SELECTED FINANCIAL DATA

(dollars in millions, except per share amounts)

<table>
<thead>
<tr>
<th>Results of Operations</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>$127,079</td>
<td>$120,550</td>
<td>$115,846</td>
<td>$110,875</td>
<td>$106,565</td>
</tr>
<tr>
<td>Operating income</td>
<td>19,599</td>
<td>31,968</td>
<td>13,160</td>
<td>12,880</td>
<td>14,645</td>
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<tr>
<td>Net income attributable to Verizon</td>
<td>9,625</td>
<td>11,497</td>
<td>875</td>
<td>2,404</td>
<td>2,549</td>
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<tr>
<td>Per common share – basic</td>
<td>2.42</td>
<td>4.01</td>
<td>.31</td>
<td>.85</td>
<td>.90</td>
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<tr>
<td>Per common share – diluted</td>
<td>2.42</td>
<td>4.00</td>
<td>.31</td>
<td>.85</td>
<td>.90</td>
</tr>
<tr>
<td>Cash dividends declared per common share</td>
<td>2.160</td>
<td>2.090</td>
<td>2.030</td>
<td>1.975</td>
<td>1.925</td>
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<tr>
<td>Net income attributable to noncontrolling interests</td>
<td>2,331</td>
<td>12,050</td>
<td>9,682</td>
<td>7,794</td>
<td>7,668</td>
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<table>
<thead>
<tr>
<th>Financial Position</th>
<th></th>
<th></th>
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<th></th>
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<tbody>
<tr>
<td>Total assets</td>
<td>$232,708</td>
<td>$274,098</td>
<td>$225,222</td>
<td>$230,461</td>
<td>$220,005</td>
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<tr>
<td>Debt maturing within one year</td>
<td>2,735</td>
<td>3,933</td>
<td>4,369</td>
<td>4,849</td>
<td>7,542</td>
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<tr>
<td>Long-term debt</td>
<td>110,536</td>
<td>89,658</td>
<td>47,618</td>
<td>50,303</td>
<td>45,252</td>
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<tr>
<td>Employee benefit obligations</td>
<td>33,280</td>
<td>27,682</td>
<td>34,346</td>
<td>32,957</td>
<td>28,164</td>
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<tr>
<td>Noncontrolling interests</td>
<td>1,378</td>
<td>56,580</td>
<td>52,376</td>
<td>49,938</td>
<td>48,343</td>
</tr>
<tr>
<td>Equity attributable to Verizon</td>
<td>12,298</td>
<td>38,836</td>
<td>33,157</td>
<td>35,970</td>
<td>38,569</td>
</tr>
</tbody>
</table>

• Significant events affecting our historical earnings trends in 2012 through 2014 are described in “Other Items” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section.

• 2011 data includes severance, pension and benefit charges and early debt redemption costs. 2010 data includes severance, pension and benefit charges, merger integration charges, dispositions, Medicare Part D Subsidy charges and other items.

Stock Performance Graph

Comparison of Five-Year Total Return Among Verizon, S&P 500 Telecommunications Services Index and S&P 500 Stock Index

The graph compares the cumulative total returns of Verizon, the S&P 500 Telecommunications Services Index, and the S&P 500 Stock Index over a five-year period. It assumes $100 was invested on December 31, 2009 with dividends (including the value of the telephone access line spin-off that occurred in 2010) being reinvested.

<table>
<thead>
<tr>
<th>Data Points in Dollars</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verizon</td>
<td>100.0</td>
<td>123.1</td>
<td>145.7</td>
<td>164.8</td>
<td>195.3</td>
<td>194.2</td>
</tr>
<tr>
<td>S&amp;P 500 Telecom Services</td>
<td>100.0</td>
<td>119.0</td>
<td>126.5</td>
<td>149.6</td>
<td>166.6</td>
<td>171.5</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>100.0</td>
<td>115.1</td>
<td>117.5</td>
<td>136.2</td>
<td>180.3</td>
<td>205.0</td>
</tr>
</tbody>
</table>
Verizon Communications Inc. (Verizon or the Company) is a holding company that, acting through its subsidiaries, is one of the world’s leading providers of communications, information and entertainment products and services to consumers, businesses and governmental agencies. With a presence around the world, we offer voice, data and video services and solutions on our wireless and wireline networks that are designed to meet customers’ demand for mobility, reliable network connectivity, security and control. We have two reportable segments, Wireless and Wireline. Our wireless business, operating as Verizon Wireless, provides voice and data services and equipment sales across the United States using one of the most extensive and reliable wireless networks. Our wireless business provides consumer, business and government customers with communications products and enhanced services, including broadband data and video, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice services, and also owns and operates one of the most expansive end-to-end global Internet Protocol (IP) networks. We have a highly skilled, diverse and dedicated workforce of approximately 177,300 employees as of December 31, 2014.

As advances in technology have changed the ways that our customers interact in their personal and professional lives and that businesses operate, we have continued to focus our efforts around higher margin and growing areas of our business: wireless and wireline data and Strategic services, including cloud computing services. Our strategy requires significant capital investments primarily to acquire wireless spectrum, put the spectrum into service, provide additional capacity for growth in our wireless and wireline networks, invest in the fiber optic network that supports our wireless and wireline businesses, maintain our wireless and wireline networks and develop and maintain significant advanced information technology systems and data system capabilities. We believe that steady and consistent investments in networks and platforms will drive innovative products and services and fuel our growth. Our wireless and wireline networks will continue to be the hallmark of our brand, and provide the fundamental strength upon which we build our competitive advantage.

**Strategic Transactions**

**Wireless Transaction**

On February 21, 2014, we set the stage for the next phase of our company’s growth when we completed the acquisition of Vodafone Group Plc’s (Vodafone) indirect 45% interest in Cellco Partnership d/b/a Verizon Wireless for aggregate consideration of approximately $130 billion (the Wireless Transaction). The consideration paid was primarily comprised of cash of approximately $58.89 billion and Verizon common stock with a value of approximately $61.3 billion. With full control of Verizon Wireless enhancing our operational efficiency, we believe we are well-positioned to meet the challenges of an increasingly competitive industry. See Note 2 to the consolidated financial statements for additional information.

**Spectrum Auction**

On January 29, 2015, the Federal Communications Commission (FCC) completed an auction of 65 MHz of spectrum, which it identified as the Advanced Wireless Services (AWS)-3 band. Verizon participated in that auction, and was the high bidder on 181 spectrum licenses, for which we will pay approximately $10.4 billion. During the fourth quarter of 2014, we made a deposit of $0.9 billion related to our participation in this auction. On February 13, 2015, we made a down payment of $1.2 billion for these spectrum licenses. Verizon has submitted an application for these licenses and must complete payment for them in the first quarter of 2015.

**Access Line Sale**

On February 5, 2015, we announced that we have entered into a definitive agreement with Frontier Communications Corporation (Frontier) pursuant to which Verizon will sell its local exchange business and related landline activities in California, Florida, and Texas, including FiOS Internet and Video customers, switched and special access lines and high-speed Internet service and long distance voice accounts in these three states for approximately $10.5 billion. The transaction, which includes the acquisition by Frontier of the equity interests of Verizon’s incumbent local exchange carriers (ILECs) in California, Florida and Texas, does not involve any assets or liabilities of Verizon Wireless. The assets and liabilities that will be sold are currently included in Verizon’s continuing operations. As part of the transaction, Frontier will assume $0.6 billion of indebtedness from Verizon. The transaction is subject to the satisfaction of certain closing conditions including, among others, receipt of state and federal telecommunications regulatory approvals, and we expect this transaction to close during the first half of 2016.

The transaction will result in Frontier acquiring approximately 1.5 million FiOS Internet subscribers, 1.2 million FiOS Video subscribers and the related ILEC businesses from Verizon. This business generated revenues of approximately $5.4 billion, excluding revenue with affiliates, for Verizon in 2013, which is the most recent year for which audited stand-alone financial statements are currently available.

**Tower Monetization Transaction**

On February 5, 2015, we announced an agreement with American Tower Corporation (American Tower) pursuant to which American Tower will have the exclusive rights to lease and operate over 11,300 of our wireless towers for an upfront payment of $5.0 billion. Under the terms of the leases, American Tower will have exclusive rights to lease and operate the towers over an average term of approximately 28 years. As part of this transaction, we will also sell 165 towers for $0.1 billion. We will sublease capacity on the towers from American Tower for a minimum of 10 years at current market rates, with options to renew. As the leases expire, American Tower will have fixed-price purchase options to acquire these towers based on their anticipated fair market values at the end of the lease terms. We plan to account for the upfront payment primarily as prepaid rent and a portion as a financing obligation. This transaction, which is subject to customary closing conditions, is expected to close during the first half of 2015.

**Business Overview**

**Wireless**

Demand for our fourth generation (4G) Long Term Evolution (LTE) smartphones and tablets continues to drive growth in our Wireless business. During 2014, Wireless revenue increased $6.6 billion, or 8.2%, compared to 2013 driven by service revenue growth of $3.6 billion, or 5.2%, which does not include recurring equipment installment billings related to Verizon Edge. Also contributing to the increase in Wireless revenue was equipment revenue growth of $2.8 billion, or 35.1%, driven by higher sales of equipment under both the traditional subsidy model and Verizon Edge, a program that enables qualified customers to purchase their devices on an installment payment plan. During 2014, retail postpaid connections increased 5.5% compared to 2013, with smartphones representing 79% of our retail postpaid phone base at December 31, 2014 compared to 70% at December 31, 2013. Also, during 2014, postpaid smartphone activations represented 92% of phones activated compared to 86% in 2013.

We are focusing the capital spending in our Wireless business on adding capacity and density to our 4G LTE network, which is available to over 98% of the U.S. population in more than 300 markets covering approximately 309 million people, including those in areas served by our LTE in Rural America partners. Our 4G LTE network provides higher data...
Flow used in Investing Activities and Note 2 to the consolidated financial statements for additional information.

In May 2014, we announced the deployment of AWS spectrum in that provided via third-generation (3G) networks. Approximately 84% of our total data traffic in December 2014 was carried on our 4G LTE network. In May 2014, we announced the deployment of AWS spectrum in our 4G LTE network. This additional bandwidth, which we refer to and brand as XLTE, provides additional network capacity and is currently available in more than 400 markets. Nearly all of the 4G LTE devices Verizon Wireless currently sells can operate on XLTE.

In February 2014, we introduced our More Everything® plans which replaced our Share Everything® plans. These plans feature domestic unlimited voice minutes, unlimited domestic and international text, video and picture messaging, cloud storage and a single data allowance that can be shared among multiple devices connected to the Verizon Wireless network. As of December 31, 2014, More Everything accounts represented approximately 61% of our retail postpaid accounts compared to Share Everything plans representing approximately 46% of our retail postpaid accounts as of December 31, 2013. Verizon Wireless also offers shared data plans for business, with More Everything plans for Small business and Nationwide Business Data Packages and Plans.

Wireline
In our Wireline business, revenues decreased 0.5% during 2014 compared to 2013, primarily due to declines in Global Enterprise Core and Global Wholesale revenues resulting from lower voice services and data networking revenues as well as the contraction of market rates due to competition. To compensate for the shrinking market for traditional voice service, we continue to build our Wireline segment around data, video and advanced business services – areas where demand for reliable high-speed connections is growing. Wireline’s revenues during 2014 included a 2.3% increase in Strategic services revenues, which represented 61% of total Global Enterprise revenues, as compared to 57% of total Global Enterprise revenues during 2013.

Wireline revenues during 2014 also included increases in Consumer retail revenue driven by FiOS services. FiOS represented approximately 76% of Consumer retail revenue during 2014, compared to approximately 71% during 2013. As the penetration of FiOS products increases, we continue to seek ways to increase revenue and further realize operating and capital efficiencies as well as maximize profitability. As more applications are developed for this high-speed service, we expect that FiOS will become a hub for managing multiple home services that will eventually be part of the digital grid, including not just entertainment and communications, but also machine-to-machine communications, such as home monitoring, health monitoring, energy management and utilities management.

We continue to enrich the customer value proposition by creating new and innovative services on our FiOS platform. During 2014, Verizon announced the introduction of FiOS Quantum TV, which provides FiOS video subscribers with new features, including the ability to record up to 12 shows at once and control live TV from any room in their home. This new service is now available everywhere that FiOS TV is offered. With our FiOS Quantum broadband service and certain other data services, our residential and small business customers can achieve symmetrical upload and download speeds of up to 500 megabytes per second, which we refer to as SpeedMatch™.

Capital Expenditures and Investments
We are investing in wireless networks, high-speed fiber and cloud services to position ourselves at the center of growth trends for the future. During 2014, these investments included capital expenditures of $17.2 billion and acquisitions of wireless licenses of $0.4 billion. See “Cash Flows Used in Investing Activities” and Note 2 to the consolidated financial statements for additional information.

By investing to expand our own capabilities, we are also providing the communities we serve with an efficient, reliable infrastructure for competing in the information economy. We are committed to putting our customers first and being a responsible member of our communities. Guided by this commitment and by our core values of integrity, respect, performance excellence and accountability, we believe we are well-positioned to produce a long-term return for our shareholders, create meaningful work for ourselves and provide lasting value for society.

