FINANCIAL AND CORPORATE RESPONSIBILITY PERFORMANCE

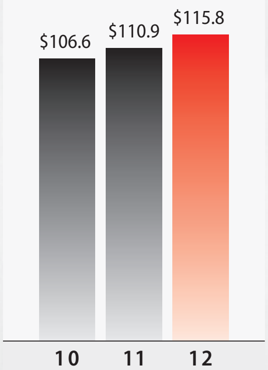
verizon

2012 ANNUAL REPORT

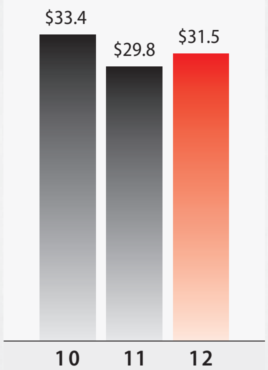
THE WORLD'S BIGGEST CHALLENGES ***DESERVE EVEN BIGGER SOLUTIONS.***

{ POWERFUL ANSWERS }

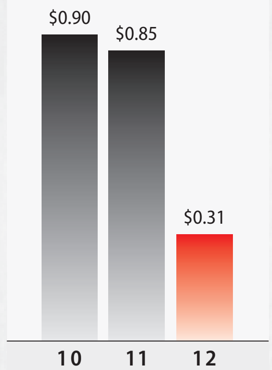
FINANCIAL HIGHLIGHTS



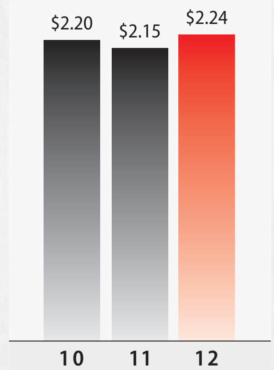
CONSOLIDATED REVENUES
(BILLIONS)



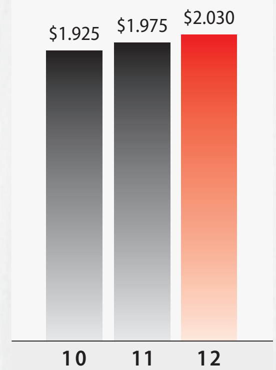
CASH FLOWS FROM OPERATING ACTIVITIES
(BILLIONS)



REPORTED DILUTED EARNINGS PER SHARE



ADJUSTED DILUTED EARNINGS PER SHARE
(NON-GAAP)



DIVIDENDS DECLARED PER SHARE

CORPORATE HIGHLIGHTS

- $15.3 billion in free cash flow (non-GAAP)
- 4.5% growth in operating revenues
- 13.2% total shareholder return
- 3.0% annual dividend increase
- 5.9 million wireless retail connection net additions
- 0.91% wireless retail postpaid churn
- 8.4% growth in wireless retail service revenue
- 607,000 FiOS Internet subscriber net additions
- 553,000 FiOS Video subscriber net additions
- 17.2% growth in FiOS revenue
- 6.3% growth in Enterprise Strategic Services revenue

Note: Prior-period amounts have been reclassified to reflect comparable results.

See www.verizon.com/investor for reconciliations to U.S. generally accepted accounting principles (GAAP) for the non-GAAP financial measures included in this annual report.

In keeping with Verizon's commitment to protect the environment, this report was printed on paper certified by the Forest Stewardship Council (FSC). By selecting FSC-certified paper, Verizon is making a difference by supporting responsible forest management practices.

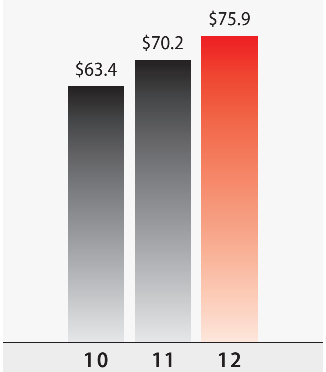
CHAIRMAN'S LETTER

Dear Shareowner,

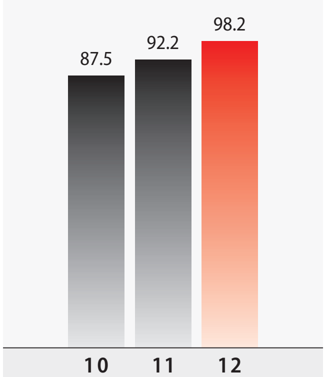
2012 was a year of accelerating momentum, for Verizon and the communications industry. The revolution in mobile, broadband and cloud networks picked up steam—continuing to disrupt and transform huge sectors of our society, from finance to entertainment to healthcare. To compete and grow in such a dynamic 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.

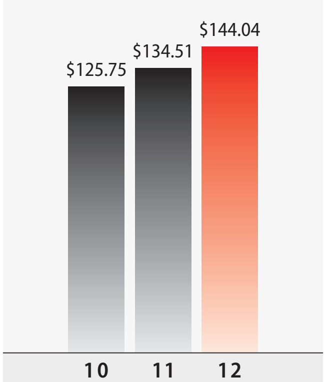
At the core of our growth strategy is our commitment to using our technology to address the world's big challenges. How can we improve the lives of our customers? How can technology make businesses more efficient? How will innovation in healthcare, education and energy management transform society for 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.



WIRELESS REVENUE
(BILLIONS)



WIRELESS RETAIL CONNECTIONS
(MILLIONS)



WIRELESS RETAIL POSTPAID ARPA

SUPERIOR NETWORKS

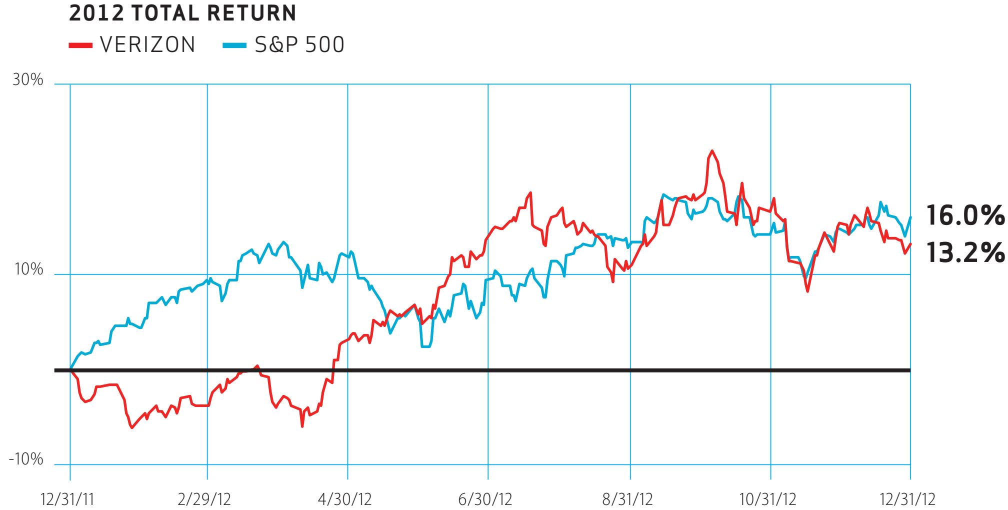
At Verizon we have always believed that innovation in networks is the foundation for growth across the whole industry. Our strength rests on having the best, most reliable wireless, broadband and global Internet networks in the industry, and over the years we have consistently invested our capital to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

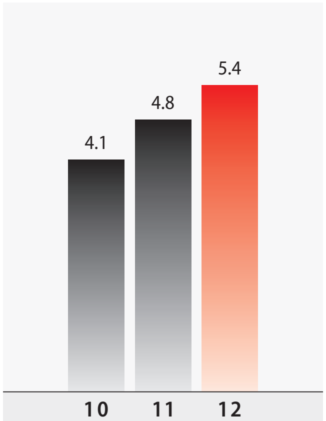
The importance of this strategy has never been more evident than in 2012.

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.

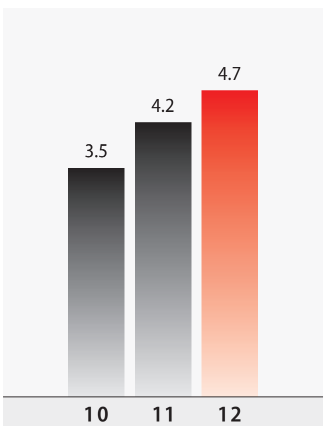
We showed the same commitment to building and reinforcing our core assets in our wireline networks. With data traffic on the Internet backbone multiplying rapidly, we expanded the capacity of our global Internet network, connecting most of the major cities in the U.S. and the busiest routes in Europe 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.

2012 TOTAL RETURN

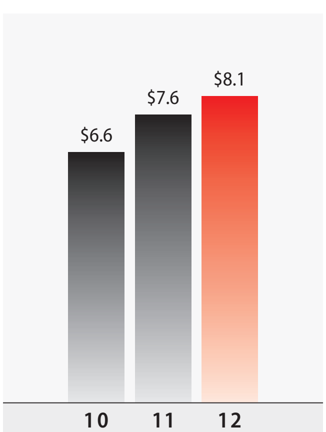




FiOS INTERNET SUBSCRIBERS
(MILLIONS)



FiOS VIDEO SUBSCRIBERS
(MILLIONS)



VERIZON WIRELINE STRATEGIC SERVICES REVENUE
(BILLIONS)

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.

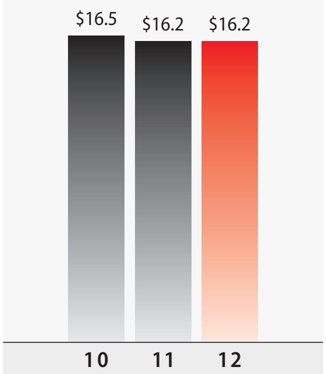
In our enterprise business, we are building or acquiring the platforms to ride on our network that will enable us to deliver the services that global enterprises require. For example, we acquired two companies in 2011, Terremark and CloudSwitch, that give us a core competency in the fast-growing market 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.



CAPITAL EXPENDITURES
(BILLIONS)

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.

ADVANCED WIRELESS TECHNOLOGY THAT POWERS OUR LIVES

Verizon's 4G LTE network is more than just powerful. It's rebooting the mobile landscape and transforming the way we experience the digital world.

Our 4G LTE network has made Verizon the industry leader in high-speed wireless access, creating exciting new opportunities for mobile applications and streaming media and enabling people to experience a whole new level of connectivity.

CREATING AN INDUSTRY ECOSYSTEM

To drive 4G LTE deeper into the marketplace and accelerate growth, we're using Verizon's Innovation Centers to inspire, enable and showcase new wireless solutions. By connecting innovators with technology in state-of-the-art lab environments, we're bringing amazing new products to the marketplace — changing the way we live, work and play.

From groundbreaking wireless devices to specialized services and apps, our Innovation Program is creating a wide range of new services that harness the power of our 4G LTE network. As a result, the impact of 4G LTE has rippled throughout the tech industry.

At the beginning of 2013, Verizon had about 40 4G LTE-enabled smartphones, tablets and Internet devices in its lineup, produced by the world's leading manufacturers. We're also seeing a new generation of advanced electronics with LTE connectivity coming to the market, including video cameras, energy monitors and medical devices. Through collaboration we're bringing amazing new products to the marketplace and changing the way we communicate.

A TRUE GAME-CHANGER

4G LTE is a true game-changer in today's wireless world. It can help kids attend school, even when they physically can't. It can help remote workers collaborate with experts and get critical business information quickly. LTE connections can also help patients in rural areas get the care they need from doctors and specialists thousands of miles away.

Verizon's 4G LTE technology empowers customers in so many ways that it stretches the limits of what's possible. It promises to drive growth in our economy and provide powerful answers to many of the challenges facing our communities.

FIBER-OPTIC QUALITY FOR THE CONNECTED HOME

With Verizon FiOS, customers can enjoy picture-perfect TV, unsurpassed Internet speeds and crystal clear calls. But our all-fiber network technology is much more than that.

FUTURE-PROOF TECHNOLOGY

Verizon's fiber network was designed to evolve with our customers' bandwidth needs. We're using our technology to help people get more out of life today while providing for the services they'll need tomorrow.

The average home today has seven connected devices, such as computers, high-definition TVs, game players and DVRs, and that number is increasing. Our FiOS network is able to handle bandwidth-intensive applications such as 3D video, high-capacity telework, smart-energy management, security monitors and in-home healthcare that will continue to accelerate the broadband needs of the digital household.

A QUANTUM LEAP

Connecting all these devices will require even faster speeds and higher bandwidth, so last year we launched FiOS Quantum, offering the nation's fastest download speeds at up to 300 Mbps.

As our customers demand even more innovative, high-bandwidth applications that challenge today's top speeds, our network will be ready. We're testing connection speeds of up to 1 gigabit per second (Gbps) so that we can upgrade our services to meet our customers' evolving needs.

ENTERTAINMENT ON-THE-GO

Customers are no longer content with watching video only on a TV, so we're bringing the same superior HD quality, entertainment content, speed and reliability to our customers on-the-go using Verizon cloud computing technology. Verizon is collaborating with Redbox to provide an innovative service called "Redbox Instant by Verizon" that combines our cloud-based video streaming capabilities with Redbox's national DVD kiosks. Verizon's innovative technology helps customers make the most out of their connected lives, whether it's sending large files from their home office, streaming a 3-D movie into their living room or enjoying video chats with loved ones halfway around the world.

EXPANSIVE HIGH-SPEED GLOBAL CONNECTIVITY

Verizon's global IP backbone network was built to handle the explosion in Internet data and video traffic. It's the global trade route of the 21st century, shipping digital cargo efficiently around the world.

GLOBAL IP NETWORK

Verizon maintains more than 800,000 miles of high-speed cables—enough to circle the earth more than 32 times—and we operate in more than 150 countries on six continents. Our network is one of the largest wholly owned, facilities-based networks in the world.

