



ready  
set  
go!



*...Within one hour of the signing of the Telecom Act,  
GTE was out of the starting gate and far ahead .....*

*Annual Report 1996*

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## Consolidated Financial Highlights

(Millions of Dollars, Except Per-Share Amounts)	1996	1995	% Change	
<b>Consolidated</b>				* During 1995, GTE discontinued using the regulatory accounting practices required by Statement of Financial Accounting Standards No. 71 and recorded noncash, after-tax extraordinary charges of \$4.7 billion, or \$4.83 per share. Also, in connection with the program to sell or trade a small percentage of nonstrategic domestic local-exchange telephone properties, the results for 1996 and 1995 include \$8 million, or \$.01 per share, and \$11 million, or \$.01 per share, respectively. Excluding these special items, earnings per common share would have been \$2.88 for 1996 and \$2.61 for 1995, a 10.3% increase, and return on common equity would have been 23.2% for 1995.
Revenues and sales	\$21,339	\$19,957	6.9	
Operating income	5,488	5,056	8.5	
Income before extraordinary charges	2,798	2,538	10.2	
Net income (loss)*	2,798	(2,144)	—	
Common shareholders' equity	7,336	6,871	6.8	
Average common shares outstanding (in millions)	969	970	(.1)	
Return on common equity*	40.2%	(20.3%)	—	
Capital expenditures	4,088	4,034	1.3	
Access minutes of use (in millions)	71,339	64,193	11.1	
Access lines (in thousands)	25,868	24,126	7.2	
Employees (in thousands)	102	106	(3.8)	
<b>Per Common Share</b>				
Income before extraordinary charges	\$ 2.89	\$ 2.62	10.3	
Net income (loss)*	2.89	(2.21)	—	
Dividends declared	1.88	1.88	—	
Book value	7.62	7.05	8.1	

of the competition, with an agreement to begin providing long-distance

GTE is one of the largest publicly held telecommunications companies in the world. It is the largest U.S.-based local telephone company, with wireline and wireless operations in markets encompassing about a third of the U.S. population. GTE is the first among its peers to offer "one-stop shopping" for local, long-distance and Internet access services. Outside the U.S., where GTE has operated for more than 40 years, the company serves over six million customers.

GTE is also a leader in government and defense communications systems and equipment, directories, telecommunications-based information services and systems, and aircraft-passenger telecommunications.



Charles R. Lee

*Ready...Set...Go!*

Nineteen ninety-six was the most important year in the history of the telecommunications industry, and a very good year for GTE. Our focus on the customer and our unique strategic position allowed us to get a fast start in the new competitive marketplace.

GTE's "start-watch" began ticking on February 8, 1996, the day President Clinton signed the Telecommunications Act of 1996. In one second, with the stroke of a pen, more than six decades of outdated communications laws were cast aside in favor of an exciting era of competition, dynamic change and growth for the entire telecommunications industry.

We strongly supported adoption of the new law because it creates a triple-win situation. It's good for the country. It's good for consumers. And it's *great* for GTE.

The law treats GTE like any other independent telecommunications company. We were immediately freed from a host of outmoded restrictions that had impaired our ability to offer a full array of telecommunications services, including long-distance service.

This created a "window of opportunity" for GTE. We were ready from Day One to take advantage of the unique opportunities by broadening our offerings as well as providing bundled services.

**Our Window of Opportunity**

The timeline that begins on the cover and runs through this annual report highlights our major milestones in 1996.

One such accomplishment was the start-up of our long-distance business in March 1996. We began service in just a few states, aggressively winning customers from traditional long-distance providers. By year end, we offered service in all 50 states and had signed up over 825,000 customers. And we continue to sign up thousands of new long-distance customers each day.

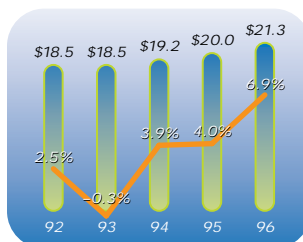
Another significant milestone occurred in April. In Tampa, Florida, we began to provide our customers with what they asked for: a convenient package of integrated services. Everything from local to long distance, wireless and Airfone®. And, later, we led the industry in our ability to put it all together on one bill, with one convenient point of contact for customer service.

No other major local telephone company in the industry can make the same claim. Other companies are talking about their plans to offer bundled services – someday. But GTE is providing these services to customers in our major markets today.

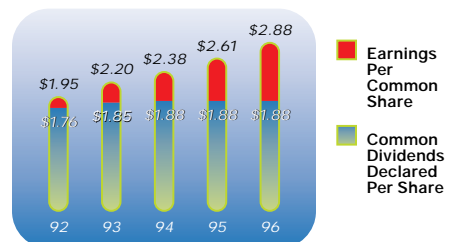
service.

Twenty-five days later GTE was selling long-distance

**Consolidated Revenues and Revenue Growth Rates**  
(Excludes Properties Sold)



**Earnings and Dividends Per Common Share**  
(Excludes Special Items)



We've also made it easier for customers to do business with us by providing "one-stop shopping" in many of our GTE Phone Mart® stores across the country. Before the Telecommunications Act, we had to market wireline and wireless services separately. That was inefficient for us and inconvenient for our customers. All of our stores will provide customers with a wide range of wireline, wireless and data products and services.

We've also switched on cable television services to thousands of customers in Florida and California. A competitive Internet access service nationwide was launched, and over 70,000 customers signed up by year end. And we've introduced SuperPages®, an Internet-based interactive directory that reaches the world.

**Customers Are in the Driver's Seat**

The greatest thing about the new telecom law is that it puts customers in the driver's seat, right where they belong. That's what competition is all about. Giving customers the ability to choose between competing telecommunications companies puts a premium on convenience, service and value. And our customers are telling us one thing loud and clear. They want new and expanded services of high quality that make their lives easier, at prices that are competitive. These services include Caller ID, wireless GlobalRoam® service, and improved Airfone® service for airline passengers.

Our technology is second to none, designed to put the best products and services into the hands of our customers – everything from fiber-optic "SONET" rings in metropolitan areas and office parks to CyberTrust™, which allows consumers to make secure commercial transactions over the Internet.

In addition, GTE has set out to become the easiest company to do business with in the entire industry.

**GTE's Unique Attributes**

With a current market capitalization of approximately \$62 billion, GTE is one of the largest companies in the U.S. telecommunications industry. We are the only major local telephone company that offers services in multiregional territories stretching across the country.

Our combined wireline and wireless operations cover 29 states, encompassing about one-third of the U.S. population. Within our current franchise areas, our record growth in access lines and minutes of use of the toll network placed us among the industry leaders. Our markets tend to be suburban and rural areas with excellent growth demographics and are subject to considerably less competitive pressure than highly congested urban centers.

We're also well positioned to expand successfully into neighboring markets across the United States. In fact, almost

60% of the U.S. population lies within a 100-mile radius of our current franchise markets. So, enormous growth opportunities lie within easy reach of our existing operations.

**International Growth**

GTE's exciting window of opportunity does not stop at our borders. We're moving aggressively to take advantage of our substantial presence and decades of experience in international markets.

Operationally, our international businesses had a solid year and made a significant contribution to GTE's record financial performance. We've laid a firm foundation for sustained growth of our operations in Canada and Latin America by building on our existing strengths.

We've also launched some new initiatives and made additional investments. In Latin America, we've increased our ownership from 20% to almost 26% in CANTV, the Venezuelan national telephone company. In Asia, we began construction of a nationwide paging system in China and launched service in five key cities. In 1997, we were part of a consortium that won a nationwide cellular license in Taiwan.

We will continue to explore new opportunities to grow in profitable markets. In 1997, we plan to pursue additional initiatives in Asia, Latin America and Europe.

service in Michigan and Minnesota.  By the end of the year GTE wa

*...GTE has set out to become the easiest company to do business with in the entire industry...*

### **Vision and Financial Performance**

Three years ago we set forth a clear vision for GTE: nothing less than market leadership in the telecommunications industry. We said that we'd achieve that vision by growing the business in five strategic areas: wireline voice, wireless, data, video and international.

We've made excellent progress in those areas. At the same time, we've delivered record financial results. Revenue for 1996 reached \$21.3 billion, a gain of 7% over 1995. Operating income climbed to \$5.5 billion, 8.5% above the 1995 level. And earnings per share grew 10% to \$2.88 before special items.

By December 31, 1996, we had delivered six consecutive quarters of 10% or better earnings-per-share growth. We also had excellent operational results, which we discuss later in the Domestic and International Reviews of Operations.

Our continuing growth in cash flow allowed the Board of Directors to authorize a repurchase of 25 million shares of GTE stock in addition to our 20 million share repurchase program last year. And our strengthened balance sheet resulted in upgrades to "A" rating levels, in 1996, from both Moody's and Standard and Poor's.

### **Looking to the Future**

We are confident that telecommunications will continue to be one of the great growth industries in the world for years to

come. We expect consolidated revenue growth of 6% to 8% at GTE and not less than 10% earnings-per-share growth for the foreseeable future. Certain factors that may affect these forward-looking statements are discussed on page 27.

With regard to the overall industry, we believe that the changing competitive and regulatory environment is creating unlimited opportunities for us in the United States and internationally. GTE is aggressively seeking to eliminate unnecessary regulation and to achieve a fair and competitive market. These opportunities provide us with a very special "window" to take advantage of them.

One sad note in early 1997 was the tragic death of Bruce Haddad, Senior Vice President - International Operations, in a plane accident while on business. A 20-year GTE veteran, he was a superb executive and a wonderful person. His impact on the company will be felt for many years, and we'll miss him very much.

I want to close by thanking my 102,000 GTE colleagues and all of our shareholders. Your ongoing support and confidence will be a critical factor in GTE's future success.

*Chuck Lee*

Charles R. Lee  
Chairman and Chief Executive Officer  
February 20, 1997

### **GTE's People:**

#### **Building Shareholder Value**

Tracking the progress of Hurricane Fran and repairing telephone lines in the middle of the night. Custom-tailoring a fiber-optic network for Bethlehem Steel. Helping a customer whose studio just burned to the ground to stay in touch with *her* customers by providing call-forwarding service.

As demonstrated in this annual report, each day our people are rising above the call of duty to serve customers even better. We are drawing upon their strength, experience and talents as never before and, in 1996, offered a broad-based employee stock-option plan to further instill a sense of ownership and to focus performance on achieving our goals even more effectively. This is one of the many ways we're working hard every day to improve the quality of our service and the productivity of our employees. Our overall objective is creating greater value for you, our shareholders.

*in all 50 states.*

*And that was just the beginning.*

*...telecommunications will continue to be one of  
the great growth industries in the world for years to come...*



convenience

March Bill and Dolores Clowney used a local GTE Phone Mart® store to purchase wireline and, later, cellular phones. As the year progressed, they enjoyed not only “one-stop shopping” at the Phone Mart but also the new, added convenience of GTE’s single bill. It consolidates everything, from GTE local and long-distance wireline and wireless services to GTE Airfone® and paging charges, into one monthly statement. The bottom line: The Clowneys’ decision to retire to Northport, Florida, was much easier, thanks to their improved ability to keep in touch with family members in Pennsylvania.

Feb

Feb

Feb

Mar



Mar

Mar

va

April GTE reports 11% earnings-per-share growth in the first quarter, driven by a revenue increase of 6% and continued productivity improvements.

growth



Mar

**GTE**

Apr

Apr

**GTE**

March Bonnie Kandalec of Muskegon, Michigan, was GTE's first official U.S. long-distance customer. Since Bonnie, hundreds of thousands of customers have signed up for GTE Long Distance service, available with competitive pricing, innovative packaging and superior service.

blue



easy

July Need to bring more customers to your business?