Trends
In the sections that follow, we provide information about the important aspects of our operations and investments, both at the consolidated and segment levels, and discuss our results of operations, financial position and sources and uses of cash. In addition, we highlight key trends and uncertainties to the extent practicable.

The industries that we operate in are highly competitive, which we expect to continue particularly as traditional, non-traditional and emerging service providers seek increased market share. We believe that our high-quality customer base and superior networks differentiate us from our competitors and enable us to provide enhanced communications experiences to our customers. We believe our focus on the fundamentals of running a good business, including operating excellence and financial discipline, gives us the ability to plan and manage through changing economic and competitive conditions. We will continue to invest for growth, which we believe is the key to creating value for our shareholders.

Connection and Operating Trends
In our Wireless segment, we expect to continue to attract and maintain the loyalty of high-quality retail postpaid customers, capitalizing on demand for data services and bringing our customers new ways of using wireless services in their daily lives. We expect that future connection growth will continue as we introduce new 4G LTE devices, including new smartphones and tablets. We believe these devices will attract and retain higher value retail postpaid connections, contribute to continued increases in the penetration of data services and help us remain competitive with other wireless carriers. However, as a result of the increasing competition within our industry, we expect our churn to increase in 2015. We expect future growth opportunities will be dependent on expanding the penetration of our network services, offering innovative wireless devices for both consumer and business customers and increasing the number of ways that our customers can connect with our network and services.

Service and equipment pricing play an important role in the wireless competitive landscape. As the demand for wireless services continues to grow, wireless service providers are offering service plans that include unlimited voice minutes and text messages and a specific amount of data access in varying megabyte or gigabyte sizes or, in some cases, unlimited data usage at competitive prices. Some wireless service providers also allow customers to rollover unused data allowances to the next billing period and are also offering installment plans that decouple service pricing from equipment pricing and blur the traditional boundary between prepaid and postpaid plans. In 2015, we expect that customers will continue to adopt these installment plans, which also offer discounts on the cost of wireless service. Furthermore, some wireless providers are offering new customers price plans that undercut pricing under the customer’s service plan with its current wireless provider and provide a credit to reimburse early termination fees paid to their former wireless service provider, subject to certain limitations, in addition to promotions targeted specifically to customers of Verizon Wireless. We seek to compete in this area by offering our customers services and equipment that they will regard as the best available value for the price, as well as service plans that meet their wireless service needs.
In our Wireline segment, we have experienced continuing access line losses as customers have disconnected both primary and secondary lines and switched to alternative technologies such as wireless, voice over Internet protocol (VoIP) and cable for voice and data services. We expect to continue to experience access line losses as customers continue to switch to alternate technologies. We also expect Consumer retail revenues to increase, primarily driven by our FIOS services, as we seek to increase our penetration rates within our FIOS service areas.

Despite this challenging environment, we expect that we will be able to grow key aspects of our Wireline segment by providing network reliability, offering product bundles that include broadband Internet access, digital television and local and long distance voice services, offering more robust IP products and service, and accelerating our cloud computing and machine-to-machine strategies. We will also continue to focus on cost efficiencies to attempt to offset adverse impacts from unfavorable economic conditions and competitive pressures.

Operating Revenue
We expect to experience revenue growth in our Wireless segment in 2015, primarily as a result of continued growth in postpaid connections driven by sales of smartphones and tablets, partially offset by declining prices in response to increasing competitive pressure from other wireless carriers. We also expect the activation of devices on Verizon Edge to contribute positively to our Wireless segment revenue and operating income. In 2015, we expect the rate at which customers activate devices on Verizon Edge to increase. As more customers adopt Verizon Edge, we expect equipment and other revenue to be positively impacted, while we expect retail postpaid average revenue per account (ARPA) and service revenue, in each case when considered as a percentage of total revenue, to continue to be negatively impacted. We expect that our future service revenue growth will be substantially derived from an increase in the usage of innovative mobile services in addition to our pricing structure that will encourage customers to continue adding data-enabled devices onto existing accounts. We expect that continued emphasis on increasing smartphone penetration, including continuing to migrate customers from basic phones to smartphones and from 3G devices to 4G LTE devices, in addition to increasing our tablet penetration will positively impact our revenue.

We expect FiOS broadband and video penetration to positively impact our Mass Markets revenue and subscriber base. Although we have recently experienced decelerating revenue growth within our Strategic services business, we expect our Strategic services business to be positively impacted by additional enterprise revenues from application services, such as our cloud, security and other solutions-based services and from continued customer migration of their services to Private IP and other strategic networking services. We believe the trend in these growth areas as well as our offerings in telematics and video streaming will help offset the continuing decline in revenues in our Wireline segment related to retail voice connection losses as a result of technology substitution, as well as the continued decline in our legacy wholesale and enterprise markets. Upon the closing of the sale of our local exchange business and related landline activities in California, Florida and Texas, we expect that our Wireline segment EBITDA margin and operating income margin will decline. Prior to closing this transaction, we expect to undertake initiatives to address our cost structure to mitigate this impact to our margins.

Operating Costs and Expenses
We anticipate our overall wireless operating costs will increase as a result of the expected increase in the volume of smartphone sales, which will result in higher equipment costs. In addition, we expect content costs for our FiOS video service to continue to increase. However, we expect to achieve certain cost efficiencies in 2015 and beyond as data traffic continues to migrate to our lower-cost 4G LTE network and as we continue to streamline our business processes with a focus on improving productivity and increasing profitability.

Capital Expenditures
Our 2015 capital program includes capital to fund advanced networks and services, including 4G LTE and FiOS, the continued expansion of our core networks, including our IP and data center enhancements, and support for our copper-based legacy voice networks and other expenditures to drive operating efficiencies. The level and the timing of the Company’s capital expenditures within these broad categories can vary significantly as a result of a variety of factors outside our control, including, for example, material weather events. We are replacing copper wire with fiber-optic cable which will not alter our capital program but should result in lower maintenance costs in the future. Capital expenditures were $17.2 billion in 2014 and $16.6 billion in 2013. We believe that we have significant discretion over the amount and timing of our capital expenditures on a Company-wide basis as we are not subject to any agreement that would require significant capital expenditures on a designated schedule or upon the occurrence of designated events. We expect capital expenditures in 2015, which will be primarily focused on adding capacity to our 4G LTE network in order to stay ahead of our customers’ increasing data demands, to be in the range of approximately $17.5 billion to $18.0 billion. We also expect our capital expenditures as a percentage of revenue to decline in 2015 from 2014 levels.

Cash Flow from Operations
We create value for our shareholders by investing the cash flows generated by our business in opportunities and transactions that support continued profitable growth, thereby increasing customer satisfaction and usage of our products and services. In addition, we have used our cash flows to maintain and grow our dividend payout to shareholders. Verizon’s Board of Directors increased the Company’s quarterly dividend by 3.8% during 2014, making this the eighth consecutive year in which we have raised our dividend.

Our goal is to use our cash to create long-term value for our shareholders. We will continue to look for investment opportunities that will help us to grow the business. We expect to use our cash to reduce our debt levels in order to return to our pre-Wireless Transaction credit metrics by 2019, invest in the business, including spectrum licenses (see “Cash Flows from Investing Activities”), pay dividends to our shareholders and, when appropriate, buy back shares of our outstanding common stock (see “Cash Flows from Financing Activities”).
On July 1, 2014, our Wireline segment sold a non-strategic business (see “Acquisitions and Divestitures”). Accordingly, the historical Wireline results for certain businesses, such as development stage businesses that support our strategic initiatives, from our Wireline segment to Corporate, eliminations and other. The impact of this reclassification was not material to our consolidated financial statements or our segment results of operations.

Corporate, eliminations and other includes unallocated corporate expenses such as certain pension and other employee benefit related costs, intersegment eliminations recorded in consolidation, the results of other businesses, such as our investments in unconsolidated businesses, lease financing as well as the historical results of divested operations, other adjustments and gains and losses that are not allocated in assessing segment performance due to their non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results as these items are included in the chief operating decision maker’s assessment of segment performance. We believe that this presentation assists users of our financial statements in better understanding our results of operations and trends from period to period. Effective January 1, 2014, we have also reclassified the results of certain businesses, such as development stage businesses that support our strategic initiatives, from our Wireline segment to Corporate, eliminations and other. The impact of this reclassification was not material to our consolidated financial statements or our segment results of operations.

On July 1, 2014, our Wireline segment sold a non-strategic business (see “Acquisitions and Divestitures”). Accordingly, the historical Wireline results for these operations, which were not material to our consolidated financial statements or our segment results of operations, have been reclassified to Corporate, eliminations and other. The results of operations related to this divestiture included within Corporate, eliminations and other are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>$256</td>
<td>$599</td>
<td>$835</td>
</tr>
<tr>
<td>Cost of services and sales</td>
<td>239</td>
<td>531</td>
<td>756</td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>5</td>
<td>25</td>
<td>23</td>
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**Consolidated Revenues**

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wireless</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service revenue</td>
<td>$72,630</td>
<td>$69,033</td>
<td>$63,733</td>
</tr>
<tr>
<td>Equipment and other</td>
<td>15,016</td>
<td>11,990</td>
<td>12,135</td>
</tr>
<tr>
<td>Total</td>
<td>87,646</td>
<td>81,023</td>
<td>75,868</td>
</tr>
<tr>
<td>Wireless</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mass Markets</td>
<td>18,047</td>
<td>17,383</td>
<td>16,746</td>
</tr>
<tr>
<td>Global Enterprise</td>
<td>13,684</td>
<td>14,182</td>
<td>14,577</td>
</tr>
<tr>
<td>Global Wholesale</td>
<td>6,222</td>
<td>6,594</td>
<td>7,094</td>
</tr>
<tr>
<td>Other</td>
<td>476</td>
<td>465</td>
<td>528</td>
</tr>
<tr>
<td>Total</td>
<td>38,429</td>
<td>38,624</td>
<td>38,945</td>
</tr>
<tr>
<td>Corporate, eliminations and other</td>
<td>1,004</td>
<td>903</td>
<td>1,033</td>
</tr>
<tr>
<td>Consolidated Revenues</td>
<td>$127,079</td>
<td>$120,550</td>
<td>$115,846</td>
</tr>
</tbody>
</table>

**2014 Compared to 2013**

The increase in consolidated revenues during 2014 compared to 2013 was primarily due to higher revenues at Wireless, as well as higher Mass Markets revenues driven by FiOS services at our Wireline segment. Partially offsetting these increases were lower Global Enterprise Core and Global Wholesale revenues at our Wireline segment.

Wireless’ revenues increased $6.6 billion, or 8.2%, during 2014 compared to 2013 primarily as a result of growth in service revenue and equipment revenue. The increase in service revenue, which does not include recurring equipment installment billings related to Verizon Edge, during 2014 compared to 2013 was primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of 4G LTE smartphones and tablets through our More Everything plans. Equipment and other revenue increased during 2014 compared to 2013 primarily due to an increase in equipment sales under both the traditional subsidy model and Verizon Edge. Retail postpaid connection net additions increased during 2014 compared to 2013 primarily due to an increase in retail postpaid connection gross additions partially offset by an increase in our retail postpaid connection churn rate. Retail postpaid connections per account increased as of December 31, 2014 compared to December 31, 2013 primarily due to the increased penetration of tablets.

Wireline’s revenues decreased $0.2 billion, or 0.5%, during 2014 compared to 2013 primarily as a result of declines in Global Enterprise Core and Global Wholesale, partially offset by higher Mass Markets revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise.
Mass Markets revenues increased $0.7 billion, or 3.8%, during 2014 compared to 2013 primarily due to the expansion of FiOS services (Voice, Internet and Video), including our FiOS Quantum offerings, as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues.

Global Enterprise revenues decreased $0.5 billion, or 3.5%, during 2014 compared to 2013 primarily due to lower voice services and data networking revenues, the contraction of market rates due to competition and a decline in Core customer premise equipment revenues. This decrease was partially offset by an increase in Strategic services revenues, primarily due to growth in our application services, such as our cloud and data center offerings and contact center solutions.

Global Wholesale revenues decreased $0.4 billion, or 5.6%, during 2014 compared to 2013 primarily due to a decline in data revenues driven by the continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities, as well as a decline in traditional voice revenues. During 2014, we also experienced a decline in domestic wholesale connections.

**2013 Compared to 2012**

The increase in consolidated revenues during 2013 compared to 2012 was primarily due to higher revenues at Wireless, as well as higher Mass Markets revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise at our Wireline segment. Partially offsetting these increases were lower Global Enterprise Core and Global Wholesale revenues at our Wireline segment.

Wireless’ revenues increased $5.2 billion, or 6.8%, during 2013 compared to 2012 due to growth in service revenue. Service revenue increased during 2013 compared to 2012 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of smartphones, tablets and other Internet devices through our Share Everything plans. Retail postpaid connection net additions decreased during 2013 compared to 2012 primarily due to an increase in our retail postpaid connection churn rate, partially offset by an increase in retail postpaid connection gross additions. Retail postpaid connections per account increased as of December 31, 2013 compared to December 31, 2012 primarily due to the increased penetration of tablets and other Internet devices.