We support businesses and government agencies around the globe securely and reliably, including 98 percent of the Fortune 1000. Verizon's expansive IP footprint and direct interconnections around the world enable our customers to reach more destinations directly through our global IP network than through the networks of any other service provider.

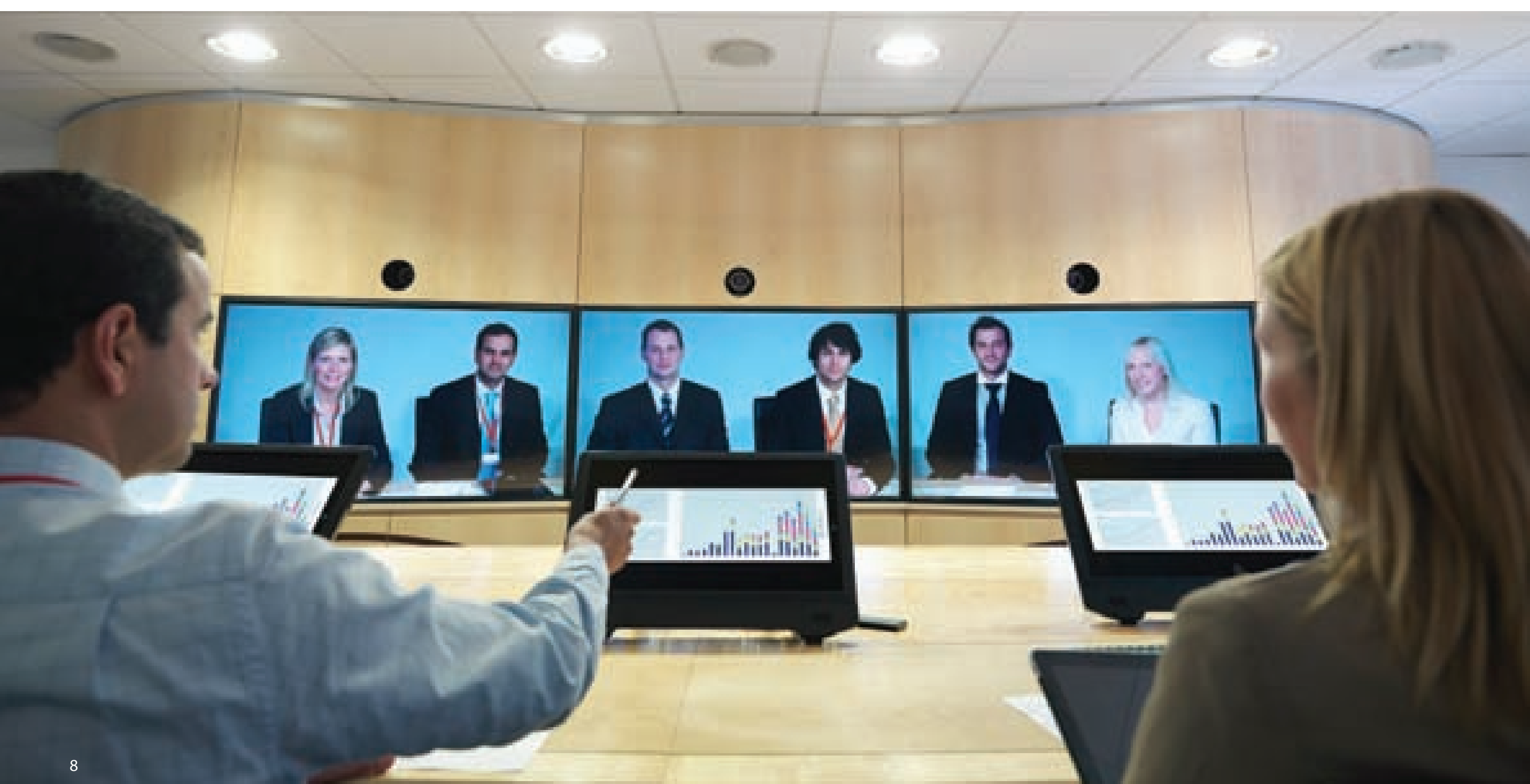
Verizon's global network technology supports the enormous growth in Internet video and data traffic, which helps multinational corporations interconnect their facilities around the world. We also provide intelligent networking solutions that securely connect large business and government customers to the data, machines, and applications they need to be successful. Our residential, small business and wireless customers also benefit from one of the most-connected IP networks, with a range of Internet solutions that have local-or wide-area network requirements.

FASTEST COMMERCIAL SPEEDS AVAILABLE

Verizon's global backbone network continues to grow to meet our customers' evolving needs. During the past three years, we have connected most of the major cities in the U.S. with speeds of 100 Gbps, and we're upgrading our busiest routes in Europe and the Asia Pacific region. We expect to double that speed in trials later this year.

We're also pushing 100 Gbps into our metro networks, as we recently did with our fiber central offices in Lower Manhattan, driving Ethernet speeds even closer to the customer.

Verizon will carry on its heritage of innovation by advancing its IP platform and the applications that are changing our everyday lives. Working in collaboration with the countless people and machines that touch the IP cloud, the sky remains the limit of our collective imagination.



WORLD-CLASS CLOUD DATA CENTERS

Verizon's networked cloud servers can store anything that can be digitized — from movies to healthcare records — and deliver it anywhere in the world.

200 DATA CENTERS AROUND THE WORLD

Verizon expanded into the cloud space in a big way with our 2011 acquisition of Terremark, giving us a network of 200 world-class cloud data centers around the globe. We now offer cloud-based services in areas such as mobile commerce, security and healthcare. We're also able to give entrepreneurs the tools to build new businesses and services in the cloud on a global scale.

Verizon Terremark cloud services allow businesses to move applications, processing and storage that previously existed on the customer's network into our securely managed network servers. These services allow users to access the same data and applications on any connected device, providing enriched, real-time information exactly when and where it's needed.

This ability transforms the way companies operate by giving them a radically more efficient way to do business. It means any kind of content — even things like education, healthcare and government services — can be delivered anywhere, anytime and on any device.

THE CONNECTED ENTERPRISE

With the rise of the globally connected enterprise, our customers need intelligent applications that can run on multiple platforms. We offer mobile workforces constant access to collaboration tools and back-end systems to be productive and competitive. We also help organizations securely manage vast amounts of data so they can turn it into intelligence that leads to new products, services and revenue streams.

With technology changing so quickly, we help enterprises minimize capital investment and accelerate innovation cycles. Our cloud services also spread resources efficiently and reduce duplicative investments in equipment, making them a key tool in helping corporations find sustainable solutions to managing a global enterprise.

Cloud computing changes the way business is done and Verizon Terremark is changing the cloud with innovative technology that spans the globe.

Last year we launched the Verizon Innovative Learning School program in 12 schools in underserved areas across America. Teachers like these at the Charles Carroll Middle School received extensive training on innovative ways of using technology in the classroom to help increase student engagement.

HOW CAN WE USE TECHNOLOGY TO STRENGTHEN OUR SOCIETY?

Verizon's innovative technology enhances people's lives. We address critical needs in our communities and create long-term growth by sharing our success.

SHARING OUR SUCCESS

Verizon has deep roots in the communities we serve. Our networks are an engine for economic growth, and our products enhance the relationships that support our society.

Our advanced technology is providing exciting new opportunities to find powerful answers to some of the enduring challenges that face our society, such as, how can we transform healthcare? Is there a better way to manage our energy usage? How can we give our students a better education? How can we become more sustainable?

We can now address these questions in innovative ways, using our wireless and broadband services to help our communities grow.

This creates a sustainable long-term growth strategy — one that opens new markets for Verizon, provides value for shareowners and helps solve community problems. Our goal is to take our corporate responsibility to a higher level of social impact, because we believe that creating a healthy, sustainable society is the best way to create a healthy, sustainable business.

BUSINESS AND SOCIAL VALUE METRICS

In 2011, we formalized our strategy for creating business and social value under the mantle of "Shared Success," a term that derives from the Verizon Credo. We made strong progress last year. We laid the groundwork for our "Powerful Answers" campaign, which helps us identify and accelerate deployment of technology solutions that create shared value. We developed a process to capture data that measures the value of our technology to the communities we serve. We also revised our philanthropic strategy to use our technology to address the challenges of underserved communities and accelerate social change in education, healthcare and energy management.

In the healthcare market, we created metrics for our mHealth products. In addition to capturing data on business performance measures such as revenue and market share, the metrics will help us understand how our products improve patient outcomes. In 2013 we will work with our healthcare customers to apply these metrics. The information we collect helps our customers measure improvements in patient care and helps us demonstrate the effectiveness of our solutions. We will develop similar measures for our education and energy products.

A FOUNDATION FOR SOCIAL INNOVATION

2012 was a year of transition for the Verizon Foundation as it revised its strategy to become a channel for social innovation. Its new focus is on accelerating social change by combining our advanced technology with its philanthropic resources to address challenges in education, healthcare and energy management.

The Verizon Foundation's programs enable us to better understand how our technology can benefit society and deliver innovative solutions that transform lives. This is especially true in underserved communities, which might experience the most benefit and rapid improvement from the adoption of Verizon's newest technologies.

INNOVATIVE SOCIAL SOLUTIONS

Our new philanthropic strategy parallels the corporate strategy of our Innovation Program. Verizon's LTE Innovation Centers provide a wide range of companies with opportunities to generate new ideas, refine concepts and bring breakthrough products to market through a process that stimulates innovation and change.

Just as these Innovation Centers are incubators for new products and applications of technology, the Verizon Foundation aims to become an incubator for new social solutions. It is collaborating with leading nonprofit organizations to apply our sophisticated technology and expertise to address some of the most critical challenges in education, chronic healthcare and energy efficiency.

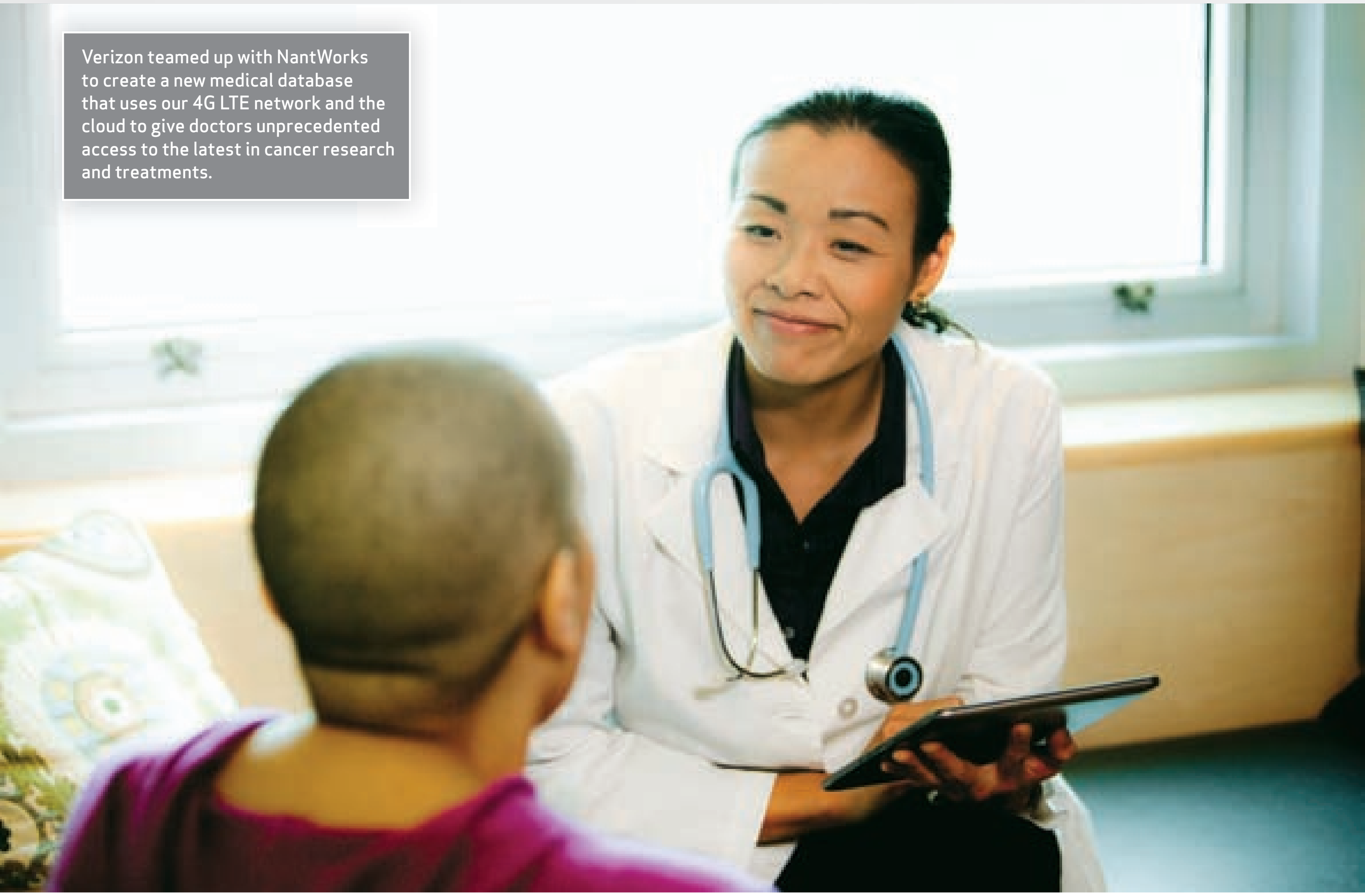
By partnering with dynamic, forward-thinking organizations to design programs to address these urgent problems, the Verizon Foundation is demonstrating how technology can be used to engineer positive social change, faster and easier.

TRACKING OUR SUCCESS

As a technology incubator, the Verizon Foundation will track and measure outcomes and improvements at every stage. It will evaluate the social value of these initiatives, providing new insight and research into how best to integrate technology into solving social problems and scale-up results. In this way, we can demonstrate how our social investments create new technology-based solutions and validate the ability of our products to address unmet needs.