Millions of people like Steve Burgess of Stevie B's Total Guitar Shop in Clearwater, Florida, are plugging into GTE's printed telephone directories, and its online service, to do just that. In fact, GTE is a leader in linking buyers and sellers around the world. The Everything Pages® — our print directory — reaches more than 2,400 communities and 15 countries. And our fast-growing, online SuperPages® (<http://superpages.gte.net>) is a powerful presence on the World Wide Web. It has listings for more than 11 million businesses and 60,000 business Web sites.

Since July, such innovative features as driving instructions, maps that allow a user to zoom in and out on selected locations, classified ads and a Consumer Guide have made the service even jazzier.

Guitar lessons, anyone?



May

Jun

Jun

Jul



# innovative

August A reliable, state-of-the-art Wireless Data System prototype is operational at the New York Stock Exchange. Called the Broker Reporting System, it supports the communications activities of stockbrokers on the trading floor, thanks to a cooperative effort between GTE's research laboratories and its government systems business.

In 1997 some 700 brokers will carry pen-based, hand-held computers that make it easier to send and receive buy/sell orders.



GTE's earnings rose 10 percent, matching estimates, as company increased phone service by 7 percent and simultaneously posted initial success in long-distance phone market. The combination resulted in the largest revenue increase more than four years at GTE.

GTE, based in Stamford, Conn., said net income rose to \$581 million, or 66 cents per share, from \$529 million, or 61 cents per share, a year ago. Revenues rose 10 percent, to \$4.93 billion. Earnings per share rose to 66 cents a share, up from 61 cents a share, according to a survey.

Jul

Jul

**GTE**

Jul

**GTE**

Aug

Aug

+10%

July GTE reports 10% earnings-per-share growth in the second quarter; domestic network services records another strong quarter with minutes of use up 10%, access lines up 7% and worldwide cellular customers up 26%.

# quality

August The Scott and Joelle Quirarte family of Newbury Park, California, can now choose among 78 channels of cable-TV programming and pay-per-view features using GTE's advanced video networks. Viewers will enjoy up to 150 channels, including interactive video services such as mainStreet®, in 1997. The networks deliver high-resolution pictures and compact-disc-quality sound. The service is currently available in the Tampa Bay area of Florida and Ventura County, California.

GTE plans to expand video services to 66 markets with a reach of some seven million homes by 2004. Programming is developed through americast® — a home entertainment consortium that includes The Walt Disney Company, GTE and other telecommunications companies.



GTE

Aug

September GTE's Network Operations Center (NOC) near the Dallas/Fort Worth International Airport in Texas tracks the progress of Hurricane Fran as it moves up the eastern seaboard toward Durham, North Carolina.

The NOC currently manages GTE's wireline and wireless networks as well as private networks for 2,000 clients. It ensures the reliability of the telephone network, enabling GTE to monitor and correct network problems from thousands of miles away.

# reliable



Aug

**GTE**

Sep

Sep

**GTE**

Sep

Sep

# solutions

September GTE is awarded two contracts by Saudi ARAMCO, valued in excess of \$60 million, to provide a communications system for Saudi Arabia's Shaybah oil field.





# responsive

October A GTE China joint venture completes installation of a wireless paging network in five key Pearl River Delta cities. The network is expected to encompass 25 major metropolitan areas across China by the end of 1997. This is the first step in GTE's support of the development of wireless telecommunications throughout China, the most populated country on earth with over 1.2 billion people.



Oct

**GTE**

**GTE**

Oct

**GTE**

# leadership

October GTE's Airfone® service offers the industry's first unlimited in-flight calling card for use over the holidays, as part of an increasingly aggressive marketing campaign. Passengers on nearly 2,000 domestic and international aircraft can make and receive in-flight phone calls, access voice mail and e-mail, send and receive data and faxes, and shop — all while traveling at 600 miles an hour. Since winning the USAir (now US Airways) contract in May, Airfone® has secured the mantle of market leadership for in-flight telecommunications services.



**November** GTE increases its ownership interest in Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) to almost 26% as that company completes a successful initial public offering.

Caracas-based CANTV provides both wireline and wireless service throughout Venezuela to customers as varied as schoolteachers, take-out pizza vendors and shoppers in the marketplace.

GTE manages international operations that generate more than \$4 billion in revenues annually.

International



Oct



Nov

Nov

Nov



Dec

Dec

**October** GTE reports 10% earnings-per-share growth in the third quarter, citing record customer line growth and strong demand for network usage.

+10%





Kent B. Foster, President

**In a year of explosive growth, we focused on expanding our customer base and services; revenues rose more than 50% above the 1995 rate.**

Executing our strategic thrusts. Building on our existing strengths. Signing up over 1.5 million new customers. Offering a full array of products and services with the convenience of “one-stop shopping” and a single bill. These were just some of the accomplishments of our domestic operations in 1996.

Growth in access lines accelerated to 8.1%, pushing total lines to 20 million, with an 11.1% jump in access minutes of use. Revenues rose more than \$1 billion to \$17.6 billion, and new initiatives and expanded services contributed more than \$300 million of the gain.

All of our major domestic businesses had strong growth during 1996.

**Wireline: Expanded Services**

What sparks rising demand for telecommunications services is increasingly evident: households that want second or third lines for home offices,

teen family members and more convenient Internet access; businesses that need additional lines dedicated solely to data and fax transmission; and the widespread appeal of call waiting, Caller ID and other enhancements (we offer more than a dozen).

Demand for these expanded services resulted in revenues of more than \$1 billion – that’s about one-third higher than 1995’s level for new services.

Second lines, rising at a record rate of nearly 21%, accounted for more than half of our residential line growth in 1996. A significant portion of second-line customers sign up for added features or services.

Among business customers, installation of special lines, usually for data, grew almost 40%. Revenues stemming from burgeoning demand for data, CentraNet® services that replace on-site equipment, and expanded services, climbed more than 30%.



Tina Behan of the GTE Customer Contact Center in Everett, Washington, is one of the many GTE employees who provide outstanding service. In one instance, a customer called to discontinue her Personal Secretary service. Tina took time to listen, probed to find out what her needs really were, and ended up selling Caller ID service. The customer was so pleased, she wrote to thank Tina.

- ✓ 825,000 long-distance customers
- ✓ 738,000 new cellular customers
- ✓ 8,600 new directory advertisers
- ✓ 72,000 new Internet customers
- ✓ 7,000 new video customers

Well over 1.5 million new customers in 1996 chose GTE!

In addition to introducing new and expanded services, we're continuing to focus our priorities on improved quality and customer satisfaction along with increased efficiency and productivity. In 1993 we had 19 operations centers. Today, a single Network Operations Center, in Dallas, Texas, monitors both wireline and wireless operations nationwide, an industry first. It provides backup support to our international companies as well.

**Wireless: More Solid Gains**

As one of the largest and most innovative wireless carriers in the industry, GTE continued to focus on driving profitable growth.

Revenues from cellular services increased 16% in 1996 to \$2.3 billion, and on December 31 customers served totaled 3.7 million, up 738,000 since year-end 1995. We operate in 14 of the top 50 U.S. markets.

Three new initiatives are helping attract new customers. Talk-N-Go<sup>SM</sup> service provides a more affordable, easy-to-use

wireless communications option than traditional service capabilities. The service is designed for those consumers needing only a limited coverage area and having moderate calling needs. It is perfect for those seeking occasional access to nearby home and office sites, while providing the security of access to emergency services.

GTE to GO<sup>SM</sup> service is a convenient wireless option sold through retail outlets. Consumers simply purchase a GTE to GO<sup>SM</sup> package that includes a wireless phone and service, battery, charger and complete instructions. They call a toll-free number to activate the phone and begin making wireless calls.

Prepaid Airtime customers pay for their wireless airtime in advance through the purchase of vouchers, requiring no monthly bills, deposits or contracts.

While expanding our product line, we were able to reduce turnover – or “churn” – by stepping up “customer care” efforts to increase quality. We also have honed pricing and promotion practices, tightened credit standards and improved distribution channels.

Meanwhile, conversion to an advanced wireless digital network using Code Division Multiple Access (CDMA) technology is under way. CDMA increases capacity and quality on existing networks and will be available in most major markets by year-end 1997. In addition, in early 1997, GTE will launch new Personal Communications Services (PCS) networks in Cincinnati, Ohio, and Seattle and Spokane, Washington, expanding our wireless network coverage into these attractive new markets.

**Strong Demand for Data Services**

Demand for data transmission remains strong at home and in the office. GTE offers a wide array of high-speed data products, such as Asynchronous Transfer Mode (ATM) and Cellular Digital Packet Data (CDPD). Continued demand for increased bandwidth for both business and residential customers has made wireless data one of the fastest growing segments of GTE.



GTE's new digital wireless services use CDMA technology, which enhances voice quality and reliability and increases availability of features such as Caller ID, call waiting and numeric paging.



Dale Burnett (left) went out of his way to help several small businesses stay in operation during a crisis. Normally he is a GTE special services technician whose job is to install equipment. Nevertheless, when he heard that a mall in his Lynnwood, Washington, neighborhood burned to the ground, he raced to the scene. By lunchtime, he had helped the businesses stay in touch with their customers by arranging for services such as call forwarding and multiline phones. The result: happy business owners and uninterrupted service.

**Video: Clearer with More Choices**

GTE launched its initial video network in Florida, in July, and a second in California. The networks are competing with existing cable-TV operators by offering 78 channels, high-resolution pictures and compact-disc-quality sound. Even in the early stages, more than 25% of sales contacts have resulted in new subscribers to GTE americast® service.

**Airfone®: Easier In-Flight Calling**

New and more flexible pricing made Airfone® service an even more affordable and convenient alternative to rushed cellular and pay phone calls at the airport.

The addition of the USAir (now US Airways) fleet and aircraft of Hong Kong-based Cathay Pacific, Thai Airways and Air France strengthened Airfone's position as the leading provider of easy-to-use, high-quality airline passenger communications systems.

**Information at Your Service**

GTE's directories business achieved its highest growth in the last five years, with 1996 revenues increasing more than \$100 million to a total of \$1.5 billion.

While focusing on our new, award-winning SuperPages® interactive service, we also extended the geographic reach and scope of The Everything Pages® printed directories. We became the only major publisher to offer integrated print and Internet advertising services to our customers through the convenience of a single sales force.

We began providing directories in markets outside our franchise in metropolitan Dallas, Texas; Portland, Oregon; and Grand Rapids, Michigan; and expanded our products in other locales. We introduced better-organized and formatted community information, including such features as mall and visitor guides in popular tourist areas. We rank second in the Yellow Pages industry, based on advertising revenues.

**A Helpful Company**

Throughout GTE, our employees make it their business to strengthen customer relationships every day. We're helping customers recognize that GTE is a resource that they can turn to for reliable communications advice.

Making telecommunications choices is getting more difficult, but we can help. GTE is dedicated to assisting consumers across the United States to better understand their options so they can make informed purchasing decisions. We support the National Consumers League and the National Federation of Independent Businesses in their efforts to publish educational guides for residential consumers and small businesses. Both guides help telecommunications consumers get the best value in today's competitive marketplace.

By supporting these efforts, both consumers and GTE win.



GTE's CyberTrust™ team is working with American Express and MasterCard International to offer safe electronic commerce via the Internet using the Secure Electronic Transaction (SET) standard. Under the SET protocol, consumers purchase goods and services over the Internet using their credit cards. The benefit: increased levels of confidence that card information will remain private and identities will be protected.



David Hanes (right) is a GTE senior account manager. Together with his team, he spent a decade nurturing a relationship to provide Bethlehem Steel with full telecommunications solutions. Commitment to service, combined with technological savvy, led to a competitive win for GTE to install an extensive fiber-optic network for America's second-largest steel producer at its Burns Harbor, Indiana, campus.





