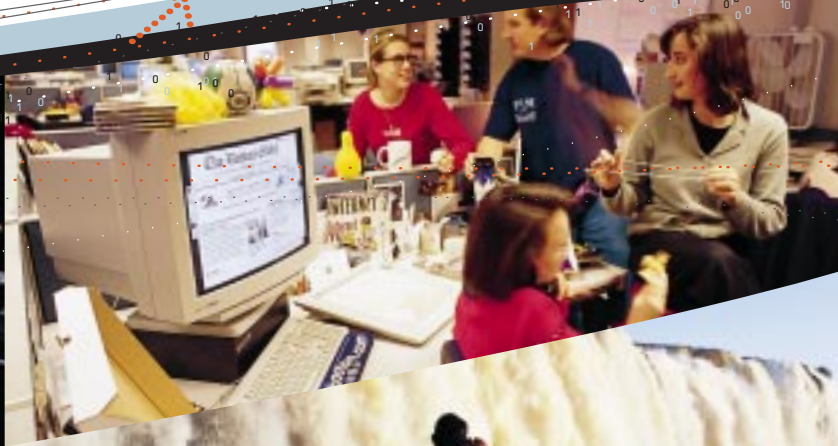
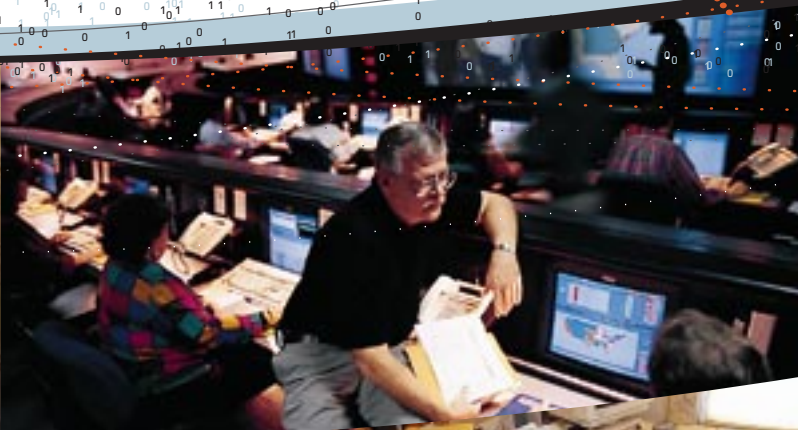




PEOPLE MOVING IDEAS



1997 ANNUAL REPORT

CONSOLIDATED FINANCIAL HIGHLIGHTS ■

(Millions of Dollars, Except Per-Share Amounts)

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

* Costs associated with the new data initiatives reduced net income by \$242 million, or \$.25 per share in 1997. Excluding these costs, basic earnings per share from core operations would have been \$3.17. The 1996 results include a pretax gain of \$12 million, which increased net income by \$8 million, or \$.01 per share, in connection with the program to sell or trade a small percentage of nonstrategic domestic local-exchange telephone properties. Excluding this gain and the costs related to the new data initiatives, net income would have grown 8.8% while earnings per share would have grown 10.1%.

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

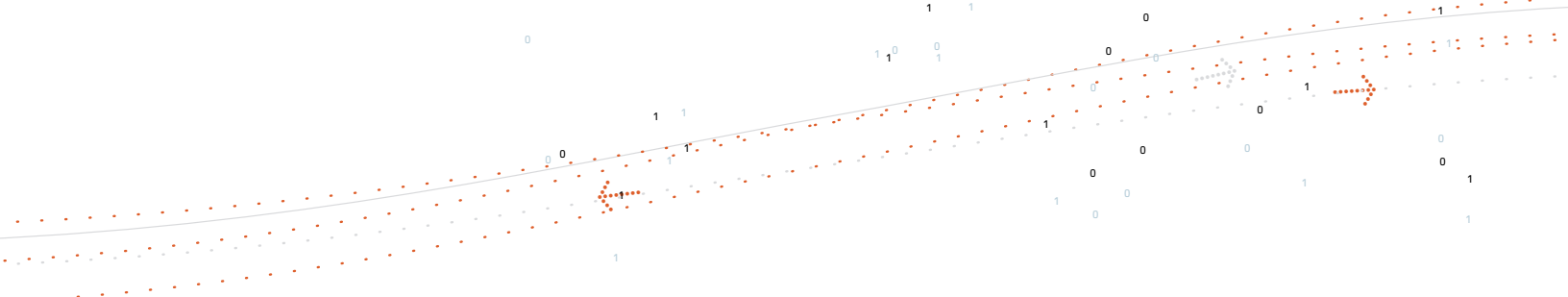
CONTENTS ■

1. Our Cover: What's the Big Idea?
2. Chairman's Message
4. GTE People, Social Responsibility
5. Domestic Operations
12. International Operations
16. GTE At A Glance
17. GTE Service Areas
18. Selected Financial Data
20. Financial Review
29. Consolidated Financial Statements
33. Notes to Consolidated Financial Statements
40. Directors and Officers
41. Corporate Information



WE'RE NOT JUST YOUR LOCAL TELEPHONE COMPANY ANYMORE ■

Featured on the cover and throughout this annual report is a constant stream of information, flowing from GTE customers who live and work around the world. Have an idea? Let us move it for you. →