Wireline’s revenues decreased $0.3 billion, or 0.8%, during 2013 compared to 2012 primarily driven by declines in Global Enterprise Core and Global Wholesale, partially offset by higher Mass Markets revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise.

Mass Markets revenues increased $0.6 billion, or 3.8%, during 2013 compared to 2012 due to the expansion of FiOS services (Voice, Internet and Video) as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues.

Global Wholesale revenues decreased $0.4 billion, or 2.7%, during 2013 compared to 2012 primarily due to a decline in Core customer premise equipment revenues and lower voice services and data networking revenues. This decrease was partially offset by growth in Strategic services revenues, primarily due to an increase in advanced services, such as contact center solutions, IP communications, and our cloud and data center offerings as well as revenue from a telematics services business that we acquired in the third quarter of 2012.

Global Enterprise revenues decreased $0.4 billion, or 7.0%, during 2013 compared to 2012 primarily due to a decline in Core customer premise equipment revenues and lower voice services and data networking revenues as a result of decreased minutes of use (MOUs) and a decline in domestic wholesale connections, partially offset by continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities as well as Ethernet migrations from other core customers.

Other revenues decreased during 2013 compared to 2012 primarily due to reduced volumes outside of our network footprint.

### Consolidated Operating Expenses

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of services and sales</td>
<td>$49,931</td>
<td>$44,887</td>
<td>$46,275</td>
<td>$5,044</td>
<td>11.2 %</td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>41,016</td>
<td>27,089</td>
<td>39,951</td>
<td>13,927</td>
<td>51.4</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>16,533</td>
<td>16,606</td>
<td>16,460</td>
<td>(73)</td>
<td>(0.4)</td>
</tr>
<tr>
<td><strong>Consolidated Operating Expenses</strong></td>
<td><strong>$107,480</strong></td>
<td><strong>$88,589</strong></td>
<td><strong>$102,686</strong></td>
<td><strong>$18,898</strong></td>
<td><strong>21.3 %</strong></td>
</tr>
</tbody>
</table>

Consolidated operating expenses increased during 2014 primarily due to non-operational charges recorded in 2014 as compared to non-operational credits recorded in 2013 (see “Other Items”) as well as increased operating expenses at Wireless. Consolidated operating expenses decreased during 2013 primarily due to non-operational credits recorded in 2013 as compared to non-operational charges recorded in 2012 (see “Other Items”).

### 2014 Compared to 2013

**Cost of Services and Sales**

Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits, materials and supplies, content costs, contracted services, network access and transport costs, wireless equipment costs, customer provisioning costs, computer systems support, costs to support our outsourcing contracts and technical facilities and contributions to the Universal Service Fund. Aggregate customer care costs, which include billing and service provisioning, are allocated between Cost of services and sales and Selling, general and administrative expense.

Cost of services and sales increased during 2014 compared to 2013 primarily due to an increase in cost of equipment sales of $5.3 billion at our Wireless segment as a result of an increase in the number of devices sold as well as an increase in the cost per unit.

**Selling, General and Administrative Expense**

Selling, general and administrative expense includes: salaries and wages and benefits not directly attributable to a service or product, bad debt charges, taxes other than income taxes, advertising and sales commission costs, customer billing, call center and information technology costs, regulatory fees, professional service fees, and rent and utilities for administrative space. Also included are a portion of the aggregate customer care costs as discussed in “Cost of Services and Sales” above.
Selling, general and administrative expense increased during 2014 compared to 2013 primarily due to non-operational charges, primarily severance, pension and benefit charges, recorded in 2014 as compared to non-operational credits, primarily severance, pension and benefit credits, recorded in 2013 (see “Other Items”).

**Depreciation and Amortization Expense**
Depreciation and amortization expense decreased during 2014 compared to 2013 primarily due to a decrease in net depreciable assets at our Wireline segment, partially offset by an increase in net depreciable assets at our Wireless segment.

**2013 Compared to 2012**
**Cost of Services and Sales**
Cost of services and sales decreased during 2013 compared to 2012 primarily due to a decrease in cost of equipment sales, decreased data roaming, a decline in cost of data services and a decrease in network connection costs at our Wireless segment, as well as a decrease in costs related to customer premise equipment, a decline in access costs and the net effect of storm-related insurance recoveries at our Wireline segment. Partially offsetting these decreases were higher content costs associated with continued FiOS subscriber growth and programming license fee increases at our Wireline segment, as well as increases in cost of network services at our Wireless segment.

**Selling, General and Administrative Expense**
Selling, general and administrative expense decreased during 2013 compared to 2012 primarily due to the non-operational credits recorded in 2013 and declines in employee costs at our Wireline segment as well as the non-operational charges recorded in 2012 (see “Other Items”). This decrease was partially offset by higher sales commission expense at our Wireless segment.

**Depreciation and Amortization Expense**
Depreciation and amortization expense increased during 2013 compared to 2012 primarily due to an increase in net depreciable assets at our Wireline segment and an increase in amortization expense at our Wireless segment. These increases were partially offset by a decline in net depreciable assets at our Wireless segment.

**Non-operational (Credits) Charges**
Non-operational (credits) charges included in operating expenses (see “Other Items”) were as follows:

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Severance, Pension and Benefit (Credits) Charges</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>$7,507</td>
<td>$6,232</td>
<td>$7,186</td>
</tr>
<tr>
<td><strong>Gain on Spectrum License Transactions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>(707)</td>
<td>(278)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Litigation Settlements</strong></td>
<td></td>
<td></td>
<td>384</td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>-</td>
<td>-</td>
<td>384</td>
</tr>
<tr>
<td><strong>Other Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of services and sales</td>
<td>27</td>
<td>-</td>
<td>40</td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>307</td>
<td>-</td>
<td>236</td>
</tr>
<tr>
<td><strong>Total non-operating (credits) charges included in operating expenses</strong></td>
<td>$7,134</td>
<td>$(6,510)</td>
<td>$7,846</td>
</tr>
</tbody>
</table>

See “Other Items” for a description of these and other non-operational items.

**Consolidated Operating Income and EBITDA**
Consolidated earnings before interest, taxes, depreciation and amortization expenses (Consolidated EBITDA) and Consolidated Adjusted EBITDA, which are presented below, are non-GAAP measures and do not purport to be alternatives to operating income as a measure of operating performance. Management believes that these measures are useful to investors and other users of our financial information in evaluating operating profitability on a more variable cost basis as they exclude the depreciation and amortization expense related primarily to capital expenditures and acquisitions that occurred in prior years, as well as in evaluating operating performance in relation to our competitors. Consolidated EBITDA is calculated by adding back interest, taxes, depreciation and amortization expense, equity in earnings of unconsolidated businesses and other income and (expense), net to net income.

Consolidated Adjusted EBITDA is calculated by excluding the effect of non-operational items and the impact of divested operations from the calculation of Consolidated EBITDA. Management believes that this measure provides additional relevant and useful information to investors and other users of our financial data in evaluating the effectiveness of our operations and underlying business trends in a manner that is consistent with management’s evaluation of business performance. See “Other Items” for additional details regarding these non-operational items.

Operating expenses include pension and benefit related credits and/or charges based on actuarial assumptions, including projected discount rates and an estimated return on plan assets. These estimates are updated in the fourth quarter to reflect actual return on plan assets and updated actuarial assumptions. The adjustment has been recognized in the income statement during the fourth quarter or upon a remeasurement event pursuant to our accounting policy for the recognition of actuarial gains/losses.

It is management’s intent to provide non-GAAP financial information to enhance the understanding of Verizon’s GAAP financial information, and it should be considered by the reader in addition to, but not instead of, the financial statements prepared in accordance with GAAP. Each non-GAAP financial measure is presented along with the corresponding GAAP measure so as not to imply that more emphasis should be placed on the non-GAAP measure. The non-GAAP financial information presented may be determined or calculated differently by other companies.

The changes in Consolidated Operating Income, Consolidated EBITDA and Consolidated Adjusted EBITDA in the table above were primarily a result of the factors described in connection with operating revenues and operating expenses.
Other Consolidated Results

Equity in Earnings of Unconsolidated Businesses

Equity in earnings of unconsolidated businesses increased $1.6 billion during 2014 compared to the similar period in 2013 primarily due to the gain of $1.9 billion recorded on the sale of our interest in Vodafone Omnitel N.V. (Vodafone Omnitel) during the first quarter of 2014, which was part of the consideration for the Wireless Transaction.

Equity in earnings of unconsolidated businesses decreased $0.2 billion, or 56.2%, in 2013 compared to 2012 primarily due to lower earnings from operations at Vodafone Omnitel. The decrease during 2013 was partially offset by an immaterial gain recorded by Verizon Wireless upon obtaining control of previously unconsolidated wireless partnerships, which were previously accounted for under the equity method and are now consolidated.

Other Income and (Expense), Net

Additional information relating to Other income and (expense), net is as follows:

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>$108</td>
<td>$64</td>
<td>$57</td>
</tr>
<tr>
<td>Other, net</td>
<td>(1,302)</td>
<td>(230)</td>
<td>(1,072)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(1,194)</td>
<td>(166)</td>
<td>(1,016)</td>
</tr>
</tbody>
</table>

Interest Expense

Total interest costs on debt balances increased during 2014 compared to 2013 primarily due to the issuance of fixed and floating rate notes to finance the Wireless Transaction (see “Acquisitions and Divestitures”) resulting in an increase in average debt and a corresponding increase in interest expense, partially offset by a lower effective interest rate (see “Consolidated Financial Condition”). Capitalized interest costs were lower in 2014 primarily due to a decrease in wireless licenses that are currently under development, which was due to the deployment of AWS licenses for commercial service during 2014.

Provision (Benefit) for Income Taxes

The effective income tax rate is calculated by dividing the provision for income taxes by income before the provision for income taxes. The effective income tax rate for 2014 was 21.7% compared to 19.6% for 2013. The increase in the effective income tax rate was primarily due to additional income taxes on the incremental income from the Wireless Transaction completed on February 21, 2014 and was partially offset by the utilization of certain tax credits in connection with the Omnitel Transaction in 2014 and the effective income tax rate impact of lower income before income taxes due to severance, pension and benefit charges recorded in 2014 compared to severance, pension and benefit credits recorded in 2013. The decrease in the provision for income taxes was primarily due to lower income before income taxes due to severance, pension and benefit charges recorded in 2014 compared to severance, pension and benefit credits recorded in 2013.
The effective income tax rate for 2013 was 19.6% compared to (6.7)% for 2012. The increase in the effective income tax rate and provision for income taxes was primarily due to higher income before income taxes as a result of severance, pension and benefit credits recorded during 2013 compared to lower income before income taxes as a result of severance, pension and benefit charges as well as early debt redemption costs recorded during 2012.

Our effective income tax rate differed significantly from the statutory federal income tax rate for 2013 and 2012 due to the inclusion of income attributable to Vodafone’s noncontrolling interest in the Verizon Wireless partnership for the full year within our income before the provision for income taxes. In 2013, we recorded a tax provision on income before the provision for income taxes and when we included the income attributable to Vodafone’s noncontrolling interest in the Verizon Wireless partnership in our income before the provision for income taxes, which resulted in a negative effective income tax rate. In this circumstance, including the income attributable to Vodafone’s noncontrolling interest in the Verizon Wireless partnership in our income before the provision for income taxes resulted in our negative effective tax rate being 300.3 percentage points higher during 2012.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for each period is included in Note 13 to the consolidated financial statements.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income attributable to noncontrolling interests</td>
<td>$ 2,331</td>
<td>$ 12,050</td>
<td>$ 9,682</td>
<td>$(9,719)</td>
<td>80.7%</td>
</tr>
<tr>
<td>Increase/(Decrease)</td>
<td>$ 2,368</td>
<td>24.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The decrease in Net income attributable to noncontrolling interests during 2014 compared to 2013 was primarily due to the completion of the Wireless Transaction on February 21, 2014. As a result, our results reflect our 55% ownership interest of Verizon Wireless through the closing of the Wireless Transaction and reflect our full ownership of Verizon Wireless for the remainder of the year. The noncontrolling interests that remained after the completion of the Wireless Transaction primarily relate to wireless partnership entities.

The increase in Net income attributable to noncontrolling interests during 2013 compared to 2012 was due to higher earnings in our Verizon Wireless segment, which had a 45% noncontrolling partnership interest attributable to Vodafone as of December 31, 2013.

**SEGMENT RESULTS OF OPERATIONS**

We have two reportable segments, Wireless and Wireline, which we operate and manage as strategic business units and organize by products and services. We measure and evaluate our reportable segments based on segment operating income. The use of segment operating income is consistent with the chief operating decision maker’s assessment of segment performance.

