GTE Corporation

Annual Report 1999

Chairman's Message

Dear GTE Shareholder:

The telecommunications industry is in the midst of profound change. Escalating consolidation — driven chiefly by dramatic changes in technology, regulation and customer demand — continued to redefine the landscape in 1999. Yet, despite another tumultuous year, GTE was among the leaders in harnessing change to produce growth.

We ended 1999 with some of our strongest financial results in recent history, achieving:

- Reported earnings per share of $4.12, with adjusted earnings per share growth of 14 percent;
- Year-over-year adjusted net income growth of 15 percent;
- Revenues of more than $25 billion — an adjusted growth rate of 9 percent, and
- A one-year total return to shareholders of 11.5 percent.

The seeds of this success date back several years, when we first embarked upon an aggressive strategy to position our company for growth. We focused on what we believed would be an exploding opportunity — the emerging Internet and data arena. Critical steps included the purchase in 1997 of Internet pioneer BBN Corporation for approximately $625 million, acquisition of a national fiber backbone network, and the creation of a national sales, service and marketing organization that could market a full package of services. We also developed a plan to reposition slower-growth properties and businesses in order to further sharpen our focus on high-growth areas. At the same time, we looked for investments outside the U.S. that could bolster our financial strength as competitive pressures intensified at home.

Execution of Aggressive Strategy Transforming GTE

Our strategy is now in full gear, as evidenced by the strong revenue growth last year from our newer businesses and from international operations, coupled with the solid performance of our core businesses in wireline and wireless communications, and directory services.

As the competitive environment continues to intensify, we recognize that to remain successful, top-tier players must have sufficient scale and scope, including a significant national presence, global reach and a comprehensive breadth and depth in their service offerings. They must be able to bundle together a full array of communications services, giving customers the convenience, simplicity and value that will win their long-term loyalty. And, they must be positioned to bring "new economy" services — such as broadband and Internet-based products — to vast numbers of customers.

It is for all these reasons that GTE will combine with Bell Atlantic. Together, GTE and Bell Atlantic will have the firepower to become one of the world's top providers of advanced telecommunications services.

As we stand on the threshold of this historic merger, it's clear that the transformation of GTE has only just begun. With pride, I outline the highlights of our operational and strategic achievements in 1999:

Growth Initiatives Soar

GTE Internetworking, our data growth engine, grew revenues by 79 percent last year, driven in part by increased sales to businesses of Internet services such as Web hosting. At the same time, our 17,000-mile high-speed, high-capacity nationwide fiber-optic network became fully operational, giving GTE a unique edge in meeting the demand for high bandwidth applications for businesses.

GTE Communications, which includes our long distance business as well as our competitive local exchange carrier (CLEC), increased revenues by 42 percent and ended the year as the largest CLEC in the U.S. in terms of residential subscribers.

Internationally, we acquired a 40 percent ownership interest in the Puerto Rico Telephone Company, expanded our presence in Argentina and western Canada, increased our interest in wireless operations in Taiwan, and produced strong results in our other international operations. In total, adjusted revenue growth from international operations grew 20 percent or $302 million, with additional investments fueling proportionate revenue growth of $897 million, up 31 percent.

At the same time, we entered the 21st century with strong core businesses that performed extremely well in 1999 in the areas of enhanced customer service, improved productivity and overall profitability. All of these businesses, combined, give our shareholders a strong position in the industry as well as a solid foundation for future growth.

Core Operations Perform Strongly

GTE Network Services, our vast wireline business, continued to generate industry-leading growth in switched access lines and minutes of use, while increasing sales in enhanced services such as Caller ID, call waiting and call forwarding. This unit also stepped up its rollout of high-speed broadband services such as DSL (digital subscriber line), ending the year with 57,000 subscribers and six million customer lines qualified for the service.

Our wireless business continued to grow its subscriber base, despite intense competition. Attractive pricing plans and excellent customer service enabled GTE Wireless to gain nearly 600,000 new customers, while holding the line on costs and maintaining stable revenue per user. Mid-year, we also accelerated our strategy to become a national wireless provider by acquiring from Ameritech wireless assets that included 1.7 million subscribers in the key markets of Chicago, St. Louis and Central Illinois. Domestic wireless customers grew by 48 percent in 1999, including the newly acquired markets. We are positioning our wireless assets, following the close of our merger with Bell Atlantic, to become part of the venture between Bell Atlantic and Vodafone AirTouch plc — creating the nation's largest wireless provider with 24 million subscribers.

Our directories business continued its innovative strategy to become a multi-product company by enhancing GTE SuperPages.com℠, an industry-leading interactive Internet directory and advertising product. For the year, SuperPages posted $26 million in revenues, an 82 percent growth rate, while our traditional print directories also performed above plan. We successfully reached agreements to reposition non-strategic assets, including GTE Government Systems and about 1.6 million domestic access lines. Once completed, these transactions will yield in excess of $4 billion in after-tax proceeds for use in higher growth opportunities.

Outlook: Merger Creates Global Leader

A cornerstone of our strategy going forward is our merger with Bell Atlantic. Once completed in 2000, the new company will be among a handful of full-service global carriers, offering consumers new choices and shareholders increased value. The merged company will serve some of the world's most attractive growth markets and offer the most complete, competitively priced packages of telecommunication services anywhere. Together, we'll bring greater long-term benefits to the shareholders of both companies than if we remained separate.

Of course, our ability to take advantage of these inherent strengths will depend on how fast and effectively we integrate operations with Bell Atlantic, and that is an area in which I feel especially confident. Bell Atlantic Chairman and CEO Ivan Seidenberg is truly a great leader, a trusted advisor and a good friend. Ivan and I have developed a working relationship that convinces me our companies will be able to blend our operations quickly and effectively, to the benefit of our customers, employees and shareholders. Moreover, I am proud of and impressed by our combined management teams, who are planning diligently to launch our new company once our merger is approved. The result of our combination will be a new company that will set the standard for leadership in our industry.

People Are Our Strength

Finally, we owe our present success — and our future — to the remarkable employees who have responded to the uncertainty and change in our industry, and in our company, with creativity and dedication. Even as they have worked to transform GTE into a top-tier competitor, they have not forgotten their heritage. They make their caring and commitment felt every day in the quality of service we provide to our customers and in what we give back to our communities. Even in the face of intense competitive pressures and the normal internal uncertainties created by the prospect of our merger, GTE people not only delivered our 1999 financial plan — they also achieved improvements in quality ratings from GTE customers while significantly reducing customer complaints.

In Conclusion

Thank you for your continued support as a GTE shareholder. I look forward to the new opportunities ahead in this exciting industry. As we begin the next chapter following our merger with Bell Atlantic, we will continue our transformation into a new kind of company, one that establishes the pace for the next century and sets us apart from the rest of our competitors.

Charles R. Lee

Charles R. Lee
Chairman and Chief Executive Officer

March 2000

Selected Financial Data

GTE Corporation and Subsidiaries

(Dollars in Millions, Except Per-Share Amounts)	**1999**	1998	1997	1996	1995
Results of Operations					
Revenues and sales	**$25,336**	$25,473	$23,260	$21,339	$19,957
Cost of services and sales	**10,954**	10,741	9,203	8,071	7,537
Selling, general and administrative	**4,405**	4,821	4,560	4,010	3,689
Depreciation and amortization	**3,757**	3,820	3,886	3,770	3,675
Special items	**(1,116)**	755	—	—	—
Operating income	**7,336**	5,336	5,611	5,488	5,056
Net income (loss)					
Income before extraordinary charges	**4,063[(a)]**	2,492[(b)]	2,794	2,798	2,538
Consolidated	**4,033[(c)]**	2,172[(d)]	2,794	2,798	(2,144)[(e)]
Basic earnings (loss) per common share					
Income before extraordinary charges	**4.18[(a)]**	2.59[(b)]	2.92	2.89	2.62
Consolidated	**4.15[(c)]**	2.26[(d)]	2.92	2.89	(2.21)[(e)]
Diluted earnings (loss) per common share					
Income before extraordinary charges	**4.15[(a)]**	2.57[(b)]	2.90	2.88	2.61
Consolidated	**4.12[(c)]**	2.24[(d)]	2.90	2.88	(2.20)[(e)]
Common dividends declared per share	**1.88**	1.88	1.88	1.88	1.88
Book value per share	**11.19**	9.06	8.39	7.62	7.05
Average common shares outstanding (in millions)					
Basic	**972**	963	958	969	970
Diluted	**979**	968	962	972	973
Assets and Capital					
Consolidated assets	**$50,832**	$43,615	$42,142	$38,422	$37,019
Long-term debt	**13,957**	15,418	14,494	13,210	12,744
Shareholders' equity	**10,827**	8,766	8,038	7,336	6,871
Net cash from operations	**6,319**	5,890	6,164	5,899	5,033
Capital expenditures	**4,940**	5,609	5,128	4,088	4,034
Consolidated Ratios and Other Information					
Return on common equity	**40.9%**	27.3%	37.6%	40.2%	(20.3)%[(e)]
Return on investment	**16.2%**	10.9%	14.5%	15.6%	(4.2)%[(e)]
Average common equity	**$ 9,858**	$ 7,962	$ 7,433	$ 6,960	$10,539
Equity ratio	**33.9%**	35.4%	36.5%	38.1%	37.9 %
Average investment	**$31,372**	$28,662	$26,857	$24,395	$27,150
Research and development expenditures	**131**	159	122	122	137
Employees (in thousands)	**99**	120	114	102	106
Access minutes of use (in millions)	**94,095**	87,120	79,086	70,452	64,193
Access lines (in thousands)					
Total	**35,342**	29,746	27,670	25,766	24,050
United States	**26,068**	23,625	21,539	20,007	18,512
Wireless subscribers (in thousands)					
Total	**13,873**	7,567	5,701	4,445	3,547
United States	**7,146**	4,817	4,487	3,749	3,011
Adjusted "POPs" (in millions)[(f)]					
Total	**107.3**	84.8	78.9	78.3	76.7
United States	**72.5**	61.4	61.3	61.9	61.7

(a) 1999 includes after-tax special items of $651 million, or $.66 per diluted share ($.67 per basic share) consisting of gains from the sale of the Government Systems business and a gain associated with the merger of BC TELECOM Inc. and TELUS Corporation, partially offset by special charges associated with employee separation programs, impairment of assets and costs to exit certain small non-strategic businesses.

(b) 1998 includes after-tax special charges of $482 million, or $.50 per share related to asset impairments, the cost of exiting certain business activities and employee related costs.

(c) In addition to the items discussed in (a), 1999 includes after-tax extraordinary charges of $30 million, or $.03 per share resulting from the repurchase of $338 million in high coupon debt prior to stated maturity.

(d) In addition to the items discussed in (b), 1998 includes after-tax extraordinary charges of $320 million, or $.33 per share resulting from the discontinued use of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), by GTE's Canadian operations, and the early retirement of long-term debt and preferred stock.

(e) During 1995, GTE's domestic telephone operating companies discontinued the use of SFAS No. 71 resulting in a noncash, after-tax extraordinary charge of $4.6 billion, or $4.77 per diluted share ($4.79 per basic share). In addition, GTE redeemed long-term debt and preferred stock resulting in an after-tax extraordinary charge of $41 million, or $.04 per share.

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

Financial Review

Overview

Consolidated Operations

Reported net income for GTE Corporation ("GTE" or "the Company") in 1999 was $4.0 billion, or $4.12 per diluted share. In 1998, reported net income was $2.2 billion, or $2.24 per diluted share, and in 1997 reported net income was $2.8 billion, or $2.90 per diluted share. The Company's reported results were affected by significant items, changes in the method of accounting for certain international investments due to changes in ownership and the sale of the Government Systems business in 1999, which are each described in further detail in this "Overview" section. The significant items are also discussed, as they affect reportable segments, in "Segment Results of Operations."

The table below summarizes reported and selected adjusted key financial results for 1999-1997:

	Years Ended December 31,			Percent Change	
(Dollars in Millions, Except Per-Share Amounts)	**1999**	1998	1997	**1999-1998**	1998-1997
Reported revenues	**$25,336**	$25,473	$23,260		
Accounting for international investments[a]	**—**	(1,782)	(1,755)		
Normalization for sale of Government Systems[b]	**—**	(392)	(383)		
Adjusted revenues	**$25,336**	$23,299	$21,122	**8.7%**	10.3%
Reported operating income	**$ 7,336**	$ 5,336	$ 5,611		
Accounting for international investments[a]	**—**	(577)	(585)		
Normalization for sale of Government Systems[b]	**—**	(50)	(54)		
Special items	**(1,116)**	755	—		
Adjusted operating income	**$ 6,220**	$ 5,464	$ 4,972	**13.8%**	9.9%
Reported net income	**$ 4,033**	$ 2,172	$ 2,794		
Special items	**(651)**	482	—		
Extraordinary charges	**30**	320	—		
Adjusted net income	**$ 3,412**	$ 2,974	$ 2,794	**14.7%**	6.4%
Diluted earnings per share — reported	**$ 4.12**	$ 2.24	$ 2.90		
Special items	**(.66)**	.50	—		
Extraordinary charges	**.03**	.33	—		
Diluted earnings per share — adjusted	**$ 3.49**	$ 3.07	$ 2.90	**13.7%**	5.9%

(a) On January 31, 1999, BC TELECOM Inc. (BC TELECOM), previously a majority-owned Canadian subsidiary of GTE, merged with TELUS Corporation. GTE's ownership interest in the merged company, BCT.TELUS Communications Inc. (TELUS), is 26.7%; therefore, beginning in 1999, GTE deconsolidated BC TELECOM and began accounting for the investment in TELUS using the equity method of accounting. During the fourth quarter of 1998, GTE increased its ownership interest in CTI Holdings, S.A. (CTI) and began accounting for CTI on a consolidated basis. For comparative discussion purposes only, 1998 and 1997 revenues and operating income have been adjusted to reflect the current method of accounting for these international investments. Consolidated net income and earnings per share are not affected by these adjustments. For further information, see "Accounting for International Investments" in this "Overview" section.

(b) GTE's Government Systems business was sold in two parcels, with closing dates of September 1, 1999 and December 10, 1999, respectively. Reported results for 1999 include activity associated with these business units through their respective closing dates. For comparative purposes, revenues and operating income have been adjusted to include activity only through the corresponding periods in 1998 and 1997 for the Government Systems units that were sold. Net income and earnings per share are not affected by these adjustments. For further information, see "Strategic Repositioning — Net Assets Held for Sale" in this "Overview" section.

Financial Review

1999 Significant Items

Special Items

During 1999, the Company recorded a net pretax gain of $1.1 billion ($651 million after-tax, or $0.66 per diluted share), which included the following:

- During the first quarter of 1999, the Company recorded a pretax gain of $513 million associated with the merger of BC TELECOM and TELUS. The after-tax impact of this gain is $308 million, or $.31 per diluted share. See "Accounting for International Investments" for additional information.
- During the first quarter of 1999, the Company also recorded a special charge of $192 million ($119 million after-tax, or $.12 per diluted share) associated with employee separation programs. The charge included separation and related benefits such as outplacement and benefit continuation costs for approximately 3,000 employees. The programs were completed in early April 1999, as planned, consistent with the original cost estimates.
- During the third quarter of 1999, the Company recorded special items of $705 million ($416 million after-tax, or $.42 per diluted share). Included in the special items was a pretax gain of $754 million on the sale of substantially all of GTE Government Systems on September 1, 1999 to General Dynamics Corporation for $1.0 billion in cash. The after-tax impact of this gain was $445 million, or $.45 per diluted share. Also included was a special charge of $49 million ($29 million after-tax, or $.03 per diluted share) primarily related to the impairment of assets associated with the Company's decision to exit certain small, non-core business activities.
- During the fourth quarter of 1999, the Company recorded a net pretax gain of $90 million, primarily associated with the sale of the remaining major division of GTE Government Systems to DynCorp, partially offset by a special charge taken to exit certain small non-strategic businesses. The after-tax impact of this net gain is $46 million, or $.05 per diluted share.

Other Significant Items

During 1999, the Company's results were also impacted by the following other significant items:

- Consolidated net income for 1999 includes $1.2 billion of operating losses related to GTE's continuing investments in its Internetworking and GTE Communications Corporation initiatives. While the continued investment in the high-growth sectors of the telecommunications industry is essential to achieving GTE's long-term growth objectives, these operating losses have partially offset the strong performance of GTE's traditional core operations. Management expects the operating losses associated with these initiatives to continue in 2000.
- In conjunction with continued cost-cutting initiatives, the Company initiated an employee reduction program in the first quarter of 1999 (mentioned in "Special Items" above) that is expected to result in annual savings of approximately $600 million. As a result of this program, the Company recorded net gains of approximately $511 million associated with the lump-sum settlements of pension obligations for voluntary and involuntary employee retirements.
- During 1999, consistent with the emergence of the wireless industry's one-rate calling plans and the associated change in the manner of reporting customer roaming revenues, the Company reported $264 million of customer roaming revenues on a gross basis, whereas prior to 1999 the Company netted these revenues with roaming charges settled with other carriers. Prior year customer roaming revenues continue to be reported on a net basis within operating income.
- In the fourth quarter of 1999, the Company acquired several wireless properties from Ameritech Corporation, resulting in increased 1999 revenues of approximately $186 million and a dilutive impact of approximately $.02 per share.
- As a result of the property repositioning initiatives announced in 1998, the Company discontinued depreciation on approximately 1.6 million non-strategic domestic access lines and the Government Systems and Airfone businesses that were held for sale, resulting in lower depreciation and amortization expense of $325 million in 1999.
- As a result of adopting Statement of Position (SOP) 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" on January 1, 1999, the Company began capitalizing certain types of network software costs that had not been previously capitalized under existing accounting standards. The net incremental increase in capitalized software in 1999 compared to 1998 as a result of the adoption of SOP 98-1 was approximately $203 million.
- During 1999, the Company substantially completed its remediation efforts for potential Year 2000 rollover issues. Year 2000 renovation costs are expensed as incurred and totaled approximately $372 million since inception, of which approximately $153 million was incurred in 1999.

Extraordinary Charge

During the first quarter of 1999, GTE repurchased $338 million of high-coupon debt through a public tender offer prior to its stated maturity, resulting in a one-time, after-tax extraordinary charge of $30 million (net of tax benefits of $16 million), or $.03 per diluted share.

1998 Significant Items

Special Items

During the first quarter of 1998, the Company committed to a plan to sell or exit various business activities and reduce costs through employee reductions and related actions. As a result of these actions, during the first quarter of 1998, the Company recorded pretax charges of $755 million, $482 million after-tax, or $.50 per diluted share, for the year. The strategic actions to which the 1998 special charges relate were completed as planned consistent with the original cost estimates. The plan included the previously mentioned proposed sale of GTE Government Systems Corporation, GTE Airfone Incorporated and approximately 1.6 million non-strategic domestic access lines located in 13 states. The status of these transactions is discussed in "Strategic Repositioning — Net Assets Held for Sale".