Michael T. Masin, Vice Chairman  
and President—International

**Enhancing the value of existing operations and pursuing new opportunities are our International focus.**

Nineteen ninety-six was a year of significant progress and financial improvement in our international organization as we continued to pursue our two primary objectives: enhancing the value of our existing operations and pursuing new, profitable growth opportunities.

Financially and operationally, our existing operations had an excellent year. Today we manage international operations that generate more than \$4 billion in revenues annually. GTE reported consolidated international revenues in 1996 of \$2.8 billion.

At the same time, we successfully pursued a number of new opportunities for profitable investment throughout the Americas, Asia and in Europe.

**Canada: Outstanding Growth**

In Canada, both BC Telecom and Québec Telephone turned in outstanding performances. In British Columbia, residential line growth and higher local service rates helped spark gains. Both companies won a big victory by gaining governmental approval for entry into the cable-TV and

interactive multimedia markets, which we intend to pursue in 1997.

**Latin America: A Record Year**

On a combined basis, the earnings contribution of the businesses we operate in Latin American countries set a record in 1996.

CODETEL, the principal telecommunications company in the Dominican Republic, rebounded to record earnings despite intensified competition. Local rate adjustments and the introduction of new services improved earnings. Cellular customers rose 71% from 1995.

CANTV, the national telecommunications company in Venezuela, achieved a significant financial turnaround in 1996, contributing substantially to the financial performance of our Latin American units. We continue to believe that the long-term outlook for CANTV is quite favorable, and we increased our share of CANTV's ownership to almost 26%



Fact: More than half of the world's people have yet to make their first phone call. And due to lack of access, many people couldn't make a phone call even if they wanted to. The international opportunity for GTE is enormous.



It was Sunday when telephone communications supporting Porfirio Pujols (right) taxi business short-circuited in San Cristobal. He called on GTE's CODETEL, the telephone company serving the Dominican Republic. Installer/repair technicians Felipe Mateo (center) and Jose Mauricio (left) responded instantly and, within hours, helped the taxi service get back on the road.

from 20.4%. In addition, CANTV added a number of new services, including Internet access; began to convert its cellular network to digital technology; and increased its cellular market share to 45%.

With a new management team in place at CTI, a wireless provider for all of Argentina except Buenos Aires, we've made important progress and are overcoming the difficulties that come with rapid growth. Distribution channels have been improved and significant cost reductions achieved. Lower-cost agreements for connecting to the wireline networks were negotiated, and network coverage improvements have been made in key markets. We continue to be optimistic about the potential returns from our CTI investment.

In Brazil, we joined with a number of local partners to explore new opportunities, especially cellular service.

**Asia: New Relationships**

In China, we are helping to build a nationwide paging system that launched service in five Pearl River Delta cities. Meanwhile, in Taiwan, we joined with several strong partners in a consortium that won a nationwide license to operate in that country's dynamic cellular market.

**GTE's technology and systems organization wins critical contracts and enhances the value of our products and services.**

Our technology and systems organization spearheads many projects, as demonstrated in this report – everything from providing research for a state-of-the-art Wireless Data System used at the New York Stock Exchange to refining new high-speed data products.

Our government systems business won additional nonmilitary contracts. For example, it was awarded a Department of Justice computer systems contract that could exceed \$500 million over seven years and, with our wireless business, will develop wireless service for federal agencies throughout the United States.

Additionally, our worldwide telecommunications services business was awarded contracts with a potential value of \$800 million to provide and maintain information systems supporting fully integrated voice and data services at U.S. military bases nationwide.

We also developed a joint market trial involving our research laboratories and Microsoft to implement asymmetrical digital subscriber line (ADSL) technology, which substantially speeds data transmission over ordinary phone lines.

**Supporting Our People On and Off the Job**

We're pioneers in helping our employees balance their work and family responsibilities. For example, nationwide seminars on college and financial planning were offered to employees and spouses. Benefits such as Long-Term Care Insurance, Adoption Assistance, Survivor Support, and dependent care resource and referral services provide many employees and their families with additional support, and will be expanded.

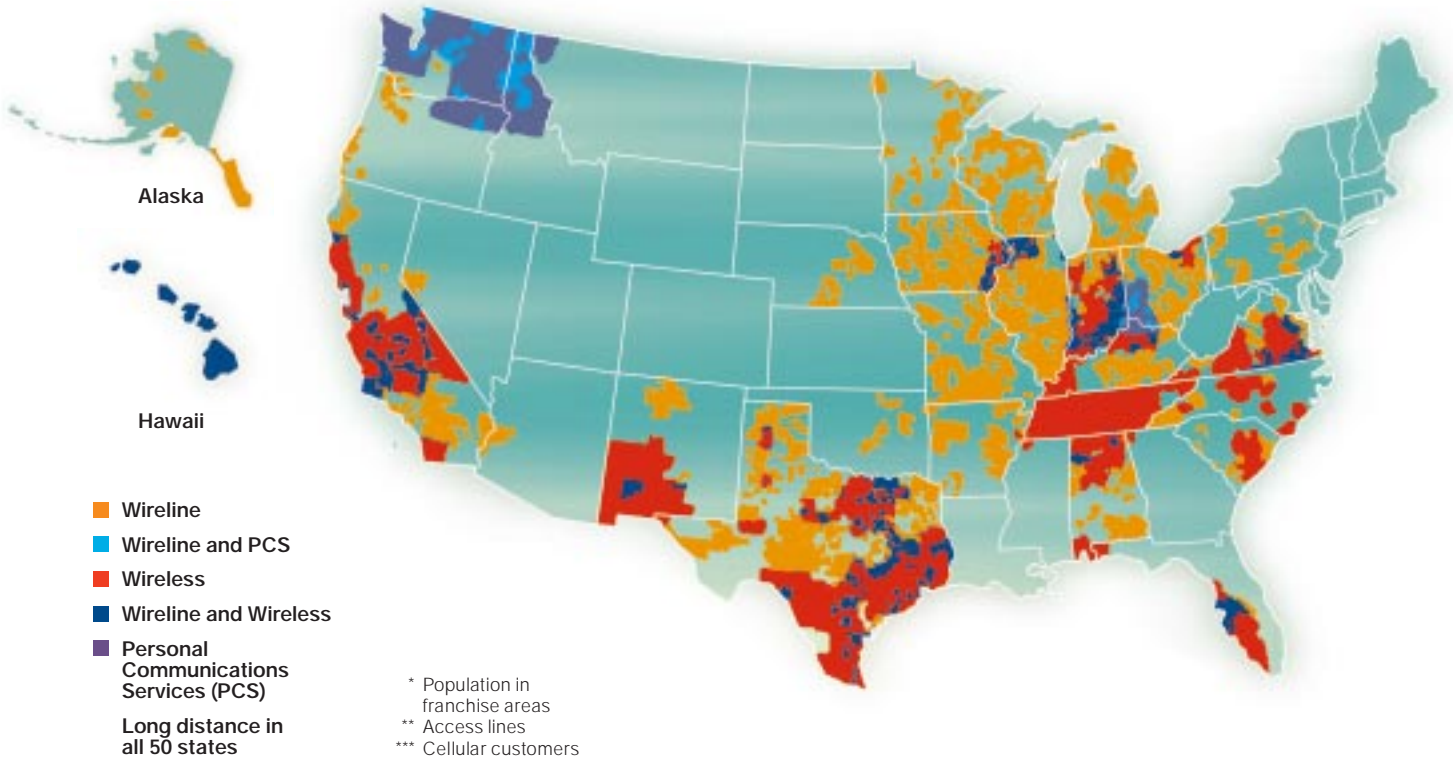
GTE also offers flexible schedules and telecommuting options for certain employees. Our "School's Out" program provides on-site child care on holidays when schools are closed and GTE is open. All of these programs are designed to meet the needs of our diverse workforce.

Reflecting GTE's commitment to education, we provide employee tuition reimbursement and training for skill enhancement. We also partnered with Secretary of Education Richard Riley on such initiatives as the Employers for Learning Steering Committee, working to improve the U.S. education system – and future workforce.

**GTE Foundation**

In 1996 the GTE Foundation contributed nearly \$25 million to some 4,000 nonprofit organizations, local United Ways, secondary schools, colleges and universities. Stanley Johnson (left), a teacher at Jefferson Junior High School in Washington, D.C., is seen here helping Sherricka Farmer test Potomac River water quality. Johnson is a member of





**British Columbia**  
 3,740,000\*  
 2,370,000\*\*  
 300,000\*\*\*



**Québec**  
 550,000\*  
 286,000\*\*  
 18,000\*\*\*



**Dominican Republic**  
 7,950,000\*  
 590,000\*\*  
 57,000\*\*\*



**Venezuela**  
 21,000,000\*  
 2,597,000\*\*  
 214,000\*\*\*



**Argentina**  
 22,000,000\*  
 107,000\*\*\*



**China**  
 Total population:  
 1.2 billion. Initiated  
 paging service in  
 late 1996.

one of 60 teams of innovative math and science teachers who are receiving GTE Growth Initiatives for Teachers (GIFT) grants to help to integrate technology in the classroom.

We underwrite *Scientific American Frontiers*, the popular PBS TV science program, which reaches millions of students annually.

We sponsor The College Fund/UNCF GTE Summer Science Program at our laboratories, providing hands-on internships and mentoring involving UNCF faculty, students and GTE scientists. And we extended our commitment to family literacy by funding 17 new Literacy Volunteers of America computer-based learning centers.

(Millions of Dollars, Except Per-Share Amounts)	1996	1995	1994	1993	1992	Five-Year Annual Growth Rate*
<i>Results of Operations</i>						
<i>Revenues and sales</i>						
Local services	\$ 6,155	\$ 5,839	\$ 5,234	\$ 5,159	\$ 4,932	5.3%
Network access services—interstate	2,917	2,741	2,722	2,690	2,774	1.0
—intrastate	1,701	1,622	1,626	1,708	1,703	(.1)
Toll services	2,500	2,548	3,285	3,321	3,388	(7.0)
Cellular services	2,562	2,191	1,666	1,178	929	30.2
Directory services	1,527	1,383	1,372	1,438	1,405	.3
Other services and sales	3,977	3,633	3,623	3,838	4,394	(2.9)
Total revenues and sales	21,339	19,957	19,528	19,332	19,525	1.8
Cost of services and sales	8,071	7,537	7,677	7,848	8,229	(1.0)
Selling, general and administrative	4,010	3,689	3,667	3,817	3,977	(.1)
Depreciation and amortization	3,770	3,675	3,432	3,419	3,289	3.1
Restructuring costs	—	—	—	1,840 <sup>(a)</sup>	—	—
Operating income	5,488	5,056	4,752	2,408 <sup>(b)</sup>	4,030	10.7
<i>Net income (loss)</i>						
Continuing operations <sup>(c)</sup>	2,798	2,538	2,441	972	1,761	15.9
Consolidated <sup>(e)</sup>	2,798	(2,144) <sup>(d)</sup>	2,441	882	(780) <sup>(e)</sup>	—
<i>Earnings (loss) per common share</i>						
Continuing operations <sup>(c)</sup>	2.89	2.62	2.55	1.03	1.95	13.6
Consolidated <sup>(e)</sup>	2.89	(2.21) <sup>(d)</sup>	2.55	.93	(.86) <sup>(e)</sup>	—
Common dividends declared per share	1.88	1.88	1.88	1.85	1.76	2.6
Book value per share	7.62	7.05 <sup>(d)</sup>	10.85	9.96	10.61	(9.5)
<i>Average common shares</i>						
outstanding (in millions)	969	970	958	945	905	2.0
<i>Assets and Capital</i>						
Consolidated assets	38,422	37,019 <sup>(d)</sup>	42,500	41,575	42,144	(2.4)
<i>Long-term debt and redeemable preferred stock</i>						
	13,210	12,744	12,236	13,103	14,277	(4.0)
Shareholders' equity	7,336	6,871 <sup>(d)</sup>	10,483	9,593	10,076	(8.8)
Net cash from operations	5,899	5,033	4,740	5,373	4,832	3.5
Capital expenditures	4,088	4,034	4,192	3,893	3,909	.9
<i>Consolidated Ratios and Other Information</i>						
Return on common equity <sup>(e)</sup>	40.2%	(20.3)% <sup>(e)</sup>	24.8%	8.8%	(8.8)%	—
Return on investment <sup>(e)</sup>	15.6%	(4.2)%	13.1%	6.9%	1.3%	—
Average common equity	6,960	10,539	9,838	10,030	8,832	(4.2)
Equity ratio	38.1%	37.9% <sup>(d)</sup>	46.2%	42.6%	40.2%	—
Average investment	24,395	27,150	25,647	27,322	28,057	(3.1)
Research and development	122	137	139	135	159	(4.5)
<i>Employees (in thousands)</i>						
Total	102	106	111	117	129	(7.9)
United States	83	85	89	94	104	(7.3)
<i>International Operations (included above)<sup>(f)</sup></i>						
Revenues and sales	\$ 2,797	\$ 2,583	\$ 2,616	\$ 2,520	\$ 2,401	3.5
Income before extraordinary charges	361	220	276	328	244	5.4
Total assets	7,129	6,210	5,826	6,096	5,963	3.3
Notes to Selected Financial Data appear on page 19.						