Segment earnings before interest, taxes, depreciation and amortization (Segment EBITDA), which is presented below, is a non-GAAP measure and does not purport to be an alternative to operating income as a measure of operating performance. Management believes that this measure is useful to investors and other users of our financial information in evaluating operating profitability on a more variable cost basis as it excludes the depreciation and amortization expenses related primarily to capital expenditures and acquisitions that occurred in prior years, as well as in evaluating operating performance in relation to our competitors. Segment EBITDA is calculated by adding back depreciation and amortization expense to segment operating income.

Wireless EBITDA margin is calculated by dividing Wireless EBITDA by total Wireless revenues. Wireless Segment EBITDA service margin, also presented below, is calculated by dividing Wireless Segment EBITDA by Wireless service revenues. Wireless Segment EBITDA service margin utilizes service revenues rather than total revenues. Service revenues primarily exclude equipment revenues in order to reflect the impact of providing service to the wireless customer base on an ongoing basis. Wireline EBITDA margin is calculated by dividing Wireline EBITDA by total Wireline revenues. You can find additional information about our segments in Note 14 to the consolidated financial statements.
Our Wireless segment is primarily comprised of Cellco Partnership doing business as Verizon Wireless. Cellco Partnership was formed as a joint venture in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone. Prior to the completion of the Wireless Transaction, Verizon owned a controlling 55% interest in Verizon Wireless and Vodafone owned the remaining 45%. On February 21, 2014, the Wireless Transaction was completed and Verizon acquired 100% ownership of Verizon Wireless. Verizon Wireless provides wireless communications services across one of the most extensive wireless networks in the United States.

We provide these services and equipment sales to consumer, business and government customers in the United States on a postpaid and prepaid basis. Postpaid connections represent individual lines of service for which a customer is billed in advance a monthly access charge in return for a monthly network service allowance, and usage beyond the allowance is billed monthly in arrears. Our prepaid service enables individuals to obtain wireless services without a long-term contract or credit verification by paying for all services in advance.

All financial results included in the tables below reflect the consolidated results of Verizon Wireless.

### Operating Revenues and Selected Operating Statistics

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2014 vs. 2013 Increase/(Decrease)</th>
<th>2013 vs. 2012 Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail service</td>
<td>$69,501</td>
<td>$66,334</td>
<td>$61,440</td>
<td>3,167 (4.8 %)</td>
<td>4,894 (8.0 %)</td>
</tr>
<tr>
<td>Other service</td>
<td>3,129</td>
<td>2,699</td>
<td>2,293</td>
<td>430 (15.9)</td>
<td>406 (17.7)</td>
</tr>
<tr>
<td>Service revenue</td>
<td>72,630</td>
<td>69,033</td>
<td>63,733</td>
<td>3,597 (5.2)</td>
<td>5,300 (8.3)</td>
</tr>
<tr>
<td>Equipment</td>
<td>10,959</td>
<td>8,111</td>
<td>8,023</td>
<td>2,848 (35.1)</td>
<td>88 (1.1)</td>
</tr>
<tr>
<td>Other</td>
<td>4,057</td>
<td>3,879</td>
<td>4,112</td>
<td>178 (4.6)</td>
<td>(233) (5.7)</td>
</tr>
<tr>
<td>Equipment and other</td>
<td>15,016</td>
<td>11,990</td>
<td>12,135</td>
<td>3,026 (25.2)</td>
<td>(145) (1.3)</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>$87,646</td>
<td>$81,023</td>
<td>$75,868</td>
<td>$6,623 (8.2)</td>
<td>$5,155 (6.8)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Connections ('000)(1)</th>
<th>Retail connections</th>
<th>108,211</th>
<th>102,799</th>
<th>98,230</th>
<th>5,412 (5.3)</th>
<th>4,569 (4.7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail postpaid connections</td>
<td>102,079</td>
<td>96,752</td>
<td>92,530</td>
<td>5,327 (5.5)</td>
<td>4,222 (4.6)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net additions in period ('000)(2)</th>
<th>Retail connections</th>
<th>5,568</th>
<th>4,472</th>
<th>5,917</th>
<th>1,096 (24.5)</th>
<th>(1,445) (24.4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail postpaid connections</td>
<td>5,482</td>
<td>4,118</td>
<td>5,024</td>
<td>1,364 (33.1)</td>
<td>(906) (18.0)</td>
<td></td>
</tr>
</tbody>
</table>

| Churn Rate: | Retail connections | 1.33% | 1.27% | 1.19% | | |
|-------------|-------------------|--------|--------|--------|| |
| Retail postpaid connections | 1.04% | 0.97% | 0.91% | | |

<table>
<thead>
<tr>
<th>Account Statistics:</th>
<th>Retail postpaid ARPA</th>
<th>$159.86</th>
<th>$153.93</th>
<th>$144.04</th>
<th>$5.93 (3.9)</th>
<th>9.89 (6.9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail postpaid accounts ('000)(3)</td>
<td>35,616</td>
<td>35,083</td>
<td>35,057</td>
<td>533 (1.5)</td>
<td>26 (0.1)</td>
<td></td>
</tr>
<tr>
<td>Retail postpaid connections per account(4)</td>
<td>2.87</td>
<td>2.76</td>
<td>2.64</td>
<td>0.11 (4.0)</td>
<td>0.12 (4.5)</td>
<td></td>
</tr>
</tbody>
</table>

(1) As of end of period
(2) Excluding acquisitions and adjustments

### 2014 Compared to 2013

Wireless’ total operating revenues increased by $6.6 billion, or 8.2%, during 2014 compared to 2013 primarily as a result of growth in service revenue and equipment revenue.

**Accounts and Connections**

Retail (non-wholesale) postpaid accounts primarily represent retail customers under contract with Verizon Wireless that are directly served and managed by Verizon Wireless and use its branded services. Accounts include More Everything plans and corporate accounts, as well as legacy single connection plans and family plans. A single account may include monthly wireless services for a variety of connected devices. Retail connections represent our retail customer device connections. Churn is the rate at which service to connections is terminated.

Retail connections under an account may include: smartphones, basic phones, tablets, LTE Internet (Installed) and other connected devices. Retail postpaid connection net additions increased during 2014 compared to 2013 primarily due to an increase in retail postpaid connection gross additions partially offset by an increase in our retail postpaid connection churn rate. Higher retail postpaid connection gross additions were driven by gross additions of tablets as well as 4G LTE smartphones. During 2014, our retail postpaid connection net additions included approximately 4.2 million tablets as compared to 1.4 million tablets in 2013.

**Retail Postpaid Connections per Account**

Retail postpaid connections per account is calculated by dividing the total number of retail postpaid connections by the number of retail postpaid accounts as of the end of the period. Retail postpaid connections per account increased 4.0% as of December 31, 2014 compared to December 31, 2013 primarily due to the increased penetration of tablets.
Service Revenue
Service revenue, which does not include recurring equipment installment billings related to Verizon Edge, increased by $3.6 billion, or 5.2%, during 2014 compared to 2013 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of 4G LTE smartphones and tablets through our More Everything plans. The penetration of 4G LTE smartphones was driven by the activation of smartphones by new customers as well as existing customers migrating from basic phones and 3G smartphones to 4G LTE smartphones.

The increase in retail postpaid ARPA (the average revenue per account from retail postpaid accounts), which does not include recurring equipment installment billings related to Verizon Edge, during 2014 compared to 2013 was primarily driven by increases in smartphone penetration and retail postpaid connections per account. As of December 31, 2014, we experienced a 4.0% increase in retail postpaid connections per account compared to 2013, with smartphones representing 79% of our retail postpaid phone base as of December 31, 2014 compared to 70% as of December 31, 2013. The increased penetration in retail postpaid connections per account is primarily due to increases in Internet data devices, which represented 14.1% of our retail postpaid connection base as of December 31, 2014 compared to 10.7% as of December 31, 2013, primarily due to tablet activations. Additionally, during 2014, postpaid smartphone activations represented 92% of phones activated compared to 86% during 2013.

Other service revenue increased during 2014 compared to 2013 due to growth in wholesale connections.

Equipment and Other Revenue
Equipment and other revenue increased during 2014 compared to 2013 primarily due to an increase in equipment sales under both the traditional subsidy model and Verizon Edge.

2013 Compared to 2012
The increase in Wireless’ total operating revenues of $5.2 billion, or 6.8%, during 2013 compared to 2012 was primarily the result of growth in service revenue.

Accounts and Connections
Retail postpaid connection net additions decreased during 2013 compared to 2012 primarily due to an increase in our retail postpaid connection churn rate, partially offset by an increase in retail postpaid connection gross additions.

Retail Postpaid Connections per Account
Retail postpaid connections per account increased 4.5% as of December 31, 2013 compared to December 31, 2012 primarily due to the increased penetration of tablets and other Internet devices.

Service Revenue
Service revenue increased $5.3 billion, or 8.3%, during 2013 compared to 2012 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of smartphones, tablets and other Internet devices through our Share Everything plans. The penetration of smartphones was driven by the activation of smartphones by new customers as well as existing customers migrating from basic phones to smartphones.

The increase in retail postpaid ARPA during 2013 compared to 2012 was primarily driven by increases in smartphone penetration and retail postpaid connections per account. As of December 31, 2013, we experienced a 4.5% increase in retail postpaid connections per account compared to 2012, with smartphones representing 70% of our retail postpaid phone base as of December 31, 2013 compared to 58% as of December 31, 2012. The increased penetration in retail postpaid connections per account is primarily due to increases in Internet data devices, which represented 10.7% of our retail postpaid connection base as of December 31, 2013 compared to 9.3% as of December 31, 2012, primarily due to activations of tablets and other Internet devices. Additionally, during 2013, postpaid smartphone activations represented 86% of phones activated compared to 77% during 2012.

Other service revenue increased during 2013 compared to 2012 due to growth in wholesale connections, partially offset by a decrease in revenue related to third party roaming.

Equipment and Other Revenue
Equipment and other revenue decreased during 2013 compared to 2012 as a decline in regulatory fees was partially offset by an increase in revenue related to upgrade fees.
Cost of Services and Sales
Cost of services and sales increased during 2014 compared to 2013 primarily due to an increase in cost of equipment sales of $5.3 billion as a result of an increase in the number of devices sold as well as an increase in the cost per unit. The increase in the number of devices sold was driven, in part, by the launch of new devices.

Cost of services and sales decreased during 2013 compared to 2012 primarily due to a decrease in cost of equipment sales of $0.4 billion, which was partially due to a decline in postpaid upgrades, decreased data roaming, a decline in cost of data services and a decrease in network connection costs due to the deployment of Ethernet backhaul facilities primarily targeted at sites upgrading to 4G LTE, partially offset by an increase in cost of network services.

Segment Operating Income and EBITDA

Cost of Services and Sales
Cost of services and sales increased during 2014 compared to 2013 primarily due to an increase in cost of equipment sales of $5.3 billion as a result of an increase in the number of devices sold as well as an increase in the cost per unit. The increase in the number of devices sold was driven, in part, by the launch of new devices.

Selling, General and Administrative Expense
Selling, general and administrative expense increased during 2014 compared to 2013 primarily due to a $0.2 billion increase in advertising expense and gains recorded in the first quarter of 2013 related to wireless license exchange agreements, partially offset by a decline in sales commission expense, which was driven by the adoption of Verizon Edge.

Selling, general and administrative expense increased during 2013 compared to 2012 primarily due to higher sales commission expense in our indirect channel. Indirect sales commission expense increased $1.1 billion during 2013 compared to 2012 primarily as a result of increases in indirect gross additions and upgrades, as well as the average commission per unit, as the mix of units continues to shift toward smartphones and more customers activate data services.

Depreciation and Amortization Expense
The increase in depreciation and amortization expense during 2014 compared to 2013 and 2013 compared to 2012, respectively, was primarily driven by an increase in net depreciable assets.

Non-operational items excluded from Wireless’ Operating income were as follows:

<table>
<thead>
<tr>
<th>Years Ended December 31</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain on spectrum license transactions</td>
<td>$ (707)</td>
<td>$ (278)</td>
<td>$ –</td>
</tr>
<tr>
<td>Severance, pension and benefit (credits) charges</td>
<td>86</td>
<td>(61)</td>
<td>37</td>
</tr>
<tr>
<td>Other costs</td>
<td>109</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>**$ (512)</td>
<td>**$ (339)</td>
<td>$ 37</td>
</tr>
</tbody>
</table>
Our Wireline segment provides voice, data and video communications products and enhanced services, including broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice services. We provide these products and services to consumers in the United States, as well as to carriers, businesses and government customers both in the United States and around the world.

On July 1, 2014, our Wireline segment sold a non-strategic business (see “Acquisitions and Divestitures”). Accordingly, the historical Wireline results for these operations, which were not material to our consolidated financial statements or our segment results of operations, have been reclassified to Corporate, eliminations and other to reflect comparable segment operating results.

