Almost 3 billion people—40 percent of the world’s population—use the Internet. There are roughly 1.2 billion connections in the rapidly growing Internet of Things—about 20 percent more than in 2013—with that number expected to grow almost fivefold by the end of the decade.

Despite these indicators that wireless and broadband are more embedded in the lives of customers than ever before, for investors 2014 seems to have posed more questions than answers about the future of the communications industry. As I read it, the conventional wisdom goes something like this: New entrants are disrupting the wireless and broadband space. Competition is putting pressure on prices and margins. Customers are restless and confused about the avalanche of competing claims and pricing plans. All of this suggests to investors that growth will be more challenging going forward, and they’re trying to figure out which companies have the strategic vision and financial strength to invest, grow and profit over the long term.

All these statements are true, to one extent or another. Yet in 2014 Verizon continued to do what we have done throughout our history: show that we can compete effectively in any environment. In a year full of competitive challenges and industry disruption, we grew revenues, added millions of customers, bolstered our network superiority, executed a big strategic transaction, paid $7.8 billion in dividends, and invested and innovated for the future. More broadly, we demonstrated the resilience of our business

Dear Shareowner,

A look at the communications marketplace in 2014 shows Verizon sitting at the sweet spot of the trends driving growth in our industry. Almost one in every three people on Earth has a mobile broadband subscription—that’s 2.3 billion people, double the penetration rate of just three years ago.
model, the strength of our culture and the profoundly important role we play in the lives of our customers and communities.

In the process, we showed that Verizon has what it takes to succeed over the long haul in a rapidly changing industry.

Growing customer demand

The most fundamental reason for our confidence in the future is that, for all its competitive intensity, our industry is strong and growing, with customers using wireless and broadband more—and in more ways—than ever before. Verizon is well positioned to capitalize on these trends.

From a strategic perspective, our most notable accomplishment of 2014 was completing the transaction for full ownership of Verizon Wireless, which we believe to be the best wireless asset in the world. Our performance in 2014 bears out our confidence in the U.S. wireless market. We generated $87.6 billion in wireless revenues, an increase of 8.2 percent over 2013, and added 5.5 million retail connections. We ended the year with 108.2 million retail connections, a year over year increase of 5.3 percent. While higher-than-usual upgrades and new customer activations in the fourth quarter impacted our margins, we had a very profitable year, with wireless EBITDA service margin of 48.5 percent for the full year.

Just as important as the number of customers is the quality of those customers. We lead the industry in retail postpaid connections, with a year-end total of 102.1 million, and are focused on moving more of these loyal, high-value customers to devices that take advantage of our 4G LTE network leadership. Smartphones now account for 79 percent of our retail postpaid phone base, up from 70 percent at the end of 2013, and we ended the year with 7.2 million 4G LTE tablets. Average revenue per retail postpaid account grew by 3.9 percent in 2014, as customers consume more and more data and video services on their mobile devices. All of this sets us up well for 2015.

Our wireline broadband business had a solid year as well, driven by strong consumer demand for video and Internet services. Total wireline revenues were $38.4 billion for 2014, down 0.5 percent from 2013. Consumer revenues grew at a healthy 5 percent rate for the year, and wireline EBITDA margin expanded to 23.2 percent, reflecting our commitment to improving wireline’s profitability. The centerpiece of our wireline business is FiOS, our 100 percent fiber network that has transformed consumer wireline into a growth business. FiOS revenues for 2014 were $12.7 billion, up 13.6 percent compared with 2013, and made up more than three-quarters of all our revenue from the consumer retail business in 2014. Thanks to FiOS, consumer revenues have grown more than 4 percent in each of the last ten quarters.

We ended the year with 6.6 million FiOS Internet and 5.6 million FiOS Video customers, for a market penetration of 41 percent and 36 percent, respectively. We’re winning the competitive battle by delivering new features and functionality that leverage the superior FiOS architecture.

### Wireless Highlights

<table>
<thead>
<tr>
<th>Wireless Revenues (Billions)</th>
<th>Wireless Retail Connections (Millions)</th>
<th>Wireless Retail Postpaid ARPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012: $75.9</td>
<td>2012: 98.2</td>
<td>2012: $144.04</td>
</tr>
<tr>
<td>2013: $81.0</td>
<td>2013: 102.8</td>
<td>2013: $153.93</td>
</tr>
<tr>
<td>2014: $87.6</td>
<td>2014: 108.2</td>
<td>2014: $159.86</td>
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with 59 percent of Internet subscribers on our high-speed FiOS Quantum service. We continue to deliver innovative new products on the FiOS platform, such as the FiOS Quantum Gateway, a new router that boosts Wi-Fi speeds, and a FiOS mobile video service that allows subscribers to view FiOS content on their mobile devices.