Financial Review

The following table summarizes the special charges by major category and by business unit affected (Dollars in Millions):

Major Category:	
Asset impairments	$483
Exit costs	34
Employee related and other actions	
Severance	77
Other	30
Other actions	131
Total	$755
Business Unit:	
National Operations	
Network Services	$171
Wireless Products and Services	91
Other National Operations	397
International Operations	38
Corporate and other[(a)]	58
Total	$755

(a) The $58 million included in "Corporate and other" relates to severance and related costs associated with the closing of several administrative facilities, including the Company's corporate headquarters and worldwide training facility in Connecticut.

Asset impairments and exit costs

Based on the decision to sell, the Company recorded a pretax charge of $200 million to reduce the carrying value of GTE Airfone's assets to estimated net sales proceeds. No charge was recorded for GTE Government Systems or the access lines to be sold because their estimated fair values were in excess of their carrying values.

During the first quarter of 1998, the Company also committed to a plan to exit a number of other non-strategic business activities. As a result, the Company recorded a pretax charge of $156 million to reduce the carrying value of affected assets to expected net salvage value and to recognize costs resulting from the exit plan. The major components of the charge included:

- the write-off of network equipment and supplies for discontinued wireless products and services ($81 million);
- the shutdown of business units developing interactive video products and services and excess printing facilities ($42 million); and
- the write-off of impaired assets in Latin America ($33 million).

After completing the review of its operations, the Company also decided to scale back the deployment of the hybrid fiber coax (HFC) video networks that it had built in certain test markets. Although the Company is obligated to, and will continue to, use the existing HFC networks to provide video service in these markets, technological innovations have created alternative ways for the Company to deliver video and high-speed data services in the future at a significantly lower cost. Due to the significant change in the scale of the HFC networks and the effect on future revenues and expenses, the Company recorded a pretax charge for impairment of approximately $161 million based on estimated future cash flows. GTE continues to evaluate its long-term strategic options associated with its video business.

Employee related and other actions

During the first quarter of 1998, the Company also decided to consolidate facilities and centralize or eliminate a variety of employee functions and, as a result, recorded a $107 million pretax charge. During the second half of 1998, the Company closed several administrative facilities, including its corporate headquarters in Connecticut and approximately 140 domestic retail stores and other locations operated by its National Operations. The cost of these actions is composed primarily of employee severance, outplacement and benefit continuation costs for approximately 1,700 employees and other costs to exit locations no longer used by the Company.

The Company also recorded a pretax charge of approximately $131 million related to nonrecurring federal and state regulatory rulings affecting its Network Services unit. Approximately two-thirds of this charge relates to nonrecurring access rate refunds applied by the Federal Communications Commission (FCC) retroactively in 1997. In addition, the charge also included the write-off of mandated costs, including generic software, and other costs incurred by the Company for which revenue recovery was not allowable under the regulatory process.

Other Significant Items

During 1998, the Company's results were also impacted by the following other significant items:

- Consolidated net income for 1998 includes $1.0 billion of operating losses related to GTE's continuing investments in its Internetworking and GTE Communications Corporation initiatives, as discussed previously.
- Beginning in 1998, the Company discontinued depreciation on approximately 1.6 million non-strategic domestic access lines and the Government Systems and Airfone businesses that were held for sale, resulting in lower depreciation and amortization expense of approximately $100 million in 1998.
- In 1998, the Company recorded favorable true-ups of $118 million for certain employee benefit liabilities.

Extraordinary Charges

During the first quarter of 1998, GTE recorded after-tax extraordinary charges of $320 million (net of tax benefits of $256 million), or $.33 per diluted share. Approximately $300 million of the charge related to the discontinuation of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," by GTE's Canadian operations. The decision by GTE's Canadian subsidiaries to discontinue using regulatory accounting practices was in response to rulings by the Canadian regulatory commission in March of 1998 that opened the Canadian telecommunications market to full competition. Under SFAS No. 71, certain assets were depreciated and certain expenses were recognized over a longer period of time than would have been the case in a competitive environment. This charge includes a reduction in the net carrying value of property, plant and equipment of $270 million to reflect impairment based on the estimated cash flows that the assets are expected to generate in a competitive environment and a reduction in costs that had been capitalized based on the expectation of future recovery of approximately $30 million. In addition, during the first quarter of 1998, GTE called $800 million of high-coupon debt and preferred stock prior to their stated maturity date, resulting in a one-time, after-tax extraordinary charge of $20 million.

Accounting for International Investments

At December 31, 1998 and 1997, GTE had a 50.8% ownership interest in BC TELECOM, a full-service telecommunications provider in the province of British Columbia, Canada. On January 31, 1999, BC TELECOM and TELUS Corporation merged to form a public company, BCT.TELUS Communications Inc. (TELUS). GTE's ownership interest in the merged company, TELUS, is approximately 26.7% and, as such, during the first quarter of 1999, the Company changed the accounting for its investment from full consolidation to the equity method. BC TELECOM's results of operations for 1998 and 1997 are reflected in reported revenues and expenses, while for 1999 TELUS net results are reported as a component of "Other (Income) Expense" in the consolidated statements of income. CTI Holdings, S.A. (CTI), is a consortium providing cellular services in the north and south interior regions of Argentina. During the fourth quarter of 1998, GTE increased its ownership interest in CTI and changed the accounting for its investment from the equity method to full consolidation. CTI's net results for 1997 and the first three quarters of 1998 are reflected in "Other (Income) Expense," while for 1999 and the fourth quarter of 1998 CTI's results of operations are reflected in the reported revenues and expenses of the consolidated statements of income.

The comparative adjustments to reflect the deconsolidation of BC TELECOM and the consolidation of CTI, consistent with current reporting, are more fully described in the discussion of "Segment Results of Operations — International Operations." For comparative discussion purposes only, 1998 and 1997 consolidated revenues and operating income, as previously shown, have been adjusted to reflect the current method of accounting for these international investments. Consolidated net income and earnings per share are not affected by these changes in accounting methods.

Strategic Repositioning — Net Assets Held for Sale

During the first quarter of 1998, the Company committed to a repositioning plan that resulted in a decision to sell GTE Government Systems, GTE Airfone and approximately 1.6 million non-strategic domestic access lines. When completed, all of these transactions are expected to generate after-tax proceeds aggregating in excess of $4 billion.

On June 22, 1999, GTE entered into an agreement with General Dynamics Corporation to sell three of the four divisions of GTE Government Systems Corporation, which closed on September 1, 1999. On November 4, 1999, GTE entered into an agreement with DynCorp to sell the remaining major division, which closed on December 10, 1999. See "1999 Significant Items." The net assets of GTE Government Systems were classified as "Net assets held for sale" in the consolidated balance sheets at December 31, 1998. Revenues for 1999, up to the date of the sale, from GTE Government Systems were $1.1 billion. In 1998 and 1997, revenues were $1.4 billion and $1.3 billion, respectively.

On June 24, 1999, GTE entered into an agreement with Oak Hill Capital Partners, L.P. (Oak Hill) to sell GTE Airfone. The agreement was terminated on October 19, 1999 when GTE and Oak Hill were unable to agree on final terms. GTE will continue to pursue the sale of GTE Airfone. Accordingly, GTE Airfone's net assets are classified as "Net assets held for sale" in the consolidated balance sheets at December 31, 1999 and 1998. Revenues from GTE Airfone were $138 million, $157 million and $136 million for 1999-1997, respectively.

During 1999, the Company entered definitive agreements to sell all of the domestic switched access lines held for sale. These access lines are located in Alaska, Arizona, Arkansas, California, Illinois, Iowa, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, Texas and Wisconsin. All sales are contingent upon final agreements and regulatory approvals, and are expected to close in 2000. Based on the signing of definitive agreements, the net property, plant and equipment of $1.7 billion related to these access lines has been reclassified as "Net assets held for sale" in the consolidated balance sheets as of December 31, 1999. The net book value of these access lines is reflected in "Property, plant and equipment, net" in the consolidated balance sheets at December 31, 1998. The Company will continue to operate all of these assets until sold. The 1.6 million access lines represent approximately 8% of the switched access lines that the Company had in service at the end of 1999, and contributed approximately 4% to 1999 and 1998 consolidated revenues and 5% to 1997 consolidated revenues.

Segment Results of Operations

The following discussion covers the separate results of GTE's National and International Operations. As discussed more fully in Note 15 to the consolidated financial statements, GTE has four reportable segments. Three reportable segments are within GTE's National Operations and the fourth reportable segment is GTE's International Operations.

National Operations

The results of GTE's National Operations include the results of the Network Services, Wireless Products and Services, and Internetworking reportable segments, representing 61%, 15%, and 4% of consolidated 1999 revenues, respectively. Smaller business units comprising Other National Operations, representing 13% of consolidated 1999 revenues, include GTE Technology and Systems, GTE Communications Corporation, GTE Directories Corporation and GTE Airfone.

Network Services

Network Services provides wireline communication services within its operating areas, including local telephone service, toll calls within designated geographic areas and access services that enable long-distance carriers to complete calls to or from locations outside of GTE's operating areas. Network Services also provides complex voice and data services, billing and collection, operator-assistance and inventory management services to other telecommunications companies.

Revenues and Sales

	Years Ended December 31,		
(Dollars in Millions)	**1999**	1998	1997
Local services	**$ 5,976**	$ 5,814	$ 5,530
Network access services	**5,511**	5,316	4,896
Toll services	**655**	859	1,251
Directory services and other	**3,432**	3,259	2,847
Total revenues	**15,574**	15,248	14,524
Intersegment revenues	**(473)**	(305)	(220)
Total external revenues	**$15,101**	$14,943	$14,304

Local services

Local service revenues are earned from providing local telephone service and from vertical services such as Caller ID and Call Waiting.

Higher network usage was the primary reason for the increases of $162 million and $284 million, or 3% and 5%, in local services revenues in 1999 and 1998, respectively. This growth was generated by increases in switched access lines in service of 4.4% in 1999 and 4.6% in 1998. Access line growth reflects higher demand by Internet Service Providers (ISPs) and additional residential lines, including second lines. Revenue growth was also boosted by increased revenues from vertical services. These services contributed $81 million and $91 million to revenue growth in 1999 and 1998, respectively. Local services revenues were reduced by $96 million in 1999 and increased by $38 million in 1998 related to state regulatory proceedings and other regulatory adjustments.

Network access services

Network access services revenues are based on fees charged to long-distance carriers that use the Company's local network to provide long-distance services to their customers. Wireless providers and other local telephone companies also pay access charges for wireless and toll calls transported or terminated by the Company. Special access revenues arise from access charges paid by carriers and end-users for private lines that access the Company's network.

Network access services revenues increased $195 million and $420 million, or 4% and 9%, in 1999 and 1998, respectively. These increases are partially due to higher customer demand as reflected by growth in access minutes of use of 8.0% and 10.2% in 1999 and 1998, respectively. Growth in network access revenues in 1999 and 1998 also reflects higher network usage by alternative providers of intraLATA toll services. Special access revenues, driven by growing demand for increased bandwidth by high-capacity users, increased $214 million and $151 million in 1999 and 1998, respectively. In addition, CyberPOP[SM], a service which creates a point of presence (POP) for ISPs that operate in or near GTE's markets, contributed $45 million and $98 million to revenue growth in 1999 and 1998, respectively. Revenue growth was negatively impacted in both years by price reductions mandated by federal and state regulation. The impact of price cap filings reduced interstate access rates $126 million and $140 million in 1999 and 1998, respectively (see "Regulatory and Competitive Trends — Price Cap" for additional information). In 1997, the FCC also ordered significant changes that altered the structure of access charges collected by the Company. As a result of the order, usage-sensitive access charges paid by long-distance carriers were reduced by $338 million in 1998. This reduction in 1998 revenues was partially offset by $298 million of new per-line charges to long-distance carriers and increased charges paid by the end-user customer (see "Regulatory and Competitive Trends — Interstate Access Revision" for additional information). Intrastate access charges were also reduced by $129 million in 1999 and $102 million in 1998 as a result of state regulatory proceedings.

Toll services

Toll services revenue is earned primarily from calls made outside the Company's local calling area but within the same LATA (intraLATA). LATAs are geographic areas that were defined by the FCC in the 1980s.

Toll services revenues decreased $204 million and $392 million, or 24% and 31%, in 1999 and 1998, respectively, compared to the prior year, due to lower toll volumes resulting from competition from alternative providers, including GTE Communications Corporation (see "Other National Operations" for additional information). By August 1997, all of GTE's operating areas were open to intraLATA toll competition. Prior to full competition, intraLATA toll calls were completed by the Company, unless the customer dialed a code to access a different carrier. The ability to preselect a competing carrier changed this and enabled customers to complete toll calls using another carrier without having to dial an access code. Revenue reductions from intraLATA toll competition were partially offset by increased network access revenues for usage of our network by alternative providers of intraLATA toll services.

Toll revenues also declined in both years due to Company-initiated and regulatory-mandated rate reductions. These rate reductions decreased toll services revenues by $18 million in 1999 and $27 million in 1998.

Directory services and other

Directory services revenues result primarily from publication rights received from GTE Directories Corporation (included in the discussion of "Other National Operations") for sales of Yellow Pages advertising to customers in Network Services' operating areas. Other revenues include nonregulated sales and services such as inventory management and purchasing services, telephone equipment sales, public telephone revenues, billing and collection and operator services provided to affiliates and third parties.

Overall, directory services and other revenues increased $173 million and $412 million, or 5% and 14%, for 1999 and 1998, respectively, when compared to the prior year. Directory revenue remained relatively flat from year to year. Revenues from inventory management and purchasing services increased by $47 million in 1999 and $281 million in 1998, and billing and collection revenues increased by $74 million in 1998, as a result of recently acquired third-party and affiliated customers. Public telephone revenues increased $34 million in 1998 related to the Telecommunications Act, which mandated compensation to payphone service providers for credit card and toll-free calls originating from payphones. Prior to the Telecommunications Act, the Company was not compensated for such calls. In 1999, a revised ruling reduced public telephone revenues by $31 million. Other revenues were also higher as a result of increased telecommunications services revenues and equipment sales, which contributed $114 million and $31 million for 1999 and 1998, respectively. Revenues also increased due to increased sales of advanced products, including public safety (E911) and voice messaging.

Intersegment revenues

Intersegment revenues at Network Services primarily represent local telephone services provided at market rates to GTE Communications Corporation, which markets bundled telecommunications services, and sales of inventory management services provided to affiliates.

Operating Costs and Expenses

(Dollars in Millions)	Years Ended December 31, **1999**	1998	1997
Cost of services and sales	**$5,126**	$ 5,485	$5,028
Selling, general and administrative	**2,070**	2,184	2,165
Depreciation and amortization	**2,564**	2,591	2,605
Special charges	**113**	171	—
Total operating costs and expenses	**$9,873**	$10,431	$9,798

Operating costs and expenses decreased $558 million, or 5%, in 1999 compared to 1998. In general, higher costs associated with customer and access line growth were offset by productivity improvements resulting from the employee-reduction program initiated in the first quarter of 1999 that is expected to result in annual savings of an estimated $450 million at Network Services. This program also resulted in the lump-sum settlement of pension obligations for the affected employees. Accordingly, the Company recognized net pension plan gains of $509 million. In addition, net software costs of $203 million were reflected in "Property, plant and equipment, net" as of December 31, 1999, due to the adoption of SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." These cost decreases are partially offset by the absence of favorable adjustments to employee benefits and other liabilities which reduced 1998 expenses by $118 million. Further offsetting the decreases are increased costs of $46 million from an affiliate for customer information pages included in the Company's White Pages directories.

The decrease in 1999 depreciation and amortization expenses is primarily driven by the discontinuation of depreciation on approximately 1.6 million non-strategic access lines held for sale, which reduced expense by $195 million in 1999. This decrease is partially offset by $168 million of increased depreciation expense on additional investment in network facilities resulting from increased demand for access lines and data services.

The increase in 1998 operating costs and expenses compared to 1997 was primarily driven by growth of $244 million in inventory management and purchasing services to third-party customers and higher volumes. The 1998 increase is also due to the recording of pension settlement gains in 1997, which resulted from lump-sum payments from the Company's pension plan to separated employees. In addition, costs increased in 1998 as a result of sales growth and support costs for new initiatives. These increases were partially offset by productivity improvements and favorable adjustments to certain employee benefit liabilities which reduced 1998 expenses by $118 million.

The decrease in 1998 depreciation and amortization costs is primarily a result of the discontinuation of depreciation expense for the domestic access lines held for sale, which lowered depreciation expense by $63 million. The decrease was partially offset by the depreciation of capital additions, reflecting growth in the demand for access lines and data services.

For a description of the special charges, see "Overview — 1999 Significant Items and 1998 Significant Items."

Wireless Products and Services

Wireless Products and Services provides wireless communications services (both voice and data) within licensed areas in the U.S., sells wireless telephones and accessories and provides support services to other wireless telephone companies.

Revenues and Sales

	Years Ended December 31,		
(Dollars in Millions)	**1999**	1998	1997
Service revenues	**$3,276**	$2,687	$2,549
Equipment sales and other	**469**	383	373
Total revenues	**$3,745**	$3,070	$2,922

Revenues and sales increased $675 million, or 22%, in 1999 compared to 1998. The increase in service revenues of $589 million is attributable to several factors. The success of the GTE CHOICE[SM] pricing plans has generated strong customer growth and, combined with a continuing value-based marketing strategy, resulted in an increase in service revenues of $163 million, or 6%, over 1998. GTE Wireless increased its customer base by 12% in 1999 over 1998, excluding the impact of the October 1999 acquisition of the Ameritech properties in Chicago, St. Louis and Central Illinois. The newly purchased properties provided an additional 1.7 million customers for a total increase of 2.3 million customers, or 48%, over the prior year. At December 31, 1999, wireless customers totaled approximately 7.1 million. An additional $162 million of the increase in service revenues was generated in the fourth quarter by the newly acquired properties. The remaining $264 million of the 1999 increase is the result of a change in the manner of reporting customer roaming revenue consistent with the emergence of the wireless industry's one-rate calling plans. During 1999, GTE reported customer roaming revenues on a gross basis. Prior to 1999, GTE netted these revenues with roaming charges settled with other carriers (see offsetting increase in "Operating Costs and Expenses" below). These service revenue increases were partially offset by a decline in the average revenue per user, reflecting the increasing level of competition in the wireless industry. The increase in equipment sales and other revenue of $86 million was primarily caused by retail customer growth.

The growth in 1998 service revenues of $138 million, or 5%, was primarily attributable to the growth in GTE's wireless customer base of 7.4% in 1998. Total U.S. customers served reached 4.8 million in 1998. In 1998, revenue growth resulting from the increased customer base was somewhat offset by a decline in average revenue per user, reflecting the increasing level of competition in the wireless industry. However, 1998 results reflected profitable growth by focusing on higher-value customers utilizing a value-based marketing strategy.

Operating Costs and Expenses

	Years Ended December 31,		
(Dollars in Millions)	**1999**	1998	1997
Cost of services and sales	**$1,798**	$1,049	$1,083
Selling, general and administrative	**871**	848	974
Depreciation and amortization	**515**	435	428
Special charges	**24**	91	—
Total operating costs and expenses	**$3,208**	$2,423	$2,485

Cost of services and sales

Costs of services and sales increased $749 million, or 71%, in 1999 compared with 1998, primarily due to customer roaming charges paid to other wireless carriers. This increase in roaming charges, $309 million in 1999 over 1998, was caused by customer acceptance and usage of new bundled minutes plans, which allow local, regional and national roaming at competitive rates. These costs were partially offset by the favorable impact of a 10% annual decline in cash cost per customer, which excludes incollect roaming costs. The change in reporting of customer roaming revenues (see offsetting increase in "Revenues and Sales" above) also contributed $264 million to the 1999 increase. In addition, costs associated with newly acquired wireless properties in the fourth quarter of 1999 contributed $76 million to the 1999 increase.