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

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



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

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



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



CHAIRMAN'S MESSAGE ■

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

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

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

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

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

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

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

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

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

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

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

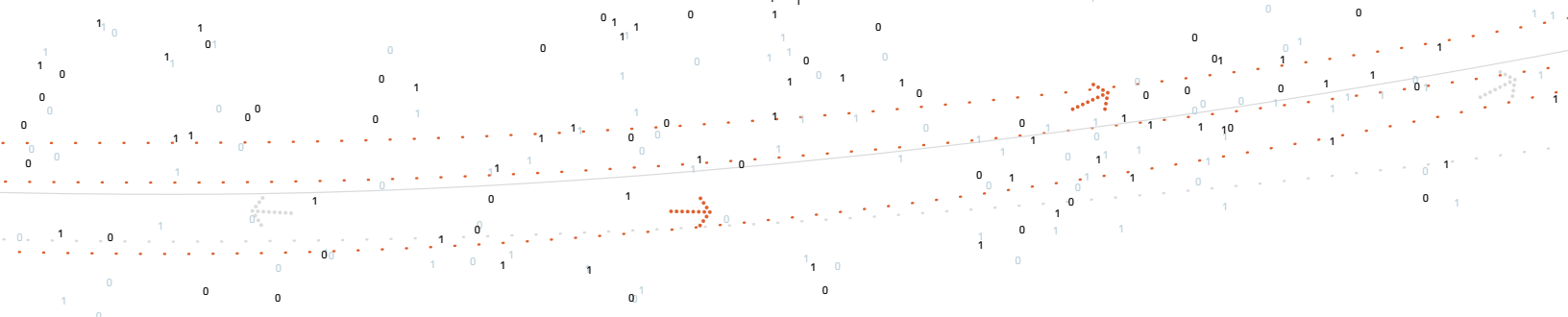
- We must have a national presence. In May 1997, we launched GTE Communications Corporation, a competitive local-exchange carrier that will market the full spectrum of GTE services in key markets, without regard to franchise boundaries.
- We must be a leader in providing value-added, enhanced data services. Industry-wide data revenues are now growing at about 15% annually, roughly three times faster than traditional voice services. The Internet continues to grow exponentially. All told, industry-wide data revenues are expected to quadruple from roughly \$100 billion in 1997 to over \$400 billion in 2006.

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

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

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

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



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

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

WE ARE HELPING TO DEFINE A NEW TELECOMMUNICATIONS INDUSTRY

▪ While our industry is experiencing unprecedented growth, we are also experiencing significant restructuring. Alliances, mergers and acquisitions are changing the competitive landscape on an almost daily basis.

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

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

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

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

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

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

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

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

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

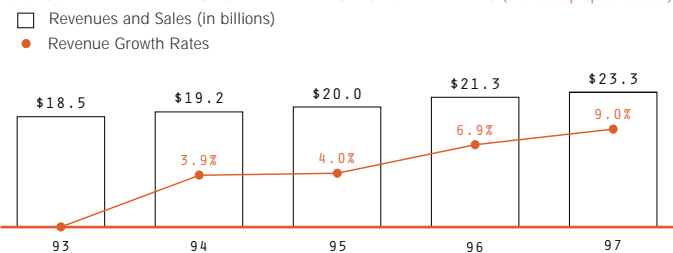
With the continued support of our shareholders, our team of world-class employees and our loyal customer base, GTE's growth prospects have never been better. The only question is: How far and how high we will go?



Charles R. Lee

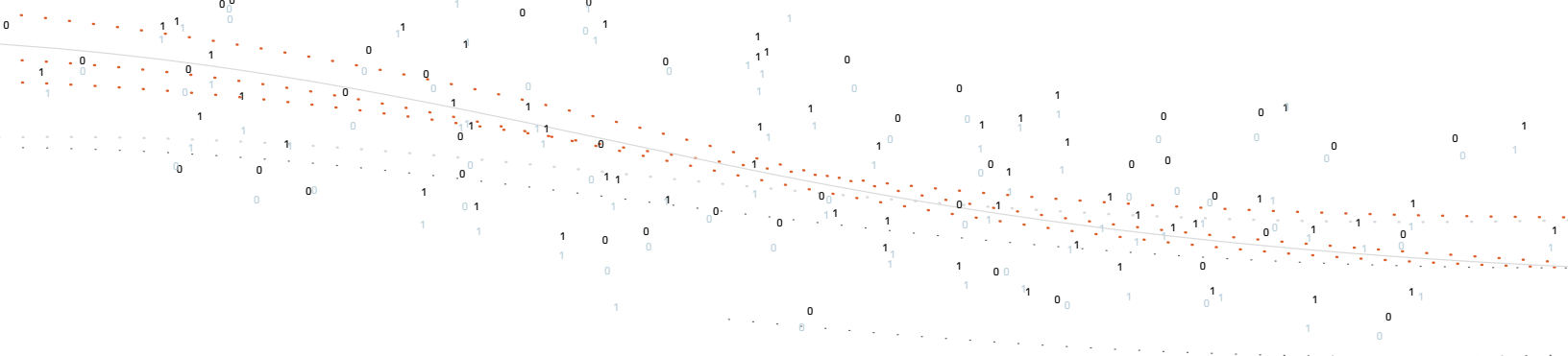
CHARLES R. LEE
Chairman and Chief Executive Officer
February 20, 1998

CONSOLIDATED REVENUES AND REVENUE GROWTH RATES (excludes properties sold)



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





GTE PEOPLE ■

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

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

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

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

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

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

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

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

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

SOCIAL RESPONSIBILITY ■

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

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

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

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

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



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

DOMESTIC OPERATIONS ■

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

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

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

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

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

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

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

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

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

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

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

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

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



KENT B. FOSTER
President

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

SUPER FAST INTERNET ACCESS



LOCAL SERVICE

21.5 MILLION
ACCESS LINES IN THE U.S.



CONVENIENT

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

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

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



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



IT'S SHOWTIME

150+ CHANNELS

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



HELP!