To learn more about Verizon's commitment to shared success, visit our Corporate Responsibility site at http://responsibility.verizon.com.

Verizon funding is bringing mHealth solutions to Children's Health Fund mobile medical clinics, which provide healthcare to disadvantaged children in schools and shelters. Virtual care technology can overcome access barriers to remotely connect these patients to needed specialists.



Verizon teamed up with NantWorks to create a new medical database that uses our 4G LTE network and the cloud to give doctors unprecedented access to the latest in cancer research and treatments.

HOW CAN WE TRANSFORM HEALTHCARE?

We have a tremendous opportunity to use Verizon's innovative technology to address healthcare in a powerful new way.

This is a transformational moment for digital healthcare. The barriers to innovation are finally coming down, and our high-speed network is able to handle the bandwidth demands of securely sending critical MRIs, X-rays and CAT scans over the Internet.

Our healthcare-specific solutions touch the entire healthcare ecosystem, from the biggest institutions all the way to the patient. To maximize this opportunity, we are working with great partners to bring safe, secure and effective solutions to market.

MANAGING CHRONIC DISEASES

In 2013 we plan to launch our mHealth platform, which will give clinicians and patients a better tool for managing chronic diseases such as congestive heart failure and diabetes. Combined with our cloud platform, we will have a secure, private way for doctors to monitor patients between check-ups. This will help keep patients healthier, while reducing medical costs for unexpected trips to the emergency room. We also have a partnership with a company called NantWorks that uses a combination of connected supercomputers, genetic analysis and mobile technology to put the tools for advanced cancer diagnosis and treatment in the hands of physicians everywhere.

ENABLING MOBILE HEALTHCARE

Verizon has redesigned the medical alert bracelet by adding technology. Using Verizon's 4G LTE network in combination with Near Field Communication technology, a single tap on a medical band can quickly retrieve vital medical information. Wearers can add, update and sync critical medical information right to their bracelets. In a medical emergency, health data can be communicated even if the wearer can't share it.

We're also using our technology to enable better patient outcomes and control spending on healthcare, especially in underserved communities. For example, we've signed on as the technology sponsor for a project called the Clinton Health Matters Initiative, launched by the William J. Clinton Foundation. During the next three years we'll go into medically disadvantaged communities around the country and put better tools for managing health in the hands of physicians and patients.

The goal is to create new revenue for Verizon while at the same time transform the delivery of healthcare. Along the way, we will use our social value metrics to measure our ability to decrease the cost and increase the quality of care.

CHILDREN'S HEALTH FUND PARTNERSHIP

The Verizon Foundation is partnering with Children's Health Fund (CHF) to equip mobile pediatric medical units in several key cities with our fastest mobile data network. We want to increase access to care for disadvantaged children who are at greater risk for chronic disease and health problems.

We're integrating our health-information technology into the CHF programs, specifically, mobile pediatric medical units that provide primary care in partnership with a hospital or other medical affiliate. These units will be equipped with virtual care technology, which lets pediatricians connect children to specialty care as the mobile medical clinics visit schools and shelters.

The Verizon-CHF partnership will also be deploying low-cost technology to improve patient-provider communication and help patients follow their doctors' instructions. This is of particular concern in urban areas where many children are living in shelters or other temporary environments.

IDENTIFYING NEW OPPORTUNITIES

Partnerships like these—with real-life impact—are designed to address disparities in healthcare and improve access for those disproportionately affected by chronic diseases, especially women, children and seniors. These collaborations will also help us validate how well our products improve the cost and quality of healthcare.

To learn more about how Verizon is committed to finding new healthcare solutions, visit our Corporate Responsibility site at http://responsibility.verizon.com.

InMotion Technology worked with the Verizon Innovation Center to develop the first 4G LTE wireless mobile router, which allows secure transmission of patient data from ambulance tablets, EKGs and other diagnostic tools to emergency room doctors.

Networkfleet, a Verizon company, offers advanced fleet technology solutions to help businesses monitor their company vehicles and decrease fuel consumption.

IS THERE A BETTER WAY TO MANAGE OUR ENERGY USAGE?

From smart homes to connected cars, Verizon technology is giving our customers innovative tools to address many of our long-term energy challenges.

We see a growing market for digital technologies that give customers control over their energy management. We're partnering with a number of utilities as they transition to remote meter management. By using cloud-based solutions and "e-meters," utilities can provide customers with better information on their energy usage.

These and other machine-to-machine solutions are being developed in our LTE Innovation Centers, helping modernize our electrical and transportation systems and drive greater efficiencies.

ENABLING SMART GRIDS

Digitizing the electrical grid is giving users unprecedented control over how they consume and manage energy, while it helps unite producers and consumers of energy into a single, dynamic energy ecosystem.

In Charlotte, N.C., Verizon is working with Duke Energy to create a more sustainable urban environment in a project known as "Envision: Charlotte." Verizon connected the energy systems of 62 buildings in the city's core using our 4G LTE wireless network. Real-time data on energy consumption is displayed on interactive video kiosks throughout the city, along with suggestions about how to reduce energy use. The goal is to reduce energy consumption by 20 percent by 2016.

In Worcester, Mass., National Grid is testing the energy system of the future. Its smart grid pilot, which was developed in partnership with Verizon and other key parties, is designed to give more than 15,000 customers control over their energy use through advanced technology. The utility's goals are to encourage customers to save energy, while it increases network service reliability and improves response to power outages.

IMPROVING FUEL EFFICIENCY

Our technology is also helping businesses to manage their transportation systems. To improve the efficiency of its 350-vehicle fleet, the Eastern Municipal Water District in Riverside, Calif., is working with Networkfleet, a Verizon company. We provide a wireless fleet-management solution that connects directly to a vehicle engine's onboard diagnostic unit, letting fleet managers remotely monitor engine diagnostics, fault codes and emission control status. Our solution has already helped reduce fuel use and carbon emissions.

MACHINE-TO-MACHINE APPLICATIONS

We've talked about machine-to-machine (M2M) technology in theory for a long time, but with the evolution of cloud services and Verizon's LTE network, we're expecting a strong growth in demand for M2M services. We're seeing it in smart homes, where the home is quickly becoming a vital hub on the digital grid. It starts with our 4G LTE wireless technology and a powerful line-up of devices to provide anywhere, anytime control of everything from lights and appliances to thermostats and security alarms.

Customers of Lowe's Iris smart-home system will now be able to use Verizon's wireless network for remote monitoring and management of their homes' energy and security systems.

Another service powered by Verizon's wireless network is the Home Area Network Energy Gateway, a self-installed, smart-grid solution that lets consumers manage the energy use for plugged-in devices at their home. The Gateway lets users turn appliances on or off remotely, set schedules and control the temperature from a smartphone or web browser.

Verizon's wireless technology is also helping cities be more efficient. Just-in-time trash collection, a system that sends collection crews real-time data on the status of city trash and recycling bins, helps cities work smarter. With this solution, powered by Verizon with innovators such as BigBelly Solar, collection can be managed much more efficiently by limiting trips and covering a larger area with fewer resources, with no overflows or litter.

We believe broadband and M2M based energy-efficiency solutions will represent a significant new source of revenue for Verizon and deliver social value by accelerating the transition to a low-carbon economy. In 2013 we are developing metrics to measure the energy efficiency benefits of M2M solutions.

To learn more about how Verizon is committed to finding new energy solutions, visit our Corporate Responsibility site at http://responsibility.verizon.com.

Verizon has partnered with Lowe's on the Iris smart home system, allowing customers to use Verizon's wireless network to remotely monitor and manage their homes' energy and security systems.

Students at Our Lady of Mt. Carmel School in Essex, Maryland, use Verizon 4G LTE-enabled tablets as part of their instruction. Studies show that technology in the classroom helps keep students engaged and excited about learning.

HOW CAN WE GIVE STUDENTS A BETTER EDUCATION?

We're using our advanced mobile and broadband technology to prepare students for success in the 21st century.

Student achievement in a science, technology, engineering and math (STEM) curriculum is critical to U.S. economic growth and competitiveness on the global stage. Studies have shown that the use of technology in the classroom can improve the way teachers teach and keep students engaged and excited about learning.

We believe broadband and mobile technologies are the keys to answering the challenge of driving greater achievement in American schools as educators reinvent the classroom around interactive and collaborative methods of instruction.

To personalize the classroom experience, we're developing innovative products that adapt our technologies to the needs of students. We're building partnerships with education organizations that embrace the idea of mobility and digital content. We're also launching pilot programs with major universities to prepare college students for teaching careers by integrating technology, mobile devices, learning systems and cloud computing into their college curriculum.

INNOVATIVE LEARNING SCHOOLS

Last year we launched the Verizon Innovative Learning School program in 12 schools in underserved areas across America. Teachers received extensive training on innovative ways to use technology in the classroom, provided by the International Society for Technology Education via a grant from the Verizon Foundation. Samsung donated Galaxy tablets for the program, which started with a summer workshop and continued with ongoing training throughout the academic school year.

Schools receive grants ranging from \$33,000 to \$50,000. Verizon targeted schools in which at least 40 percent of the students are eligible for free and reduced lunches.

To determine our impact, we will measure teacher and student technology proficiency and student achievement. Early results indicate that teachers are able to individualize instruction and implement new strategies to better engage students in science and math. The program will reach as many as 12,000 students in 24 U.S. schools in 2013.

INNOVATIVE APP CHALLENGE

To encourage students to put their STEM skills to good use, in 2012 we launched the Innovative App Challenge. This competition offers a rich, project-based learning experience that fosters teamwork and encourages participation from students regardless of their academic interests and strengths. Because the teams are judged only on their innovative app concept, the Challenge encourages participation from any middle school or high school student who possesses creativity, imagination and desire to make a difference.

Verizon challenged teams of high school and middle school students to develop original concepts and designs for a mobile app that incorporates STEM and addresses a need or problem in their schools or communities. A panel of judges from business, industry and academia will select the winners.

Students on the winning teams will receive a Samsung Galaxy tablet. Team representatives will be invited to present their winning apps at the 2013 National Technology Student Association Conference in Orlando, Fla. In addition, each school will receive a $10,000 grant from the Verizon Foundation to further its STEM education work. The Verizon Foundation has partnered with MIT Media Lab to provide training to each of the winning teams to turn their concepts into actual market-ready apps.

FREE DIGITAL CONTENT

Verizon Thinkfinity.org is an online educational resource with tens of thousands of free materials designed to help teachers use technology to increase student engagement and boost achievement. With Thinkfinity.org, educators can connect and collaborate through themed groups, blogs and discussions, sharing resources and best practices that support 21st century teaching and learning.

The site offers rich, interactive content—including K-12 lesson plans, in-class activities, webinars, games, podcasts and videos—developed in partnership with the country's leading educational organizations. All content is aligned to state and common core standards, and everything is easily searchable by grade level, keyword or subject.

For parents and for afterschool programs, Thinkfinity.org offers great learning experiences, such as activities and interactive games that help children practice and master essential skills and concepts.

In 2012 there were more than 35 million visitors to Thinkfinity.org and its partner sites.

To learn more about how Verizon is committed to finding new education solutions, visit our Corporate Responsibility site at http://responsibility.verizon.com.

Verizon Thinkfinity.org is an online educational resource with free materials designed to help teachers use technology to increase student engagement and boost achievement. The site offers rich, interactive content, including lesson plans, in-class activities and webinars.

Jerry Bascom, principal construction engineer, inspects the solar panels at Verizon's mobile switching center in Fairfield, California. The building, which is certified by LEED (Leadership in Energy and Environmental Design), gets up to 30 percent of its energy from the panels.

HOW CAN WE BECOME MORE SUSTAINABLE?

We're helping the transition to a low-carbon economy by using innovative technology to minimize our environmental impact.

GREENING THE VERIZON FLEET

During the past five years, we implemented a variety of solutions to reduce the carbon emissions of our 35,000-vehicle fleet. These include adopting hybrid and alternative-fuel technologies, implementing fuel-saving practices such as reduced idling, and deploying vehicle monitoring systems.

To address the need for more eco-friendly vehicles in our fleet, we collaborated with VIA Motors to develop an extended-range electric cargo van that is expected to deliver 100 mpg with near-zero fuel emissions. Per vehicle, that works out to saving 750 gallons of fuel and reducing CO_2 emissions by 2.4 metric tons annually. We are currently testing two of these vans.

We also have a wireless solution that links location-based services with the on-board monitoring systems of our vehicles. Information gathered with this system is transmitted to desktops, tablets or smartphones and analyzed. This information includes details on individual vehicle mileage and emissions and allows Verizon managers to schedule preventative maintenance.

WIND-SOLAR TECHNOLOGY

We are testing a new hybrid wind/solar technology as a way to power cell sites. A trial is under way in Salem, Mass., where Verizon has teamed up with Wing Power Energy to erect three small wind/solar turbines on the roof of our building.

In a similar effort, Verizon Wireless partnered with the National Renewable Energy Laboratory to test whether combinations of solar, wind, battery and generator systems can be efficiently deployed at remote cell sites. Six cell sites were chosen for this review, each of which is far from the utility power grid and currently uses propane generators as the source of power.

NEW ENERGY STANDARDS FOR OUR SUPPLY CHAIN

In 2009, Verizon established a first-of-its-kind requirement for its network suppliers: new equipment must be at least 20 percent more energy-efficient than the equipment it replaces.

The initiative set a new standard in the telecom industry. With suppliers adapting to Verizon's requirements because of our size and scope, all telecom companies began using the new, more energy-efficient components—significantly reducing CO_2 emissions and saving millions of dollars in energy costs. We have since updated these requirements, extending them to cover additional components.

We broke new ground again in 2012, establishing the rules and metrics for reducing the carbon emissions in our supply chain. The process started with assessing our suppliers' sustainability efforts. An extensive survey tool was sent to 229 suppliers that gathered data on some of the most pressing challenges in our supply chain: CO_2 emissions, solid-waste management, water usage, packaging and the performance of subcontractors. We have created a new supply chain goal to devote 40 percent of our supplier spending to firms that measure and set targets to reduce carbon emissions by 2015.