This growth in the consumer segment helps offset the declining revenues in Global Enterprise and Global Wholesale, which continue to fight through global economic challenges, price competition, and erosion in transport and equipment sales. We continue to transform these segments around enterprise-grade network, cloud, security, managed services and other business solutions that help enterprise customers adapt to the challenges of an all-digital world. While overall revenues from Enterprise fell by 3.5 percent in 2014, revenues from strategic services grew 2.3 percent year over year.

Steady investment in networks

The foundation of our success in this broadband-centric world is network excellence, which remains the heart and soul of the Verizon brand. Our strong cash flows have enabled us to invest more than $80 billion in infrastructure over the past five years—a commitment to investment in networks that lasted even through the recession. Through our consistent strategic deployment of capital, we have built an LTE network that reaches more than 500 markets; expanded FiOS to nearly 20 million homes; deployed 100 gigabit capacity in our IP backbone network in the U.S. and around the globe; and have begun testing commercial deployment of 200 gigabit networks. In 2014, we enhanced our wireless network by deploying additional spectrum throughout the U.S., essentially doubling our capacity to accommodate the rapid increase in wireless data and video traffic. We also continue to move customers off legacy copper networks onto the more powerful and efficient fiber platform, which not only delivers more value to customers but also improves the network’s reliability.

Not many companies have both the commitment and the financial capacity to invest $16 billion to $17 billion in infrastructure, year after year, but we know that’s what it takes to deliver the kind of reliability, speed and ubiquity our customers demand.

This network superiority gives us more than just bragging rights—it gives us a competitive edge and a platform for offering the growth products of the future. In December 2014, about 84 percent of our wireless data traffic was being carried on our 4G LTE network, which transmits data and video at broadband speeds. On the wireline side, we have introduced high-speed FiOS Quantum Internet and video products that differentiate our broadband services around the unique advantages of our all-fiber network and deliver features such as symmetrical speeds for uploads and downloads that our cable competitors can’t match.

As we look to the future, we see customers interacting seamlessly with all their digital content as they move from their homes to their cars to their businesses. By constantly
evolving our wireless and fixed broadband networks, we are in a great position to deliver this integrated experience to our customers.

One thing that could have a negative impact on our future network investments is the FCC’s stated intention to reclassify broadband services under Title II of the 1934 Communications Act, which would impose rigid 20th century rules on a dynamic 21st century industry. Such a move could depress long-term capital investment in infrastructure, discourage innovation in broadband Internet and related services, and cost the economy thousands of middle-class jobs. We urge the Congress to enact legislation that will clarify the rules of the road and pave the way for continued investment in high-quality open networks that will secure America’s leadership in the global digital economy.

Pathway to the future

We are also building a pathway to the future through our investment in growth businesses and a stepped-up innovation process. Over the past several years, we have made targeted acquisitions in the fields of telematics, digital video, cloud and cybersecurity that leverage our network platforms and give us an expanding position in the markets of the future. We’ve also created two Innovation Centers to work with product, software and app developers to embed our network capabilities in a new generation of consumer and business solutions, and in 2014 we sharpened our focus on accelerating product development in such fast-growing markets as mobile video, digital media content delivery, data analytics and the Internet of Things.

The growth prospects for digital media and entertainment and the Internet of Things are substantial. Video already makes up 55 percent of all mobile traffic, according to the Cisco Visual Networking Index. That same report says global mobile data traffic will increase by 10 times by 2019, with three-quarters of that traffic being video. Over that same period, the Internet of Things, which brings connected solutions to the physical environment, is projected to grow at a compound annual rate of 45 percent, driven by the rapid growth of wearables and machine-to-machine connections.

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The Verizon Innovation Centers, located in the Boston and San Francisco areas, were created to help entrepreneurs and inventors connect their new devices and software to the Verizon network. Advances in wireless technology are fueling a wave of innovation that’s connecting people, places and things in meaningful new ways—changing the way we live, work and play. Verizon’s advanced technology platforms, including 4G LTE, are inspiring and enabling businesses to bring new wireless-enabled services to market.

Visit innovation.verizon.com to learn more.
As we saw in 2014, the new opportunities we’ve been predicting for some time are becoming a reality. Through Verizon Telematics, we are already one of the leaders in the Internet of Things. We provide connectivity and telematics to manufacturers such as Mercedes-Benz and Volkswagen and help businesses manage large vehicle fleets more efficiently. Revenues from this business and the Internet of Things grew more than 45 percent year over year, to $585 million, and we continue to introduce a steady stream of telematics services. For example, we announced a consumer-oriented connected-car product called Verizon Vehicle at the North American International Auto Show in early 2015, which will launch commercially in the second quarter. With an addressable market of 200 million vehicles across the U.S., this product has the potential to reinvent traditional roadside assistance services while enhancing driver safety and convenience. Looking ahead, our machine-to-machine platform gives us a launching pad for growing our market position in such fields as the connected home, e-commerce and retail, wearable computing and energy, and utilities management.