Operating Revenues and Selected Operating Statistics

<table>
<thead>
<tr>
<th>Connections ('000)(1)</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total voice connections</td>
<td>$15,583</td>
<td>$14,842</td>
<td>$14,145</td>
<td>$741 (5.0 %)</td>
</tr>
<tr>
<td>Total Broadband connections</td>
<td>2,464</td>
<td>2,541</td>
<td>2,601</td>
<td>(77) (3.0 %)</td>
</tr>
<tr>
<td>Mass Markets</td>
<td>18,047</td>
<td>17,383</td>
<td>16,746</td>
<td>664 3.8</td>
</tr>
<tr>
<td>Strategic services</td>
<td>8,326</td>
<td>8,140</td>
<td>7,737</td>
<td>186 2.3</td>
</tr>
<tr>
<td>Core</td>
<td>5,358</td>
<td>6,042</td>
<td>6,840</td>
<td>(684) (11.3)</td>
</tr>
<tr>
<td>Global Enterprise</td>
<td>13,684</td>
<td>14,182</td>
<td>14,577</td>
<td>(498) (3.5)</td>
</tr>
<tr>
<td>Global Wholesale</td>
<td>6,222</td>
<td>6,594</td>
<td>7,094</td>
<td>(372) (5.6)</td>
</tr>
<tr>
<td>Other</td>
<td>476</td>
<td>465</td>
<td>528</td>
<td>11 2.4</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>$15,583</td>
<td>$14,842</td>
<td>$14,145</td>
<td>$741 (5.0 %)</td>
</tr>
</tbody>
</table>

Connections ('000)(1)

<table>
<thead>
<tr>
<th>Connections ('000)</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total voice connections</td>
<td>19,795</td>
<td>21,085</td>
<td>22,503</td>
<td>(1,290) (6.1)</td>
</tr>
<tr>
<td>Total Broadband connections</td>
<td>9,205</td>
<td>9,015</td>
<td>8,795</td>
<td>190 2.1</td>
</tr>
<tr>
<td>FiOS Internet subscribers</td>
<td>6,616</td>
<td>6,594</td>
<td>5,424</td>
<td>44 2.3</td>
</tr>
<tr>
<td>FiOS Video subscribers</td>
<td>5,649</td>
<td>5,262</td>
<td>4,726</td>
<td>387 7.4</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>$15,583</td>
<td>$14,842</td>
<td>$14,145</td>
<td>$741 (5.0 %)</td>
</tr>
</tbody>
</table>

(1) As of end of period

Wireline’s revenues decreased $0.2 billion, or 0.5%, during 2014 compared to 2013 primarily driven by declines in Global Enterprise Core and Global Wholesale, partially offset by higher Consumer retail revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise.

Mass Markets

Mass Markets operations provide broadband services (including high-speed Internet, FiOS Internet and FiOS Video services), local exchange (basic service and end-user access) and long distance (including regional toll) voice services to residential and small business subscribers. The increase in Mass Markets revenues was partially offset by the decline of local exchange revenues primarily due to a 5.5% decline in Consumer retail voice connections resulting primarily from competition and technology substitution with wireless, competing VoIP, and cable telephony services. Total voice connections include traditional switched access lines in service as well as FiOS digital voice connections. There was also a decline in Small business retail voice connections, primarily reflecting competition and a continuing shift to both IP and high-speed circuits.

2013 Compared to 2012

Mass Markets revenues increased $0.6 billion, or 3.8%, during 2013 compared to 2012 primarily due to the expansion of FiOS services (Voice, Internet and Video) as well as changes in our pricing strategies, partially offset by the continued offset of local exchange revenues.

During 2013, we grew our subscriber base by 0.6 million FiOS Internet subscribers and by 0.5 million FiOS Video subscribers, while also consistently improving penetration rates within our FiOS service areas. As of December 31, 2013, we achieved penetration rates of 39.5% and 35.0% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 39.5% and 35.0% for FiOS Internet and FiOS Video, respectively, at December 31, 2012.

During 2014, we grew our subscriber base by 0.5 million FiOS Internet subscribers and by 0.4 million FiOS Video subscribers, while also improving penetration rates within our FiOS service areas. As of December 31, 2014, we achieved penetration rates of 41.1% and 35.8% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 39.5% and 35.0% for FiOS Internet and FiOS Video, respectively, at December 31, 2013.
Global Wholesale
Global Wholesale provides communications services including data, voice and local dial tone and broadband services primarily to local, long distance and other carriers that use our facilities to provide services to their customers.

2014 Compared to 2013
Global Wholesale revenues decreased $0.4 billion, or 5.6%, during 2014 compared to 2013 primarily due to a decline in data revenues and traditional voice revenues. Data revenue declines were driven by the continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities. As a result of the customer migrations, at December 31, 2014, the number of core data circuits experienced a 14.2% decline compared to December 31, 2013. The traditional voice revenue declines are primarily due to a decrease in MOUs and the effect of technology substitution. During 2014, we also experienced a 6.2% decline in domestic wholesale connections. Also contributing to the decline in voice revenues is the continuing contraction of market rates due to competition.

2013 Compared to 2012
Global Wholesale revenues decreased $0.5 billion, or 7.0%, during 2013 compared to 2012 primarily due to a decline in data revenues and traditional voice revenues. Data revenue declines were driven by the continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities. As a result of the customer migrations, at December 31, 2014, the number of core data circuits experienced a 14.2% decline compared to December 31, 2013. The traditional voice revenue declines are primarily due to a decrease in MOUs and the effect of technology substitution. During 2014, we also experienced a 6.2% decline in domestic wholesale connections. Also contributing to the decline in voice revenues is the continuing contraction of market rates due to competition.

Global Enterprise
Global Enterprise offers Strategic services and other core communications services to medium and large business customers, multinational corporations and state and federal government customers.

2014 Compared to 2013
Global Enterprise revenues decreased $0.5 billion, or 3.5%, during 2014 compared to 2013 primarily due to a $0.5 billion, or 11.9%, decline related to lower voice services and data networking revenues, which consist of traditional circuit-based services such as frame relay, private line and legacy voice and data services. These core services declined compared to 2013 as customers continued to migrate to next generation IP services. Also contributing to the decrease was the contraction of market rates due to competition and a decline in core customer premise equipment revenues. This decrease was partially offset by an increase in Strategic services revenues of $0.2 billion, or 2.3%, primarily due to growth in our application services, such as our cloud and data center offerings and contact center solutions.

2013 Compared to 2012
Global Enterprise revenues decreased $0.4 billion, or 2.7%, during 2013 compared to 2012 primarily due to a $0.5 billion, or 27.1%, decline in core customer premise equipment revenues as well as lower voice services and data networking revenues, which consist of traditional circuit-based services such as frame relay, private line and legacy voice and data services. These core services declined in 2013 compared to 2012 as our customer base continued to migrate to next generation IP services. The decline in customer premise equipment revenues reflected our focus on improving margins by continuing to de-emphasize sales of equipment that are not part of an overall enterprise solutions bundle. This decrease was partially offset by growth in Strategic services revenues, which increased $0.4 billion, or 5.2%, during 2013 compared to 2012 primarily due to growth in advanced services, such as contact center solutions, IP communications and our cloud and data center offerings, as well as revenue from a telematics services business that we acquired in the third quarter of 2012.

Management’s Discussion and Analysis
Of Financial Condition and Results of Operations
continued
Cost of Services and Sales
Cost of services and sales decreased slightly during 2014 compared to 2013, primarily due to a decrease in costs related to customer premise equipment which reflected our focus on improving margins by de-emphasizing sales of equipment that are not part of an overall enterprise solutions bundle, a decline in access costs resulting primarily from declines in overall wholesale long distance volumes and the net effect of storm-related insurance recoveries. These decreases were partially offset by higher content costs associated with continued FiOS subscriber growth and programming license fee increases.

Cost of Services and Sales
Cost of services and sales decreased during 2013 compared to 2012, primarily due to a decrease in costs related to customer premise equipment which reflected our focus on improving margins by de-emphasizing sales of equipment that are not part of an overall enterprise solutions bundle, a decline in access costs resulting primarily from declines in overall wholesale long distance volumes and the net effect of storm-related insurance recoveries. These decreases were partially offset by higher content costs associated with continued FiOS subscriber growth and programming license fee increases.

The changes in Wireline’s Operating income, Segment EBITDA and Segment EBITDA margin during the periods presented were primarily a result of the factors described in connection with operating revenues and operating expenses.

Non-operational items excluded from Wireline’s Operating income were as follows:

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severance, pension and benefit charges</td>
<td>$189</td>
<td>$ –</td>
<td>$ –</td>
</tr>
<tr>
<td>Impact of divested operations</td>
<td>(12)</td>
<td>(43)</td>
<td>(56)</td>
</tr>
<tr>
<td>Other costs</td>
<td>137</td>
<td>–</td>
<td>56</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$314</strong></td>
<td><strong>$ (43)</strong></td>
<td><strong>$ –</strong></td>
</tr>
</tbody>
</table>
Severance, Pension and Benefit (Credits) Charges

During 2014, we recorded net pre-tax severance, pension and benefits charges of approximately $7.5 billion primarily for our pension and post-retirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The charges were primarily driven by a decrease in our discount rate assumption used to determine the current year liabilities from a weighted-average of 5.0% at December 31, 2013 to a weighted-average of 4.2% at December 31, 2014 ($5.2 billion), a change in mortality assumptions primarily driven by the use of updated actuarial tables (RP-2014 and MP-2014) issued by the Society of Actuaries in October 2014 ($1.8 billion) and revisions to the retirement assumptions for participants and other assumption adjustments, partially offset by the difference between our estimated return on assets of 7.25% and our actual return on assets of 10.5% ($0.6 billion). As part of this charge, we recorded severance costs of $0.5 billion under our existing separation plans.

During 2013, we recorded net pre-tax severance, pension and benefits credits of approximately $6.2 billion primarily for our pension and post-retirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The credits were primarily driven by an increase in our discount rate assumption used to determine the current year liabilities from a weighted-average of 4.2% at December 31, 2012 to a weighted-average of 5.0% at December 31, 2013 ($4.3 billion), lower than assumed retiree medical costs and other assumption adjustments ($1.4 billion) and the difference between our estimated return on assets of 7.5% at December 31, 2012 and our actual return on assets of 8.6% at December 31, 2013 ($0.5 billion).

During 2012, we recorded net pre-tax severance, pension and benefits charges of approximately $7.2 billion primarily for our pension and post-retirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The charges were primarily driven by a decrease in our discount rate assumption used to determine the current year liabilities from a weighted-average of 5% at December 31, 2011 to a weighted-average of 4.2% at December 31, 2012 ($5.3 billion) and revisions to the retirement assumptions for participants and other assumption adjustments, partially offset by the difference between our estimated return on assets of 7.5% and our actual return on assets of 10% ($0.7 billion). As part of this charge, we also recorded $1.0 billion related to the annuitization of pension liabilities (see “Employee Benefit Plan Funded Status and Contributions”) as well as severance charges of $0.4 billion.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (see “Consolidated Results of Operations”) excludes the severance, pension and benefit (credits) charges presented above.

Early Debt Redemption and Other Costs

During March 2014, we recorded net debt redemption costs of $0.9 billion in connection with the early redemption of $1.25 billion aggregate principal amount of Celco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, and the purchase of the following notes pursuant to the Tender Offer: $0.7 billion of the then outstanding $1.5 billion aggregate principal amount of Verizon 6.10% Notes due 2018, $0.8 billion of the then outstanding $1.5 billion aggregate principal amount of Verizon 5.50% Notes due 2018, $0.6 billion of the then outstanding $1.3 billion aggregate principal amount of Verizon 8.75% Notes due 2018, $0.7 billion of the then outstanding $1.25 billion aggregate principal amount of Verizon 5.55% Notes due 2016, $0.4 billion of the then outstanding $0.75 billion aggregate principal amount of Verizon 5.50% Notes due 2017, $0.6 billion of the then outstanding $1.0 billion aggregate principal amount of Celco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, $0.2 billion of the then outstanding $0.3 billion aggregate principal amount of Alltel Corporation 7.00% Debentures due 2016 and $0.3 billion of the then outstanding $0.6 billion aggregate principal amount of GTE Corporation 6.84% Debentures due 2018.

See Note 8 to the consolidated financial statements for additional information regarding the Tender Offer.

During the fourth quarter of 2014, we recorded net debt redemption costs of $0.5 billion in connection with the early redemption of $0.5 billion aggregate principal amount of Verizon 4.90% Notes due 2015, $0.6 billion aggregate principal amount of Verizon 5.55% Notes due 2016, $1.3 billion aggregate principal amount of Verizon 3.00% Notes due 2016, $0.4 billion aggregate principal amount of Verizon 5.50% Notes due 2017, $0.7 billion aggregate principal amount of Verizon 8.75% Notes due 2018, $1.0 billion of the then outstanding $3.2 billion aggregate principal amount of Verizon 2.50% Notes due 2016, $0.1 billion aggregate principal amount of Alltel Corporation 7.00% Debentures due 2016 and $0.4 billion aggregate principal amount of Celco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, as well as $0.3 billion of other costs.

During November 2012, we recorded debt redemption costs of $0.8 billion in connection with the purchase of $0.9 billion of the $1.25 billion of 8.95% Verizon Communications Notes due 2039 in a cash tender offer.