To gauge our energy efficiency, we developed a "Carbon Intensity" metric. It measures the carbon emissions that result from moving data across our networks. This way we can assess how we are becoming more efficient even as our business expands. Our goal is to reduce our intensity by 50 percent over our 2009 baseline. Since 2009, we have improved our carbon intensity by more than 37 percent. The bottom line is our network energy efficiency programs have enabled us to increase the data on our network by 50 percent, while only increasing our electricity usage by 2 percent.

REDUCING OUR CUSTOMERS' CARBON FOOTPRINTS

Verizon joined a number of video service providers and device manufacturers in a wide-ranging agreement to meet aggressive energy-efficiency requirements for set-top boxes. The Set-Top Box Energy Conservation agreement is expected to save $1.5 billion in annual electricity costs throughout the industry. The agreement calls for participating companies to ensure that at least 90 percent of all new set-top boxes purchased and deployed on or after January 1, 2014, will meet Energy Star 3.0 efficiency levels.

Verizon Wireless gives customers the opportunity to purchase environmentally-friendly devices—and safely recycle their old ones. Verizon's HopeLine® program recycles and refurbishes used cell phones and accessories to help survivors and victims of domestic violence. The used gear is collected by mail, at our retail stores and through community phone drives.

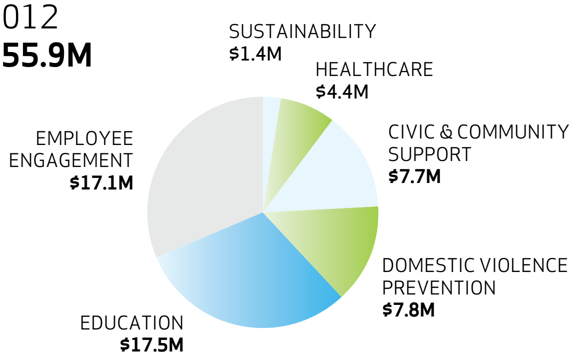
To learn more about how Verizon is committed to finding new sustainable solutions, visit our Corporate Responsibility site at http://responsibility.verizon.com.

To address the need for more eco-friendly vehicles in our fleet, we have collaborated with VIA Motors to develop an extended-range electric cargo van that is expected to deliver 100 mpg with near-zero fuel emissions.

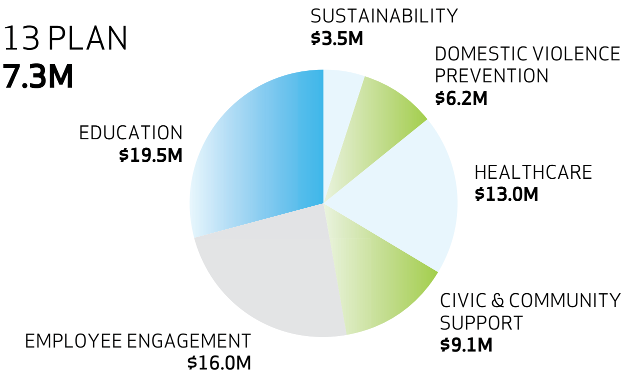
MEASURING SHARED SUCCESS

SOCIAL INNOVATION FUNDING

2012
$55.9M



2013 PLAN
$67.3M

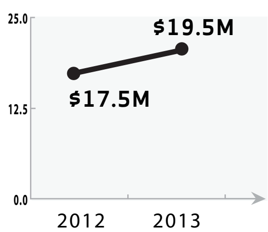


EDUCATION

OBJECTIVE

Transform teaching and learning

FUNDING



METRICS

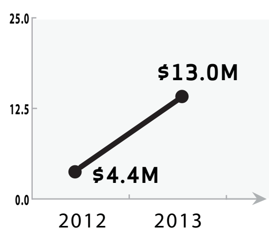
- Increase student engagement in STEM
- Foster technology proficiency
- Raise STEM achievement

HEALTHCARE

OBJECTIVE

Deploy technology to assist chronic disease management

FUNDING



METRICS

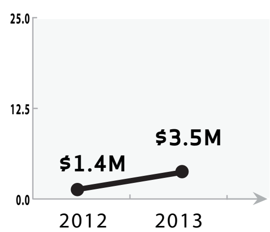
- Increase access to healthcare providers
- Foster technology proficiency
- Raise chronic disease management success rates

SUSTAINABILITY

OBJECTIVE

Provide tools to foster energy efficiency

FUNDING



METRICS

- Reduce energy consumption
- Decrease vehicle fuel consumption
- Lower carbon emissions

EMPLOYEE ENGAGEMENT

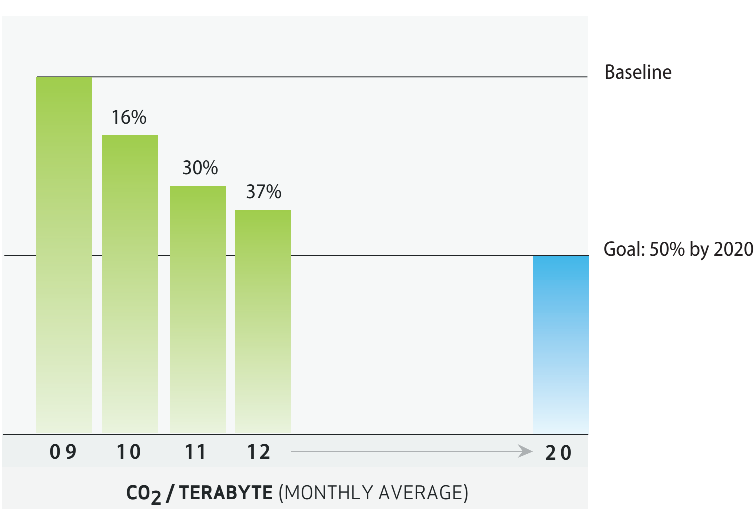
2012 MATCHING GIFTS

- 22,048 participants
- 451,039 volunteer hours
- 46,686 employee gifts
- $13.6 M matched by the Verizon Foundation
- 14,547 organizations funded

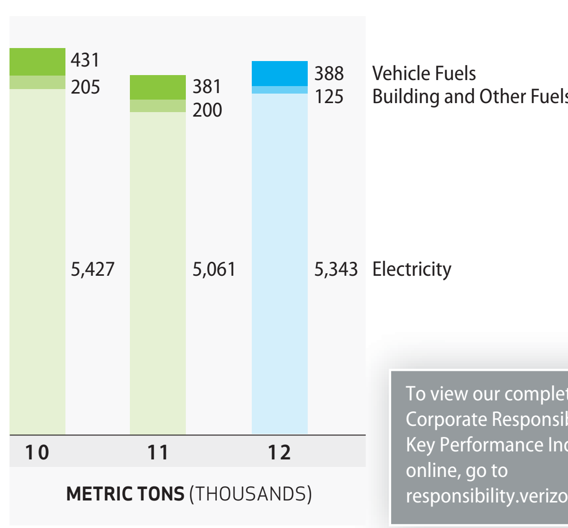
HURRICANE SANDY RELIEF

- $737,000 donated by employees
- $1.4M matched by the Verizon Foundation
- $1.7M in grants

VERIZON'S CARBON EFFICIENCY
Improvement from Baseline



VERIZON'S CO_2 EMISSIONS PROFILE



To view our complete set of Corporate Responsibility Key Performance Indicators online, go to responsibility.verizon.com/2012.

SELECTED FINANCIAL DATA

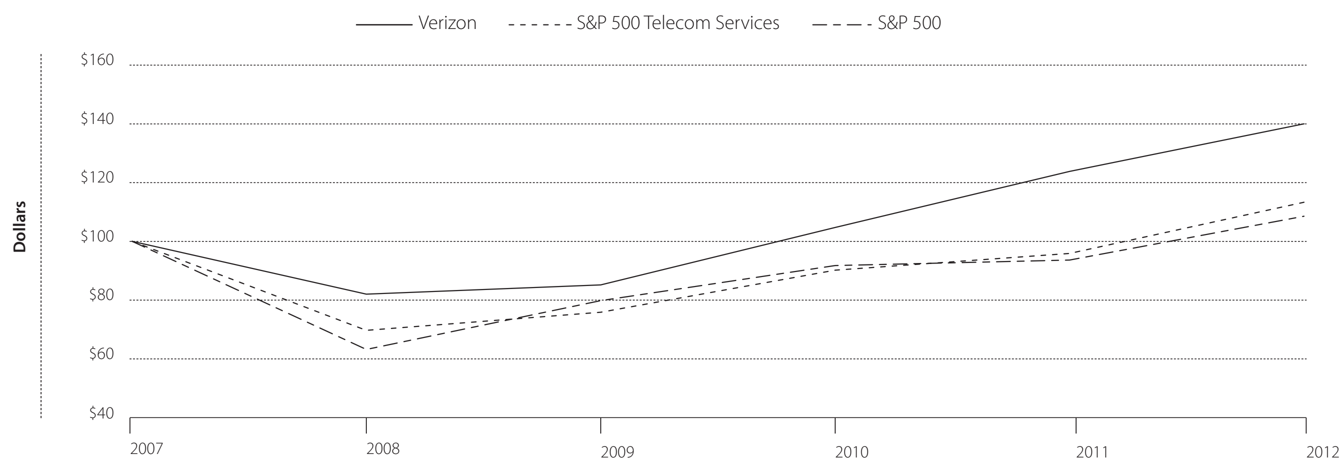
(dollars in millions, except per share amounts)

	2012	2011	2010	2009	2008
Results of Operations					
Operating revenues	**$ 115,846**	$ 110,875	$ 106,565	$ 107,808	$ 97,354
Operating income	**13,160**	12,880	14,645	15,978	2,612
Net income (loss) attributable to Verizon	**875**	2,404	2,549	4,894	(2,193)
Per common share – basic	**.31**	.85	.90	1.72	(.77)
Per common share – diluted	**.31**	.85	.90	1.72	(.77)
Cash dividends declared per common share	**2.030**	1.975	1.925	1.870	1.780
Net income attributable to noncontrolling interest	**9,682**	7,794	7,668	6,707	6,155
Financial Position					
Total assets	**$ 225,222**	$ 230,461	$ 220,005	$ 226,907	$ 202,185
Debt maturing within one year	**4,369**	4,849	7,542	7,205	4,993
Long-term debt	**47,618**	50,303	45,252	55,051	46,959
Employee benefit obligations	**34,346**	32,957	28,164	32,622	32,512
Noncontrolling interest	**52,376**	49,938	48,343	42,761	37,199
Equity attributable to Verizon	**33,157**	35,970	38,569	41,382	41,592

- Significant events affecting our historical earnings trends in 2010 through 2012 are described in "Other Items" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section.
- 2009 and 2008 data includes severance, pension and benefit charges, merger integration and acquisition costs, dispositions 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



Data Points in Dollars	At December 31, 2007	2008	2009	2010	2011	**2012**
Verizon	100.0	81.9	85.1	104.8	123.9	**140.2**
S&P 500 Telecom Services	100.0	69.5	75.8	90.1	95.9	**113.4**
S&P 500	100.0	63.0	79.7	91.7	93.6	**108.6**

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, 2007 with dividends (including the value of each respective spin-off) being reinvested.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

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 in over 150 countries around the world. Our offerings, designed to meet customers' demand for speed, mobility, security and control, include voice, data and video services on our wireless and wireline networks. We have two reportable segments, Verizon 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 wireline business provides consumer, business and government customers with communications products and services, including voice, broadband data and video services, network access, long distance and other communications products and 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 183,400 employees as of December 31, 2012.

In recent years Verizon has embarked upon a strategic transformation as advances in technology have changed the ways that our customers interact in their personal and professional lives and that businesses operate. To meet the changing needs of our customers and address the changing technological landscape, we are focusing our efforts around higher margin and growing areas of our business: wireless data, 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, expand the fiber optic network that supports our wireless and wireline businesses, maintain our wireless and wireline networks and develop and maintain significant advanced database capacity.

In our Wireless business, in 2012 compared to 2011, strong revenue growth of 8.1% was driven by connection growth and strong demand for smartphones and Internet data devices. During 2012, we experienced a 4.3% increase in retail postpaid connections per account compared to 2011, with smartphones representing 58.1% of our retail postpaid phone base at December 31, 2012.

As of January 22, 2013, our fourth-generation (4G) Long-Term Evolution (LTE) network has been deployed in 476 markets covering more than 273 million people throughout the country, which is nearly 89% of the U.S. population. We expect to continue to deploy 4G LTE during 2013 and by year-end cover nearly our entire existing 3G network footprint. Our 4G LTE network provides higher data throughput performance for data services at lower cost compared to those offered by 3G technologies. As of December 31, 2012, nearly 50% of our wireless data traffic was on our 4G LTE network.

In 2012, Verizon Wireless launched the Share Everything plans, which were made available to both new and existing postpaid customers. These plans feature domestic unlimited voice minutes, unlimited text, video and picture messaging and a single data allowance that can be shared among up to 10 devices connected to the Verizon Wireless network. For an additional monthly access fee, our customers have the option of sharing long distance and roaming minutes among their devices for calls from the United States to, and calls while within, Canada and Mexico. The Share Everything plans also include the Mobile Hotspot service on our smartphones at no additional charge. The Mobile Hotspot service allows a customer to use our network to create a Wi-Fi network that can be used by Wi-Fi enabled devices. In January 2013, Verizon Wireless announced it will begin offering shared data plans for business, with the Share Everything plans for Small Business and the Nationwide Business Data Packages and Plans. As of December 31, 2012, Share Everything accounts represented approximately 23% of our retail postpaid accounts.

In Wireline, during 2012 compared to 2011, revenues were positively impacted by higher revenues in Consumer retail driven by FiOS services. FiOS represented approximately 65% of Consumer retail revenue during 2012, compared to approximately 58% during 2011. As the FiOS products mature, we continue to seek ways to increase incremental 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 a multitude of 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, home health care, energy management and utilities management.

