Dear Shareholder,

One quality that defines a great company is how it responds to change.

Most companies embrace change with a certain degree of reluctance. That’s never been the Verizon way. Throughout our history, we have been drivers of change – while also remaining true to our corporate mission, strategic vision and core values.

In early 2017, we outlined our plan for maintaining this balance. We would devote the year to expanding two of our strongest traditional assets – our loyal, high-quality customer base and our preeminent network – while also seizing opportunities in dynamic sectors of our industry.

We successfully introduced Unlimited wireless plans, added capabilities to our best-in-class networks, combined our existing Media business and the operating business of Yahoo! Inc. (Yahoo) to become an insurgent in digital media, and increased our presence in the telematics and Internet of Things (IoT) markets. This positions our company not only for short-term profitability, but also for growth over what is certain to be a long period of expansion, change, disruption and opportunity across our industry.

We achieved strong financial and operational results in 2017. Bigger picture: We anticipated and drove industry trends, and we used our unique collection of network and media assets to take full advantage of the rapid evolution of our industry.

These initiatives are paying off. In our wireless business, we ended 2017 with 116.3 million retail wireless connections, a 1.8 percent increase from the previous year. We added 1.8 million postpaid smartphones, with an industry-leading postpaid phone churn of less than 0.8 percent for the year, and 11 consecutive quarters of churn below 0.9 percent.

As a statement of our uncompromising commitment to our customers and to showcase the strength of our network, we rolled out our Unlimited offering in the first quarter. Our aim was to deepen our already-tremendous customer loyalty – and to attract new customers.

That’s exactly what happened. Our network quality was a strong selling point, and our Unlimited plans contributed to customer growth and increased overall demand for high-speed data services.

Doubling down on network superiority

The success of Unlimited isn’t just about the market reputation of our network – it’s also about real-world reliability. We knew these offerings would generate substantially more traffic for us to handle. When that traffic came, our network didn’t flinch. In fact, we extended our lead in network quality as a result of the investments we’ve made in anticipation of ever-growing demand.

When marketing meets reality, reality wins. We have our customers’ backs no matter how many videos they stream or group chats they join, and this network quality advantage has been recognized by the most respected third-party evaluators. In 2017, Verizon won more awards than any other provider in the J.D. Power Wireless Network Quality Study for the 18th time in a row. RootMetrics ranked Verizon as the best network in the U.S. for the ninth year running.

The superiority of our network is hardly a secret. There’s also a deeper layer to this story that does not get as much attention as it should. Let me share my perspective on why Verizon’s network quality will be an even bigger asset to our company and our customers in the future.

I just referred to our anticipation of ever-growing demand. That isn’t an extrapolation from the growth that we’ve seen in years past. It’s a prediction that we are on the cusp of a wholly new era of tech-driven innovation – a Fourth Industrial Revolution based on connective technologies such as IoT, next-generation robotics, artificial intelligence, virtual reality, augmented reality, 3D printing, nanotechnology, wearable technology and autonomous vehicles.

These innovations – enabled by 5G networks – are at widely varying stages of maturity and ubiquity. What they have in
common is this: All are sufficiently powerful to reshape entire industries, and all are still novel enough to be shaped by companies that have the vision and the capacity to do so.

There’s no company better positioned to exercise this leadership than Verizon. The reason: Wireless technology and next-generation fiber will power the Fourth Industrial Revolution.

At Verizon, we don’t wait for the future – we build it. Our $17.2 billion capital investment in 2017 is a down payment on that future, and we are already achieving state-of-the-art speed with our blazing-fast nationwide 4G LTE network. We hit the one-gigabit-per-second mark for speed under real-world ecosystems, and yet we’ve hardly begun to exhaust the potential of 4G technology. This network will remain an extraordinary asset for our company and our customers for many years to come.

5G is game-changing technology

Even as we push 4G to the next level, we are rapidly bolstering our leadership position in 5G. This technology is a game-changer for Verizon as we build the future. It will allow 10 to 100 times better throughput, 10 times longer battery life and 1,000 times larger data volumes than anything offered today.

To give you a sense of 5G’s low latency and speed, consider an experiment we conducted at the 2017 Indianapolis 500. We put a driver in a car with blacked-out windows, and only a 5G headcam to use for navigation. The car handled the track with ease. The near-zero latency of the 5G feed enabled the driver to “see” the curves and straightaways as reliably as if the windows had been clear. This is not possible on 4G networks, and 5G’s lower latency will enable many more applications that do not exist today.