Cost of services and sales decreased $34 million, or 3%, in 1998 as compared with 1997 despite an increased customer base. The increased volumes were offset by reduced costs for wireless phones, favorable interconnection fees, lower fraud losses and increased productivity throughout the organization. Cost of services and sales also includes approximately $69 million of gains on the sale of assets in 1998.

Selling, general and administrative

Selling, general and administrative costs increased $23 million, or 3%, in 1999 compared to 1998. The increase is attributable to the impact of the newly acquired wireless properties. In addition, higher acquisition and retention costs to grow the customer base were partially offset by lower general and administrative costs.

The 1998 decrease from 1997 is attributable to lower customer acquisition and retention costs, including lower costs due to increased productivity in the retail channel.

Depreciation and amortization

Depreciation and amortization increased $80 million, or 18%, in 1999 partially due to $40 million of depreciation expense and amortization of goodwill in the fourth quarter from the newly acquired wireless properties. The remainder of the increase over 1998 is the result of continued investment in the network to provide greater digital capacity and coverage.

Depreciation and amortization increased $7 million, or 2%, in 1998 as a result of continuing investment in the wireless network to provide greater capacity. The increase is partially offset by lower depreciation expense due to the discontinuation of the Tele-Go product offering and the write-off of affected network equipment and supplies, which is included in the special charges.

For a description of the special charges, see "Overview — 1999 Significant Items and 1998 Significant Items."

Internetworking

The Internetworking segment offers a wide range of advanced data and Internet-related services, including dedicated and dial-up access to the Internet, managed network security, Web hosting, application development and systems integration services. Internetworking also includes the investment in GTE's national fiber-optic network, which became fully operational in December 1999. Recent investments in undersea cable have now expanded the reach of the nationwide network into Europe, Asia and Latin America.

GTE's Internetworking segment was created in mid-1997 after the acquisition of BBN Corporation. This segment does not include the results of GTE's traditional local data businesses, such as high-speed dedicated circuits and digital subscriber lines, which continue to be reflected in the Company's Network Services segment.

Revenues and Sales

(Dollars in Millions)	Years Ended December 31, **1999**	1998	1997
Internetworking revenues	**$1,036**	$579	$185
Intersegment revenues	**(69)**	(36)	(11)
Total external revenues	**$ 967**	$543	$174

Internetworking data revenues for 1999 increased $457 million, or 79%, over 1998 due to customer and revenue growth from business services such as managed connectivity, Web hosting, virtual private networks and e-commerce solutions. The increase also reflects growth in the online service provider business, primarily resulting from the expanded relationship with America Online (AOL), for which GTE provides national network deployment services in support of AOL's dial-up network.

Revenues for 1998 reflect a full year of activity, whereas 1997 revenues reflect only a partial year, as described above. The increase in 1998 is also due to sales of access and transport services to other ISPs and carriers and the expanded relationship with AOL. The increase also reflects customer growth and revenues derived from newly introduced Internet-based products and services for both consumers and businesses.

Intersegment revenues primarily reflect the provision of backbone connectivity to affiliates.

Operating Costs and Expenses

(Dollars in Millions)	Years Ended December 31, **1999**	1998	1997
Cost of services and sales	**$ 972**	$ 573	$302
Selling, general and administrative	**425**	374	136
Depreciation and amortization	**191**	117	86
Total operating costs and expenses	**$1,588**	$1,064	$524

Cost of services and sales

Cost of services and sales, consisting primarily of the cost of leasing telecommunication circuits and labor and expenses of operating the network infrastructure and supporting customers, increased $399 million, or 70%, in 1999 compared to 1998. The increase is primarily due to the aggressive buildout of the Global Network Infrastructure (GNI) to provide broader access to more customers, support a growing customer base and provide increased scope to service customers. In addition, expenses were higher in 1999 partially due to costs associated with the buildout and initial start-up expenses of the international network, such as the costs to acquire circuits and international cable access. The continued expansion of dial-up networks operated for AOL also contributed to the 1999 increase in cost of services and sales.

The 1998 results reflect the growth in the cost of the network infrastructure and personnel to support a growing customer base and service offerings introduced during the year. Cost of services and sales also reflects the continued expansion of dial-up networks operated for AOL.

Selling, general and administrative

Selling, general and administrative costs increased $51 million, or 14%, in 1999 compared with 1998 due to increased selling expenses which were directly attributed to an increase in sales and sales-related employees both domestically and internationally. The additional growth in the sales force resulted in higher training expenses and costs for expansion of field offices.

The increase in 1998 costs compared to 1997 was driven by customer growth, higher new product development costs and continued investment in the Company's sales and marketing infrastructure, including expansion of sales channels, advertising costs and other promotional activities related primarily to Internet-based services for consumers and businesses.

Depreciation and amortization

Depreciation and amortization reflects the continuing investment in the network and other infrastructure necessary to support the growth in customers and services. At December 31, 1999, the entire 17,000 miles of the nationwide fiber-optic network were operational and, therefore, being depreciated. At December 31, 1998, just over two-thirds of the network was operational and being depreciated.

Capital expenditures during 1999-1997 collectively totaled over $1.6 billion, primarily associated with the build-out of the 17,000 mile nationwide fiber-optic network.

Other National Operations

GTE's Other National Operations include: GTE Communications Corporation, GTE Technology and Systems, GTE Directories Corporation and GTE Airfone. Eliminations for intersegment activity occurring within National Operations are also included in Other National Operations.

Revenues and Sales

(Dollars in Millions)	Years Ended December 31, **1999**	1998	1997
Communications	**$1,513**	$1,063	$ 630
Technology and Systems	**1,063**	1,423	1,271
Other, including eliminations	**685**	856	840
Total revenues	**$3,261**	$3,342	$2,741

Operating Costs and Expenses

(Dollars in Millions)	Years Ended December 31, **1999**	1998	1997
Cost of services and sales	**$2,507**	$2,528	$1,953
Selling, general and administrative	**786**	689	587
Depreciation and amortization	**232**	207	252
Special items	**(768)**	397	—
Total operating costs and expenses	**$2,757**	$3,821	$2,792

GTE Communications Corporation (GTECC) includes GTE's national sales and marketing organization, which enables GTE to offer a complete bundle of telecommunication services and expand beyond its traditional operating boundaries. GTECC also includes GTE Long Distance, which provides long-distance services to customers in all 50 states, and GTE Video Services, which provides video services to residential and business customers in California, Florida and Hawaii.

The increase in GTECC's 1999 revenues of $450 million, or 42%, is attributable in part to increased revenues from long-distance operations, higher contract sales to medium and large business customers and revenues from bundled local, long-distance, wireless, paging and Internet services. The growth in 1999 long-distance revenues is due to a 26% increase in the number of customers since December 31, 1998 to approximately 3.4 million customers. At December 31, 1999 there were approximately 312,000 customers of bundled services, an increase of 263% since December 31, 1998.

In 1998, GTECC's revenues grew $433 million, or 69%, compared with 1997. Revenues from long-distance operations grew $280 million, or 88%, during 1998, due to a 59% increase in the number of customers. Significant market share increases in GTE's franchised territories, coupled with a significant improvement in the rate of customer churn, contributed to this growth.

GTE Technology and Systems is primarily composed of GTE Government Systems. The Company sold substantially all of its Government Systems business to General Dynamics on September 1, 1999. The remaining major division was sold to DynCorp on December 10, 1999. The sale of the GTE Government Systems business resulted in a decrease in Technology and Systems 1999 revenues compared to 1998. The results for 1999 only include a partial year of GTE Government Systems revenue, whereas the 1998 and 1997 results include a full 12 months of revenue.

Included in other revenues is GTE Directories Corporation, which publishes telephone directories and develops and markets online advertising and information services; and GTE Airfone, a provider of airborne communications services, which the Company intends to sell (see "Strategic Repositioning — Net Assets Held for Sale" for additional information).

Total operating costs and expenses, excluding depreciation, amortization and special items, were slightly higher in 1999 compared with 1998 primarily due to increased capacity costs associated with GTECC's revenue growth and higher provisions for uncollectibles, partially offset by lower advertising and telemarketing costs.

For a description of the special items, see "Overview — 1999 Significant Items and 1998 Significant Items."

International Operations

GTE's International Operations, which represent 7% of 1999 consolidated revenues, provide telecommunications services in Argentina, the Dominican Republic, the Northern Mariana Islands and part of the province of Québec, Canada and operate directory-advertising companies in Europe and Latin America through consolidated subsidiaries. GTE also participates in ventures/consortia that are accounted for on the equity basis. These investments include full-service telecommunications companies in Canada and Venezuela, a paging network in China and a nationwide wireless network in Taiwan. In March 1999, GTE completed its 40% investment in Telecomunicaciones de Puerto Rico, Inc. (TELPRI), a full-service telecommunications provider serving the Commonwealth of Puerto Rico.

In June 1999, GTE expanded its Argentine wireless presence by winning the bid for one of two Personal Communications Services (PCS) wireless licenses for the Buenos Aires greater metropolitan area. The PCS license, which covers a population of 13 million, complements GTE's existing investment in CTI Holdings. CTI implemented enhanced digital service during the second quarter of 1999. GTE PCS, S.A., holder of the PCS license, is expected to be operational in the first half of 2000. Together, CTI and GTE PCS, S.A. will provide nationwide wireless service in Argentina.

During the fourth quarter of 1998, GTE increased its ownership interest in CTI and began accounting for its investment on a consolidated basis. The CTI net results for 1997 and the first three quarters of 1998 are reflected in "Other (Income) Expense." For 1999 and the fourth quarter of 1998, CTI's results of operations are reflected in reported revenues and expenses in the consolidated statements of income.

Prior to 1999, GTE had voting control of BC TELECOM, a full-service telecommunications provider operating in British Columbia, Canada, through its ownership of Anglo-Canadian Telephone Company. On January 31, 1999, BC TELECOM and TELUS Corporation, an Alberta, Canada full-service telecommunications provider, merged to form a public company, BCT.TELUS Communications Inc. (TELUS). GTE owns approximately 26.7% of TELUS. Accordingly, beginning in 1999, GTE has deconsolidated BC TELECOM and now accounts for the investment in TELUS using the equity method of accounting. BC TELECOM's results of operations for 1998 and 1997 are reflected in reported revenues and expenses, while for 1999 the TELUS net results are reported as a component of "Other (Income) Expense" in the consolidated statements of income.

The following table represents reported and adjusted financial results, including the impact of the changes in accounting methods described above. The results for the years ended December 31, 1998 and 1997 have been adjusted to reflect the deconsolidation of BC TELECOM and the consolidation of CTI, consistent with 1999 reporting. For comparative purposes, the financial results are discussed on an adjusted basis.

Financial Review

Revenues and Sales

(Dollars in Millions)	1999 Reported	1998 Reported	1998 Adjusted	1997 Reported	1997 Adjusted
Local services	**$ 368**	$1,219	$ 294	$1,076	$ 240
Toll services	**291**	907	312	883	326
Wireless services	**548**	422	542	265	282
Directory services and other	**647**	786	404	678	299
Total revenues	**$1,854**	$3,334	$1,552	$2,902	$1,147

Years Ended December 31.

Local services

Local service revenues are based on fees charged to customers for providing local fixed wireline telephone service within designated franchise areas, primarily in Québec and the Dominican Republic. On an adjusted basis, local services revenues increased $74 million and $54 million, or 25% and 23%, for 1999 and 1998, respectively, compared to the prior year. Local rate increases, as part of an overall rate rebalancing effort in the Dominican Republic, combined with increased access lines in service, contributed to the increase in local service revenues for 1999 as compared to 1998. Local service revenues increased in 1998 due to a rate increase in Québec and increases in access lines in service for both Québec and the Dominican Republic.

Toll services

Toll, or long-distance, service revenues are based on fees charged for calls made to a location outside of a customer's local calling area. On an adjusted basis, toll services revenues decreased $21 million and $14 million, or 7% and 4%, for 1999 and 1998, respectively, compared to the prior year. Rate reductions in the Dominican Republic and Québec stemming from rebalancing programs and competitive pressures led to an overall decrease in toll revenues for 1999. These rate reductions are partially offset by increased toll usage. Toll services revenues declined in 1998 due to competitively-driven, Company-initiated rate reductions, partially offset by higher toll usage and a change in the manner of reporting toll settlements in Québec. Early in 1998, the Québec carrier began reporting toll settlements on a gross revenue and expense basis. Previously, the carriers recorded toll settlements on a net basis (see offsetting increase in "Cost of services and sales"). GTE's International Operations business units continue to implement price reductions on certain domestic and international toll services in response to competition.

Wireless services

Wireless services represent cellular and PCS services. On an adjusted basis, wireless services revenues increased $6 million and $260 million, or 1% and 92%, for 1999 and 1998, respectively, compared to the prior year. Consolidated wireless subscriber growth of 51% over the last 12 months was driven by increased prepaid wireless subscribers within the Latin American operations. Increased revenues resulting from additional subscribers were significantly offset by lower average revenue per user, caused in part by weak economic conditions in Argentina and the expansion of prepaid offerings to lower-usage customers. The 1998 adjusted revenue increase over 1997 resulted from significant expansion of the CTI business operation and the Argentine customer base. Also contributing to revenue growth in 1998 was an increase in wireless customers in both the Dominican Republic and Québec.

Directory services and other

Directory services and other revenues result primarily from sales of Yellow Pages advertising to local and national businesses, along with equipment and other product revenues and sales. On an adjusted basis, directory services and other revenues increased $243 million and $105 million, or 60% and 35%, for 1999 and 1998, respectively, compared to the prior year. The 1999 revenue increase reflected increased product revenues and sales combined with higher Yellow Pages advertising revenues in Canada and Europe. Due to the deconsolidation of BC TELECOM in 1999, GTE International Directories discontinued netting publication-right fees paid to TELUS against its Yellow Pages advertising revenues. This classification change in reporting increased both 1999 revenues and operating expenses by approximately $82 million (see "Operating Costs and Expenses" below). In addition, 1999 results include the activities of Axesa Informacion, Inc., a directory publication business in Puerto Rico for which GTE acquired a controlling interest in April 1999, as well as revenues from annual technology right-to-use fees paid to the Company. The increase in 1998 directory services revenues was primarily driven by operations in Austria and Poland, that were acquired late in 1997, as well as higher directory advertising sales in the Costa Rican operation.

Operating Costs and Expenses

(Dollars in Millions)	1999 Reported	1999 Adjusted	1998 Reported	1998 Adjusted	1997 Reported	1997 Adjusted
Cost of services and sales	**$ 719**	**$ 719**	$1,147	$ 531	$ 882	$ 418
Selling, general and administrative	**493**	**493**	856	496	771	393
Depreciation and amortization	**245**	**245**	459	230	523	195
Special items	**(513)**	**—**	38	—	—	—
Total operating costs and expenses	**$ 944**	**$1,457**	$2,500	$1,257	$2,176	$1,006

Years Ended December 31.

The applicable results in the table above have been adjusted to exclude special items and reflect the deconsolidation of BC TELECOM and the consolidation of CTI, consistent with 1999 reporting.

Cost of services and sales

Higher network and customer support costs related to increased volumes, combined with higher equipment cost of sales associated with the increase in wireless subscribers, contributed to the increase of $188 million, or 35%, in adjusted cost of services and sales for 1999. The classification change for directory publication-right fees also contributed approximately $82 million to the 1999 increase in costs. (See "Directory services and other" revenues). The 1998 increase of $113 million, or 27%, in adjusted cost of services and sales was primarily driven by higher operating and wireless customer acquisition costs associated with significant increases in the CTI customer base. Also, the change in the reporting of toll settlements in early 1998 for the Québec operations (see offsetting increase in "Toll services" revenues) contributed to the increase.

Selling, general and administrative

The 1999 decrease of $3 million, or 1%, in adjusted selling, general and administrative expenses primarily reflects lower selling and commission expenses related to wireless customer acquisitions within the Latin American operations. A significant part of 1999 wireless customer growth was attributable to prepaid customers, which have significantly lower acquisition costs than traditional customers. Adjusted selling, general and administrative expenses in 1998 increased $103 million, or 26%, over 1997 primarily due to higher selling expenses related to the growth in traditional wireless customer additions.

Depreciation and amortization

The increases of $15 million and $35 million, or 7% and 18%, in adjusted depreciation and amortization expense for 1999 and 1998, respectively, compared to the prior year, primarily reflect expansion of the wireless networks within the Latin American operations. The expansion and modernization of the Dominican Republic wireline network also contributed to the increase. In 1998, the effect of shorter depreciable lives of telephone plant, primarily in Canada, was offset by a reduction in the carrying value of plant due to the discontinuation of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation."

For a description of the special items, see "Overview — 1999 Significant Items and 1998 Significant Items."

Equity Income

(Dollars in Millions)	Years Ended December 31, 1999	1998	1997
Reported Equity Income	**$324**	$110	$ 85
Adjusted Equity Income	**324**	263	243

In January 1999, BC TELECOM and TELUS Corporation merged to form BCT.TELUS Communications Inc. (TELUS). GTE owns approximately 26.7% of TELUS. Accordingly, beginning in 1999, GTE has deconsolidated BC TELECOM and now accounts for the investment in TELUS using the equity method of accounting. In addition, during the fourth quarter of 1998, GTE increased its ownership interest in CTI and began accounting for its investment on a consolidated basis.

Equity income (reflected in "Other (Income) Expense" in the consolidated statements of income) of $324 million for 1999 increased $61 million, or 23%, compared to 1998, after adjusting for the changes in accounting method described above. Taiwan Cellular Corporation, in which GTE has a 13.5% interest, became operational in January 1998 and has added over 3 million customers to date. This strong increase in customer growth contributed a majority of the equity earnings growth for 1999 compared to 1998.

Adjusted equity income in 1998 increased $20 million from 1997 due to increased earnings from GTE's investment in BC TELECOM. As described above, in the first quarter of 1999, GTE changed its method of accounting for this investment from consolidation to the equity basis as a result of BC TELECOM's merger with TELUS. Adjusted results reflect this investment on the equity basis for all periods presented.

Financial Condition

(Dollars in Millions)	Years Ended December 31, 1999	1998	1997
Cash flows from (used in):			
Operations	**$ 6,319**	$ 5,890	$ 6,164
Investing	**(7,749)**	(5,508)	(5,893)
Financing	**1,899**	(466)	(125)

Operations

GTE's primary source of funds during 1999 was cash from operations of $6.3 billion compared with $5.9 billion and $6.2 billion in 1998 and 1997, respectively. The increase in cash from operations in 1999 compared to 1998 is primarily due to working capital requirements that were less than the same period last year. Cash from operations includes losses associated with the Company's Internetworking and GTECC growth initiatives.