Also positively impacting Wireline's revenues during 2012 was a 6.3% increase in Strategic services revenue, which represented 53% of total Global Enterprise revenues during 2012. However, total Global Enterprise and Global Wholesale revenues declined as customers continue to be adversely affected by the economy, resulting in decreased discretionary spending and delayed purchasing decisions. 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.

In 2012, we reached agreements with the Communications Workers of America and the International Brotherhood of Electrical Workers on new, three-year contracts that cover approximately 43,000 Wireline employees. The new agreements will expire on August 1, 2015.

During 2012 and 2011, we made several strategic investments to improve our competitive position:

- In 2012, we completed separate transactions with SpectrumCo, LLC (SpectrumCo) and Cox TMI Wireless, LLC to acquire Advanced Wireless Service (AWS) spectrum. We also completed a series of purchase and exchange transactions for AWS and PCS licenses and a 700 megahertz (MHz) lower A block license. In addition, during January 2013, we agreed to sell a portion of our 700 MHz B block licenses, which upon receipt of regulatory approval, will result in the completion of our previously announced open sale process for all of our 700 MHz lower A and B block spectrum licenses. These transactions will allow us to meet the continued demand for wireless services.
- On June 1, 2012, we agreed to acquire HUGHES Telematics for approximately \$12 per share in cash for a total acquisition price of \$0.6 billion and we completed the acquisition on July 26, 2012. The acquisition has accelerated our ability to bring more telematics offerings to market for existing and new HUGHES Telematics and Verizon customers.
- In February 2012, we entered into a venture with Redbox Automated Retail, LLC, a subsidiary of Coinstar, Inc., to offer customers nationwide access to media rentals through online and mobile content streaming as well as physical media rentals through Redbox kiosks. In December 2012, the venture introduced its product portfolio, which includes subscription services, under the name Redbox Instant by Verizon.

- In 2011, Verizon Wireless entered into commercial agreements, modified in 2012, with affiliates of Comcast Corporation, Time Warner Cable, Bright House Networks and Cox Communications Inc. (the cable companies). Through these agreements, the cable companies and Verizon Wireless became agents to sell certain of one another's products and services and, over time, the cable companies will have the option, subject to the terms and conditions of the agreements, of selling Verizon Wireless service on a wholesale basis.
- In 2011, we acquired Terremark Worldwide Inc. (Terremark), a global provider of information technology infrastructure and cloud services. This acquisition enhanced our competitive position in managed hosting and cloud services offerings to business and government customers globally and is contributing to our growth in revenues. Additionally, in 2011, we acquired a provider of cloud software technology, which has further enhanced our offerings of cloud services. We expect our provisioning of cloud services to be instrumental to our future growth as it allows us to meet the evolving demands of our customers.

Investing in innovative technology like wireless networks, high-speed fiber and cloud services has positioned Verizon at the center of the growth trends of the future. By investing in our own capabilities, we are also investing in the markets we serve by making sure our communities have 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 shareowners, create meaningful work for ourselves and provide something of lasting value for society.

During 2012, we purchased a single premium group annuity contract from The Prudential Insurance Company of America and Prudential Financial Inc.

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.

Trends

We expect that competition will continue to intensify with traditional, non-traditional and emerging service providers seeking increased market share. We believe that our networks differentiate us from our competitors, enabling 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 conditions. We will continue to invest for growth, which we believe is the key to creating value for our shareowners.

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 smartphones, Internet devices such as tablets and our suite of 4G LTE devices. We believe these devices will attract and retain higher value retail postpaid connections, contribute to continued increases in the penetration of data services and keep our device line-up competitive versus other wireless carriers. 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.

In recent years, we have experienced continuing access line losses in our Wireline segment as customers have disconnected both primary and secondary lines and switched to alternative technologies such as wireless, 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.

Despite this challenging environment, we expect that we will continue to grow key aspects of our wireline business by providing superior network reliability, offering innovative product bundles that include high-speed Internet access, digital television and local and long distance voice services, offering more robust IP products and service, and accelerating our cloud computing strategy. We will also continue to focus on cost efficiencies to attempt to offset adverse impacts from unfavorable economic conditions and intense competitive pressure.

Operating Revenue

We expect to experience service revenue growth in our Verizon Wireless segment in 2013, primarily as a result of continued growth in postpaid connections driven by increased sales of smartphones and other data-capable devices. We expect that retail postpaid average revenue per account (ARPA) will continue to increase as connections migrate from basic phones to smartphone devices and as the average number of connections per account increases which we expect to be driven by our new Share Everything plans that allow for the sharing of data among up to 10 devices. We expect that our future service revenue growth will be substantially derived from an increase in the sale and usage of innovative wireless smartphones and other data-capable devices in addition to our new pricing structure that will encourage customers to continue adding data-enabled devices onto existing accounts.

During 2012, we experienced an increase in Wireless equipment and other revenue as a result of sales of new smartphone devices, including our 4G LTE-capable devices. We expect that continued emphasis on increasing smartphone penetration will positively impact equipment revenue as these devices typically carry higher price points than basic phones.

We expect FiOS broadband and video penetration to positively impact our Mass Markets revenue and subscriber base and we also expect Strategic services revenue to continue to grow as we derive additional enterprise revenues from cloud, security and other solutions-based services and customers continue to migrate their services to Private IP and other strategic networking services. We believe the trend in these growth areas as well as new 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 wireless substitution as well as the continued decline in our legacy wholesale and enterprise markets.

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 and sales commission costs. In addition, we expect content costs for our FiOS video services to continue to increase. However, we expect to achieve certain cost efficiencies in 2013 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 2013 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, maintenance and support for our 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 damaged copper wire with fiber-optic cable which will not alter our capital program but should result in lower maintenance costs. Capital expenditures were approximately $16 billion in 2012 and 2011, respectively. 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 as a percentage of revenue to decline in 2013 from levels in 2012.

Cash Flow from Operations
We create value for our shareowners 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 shareowners. Verizon's Board of Directors increased the Company's quarterly dividend by 3.0% during 2012, making this the sixth 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. When appropriate, we will also use our cash to reduce our debt levels and to buy back shares of our outstanding common stock, and Verizon Wireless may make distributions to its partners (see "Cash Flows from Financing Activities"). There were no repurchases of common stock during 2012, 2011 or 2010. Through February 15, 2013, we purchased approximately 3.50 million shares under our current share buyback authorization.

Other
We do not currently expect that legislative efforts relating to climate control will have a material adverse impact on our consolidated financial results or financial condition. We believe there may be opportunities for companies to increase their use of communications services, including those we provide, in order to minimize the environmental impact of their businesses.

CONSOLIDATED RESULTS OF OPERATIONS

In this section, we discuss our overall results of operations and highlight items of a non-operational nature that are not included in our segment results. We have two reportable segments, Verizon Wireless and Wireline, which we operate and manage as strategic business units and organize by products and services. In "Segment Results of Operations," we review the performance of our two reportable segments.

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 and divested operations, and 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.

Corporate, eliminations and other during 2010 included a one-time non-cash adjustment of $0.2 billion primarily to adjust wireless service revenues. This adjustment was recorded to properly defer previously recognized wireless service revenues that were earned and recognized in future periods. The adjustment was not material to the consolidated financial statements (see "Other Items"). In addition, the results of operations related to the divestitures we completed in 2010 (see "Acquisitions and Divestitures") are included in Corporate, eliminations and other, as follows:

(dollars in millions)

Years Ended December 31,	**2012**	2011	2010
Impact of Divested Operations			
Operating revenues	**$ –**	$ –	$ 2,407
Cost of services and sales	**–**	–	574
Selling, general and administrative expense	**–**	–	665
Depreciation and amortization expense	**–**	–	413

Consolidated Revenues

(dollars in millions)

				Increase/(Decrease)			
Years Ended December 31,	**2012**	2011	2010	**2012 vs. 2011**		2011 vs. 2010	
Verizon Wireless							
Service revenue	**$ 63,733**	$ 59,157	$ 55,629	**$ 4,576**	**7.7 %**	$ 3,528	6.3 %
Equipment and other	**12,135**	10,997	7,778	**1,138**	**10.3**	3,219	41.4
Total	**75,868**	70,154	63,407	**5,714**	**8.1**	6,747	10.6
Wireline							
Mass Markets	**16,702**	16,337	16,256	**365**	**2.2**	81	0.5
Global Enterprise	**15,299**	15,622	15,316	**(323)**	**(2.1)**	306	2.0
Global Wholesale	**7,240**	7,973	8,746	**(733)**	**(9.2)**	(773)	(8.8)
Other	**539**	750	909	**(211)**	**(28.1)**	(159)	(17.5)
Total	**39,780**	40,682	41,227	**(902)**	**(2.2)**	(545)	(1.3)
Corporate, eliminations and other	**198**	39	1,931	**159**	**nm**	(1,892)	(98.0)
Consolidated Revenues	**$ 115,846**	$ 110,875	$ 106,565	**$ 4,971**	**4.5**	$ 4,310	4.0

nm - not meaningful

2012 Compared to 2011

The increase in consolidated revenues during 2012 compared to 2011 was primarily due to higher revenues at Verizon 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 Wholesale and Global Enterprise Core revenues at our Wireline segment.

Verizon Wireless' revenues increased during 2012 compared to 2011 due to growth in both service and equipment and other revenue. Service revenue increased during 2012 compared to 2011 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections of 5.1 million in 2012, as well as the continued increase in penetration of higher priced smartphones. Retail postpaid connections per account increased during 2012 compared to 2011 primarily due to the increased use of tablets and other Internet devices. In 2012, the increase in retail postpaid connection net additions was primarily due to an increase in retail postpaid and prepaid connection gross additions and improvements in our retail connections churn rate. Higher retail postpaid connection gross additions during 2012 primarily reflect the launch of our Share Everything plans coupled with new device introductions during the second half of 2012.

Equipment and other revenue increased during 2012 compared to 2011 primarily due to an increase in device upgrade fees, regulatory fees and equipment sales.

Wireline's revenues decreased during 2012 compared to 2011 primarily driven by declines in Global Wholesale, Global Enterprise Core and Other revenues, partially offset by higher revenues in Mass Markets driven by FiOS services and higher revenues from Strategic services.

Mass Markets revenues increased during 2012 compared to 2011 due to the expansion of FiOS services (Voice, Internet and Video) as well as changes in our pricing strategy adopted in 2012, partially offset by the continued decline of local exchange revenues.

Global Enterprise revenues decreased during 2012 compared to 2011 primarily due to lower local services and traditional circuit-based revenues, a decline in customer premise equipment revenues and the unfavorable impact of foreign currency translation. This decrease was partially offset by higher Strategic services revenues, primarily due to growth in advanced services, such as managed network solutions, contact center solutions, IP communications and our cloud and data center offerings.

Global Wholesale revenues decreased during 2012 compared to 2011 primarily due to a decline in traditional voice 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 2012 compared to 2011 primarily due to reduced volumes, including former MCI mass market customer losses.

2011 Compared to 2010

The increase in consolidated revenues during 2011 compared to 2010 was primarily due to higher revenues at Verizon Wireless, the expansion of FiOS services and increased revenues from Strategic services at our Wireline segment. In addition, the increase during 2011 was partially offset by the impact of divested operations.

The increase in Verizon Wireless' revenues during 2011 compared to 2010 was primarily due to growth in both service and equipment revenue. Service revenue increased during 2011 compared to 2010 primarily driven by higher retail postpaid service revenue, which increased as a result of an increase in retail postpaid connections of 4.3 million in 2011 as well as the continued increase in penetration of higher priced smartphones. Retail postpaid connections per account increased during 2011 compared to 2010 primarily due to the increased use of tablets and other Internet devices.

Equipment and other revenue increased during 2011 compared to 2010 due to an increase in the sales volume of smartphones to new and upgrading customers.

The decrease in Wireline's revenues during 2011 compared to 2010 was primarily driven by declines in Global Wholesale, and Global Enterprise Core and Other revenues. The decrease in Global Wholesale revenues was primarily due to a $0.4 billion decline in international voice revenues as a result of decreased MOUs in traditional voice products as a result of increases in voice termination pricing on certain international routes. Global Enterprise Core revenues declined primarily due to lower customer premise equipment revenues, reflecting our focus on improving margins by de-emphasizing sales of equipment that are not a part of an overall enterprise solutions bundle, as well as customers migrating to next generation IP services. Other Wireline revenue also decreased primarily as a result of former MCI mass market customer losses. These revenue declines were partially offset by continued revenue growth in Global Enterprise Strategic services, in part due to the inclusion of the revenues of Terremark, and in Mass Markets, primarily due to the expansion of FiOS services (Voice, Internet and Video), partially offset by the decline of local exchange revenues.

Consolidated Operating Expenses

(dollars in millions)

Years Ended December 31,	2012	2011	2010	Increase/(Decrease) 2012 vs. 2011		2011 vs. 2010	
Cost of services and sales	**$ 46,275**	$ 45,875	$ 44,149	**$ 400**	**0.9 %**	$ 1,726	3.9 %
Selling, general and administrative expense	**39,951**	35,624	31,366	**4,327**	**12.1**	4,258	13.6
Depreciation and amortization expense	**16,460**	16,496	16,405	**(36)**	**(0.2)**	91	0.6
Consolidated Operating Expenses	**$ 102,686**	$ 97,995	$ 91,920	**$ 4,691**	**4.8**	$ 6,075	6.6

Consolidated operating expenses increased during 2012 and 2011 primarily due to higher non-operational charges (see "Other Items") as well as increased operating expenses at Verizon Wireless. The changes in consolidated operating expenses during 2011 were also favorably impacted by divested operations.

