Dear Shareowner,

2012 was a year of accelerating momentum, for Verizon and the communications industry. The revolution in mobile, broadband and cloud networks picked up steam—continuing to disrupt and transform huge sectors of our society, from finance to entertainment to healthcare. To compete and grow in such a dynamic environment requires a commitment to innovation, a focus on continuous improvement and service excellence, a rigorous attention to building shareholder value and a deep belief in the social benefits of our empowering technology.

Over the past year we demonstrated our leadership on all these fronts.

At the core of our growth strategy is our commitment to using our technology to address the world’s big challenges. How can we improve the lives of our customers? How can technology make businesses more efficient? How will innovation in healthcare, education and energy management transform society for the better? As you will see in this report, Verizon’s networks provide a platform for answering these questions in new and powerful ways—creating new growth opportunities for our company and expanding our positive impact on society.
SUPERIOR NETWORKS

At Verizon we have always believed that innovation in networks is the foundation for growth across the whole industry. Our strength rests on having the best, most reliable wireless, broadband and global Internet networks in the industry, and over the years we have consistently invested our capital to reinforce and extend our lead and get ahead of the trends that are driving growth in our industry.

The importance of this strategy has never been more evident than in 2012.

Explosive demand for mobile data is arguably the biggest driver of growth in the technology industry today. Verizon helped usher in this innovative era in 2010 with the launch of our 4G LTE wireless network, which delivers the speed and capacity required for wireless data and video, and we have led the industry in deploying this vital resource across the U.S. As of January 22, 2013, Verizon’s 4G LTE network covered nearly 89 percent of the U.S. population, and we expect to cover nearly our entire 3G network footprint by the end of this year. To further support the increased bandwidth necessary for growth in wireless data, we acquired additional wireless spectrum in 2012 from a consortium of cable companies, putting us in a strong position to capitalize on this growth trend for the foreseeable future.

We showed the same commitment to building and reinforcing our core assets in our wireline networks. With data traffic on the Internet backbone multiplying rapidly, we expanded the capacity of our global Internet network, connecting most of the major cities in the U.S. and the busiest routes in Europe and Asia with networks that can deliver 100 gigabits per second (Gbps) speeds. We also continue to redefine our residential broadband network around fiber with our innovative FiOS network, which takes fiber all the way to customers’ homes. Not only does FiOS transform our customers’ broadband experience, it also is far more efficient than the legacy copper network. FiOS now reaches about two-thirds of our wireline footprint, and we’re systematically upgrading customers from copper to the fiber platform that provides better service for them and lower costs for us.
INNOVATIVE PRODUCTS AND SERVICES

Building on our cornerstone of network excellence, we are delivering a steady stream of innovative products that are shifting our center of gravity toward growth markets. Meeting customer demand for wireless data and smartphones, we launched dozens of 4G LTE phones and Internet devices. We revolutionized wireless pricing with our new “Share Everything” plans, which allow customers to share text, talk and data among up to ten different devices. This is accelerating the adoption of these new devices and helped push smartphone penetration to 58 percent by the end of 2012. Our commitment to quality has been recognized by J. D. Power, which has rated Verizon Wireless number-one in customer service in four consecutive surveys.

FiOS is proving to be another platform for growth, with its Internet and video services accounting for 68 percent of consumer wireline revenues. We are leveraging the tremendous capabilities of fiber-optics with FiOS Quantum, which delivers speeds of up to 300 megabits per second (Mbps) and was named by PCMag.com the fastest residential broadband service in the country. With customers connecting an increasing array of computers, game players, televisions and other devices in the home to their broadband connection, we believe the virtually unlimited capacity of fiber will give us a sustainable competitive edge in the consumer market.

In our enterprise business, we are building or acquiring the platforms to ride on our network that will enable us to deliver the services that global enterprises require. For example, we acquired two companies in 2011, Terremark and CloudSwitch, that give us a core competency in the fast-growing market for enterprise cloud and security services. Another key acquisition is Hughes Telematics, Inc. (HTI), a leading provider of machine-to-machine, fleet and connected car services. As Internet connectivity is built into electronic equipment, appliances, buildings and utility grids, new technology solutions are emerging in such fields as healthcare, energy, transportation and e-commerce. Verizon will use the HTI machine-to-machine platform to be a big player in these emerging growth markets.

All of these initiatives are transforming our growth profile. Consumer wireline revenues grew by 3.2 percent for the year—the best in a decade—fueled by double-digit growth in FiOS. Wireless had 5.9 million retail connection net additions—with fourth-quarter net adds in retail postpaid the highest in our history—for an industry leading total of 98.2 million retail connections, and saw total operating revenues increase by 8.1 percent. Despite continuing economic challenges in global markets, revenues from strategic business services grew by 6.3 percent.

TRANSFORMING THE BUSINESS THROUGH STRATEGIC PARTNERSHIPS

With technology permeating every corner of business and society, no single company can deliver everything customers want and need without having great partners. At Verizon, partnerships are a fundamental piece of our growth strategy, helping us branch into new markets, stimulate innovation and broaden our geographic reach.

