Moose - Director)
Date <u>March 4, 1995</u>	By <u>Russell E. Palmer</u> (Russell E. Palmer - Director)
Date <u>March 4, 1995</u>	By <u>Howard Sloan</u> (Howard Sloan - Director)

SIGNATURES - (Continued):

(4) Directors - (Continued):

Date March 4, 1995

By Robert D. Storey
(Robert D. Storey - Director)

Date March 4, 1995

By James W. Walter
(James W. Walter - Director)

Date _____

By _____
(Charles Wohlstetter - Director)

Consolidated Statements of Income
GTE Corporation and Subsidiaries

	Years Ended December 31		
	1994	1993	1992
	(Millions of Dollars)		
Revenues and Sales:			
Telephone operations	\$15,905	\$15,829	\$15,862
Telecommunications products and services	4,039	3,919	4,122
Total revenues and sales	<u>19,944</u>	<u>19,748</u>	<u>19,984</u>
Costs and Expenses:			
Telephone operations	11,667	11,765	11,828
Telecommunications products and services*	3,431	3,578	3,940
Restructuring costs	--	1,840	--
Total costs and expenses	<u>15,098</u>	<u>17,183</u>	<u>15,768</u>
Operating income	<u>4,846</u>	<u>2,565</u>	<u>4,216</u>
Other (Income) Deductions:			
Interest expense--net	1,059	1,197	1,332
Other--net	(196)	(190)	130
Total other (income) deductions	<u>863</u>	<u>1,007</u>	<u>1,462</u>
Income before income taxes	3,983	1,558	2,754
Income tax provision	1,532	568	967
Income from continuing operations	2,451	990	1,787
Discontinued operations	--	--	(48)
Extraordinary charge--early retirement of debt	--	(90)	(52)
Cumulative effect of accounting changes	--	--	(2,441)
Net income (loss)	2,451	900	(754)
Preferred stock dividends of parent	10	18	26
Net income (loss) applicable to common stock	<u>\$ 2,441</u>	<u>\$ 882</u>	<u>\$ (780)</u>
Earnings (Loss) Per Common Share:			
Continuing operations	\$ 2.55	\$ 1.03	\$ 1.95
Discontinued operations	--	--	(.05)
Extraordinary charge--early retirement of debt	--	(.10)	(.06)
Cumulative effect of accounting changes	--	--	(2.70)
Consolidated	<u>\$ 2.55</u>	<u>\$.93</u>	<u>\$ (.86)</u>
Average common shares outstanding (in millions)	<u>958</u>	<u>945</u>	<u>905</u>

*Includes cost of sales of \$2,897, \$3,036 and \$3,143 for the years 1994-92, respectively.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets
GTE Corporation and Subsidiaries

December 31
1994 1993
(Millions of Dollars)

Assets

Current Assets:

Cash and temporary cash investments	\$ 323	\$ 322
Receivables, less allowances of \$207 and \$231	4,022	3,900
Inventories	676	659
Deferred income tax benefits	321	264
Other	292	803
	<u>5,634</u>	<u>5,948</u>

Total current assets

Property, Plant and Equipment, at cost:

Telephone operations	44,287	43,099
Accumulated depreciation	<u>(17,656)</u>	<u>(16,737)</u>
	<u>26,631</u>	<u>26,362</u>

Telecommunications products and services and other	4,258	4,160
Accumulated depreciation	<u>(1,561)</u>	<u>(1,802)</u>
	<u>2,697</u>	<u>2,358</u>

Total property, plant and equipment, net	<u>29,328</u>	<u>28,720</u>
--	---------------	---------------

Investments and Other Assets:

Franchises, goodwill and other intangibles	2,149	2,102
Investments in unconsolidated companies	1,551	1,431
Prepaid pension costs and deferred charges	3,004	2,462
Long-term receivables and other assets	834	912
	<u>7,538</u>	<u>6,907</u>

Total investments and other assets

	<u>\$42,500</u>	<u>\$41,575</u>
--	-----------------	-----------------

Total assets

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets
GTE Corporation and Subsidiaries

December 31
1994 1993
(Millions of Dollars)

Liabilities and Shareholders' Equity

Current Liabilities:

Short-term obligations, including current maturities	\$ 2,042	\$ 1,644
Accounts and payrolls payable	2,229	1,968
Accrued taxes	871	1,108
Dividends payable	472	469
Accrued restructuring costs	436	540
Advance billings	390	432
Accrued interest	238	227
Other	<u>1,543</u>	<u>1,545</u>
Total current liabilities	<u>8,221</u>	<u>7,933</u>

Long-Term Debt

12,163 13,019

Reserves and Deferred Credits:

Deferred income taxes	3,522	3,128
Employee benefit obligations	4,651	4,667
Restructuring costs and other	<u>1,729</u>	<u>1,973</u>
Total reserves and deferred credits	<u>9,902</u>	<u>9,768</u>

Minority Interests in Equity of Subsidiaries

1,622 1,106

Preferred Stock, subject to mandatory redemption

109 156

Shareholders' Equity:

Preferred stock	10	111
Common stock--shares issued and outstanding 965,084,925 and 951,761,892	48	48
Amounts paid in, in excess of par value	7,627	7,309
Reinvested earnings	3,422	2,769
Guaranteed ESOP obligations	<u>(624)</u>	<u>(644)</u>
Total shareholders' equity	<u>10,483</u>	<u>9,593</u>
Total liabilities and shareholders' equity	<u>\$42,500</u>	<u>\$41,575</u>

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
GTE Corporation and Subsidiaries

Years Ended December 31
1994 1993 1992
(Millions of Dollars)

Cash Flows from Operations:

Income from continuing operations
Adjustments to reconcile income to net cash from operations:
 Depreciation and amortization
 Restructuring costs
 Deferred income taxes
Change in current assets and current liabilities, excluding
 the effects of acquisitions and dispositions
Other--net
Net cash from operations

\$ 2,451	\$ 990	\$ 1,787
3,432	3,419	3,289
--	1,840	--
248	(864)	37
(1,029)	(13)	(268)
(362)	(95)	(13)
<u>4,740</u>	<u>5,277</u>	<u>4,832</u>

Cash Flows from Investing:

Capital expenditures
Acquisitions and investments
Proceeds from sales of assets
Other--net
Net cash used in investing

(4,192)	(3,893)	(3,909)
(244)	(46)	(84)
1,163	2,267	662
4	(66)	55
<u>(3,269)</u>	<u>(1,738)</u>	<u>(3,276)</u>

Cash Flows from Financing:

GTE common stock issued
Long-term debt and preferred securities issued
Long-term debt and preferred securities retired
Dividends to shareholders of parent
Increase (decrease) in short-term obligations, excluding
 current maturities
Other--net
Net cash used in financing

422	383	1,513
2,345	2,325	590
(2,481)	(4,836)	(2,002)
(1,806)	(1,744)	(1,572)
25	304	(254)
25	(3)	6
<u>(1,470)</u>	<u>(3,571)</u>	<u>(1,719)</u>
1	(32)	(163)

Increase (decrease) in cash and temporary cash investments

Cash and temporary cash investments:
Beginning of year

End of year

322	354	517
<u>\$ 323</u>	<u>\$ 322</u>	<u>\$ 354</u>

See Notes to Consolidated Financial Statements.

Consolidated Summary of Preferred Stock and Long-Term Debt GTE Corporation and Subsidiaries

December 31
1994 1993
(Millions of Dollars)

Preferred Stock:

GTE Corporation
No Par; \$2.475 series, 4,000,000 shares outstanding at
December 31, 1993
Other convertible and nonconvertible preferred stock
at various rates

\$	--	\$	100
	10		11
\$	10	\$	111

Preferred Stock, subject to mandatory redemption:

GTE Corporation
Par value \$50 per share; 1,459,000 shares authorized
at December 31, 1994:
Nonconvertible 1,459,000 and 1,681,000 shares outstanding,
average rate 7.81%

\$	73	\$	84
	36		72
\$	109	\$	156

Telephone Subsidiaries
Average rates 5.91% and 6.83%

Long-Term Debt (exclusive of current maturities):

GTE Corporation
Sinking fund debenture, maturing in 2017, at a rate of 10.75%
Debentures, maturing 1998 through 2023, average rate 9.03%
Guaranteed ESOP obligations, maturing 1996-2005,
average rate 9.67%
Other debt, average rate 3.19%

\$	200	\$	200
	3,350		3,350
	649		669
	--		553
	4,199		4,772

Telephone Subsidiaries
First mortgage bonds, sinking fund debentures and notes,
maturing through 2031, average rates 7.74% and 7.66%

	7,108		6,768
--	-------	--	-------

Other Subsidiaries
Sinking fund debentures and notes, maturing through 2010,
average rates 7.60% and 8.08%

	933		1,552
	12,240		13,092
	(77)		(73)

Total principal amount
Less: discount and premium--net

\$	12,163	\$	13,019
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Total long-term debt

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements GTE Corporation and Subsidiaries

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of GTE Corporation and subsidiaries ("GTE") include the accounts of all majority-owned subsidiaries. Investments in 20% to 50% owned companies are accounted for on the equity basis. Investments of less than 20% are generally accounted for on the cost basis.

All significant intercompany items have been eliminated, except for sales of construction and maintenance equipment and supplies by majority-owned subsidiaries to regulated telephone subsidiaries. These sales amounted to \$638 million, \$696 million and \$738 million in 1994-92, respectively, and were made at prices which compare favorably with those at which comparable equipment and supplies could have been obtained elsewhere.

Reclassifications of prior year data have been made in the accompanying consolidated financial statements where appropriate to conform to the 1994 presentation.

Regulatory Accounting

GTE's telephone subsidiaries follow the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("FAS 71"). This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, FAS 71 requires companies to depreciate plant and equipment over lives approved by regulators. It also requires deferral of certain costs and obligations based upon approvals received from regulators to permit recovery of such amounts in future years. GTE's telephone subsidiaries annually review the continued applicability of FAS 71 based upon the current regulatory and competitive environment.

Revenue Recognition

Revenues are generally recognized when services are rendered or products are delivered to customers. Long-term contracts are 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

GTE's telephone subsidiaries provide for depreciation on a straight-line basis over asset lives approved by regulators. Other subsidiaries provide for depreciation over the estimated useful lives of assets using the straight-line method. Depreciation provisions in 1994-92 for GTE's telephone subsidiaries were equivalent to a composite average percentage of 7.0%, 6.9% and 6.9%, respectively.

Notes to Consolidated Financial Statements

Franchises, goodwill and other intangibles arising from acquisitions are amortized on a straight-line basis over the periods to be benefited, or 40 years, whichever is less. Amortization expense was \$71 million, \$83 million and \$89 million in 1994-92, respectively.

Foreign Currency Translation

Assets and liabilities of subsidiaries operating in foreign countries, except those operating in highly inflationary economies, 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. Gains and losses resulting from foreign currency transactions are included in net income. Translation gains and losses of affiliates operating in highly inflationary economies are included in net income as they occur.

Financial Instruments

GTE enters into a variety of financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates. Amounts to be paid or received under interest rate swaps are accrued as interest expense. Gains or losses on foreign currency contracts are recognized based on changes in exchange rates, as are offsetting foreign exchange gains or losses on the foreign currency obligations being hedged.

Employee Benefit Plans

Pension and postretirement health care and life insurance benefits earned during the year as well as interest on the accumulated benefit obligations are accrued currently. Prior service costs and credits resulting from changes in benefits are amortized over the average remaining service period of the employees expected to receive the benefits.

Income Taxes

Income tax expense is based on reported earnings before income taxes. Deferred income taxes are established for all temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and for tax purposes. Deferred tax balances are adjusted to reflect tax rates, based on currently enacted tax laws, that will be in effect in the years in which the temporary differences are expected to reverse.

Non-U.S. subsidiaries compute taxes at rates in effect in the countries in which they operate. Earnings of these subsidiaries may also be subject to additional income and withholding taxes when they are distributed as dividends. These additional taxes, net of applicable tax credits, are accrued currently, except with respect to earnings which are not expected to be remitted because they are permanently reinvested. Undistributed earnings of non-U.S. subsidiaries deemed to be permanently reinvested were approximately \$385 million at December 31, 1994.

Computer Software

The cost of computer software for internal use, except initial operating system software, is charged to expense as incurred. Initial operating system software is capitalized and amortized over the life of the related hardware.

Notes to Consolidated Financial Statements

Earnings Per Share

Earnings per common share is computed by dividing net income (loss) applicable to common stock by the weighted average number of common shares outstanding during the period. Common share equivalents have been excluded from this computation as they do not have a dilutive effect of 3% or more.

Cash and Temporary Cash Investments

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

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of inventories is determined principally by the average or first-in, first-out method of inventory valuation.

2. Investments in Unconsolidated Companies

In early 1994, a GTE-led international consortium, Compañia de Telefonos del Interior ("CTI") was awarded two licenses to provide cellular services in the north and south interior regions of Argentina. Since that time, CTI completed construction of its initial networks, finalized interconnect agreements with the respective local exchange wireline carriers and initiated service. GTE, as manager, has a leading 25.5% ownership interest in CTI. As of December 31, 1994, GTE had an investment of \$77 million in CTI and guaranteed \$59 million of its debt.

GTE, as operator, also has a 20.4% ownership interest in Compañia Anonima Nacional Telefonos de Venezuela ("CANTV"), the Venezuelan telephone company. CANTV is the exclusive provider for local, national long-distance and international long-distance telephone service in Venezuela. CANTV also provides other telecommunication and related services, including cellular telephone and directory advertising services. As of December 31, 1994, GTE had an investment in CANTV of \$1.1 billion.

GTE accounts for its investments in CTI and CANTV using the equity method. GTE's equity in the results of CTI and CANTV is included in "Other--net" in the accompanying consolidated statements of income. In addition to CTI and CANTV, GTE holds interests in several cellular partnerships that are accounted for using the equity method.

In 1992, GTE sold for \$530 million, or approximately book value, its remaining 19.9% interest in US Sprint, a joint venture formed in 1986 to market long-distance telephone and data-transmission services.

3. Restructuring Costs

Results for 1993 include one-time restructuring costs of \$1.8 billion, which reduced net income by \$1.2 billion, or \$1.22 per share.

Notes to Consolidated Financial Statements

These restructuring costs included \$1.4 billion at Telephone Operations primarily to implement its re-engineering plan. This plan is intended to redesign and streamline processes in order to improve customer-responsiveness and product quality, reduce the time necessary to introduce new products and services and further reduce costs. The re-engineering plan included \$680 million to upgrade or replace existing customer service and administrative systems and enhance network software, \$410 million for employee separation benefits associated with workforce reductions and \$210 million primarily for the consolidation of facilities and operations and other related costs.

Implementation of the re-engineering plan began during 1994 and is expected to be completed by the end of 1996. Reductions of approximately 17,000 Telephone Operations employees are expected during that time.

During 1994, 67 customer contact, network operations and operator service centers were closed and employee reductions of nearly 3,000 occurred. During the year, expenditures of \$343 million were made in connection with the implementation of the re-engineering plan. These expenditures were primarily associated with the closure and relocation of the various centers described above, separation benefits from employee reductions and incremental expenditures to redesign and streamline processes. The level of re-engineering activities and related expenditures are expected to accelerate in 1995.

The 1993 restructuring charge also included a \$400 million reduction in the carrying value of satellite communication assets of GTE Spacenet ("Spacenet") and certain other assets to estimated net realizable value. This action primarily reflected the development of alternative transmission methods through technological advances and increased competition. During 1994, GTE sold Spacenet at a price that approximated its book value.

During 1993, Telephone Operations offered various voluntary separation programs to its domestic workforce. These programs resulted in a pre-tax charge of \$74 million which reduced net income by \$46 million, or \$.05 per share.

4. Property Repositioning and Discontinued Operations

In December 1992, GTE announced a plan to pursue the sale or trade of local-exchange telephone properties (representing less than 5% of its U.S. access lines) in markets that may be of greater long-term strategic value to other telephone service providers. GTE substantially completed this program during 1994 with the sale of local-exchange telephone properties serving 448,000 access lines in nine states for \$900 million in cash. During 1993, GTE sold local-exchange telephone properties serving 530,000 access lines in eight states in return for 90,000 access lines in Illinois, Indiana and Michigan and \$1 billion in cash.

As a result of these transactions, GTE recorded pre-tax gains in 1994 and 1993 of \$264 million and \$168 million, respectively, which are included in "Other--net" in the accompanying consolidated statements of income.

Notes to Consolidated Financial Statements

For comparability, the following table includes pro forma adjustments to remove, from each of the three years presented, the operating results of the properties sold, through the date of sale. In addition, the table has been adjusted to exclude the 1993 impact of the one-time restructuring charge and the charge associated with the Telephone Operations' voluntary separation programs as described in Note 3 (in millions of dollars):

	1994	1993	1992
Revenues and Sales			
Telephone operations	\$15,717	\$15,203	\$15,144
Telecommunications products and services	4,039	3,919	4,122
Total revenues and sales	<u>\$19,756</u>	<u>\$19,122</u>	<u>\$19,266</u>
Operating Income			
Telephone operations	\$ 4,186	\$ 4,005	\$ 3,862
Telecommunications products and services	608	341	182
Total operating income	<u>\$ 4,794</u>	<u>\$ 4,346</u>	<u>\$ 4,044</u>

In January 1993, GTE sold its worldwide Electrical Products Group ("EPG"). The aggregate sales price, which included the assumption of debt, totaled approximately \$1.2 billion. As a result, in December 1992, GTE recorded after-tax charges totaling \$100 million, including an extraordinary charge of \$52 million resulting from the early retirement of high-coupon debt and a \$48 million charge associated with the sale of EPG. The EPG charge was net of \$315 million of after-tax gains resulting from the settlement of active and retired employee pension obligations. Revenues and sales of EPG were \$2.2 billion in 1992.

5. Accounting Changes

In 1992, GTE adopted Statements of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("FAS 106") and No. 109, "Accounting for Income Taxes" ("FAS 109").

FAS 106 requires the expected cost of postretirement health care and life insurance benefits to be recognized during the years that employees render service. GTE adopted FAS 106 on the immediate recognition basis effective January 1, 1992 and recorded a one-time, non-cash charge of \$2.3 billion (net of deferred tax benefits of \$1.4 billion), or \$2.59 per share, to give effect to past service costs. Pursuant to FAS 71, a regulatory asset was not recorded due to GTE's assessment of the long-term competitive environment and the uncertainties surrounding the timing and extent of recovery.

FAS 109 changed the method by which companies account for income taxes. Among other things, the statement requires that deferred tax balances be adjusted to reflect new tax rates when they are enacted into law. The cumulative prior years' effect of this change reduced net income by \$100 million, or \$.11 per share, in 1992.

Notes to Consolidated Financial Statements

6. Shareholders' Equity

Preferred Stock

Preferred stock has voting rights generally on an equal basis with common stock. Dividends are cumulative on all preferred stock.

Common Stock

The authorized common stock of GTE at December 31, 1994 consisted of two billion shares with a par value of \$.05 per share. The following table sets forth the actual number of shares of common stock issued during each of the last three years (in thousands of shares):

	1994	1993	1992
Employee stock purchase plan	4,344	5,835	9,050
Dividend reinvestment plan	5,504	4,695	4,735
Public offering	--	--	33,000
Other	3,475	1,702	3,838
Total	<u>13,323</u>	<u>12,232</u>	<u>50,623</u>

In 1992, GTE sold 33 million shares of its common stock in a public offering at a price of \$32.875 per share. The net proceeds of \$1.1 billion were used to reduce short-term obligations. As of December 31, 1994, 42 million shares were reserved for issuance under various employee benefit and stock purchase plans and the dividend reinvestment plan.

Amounts Paid In, in Excess of Par Value

The following table sets forth the activity in amounts paid in, in excess of par value during each of the last three years (in millions of dollars):

	1994	1993	1992
Balance, beginning of year	\$7,309	\$7,134	\$6,232
Issuance of common stock	395	201	1,009
Other	(77)	(26)	(107)
Balance, end of year	<u>\$7,627</u>	<u>\$7,309</u>	<u>\$7,134</u>

Amounts paid in, in excess of par value includes the cumulative foreign currency translation adjustment of \$(207) million, \$(168) million and \$(126) million at December 31, 1994-92, respectively, and the cumulative unrealized gains (losses) on investments in debt and equity securities of \$(22) million and \$16 million at December 31, 1994 and 1993, respectively.

Notes to Consolidated Financial Statements

Reinvested Earnings

The following table sets forth the activity in reinvested earnings during each of the last three years (in millions of dollars):

	1994	1993	1992
Balance, beginning of year	\$2,769	\$3,621	\$5,977
Net income (loss) applicable to common stock	2,441	882	(780)
Cash dividends declared on common stock	(1,800)	(1,748)	(1,590)
Other	12	14	14
Balance, end of year	<u>\$3,422</u>	<u>\$2,769</u>	<u>\$3,621</u>

Stock Option Plans

GTE maintains stock option plans for management employees. The options may be granted separately or in conjunction with stock appreciation rights. 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 four 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.

The following table summarizes stock option activity during each of the last three years (number of options in thousands):

	Stock Options	Average Price
Balance, January 1, 1992	8,768	\$26.10
Options granted	876	32.11
Options exercised	(1,737)	20.99
Options cancelled or forfeited	(179)	28.22
Balance, December 31, 1992	7,728	27.88
Options granted	1,989	35.24
Options exercised	(1,195)	23.99
Options cancelled or forfeited	(50)	23.21
Balance, December 31, 1993	8,472	30.19
Options granted	4,118	32.53
Options exercised	(173)	25.09
Options cancelled or forfeited	(153)	33.12
Balance, December 31, 1994	<u>12,264</u>	<u>\$31.01</u>

At December 31, 1994, 6.3 million options were exercisable.

Notes to Consolidated Financial Statements

Shareholder Rights Plan

GTE maintains a shareholder rights plan to protect shareholders against unsolicited attempts to acquire control of GTE that do not offer what GTE believes to be an adequate price to all shareholders. Under the plan, each outstanding share of GTE Common Stock originally had associated with it a right to purchase, upon the occurrence of certain events ("Rights"), one one-thousandth of a share of Series A Participating No Par Preferred Stock ("Preferred Stock") at \$200. As a result of the 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 will become exercisable only if a person or group, without GTE's consent, commences a tender or exchange offer for, or acquires 20% or more of the voting power of GTE, or acquires 10% or more of the voting power of GTE and executes an agreement with GTE to effect a merger or other business combination.

In the event that a person or group acquires 20% or more of GTE's voting power without GTE's consent (the "Acquiring Person"), each holder of a Right, other than the Acquiring Person will be entitled to acquire that number of one one-thousandth of a share of Preferred Stock equal to the number of shares of GTE's Common Stock having a market value of twice the exercise price of the Rights. Similarly, if without GTE's consent, GTE is acquired in a merger or other business combination transaction, each holder of a Right will be entitled to acquire voting shares of the acquiring company at twice the value of the exercise price. The Rights may be redeemed by GTE at a price of \$.01 per right, at any time prior to any person or group acquiring 10% or more of GTE's voting power without GTE's consent, and will expire on December 7, 1999.

7. Minority Interests and Redeemable Preferred Stock

During 1994, a subsidiary of GTE issued \$489 million of monthly income preferred securities with a cumulative annual dividend rate of 9.25%, and a maturity of 30 years. Preferred securities of subsidiaries of \$770 million and \$313 million at December 31, 1994 and 1993, respectively, are included in "Minority Interests in Equity of Subsidiaries" in the accompanying consolidated balance sheets.

Certain outstanding preferred stock issues of GTE are redeemable upon notice at the option of the company, in whole or in part, at a premium and certain issues may be redeemed without premiums through annual sinking funds.

GTE redeemed 222,000 shares in 1994; 222,000 shares in 1993; and 177,000 shares in 1992 of its preferred stock. Preferred shares redeemed by GTE's telephone subsidiaries totaled 1,697,657 in 1994; 242,974 in 1993; and 406,898 in 1992. The aggregate redemption requirements for preferred stock subject to mandatory redemption for GTE and its telephone subsidiaries are approximately \$9 million in each of the next five years.

GTE's aggregate voluntary redemption price at December 31, 1994, was \$112 million, including \$38 million for its telephone subsidiaries.

Notes to Consolidated Financial Statements

8. Debt

Estimated payments of long-term debt during the next five years are: \$603 million in 1995; \$369 million in 1996; \$677 million in 1997; \$1.4 billion in 1998; and \$1.1 billion in 1999.

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.

During 1993, GTE redeemed prior to scheduled maturity, \$2.1 billion of high-coupon first-mortgage bonds of five of its telephone subsidiaries. As a result, an after-tax extraordinary charge of \$90 million (net of tax benefits of \$53 million), or \$.10 per share, was recorded to reflect the expenses of calling these bonds.

Total short-term obligations, including loans for construction expected to be refinanced, were as follows (in millions of dollars):

	1994	1993
Commercial paper--average rates 6.0% and 3.5%	\$1,411	\$1,326
Notes payable to banks--average rates 8.3% and 9.5%	28	88
Current maturities of long-term debt	603	230
Total	<u>\$2,042</u>	<u>\$1,644</u>

GTE and its subsidiaries had available lines of credit aggregating \$4.1 billion at December 31, 1994.

9. Financial Instruments

GTE enters into interest rate and foreign currency contracts in order to reduce its exposure to fluctuations in interest and foreign exchange rates. At December 31, 1994, GTE had entered into interest rate swap agreements to convert \$469 million of floating rate long-term and short-term debt to fixed rates. In connection with a foreign currency bond maturing in July 1995, GTE entered into a swap agreement with a bank whereby it receives applicable foreign currency amounts to meet annual interest payments and repay the principal at maturity in exchange for payments of U.S. dollar amounts. At December 31, 1994, the principal amount of the outstanding contract was \$112 million.

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. GTE carefully evaluates and continually monitors the creditworthiness of its counterparties and believes the risk of non-performance is remote.

Notes to Consolidated Financial Statements

The fair values of financial instruments, other than long-term debt, closely approximate their carrying value. As of December 31, 1994, the estimated fair value of long-term debt based on either quoted market prices or an option pricing model was lower than the carrying value by approximately \$300 million. The estimated fair value of long-term debt as of December 31, 1993, exceeded the carrying value by approximately \$1.2 billion.

10. Employee Benefit Plans

Retirement Plans

Most subsidiaries have trustee, 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 provide the plans with assets sufficient to meet the benefit obligations of the plans. The assets of the plans consist primarily of corporate equities, government securities and corporate debt securities.

The components of the net pension credit for 1994-92 were as follows (in millions of dollars):

	1994	1993	1992
Benefits earned during the year	\$ 269	\$ 295	\$ 288
Interest cost on projected benefit obligations	542	584	602
Return on plan assets:			
Actual	(29)	(2,073)	(732)
Deferred	(971)	1,110	(201)
Other--net	(168)	(174)	(197)
Net pension credit	<u>\$ (357)</u>	<u>\$ (258)</u>	<u>\$ (240)</u>

The expected long-term rate of return on plan assets was 8.5% for 1994 and 8.25% for 1993 and 1992.

The funded status of the plans and the prepaid pension costs at December 31, 1994 and 1993, were as follows (in millions of dollars):

	1994	1993
Plan assets at fair value	\$11,950	\$12,840
Projected benefit obligations	6,724	7,391
Excess of assets over projected obligations	5,226	5,449
Unrecognized net transition asset	(644)	(778)
Unrecognized net gain	<u>(2,270)</u>	<u>(2,797)</u>
Prepaid pension costs	<u>\$ 2,312</u>	<u>\$ 1,874</u>

Notes to Consolidated Financial Statements

The projected benefit obligations at December 31, 1994 and 1993, include accumulated benefit obligations of \$5.1 billion and \$5.5 billion and vested benefit obligations of \$4.5 billion and \$4.9 billion, respectively.

Assumptions used to develop the projected benefit obligations at December 31, 1994 and 1993 were as follows:

	1994	1993
Discount rate	8.25%	7.50%
Rate of compensation increase	5.50%	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 health care benefits paid under the GTE plans are generally based on comprehensive hospital, medical and surgical benefit provisions. GTE funds amounts for postretirement benefits as deemed appropriate from time to time.

The postretirement benefit cost for 1994-92 included the following components (in millions of dollars):

	1994	1993	1992
Benefits earned during the year	\$ 57	\$ 96	\$ 97
Interest on accumulated post-retirement benefit obligations	259	290	293
Actual return on plan assets	6	(6)	(4)
Amortization of prior service benefits	(54)	(4)	--
Other--net	(14)	2	--
Postretirement benefit cost	<u>\$254</u>	<u>\$378</u>	<u>\$386</u>

The following table sets forth the plans' funded status and the accrued obligations as of December 31, 1994 and 1993 (in millions of dollars):

	1994	1993
Accumulated postretirement benefit obligations attributable to:		
Retirees	\$2,731	\$2,723
Fully eligible active plan participants	234	231
Other active plan participants	<u>912</u>	<u>1,106</u>
Total accumulated postretirement benefit obligations	3,877	4,060
Fair value of plan assets	<u>244</u>	<u>181</u>
Excess of accumulated obligations over plan assets	3,633	3,879
Unrecognized prior service benefits	656	710
Unrecognized net loss	<u>(99)</u>	<u>(345)</u>
* Accrued postretirement benefit obligations	<u>\$4,190</u>	<u>\$4,244</u>

Notes to Consolidated Financial Statements

The assumed discount rates used to measure the accumulated postretirement benefit obligations were 8.25% at December 31, 1994 and 7.5% at December 31, 1993. The assumed health care cost trend rates in 1994 and 1993 were 12% and 13% for pre-65 participants and 9% and 9.5% for post-65 retirees, each rate declining on a graduated basis to an ultimate rate in the year 2004 of 6%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased 1994 costs by \$33 million and the accumulated postretirement benefit obligations as of December 31, 1994 by \$343 million.

During 1993, GTE made certain changes to its postretirement health care and life insurance benefits for non-union employees retiring on or after January 1, 1995. These changes include, among others, newly established limits to GTE's annual contribution to postretirement medical costs and a revised cost sharing schedule based on a retiree's years of service. The net effect of these changes reduced the accumulated postretirement benefit obligations at December 31, 1993 by \$710 million. The resulting unrecognized prior service benefits are being amortized over the average remaining service lives of the employees.