During December 2012, we recorded debt redemption costs of $0.3 billion in connection with the early redemption of $0.7 billion of the $2.0 billion of 8.75% Verizon Communications Notes due 2018, $1.0 billion of 4.625% Verizon Virginia LLC Debentures, Series A, due March 2013 and $0.75 billion of 4.35% Verizon Communications Notes due February 2013, as well as $0.3 billion of other costs.

We recognize early debt redemption costs in Other income and (expense), net on our consolidated statements of income.

Gain on Spectrum License Transactions

During the second quarter of 2014, we completed license exchange transactions with T-Mobile USA Inc. (T-Mobile USA) to exchange certain AWS and Personal Communication Services (PCS) licenses. The exchange included a number of swaps that we expect will result in more efficient use of the AWS and PCS bands. As a result of these exchanges, we received $0.9 billion of AWS and PCS spectrum licenses at fair value and we recorded an immaterial gain.
During the second quarter of 2014, we completed transactions pursuant to two additional agreements with T-Mobile USA with respect to our remaining 700 MHz A block spectrum licenses. Under one agreement, we sold certain of these licenses to T-Mobile USA in exchange for cash consideration of approximately $2.4 billion, and under the second agreement we exchanged the remainder of our 700 MHz A block spectrum licenses as well as AWS and PCS spectrum licenses for AWS and PCS spectrum licenses. As a result, we received $1.6 billion of AWS and PCS spectrum licenses at fair value and we recorded a pre-tax gain of approximately $0.7 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2014.

During the third quarter of 2013, after receiving the required regulatory approvals, Verizon Wireless sold 39 lower 700 MHz B block spectrum licenses to AT&T in exchange for a payment of $1.9 billion and the transfer by AT&T to Verizon Wireless of AWS (10 MHz) licenses in certain markets in the western United States. Verizon Wireless also sold certain lower 700 MHz B block spectrum licenses to an investment firm for a payment of $0.2 billion. As a result, we received $0.5 billion of AWS licenses at fair value and we recorded a pre-tax gain of approximately $0.3 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2013.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (see “Consolidated Results of Operations”) excludes the gains on the spectrum license transactions described above.

Wireless Transaction Costs

As a result of the third-party indebtedness incurred to finance the Wireless Transaction, we incurred interest expense of $0.4 billion during 2014 (see “Consolidated Financial Condition”). This amount represents the interest expense incurred prior to the closing of the Wireless Transaction.

During 2013, as a result of the Wireless Transaction, we recorded costs of $0.9 billion primarily for interest expense of $0.7 billion related to the issuance of the new notes, as well as $0.2 billion in fees primarily in connection with the bridge credit agreement (see “Consolidated Financial Condition”).

Gain on Sale of Omnitel Interest

As a result of the sale of the Omnitel Interest on February 21, 2014, which was part of the consideration for the Wireless Transaction, we recorded a gain of $1.9 billion in Equity in earnings of unconsolidated businesses on our consolidated statement of income during 2014.

Impact of Divested Operations

On July 1, 2014, we sold a non-strategic Wireline business, which provides communications solutions to a variety of government agencies.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (see “Consolidated Results of Operations”) excludes the historical financial results of the divested operations described above.

Litigation Settlements

In the third quarter of 2012, we settled a number of patent litigation matters, including cases with ActiveVideo Networks Inc. (ActiveVideo) and TiVo Inc. (TiVo). In connection with the settlements with ActiveVideo and TiVo, we recorded a charge of $0.4 billion in the third quarter of 2012 and will pay and recognize over the following six years an additional $0.2 billion.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (see “Consolidated Results of Operations”) excludes the litigation settlement costs presented above.

CONSOLIDATED FINANCIAL CONDITION

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flows Provided By (Used In)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td>$30,631</td>
<td>$38,818</td>
<td>$31,486</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(15,856)</td>
<td>(14,833)</td>
<td>(20,502)</td>
</tr>
<tr>
<td>Financing activities</td>
<td>(57,705)</td>
<td>26,450</td>
<td>(21,253)</td>
</tr>
<tr>
<td>Increase (Decrease) In Cash and Cash Equivalents</td>
<td>($42,930)</td>
<td>$50,435</td>
<td>($10,269)</td>
</tr>
</tbody>
</table>

We use the net cash generated from our operations to fund network expansion and modernization, service and repay external financing, pay dividends, invest in new businesses and, when appropriate, buy back shares of our outstanding common stock. Our sources of funds, primarily from operations and, to the extent necessary, from external financing arrangements, are sufficient to meet ongoing operating and investing requirements. The cash portion of the purchase price for the Wireless Transaction was primarily funded by the incurrence of third-party indebtedness (see “Acquisitions and Divestitures”). We expect that our capital spending requirements will continue to be financed primarily through internally generated funds. Debt or equity financing may be needed to fund additional investments or development activities or to maintain an appropriate capital structure to ensure our financial flexibility. Our cash and cash equivalents are primarily held domestically in diversified accounts and are invested to maintain principal and liquidity. Accordingly, we do not have significant exposure to foreign currency fluctuations. See “Market Risk” for additional information regarding our foreign currency risk management strategies.

Our available external financing arrangements include credit available under credit facilities and other bank lines of credit, vendor financing arrangements, issuances of registered debt or equity securities and privately-placed capital market securities. We may also issue short-term debt through an active commercial paper program and have an $8.0 billion credit facility to support such commercial paper issuances.
Capital expenditures, including capitalized software, were as follows:

Capital expenditures continue to be a primary use of capital resources as they facilitate the introduction of new products and services, enhance customer requirements for products and services and take advantage of new growth opportunities across our lines of business.

Net cash provided by operating activities during 2013 increased by $7.3 billion compared to 2012 primarily due to higher consolidated earnings, lower pension contributions and improved working capital levels. The increase in net cash provided by operating activities in 2013 was partially offset by an increase in earnings at our Wireless segment.

On February 21, 2014, we completed the Wireless Transaction which provides full access to the cash flows of Verizon Wireless. Having full access to all the cash flows from our wireless business gives us the ability to continue to invest in our networks and spectrum, meet evolving customer requirements for products and services and take advantage of new growth opportunities across our lines of business.

Net cash provided by operating activities during 2013 increased by $7.3 billion compared to 2012 primarily due to higher consolidated earnings, lower pension contributions and improved working capital levels. The increase in net cash provided by operating activities in 2013 was partially offset by an increase in earnings at our Wireless segment.

On January 29, 2015, the FCC completed an auction of 65 MHz of spectrum, which it identified as the AWS-3 band. Verizon participated in that auction, and was the high bidder on 181 spectrum licenses, for which we will pay approximately $10.4 billion. During the fourth quarter of 2014, we made a deposit of $0.9 billion related to our participation in this auction. On February 13, 2015, we made a down payment of $1.2 billion for these spectrum licenses. Verizon has submitted an application for these licenses and must complete payment for them in the first quarter of 2015. During January 2015, we entered into a term loan agreement with a major financial institution, pursuant to which we expect to borrow $6.5 billion to pay for the spectrum licenses. The proceeds from the Tower Monetization Transaction, which we expect to receive in the first half of 2015, will be used to repay the majority of the term loan outstanding. See Note 2 to the consolidated financial statements for additional information regarding the Tower Monetization Transaction and Note 8 to the consolidated financial statements for additional information regarding the term loan agreement.

In February 2014, Verizon acquired a business dedicated to the development of IP television for cash consideration that was not significant.

During the fourth quarter of 2013, Verizon acquired an industry leader in content delivery networks for $0.4 billion. Additionally, we acquired a technology company for cash consideration that was not significant.

During 2012, we paid approximately $4.3 billion to acquire wireless licenses primarily to meet future LTE capacity needs and enable LTE expansion. Additionally, during 2012, we acquired HUGHES Telematics, a provider of telematics services, for $0.6 billion. See Note 2 to the consolidated financial statements for additional information.

Dispositions

During 2014, we received proceeds of $2.4 billion related to spectrum license transactions and $0.1 billion related to the disposition of a non-strategic Wireline business. See Note 2 to the consolidated financial statements for additional information.

During 2013, we completed the sale of 700 MHz lower B block spectrum licenses and as a result, we received proceeds of $2.1 billion.

During 2012, we received $0.4 billion related to the sale of some of our 700 MHz lower A and B block spectrum licenses. We acquired these licenses as part of FCC Auction 73 in 2008.

Other, net

For the year ended December 31, 2014, Other, net included the deposit of $0.9 billion related to our participation in the FCC auction of spectrum in the AWS-3 band.
We seek to maintain a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. During 2014, 2013 and 2012, net cash provided by (used in) financing activities was $(57.7) billion, $26.5 billion and $(21.3) billion, respectively.

2014

During 2014, our net cash used in financing activities of $57.7 billion was primarily driven by:
- $58.9 billion used to partially fund the Wireless Transaction (see Note 2 to the consolidated financial statements);
- $17.7 billion used for repayments of long-term borrowings and capital lease obligations; and
- $7.8 billion used for dividend payments.

These uses of cash were partially offset by proceeds from long-term borrowings of $31.0 billion.

Proceeds from and Repayments of Long-Term Borrowings

As of December 31, 2014, our total debt increased to $113.3 billion as compared to $93.6 billion at December 31, 2013 primarily as a result of additional debt issued to finance the Wireless Transaction. Since the substantial majority of our total debt portfolio consists of fixed rate indebtedness, changes in interest rates do not have a material effect on our interest payments. Throughout 2014, we accessed the capital markets to optimize the maturity schedule of our debt portfolio and take advantage of lower interest rates, thereby reducing our effective interest rate to 4.9% from 5.2% in 2013. See Note 8 to the consolidated financial statements for additional details regarding our debt activity.

At December 31, 2014, approximately $96.6 billion or 8.5% of the aggregate principal amount of our total debt portfolio consisted of foreign denominated debt, primarily the Euro and British Pound Sterling. We have entered into cross currency swaps in order to fix our future interest and principal payments in U.S. dollars and mitigate the impact of foreign currency transaction gains or losses. See “Market Risk” for additional information. See “Other Items” for additional information related to the early debt redemption costs incurred in 2014.

Dividends

The Verizon Board of Directors assesses the level of our dividend payments on a periodic basis taking into account such factors as long-term growth opportunities, internal cash requirements and the expectations of our shareowners. During the third quarter of 2014, the Board increased our quarterly dividend payment 3.8% to $.55 per share from $.53 per share in 2013. This is the eighth consecutive year that Verizon’s Board of Directors has approved a quarterly dividend increase.

As in prior periods, dividend payments were a significant use of capital resources. During 2014, we paid $7.8 billion in dividends compared to $5.9 billion in 2013. The increase is primarily due to the issuance of approximately 1.27 billion additional shares of common stock as a result of the Wireless Transaction.

2013

During 2013, our net cash provided by financing activities of $26.5 billion was primarily driven by proceeds from long-term borrowings of $49.2 billion to fund the Wireless Transaction. This source of cash was partially offset by:
- $8.2 billion used for repayments of long-term borrowings and capital lease obligations;
- $5.9 billion used for dividend payments; and
- $3.2 billion used for a special distribution to a noncontrolling interest.

Proceeds from and Repayments of Long-Term Borrowings

As of December 31, 2013, our total debt increased to $93.6 billion as compared to $52.0 billion at December 31, 2012 primarily as a result of additional debt issued to finance the Wireless Transaction. Since the substantial majority of our total debt portfolio consists of fixed rate indebtedness, changes in interest rates do not have a material effect on our interest payments. See Note 8 to the consolidated financial statements for additional details regarding our debt activity.

Dividends

During the third quarter of 2013, the Board increased our quarterly dividend payment 2.9% to $.53 per share from $.515 per share in the same period of 2012. As in prior periods, dividend payments were a significant use of capital resources.

Special Distributions

In May 2013, the Board of Representatives of Verizon Wireless declared a distribution to its owners, which was paid in the second quarter of 2013 in proportion to their partnership interests on the payment date, in the aggregate amount of $7.0 billion. As a result, Vodafone received a cash payment of $3.15 billion and the remainder of the distribution was received by Verizon.

Other, net

The change in Other, net financing activities during 2013 compared to 2012 was primarily driven by higher distributions to Vodafone, which owned a 45% noncontrolling interest in Verizon Wireless as of December 31, 2013.

2012

During 2012, our net cash used in financing activities of $21.3 billion was primarily driven by:
- $8.3 billion used for a special distribution to a noncontrolling interest;
- $6.4 billion used for repayments of long-term borrowings and capital lease obligations; and
- $5.2 billion used for dividend payments.

These uses of cash were partially offset by proceeds from long-term borrowings of $4.5 billion.

Proceeds from and Repayments of Long-Term Borrowings

As of December 31, 2012, our total debt decreased to $52.0 billion as compared to $55.2 billion at December 31, 2011 primarily as a result of the repayment of long-term borrowings. Since the substantial majority of our total debt portfolio consists of fixed rate indebtedness, changes in interest rates do not have a material effect on our interest payments. See “Other Items” for additional information related to the early debt redemption costs incurred in 2012.