Investing

Capital expenditures totaled $4.9 billion in 1999, a 12% decrease from the $5.6 billion spent in 1998. This variance is attributable to lower capital expenditures for the Network Services segment, the deconsolidation of BC TELECOM to the equity method of accounting and the Company's decision in 1998 to scale back the deployment of its hybrid fiber coax video networks. The majority of the 1999 new investments were made to acquire facilities and develop and install applications necessary to support the growth in demand for GTE's core services, facilitate the introduction of new products and services, and increase operating efficiency and productivity. Significant investments have also been made to build and expand GTE's national fiber-optic data network. GTE expects capital expenditures to approximate $5.8 billion in 2000, as the Company continues to provide the highest quality voice and data communications available within the industry.

In October 1999, the Company acquired approximately half of Ameritech's wireless properties. GTE paid $3.25 billion in cash for the properties, which are located in St. Louis, Chicago and Central Illinois. In June 1999, the Company purchased one of two PCS wireless licenses that were auctioned by the government of Argentina for the Buenos Aires greater metropolitan area. The total purchase price was $301 million, of which approximately $120 million has been paid. In March 1999, GTE completed its 40% investment in TELPRI, a full-service telecommunications provider serving the Commonwealth of Puerto Rico. In 1997, GTE expended over $900 million to acquire new operations, primarily BBN Corporation, in connection with the Company's data initiatives.

In 1998, GTE committed to a plan to sell GTE Government Systems, GTE Airfone and approximately 1.6 million domestic access lines. When completed, all of these transactions are expected to generate after-tax proceeds aggregating in excess of $4 billion. In late 1999, GTE sold its GTE Government Systems business for $1.2 billion. During 1999, the Company reached agreements to sell approximately 1.6 million non-strategic domestic access lines and expects to close all of these sales in 2000.

Financing

Cash provided by financing activities totaled $1.9 billion during 1999 compared with cash used of $466 million and $125 million for 1998 and 1997, respectively. The Company retired $1.9 billion of long-term debt and preferred securities in 1999 compared with $2.0 billion and $2.4 billion in 1998 and 1997. Included in these retirements were $489 million of 9.25% monthly income preferred securities due 2024 which were redeemed in October 1999. The Company issued $4.6 billion of long-term debt in 1999 compared with $3.9 billion and $2.4 billion in 1998 and 1997. Certain of GTE's domestic telephone operating subsidiaries have shelf registration statements filed with the Securities and Exchange Commission that total $1.9 billion as of December 31, 1999.

In August 1999, GTE announced the initiation of a share repurchase program to offset shares issued under the Company's employee-benefit and dividend-reinvestment programs. Under the program, the Company repurchased approximately 17.7 million shares of its common stock valued at $1.3 billion in 1999, and completed the program with the purchase of an additional 8.4 million shares valued at approximately $600 million through February 2000. Additionally, the Company repurchased 11.7 million shares of its common stock valued at $536 million in 1997.

During 1999, GTE maintained $6.0 billion in committed credit facilities which are used primarily to back up commercial paper borrowings. These facilities include a five-year syndicated line of $2.5 billion for GTE and a 364-day syndicated line of $1.5 billion for certain domestic telephone operating subsidiaries. Under current terms and conditions, the $2.5 billion line will mature in June 2002 and the $1.5 billion line, which was renewed by the Company in June 1999, will mature in June 2000. Fifty-four banks representing 12 countries participate in these syndicated facilities. In addition to the syndicated facilities, $1.0 billion of committed bilateral credit lines were renewed in June 1999 and, subsequently, increased to $2.0 billion in October 1999. The bilateral lines, which are shared by GTE and certain domestic telephone operating subsidiaries, are aligned with the maturity date of the existing 364-day line.

GTE targets a financial profile including capitalization and credit ratios that are appropriate for an "A" rated telecommunications corporation. This allows GTE's shareholders to enjoy the benefits of prudent and reasonable financial leverage, while also protecting debtholder interest and providing ready access to the capital markets. The Company believes that its present investment grade credit rating and those of its subsidiaries provide ready access to the capital markets at reasonable rates and provide the Company with the financial flexibility necessary to pursue growth opportunities as they arise.

In 2000, 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.

Risk Management

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

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

Based on GTE's interest rate sensitive derivative financial instruments outstanding at December 31, 1999, a 100 basis point increase in interest rates as of December 31, 1999, would result in a net gain to GTE of $16 million. Conversely, a 100 basis point decrease in interest rates would result in a net loss to GTE of $17 million. Any increase or decrease in the market value of GTE's interest rate sensitive derivative financial instruments would be substantially offset by a corresponding decrease or increase in the market value of the underlying liability or anticipated debt issuance.

GTE uses foreign currency derivative instruments to reduce its exposure to adverse changes in foreign currency rates. The use of these derivatives allows GTE to reduce its overall exposure to exchange rate fluctuations, as the gains and losses on these contracts substantially offset the gains and losses on assets and liabilities being hedged. The Company's exposure to foreign exchange rates primarily exists with respect to loans denominated in British pounds and short-term investments denominated in Canadian dollars. As of December 31, 1999, GTE's exposure resulting from fluctuations in foreign currency exchange rates was not material.

In the past, GTE issued stock options to certain of its employees that had tandem stock appreciation rights. To minimize GTE's exposure to compensation expense related primarily to these stock appreciation rights, as well as other forms of stock-based compensation, GTE has purchased long-term call options on its common stock and used the gains and losses from the call options to offset compensation expense. As of December 31, 1999, approximately 2.5 million call options were outstanding. GTE accounts for the call options by marking to market the gains and losses in the period that they occur.

Other Factors That May Affect Future Results

Regulatory and Competitive Trends

During 1999, regulatory and legislative activity at both the state and federal levels continued to be a direct result of the Telecommunications Act of 1996 (Telecommunications Act). Along with promoting competition in all segments of the telecommunications industry, the Telecommunications Act was intended to preserve and advance universal service.

GTE continued in 1999 to meet the wholesale requirements of new competitors. To date, GTE has signed over 1,200 interconnection agreements with other carriers, providing them the capability to purchase unbundled network elements (UNEs), resell retail services and interconnect facilities-based networks. Several of these interconnection agreements were the result of the arbitration process established by the Telecommunications Act, and incorporated prices or terms and conditions based upon the FCC rules that were subsequently appealed to the U. S. Supreme Court (Supreme Court). GTE challenged a number of such agreements in federal district courts during 1997.

GTE's position in these challenges was supported by a decision of the Eighth Circuit Court (Eighth Circuit) in July 1997 which stated the FCC had overstepped its authority in several areas concerning implementation of the interconnection provisions of the Telecommunications Act. In January 1999, the Supreme Court reversed in part and affirmed in part the Eighth Circuit's decisions. The Supreme Court reversed the Eighth Circuit's determination that the FCC had no jurisdiction over pricing. As a result, the pricing rules established by the FCC are now subject to review on their merits by the Eighth Circuit. In addition, the Supreme Court vacated the FCC rule setting forth the UNEs that incumbent local exchange carriers (ILECs) are required to provide to competitive local exchange carriers (CLECs). This latter ruling led to a proceeding before the FCC concerning what elements had to be offered and under what conditions.

In November 1999, the FCC reaffirmed that incumbents must provide unbundled access to five of the original seven network elements, which must be available on either a stand-alone basis, or as a combined local service "platform" if the elements have been previously combined by the ILEC. ILECs are no longer required to provide unbundled operator services, including directory assistance where alternate routing is available. In addition, in certain circumstances, local and tandem switching need not be unbundled. However, the FCC expanded the definition of some UNEs by specifying that components of the loop UNE must be made available in sub-loop components, and augmenting the types of call-related databases that must be unbundled as UNEs. The FCC also found that state commissions can require ILECs to unbundle additional elements as long as they are consistent with the requirements of the Telecommunications Act and the national policy framework instituted in the FCC's order. Furthermore, the order precludes states from removing network elements from the FCC's list of unbundling obligations. The United States Telecom Association (USTA) has appealed this order and GTE will participate.

In December 1999, the FCC released another order that requires ILECs to provide line sharing to CLECs by unbundled access to the high-frequency portion of the local loop over which the ILEC provides voice services. The FCC's stated intent in adopting the line sharing order is to enable competitive carriers to provide digital subscriber line (DSL) services over the same lines simultaneously used by ILECs to provide basic phone services.

In June 1999, the Eighth Circuit established a schedule for addressing the issues it did not decide in 1998. Parties to this action have filed briefs and participated in oral arguments in September 1999. The major issues are: (1) the FCC's cost methodology used to set prices, (2) its methodology for setting wholesale discounts, (3) the "proxy rates" it set for interconnection, UNEs, and wholesale discounts, (4) whether ILECs should be required to combine UNEs that are not already combined, and (5) whether the FCC can require ILECs to provide "superior quality" to competitors than what the ILEC provides to itself. A court decision is expected during the first half of 2000.

Concurrent with competitors' entry into GTE markets, the Company has continued its own expansion into local, long-distance, Internet-access and wireless services both within and outside its traditional operating areas. GTE now provides long-distance service to approximately 3.4 million customers.

Universal Service

GTE is active before both state and federal regulators advocating development and implementation of measures that will meet the requirements of the universal service provisions of the Telecommunications Act. Specifically, GTE urges regulators to identify and remove all hidden subsidies and to provide explicit universal service subsidies.

In October 1998, the FCC issued an order selecting a cost model for universal service. In July 1999, the United States Court of Appeals for the Fifth Circuit (Fifth Circuit) affirmed in part, reversed in part, and remanded in part the FCC's universal service regime. In October 1999, the FCC released two orders in response to the Fifth Circuit decision. One order permits ILECs to continue to recover their universal service contributions from access charges or to establish end-user charges. The second order changed the contribution basis for school/library funding to eliminate calculations based upon intrastate revenues. In January 2000, GTE requested the Supreme Court to review the Fifth Circuit decision allowing the FCC to base universal service support from the results of a hypothetical cost model rather than historical costs that were incurred to provide local service. GTE argued that the Fifth Circuit ignored long standing legal precedent in permitting a major revision to ILEC cost recovery mechanisms without ensuring the new process would not result in a constitutionally prohibited "taking."

In November 1999, the FCC released an order selecting the cost inputs for the federal universal service cost model. GTE is seeking reconsideration. Since the FCC moved the implementation date of the new universal service mechanism for non-rural carriers to January 2000, many state regulators awaited FCC action before they began designing their universal service programs.

In November 1999, the FCC released an order dealing with implementation of the new FCC federal high cost support mechanism for non-rural ILECs, including GTE. The effective date for the new federal universal service plan is January 1, 2000. This plan will distribute federal high cost funds to states with higher than average costs. The role of state commissions is to ensure reasonable comparability within the borders of a state. Federal high cost support will be calculated by comparing the nationwide average cost with each state's average cost per line, and providing federal support for only states that exceed 135% of the nationwide average. To guard against rate shock, the FCC also adopted a "hold harmless" approach so that the amount of support provided to each non-rural carrier under the new plan will not be less than the amount provided today. U S WEST has appealed this order on the basis that it fails to provide a sufficient amount of support. This FCC order also established a May 1, 2000 deadline by which state commissions must create at least three deaveraged price zones for UNEs. In January 2000, GTE requested the FCC grant a one year delay to give state commissions ample opportunity to implement deaveraged retail rates and establish state universal service funds in concert with UNE deaveraging.

In December 1999, the FCC asked for comment on requests made by the North Dakota and South Dakota state commissions and the Rural Utilities Service (RUS) asking the FCC to redefine "voice grade access" in the FCC's universal service rules. The FCC requires that, in order to be eligible for universal service support, a carrier must offer, among other things, voice grade access to the public switched telephone network. Current FCC rules specify that voice grade access should occur in a frequency range between approximately 300 Hertz (Hz) to 3,000 Hz. The petitioners requested the frequency range be changed to 200 Hz to 3,500 Hz. GTE participated in this proceeding and opposed any change in FCC requirements. The network is not designed for the proposed ubiquitous requirement and would require a significant infrastructure investment and at least a decade to implement.

Price Cap

The federal price cap regime allows access prices to change each year by a measure of inflation minus a productivity factor offset. In May 1999, the U.S. Court of Appeals for the District of Columbia (Court) released a decision regarding the FCC's choice of a 6.5% price cap productivity factor in a 1997 order. The Court found the FCC's choice of a 6.0% base factor and a 0.5% Consumer Productivity Dividend to be inadequately supported. The Court remanded the matter back to the FCC for further action and established an April 2000 date by which the FCC must issue a revised decision. As a result, in November 1999, the FCC initiated a rulemaking proposal requesting comments on the interstate price cap productivity factor. Currently, it is unknown whether the single price cap productivity factor will be applied retroactively to July 1, 1997 and remain in effect until the next price cap performance review in 2003, or whether one factor will apply from 1997 to 2000 and another factor apply from 2000 to 2003.

Financial Review

Interstate Access Revision

Effective July 1999, access charges were further reduced using a 6.5% productivity factor in compliance with FCC requirements to reflect the impacts of access charge reform and in making GTE's 1999 Annual Filing. The total annual financial impact of the reduction was $113 million. Similar filings during 1997 and 1998 had already resulted in price reductions.

In August 1999, GTE, along with a coalition of local exchange and long-distance companies (CALLS), submitted a proposal for interstate access charge and universal service reform to the FCC. The proposal would accelerate the shift in non-usage sensitive access revenue recovery from per-minute to flat-rated charges, set a schedule for elimination of the price cap productivity factor, and provide more explicit support for universal service. The coalition filed a revised plan in March 2000 and the FCC has offered the plan for comments. A decision by the FCC is expected in 2000.

In August 1999, the FCC released an order pertaining to access reform and pricing flexibility. The order grants price cap LECs immediate flexibility under certain circumstances to deaverage certain access services and permits the introduction of new services on a streamlined basis, without prior FCC approval.

Advanced Telecommunications Services

The Telecommunications Act required the FCC to "encourage the deployment on a reasonable and timely basis of advanced telecommunications capability to all Americans." Further, the FCC was required to conduct a proceeding aimed at determining the availability of advanced telecommunications, and to take action to remove barriers to infrastructure investment and to promote competition.

In March 1999, the FCC released an order adopting a number of new collocation rules designed to make competitive entry easier and less costly. These rules specify how ILECs will manage such items as alternate collocation arrangements, security, space preparation cost allocation, provisioning intervals and space exhaustion. GTE asked the Court to review this order. In March 2000, the Court issued a ruling granting, in part, challenges raised by GTE to the FCC's March 1999 order. The Court ruled that the FCC failed to justify its requirement that ILECs must permit collocation of any CLEC equipment that was "used or useful" for interconnection or access to network elements. The Court remanded this portion of the decision back to the FCC for further deliberation.

In November 1999, the FCC released an order concluding that an ILEC's offering of DSL services to Internet Service Providers (ISPs) pursuant to volume and term discount plans that are a component of the ISP's high-speed Internet service are not a retail offering, and thus not subject to the discounted resale obligation. The order also concluded that an ILEC's DSL offering to end-users is a retail offering if the ILEC performs certain consumer-oriented functions, such as provisioning of customer premises equipment and wiring, marketing, billing and collection, and accepting repair requests directly from the end-user. The FCC concluded that these services are subject to discounted resale obligation, regardless of whether the service is classified as telephone exchange service (local tariff) or exchange access service (access tariff).

Number Portability

In December 1998, the FCC released an order establishing cost recovery rules for local number portability (LNP) that permitted the recovery of carrier-specific costs directly related to the provision of long-term LNP via a federally tariffed end-user monthly charge. GTE subsequently filed an LNP tariff with the FCC, and in March 1999 instituted an end-user number portability fee. This charge is levied on all business and residential customers. In June 1999, GTE's tariffed LNP charge was reviewed and accepted by the FCC at $0.36 per access line per month.

Internet Service Traffic

ILECs are required to provide open access to all ISPs, while cable television operators are not. Several major cable television operators providing Internet access through cable modem facilities are only offering their affiliated ISPs to consumers. Cable television operators that do allow customers to select non-affiliated ISPs often require the customer to also pay for their affiliated ISP's service (i.e., to pay twice for the same service). GTE has been active in encouraging municipalities engaged in reviewing cable television mergers or franchise renewals to require cable modem open access as a condition for approval. The City of Portland, Oregon was first to adopt such a requirement and AT&T Corp. has appealed that decision. Arguments took place in November 1999 before the Ninth Circuit Court.

In October 1999, GTE filed an antitrust lawsuit contending that cable TV providers' refusal to provide ISPs with "open access" to cable modem platforms is a violation of federal antitrust law. The lawsuit filed in the U.S. District Court in Pittsburgh, names Tele-Communications, Inc., (now a unit of AT&T Corp.), Comcast Corp., and Excite@Home and seeks an injunction to require open access and damages.

GTE's interconnection contracts with CLECs specify that parties compensate each other for the exchange of local traffic, defined as traffic that is originated by an end-user of one party and terminating to the end-user of the other party within GTE's current local serving area. It is GTE's position that ISP traffic does not satisfy the definition of local traffic, and that no compensation should be paid to CLECs that carry this traffic to their ISP customers. In a recent ruling, the FCC has clarified that ISP traffic is largely interstate and is not local traffic. Nevertheless, the FCC permitted state commissions to arbitrate whether ILECs should pay as reciprocal compensation for ISP-bound traffic, based upon existing interconnection agreements, until the FCC reaches a decision on a long-term compensation scheme. GTE challenged this FCC conclusion in federal district court. In March 2000, the Court vacated and remanded the FCC's ruling that ISP-bound calls are interstate, since the FCC failed to provide a satisfactory explanation to support its ruling. As a result, the Court did not address GTE's argument that the Telecommunications Act preempts state commission authority to arbitrate disputes over non-local traffic.

International

The global communications environment continues to undergo significant change. Many developed and developing countries are opening their telecommunications markets to full infrastructure and service competition and removing old monopolistic structures. Countries are upgrading their existing networks making them more compatible with new Internet, data, wireless, broadband and video technologies and applications. In addition, these rapid changes are forcing the development of new regulatory policies. Many countries continue to face the need for new regulations to deal with further convergence, deregulation and privatization taking place in the global marketplace.

Throughout the Latin American region, telecommunication service providers will face further deregulation and a series of challenges and new opportunities in 2000. The Venezuelan government is considering a new telecommunications law, which will further open its market. CONATEL (the Venezuelan telecommunications regulator) and Compañia Anónima Nacional Teléfonos de Venezuela (CANTV), an affiliate of GTE, recently evaluated recommendations from international industry experts and negotiated an agreement on tariff rebalancing, network modernization commitments and quality of service standards. The agreement will take effect in March 2000 and will be valid through the remainder of 2000.

The Argentine telecom market has recently moved from two basic operators in separate regions to four nationwide full-service providers. GTE's international affiliate, CTI Integrales, is one of these full-service providers and is expected to begin offering nationwide service in the first half of 2000. GTE's other Argentine subsidiaries, CTI and GTE PCS, S.A. were awarded PCS licenses in 1999. Together they will provide the first nationwide wireless service in Argentina.

In the Dominican Republic, Compañia Dominicana de Teléfonos, C. Por A. (CODETEL), a wholly-owned subsidiary of GTE, submitted a price rebalancing plan to its regulatory agency, Indotel. The plan was implemented in January 2000. It calls for increased local rates effective in June 2000.