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, \$66 million and \$72 million in the years 1994-92, respectively.

GTE 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 1994-92 totaled \$84 million, \$81 million and \$77 million, respectively. These payments were funded by \$46 million, \$46 million and \$44 million of dividends accumulated on the GTE stock held by the ESOP and by \$38 million, \$35 million and \$33 million of cash contributions by GTE in 1994-92, respectively.

11. Lease Commitments

GTE has non-cancelable leases covering certain buildings, office space and equipment. Rental expense was \$419 million, \$459 million, and \$590 million in 1994-92, respectively. Minimum rental commitments under non-cancelable leases through 1999 do not exceed \$200 million annually and aggregate \$804 million thereafter.

Notes to Consolidated Financial Statements

12. Interest Expense--Net

The components of interest expense-net are as follows (in millions of dollars):

	1994	1993	1992
Interest expense	\$1,139	\$1,298	\$1,475
Interest income	(52)	(61)	(100)
Allowance for funds used and interest capitalized during construction	(28)	(40)	(43)
Total	<u>\$1,059</u>	<u>\$1,197</u>	<u>\$1,332</u>

13. Other--Net

The components of other--net are as follows (in millions of dollars):

	1994	1993	1992
General and administrative corporate expenses	\$ 206	\$ 204	\$187
Minority interests	140	112	112
Preferred dividends of subsidiaries	18	22	23
Equity in income of unconsolidated companies	(74)	(164)	(93)
Gains on sales of non-strategic telephone properties	(264)	(168)	--
Gains on sales of non-strategic cellular properties and other	(222)	(196)	(99)
Total	<u>\$(196)</u>	<u>\$(190)</u>	<u>\$130</u>

14. Income Taxes

Income from continuing operations before income taxes is as follows (in millions of dollars):

	1994	1993	1992
Domestic	\$3,475	\$1,002	\$2,300
Foreign	508	556	454
Total	<u>\$3,983</u>	<u>\$1,558</u>	<u>\$2,754</u>

Notes to Consolidated Financial Statements

The income tax provision (benefit) is as follows (in millions of dollars):

	1994	1993	1992
Current:			
Federal	\$ 927	\$ 1,088	\$ 655
Foreign	192	183	171
State and local	165	161	104
	<u>1,284</u>	<u>1,432</u>	<u>930</u>
Deferred:			
Federal	269	(682)	105
Foreign	(1)	2	1
State and local	56	(100)	35
	<u>324</u>	<u>(780)</u>	<u>141</u>
Amortization of deferred investment tax credits--net	(76)	(84)	(104)
Total	<u>\$1,532</u>	<u>\$ 568</u>	<u>\$ 967</u>

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

The components of the deferred income tax provision (benefit) are as follows (in millions of dollars):

	1994	1993	1992
Depreciation and amortization	\$ (88)	\$ 32	\$ 125
Employee benefit obligations	(3)	(80)	(114)
Restructuring costs	299	(667)	--
Prepaid pension costs	144	111	75
Other--net	(28)	(176)	55
Total	<u>\$324</u>	<u>\$(780)</u>	<u>\$ 141</u>

Notes to Consolidated Financial Statements

A reconciliation between taxes computed by applying the statutory federal income tax rate to pre-tax income and income taxes provided in the consolidated statements of income is as follows (in millions of dollars):

	<u>1994</u>	<u>1993</u>	<u>1992</u>
Amounts computed at statutory rates	\$1,394	\$545	\$936
State and local income taxes, net of federal tax benefits	144	40	91
Depreciation of telephone plant construction costs previously deducted for tax purposes--net	42	48	46
Minority interests and preferred stock dividends of subsidiaries	39	40	40
Amortization of investment tax credits--net	(76)	(84)	(104)
Rate differentials applied to reversing temporary differences	(34)	(30)	(35)
Other differences--net	<u>23</u>	<u>9</u>	<u>(7)</u>
Total provision	<u>\$1,532</u>	<u>\$568</u>	<u>\$967</u>

The tax effects of temporary differences that give rise to the current deferred income tax benefits and deferred income tax liabilities at December 31, 1994 and 1993 are as follows (in millions of dollars):

	<u>1994</u>	<u>1993</u>
Depreciation and amortization	\$ 4,165	\$ 4,180
Employee benefit obligations	(1,853)	(1,850)
Restructuring costs	(368)	(667)
Prepaid pension costs	783	639
Investment tax credits	226	321
Other--net	<u>248</u>	<u>241</u>
Total	<u>\$ 3,201</u>	<u>\$ 2,864</u>

Notes to Consolidated Financial Statements

15. Supplemental Cash Flow Disclosures

The changes in current assets and current liabilities, excluding the effects of acquisitions and dispositions, and the cash paid for interest and income taxes are as follows (in millions of dollars):

	1994	1993	1992
(Increase) decrease from current assets:			
Receivables--net	\$ (554)	\$ (706)	\$ (231)
Other current assets	(4)	168	69
Increase (decrease) from current liabilities:			
Accrued taxes and interest	(209)	465	(41)
Other current liabilities	(262)	60	(65)
Net cash used	<u>\$ (1,029)</u>	<u>\$ (13)</u>	<u>\$ (268)</u>
Cash paid during the year for:			
Interest	\$ 1,084	\$1,373	\$1,477
Income taxes	1,598	880	1,016

16. Business Group Data

Business segment data is shown on pages 21 and 22 of this Report.

REPORT OF INDEPENDENT
PUBLIC ACCOUNTANTS

To the Board of Directors
and Shareholders of GTE Corporation:

We have audited the consolidated financial statements of GTE Corporation (a New York corporation) and subsidiaries as of December 31, 1994 and 1993, and for each of the three years in the period ended December 31, 1994, as set forth on pages 21 and 22 and pages 41 through 61 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, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Note 5 to the consolidated financial statements, effective January 1, 1992, the company changed its methods of accounting for postretirement benefits other than pensions and for income taxes.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedule listed under Item 14 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The supporting schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Stamford, Connecticut
January 26, 1995

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 1994 - 1992
(Millions of Dollars)

Column A	Column B	Column C Additions		Column D	Column E
Description	Balance at Beginning of Year	Charged (Credited) to Income	Charged to Other Accounts	Deductions from Reserves (1)	Balance at End of Year
<u>December 31, 1994</u>					
Allowance for uncollectible accounts	<u>\$ 231</u>	<u>\$ 344</u>	<u>\$ 120(2)</u>	<u>\$ 488</u>	<u>\$ 207</u>
Accrued discontinuance and business repositioning costs	<u>\$ 297</u>	<u>\$ 55</u>	<u>\$ 5(3)</u>	<u>\$ 55</u>	<u>\$ 302</u>
Accrued telephone restructuring costs (4)	<u>\$1,370</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 413(5)</u>	<u>\$ 957</u>
<u>December 31, 1993</u>					
Allowance for uncollectible accounts	<u>\$ 154</u>	<u>\$ 329</u>	<u>\$ 124(2)</u>	<u>\$ 376</u>	<u>\$ 231</u>
Accrued discontinuance and business repositioning costs	<u>\$ 373</u>	<u>\$ -</u>	<u>\$ 109(3)</u>	<u>\$ 185</u>	<u>\$ 297</u>
Accrued telephone restructuring costs (4)	<u>\$ -</u>	<u>\$1,370</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,370</u>
<u>December 31, 1992</u>					
Allowance for uncollectible accounts	<u>\$ 115</u>	<u>\$ 311</u>	<u>\$ 219(2)</u>	<u>\$ 491</u>	<u>\$ 154</u>
Accrued discontinuance and business repositioning costs	<u>\$ 352</u>	<u>\$ 197</u>	<u>\$ 123(6)</u>	<u>\$ 299</u>	<u>\$ 373</u>

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE 11 - VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 1994-1992

NOTES:

- (1) Charges for purpose for which reserve was created.
- (2) Recoveries of amounts written off in prior years.
- (3) Primarily reclassifications from other accounts.
- (4) See Note 3 to the Consolidated Financial Statements included elsewhere herein.
- (5) Primarily represents prepaid pension costs associated with early retirement programs related to the Contel merger.
- (6) Includes expenditures of \$343 million in connection with the implementation of Telephone Operations' re-engineering plan (see Note 3 to the Consolidated Financial Statements included elsewhere herein).

GTE CORPORATION AND SUBSIDIARIES
CALCULATION OF EARNINGS (LOSS) PER COMMON SHARE (1)
(In Thousands)

EXHIBIT 11
Page 1

	Years ended December 31				
	1994	1993	1992	1991	1990
Net income (loss) from:					
Continuing operations	\$2,440,869	\$ 971,978	\$1,760,704	\$1,491,317	\$1,578,599
Discontinued operations	-	-	(48,000)	51,499	91,933
Extraordinary charge - early retirement of debt	-	(89,990)	(52,000)	-	-
Cumulative effect of accounting changes	-	-	(2,440,612)	-	-
Consolidated net income (loss)	<u>2,440,869</u>	<u>881,988</u>	<u>(779,908)</u>	<u>1,542,816</u>	<u>1,670,532</u>
Adjustments to net income (loss):					
Add: Preferred dividend requirements on dilutive convertible preferred stocks	621	237	827	1,048	1,241
Interest expense, net of tax effect, on employees' stock plans	<u>1,441</u>	<u>1,915</u>	<u>6,257</u>	<u>4,778</u>	<u>5,079</u>
Total adjustments	<u>2,062</u>	<u>2,152</u>	<u>7,084</u>	<u>5,826</u>	<u>6,320</u>
Adjusted consolidated net income (loss) from:					
Continuing operations	2,442,931	974,130	1,767,788	1,497,143	1,584,919
Discontinued operations	-	-	(48,000)	51,499	91,933
Extraordinary charge - early retirement of debt	-	(89,990)	(52,000)	-	-
Cumulative effect of accounting changes	-	-	(2,440,612)	-	-
Adjusted consolidated net income (loss)	<u>\$2,442,931</u>	<u>\$ 884,140</u>	<u>\$ (772,824)</u>	<u>\$1,548,642</u>	<u>\$1,676,852</u>
Average common shares	<u>957,948</u>	<u>944,678</u>	<u>904,316</u>	<u>881,727</u>	<u>866,790</u>
Adjustments to common shares:					
Add: Dilutive convertible preferred stocks	572	288	772	973	1,161
Employees' stock and stock option plans	<u>1,140</u>	<u>4,024</u>	<u>7,808</u>	<u>7,513</u>	<u>6,142</u>
Total adjustments	<u>1,912</u>	<u>4,312</u>	<u>8,580</u>	<u>8,486</u>	<u>7,303</u>
Adjusted average common shares	<u>961,860</u>	<u>948,990</u>	<u>913,096</u>	<u>890,213</u>	<u>874,093</u>
EARNINGS (LOSS) PER COMMON SHARE:					
Primary (2)					
Continuing operations	\$2.55	\$1.03	\$1.95	\$1.69	\$1.82
Discontinued operations	-	-	(.05)	.06	.11
Extraordinary charge - early retirement of debt	-	(.10)	(.06)	-	-
Cumulative effect of accounting changes	<u>\$2.55</u>	<u>\$.93</u>	<u>(2.70)</u>	<u>\$1.75</u>	<u>\$1.93</u>
Consolidated	<u>\$2.55</u>	<u>\$.93</u>	<u>\$(-.86)</u>	<u>\$1.75</u>	<u>\$1.93</u>
Fully diluted (3)					
Continuing operations	\$2.54	\$1.02	\$1.94	\$1.68	\$1.81
Discontinued operations	-	-	(.05)	.06	.11
Extraordinary charge - early retirement of debt	-	(.09)	(.06)	-	-
Cumulative effect of accounting changes	<u>\$2.54</u>	<u>\$.93</u>	<u>(2.68)</u>	<u>\$1.74</u>	<u>\$1.92</u>
Consolidated	<u>\$2.54</u>	<u>\$.93</u>	<u>\$(-.85)</u>	<u>\$1.74</u>	<u>\$1.92</u>

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
CALCULATION OF EARNINGS (LOSS) PER COMMON SHARE - Continued

NOTES:

- (1) Average common shares and per share amounts reflect the 2-for-1 stock split which became effective on May 23, 1990.
- (2) Computed by dividing net income (loss) applicable to common stock for the years by the average common shares outstanding. Common stock equivalents are excluded from this computation since they do not have a 3% dilutive effect.
- (3) Computed assuming conversion or exercise of those preferred stocks and stock plans that would have a dilutive effect.
 - (a) Average common shares outstanding are adjusted to reflect the shares which would be issued upon conversion of preferred stocks using the "if converted" method. Equivalent common shares to be added to average shares for the employees' stock plans and stock ownership plan are computed according to the "treasury stock" method.
 - (b) Net income (loss) for the years is adjusted to reflect the increase in income for the preferred dividends declared for the years on the convertible preferred stocks, and the interest accrued, net of tax effect, on funds received from installments under the employees' stock plans.

GTE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF THE RATIO OF EARNINGS TO FIXED CHARGES
(Thousands of Dollars)

	Years Ended December 31			
	1994	1993	1992	1991
(Unaudited)				
Net earnings available for fixed charges:				
Income from continuing operations	\$2,450,779	\$ 989,803	\$1,787,035	\$1,528,102
Add (deduct) -				
Income taxes	1,532,482	567,747	966,589	662,860
Interest expense	1,139,233	1,298,234	1,475,670	1,574,746
Capitalized interest (net of amortization)	(6,045)	(3,421)	(4,931)	(14,791)
Preferred stock dividends of subsidiaries	18,252	22,162	23,429	25,317
Additional income requirement on preferred stock dividends of subsidiaries	11,426	12,739	12,671	11,006
Minority interests	140,464	112,335	112,425	103,626
Portion of rent expense representing interest	139,715	153,058	196,533	210,698
Deduct - Minority interests	5,426,306	3,152,657	4,569,421	4,101,564
Adjusted earnings available for fixed charges from continuing operations	<u>\$5,183,369</u>	<u>\$2,915,713</u>	<u>\$4,320,442</u>	<u>\$3,854,280</u>
Fixed Charges:				
Interest charges	\$1,139,233	\$1,298,234	\$1,475,670	\$1,574,746
Preferred dividends of subsidiaries	18,252	22,162	23,429	25,317
Additional income requirement on preferred dividends of subsidiaries	11,426	12,739	12,671	11,006
Portion of rent expense representing interest	139,715	153,058	196,533	210,698
Deduct - Minority interests	1,308,626	1,486,193	1,708,303	1,821,767
Adjusted fixed charges	<u>\$1,240,530</u>	<u>\$1,407,772</u>	<u>\$1,621,799</u>	<u>\$1,732,280</u>
Ratio of Earnings to Fixed Charges - continuing operations	<u>4.18</u>	<u>2.07</u>	<u>2.66</u>	<u>2.22</u>
				<u>2.35</u>

GTE CORPORATION AND SUBSIDIARIES

Significant Subsidiaries of Registrant at December 31, 1994

<u>Company(a)</u>	<u>Incorporated In</u>	<u>Percent of Voting Control Owned by Direct Parent</u>
Contel Corporation	Delaware	100.00
Contel Cellular Inc.	Delaware	97.80
Contel of California, Inc.	California	100.00
Contel Federal Systems, Inc.	Delaware	100.00
GTE Government Systems Corporation	Delaware	100.00
GTE Telecom Incorporated	Delaware	100.00
GTE Products of Connecticut Corporation	Connecticut	100.00
GTE Laboratories Incorporated	Delaware	100.00
GTE Leasing Corporation	Delaware	100.00
Anglo-Canadian Telephone Company	Quebec	86.39
BC TELECOM Inc.	Canada	50.47
BC TEL	Canada	100.00
Microtel Limited	Canada	100.00
Canadian Telephones and Supplies Ltd.	British Columbia	100.00
Quebec-Telephone	Quebec	50.63
GTE Holdings (Canada) Limited	Canada	100.00
Compania Dominicana de Telefonos, C. por A.	Dominican Republic	100.00
GTE International Telecommunications Incorporated	Delaware	100.00
GTE Venezuela Incorporated	Delaware	100.00
VenWorld Telecom, C.A.	Venezuela	51.00
Compania Anonima Nacional Telefonos de Venezuela (CANTV)	Venezuela	40.00
GTE California Incorporated	California	99.60
GTE Florida Incorporated	Florida	100.00
GTE Midwest Incorporated	Delaware	100.00
GTE North Incorporated	Wisconsin	100.00
GTE Northwest Incorporated	Washington	100.00
GTE South Incorporated	Virginia	100.00
GTE Southwest Incorporated	Delaware	100.00
GTE Hawaiian Telephone Company Incorporated	Hawaii	100.00
GTE Data Services Incorporated	Delaware	100.00
GTE Finance Corporation	Delaware	100.00
GTE Information Services Incorporated	Delaware	100.00
GTE Directories Corporation	Delaware	100.00
GTE Intelligent Network Services Incorporated	Delaware	100.00
GTE Investment Management Corporation	Delaware	100.00
GTE Main Street Incorporated	Delaware	100.00
GTE Mobile Communications Incorporated	Delaware	100.00
GTE Airfone Incorporated	Delaware	100.00
GTE Mobile Communications International Incorporated	Delaware	100.00
CTI Compania de Telefonos del Interior S.A.	Argentina	23.00
GTE Mobilnet Incorporated	Delaware	100.00
GTE Cellular Communications Corporation	California	100.00
GTE Realty Corporation	Delaware	100.00
GTE REinsurance Company Limited	Bermuda	100.00
GTE Service Corporation	New York	100.00
GTE Telecom Marketing Corporation	Delaware	100.00
GTE Vantage Incorporated	Delaware	100.00

(a) GTE's share of the earnings of all subsidiaries listed are included in GTE's consolidated financial statements.

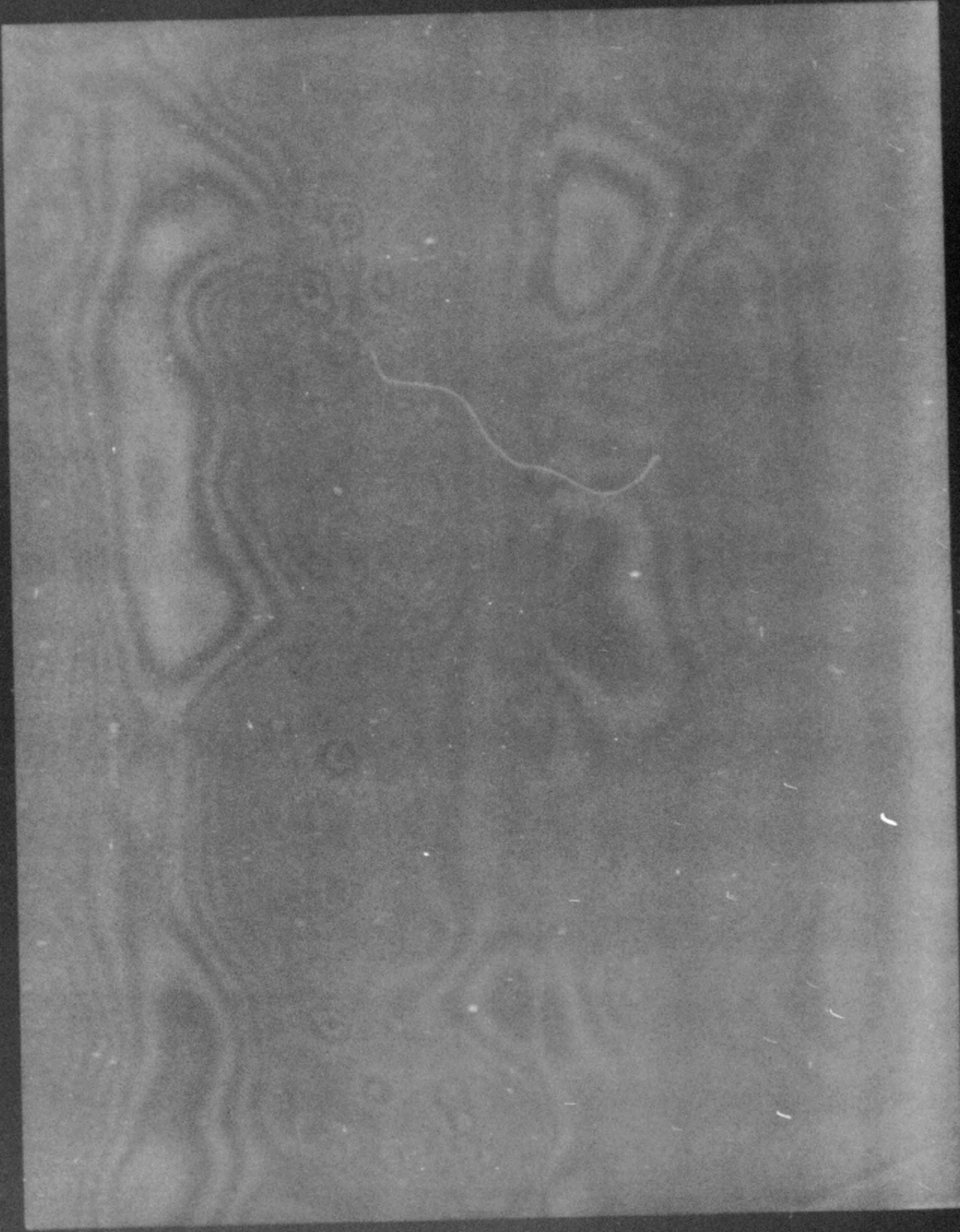
CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report, dated January 26, 1995, on the consolidated financial statements and supporting schedule of GTE Corporation and subsidiaries included in this Form 10-K, into the following previously filed Registration Statements:

1. Form S-8 of GTE Corporation (File No. 33-1521)
2. Form S-8 of GTE Corporation (File No. 33-20178)
3. Form S-8 of GTE Corporation (File No. 33-29419)
4. Form S-8 of GTE Corporation (File No. 33-34756)
5. Form S-4 of GTE Corporation (File No. 33-37530)
6. Form S-8 of GTE Corporation (File No. 33-39297)
7. Form S-3 of GTE Corporation (File No. 33-40247)
8. Form S-8 of GTE Corporation (File No. 33-46612)
9. Form S-3 of GTE Corporation (File No. 33-50263)
10. Form S-8 of GTE Corporation (File No. 33-50111)
11. Form S-3 of GTE Corporation (File No. 33-53495)

ARTHUR ANDERSEN LLP

Stamford, Connecticut
March 7, 1995



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1995
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-2755

GTE CORPORATION
(Exact name of Registrant as specified in its Charter)

New York
(State or other jurisdiction of
incorporation or organization)

13-1678633
(I.R.S. Employer Identification No.)

One Stamford Forum
Stamford, Connecticut
(Address of principal executive offices) 06904
(Zip Code)

Area Code 203 965-2000
(Telephone Number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

Title of each class
Common Stock, par value \$.05 per share

Preferred Stock Purchase Rights

Name of each domestic exchange
on which registered
New York Stock Exchange, Inc.
Chicago Stock Exchange, Incorporated
The Pacific Stock Exchange Incorporated
New York Stock Exchange, Inc.
Chicago Stock Exchange, Incorporated
The Pacific Stock Exchange Incorporated

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

The aggregate market value of GTE's voting stock held by non-affiliates at January 31, 1996 amounted to \$44,602,292,899.

GTE had 975,298,047 shares of \$.05 par value common stock outstanding (excluding 2,752,771 treasury shares) at January 31, 1996.

Document Incorporated by Reference:

GTE's Proxy Statement for Annual Meeting of Shareholders to be held on April 17, 1996 (Incorporated in Part III).

PART I

Item 1. Business.

BUSINESS OF GTE COMPANIES

GTE Corporation and subsidiaries ("GTE") is the largest U.S.-based local telephone company. GTE's domestic and international operations serve 24.1 million access lines in the United States, Canada, the Dominican Republic and Venezuela. Domestically, GTE is a leading mobile-cellular operator with the potential of serving 67 million cellular and personal communications service customers (before the sale of the Atlanta 1.8 GHz Personal Communications Services license in March 1996, see Wireless Services below). Outside the United States, GTE operates mobile-cellular networks serving 15 million "POPs" through affiliates in Canada, the Dominican Republic, Venezuela and Argentina. ("POPs" refers to the population of a market area multiplied by a company's percentage ownership in the cellular system serving that market.) GTE is also a leader in government and defense communications systems and equipment, aircraft-passenger telecommunications, directories and telecommunications-based information services and systems. GTE also has subsidiaries engaged in financing, insurance, leasing and other activities offering financial and related services primarily to GTE operating companies. One of these subsidiaries, GTE Service Corporation, furnishes at cost, advisory and consulting services related to administration, operations, accounting methods and procedures, insurance, human resources, financing, Federal and state taxes and other matters to GTE operating companies. GTE and its subsidiaries had approximately 106,000 employees, at December 31, 1995.

DOMESTIC

Telephone Operations

GTE's telephone operating subsidiaries in the United States served approximately 18.5 million access lines in 28 states as of December 31, 1995 and provided many types of communications services, ranging from local telephone service for the home and office to highly complex voice and data services for various industries. Subsidiaries accounting for the largest portion of total domestic telephone revenues are GTE North, 21%; GTE California, 21%; GTE Southwest, 12%; and GTE Florida, 10%. The largest cities served are Los Angeles, Long Beach and Santa Monica California; Tampa and St. Petersburg, Florida; Honolulu, Hawaii; Lexington, Kentucky; Fort Wayne, Indiana; and Erie, Pennsylvania.

During 1994, GTE substantially completed its plan to pursue the sale or exchange of nonstrategic domestic local-exchange telephone properties in markets that may be of greater long-term strategic value to other telephone service providers. During 1994, telephone properties serving 448,000 access lines in nine states were sold for \$900 million in cash. During 1993, GTE sold telephone properties serving 530,000 access lines in eight states in return for 90,000 access lines in Illinois, Indiana and Michigan and \$1 billion in cash. In addition, during 1993, GTE sold approximately 10,000 access lines for \$30 million in cash.

Local services revenues are comprised mainly of fees charged to customers for providing local-exchange services within the designated franchise area. GTE telephone subsidiaries also provide toll services within designated geographic areas under agreements with connecting local-exchange carriers ("LECs") in conformity with individual state regulatory orders. GTE and other LECs compensate each other pursuant to access charge tariffs that are subject to review and approval by state regulatory commissions.

Network access services revenues are generated by providing access services to interexchange carriers. The interstate portion of these service revenues is based on switched, common-line, and special access tariffs approved by the Federal Communications Commission ("FCC"). The FCC tariffs include end-user access charges to residential and business customers. State access is based on similar rate structures that are subject to approval by state regulatory commissions.

With the passage of the Telecommunications Act of 1996 ("the Act"), enacted in February 1996, the telephone subsidiaries are free to operate in the areas served and to extend service to other areas subject to conditions, restrictions and limitations of various kinds. In some cases, municipalities have the right to acquire the telephone system within the municipal limits on certain terms and conditions. Advances in technology and an increase in alternative provision of service are beginning to erode certain of the benefits previously derived from franchise rights granted by states or municipalities.

Video Services

The Act eliminates the telephone company programming ban and allows GTE the flexibility to choose whether it will enter the wireline video distribution business through an open video platform arrangement or via a standard cable television operation. The legislation also allows GTE to deploy video networks which are fully integrated with its telephone operations. The FCC soon will begin the process of formulating rules with respect to the open video platform arrangement which will govern provision of such services. In addition, the FCC has opened two rulemakings to evaluate its cable and telephone home-wiring rules and other technical standards to reflect the growing convergence of the telephone and cable industries.

In May 1995, GTE obtained approval from the FCC and began construction of its video dialtone network in the Clearwater, Florida area. In December 1995, GTE also negotiated with local governments in California to begin construction of a traditional cable network in Ventura County, California. The networks are designed to begin delivery of video services to customers in 1996.

In August 1995, GTE signed a definitive agreement to join the Walt Disney Company, Ameritech Corporation, BellSouth Corporation and SBC Communications, Inc. as an equal partner in Americast™, a venture designed to provide video programming and interactive services for millions of American households. GTE's involvement strengthens the venture by increasing its combined reach from 50 million to 68 million access lines in 33 states. GTE and its three other telecommunications

partners will distribute, through their local broadband networks, video programming acquired by Americast as specially developed by the Walt Disney Company. In addition, Americast is tasked with the creation of an advanced navigator for use on the partners' networks.

World Class Network

GTE domestic telephone operations deployed its ISDN-based World Class Network in fifteen metropolitan markets to provide advanced communications for business customers. This program includes sophisticated high-speed, digital fiber-optic rings, a high-capacity switching network (known as "SONET"), and a new centralized operations center that monitors the entire network. These SONET rings are an integral part of the high-speed information network that enables GTE to provide advanced services such as high-speed data transmission and video conferencing.

Support Services

Also included in GTE's domestic telephone operations are two major unregulated subsidiaries: GTE Data Services Incorporated ("GTEDS") and GTE Supply. GTEDS, GTE's software development and information processing subsidiary, provides data processing and information management services to GTE's telephone subsidiaries and other non-affiliated companies. GTE Supply is responsible for the procurement and distribution of supplies for GTE's domestic telephone operating companies, as well as other GTE subsidiaries. GTE Supply also sells material and logistic services to non-affiliates.

During 1995, GTEDS continued to expand the level of service that it provides to non-affiliated companies. GTEDS continues to provide data processing services to Citizens Utilities, which had purchased portions of GTE's telephone operating property during 1994. Work has also continued on the \$19 million contract to develop a new Medicare transaction system for the Federal Government, as well as the \$20 million processing services contract with National Electronic Information Corp., the nation's largest commercial health care claims clearing house.

Additionally, GTEDS completed implementation of its customer billing services system for CANTV, a GTE affiliate in Venezuela, and opened a marketing office and began construction of a data center in Mexico as the first steps in its plan to provide commercial and governmental data processing services in Mexico.

During 1995, GTE Supply was awarded a two-year \$50 million continuation contract with Citizens Utilities to provide telecommunications products and logistics services.

Restructuring and Cost Control

During 1994, GTE began implementation of a three-year \$1.4 billion re-engineering plan for its U.S. Telephone Operations. These costs relate primarily to Telephone Operations' plan to improve customer-responsiveness and product quality, reduce the time necessary to introduce new products and services and further reduce costs. The

implementation of the plan is expected to result in costs of \$900 million to re-engineer customer service processes and \$300 million to re-engineer administrative processes. The costs also include \$170 million to consolidate facilities and operations and other related costs. Implementation of the plan is expected to be substantially completed by the end of 1996.