With an agile combination of 4G LTE and 5G infrastructures, we can enable a surgeon to operate on a patient in an emergency room on the other side of the country, giving medical centers everywhere access to high-quality specialist care. We’re also working with food companies and shippers to expand the use of nickel-sized sensors that can detect when storage temperatures along the supply chain have exceeded safe limits.

We’re collaborating with cities to improve public safety, emergency response, traffic management, pollution reduction and other vital services. In Boston, we’ve teamed up with city officials on a vision of zero fatalities from accidents involving pedestrians or bicyclists, using predictive data analytics to make intersections safer. This is just the beginning.

We’ve begun working closely with partners worldwide to set standards and technical specifications for 5G. We’ve also started testing in the field. During 2017, we deployed the largest 5G trial network in the U.S. with active customers. In November 2017, we announced that we will commercially launch 5G wireless residential broadband services in three to five U.S. markets in 2018. That’s at least two years earlier than most experts had predicted.

The evolution from 4G LTE to 5G is not an either-or question. We see our network as a collective set of assets — including 4G LTE, fiber, 5G and software-defined networks — which together we refer to as the Verizon Intelligent Edge Network. This versatile, multilayered infrastructure can relay and sort signals via wireless or wireline connections, allowing us to handle an enormous range of current and potential applications.

Many of our strategic transactions in 2017 focused on additions and enhancements to this infrastructure. Our acquisitions of XO Communications and Straight Path will strengthen our fiber assets and spectrum portfolio, as will our purchasing agreements with Corning and Prysmian. To give you some perspective, those agreements include enough fiber to reach from Earth to Mars. In other words, these aren’t piecemeal, business-as-usual additions. They’re major investments toward a whole new level of network capacity.
Even as we make these and other acquisitions, we continue to uphold our longstanding commitment to financial discipline and shareholder value. Verizon has generated substantial savings from process improvements and operational realignments, and we’ve launched a major initiative to save $10 billion by 2021 through further reductions and processes to work smarter and more efficiently. In addition, we expect the recent tax-reform legislation to have a positive impact to cash flow from operations in 2018 of approximately $3.5 billion to $4 billion, which we will use primarily to further strengthen our balance sheet.

Because of our robust balance sheet, we have delivered on our commitment to produce long-term value for our shareholders. The Board of Directors declared the 11th consecutive annual dividend increase in September, returning significant value to shareholders.

**Giving people the ability to do more**

With a strong balance sheet and cash flow fueling network investment, we have the means to achieve Verizon's core purpose: To give people the ability to do more in this world.

Our customers are right there with us, eagerly embracing our most advanced products. What we offer right now through our 4G LTE and all-fiber Fios services is just the start. With even faster broadband networks – and especially with 5G – we will be able to offer wholly new services far beyond anything commercially available today.

Services like 3D video. Virtual and augmented reality. Holograms. The potential applications of such technologies are staggering to consider – everything from immersive gaming to real-time “same room” interactions with coworkers, classmates and loved ones who may be thousands of miles away.

To ensure we take full advantage of this convergence of connectivity and content, Verizon has made some important strategic acquisitions. In 2017, we completed the purchase of the operating business of Yahoo, which significantly expands our content offerings – as well as the audience to which we can stream that content. We combined Yahoo’s operating business with our existing media business to create Oath, a company that includes diverse media and technology brands which engage approximately one billion global content consumers. Oath generated about $6 billion in revenues in 2017.

This scale enables us to attract high-value content partners, as we saw in our recent agreements with the National Football League and the National Basketball Association to stream live games and other content to users on our mobile and digital properties. Such partnerships will create tremendous possibilities as our customer base continues to expand and our networks continue to achieve new breakthroughs in speed and quality.

Expanding our digital-media presence is not only exciting, it’s deeply important to our company’s future. When we
talk about giving people the ability to do more, it’s about something even bigger than these transformative advances in entertainment and communication. It’s about something we call “humanability,” a word that describes our commitment to expanding the possibilities of people everywhere — at home, at work, in their communities and around the world.

This commitment cuts across geographical divides and sectoral categories. It’s about spreading the benefits of technology to where they’re needed most.

For example, the economic impact of information technology has appeared mainly in traditional “digital” industries — telecom, media, software, and other tech-related fields whose business models have adapted quickly to new demands and opportunities. For many “physical” industries — such as transportation, agriculture and manufacturing — the immense potential of mobile and digital technology remains largely unrealized.