(Millions of Dollars)	1996	1995	1994	1993	1992	Five-Year Annual Growth Rate*
<i>Network Statistics</i>						
Access minutes of use (in millions)	<b>71,339</b>	64,193	59,247	55,864	52,180	7.8%
Access lines (in thousands)						
Total <sup>(c)</sup>	<b>25,868</b>	24,126	22,805	22,043	21,427	4.6
United States <sup>(g)</sup>	<b>20,025</b>	18,527	17,442	17,073	16,819	4.0
Switched	<b>17,434</b>	16,665	16,037	15,929	15,835	2.3
U.S. lines per employee	<b>327</b>	289	252	234	208	11.3
Cellular subscribers (in thousands)						
Total	<b>4,445</b>	3,547	2,660	1,787	1,204	39.8
United States	<b>3,749</b>	3,011	2,339	1,585	1,090	37.3
Adjusted "POPs" (in millions) <sup>(h)</sup>						
Total	<b>78.3</b>	76.7	68.0	63.4	60.8	6.2
United States	<b>61.9</b>	61.7	53.0	53.0	53.1	3.8
U.S. Telephone Operations						
Revenues and sales	<b>\$13,965</b>	\$13,375	\$13,212	\$13,162	\$13,160	1.2
Operating income <sup>(a)</sup>	<b>3,982</b>	3,621	3,490	1,962 <sup>(b)</sup>	3,284	6.4
Operating cash flow margin <sup>(i)</sup>	<b>48.3%</b>	47.8%	46.4%	34.7%	44.1%	—
Capital expenditures	<b>2,690</b>	2,564	2,821	2,811	2,859	(2.5)
U.S. Cellular Operations						
Service revenues	<b>\$ 2,347</b>	\$ 2,019	\$ 1,539	\$ 1,082	\$ 853	29.9
Operating income	<b>461</b>	410	278	124	77	—
Operating cash flow margin <sup>(i)</sup>	<b>36.0%</b>	36.8%	35.3%	31.9%	32.9%	—
Capital expenditures	<b>600</b>	709	610	389	376	20.5

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

(a) See Note 4 on Restructuring Costs.

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

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

(d) See Note 2 on Extraordinary Charges.

(e) 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.

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

	1996	1995	1994	1993	1992	Five-Year Annual Growth Rate*
Net income (in millions)	<b>\$2,790</b>	\$2,527	\$2,279	\$2,077	\$1,761	11.0%
Earnings per common share	<b>2.88</b>	2.61	2.38	2.20	1.95	8.9
Return on common equity	<b>40.1%</b>	23.2%	23.3%	20.4%	15.6%	—
Return on investment	<b>15.5%</b>	12.8%	12.5%	11.2%	9.5%	—

(f) Includes GTE's international subsidiaries and affiliates as well as international activities from domestic companies.

(g) Access lines exclude 448,000 and 440,000 net lines sold during 1994 and 1993, respectively. Total access lines include 2.6 million, 2.5 million, 2.3 million, 2.0 million and 1.8 million lines served by CANTV in Latin America in 1996-92, respectively. Excluding the effect of CANTV and the access lines sold during 1994 and 1993, the five-year total access line growth rate was 5.1%.

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

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

**Return to Shareholders**

Maximizing shareholders' long-term total return continues to be GTE's primary financial objective and, for the second straight year, GTE outperformed the average return of the regional Bell operating companies. For 1996, total return to GTE shareholders, consisting of share-price appreciation and dividends, was 7.9%. This compares with the 1996 average total return for the regional Bell operating companies of 0.5%. Over the last two-year period, GTE's total average annual return to shareholders of 28.1% was higher than any of the regional Bell operating companies. For that period the average annual return for the regional Bell operating companies was 22.3%.

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 1996, resulting in a dividend payout ratio of 65%.

**Consolidated Operations**

GTE had another outstanding year in 1996. Domestically, GTE realized record growth in access lines and network usage, strong growth in cellular customers and double-digit productivity improvements. Internationally, network service revenues grew 7%, driven by aggressive local rate rebalancing and a 41% increase in cellular customers in Canada and the Dominican Republic.

Consolidated net income in 1996 was \$2.8 billion, or \$2.88 per share excluding the impact of gains (\$8 million, or \$.01 per share) associated with the sale of nonstrategic domestic telephone properties. This compares with consolidated net income in 1995 of \$2.5 billion, or \$2.61 per share, excluding special items, an improvement of 10%. Special items recorded during 1995 relate to extraordinary charges for the discontinuance of applying the provisions of Statement of Financial Accounting Standards

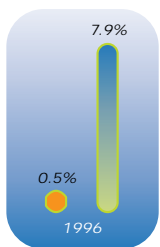
No. 71 (\$4.7 billion, or \$4.83 per share) and gains related to the sale of nonstrategic domestic telephone properties (\$11 million, or \$.01 per share).

GTE's domestic telephone operations experienced record growth, adding 1.5 million access lines, an increase of 8.1%, and achieving an 11.1% increase in minutes of use. During 1996, GTE added 738,000 new domestic cellular customers, bringing total domestic cellular customers to 3,749,000 and total worldwide cellular customers to 4,445,000, representing a 25% growth rate over the 3,547,000 served at the end of 1995.

Consolidated revenues and sales grew 7% in 1996 to \$21.3 billion compared with \$20.0 billion reported in 1995. Strong volume growth in telephone operations and substantial increases in cellular customers more than offset lower, more competitive pricing. In the U.S., new price reductions in response to regulatory actions, reduced revenues by approximately \$160 million in 1996, bringing cumulative price reductions over the past three years to approximately \$950 million. Since 1990, cumulative price reductions have totaled approximately \$2.0 billion. Outside the U.S., local rate rebalancing programs in Canada and the Dominican Republic more than offset toll revenue losses resulting from competitive pressures.

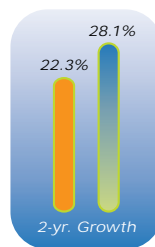
The rollout of new and expanded services also drove the increase in revenues. These services, which include GTE Long Distance, CentraNet<sup>®</sup>, data and custom-calling features, such as Caller ID and SmartCall<sup>®</sup>, increased 35% to \$1,191 million in 1996. This compares to \$884 million of revenues recorded in 1995. These new services are expected to continue to contribute a larger percentage of GTE's total revenue stream in future years as a result of strong business and consumer demand.

Operating income for 1996 reached a record \$5.5 billion, up 8.5% from the \$5.1 billion reported in 1995. The increase was due to higher revenues and ongoing cost reductions from process re-engineering activities, partially offset by higher costs associated with the expansion of core wireline and wireless businesses as well as investment in new revenue initiatives. Net interest expense declined slightly from 1995 levels as the favorable effects



**Return to Shareholders**  
(Assumes dividends are reinvested)

■ GTE  
■ RBOC Average  
(Regional Bell operating companies)



**Return to Shareholders**  
(Assumes dividends are reinvested)

■ GTE  
■ RBOC Average  
(Regional Bell operating companies)

of lower interest rates were partially offset by slightly higher debt balances. Other expense totaled \$50 million in 1996 compared with \$5 million in 1995, primarily reflecting the higher gains recorded in 1995 in connection with nonstrategic property sales, partially offset by the higher 1996 income from unconsolidated subsidiaries. GTE's effective income tax rate in 1996 remained unchanged from 1995 at 36.6%.

For a discussion of the use of financial instruments and contingencies, see Notes 9 and 15 to Consolidated Financial Statements. During 1995, GTE adopted accounting principles appropriate for nonregulated companies and recorded extraordinary charges totaling \$4.7 billion, or \$4.83 per share, as discussed in Note 2 to Consolidated Financial Statements.

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

Operating income in 1995 increased 8% over 1994, excluding the income attributable to the properties sold. The increase was due to higher revenues, improved cellular operating margins and ongoing cost reductions. 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.

In 1994, consolidated net income was \$2.4 billion, or \$2.55 per share, which included after-tax gains on sales of certain nonstrategic domestic telephone properties of \$162 million, or \$.17 per share.

### 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 5% to \$6.2 billion in 1996. This growth was

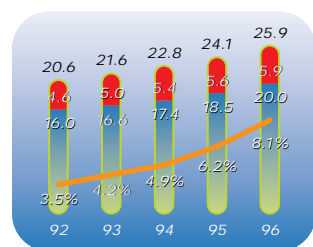
attributable to placing a record 1.5 million domestic access lines in service during 1996, an 8.1% growth rate, resulting primarily from a 1.1 million, or 17.6%, increase in business lines and 290,000, or 20.8%, increase in residential second lines. The growth in second lines is attributable to strong consumer demand for access to the Internet and online computer services and fax machines. Additionally, 110,000 international access lines were added in 1996 (excluding approximately 134,000 related to CANTV, the Venezuelan telephone company in which GTE has a minority stake).

### 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 \$4.6 billion grew 6% from \$4.4 billion in 1995. The impact of the 11.1% growth in minutes of use of GTE's domestic local-exchange network for long-distance calling was partially offset by competitive and regulatory-mandated rate reductions.

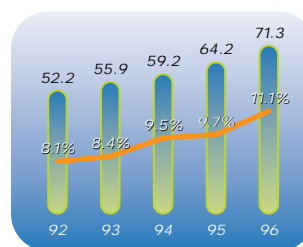
### Toll Service Revenues

Toll service revenues are based on fees charged for service beyond a customer's local calling area but within the local access transport area (LATA) and also include revenues of GTE Long Distance service introduced in 1996. Toll service revenues decreased 2% to \$2.5 billion from the 1995 level. This slight decline was primarily attributable to price reductions to meet competition and regulatory-mandated rate reductions. Partially offsetting these reductions were revenues related to GTE Long Distance service.