Since the inception of the plan, 258 work centers have been consolidated to 58 and workforce reductions of approximately 12,000 have occurred. Costs of \$858 million have been incurred since the plan's inception, including \$585 million related to customer service processes, \$103 million related to administrative processes and \$170 million related to the consolidation of facilities and operations. These expenditures were primarily associated with the closure and relocation of the various centers, software enhancements and separation benefits related to employee reductions.

Wireless Services

GTE Mobilnet

GTE Mobilnet ("Mobilnet") includes Contel Cellular Inc. ("CCI") and GTE Telecommunications Services Inc. ("GTE TSI"). In May 1995, GTE completed the acquisition of the 10 percent ownership of CCI that it did not already own for approximately \$250 million in cash. This acquisition will allow GTE to fully integrate the operations of Mobilnet and CCI and offer customers a broader network with a wider range of wireless capabilities.

Mobilnet is comprised of 800 MHz mobile-cellular telephone services, 1.8 GHz Personal Communications Services ("PCS") and cellular transaction processing and support services provided by GTE TSI. Mobilnet provides cellular services and products to over 3 million subscribers through its 800 MHz operations, and is in the process of designing/building the network for PCS services. GTE TSI provides clearinghouse services and develops and sells software for the cellular telephone industry throughout North America.

GTE is one of the largest providers of mobile-cellular telephone services in the United States in terms of population in the areas served. GTE holds a controlling interest in 71 metropolitan markets, known as metropolitan statistical areas ("MSAs"), and 38 rural service areas ("RSAs"). GTE's ownership position in U.S. markets was obtained through the FCC lottery and settlement process as well as through purchases and exchanges of licenses with other cellular service providers. GTE's 800 MHz cellular operations serve a population of approximately 52 million POPs, approximately 20 million of which are in the top 30 U.S. markets. In 1995, GTE's U.S. cellular operations increased their customer base by 29% to 3,011,000 customers, almost double the number of customers just two years ago.

GTE's cellular licenses were generally granted for an initial ten-year term and are renewable for successive ten-year terms. FCC license renewal applications continue to be filed and are presently being processed by the FCC with no opposition. The majority of GTE's FCC

cellular licenses will expire and require renewal application filings over the next several years.

In July 1995, GTE exchanged certain GTE cellular assets in Oregon, Minnesota, New Mexico and Washington for 100 percent of US WEST, Inc.'s cellular assets in San Diego, California, the 13th largest cellular market in the U.S. containing 2.6 million POPs. The transaction gives GTE operating control of the wireline license in the San Diego MSA. In September 1995, the sale of GTE's minority interest in the Detroit, Michigan MSA, and the purchase of additional interests in the Indianapolis, Indiana; Cleveland, Ohio and Rockford, Illinois MSAs were completed. In December 1995, GTE sold its interest in the Augusta and Savannah, Georgia MSAs to Palmer Wireless Holdings.

In December 1994, the FCC began the auctions of the first series of new 1.8 GHz PCS licenses. These new licenses will enable up to six additional wireless competitors to enter each market. Two licenses (each at 30 MHz of spectrum) in each of 51 large service areas across the U.S. called "Major Trading Areas" ("MTAs") were issued in June 1995. GTE won 4 licenses in the broadband spectrum auction, held by the FCC, including the Atlanta, Denver, Cincinnati, and Seattle MTA's. Since GTE's purchase of the 1.8 GHz licenses GTE has entered into certain transactions that strategically reposition the areas covered by the licenses and permit GTE to focus its energies and resources on the specific areas that most benefit GTE's strategy. In October 1995, GTE entered into an agreement to purchase the Spokane-Billings MTA license from Puka Lambro Telephone Cooperative, Inc., and simultaneously entered into an agreement to partition certain areas covered by this MTA to Elltel Wireless, Inc., 3 Rivers PCS Inc., and Montana Wireless, Inc. On December 12, 1995, GTE partitioned the areas covered by Yakima and Kittitas counties in the Seattle MTA to Elltel Wireless, Inc. In January 1996, GTE entered into a definitive agreement to sell the Denver MTA license to a wholly owned subsidiary of Western Wireless Corporation. In addition, in March 1996, GTE entered into a definitive agreement to sell the Atlanta MTA license to InterCel Inc. The remaining MTAs, which cover approximately 9 million POPs, are expected to be operational in 1997.

In 1995, GTE continued its deployment of Cellular Digital Packet Data services ("CDPD") announcing commercial services in 12 markets, including the metropolitan areas of Houston, Tampa and Cleveland. CDPD provides efficient transmission of data over cellular networks with the added benefits of airlink encryption and mobility services. CDPD is a more cost effective means than traditional circuit switched data for users to remotely access their host systems or other services. The service is also a fast, efficient way for cellular users to transmit short bursts of data, such as credit card verifications for retail businesses, service and order information for field sales representatives and delivery tracking for transportation businesses.

GTE's cellular operations experience direct competition from the second cellular licensee in each market. Competition is principally on the basis of service quality, price and coverage area. In addition to the direct cellular competitor in each market, Enhanced Specialized Mobile Radio operators also represent potential competition, as will the new 1.8 GHz PCS license holders in the future.

The FCC is in the process of auctioning four additional licenses (three at 10 MHz of spectrum each and one at 30 MHz) in each of 492 smaller service areas called "Basic Trading Areas" ("BTAs"). Mobile-cellular telephone service providers such as GTE are eligible for two of the 10 MHz BTA licenses. GTE Mobilnet does not plan to participate in the BTA auctions at this time. The service offerings at these new frequencies will be similar in nature to mobile-cellular telephone service and will offer direct competition once established.

The frequency bands being allocated to these new 1.8 GHz licenses are currently occupied by point-to-point microwave radio users. GTE, both within its local-exchange telephone operations and its cellular operations, is an extensive user of these facilities for the backhaul of telephone traffic. Under the proposed FCC rules, the incumbent users of these frequencies will be relocated to higher frequencies to make way for the new PCS services. The FCC rules allow for up to a two-year negotiation period between the incumbent and the new licensee and the new licensee is to provide adequate compensation to the incumbent for the cost of that relocation. Failing agreement between the two parties during that two-year negotiation period, the FCC rules provide for a third year for arbitration.

GTE TSI provides transaction processing, software applications and network support services that facilitate the "roaming" of cellular subscribers and the management of cellular markets. GTE TSI serves both large and small customers in virtually all operational wireline markets and 35% of the non-wireline markets. GTE TSI competes through product innovation, technology deployment, provision of flexible product solutions and quality customer service.

GTE Airfone

GTE Airfone ("Airfone") operates a telecommunications service for passengers onboard aircraft under a license granted by the FCC in 1991. Five other licenses have been granted by the FCC for air-to-ground service, and two companies, In-Flight Phone Corporation and Claircom, have initiated service. During 1995, MCI acquired partial ownership of In-Flight, while Claircom merged with AT&T to become known as AT&T Wireless. At the end of 1995, Airfone equipment was installed on 1,913 U.S., Canadian and Mexican commercial aircraft.

During 1995, Airfone continued deployment of its new advanced digital GenStar System, which enhances quality and makes possible a new array of features to airline passengers. These new features include data and fax service, ground-to-air calling, and a variety of information services. A lighted menu screen makes it easy and efficient for passengers to use these enhanced features. Airfone has been competing for contracts to install its digital GenStar system, and as of December 1995 had agreements with United, Delta, TWA, US Air Shuttle, Reno Air, Midwest Express, United Express, Mexicana and AeroMexico. At December 31, 1995, the GenStar System was installed on approximately 1,250 aircraft.

During 1995, Airfone and Magnavox, pursuant to a joint alliance, continued marketing the Magnastar digital product for the corporate general aviation market. The Magnastar System includes a digital

radio, designed by Magnavox, which links exclusively to the Airfone all-digital GenStar System. As of December 31, 1995, approximately 370 Magnastar units have been sold.

Late in 1993, American Airlines and America West reached an agreement with other providers for onboard telecommunications service. As of December 1995, certain of their fleets were still equipped with Airfone equipment.

Airfone will continue to actively compete for digital service contracts and deploy marketing programs designed to increase system usage based on quality, reliability, new feature offerings and flexibility for future capabilities.

Directories

GTE Directories Corporation ("GTE Directories") annually publishes or provides sales and other telephone directory-related services for more than 2,300 directory titles in 47 U.S. states, the District of Columbia and 14 foreign countries with a total circulation of approximately 80 million copies. With sixty years of industry experience, GTE Directories' capabilities include all facets of directory-related services including market identification, analysis and planning; advertising sales; customer service; directory design, production, printing and distribution; billing and collection; and product and service promotion. GTE Directories competes directly within the yellow pages industry which consists of nine major and numerous smaller U.S.-based directory publishers. Indirectly, GTE Directories competes with other advertising-based media such as cable TV, newspapers, television, radio, and direct mail.

GTE Directories has three primary customer groups: the businesses that purchase advertising in its directories and other related products; the consumers who use the directories and other advertising and information services GTE Directories provides; and the telephone companies and other entities that contract for directory publishing production, printing, distribution and/or sales services.

In recent years, GTE Directories has developed, tested and supported new products and services that are strategically positioned to increase the use and retention of the printed directory and/or expand its advertiser base. These products and services, such as On Call audiotex services, Quick Tips talking information service, and the SuperPages™ Directory, an on-line Internet directory, offer useful information to consumers and added flexibility for advertisers which enable GTE Directories to build stronger customer relationships by providing products that allow year-round customer contact.

In 1995, GTE Directories became a major partner in GTE Yellow Pages Publishing Kft. and will publish and distribute telephone directories in Hungary. GTE Directories also has a joint venture agreement with BELGACOM, Belgium's official telecommunications provider, for the publication of yellow-pages directories and related products and services. In accordance with the agreement, GTE Directories acquired a 20 percent ownership interest and provides assistance to BELGACOM's new

subsidiary, BELGACOM Directory Services.

GTE Directories was the 1994 winner of the Malcolm Baldrige National Quality Award in the service category - one of only 24 U.S. corporations and the only directory publishing company to ever win the award. The Baldrige Award is an annual award presented by the U.S. Department of Commerce to recognize U.S. companies that excel in quality management and quality achievement.

GTE Card Services has been marketing a combination calling card/credit card in conjunction with Associates National Bank since September 1992. With its primary markets in GTE telephone operations' service areas and contiguous areas, GTE Card Services has approximately 1.1 million card holders with total outstanding balances of approximately \$550 million.

GTE Card Services also entered the prepaid calling card market in 1994 with the introduction of several GTE prepaid calling cards. The prepaid calling card is a telephone calling card with a preset amount of calling available that is prepaid by the customer when the card is purchased. This card will compete in the long distance market by providing an alternative means of purchasing and controlling long distance usage for both the business and residential user. Prepaid calling cards represent a \$4 billion market worldwide, but are relatively new to the U.S. marketplace. GTE Card Services competes in this marketplace through leverage of GTE's brand name and utilization of GTE's exclusive marketing relationship with the National Football League and other licensees.

INTERNATIONAL

GTE, through its international operations, provides telecommunications services in Canada, Venezuela, Argentina and the Dominican Republic. As of December 31, 1995, GTE's international operations served approximately 5.6 million access lines and provided cellular services to over 530,000 customers.

Through its ownership of common stock of Anglo-Canadian Telephone Company ("Anglo"), GTE has voting control of BC TELECOM and Quebec Telephone. At December 31, 1995, BC TELECOM served approximately 2.3 million access lines in the province of British Columbia, Canada and provided cellular services to approximately 220,000 subscribers. Quebec Telephone served approximately 280,000 access lines in the province of Quebec, Canada and provided cellular services to over 10,000 customers.

In addition, GTE, through GTE Holdings (Canada) Limited, a Canadian holding company, owns the common stock of Compania Dominicana de Telefonos, C. por A., a telephone company furnishing local and long-distance telephone service in the Dominican Republic. This company served approximately 370,000 access lines and served over 30,000 cellular customers at December 31, 1995.

GTE owns, through a multinational consortium, a 20.4% ownership interest in Compania Nacional Telefonos de Venezuela ("CANTV"), the telephone company in Venezuela. CANTV is the primary provider of

local, national and international long-distance telephone service in Venezuela. CANTV also provides other telecommunication and related services, including cellular telephone and directory advertising services. GTE and its four consortium partners have a 40% ownership interest in CANTV, while GTE, as the owner of 51% of the consortium, is managing CANTV. During 1995, CANTV placed approximately 184,000 new lines in service for customers and added almost 2,000 public telephones while continuing to improve the quality of its services and network. CANTV had approximately 2.5 million access lines in service at December 31, 1995 and, through its subsidiary Movilnet, served approximately 170,000 cellular subscribers.

Due to the high level of inflation experienced in Venezuela, CANTV's results are substantially influenced by its ability to increase tariffs. CANTV operates under a Concession Agreement with the Venezuelan government that provides, among other things, for quarterly tariff increases based on the previous rates of inflation in Venezuela. In 1995, CANTV successfully obtained tariff increases that mitigated the effects of high local inflation and improved its operating margins when compared with 1994. CANTV believes that it can continue to obtain tariff increases in 1996.

Because of the difficult economic conditions, CANTV made only a relatively small contribution to GTE's 1995 earnings. The network modernization program continued to produce excellent results in service quality and productivity. Residential customer satisfaction has doubled to 80% and productivity, as measured by lines per employee, has increased 75% since the GTE led consortium began operations in late 1991. CANTV's cumulative mandates under the Concession Agreement to expand, modernize and improve the telephone network were met or exceeded.

In December 1995, the Venezuelan government devalued the local currency by 71%. However, due to the mix of local currency and U.S. dollar denominated assets and liabilities, the devaluation did not have a significant impact on GTE's results. GTE believes these economic difficulties are temporary and will be corrected, and continues to view its interest in CANTV as an excellent long-term investment.

In 1994, a GTE-led consortium, Compania de Telefonos del Interior ("CTI"), was awarded two cellular licenses by the National Telecommunications Commission of Argentina. The concession allows CTI to provide cellular services in the north and south interior regions of Argentina - areas with a total population of 22 million. GTE, as operator, has a 25.5% ownership interest in CTI, and holds a ten-year contract to manage the network. CTI has an initial two-year service exclusivity which began in May 1994. As of December 31, 1995, CTI served over 100,000 cellular customers.

GTE also announced the opening of offices in Beijing, China and Sao Paulo, Brazil during 1995. These operations are chartered with pursuing business development opportunities within the telecommunications market of each respective country. The first opportunity, announced in December 1995, was the establishment of a joint venture between GTE China and Guangzhou Guangtong Resources Co. to construct a wireless paging system that will eventually encompass 25

major cities, including Beijing.

In Japan, GTE holds a minority interest in nine cellular partnerships created by Nissan Motor Corp. LTD and Japan Telecom Co. LTD to provide 1.5 GHz digital-cellular services throughout Japan. In addition, GTE participates, as a minority owner, in a cellular partnership comprised of a consortium of Japanese companies that provides 1.9 GHz PHS (comparable to PCS) service in Tokyo, Kanagawa, Saltama and Chiba.

TECHNOLOGY

GTE's technological capabilities increasingly converge in serving customer needs. During 1995, GTE placed GTE Government Systems and GTE Laboratories under common leadership to ensure that their activities will be coordinated effectively with the substantial technology resources of GTE's other business units.

GTE Government Systems Corporation ("GSC") develops, manufactures and integrates customized command, control, communications and intelligence systems for the defense and national security agencies of the U.S. Government and selected foreign governments. In addition, GSC provides information systems, telecommunications services and electronic system operation and maintenance support services for civilian agencies of the Federal government and for commercial users, both domestically and internationally. As a major part of this business focus, GSC provides and manages integrated system solutions tailored to customer information processing and telecommunications requirements.

During 1995, GSC received orders valued at \$1.2 billion, a slight increase compared to 1994, despite a declining defense market. As the overall budgets for the defense market continue to decline, GSC is seeking a stronger presence with its traditional military customers. In addition, GSC is aggressively attempting to offset a declining defense market with increased penetration of the civilian agencies of the Federal government and selected niches in the domestic commercial marketplace. GSC is transitioning its capabilities, products and services to non-defense applications. With technologies and other core competencies, GSC is addressing complex telecommunications and information processing needs in markets such as health care, banking and finance, public safety and insurance. In addition, GSC is pursuing selected programs and markets in the international defense and commercial telecommunications arenas.

GSC's principal U.S. competitors include LORAL, GM Hughes, CSC, Martin Lockheed, Bell Atlantic, AT&T, TRW, Harris, EDS, Raytheon and Motorola. Major foreign competitors include Thomson-CSF, Ericsson and Siemens.

GTE's research and development work is centered principally at GTE Laboratories Incorporated. Activities in research and new product development and improvement are also conducted at the various GTE business units. Both research and product development are focused on telecommunications operations and applications. The key areas of emphasis include: the automation of telecommunication operations, network management, intelligent network migration, broadband

information transport, network architecture design and planning, wireless communications, advanced database capabilities, network quality improvements, exchange video distribution, and support for industry standards development.

For the years 1995 - 1993, expenditures for all company-sponsored research and product development and improvement were \$137 million, \$139 million and \$135 million, respectively. Additionally, \$162 million, \$157 million and \$204 million, respectively, was expended for customer-sponsored research and product development and improvement during the same periods. In total, GTE engaged approximately 1,800 professional scientists and engineers on such activities.

REGULATORY AND COMPETITIVE TRENDS

GTE's telephone subsidiaries hold franchises, licenses and permits adequate for the conduct of their business in the markets which they serve. Advances in technology, together with a number of regulatory, legislative and judicial actions, continue to accelerate and expand the level of competition and opportunities available to GTE. Presently, GTE is subject to competition from numerous sources, including competitive access providers for network access services, specialized communications companies that have constructed new systems in certain markets to bypass the local-exchange network, and competing cellular telephone companies. In addition, competition from alternative local-exchange carriers, interexchange carriers, wireless and cable TV companies, as well as more recent entry by media and computer companies, is expected to increase in the rapidly changing telecommunications marketplace.

On February 8, 1996, the Telecommunications Act of 1996 ("the Act") became law. This comprehensive telecommunications reform legislation addresses a wide range of competitive and regulatory issues that will affect the future development of local and long-distance services, cable television, and information services. The new law removes many of the statutory and court-ordered barriers to competition between segments of the industry, enabling local exchange, long distance, wireless and cable companies to compete in offering voice, video, and information services.

The Act requires the FCC and state commissions to open local-exchange markets and to set new guidelines for interconnection, loosens restrictions barring local telephone companies from entering the cable television market, and preserves universal service while equalizing the responsibility for contribution among all carriers. Each proceeding required by the Act will be of various lengths with different required deadlines to be met. For example, the FCC is required to establish minimum interconnection standards by August 1996 and to establish a joint board of FCC and state regulators to develop recommendations on the future provisioning of universal service.

A key provision of the Act eliminates the legal restraints of the GTE Consent Decree which has kept GTE's telephone operating companies from providing interLATA services. This action will simplify GTE's ability to market local intraLATA and interLATA service to its customers as a bundled service. In February 1996, GTE executed an agreement whereby WorldCom, Inc. will provide, on a non-exclusive basis, a full array of

telecommunications services in support of GTE's entry into the interLATA long-distance market. In March 1996, GTE began offering long-distance service to its customers in Michigan and Minnesota. GTE plans to offer the service, marketed under the name GTE Easy Savings Plan SM, in all 28 states where it currently offers local telephone service by December 1996.

During 1995, various regulatory and legislative developments occurred at the state level to further open the telecommunications marketplace to competition.

In July 1995, the California Public Utility Commission (the "CPUC") announced its decision to allow local-exchange competition beginning in 1996. The CPUC issued interim rules which allow facilities-based competition beginning January 1, 1996. On December 20, 1995, the Commission approved GTE California's request to provide intraLATA toll, high-speed digital private line services, and facilities-based local services outside of its current franchise areas in competition with other local-exchange carriers ("LECs"). Rules allowing firms to provide local services on a resale basis are expected to be approved in 1996.

GTE California, GTE Mobilnet, and GTE Card Services have requested authority to provide resale based local-exchange service in other major metropolitan areas of California, including San Francisco Bay, San Joaquin Valley, Sacramento, and San Diego.

In Florida and Texas, state telecommunications reform legislation was enacted in 1995 which opened local-exchange markets to competition. The legislation also directed the regulatory commission in each state to address a number of issues involved in certifying the new competitors and to implement other aspects of the legislation unique to each state.

The Act forbids states from imposing any barriers to entry into local and toll competition. To date, local competition has been authorized in fifteen states: Illinois, Michigan, Nevada, Oregon, Pennsylvania, Washington, Wisconsin, California, Florida, Texas, Iowa, North Carolina, Hawaii, Minnesota, and Virginia. In addition, eight states: Alaska, Arizona, Illinois, Kentucky, Minnesota, Florida, Pennsylvania and Michigan have concluded that intraLATA 1+ competition is in the public interest. These states have authorized plans that would allow customers to pre-subscribe to a specific carrier to handle intraLATA toll calls. The Act requires GTE to negotiate intraLATA dialing parity with its competitors among other required matters. In these subsequent negotiations, GTE will address implementation of 1+ in those states which have not previously ordered implementation.

Federal and state regulatory activity continued to change the traditional cost-based, rate-of-return regulatory framework for intrastate and interstate telephone service. Regulatory authorities have adopted various forms of alternative regulation, which provide economic incentives to telephone service providers to improve productivity and provide the foundation for implementing pricing flexibility necessary to address competitive entry into GTE markets. In total, approximately 70 percent of Telephone Operations' U.S. regulated revenues, including 100% of interstate revenues, are under some form of alternative regulation. As of January 1996, 60 percent of GTE's U.S.

telephone access lines were in nine states that have adopted incentive regulation plans for intrastate service, including California, Florida and Texas, the states containing GTE's largest operations.

In December 1995, the CPUC modified the terms of GTE California's price cap based incentive regulation plan in recognition of this new competition. In 1996, GTE was ordered to continue to use a price cap with a productivity factor of 4.6% as an offset to inflation to adjust its prices for 1996. The impact of this order would result in a \$31 million rate reduction. In 1997 and 1998, GTE California's rates for monopoly and partially competitive services will be frozen. In its ruling, however, the CPUC indicated that it would also consider modifying its price cap order to allow GTE California to suspend the price cap formula in 1996. On December 21, 1995, GTE California filed its petition and a decision is expected by the end of the first quarter 1996.

Legislation streamlined the existing regulatory environment in Florida and Texas by allowing LECs to replace traditional rate-of-return regulation with price regulation plans.

On September 20, 1995, GTE Southwest notified the Texas Public Utility Commission of its election into the new price regulation plan. On January 3, 1996, GTE Florida formally notified the Florida Public Service Commission of its election.

For the provision of interstate access services, GTE operates under the terms of the FCC's price cap incentive plan. The "price cap" mechanism serves to limit the rates a carrier may charge, rather than just regulating the rate of return which may be achieved. Under this approach, the maximum prices that the LEC may charge are increased or decreased each year by a price index based upon inflation less a predetermined productivity target. LECs have limited pricing flexibility provided they do not exceed the allowed price cap.

Under interim changes to its price cap regulatory plan, the FCC adopted three different productivity/sharing options. GTE has elected to operate under two of these options. In the jurisdictions for which GTE selected a 4.0% productivity factor (approximately half of its access lines), GTE's telephone subsidiaries must share equally with its ratepayers any realized interstate return on investment above 12.25%. All returns higher than 13.25% result in a reduction in the price cap in the subsequent year. The remaining jurisdictions operate under a 5.3% productivity factor option which does not require any earnings sharing. The FCC has established a rulemaking proceeding and is soliciting comments from parties on permanent changes to its price cap regulation plan.

Internationally, the pace of regulatory and competitive change has also accelerated. In Canada, the Canadian Radio-television and Telecommunications Commission, the telecommunications regulatory authority, issued an order opening the market for toll services to full competition. To meet this competition, aggressive marketing of customer services and technologically advanced product offerings have been implemented to minimize loss of market share. In addition, cost saving efforts through planned workforce reductions are being

implemented. In the Dominican Republic competitive pressures for international and local toll traffic have begun to impact revenues and operating margins. However, government-approved local rate increases as well as the implementation of productivity improvement programs are expected to help offset the impact of competition.

GTE continues to support greater competition in telecommunications, provided that, overall, the actions to eliminate existing legal and regulatory barriers benefit consumers by allowing an opportunity for all service providers to participate equally in a competitive marketplace under comparable conditions.

GTE intends to continue to respond aggressively to regulatory and legal developments that allow for increased competition and opportunities in the marketplace. GTE expects its financial results to benefit from reduced costs and the introduction of new products and services that will result in increased usage of its telephone and mobile-cellular networks. However, it is likely that such improvements will be offset, in part, by continued strategic pricing reductions and the effects of increased competition.

ENVIRONMENTAL MATTERS

GTE and some of its present and former subsidiaries, along with other unrelated corporations, have been named as potentially responsible parties at a number of Federal and state "Superfund Sites" - sites, lawfully used in the past, but now determined to require remediation or with respect to some presently or formerly owned sites requiring remediation under the Resource Conservation and Recovery Act ("RCRA") or similar state environmental statute. GTE has reviewed each such site in which it has an involvement to establish an expected remediation cost. Based on this review, the remediation cost at any individual site or at all sites in the aggregate is not expected to be material. Factors used to evaluate expected GTE costs include remediation estimates, number of viable parties involved, degree of GTE's involvement and past experience at sites being remediated. No present value discounting is used. Although the complexity of environmental regulations, and the widespread imposition of multi-party joint and several liabilities at Superfund Sites, makes it difficult to assess GTE's share of liability, management believes it has made adequate provision in the financial statements.

While GTE's annual expenditures for site cleanups and environmental compliance have not been and are not expected to be material, they are increasing. These costs include GTE's share of cleanup expenses for Superfund Sites, outlays required to keep existing operations in compliance with increasingly stringent environmental regulations and an underground storage tank replacement program.

Item 2. Properties.

PROPERTIES OF GTE COMPANIES

GTE owns no plant, real property, franchises, or concessions except indirectly through its investments in subsidiaries.

The properties of GTE's subsidiaries consist principally of land, structures and equipment required to provide various wireline and wireless telecommunications services. Substantially all of the properties of the U.S. telephone subsidiaries are subject to the liens of their respective mortgages securing funded debt.

From January 1, 1991 to December 31, 1995, GTE made capital expenditures of \$20 billion for new plant and facilities required to meet telecommunication service needs and to modernize plant and facilities. These additions were equal to 39 percent of gross plant of \$51 billion at December 31, 1995.

At year-end 1995, access lines served in the United States totaled 18.5 million. In addition, at December 31, 1995, GTE's affiliated telephone companies in Canada, the Dominican Republic and Venezuela served 5.6 million access lines. At December 31, 1995, 95 percent of GTE's U.S. access lines were connected to digital switches, compared with 79 percent in 1991. During 1995, GTE also accelerated the installation of fiber-optic cable, bringing total miles installed throughout GTE's domestic network to 930,000 miles, double the amount installed only three years ago.

At year-end 1995, GTE had 4 laboratories in the United States.

All of the aforementioned properties are generally in good operating condition and adequate to satisfy the needs of the businesses.

In response to recently enacted and pending legislation and the increasingly competitive environment in which GTE's telephone subsidiaries expect to 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.

In general, FAS 71 required GTE's telephone subsidiaries to depreciate their telephone plant and equipment over lives approved by regulators that, in many cases, extended beyond the assets' economic lives. FAS 71 also required the deferral of certain costs based upon approvals received from regulators to recover such costs in the future. As a result of these requirements, the recorded net book value of GTE's assets, primarily telephone plant and equipment, were in many cases higher than that which would otherwise have been recorded based on their economic lives. See Note 2 to GTE's Consolidated Financial Statements included elsewhere herein for the effects of discontinuing FAS 71 on GTE's recorded property balances.

Item 3. Legal proceedings.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters.
At January 31, 1996, there were approximately 538,000 common shareholders of record.

GTE Quarterly Financial Data
GTE Corporation and Subsidiaries
(Unaudited)

(Millions of Dollars, Except Per-Share Amounts)	1st QTR		2nd QTR(a)		3rd QTR(b)		4th QTR(c)	
	1995	1994	1995	1994	1995	1994	1995	1994
Revenues and sales.....	\$4,665	\$4,658	\$4,932	\$4,840	\$4,996	\$4,879	\$5,364	\$5,151
Operating income.....	1,164	1,067	1,235	1,175	1,333	1,228	1,324	1,282
Income before extraordinary charges.....	\$ 543	\$ 500	\$ 581	\$ 593	\$ 695	\$ 657	\$ 719	\$ 691
Extraordinary charges.....	-	-	-	-	-	-	(4,682)	-
Net income (loss).....	\$ 543	\$ 500	\$ 581	\$ 593	\$ 695	\$ 657	\$ (3,963)	\$ 691
Earnings (loss) per common share:								
Before extraordinary charges.....	\$.56	\$.52	\$.60	\$.62	\$.72	\$.69	\$.74	\$.72
Extraordinary charges.....	-	-	-	-	-	-	(4.83)	-
Net income (loss).....	\$.56	\$.52	\$.60	\$.62	\$.72	\$.69	\$ (4.09)	\$.72
Dividends Declared per common share.....	\$.47	\$.47	\$.47	\$.47	\$.47	\$.47	\$.47	\$.47
Stock market price:								
High	\$34.88	\$35.25	\$34.88	\$33.63	\$39.50	\$33.25	\$45.13	\$31.38
Low	30.00	30.00	31.88	29.50	34.13	29.88	38.50	29.50
Close	33.25	31.00	34.13	31.00	35.13	30.38	43.88	30.38

(a) Second-quarter 1994 net income includes after-tax gains on sales of nonstrategic domestic local-exchange telephone properties of \$71 million, or \$.07 per share (see Note 5 to Consolidated Financial Statements).

(b) Third-quarter 1995 and 1994 net income includes after-tax gains on sales of nonstrategic domestic local-exchange telephone properties of \$11 million, or \$.01 per share, and \$48 million, or \$.05 per share, respectively (see Note 5 to Consolidated Financial Statements).

