In periods of rapid change, the most important question a corporate leader can ask is, are we the company we need to be for the future?

We have asked ourselves that question many times throughout Verizon’s history, and we’ve responded with forward-looking actions that have kept us at the forefront of our industry. Anticipating the mobile revolution, we built the nation’s best wireless network. Recognizing that fiber would overtake copper, we led the transition to broadband. Seeing that video was going mobile, we invested in wireless capacity and added to our skill set in digital video. At each inflection point, we’ve demonstrated our ability to use periods of industry disruption to create new sources of growth, while still delivering on the fundamentals on which Verizon is built. The result has been a remarkably durable record of growth and profitability in a rapidly transforming industry.

In 2015, the pace of change in communications accelerated, driven by fundamental shifts in technology, industry structure and demographics. Once again, we face hard questions about how to transform our company to compete and grow in this new environment and, once again, we’ve stepped up to the challenge of positioning Verizon to be an innovator in the digital-first mobile future while delivering another year of strong operating and financial performance.

Let me share the highlights of this transformational year.

**Delivering innovation**

Our strategy for continued growth and profitability is straightforward: deliver great wireless and wireline services over our superior networks, develop new business models in platforms such as video and the Internet of Things, and create incremental revenue opportunities in applications and content. We delivered on all elements of this three-tiered strategy in 2015.

The U.S. communications marketplace continues to show its strength in a changing environment, as we see in both our wireless and wireline businesses. Mobile and broadband usage is growing, driven by demand for data and video. Verizon’s base of high-quality customers also continues to grow. We ended 2015 with 112.1 million retail wireless connections, 7 million Fios Internet subscribers and 5.8 million Fios Video subscribers, with strong demand for smartphones, tablets and our high-speed Fios Quantum service. This steady demand for mobile and consumer broadband fueled our revenue growth in 2015. Total operating revenues were $131.6 billion, an increase of 3.6 percent over 2014.

Most important, as video, music and commerce all migrate to mobile and digital platforms, our services are more embedded in customers’ lives than ever before. Therefore, Job #1 for Verizon is reinforcing the network superiority that is the defining characteristic of our brand. In 2015, we invested approximately $28 billion in capital and spectrum licenses to increase the future capacity of our wireless network, fill out our all-fiber network in the Boston-to-Washington corridor and enhance our global Internet backbone.

Our leadership in 4G LTE wireless technology has enabled us to keep
ahead of the rapid increase in wireless data traffic, about 90 percent of which now rides on the 4G LTE network. In wireline, customers are taking advantage of the tremendous capacity of our fiber-to-the-home Fios network, with more than 70 percent of consumer Fios customers subscribing to speeds of 50 megabits per second or higher. Our commitment to network excellence has kept us at the top of Root Metrics’ rankings of wireless reliability, speed and network performance for five years in a row. Also, Fios Internet ranked highest among Internet Service Providers in a recent J.D. Power survey of customer satisfaction for three out of four regions of the country.

Verizon intends to lead the way to the 5G world.

By enhancing our networks with fiber, small cells, in-building systems, antennas and other capacity-boosting technologies, we’re not only increasing our ability to meet today’s surging demand for wireless data and video, we’re also getting our network ready for 5G wireless technology. This has the potential to substantially increase the throughput and responsiveness of wireless networks. As we have done with previous technology shifts in network architecture, Verizon intends to lead the way to the 5G world and has already begun to work with technology partners to develop the standards and market applications that will drive deployment. We expect to conduct trials of 5G in 2016 and move aggressively to commercial deployment thereafter. We believe that 5G will be the foundation for a new wave of growth and consumer benefits in such areas as mobile video, smart cities and other applications under development.

We’ve historically had a two-year advantage on our competitors when it comes to network advances, and we’re investing to make sure that this remains a source of competitive advantage.

Better matters

One of the most important metrics for us is customer loyalty. In the wireless business, this is expressed as the percentage of customers who leave, or “churn,” for another carrier every month. I’m proud to report that our 0.96 percent churn rate led the industry in 2015. We see this as evidence that, in the words of our new brand campaign, “better matters” — not just with respect to network quality, but the entire customer experience.

While there’s no doubt that customers value what Verizon provides, it’s also clear that what customers want is changing rapidly. In particular, millennials — who have now surpassed the Baby Boomers as the largest segment of the U.S. population — behave very differently than traditional customers when it comes to managing their digital...
lives: they view most of their video online, discover most of their content on a mobile device and put a premium on services that are digital-first, on-demand and personalized to their individual needs.

We cannot succeed with these new customers by doing more of the same; rather, we need to innovate and evolve our products around what the digital-first customer wants.

To start with, we are using our “better matters” mantra to examine the way we interface with customers at every touch point – from the experience in our stores to the buying process on our website – and are making it easier for customers to transact more of their business with us online. We listened to customers’ frustration with the 300-channel bundle of TV stations that bloat the traditional cable package and introduced a smaller bundle called Custom TV that now accounts for about one-third of Fios Video sales. We simplified complicated wireless price plans and data packages into easy-to-understand buckets labeled Small, Medium, Large and X-Large. We know we have much more work to do to make ourselves easier to do business with, but this is a healthy process that’s helping us clear out the obsolete or overly complex practices that have grown up in our business and focus on what’s most important to customers.

We have also come together around a simple, powerful purpose: to deliver the promise of the digital world. We deliver on that promise every day by connecting millions of customers to what they need most and providing the infrastructure that makes the global economy work. Moreover, we’re using our resources to help create the next generation of innovators. Through the Verizon Foundation, we work with educators across the country to create hands-on, technology-driven models for learning that are showing great promise in equipping young people for the jobs of the future. Our programs help students develop specific skills like coding, as well as the broader life skills of critical thinking, collaboration and entrepreneurship. As a result, young people in these programs are more interested in studying science, technology, engineering and math, and in pursuing careers in these areas. Education is just one social challenge being transformed by the possibilities of smart technologies. For more on what we’re doing to create smarter, more sustainable communities, see our 2015 Corporate Responsibility Report.