**Wireline Operations: Access Lines and Access Line Growth Rates**  
(Excludes Properties Sold)

- International (In Millions)
- U.S. (In Millions)
- U.S. Access Line Growth Rates



**Wireline Operations: Minutes of Use and Minutes of Use Growth Rates**

- U.S. Minutes of Use (In Billions)
- U.S. Minutes of Use Growth Rates (Excludes Properties Sold)

**Cellular Service Revenues**

Cellular service revenues grew 17% to \$2.6 billion from \$2.2 billion in 1995. 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 1996 reached 3,749,000, an increase of 24.5% over 1995. Cellular market penetration increased to 7.8% in 1996 compared with 6.3% in 1995. The revenue growth was tempered by a decline in revenues per customer per month in the U.S., reflecting continued growth of casual and security users in the customer base. During the year, revenues per customer in the U.S. averaged \$60 per month compared with \$63 in 1995, a 4.8% decline.

**Directory Services Revenues**

Directory services revenues result primarily from the sale of Yellow Pages advertising and also include fees charged to print, publish and distribute telephone directories. GTE annually publishes or provides sales and other directory-related services for approximately 2,400 different directories in 47 states and 15 foreign countries. Directory services revenues increased 10% to \$1.5 billion in 1996, reflecting growth in existing markets, acquisitions and market expansions in the U.S., including SuperPages® interactive service as well as the timing of international publications.

**Other Services and Sales**

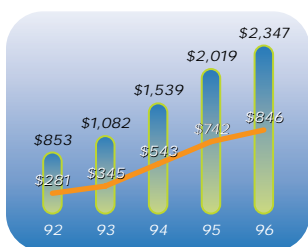
Other services and sales include revenues from: GTE Government Systems, which provides integrated telecommunication systems and customized solutions and equipment to U.S. government defense and civilian agencies as well as commercial users both domestically and internationally; GTE Airfone, which provides aircraft-based telecommunication services for passengers; and telephone and cellular equipment sales and services. Other services and sales revenues increased to \$4.0 billion in 1996, reflecting a growth rate of 9% due to higher non-network related equipment and systems sales. During 1996, GTE Government Systems received orders valued at \$1.2 billion, a slight increase over 1995.

**Cost of Services and Sales**

Cost of services and sales increased 7% to \$8.1 billion in 1996 compared with \$7.5 billion in 1995, primarily reflecting the growth in sales of telecommunication systems and equipment as well as directory publication costs, partially offset by lower costs related to the impacts of the process re-engineering program at domestic telephone operations. This program, which was substantially completed in 1996, has redesigned and streamlined processes to improve customer responsiveness and product quality, while shortening the time necessary to introduce new products and services, thus further reducing costs. In addition, the consolidation of work centers and the rollout of technologically-advanced systems has 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, and 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.

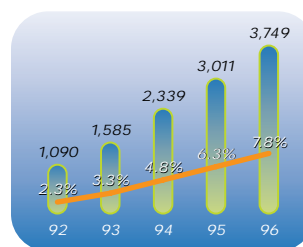
U.S. access lines per employee, a key indicator of productivity, totaled 327 at year-end 1996, a 13% increase over 1995 and a 30% increase since the end of 1994.

By the end of 1996, domestic telephone operations had reduced its U.S. workforce to approximately 61,300 employees.



**U.S. Cellular Operations: Service Revenues and Operating Cash Flow**  
(In Millions)

■ Service Revenues  
— Operating Cash Flow  
(Represents operating income before depreciation and amortization)



**U.S. Cellular Operations: Subscribers and Market Penetration**

■ Subscribers (In Thousands)  
— Penetration Percentage



#### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased 9% in 1996 to \$4.0 billion from \$3.7 billion in 1995. The growth in these operating costs is primarily related to higher selling and advertising costs, which grew 16% from 1995 levels, associated with the strong customer growth, support of new initiatives and heightened brand awareness, within GTE's core wireline and wireless operations. Partially offsetting these increases were ongoing cost containment and reduction programs, which have been implemented across all business units.

#### **Depreciation and Amortization**

Depreciation and amortization increased 3% to \$3.8 billion in 1996 compared with \$3.7 billion in 1995. The increase reflects the expansion of the wireline network to meet demand for additional lines, enhanced calling features and switched data services, and the continued deployment of enabling technologies for broadband services. The wireless network was also expanded to provide significantly higher capacity and to improve service quality.

#### **Other Income and Expense**

In 1996, GTE reported other expense of \$50 million compared with other expense of \$5 million in 1995. Other income and expense is comprised primarily of minority interests, earnings of unconsolidated subsidiaries, which include international ventures and cellular partnerships, and gains on sales of nonstrategic properties.

Minority interests increased \$12 million in 1996 to \$239 million as a result of higher earnings in the Canadian operations. The increase in minority interest was more than offset by higher income from unconsolidated subsidiaries.

Equity in income of unconsolidated subsidiaries improved considerably in 1996, primarily driven by higher earnings from CANTV, the Venezuelan telephone company that is operated by GTE. GTE's results from CANTV were favorably affected by operating improvements stemming from timely rate increases, productivity gains resulting from employee reductions and other cost controls and a stabilizing economy. In contrast during 1995, CANTV operated within a weak economy with currency controls and limited access to international banking and capital markets. As a result of these conditions, CANTV made a relatively small contribution to GTE's 1995 earnings.

Due to the high level of inflation in Venezuela, CANTV's financial performance is highly dependent on its ability to increase tariffs. In 1995 and 1996, CANTV successfully obtained tariff increases, in accordance with the Concession Agreement with the Venezuelan government.

GTE continues to view its interest in CANTV as an excellent long-term investment. In the fourth quarter of 1996, GTE purchased \$190 million of shares, increasing its ownership in CANTV from 20.4% to 25.9%.

Partially offsetting GTE's 1996 earnings from CANTV were losses in CTI, the cellular telephone company in Argentina, related to costs associated with improvements to the network and distribution channels as well as customer growth.

Also included in other income and expense are gains on the sales of nonstrategic domestic telephone properties of \$12 million, \$16 million and \$264 million for 1996, 1995 and 1994, respectively.



### **Regulatory and Competitive Trends**

Significant regulatory and legislative developments occurred during 1996, including the passage of The Telecommunications Act of 1996 (1996 Act). The 1996 Act is intended to promote competition in all sectors of the telecommunications marketplace, while preserving and advancing universal telephone service.

As a result of the 1996 Act, GTE may be faced with increased competition from numerous sources, including local-exchange carriers, competitive access providers, wireless carriers (cellular and PCS), cable providers (terrestrial, wireless and satellite), long-distance companies, media and computer companies. These companies collectively have the ability to offer a broad array of voice, video and data services to business and residential customers.

Following passage of the 1996 Act, the FCC has undertaken to issue rules governing three areas: interconnection, universal service and access charge reform. In August 1996, the FCC adopted its rules governing interconnection. These rules generally require local-exchange carriers to make their services available to competitors at a wholesale discount and to make their network elements available to competitors at below-cost prices. GTE petitioned for judicial review of these rules on the grounds that they were inconsistent with the 1996 Act. In October 1996, the U.S. Court of Appeals for the Eighth Circuit granted GTE's request for a stay of the pricing provisions of the FCC's rules pending the Court's resolution of the merits of GTE's petition. Oral arguments on the merits were held in January 1997, and the Court's ruling is expected in the spring of 1997.

In November 1996, the Federal-State Joint Board released its recommended universal service plan, and in December 1996, the FCC issued its access reform proposals. Both proposals incorporate a pricing methodology similar to the one that GTE is appealing in the interconnection case. A final order in the universal service proceeding must be adopted by early May 1997, and a decision on the access reform proceeding is expected shortly thereafter.

The increasingly competitive environment will necessitate continued efforts by GTE to improve productivity factors as well as cost controls and utilize strategic price reductions to maintain market position. However, GTE will also take advantage of the greater freedom it obtained under the 1996 Act to pursue competitive market opportunities, generating new sources of revenue.

GTE has exercised its right under the 1996 Act to challenge state PUC arbitration orders that govern agreements between GTE and its competitors. In December 1996, GTE filed lawsuits in federal district court in five states—Pennsylvania, Virginia, Illinois, Washington and Missouri—on the grounds that the state PUC arbitration orders violated the 1996 Act by (among other things) forcing GTE to provide its services and network elements at unlawfully low prices. In 1997, GTE filed similar lawsuits in federal district court in a number of other states.

Approximately 60% of GTE's domestic access lines are in nine states that have adopted incentive regulation plans for intrastate service, including California, Florida and Texas, the states where GTE's largest operations are located. Approximately 70% of the regulated revenues for GTE's domestic telephone operations are under some form of alternative regulation, including 100% of the interstate revenues. GTE's 1996 annual interstate access filing was approved by the FCC in June 1996. Overall, the filing resulted in price reductions of \$18.3 million, effective July 1, 1996.

Internationally, the pace of regulatory and competitive change has also accelerated.

In Canada, a decision was made during 1996 allowing GTE's majority owned subsidiaries entry to the cable-TV and interactive multimedia markets. In addition, a decision is also expected early in 1997 regarding the implementation of price cap regulations that will govern the price, rather than the profits, of GTE's Canadian subsidiaries' products and services.

In the Dominican Republic, competitive pressures for international and local toll traffic continue 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.

GTE continues to support greater competition in telecommunications, provided that, overall, the actions to eliminate existing legal and regulatory barriers benefit consumers by allowing an opportunity for all service providers to participate in a competitive marketplace under comparable conditions.

#### **GTE Initiatives**

In 1996, GTE continued to position itself to respond aggressively to competitive developments and benefit from new opportunities.

In March 1996, GTE began offering long-distance service, through a nonexclusive agreement with WorldCom, Inc. In July 1996, GTE began offering Internet access services through an agreement with UUNET. At December 31, 1996, GTE was providing long-distance service in all 50 states to over 825,000 customers and nationwide Internet access services to over 70,000 customers.

In addition, GTE had been granted three video franchises in Pinellas County, Florida, and three video franchises in Ventura County, California. Network construction in those markets is under way and approximately 7,000 new video customers were added during 1996, bringing GTE's total video customer base to approximately 15,000.

In addition, GTE continues its participation in the americast® joint venture with The Walt Disney Company, along with Ameritech, BellSouth Corporation, SBC Communications and Southern New England Telephone. This venture is designed to provide video programming and content for the telecommunications partners' video offerings and work has been initiated in many areas, including the selection of technology and the creation of an advanced navigator.

During 1996, GTE substantially completed the implementation of the \$1.4 billion re-engineering program for its domestic telephone operations. Total costs of the program included \$900 million related to improvements in customer service processes, \$300 million related to improvements in administration processes and \$170 million related to the consolidation of facilities and operations. The plan has produced annualized cost savings of over \$1 billion.

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

In 1996, GTE established a joint venture with a leading Chinese wireless telecommunications operator. GTE has invested approximately \$26 million to date, 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 major metropolitan areas, including Beijing.

In January 1997, the government of Taiwan awarded a digital cellular license to Pacific Communication Services Co. Ltd., a consortium in which GTE holds a minority interest as the only foreign stakeholder. GTE is expected to invest approximately \$90 million into this venture.



**Capital Investment, Resources and Liquidity**

**Return on Equity**

GTE's return on average common equity was 40.1% in 1996 compared with 23.2% in 1995, before considering the extraordinary charges in 1995 and the gains on the sales of certain nonstrategic domestic telephone properties in both years. Including the extraordinary charges and gains on sales of nonstrategic domestic telephone properties, the return on average common equity for 1996 and 1995 was 40.2% and (20.3)%, respectively.

**Capitalization**

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

In June 1996, Moody's raised its rating on GTE Corporation's senior debt to A3 from Baa1 and in December 1996, Standard and Poor's raised its rating on GTE Corporation's senior debt to A- from BBB+.