(c) Fourth-quarter 1995 results include after-tax, extraordinary charges of \$4.7 billion, or \$4.83 per share, primarily as a result of the discontinuance of regulatory accounting under Statement of Financial Accounting Standards No. 71 (see Note 2 to Consolidated Financial Statements). Fourth-quarter 1994 results include after-tax gains on sales of nonstrategic domestic local-exchange telephone properties of \$43 million, or \$.05 per share (see Note 5 to Consolidated Financial Statements).

Shareholder Services

The First National Bank of Boston, Transfer Agent and Registrar for GTE's common stock, should be contacted with any questions relating to shareholder accounts. This includes the following:

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

Shareholders may call toll-free at 1-800-225-5160 anytime, 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 1-617-575-2990.

Or write to:

Bank of Boston
c/o Boston EquiServe, L.P.
P.O. Box 9121
Mail Stop 45-02-60
Boston, MA 02205-9121

For overnight delivery services, use the following address:

Bank of Boston
c/o Boston EquiServe, L.P.
Blue Hills Office Park
150 Royall Street
Canton, MA 02021

The Bank of Boston address where shareholders, banks and brokers may deliver certificates is One Exchange Place, 55 Broadway in New York City.

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 the Bank of Boston at 1-800-225-5160.

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 the Bank of Boston at 1-800-225-5160.

Annual Meeting

The 1996 Annual Meeting of Shareholders will be held at 2 p.m. on Wednesday, April 17, 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
Int'l Telex: 4750071
Fax: 203-965-2520

Stock Exchange Listings
GTE Corporation is listed on the New York Stock Exchange (symbol: GTE).
GTE is also listed on the Chicago, Pacific and other regional stock exchanges in the U.S. 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
To obtain an additional copy of this annual report or a copy of the annual Form 10-K filed with the Securities and Exchange Commission, call 1-800-225-5160.

An audiocassette version of the 1995 annual report is available to visually impaired shareholders by contacting:
Manager,
Public Relations Services

GTE Corporation
One Stamford Forum
Stamford, CT 06904
203-965-3188

Other Securities
Questions regarding the bonds, debentures and preferred securities of GTE or its subsidiaries should be directed to:
Treasury Department
GTE Corporation
One Stamford Forum
Stamford, CT 06904
203-965-3425

Information Via the Internet
Internet World Wide Web users can access information on GTE through the following universal resource:
<http://www.gte.com>

Item 6.

Selected Financial Data.

GTE Corporation and Subsidiaries						Five-Year Annual Growth Rate*
(Millions of Dollars, Except Per-Share Amounts)	1995	1994	1993	1992	1991	
Results of Operations						
Revenues and sales	\$ 5,839	\$ 5,234	\$ 5,159	\$ 4,932	\$ 4,746	4.5%
Local services						
Network access services	2,741	2,722	2,690	2,774	2,713	.2
-interstate	1,622	1,626	1,708	1,703	1,652	.4
-intrastate	2,548	3,285	3,321	3,388	3,482	(4.9)
Toll services	2,191	1,666	1,178	929	726	32.9
Cellular services	1,383	1,372	1,438	1,405	1,466	1.7
Directory services	3,633	3,623	3,838	4,394	4,321	(4.9)
Other services and sales						
Total revenues and sales	19,957	19,528	19,332	19,525	19,106	1.2
Cost of services and sales	7,537	7,677	7,848	8,229	8,157	(1.6)
Selling, general and administrative	3,689	3,667	3,817	3,977	3,826	(.3)
Depreciation and amortization	3,675	3,432	3,419	3,289	3,254	2.6
Restructuring and merger costs	-	-	1,840 ^(a)	-	342 ^(b)	-
Operating income	5,056	4,752	2,408 ^(c)	4,030	3,527	5.9
Net income (loss) ^(f)						
Continuing operations ^(d)	2,538	2,441	972	1,761	1,492 ^(b)	9.8
Consolidated ^(e)	(2,144)	2,441	882	(780) ^(f)	1,543 ^(f)	-
Earnings (loss) per common share ^(f)						
Continuing operations ^(d)	2.62	2.55	1.03	1.95	1.69 ^(b)	7.2
Consolidated ^(e)	(2.21)	2.55	.93	(.86) ^(f)	1.75 ^(f)	-
Common dividends declared per share	1.88	1.88	1.85	1.76	1.64	4.4
Book value per share	7.05 ^(e)	10.85	9.96	10.61	12.21	(8.2)
Average common shares outstanding (in millions)	970	958	945	905	882	2.5
Assets and Capital						
Consolidated assets	37,819 ^(e)	42,500	41,575	42,144	42,437	(1.2)
Long-term debt and redeemable preferred stock	12,744	12,236	13,103	14,277	16,153	(3.9)
Shareholders' equity	6,871 ^(e)	10,483	9,593	10,076	11,313	(6.9)
Cash from continuing operations	5,033	4,740	5,373	4,832	4,643	2.8
Capital expenditures	4,834	4,192	3,893	3,909	3,965	.1
Consolidated Ratios and Other Information						
Return on common equity ^(f)	(20.3)%	24.8%	8.8%	(8.8)%	14.8%	-
Return on investment ^(f)	(4.2)%	13.1%	6.9%	1.3%	9.4%	-
Average common equity	10,539	9,838	10,030	8,832	10,434	1.0
Equity ratio	37.9% ^(e)	46.2%	42.6%	40.2%	40.8%	-
Average investment	27,159	25,647	27,322	28,057	29,418	(1.3)
Research and development	137	139	135	159	155	(1.4)
Employees (in thousands)	106	111	117	129	159	(9.9)
Total	85	89	94	104	124	(9.6)
United States						
International Operations (included above) ^(g)						
Revenues and sales	\$2,583	\$2,616	\$2,520	\$2,401	\$2,317	3.9
Income before extraordinary charges	220	276	328	244	227	1.3
Total assets	6,210	5,826	6,096	5,963	5,757	4.5

Notes to Selected Financial Data appear on page 21.

Selected Financial Data
GTE Corporation and Subsidiaries

	1995	1994	1993	1992	1991	Five-Year Annual Growth Rate*
(Millions of Dollars)						
Network Statistics						
Access minutes of use (in millions)	64,417	59,247	55,864	52,180	48,169	7.5%
Access lines (in thousands)						
Total ^(h)	24,135	22,805	22,043	21,427	20,481	5.1
United States ^(h)	18,527	17,442	17,073	16,819	16,233	3.0
Switched	16,665	16,037	15,929	15,835	15,338	2.0
U.S. lines per employee	289	252	234	208	191	10.7
Cellular subscribers (in thousands)						
Total	3,547	2,660	1,787	1,204	881	41.9
United States	3,011	2,339	1,585	1,090	811	39.6
Adjusted "POPs" (in millions)⁽ⁱ⁾						
Total	82.4	68.0	63.4	60.8	59.9	-
United States	67.4	53.0	53.0	53.1	52.2	4.0
U.S. Telephone Operations						
Revenues and sales	\$13,375	\$13,212	\$13,162	\$13,160	\$12,950	.9
Operating income ^(a)	3,621	3,490	1,962 ^(c)	3,284	3,073 ^(b)	1.9
Operating cash flow margin	47.8%	46.4%	34.7%	44.1%	43.4%	-
Capital expenditures	2,564	2,821	2,811	2,859	3,004	(2.4)
U.S. Cellular Operations						
Service revenues	\$2,019	\$1,539	\$1,082	\$853	\$675	32.7
Operating income	410	278	124	77	(29)	(b)
Operating cash flow margin ^(j)	36.8%	35.3%	31.9%	32.9%	21.4%	-
Capital expenditures	789	610	389	376	260	21.2

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

- (a) See Note 4 on 1993 Restructuring Costs.
 (b) Reflects costs incurred in connection with the merger and integration of GTE Corporation and Contel Corporation, including \$150 million and \$29 million at U.S. Telephone and U.S. Cellular Operations, respectively. These costs, net of a gain on the transfer of certain cellular properties, reduced 1991 net income by \$204 million, or \$.23 per share.
 (c) Includes a \$74 million pre-tax charge (\$46 million after-tax, or \$.05 per share) for the cost of voluntary separation programs at U.S. Telephone Operations.
 (d) 1993, 1994 and 1995 include after-tax gains of \$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) 1992 reflects a noncash, after-tax charge of \$2.4 billion, or \$2.70 per share, for the cumulative effect of accounting changes for postretirement health care and life insurance benefits as well as income taxes, as a result of the adoption of Statements of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and No. 109, "Accounting for Income Taxes," respectively.

1992 also includes charges totaling \$100 million, or \$.11 per share, associated with the sale of the Electrical Products Group, which was accounted for as a discontinued operation. 1991 includes net income from discontinued operations of \$51 million, or \$.04 per share (see Note 5 on Property Repositioning and Discontinued Operations).

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

	1995	1994	1993	1992	1991	Five-Year Annual Growth Rate*
Net income (in millions)	\$2,827	\$2,379	\$1,077	\$1,761	\$1,696	10.2%
Earnings per share	2.61	2.38	2.20	1.95	1.92	7.6
Return on common equity	23.2%	23.3%	20.4%	15.6%	16.5%	-
Return on investment	12.8%	12.5%	11.2%	9.5%	10.1%	-

- (g) Includes GTE's international affiliates as well as international activities from domestic companies.
 (h) Access lines in 1994 and 1993 exclude 448,000 and 440,000 net lines, respectively, sold during those years. Total access lines include 2.5 million, 2.3 million, 2.0 million, 1.8 million and 1.6 million lines served by CANTV in 1995-1991, respectively. GTE acquired operating control of CANTV in 1991. Excluding the effect of the CANTV acquisition and the access lines sold during 1994 and 1993, the five-year total access line growth rate was 4.3%.
 (i) Represents population to be served times GTE's percentage interest in wireless markets.
 (j) Represents operating income before depreciation and amortization divided by service revenues.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Return to Shareholders

GTE's primary financial objective is to maximize shareholders' long-term total return, consisting of share-price appreciation and dividends. Total return to GTE shareholders in 1995 was 52.4% compared with 49.3% for the regional Bell operating companies and 37.5% for the S&P 500 index. For the five-year period ending in 1995, average annualized total return was 14.4% compared with 14.5% for the regional Bell operating companies and 16.5% for the S&P 500 index. GTE's outstanding stock-price appreciation in 1995 significantly narrowed these differences compared with the same measure in 1994. GTE's commitment to shareholder value is supported by clear investment criteria: investments must be in the company's core business, telecommunications, 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 1995.

Over the past several years, GTE has taken aggressive action to improve its competitive position and enhance its profitability. GTE has: combined its domestic wireline and wireless businesses under common leadership to begin offering "one-stop shopping" for all telecommunications services; combined all international operations into one unit to focus on developing growth opportunities, especially in Latin America and Asia; implemented process re-engineering—which will be substantially completed in 1996; and sold nonstrategic telephone properties. GTE is now better prepared to meet the challenges and opportunities of a fully competitive marketplace with tremendous potential for highly profitable growth.

Consolidated Operations

Operationally, 1995 was an excellent year for GTE, led by strong customer growth and network usage in both telephone and cellular operations as well as cost-reduction programs throughout GTE. Income before special items was \$2.5 billion, or \$2.61 per share, in 1995, an increase of 10% compared with \$2.3 billion, or \$2.38 per share, in 1994. Minutes of use of GTE's domestic network for long-distance calling grew at an annual rate of 10.1%, while total access lines increased 5.8% excluding the impact of the nonstrategic telephone properties sold. During 1995, GTE added 887,000 new cellular customers, bringing total cellular customers, both domestic and international, to 3.5 million—nearly double the level just two years ago.

Consolidated revenues and sales totaled \$20.0 billion in 1995 compared with \$19.5 billion in 1994. Excluding the revenues from the properties sold and the satellite-communications business divested in 1994, consolidated revenues and sales increased 4% in 1995 (see Note 5 to Consolidated Financial Statements). Strong volume growth in telephone operations and substantial increases in cellular customers more than offset lower, more competitive pricing. In the U.S., new price reductions and regulatory actions, primarily in California, reduced revenues by approximately \$450 million in 1995, bringing cumulative price reductions over the past three years to \$1.1

billion. However, such reductions are expected to moderate in 1996. Outside the U.S., regulatory and competitive pressures increased in Canada and the Dominican Republic as price reductions and rate rebalancing plans were implemented.

Operating income for 1995 reached a record \$5.1 billion, up 8% excluding the operating income attributable to the properties sold. The increase was due to higher revenues, improved cellular operating margins and ongoing cost reductions from process re-engineering activities. Net interest expense declined slightly as the favorable effects of lower interest rates were partially offset by higher debt balances. Other expense totaled \$5 million in 1995 compared with \$280 million of other income in 1994, primarily reflecting gains recorded in 1994 in connection with telephone property sales. GTE's effective income tax rate declined from 36.6% in 1994 to 36.6% in 1995 primarily as a result of a settlement with the IRS of certain open tax years.

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 Consolidated Financial Statements. For a discussion of the reclassifications made to the prior-year consolidated financial statements, disclosure of recently issued accounting pronouncements and use of financial instruments and contingencies, see Notes 1, 10 and 16 to Consolidated Financial Statements.

In 1994, consolidated revenues and sales totaled \$19.5 billion compared with \$19.3 billion in 1993. Excluding the revenues from the properties sold, consolidated revenues and sales increased 4% during 1994. Strong volume growth for both domestic and international wireline and wireless services drove the improvement. Lower, more competitive domestic telephone pricing, particularly in rates charged to interexchange carriers for access to GTE's local-exchange network, partially offset the strong volume growth. The completion late in 1993 of a major U.S. defense communications contract also offset the volume growth.

Operating income in 1994 increased 11% over 1993 excluding the impact of properties sold and other 1993 special items. This improvement was due to the revenue growth as well as cost-reduction efforts at all business units. Consolidated net income was \$2.4 billion, or \$2.55 per share, which included after-tax gains on sales of certain nonstrategic domestic local-exchange telephone properties of \$162 million, or 17 cents per share. Excluding the impact of special items in both years, consolidated net income in 1994 was \$2.3 billion, or \$2.38 per share, an 8% increase over 1993.

In 1993, consolidated net income was \$882 million, or 93 cents per share. Results in 1993 included gains of \$91 million, or 10 cents per share, similar to those in 1994 as well as one-time after-tax charges totaling \$1.3 billion, or \$1.37 per share, to restructure operations, complete voluntary separation programs and for the early retirement of high-coupon debt.

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 12% to \$5.8 billion compared with \$5.2 billion in 1994. This growth was attributable to placing an additional 1.2 million access lines in service in 1995, a 5.8% increase over last year, driven by 12%

growth in second residential lines over 1994. The growth in second lines is primarily attributable to strong consumer demand for fax machines, access to the Internet and online computer services. The increase in revenues was also attributable to a rate rebalancing order issued by the California Public Utilities Commission (CPUC) effective January 1, 1995. The order provided for increases in basic local rates in exchange for significant rate reductions for toll service and access charges. Although this rate rebalancing was intended by the CPUC to be revenue neutral, the actual increase in volumes did not fully compensate for the toll and access rate reductions.

The rollout of new and nontraditional services also drove the increase in local revenues. These services, which include CentraNet,® data and custom-calling features, such as Personal Secretary and SmartCall,® increased 33% to \$850 million in 1995. These new high-margin services are expected to contribute a larger percentage of GTE's total revenue stream in future years as a result of strong business and consumer demand.

Network Access Service Revenues

Interstate and intrastate network access service revenues are based on fees charged to interexchange carriers that use GTE's U.S. local-exchange network in providing long-distance services to their customers. Network access service revenues of \$4.4 billion remained relatively unchanged from 1994. The impact of the 10.1% growth in minutes of use of GTE's domestic local-exchange network for long-distance calling was offset by competitive and regulatory-mandated rate reductions and the effect of the previously discussed 1994 sales of nonstrategic properties.

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). Toll service revenues decreased 22% to \$2.5 billion compared with \$3.3 billion in 1994. This decline was primarily attributable to price reductions to meet competition and regulatory-mandated rate reductions, particularly the previously discussed rate rebalancing actions in California, Canada and the Dominican Republic.

Cellular Service Revenues

Cellular service revenues exceeded \$2 billion for the first time in the company's history, rising 32% to \$2.2 billion. 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 1995 reached 3,011,000, an increase of 29% over 1994. Customer growth slowed at the end of 1995 as various targeted marketing programs successfully focused on the addition of higher-value customers. Cellular market penetration increased to 6.3% in 1995 compared with 4.8% in 1994. This growth was tempered by a decline in revenues per customer in the U.S., reflecting continuing growth of casual and security users in the customer base. During the year revenues per customer in the U.S. averaged \$63 per month compared with \$68 in 1994.

Directory Services Revenues

Directory services revenues are based on fees charged to publish, print, distribute and sell advertising for Yellow Pages telephone directories. GTE

annually publishes or provides sales and other directory-related services for approximately 2,400 different directories in 47 states and 15 foreign countries. Directory service revenues increased slightly to \$1.4 billion in 1995, reflecting improved volume in the U.S. partially offset by the completion in 1994 of a contract for the publication of directories in Hong Kong.

Other Services and Sales

Other services and sales include revenues from: GTE Government Systems, which provides telecommunication systems and equipment to U.S. governmental defense and civilian agencies as well as commercial users; GTE Airfone, which provides aircraft-based telecommunication services; and telephone and cellular equipment sales and services. Other services and sales revenues increased slightly to \$3.6 billion in 1995, reflecting the growth in non-network related equipment sales partially offset by the overall decline in U.S. government defense spending. GTE Government Systems received orders valued at \$1.2 billion during 1995, a slight increase compared with 1994, reflecting higher international orders partially offset by the decline in U.S. defense spending.

Cost of Services and Sales

Cost of services and sales declined 2% to \$7.5 billion in 1995 compared with \$7.7 billion in 1994, primarily reflecting the impact of the three-year process re-engineering program at the U.S. telephone operations. This program is redesigning and streamlining processes to improve customer responsiveness and product quality, reduce the time necessary to introduce new products and services, and further reduce costs.

Several re-engineering programs enhanced productivity. Consolidation of work centers and the rollout of technologically-advanced systems reduced labor-intensive processes. For example, Express Dial Tone, which enables a customer to start local service without waiting for a service call, was implemented in most major service territories. Also, GTE's "One Touch" process, which allows a wide range of customer needs to be satisfied by contacting just one service representative, is now available in most of GTE's domestic telephone service areas. U.S. access lines per employee, a key indicator of productivity, totaled 289 at year-end 1995, a 15% increase over 1994 and 55% higher than four years ago, excluding properties sold.

By the end of 1995, GTE's Telephone Operations had reduced its U.S. workforce to approximately 64,000 employees, a 25% decline from four years ago. Since the re-engineering program began two years ago, the workforce has been reduced by over 12,000 employees and contractors. A further workforce reduction of approximately 5,000, bringing the total to 17,000, is expected to be substantially completed by the end of 1996.

Selling, General and Administrative Expenses

Selling, general and administrative expenses rose slightly to \$3.7 billion in 1995. The growth in operating costs, particularly in cellular services, was substantially offset by ongoing cost containment and reduction programs, which have been implemented across all business units.

Depreciation and Amortization

Depreciation and amortization increased 7% to \$3.7 billion in 1995 compared with \$3.4 billion in 1994. The increase reflects the expansion of the telephone network to meet demand for additional lines, enhanced calling features and switched data services and to continue the deployment of enabling technologies for broadband services. The mobile-cellular network was also expanded to provide significantly higher capacity and improve service quality.

Other Income and Expense

Other income and expense is comprised primarily of gains on sale of properties, minority interests and earnings of unconsolidated subsidiaries, which include cellular partnerships, and international ventures. In 1995 GTE reported other expense of \$5 million compared with other income of \$280 million in 1994. Results in 1994 included \$264 million of gains on sales of nonstrategic telephone properties compared with \$16 million in 1995.

During 1995, difficult economic conditions continued in Venezuela, which significantly affected CANTV, the Venezuelan telephone company that is 20.4% owned and operated by GTE. The weak economy, combined with currency controls that began in mid-1994, limited CANTV's access to international banking and capital markets during most of 1995. However, in September 1995, CANTV and a group of creditors completed the refinancing of approximately \$1 billion of CANTV's obligations. As a result, investments in the expansion and modernization of Venezuela's telecommunications system have continued. These investments, along with an overall reduction in debt, were funded by operating cash flow.

Due to the high level of inflation experienced in Venezuela, CANTV's results are substantially influenced by its ability to increase tariffs. CANTV operates under a Concession Agreement with the Venezuelan government that provides, among other things, for quarterly tariff increases based on previous rates of inflation in Venezuela. In 1995, CANTV successfully obtained tariff increases that mitigated the effects of high local inflation and improved its operating margins when compared with 1994. CANTV believes that it can continue to obtain tariff increases in 1996.

Because of the difficult economic conditions, CANTV made only a relatively small contribution to GTE's 1995 earnings. The network modernization program continued to produce excellent results in service quality and productivity. Residential customer satisfaction has doubled to 80% and productivity, as measured by lines per employee, has increased 75% since the GTE led consortium began operations in late 1991. CANTV's cumulative mandates under the Concession Agreement to expand, modernize and improve the telephone network have been met or exceeded.

In December 1995, the Venezuelan government devalued the local currency by 71%. However, due to the mix of local currency and U.S. dollar denominated assets and liabilities, the devaluation did not have a significant impact on GTE's results. GTE believes these economic difficulties are temporary and will be corrected, and continues to view its interest in CANTV as an excellent long-term investment.

Regulatory and Competitive Trends

Significant regulatory and legislative developments during 1995 and early 1996 opened various sectors of the telecommunications marketplace to greater levels of competition.

In February 1996, federal telecommunications reform legislation was signed into law—addressing a wide range of competitive and regulatory issues that will affect the future development of local and long-distance services, cable television and information services.

The Telecommunications Act of 1996 overhauls 62 years of telecommunications law, replacing government regulation with competition as the chief way of assuring that telecommunications services are delivered to customers. The law removes many of the statutory and court-ordered barriers to competition between segments of the industry, enabling local-exchange, long-distance and cable companies to go head-to-head in offering voice, video and information services.

The new law also sets guidelines to open local-exchange markets, loosens restrictions barring local telephone companies from entering the cable market, preserves universal service while equalizing the responsibility for contribution among all carriers, and lifts controls on cable prices.

A key provision of the law also eliminates the legal restraints of the GTE Consent Decree which has kept GTE's telephone operating companies from providing interLATA services. This action will simplify GTE's ability to market local and interLATA services to customers. GTE plans to offer interLATA services early in 1996.

Another key aspect of the federal legislation requires local telephone companies to allow customers to pre-subscribe to a specific carrier to handle their intraLATA calls. Pre-subscribed customers will simply dial "1" before the telephone number in order to complete intraLATA calls. This action will significantly increase competition in that market.

An order issued by the CPUC that became effective on January 1, 1995 authorized toll competition, without pre-subscription in California. The order also provided for rate rebalancing with significant rate reductions for toll services while increasing local service rates closer to the actual cost of providing such service. As expected, the net effect on GTE of the implementation of this order was a decrease of approximately \$220 million on revenues in California for 1995 and a loss of approximately 10% of its toll market share.

During 1995 the CPUC accelerated the issuance of regulations that facilitated competition in local markets beginning in January 1996. Several carriers have already received approval to enter local markets. GTE and the other major local-exchange carrier in California will also be able to provide local service in each other's territory.

In addition to California, several other state legislatures have enacted laws favoring competition, which will open the local-exchange market and free existing local-exchange carriers from rate-of-return pricing restrictions. In Florida, legislation was enacted removing an earnings cap beginning in

January 1996 concurrent with the opening of the local-exchange market to competition. In Texas, GTE agreed to a six-year price plan while opening the local-exchange market to competition. This plan removes an earnings cap, establishes a universal service mechanism, and requires certain capital spending levels to provide enhanced service capabilities. During 1995 several other states began to consider opening the local-exchange market to competition and associated issues involved in interconnection arrangements, universal service and other issues.

As of the beginning of 1996 approximately 60% of GTE's domestic access lines no longer operate under traditional rate-of-return regulations and have adopted incentive regulation plans for intrastate service.

Interstate access prices charged to interexchange carriers are based on an annual price cap filing with the Federal Communications Commission (FCC), which is effective in July of each year. The pricing formulas allow a local-exchange carrier to select higher productivity factors, which reduce prices, in return for reducing or eliminating a rate-of-return cap. GTE selected a 4% productivity factor in jurisdictions representing approximately half of its access lines and a 5.3% factor for others. The jurisdictions that have a 5.3% productivity factor do not have an earnings ceiling. The other jurisdictions require 50% sharing with customers for returns between 12.25% and 13.25% and a 100% refund for returns in excess of this range. The FCC is considering how the price cap plan should be modified in the future in order to adapt the system to the emergence of competition.

Internationally, the pace of regulatory and competitive change has also accelerated. In Canada, the Canadian Radio-television and Telecommunications Commission, the telecommunications regulatory authority, issued an order opening the market for toll services to full competition. To meet this competition, GTE has implemented aggressive marketing of customer services and technologically advanced product service offerings to minimize loss of market share. In addition, cost saving efforts through planned workforce reductions are being implemented. In the Dominican Republic competitive pressures for international and local toll traffic have begun to impact revenues and operating margins. However, government-approved local rate increases as well as the implementation of productivity improvement programs are expected to offset the impact of competition.

These recent legislative, judicial and regulatory developments, as well as the pace of technological change, have continued to influence industry trends and broaden competition. In virtually all aspects of their businesses, GTE's wireline and wireless operations face increasing competition from numerous sources, including interexchange carriers, competitive access providers for network access services, specialized communications companies that have constructed new systems in certain markets to bypass the local-exchange network, and wireless communications providers. Competition from local-exchange carriers, interexchange carriers, wireless and cable TV companies, as well as more recent entry by media and computer companies, is expected to increase in the rapidly changing telecommunications marketplace.

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.

GTE Initiatives

In 1995, GTE continued to position itself to respond aggressively to competitive developments and benefit from new opportunities.

During 1995, GTE continued the implementation of the \$1.4 billion re-engineering program for its U.S. Telephone Operations. Since the program began in 1994, 258 work centers have been consolidated to 58 and the company's workforce has been reduced by more than 12,000. Costs of \$858 million have been charged to the restructuring reserve - \$585 million related to customer service processes, \$103 million related to administrative processes and \$170 million related to the consolidation of facilities. These costs were primarily associated with the closure and relocation of various centers, software enhancements and separation benefits associated with the workforce reductions. The continued implementation of this program positions GTE to accelerate delivery of a full array of voice, video and data services and to reach its stated objective of being the easiest company to do business with in the industry.

In May 1995, the FCC approved GTE's applications to construct new fiber-optic and coaxial-cable video networks in Ventura County, Calif., and Pasco and Pinellas Counties, Fla. GTE expects to begin delivery of video services to customers during 1996.

In August 1995, GTE signed a definitive agreement to join The Walt Disney Company, Ameritech Corporation, BellSouth Corporation and SBC Communications, Inc. as an equal partner in Americast,TM a venture designed to provide video programming and interactive services for millions of American households. GTE's involvement strengthens the venture by increasing its combined reach from 50 million to 68 million access lines in 33 states.

GTE and its three other telecommunications partners will distribute, through their local broadband networks, video programming developed by The Walt Disney Company. In addition, GTE will invest in the necessary equipment to deliver programming to its customers. These activities will strengthen GTE's existing activities in video. GTE Interactive Media and GTE mainStreet give GTE the ability to develop, market, publish and distribute video games and interactive programs as well as explore new technologies.

In late 1995, GTE entered the Internet access business. Initially the service will be targeted to schools, universities and business customers. GTE.net, a first step, paves the way for a nationwide data-network infrastructure, allowing GTE to enter new markets and to develop new products and services.

In March 1995, GTE acquired the Seattle, Atlanta and Cincinnati markets for wireless PCS through an auction by the FCC for 1.8 GHz broadband spectrum licenses. Once construction of the network is complete, this will provide GTE with new market coverage and create a more complete "footprint" in several large markets. The Seattle market, already served by GTE wireline service, will be enhanced with wireless offerings, enabling GTE to provide a full bundle of communication services to consumers. The new spectrum in Atlanta and Cincinnati will allow GTE to build on its cluster strategy and to expand an already strong cellular presence.

To capitalize on opportunities for long-term profitable growth, GTE is actively pursuing expansion of its international operations. Specifically, GTE has formed an alliance in Mexico to pursue opportunities when Mexico's telecommunications market opens to competition in 1997. The alliance intends to provide national and international long-distance services.

In China, GTE has formed an alliance with China United Telecommunication Corporation for various projects relating to the development of China's second telecommunications network. Additionally in 1996, GTE established a joint venture with a leading Chinese wireless telecommunications operator. GTE will initially invest approximately \$28 million, which will be used to design, build and install wireless networks, provide training and offer technical consulting. The venture's first project is to support a wireless paging system that will eventually encompass 25 cities, including Beijing.

Early in 1995, GTE, as leader of the CTI consortium, completed the construction of a network to provide wireless service to most of Argentina. CTI ended 1995 with over 100,000 customers served by the network. Long-term financing was arranged for CTI in late 1995.

Capital Investment, Resources and Liquidity

Return on Equity

GTE's return on average common equity was 23.2% in 1995 compared with 23.3% in 1994, before considering the extraordinary charges in 1995 and the gains on the sales of certain nonstrategic domestic local-exchange telephone properties in both years.

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 reasonable financial leverage, while also protecting debtholder interests and ensuring ready access to the capital markets. During 1995, GTE announced plans to repurchase up to 20 million shares 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. At the end of 1995, 2.6 million shares had been repurchased under this program.

Total equity as a percentage of total capitalization was 37.9% at the end of 1995 compared with 46.2% in 1994, primarily reflecting the impact of the extraordinary charges recorded at the end of 1995. Excluding the extraordinary charges, total equity would have been 48.1% of total capitalization at the end of 1995.

Cash Flow

GTE's cash flow from operations increased from \$4.7 billion in 1994 to \$5.0 billion in 1995, reflecting improved operating results as well as lower tax payments from nonstrategic property sales and the completion of a major government telecommunications contract last year.

During 1995, GTE invested approximately \$350 million to acquire PCS licenses during the FCC's auction process, as well as approximately \$250 million to acquire the remaining 10% ownership of Contel Cellular Inc. that GTE did not already own.