In 2012, we took several major steps to create strategic advantages through collaboration.
Today’s customers want to be able to access video content on any screen — TV, personal computer, tablet or cellphone — wherever and whenever it’s convenient for them. To address this demand, Verizon Wireless is partnering with the nation’s major cable companies to deliver video solutions on a national scale across our 4G LTE wireless and cable networks. We are also using this partnership to encourage content developers and entrepreneurs to develop innovative mobile video services that we can deliver over these powerful platforms.

In addition, we’re giving customers more video options through a new venture with Redbox Automated Retail, LLC, a subsidiary of Coinstar, Inc. Our new service, Redbox Instant by Verizon, offers on-demand video streaming powered by Verizon’s cloud computing technologies and IP networks, supplemented by Redbox’s network of more than 42,000 DVD rental kiosks nationwide.

More broadly, we are helping to stimulate the innovation process that will drive the transformative power of mobile and machine-to-machine technologies into new markets. We have two Innovation Centers in Waltham, Massachusetts and San Francisco, California where we bring entrepreneurs, developers and partners together with Verizon network engineers in state-of-the-art laboratories to develop new LTE products and get them to market quickly. This collaboration with more than 125 different partners is producing an impressive range of exciting new products, services and applications. We demonstrated more than 60 of these at the 2013 Consumer Electronics Show, with far-ranging applications in fields such as public safety, healthcare monitoring, mobile video, energy management and education (for more information, see the “Powerful Answers” section of this report).

With this focused and aggressive innovation program, we not only increase demand for Verizon’s network services but also give people the tools for solving problems and enhancing their lives in exciting new ways.

**ADDRESSING THE WORLD’S BIGGEST CHALLENGES**

Some of the biggest opportunities for Verizon lie in the intersection between our empowering technology and our society’s deepest needs. For example, we are expanding in the field of digital healthcare with a mobile health platform that gives clinicians and patients a better tool for monitoring patients and managing chronic diseases. Our machine-to-machine solutions are helping to modernize electrical and transportation systems, providing customers with greater control over their energy use. Going forward, we seek to build additional vertical capabilities centered on technology solutions in such fields as education, e-commerce and public safety.

We believe that using our talent and technology to address society’s biggest challenges will both grow our business and change the world for the better. We call this strategy “Shared Success,” an integrated approach to growth that drives both our business development and corporate responsibility efforts. As evidence of our disciplined process, we have developed metrics for tracking the social impact of our technology on the communities we serve, which we track in this report (see page 20). To increase the impact of our philanthropic resources, we have refocused the Verizon Foundation on becoming a channel for innovation and social change. The Foundation is working with leading nonprofit organizations such as the Children’s Health Fund to test technology solutions in real-world settings and extend access to new technology into underserved communities.
Just as Verizon’s Innovation Program has become an incubator for new business solutions in the marketplace, the Verizon Foundation aims to become an incubator for new social solutions.

**CREATING SHAREOWNER VALUE**

As focused as we are on using our technology to transform the world, we are equally driven to transform our own business from the inside out. We have implemented Verizon Lean Six Sigma, a rigorous process improvement model, to identify areas where we can streamline how we work and eliminate internal barriers that impede productivity and service excellence. In just the last 18 months, we have removed $4 billion from our cost structure.

Our 2012 results reflect our fundamental financial strength, our commitment to growing shareowner value and our success in seizing opportunities in our key strategic growth areas. Revenues totaled $115.8 billion, up 4.5 percent. We generated $31.5 billion in cash flow from operating activities, an increase of 5.7 percent. With these healthy cash flows, we invested $16.2 billion in our networks and paid $5.2 billion in dividends, which included our 6th dividend increase in as many years. Earnings per common share increased 4.2 percent to $2.24 on an adjusted basis. Overall, Verizon’s total return to shareowners for 2012 was 13.2 percent, as compared with 10.2 percent for the Dow Jones Industrial Average and 16 percent for the S&P 500.

**EMPLOYEE DEDICATION**

Being a responsible citizen is at the heart of our business, and can be seen in the commitment of our employees to providing customers with the best possible service. Nowhere was that dedication more apparent than in the wake of Superstorm Sandy, which wreaked havoc on the East Coast of the United States. For months, our employees worked nearly non-stop to restore communications services, rebuild badly damaged infrastructure and upgrade our networks against future disasters.

The Verizon Credo says “we run to a crisis.” As usual, Verizon employees came through. I thank each and every one of them for their dedication to our customers and communities.

I am grateful to our Board of Directors for their strategic guidance and support in helping us build Verizon to be successful for decades to come. I’m confident about the trajectory of our business and inspired by our potential for making a difference in the world. Verizon is in the center of a powerful transformation, and is well positioned to create long-term value for our customers, shareowners and communities.

Lowell McAdam
Chairman and Chief Executive Officer
Verizon Communications Inc.