During 1996, GTE negotiated two new credit facilities for \$4.0 billion, including a five-year line of \$2.5 billion for GTE Corporation and a 364-day line of \$1.5 billion for certain domestic telephone operations. Fifty-seven banks representing 12 countries participated in the syndicated facility, which will be used primarily to back up commercial paper borrowings which replaced multiple bilateral facilities.

Total equity as a percentage of total capitalization was 38.1% at the end of 1996 compared with 37.9% in 1995.

**Cash Flow**

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

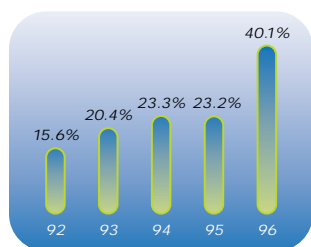
Capital expenditures totaled \$4.1 billion in 1996, approximately \$50 million more than the 1995 level of expenditures. The 1996 total reflected expenditures used for the deployment of broadband video networks in California and Florida, buildout of the new wireless PCS networks and other requirements to support new revenue growth initiatives and expanded service capabilities, partially offset by lower spending on domestic cellular networks. GTE expects capital expenditures to increase slightly in 1997 for the continued expansion of existing domestic and international networks, upgrades associated with the support of expanded services such as video and data, and compliance with the number portability requirements of the 1996 Act.

During the fourth quarter of 1996, GTE increased its investment in CANTV by \$190 million through purchases during the initial public offering of CANTV shares by the government of Venezuela and subsequent market purchases. GTE announced plans to buy as much as \$200 million of this offering.

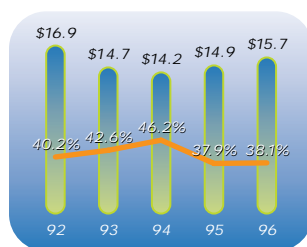
Also in 1996, GTE announced plans to repurchase up to 25 million shares of its currently issued common stock from time to time, depending on market conditions through July 1997. The repurchase program is in addition to the 20 million share repurchase program announced in 1995. The shares will be used to satisfy the requirements of GTE's employee benefit and dividend reinvestment programs. At the end of 1996, a total of 27.1 million shares had been repurchased under these programs. Cash used for the purchase of these shares was \$1.0 billion in 1996 and \$133 million in 1995.

During 1996, GTE received proceeds of about \$261 million for the sales of certain PCS licenses acquired during 1995.

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



**Consolidated Return on Equity**  
(Excludes Special Items— See Note 2 to Consolidated Financial Statements— Extraordinary Charges)



**Consolidated Debt and Equity Ratio**  
■ Total Debt (In Billions)  
— Equity Ratio

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 was completed in 1996.

In 1997, the funding of dividends and capital requirements for GTE's businesses will be substantially sourced by cash from operations, although GTE's strong financial position allows ready access to worldwide capital markets for any additional cash requirements.

**Forward-Looking Statements**

GTE has projected earnings-per-share growth of not less than 10% for the foreseeable future and consolidated revenue growth in the range of 6% to 8% for 1997. Revenues from GTE's domestic telephone operations are expected to grow by 5% to 6%, with much of the growth driven by expanded services and new initiatives such as long distance, Internet and video services. In the area of long distance, GTE expects to almost double its customer base in 1997 and increase its revenues about seven times. Operating margins for domestic telephone operations are expected to be consistent with similar margins achieved in 1996.

GTE has projected domestic cellular operations will grow consistent with the industry and will add as many new customers in 1997 as were added in 1996. Cellular revenue per customer, however, is expected to continue a 7% to 8% downward trend as more residential customers and new competitors enter the market.

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

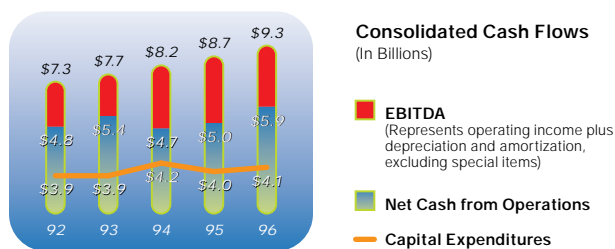
**Risk Factors**

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

With regard to the effects of regulation, GTE has assumed fair and reasonable resolutions to any pending and potential federal, state and local regulatory initiatives and proceedings, including arbitration proceedings before various state regulatory commissions. GTE has also assumed the successful outcome of the proceedings filed with the Court of Appeals for the Eighth Circuit challenging the FCC's published Report and Order, dated August 8, 1996, regarding the terms of interconnection, unbundled network elements and resale rates.

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

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



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, 1996 and 1995 and for each of the three years in the period ended December 31, 1996 as set forth on pages 29 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

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



Stamford, Connecticut  
January 28, 1997

To Our Shareholders:

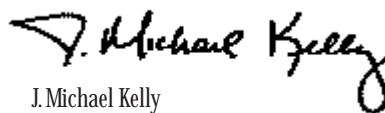
The management of GTE is responsible for the integrity and objectivity of the financial and operating information contained in this annual report, including the consolidated financial statements covered by the Report of Independent Public Accountants. These statements were prepared in conformity with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

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

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



Charles R. Lee  
Chairman and  
Chief Executive Officer



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

(Millions of Dollars, Except Per-Share Amounts)	Years Ended December 31		
	1996	1995	1994
<i>Revenues and Sales</i>			
Local services	\$ 6,155	\$ 5,839	\$ 5,234
Network access services	4,618	4,363	4,348
Toll services	2,500	2,548	3,285
Cellular services	2,562	2,191	1,666
Directory services	1,527	1,383	1,372
Other services and sales	3,977	3,633	3,623
Total revenues and sales	21,339	19,957	19,528
<i>Operating Costs and Expenses</i>			
Cost of services and sales	8,071	7,537	7,677
Selling, general and administrative	4,010	3,689	3,667
Depreciation and amortization	3,770	3,675	3,432
Total operating costs and expenses	15,851	14,901	14,776
<i>Operating Income</i>	5,488	5,056	4,752
<i>Other (Income) Expense</i>			
Interest—net	1,026	1,047	1,059
Other—net	50	5	(280)
Income before income taxes	4,412	4,004	3,973
Income taxes	1,614	1,466	1,532
Income before extraordinary charges	2,798	2,538	2,441
Extraordinary charges	—	(4,682)	—
<i>Net Income (Loss)</i>	\$ 2,798	\$ (2,144)	\$ 2,441
<i>Earnings (Loss) Per Common Share</i>			
Before extraordinary charges	\$ 2.89	\$ 2.62	\$ 2.55
Extraordinary charges	—	(4.83)	—
<i>Net Income (Loss)</i>	\$ 2.89	\$ (2.21)	\$ 2.55
Average common shares outstanding (in millions)	969	970	958
See Notes to Consolidated Financial Statements.			

(Millions of Dollars)	December 31 1996	1995
<i>Assets</i>		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 405	\$ 332
Receivables, less allowances of \$299 and \$263	4,482	4,227
Inventories and supplies	673	719
Deferred income tax benefits	200	330
Other	273	284
Total current assets	<b>6,033</b>	5,892
Property, plant and equipment, net	22,902	22,437
Employee benefit plans	3,639	3,058
Franchises, goodwill and other intangibles	2,507	2,765
Investments in unconsolidated companies	2,035	1,745
Other assets	1,306	1,122
Total assets	<b>\$38,422</b>	\$37,019
<i>Liabilities and Shareholders' Equity</i>		
<i>Current Liabilities</i>		
Short-term obligations, including current maturities	\$ 2,497	\$ 2,156
Accounts payable and accrued expenses	4,156	3,858
Taxes payable	754	890
Accrued restructuring costs	—	512
Dividends payable	472	476
Other	435	420
Total current liabilities	<b>8,314</b>	8,312
Long-term debt	13,210	12,744
Employee benefit plans	4,688	4,638
Deferred income taxes	1,474	1,203
Minority interests	2,316	2,230
Other liabilities	1,084	1,021
Total liabilities	<b>31,086</b>	30,148
<i>Shareholders' Equity</i>		
Common stock—shares issued 980,911,281 and 977,483,844	49	49
Additional paid-in capital	7,248	8,049
Retained earnings (deficit)	1,370	(534)
Guaranteed ESOP obligations	(575)	(603)
Treasury stock—17,813,275 and 2,423,284 shares, at cost	(756)	(90)
Total shareholders' equity	<b>7,336</b>	6,871
Total liabilities and shareholders' equity	<b>\$38,422</b>	\$37,019
See Notes to Consolidated Financial Statements.		



(Millions of Dollars)	<b>1996</b>	Years Ended December 31 1995	1994
<i>Operations</i>			
Income before extraordinary charges	<b>\$ 2,798</b>	\$ 2,538	\$ 2,441
Adjustments to reconcile income before extraordinary charges to net cash from operations:			
Depreciation and amortization	<b>3,770</b>	3,675	3,432
Deferred income taxes	<b>415</b>	484	248
Changes in current assets and current liabilities, excluding the effects of acquisitions and dispositions:			
Receivables—net	<b>(571)</b>	(561)	(554)
Other current assets	<b>26</b>	(92)	(4)
Accrued taxes and interest	<b>(109)</b>	(25)	(209)
Other current liabilities	<b>(220)</b>	(598)	(262)
Other—net	<b>(210)</b>	(388)	(352)
Net cash from operations	<b>5,899</b>	5,033	4,740
<i>Investing</i>			
Capital expenditures	<b>(4,088)</b>	(4,034)	(4,192)
Acquisitions and investments	<b>(476)</b>	(798)	(244)
Proceeds from sales of assets	<b>337</b>	314	1,163
Other—net	<b>(50)</b>	17	4
Net cash used in investing	<b>(4,277)</b>	(4,501)	(3,269)
<i>Financing</i>			
Common stock issued	<b>444</b>	385	422
Purchase of treasury stock	<b>(967)</b>	(133)	—
Dividends paid	<b>(1,825)</b>	(1,827)	(1,806)
Long-term debt and preferred securities issued	<b>2,038</b>	1,098	2,345
Long-term debt and preferred securities retired	<b>(582)</b>	(1,553)	(1,178)
Increase (decrease) in short-term obligations, excluding current maturities	<b>(725)</b>	1,529	(1,278)
Other—net	<b>68</b>	(22)	25
Net cash used in financing	<b>(1,549)</b>	(523)	(1,470)
Increase in cash and cash equivalents	<b>73</b>	9	1
Cash and cash equivalents:			
Beginning of year	<b>332</b>	323	322
End of year	<b>\$ 405</b>	\$ 332	\$ 323
<i>Cash paid during the year for</i>			
Interest	<b>\$ 1,088</b>	\$ 1,133	\$ 1,084
Income taxes	<b>1,325</b>	985	1,598
See Notes to Consolidated Financial Statements.			

(Millions of Dollars)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Guaranteed ESOP Obligations	Treasury Stock	Total
<i>Shareholders' Equity, December 31, 1993</i>	\$ 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)
<i>Shareholders' Equity, December 31, 1994</i>	10	48	7,627	3,422	(624)	—	10,483
Net loss				(2,144)			(2,144)
Dividends declared				(1,824)			(1,824)
Common and treasury stock issued under employee and shareholder plans (13,564,835 shares)		1	369			43	413
Purchase of treasury stock (3,589,200 shares)						(133)	(133)
Retirement of preferred stock (265,895 shares)	(10)						(10)
Other			53	12	21		86
<i>Shareholders' Equity, December 31, 1995</i>	—	49	8,049	(534)	(603)	(90)	6,871
Net income				2,798			2,798
Dividends declared			(915)	(905)			(1,820)
Common and treasury stock issued under employee and shareholder plans (11,570,646 shares)			110			340	450
Purchase of treasury stock (23,533,200 shares)						(1,006)	(1,006)
Other			4	11	28		43
<i>Shareholders' Equity, December 31, 1996</i>	<b>\$ —</b>	<b>\$49</b>	<b>\$7,248</b>	<b>\$1,370</b>	<b>\$(575)</b>	<b>\$(756)</b>	<b>\$7,336</b>
See Notes to Consolidated Financial Statements.							