We also have an expanding presence in the digital media and entertainment space. Verizon Digital Media Services helps more than 1,500 content companies deliver their services in digital form to any screen or device, anywhere in the world. We continually add features and functionality to our FiOS TV service, and later this year we expect to launch our own mobile-first video product, leveraging our 4G LTE wireless network and large customer base to offer a superior alternative to other over-the-top video services.

With these and other compelling new services in the pipeline, we have a chance to disrupt other industries and build businesses that can drive growth in the future, as wireless and FiOS do today.

Financial strength

Among our leadership team we talk about the need to be an “and” company that delivers both growth and profitability. You can see the results of this balanced approach in our financial performance in 2014. Operating revenues were $127.1 billion, up 5.4 percent year over year. Adjusted

The Internet of Things is transforming people’s lives and changing the way businesses and institutions operate. Using secure network connectivity and cloud infrastructure to interconnect machines and gather useful data, Verizon is enabling smart solutions like remote diagnostics, vehicle monitoring and much more. To help our customers take advantage of IoT, Verizon’s first “Internet of Things Report” explains factors driving adoption and offers forward-thinking organizations recommendations on how to plan for IoT growth.

Visit verizonenterprise.com/products/m2m/ to learn more.
EBITDA margin at the corporate level was 34 percent, down year over year mainly due to extraordinary wireless volumes in the fourth quarter. Adjusted earnings per share for the year were $3.35, up 18 percent over 2013, and we returned $7.8 billion in dividends to shareowners, including our 8th consecutive dividend increase. Cash flows from operations totaled $30.6 billion.

There is no question, however, that investor concerns about the direction of our industry took their toll on our stock price. Total shareowner return for 2014 declined by 0.6 percent year over year, our first negative return in several years. We have taken steps early in 2015 to return additional value to shareowners. In February, we announced an agreement to sell our wireline properties in California, Florida and Texas to Frontier Communications and struck a deal with American Tower Corporation to lease the rights to a majority of our company-owned wireless towers. The value of these two deals is $15.5 billion. At the same time, we announced that we are returning $5 billion to shareholders through an accelerated share repurchase program.

These transactions will sharpen our strategic focus on our core wireless and wireline markets and strengthen our balance sheet. More important, however, is our rock-solid conviction that the long-term game will be won by the company with the best quality networks, the most robust slate of video and data services, and the cash flows to invest and participate in the growth markets of the future.

For these reasons, we remain confident in our long-term financial position and ability to create value for shareholders.

Culture as competitive advantage

In a challenging year, Verizon proved itself to be an essential company in the lives of our customers and the global digital economy. This is thanks in no small part to our strong, high-performance culture and values based on the Verizon Credo that give us ballast in this rapidly transforming industry. We invested more than $380 million in training, development and tuition assistance in 2014 to hone our employees’ skills and equip them to deliver
great service to customers. In turn, they invest back into our communities, with more than 300,000 hours of volunteer service and more than $9.5 million in donations to thousands of nonprofits around the world. In addition, the Verizon Foundation made $66.5 million in contributions, which includes $11 million in matching gifts.

We are constantly exploring new ways to use technology to solve pressing social issues. Through our focus on education, we harness young people’s fascination with technology to give them real-world skills and encourage greater participation in science, technology, engineering and math disciplines. We are also focused on being good stewards of the environment. We have invested $137 million in green energy, which will reduce our own carbon footprint, and our products are helping our customers be more energy-efficient and reduce their environmental impact. All these initiatives are having a measurable positive impact on society. You can read about our results and learn more about all our Corporate Responsibility initiatives at verizon.com/about/responsibility.

I’m proud of the recognition we’ve received from sources such as J.D. Power, Diversity Inc. and Fortune magazine, which named us its most admired communications company again in 2014. But I am even more gratified by the efforts of our dedicated employees, whose talents and community spirit make customers’ lives better, help businesses be more productive and transform society for the better.

2014 has been a noisy year. As you would expect, we responded to the competitive challenge by raising our game and delivering strong results for customers and shareowners. 2015 promises to raise the bar even higher. I am confident we will rise to the challenge again and—with the guidance of our Board, the efforts of our leadership team and the hard work of our more than 177,000 employees—remain one of the very few companies built for long-term success in this dynamic industry.

Lowell McAdam
Chairman and Chief Executive Officer
Verizon Communications Inc.