At the end of 1995, GTE redeemed, in advance of scheduled maturity, \$932 million of its telephone operating subsidiaries' high-coupon debt issues and 12 series of preferred stock totaling \$71 million. The refinancing of the high-coupon debt and preferred stock will be completed during 1996.

Capital expenditures totaled \$4.0 billion in 1995, about 4% below the level of expenditures in 1994. The declining requirements for conversion to digital switching systems offset expansion and enhancements of the cellular network, as well as investments in fiber optics and other enabling technologies for broadband services. In 1996, capital expenditures are expected to increase slightly for the deployment of broadband video networks in California and Florida, buildout of the new wireless PCS networks and other requirements for new revenue growth initiatives and expanded service capabilities. In 1996, GTE expects to fund dividends and the capital requirements for its businesses substantially with cash from operations. However, GTE's strong financial position allows ready access to worldwide capital markets for any additional requirements.

Forward-Looking Statements

GTE has projected earnings-per-share growth of not less than 10% for the foreseeable future. GTE has also projected that revenue will grow by a range of 6% to 8%. In addition, GTE expects net income from existing international operations to double in the next five years.

Risk Factors

GTE's forward-looking statements are based on a series of projections and estimates regarding the economy and the telecommunications industry in general and on key performance indicators which impact the company directly. The projections and estimates regarding the telecommunications industry relate to pricing of services, the effects of competition and the success of new products and services and new businesses such as long distance.

Key performance indicators that have a direct bearing on GTE's ability to attain these projections include continuing annual growth in: telephone access lines and minutes of use; cellular volume and customers; and new and nontraditional revenues at levels that meet internal forecasts. Also, in developing its forward-looking statements, GTE has made certain assumptions relating to productivity improvements and the outcome of various commercial, legal and regulatory proceedings and lack of disruption to its markets.

If GTE's actual performance differs materially from its projections and estimates regarding the economy, the telecommunications industry and key performance indicators, GTE's actual results could vary significantly from the performance projected in the forward-looking statements.

Item 8. Financial Statements and Supplementary Data.

Reference is made to the financial statements included elsewhere herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant as of December 31, 1995 (a).

<u>Executive Officers of GTE</u>			<u>Date Assumed</u>
<u>Name(b)</u>	<u>Title</u>	<u>Age</u>	<u>Present Position</u>
Charles R. Lee	Chairman and Chief Executive Officer	56	May 1992
Kent B. Foster	President	52	June 1995
Michael T. Masin (c)	Vice Chairman and President - International	51	June 1995
William P. Barr (d)	Senior Vice President and General Counsel	45	July 1994
Robert C. Calafell	Senior Vice President - Corporate Planning and Development	54	March 1995
Armen Der Marderosian	Senior Vice President - Technology and Systems	58	July 1995
J. Michael Kelly (e)	Senior Vice President - Finance	39	February 1994
J. Randall MacDonald	Senior Vice President - Human Resources and Administration	47	March 1995
Dan J. Cohrs (f)	Vice President and Treasurer	43	August 1995
Geoffrey C. Gould (g)	Vice President - Government and Federal Regulatory Affairs	43	January 1995
John P. E. Kent	Vice President - Taxes	55	July 1989
Lawrence R. Whitman	Vice President and Controller	44	April 1995
Patricia D. Yoder (h)	Vice President - Public Affairs and Communications	56	October 1995
Marianne Drost	Secretary	46	August 1985

- (a) Reference is made to pages 20 to 25 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 17, 1996, which is incorporated herein by reference, for information concerning directors of GTE.
- (b) With the exception of Michael T. Masin, William P. Barr, J. Michael Kelly, Dan J. Cohrs, Geoffrey C. Gould and Patricia D. Yoder, each of the officers named has been employed by GTE or a GTE subsidiary for more than five years.
- (c) Mr. Masin joined GTE as Vice Chairman effective October 20, 1993. He was also elected President - International on June 30, 1995. He had been a director of GTE since 1989. Prior to joining GTE as Vice Chairman, he was the Managing Partner of the New York Office of O'Melveny & Myers and Co-chair of the firm's international practice group. Mr. Masin joined the firm in 1969 and became a partner in 1977.
- (d) Mr. Barr was elected Senior Vice President and General Counsel effective July 3, 1994. Prior to joining GTE, he was a partner in the Washington, D.C. office of the law firm of Shaw, Pittman, Potts & Trowbridge since 1993. He served as Attorney General of the United States from 1991 to 1993. Mr. Barr joined the Department of Justice as Assistant Attorney General in charge of the Office of Legal Counsel in 1989, and subsequently served as Deputy Attorney General prior to his appointment as Attorney General.

Item 10. Directors and Executive Officers of the Registrant (Continued).

- (e) Mr. Kelly was elected Senior Vice President - Finance on February 24, 1994. He had been Vice President and Controller since December 1991 and Vice President-Finance and Business Development for GTE's Telecommunications Products and Services Group since March 1991. Prior to joining GTE, he was Vice President and Controller for Contel Corporation ("Contel") which merged with a subsidiary of GTE in 1991. From 1988 to 1990 he was Controller of Contel Federal Systems. He joined Contel in 1987 as Controller of the Applied Systems Division of Contel Federal Systems.
- (f) Mr. Cohrs was elected Vice President and Treasurer on August 3, 1995. He had been Assistant Treasurer - Capital Markets of GTE Service Corporation since June 1993. Prior to joining GTE, he had been Vice President - International Finance for Northwest Airlines ("Northwest") in Tokyo, and before that was Northwest's Vice President - Capital Markets.
- (g) Mr. Gould was elected Vice President - Government and Federal Regulatory Affairs on January 31, 1995. He joined GTE from Contel and was elected Vice President-Merger Integration, Telephone Operations Group, effective March 14, 1991. He became Vice President - Regulatory and Government Affairs, Telephone Operations Group, in 1992. Prior to joining GTE he had been President of Contel's Western Region in Bakersfield, California.
- (h) Ms. Yoder was elected Vice President - Public Affairs and Communications effective October 16, 1995. She joined GTE from General Electric Capital Services in Stamford, Connecticut where she had served as Vice President and Manager - Corporate Public Relations and Advertising since 1991.

Item 11. Executive Compensation.

See pages 6 to 17 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 17, 1996, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

See pages 18 and 19 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 17, 1996, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

See page 18 of GTE's Proxy Statement covering the Annual Meeting of Shareholders to be held on April 17, 1996, which is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) 1. Financial Statements:

Consolidated Financial Statements - GTE Corporation and Subsidiaries:

See GTE's consolidated financial statements and report of independent accountants thereon in the Financial Statements section included elsewhere herein.

2. Financial Statement Schedules:

Schedules Supporting the Consolidated Financial Statements for the Years Ended December 31, 1995 - 1993 (as required):

II - Valuation and Qualifying Accounts

Note: Schedules other than the one listed above are omitted as not applicable, not required, or the information is included in the consolidated financial statements or notes thereto.

3. Exhibits:

See "Index of Exhibits" included elsewhere herein.

- (b) GTE filed a report on Form 8-K dated November 9, 1995, under Item 5, "Other Events." Financial information was filed with this report. In addition, GTE filed a report on Form 8-K dated November 17, 1995, under Item 5, "Other Events." No financial information was filed with this report.

SIGNATURES

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

GTE CORPORATION

(Registrant)

By Lawrence R. Whitman
(Lawrence R. Whitman)
Vice President and Controller

Date March 5, 1996

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

(1) Principal executive officer:

Date March 5, 1996

By Charles R. Lee
(Charles R. Lee)
Chairman of the Board and
Chief Executive Officer

(2) Principal financial officer:

Date March 5, 1996

By J. Michael Kelly
(J. Michael Kelly)
Senior Vice President - Finance

(3) Principal accounting officer:

Date March 5, 1996

By Lawrence R. Whitman
(Lawrence R. Whitman)
Vice President and Controller

SIGNATURES - (Continued):

(4) Directors:

Date <u>March 5, 1996</u>	By <u>Edwin L. Artzt</u> (Edwin L. Artzt - Director)
Date <u>March 5, 1996</u>	By <u>James R. Barker</u> (James R. Barker - Director)
Date <u>March 5, 1996</u>	By <u>Edward H. Budd</u> (Edward H. Budd - Director)
Date <u>March 5, 1996</u>	By <u>Robert F. Daniell</u> (Robert F. Daniell - Director)
Date <u>March 5, 1996</u>	By <u>Kent B. Foster</u> (Kent B. Foster - Director)
Date <u>March 5, 1996</u>	By <u>James L. Johnson</u> (James L. Johnson - Director)
Date <u>March 5, 1996</u>	By <u>Richard W. Jones</u> (Richard W. Jones - Director)
Date <u>March 5, 1996</u>	By <u>James L. Ketelsen</u> (James L. Ketelsen - Director)
Date <u>March 5, 1996</u>	By <u>Charles R. Lee</u> (Charles R. Lee - Director)
Date <u>March 5, 1996</u>	By <u>Michael T. Masin</u> (Michael T. Masin - Director)
Date <u>March 5, 1996</u>	By <u>Sandra O. Moose</u> (Sandra O. Moose - Director)
Date <u>March 5, 1996</u>	By <u>Russell E. Palmer</u> (Russell E. Palmer - Director)

SIGNATURES - (Continued):

(4) Directors:

Date March 5, 1996

By Howard Sloan
(Howard Sloan - Director)

Date March 5, 1996

By Robert D. Storey
(Robert D. Storey - Director)

FINANCIAL STATEMENTS

Consolidated Statements of Income
GTE Corporation and Subsidiaries

Years Ended December 31

(Millions of Dollars, Except
Per-Share Amounts)

	1995	1994	1993
Revenues and Sales	\$ 5,839	\$ 5,234	\$ 5,159
Local services	4,363	4,348	4,398
Network access services	2,548	3,285	3,321
Toll services	2,191	1,666	1,178
Cellular services	1,383	1,372	1,438
Directory services	3,633	3,623	3,838
Other services and sales	19,957	19,528	19,332
Total revenues and sales	19,957	19,528	19,332
Operating Costs and Expenses	7,537	7,677	7,848
Cost of services and sales	3,689	3,667	3,817
Selling, general and administrative	3,675	3,432	3,419
Depreciation and amortization	—	—	1,840
Restructuring	14,901	14,776	16,924
Total operating costs and expenses	5,056	4,752	2,408
Operating Income	1,047	1,059	1,197
Other (Income) Expense	5	(280)	(329)
Interest—net	4,004	3,973	1,540
Other—net	1,466	1,532	568
Income before income taxes	2,538	2,441	972
Income taxes	(4,682)	—	(90)
Income before extraordinary charges	\$ (2,144)	\$ 2,441	\$ 882
Extraordinary charges			
Net Income (Loss)	\$ (2,144)	\$ 2,441	\$ 882
Earnings (Loss) Per Common Share	\$ 2.62	\$ 2.55	\$ 1.03
Before extraordinary charges	(4.83)	—	(.10)
Extraordinary charges	\$ (2.21)	\$ 2.55	\$.93
Net Income (Loss)	\$ (2.21)	\$ 2.55	\$.93
Average common shares outstanding	970	958	945
(in millions)			

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets
GTE Corporation and Subsidiaries

December 31
1995 1994

(Millions of Dollars)

Assets

Current Assets		
Cash and temporary investments.....	\$ 332	\$ 323
Receivables, less allowances of \$263 and \$207	4,227	4,022
Inventories and supplies	719	676
Deferred income tax benefits	330	321
Other.....	284	292
Total current assets	5,892	5,634
Property, plant and equipment, net	22,437	29,328
Employee benefit plans.....	3,058	2,529
Franchises, goodwill and other intangibles.....	2,765	2,149
Investments in unconsolidated companies	1,745	1,551
Other assets.....	1,122	1,309
Total assets	\$37,019	\$42,500

Liabilities and Shareholders' Equity

Current Liabilities		
Short-term obligations, including current maturities.....	\$ 2,156	\$ 2,042
Accounts payable and accrued expenses	3,858	4,010
Taxes payable	890	871
Accrued restructuring costs.....	512	436
Dividends payable	476	472
Other.....	420	390
Total current liabilities.....	8,312	8,221
Long-term debt.....	12,744	12,163
Employee benefit plans.....	4,638	4,651
Deferred income taxes.....	1,203	3,522
Minority interests in equity of subsidiaries	2,230	1,658
Other liabilities	1,021	1,729
Total liabilities.....	30,148	31,944
Preferred Stock, subject to mandatory redemption	—	73
Shareholders' Equity		
Preferred stock	—	10
Common stock—shares issued 977,483,844 and 965,084,925	49	48
Additional paid-in capital	8,049	7,627
Retained earnings (deficit)	(534)	3,422
Guaranteed ESOP obligations.....	(603)	(624)
Treasury stock—2,423,284 shares in 1995, at cost.....	(90)	—
Total shareholders' equity	6,871	10,483
Total liabilities and shareholders' equity	\$37,019	\$42,500

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
GTE Corporation and Subsidiaries

Years Ended December 31
1995 1994 1993

(Millions of Dollars)

Operations	\$ 2,538	\$ 2,441	\$ 972
Income before extraordinary charges.....			
Adjustments to reconcile income before extraordinary charges to net cash from operations:			
Depreciation and amortization	3,675	3,432	3,419
Deferred income taxes	484	248	(864)
Restructuring costs	—	—	1,840
Changes in current assets and current liabilities, excluding the effects of acquisitions and dispositions:			
Receivables—net.....	(561)	(554)	(706)
Other current assets.....	(92)	(4)	168
Accrued taxes and interest	(25)	(209)	465
Other current liabilities	(598)	(262)	60
Other—net	(388)	(352)	19
Net cash from operations	5,033	4,740	5,373
Investing	(4,034)	(4,192)	(3,893)
Capital expenditures	(798)	(244)	(46)
Acquisitions and investments.....	314	1,163	2,267
Proceeds from sales of assets	17	4	(66)
Other—net	(4,501)	(3,269)	(1,738)
Net cash used in investing	(4,034)	(4,192)	(3,893)
Financing	385	422	383
Common stock issued.....	(133)	—	—
Purchase of treasury stock.....	(1,827)	(1,806)	(1,744)
Dividends	1,098	2,345	2,325
Long-term debt and preferred securities issued	(1,553)	(1,178)	(4,539)
Long-term debt and preferred securities retired	1,529	(1,278)	7
Increase (decrease) in short-term obligations, excluding current maturities.....	(22)	25	(99)
Other—net	(523)	(1,470)	(3,667)
Net cash used in financing.....	9	1	(32)
Increase (decrease) in cash and temporary investments	9	1	(32)
Cash and temporary investments	323	322	354
Beginning of year	\$ 332	\$ 323	\$ 322
End of year			
Cash paid during the year for	\$1,133	\$1,084	\$1,373
Interest	985	1,598	880
Income taxes.....			

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, 1992.....	\$ 112	\$ 47	\$ 7,134	\$ 3,621 882 (1,748)	\$ (657)	\$ (181)	\$ 10,076 882 (1,748)
Net income							202
Dividends declared.....			201				181
Common stock issued under employee and shareholder plans (6,614,705 shares)		1				181	
Treasury stock issued (5,616,851 shares).....	(1)		(26)	14	13		
Other							9,593
Shareholders' Equity, December 31, 1993.....	111	48	7,309	2,769 2,441 (1,800)	(644)	—	2,441 (1,800)
Net income							395
Dividends declared.....			395				
Common stock issued under employee and shareholder plans (13,323,033 shares).....							(100)
Retirement of preferred stock (4,000,000 shares).....	(100) (1)		(77)	12	20		(46)
Other							10,483 (2,144)
Shareholders' Equity, December 31, 1994.....	10	48	7,627	3,422 (2,144) (1,824)	(624)	—	(1,824)
Net loss.....							370
Dividends declared.....			369				
Common stock issued under employee and shareholder plans (12,398,919 shares).....		1				(133)	(133)
Purchase of treasury stock (3,589,200 shares).....						43	43
Treasury stock issued (1,165,916 shares).....							(10)
Retirement of preferred stock (265,895 shares).....	(10)		53	12	21		86
Other							
Shareholders' Equity, December 31, 1995.....	\$ —	\$ 49	\$ 8,049	\$ (534)	\$ (603)	\$ (90)	\$ 6,871

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

GTE Corporation and Subsidiaries

1. Summary of Significant Accounting Policies

Description of Business

GTE Corporation and subsidiaries (GTE) is the largest U.S.-based local telephone company. GTE's domestic and international operations serve 24.1 million access lines in the United States, Canada, the Dominican Republic and Venezuela. Domestically, GTE is a leading mobile-cellular operator with the potential of serving 67 million cellular and personal communications service customers. Outside the United States, GTE operates mobile-cellular networks serving some 15 million POPs through affiliates in Canada, the Dominican Republic, Venezuela and Argentina. GTE is also a leader in government and defense communications systems and equipment, aircraft-passenger telecommunications, directories and telecommunications-based information services and systems.

Basis of Presentation

GTE prepares its consolidated financial statements in accordance with generally accepted accounting principles, which require that management 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.

- GTE's telephone subsidiaries discontinued applying the provisions 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 (see Note 2). The 1995 financial statement presentation reflects account classifications consistent with unregulated enterprises operating in a competitive environment. Specifically, intercompany sales and related costs of materials and equipment to regulated telephone operations have been eliminated. In addition, uncollectible revenue accounts have been reclassified from revenues and sales to selling, general and administrative expenses. Reclassifications of prior-year data have been made, where appropriate, to conform to the 1995 presentation.

Revenue Recognition

Revenues are generally recognized when services are rendered or products are delivered to customers. Long-term contracts are 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

GTE's telephone subsidiaries have historically provided for depreciation on a straight-line basis over asset lives approved by regulators. Beginning in 1996, GTE's telephone subsidiaries will provide for depreciation on a straight-line basis over the estimated economic lives of their assets (see Note 2). All other subsidiaries provide for depreciation over the estimated economic lives of assets using the straight-line method.

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 \$87 million, \$71 million and \$83 million in 1995-93, respectively. Accumulated amortization was \$404 million and \$319 million at December 31, 1995 and 1994, respectively.

Goodwill resulting from investments in unconsolidated subsidiaries is also 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, except those operating in highly inflationary economies, 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 accumulated 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 financial and tax reporting bases 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 any deferred tax asset for which realization is not likely.

Deferred income taxes are not provided on undistributed earnings of foreign subsidiaries, aggregating approximately \$381 million at December 31, 1995, as such earnings are expected to be permanently reinvested in those companies.

Computer Software

The cost of computer software for internal use, except initial operating system software, is charged to expense as incurred. Initial operating system software is capitalized and amortized over the life of the related hardware.

Earnings Per Share

Earnings per common share is computed by dividing net income (loss) applicable to common stock by the weighted average number of common shares outstanding during the period. Common share equivalents have been excluded from this computation since they do not have a dilutive effect of 3% or more.

Cash and Temporary Investments

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

Inventories and Supplies

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

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (FAS 121) in March 1995, which is effective January 1, 1996. FAS 121 requires that an impairment loss be recognized when circumstances indicate that the carrying amount of an asset may not be recoverable. Historically, GTE has used a methodology similar to FAS 121 in determining the amount of an impairment. Accordingly, the issuance of FAS 121 will not have a significant impact on GTE's consolidated financial statements.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). As permitted by FAS 123, GTE will continue to apply the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and adopt the disclosure requirements of FAS 123 beginning in 1996. Accordingly, the issuance of FAS 123 will not impact GTE's consolidated financial statements.

2. Extraordinary Charges

In response to recently enacted and pending legislation and the increasingly competitive environment in which GTE's telephone subsidiaries expect to operate, GTE discontinued the use of FAS 71 in the fourth quarter of 1995. During 1995, 10 states in which GTE's telephone subsidiaries operate, including California, Florida and Texas, passed or initiated legislation allowing local competition. Furthermore, there has been a shift in the manner in which GTE's telephone subsidiaries are regulated; at the beginning of 1996, approximately 70% of GTE's domestic telephone service revenues were subject to alternative forms of regulation.

In general, FAS 71 required GTE's telephone subsidiaries to depreciate their telephone plant and equipment over lives approved by regulators that, in many cases, extended beyond the assets' economic lives. FAS 71 also required the deferral of certain costs based upon approvals received from regulators to recover such costs in the future. As a result of these requirements, the recorded net book value of GTE's assets, primarily telephone plant and equipment, were in many cases higher than that which would otherwise have been recorded based on their economic lives.

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 represents a reduction in the net book value of telephone plant and equipment of GTE's domestic telephone subsidiaries through an increase in accumulated depreciation. The amount of the charge was based on an analysis of the discounted cash flows expected to be generated by the embedded telephone plant and equipment over their remaining economic lives.

In addition to the one-time charge, GTE, beginning in 1996, will shorten the depreciable lives of its telephone plant and equipment as follows as a result of the discontinuation of FAS 71:

Asset Category	Depreciable Lives	
	Before	After
Copper	20-30	15
Switching	17-19	10
Circuit	11-13	8
Fiber	25-30	20

In addition, during 1995, GTE redeemed, prior to their stated maturity, 12 series of its preferred stock totaling \$71 million 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.

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.

3. Investments in Unconsolidated Companies

GTE's investments in unconsolidated subsidiaries include its investment in Compania Anonima Nacional Telefonos de Venezuela (CANTV) and Compania de Telefonos del Interior (CTI), as well as its investments in cellular partnerships in the United States and other international investments.

GTE has a 20.4% ownership interest in CANTV, the Venezuelan telephone company. CANTV is the primary provider for local, national long-distance and international long-distance telephone service in Venezuela. CANTV also provides other telecommunication and related services, including cellular telephone and directory advertising services. At December 31, 1995 and 1994, GTE had an investment in CANTV of \$1.2 billion and \$1.1 billion, including \$758 million and \$779 million of goodwill, respectively.

In early 1994, CTI, an international consortium, was awarded two licenses to provide cellular services in the north and south interior regions of Argentina. GTE has a 25.5% ownership interest in CTI. At December 31, 1995 and 1994, GTE had an investment in CTI of \$88 million and \$77 million and guaranteed \$109 million of its debt at December 31, 1995.

Other investments in unconsolidated subsidiaries, primarily cellular partnerships, were \$461 million and \$340 million at December 31, 1995 and 1994, including \$24 million and \$25 million of goodwill, respectively.

4. Restructuring Costs

Results for 1993 include one-time restructuring costs of \$1.8 billion, which reduced net income by \$1.2 billion, or \$1.22 per share. These restructuring costs relate primarily to Telephone Operations' plan to improve customer-responsiveness and product quality, reduce the time necessary to introduce new products and services and further reduce costs. The implementation of the plan is expected to result in costs of \$900 million to re-engineer customer service processes and \$300 million to re-engineer administrative processes. The restructuring costs also include \$170 million to consolidate facilities and operations and other related costs. Implementation of the re-engineering plan began during 1994 and is expected to be substantially completed by the end of 1996.

Since the inception of the plan, 258 work centers have been consolidated to 58 and workforce reductions of approximately 12,000 have occurred. Costs of \$858 million have been incurred since the plan's inception, including \$585 million related to customer service processes, \$103 million related to administration processes and \$170 million related to the consolidation of facilities and operations. These expenditures were primarily associated with the closure and relocation of the various centers, software enhancements and separation benefits related to employee reductions.

The 1993 restructuring charge also included a \$400 million reduction in the carrying value of the satellite communication assets of GTE Spacenet (Spacenet) and certain other assets to estimated net realizable value. During 1994, GTE sold Spacenet at a price that approximated its book value.

5. Property Repositioning and Discontinued Operations

During 1994, GTE substantially completed its plan to pursue the sale or exchange of nonstrategic domestic local-exchange telephone properties in markets that may be of greater long-term strategic value to other telephone service providers. Telephone properties serving 448,000 access lines in nine states were sold for \$900 million in cash. During 1993, GTE sold telephone properties serving 530,000 access lines in eight states in return for 90,000 access lines in Illinois, Indiana and Michigan and \$1 billion in cash.

The consolidated statements of income for the years ended December 31, 1994 and 1993 include the results of operations, through the date of sale, of Spacenet and the telephone properties sold during 1994 and 1993. For comparability, the following table includes pro forma adjustments to remove the operating results of Spacenet and the telephone properties sold. In addition, the table has been adjusted to exclude the 1993 impact of the one-time restructuring costs described in Note 4 and a pre-tax charge of \$74 million associated with voluntary separation programs offered during 1993 by Telephone Operations to its domestic workforce:

(Millions of Dollars)	1995	1994	1993
Revenues and sales.....	\$19,957	\$19,191	\$18,472
Operating income.....	5,056	4,700	4,246

As a result of these transactions, GTE recorded pre-tax gains in 1994 and 1993 of \$264 million and \$168 million, respectively. In addition, during 1995, GTE sold approximately 10,000 access lines for \$30 million in cash, resulting in a pre-tax gain of \$16 million. These gains are included in "Other—net" in the accompanying consolidated statements of income.

In January 1993, GTE sold its previously discontinued worldwide Electrical Products Group. The aggregate sales price, which included the assumption of debt, totaled approximately \$1.2 billion.

6. Shareholders' Equity

Preferred Stock

During 1995, GTE retired prior to stated maturity, its non-redeemable preferred stock of approximately \$10 million (see Note 2). Preferred stock had voting rights generally on an equal basis with common stock. Dividends were cumulative on all preferred stock.

Common Stock

The authorized common stock of GTE at December 31, 1995 consisted of two billion shares with a par value of \$.05 per share. In August 1995, GTE's Board of Directors authorized repurchasing up to 20 million shares of GTE common stock in the open market or in privately negotiated transactions. The repurchase of shares will occur from time to time through year-end 1996, depending on market conditions. The shares will be used to satisfy the requirements of GTE's employee benefit and dividend reinvestment programs.

Additional Paid-In Capital

Additional paid-in capital includes the cumulative foreign currency translation adjustment of (\$192) million, (\$207) million and (\$168) million at December 31, 1995-93, respectively, and the cumulative unrealized gains (losses) on investments in debt and equity securities of \$20 million, (\$22) million and \$16 million at December 31, 1995-93, respectively.

7. Stock Option and Shareholder Rights Plans

Stock Option Plans

GTE maintains stock option plans for key management employees. The options may be granted separately or in conjunction with stock appreciation rights. 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 four 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.

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, 1992.....	7,728	\$27.88
Options granted	1,989	35.24
Options exercised	(1,195)	23.99
Options cancelled or forfeited	(50)	23.21
Balance, December 31, 1993.....	8,472	30.19
Options granted	4,118	32.53
Options exercised	(173)	25.09
Options cancelled or forfeited	(153)	33.12
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

At December 31, 1995, 6.9 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. The Rights are 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.

8. Minority Interests

Minority interests in equity of subsidiaries includes the following:

(Millions of Dollars)	1995	1994
Minority interests in consolidated subsidiaries:		
BC TEL (50.7% GTE ownership).....	\$ 721	\$ 659
Quebec Telephone (50.3% GTE ownership)	81	79
Cellular partnerships and other	117	114
Preferred securities issued by subsidiaries	1,311	806
Total minority interests in equity of subsidiaries	\$2,230	\$1,658

Preferred securities issued by subsidiaries at December 31, 1995 and 1994 include \$1.0 billion and \$489 million, respectively, of Monthly Income Preferred Securities which are subject to mandatory redemption. These securities issued by GTE Delaware, a limited partnership holding solely GTE debentures, have cumulative annual dividend rates of 8.75% and 9.25% and maturities of 30 years.

9. Debt

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

(Millions of Dollars)	1995	1994
GTE Corporation:		
Debtures, maturing 1998 through 2023, average rate 9.0%	\$3,350	\$3,350
Guaranteed ESOP obligations, maturing 1997-2005, average rate 9.7%.....	624	649
Sinking fund debenture, maturing in 2017, at a rate of 10.8%.....	200	200
	4,174	4,199
Telephone Subsidiaries:		
First mortgage bonds, sinking fund debentures and notes, maturing through 2031, average rates 7.6% and 7.7%	6,741	7,343
Other Subsidiaries:		
Sinking fund debentures and notes, maturing through 2010, average rates 7.7% and 7.6%	1,078	1,301
Commercial paper expected to be refinanced on a long-term basis	1,306	—
Total principal amount	13,299	12,843
Less: discount and premium—net.....	(62)	(77)
Total	13,237	12,766
Less: current maturities	(493)	(603)
Total long-term debt.....	\$12,744	\$12,163

Estimated payments of long-term debt during the next five years are: \$493 million in 1996; \$744 million in 1997; \$1,272 million in 1998; \$1,037 million in 1999, and \$889 million in 2000.

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.

Total short-term obligations were as follows:

(Millions of Dollars)	1995	1994
Commercial paper—average rates 5.9% and 6.0%	\$1,650	\$1,411
Notes payable to banks—average rates 9.7% and 8.3%.....	13	28
Current maturities of long-term debt.....	493	603
Total	\$2,156	\$2,042

GTE and its subsidiaries had available lines of credit aggregating \$4.5 billion at December 31, 1995.

10. Financial Instruments

GTE enters into 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. Amounts to be paid or received under interest rate swaps are accrued as interest expense. Gains or losses on foreign currency 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 purchased options indexed to GTE's common stock, which hedge GTE's 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 purchased options offset SAR expense or income in GTE's consolidated statements of income.

At December 31, 1995, GTE had entered into interest rate swap agreements to convert \$516 million of floating rate long-term and short-term debt to fixed rates. There were no material foreign exchange contracts outstanding at December 31, 1995. Purchased options having a contract value of \$256 million were outstanding at December 31, 1995.

During 1995, GTE entered into forward contracts to sell U.S. Treasury bonds in order to hedge against changes in market interest rates during the period between the redemption and the refinancing of \$850 million of the debt that GTE called and anticipates refinancing during the first half of 1996. Any gain or loss recognized upon the expiration or settlement of the forward contract will be amortized over the life of the associated refinanced debt 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. GTE carefully evaluates and continually monitors the creditworthiness of its counterparties and believes the risk of non-performance is remote.

The fair values of financial instruments, other than long-term debt, closely approximate their carrying value. As of December 31, 1995 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 \$900 million. The estimated fair value of long-term debt as of December 31, 1994 was lower than the carrying value by approximately \$300 million.