## 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 25.9 million access lines in the United States, Canada, the Dominican Republic and Venezuela. GTE is a leading cellular operator in the United States, with the potential of serving 61.9 million cellular and personal communications services customers. Outside the United States, GTE operates cellular networks serving some 16.4 million POPs through subsidiaries in Canada and the Dominican Republic and affiliates in 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 management to make estimates and assumptions that affect the reported amounts. Actual results could differ from those estimates.

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

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).

Reclassifications of prior-year data have been made, when appropriate, to conform to the 1996 presentation.

### *Revenue Recognition*

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

### *Depreciation and Amortization*

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

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 \$90 million, \$87 million and \$71 million in 1996-94, respectively. Accumulated amortization was \$488 million and \$404 million at December 31, 1996 and 1995, respectively.

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

### *Foreign Currency Translation*

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

### *Employee Benefit Plans*

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

### *Income Taxes*

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

Deferred income taxes are not provided on undistributed earnings of foreign subsidiaries, aggregating approximately \$551 million at December 31, 1996, as such earnings are expected to be permanently reinvested in these companies.

### *Earnings Per Common 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 Cash Equivalents*

Cash and cash equivalents 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.

## 2. Extraordinary Charges

In response to legislation and the increasingly competitive environment in which telephone subsidiaries expect to operate, GTE discontinued the use of FAS 71 in the fourth quarter of 1995.

As a result of the decision to discontinue FAS 71, GTE recorded a noncash, after-tax extraordinary charge of \$4.6 billion (net of tax benefits of \$2.8 billion), or \$4.79 per share, in the fourth quarter of 1995. The charge primarily represented a reduction in the net book value of telephone plant and equipment of domestic telephone subsidiaries through an increase in accumulated depreciation. GTE shortened the depreciable lives of its telephone plant and equipment in 1996, as follows:

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

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

## 3. Investments in Unconsolidated Companies

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

During 1996, GTE increased its ownership in CANTV from 20.4% to 25.9% through the purchase of \$190 million of additional shares in connection with the initial public offering of CANTV shares by the Venezuelan government and subsequent market purchases. CANTV is the primary provider for local, national long-distance and international long-distance telephone service in Venezuela. CANTV also provides other telecommunications and related services, including cellular and directory advertising services. At December 31, 1996 and 1995, GTE had an investment in CANTV of \$1.5 billion and \$1.2 billion, including \$812 million and \$758 million of goodwill, respectively.

GTE has a 25.5% ownership interest in CTI, an international consortium providing cellular services in the north and south interior regions of Argentina. At December 31, 1996 and 1995, GTE had an investment in CTI of \$113 million and \$88 million, respectively, and through December 31, 1996 provided \$109 million in guarantees to banks and other shareholders.

Other investments in unconsolidated subsidiaries, primarily cellular partnerships, were \$400 million and \$461 million at December 31, 1996 and 1995, respectively, including goodwill for both periods of approximately \$24 million.

## 4. Restructuring Costs

During 1993, GTE recorded one-time restructuring costs of \$1.8 billion, which reduced net income by \$1.2 billion, or \$1.22 per share. The restructuring costs included \$1.4 billion for domestic telephone operations' re-engineering plan to improve customer responsiveness and product quality, reduce the time necessary to introduce new products and services and further reduce costs. Also included was a \$400 million reduction in the carrying value of satellite communications and other assets. The re-engineering plan was substantially completed in 1996 consistent with the original cost estimates.

From the inception of the plan through December 31, 1996, 224 work centers were closed, and workforce reductions of approximately 17,000 have occurred. Total costs are comprised of \$900 million related to customer service processes, \$300 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.

## 5. Shareholders' Equity

### Preferred Stock

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

### Common Stock

The authorized common stock of GTE at December 31, 1996 consisted of two billion shares with a par value of \$.05 per share. In August 1996, GTE's Board of Directors authorized the repurchase of up to 25 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 July 1997, depending on market conditions, and may be either suspended or discontinued. The shares will be used to satisfy the requirements of GTE's employee benefit and dividend reinvestment programs. The repurchase program is in addition to the 20 million share buy-back program announced in August 1995, which has been completed.

### Additional Paid-In Capital

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

Additional paid-in capital includes the cumulative foreign currency translation adjustment of \$(173) million, \$(192) million and \$(207) million at December 31, 1996-94, respectively, and the unrealized gains (losses) on investments in debt and equity securities of \$5 million, \$20 million and \$(22) million at December 31, 1996-94, respectively.

## 6. Stock Option and Shareholder Rights Plans

### Stock Option Plans

GTE maintains broad-based employee stock option plans. 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 seven years.

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

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). As permitted by FAS 123, GTE continues to apply the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). The differences between the recognition and measurement provisions of FAS 123 and APB 25 are not significant to GTE's results of operations.

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, 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
Options granted	13,268	41.96
Options exercised	(2,634)	30.29
Options cancelled or forfeited	(154)	37.51
Balance, December 31, 1996	<b>25,914</b>	<b>\$37.36</b>

At December 31, 1996, 8.1 million options were exercisable.

### Shareholder Rights Plan

GTE maintains a shareholder rights plan. Under the original provisions of this plan, a right to purchase one one-thousandth of a share of series A participating no par preferred stock for \$200 (a "Right") was granted for each outstanding share of GTE common stock. As a result of a two-for-one stock split effected after the adoption of the plan, each share of GTE common stock is currently entitled to one-half of a Right. The Rights become exercisable only if a person or group, without GTE's prior consent, (i) acquires or commences a tender or exchange offer for 20% or more of GTE common stock, or (ii) acquires 10% or more of GTE common stock and executes an agreement with GTE to effect a merger or other business combination. The Rights have certain anti-takeover effects designed to cause substantial dilution to a person or group that attempts to acquire GTE on terms not approved by GTE's Board of Directors. The Rights may be redeemed

by GTE at a price of \$.01 per Right, at any time prior to becoming exercisable. Rights that are not redeemed or exercised will expire on December 7, 1999.

## 7. Minority Interests

Minority interests in equity of subsidiaries includes the following:

(Millions of Dollars)	1996	1995
Minority interests in consolidated subsidiaries:		
BC TEL (50.7% GTE ownership)	\$ 784	\$ 721
Québec Telephone (50.6% GTE ownership)	84	81
Cellular partnerships and other	139	117
Preferred securities issued by subsidiaries	<b>1,309</b>	1,311
Total minority interests in equity of subsidiaries	<b>\$2,316</b>	\$2,230

Preferred securities issued by subsidiaries include \$1.0 billion 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% to 9.25% and maturities of 30 years.

## 8. Debt

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

(Millions of Dollars)	1996	1995
GTE Corporation:		
Debtures, maturing 1998 through 2023, average rate 9.0%	\$ 3,350	\$ 3,350
Guaranteed ESOP obligations, maturing 1998 through 2005, average rate 9.7%	593	624
Sinking fund debenture, maturing in 2017, at a rate of 10.8%	200	200
Secured borrowings and other, maturing 2001 through 2010, average rates 6.0% and 9.9%	411	22
	<b>4,554</b>	4,196
Telephone Subsidiaries:		
First mortgage bonds, sinking fund debentures and notes, maturing through 2031, average rate 7.6%	7,835	6,741
Other Subsidiaries:		
Sinking fund debentures and notes, maturing through 2009, average rates 7.5% and 7.7%	1,062	1,056
Commercial paper expected to be refinanced on a long-term basis	631	1,306
Total principal amount	<b>14,082</b>	13,299
Less: premium and (discount)—net	12	(62)
Total	<b>14,094</b>	13,237
Less: current maturities	(884)	(493)
Total long-term debt	<b>\$13,210</b>	\$12,744

Estimated payments of long-term debt during the next five years are: \$884 million in 1997; \$1,444 million in 1998; \$1,135 million in 1999; \$781 million in 2000; and \$1,297 million in 2001.

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

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

Total short-term obligations were as follows:

(Millions of Dollars)	1996	1995
Commercial paper—average rates 5.6% and 5.9%	\$1,580	\$1,650
Notes payable to banks—average rates 6.5% and 9.7%	33	13
Current maturities of long-term debt	884	493
Total	\$2,497	\$2,156

GTE and its subsidiaries had available unused lines of credit aggregating \$4.5 billion at December 31, 1996.

### 9. 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 exchange contracts are recognized based on changes in exchange rates, as are offsetting foreign exchange gains or losses on the foreign currency obligations being hedged. Gains or losses on 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 SARs expense or income in GTE's consolidated statements of income.

At December 31, 1996 and 1995, GTE had entered into interest rate swap agreements primarily to convert \$800 million and \$516 million, respectively, of floating rate long-term and short-term debt to fixed rates. GTE had entered into foreign exchange contracts having a contract value of \$484 million and \$8 million at December 31, 1996 and 1995, respectively. Purchased options having a contract value of \$428 million and \$256 million were outstanding at December 31, 1996 and 1995, respectively.

At December 31, 1996 and 1995, GTE had entered into forward interest swap agreements and forward contracts to sell U.S. Treasury Bonds to hedge against changes in market interest rates on \$400 million and \$850 million, respectively, of debt expected to be refinanced in the following year. Gains and losses recognized upon the expiration or settlement of forward interest swap agreements and forward contracts to sell U.S. Treasury Bonds are 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 as well as the market price of GTE's common stock. GTE carefully evaluates and continually monitors the creditworthiness of its counterparties and believes the risk of nonperformance is remote.

The fair values of financial instruments, other than long-term debt, closely approximate their carrying value. As of December 31, 1996 and 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 \$450 million and \$900 million, respectively.

### 10. Property, Plant and Equipment

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

(Millions of Dollars)	1996	1995
Land	\$ 364	\$ 372
Buildings	4,395	4,195
Plant and equipment	42,963	41,115
Work in progress and other	5,759	5,265
Total	53,481	50,947
Accumulated depreciation	(30,579)	(28,510)
Total property, plant and equipment—net	\$ 22,902	\$ 22,437

Depreciation expense in 1996-94 for GTE's telephone subsidiaries was equivalent to a composite average percentage of 7.0%, 7.2% and 7.0%, respectively.

### 11. Employee Benefit Plans

#### Retirement Plans

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

The components of the net pension credit for 1996-94 were as follows:

(Millions of Dollars)	1996	1995	1994
Benefits earned during the year	\$ 250	\$ 213	\$ 269
Interest cost on projected benefit obligations	593	568	542
Return on plan assets:			
Actual	(2,079)	(2,420)	(29)
Deferred	943	1,413	(971)
Other—net	(138)	(177)	(168)
Net pension credit	\$ (431)	\$ (403)	\$(357)

The expected long-term rate of return on plan assets was 9.0% for 1996 and 8.5% for 1995 and 1994.

The funded status of the plans and the net prepaid pension cost at December 31, 1996 and 1995, were as follows:

(Millions of Dollars)	1996	1995
Vested benefit obligations	\$ 5,644	\$ 5,361
Accumulated benefit obligations	\$ 6,260	\$ 5,996
Plan assets at fair value	\$15,097	\$13,695
Less: Projected benefit obligations	8,067	7,732
Excess of assets over projected obligations	7,030	5,963
Unrecognized net transition asset	(427)	(533)
Unrecognized net gain	(3,230)	(2,602)
Net prepaid pension cost	\$ 3,373	\$ 2,828

Included in the previous table are prepaid pension costs of \$3.6 billion and \$3.1 billion and accrued pension liabilities of \$266 million and \$230 million for 1996 and 1995, respectively.