Since the privatization of TELPRI and changes in intra-island presubscription regulation, GTE has played an integral role in facilitating TELPRI's entry into the off-island long-distance market. TELPRI is also aggressively pursuing the data and Internet markets as well as improving the quality of service in their core wireline and wireless businesses. TELPRI continues to be the largest provider of local service on the island.

In Taiwan, where a Company affiliate provides PCS service, the legislature passed a new Telecom Act in October 1999, which increased the limits on foreign investment from 20% to 60% (40% direct and 20% indirect investment). GTE is pursuing telecommunications opportunities including entering the full-service provider business with Taiwanese partners. In addition, Taiwan has been working to meet World Trade Organization Basic Telecom Agreement requirements in order to become an integral member of that landmark agreement.

Due to further liberalization of the telecommunications industry in Canada, Québec Tel has been experiencing increasing competition. To counter this threat, Québec Tel will expand its service offerings outside of its franchise territory.

Year 2000 Conversion

GTE does not believe that the Year 2000 rollover has had, or will have, any material adverse impacts on the Company's results of operations or liquidity. Additionally, the Company has not experienced any material contingencies regarding customers or major suppliers. GTE experienced no significant Year 2000 events, and service to GTE's customers was unaffected by the rollover to January 1, 2000. GTE completed its Year 2000 renovation, conducted system testing and returned to production the essential systems that support its businesses substantially in advance of December 31, 1999. Additionally, GTE's portion of the public switched telephone network (PSTN) in the United States was upgraded for Year 2000, and all of GTE's access lines have been operating using Year 2000 compliant central office switches and network elements since mid-year 1999. With the successful transition into 2000, GTE believes that the risk of disruptions arising from time/date transitions, that would affect GTE's ability to provide basic services, has been eliminated.

GTE continues to enhance its normal business continuity planning to address potential Year 2000 and other time/date interruptions. These include: potential gradual system degradation after January 1, 2000; possible accumulation of processing errors or degraded performance; leap year processing through February 29, 2000; and potential impacts of degrading performance from partners. GTE's disaster preparedness recovery plans include procedures and activities for a "multi-regional" time/date contingency, if it occurs.

The estimated total multi-year cost of GTE's Year 2000 Program is expected to total approximately $380 million, of which $372 million has been expended through December 31, 1999. Year 2000 renovation costs are expensed in the year incurred. Approximately 69% of GTE's program effort involved U.S. domestic operations. With the successful transition from 1999 to 2000, GTE has completed its Year 2000 Program. All future efforts will be performed under normal business operations.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statement requires entities that use derivative instruments to measure these instruments at fair value and record them as assets or liabilities on the balance sheet. It also requires entities to reflect the gains or losses associated with changes in the fair value of these derivatives, either in earnings or as a separate component of comprehensive income, depending on the nature of the underlying contract or transaction. The Company is currently assessing the impact of adopting SFAS No. 133, which is effective January 1, 2001.

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

Proposed Merger with Bell Atlantic Corporation

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

The merger is expected to qualify as a pooling of interests, which means that for accounting and financial reporting purposes the companies will be treated as if they had always been combined. The completion of the merger is subject to a number of conditions, including certain regulatory approvals and receipt of opinions that the merger will be tax-free. At annual meetings held in May 1999, the shareholders of each company approved the merger. All state regulatory commissions have now approved the merger and the only remaining approval is required from the FCC. Both companies are working diligently to complete the merger and are targeting completion of the merger in the second quarter of 2000.

This Financial Review is based on GTE's own historical financial results. It does not reflect the impact that the proposed merger will have on future financial performance of the post-merger combined company. Further information about the proposed merger is provided in the following discussion of "Recent Developments" and in Note 19 to the consolidated financial statements.

Financial Review

Recent Developments

On January 27, 2000, GTE and Bell Atlantic filed a comprehensive proposal with the FCC to resolve the issues associated with the long-distance and Internet-related service offerings that GTE provides to consumers and businesses. The FCC issued the Companies' proposal for formal public comment. If approved by the FCC, in order to permit the closing of the GTE/Bell Atlantic merger, this proposal would require the transfer of substantially all of GTE Internetworking's existing nationwide data business into a separate corporation. In exchange for the transfer of GTE Internetworking, the merged GTE/Bell Atlantic will have an option to increase its ownership interest to a controlling level once it receives regulatory relief to provide intraLATA long-distance and related services. In addition, as a result of the legal prohibition that will apply to GTE once the merger with Bell Atlantic is closed, effective March 30, 2000, GTE will no longer provide long-distance voice telephone service in the states where Bell Atlantic operates and does not yet have approval to offer this long-distance service. This event affects a small percentage of GTE's customer base.

In November 1999, the Company announced that it had agreed to form a company with Crown Castle International Corporation to own, operate and lease space on the Company's existing network of cell sites. The newly created entity will be controlled by Crown Castle International Corporation, and up to approximately 25% of the entity will be owned by the Company. The Company will contribute real estate and integral equipment, including approximately 2,300 cellular towers to the entity, valued at approximately $900 million, and will lease back these cell sites by paying a monthly lease fee of approximately $1,400 per cell site to the entity. The first phase closed on January 31, 2000, in which the Company contributed over 600 cellular towers in exchange for approximately $198 million in cash. The Company will continue to own other cell site equipment, including switching equipment, antennas and other electronic components.

On September 21, 1999, Bell Atlantic signed a definitive agreement with Vodafone AirTouch plc to create a national wireless business composed of both companies' U.S. wireless assets. The completion of this transaction is subject to a number of conditions, including certain regulatory approvals. In January 2000, the transaction was approved by the shareholders of Vodafone AirTouch. Bell Atlantic expects the transaction to close in April 2000. The agreement between Bell Atlantic and Vodafone AirTouch to create a new wireless business and the agreement between Bell Atlantic and GTE to merge are independent transactions. The completion of one is not contingent upon completion of the other.

On February 1, 2000, GTE and ALLTEL Corporation signed two agreements to exchange certain wireless interests. The agreements will resolve several wireless overlaps related to the GTE/Bell Atlantic merger. The transactions are expected to be completed in the second quarter of 2000. Additional wireless overlaps related to the GTE/Bell Atlantic merger are also expected to be resolved in the near future.

In the first quarter of 2000, the Company announced that it will retire certain securities earlier than the stated date. It is expected that the Company will be recording an after-tax extraordinary charge of approximately $33 million for the early redemption of the securities.

On March 27, 2000, GTE sold GTE CyberTrust, a part of GTE's Other National Operations, to Baltimore Technologies plc, an Internet security company.

Cautionary Statement Regarding Forward-Looking Statements

In this Financial Review, the Company has made forward-looking statements. These statements are based on the Company's estimates and assumptions and are subject to certain risks and uncertainties. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company, as well as those statements preceded or followed by the words "anticipates," "believes," "estimates," "expects," "hopes," "targets" or similar expressions. For each of these statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The future results of the Company could be affected by subsequent events and could differ materially from those expressed in the forward-looking statements. If future events and actual performance differ from the Company's assumptions, the actual results could vary significantly from the performance projected in the forward-looking statements.

The following important factors could affect the future results of the Company and could cause those results to differ materially from those expressed in the forward-looking statements: 1) materially adverse changes in economic conditions in the markets served by the Company or by companies in which GTE has substantial investments; 2) material changes in available technology; 3) the final resolution of federal, state and local regulatory initiatives and proceedings, including arbitration proceedings, and judicial review of those initiatives and proceedings, pertaining to, among other matters, the terms of interconnection, access charges, universal service, unbundled network elements and resale rates; 4) the extent, timing, success and overall effects of competition from others in the local telephone and intraLATA toll service markets; 5) the timing of, and regulatory or other conditions associated with, the completion of our merger with Bell Atlantic and our ability to combine operations and obtain revenue enhancements and cost savings following the merger; and 6) the timing of, and regulatory or other conditions associated with, the completion of the wireless joint venture between Bell Atlantic and Vodafone AirTouch plc, and the ability of the new wireless enterprise to combine operations and obtain revenue enhancements and cost savings. In addition, GTE has embarked on a major initiative to expand its service capability in the data communication, long-distance and enhanced services segments of the telecommunications marketplace and to provide a bundle of products and services both in and outside of its traditional service territories. Whether the Company realizes the benefits of these initiatives depends on GTE's ability to successfully develop the network facilities and systems required to provide these enhanced services, the success of its marketing initiatives, the levels of demand that are created for these services and the level of competition the Company faces as it seeks to penetrate new markets and emerging markets for new products and services. While GTE's management believes that it will be successful in implementing these new initiatives, there are uncertainties associated with its ability to increase revenue and income growth rates to the levels targeted through these initiatives and its ability to do so within the planned timeframes or investment levels.

Report of Independent Public Accountants

To the Board of Directors and
Shareholders of GTE Corporation:

We have audited the accompanying consolidated balance sheets of GTE Corporation (a New York corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP
Dallas, Texas
January 27, 2000

Management Report

To Our Shareholders:

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

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

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

Charles R. Lee
Chairman and
Chief Executive Officer

Lawrence R. Whitman
Deputy Chief Financial Officer

Consolidated Statements of Income

GTE Corporation and Subsidiaries

(Dollars in Millions, Except Per-Share Amounts)	Years Ended December 31, 1999	1998	1997
Revenues and Sales	**$25,336**	$25,473	$23,260
Operating Costs and Expenses			
Cost of services and sales	**10,954**	10,741	9,203
Selling, general and administrative	**4,405**	4,821	4,560
Depreciation and amortization	**3,757**	3,820	3,886
Special items	**(1,116)**	755	—
Total operating costs and expenses	**18,000**	20,137	17,649
Operating Income	**7,336**	5,336	5,611
Other (Income) Expense			
Interest — net	**1,277**	1,253	1,145
Equity in income of unconsolidated companies	**(432)**	(240)	(217)
Other — net	**137**	278	265
Income before income taxes	**6,354**	4,045	4,418
Income taxes	**2,291**	1,553	1,624
Income before extraordinary charges	**4,063**	2,492	2,794
Extraordinary charges	**(30)**	(320)	—
Net Income	**$ 4,033**	$ 2,172	$ 2,794
Basic Earnings (Loss) Per Common Share:			
Before extraordinary charges	**$ 4.18**	$ 2.59	$ 2.92
Extraordinary charges	**(.03)**	(.33)	—
Net Income	**$ 4.15**	$ 2.26	$ 2.92
Diluted Earnings (Loss) Per Common Share:			
Before extraordinary charges	**$ 4.15**	$ 2.57	$ 2.90
Extraordinary charges	**(.03)**	(.33)	—
Net Income	**$ 4.12**	$ 2.24	$ 2.90
Average Common Shares Outstanding (in millions):			
Basic	**972**	963	958
Diluted	**979**	968	962

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

GTE Corporation and Subsidiaries

(Dollars in Millions)	December 31, 1999	1998
Assets		
Current assets		
Cash and cash equivalents	**$ 936**	$ 467
Receivables, less allowances of $551 and $395	**5,058**	4,785
Inventories and supplies	**702**	668
Net assets held for sale (see Note 2 and Note 11)	**1,802**	274
Other	**945**	587
Total current assets	**9,443**	6,781
Property, plant and equipment, net (see Note 2 and Note 11)	**23,233**	24,866
Prepaid pension costs	**6,073**	4,927
Franchises, goodwill and other intangibles	**6,492**	3,144
Investments in unconsolidated companies	**3,932**	2,210
Other assets	**1,659**	1,687
Total assets	**$50,832**	$43,615
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term obligations, including current maturities	**$ 9,608**	$ 4,148
Accounts payable and accrued expenses	**4,410**	4,138
Taxes payable	**1,372**	1,071
Dividends payable	**458**	470
Other	**487**	528
Total current liabilities	**16,335**	10,355
Long-term debt	**13,957**	15,418
Employee benefit plans	**4,418**	4,404
Deferred income taxes	**3,406**	1,948
Minority interests in equity of subsidiaries	**1,266**	1,984
Other liabilities	**623**	740
Total liabilities	**40,005**	34,849
Shareholders' equity		
Common stock (1,002,200,284 and 991,374,778 shares issued)	**50**	50
Additional paid-in capital	**8,680**	7,884
Retained earnings	**4,953**	2,740
Accumulated other comprehensive loss	**(376)**	(375)
Guaranteed ESOP obligations	**(453)**	(509)
Treasury stock (34,791,857 and 23,377,388 shares, at cost)	**(2,027)**	(1,024)
Total shareholders' equity	**10,827**	8,766
Total liabilities and shareholders' equity	**$50,832**	$43,615

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

GTE Corporation and Subsidiaries

(Dollars in Millions)	Years Ended December 31, 1999	1998	1997
Operations			
Income before extraordinary charges	**$ 4,063**	$ 2,492	$ 2,794
Adjustments to reconcile income before extraordinary charges to net cash from operations:			
Depreciation and amortization	**3,757**	3,820	3,886
Special items	**(1,116)**	755	—
Employee retirement benefits	**(1,272)**	(728)	(746)
Deferred income taxes	**1,217**	471	456
Provision for uncollectible accounts	**597**	470	418
Equity in income of unconsolidated companies	**(432)**	(240)	(217)
Changes in current assets and current liabilities, excluding the effects of acquisitions and dispositions:			
Receivables — net	**(927)**	(767)	(622)
Other current assets	**(179)**	(5)	(220)
Accrued taxes and interest	**471**	381	86
Other current liabilities	**9**	(662)	325
Other — net	**131**	(97)	4
Net cash from operations	**6,319**	5,890	6,164
Investing			
Capital expenditures	**(4,940)**	(5,609)	(5,128)
Acquisitions and investments	**(3,813)**	(121)	(927)
Proceeds from sales of assets	**1,201**	209	73
Other — net	**(197)**	13	89
Net cash used in investing	**(7,749)**	(5,508)	(5,893)
Financing			
Common stock issued	**851**	447	288
Purchase of treasury stock	**(1,314)**	—	(576)
Dividends paid	**(1,828)**	(1,807)	(1,802)
Long-term debt issued	**4,637**	3,934	2,407
Long-term debt and preferred securities retired	**(1,931)**	(1,988)	(2,417)
Increase (decrease) in short-term obligations, excluding current maturities	**1,521**	(978)	2,015
Other — net	**(37)**	(74)	(40)
Net cash from (used in) financing	**1,899**	(466)	(125)
Increase (decrease) in cash and cash equivalents	**469**	(84)	146
Cash and cash equivalents:			
Beginning of year	**467**	551	405
End of year	**$ 936**	$ 467	$ 551
Cash paid during the year for			
Interest	**$ 1,381**	$ 1,321	$ 1,282
Income taxes	**645**	854	1,057

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

GTE Corporation and Subsidiaries

(Dollars in Millions)	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Guaranteed ESOP Obligations	Treasury Stock	Total
Shareholders' Equity, December 31, 1996	$49	$7,416	$ 1,370	$(168)	$(575)	$ (756)	$ 7,336
Net income			2,794				2,794
Dividends declared			(1,800)				(1,800)
Common shares issued — employee plans (3,341,606 shares)		146					146
Treasury shares distributed — employee plans (3,279,387 shares)						142	142
Purchase of treasury stock (11,719,200 shares)						(536)	(536)
Other		(2)	8	(75)	25		(44)
Shareholders' Equity, December 31, 1997	49	7,560	2,372	(243)	(550)	(1,150)	8,038
Net income			2,172				2,172
Dividends declared			(1,811)				(1,811)
Common shares issued — employee plans (7,121,891 shares)	1	320					321
Treasury shares distributed — employee plans (2,875,700 shares)						126	126
Other		4	7	(132)	41		(80)
Shareholders' Equity, December 31, 1998	50	7,884	2,740	(375)	(509)	(1,024)	8,766
Net income			**4,033**				**4,033**
Dividends declared			**(1,828)**				**(1,828)**
Common shares issued — employee plans (10,825,506 shares)		**540**					**540**
Treasury shares distributed — employee plans (6,320,331 shares)						**311**	**311**
Purchase of treasury stock (17,734,800 shares)						**(1,314)**	**(1,314)**
Tax benefit from exercise of stock options and other		**256**	**8**	**(1)**	**56**		**319**
Shareholders' Equity, December 31, 1999	**$50**	**$8,680**	**$ 4,953**	**$(376)**	**$(453)**	**$(2,027)**	**$10,827**

Consolidated Statements of Comprehensive Income

(Dollars in Millions)	Years Ended December 31, **1999**	1998	1997
Net income	**$4,033**	$2,172	$2,794
Other comprehensive income (loss):			
Foreign currency translation adjustments	**27**	(144)	(90)
Unrealized gains (losses) on securities, net of taxes of $(13), $6 and $8	**(28)**	12	15
Other comprehensive loss	**(1)**	(132)	(75)
Comprehensive income	**$4,032**	$2,040	$2,719

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

GTE Corporation and subsidiaries ("GTE" or "the Company") is one of the world's largest telecommunications companies with an array of products and services that is among the broadest in the industry. GTE's National and International Operations serve approximately 35 million telephone access lines through subsidiaries in the United States, Canada and the Dominican Republic, and through affiliates in Canada, Puerto Rico and Venezuela. GTE is a leading wireless operator in the United States, with more than 7.1 million wireless customers and the opportunity to serve 72.5 million potential wireless customers. Outside the fifty states, GTE operates wireless networks serving approximately 6.7 million customers with 34.8 million potential wireless customers through subsidiaries in Argentina, Canada and the Dominican Republic, and affiliates in Canada, Puerto Rico, Taiwan and Venezuela. GTE also participates in a venture which operates a paging network in China. GTE provides internetworking services ranging from dial-up Internet access for residential and small-business consumers to Web-based applications for *Fortune 500* companies and has in place a 17,000 mile nationwide OC-192 fiber-optic network. GTE is also a leader in directories and telecommunications-based information services and systems. For further information concerning our business, see Note 15.

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 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% to 50%-owned companies and less than 20%-owned cellular partnerships over which the Company exercises significant influence are accounted for on the equity basis (see Note 5). Other investments of less than 20% are accounted for on the cost basis.

Reclassifications of prior-year data have been made, where appropriate or as otherwise disclosed in these notes, to conform to the 1999 presentation.

Revenue Recognition

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

Depreciation and Amortization

Property, plant and equipment of all GTE subsidiaries is depreciated on a straight-line basis over the following estimated useful asset lives:

Average lives (in years)	
Buildings	20 – 40
Inside communications plant	5 – 10
Outside communications plant	8 – 40
Furniture, vehicles and other equipment	3 – 10

GTE's telephone operating subsidiaries depreciate assets using the remaining life methodology. This method depreciates the net investment in telephone plant less anticipated net salvage value over remaining useful asset lives and requires the periodic review and revision of depreciation rates.

When depreciable plant of the telephone subsidiaries is retired in the normal course of business, the amount of such plant is deducted from the respective plant and accumulated depreciation accounts. Gains or losses on disposition are amortized with the remaining net investment in telephone plant. When depreciable telephone plant is retired outside the normal course of business, for example if a local exchange is sold, any resulting gain or loss is included in operating income.

When depreciable assets of other subsidiaries are retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts and any resulting gain or loss is included in operating income.