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

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



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

VOICE MAIL

"HERE'S THE LATEST"



ELECTRIFYING

272,000
INTERNETWORKING CUSTOMERS



COOL!

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

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



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



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



FAILSAFE

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



PRODUCTIVE

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

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



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

COAST-TO-COAST

1.7 MILLION
LONG-DISTANCE CUSTOMERS



UP...UP...AND AWAY

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



CREATIVE



RESPONSIVE

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

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



GTE IS CREATING A

15,000-MILE DATA NETWORK.



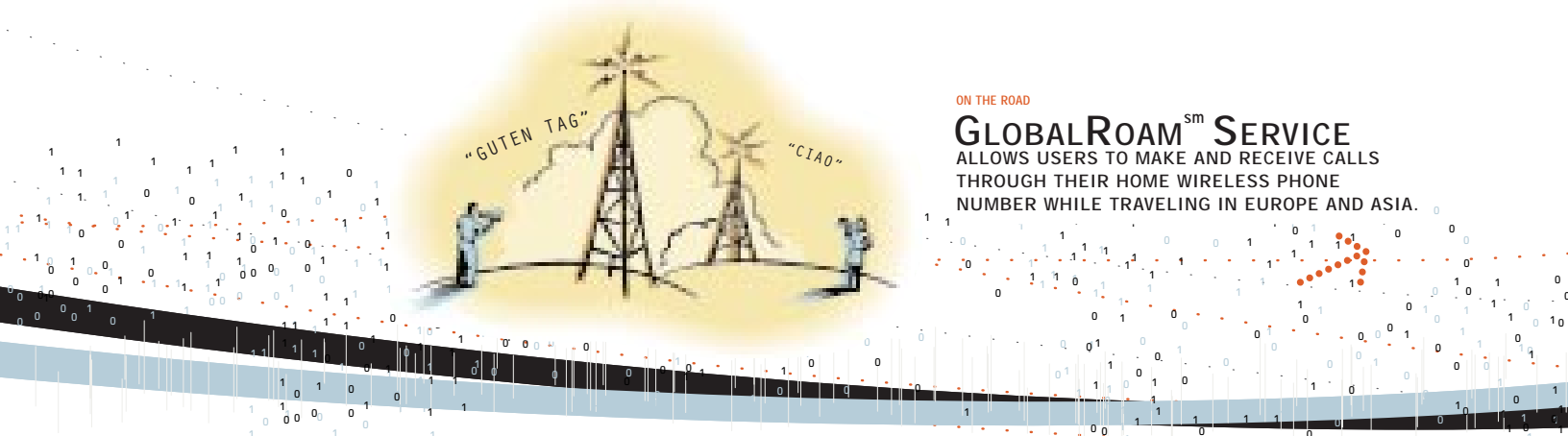
CONNECTED

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

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

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





ON THE ROAD

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

INTERNATIONAL OPERATIONS ■

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

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

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

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

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

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

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

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

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

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

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

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

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

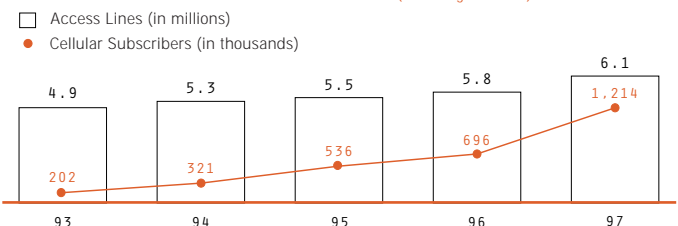


MICHAEL T. MASIN
 Vice Chairman and President – International

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



INTERNATIONAL OPERATIONS: ACCESS LINES AND CELLULAR SUBSCRIBERS (including affiliates)



OVER 7 MILLION

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



IN TOUCH

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

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



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



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

WIRELESS

5.7 MILLION
CUSTOMERS WORLDWIDE



WHETHER YOU'RE A MOUNTAIN GUIDE TREKKING THROUGH
THE ANDES OF PATAGONIA...

OR KEEPING IN TOUCH WITH BUSINESS CONTACTS IN THE
CITY OF ROSARIO...

