

A close-up photograph of a person's hand typing on a laptop keyboard. The hand is positioned over the keyboard, with fingers pressing keys. In the foreground, a newspaper is partially visible, slightly out of focus. The background is a blurred office setting with a white shirt. A yellow graphic overlay is on the left side of the image.

Communication to management

Review of Verizon's 2015 water consumption and Q1 2016 carbon intensity

Verizon Communications, Inc.
January 20, 2017



Building a better
working world



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James J. Gowen
Chief Sustainability Officer and Vice President of Supply Chain Operations
Verizon Communications Inc.
1095 Avenue of the Americas
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January 20, 2017

Dear Jim:

In planning and performing our review of water consumption and carbon intensity (the "Subject Matter") of Verizon Communications, Inc. ("Verizon") for the year ended December 31, 2015 and the quarter ended March 31, 2016, respectively, based on Verizon's criteria, we considered its internal control to the extent we considered necessary to obtain an understanding of internal control as a basis for designing our inquiry procedures regarding the Subject Matter and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we believe should be brought to your attention. Refer to subsequent pages.

These matters were considered in designing our inquiry procedures regarding the company's Subject Matter, and this letter does not affect our review report dated January 20, 2017 on the Subject Matter.

In addition to the matters related to internal control described above, we have comments on other matters as described in the subsequent pages.

This letter is intended solely for the information and use of management and others within the organization.

We would be pleased to discuss the above matters or respond to any question, at your convenience.

Sincerely,

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

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Background and scope

Background

Verizon continues to demonstrate its commitment to corporate responsibility (CR) reporting through its public disclosure of environmental, social and governance data in its annual CR Supplement, CDP reports and CR website.

We recognize Verizon's progress toward its sustainability commitments. In 2015, Verizon released for the first time its water consumption footprint and set a reduction target (reduce water usage by 7% by 2020 from 2014 baseline). Additionally, in the first quarter of 2016, Verizon met its carbon intensity reduction goal (reduce 50% by 2020 from 2009 baseline).

To provide additional transparency to the users of these information and quality assurance over publicly reported metrics and targets, Verizon engaged EY to provide independent assurance over water consumption and carbon intensity for the year ended December 31, 2015 and the quarter ended March 31, 2016, respectively.

Scope

Our review was conducted in accordance with the attestation standards of the American Institute of Certified Public Accountants ("AICPA"). A review consists principally of

- ▶ Applying analytical procedures
- ▶ Making inquiries of persons responsible for the subject matter
- ▶ Obtaining an understanding of the data management systems and processes used to generate, aggregate and report the subject matter
- ▶ Performing such other procedures as we consider necessary in the circumstances

"At every level of Verizon - from our broadest strategies to the way we operate our business, to our products and services, to the way we live and work as individuals - we seek to minimize our environmental impact."

- Verizon 2015 Corporate Responsibility Supplement

Communication on internal control



Communication on internal control

#	Observation	Difference	Considerations
1	During our analytical procedures over billed water consumption, we identified 2015 billed water consumption for an individual New York site which was 80 times the 2014 billed water consumption. We inquired of Shannon West, Verizon Sustainability Project Manager, who inspected the invoices related to this consumption and determined that invoices related to New York site # 00031161 were entered into Ecova based on the incorrect unit (CCF vs. HCF). She followed up with her Ecova contact who corrected the billed water consumption. She provided us updated Ecova usage reports reflecting this change.	Decreased water consumption by 916,911 kgal	<p>Ecova and the Verizon real estate team already investigate fluctuations in water consumption at a site level which are greater than 50%. However, you may consider implementing additional controls over billed data to help identify and correct errors on a timely basis. Controls may include, but are not limited to:</p> <ul style="list-style-type: none">▶ Collaborating with Ecova to establish lower variance thresholds for investigating fluctuations in consumption at a site level▶ Designing fluctuation analyses which are performed at a state level to identify fluctuations which may not be identified at a site level

* Refer to **Appendix B** for criteria drafted by Verizon.

Communication on internal control

#	Observation	Difference	Considerations
2	<p>During our walkthrough procedures over the water consumption estimate, we inspected site categorizations, assessed inclusions and exclusions, assessed completeness of sites included, reperformed pivot tables and calculations in Excel. For Verizon Wireless sites (VZW), Verizon Wireline Domestic sites and Verizon Wireline International sites. Based on our procedures, it appeared that:</p> <p>1) The site categorization listing excluded 818 RETAIL sites which should have been included as administrative sites for the water usage intensity (WUI) factor calculation and used as inputs into the water estimate</p> <p>2) The pivot tables containing water usage and gross square footage (GSF), which are used to calculate the WUI factors and as the basis in the water consumption estimate, were incomplete</p> <p>3) The pivot tables containing site counts for VZW included two inactive sites which should have been excluded based on Verizon's criteria</p> <p>4) The pivot tables containing GSF for Verizon Wireline International included sites which do not consume water and should have been excluded based on Verizon's criteria</p>	Decreased water consumption by 40,124 kgal	<p>Implement controls over the estimation process to help identify and correct errors on a timely basis. Controls may include, but are not limited to:</p> <ul style="list-style-type: none"> ▶ Compare total gross square footage and water usage per original files to estimation files to assess completeness prior to performing the estimations ▶ Perform checks of site categorizations to validated that they are being appropriately included or excluded ▶ Perform checks of important inclusions and exclusions (e.g., active or inactive sites) to validate that they are appropriately included or excluded ▶ Review process over data inputs (e.g., one person prepares the water consumption estimate and another reviews)

Communication on other matters



Communication on other matters

#	Observation	Potential impact	Considerations
1	Water consumption from international sites (2% of total) is based entirely on estimates instead of actual data.	Estimations may not be precise. Thus, actual water consumption may be materially different.	Verizon Sustainability team should consider working with the Real Estate teams to begin collecting actual data from these leased assets to improve the precision in these calculations.
2	Estimated consumption for water (22%) and electricity (4%) is less precise than billed consumption.	Estimations may not be precise. Thus, actual water or electricity consumption may be materially different.	Verizon Sustainability team should continue to work with the Real Estate teams to increase billed consumption for water and electricity in Ecova.
3	Verizon continues to engage in acquisitions and divestitures. For example, Verizon acquired AOL in 2015 but excludes AOL from its reporting on environmental metrics.	Reported metrics are not completely disclosing Verizon's footprint and may be subject to stakeholder scrutiny.	Verizon Sustainability team continue to identify significant transactions which impact the organizational boundary for environmental reporting and incorporate them into their processes. They should work with the Real Estate team or AOL teams to establish a timeline for obtaining AOL environmental data for reporting.
4	Verizon achieved its carbon intensity reduction target (reduce 50% by 2020 from 2009 baseline) in Q1 2016 and is considering setting a new reduction target for its operational footprint (scope 1 and 2 emissions).	Verizon may set targets that are subject to stakeholder's scrutiny.	Verizon should continue to track its progress in reducing greenhouse gas emissions and define new carbon reduction goal(s) based on science-based targets and/or context (e.g., align with UN Sustainable Development goals). As part of this process Verizon should also consider the scope of the goal to include its entire value chain (i.e., downstream and upstream emissions), and determine cost-effective, impactful and credible strategies to achieving these goals.

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