11. Property, Plant and Equipment

GTE's property, plant and equipment is summarized as follows at December 31:

(Millions of Dollars)	1995	1994
Land.....	\$ 372	\$ 385
Buildings	4,195	3,971
Plant and equipment	41,115	38,824
Work in progress and other	5,265	5,365
Total	50,947	48,545
Accumulated depreciation	(28,510)	(19,217)
Total property, plant and equipment—net	\$22,437	\$29,328

Depreciation provisions in 1995-93 for GTE's telephone subsidiaries were equivalent to a composite average percentage of 7.2%, 7.0% and 6.9%, respectively.

12. Employee Benefit Plans

Retirement Plans

GTE sponsors noncontributory defined benefit 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 provide the plans with assets sufficient to meet the benefit obligations of the plans. The assets of the plans consist primarily of corporate equities, government securities and corporate debt securities.

The components of the net pension credit for 1995-93 were as follows:

(Millions of Dollars)	1995	1994	1993
Benefits earned during the year.....	\$ 213	\$ 269	\$ 295
Interest cost on projected benefit obligations	568	542	584
Return on plan assets:			
Actual	(2,420)	(29)	(2,073)
Deferred.....	1,413	(971)	1,110
Other—net.....	(177)	(168)	(174)
Total—net.....	\$ (403)	\$(357)	\$ (258)

The expected long-term rate of return on plan assets was 8.5% for 1995 and 1994, and 8.25% for 1993.

The funded status of the plans and the net prepaid pension cost at December 31, 1995 and 1994, were as follows:

(Millions of Dollars)	1995	1994
Vested benefit obligations.....	\$ 5,361	\$ 4,545
Accumulated benefit obligations.....	\$ 5,996	\$ 5,090
Plan assets at fair value	\$13,695	\$11,950
Less: Projected benefit obligations	7,732	6,724
Excess of assets over projected obligations ..	5,963	5,226
Unrecognized net transition asset.....	(533)	(644)
Unrecognized net gain.....	(2,602)	(2,270)
Total—net.....	\$ 2,828	\$ 2,312

Included in the above table are prepaid pension costs of \$3.1 billion and \$2.5 billion and accrued pension liabilities of \$230 million and \$217 million for 1995 and 1994, respectively.

Assumptions used to develop the projected benefit obligations at December 31, 1995 and 1994 were as follows:

	1995	1994
Discount rate	7.50%	8.25%
Rate of compensation increase	5.25%	5.50%

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 health care benefits paid under the GTE plans are generally based on comprehensive hospital, medical and surgical benefit provisions. GTE funds amounts for postretirement benefits as deemed appropriate from time to time.

The postretirement benefit cost for 1995-93 included the following components:

(Millions of Dollars)	1995	1994	1993
Benefits earned during the year.....	\$ 46	\$ 57	\$ 96
Interest on accumulated postretirement benefit obligations	258	259	290
Actual return on plan assets	(41)	6	(6)
Amortization of prior service benefits ..	(50)	(54)	(4)
Other—net.....	17	(14)	2
Total—net.....	\$230	\$254	\$378

The following table sets forth the plans' funded status and the accrued postretirement benefit obligations as of December 31, 1995 and 1994:

(Millions of Dollars)	1995	1994
Accumulated postretirement benefit obligations attributable to:		
Retirees.....	\$2,815	\$2,731
Fully eligible active plan participants ...	254	234
Other active plan participants.....	969	912
Total accumulated postretirement benefit obligations.....	4,038	3,877
Less: Fair value of plan assets.....	353	244
Excess of accumulated obligations over plan assets.....	3,685	3,633
Unrecognized prior service benefits.....	563	656
Unrecognized net loss	(114)	(99)
Total	\$4,134	\$4,190

The assumed discount rates used to measure the accumulated postretirement benefit obligations were 7.5% at December 31, 1995 and 8.25% at December 31, 1994. The assumed health care cost trend rates in 1995 and 1994 were 11% and 12% for pre-65 participants and 8.5% and 9% for post-65 retirees, each rate declining on a graduated basis to an ultimate rate in the year 2004 of 6%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased 1995 costs by \$34 million and the accumulated postretirement benefit obligation as of December 31, 1995 by \$381 million.

During 1993, GTE made certain changes to its postretirement health care and life insurance benefits for nonunion employees retiring on or after January 1, 1995. These changes include, among others, newly established limits to GTE's annual contribution to postretirement medical costs and a revised cost sharing schedule based on a retiree's years of service. The resulting unrecognized prior service benefits are being amortized over the remaining service lives of the employees.

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 \$85 million, \$76 million and \$66 million in the years 1995-93, respectively.

GTE 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 provide a portion of 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 1995-93 totaled \$88 million, \$84 million and \$81 million, respectively. These payments were funded by \$45 million, \$46 million and \$46 million of dividends accumulated on the GTE stock held by the ESOP and by \$43 million, \$38 million and \$35 million of cash contributions by GTE in 1995-93, respectively.

13. Interest—Net

The components of interest—net are as follows:

(Millions of Dollars)	1995	1994	1993
Interest expense	\$1,151	\$1,139	\$1,298
Interest capitalized	(49)	(28)	(40)
Interest income	(55)	(52)	(61)
Total	<u>\$1,047</u>	<u>\$1,059</u>	<u>\$1,197</u>

14. Other—Net

The components of other—net are as follows:

(Millions of Dollars)	1995	1994	1993
Minority interests	\$ 227	\$ 140	\$ 112
Preferred dividends	22	28	40
Equity in (income) loss of unconsolidated companies:			
CANTV	(36)	(9)	(83)
CTI	33	18	—
Cellular partnerships and other	(104)	(83)	(81)
Gains on sales of nonstrategic telephone properties	(16)	(264)	(168)
Gains on sales of nonstrategic cellular properties and other	(121)	(110)	(149)
Total	<u>\$ 5</u>	<u>\$(280)</u>	<u>\$(329)</u>

15. Income Taxes

Income before income taxes is as follows:

(Millions of Dollars)	1995	1994	1993
Domestic	\$3,550	\$3,465	\$ 984
Foreign	454	508	556
Total	<u>\$4,004</u>	<u>\$3,973</u>	<u>\$1,540</u>

The income tax provision (benefit) is as follows:

(Millions of Dollars)	1995	1994	1993
Current:			
Federal	\$ 711	\$ 927	\$1,088
Foreign	173	192	183
State and local	98	165	161
	<u>982</u>	<u>1,284</u>	<u>1,432</u>
Deferred:			
Federal	439	269	(682)
Foreign	14	(1)	2
State and local	90	56	(100)
	<u>543</u>	<u>324</u>	<u>(780)</u>
Amortization of deferred investment tax credits—net	(59)	(76)	(84)
Total	<u>\$1,466</u>	<u>\$1,532</u>	<u>\$568</u>

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 pre-tax income and income taxes provided in the consolidated statements of income is as follows:

(Millions of Dollars)	1995	1994	1993
Amounts computed at statutory rates	\$1,401	\$1,391	\$539
State and local income taxes, net of federal tax benefits	122	144	40
Minority interests and preferred stock dividends	43	42	46
Amortization of investment tax credits—net	(59)	(76)	(84)
Other differences—net	(41)	31	27
Total provision	<u>\$1,466</u>	<u>\$1,532</u>	<u>\$568</u>

The tax effects of temporary differences that give rise to the current deferred income tax benefits and deferred income tax liabilities at December 31, 1995 and 1994 are as follows:

(Millions of Dollars)	1995	1994
Depreciation and amortization	\$ 1,605	\$ 4,165
Employee benefit obligations	(1,899)	(1,853)
Restructuring costs	(197)	(368)
Employee benefit plans	971	783
Investment tax credits	138	226
Other—net	255	248
Total	<u>\$ 873</u>	<u>\$ 3,201</u>

16. Commitments and Contingencies

GTE has noncancelable operating leases covering certain buildings, office space and equipment. Rental expense was \$384 million, \$419 million, and \$459 million in 1995-93, respectively. Minimum rental commitments under non-cancelable leases through 2000 do not exceed \$225 million annually and aggregate \$829 million thereafter.

GTE and its unconsolidated subsidiaries 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.

Report of Independent Public Accountants

To the Board of Directors and
Shareholders of GTE Corporation:

We have audited the consolidated financial statements of GTE Corporation (a New York corporation) and subsidiaries as of December 31, 1995 and 1994 and for each of the three years in the period ended December 31, 1995 as set forth on pages 40 through 58 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 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."

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedule listed under Item 14 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The supporting schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Stamford, Connecticut
January 25, 1996

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 which 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 which 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
Senior Vice President-Finance and
Chief Financial Officer

SUPPORTING SCHEDULE

GTE CORPORATION AND SUBSIDIARIES
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
 For the Years Ended December 31, 1995 - 1993
 (Millions of Dollars)

Schedule II
 Page 1

Column A Description	Column B Balance at Beginning of Year	Column C Additions		Column D Deductions from Reserves (1)	Column E Balance at End of Year
		Charged (Credited) to Income	Charged to Other Accounts		
<u>December 31, 1995</u>					
Allowance for uncollectible accounts	\$ 207	\$ 373	\$ 267(2)	\$ 584	\$ 263
Accrued discontinuance and business repositioning costs	\$ 302	\$ -	\$ 7(3)	\$ 51	\$ 258
Accrued telephone restructuring costs (4)	\$ 957	\$ -	\$ -	\$ 445	\$ 512
<u>December 31, 1994</u>					
Allowance for uncollectible accounts	\$ 231	\$ 344	\$ 120(2)	\$ 488	\$ 207
Accrued discontinuance and business repositioning costs	\$ 297	\$ 55	\$ 5(3)	\$ 55	\$ 302
Accrued telephone restructuring costs (4)	\$1,370	\$ -	\$ -	\$ 413	\$ 957
<u>December 31, 1993</u>					
Allowance for uncollectible accounts	\$ 154	\$ 329	\$ 124(2)	\$ 376	\$ 231
Accrued discontinuance and business repositioning costs	\$ 373	\$ -	\$ 109(3)	\$ 185	\$ 297
Accrued telephone restructuring costs (4)	\$ -	\$1,370	\$ -	\$ -	\$1,370

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 1995-1993

Schedule II
Page 2

NOTES:

- (1) Charges for which reserve was created.
- (2) Recoveries of amounts written off in prior years.
- (3) Primarily reclassifications from other accounts.
- (4) See Note 4 to the Consolidated Financial Statements included elsewhere herein.

EXHIBITS

INDEX OF EXHIBITS

Exhibit Number	Description
3.1(a)	Articles of Incorporation, as restated
3.2	Certificate of Amendment of the Certificate of Incorporation of GTE Corporation (filed February 1, 1996)
3.3(b)	By-Laws of GTE Corporation
10-1(c)	Material Contracts - Deferred Compensation Plan for Directors
10-2(d)	Material Contracts - Agreements Between GTE and Key Executives
10-3(e)	Material Contracts - Supplemental Executive Retirement Plan
10-4(f)	Material Contracts - Long-Term Incentive Plan
10-5(g)	Material Contracts - Executive Incentive Plan
10-6(h)	Material Contracts - Executive Retired Life Insurance Plan
10-7(i)	Material Contracts - Phantom Stock Plan
10-8(j)	Material Contracts - Director's Retirement Plan
10-9(k)	Material Contracts - Charitable Awards Program
10-10(l)	Material Contracts - Salary Deferral Plan
10-11	Material Contracts - Change in Control Agreement between GTE Service Corporation and Michael T. Masin
10-12	Material Contracts - Employment Agreement between GTE Service Corporation and Patricia D. Yoder
11	Statement re: Calculation of Earnings (Loss) Per Common Share
12	Statement re: Calculation of the Ratio of Earnings to Fixed Charges
21	Significant Subsidiaries of Registrant
23	Consent of Independent Public Accountants
27	Financial Data Schedule
(a)	GTE's restated Articles of Incorporation (except for the amendment, 3.2 above, filed with this Form 10-K) were filed as an exhibit to GTE's registration statement on Form S-3 (File No. 33-50263), and are incorporated herein by reference. An amendment was filed with GTE's 1993 and 1994 Forms 10-K, and is incorporated herein by reference.
(b)	GTE's By-Laws were filed as an exhibit to GTE's registration statement on Form S-3 (File No. 33-50263), and are incorporated herein by reference. Amendments were filed with GTE's 1993 Form 10-K and GTE's registration statement on Form S-3 (File No. 33-61661), and are incorporated herein by reference.
(c)	GTE's Deferred Compensation Plan for Directors was filed as an exhibit to GTE's 1992 Form 10-K and is incorporated herein by reference.
(d)	Agreements with certain key executives of GTE were filed as exhibits to GTE's Form S-K filed on September 11, 1987, GTE's 1989, 1990, 1991, 1992, 1993 and 1994 Forms 10-K, and are incorporated herein by reference.
(e)	GTE's Supplemental Executive Retirement Plan was filed as an exhibit to GTE's 1991 Form 10-K and is incorporated herein by reference. Amendments were filed with GTE's 1994, 1993 and 1992 Forms 10-K, and are incorporated herein by reference.
(f)	GTE's Long-Term Incentive Plan was filed as an exhibit to GTE's Proxy Statement covering the Annual Meeting of Shareholders held on May 15, 1991, and is incorporated herein by reference.
(g)	GTE's Executive Incentive Plan was filed as an exhibit to GTE's 1993 Proxy Statement, and is incorporated herein by reference.
(h)	GTE's Executive Retired Life Insurance Plan was filed as an exhibit to GTE's 1991 Form 10-K and is incorporated herein by reference. Amendments were filed with GTE's 1993 and 1992 Forms 10-K, and are incorporated herein by reference.
(i)	GTE's Phantom Stock Plan was filed as an exhibit to GTE's 1992 Form 10-K, and is incorporated herein by reference.
(j)	GTE's Director's Retirement Plan was filed as an exhibit to GTE's 1992 Form 10-K, and is incorporated herein by reference. Amendments were filed as exhibits to GTE's 1994 Form 10-K and are incorporated herein by reference.
(k)	GTE's Charitable Awards Program was filed as an exhibit to GTE's 1992 Form 10-K, and is incorporated herein by reference.
(l)	GTE's Salary Deferral Plan was filed as an exhibit to GTE's 1994 Form 10-K, and is incorporated herein by reference.

(Filed February 1, 1996)

CERTIFICATE OF AMENDMENT
OF THE
CERTIFICATE OF INCORPORATION
OF
GTE CORPORATION

UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

WE, THE UNDERSIGNED, LAWRENCE R. WHITMAN and MARIANNE DROST, being respectively the Vice President and Controller and the Secretary of GTE CORPORATION, hereby certify:

I. The name of the Corporation is GTE Corporation (originally incorporated as General Telephone Corporation).

II. The Certificate of Incorporation of the Corporation was filed by the Department of State on the 25th day of February, 1935.

III. The Certificate of Incorporation is amended to eliminate from the enumeration and description of shares which the Corporation is authorized to issue 96,107 shares of the class of Preferred Stock, \$50.00 par value per share, and 130,567 shares of the class of No Par Preferred Stock, as follows:

40,403	shares of 5.00%	Convertible Preferred Stock
28,830	shares of 5.50%	Convertible Preferred Stock
12,067	shares of 4.00%	Convertible Preferred Stock
2,711	shares of 5.05%	Convertible Preferred Stock
6,127	shares of 5.35%	Convertible Preferred Stock
4,642	shares of 4.75%	Convertible Preferred Stock
733	shares of 5.28%	Convertible Preferred Stock
<u>594</u>	shares of 4.36%	Convertible Preferred Stock
<u>96,107</u>		TOTAL

<u>130,567</u>	shares of \$2.00	Convertible No Par Preferred Stock
<u>226,674</u>		TOTAL

The removal of the above-described shares, which have been converted into shares of Common Stock during the calendar year ending December 31, 1995, is authorized by subparagraph (8) of paragraph (b) of Section 801 of the Business Corporation Law and paragraph (e) of Section 515 of the Business Corporation Law.

Accordingly, Article 4 of the Certificate of Incorporation, as heretofore added to or amended by certificates filed pursuant to law, is amended to read in its entirety as follows:

"4. The aggregate number of shares which the Corporation shall have authority to issue is 2,020,945,266 shares of which 9,217,764 shares of the par value of \$50.00 each shall be Preferred Stock, 11,727,502 shares without par value shall be No Par Preferred Stock and 2,000,000,000 shares of the par value of \$.05 each shall be Common Stock."

The foregoing amendment of the Certificate of Incorporation was authorized by resolution of the Board of Directors.

IN WITNESS WHEREOF, we have made and subscribed this certificate this 31st day of January 1996, and we affirm the statements contained herein are true under the penalties of perjury.

Lawrence R. Whitman
Lawrence R. Whitman
Vice President and Controller

Marianne Drost
Marianne Drost
Secretary

EXECUTIVE SEVERANCE AGREEMENT

This AGREEMENT ("Agreement") dated as of January 8, 1996, by and between GTE Service Corporation, a New York corporation (the "Company"), and Michael T. Masin (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company recognizes the valuable services that the Executive has rendered thereto and desires to be assured that the Executive will continue to attend to the business and affairs of the Company without regard to any potential or actual change in control of GTE Corporation, a New York corporation and the Company's sole shareholder ("GTE"); and

WHEREAS, the Executive is willing to continue to serve the Company, but desires assurance that he will not be materially disadvantaged by a change in control of GTE;

NOW, THEREFORE, in consideration of the Executive's continued service to the Company and the mutual agreements herein contained, the Company and the Executive hereby agree as follows:

ARTICLE I

ELIGIBILITY FOR BENEFITS

Section 1.1. Qualifying Termination. The Company shall not be required to provide any benefits to the Executive

pursuant to this Agreement unless a Qualifying Termination occurs before the Agreement expires in accordance with Section 6.1 hereof. For purposes of this Agreement, a Qualifying Termination shall occur only if

- (a) a Change in Control occurs, and
- (b) (i) within two years after the Change in Control, the Company terminates the Executive's employment other than for Cause; OR
(ii) (A) within two years after the Change in Control, a Good Reason arises, and (B) the Executive terminates employment with the Company within (I) six months after the Good Reason arises or (II) two years after the Change in Control, whichever occurs later;

provided, that a Qualifying Termination shall not occur if the Executive's employment with the Company terminates by reason of the Executive's Retirement, Disability, or death. A Qualifying Termination may occur even though the Executive retires from employment with the Company other than by reason of Retirement or Disability.

Section 1.2. Change in Control. Except as provided below, a Change in Control shall be deemed to occur when and only when the first of the following events occurs:

- (a) an acquisition (other than directly from GTE) of securities of GTE by any Person, immediately

after which such Person, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of securities of GTE representing 20 percent or more of the Voting Power or such lower percentage of the Voting Power that, from time to time, would cause the Person to constitute an "Acquiring Person" (as such term is defined in the Rights Plan); provided that, in determining whether a Change in Control has occurred, the acquisition of securities of GTE in a Non-Control Acquisition shall not constitute an acquisition that would cause a Change in Control; or

- (b) three or more directors, whose election or nomination for election is not approved by a majority of the members of the "Incumbent Board" (as defined below) then serving as members of the Board, are elected within any single 12-month period to serve on the Board; provided that an individual whose election or nomination for election is approved as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the Securities Exchange Act of 1934, as amended from time to time) or other actual or threatened

solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed not to have been approved by a majority of the Incumbent Board for purposes hereof; or

(c) members of the Incumbent Board cease for any reason to constitute at least a majority of the Board; "Incumbent Board" shall mean individuals who, as of the close of business on April 19, 1995, are members of the Board; provided that, if the election, or nomination for election by GTE's shareholders, of any new director was approved by a vote of at least three-quarters of the Incumbent Board, such new director shall, for purposes of this Agreement, be considered as a member of the Incumbent Board; provided further that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened Election Contest or other actual or threatened Proxy Contest, including by reason of any agreement intended to

avoid or settle any Election Contest or Proxy Contest; or

(d) approval by shareholders of GTE of:

(i) a merger, consolidation, or reorganization involving GTE, unless

(A) the shareholders of GTE, immediately before the merger, consolidation, or reorganization, own, directly or indirectly immediately following such merger, consolidation, or reorganization, at least 50 percent of the combined voting power of the outstanding voting securities of the corporation resulting from such merger, consolidation, or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the voting securities immediately before such merger, consolidation, or reorganization;

(B) individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation, or reorganization constitute at least a majority of the board of directors of the Surviving Corporation; and

(C) no Person (other than GTE or any subsidiary of GTE, any employee benefit plan (or any trust forming a part thereof) maintained by GTE, the Surviving Corporation, or any subsidiary of GTE, or any Person who, immediately prior to such merger, consolidation, or reorganization, had Beneficial Ownership of securities representing 20 percent (or such lower percentage the acquisition of which would cause a Change in Control pursuant to paragraph (a) of this definition of "Change in Control") or more of the Voting Power) has Beneficial Ownership of securities representing 20 percent (or such lower percentage the acquisition of which would cause a Change in Control pursuant to paragraph (a) of this definition of "Change in Control") or more of the combined Voting Power of the Surviving Corporation's then outstanding voting securities;

(ii) a complete liquidation or dissolution of GTE; or

(iii) an agreement for the sale or other disposition of all or substantially all of the assets of GTE to any Person (other than a transfer to a subsidiary of GTE).

For purposes of this Section, the following terms shall have the definitions set forth below:

"Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended from time to time.

"Board" means the Board of Directors of GTE.

"Non-Control Acquisition" means an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by GTE or any of its subsidiaries, (2) GTE or any of its subsidiaries, or (3) any Person in connection with a "Non-Control Transaction."

"Non-Control Transaction" means a transaction described in clauses (A) through (C) of paragraph (d)(i) of the definition of "Change in Control" herein.

"Person" shall mean any individual, firm, corporation, partnership, joint venture, association, trust, or other entity.

A Person shall be deemed the "Beneficial Owner" of, and shall be deemed to "beneficially own," any securities:

- (x) which such Person or any of such Person's Affiliates or Associates beneficially owns, directly or indirectly;
- (y) which such Person or any of such Person's Affiliates or Associates has (i) the right or

obligation to acquire (whether such right or obligation is exercisable or effective immediately or only after the passage of time) pursuant to any agreement, arrangement, or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights (other than the rights granted pursuant to the Rights Plan), warrants or options, or otherwise; provided that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange; or (ii) the right to vote pursuant to any agreement, arrangement, or understanding (whether or not in writing); provided that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this clause (ii) if the agreement, arrangement, or understanding to vote such security (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the

applicable rules and regulations of the Securities Exchange Act of 1934, as amended from time to time, and (B) is not also then reported by such person on Schedule 13D under the Securities Exchange Act of 1934, as amended from time to time (or any comparable or successor report); or

- (z) which are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement, or understanding (whether or not in writing), or with which such Person or any of such Person's Affiliates or Associates have otherwise formed a group for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in clause (ii)(A) of subparagraph (y), above), or disposing of any securities of GTE.

"Rights Plan" means the Rights Agreement, dated as of December 7, 1989, between GTE and State Street Bank and Trust Company (now administered by the First National Bank of Boston), as it may be amended from time to time, or any successor thereto.

"Voting Power" means the voting power of all securities of GTE then outstanding generally entitled to vote for the election of directors of GTE.

Section 1.3. Termination for Cause. The Company shall have Cause to terminate the Executive for purposes of Section 1.1 hereof only if the Executive (a) engages in unlawful acts intended to result in the substantial personal enrichment of the Executive at the Company's expense, or (b) engages (except by reason of incapacity due to illness or injury) in a material violation of his responsibilities to the Company that results in a material injury to the Company. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to him a notice, consisting of a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of GTE's Board of Directors at a duly held meeting of the Board of Directors (with reasonable notice to the Executive and an opportunity for the Executive, together with counsel, to be heard before the Board of Directors) ("Notice of Termination"), finding that the Executive has engaged in the conduct set forth above in this Section 1.3 and specifying the particulars thereof in detail. GTE's Board of Directors may not delegate or assign its duties under this Section 1.3.

Section 1.4. Termination for Good Reason. The Executive shall have a Good Reason for terminating employment with the Company only if one or more of the following occurs after a Change in Control:

- (a) a change in the Executive's status or position(s) with the Company that, in the Executive's reasonable judgment, represents a demotion from the Executive's status or position(s) in effect immediately before the Change in Control;
- (b) the assignment to the Executive of any duties or responsibilities that, in the Executive's reasonable judgment, are inconsistent with the Executive's status or position(s) in effect immediately before the Change in Control;
- (c) layoff or involuntary termination of the Executive's employment, except in connection with the termination of the Executive's employment for Cause or as a result of the Executive's Retirement, Disability, or death;
- (d) a reduction by the Company in the Executive's total compensation (which shall be deemed, for this purpose, to be equal to his base salary plus the greater of (i) the most recent award that he has earned under the GTE Corporation

Executive Incentive Plan, as amended from time to time, or any successor thereto (the "EIP"), or (ii) an EIP award equal to the Executive's Average Percentage of the annual value (i.e., the dollar amount) of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that are in effect under the EIP immediately before the date on which the Change in Control occurs for the Executive's salary level immediately before the date on which the Change in Control occurs)). For purposes of this paragraph (d), the Executive's "Average Percentage" means the average of the Executive's Annual Percentages for the Determination Years. For purposes of this paragraph (d), the Executive's "Annual Percentage" for each Determination Year means a fraction (expressed as a percentage), the numerator of which is the EIP award earned by the Executive for such Determination Year, and the denominator of which is the annual value of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that were in effect under the EIP for such Determination Year for

the Executive's salary level for such Determination Year). For purposes of this paragraph (d), a "Determination Year" means each of the last three EIP plan years ending before the date on which the Change in Control occurs (or, if less, the number of those three plan years during which the Executive was a participant in the EIP);

- (e) a material increase in the Executive's responsibilities or duties without a commensurate increase in total compensation;
- (f) the failure by the Company to continue in effect any Plan in which the Executive is participating at the time of the Change in Control (or plans or arrangements providing the Executive with substantially equivalent benefits) other than as a result of the normal expiration of any such Plan in accordance with its terms as in effect at the time of the Change in Control;
- (g) any action or inaction by the Company that would adversely affect the Executive's continued participation in any Plan on at least as favorable a basis as was the case on the date of the Change in Control, or that would materially reduce the Executive's benefits in the future

under the Plan or deprive him of any material benefits that he enjoyed at the time of the Change in Control, except to the extent that such action or inaction by the Company is required by the terms of the Plan as in effect immediately before the Change in Control, or is necessary to comply with applicable law or to preserve the qualification of the Plan under section 401(a) of the Internal Revenue Code, and except to the extent that the Company provides the Executive with substantially equivalent benefits;

- (h) the Company's failure to provide and credit the Executive with the number of days of paid vacation, holiday, or leave to which he is then entitled in accordance with the Company's normal vacation, holiday, or leave policy in effect immediately before the Change in Control;
- (i) the imposition of any requirement that the Executive be based anywhere other than within 25 miles of where his principal office was located immediately before the Change in Control;
- (j) a material increase in the frequency or duration of the Executive's business travel;

- (k) the Company's failure to obtain the express assumption of this Agreement by any successor to the Company as provided by Section 6.3 hereof;
- (l) any attempt by the Company to terminate the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 1.3 hereof or that does not afford the Executive the procedural protections prescribed by that Section; or
- (m) any violation by the Company of any agreement (including this Agreement) between it and the Executive.

Notwithstanding the foregoing, no action by the Company shall give rise to a Good Reason if it results from the Executive's termination for Cause, Retirement, or death, and no action by the Company specified in paragraphs (a) through (d) of the preceding sentence shall give rise to a Good Reason if it results from the Executive's Disability. A Good Reason shall not be deemed to be waived by reason of the Executive's continued employment as long as the termination of the Executive's employment occurs within the time prescribed by Section 1.1(b)(ii)(B) hereof. For purposes of this Section 1.4, "Plan" means any compensation plan, such as an incentive, stock option, or restricted stock plan, or any employee benefit plan, such as a thrift, pension, profit-sharing, stock bonus,

long-term performance award, medical, disability, accident, or life insurance plan, or a relocation plan or policy, or any other plan, program or policy of the Company that is intended to benefit employees.

Section 1.5. Retirement. For purposes of this Agreement, "Retirement" shall mean the Executive's termination of employment upon or after attaining age 65.

Section 1.6. Disability. For purposes of this Agreement, "Disability" shall mean an illness or injury that prevents the Executive from performing his duties (as they existed immediately before the illness or injury) on a full-time basis for six consecutive months.

Section 1.7. Notice. If a Change in Control occurs, the Company shall notify the Executive of the occurrence of the Change in Control within two weeks after the Change in Control.

ARTICLE II

BENEFITS AFTER A QUALIFYING TERMINATION

Section 2.1. Basic Severance Payment.

- (a) If the Executive incurs a Qualifying Termination, the Company shall pay to the Executive a cash amount equal to 200% of the Base Amount. The Base Amount shall be an amount equal to the greater of:

(A) the sum of (I) the Executive's base annual salary immediately before the Change in Control plus (II) the Executive's Average Percentage of the annual value (i.e., the dollar amount) of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that are in effect under the EIP immediately before the date on which the Change in Control occurs for the Executive's salary level immediately before the date on which the Change in Control occurs). For purposes of this paragraph (A), the Executive's "Average Percentage" means the average of the Executive's Annual Percentages for the Determination Years. For purposes of this paragraph (A), the Executive's "Annual Percentage" for each Determination Year means a fraction (expressed as a percentage), the numerator of which is the EIP award earned by the Executive for such Determination Year, and the denominator of which is the annual value of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that were in effect under the EIP for such Determination Year for

the Executive's salary level for such Determination Year). For purposes of this paragraph (A), a "Determination Year" means each of the last three EIP plan years ending before the date on which the Change in Control occurs (or, if less, the number of those three plan years during which the Executive was a participant in the EIP); or

- (B) the sum of (I) the Executive's base annual salary immediately before the Qualifying Termination plus (II) the Executive's Average Percentage of the annual value (i.e., the dollar amount) of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that are in effect under the EIP immediately before the date on which the Qualifying Termination occurs for the Executive's salary level immediately before the date on which the Qualifying Termination occurs). For purposes of this paragraph (B), the Executive's "Average Percentage" means the average of the Executive's Annual Percentages for the Determination Years. For purposes of this paragraph (B), the Executive's "Annual Percentage" for each Determination Year means a

fraction (expressed as a percentage), the numerator of which is the EIP award earned by the Executive for such Determination Year, and the denominator of which is the annual value of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that were in effect under the EIP for such Determination Year for the Executive's salary level for such Determination Year). For purposes of this paragraph (B), a "Determination Year" means each of the last three EIP plan years ending before the date on which the Qualifying Termination occurs (or, if less, the number of those three plan years during which the Executive was a participant in the EIP).