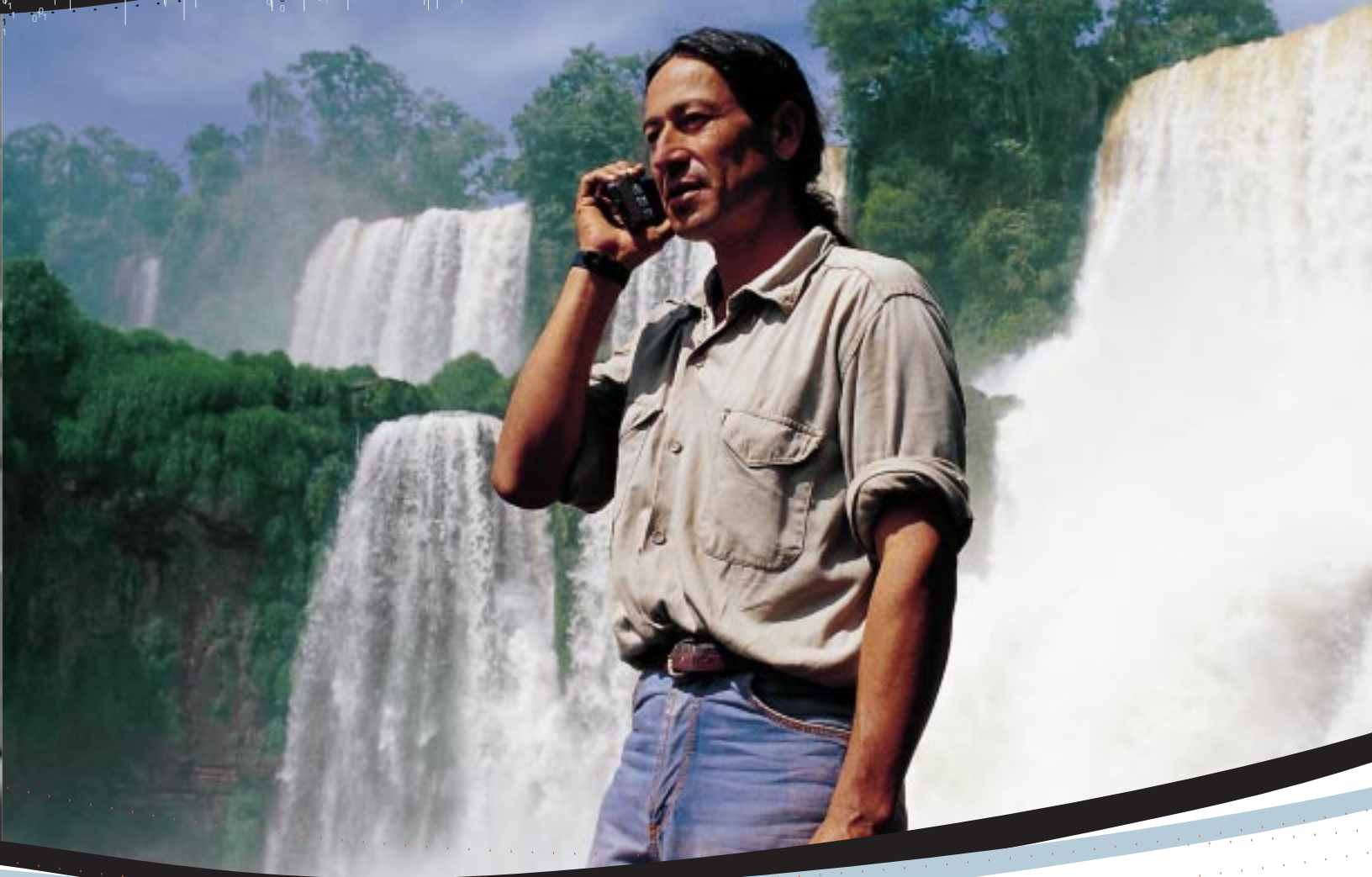
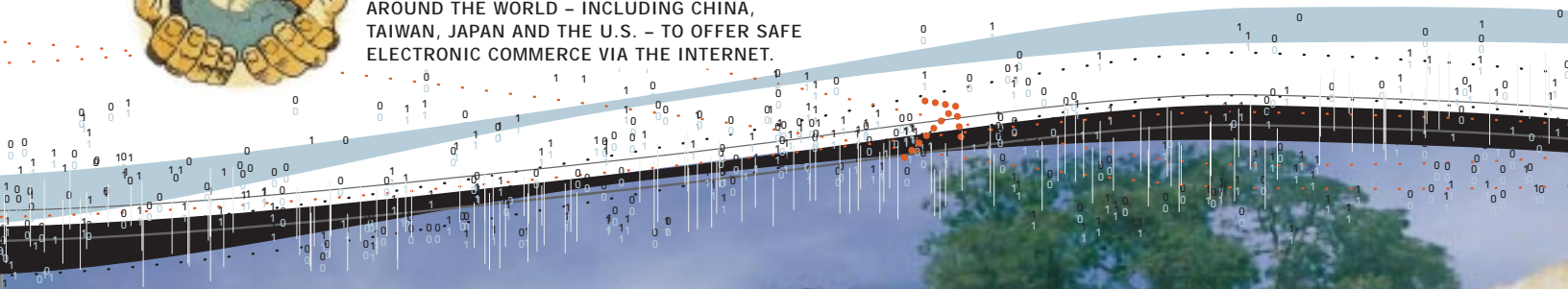


RELIABILITY ■ GTE has Network Operations Centers (NOCs) in the Dominican Republic, where its CODETEL subsidiary is located, in Venezuela at CANTV, and near the Dallas/Fort Worth International Airport in Texas. The NOCs manage GTE's wireline and wireless network as well as private networks for 2,500 clients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



ELECTRONIC COMMERCE

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

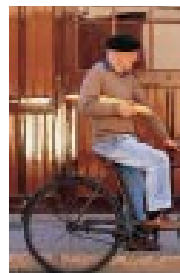


OR CALLING FROM THE RAIN FOREST OF IGUACÚ FALLS, IN ARGENTINA, GTE'S COMPAÑÍA DE TELÉFONOS DEL INTERIOR (CTI) AFFILIATE COVERS THE TERRITORY WITH

DYNAMIC ■ Pacific Cellular Corporation Ltd., a consortium in which GTE is a stakeholder, launched a nationwide personal communications services venture in Taiwan early in 1998. Over 140,000 customers presubscribed to the service. GTE is the only foreign strategic partner in the consortium.