Other, net

The change in Other, net financing activities during 2012 compared to 2011 was primarily driven by higher distributions to Vodafone, and higher early debt redemption costs (see “Other Items”).
Dividends
During the third quarter of 2012, the Board increased our quarterly dividend payment 3.0% to $0.515 per share from $0.50 per share in the same period of 2011. As in prior periods, dividend payments were a significant use of capital resources.

Special Distributions
In November 2012, the Board of Representatives of Verizon Wireless declared a distribution to its owners, which was paid in the fourth quarter of 2012 in proportion to their partnership interests on the payment date, in the aggregate amount of $8.5 billion. As a result, Vodafone received a cash payment of $3.8 billion and the remainder of the distribution was received by Verizon.

In July 2011, the Board of Representatives of Verizon Wireless declared a distribution to its owners, which was paid in the first quarter of 2012 in proportion to their partnership interests on the payment date, in the aggregate amount of $10 billion. As a result, Vodafone received a cash payment of $4.5 billion and the remainder of the distribution was received by Verizon.

Credit Facilities
On July 31, 2014, we amended our $6.2 billion credit facility to increase the availability to $8.0 billion and extend the maturity to July 31, 2018. At the same time, we terminated our $2.0 billion 364-day revolving credit agreement. As of December 31, 2014, the unused borrowing capacity under this credit facility was approximately $7.9 billion. The credit facility does not require us to comply with financial covenants or maintain specified credit ratings, and it permits us to borrow even if our business has incurred a material adverse change. We use the credit facility for the issuance of letters of credit and for general corporate purposes.

Common Stock
Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans, including 18.2 million, 6.9 million and 24.6 million common shares issued from Treasury stock during 2014, 2013 and 2012, respectively, which had aggregate values of $0.7 billion, $0.3 billion and $1.0 billion, respectively.

As a result of the Wireless Transaction, in February 2014, Verizon issued approximately 1.27 billion shares.

On March 7, 2014, the Verizon Board of Directors approved a share buyback program, which authorizes the repurchase of up to 100 million shares of Verizon common stock terminating no later than the close of business on February 28, 2017. The program permits Verizon to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs. The Board also determined that no additional shares were to be purchased under the prior program. During 2013, we repurchased $0.2 billion of our common stock under our previous share buyback program. There were no repurchases of common stock during 2014 or 2012.

In addition to the previously authorized three-year share buyback program, in February 2015, the Verizon Board of Directors authorized Verizon to enter into an accelerated share repurchase (ASR) agreement to repurchase $5.0 billion of the Company’s common stock. The total number of shares that Verizon will repurchase under the ASR agreement will be based generally upon the volume-weighted average share price of Verizon’s common stock during the term of the transaction. On February 10, 2015, in exchange for an up-front payment totaling $5.0 billion, Verizon received an initial delivery of 86.2 million shares having a value of approximately $4.25 billion. Final settlement of the transaction under the ASR agreement, including delivery of the remaining shares, if any, that Verizon is entitled to receive, is scheduled to occur in the second quarter of 2015.

Credit Ratings
Verizon’s credit ratings did not change in 2014.

During the third quarter of 2013, Verizon’s credit ratings were downgraded by Moody’s Investors Service (Moody’s), Standard & Poor’s Ratings Services (Standard & Poor’s) and Fitch Ratings (Fitch) as a result of Verizon’s announcement of the agreement to acquire Vodafone’s 45% noncontrolling interest in Verizon Wireless for approximately $130 billion including the incurrence of third-party indebtedness to fund the cash portion of the purchase price for the Wireless Transaction. Moody’s downgraded Verizon’s long-term debt ratings one notch from A3 to Baa1, while Standard & Poor’s lowered its corporate credit rating and senior unsecured debt rating one notch from A- to BBB+ and Fitch lowered its long-term issuer default rating and senior unsecured debt rating one notch from A to A-. Securities ratings assigned by rating organizations are expressions of opinion and are not recommendations to buy, sell or hold securities. A securities rating is subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

Covenants
Our credit agreements contain covenants that are typical for large, investment grade companies. These covenants include requirements to pay interest and principal in a timely fashion, pay taxes, maintain insurance with responsible and reputable insurance companies, preserve our corporate existence, keep appropriate books and records of financial transactions, maintain our properties, provide financial and other reports to our lenders, limit pledging and disposition of assets and mergers and consolidations, and other similar covenants. Additionally, our term loan credit agreements require us to maintain a leverage ratio (as such term is defined in those agreements) not in excess of 3.50:1.00 until our credit ratings are equal to or higher than A3 and A-. See Note 8 to the consolidated financial statements for additional details related to our term loan credit agreement.

We and our consolidated subsidiaries are in compliance with all debt covenants.
Free cash flow is a non-GAAP financial measure that management believes is useful to investors and other users of Verizon’s financial information in evaluating cash available to pay debt and dividends. Free cash flow is calculated by subtracting capital expenditures from net cash provided by operating activities. The following table reconciles net cash flow is calculated by subtracting capital expenditures from net cash provided by operating activities.

Free Cash Flow

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>$ 30,631</td>
<td>$ 38,818</td>
<td>$ 31,486</td>
</tr>
<tr>
<td>Less Capital expenditures (including capitalized software)</td>
<td>17,191</td>
<td>16,604</td>
<td>16,175</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>$ 13,440</td>
<td>$ 22,214</td>
<td>$ 15,311</td>
</tr>
</tbody>
</table>

The changes in free cash flow during 2014, 2013 and 2012 were a result of the factors described in connection with net cash provided by operating activities and capital expenditures. On February 21, 2014, we completed the Wireless Transaction which provides full access to the cash flows of Verizon Wireless. The completion of the Wireless Transaction resulted in an increase in income tax payments as well as an increase in interest payments, which reduced our net cash provided by operating activities (see “Cash Flows Provided by Operating Activities”).

Employer Contributions

We operate numerous qualified and nonqualified pension plans and other postretirement benefit plans. These plans primarily relate to our domestic business units. During 2014 and 2013, contributions to our qualified pension plans were $1.5 billion and not material, respectively. During 2012, we contributed $0.9 billion to our qualified pension plans, excluding the pension annuitization discussed above. We also contributed $0.1 billion, $0.1 billion and $0.2 billion to our nonqualified pension plans in 2014, 2013 and 2012, respectively.

In an effort to reduce the risk of our portfolio strategy and better align assets with liabilities, we have adopted a liability driven pension strategy that seeks to better match cash flows from investments with projected benefit payments. We expect that the strategy will reduce the likelihood that assets will decline at a time when liabilities increase (referred to as liability hedging), with the goal to reduce the risk of underfunding to the plan and its participants and beneficiaries, however, we also expect the strategy to result in lower asset returns. Based on this strategy and the funded status of the plans at December 31, 2014, we expect the minimum required qualified pension plan contribution in 2015 to be $0.7 billion. Nonqualified pension contributions are estimated to be approximately $0.1 billion in 2015.

Contributions to our other postretirement benefit plans generally relate to payments for benefits on an as-incurred basis since the other postretirement benefit plans do not have funding requirements similar to the pension plans. We contributed $0.7 billion, $1.4 billion and $1.5 billion to our other postretirement benefit plans in 2014, 2013 and 2012, respectively. Contributions to our other postretirement benefit plans are estimated to be approximately $0.8 billion in 2015.

Leasing Arrangements

See Note 7 to the consolidated financial statements for a discussion of leasing arrangements.
**Guarantees**

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries as well as the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003 (see Note 8 to the consolidated financial statements).

In connection with the execution of agreements for the sale of businesses and investments, Verizon ordinarily provides representations and warranties to the purchasers pertaining to a variety of nonfinancial matters, such as ownership of the securities being sold, as well as financial losses (see Note 17 to the consolidated financial statements).

As of December 31, 2014, letters of credit totaling approximately $0.1 billion, which were executed in the normal course of business and support several financing arrangements and payment obligations to third parties, were outstanding (see Note 17 to the consolidated financial statements).

**MARKET RISK**

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes, foreign currency exchange rate fluctuations, changes in investment, equity and commodity prices and changes in corporate tax rates. We employ risk management strategies, which may include the use of a variety of derivatives including cross currency swaps, foreign currency and prepaid forwards and collars, interest rate swap agreements, commodity swap and forward agreements and interest rate locks. We do not hold derivatives for trading purposes.

It is our general policy to enter into interest rate, foreign currency and other derivative transactions only to the extent necessary to achieve our desired objectives in limiting our exposure to various market risks. Our objectives include maintaining a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. We do not hedge our market risk exposure in a manner that would completely eliminate the effect of changes in interest rates and foreign exchange rates on our earnings. At December 31, 2014, we posted collateral of approximately $0.6 billion related to derivative contracts under collateral exchange arrangements. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote. As such, we do not expect that our results of operations or financial condition will be materially affected by these risk management strategies.
We are exposed to changes in interest rates, primarily on our short-term debt and the portion of long-term debt that carries floating interest rates. As of December 31, 2014, approximately 86% of the aggregate principal amount of our total debt portfolio consisted of fixed rate indebtedness, including the effect of interest rate swap agreements designated as hedges. The impact of a 100 basis point change in interest rates affecting our floating rate debt would result in a change in annual interest expense, including our interest rate swap agreements that are designated as hedges, of approximately $0.2 billion. The interest rates on substantially all of our existing long-term debt obligations are unaffected by changes to our credit ratings.

The table that follows summarizes the fair values of our long-term debt, including current maturities, and interest rate swap derivatives as of December 31, 2014 and 2013. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming 100-basis-point upward and downward shifts in the yield curve. Our sensitivity analysis does not include the fair values of our commercial paper and bank loans, if any, because they are not significantly affected by changes in market interest rates.

### Interest Rate Swaps
We enter into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. We principally receive fixed rates and pay variable rates based on LIBOR, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on our consolidated balance sheets as assets and liabilities.

During the second quarter of 2013, interest rate swaps with a notional value of $1.25 billion matured and the impact to our consolidated financial statements was not material. During the third quarter of 2013, we entered into interest rate swaps with a total notional value of $1.8 billion. At December 31, 2014 and 2013, the fair value of these interest rate swaps was not material. At December 31, 2014, the total notional amount of these interest rate swaps was $1.8 billion. The ineffective portion of these interest rate swaps was not material at December 31, 2014 and 2013.

### Forward Interest Rate Swaps
In order to manage our exposure to future interest rate changes, during the fourth quarter of 2013, we entered into forward interest rate swaps with a notional value of $2.0 billion. In March 2014, we settled these forward interest rate swaps and the pre-tax gain was not material. During 2014, we entered into forward interest rate swaps with a total notional value of $4.8 billion. We designated these contracts as cash flow hedges. During the fourth quarter of 2014, we settled $2.8 billion of forward interest rate swaps and the pre-tax loss was not material. The fair value of these contracts was $0.2 billion, which was included within Other liabilities on our consolidated balance sheet, at December 31, 2014 and was not material at December 31, 2013.

### Foreign Currency Translation
The functional currency for our foreign operations is primarily the local currency. The translation of income statement and balance sheet amounts of our foreign operations into U.S. dollars is recorded as cumulative translation adjustments, which are included in Accumulated other comprehensive income in our consolidated balance sheets. Gains and losses on foreign currency transactions are recorded in the consolidated statements of income in Other income and (expense), net. At December 31, 2014, our primary translation exposure was to the British Pound Sterling and the Euro.

#### Cross Currency Swaps
Verizon Wireless previously entered into cross currency swaps designated as cash flow hedges to exchange approximately $1.6 billion of British Pound Sterling and Euro-denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses. In June 2014, we settled $0.8 billion of these cross currency swaps and the gains with respect to these swaps were not material.

During the first quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $5.4 billion of Euro and British Pound Sterling denominated debt into U.S. dollars. During the second quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $1.2 billion of British Pound Sterling denominated debt into U.S. dollars. During the fourth quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $3.0 billion of Euro denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars. Each of these cross currency swaps was entered into in order to mitigate the impact of foreign currency transaction gains or losses.

A portion of the gains and losses recognized in Other comprehensive income was reclassified to Other income and (expense), net to offset the related pre-tax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was $0.6 billion, which was primarily included within Other liabilities on our consolidated balance sheet, at December 31, 2014 and was not material at December 31, 2013. During 2014 and 2013, a pre-tax loss of $0.1 billion and an immaterial pre-tax gain, respectively, were recognized in Other comprehensive income with respect to these swaps.

## Interest Rate Risk

<table>
<thead>
<tr>
<th>Long-term debt and related derivatives</th>
<th>Fair Value at December 31, 2014 (dollars in millions)</th>
<th>Fair Value at December 31, 2013 (dollars in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$126,139</td>
<td>$115,695</td>
</tr>
<tr>
<td>+ 100 basis point shift</td>
<td>$115,695</td>
<td>$138,420</td>
</tr>
<tr>
<td>- 100 basis point shift</td>
<td>$138,420</td>
<td>$115,695</td>
</tr>
</tbody>
</table>

## Foreign Currency Translation

The functional currency for our foreign operations is primarily the local currency. The translation of income statement and balance sheet amounts of our foreign operations into U.S. dollars is recorded as cumulative translation adjustments, which are included in Accumulated other comprehensive income in our consolidated balance sheets. Gains and losses on foreign currency transactions are recorded in the consolidated statements of income in Other income and (expense), net. At December 31, 2014, our primary translation exposure was to the British Pound Sterling and the Euro.