On the strategic front, we made a major move in the mobile media marketplace by acquiring AOL in June 2015. With AOL, we now have a highly sophisticated mobile advertising platform, as well as popular online content like the Huffington
Post, Engadget and TechCrunch. We also launched a mobile-first social entertainment platform called go90, with content aimed at the millennial customer – an app we’ve described as Hulu meets Twitter. Go90 offers customers a whole different experience than they get from linear TV and, while it’s early in the game, we have been able to strike content deals with such partners as the NFL, the NBA, Awesomeness TV, Vice Media and major advertisers who are interested in reaching the young, highly mobile viewer who may not subscribe to traditional video services. With the global market for mobile commerce already at $48 billion and growing, the intersection of digital and mobile represents a significant incremental growth opportunity for Verizon.

The other new business opportunity for us is the Internet of Things (IoT), which brings connected solutions to the physical environment. Already, IoT is creating a new revenue stream for Verizon, with revenues of about $690 million in 2015, up 18 percent year over year. We have a strong and growing presence in the field of telematics through which we help companies manage large fleets of vehicles and provide connected car services to manufacturers such as Mercedes Benz. We launched several products in this space in 2015, including hum, a connected car solution; GridWide, a smart energy product; Intelligent Lighting, which manages lighting in cities and industrial sites; and an agricultural technology solution that manages water resources and monitors crop conditions in large farms. We also created a platform called ThingSpace for developers of IoT applications, which enables developers to use our 4G LTE network to launch their products. ThingSpace is already hosting more than 4,000 developers, in just its first few months of operation.

These moves into digital video and IoT build on a foundation we’ve laid with several years’ worth of strategic acquisitions and business development. They also leverage our concerted efforts to accelerate our innovation flywheel by establishing product development groups in Silicon Valley and Los Angeles to augment our existing Innovation Centers in Waltham, Massachusetts and San Francisco. Because we anticipated the shift to mobile video, we are now a leader in the complex art of delivering advertising and video content in a TV-everywhere world. Our core wireless and wireline businesses benefit from these efforts also, as we continue to add to our product lineup with enhancements such as Fios Custom TV.

We are just at the beginning of the evolution to mobile-first video and IoT deployment. As these platforms
become widespread, they will drive more and more traffic on our wireless and broadband networks. More broadly, they will be the central ecosystem for technology development, unleashing a cascade of innovations with the potential to make our lives richer and our society safer and smarter in such fields as healthcare, education, energy management and smart cities. Also, the markets for these services are global, giving us a new, less capital-intensive path to expand the Verizon brand globally.

For all these reasons, we believe these are big, scalable businesses that leverage our core assets and will contribute meaningfully to our growth in the next three to five years.

Delivering results

Underpinning Verizon’s transformation is our continued attention to the fundamentals of the business. Thanks to our management team’s unrelenting operational discipline and the incomparable dedication of our front-line employees, our wireless and wireline businesses are executing well, based on our core attributes of network quality, customer service and efficiency. The result is another year of growth and profitability. Cash flows from operating activities totaled $38.9 billion in 2015, compared with $30.6 billion in 2014. Adjusted EBITDA margin expanded year over year to 35.4 percent, evidence of our rigorous attention to improving the efficiency of our operating model and freeing up resources that can be used to move the business forward.

Our strong cash flows support consistent investment in networks and a record of dividend increases that now stands at nine consecutive years.

We’re committed to setting the standard for excellence in our industry, now and in the future.

We continued to sharpen our strategic focus in 2015 with the planned sale of some telecom properties to Frontier (expected to close at the end of the first quarter of 2016) and the monetization of certain tower assets. We used some of the proceeds to return value to shareowners in the form of an accelerated stock repurchase in 2015 and plan to further repay debt in 2016. Our balance sheet is strong, and we remain on target with the debt reduction outlined at the time of our acquisition of Vodafone’s interest in Verizon Wireless. We are committed to returning to our pre-Vodafone transaction credit rating profile in the 2018–2019 time frame.

Adjusted earnings per share (EPS) for 2015 were $3.99, up 19.1 percent over $3.35 in adjusted EPS in 2014. Total return to shareowners for the year was 3.5 percent, which reflects more than $13.5 billion in dividends and stock repurchases and exceeds the performance of the Dow Jones Industrial Average and the S&P 500 for 2015. We remain confident in the performance of our core businesses and believe that our strategy of delivering strong operating results and creating new business models will fuel our growth over the long term.

Delivering the future

Not many companies can transform their businesses in a time of accelerating change. It requires a management team that can do many things at once: maintain a strong core business, bring totally new products and technologies to market, remain financially sound, and stay true to their values. While we haven’t chosen the easy road, I am confident we will prevail — as we have in the past — because we’re willing to disrupt the industry, rather than wait to be disrupted. Most of all, we will win because we have the two things that are essential to any company that succeeds over the long term: a strong, customer-centric culture and an essential role in making the world a better place.

I am grateful to our leadership team and our Board for their courage and guidance through this exciting period of our history. Our employees embody the values at the heart of our Credo, and I continue to marvel at their dedication to customers and willingness to embrace change as we transform our company for the future. More change is coming, but no matter how fast the flywheel spins, we will remain true to the values and strengths that have made us great. We’re committed to setting the standard for excellence in our industry, now and in the future.

Our best years are ahead of us.

Lowell McAdam
Chairman and Chief Executive Officer
Verizon Communications Inc.