Franchises, goodwill and certain other intangibles are generally amortized on a straight-line basis over the periods to be benefited or 40 years, whichever is less. Certain acquired customer bases are amortized in a manner consistent with historical attrition patterns. Amortization expense for consolidated subsidiaries was $175 million, $131 million and $96 million in 1999-97, respectively. Accumulated amortization was $957 million and $819 million at December 31, 1999 and 1998, 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. For most subsidiaries and affiliates, the effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are included in the other comprehensive income component of shareholders' equity. For those affiliates operating in highly inflationary economies, gains and losses associated with the effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are included in net income.

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. Curtailment gains and losses associated with employee separations are recognized when they occur. Settlement gains and losses are recognized when significant pension obligations are settled and the gain or loss is determinable.

Valuation of Assets

The impairment of tangible and intangible assets is assessed when changes in circumstances indicate that their carrying value may not be recoverable. Under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," a determination of impairment, if any, is made based on estimated future cash flows, salvage value or expected net sales proceeds depending on the circumstances. In instances where goodwill has been recorded in connection with impaired assets, the carrying amount of the goodwill is first eliminated before any reduction to the carrying value of tangible or identifiable intangible assets. GTE's policy is to record asset impairment losses, and any subsequent adjustments to such losses as initially recorded, as well as net gains or losses on sales of assets as a component of operating income. Under Accounting Principles Board Opinion No. 17, "Intangible Assets," the Company also annually evaluates the future period over which the benefit of goodwill will be received, based on future cash flows, and changes the amortization life accordingly.

Income Taxes

Deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each reporting period. Deferred tax assets and liabilities are subsequently adjusted, to the extent necessary, to reflect 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.

Earnings Per Common Share

All earnings per share computations and presentations are in accordance with SFAS No. 128, "Earnings per Share" (see Note 14).

Cash and Cash Equivalents

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

Financial Instruments

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

Inventories and Supplies

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

Software

Software costs are recognized in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which became effective in January 1999. GTE capitalizes costs associated with externally acquired software (including right-to-use fees) for internal use. Project costs associated with internally developed software are segregated into three project stages: preliminary project stage, application development stage and post-implementation stage. Costs associated with both the preliminary project stage and the post-implementation stage are expensed as incurred. Costs associated with the application development stage are capitalized. Software maintenance and training costs are expensed as incurred. Capitalized software is generally amortized on a straight-line basis over its useful life, not to exceed five years for non-network software or three years for network software.

Prior to the adoption of SOP 98-1 in 1999, GTE classified software as either network-related or non-network related. For network-related software, initial operating systems software was capitalized and amortized over the life of the related hardware. All other network-related software, including right-to-use fees, was expensed as incurred.

The net book value of capitalized software at December 31, was as follows:

(Dollars in Millions)	**1999**	1998
Network	**$203**	$ —
Non-network	**565**	301
Total net book value	**$768**	$301

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statement requires entities that use derivative instruments to measure these instruments at fair value and record them as assets or liabilities on the balance sheet. It also requires entities to reflect the gains or losses associated with changes in the fair value of these derivatives, either in earnings or as a separate component of comprehensive income, depending on the nature of the underlying contract or transaction. The Company is currently assessing the impact of adopting SFAS No. 133, as amended, which is effective January 1, 2001.

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

2. Strategic Repositioning — Net Assets Held For Sale

During the first quarter of 1998, the Company committed to a repositioning plan that resulted in a decision to sell GTE Government Systems, GTE Airfone and approximately 1.6 million non-strategic domestic access lines. When completed, all of these transactions are expected to generate after-tax proceeds aggregating in excess of $4 billion. Given the decision to sell, the Company stopped recording depreciation expense for these assets. Accordingly, depreciation expense was lowered by $325 million and $100 million in 1999 and 1998, respectively.

On June 22, 1999, GTE entered into an agreement with General Dynamics Corporation to sell three of the four divisions of GTE Government Systems Corporation, which closed on September 1, 1999. On November 4, 1999, GTE entered into an agreement with DynCorp to sell the remaining major division, which closed on December 10, 1999. (See Note 3.) The net assets of GTE Government Systems were classified as "Net assets held for sale" in the consolidated balance sheets at December 31, 1998. Revenues for 1999, up to the date of the sale, from GTE Government Systems were $1.1 billion. In 1998 and 1997, revenues were $1.4 billion and $1.3 billion, respectively.

On June 24, 1999, GTE entered into an agreement with Oak Hill Capital Partners, L.P. (Oak Hill) to sell GTE Airfone. The agreement was terminated on October 19, 1999 when GTE and Oak Hill were unable to agree on final terms. GTE will continue to pursue the sale of GTE Airfone. Accordingly, GTE Airfone's net assets are classified as "Net assets held for sale" in the consolidated balance sheets at December 31, 1999 and 1998. Revenues from GTE Airfone were $138 million, $157 million and $136 million for 1999-1997, respectively.

During 1999, the Company entered definitive agreements to sell all of the domestic switched access lines held for sale. These access lines are located in Alaska, Arizona, Arkansas, California, Illinois, Iowa, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, Texas and Wisconsin. All sales are contingent upon final agreements and regulatory approvals, and are expected to close in 2000. Based on the signing of definitive agreements, the net property, plant and equipment of $1.7 billion related to these access lines has been reclassified as "Net assets held for sale" in the consolidated balance sheets as of December 31, 1999. The net book value of these access lines is reflected in "Property, plant and equipment, net" in the consolidated balance sheets at December 31, 1998 (see Note 11). The Company will continue to operate all of these assets until sold. The 1.6 million access lines represent approximately 8% of the switched access lines that the Company had in service at the end of 1999, and contributed approximately 4% to 1999 and 1998 consolidated revenues and 5% to 1997 consolidated revenues.

The components of the net assets held for sale at December 31 are as follows:

(Dollars in Millions)	**1999**[(a)]	1998[(b)]
Current assets	**$ 24**	$ 524
Property, plant and equipment, net	**1,871**	282
Other noncurrent assets	**10**	122
Current liabilities	**(40)**	(413)
Noncurrent liabilities	**(63)**	(241)
Net assets held for sale	**$1,802**	$ 274

(a) Represents GTE Airfone and approximately 1.6 million non-strategic access lines, as described above.
(b) Represents GTE Government Systems and GTE Airfone, as described above.

3. Special Items

1999 Special Items

During 1999, the Company recorded a net pretax gain of $1.1 billion ($651 million after-tax, or $0.66 per diluted share), which included the following:

- During the first quarter of 1999, the Company recorded a pretax gain of $513 million associated with the merger of BC TELECOM and TELUS, as described in Note 5. The after-tax impact of this gain is $308 million, or $.31 per diluted share.
- During the first quarter of 1999, the Company also recorded a special charge of $192 million ($119 million after-tax, or $.12 per diluted share) associated with employee separation programs. The charge included separation and related benefits such as outplacement and benefit continuation costs for approximately 3,000 employees. The programs were completed in early April 1999, as planned, consistent with the original cost estimates.
- During the third quarter of 1999, the Company recorded special items of $705 million ($416 million after-tax, or $.42 per diluted share). Included in the special items was a pretax gain of $754 million on the sale of substantially all of GTE Government Systems on September 1, 1999 to General Dynamics Corporation for $1.03 billion in cash. The after-tax impact of this gain was $445 million, or $.45 per diluted share. Also included was a special charge of $49 million ($29 million after-tax, or $.03 per diluted share) primarily related to the impairment of assets associated with the Company's decision to exit certain small, non-core business activities.
- During the fourth quarter of 1999, the Company recorded a net pretax gain of $90 million, primarily associated with the sale of the remaining major division of GTE Government Systems to DynCorp, partially offset by a special charge taken to exit certain small non-strategic businesses. The after-tax impact of this net gain is $46 million, or $.05 per diluted share.

1998 Special Items

During the first quarter of 1998, the Company committed to a plan to sell or exit various business activities and reduce costs through employee reductions and related actions. As a result of these actions, during the first quarter of 1998, the Company recorded pretax charges of $755 million, $482 million after-tax, or $.50 per diluted share, for the year. The strategic actions to which the 1998 special charges relate were completed as planned consistent with the original cost estimates. The plan included the proposed sale of GTE Government Systems Corporation, GTE Airfone Incorporated and approximately 1.6 million non-strategic domestic access lines located in 13 states. The status of these transactions as of December 31, 1999 is discussed in Note 2.

The following table summarizes the special charges by major category and by business unit affected (Dollars in Millions):

Major Category:	
Asset impairments	$483
Exit costs	34
Employee related and other actions	
Severance	77
Other	30
Other actions	131
Total	$755
Business Unit:	
National Operations	
Network Services	$171
Wireless Products and Services	91
Other National Operations	397
International Operations	38
Corporate and other[(a)]	58
Total	$755

(a) The $58 million included in "Corporate and other" relates to severance and related costs associated with the closing of several administrative facilities, including the Company's corporate headquarters and worldwide training facility in Connecticut.

Asset impairments and exit costs

Based on the decision to sell, the Company recorded a pretax charge of $200 million to reduce the carrying value of GTE Airfone's assets to estimated net sales proceeds. No charge was recorded for GTE Government Systems or the access lines to be sold because their estimated fair values were in excess of their carrying values.

During the first quarter of 1998, the Company also committed to a plan to exit a number of other non-strategic business activities. As a result, the Company recorded a pretax charge of $156 million to reduce the carrying value of affected assets to expected net salvage value and to recognize costs resulting from the exit plan. The major components of the charge included:

- the write-off of network equipment and supplies for discontinued wireless products and services ($81 million);
- the shutdown of business units developing interactive video products and services and excess printing facilities ($42 million); and
- the write-off of impaired assets in Latin America ($33 million).

After completing the review of its operations, the Company also decided to scale back the deployment of the hybrid fiber coax (HFC) video networks that it had built in certain test markets. Although the Company is obligated to, and will continue to, use the existing HFC networks to provide video service in these markets, technological innovations have created alternative ways for the Company to deliver video and high-speed data services in the future at a significantly lower cost. Due to the significant change in the scale of the HFC networks and the effect on future revenues and expenses, the Company recorded a pretax charge for impairment of approximately $161 million based on estimated future cash flows. GTE continues to evaluate its long-term strategic options associated with its video business.

Employee related and other actions

During the first quarter of 1998, the Company also decided to consolidate facilities and centralize or eliminate a variety of employee functions and, as a result, recorded a $107 million pretax charge. During the second half of 1998, the Company closed several administrative facilities, including its corporate headquarters in Connecticut and approximately 140 domestic retail stores and other locations operated by its National Operations. The cost of these actions is composed primarily of employee severance, outplacement and benefit continuation costs for approximately 1,700 employees and other costs to exit locations no longer used by the Company.

The Company also recorded a pretax charge of approximately $131 million related to nonrecurring federal and state regulatory rulings affecting its Network Services unit. Approximately two-thirds of this charge relates to nonrecurring access rate refunds applied by the Federal Communications Commission (FCC) retroactively in 1997. In addition, the charge also included the write-off of mandated costs, including generic software, and other costs incurred by the Company for which revenue recovery was not allowable under the regulatory process.

4. Extraordinary Charges

During the first quarter of 1999, GTE repurchased $338 million of high-coupon debt through a public tender offer prior to its stated maturity, resulting in a one-time, after-tax extraordinary charge of $30 million (net of tax benefits of $16 million), or $.03 per diluted share.

During the first quarter of 1998, GTE recorded after-tax extraordinary charges of $320 million (net of tax benefits of $256 million), or $.33 per diluted share. Approximately $300 million of the charge related to the discontinuation of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," by GTE's Canadian operations. The decision by GTE's Canadian subsidiaries to discontinue using regulatory accounting practices was in response to rulings by the Canadian regulatory commission in March of 1998 that opened the Canadian telecommunications market to full competition. Under SFAS No. 71, certain assets were depreciated and certain expenses were recognized over a longer period of time than would have been the case in a competitive environment. This charge includes a reduction in the net carrying value of property, plant and equipment of $270 million to reflect impairment based on the estimated cash flows that the assets are expected to generate in a competitive environment and a reduction in costs that had been capitalized based on the expectation of future recovery of approximately $30 million. In addition, during the first quarter of 1998, GTE called $800 million of high-coupon debt and preferred stock prior to their stated maturity date, resulting in a one-time, after-tax extraordinary charge of $20 million.

5. Investments in Unconsolidated Companies

GTE's investments in companies accounted for on the equity basis at December 31, were as follows:

(Dollars in Millions)	**1999**	1998
CANTV	**$1,880**	$1,751
TELUS	**1,175**	—
Puerto Rico	**380**	—
Other investments	**497**	459
Total	**$3,932**	$2,210

Compañia Anónima Nacional Teléfonos de Venezuela (CANTV) is the primary provider of local telephone service and national and international long-distance service in Venezuela. CANTV also provides wireless, Internet-access and directory advertising services. On December 22, 1998, GTE increased its ownership interest in CANTV from 25.9% to 26.4%. At December 31, 1999 and 1998, GTE's investment in CANTV included unamortized goodwill of $740 million and $765 million, respectively.

At December 31, 1998, GTE had a 50.8% ownership interest in BC TELECOM Inc. (BC TELECOM), a full-service telecommunications provider in the province of British Columbia, Canada. On January 31, 1999, BC TELECOM and TELUS Corporation merged to form a public company called BCT.TELUS Communications Inc. (TELUS). GTE's ownership interest in the merged company, TELUS, is approximately 26.7% and, as such, during the first quarter of 1999, the Company changed the accounting for its investment from full consolidation to the equity method. In 1998, GTE's consolidated results include the following amounts related to BC TELECOM: revenues of $2.2 billion, operating income of $589 million, total assets of $2.6 billion, including $1.7 billion of net property, plant and equipment, and long-term debt of $686 million. At December 31, 1999, GTE's investment in TELUS included unamortized goodwill of $432 million.

In March 1999, GTE completed its 40% investment in Telecomunicaciones de Puerto Rico, Inc. (TELPRI), which provides local, wireless, long-distance, paging, and Internet-access services. At December 31, 1999, GTE's investment in TELPRI included unamortized goodwill of $222 million.

Other investments represent cellular partnerships in the U.S. and other international investments.

6. Shareholders' Equity

The authorized common stock of GTE at December 31, 1999, consisted of two billion shares with a par value of $.05 per share.

Accumulated other comprehensive loss includes cumulative foreign currency translation adjustments of $(380) million, $(407) million and $(263) million at December 31, 1999-97, respectively (see Note 1); and cumulative unrealized gains on investments in securities of $4 million, $32 million and $20 million at December 31, 1999-97, respectively.

In August 1999, GTE announced the initiation of a share repurchase program to offset shares issued under the Company's employee-benefit and dividend-reinvestment programs. Under the program, the Company repurchased approximately 17.7 million shares of its common stock valued at $1.3 billion in 1999, and completed the program with the purchase of an additional 8.4 million shares valued at approximately $600 million through February 2000. Additionally, the Company repurchased 11.7 million shares of its common stock valued at $536 million in 1997.

7. Stock Option Plans

GTE maintains broad-based stock option plans that cover substantially all employees. Prior to 1997, options were granted separately or in conjunction with stock appreciation rights (SARs). Beginning in 1997, the granting of SARs was discontinued. In 1997, shareholders approved the GTE Corporation 1997 Long-Term Incentive Plan (the LTIP). Each option granted under the LTIP conveys the right to purchase, at fair market value on the date of the grant, shares of GTE common stock. Generally, options have a term of ten years and become vested over a period not to exceed seven years. Through December 31, 1999, options have been granted to purchase 55 million shares. In addition, 19.4 million options have been granted under predecessor plans.

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, 1996	25,914	$37.36
Options granted	22,208	45.28
Options exercised	(3,951)	33.58
Options cancelled or forfeited	(1,046)	40.31
Balance, December 31, 1997	43,125	41.71
Options granted	14,703	53.97
Options exercised	(8,672)	39.34
Options cancelled or forfeited	(2,461)	44.78
Balance, December 31, 1998	46,695	45.85
Options granted	**27,379**	**66.53**
Options exercised	**(13,737)**	**44.58**
Options cancelled or forfeited	**(1,710)**	**58.62**
Balance, December 31, 1999	**58,627**	**$55.44**

At December 31, 1999, 33.6 million options were exercisable.

GTE also maintains the Equity Participation Program (EPP). Under the EPP, a portion of certain executives' cash bonuses under the LTIP and Executive Incentive Plan (EIP) must be deferred and held in restricted stock units (RSUs) for a minimum of three years, and then will be payable in GTE common stock. EPP participants may also irrevocably elect to voluntarily defer an additional percentage of their LTIP and EIP cash bonuses into RSUs, provided that their mandatory and voluntary deferrals do not exceed 25% of the LTIP and EIP awards. GTE will provide a matching contribution in RSUs in the amount of one unit for every four units deferred by the participant. These matching RSUs were designed as an inducement to encourage full participation in the EPP and to compensate the executives for their agreement not to realize the economic value associated with the RSUs for a minimum of three years.

In 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." As permitted by SFAS No. 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). In accordance with APB 25, compensation expense is not recognized for stock options on the date of grant since it is GTE's practice to grant options with an exercise price equal to the fair market value of its common stock on the date of grant. Under SFAS No. 123, compensation cost is measured at the grant date based on the value of the award and is recognized over the service or vesting period. Had compensation cost for GTE's stock options been determined under SFAS No. 123, based on the fair market value at the grant dates, GTE's pro forma net income and diluted earnings per share at December 31 would have been as follows:

(Dollars in Millions, Except Per-Share Amounts)	1999	1998	1997
Net Income			
As reported	**$4,033**	$2,172	$2,794
Pro forma	**3,921**	2,113	2,769
Diluted Earnings Per Share			
As reported	**$ 4.12**	$ 2.24	$ 2.90
Pro forma	**4.01**	2.18	2.88

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for those options granted in 1999-97: expected volatility of 19%, expected maturities of seven years, risk-free interest rates equal to the yield on seven-year U.S. Treasury notes on the grant date and expected dividend yield of approximately 3%.

8. Minority Interests

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

(Dollars in Millions)	1999	1998
Minority interests in consolidated subsidiaries:		
BC TELECOM (50.8% GTE ownership in 1998)	**$ —**	$ 550
Cellular partnerships	**422**	139
CTI Holdings, S.A. (58.0% GTE ownership in 1999)	**99**	—
Québec Telephone (50.2% and 50.1% GTE ownership, respectively)	**76**	85
Other	**35**	20
Preferred securities issued by subsidiaries	**634**	1,190
Total minority interests in equity of subsidiaries	**$1,266**	$1,984

In January 1999, BC TELECOM and TELUS Corporation merged to form a public company called BCT.TELUS Communications Inc. (TELUS). GTE's ownership interest in the merged company TELUS, is approximately 26.7% and, as such, during the first quarter of 1999, the Company changed the accounting for its investment from full consolidation to the equity method (see Note 5).

Cellular partnerships for 1999 include $286 million related to the October 1999 acquisition of several wireless properties from Ameritech Corporation, of which a 7% interest is owned by a minority shareholder. These properties which were purchased for approximately $3.25 billion are located in St. Louis, Chicago and Central Illinois and include approximately 1.7 million subscribers. As a result of this acquisition, the Company recorded goodwill and customer base of approximately $2.85 billion. The Company is in the process of completing an appraisal of the properties acquired to determine the final values of the separate components of tangible and intangible assets. Such an appraisal could result in a change in the allocation of the purchase price.

