1995 ANNUAL REPORT

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AT A GLANCE

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WORKING AT GTE

FORUM

Introducing

Evolutions

Society & Technology Evolving Through Time

004812

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.*

Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS[a]

(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

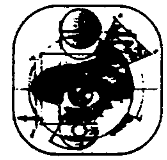
(a) The table below has been adjusted for comparison purposes to exclude from earnings per share the 1995 extraordinary charges of $4.7 billion, or $4.83 per share, and the 1995 and 1994 gains on sales of certain nonstrategic domestic telephone properties of $11 million, or $.01 per share, and $162 million, or $.17 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.



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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.

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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 differences. 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

004815

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.

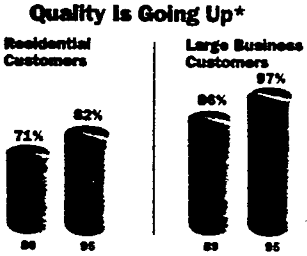
Video programming plans received another significant boost with the signing of an agreement to join The Walt Disney Company and three Bell companies in americast™, a pioneering home-entertainment venture.

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 metroplex, furthering GTE's plans to build a nationwide data-network infrastructure.

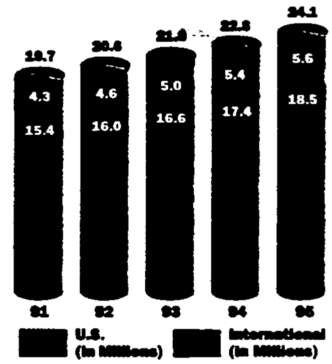
The addition of about 10,000 new advertisers helped GTE Directories post a 4.3% increase in domestic sales orders.

Quality Is Going Up*



*Percentage of customers rating service good or excellent

Wireline Operations: Access Lines
(Excludes Properties Sold)



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.

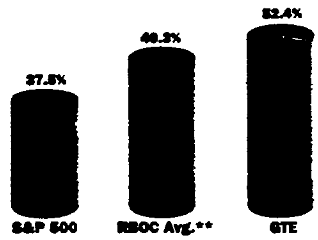
Q ***What are your views on the alliances occurring in the industry?***
We have alliances right now with many companies, and there will be more. For example, in the U.S. we have an alliance with SBC Communications that extends our wireless coverage in Texas, and we're part of a joint venture that handles 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.

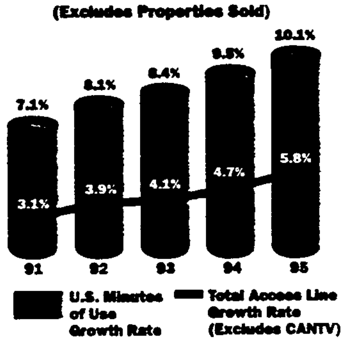
Q ***What's behind Wall Street's more positive view of GTE?***
Solid performance, plus a change of perception. At one point Wall Street seemed to think the long-distance companies would prevail at the expense of

1995 Return to Shareholders*

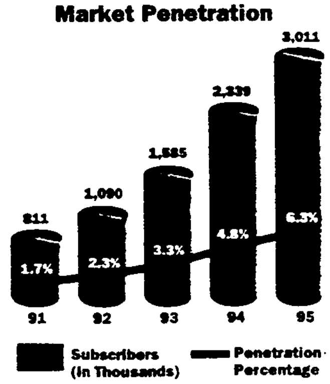


*Assumes dividends are reinvested
**Regional Bell operating companies

Wireline Operations: Minutes of Use and Access Line Growth Rates
(Excludes Properties Sold)



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.

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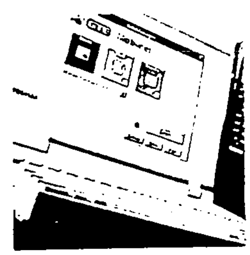
Three letters symbolize shared strengths. The GTE brand carries an increasingly powerful punch in the marketplace.

004819

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.

004821

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), Mobilnet (wireless services), Information Services (directories and credit/calling card services) and Airfone (airborne communications).