Assumptions used to develop the projected benefit obligations at December 31, 1996 and 1995, were as follows:

	1996	1995
Discount rate	7.50%	7.50%
Rate of compensation increase	5.25%	5.25%

#### Postretirement Benefits Other Than Pensions

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

The postretirement benefit cost for 1996-94 included the following components:

(Millions of Dollars)	1996	1995	1994
Benefits earned during the year	\$ 49	\$ 46	\$ 57
Interest on accumulated postretirement benefit obligations	255	258	259
Actual return on plan assets	(21)	(41)	6
Amortization of prior service benefits	(53)	(50)	(54)
Other—net	(2)	17	(14)
Postretirement benefit cost	\$228	\$230	\$254

The following table sets forth the plans' funded status and the accrued postretirement benefit obligations as of December 31, 1996 and 1995:

(Millions of Dollars)	1996	1995
Accumulated postretirement benefit obligations attributable to:		
Retirees	\$2,812	\$2,815
Fully eligible active plan participants	293	254
Other active plan participants	960	969
Total accumulated postretirement benefit obligations	4,065	4,038
Less: Fair value of plan assets	416	353
Excess of accumulated obligations over plan assets	3,649	3,685
Unrecognized prior service benefits	554	563
Unrecognized net loss	(62)	(114)
Accrued postretirement benefit obligations	\$4,141	\$4,134

The assumed discount rates used to measure the accumulated postretirement benefit obligations were 7.5% at December 31, 1996 and December 31, 1995. The assumed health care cost trend rate was 8.75% in 1996 and averaged 9.75% in 1995 and is assumed to decrease gradually to an ultimate rate of 6.0% in the year 2004. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased 1996 costs by \$36 million and the accumulated postretirement benefit obligations as of December 31, 1996 by \$395 million.

#### Savings and Stock Ownership Plans

GTE sponsors employee savings plans under section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Under the plans, GTE provides matching contributions in GTE common stock based on qualified employee contributions. Matching contributions charged to income were \$80 million, \$85 million and \$76 million in the years 1996-94, respectively.

GTE maintains an Employee Stock Ownership Plan (ESOP). In 1989, the ESOP borrowed \$700 million to acquire, at market value, 24.6 million shares of GTE common stock, which will be used to meet GTE's contributions to certain employee savings plans through the year 2004. The unpaid balance of the loan, which has been guaranteed by GTE, is included in the accompanying consolidated balance sheets as long-term debt with a similar reduction in shareholders' equity. The debt service payments, including interest, made by the ESOP for the years 1996-94 totaled \$92 million, \$88 million and \$84 million, respectively. These payments were funded by \$45 million, \$45 million and \$46 million of dividends accumulated on the GTE stock held by the ESOP and by \$47 million, \$43 million and \$38 million of cash contributions by GTE in 1996-94, respectively.

#### 12. Interest—Net

The components of interest—net are as follows:

(Millions of Dollars)	1996	1995	1994
Interest expense	\$1,146	\$1,151	\$1,139
Interest capitalized	(61)	(49)	(28)
Interest income	(59)	(55)	(52)
Total	\$1,026	\$1,047	\$1,059

#### 13. Other—Net

The components of other—net are as follows:

(Millions of Dollars)	1996	1995	1994
Minority interests	\$ 239	\$ 227	\$ 140
Preferred dividends	17	22	28
Equity in income of unconsolidated companies	(201)	(107)	(74)
Gains on sales of nonstrategic telephone properties	(12)	(16)	(264)
Other	7	(121)	(110)
Total	\$ 50	\$ 5	\$(280)

GTE has completed its program to sell or exchange nonstrategic domestic local-exchange telephone properties (representing less than 5% of its U.S. access lines). Telephone properties serving 11,700 access lines, 10,000 access lines and 448,000 access lines were sold in 1996-94, respectively, for cash of \$30 million, \$30 million and \$900 million. Pretax gains, associated with these sales, were recorded by GTE in 1996-94 of \$12 million, \$16 million and \$264 million, respectively.

**14. Income Taxes**

Income before income taxes is as follows:

(Millions of Dollars)	1996	1995	1994
Domestic	\$3,799	\$3,550	\$3,465
Foreign	613	454	508
Total	\$4,412	\$4,004	\$3,973

The income tax provision (benefit) is as follows:

(Millions of Dollars)	1996	1995	1994
Current:			
Federal	\$ 851	\$ 711	\$ 927
Foreign	241	173	192
State and local	107	98	165
	1,199	982	1,284
Deferred:			
Federal	399	439	269
Foreign	(38)	14	(1)
State and local	97	90	56
	458	543	324
Amortization of deferred investment tax credits—net	(43)	(59)	(76)
Total	\$1,614	\$1,466	\$1,532

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

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

(Millions of Dollars)	1996	1995	1994
Amounts computed at statutory rates	\$1,544	\$1,401	\$1,391
State and local income taxes, net of federal tax benefits	133	122	144
Minority interests and preferred stock dividends	44	43	42
Amortization of investment tax credits—net	(43)	(59)	(76)
Other differences—net	(64)	(41)	31
Total provision	\$1,614	\$1,466	\$1,532

The tax effects of temporary differences that give rise to the current deferred income tax benefits and deferred income tax liabilities at December 31, 1996 and 1995 are as follows:

(Millions of Dollars)	1996	1995
Depreciation and amortization	\$ 1,696	\$ 1,605
Employee benefit obligations	(1,870)	(1,899)
Prepaid pension cost	1,189	971
Investment tax credits	95	138
Other—net	164	58
Total	\$ 1,274	\$ 873

**15. Commitments and Contingencies**

GTE has noncancelable operating leases covering certain buildings, office space and equipment. Rental expense was \$392 million, \$384 million and \$419 million in 1996-94, respectively. Minimum rental commitments under noncancelable leases through 2001 do not exceed \$221 million annually and aggregate \$883 million thereafter.

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

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



(Millions of Dollars, Except Per-Share Amounts)	1st QTR <sup>(a)</sup>		2nd QTR		3rd QTR <sup>(b)</sup>		4th QTR <sup>(c)</sup>	
	1996	1995	1996	1995	1996	1995	1996	1995
Revenues and sales	<b>\$4,951</b>	\$4,665	<b>\$5,293</b>	\$4,932	<b>\$5,344</b>	\$4,996	<b>\$5,751</b>	\$ 5,364
Operating income	<b>1,250</b>	1,164	<b>1,339</b>	1,235	<b>1,445</b>	1,333	<b>1,454</b>	1,324
Income before extraordinary charges	<b>\$ 616</b>	\$ 543	<b>\$ 642</b>	\$ 581	<b>\$ 756</b>	\$ 695	<b>\$ 784</b>	\$ 719
Extraordinary charges	—	—	—	—	—	—	—	(4,682)
Net income (loss)	<b>\$ 616</b>	\$ 543	<b>\$ 642</b>	\$ 581	<b>\$ 756</b>	\$ 695	<b>\$ 784</b>	\$(3,963)
Earnings (loss) per common share:								
Before extraordinary charges	<b>\$ .63</b>	\$ .56	<b>\$ .66</b>	\$ .60	<b>\$ .78</b>	\$ .72	<b>\$ .82</b>	\$ .74
Extraordinary charges	—	—	—	—	—	—	—	(4.83)
Net income (loss)	<b>\$ .63</b>	\$ .56	<b>\$ .66</b>	\$ .60	<b>\$ .78</b>	\$ .72	<b>\$ .82</b>	\$(4.09)
Dividends declared per common share	<b>\$ .47</b>	\$ .47	<b>\$ .47</b>	\$ .47	<b>\$ .47</b>	\$ .47	<b>\$ .47</b>	\$ .47
Stock market price:								
High	<b>\$49.25</b>	\$34.88	<b>\$45.63</b>	\$34.88	<b>\$45.00</b>	\$39.50	<b>\$46.50</b>	\$ 45.13
Low	<b>40.50</b>	30.00	<b>40.88</b>	31.88	<b>37.75</b>	34.13	<b>38.25</b>	38.50
Close	<b>43.38</b>	33.25	<b>44.75</b>	34.13	<b>38.50</b>	39.13	<b>45.38</b>	43.88
<p>(a) First-quarter 1996 net income includes an after-tax gain on the sale of nonstrategic domestic local-exchange telephone properties of \$8 million, or \$.01 per share (see Note 13 to the Consolidated Financial Statements).</p> <p>(b) Third-quarter 1995 net income includes an after-tax gain on the sale of nonstrategic domestic local-exchange telephone properties of \$11 million, or \$.01 per share (see Note 13 to the Consolidated Financial Statements).</p> <p>(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 the Consolidated Financial Statements).</p>								

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Vice President, Quality Services

**C. David Decker**  
President, GTE Laboratories

**Marianne Drost**  
Corporate Secretary



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**Earl A. Goode**  
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Services and GTE Directories

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**Thomas W. Muldoon**  
President, GTE Worldwide  
Telecommunications Services

**Ignacio Santillana**  
Senior Vice President, International  
Business Development

**Thomas W. White**  
President, Telephone Operations

#### Corporate Headquarters

GTE Corporation  
One Stamford Forum  
Stamford, CT 06904  
203-965-2000

#### 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 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 800-225-5160.

#### Dividends and Earnings

GTE has generally paid its dividends on the first day of January, April, July and October. Earnings have generally been announced the third week of January, April, July and October. Shareholders may call 800-225-5160 at the Bank of Boston to hear quarterly financial highlights.

#### 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 800-225-5160 any time, seven days a week. Customer Service Representatives are available Monday through Friday between the hours of 8 a.m. and 5 p.m. Eastern Time. Outside the United States call 617-575-2990.

Or write to:

Bank of Boston  
c/o Boston EquiServe, L.P.  
P.O. Box 9191  
Boston, MA 02205-9191

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:

One Exchange Place  
55 Broadway  
New York, NY 10006

#### Annual Meeting

The 1997 Annual Meeting of Shareholders will be held at 2 p.m. on Wednesday, April 16, in the ballroom of the Hyatt Regency Tampa, Two Tampa City Center, Tampa, Florida.

#### Investor Relations

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

Investor Relations Department  
GTE Corporation  
One Stamford Forum  
Stamford, CT 06904  
203-965-2789  
International Telex: 4750071  
Fax: 203-965-2520

#### 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 United States and on stock exchanges in Amsterdam, Basel, Geneva, Lausanne, London, Paris, Zurich and Tokyo.

#### Auditors

Arthur Andersen LLP  
400 Atlantic Street  
Stamford, CT 06912

#### Requests for Annual Reports

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 800-225-5160.

An audiocassette version of the 1996 annual report is available to visually impaired shareholders by contacting:

Editorial Services  
GTE Corporation  
One Stamford Forum  
Stamford, CT 06904  
203-965-3436

#### Other Securities

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

Treasury Department  
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>

#### Products and Services Hotline

Shareholders may call 800-828-7280 to receive information concerning GTE products and services.



GTE Corporation  
One Stamford Forum  
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*Long-distance customers now approaching one million and counting*

Jan

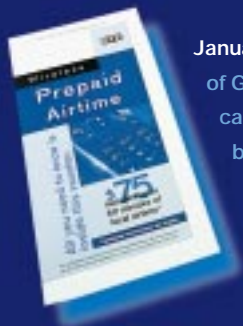
Feb

Feb

Mar

Mar

Apr



January 1997 Christine Nguyen, a Stanford University student, is typical of GTE customers who use GTE Prepaid Airtime vouchers, perhaps to call home to parents. Prepaid Airtime requires no deposit, no contract, no bill and comes with no surprises. It's one of the many ways GTE is making itself the easiest company in the industry to do business with.