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



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



GTE AT A GLANCE ■

MAJOR DOMESTIC OPERATIONS ■

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

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

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

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

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

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

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

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

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

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

MAJOR INTERNATIONAL OPERATIONS ■

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

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

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

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

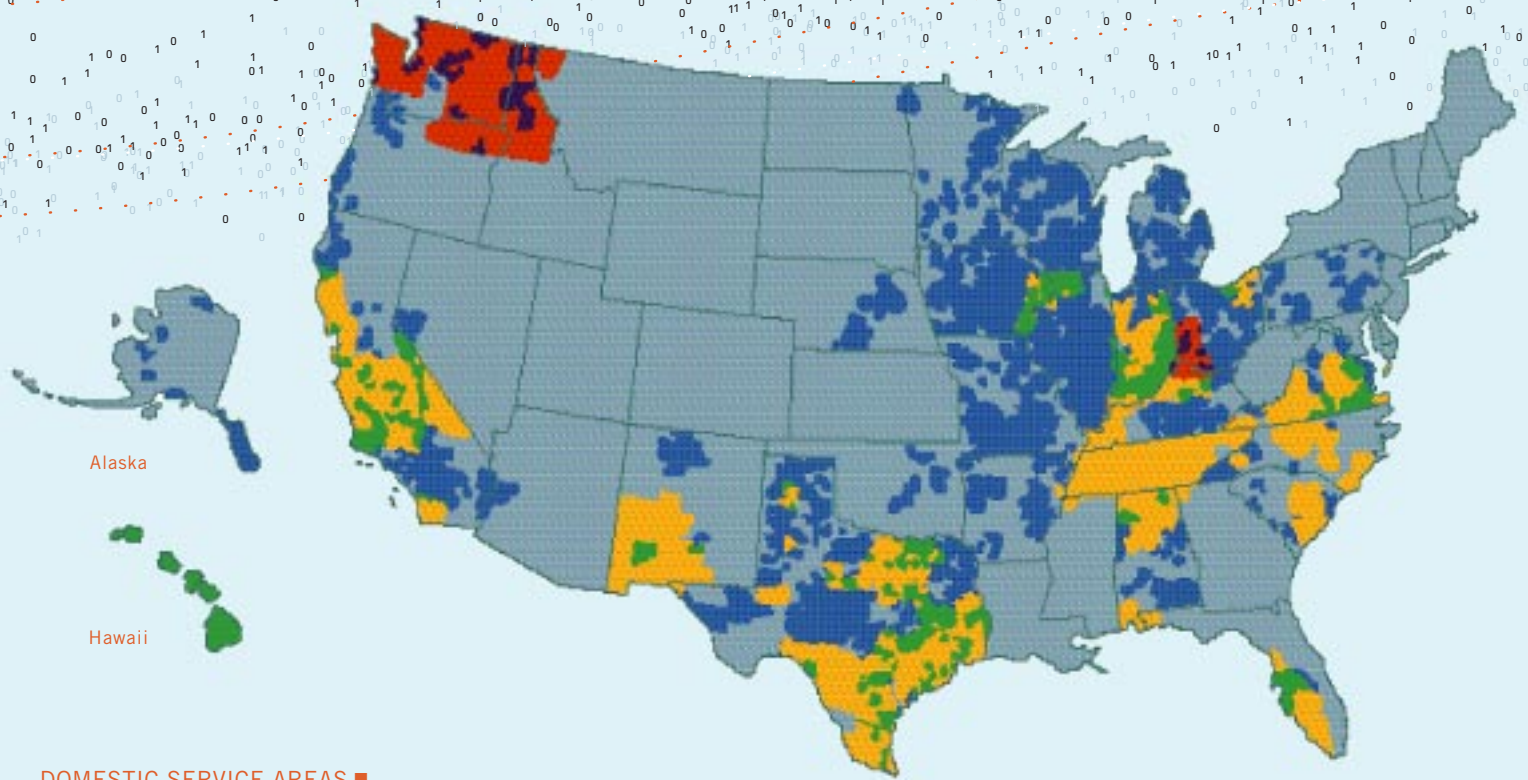
Compañía de Teléfonos del Interior (CTI) provides wireless services in the north and south interior regions of Argentina. CTI has more than 328,000 wireless customers. GTE is part of a multinational consortium that owns a controlling minority interest in CTI.