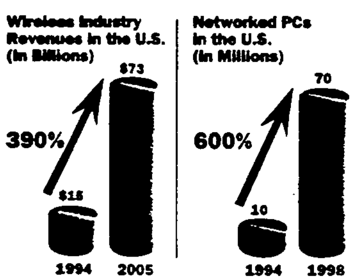
These domestic operations posted combined revenues of $16.5 billion in 1995, up 5.3%. All made substantial strides in our drive to deliver features, conveniences and top-quality performance that make customers' lives easier.

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.

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.

Demand for Wireless and Data Services Is Soaring



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

004822

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.

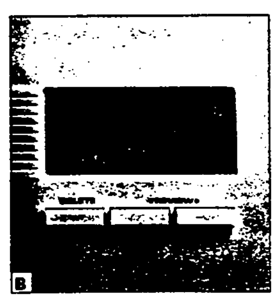
Completion of the merger of Contel Cellular and GTE Mobilnet (in all states except California, pending regulatory approval) unified wireless operations, enhancing the marketing impact of the GTE brand name. Meanwhile, Mobilnet achieved gains in operating efficiency both as a result of that move and improved 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.**

A



B

C

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.

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.

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 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

004824

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.

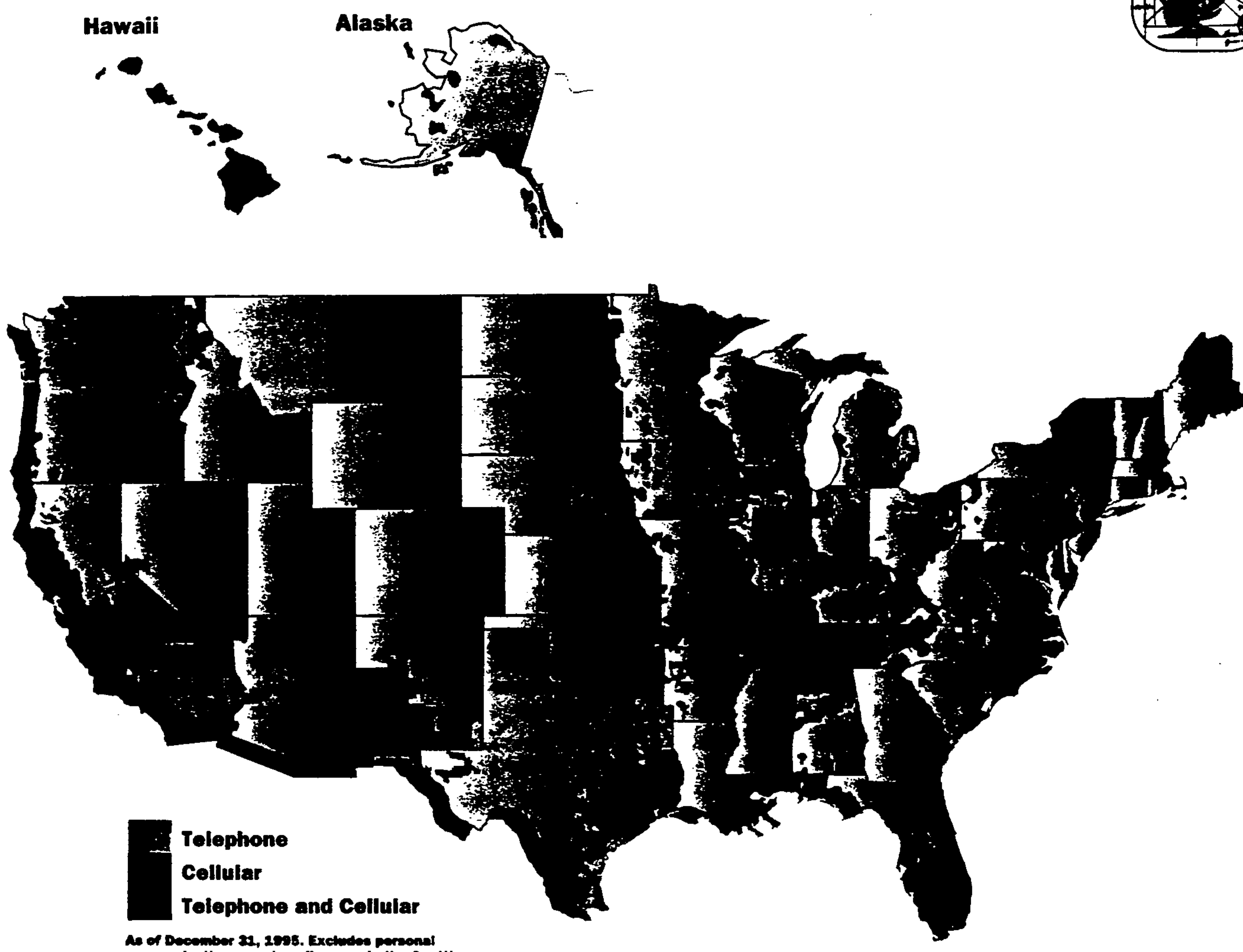
A profile of our markets

- **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.**

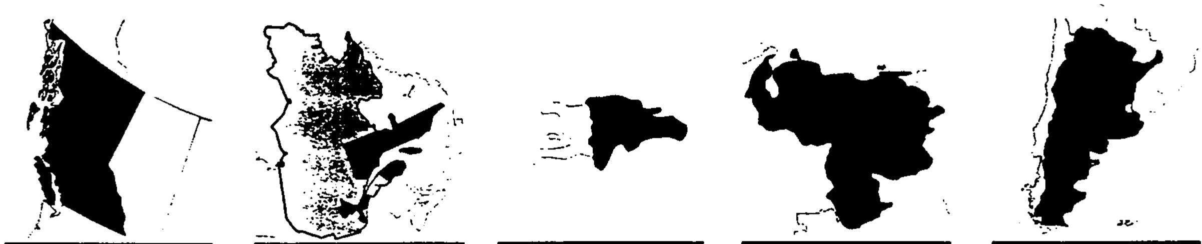
Card Services offers several credit card products and now has more than one million accounts. It also offers prepaid telephone calling cards.

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



As of December 31, 1995. Excludes personal communications services licenses in the Seattle, Atlanta and Cincinnati major trading areas (MTAs)



BRITISH COLUMBIA	QUEBEC	DOMINICAN REPUBLIC	VENEZUELA	ARGENTINA
3,700,000*	550,000*	7,800,000*	21,000,000*	22,000,000*
2,287,000**	280,000**	569,000**	2,472,000**	103,000***
219,000***	13,000***	33,000***	168,000***	

*Population in franchise areas **Access lines ***Cellular customers

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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.