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Verizon Wireless previously entered into cross currency swaps designated as cash flow hedges to exchange approximately $1.6 billion of British Pound Sterling and Euro-denominated debt into U.S. dollars. During the second quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $1.2 billion of British Pound Sterling denominated debt into U.S. dollars. During the fourth quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $3.0 billion of Euro denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars. Each of these cross currency swaps was entered into in order to mitigate the impact of foreign currency transaction gains or losses.

A portion of the gains and losses recognized in Other comprehensive income was reclassified to Other income and (expense), net to offset the related pre-tax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was $0.6 billion, which was primarily included within Other liabilities on our consolidated balance sheet, at December 31, 2014 and was not material at December 31, 2013. During 2014 and 2013, a pre-tax loss of $0.1 billion and an immaterial pre-tax gain, respectively, were recognized in Other comprehensive income with respect to these swaps.
In 2012, our quantitative impairment test consisted of comparing the carrying value of our wireless licenses to the aggregated carrying amount as of the test date. If the estimated fair value of our wireless licenses was less than the aggregated carrying amount of the wireless licenses then an impairment charge would have been recognized. Our annual quantitative impairment test for 2012 indicated that the fair value significantly exceeded the carrying value and, therefore, did not result in an impairment.

Critical Accounting Estimates

A summary of the critical accounting estimates used in preparing our financial statements is as follows:

- Wireless licenses and Goodwill are a significant component of our consolidated assets. Both our wireless licenses and goodwill are treated as indefinite-lived intangible assets and, therefore, are not amortized, but rather are tested for impairment annually in the fourth fiscal quarter, unless there are events or changes in circumstances during an interim period that indicate these assets may not be recoverable. We believe our estimates and assumptions are reasonable and represent appropriate marketplace considerations as of the valuation date. We do not believe that reasonably likely adverse changes in our assumptions and estimates would result in an impairment charge as of our latest impairment testing date. However, if there is a substantial and sustained adverse decline in our operating profitability, we may have impairment charges in future years. Any such impairment charge could be material to our results of operations and financial condition.

Wireless Licenses

The carrying value of our wireless licenses was approximately $75.3 billion as of December 31, 2014. We aggregate our wireless licenses into one single unit of accounting, as we utilize our wireless licenses on an integrated basis as part of our nationwide wireless network. Our wireless licenses provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communication services. There are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses. In 2014 and 2013, we performed a qualitative impairment assessment to determine whether it is more likely than not that the fair value of our wireless licenses was less than the carrying amount. As part of our assessment we considered several qualitative factors including the business enterprise value of Wireless, macroeconomic conditions (including changes in interest rates and discount rates), industry and market considerations (including industry revenue and EBITDA margin projections), the projected financial performance of Wireless, as well as other factors. Based on our assessment in 2014 and 2013, we qualitatively concluded that it was more likely than not that the fair value of our wireless licenses significantly exceeded their carrying value and therefore, did not result in an impairment.

In 2012, our quantitative impairment test consisted of comparing the estimated fair value of our wireless licenses to the aggregated carrying amount as of the test date. If the estimated fair value of our wireless licenses was less than the aggregated carrying amount of the wireless licenses then an impairment charge would have been recognized. Our annual quantitative impairment test for 2012 indicated that the fair value significantly exceeded the carrying value and, therefore, did not result in an impairment.

In 2012, using a quantitative assessment, we estimated the fair value of our wireless licenses using a direct income based valuation approach. This approach uses a discounted cash flow analysis to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. As a result, we were required to make significant estimates about future cash flows specifically associated with our wireless licenses, an appropriate discount rate based on the risk associated with those estimated cash flows and assumed terminal value and growth rates. We considered current and expected future economic conditions, current and expected availability of wireless network technology and infrastructure and related equipment and the costs thereof as well as other relevant factors in estimating future cash flows. The discount rate represented our estimate of the weighted-average cost of capital (WACC), or expected return, that a marketplace participant would have required as of the valuation date. We developed the discount rate based on our consideration of the cost of debt and equity of a group of guideline companies as of the valuation date. Accordingly, our discount rate incorporated our estimate of the expected return a marketplace participant would have required as of the valuation date, including the risk premium associated with the current and expected economic conditions as of the valuation date. The terminal value growth rate represented our estimate of the marketplace's long-term growth rate.

Goodwill

At December 31, 2014, the balance of our goodwill was approximately $24.6 billion, of which $18.4 billion was in our Wireless segment and $6.2 billion was in our Wireline segment. Determining whether an impairment has occurred requires the determination of fair value of each respective reporting unit. Our operating segments, Wireless and Wireline, are deemed to be our reporting units for purposes of goodwill impairment testing. The fair value of Wireless significantly exceeded its carrying value and the fair value of Wireline exceeded its carrying value. Accordingly, our annual impairment tests for 2014, 2013 and 2012 did not result in an impairment.

The fair value of the reporting unit is calculated using a market approach and a discounted cash flow method. The market approach includes the use of comparative multiples to corroborate discounted cash flow results. The discounted cash flow method is based on the present value of two components—projected cash flows and a terminal value. The terminal value represents the expected normalized future cash flows of the reporting unit beyond the cash flows from the discrete projection period. The fair value of the reporting unit is calculated based on the sum of the present value of the cash flows from the discrete period and the present value of the terminal value. The estimated cash flows are discounted using a rate that represents our WACC.
• We maintain benefit plans for most of our employees, including, for certain employees, pension and other postretirement benefit plans. At December 31, 2014, in the aggregate, pension plan benefit obligations exceeded the fair value of pension plan assets, which will result in higher future pension plan expense. Other postretirement benefit plans have larger benefit obligations than plan assets, resulting in expense. Significant benefit plan assumptions, including the discount rate used, the long-term rate of return on plan assets and health care trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations. A sensitivity analysis of the impact of changes in these assumptions on the benefit obligations and expense (income) recorded, as well as on the funded status due to an increase or a decrease in the actual versus expected return on plan assets as of December 31, 2014 and for the year then ended pertaining to Verizon’s pension and postretirement benefit plans is provided in the table below.

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>Percentage point change</th>
<th>Increase (decrease) at December 31, 2014*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension plans discount rate</td>
<td>+0.50</td>
<td>$ (1,375)</td>
</tr>
<tr>
<td></td>
<td>-0.50</td>
<td>1,526</td>
</tr>
<tr>
<td>Rate of return on pension plan assets</td>
<td>+1.00</td>
<td>(163)</td>
</tr>
<tr>
<td></td>
<td>-1.00</td>
<td>163</td>
</tr>
<tr>
<td>Postretirement plans discount rate</td>
<td>+0.50</td>
<td>(1,838)</td>
</tr>
<tr>
<td></td>
<td>-0.50</td>
<td>2,081</td>
</tr>
<tr>
<td>Rate of return on postretirement plan assets</td>
<td>+1.00</td>
<td>(29)</td>
</tr>
<tr>
<td></td>
<td>-1.00</td>
<td>29</td>
</tr>
<tr>
<td>Health care trend rates</td>
<td>+1.00</td>
<td>3,760</td>
</tr>
<tr>
<td></td>
<td>-1.00</td>
<td>(3,023)</td>
</tr>
</tbody>
</table>

* In determining its pension and other postretirement obligation, the Company used a weighted-average discount rate of 4.2%. The rate was selected to approximate the composite interest rates available on a selection of high-quality bonds available in the market at December 31, 2014. The bonds selected had maturities that coincided with the time periods during which benefits payments are expected to occur, were non-callable and available in sufficient quantities to ensure marketability (at least $0.3 billion par outstanding).

• Our current and deferred income taxes, and associated valuation allowances, are impacted by events and transactions arising in the normal course of business as well as in connection with the adoption of new accounting standards, changes in tax laws and rates, acquisitions and dispositions of businesses and non-recurring items. As a global commercial enterprise, our income tax rate and the classification of income taxes can be affected by many factors, including estimates of the timing and realization of deferred income tax assets and the timing and amount of income tax payments. We account for tax benefits taken or expected to be taken in our tax returns in accordance with the accounting standard relating to the uncertainty in income taxes, which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. We review and adjust our liability for unrecognized tax benefits based on our best judgment given the facts, circumstances, and information available at each reporting date. To the extent that the final outcome of these tax positions is different than the amounts recorded, such differences may impact income tax expense and actual tax payments. We recognize any interest and penalties accrued related to unrecognized tax benefits

Recently Issued Accounting Standards

See Note 1 to the consolidated financial statements for a discussion of recently issued accounting standard updates not yet adopted as of December 31, 2014.
On February 21, 2014, we completed the Wireless Transaction for aggregate consideration of approximately $130 billion. The consideration paid was primarily comprised of cash of approximately $58.89 billion, Verizon common stock with a value of approximately $61.3 billion and other consideration.

On February 21, 2014, Verizon and Vodafone also consummated the sale of the Omnitel Interest (the Omnitel Transaction) by a subsidiary of Verizon to a subsidiary of Vodafone in connection with the Wireless Transaction pursuant to a separate share purchase agreement. As a result, during 2014, we recognized a pre-tax gain of $1.9 billion on the disposal of the Omnitel interest.

On January 29, 2015, the FCC completed an auction of 65 MHz of spectrum, which it identified as the AWS-3 band. Verizon participated in that auction, and was the high bidder on 181 spectrum licenses, for which we will pay approximately $10.4 billion. During the fourth quarter of 2014, we made a deposit of $0.9 billion related to our participation in this auction. On February 13, 2015, we made a down payment of $1.2 billion for these spectrum licenses. Verizon has submitted an application for these licenses and must complete payment for them in the first quarter of 2015.

From time to time, we enter into agreements to buy, sell or exchange spectrum licenses. We believe these spectrum license transactions have allowed us to continue to enhance the reliability of our network while also resulting in a more efficient use of spectrum. See Note 2 to the consolidated financial statements for additional details regarding our spectrum license transactions.

On February 5, 2015, we announced an agreement with American Tower pursuant to which American Tower will have the exclusive right to lease, acquire or otherwise operate and manage many of our wireless towers for an upfront payment of $5.1 billion, which also includes payment for the sale of 165 towers. See Note 2 to the consolidated financial statements for additional information.

On February 5, 2015, we announced that we have entered into a definitive agreement with Frontier pursuant to which Verizon will sell its local exchange business and related landline activities in California, Florida, and Texas, including FiOS Internet and Video customers, switched and special access lines and high-speed Internet service and long distance voice accounts in these three states for approximately $10.5 billion. See Note 2 to the consolidated financial statements for additional information.

During the fourth quarter of 2014, Redbox Instant by Verizon, a venture between Verizon and Redbox Automated Retail, LLC (Redbox), a wholly-owned subsidiary of Outerwall Inc., ceased providing service to its customers. In accordance with an agreement between the parties, Redbox withdrew from the venture on October 20, 2014 and Verizon wound down and dissolved the venture during the fourth quarter of 2014. As a result of the termination of the venture, we recorded a pre-tax loss of $0.1 billion in the fourth quarter of 2014.

During February 2014, Verizon acquired a business dedicated to the development of IP television for cash consideration that was not significant.

During the fourth quarter of 2013, Verizon acquired an industry leader in content delivery networks for $0.4 billion.

During July 2014, Verizon sold a non-strategic Wireline business for cash consideration that was not significant. Additionally, during July 2012, we acquired HUGHES Telematics for approximately $12 per share in cash for a total acquisition price of $0.6 billion. The acquisition has accelerated our ability to bring more telematics offerings to market for existing and new customers. See Note 2 to the consolidated financial statements for additional information.
CAUTIONARY STATEMENT CONCERNING
FORWARD-LOOKING STATEMENTS

In this report we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words “anticipates,” “believes,” “estimates,” “hopes” or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, along with those discussed elsewhere in this report and in other filings with the Securities and Exchange Commission (SEC), could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

• adverse conditions in the U.S. and international economies;
• the effects of competition in the markets in which we operate;
• material changes in technology or technology substitution;
• disruption of our key suppliers’ provisioning of products or services;
• changes in the regulatory environment in which we operate, including any increase in restrictions on our ability to operate our networks;
• breaches of network or information technology security, natural disasters, terrorist attacks or acts of war or significant litigation and any resulting financial impact not covered by insurance;
• our high level of indebtedness;
• an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets affecting the cost, including interest rates, and/or availability of further financing;
• material adverse changes in labor matters, including labor negotiations, and any resulting financial and/or operational impact;
• significant increases in benefit plan costs or lower investment returns on plan assets;
• changes in tax laws or treaties, or in their interpretation;
• changes in accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings; and
• the inability to implement our business strategies.

MANAGEMENT’S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
continued