This is where our growing role in IoT comes into play. In 2017, Verizon launched the industry’s first nationwide IoT-friendly, LTE network which extends battery life while offering enough bandwidth for communication. Our future 5G networks will enable deployments on a much larger scale.

Currently, it’s estimated some 8.4 billion connected “things” are in use, an increase of 31 percent from 2016. That number is expected to reach more than 20.4 billion by 2020. Our networks will power much of that growth, and we look forward to giving businesses and consumers the ability to do more through this powerful Fourth Industrial Revolution technology.

One important related field is telematics — the transmission of information to vehicles and other remote objects. This is a fast-developing sector, one that will profoundly influence supply-chain logistics, fleet management and vehicular design.

In 2016 we bolstered our telematics presence through the acquisitions of Telogis and Fleetmatics. Verizon is now the world’s top provider of fleet-management technologies for businesses large and small. In 2017 our revenues from IoT services, including telematics, grew organically by double-digit percentage rates year over year, with great promise for the future.

A higher calling

Our goal has always been to improve lives through innovation. As we help build the Fourth Industrial Revolution, we are establishing partnerships with forward-thinking innovators across numerous sectors — including government, education, agriculture and healthcare — to expand opportunity and improve human well-being in an era of unprecedented connectivity.

This is the higher calling that has attracted some of the world’s best, most diverse talent to become part of the Verizon team. The combined spirit and creativity of our employees makes Verizon a great place to work, learn and grow — and make a positive contribution to society.

For example, we worked hand-in-hand with first responders in communities of all sizes to aid recovery from hurricanes, wildfires, floods and other natural disasters that struck throughout the year. Beyond this, in 2017 we donated $75 million to disaster recovery and community projects throughout the U.S. and Puerto Rico.

Our employees ran to crises this year, and generously assisted one another through our employee-to-employee VtoV emergency aid fund. In addition, Verizon employees ensured that emergency personnel and residents in disaster areas were able to rely on our network when they needed it most. I am deeply proud of every member of our V Team who contributed to these efforts, whether in the form of expertise, financial donations, or simply reaching out to colleagues and neighbors.

And our employee commitment to serving our communities doesn’t stop there. Every day of 2017, our V Team made it a mission to connect our customers to life’s victories, struggles, and people who matter most. From our front-line to our corporate employees, V Teamers answered the call this year, delivering the promise of the digital world to
families, first responders, businesses and individuals across the country. To celebrate the work that our employees do every day and help them share in Verizon’s future success, we recently invested approximately $380 million in them via a special stock-based award as part of our tax-reform reinvestment strategy.

**Delivering the promise**

If we are truly serious about building the future and acting as constructive drivers of change, we won’t simply wait to address the problems that affect our customers and fellow human beings – we will actively identify the challenges of tomorrow, and address them today.

That brings me to the last topic I’d like to raise here. As the CEO of a major technology company that depends for its very existence upon the development and dissemination of world-class ideas, I am deeply concerned about the growing digital divide not only between industries, but also between people.

Far too many of our communities have been left out of the digital revolution. Far too many of our young people are beginning their lives and careers at a crippling disadvantage because their education has not prepared them for the challenges of this increasingly global, technology-driven new economy.

Our company has sought to better understand the causes and consequences of this digital divide, teaming up with partners like National Geographic. What's clear is that if we, and other leading institutions, don’t act now to narrow this divide, it will quickly get worse, with deeply harmful results for our economy and our society.

Verizon is helping to close this gap by helping under-resourced urban and rural schools provide high-quality STEM (science, technology, engineering and mathematics) instruction. Through Verizon Innovative Learning programs, we’ve served approximately 128,000 students this year.

We do it because of our belief that everyone deserves a quality education, regardless of their socio-economic status or geographic location. We do it because we know that the future of our society depends on the ability of our young people to become empowered, engaged participants in tomorrow’s digital world. Toward this end, we have announced plans to increase our contributions to the education work of the Verizon Foundation by $200 million to $300 million over the next two years.

When Verizon talks about building the future and giving people the ability to do more, we mean it. We know that it starts with us. We are committed to creating the connections that bring human beings together, and that transform ideas into innovation.

Thank you for being part of our journey over this past year. Let's build a better future together.

Lowell McAdam
Chairman and Chief Executive Officer
Verizon Communications Inc.