2012 Compared to 2011

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 2012 compared to 2011 primarily due to higher cost of equipment sales, increased cost of network services and increased data roaming, partially offset by a decrease in cost for data services, a decrease in network connection costs and a decrease in the cost of long distance at our Verizon Wireless segment. Also contributing to the increase were higher content costs associated with continued FiOS subscriber growth and vendor rate increases, increased expenses related to our cloud and data center offering, higher costs related to FiOS installation as well as higher repair and maintenance expenses caused by storm-related events in 2012, partially offset by declines in access costs and customer premise equipment costs at our Wireline segment.

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 above.

Selling, general and administrative expense increased during 2012 compared to 2011 primarily due to higher non-operational charges noted in the table below as well as higher sales commission expense and costs associated with regulatory fees at our Verizon Wireless segment.

Depreciation and Amortization Expense

Depreciation and amortization expense decreased during 2012 compared to 2011 primarily due to a decrease in depreciable assets at our Wireline segment, partially offset by an increase in amortization expense related to non-network software.

2011 Compared to 2010

Cost of Services and Sales

Cost of services and sales increased during 2011 compared to 2010 primarily due to higher cost of equipment sales at our Verizon Wireless segment, as well as increased costs at our Wireline segment related to repair and maintenance expenses caused by storm-related events during 2011, higher content costs associated with continued FiOS subscriber growth and the acquisition of Terremark in the second quarter of 2011. Partially offsetting the increase were lower non-operational charges noted in the table below, a decrease in access costs resulting primarily from management actions to reduce exposure to unprofitable international wholesale routes and declines in overall wholesale long distance volumes.

Selling, General and Administrative Expense

Selling, general and administrative expense increased during 2011 compared to 2010 primarily due to higher severance, pension and benefit charges and costs caused by storm-related events as well as higher sales commission expense at our Verizon Wireless segment. Partially offsetting the increase was the absence of merger integration and acquisition related charges and access line spin-off charges during 2011 and a decrease in compensation expense at our Wireline segment.

Depreciation and Amortization Expense

Depreciation and amortization expense increased during 2011 compared to 2010 as a result of growth in depreciable assets at our Wireless segment and the acquisition of Terremark in the second quarter of 2011, partially offset by lower non-operational charges noted in the table below and amortization expense as a result of a reduction in capitalized non-network software at our Wireline segment. The change in depreciation and amortization expense was also partially attributable to the impact of divested operations.

Non-operational Charges

Non-operational charges included in operating expenses (see "Other Items") were as follows:

(dollars in millions)

Years Ended December 31,	2012	2011	2010
Severance, Pension and Benefit Charges			
Cost of services and sales	**$ –**	$ –	$ 1,723
Selling, general and administrative expense	**7,186**	5,954	1,331
	7,186	5,954	3,054
Merger Integration and Acquisition Related Charges			
Cost of services and sales	**–**	–	376
Selling, general and administrative expense	**–**	–	389
Depreciation and amortization expense	**–**	–	102
	–	–	867
Access Line Spin-off Related Charges			
Cost of services and sales	**–**	–	42
Selling, general and administrative expense	**–**	–	365
	–	–	407
Litigation Settlements			
Selling, general and administrative expense	**384**	–	–
Other Costs			
Cost of sales and services	**40**	–	–
Selling, general and administrative expense	**236**	–	–
	276	–	–
Total non-operating charges included in operating expenses	**$ 7,846**	$ 5,954	$ 4,328

See "Other Items" for a description of 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 and the impact of divested operations.

Operating expenses include pension and benefit related 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.

(dollars in millions)

Years Ended December 31,	**2012**	2011	2010
Consolidated Operating Income	**$ 13,160**	$ 12,880	$ 14,645
Add Depreciation and amortization expense	**16,460**	16,496	16,405
Consolidated EBITDA	**29,620**	29,376	31,050
Add Non-operating charges included in operating expenses(1)	**7,846**	5,954	4,226
Add Deferred revenue adjustment	**–**	–	268
Less Impact of divested operations(1)	**–**	–	(1,168)
Consolidated Adjusted EBITDA	**$ 37,466**	$ 35,330	$ 34,376

(1) Excludes non-operating charges included in Depreciation and amortization expense.

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 above.

Other Consolidated Results

Equity in Earnings of Unconsolidated Businesses

Equity in earnings of unconsolidated businesses decreased $120 million, or 27.0%, in 2012 compared to 2011 and $64 million, or 12.6%, in 2011 compared to 2010 primarily due to lower earnings from operations at Vodafone Omnitel N.V. and, to a lesser extent, the devaluation of the Euro against the U.S. dollar.

Other Income and (Expense), Net

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

(dollars in millions)

				Increase/(Decrease)			
Years Ended December 31,	**2012**	2011	2010	**2012 vs. 2011**		2011 vs. 2010	
Interest income	**$ 57**	$ 68	$ 92	**$ (11)**	**(16.2)%**	$ (24)	(26.1)%
Foreign exchange gains (losses), net	**(1)**	(9)	5	**8**	**(88.9)**	(14)	nm
Other, net	**(1,072)**	(73)	(43)	**(999)**	**nm**	(30)	69.8
Total	**$ (1,016)**	$ (14)	$ 54	**$ (1,002)**	**nm**	$ (68)	nm

nm - not meaningful

Other income and (expense), net decreased during 2012 compared to 2011 primarily driven by higher fees of $1.1 billion related to the early redemption of debt (see "Other Items").

Other income and (expense), net decreased during 2011 compared to 2010 primarily driven by higher fees related to the early redemption of debt (see "Other Items") and foreign exchange losses at our international wireline operations, partially offset by gains on sales of short-term investments.

Interest Expense

(dollars in millions)

				Increase/(Decrease)			
Years Ended December 31,	**2012**	2011	2010	**2012 vs. 2011**		2011 vs. 2010	
Total interest costs on debt balances	**$ 2,977**	$ 3,269	$ 3,487	**$ (292)**	**(8.9)%**	$ (218)	(6.3)%
Less Capitalized interest costs	**406**	442	964	**(36)**	**(8.1)**	(522)	(54.1)
Total	**$ 2,571**	$ 2,827	$ 2,523	**$ (256)**	**(9.1)**	$ 304	12.0
Average debt outstanding	**$ 52,949**	$ 55,629	$ 57,278				
Effective interest rate	**5.6%**	5.9%	6.1%				

Total interest costs on debt balances decreased during 2012 compared to 2011 primarily due to a $2.7 billion decrease in average debt (see "Consolidated Financial Condition") and a lower effective interest rate. Capitalized interest costs were lower in 2012 primarily due to our ongoing deployment of the 4G LTE network.

Total interest costs on debt balances decreased during 2011 compared to 2010 primarily due to a $1.6 billion decrease in average debt (see "Consolidated Financial Condition") and a lower effective interest rate. Capitalized interest costs were lower in 2011 primarily due to our ongoing deployment of the 4G LTE network.

Provision (Benefit) for Income Taxes

(dollars in millions)

				Increase/(Decrease)			
Years Ended December 31,	**2012**	2011	2010	**2012 vs. 2011**		2011 vs. 2010	
Provision (Benefit) for income taxes	**$ (660)**	$ 285	$ 2,467	**$ (945)**	**nm**	$ (2,182)	(88.4)%
Effective income tax rate	**(6.7)%**	2.7 %	19.4 %				

nm - not meaningful

The effective income tax rate is calculated by dividing the provision for income taxes by income before the provision for income taxes. Our effective income tax rate is significantly lower than the statutory federal income tax rate for all years presented due to the inclusion of income attributable to Vodafone Group Plc.'s (Vodafone) noncontrolling interest in the Verizon Wireless partnership within our income before the provision for income taxes. In 2012, we recorded a tax benefit on 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. In 2011 and 2010, we recorded a tax provision on income before the provision for income taxes and when we include the income attributable to Vodafone's noncontrolling interest in the Verizon Wireless partnership in our income before the provision for income taxes it resulted in our effective income tax rate being 7.9 percentage points lower during 2011 and 29.8 percentage points lower during 2010.

The effective income tax rate for 2012 was (6.7)% compared to 2.7% for 2011. The negative effective income tax rate for 2012 and the decrease in the provision for income taxes during 2012 compared to 2011 was primarily due to lower income before income taxes as a result of higher severance, pension, and benefit charges as well as early debt redemption costs recorded in the current year.

The effective income tax rate in 2011 decreased to 2.7% from 19.4% in 2010. This decrease was primarily driven by lower income before provision for income taxes as a result of higher pension and benefit charges recorded in 2011 as well as tax benefits from state valuation allowance reversals in 2011. The decrease was also due to a one-time, non-cash income tax charge of $1.0 billion recorded during the three months ended March 31, 2010 as a result of the enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively the Health Care Act). Under the Health Care Act, beginning in 2013, Verizon and other companies that receive a subsidy under Medicare Part D to provide retiree prescription drug coverage will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage to the extent of the subsidy received. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in Verizon's financial statements, this change in law required Verizon to reduce the value of the related tax benefits recognized in its financial statements in the period during which the Health Care Act was enacted.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for each period is included in Note 12 to the consolidated financial statements.

Net Income Attributable to Noncontrolling Interest

(dollars in millions)

				Increase/(Decrease)			
Years Ended December 31,	**2012**	2011	2010	**2012 vs. 2011**		2011 vs. 2010	
Net income attributable to noncontrolling interest	**$ 9,682**	$ 7,794	$ 7,668	**$ 1,888**	**24.2 %**	$ 126	1.6 %

The increases in Net income attributable to noncontrolling interest during 2012 compared to 2011, and 2011 compared to 2010 were due to higher earnings in our Verizon Wireless segment, which has a 45% noncontrolling partnership interest attributable to Vodafone.

SEGMENT RESULTS OF OPERATIONS

We have two reportable segments, Verizon 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.

Verizon Wireless Segment EBITDA service margin, also presented below, is calculated by dividing Verizon Wireless Segment EBITDA by Verizon Wireless service revenues. Verizon 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. Verizon Wireline EBITDA margin is calculated by dividing Wireline EBITDA by total Wireline revenues. You can find additional information about our segments in Note 13 to the consolidated financial statements.

Verizon Wireless

Our Verizon Wireless segment is primarily comprised of Cellco Partnership doing business as Verizon Wireless. Cellco Partnership is a joint venture formed in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone. Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%. 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 allowances 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

(dollars in millions, except ARPA)

				Increase/(Decrease)			
Years Ended December 31,	**2012**	2011	2010	**2012 vs. 2011**		2011 vs. 2010	
Retail service	**$ 61,440**	$ 56,660	$ 53,308	**$ 4,780**	**8.4 %**	$ 3,352	6.3 %
Other service	**2,293**	2,497	2,321	**(204)**	**(8.2)**	176	7.6
Service revenue	**63,733**	59,157	55,629	**4,576**	**7.7**	3,528	6.3
Equipment and other	**12,135**	10,997	7,778	**1,138**	**10.3**	3,219	41.4
Total Operating Revenues	**$ 75,868**	$ 70,154	$ 63,407	**$ 5,714**	**8.1**	$ 6,747	10.6
Connections ('000):(1)							
Retail connections	**98,230**	92,167	87,535	**6,063**	**6.6**	4,632	5.3
Retail postpaid connections	**92,530**	87,382	83,125	**5,148**	**5.9**	4,257	5.1
Net additions in period ('000):(2)							
Retail connections	**5,917**	4,624	1,977	**1,293**	**28.0**	2,647	nm
Retail postpaid connections	**5,024**	4,252	2,529	**772**	**18.2**	1,723	68.1
Churn Rate:							
Retail connections	**1.19%**	1.26%	1.38%				
Retail postpaid connections	**0.91%**	0.95%	1.02%				
Account Statistics:							
Retail postpaid ARPA	**$ 144.04**	$ 134.51	$ 125.75	**$ 9.53**	**7.1**	$ 8.76	7.0
Retail postpaid accounts ('000):(1)	**35,057**	34,561	34,268	**496**	**1.4**	293	0.9
Retail postpaid connections per account(1)	**2.64**	2.53	2.43	**0.11**	**4.3**	0.10	4.1

(1) As of end of period
(2) Excluding acquisitions and adjustments
nm - not meaningful

2012 Compared to 2011

The increase in Verizon Wireless' total operating revenues during 2012 compared to 2011 was the result of growth in both service and equipment and other revenue.

Accounts and Connections

Retail (non-wholesale) postpaid accounts represent retail customers under contract with Verizon Wireless that are directly served and managed by Verizon Wireless and use its branded services. Accounts include single connection plans, family plans, Share Everything plans and corporate accounts. A single account may receive 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 a connection is terminated.

Retail connections under an account may include smartphones, basic phones, Home Phone Connect, Home Fusion, tablets, and other Internet devices. We expect to continue to experience retail connection growth based on the strength of our product offerings and network service quality. Retail connection net additions increased during 2012 compared to 2011 primarily due to an increase in retail postpaid and prepaid connection gross additions and improvements in our retail connections churn rate. Higher retail postpaid connection gross additions during 2012 primarily reflect the launch of our Share Everything plans coupled with new device introductions during the second half of 2012.

Retail Postpaid Connections per Account

Retail postpaid connections per account is calculated by dividing the total number of retail postpaid connections by the average number of retail postpaid accounts in the period. Retail postpaid connections per account increased during 2012 compared to 2011 primarily due to the increased use of tablets and other Internet devices.

Service Revenue

Service revenue increased during 2012 compared to 2011 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections of 5.1 million in 2012, as well as the continued increase in penetration of higher priced smartphones. This increased penetration also contributed to the increase in our retail postpaid ARPA (the average revenue per account from retail postpaid accounts).

The increase in retail postpaid ARPA during 2012 compared to 2011 was primarily driven by increases in smartphone penetration and retail postpaid connections per account. During 2012, we experienced a 4.3% increase in retail postpaid connections per account compared to 2011, with smartphones representing 58.1% of our retail postpaid phone base as of December 31, 2012 compared to 43.5% as of December 31, 2011. The increase in retail postpaid connections per account is primarily due to increases in Internet data devices, which represented 9.3% of our retail postpaid connection base as of December 31, 2012 compared to 8.1% as of December 31, 2011 primarily due to strong sales of tablets and Jetpacks™.