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

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

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

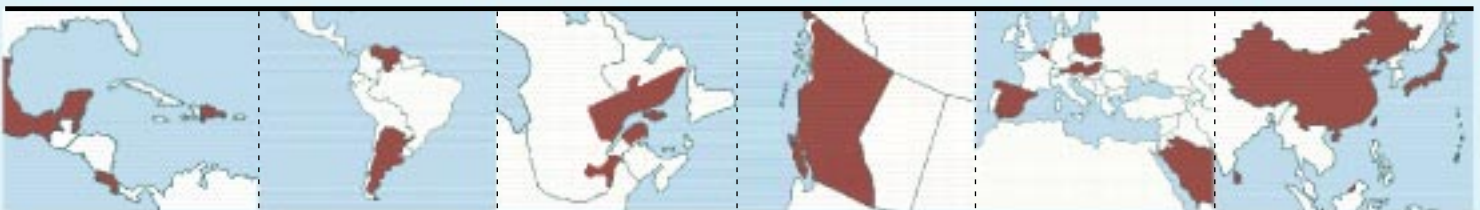
GTE SERVICE AREAS ■



DOMESTIC SERVICE AREAS ■

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

INTERNATIONAL SERVICE AREAS ■



Central America and Caribbean ■

- Dominican Republic
- CODETEL: Full-service provider
- Business Unit Operations
- Belize
- Costa Rica
- Mexico

South America ■

- Venezuela
- CANTV: Full-service provider
- Argentina
- CTI: National wireless provider (outside Buenos Aires)

North America ■

- Canada
- QuébecTel Group Inc.: Full-service provider in northeastern region of Québec

North America ■

- Canada
- BC Telecom: Full-service provider

Europe / Middle East ■

- Business Unit Operations
- Austria
- Belgium
- Poland
- Spain
- Hungary
- Saudi Arabia

Asia Pacific ■

- China
- GTE China: Paging venture in 20 major metropolitan areas
- Taiwan
- Member of national wireless consortium
- Japan
- Participant in wireless consortium
- Engineer, Furnish & Install activities
- Northern Mariana Islands
- Full-service provider
- Business Unit Operations
- Sri Lanka
- Brunei

Selected Financial Data

GTE Corporation and Subsidiaries

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

Notes to Selected Financial Data appear on page 19.

Selected Financial Data

GTE Corporation and Subsidiaries

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

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

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

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

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

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

(e) See Note 2 on Extraordinary Charges.

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

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

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

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

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

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

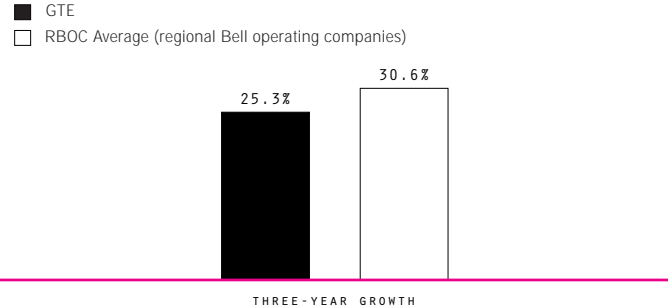
(k) Represents operating income before depreciation and amortization divided by revenues.

Financial Review

Return to Shareholders

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

RETURN TO SHAREHOLDERS (assumes dividends are reinvested)



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

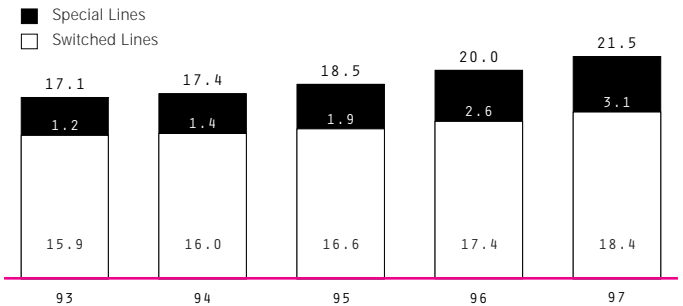
Consolidated Operations

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

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

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

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



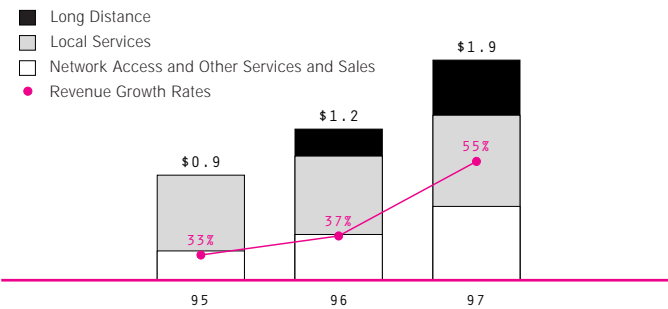
GTE's Network Services experienced record growth, adding 1.5 million access lines, an increase of 7.7%, and achieving a 13.0% increase in minutes of use.

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

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

Financial Review

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



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

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

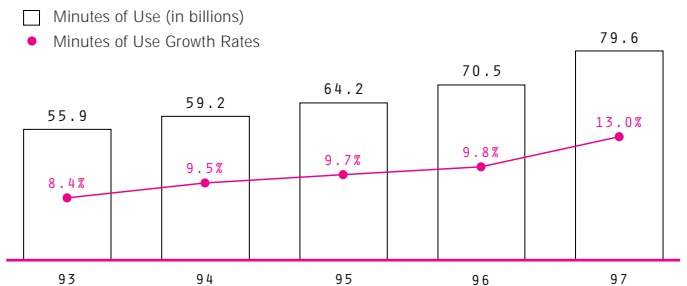
Operating income in 1996 increased 8.5% over 1995. The increase was due to higher revenues and ongoing cost reductions from process re-engineering activities. The increase was partially offset by higher costs associated with the expansion of core wireline and wireless businesses, as well as investments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