*See the discussion of forward-looking statements on page 23.

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.

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.

At GTE Laboratories in Waltham, Mass., engineer Phil Rosconi 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 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.

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.

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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 ongoing drive to improve performance and service to customers.

To help employees fulfill family obligations, we use a wide array of special programs, such as nontraditional work hours, 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 Terrace, Fla., exemplifies the innovative steps the company is taking to meet varied employee health care needs.

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 nonprofit 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.

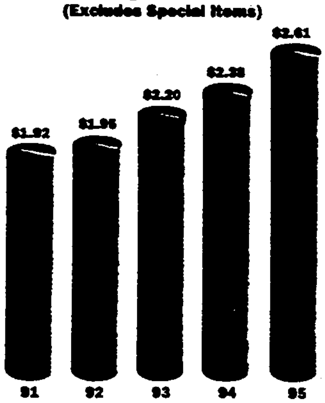
In 1995, contributions through the GTE Foundation totaled $23 million, and more than half were directed to education.

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)



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 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

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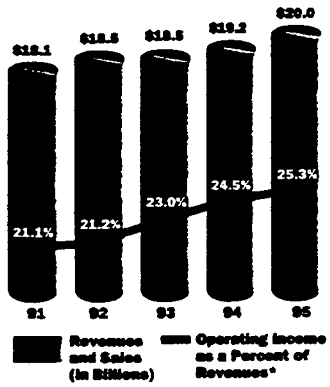
Consolidated Revenues and Margins
(Excludes Properties Sold)



*Excludes special items

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

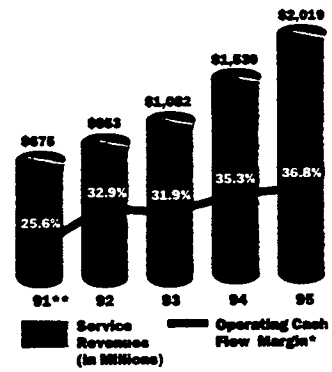
Interstate and intrastate network access service revenues are based on fees charged to interexchange carriers that use GTE's U.S. local-exchange network in providing long-distance services to their customers. Network access service revenues of $4.4 billion remained relatively unchanged from 1994. The 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

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

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,™ 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.