Other service revenue decreased during 2012 compared to 2011 primarily as a result of a decrease in third party roaming revenue.

Equipment and Other Revenue

Equipment and other revenue increased during 2012 compared to 2011 primarily due to increases in device upgrade fees, regulatory fees and equipment sales.

2011 Compared to 2010

The increase in Verizon Wireless' total operating revenue during 2011 compared to 2010 was primarily due to growth in both service and equipment revenue.

Accounts and Connections

Retail connections increased during 2011 compared to 2010 primarily due to an increase in retail postpaid and prepaid connection gross additions as well as ongoing improvements in our retail connection churn rate, both of which we believe were primarily the result of the strength of the devices in our product portfolio, including the Apple iPhone 4 and 4S, and our line-up of 3G and 4G Android and other 4G LTE capable devices, as well as the reliability of our network.

Retail Postpaid Connections per Account

Retail postpaid connections per account increased during 2011 compared to 2010 primarily due to the increased use of tablets and other Internet devices.

Service Revenue

Service revenue increased during 2011 compared to 2010 primarily driven by higher retail postpaid service revenue which increased as a result of an increase in retail postpaid connections of 4.3 million as well as the continued increase in penetration of higher priced smartphones, which also contributed to the increase in our retail postpaid ARPA.

The increase in retail postpaid ARPA for 2011 compared to 2010 was primarily driven by increases in smartphone penetration and in retail postpaid connections per account. The proportion of our retail postpaid phone base utilizing smartphones increased to 43.5% as of December 31, 2011 compared to 28.1% as of December 31, 2010 and retail postpaid connections per account increased by 4.1% during 2011 compared to 2010. The increase in retail postpaid connections per account is primarily due to increases in Internet data devices, which represented 8.1% of our retail postpaid connection base as of December 31, 2011 compared to 7.0 % as of December 31, 2010 primarily due to strong sales of Jetpacks.

Other service revenue increased during 2011 compared to 2010 as a result of year-to-date growth in wholesale and other connections, partially offset by a decrease in third party roaming revenue.

Equipment and Other Revenue

Equipment and other revenue increased during 2011 compared to 2010 due to an increase in the sales volume of smartphones to new and upgrading customers.

Operating Expenses

(dollars in millions)

Years Ended December 31,	2012	2011	2010	Increase/(Decrease) 2012 vs. 2011		2011 vs. 2010	
Cost of services and sales	**$ 24,490**	$ 24,086	$ 19,245	**$ 404**	**1.7 %**	$ 4,841	25.2 %
Selling, general and administrative expense	**21,650**	19,579	18,082	**2,071**	**10.6**	1,497	8.3
Depreciation and amortization expense	**7,960**	7,962	7,356	**(2)**	**–**	606	8.2
Total Operating Expenses	**$ 54,100**	$ 51,627	$ 44,683	**$ 2,473**	**4.8**	$ 6,944	15.5

Cost of Services and Sales

Cost of services and sales increased during 2012 compared to 2011 primarily due to $0.7 billion in higher cost of equipment sales, which was driven by increased sales of higher cost smartphones, increased cost of network services and increased data roaming, partially offset by a decrease in cost for data services, a decrease in network connection costs due to the ongoing deployment of Ethernet backhaul facilities primarily targeted at sites upgrading to 4G LTE and a decrease in the cost of long distance.

Cost of services and sales increased during 2011 compared to 2010 primarily due to higher costs of equipment sales. Cost of equipment sales increased by $4.9 billion driven by increased sales of higher cost smartphones, including Apple's iPhone 4 and 4S and other data-capable devices. In addition, cost of services increased during 2011 due to higher wireless network costs resulting from an increase in local interconnection costs related to additional Evolution-Data Optimized (EV-DO) capacity to meet expected data usage demands as well as an increase in Ethernet facilities costs that support the 4G LTE network. The increase in cost of services was also impacted by higher roaming costs incurred in markets divested during 2010 and increased data roaming. Partially offsetting these increases was a decrease in costs for long distance and data services and applications.

Selling, General and Administrative Expense

Selling, general and administrative expense increased during 2012 compared to 2011 primarily due to higher sales commission expense in our indirect channel as well as costs associated with regulatory fees. Indirect sales commission expense increased $1.3 billion during 2012 compared to 2011 primarily as a result of increases in the average commission per unit, as the mix of units continues to shift toward smartphones and more customers activate data services.

Selling, general and administrative expense increased during 2011 compared to 2010 primarily due to higher sales commission expense in our indirect channel. Indirect sales commission expense increased $1.2 billion during 2011 compared to 2010 as a result of increases in the average commission per unit, as the mix of units continues to shift toward data devices and more customers activate data services, and increased contract renewals in connection with equipment upgrades.

Depreciation and Amortization Expense

Depreciation and amortization expense was essentially unchanged during 2012 compared to 2011. The increase in depreciation and amortization expense during 2011 compared to 2010 was primarily driven by growth in depreciable assets.

Segment Operating Income and EBITDA

(dollars in millions)

Years Ended December 31,	2012	2011	2010	Increase/(Decrease) 2012 vs. 2011		2011 vs. 2010	
Segment Operating Income	**$ 21,768**	$ 18,527	$ 18,724	**$ 3,241**	**17.5 %**	$ (197)	(1.1)%
Add Depreciation and amortization expense	**7,960**	7,962	7,356	**(2)**	**–**	606	8.2
Segment EBITDA	**$ 29,728**	$ 26,489	$ 26,080	**$ 3,239**	**12.2**	$ 409	1.6
Segment operating income margin	**28.7%**	26.4%	29.5%				
Segment EBITDA service margin	**46.6%**	44.8%	46.9%				

The changes in the table above during the periods presented were primarily a result of the factors described in connection with operating revenues and operating expenses above.

Non-recurring or non-operational items excluded from Verizon Wireless' Operating income were as follows:

(dollars in millions)

Years Ended December 31,	2012	2011	2010
Merger integration and acquisition related charges	**$ –**	$ –	$ 867
Severance, pension and benefit charges	**37**	76	–
Impact of divested operations	**–**	–	(348)
Deferred revenue adjustment	**–**	–	235
	$ 37	$ 76	$ 754

Wireline

The Wireline segment provides communications products and services including local exchange and long distance voice service, broadband video and data, IP network services, network access and other services to consumers, small businesses and carriers in the United States, as well as to businesses and government customers both in the United States and in over 150 other countries around the world.

Reclassifications have been made to reflect comparable operating results for the spin-off of the operations included in the Frontier transaction, which we owned through June 30, 2010 (see "Acquisitions and Divestitures").

Operating Revenues and Selected Operating Statistics

(dollars in millions)

				Increase/(Decrease)			
Years Ended December 31,	**2012**	2011	2010	**2012 vs. 2011**		2011 vs. 2010	
Consumer retail	**$ 14,043**	$ 13,606	$ 13,419	**$ 437**	**3.2 %**	$ 187	1.4 %
Small business	**2,659**	2,731	2,837	**(72)**	**(2.6)**	(106)	(3.7)
Mass Markets	**16,702**	16,337	16,256	**365**	**2.2**	81	0.5
Strategic services	**8,052**	7,575	6,594	**477**	**6.3**	981	14.9
Core	**7,247**	8,047	8,722	**(800)**	**(9.9)**	(675)	(7.7)
Global Enterprise	**15,299**	15,622	15,316	**(323)**	**(2.1)**	306	2.0
Global Wholesale	**7,240**	7,973	8,746	**(733)**	**(9.2)**	(773)	(8.8)
Other	**539**	750	909	**(211)**	**(28.1)**	(159)	(17.5)
Total Operating Revenues	**$ 39,780**	$ 40,682	$ 41,227	**$ (902)**	**(2.2)**	$ (545)	(1.3)
Connections ('000):[(1)]							
Total voice connections	**22,503**	24,137	26,001	**(1,634)**	**(6.8)**	(1,864)	(7.2)
Total Broadband connections	**8,795**	8,670	8,392	**125**	**1.4**	278	3.3
FiOS Internet subscribers	**5,424**	4,817	4,082	**607**	**12.6**	735	18.0
FiOS Video subscribers	**4,726**	4,173	3,472	**553**	**13.3**	701	20.2

(1) As of end of period

Wireline's revenues decreased during 2012 compared to 2011 primarily driven by declines in Global Wholesale, Global Enterprise Core and Other revenues, partially offset by higher revenues in Consumer retail driven by FiOS services and higher revenues from Strategic services.

Mass Markets

Mass Markets operations provide local exchange (basic service and end-user access) and long distance (including regional toll) voice services, as well as broadband services (including high-speed Internet, FiOS Internet and FiOS Video) to Consumer retail and Small business subscribers.

2012 Compared to 2011

Mass Markets revenues increased during 2012 compared to 2011 primarily due to the expansion of FiOS services (Voice, Internet and Video) as well as changes in our pricing strategy adopted in 2012, partially offset by the continued decline of local exchange revenues.

We have continued to grow our subscriber base and consistently improved penetration rates within our FiOS service areas during 2012. Also contributing to the increase in revenue from FiOS services were changes in our pricing strategy adopted in 2012. As of December 31, 2012, we achieved penetration rates of 37.3% and 33.3% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 35.5% and 31.5% for FiOS Internet and FiOS Video, respectively, at December 31, 2011.

Mass Markets revenues were negatively impacted by the decline of local exchange revenues primarily due to a 6.1% decline in Consumer retail voice connections resulting primarily from competition and technology substitution with wireless, VoIP, broadband and cable 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 challenging economic conditions, competition and a shift to both IP and high-speed circuits.

2011 Compared to 2010

Mass Markets revenues increased slightly during 2011 compared to 2010 primarily due to the expansion of consumer and small business FiOS services (Voice, Internet, Video), partially offset by the continued decline of local exchange revenues.

As we continued to expand the number of premises eligible to order FiOS services and our sales and marketing efforts to attract new FiOS subscribers, we continued to grow our subscriber base and consistently improved penetration rates within our FiOS service areas. Our pricing strategy allows us to provide competitive offerings to our customers and potential customers. As of December 31, 2011, we achieved penetration rates of 35.5% and 31.5% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 31.9% and 28.0% for FiOS Internet and FiOS Video, respectively, at December 31, 2010.

Mass Markets revenues were negatively impacted by the decline of local exchange revenues primarily due to a 7.2% decline in total voice connections, which resulted primarily from competition and technology substitution. Total voice connections include traditional switched access lines in service as well as FiOS digital voice connections. The majority of the decline in total voice connections was sustained in the residential retail market, which experienced a 7.3% voice connection loss primarily due to substituting traditional landline services with wireless, VoIP, broadband and cable services. There was also a 5.3% decline in small business retail voice connections, primarily reflecting challenging economic conditions, competition and a shift to both IP and high-speed circuits.

Global Enterprise

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

2012 Compared to 2011

Global Enterprise revenues decreased during 2012 compared to 2011 primarily due to lower local services and traditional circuit-based revenues, a decline in customer premise equipment revenues and the unfavorable impact of foreign currency translation. Core services, which consist of traditional circuit-based services such as frame relay, private line and Asynchronous Transfer Mode (ATM) services, declined compared to the similar period last year as our customer base continued to migrate to next generation IP services. The decline in customer premise equipment revenues reflects our focus on improving margins by continuing to de-emphasize sales of equipment that is not part of an overall enterprise solutions bundle. This decrease was partially offset by higher Strategic services revenues. Strategic services revenues increased $0.5 billion, or 6.3% during 2012 compared to 2011 primarily due to growth in advanced services, such as managed network solutions, contact center solutions, IP communications and our cloud and data center offerings.

2011 Compared to 2010

Global Enterprise Core and Other revenues increased during 2011 compared to 2010 primarily driven by higher Strategic services revenues, in part due to the inclusion of the revenues of Terremark, partially offset by lower local services and traditional circuit-based revenues and decreased revenues from the sale of customer premise equipment. Strategic services revenues increased $1.0 billion, or 15.2%, during 2011 compared to 2010 primarily due to growth in advanced services. Traditional circuit-based services declined compared to the similar period last year as our customer base continues to migrate to next generation IP services. The decline in customer premise equipment revenues reflects our focus on improving margins by de-emphasizing sales of equipment that is not a part of an overall enterprise solutions bundle.

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.

2012 Compared to 2011

Global Wholesale revenues decreased during 2012 compared to 2011 primarily due to a decline in traditional voice revenues as a result of decreased MOUs and a 5.3% decline in domestic wholesale connections. The traditional voice product reductions are primarily due to the continued impact of competitors deemphasizing their local market initiatives coupled with the impact of technology substitution. Also contributing to the decline in voice revenues is the elimination of low margin international products and the continuing contraction of market rates due to competition. Partially offsetting the overall decrease in wholesale revenue was a 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. As a result of the customer upgrades, the number of core data circuits experienced a 9.6% decline compared to the similar periods in 2011. We expect Global Wholesale revenue to continue to decline approximately 10% per quarter compared to the similar periods in the prior year, as we believe that the continued decline in core products will only be partially offset by growth in Ethernet and IP services.

2011 Compared to 2010

The decrease in Global Wholesale revenues during 2011 compared to 2010 was primarily due to a $0.4 billion decline in international voice revenues as a result of decreased MOUs in traditional voice products as a result of increases in voice termination pricing on certain international routes, which negatively impacted volume, and continued rate compression due to competition in the marketplace. Switched access and interexchange wholesale MOUs declined primarily as a result of wireless substitution and connection losses. Domestic wholesale connections as of December 31, 2011 declined 8.3% from December 31, 2010 due to the continued impact of competitors deemphasizing their local market initiatives coupled with the impact of technology substitution. Voice and local loop services declined during 2011 compared to 2010. Partially offsetting the overall decrease in Global Wholesale revenue was a continuing demand for high-speed digital data services primarily due to fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities. As a result of the upgrading customers, the number of DS1/DS3 circuits experienced a 9.5% decline compared to the similar period in 2010.