- (b) The Company shall make the payment to the Executive pursuant to subsection (a) of this Section 2.1 in a lump sum within 30 days of the Qualifying Termination.

Section 2.2. Insurance. If the Executive incurs a Qualifying Termination, the Company shall provide the Executive, at the Company's expense, for a period beginning on the date of the Qualifying Termination, the same medical insurance and life insurance coverage as was in effect

immediately before the Change in Control (or, if greater, as in effect immediately before the Qualifying Termination occurs); such coverage shall end upon the earlier of (a) the expiration of 24 months after the Qualifying Termination or (b) (i) with respect to medical insurance coverage, the date on which the Executive first becomes eligible for medical insurance coverage provided by a firm that employs him following the Qualifying Termination, or (ii) with respect to life insurance coverage, the date on which the Executive first becomes eligible for life insurance coverage provided by such firm.

Section 2.3. Outplacement Counseling. If the Executive incurs a Qualifying Termination, the Company shall make available to the Executive, at the Company's expense, outplacement counseling that is at least equivalent to the outplacement counseling that the Company provided to its terminated senior executives during 1995. Subject to the foregoing, the Executive may select the organization that will provide the outplacement counseling; provided, that this sentence shall not require the Company to provide the Executive with outplacement counseling that is more costly to the Company than the outplacement counseling that this Section 2.3 otherwise requires the Company to provide to the Executive.

Section 2.4. Financial Counseling. If the Executive incurs a Qualifying Termination, the Company shall, within 30 days of the Qualifying Termination, make available to

the Executive three individual financial counseling sessions, of at least two hours each and at times and locations that are convenient to the Executive, with a nationally recognized financial counseling firm. At the financial counseling sessions, the financial counseling firm shall provide the Executive with detailed financial advice that is tailored to the Executive's particular personal and financial situation. The Company shall specify to the Executive the information regarding his personal and financial situation that he must provide to the financial counseling firm in order for the firm to provide the counseling services required by this Section 2.4. The Company shall take all reasonable and appropriate measures to assure that the financial counseling firm preserves the confidentiality of all information conveyed by the Executive to the counseling firm.

Section 2.5. Benefit Credit. If the Executive incurs a Qualifying Termination,

- (a) the Executive shall receive service credit, for the purpose of receiving benefits and for vesting, retirement eligibility, benefit accrual, and all other purposes, under all employee benefit plans sponsored by the Company (including, but not limited to, health, life insurance, pension, savings, stock, and stock ownership plans, but excluding the Company's

short-term and long-term disability plans) in which he participated immediately before the Change in Control, for 24 months;

- (b) for purposes of determining the Executive's benefits under all defined benefit pension plans maintained by the Company, including the GTE Service Corporation Supplemental Executive Retirement Plan ("SERP"), the Executive's compensation shall include the amount payable to the Executive pursuant to Section 2.1 hereof, and for purposes of this subsection (b), the Executive shall be deemed to have received such amount in monthly installments, each equal to 1/24th of the amount payable to the Executive pursuant to Section 2.1 hereof;
- (c) if the Executive has not completed at least 10 years of service for purposes of determining whether he has a nonforfeitable interest in his accrued benefit under a funded defined benefit pension plan maintained by the Company in which he participated immediately before the Change in Control, then in addition to any service credit that the Executive receives pursuant to Section 2.5(a) hereof, the Executive shall receive credit for each year of service with which he is

otherwise credited (without regard to Section 2.5(a) hereof) for vesting, retirement eligibility, benefit accrual, and all other purposes under the plan, under the SERP, and under the GTE Executive Retired Life Insurance Plan (or any predecessor or successor thereto) in accordance with the following table:

<u>Years of Service Otherwise Credited Without Regard to Section 2.5(a)</u>	<u>Service Credited Pursuant to this Section 2.5(c)</u>
5 or less	2 times years of service otherwise credited
more than 5, but not more than 10	10 years of service
more than 10	years of service otherwise credited;

and

- (d) the Executive shall be considered to have not less than 76 points and 15 years of Accredited Service for purposes of determining his eligibility for early retirement benefits under the Company's defined benefit pension plans (including, but not limited to, the SERP), for purposes of determining his eligibility for benefits under the GTE Executive Retired Life Insurance Plan (or any predecessor or successor thereto) and for purposes of determining his

eligibility for benefits under the Company's post retirement medical benefits plan (as in effect immediately prior to the Change in Control).

Notwithstanding the service credit granted under subsection (a) of this Section 2.5 and the compensation recognized under subsection (b) of this Section 2.5, nothing in this Section 2.5 shall prevent the Executive from receiving any benefits to which the Executive is entitled under any defined benefit or defined contribution pension plan maintained by the Company, including the SERP (as such benefits are modified by this Agreement) in any form permitted by such plans (including but not limited to a lump-sum distribution) immediately following the Executive's Qualifying Termination. To the extent that the Company's tax-qualified retirement plans cannot provide the benefits specified by this Section 2.5 without jeopardizing the tax qualification of such plans, the Company shall provide such benefits under the SERP and, in the case of the Company's post retirement medical benefits plan as specified in Section 2.5(d), if the benefit cannot be provided on a tax-free basis, the Company shall provide such benefit on a basis that avoids an adverse income tax effect upon the Executive (for example, by purchasing third party insurance).

Section 2.6. Nonduplication.

- (a) Nothing in this Agreement shall require the Company to make any payment or to provide any benefit or service credit that GTE or the Company is otherwise required to provide under any other contract, agreement, policy, plan, or arrangement.
- (b) Subsection (a) shall not apply to the benefits provided in accordance with the second and third sentences of the paragraph entitled "Pension Arrangement" of the letter agreement, dated October 20, 1994, executed by Charles R. Lee and Michael T. Masin, providing for a life annuity pension of \$200,000 per year and the continuation of that annuity to the Executive's wife after the Executive's death.

Section 2.7. Prior Agreement. This Agreement supersedes any prior Executive Severance Agreement entered into between the Company and the Executive ("Prior Agreement"). On and after the date of this Agreement, such Prior Agreement shall have no force or effect.

ARTICLE III

EFFECT ON HUMAN RESOURCES POLICY 104

Section 3.1. Effect on Policy 104. If the Executive becomes entitled to receive benefits hereunder, the Executive shall not be entitled to any benefits under GTE Human Resources Policy 104, as amended from time to time, or any successor policy, or under any other Company severance or salary continuation policy (including but not limited to any benefits pursuant to an involuntary separation program or similar program maintained under a pension plan sponsored by the Company).

ARTICLE IV

TAX MATTERS

Section 4.1. Withholding. The Company may withhold from any amounts payable to the Executive hereunder all federal, state, city or other taxes that the Company may reasonably determine are required to be withheld pursuant to any applicable law or regulation.

ARTICLE V

COLLATERAL MATTERS

Section 5.1. Nature of Payments. All payments to the Executive under this Agreement shall be considered either payments in consideration of his continued service to the

Company or severance payments in consideration of his past services thereto.

Section 5.2. Legal Expenses. The Company shall pay all legal fees and expenses that the Executive may incur as a result of the Company's contesting the validity, the enforceability or the Executive's interpretation of, or determinations under, this Agreement; provided, that this Section 5.2 shall be operative only if and to the extent that (a) the Company fails to establish a trust that defrays all such legal fees and expenses or (b) the Company establishes such a trust, but the trust fails to pay all such legal fees and expenses.

Section 5.3. Mitigation. The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement either by seeking other employment or otherwise. The amount of any payment provided for herein shall not be reduced by any remuneration that the Executive may earn from employment with another employer or otherwise following his Qualifying Termination.

Section 5.4. Interest. If the Company fails to make, or cause to be made, any payment provided for herein within 30 days of the date on which the payment is due, the Company shall make such payment together with interest thereon. The interest shall accrue and be compounded monthly. The interest rate shall be equal to 120 percent of the prime rate as reported by The Wall Street Journal for the first business

day of each month, effective for the ensuing month. The interest rate shall be adjusted at the beginning of each month.

Section 5.5. Authority. The execution of this Agreement has been authorized by the Board of Directors of the Company and by the Board of Directors of GTE.

ARTICLE VI

GENERAL PROVISIONS

Section 6.1. Term of Agreement. This Agreement shall become effective on the date hereof and shall continue in effect until the earliest of (a) July 1, 1999, if no Change in Control has occurred before that date; (b) the termination of the Executive's employment with the Company for any reason prior to a Change in Control; (c) the Company's termination of the Executive's employment for Cause, or the Executive's resignation for other than Good Reason, following a Change in Control and the Company's and the Executive's fulfillment of all of their obligations hereunder; and (d) the expiration following a Change in Control of two years and six months and the fulfillment by the Company and the Executive of all of their obligations hereunder. Notwithstanding the foregoing, commencing on July 1, 1999, and on July 1 of each year thereafter, the expiration date prescribed by clause (a) of the preceding sentence shall automatically be extended for an additional year unless, not later than December 31 of the

immediately preceding year, one of the parties hereto shall have given notice to the other party hereto that it (or he) does not wish to extend the term of this Agreement.

Furthermore, nothing in this Article VI shall cause this Agreement to terminate before both the Company and the Executive have fulfilled all of their obligations hereunder.

Section 6.2. Governing Law. Except as otherwise expressly provided herein, this Agreement and the rights and obligations hereunder shall be construed and enforced in accordance with the laws of the State of New York.

Section 6.3. Successors to the Company. This Agreement shall inure to the benefit of and shall be binding upon and enforceable by the Company and any successor thereto, including, without limitation, any corporation or corporations acquiring directly or indirectly all or substantially all of the business or assets of the Company, whether by merger, consolidation, sale or otherwise, but shall not otherwise be assignable by the Company. Without limitation of the foregoing sentence, the Company shall require any successor (whether direct or indirect, by merger, consolidation, sale or otherwise) to all or substantially all of the business or assets of the Company, by agreement in form satisfactory to the Executive, expressly, absolutely and unconditionally to assume and to agree to perform this Agreement in the same manner and to the same extent as the Company would have been required to

perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as heretofore defined and any successor to all or substantially all of its business or assets that executes and delivers the agreement provided for in this Section 6.3 or that becomes bound by this Agreement either pursuant to this Agreement or by operation of law. As used in this Agreement, "GTE" shall mean GTE as heretofore defined and any successor to all or substantially all of its business or assets.

Section 6.4. Noncorporate Entities. If any provision of this Agreement refers to the board of directors of an entity that has no board of directors, the reference to board of directors shall be deemed to refer to the body, committee, or person that has duties and responsibilities with respect to the entity that most closely approximate those of a board of directors of a corporation.

Section 6.5. Successor to the Executive. This Agreement shall inure to the benefit of and shall be binding upon and enforceable by the Executive and his personal and legal representatives, executors, administrators, heirs, distributees, legatees and, subject to Section 6.6 hereof, his designees ("Successors"). If the Executive should die while amounts are or may be payable to him under this Agreement, references hereunder to the "Executive" shall, where appropriate, be deemed to refer to his Successors; provided,

that nothing in this Section 6.5 shall supersede the terms of any plan or arrangement (other than this Agreement) that is affected by this Agreement.

Section 6.6. Nonalienability. No right of or amount payable to the Executive under this Agreement shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, hypothecation, encumbrance, charge, execution, attachment, levy or similar process or to setoff against any obligations or to assignment by operation of law. Any attempt, voluntary or involuntary, to effect any action specified in the immediately preceding sentence shall be void. However, this Section 6.6 shall not prohibit the Executive from designating one or more persons, on a form satisfactory to the Company, to receive amounts payable to him under this Agreement in the event that he should die before receiving them.

Section 6.7. Notices. All notices provided for in this Agreement shall be in writing. Notices to the Company shall be deemed given when personally delivered or sent by certified or registered mail or overnight delivery service to GTE Service Corporation, One Stamford Forum, Stamford, Connecticut 06904, Attention: Corporate Secretary. Notices to the Executive shall be deemed given when personally delivered or sent by certified or registered mail or overnight delivery service to the last address for the Executive shown on the

records of the Company. Either the Company or the Executive may, by notice to the other, designate an address other than the foregoing for the receipt of subsequent notices.

Section 6.8. Amendment. No amendment to this Agreement shall be effective unless in writing and signed by both the Company and the Executive.

Section 6.9. Waivers. No waiver of any provision of this Agreement shall be valid unless approved in writing by the party giving such waiver. No waiver of a breach under any provision of this Agreement shall be deemed to be a waiver of such provision or any other provision of this Agreement or any subsequent breach. No failure on the part of either the Company or the Executive to exercise, and no delay in exercising, any right or remedy conferred by law or this Agreement shall operate as a waiver of such right or remedy, and no exercise or waiver, in whole or in part, of any right or remedy conferred by law or herein shall operate as a waiver of any other right or remedy.

Section 6.10. Severability. If any provision of this Agreement shall be held unlawful or otherwise invalid or unenforceable in whole or in part, such unlawfulness, invalidity or unenforceability shall not affect any other provision of this Agreement or part thereof, each of which shall remain in full force and effect. If the making of any payment or the provision of any other benefit required under

this Agreement shall be held unlawful or otherwise invalid or unenforceable, such unlawfulness, invalidity or unenforceability shall not prevent any other payment or benefit from being made or provided under this Agreement, and if the making of any payment in full or the provision of any other benefit required under this Agreement in full would be unlawful or otherwise invalid or unenforceable, then such unlawfulness, invalidity or unenforceability shall not prevent such payment or benefit from being made or provided in part, to the extent that it would not be unlawful, invalid or unenforceable, and the maximum payment or benefit that would not be unlawful, invalid or unenforceable shall be made or provided under this Agreement.

Section 6.11. Agents. The Company may make arrangements to cause any agent or other party, including an affiliate of the Company, to make any payment or to provide any benefit that the Company is required to make or to provide hereunder; provided, that no such arrangement shall relieve or discharge the Company of its obligations hereunder except to the extent that such payments or benefits are actually made or provided.

Section 6.12. Definitions. All upper case terms used herein shall have the meaning set forth in this Agreement.

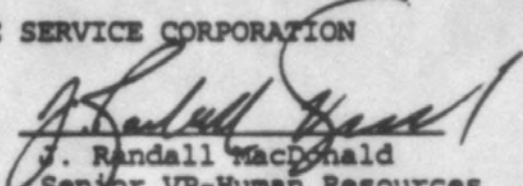
Section 6.13. Captions. The captions to the respective articles and sections of this Agreement are intended

for convenience of reference only and have no substantive significance.

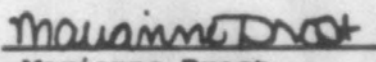
Section 6.14. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original but all of which together shall constitute a single instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

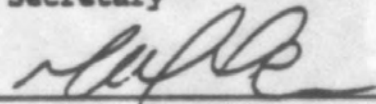
GTE SERVICE CORPORATION

By: 

J. Randall MacDonald
Senior VP-Human Resources
and Administration

By: 

Marianne Drost
VP and Associate General
Counsel-Finance & Corporate
Secretary

By: 

MICHAEL T. MASIN

Michael T. Masin
Vice Chairman and
President International



GTE Corporation

One Stamford Forum
Stamford, CT 06904
203 965-2000

September 13, 1995

Ms. Patricia D. Yoder
13 Brown House Road
Old Greenwich, Connecticut 06870

Dear Pat:

This is to confirm our offer to you to join GTE Corporation in Stamford, CT as Vice President - Public Affairs and Communications and a member of the Executive Leadership Committee, effective October 16, 1995. Details regarding the specific compensation, pension and benefit provisions in connection with this position are provided in this letter.

Base Compensation: Your initial annual salary will be \$265,000. The GTE salary level for the position is 20, with a 1995 salary range of \$200,000 minimum, \$259,000 midpoint and \$318,000 maximum.

Executive Incentive Plan (EIP): In your role as Vice President - Public Affairs and Communications, you will be a participant in the Corporation's Executive Incentive Plan (EIP). For 1995, the EIP payout range for a full year participation consists of a minimum of \$48,000, a norm of \$96,000 and a maximum payout opportunity of \$192,000. Your 1995 EIP award will be prorated to reflect your actual commencement date with GTE with a guaranteed minimum 1995 EIP payment of \$25,000. Additionally, should you forfeit a portion of your bonus with your present employer due to accepting this position, GTE will ensure that your 1995 total bonus compensation is no less than the amount you would have been entitled to had you remained with your current employer, which you estimate to be approximately \$100,000. This is contingent upon receiving proper documentation regarding the forfeited bonus. You will be a full participant in the 1996 EIP.

Long-Term Incentive Plan (LTIP): Subject to approval by the GTE Corporation Executive Compensation and Organizational Structure Committee (ECC), you will be a participant in GTE's Long-Term Incentive Plan, which includes stock option grants and performance bonus units. Effective upon your commencing employment, you will be granted for 1995 an option to purchase 33,000 shares of GTE Common Stock at a price per share based on the average of the high and low prices of GTE Common Stock on the NYSE Composite listing on that date. This grant also includes associated tandem Stock Appreciation Rights (SAR's) and will vest on a one-third per year basis over a period of three years.

Ms. Patricia D. Yoder
September 13, 1995
Page 3

Vacation: You will be eligible for three weeks paid vacation per calendar year.

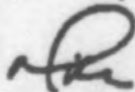
Other Benefit Plans: As an employee of GTE Service Corporation, you will be entitled to a full range of benefits such as the GTE Choices Benefits Program and other programs outlined in the booklets enclosed with this letter. In addition, you will be eligible to travel on a first class basis, receive financial planning in accordance with our established practices, and reimbursement for a country club membership. Your office will be located on the ninth floor (executive offices). Upon completion of additional construction, you will occupy a fully appointed executive office. As an interim measure, you will utilize an existing office. GTE reserves the right to modify or terminate any plan, including any of the executive benefits plans described above.

Miscellaneous: This offer of employment is contingent upon successful completion of a medical evaluation which includes a screen for illegal substances. Your continued employment is contingent upon satisfactory completion of a background investigation. In addition, Federal law requires that eligibility to work in the United States be verified for all new employees. So that we can comply with this regulation, please review the enclosed Employment Eligibility form, complete part one and bring the form, along with the appropriate document(s), with you on your first day of employment. Nothing in this letter shall give you the right to be retained in the service of GTE or deny GTE the right to discharge you at any time. Similarly, this letter does not limit your right to terminate employment with GTE at any time.

Chuck and Kent join me in hoping you will join GTE and in the conviction that you can make a very important contribution to GTE. As you are well aware, this is a period of accelerated change in the telecommunications industry. Needless to say, GTE faces many opportunities and challenges. We believe GTE has the management and assets to make the most of the opportunities ahead and we look forward to your contribution.

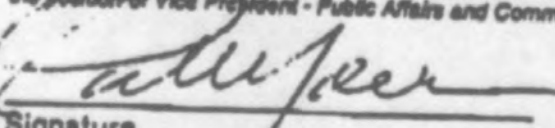
If any aspect of this letter raises questions, please contact me or Randy MacDonald. To indicate your acceptance of this position, please return the signed acceptance to me and retain one copy for your records.

Sincerely,



MTW/ai
Attachments

I agree to the terms and conditions as set forth in this letter and accept the position of Vice President - Public Affairs and Communications.


Signature

9-25-95
Date

cc: J. R. MacDonald

EXECUTIVE SEVERANCE AGREEMENT

This AGREEMENT ("Agreement") dated as of January 8, 1996, by and between GTE Service Corporation, a New York corporation (the "Company"), and Patricia D. Yoder (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company recognizes the valuable services that the Executive has rendered thereto and desires to be assured that the Executive will continue to attend to the business and affairs of the Company without regard to any potential or actual change in control of GTE Corporation, a New York corporation and the Company's sole shareholder ("GTE"); and

WHEREAS, the Executive is willing to continue to serve the Company, but desires assurance that he will not be materially disadvantaged by a change in control of GTE;

NOW, THEREFORE, in consideration of the Executive's continued service to the Company and the mutual agreements herein contained, the Company and the Executive hereby agree as follows:

ARTICLE I

ELIGIBILITY FOR BENEFITS

Section 1.1. Qualifying Termination. The Company shall not be required to provide any benefits to the Executive

pursuant to this Agreement unless a Qualifying Termination occurs before the Agreement expires in accordance with Section 6.1 hereof. For purposes of this Agreement, a Qualifying Termination shall occur only if

- (a) a Change in Control occurs, and
- (b) (i) within two years after the Change in Control, the Company terminates the Executive's employment other than for Cause; OR
(ii) (A) within two years after the Change in Control, a Good Reason arises, and (B) the Executive terminates employment with the Company within (I) six months after the Good Reason arises or (II) two years after the Change in Control, whichever occurs later;

provided, that a Qualifying Termination shall not occur if the Executive's employment with the Company terminates by reason of the Executive's Retirement, Disability, or death. A Qualifying Termination may occur even though the Executive retires from employment with the Company other than by reason of Retirement or Disability.

Section 1.2. Change in Control. Except as provided below, a Change in Control shall be deemed to occur when and only when the first of the following events occurs:

- (a) an acquisition (other than directly from GTE) of securities of GTE by any Person, immediately

after which such Person, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of securities of GTE representing 20 percent or more of the Voting Power or such lower percentage of the Voting Power that, from time to time, would cause the Person to constitute an "Acquiring Person" (as such term is defined in the Rights Plan); provided that, in determining whether a Change in Control has occurred, the acquisition of securities of GTE in a Non-Control Acquisition shall not constitute an acquisition that would cause a Change in Control; or

- (b) three or more directors, whose election or nomination for election is not approved by a majority of the members of the "Incumbent Board" (as defined below) then serving as members of the Board, are elected within any single 12-month period to serve on the Board; provided that an individual whose election or nomination for election is approved as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the Securities Exchange Act of 1934, as amended from time to time) or other actual or threatened

solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed not to have been approved by a majority of the Incumbent Board for purposes hereof; or

(c) members of the Incumbent Board cease for any reason to constitute at least a majority of the Board; "Incumbent Board" shall mean individuals who, as of the close of business on April 19, 1995, are members of the Board; provided that, if the election, or nomination for election by GTE's shareholders, of any new director was approved by a vote of at least three-quarters of the Incumbent Board, such new director shall, for purposes of this Agreement, be considered as a member of the Incumbent Board; provided further that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened Election Contest or other actual or threatened Proxy Contest, including by reason of any agreement intended to

avoid or settle any Election Contest or Proxy Contest; or

(d) approval by shareholders of GTE of:

(i) a merger, consolidation, or reorganization involving GTE, unless

(A) the shareholders of GTE, immediately before the merger, consolidation, or reorganization, own, directly or indirectly immediately following such merger, consolidation, or reorganization, at least 50 percent of the combined voting power of the outstanding voting securities of the corporation resulting from such merger, consolidation, or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the voting securities immediately before such merger, consolidation, or reorganization;

(B) individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation, or reorganization constitute at least a majority of the board of directors of the Surviving Corporation; and

(C) no Person (other than GTE or any subsidiary of GTE, any employee benefit plan (or any trust forming a part thereof) maintained by GTE, the Surviving Corporation, or any subsidiary of GTE, or any Person who, immediately prior to such merger, consolidation, or reorganization, had Beneficial Ownership of securities representing 20 percent (or such lower percentage the acquisition of which would cause a Change in Control pursuant to paragraph (a) of this definition of "Change in Control") or more of the Voting Power) has Beneficial Ownership of securities representing 20 percent (or such lower percentage the acquisition of which would cause a Change in Control pursuant to paragraph (a) of this definition of "Change in Control") or more of the combined Voting Power of the Surviving Corporation's then outstanding voting securities;

(ii) a complete liquidation or dissolution of GTE; or

(iii) an agreement for the sale or other disposition of all or substantially all of the assets of GTE to any Person (other than a transfer to a subsidiary of GTE).

For purposes of this Section, the following terms shall have the definitions set forth below:

"Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended from time to time.

"Board" means the Board of Directors of GTE.

"Non-Control Acquisition" means an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by GTE or any of its subsidiaries, (2) GTE or any of its subsidiaries, or (3) any Person in connection with a "Non-Control Transaction."

"Non-Control Transaction" means a transaction described in clauses (A) through (C) of paragraph (d)(i) of the definition of "Change in Control" herein.

"Person" shall mean any individual, firm, corporation, partnership, joint venture, association, trust, or other entity.

A Person shall be deemed the "Beneficial Owner" of, and shall be deemed to "beneficially own," any securities:

- (x) which such Person or any of such Person's Affiliates or Associates beneficially owns, directly or indirectly;
- (y) which such Person or any of such Person's Affiliates or Associates has (i) the right or

obligation to acquire (whether such right or obligation is exercisable or effective immediately or only after the passage of time) pursuant to any agreement, arrangement, or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights (other than the rights granted pursuant to the Rights Plan), warrants or options, or otherwise; provided that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange; or (ii) the right to vote pursuant to any agreement, arrangement, or understanding (whether or not in writing); provided that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this clause (ii) if the agreement, arrangement, or understanding to vote such security (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the

applicable rules and regulations of the Securities Exchange Act of 1934, as amended from time to time, and (B) is not also then reported by such person on Schedule 13D under the Securities Exchange Act of 1934, as amended from time to time (or any comparable or successor report); or

- (z) which are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement, or understanding (whether or not in writing), or with which such Person or any of such Person's Affiliates or Associates have otherwise formed a group for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in clause (ii) (A) of subparagraph (y), above), or disposing of any securities of GTE.

"Rights Plan" means the Rights Agreement, dated as of December 7, 1989, between GTE and State Street Bank and Trust Company (now administered by the First National Bank of Boston), as it may be amended from time to time, or any successor thereto.

"Voting Power" means the voting power of all securities of GTE then outstanding generally entitled to vote for the election of directors of GTE.

Section 1.3. Termination for Cause. The Company shall have Cause to terminate the Executive for purposes of Section 1.1 hereof only if the Executive (a) engages in unlawful acts intended to result in the substantial personal enrichment of the Executive at the Company's expense, or (b) engages (except by reason of incapacity due to illness or injury) in a material violation of his responsibilities to the Company that results in a material injury to the Company. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to him a notice, consisting of a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of GTE's Board of Directors at a duly held meeting of the Board of Directors (with reasonable notice to the Executive and an opportunity for the Executive, together with counsel, to be heard before the Board of Directors) ("Notice of Termination"), finding that the Executive has engaged in the conduct set forth above in this Section 1.3 and specifying the particulars thereof in detail. GTE's Board of Directors may not delegate or assign its duties under this Section 1.3.

Section 1.4. Termination for Good Reason. The Executive shall have a Good Reason for terminating employment with the Company only if one or more of the following occurs after a Change in Control:

- (a) a change in the Executive's status or position(s) with the Company that, in the Executive's reasonable judgment, represents a demotion from the Executive's status or position(s) in effect immediately before the Change in Control;
- (b) the assignment to the Executive of any duties or responsibilities that, in the Executive's reasonable judgment, are inconsistent with the Executive's status or position(s) in effect immediately before the Change in Control;
- (c) layoff or involuntary termination of the Executive's employment, except in connection with the termination of the Executive's employment for Cause or as a result of the Executive's Retirement, Disability, or death;
- (d) a reduction by the Company in the Executive's total compensation (which shall be deemed, for this purpose, to be equal to his base salary plus the greater of (i) the most recent award that he has earned under the GTE Corporation

Executive Incentive Plan, as amended from time to time, or any successor thereto (the "EIP"), or (ii) an EIP award equal to the Executive's Average Percentage of the annual value (i.e., the dollar amount) of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that are in effect under the EIP immediately before the date on which the Change in Control occurs for the Executive's salary level immediately before the date on which the Change in Control occurs)). For purposes of this paragraph (d), the Executive's "Average Percentage" means the average of the Executive's Annual Percentages for the Determination Years. For purposes of this paragraph (d), the Executive's "Annual Percentage" for each Determination Year means a fraction (expressed as a percentage), the numerator of which is the EIP award earned by the Executive for such Determination Year, and the denominator of which is the annual value of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that were in effect under the EIP for such Determination Year for

the Executive's salary level for such Determination Year). For purposes of this paragraph (d), a "Determination Year" means each of the last three EIP plan years ending before the date on which the Change in Control occurs (or, if less, the number of those three plan years during which the Executive was a participant in the EIP);

- (e) a material increase in the Executive's responsibilities or duties without a commensurate increase in total compensation;
- (f) the failure by the Company to continue in effect any Plan in which the Executive is participating at the time of the Change in Control (or plans or arrangements providing the Executive with substantially equivalent benefits) other than as a result of the normal expiration of any such Plan in accordance with its terms as in effect at the time of the Change in Control;
- (g) any action or inaction by the Company that would adversely affect the Executive's continued participation in any Plan on at least as favorable a basis as was the case on the date of the Change in Control, or that would materially reduce the Executive's benefits in the future

under the Plan or deprive him of any material benefits that he enjoyed at the time of the Change in Control, except to the extent that such action or inaction by the Company is required by the terms of the Plan as in effect immediately before the Change in Control, or is necessary to comply with applicable law or to preserve the qualification of the Plan under section 401(a) of the Internal Revenue Code, and except to the extent that the Company provides the Executive with substantially equivalent benefits;

- (h) the Company's failure to provide and credit the Executive with the number of days of paid vacation, holiday, or leave to which he is then entitled in accordance with the Company's normal vacation, holiday, or leave policy in effect immediately before the Change in Control;
- (i) the imposition of any requirement that the Executive be based anywhere other than within 25 miles of where his principal office was located immediately before the Change in Control;
- (j) a material increase in the frequency or duration of the Executive's business travel;

- (k) the Company's failure to obtain the express assumption of this Agreement by any successor to the Company as provided by Section 6.3 hereof;
- (l) any attempt by the Company to terminate the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 1.3 hereof or that does not afford the Executive the procedural protections prescribed by that Section; or
- (m) any violation by the Company of any agreement (including this Agreement) between it and the Executive.