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

Local Service Revenues

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

DOMESTIC WIRELINE OPERATIONS: MINUTES OF USE AND MINUTES OF USE GROWTH RATES (excludes properties sold)



Network Access Service Revenues

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

Toll Service Revenues

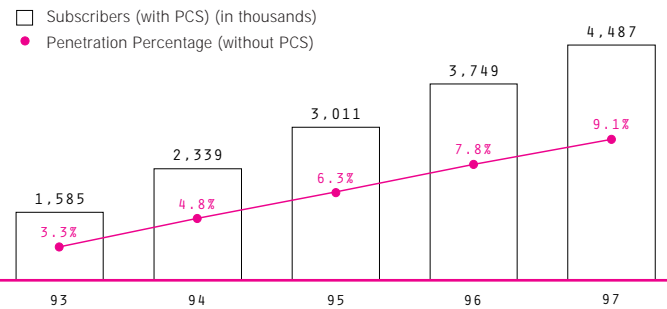
Toll service revenues are based on fees charged for service beyond a customer's local calling area but within the local access transport area (LATA), and also include revenues of GTE Long Distance service introduced in 1996. Toll service revenues decreased 3% to \$2.4 billion from the 1996 level. This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

Financial Review

Cellular Service Revenues

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

DOMESTIC WIRELESS OPERATIONS: SUBSCRIBERS AND MARKET PENETRATION



Directory Services Revenues

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

Other Services and Sales

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

Cost of Services and Sales

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

Selling, General and Administrative Expenses

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

Depreciation and Amortization

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

Other Income and Expense

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

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

Financial Review

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

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

Regulatory and Competitive Trends

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

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

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

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

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

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

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

Financial Review

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

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

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

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

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

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

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

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

GTE Growth Initiatives

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

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

Financial Review

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

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

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

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

Capital Investment, Resources and Liquidity

Return on Equity

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

Capitalization

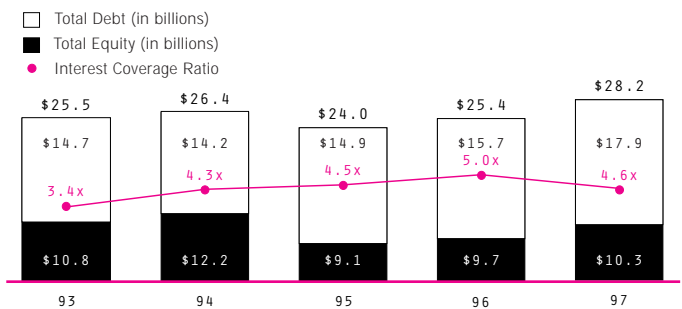
GTE targets a capital structure and overall credit position that is appropriate for an "A" rated company. This allows GTE's shareholders to enjoy the benefits of prudent and reasonable financial leverage, while also protecting debtholder interests and ensuring ready access to the capital markets.

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

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

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

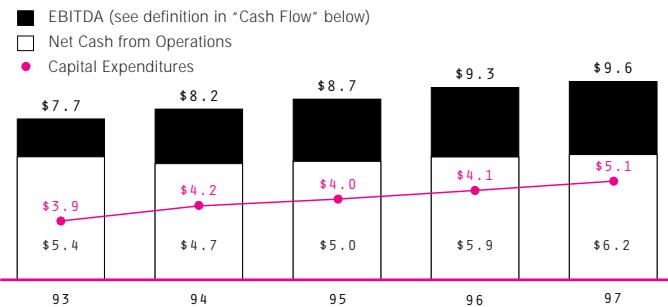
CONSOLIDATED CAPITALIZATION



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

Financial Review

CONSOLIDATED CASH FLOWS (in billions)



Cash Flow

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

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

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

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

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

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

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

Forward-Looking Statements

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

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

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

Financial Review

Risk Management

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

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

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

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

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

Year 2000 Conversion

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

Risk Factors

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

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

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

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

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

Report of Independent Public Accountants

To the Board of Directors and
Shareholders of GTE Corporation:

We have audited the accompanying consolidated balance sheets of GTE Corporation (a New York corporation) and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997 as set forth on pages 29 through 39 of this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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



Stamford, Connecticut
January 27, 1998

Management Report

To Our Shareholders:

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

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

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



Charles R. Lee
Chairman and
Chief Executive Officer



J. Michael Kelly
Executive Vice President—
Finance and Planning

Consolidated Statements of Income

GTE Corporation and Subsidiaries

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

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

GTE Corporation and Subsidiaries

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

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

GTE Corporation and Subsidiaries

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

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

GTE Corporation and Subsidiaries

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

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Description of Business

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

Basis of Presentation

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

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

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

Revenue Recognition

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

Depreciation and Amortization

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

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

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

Foreign Currency Translation

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

Employee Benefit Plans

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

Income Taxes

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

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

Earnings Per Common Share

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

Cash and Cash Equivalents

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

Financial Instruments

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

Notes to Consolidated Financial Statements

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

Inventories and Supplies

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

2. Extraordinary Charges

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

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

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

3. Investments in Unconsolidated Companies

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

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

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

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

4. Recent Accounting Pronouncements

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

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

5. Shareholders' Equity

Preferred Stock

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

Common Stock

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

Additional Paid-In Capital

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

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

Notes to Consolidated Financial Statements

6. Stock Option and Shareholder Rights Plans

Stock Option Plans

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

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

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

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

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

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

Shareholder Rights Plan

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

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

7. Minority Interests

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

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

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

8. Debt

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

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

Notes to Consolidated Financial Statements

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

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

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

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

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

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

9. Financial Instruments

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

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

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

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

10. Property, Plant and Equipment

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

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

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

11. Employee Benefit Plans

Retirement Plans

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

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

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

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

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

Notes to Consolidated Financial Statements

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

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

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

Postretirement Benefits Other Than Pensions

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

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

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

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

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

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

Savings and Stock Ownership Plans

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

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

12. Interest—Net

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

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

13. Other—Net

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

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

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

Notes to Consolidated Financial Statements

14. Income Taxes

Income before income taxes is as follows:

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

The income tax provision (benefit) is as follows:

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

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

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

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

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

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

15. Earnings (Loss) per Common Share

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

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

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

Notes to Consolidated Financial Statements

16. Commitments and Contingencies

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

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

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

Quarterly Financial Data (Unaudited)

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

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

(a) In the fourth quarter of 1997, GTE adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," accordingly prior-period amounts have been restated to conform to the new requirements (see Notes 2 and 15 to the Consolidated Financial Statements).

(b) First-quarter 1996 net income includes an after-tax gain on the sale of nonstrategic domestic local-exchange telephone properties of \$8 million, or \$.01 per share (see Note 13 to the Consolidated Financial Statements).

DIRECTORS AND OFFICERS ■

DIRECTORS ■

Edwin L. Artzt,¹ Chairman of the Executive Committee and Director, The Procter & Gamble Company
James R. Barker,² Chairman, The Interlake Steamship Co., and Vice Chairman, Mormac Marine Group, Inc. and the Moran Towing Company
Edward H. Budd,³ Retired Chairman of the Board of The Travelers Corporation and Director, the Travelers Group, Inc.
Robert F. Daniell,⁴ Retired Chairman, United Technologies Corporation
Kent B. Foster,⁵ President, GTE
James L. Johnson,⁶ Chairman Emeritus, GTE
Richard W. Jones,⁷ Business Consultant, PaineWebber Incorporated
James L. Ketelsen,⁸ Retired Chairman, Tenneco Inc.
Charles R. Lee,⁹ Chairman and Chief Executive Officer, GTE
Michael T. Masin,¹⁰ Vice Chairman and President – International, GTE
Sandra O. Moose,¹¹ Senior Vice President, Director and Chair of the East Coast Practice, The Boston Consulting Group, Inc.
Russell E. Palmer,¹² Chairman and Chief Executive Officer, The Palmer Group
Robert D. Storey,¹³ Partner, Thompson, Hine & Flory LLP

CORPORATE OFFICERS ■

Charles R. Lee, Chairman and Chief Executive Officer
Kent B. Foster, President
Michael T. Masin, Vice Chairman and President – International
Thomas W. White, Senior Executive Vice President – Market Operations
William P. Barr, Executive Vice President – Government and Regulatory Advocacy and General Counsel
George H. Conrades, Executive Vice President of GTE and President, GTE Internetworking
Armen Der Marderosian, Executive Vice President – Technology and Systems
J. Michael Kelly, Executive Vice President – Finance and Planning
J. Randall MacDonald, Executive Vice President – Human Resources and Administration
Mary Beth Bardin, Senior Vice President – Public Affairs and Communications
Robert C. Calafell, Senior Vice President, BBN Transition
Dan J. Cohrs, Vice President and Chief Planning and Development Officer
William M. Edwards III, Vice President and Controller
Geoffrey C. Gould, Vice President – Government and Regulatory Affairs
John P. Z. Kent, Vice President – Taxes
Thomas F. Lysaught, Vice President – Marketing
Daniel P. O'Brien, Vice President and Treasurer
D. Otis Wolkins, Vice President – Quality Services
Marianne Drost, Corporate Secretary

SENIOR OFFICERS OF BUSINESS UNITS ■

John C. Appel, President, GTE Network Services
Clarence F. Bercher, President, GTE Communications Corporation
C. David Decker, President, GTE Laboratories
Gerald K. Dinsmore, President, Business Development & Integration
Michael B. Esstman, Senior Vice President, International Telecom Services
Mark S. Feighner, President, GTE Wireless
Earl A. Goode, President, GTE Information Services and GTE Directories
Katherine J. Harless, President, GTE Airfone
Thomas W. Muldoon, President, GTE Government Systems
Fares F. Salloum, Senior Vice President, International Operations
Ignacio Santillana, Senior Vice President, International Business Development



1 ARTZT



2 BARKER



3 BUDD



4 DANIELL



5 FOSTER



6 JOHNSON



7 JONES



8 KETELSEN



9 LEE



10 MASIN



11 MOOSE



12 PALMER



13 STOREY



CORPORATE INFORMATION ■

Corporate Headquarters

GTE Corporation
One Stamford Forum
Stamford, CT 06904
203.965.2000

Information Via the Internet

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

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

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

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

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

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

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

Or write to:

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

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

For overnight delivery services, use the following address:

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

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

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

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

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

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

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

Auditors

Arthur Andersen LLP
400 Atlantic Street
Stamford, CT 06912

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

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

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

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

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

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

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



PEOPLE MOVING IDEAS



GTE Corporation
One Stamford Forum
Stamford, CT 06904
203.965.2000
<http://www.gte.com>