CTI Holdings, S.A. (CTI), is a consortium providing cellular services in the north and south interior regions of Argentina. During 1998, GTE increased its ownership interest in CTI and assumed management control through the conversion of debt to equity, and through the purchase of additional shares. As a result, in the fourth quarter of 1998, GTE changed the accounting for its investment in CTI from the equity method to full consolidation. The consolidation of CTI, which increased the Company's revenues and operating income by $126 million and $17 million, respectively, during 1998 had no effect on net income. As of December 31, 1998, CTI had total assets of approximately $1.1 billion, including $700 million of net property, plant and equipment, and long-term debt of $712 million.

At December 31, 1999 and 1998, preferred securities of subsidiaries include $511 million of Series B, 8.75% Monthly Income Preferred Securities maturing in 2025. These securities, issued by GTE Delaware, a limited partnership holding solely GTE junior subordinated debentures, were redeemed in March 2000 at a price of $25 per share. In 1998, preferred securities issued by subsidiaries also included $489 million of Series A, 9.25% Monthly Income Preferred Securities issued by GTE Delaware, maturing in 2024. In October 1999, GTE redeemed the Series A preferred securities at an option price of $25 per share.

9. Debt

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

(Dollars in Millions)	1999	1998
GTE Corporation:		
Debentures, maturing 2000 through 2028, average rates 6.9% and 7.9%	**$ 9,337**	$ 5,300
Guaranteed ESOP obligations, maturing 2001 through 2005, average rate 9.7%	**453**	555
Other borrowings, maturing 2000 through 2010, average rate 6.9%	**804**	805
	10,594	6,660
Telephone Subsidiaries:		
First mortgage bonds, debentures and notes, maturing through 2031, average rates 6.9% and 7.1%	**7,292**	8,347
Other Subsidiaries:		
Debentures and notes, maturing through 2012, average rates 8.8% and 10.1%	**1,117**	1,340
Commercial paper expected to be refinanced on a long-term basis, average rate 4.5% for 1998	**—**	217
Total principal amount	**19,003**	16,564
Unamortized premium and (discount) — net	**(59)**	(59)
Total	**18,944**	16,505
Less: Current maturities	**4,987**	1,087
Total long-term debt	**$13,957**	$15,418

Estimated payments of long-term debt during the next five years are: $5.0 billion in 2000; $1.3 billion in 2001; $784 million in 2002; $713 million in 2003 and $1.1 billion in 2004.

In May 1999, the Company issued $300 million of Floating Rate Debentures, due May 2000; $1.1 billion of Floating Rate Debentures, due June 2000; and $200 million of 5.399% Debentures, also due June 2000. In June 1999, the Company issued $1.4 billion of Floating Rate Debentures, due June 2000. In December 1999, the Company issued $975 million of Floating Rate Debentures, due December 2000 and $400 million of Floating Rate Debentures, due January 2001. The net proceeds of all 1999 issuances were applied to repay short-term borrowings, investments in and advances to subsidiaries to finance their operations, including acquisitions, and for general corporate purposes.

In January 1999, GTE California, a subsidiary of GTE, issued $225.0 million of 5.50% Series G Debentures, due 2009. Net proceeds were applied toward the repayment of other short-term borrowings incurred to finance GTE California's construction program and for general corporate purposes.

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 the issuance of long-term debt or equity. As a result of this practice, at times, the Company has negative working capital. First mortgage bonds issued by GTE's telephone subsidiaries are secured by a lien on substantially all telephone property, plant and equipment.

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

(Dollars in Millions)	1999	1998
Commercial paper — average rates 6.1% and 5.4%	**$4,415**	$3,056
Notes payable — average rates 7.3% and 3.7%	**206**	5
Current maturities of long-term debt	**4,987**	1,087
Total short-term obligations	**$9,608**	$4,148

At December 31, 1999, GTE had lines of credit totaling $6.0 billion available to provide backup to its commercial paper program. No amounts had been drawn against these lines of credit at December 31, 1999.

Notes to Consolidated Financial Statements

10. Financial Instruments

As of December 31, 1999 and 1998, GTE had entered into interest rate swap agreements primarily to convert floating rate long-term and short-term debt to fixed rates. Additionally, GTE had entered into forward interest rate swap agreements and forward contracts to sell U.S. Treasury Bonds to hedge against changes in market interest rates on planned long-term debt issuances expected to be completed within the next 12 months. GTE used forward foreign exchange contracts to offset foreign exchange gains or losses on the foreign currency obligations being hedged and used long-term call options on GTE common stock to hedge exposure to compensation expense related to outstanding stock-equivalent units associated with deferred compensation plans.

As of December 31, 1999 and 1998, GTE had the following financial instruments in effect (Dollars in Millions):

	Notional Amount	Expiration Dates	Weighted-Average Pay Rate
Interest rate swaps:			
Pay fixed			
1999	**$351**	**2000-2002**	**6.5%**
1998	648	1999-2008	6.3%
Pay floating			
1999	**$200**	**2000**	
1998	124	1999-2001	
Forward interest rate swap agreements:			
1999	**$ —**	**—**	
1998	100	1999	6.2%
Forward foreign exchange contracts:			
1999	**$440**	**2000-2004**	
1998	409	2004	
Call options on GTE common stock:			
1999	**$ 99**	**2000-2006**	
1998	315	1999-2006	

GTE has entered into domestic interest rate swaps and forward interest rate swap agreements, where GTE primarily pays fixed rates, as indicated in the previous table, and receives floating rates, primarily based on three-month LIBOR. At December 31, 1999 and 1998, the three-month LIBOR was 6.0% and 5.1%, respectively.

GTE's Canadian telephone affiliate has entered into interest rate swaps, where GTE pays floating rates, primarily Banker's Acceptance rates, and receives fixed Canadian Dollar treasury rates. At December 31, 1998, the Banker's Acceptance rate was 5.1%. In 1999, GTE no longer consolidates this Canadian telephone affiliate (see Note 5).

Gains and losses recognized upon the expiration or settlement of forward interest rate swap agreements and forward contracts to sell U.S. Treasury Bonds are amortized over the life of the associated long-term debt issuance as a decrease or increase to interest expense. For 1998, the net loss that is being amortized over future periods was $85 million.

Gains and losses on long-term call options on GTE's common stock, which hedge GTE's exposure to compensation expense related to stock-based compensation, are recognized based on fluctuations in the market price of GTE's common stock. Gains and losses recognized on call options offset compensation expense in GTE's consolidated statements of income.

The risk associated with these 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 other financial instruments included in the consolidated balance sheets, other than long-term debt, closely approximate their carrying value. As of December 31, 1999, the estimated fair value of long-term debt based on either quoted market prices or an option pricing model, was lower than its carrying value by approximately $510 million. As of December 31, 1998, the estimated fair value of long-term debt exceeded its carrying value by approximately $1.5 billion.

11. Property, Plant and Equipment

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

(Dollars in Millions)	1999	1998
Land	**$ 349**	$ 349
Buildings	**4,451**	4,397
Plant and equipment	**46,340**	51,489
Work in progress and other	**3,263**	3,454
Total	**54,403**	59,689
Accumulated depreciation	**(31,170)**	(34,823)
Total property, plant and equipment — net	**$ 23,233**	$ 24,866

At December 31, 1998, total property, plant and equipment — net included approximately $1.6 billion of access lines and related equipment held for sale. This represents gross assets of $4.4 billion less accumulated depreciation of $2.8 billion. Based on the signing of definitive agreements in 1999, the net book value of the access lines and related equipment has been reclassified to "Net assets held for sale" in the consolidated balance sheets at December 31, 1999 (see Note 2).

12. Employee Benefit Plans

Pension and Other Postretirement Benefit Plans

GTE sponsors several qualified and nonqualified pension plans and other postretirement benefit plans for most of its employees. Substantially all GTE employees are covered under defined benefit pension plans and postretirement health care and life insurance plans. Pension plans are generally noncontributory. Postretirement health care plans are generally contributory and include a limit on GTE's share of the cost for recent and future retirees. All of the following information is presented in accordance with the revised disclosure requirements of SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits."

Notes to Consolidated Financial Statements

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of plan assets for the years ended December 31, and a statement of funded status as of December 31:

(Dollars in Millions)	Pension Benefits		Other Postretirement Benefits	
	1999	1998	**1999**	1998
Benefit obligation at January 1	**$ 8,789**	$ 8,649	**$ 3,701**	$ 4,104
Service cost	**281**	293	**38**	44
Interest cost	**586**	651	**209**	234
Plan amendments	**161**	10	**—**	(34)
Actuarial (gain) loss	**(674)**	527	**(860)**	(272)
Divestitures	**(538)**	—	**(2)**	—
Benefits paid	**(310)**	(792)	**(234)**	(230)
Settlements, curtailments and terminations, net	**(774)**	(66)	**25**	(2)
Assets held for sale	**—**	(435)	**—**	(175)
Other	**37**	(48)	**21**	32
Benefit obligation at December 31	**$ 7,558**	$ 8,789	**$ 2,898**	$ 3,701
Fair value of plan assets at January 1	**$17,949**	$16,934	**$ 556**	$ 524
Actual return on plan assets	**2,915**	2,511	**40**	83
Divestitures	**(683)**	—	**—**	—
Company contributions	**82**	45	**199**	217
Benefits paid	**(310)**	(792)	**(235)**	(230)
Settlements	**(1,359)**	(63)	**—**	—
Assets held for sale	**—**	(626)	**—**	(71)
Other	**45**	(60)	**19**	33
Fair value of plan assets at December 31	**$18,639**	$17,949	**$ 579**	$ 556
Funded status as of December 31	**$11,081**	$ 9,160	**$(2,319)**	$(3,145)
Unrecognized transition asset	**(152)**	(244)	**—**	—
Unrecognized prior service cost (benefit)	**368**	241	**(543)**	(626)
Unrecognized gain	**(5,630)**	(4,626)	**(655)**	(50)
Net amount recognized	**$ 5,667**	$ 4,531	**$(3,517)**	$(3,821)

The following table provides the amounts recognized in the consolidated balance sheets as of December 31:

(Dollars in Millions)	Pension Benefits		Other Postretirement Benefits	
	1999	1998	**1999**	1998
Prepaid pension costs	**$ 6,073**	$ 4,927	**$ —**	$ —
Accrued benefit liability	**(406)**	(396)	**(3,517)**	(3,821)
Net amount recognized	**$ 5,667**	$ 4,531	**$(3,517)**	$(3,821)

The following table provides the components of net periodic benefit cost for the years ended December 31:

(Dollars in Millions)	Pension Benefits			Other Postretirement Benefits		
	1999	1998	1997	**1999**	1998	1997
Service cost	**$ 281**	$ 293	$ 259	**$ 38**	$ 44	$ 43
Interest cost	**586**	651	618	**209**	234	240
Expected return on plan assets	**(1,326)**	(1,307)	(1,193)	**(42)**	(39)	(32)
Amortization of:						
Transition asset	**(68)**	(76)	(89)	**—**	—	—
Prior service cost (benefit)	**24**	26	9	**(74)**	(79)	(75)
Net gain	**(65)**	(60)	(42)	**(17)**	(9)	(4)
Settlements, curtailments and terminations, net	**(511)**	(16)	(205)	**(8)**	(2)	—
Net periodic benefit cost	**$(1,079)**	$ (489)	$ (643)	**$106**	$149	$172

Included in the net periodic benefit cost reported in the above table are one-time costs for special termination benefits provided under voluntary and involuntary separation programs of $148 million (included in the first quarter 1999 special charge, as described in Note 3), $19 million and $64 million in 1999-97, respectively. Curtailment and settlement gains or losses related to these programs, divestitures occurring during the period and benefit obligations settled through the purchase of annuities for certain retiree pensions are also reflected in the preceding table. Additionally, in 1999 the Company's lump-sum pension distributions surpassed the settlement threshold equal to the sum of the service cost and interest cost components of net periodic pension cost requiring settlement gain or loss recognition for all cash settlements for the year.

The weighted-average assumptions used in measuring the Company's benefit obligations as of December 31 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	1999	1998	**1999**	1998
Discount rate	**8.00%**	7.00%	**8.00%**	7.00%
Rate of compensation increase	**5.50%**	4.75%	**—**	—

The expected return on pension plan assets for 1999 and 1998 was 9.00%. The expected return on other postretirement benefits plan assets for 1999 and 1998 was 8.00%.

The assumed health care cost trend rate is 6.50% in 2000 and is assumed to decrease gradually to an ultimate rate of 5.50% in the year 2004. A one percentage point change in the assumed health care cost trend rate would have the following effects on the Company's other postretirement benefits:

(Dollars in Millions)	1% Increase	1% Decrease
Effect on 1999 service and interest costs	**$ 19**	**$ (16)**
Effect on postretirement benefit obligation as of December 31, 1999	**206**	**(176)**

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

Notes to Consolidated Financial Statements

contributions. Matching contributions charged to income were $77 million, $95 million and $76 million in 1999-97, respectively.

GTE also maintains an Employee Stock Ownership Plan (ESOP). In 1989, the ESOP borrowed $700 million to acquire, at market value, 24.6 million shares of GTE common stock, which will be used to meet GTE's contributions to certain employee savings plans through the year 2004. The unpaid balance of the loan, which has been guaranteed by GTE, is included in the accompanying consolidated balance sheets as long-term debt and short-term obligations with a similar reduction in shareholders' equity. The debt service payments, including interest, made by the ESOP in 1999-97 totaled $105 million, $100 million and $96 million, respectively. These payments were funded by $50 million, $47 million and $49 million of dividends accumulated on the GTE stock held by the ESOP, with the balance from cash contributions by GTE.

13. Income Taxes

The income tax provision (benefit) before extraordinary charges is as follows:

(Dollars in Millions)	**1999**	1998	1997
Current:			
Federal	**$ 927**	$ 612	$ 725
Foreign	**52**	293	256
State and local	**95**	177	187
	1,074	1,082	1,168
Deferred:			
Federal	**947**	451	451
Foreign	**148**	(14)	(26)
State and local	**143**	56	65
	1,238	493	490
Amortization of deferred investment tax credits	**(21)**	(22)	(34)
Total provision	**$2,291**	$1,553	$1,624

The amortization of deferred investment tax credits 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:

(Dollars in Millions)	**1999**	1998	1997
Amounts computed at statutory rates	**$2,224**	$1,416	$1,546
State and local income taxes, net of federal benefit	**155**	151	164
Minority interests and preferred stock dividends	**7**	54	44
Amortization of investment tax credits	**(21)**	(22)	(34)
Other differences — net	**(74)**	(46)	(96)
Total provision	**$2,291**	$1,553	$1,624

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

(Dollars in Millions)	**1999**	1998
Depreciation and amortization	**$ 2,369**	$ 1,625
Employee benefit obligations	**(1,734)**	(1,810)
Prepaid pension costs	**2,174**	1,688
Other — net	**303**	278
Net deferred tax liability	**$ 3,112**	$ 1,781

Deferred income taxes were not provided on undistributed earnings of foreign subsidiaries of approximately $1.3 billion at December 31, 1999, as such earnings are expected to be permanently reinvested.

14. Earnings Per Common Share

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated in a similar manner except that the weighted-average number of common shares outstanding during the period includes the potential dilution that could occur if stock options or other contracts to issue common stock were exercised. The number of shares included in diluted earnings per common share for the potential issuance of common shares was 6.6 million in 1999, 5.2 million in 1998, and 4.3 million in 1997. Certain outstanding options to purchase common shares were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive for the period, including approximately 200,000 shares during 1999, 1.0 million shares during 1998, and 8.5 million shares during 1997.

15. Segment Reporting

The Company has two operating units, its National Operations and its International Operations, and a Corporate group. The National Operations are further segmented along product lines although certain activities such as marketing and data processing are managed on a common basis. The costs of activities managed on a common basis are allocated to the product segments based on usage, where possible, or other factors depending on the nature of the activity. The International Operations are organized by country. For the most part, the National and the International Operations are independent of each other and the various countries comprising the International Operations are independent of each other. Affiliated transactions that occur are based on market prices.

The three major product segments (reportable segments) within National Operations are Network Services, Wireless Products and Services, and Internetworking.

Network Services provides wireline communication services within franchised areas. These services include local telephone service and toll calls as well as access services that enable long-distance carriers to complete calls to or from locations outside of GTE's operating areas. Network Services also provides complex voice and data services, billing and collection, operator assistance, inventory management services to other telecommunications companies and receives revenues in the form of a publication right from an affiliate that publishes telephone directories in its operating areas. The intersegment revenues at Network Services primarily represent local telephone services provided at market rates to GTE's national sales and marketing organization, which markets

Notes to Consolidated Financial Statements

bundled telecommunication services, and sales of inventory management services to other GTE companies.

Wireless Products and Services provides wireless communications services (both voice and data) within licensed areas in the U.S., sells wireless telephones and accessories and provides support services to other wireless telephone companies.

The Internetworking segment offers a wide range of advanced data and Internet-related services, including dedicated and dial-up access to the Internet and a variety of value-added Internet services such as managed network security, Web-server hosting, application development and systems integration services. GTE's Internetworking segment was created in 1997 after the acquisition of BBN Corporation.

The Company's National Operations also include GTE Technology and Systems, GTE Communications Corporation, GTE Directories Corporation and GTE Airfone. GTE Technology and Systems was primarily composed of GTE Government Systems, a provider of communications and intelligence systems to the military and federal government. (See Note 2 for information related to the sale of GTE Government Systems in late 1999.) GTE Communications provides nationwide long-distance service, video services in selected markets and bundled telecommunications services through its national sales and marketing organization. GTE Directories publishes telephone directories for which it receives advertising revenue and develops and markets on-line advertising and information services for consumers and advertisers on the Internet. A portion of the advertising revenue for directories published in Network Services' operating areas is recognized as revenue by Network Services (approximately 60%) and a portion is recognized as revenue by GTE Directories (approximately 40%). GTE Airfone provides aircraft-passenger telecommunications services.

GTE's International Operations (the fourth reportable segment) provide telecommunications services in Argentina, Canada, the Dominican Republic and the Northern Mariana Islands and operate directory advertising companies in Europe and Central America through consolidated subsidiaries. GTE also participates in ventures/consortia that are accounted for on the equity basis. These investments include full-service telecommunications companies in Canada, Puerto Rico and Venezuela, a paging network in China and a nationwide digital-cellular network in Taiwan.

Accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1). Operating income includes profit on sales to affiliates. The related intersegment eliminations for National Operations are included in Other National Operations.