Notwithstanding the foregoing, no action by the Company shall give rise to a Good Reason if it results from the Executive's termination for Cause, Retirement, or death, and no action by the Company specified in paragraphs (a) through (d) of the preceding sentence shall give rise to a Good Reason if it results from the Executive's Disability. A Good Reason shall not be deemed to be waived by reason of the Executive's continued employment as long as the termination of the Executive's employment occurs within the time prescribed by Section 1.1(b)(ii)(B) hereof. For purposes of this Section 1.4, "Plan" means any compensation plan, such as an incentive, stock option, or restricted stock plan, or any employee benefit plan, such as a thrift, pension, profit-sharing, stock bonus,

long-term performance award, medical, disability, accident, or life insurance plan, or a relocation plan or policy, or any other plan, program or policy of the Company that is intended to benefit employees.

Section 1.5. Retirement. For purposes of this Agreement, "Retirement" shall mean the Executive's termination of employment upon or after attaining age 65.

Section 1.6. Disability. For purposes of this Agreement, "Disability" shall mean an illness or injury that prevents the Executive from performing his duties (as they existed immediately before the illness or injury) on a full-time basis for six consecutive months.

Section 1.7. Notice. If a Change in Control occurs, the Company shall notify the Executive of the occurrence of the Change in Control within two weeks after the Change in Control.

ARTICLE II

BENEFITS AFTER A QUALIFYING TERMINATION

Section 2.1. Basic Severance Payment.

- (a) If the Executive incurs a Qualifying Termination, the Company shall pay to the Executive a cash amount equal to 200% of the Base Amount. The Base Amount shall be an amount equal to the greater of:

(A) the sum of (I) the Executive's base annual salary immediately before the Change in Control plus (II) the Executive's Average Percentage of the annual value (i.e., the dollar amount) of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that are in effect under the EIP immediately before the date on which the Change in Control occurs for the Executive's salary level immediately before the date on which the Change in Control occurs). For purposes of this paragraph (A), the Executive's "Average Percentage" means the average of the Executive's Annual Percentages for the Determination Years. For purposes of this paragraph (A), the Executive's "Annual Percentage" for each Determination Year means a fraction (expressed as a percentage), the numerator of which is the EIP award earned by the Executive for such Determination Year, and the denominator of which is the annual value of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that were in effect under the EIP for such Determination Year for

the Executive's salary level for such Determination Year). For purposes of this paragraph (A), a "Determination Year" means each of the last three EIP plan years ending before the date on which the Change in Control occurs (or, if less, the number of those three plan years during which the Executive was a participant in the EIP); or

- (B) the sum of (I) the Executive's base annual salary immediately before the Qualifying Termination plus (II) the Executive's Average Percentage of the annual value (i.e., the dollar amount) of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that are in effect under the EIP immediately before the date on which the Qualifying Termination occurs for the Executive's salary level immediately before the date on which the Qualifying Termination occurs). For purposes of this paragraph (B), the Executive's "Average Percentage" means the average of the Executive's Annual Percentages for the Determination Years. For purposes of this paragraph (B), the Executive's "Annual Percentage" for each Determination Year means a

fraction (expressed as a percentage), the numerator of which is the EIP award earned by the Executive for such Determination Year, and the denominator of which is the annual value of the normal payment under the EIP for the Executive's salary level (such annual value and normal payment being those that were in effect under the EIP for such Determination Year for the Executive's salary level for such Determination Year). For purposes of this paragraph (B), a "Determination Year" means each of the last three EIP plan years ending before the date on which the Qualifying Termination occurs (or, if less, the number of those three plan years during which the Executive was a participant in the EIP).

- (b) The Company shall make the payment to the Executive pursuant to subsection (a) of this Section 2.1 in a lump sum within 30 days of the Qualifying Termination.

Section 2.2. Insurance. If the Executive incurs a Qualifying Termination, the Company shall provide the Executive, at the Company's expense, for a period beginning on the date of the Qualifying Termination, the same medical insurance and life insurance coverage as was in effect

immediately before the Change in Control (or, if greater, as in effect immediately before the Qualifying Termination occurs); such coverage shall end upon the earlier of (a) the expiration of 24 months after the Qualifying Termination or (b) (i) with respect to medical insurance coverage, the date on which the Executive first becomes eligible for medical insurance coverage provided by a firm that employs him following the Qualifying Termination, or (ii) with respect to life insurance coverage, the date on which the Executive first becomes eligible for life insurance coverage provided by such firm.

Section 2.3. Outplacement Counseling. If the Executive incurs a Qualifying Termination, the Company shall make available to the Executive, at the Company's expense, outplacement counseling that is at least equivalent to the outplacement counseling that the Company provided to its terminated senior executives during 1995. Subject to the foregoing, the Executive may select the organization that will provide the outplacement counseling; provided, that this sentence shall not require the Company to provide the Executive with outplacement counseling that is more costly to the Company than the outplacement counseling that this Section 2.3 otherwise requires the Company to provide to the Executive.

Section 2.4. Financial Counseling. If the Executive incurs a Qualifying Termination, the Company shall, within 30 days of the Qualifying Termination, make available to

the Executive three individual financial counseling sessions, of at least two hours each and at times and locations that are convenient to the Executive, with a nationally recognized financial counseling firm. At the financial counseling sessions, the financial counseling firm shall provide the Executive with detailed financial advice that is tailored to the Executive's particular personal and financial situation. The Company shall specify to the Executive the information regarding his personal and financial situation that he must provide to the financial counseling firm in order for the firm to provide the counseling services required by this Section 2.4. The Company shall take all reasonable and appropriate measures to assure that the financial counseling firm preserves the confidentiality of all information conveyed by the Executive to the counseling firm.

Section 2.5. Benefit Credit. If the Executive incurs a Qualifying Termination,

- (a) the Executive shall receive service credit, for the purpose of receiving benefits and for vesting, retirement eligibility, benefit accrual, and all other purposes, under all employee benefit plans sponsored by the Company (including, but not limited to, health, life insurance, pension, savings, stock, and stock ownership plans, but excluding the Company's

short-term and long-term disability plans) in which he participated immediately before the Change in Control, for 24 months;

- (b) for purposes of determining the Executive's benefits under all defined benefit pension plans maintained by the Company, including the GTE Service Corporation Supplemental Executive Retirement Plan ("SERP"), the Executive's compensation shall include the amount payable to the Executive pursuant to Section 2.1 hereof, and for purposes of this subsection (b), the Executive shall be deemed to have received such amount in monthly installments, each equal to 1/24th of the amount payable to the Executive pursuant to Section 2.1 hereof; and
- (c) the Executive shall be considered to have not less than 76 points and 15 years of Accredited Service for purposes of determining his eligibility for early retirement benefits under the Company's defined benefit pension plans (including, but not limited to, the SERP) and for purposes of determining his eligibility for benefits under the GTE Executive Retired Life Insurance Plan (or any predecessor or successor thereto).

Notwithstanding the service credit granted under subsection (a) of this Section 2.5 and the compensation recognized under subsection (b) of this Section 2.5, nothing in this Section 2.5 shall prevent the Executive from receiving any benefits to which the Executive is entitled under any defined benefit or defined contribution pension plan maintained by the Company, including the SERP (as such benefits are modified by this Agreement) in any form permitted by such plans (including but not limited to a lump-sum distribution) immediately following the Executive's Qualifying Termination. To the extent that the Company's tax-qualified retirement plans cannot provide the benefits specified by this Section 2.5 without jeopardizing the tax qualification of such plans, the Company shall provide such benefits under the SERP.

Section 2.6. Nonduplication.

- (a) Nothing in this Agreement shall require the Company to make any payment or to provide any benefit or service credit that GTE or the Company is otherwise required to provide under any other contract, agreement, policy, plan, or arrangement.
- (b) The final sentence of the subparagraph entitled "Pension Supplement" of the letter agreement, dated September 13, 1995, executed by Michael T.

Masin and Patricia D. Yoder is amended to read as follows:

Upon your attaining eligibility for a deferred vested pension from GTE's Pension Plan (including any such eligibility that you attain by reason of the Executive Severance Agreement, dated January 8, 1996, between you and GTE), this provision will expire.

Section 2.7. Prior Agreement. This Agreement supersedes any prior Executive Severance Agreement entered into between the Company and the Executive ("Prior Agreement"). On and after the date of this Agreement, such Prior Agreement shall have no force or effect.

ARTICLE III

EFFECT ON HUMAN RESOURCES POLICY 104

Section 3.1. Effect on Policy 104. If the Executive becomes entitled to receive benefits hereunder, the Executive shall not be entitled to any benefits under GTE Human Resources Policy 104, as amended from time to time, or any successor policy, or under any other Company severance or salary continuation policy (including but not limited to any benefits pursuant to an involuntary separation program or similar program maintained under a pension plan sponsored by the Company).

ARTICLE IV
TAX MATTERS

Section 4.1. Withholding. The Company may withhold from any amounts payable to the Executive hereunder all federal, state, city or other taxes that the Company may reasonably determine are required to be withheld pursuant to any applicable law or regulation.

ARTICLE V
COLLATERAL MATTERS

Section 5.1. Nature of Payments. All payments to the Executive under this Agreement shall be considered either payments in consideration of his continued service to the Company or severance payments in consideration of his past services thereto.

Section 5.2. Legal Expenses. The Company shall pay all legal fees and expenses that the Executive may incur as a result of the Company's contesting the validity, the enforceability or the Executive's interpretation of, or determinations under, this Agreement; provided, that this Section 5.2 shall be operative only if and to the extent that (a) the Company fails to establish a trust that defrays all such legal fees and expenses or (b) the Company establishes such a trust, but the trust fails to pay all such legal fees and expenses.

Section 5.3. Mitigation. The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement either by seeking other employment or otherwise. The amount of any payment provided for herein shall not be reduced by any remuneration that the Executive may earn from employment with another employer or otherwise following his Qualifying Termination.

Section 5.4. Interest. If the Company fails to make, or cause to be made, any payment provided for herein within 30 days of the date on which the payment is due, the Company shall make such payment together with interest thereon. The interest shall accrue and be compounded monthly. The interest rate shall be equal to 120 percent of the prime rate as reported by The Wall Street Journal for the first business day of each month, effective for the ensuing month. The interest rate shall be adjusted at the beginning of each month.

Section 5.5. Authority. The execution of this Agreement has been authorized by the Board of Directors of the Company and by the Board of Directors of GTE.

ARTICLE VI

GENERAL PROVISIONS

Section 6.1. Term of Agreement. This Agreement shall become effective on the date hereof and shall continue in effect until the earliest of (a) July 1, 1999, if no Change in

Control has occurred before that date; (b) the termination of the Executive's employment with the Company for any reason prior to a Change in Control; (c) the Company's termination of the Executive's employment for Cause, or the Executive's resignation for other than Good Reason, following a Change in Control and the Company's and the Executive's fulfillment of all of their obligations hereunder; and (d) the expiration following a Change in Control of two years and six months and the fulfillment by the Company and the Executive of all of their obligations hereunder. Notwithstanding the foregoing, commencing on July 1, 1999, and on July 1 of each year thereafter, the expiration date prescribed by clause (a) of the preceding sentence shall automatically be extended for an additional year unless, not later than December 31 of the immediately preceding year, one of the parties hereto shall have given notice to the other party hereto that it (or he) does not wish to extend the term of this Agreement. Furthermore, nothing in this Article VI shall cause this Agreement to terminate before both the Company and the Executive have fulfilled all of their obligations hereunder.

Section 6.2. Governing Law. Except as otherwise expressly provided herein, this Agreement and the rights and obligations hereunder shall be construed and enforced in accordance with the laws of the State of New York.

Section 6.3. Successors to the Company. This Agreement shall inure to the benefit of and shall be binding upon and enforceable by the Company and any successor thereto, including, without limitation, any corporation or corporations acquiring directly or indirectly all or substantially all of the business or assets of the Company, whether by merger, consolidation, sale or otherwise, but shall not otherwise be assignable by the Company. Without limitation of the foregoing sentence, the Company shall require any successor (whether direct or indirect, by merger, consolidation, sale or otherwise) to all or substantially all of the business or assets of the Company, by agreement in form satisfactory to the Executive, expressly, absolutely and unconditionally to assume and to agree to perform this Agreement in the same manner and to the same extent as the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as heretofore defined and any successor to all or substantially all of its business or assets that executes and delivers the agreement provided for in this Section 6.3 or that becomes bound by this Agreement either pursuant to this Agreement or by operation of law. As used in this Agreement, "GTE" shall mean GTE as heretofore defined and any successor to all or substantially all of its business or assets.

Section 6.4. Noncorporate Entities. If any provision of this Agreement refers to the board of directors of an entity that has no board of directors, the reference to board of directors shall be deemed to refer to the body, committee, or person that has duties and responsibilities with respect to the entity that most closely approximate those of a board of directors of a corporation.

Section 6.5. Successor to the Executive. This Agreement shall inure to the benefit of and shall be binding upon and enforceable by the Executive and his personal and legal representatives, executors, administrators, heirs, distributees, legatees and, subject to Section 6.6 hereof, his designees ("Successors"). If the Executive should die while amounts are or may be payable to him under this Agreement, references hereunder to the "Executive" shall, where appropriate, be deemed to refer to his Successors; provided, that nothing in this Section 6.5 shall supersede the terms of any plan or arrangement (other than this Agreement) that is affected by this Agreement.

Section 6.6. Nonalienability. No right of or amount payable to the Executive under this Agreement shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, hypothecation, encumbrance, charge, execution, attachment, levy or similar process or to setoff against any obligations or to assignment by operation of

law. Any attempt, voluntary or involuntary, to effect any action specified in the immediately preceding sentence shall be void. However, this Section 6.6 shall not prohibit the Executive from designating one or more persons, on a form satisfactory to the Company, to receive amounts payable to him under this Agreement in the event that he should die before receiving them.

Section 6.7. Notices. All notices provided for in this Agreement shall be in writing. Notices to the Company shall be deemed given when personally delivered or sent by certified or registered mail or overnight delivery service to GTE Service Corporation, One Stamford Forum, Stamford, Connecticut 06904, Attention: Corporate Secretary. Notices to the Executive shall be deemed given when personally delivered or sent by certified or registered mail or overnight delivery service to the last address for the Executive shown on the records of the Company. Either the Company or the Executive may, by notice to the other, designate an address other than the foregoing for the receipt of subsequent notices.

Section 6.8. Amendment. No amendment to this Agreement shall be effective unless in writing and signed by both the Company and the Executive.

Section 6.9. Waivers. No waiver of any provision of this Agreement shall be valid unless approved in writing by the party giving such waiver. No waiver of a breach under any

provision of this Agreement shall be deemed to be a waiver of such provision or any other provision of this Agreement or any subsequent breach. No failure on the part of either the Company or the Executive to exercise, and no delay in exercising, any right or remedy conferred by law or this Agreement shall operate as a waiver of such right or remedy, and no exercise or waiver, in whole or in part, of any right or remedy conferred by law or herein shall operate as a waiver of any other right or remedy.

Section 6.10. Severability. If any provision of this Agreement shall be held unlawful or otherwise invalid or unenforceable in whole or in part, such unlawfulness, invalidity or unenforceability shall not affect any other provision of this Agreement or part thereof, each of which shall remain in full force and effect. If the making of any payment or the provision of any other benefit required under this Agreement shall be held unlawful or otherwise invalid or unenforceable, such unlawfulness, invalidity or unenforceability shall not prevent any other payment or benefit from being made or provided under this Agreement, and if the making of any payment in full or the provision of any other benefit required under this Agreement in full would be unlawful or otherwise invalid or unenforceable, then such unlawfulness, invalidity or unenforceability shall not prevent such payment or benefit from being made or provided in part, to the extent

that it would not be unlawful, invalid or unenforceable, and the maximum payment or benefit that would not be unlawful, invalid or unenforceable shall be made or provided under this Agreement.

Section 6.11. Agents. The Company may make arrangements to cause any agent or other party, including an affiliate of the Company, to make any payment or to provide any benefit that the Company is required to make or to provide hereunder; provided, that no such arrangement shall relieve or discharge the Company of its obligations hereunder except to the extent that such payments or benefits are actually made or provided.

Section 6.12. Definitions. All upper case terms used herein shall have the meaning set forth in this Agreement.

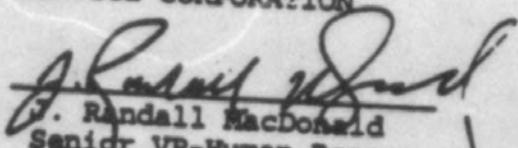
Section 6.13. Captions. The captions to the respective articles and sections of this Agreement are intended for convenience of reference only and have no substantive significance.

Section 6.14. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original but all of which together shall constitute a single instrument.

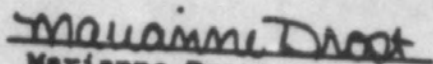
IN WITNESS WHEREOF, the parties hereto have executed
this Agreement as of the date first above written.

GTE SERVICE CORPORATION

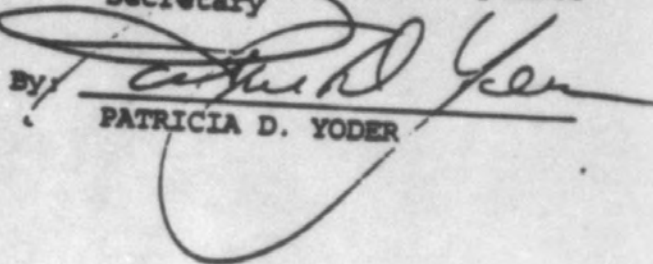
By:


J. Randall MacDonald
Senior VP-Human Resources
and Administration

By:


Marianne Drost
VP and Associate General
Counsel-Finance & Corporate
Secretary

By:


PATRICIA D. YODER

GTE CORPORATION AND SUBSIDIARIES
CALCULATION OF EARNINGS (LOSS) PER COMMON SHARE
(In Thousands)

	Years ended December 31				
	1995	1994	1993	1992	1991
Net income (loss) from:					
Continuing operations	\$ 2,537,949	\$2,440,869	\$ 971,978	\$1,760,704	\$1,491,317
Discontinued operations	(4,682,000)	-	-	(48,000)	51,499
Extraordinary charges	-	-	(89,990)	(52,000)	-
Cumulative effect of accounting changes	(2,144,031)	2,440,869	881,988	(2,440,612)	1,542,816
Consolidated net income (loss)				(779,908)	
Adjustments to net income (loss):					
Add: Preferred dividend requirements	417	621	237	827	1,048
on dilutive convertible preferred stocks	1,853	1,441	1,913	6,357	4,778
Interest expense, net of tax effect, on employees' stock plans	2,270	2,062	2,152	7,084	5,826
Total adjustments					
Adjusted consolidated net income (loss) from:	2,540,219	2,442,931	974,130	1,767,788	1,497,143
Continuing operations	(4,682,000)	-	-	(48,000)	51,499
Discontinued operations	-	-	(89,990)	(52,000)	-
Extraordinary charges	\$ (2,141,781)	\$2,442,931	\$ 884,140	\$ (2,440,612)	\$1,548,642
Cumulative effect of accounting changes				\$ (772,824)	
Adjusted consolidated net income (loss)	959,930	957,948	948,678	904,516	881,727
Average common shares					
Adjustments to common shares:					
Add: Dilutive convertible preferred stocks	419	572	288	772	973
Employees' stock and stock option plans	4,061	3,340	4,024	7,808	7,513
Total adjustments	4,480	3,912	4,312	8,580	8,486
Adjusted average common shares	974,412	961,860	948,990	913,096	890,213
EARNINGS (LOSS) PER COMMON SHARE:					
Primary (1)	\$ 2.62	\$2.55	\$1.03	\$1.95	\$1.69
Continuing operations	(4.83)	-	(.10)	(.05)	.06
Discontinued operations	-	-	-	(.06)	-
Extraordinary charges	\$ (2.21)	\$2.55	\$.93	\$ (2.70)	\$1.75
Cumulative effect of accounting changes				\$ (.86)	
Consolidated					
Fully diluted (2)	\$ 2.61	\$2.54	\$1.02	\$1.94	\$1.68
Continuing operations	(4.81)	-	(.09)	(.05)	.06
Discontinued operations	-	-	-	(.06)	-
Extraordinary charges	\$ (2.20)	\$2.54	\$.93	\$ (2.68)	\$1.74
Cumulative effect of accounting changes				\$ (.85)	
Consolidated					

The accompanying notes are an integral part of this schedule.

GTE CORPORATION AND SUBSIDIARIES
CALCULATION OF EARNINGS (LOSS) PER COMMON SHARE - Continued

NOTES:

- (1) Computed by dividing net income (loss) applicable to common stock for the years by the average common shares outstanding. Common stock equivalents are excluded from this computation since they do not have a 3% dilutive effect.
- (2) Computed assuming conversion or exercise of those preferred stocks and stock plans that would have a dilutive effect.
 - (a) Average common shares outstanding are adjusted to reflect the shares which would be issued upon conversion of preferred stocks using the "if converted" method. Equivalent common shares to be added to average shares for the employees' stock plans and stock ownership plan are computed according to the "treasury stock" method.
 - (b) Net income (loss) for the years is adjusted to reflect the increase in income for the preferred dividends declared for the years on the convertible preferred stocks, and the interest accrued, net of tax effect, on funds received from installments under the employees' stock plans.

GYE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF THE RATIO OF EARNINGS TO FIXED CHARGES
 (Thousands of Dollars)
 (Unaudited)

	Years Ended December 31			
	1995	1994	1993	1992
Net earnings available for fixed charges:				
Income from continuing operations	\$2,537,949	\$2,440,869	\$ 971,978	\$1,760,704
Add (deduct) -				
Income taxes	1,466,426	1,532,482	567,747	966,589
Interest expense	1,150,625	1,139,233	1,298,234	1,475,670
Capitalized interest (net of amortization)	(22,971)	(6,045)	(3,421)	(4,931)
Preferred stock dividends of Parent	5,598	9,910	17,825	26,331
Preferred stock dividends of subsidiaries	104,202	18,252	22,162	23,429
Additional income requirement on preferred stock dividends of subsidiaries	12,896	11,426	12,739	12,671
Minority interests	145,437	140,464	112,335	112,425
Portion of rent expense representing interest	<u>128,034</u>	<u>139,715</u>	<u>153,058</u>	<u>196,533</u>
	5,528,196	5,426,306	3,152,657	4,569,421
	(246,678)	(242,937)	(236,944)	(248,979)
Deduct - Minority interests				
Adjusted earnings available for fixed charges from continuing operations	<u>\$5,281,518</u>	<u>\$5,183,369</u>	<u>\$2,915,713</u>	<u>\$4,320,442</u>
Fixed Charges:				
Interest charges	\$1,150,625	\$1,139,233	\$1,298,234	\$1,475,670
Preferred dividends of subsidiaries	104,202	18,252	22,162	23,429
Additional income requirement on preferred dividends of subsidiaries	12,896	11,426	12,739	12,671
Portion of rent expense representing interest	<u>128,034</u>	<u>139,715</u>	<u>153,058</u>	<u>196,533</u>
	1,395,757	1,308,626	1,486,193	1,708,303
	(70,052)	(68,096)	(78,421)	(86,504)
	<u>\$1,325,705</u>	<u>\$1,240,530</u>	<u>\$1,407,772</u>	<u>\$1,621,799</u>
Deduct - Minority interests				
Adjusted fixed charges				
	<u>3.98</u>	<u>4.18</u>	<u>2.07</u>	<u>2.66</u>
Ratio of Earnings to Fixed Charges - continuing operations				<u>2.22</u>

GTE CORPORATION AND SUBSIDIARIES

Significant Subsidiaries of Registrant at December 31, 1995

COMPANY(a)	Incorporated In	Percent of Voting
		Control Owned by Direct Parent
Contel Cellular Inc.	Delaware	100.00
Contel of California, Inc.	California	100.00
Contel Federal Systems, Inc.	Delaware	100.00
GTE Government Systems Corporation	Delaware	100.00
GTE Telecom Incorporated	Delaware	100.00
GTE Products of Connecticut Corporation	Connecticut	100.00
GTE Laboratories Incorporated	Delaware	100.00
GTE Leasing Corporation	Delaware	86.39
Anglo-Canadian Telephone Company	Quebec	50.67
BC TELECOM Inc.	Canada	100.00
BC TEL	Canada	100.00
BC TEL Services Inc.	Canada	100.00
Canadian Telephones and Supplies Ltd.	Canada	100.00
Quebec-Telephone	British Columbia	50.31
GTE Holdings (Canada) Limited	Quebec	100.00
Compania Dominicana de Telefonos, C. por A.	Canada	100.00
GTE International Telecommunications Incorporated	Dominican Republic	100.00
GTE Venezuela Incorporated	Delaware	100.00
VerWorld Telecom, C.A.	Delaware	51.00
Compania Anonima Nacional Telefonos de Venezuela (CANTV)	Venezuela	40.00
GTE California Incorporated	Venezuela	99.60
GTE Florida Incorporated	California	100.00
GTE Midwest Incorporated	Florida	100.00
GTE North Incorporated	Delaware	100.00
GTE Northwest Incorporated	Wisconsin	100.00
GTE South Incorporated	Washington	100.00
GTE Southwest Incorporated	Virginia	100.00
GTE Hawaiian Telephone Company Incorporated	Delaware	100.00
GTE Data Services Incorporated	Hawaii	100.00
GTE Finance Corporation	Delaware	100.00
GTE Information Services Incorporated	Delaware	100.00
GTE Directories Corporation	Delaware	100.00
GTE Intelligent Network Services Incorporated	Delaware	100.00
GTE Investment Management Corporation	Delaware	100.00
GTE Main Street Incorporated	Delaware	100.00
GTE Media Ventures Incorporated	Delaware	100.00
GTE Mobile Communications Incorporated	Delaware	100.00
GTE Airfone Incorporated	Delaware	100.00
GTE Mobile Communications International Incorporated	Delaware	25.50
CTI Compania de Telefonos del Interior S.A.	Argentina	25.50
CTI Norte Compania de Telefonos del Interior S.A.	Argentina	100.00
GTE Mobilnet Incorporated	Delaware	100.00
GTE Cellular Communications Corporation	California	100.00
GTE Realty Corporation	Delaware	100.00
GTE REinsurance Company Limited	Delaware	100.00
GTE Service Corporation	Vermont	100.00
GTE Telecom Marketing Corporation	New York	100.00
GTE Vantage Incorporated	Delaware	100.00
GTE Visnet Incorporated	Delaware	100.00

(a) GTE's share of the earnings of all subsidiaries listed are included in GTE's consolidated financial statements.

EXHIBIT D

Biographies

H. Gordon Allen - President/General Manager, GTE Card Services Incorporated - Mr. Allen began his GTE career upon joining GTE Southwest in 1977 as a Sales Representative. He held several positions in GTE Southwest and served as the Major Account Manager of Texas A&M University of eighteen months. Mr. Allen was part of the original six people who began GTE TeleMessenger in 1983. He held several sales management positions at TeleMessenger and served as Western Area Manager in 1986-1987, responsible for six offices of TeleMessenger. He joined the Industry and Competitive Analysis Group of GTE Service Corporation as a Staff Manager in 1987, and was promoted to Group Product Manager-DataCom during Winning Connection II. He was responsible for strategic planning for CPE DataCom Products, product portfolio management, product positioning and product promotion.

Mr. Allen's Business Plan for GTE Card Services was approved in 1991 as a new venture division, and as President/General Manager of GTE Card Services, he has overall management responsibility for this business unit. Mr. Allen graduated from East Texas State University with a B.S. Degree in Finance and an M.B.A.

Robert G. McCoy - Executive Vice President of GTE Card Services - Mr. McCoy began his career with U.S. West in 1970 where he worked for eight years in sales, marketing, product management and operations positions. In 1978, he began an eight-year tour with AT&T Communications, the interstate network division of AT&T. During that period, he held positions in market management, product management and sales. He served at AT&T's Basking Ridge, New Jersey, headquarters during divestiture and was instrumental in planning their post-divestiture business sales channel operations for network products.

In 1986, Mr. McCoy moved to GTE Northwest in sales management and held positions as director-major account sales and director-business sales and operations. In 1989, he moved to GTE Corporation Headquarters and held positions as assistant vice president-product marketing and assistant vice president-premise systems and services. In 1992, he moved to California where he served for two years as the area vice president-sales with GTE California. He returned to GTE Corporation Headquarters in 1994 to the position of vice president/general manager-small business sales. In June, 1996 he was named to his current position of president-GTE Long Distance, a division of GTE Card Services.

Mr. McCoy graduated from the University of Oregon with a B.S. degree and was a National Science Fellow. He later entered the U.S. Army and served in Germany and Vietnam before resigning as a Captain in 1970.

Debra R. Covey - Assistant Vice President Service Delivery - Ms. Covey has more than 16 years of experience in the telecommunications business. She worked for 5 years with Southwestern Bell in customer service positions and as a carrier customer liaison for access service ordering and billing. In 1984, she began working for Sprint. Ms. Covey held positions in network management, including Network Manager, holding full responsibility for the nationwide consolidation of two separate long distance networks. She held various positions in Network Services and Network Operations, including Director of Access Management and Director of Network Provisioning. In 1995, Ms. Covey moved to Texas in her current position with GTE.

Paul M. Fuglie - Director Regulatory and Industry Affairs - Mr. Fuglie began employment with Southern Pacific Communications, which later became Sprint, in 1979 in Network Operations, where he held various management positions in Provisioning, Traffic Planning, and Forecasting. In 1987, he accepted a position as Manager Regulatory Affairs for Sprint. In that position, he was responsible for developing and representing Sprint's positions before state Public Utility Commissions in the central region of the country, including testifying on regulatory issues and participating in proceedings and workshops before the various Commissions. Mr. Fuglie began working for GTE Card Services in February of this year.

Terry Osipow - Controller - Mr. Osipow has 19 years of experience with GTE in the Finance area. He began his career with GTE in 1977 as a Senior Internal Auditor with GTE Service Corporation in Stamford, Connecticut. In 1978 he moved to California as Audit Manager for the Western Region. In 1980 he moved to Indiana, where he served as Audit Director, and held various other accounting positions at GTE North and then at GTE Service Corporation in Connecticut until 1993. In 1994, Mr. Osipow moved to Texas and served two years as Director - Management Reporting. He was named Controller for GTE Card Services in December 1995. Mr. Osipow graduated from the University of Bridgeport with a B.S. in Accounting and from Indiana University with an MBA. He is a Certified Public Accountant.