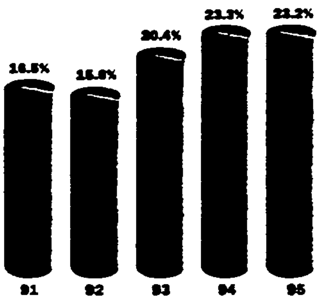
Capital Investment, Resources and Liquidity

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.

004835

Consolidated Return on Equity
(Excludes Special Items)

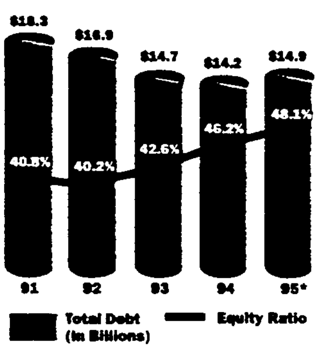


Capitalization

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, 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

Cash Flow

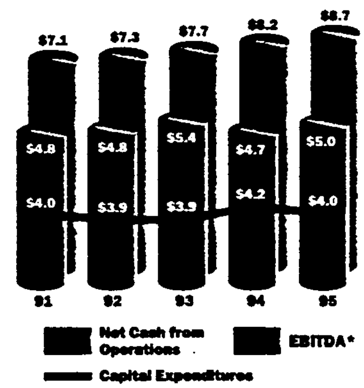
GTE's cash flow from operations increased from $4.7 billion in 1994 to $5.0 billion in 1995, reflecting improved operating results as well as lower tax payments from nonstrategic property sales and the completion of a major government telecommunications contract last year.

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.

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.

004836

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

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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	1,438	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)[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	**37,019**[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.

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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[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	**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.

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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.

004840

Consolidated Balance Sheets
GTE 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	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.

004841

Consolidated Statements of Cash Flows
GTE 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	5,033	4,740	5,373
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	(4,501)	(3,269)	(1,738)
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	(523)	(1,470)	(3,667)
Increase (decrease) in cash and temporary investments	9	1	(32)
Cash and temporary investments			
Beginning of year	323	322	354
End of year	$ 332	$ 323	$ 322
Cash paid during the year for			
Interest	$ 1,133	$ 1,084	$ 1,373
Income taxes	985	1,598	880

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	$ (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.

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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:

	Depreciable Lives	
Asset Category	Before	After
Copper	20-30	15
Switching	17-19	10
Circuit	11-13	8
Fiber	25-30	20

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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

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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:		
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.

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.

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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

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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	**$ 5**	$(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 noncancelable 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.

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QUARTERLY FINANCIAL DATA

GTE Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, Except Per-Share Amounts)	1st QTR 1995	1st QTR 1994	2nd QTR[a] 1995	2nd QTR[a] 1994	3rd QTR[b] 1995	3rd QTR[b] 1994	4th QTR[c] 1995	4th QTR[c] 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 $.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).

DIRECTORS AND OFFICERS

Directors

Edwin L. Artzt
Chairman of the Executive Committee and Director, The Procter & Gamble Company
Manufacturer 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

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Chairman of the Executive Committee and Director, Travelers Group
Insurance and financial services

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President, GTE

James L. Johnson
Chairman Emeritus, GTE

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

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Industrial company with varied interests

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Chairman and Chief Executive Officer, GTE

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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

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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

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Chairman and Chief Executive Officer

Kent B. Foster
President, GTE

Michael T. Masin
Vice Chairman; President—International

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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

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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
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Vice President—Marketing

Lawrence R. Whitman
Vice President and Controller

D. Otis Wolkins
Vice President—Quality

Patricia D. Yoder
Vice President—Public Affairs and Communications

Marianne Drost
Corporate Secretary

Senior Officers of Business Units

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President, Telephone Operations

John C. Appel
Executive Vice President, Telephone Operations

Michael B. Esstman
Executive Vice President, Telephone Operations

Gerald K. Dinsmore
Senior Vice President—Finance and Planning, Telephone Operations

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President, GTE Mobilnet

Earl A. Goode
President, GTE Information Services and GTE Directories

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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

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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

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ONE STAMFORD FORUM
STAMFORD, CT 06904
203-965-2000