The Company's reported segment results were affected by special items (see Note 3), changes in the method of accounting for certain international investments due to changes in ownership (see Notes 5 and 8) and the sale of the Government Systems business in 1999 (see Note 2). The amount of the special items applicable to each business segment is included in operating income in the following tables:

(Dollars in Millions)	**1999**	1998	1997
National Operations:			
Network Services			
Revenues and sales			
Local services	**$ 5,976**	$ 5,814	$ 5,530
Network access services	**5,511**	5,316	4,896
Toll services	**655**	859	1,251
Directory services and other	**3,432**	3,259	2,847
Total revenues	**15,574**	15,248	14,524
Intersegment revenues	**(473)**	(305)	(220)
Total external revenues	**$15,101**	$14,943	$14,304
Operating income[a]	**$ 5,701**	$ 4,817	$ 4,726
Special charges[b]	**113**	171	—
Depreciation and amortization	**2,564**	2,591	2,605
Capital expenditures	**2,843**	3,362	3,245
Total assets	**24,862**	23,287	22,883
Wireless Products and Services			
Revenues and sales			
Service revenues	**$ 3,276**	$ 2,687	$ 2,549
Equipment sales and other	**469**	383	373
Total revenues[c]	**$ 3,745**	$ 3,070	$ 2,922
Operating income[a]	**$ 537**	$ 647	$ 437
Special charges[b]	**24**	91	—
Depreciation and amortization	**515**	435	428
Capital expenditures	**549**	461	396
Total assets	**9,514**	5,783	5,889
Internetworking[d]			
Revenues and sales			
Internetworking revenues	**$ 1,036**	$ 579	$ 185
Intersegment revenues	**(69)**	(36)	(11)
Total external revenues	**$ 967**	$ 543	$ 174
Operating loss	**$ (552)**	$ (485)	$ (339)
Depreciation and amortization	**191**	117	86
Capital expenditures	**746**	567	322
Total assets	**2,651**	1,925	1,237
Other National Operations[d]			
Revenues and sales			
GTE Communications	**$ 1,513**	$ 1,063	$ 630
GTE Technology and Systems[e]	**1,063**	1,423	1,271
Other, including eliminations	**685**	856	840
Total revenues	**$ 3,261**	$ 3,342	$ 2,741
Operating income (loss)[a]	**$ 504**	$ (479)	$ (51)
Special items[b]	**(768)**	397	—
Depreciation and amortization	**232**	207	252
Capital expenditures	**355**	507	481
Total assets	**2,827**	2,672	1,918

Notes to Consolidated Financial Statements

(Dollars in Millions)	1999	1998	1997
International Operations:[f]			
Revenues and sales			
Local services	**$ 368**	$ 1,219	$ 1,076
Toll services	**291**	907	883
Wireless services	**548**	422	265
Directory services and other	**647**	786	678
Total revenues	**$ 1,854**	$ 3,334	$ 2,902
Operating income[a]	**$ 910**	$ 834	$ 726
Special items[b]	**(513)**	38	—
Depreciation and amortization	**245**	459	523
Equity income	**324**	110	85
Capital expenditures	**380**	657	648
Investments in unconsolidated companies	**3,491**	1,820	1,932
Revenues by country			
Dominican Republic	**$ 652**	$ 564	$ 488
Argentina	**480**	126	—
Canada	**410**	2,415	2,262
Other	**312**	229	152
Total revenues	**$ 1,854**	$ 3,334	$ 2,902
Assets by country			
Venezuela	**$ 1,837**	$ 1,727	$ 1,622
Canada	**1,560**	2,979	3,847
Argentina	**1,604**	1,129	217
Dominican Republic	**1,016**	907	825
Other	**927**	543	366
Total assets	**$ 6,944**	$ 7,285	$ 6,877
Consolidated revenues	**$25,336**	$25,473	$23,260
Consolidated operating income[a]	**7,336**	5,336	5,611
Total special items[b]	**(1,116)**	755	—
Consolidated assets	**50,832**	43,615	42,142

(a) Includes special items in 1999 and 1998, as indicated.
(b) See Note 3 for a description of 1999 and 1998 special items.
(c) In 1999, in conjunction with the rollout of "one rate" wireless pricing structures that eliminate separate roaming and long-distance fees, the Company changed its reporting to present customer roaming revenues and expenses on a gross basis. Prior year amounts are presented on a net basis in operating expenses. The impact of this change in the manner of reporting was an increase in revenues and operating expenses of $264 million in 1999.
(d) BBN Technologies, a business which provides research and contracting services for government entities, previously reported as a component of Internetworking in 1998 and 1997, is now included with Other National Operations. Prior period amounts have been reclassified to conform to the 1999 presentation.
(e) In late 1999, the Company sold its GTE Government Systems business. For additional information see Note 2.
(f) See Notes 5 and 8 for a description of changes in accounting for international investments and the resulting impact on the financial statements.

16. Commitments and Contingencies

GTE has noncancelable operating leases covering certain buildings, office space and equipment. Rental expense was $436 million, $464 million and $399 million in 1999-97, respectively. Minimum rental commitments under noncancelable leases are $255 million, $218 million, $164 million, $131 million and $107 million for the years 2000-2004, respectively, and aggregate $629 million thereafter.

GTE and its subsidiaries and 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 materially 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 National and International Operations face increasing competition in virtually all aspects of their business. In addition, to achieve its growth objectives, GTE has made significant investments to expand its service capability in the area of data communications and to establish a national sales and marketing organization to provide a bundle of voice and data communication products to customers. While GTE management believes that it will be successful in implementing these new initiatives, there are uncertainties associated with its ability to grow to the levels targeted and its ability to do so within the planned timeframes or investment levels.

17. Additional Income Statement Information

The table below provides additional financial information related to GTE's consolidated income statements:

(Dollars in Millions)	Years Ended December 31, 1999	1998	1997
Interest expense	**$1,402**	$1,397	$1,283
Interest capitalized	**(49)**	(27)	(48)
Interest income	**(76)**	(117)	(90)
Total Interest — net	**$1,277**	$1,253	$1,145
Minority interests	**$ 122**	$ 290	$ 245
Preferred dividends	**6**	8	12
Other (income) expense	**9**	(20)	8
Total Other — net	**$ 137**	$ 278	$ 265

18. Quarterly Financial Data (Unaudited)

The Company's reported results were affected by one-time items (see Notes 3 and 4), changes in the method of accounting for certain international investments due to changes in ownership (see Notes 5 and 8) and the sale of the Government Systems business in 1999 (see Note 2).

(Dollars in Millions, Except Per-Share Amounts)	1st Qtr[a]	2nd Qtr	3rd Qtr[b]	4th Qtr[c]
1999				
Revenues and sales	**$5,879**	**$6,288**	**$6,428**	**$6,741**
Operating income	**1,682**	**1,461**	**2,378**	**1,815**
Income before extraordinary charges	**912**	**776**	**1,368**	**1,007**
Net income	**882**	**776**	**1,368**	**1,007**
Earnings per common share before extraordinary charges:				
Basic	**$ .94**	**$ .80**	**$ 1.40**	**$ 1.04**
Diluted	**$ .93**	**$ .79**	**$ 1.39**	**$ 1.03**
Dividends declared	**$ .47**	**$ .47**	**$ .47**	**$ .47**
Stock market price:				
High	**$69.75**	**$76.13**	**$78.50**	**$78.13**
Low	**57.00**	**59.50**	**68.13**	**67.31**

Notes to Consolidated Financial Statements

(Dollars in Millions, Except Per-Share Amounts)	1st Qtr(d)	2nd Qtr	3rd Qtr	4th Qtr
1998				
Revenues and sales	$5,885	$6,277	$6,480	$6,831
Operating income	592	1,432	1,650	1,662
Income before extraordinary charges	142	673	822	855
Net income (loss)	(178)	673	822	855
Earnings per common share before extraordinary charges:				
Basic	$ .15	$ .70	$ .85	$ .89
Diluted	$ .15	$ .69	$ .85	$ .88
Dividends declared	$ .47	$ .47	$ .47	$ .47
Stock market price:				
High	$60.50	$64.38	$58.69	$71.81
Low	47.94	55.25	46.75	53.94

(a) In the first quarter of 1999, the Company recorded a net pretax gain of $321 million ($189 million after-tax), and after-tax extraordinary charges of $30 million. (See Notes 3 and 4).

(b) In the third quarter of 1999, the Company recorded a net pretax gain of $705 million ($416 million after-tax). (See Note 3).

(c) In the fourth quarter of 1999, the Company recorded a net pretax gain of $90 million ($46 million after-tax). (See Note 3).

(d) In the first quarter of 1998, the Company recorded pretax special charges of $755 million ($482 million after-tax) and after-tax extraordinary charges of $320 million. (See Notes 3 and 4).

19. Proposed Merger with Bell Atlantic Corporation

Bell Atlantic and GTE Corporation have announced a proposed merger of equals under a definitive merger agreement dated July 27, 1998. At annual meetings held in May 1999, the shareholders of each company approved the merger. The completion of the merger is subject to a number of conditions, including FCC approval and receipt of opinions that the merger will be tax-free.

The unaudited pro forma financial statements that follow are for GTE and Bell Atlantic for the year ended December 31, 1999 in connection with the proposed merger. Both companies have provided unaudited pro forma combined condensed financial statements of income for the years ended December 31, 1998, 1997 and 1996 and a pro forma combined condensed balance sheet at December 31, 1998 in a joint proxy statement and prospectus filed with the Securities and Exchange Commission dated April 13, 1999. Bell Atlantic has supplied all information contained in this report relating to Bell Atlantic and GTE has supplied all information relating to GTE.

The following unaudited pro forma combined condensed financial statements are presented assuming that the merger of GTE and Bell Atlantic will be accounted for as a pooling of interests. Under this method of accounting, the companies are treated as if they had always been combined for accounting and financial reporting purposes. These unaudited pro forma financial statements have been prepared from, and should be read in conjunction with, the historical consolidated financial statements and accompanying notes of GTE and Bell Atlantic, which are included in this report and Bell Atlantic's Form 10-K, respectively, for the year ended December 31, 1999. The unaudited pro forma financial information is presented for illustration purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the merger had been completed at the dates indicated. The information does not necessarily indicate the future operating results or financial position of the combined company.

The following unaudited pro forma financial data was prepared by adding or combining the historical amounts of each company and adjusting the combined amounts for significant differences in accounting methods used by each company. These adjustments are described in the accompanying notes to the financial statements. The unaudited pro forma combined balance sheet was prepared by combining the balance sheets of GTE and Bell Atlantic at December 31, 1999, giving effect to the merger as if it had occurred on December 31, 1999. The unaudited pro forma combined condensed statement of income gives effect to the merger as if it had occurred at the beginning of the earliest period presented. The terms of the merger specify that each share of GTE common stock will be converted into the right to receive 1.22 shares of combined company common stock. This exchange ratio was used in computing certain of the pro forma adjustments and in computing share and per share amounts in the accompanying unaudited pro forma financial information.

Pro Forma Combined Condensed Statement of Income
Year Ended December 31, 1999
(Dollars in Millions, Except Per-Share Amounts) (Unaudited)

	Historical Bell Atlantic	Historical GTE	Pro Forma Adjustments	**Pro Forma Combined**
Operating revenues	$33,174	$25,336	$ —	**$58,510**
Operating expenses	24,679	18,000	(36) (3d)	**42,643**
Operating income	8,495	7,336	36	**15,867**
Income from unconsolidated businesses	143	432		**575**
Other income and (expense), net	54	(61)		**(7)**
Interest expense	1,263	1,353		**2,616**
Mark-to-market adjustment for exchangeable notes	(664)	—		**(664)**
Provision for income taxes	2,557	2,291	14 (3e)	**4,862**
Income from continuing operations	$ 4,208	$ 4,063	$ 22	**$ 8,293**
Basic Earnings Per Common Share				
Income from continuing operations	$ 2.72	$ 4.18		**$ 3.03**
Weighted-average shares outstanding (in millions)	1,553	972	214 (3c)	**2,739**
Diluted Earnings Per Common Share				
Income from continuing operations	$ 2.66	$ 4.15		**$ 2.99**
Weighted-average shares — diluted (in millions)	1,583	979	215 (3c)	**2,777**

See accompanying Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

Notes to Consolidated Financial Statements

Pro Forma Combined Condensed Balance Sheet
December 31, 1999
(Dollars in Millions) (Unaudited)

	Historical Bell Atlantic	Historical GTE	Pro Forma Adjustments	**Pro Forma Combined**
Assets				
Current assets				
Cash and temporary cash investments	$ 1,936	$ 1,132	$	**$ 3,068**
Receivables, net	7,025	5,058		**12,083**
Net assets held for sale	—	1,802		**1,802**
Other current assets	1,635	1,451	(232) (3b) 65 (3e)	**2,919**
	10,596	9,443	(167)	**19,872**
Plant, property and equipment, net	39,299	23,233	(166) (3d)	**62,366**
Investments in unconsolidated businesses	6,275	3,932		**10,207**
Other assets	6,444	14,224		**20,668**
Total assets	$62,614	$50,832	$ (333)	**$ 113,113**
Liabilities and Shareowners' Investment				
Current liabilities				
Debt maturing within one year	$ 5,455	$ 9,608	$	**$ 15,063**
Accounts payable and accrued liabilities	6,465	5,782		**12,247**
Other current liabilities	1,547	945	143 (3b)	**2,635**
	13,467	16,335	143	**29,945**
Long-term debt	18,463	13,957		**32,420**
Employee benefit obligations	9,326	4,418		**13,744**
Deferred credits and other liabilities	5,478	5,295	(63) (3e)	**10,710**
Shareowners' investment				
Common stock (2,756,484,606 shares)	158	50	68 (3a)	**276**
Contributed capital	13,550	8,680	(2,095) (3a)	**20,135**
Reinvested earnings	2,806	4,953	(310) (3b) (103) (3d)	**7,346**
Accumulated other comprehensive income (loss)	450	(376)		**74**
	16,964	13,307	(2,440)	**27,831**
Less common stock in treasury, at cost	640	2,027	(2,027) (3a)	**640**
Less deferred compensation — employee stock ownership plans	444	453		**897**
Total shareowners' investment	15,880	10,827	(413)	**26,294**
Total liabilities and shareowners' investment	$62,614	$50,832	$ (333)	**$ 113,113**

See accompanying Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

Notes to Unaudited Pro Forma Combined
Condensed Financial Statements

Note 1 — Reclassifications

Reclassifications have been made to the historical financial statements to conform to the presentation expected to be used by the combined company.

Note 2 — Exchange Ratio

The terms of the merger agreement specify that each outstanding share of GTE common stock will be converted into 1.22 shares of combined company common stock. This exchange ratio was used in computing share and per share amounts in the accompanying pro forma financial information.

Note 3 — Pro Forma Adjustments

(a) A pro forma adjustment has been made to reflect the issuance of 1,180 million shares of combined company common stock in exchange for all outstanding shares of GTE common stock as per the exchange ratio stated in Note 2, above. The adjustment also reflects the cancellation of shares of GTE treasury stock, but does not reflect the impact of fractional shares.

(b) A pro forma adjustment has been made to reflect direct incremental merger-related costs. Amounts anticipated to be incurred (approximately $143 million) have been shown as an increase to "Other current liabilities." Amounts incurred through December 31, 1999 by GTE and Bell Atlantic (approximately $232 million) have been shown as a reduction to "Other current assets." The after-tax cost of this anticipated charge (approximately $310 million) has been reflected as a reduction in "Reinvested earnings."

(c) Pro forma adjustments have been made to the number of weighted average shares outstanding used in the calculation of basic and diluted earnings per share. The number of weighted average shares outstanding reflects the conversion of shares and share equivalents of GTE common stock into combined company common stock in accordance with the merger agreement.

(d) Pro forma adjustments have been made to conform GTE's accounting policies for certain computer software costs to Bell Atlantic's policies.

(e) Pro forma adjustments have been made for the estimated tax effects of the adjustments discussed in (b) and (d) above.

(f) There are no significant intercompany transactions between GTE and Bell Atlantic.

Directors and Officers

Directors

Edwin L. Artzt, Retired Chairman, The Procter & Gamble Company

James R. Barker, Chairman, The Interlake Steamship Co., and Vice Chairman, Mormac Marine Group, Inc. and the Moran Towing Company

Edward H. Budd, Retired Chairman of the Board of The Travelers Corporation

Robert F. Daniell, Retired Chairman, United Technologies Corporation

James L. Ketelsen, Retired Chairman, Tenneco Inc.

Charles R. Lee, Chairman and Chief Executive Officer, GTE Corporation

Michael T. Masin, Vice Chairman, GTE Corporation

Sandra O. Moose, Senior Vice President and Director, The Boston Consulting Group, Inc.

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

John W. Snow, Chairman, President and Chief Executive Officer, CSX Corporation

Robert D. Storey, Partner, Thompson, Hine & Flory LLP

Corporate Officers

Charles R. Lee, Chairman and Chief Executive Officer

Michael T. Masin, Vice Chairman

James A. Attwood, Executive Vice President — Strategic Development and Planning

William P. Barr, Executive Vice President — Government and Regulatory Advocacy and General Counsel

J. Randall MacDonald, Executive Vice President — Human Resources and Administration

Daniel P. O'Brien, Executive Vice President — Finance and Chief Financial Officer

Lawrence R. Whitman, Deputy Chief Financial Officer

Mary Beth Bardin, Senior Vice President — Public Affairs and Communications

Jan L. Deur, Acting Vice President and Treasurer

Geoffrey C. Gould, Vice President — Government and Regulatory Affairs

John P. Z. Kent, Vice President — Taxes

Paul R. Shuell, Vice President and Controller

Marianne Drost, Vice President — Deputy General Counsel and Corporate Secretary

Corporate Information

Corporate Headquarters
GTE Corporation
1255 Corporate Drive
Irving, TX 75038
972/507-5000

Information Via the Internet. World Wide Web users can access information about GTE at: http://www.gte.com

Shareholder Systematic Investment Plan. Under this plan, GTE shareholders may reinvest their dividends or make optional payments toward the purchase of additional shares of common stock. Shareholders wishing information about this plan should contact EquiServe L.P. 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 EquiServe L.P. 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 during the latter half of January, April, July and October. Shareholders may call 800/225-5160 at EquiServe L.P. to hear quarterly financial highlights.

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

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

Shareholders may call toll free at 800/225-5160 any time, seven days a week. Customer Service Representatives are available Monday through Friday between the hours of 8 a.m. and 5 p.m. Eastern Time. Outside the United States call 781/575-2990.
Or write to:
EquiServe, L.P.
P.O. Box 8031
Boston, MA 02266-8031

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

For overnight delivery services, use the following address:
EquiServe, L.P.
Blue Hills Office Park
150 Royall Street
Mail Stop 45-02-60
Canton, MA 02021

The address where shareholders, banks and brokers may deliver certificates via the New York Window is:
Securities Transfers and Reporting Services
100 William St., Galleria
New York, NY 10038

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

Investor Relations. Security analysts, institutional investors and other members of the financial community requesting information about GTE should contact:
Investor Relations Department
GTE Corporation
1255 Corporate Drive
Irving, TX 75038
972/507-2789
International Telex: 4750071
Fax: 972/507-2520
http://www.gte.com

Auditors
Arthur Andersen LLP
901 Main Street
Dallas, TX 75202

Requests for Annual Reports. Shareholders may obtain an additional printed copy of this annual report or a copy of the annual Form 10-K filed with the Securities and Exchange Commission, by calling 800/225-5160.

Other Securities. Questions regarding bonds and debentures of GTE or its subsidiaries should be directed to:
Capital Markets
Treasury Department
GTE Corporation
1255 Corporate Drive
Irving, TX 75038
972/507-5038

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

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

GTE Corporation
1255 Corporate Drive
Irving, TX 75038
972/507-5000
http://www.gte.com

3000-AR-00