Other

Other revenues include such services as local exchange and long distance services from former MCI mass market customers and operator services. The decrease in revenues from other services during 2012 and 2011 was primarily due to reduced volumes, including former MCI mass market customer losses.

Operating Expenses

(dollars in millions)

				Increase/(Decrease)			
Years Ended December 31,	**2012**	2011	2010	**2012 vs. 2011**		2011 vs. 2010	
Cost of services and sales	**$ 22,413**	$ 22,158	$ 22,618	**$ 255**	**1.2 %**	$ (460)	(2.0) %
Selling, general and administrative expense	**8,883**	9,107	9,372	**(224)**	**(2.5)**	(265)	(2.8)
Depreciation and amortization expense	**8,424**	8,458	8,469	**(34)**	**(0.4)**	(11)	(0.1)
Total Operating Expenses	**$ 39,720**	$ 39,723	$ 40,459	**$ (3)**	**–**	$ (736)	(1.8)

Cost of Services and Sales

Cost of services and sales increased during 2012 compared to 2011, primarily due to higher content costs associated with continued FiOS subscriber growth and vendor rate increases and increased expenses related to our cloud and data center offerings. Cost of services and sales was also impacted by higher costs related to FiOS installation, as well as higher repair and maintenance expenses caused by storm-related events in 2012 compared to 2011. The increases were partially offset by a decline in access costs primarily from management actions to reduce exposure to unprofitable international wholesale routes and declines in overall wholesale long distance volumes. Costs related to customer premise equipment also decreased, which reflects our focus on improving margins by de-emphasizing sales of equipment that are not part of an overall enterprise solutions bundle.

Cost of services and sales decreased during 2011 compared to 2010 due to a decrease in access costs resulting primarily from management actions to reduce exposure to unprofitable international wholesale routes and declines in overall wholesale long distance volumes, as well as lower pension and other postretirement benefit expenses. The decrease was partially offset by higher costs related to repair and maintenance expenses caused by storm-related events during the third quarter of 2011, content costs associated with continued FiOS subscriber growth and the acquisition of Terremark in the second quarter of 2011.

Selling, General and Administrative Expense

Selling, general and administrative expense decreased during 2012 compared to 2011 primarily due to lower allocations related to centralized administrative functions, and to a lesser extent, lower property and transaction tax expenses and employee costs.

Selling, general and administrative expense decreased during 2011 compared to 2010 primarily due to lower pension and other postretirement benefits and compensation expense, partially offset by higher costs caused by storm-related events in the third quarter of 2011, as well as the acquisition of Terremark in the second quarter of 2011.

Depreciation and Amortization Expense

Depreciation and amortization expense decreased during 2012 compared to 2011 due to a decrease in net depreciable assets. The decrease was partially offset by an increase in amortization expense related to non-network software.

Depreciation and amortization expense was effectively flat during 2011 compared to 2010 primarily due to a decrease in amortization expense as a result of a reduction in capitalized non-network software, partially offset by an increase in depreciation expense primarily due to the acquisition of Terremark in the second quarter of 2011.

Segment Operating Income and EBITDA

(dollars in millions)

				Increase/(Decrease)			
Years Ended December 31,	**2012**	2011	2010	**2012 vs. 2011**		2011 vs. 2010	
Segment Operating Income	**$ 60**	$ 959	$ 768	**$ (899)**	**(93.7)%**	$ 191	24.9%
Add Depreciation and amortization expense	**8,424**	8,458	8,469	**(34)**	**(0.4)**	(11)	(0.1)
Segment EBITDA	**$ 8,484**	$ 9,417	$ 9,237	**$ (933)**	**(9.9)**	$ 180	1.9
Segment operating income margin	**0.2%**	2.4%	1.9%				
Segment EBITDA margin	**21.3%**	23.1%	22.4%				

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 above.

Non-recurring or non-operational items excluded from Wireline's Operating income were as follows:

(dollars in millions)

Years Ended December 31,	**2012**	2011	2010
Severance, pension and benefit charges	**$ –**	$ –	$ 2,237
Access line spin-off related charges	**–**	–	79
Impact of divested operations	**–**	–	(408)
Other costs	**56**	–	–
	$ 56	$ –	$ 1,908

OTHER ITEMS

Severance, Pension and Benefit Charges

During 2012, we recorded net pre-tax severance, pension and benefits charges of approximately $7.2 billion primarily for our pension and postretirement 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 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 primarily for approximately 4,000 management employees.

During 2011, we recorded net pre-tax severance, pension and benefits charges of approximately $6.0 billion for our pension and postretirement 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 5.75% at December 31, 2010 to 5% at December 31, 2011 ($5.0 billion); the difference between our estimated return on assets of 8% and our actual return on assets of 5% ($0.9 billion); and revisions to the life expectancy of participants and other adjustments to assumptions.

During 2010, we recorded net pre-tax severance, pension and benefits charges of $3.1 billion. The charges during 2010 included remeasurement losses of $0.6 billion, for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. Additionally, in 2010, we reached an agreement with certain unions on temporary enhancements to the separation programs contained in their existing collective bargaining agreements. These temporary enhancements were intended to help address a previously declared surplus of employees and to help reduce the need for layoffs. Accordingly, we recorded severance, pension and benefits charges associated with approximately 11,900 union-represented employees who volunteered for the incentive offer. These charges included $1.2 billion for severance for the 2010 separation programs mentioned above and a planned workforce reduction of approximately 2,500 employees in 2011. In addition, we recorded $1.3 billion for pension and postretirement curtailment losses and special termination benefits due to the workforce reductions.

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 charges presented above.

Early Debt Redemption and 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.

During November 2011, we recorded debt redemption costs of $0.1 billion in connection with the early redemption of $1.0 billion of 7.375% Verizon Communications Notes due September 2012, $0.6 billion of 6.875% Verizon Communications Notes due June 2012, $0.4 billion of 6.125% Verizon Florida Inc. Debentures due January 2013, $0.5 billion of 6.125% Verizon Maryland Inc. Debentures due March 2012 and $1.0 billion of 6.875% Verizon New York Inc. Debentures due April 2012.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See "Consolidated Results of Operations") excludes the early debt redemption and other costs presented 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 next 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.

Merger Integration Charges

During 2010, we recorded pre-tax merger integration charges of $0.9 billion primarily related to the Alltel acquisition. These charges were primarily due to the decommissioning of overlapping cell sites, preacquisition contingencies, handset conversions and trade name amortization.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See "Consolidated Results of Operations") excludes the merger integration charges presented above.

Dispositions

Access Line-Spin-off Related Charges
During 2010, we recorded pre-tax charges of $0.5 billion, primarily for costs incurred related to network, non-network software and other activities to enable the divested markets in the transaction with Frontier to operate on a stand-alone basis subsequent to the closing of the transaction; professional advisory and legal fees in connection with this transaction; and fees related to the early extinguishment of debt from the use of proceeds from the transaction (see "Acquisitions and Divestitures").

Alltel Divestiture Markets

During the second quarter of 2010, we recorded a tax charge of approximately $0.2 billion for the taxable gain associated with the Alltel Divestiture Markets (see "Acquisitions and Divestitures").

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See "Consolidated Results of Operations") excludes the access line spin-off and Alltel Divestiture Markets charges presented above.

Medicare Part D Subsidy Charges

Under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively the Health Care Act), beginning in 2013, Verizon and other companies that receive a subsidy under Medicare Part D to provide retiree prescription drug coverage will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage to the extent of the subsidy received. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in Verizon's financial statements, this change in law required Verizon to reduce the value of the related tax benefits recognized in its financial statements in the period during which the Health Care Act was enacted. As a result, Verizon recorded a one-time, non-cash income tax charge of $1.0 billion in the first quarter of 2010 to reflect the impact of this change.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See "Consolidated Results of Operations") excludes the Medicare Part D subsidy charges presented above.

Deferred Revenue Charges

Corporate, eliminations and other during the periods presented include a non-cash adjustment of $0.2 billion in 2010, primarily to adjust wireless service revenues. This adjustment was recorded to properly defer previously recognized wireless service revenues that were earned and recognized in future periods. The adjustment was recorded during 2010, which reduced Net income attributable to Verizon by approximately $0.1 billion.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See "Consolidated Results of Operations") excludes the deferred revenue charges presented above.

CONSOLIDATED FINANCIAL CONDITION

(dollars in millions)

Years Ended December 31,	2012	2011	2010
Cash Flows Provided By (Used In)			
Operating activities	**$ 31,486**	$ 29,780	$ 33,363
Investing activities	**(20,502)**	(17,250)	(15,054)
Financing activities	**(21,253)**	(5,836)	(13,650)
Increase (Decrease) In Cash and Cash Equivalents	**$ (10,269)**	$ 6,694	$ 4,659

We use the net cash generated from our operations to fund network expansion and modernization, repay external financing, pay dividends, repurchase Verizon common stock from time to time and invest in new businesses. 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. 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 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.

The volatility in world debt and equity markets has not had a significant impact on our ability to access external financing. Our available external financing arrangements include the issuance of commercial paper, 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.

On February 7, 2012, we filed a new shelf registration statement for the issuance of debt or equity securities with an aggregate offering price of up to $10 billion. In connection with this filing, the previous shelf registration statement was terminated. As of December 31, 2012, the shelf registration had an aggregate offering price of up to $5.5 billion. We may also issue short-term debt through an active commercial paper program and have a $6.2 billion credit facility to support such commercial paper issuances.

Cash Flows Provided By Operating Activities

Our primary source of funds continues to be cash generated from operations, primarily from Verizon Wireless. Net cash provided by operating activities during 2012 increased by $1.7 billion compared to 2011 primarily due to higher consolidated earnings, as well as improved working capital levels, due to timing differences, partially offset by an increase in pension contributions. Net cash provided by operating activities during 2012 and 2011 included net distributions received from Vodafone Omnitel of $0.3 billion and $0.4 billion, respectively.

Net cash provided by operating activities during 2011 decreased by $3.6 billion compared to 2010 primarily due to purchases for wireless devices, cash flows from divested operations (see "Acquisitions and Divestitures") and higher pension plan contributions. Net cash provided by operating activities during 2011 and 2010 included net distributions received from Vodafone Omnitel of $0.4 billion in each year.

Cash Flows Used In Investing Activities

Capital Expenditures

Capital expenditures continue to be our primary use of capital resources as they facilitate the introduction of new products and services, enhance responsiveness to competitive challenges and increase the operating efficiency and productivity of our networks.

Capital expenditures, including capitalized software, were as follows:

(dollars in millions)

Years Ended December 31,	**2012**	2011	2010
Verizon Wireless	**$ 8,857**	$ 8,973	$ 8,438
Wireline	**6,342**	6,399	7,269
Other	**976**	872	751
	$ 16,175	$ 16,244	$ 16,458
Total as a percentage of revenue	**14.0%**	14.7%	15.4%

Capital expenditures declined slightly at Verizon Wireless in 2012 compared to 2011 due to the decreased investment in the capacity of our wireless EV-DO network, partially offset by the increased build-out of our 4G LTE network. Capital expenditures declined slightly at Wireline due to lower legacy spending requirements.

The increase in capital expenditures at Verizon Wireless during 2011 was primarily due to the increased investment in the capacity of our wireless EV-DO network, as well as the build-out of our 4G LTE network. The decrease in capital expenditures at Wireline during 2011 was primarily due to capital expenditures in 2010 related to the local exchange business and related activities that were spun off to Frontier, as well as lower capital expenditures related to the build-out of FiOS.

Acquisitions

During 2012, 2011 and 2010, we invested $3.9 billion, $0.2 billion and $0.8 billion, respectively, in acquisitions of wireless licenses, net. During 2012, 2011 and 2010, we also invested $0.9 billion, $1.8 billion and $0.7 billion, respectively, in acquisitions of investments and businesses, net of cash acquired.

- During 2012, we paid approximately $3.9 billion net 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 "Acquisitions and Divestitures" for additional details.
- During April 2011, we paid approximately $1.4 billion for the equity of Terremark, which was partially offset by $0.1 billion of cash acquired (see "Acquisitions and Divestitures"). See "Cash Flows From Financing Activities" below regarding the debt obligations of Terremark that were repaid during May 2011. In addition, during 2011, we acquired various wireless licenses and markets as well as a provider of cloud software technology for cash consideration that was not significant.
- On August 23, 2010, Verizon Wireless acquired the net assets and related customers of six operating markets in Louisiana and Mississippi in a transaction with AT&T Inc. for cash consideration of $0.2 billion.

Dispositions

During 2012, we received cash consideration that was not significant 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.

During 2010, we received cash proceeds of $2.6 billion in connection with the sale of the Alltel Divestiture Markets (see "Acquisitions and Divestitures").

Other, net

During 2011, Other, net primarily included proceeds related to the sales of long-term investments, which were not significant to our consolidated statements of income.

Cash Flows Used In Financing Activities

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 2012, 2011 and 2010, net cash used in financing activities was $21.3 billion, $5.8 billion and $13.7 billion, respectively.

2012

During January 2012, $1.0 billion of 5.875% Verizon New Jersey Inc. Debentures matured and were repaid. During February 2012, $0.8 billion of 5.25% Verizon Wireless Notes matured and were repaid. During July 2012, $0.8 billion of 7.0% Verizon Wireless Notes matured and were repaid. In addition, during 2012 we utilized $0.2 billion under fixed rate vendor financing facilities.

On November 2, 2012, we announced the commencement of a tender offer (the Tender Offer) to purchase for cash any and all of the outstanding $1.25 billion aggregate principal amount of 8.95% Verizon Communications Notes due 2039. In the Tender Offer that was completed November 9, 2012, $0.9 billion aggregate principal amount of the notes was purchased and $0.35 billion principal amount of the notes remains outstanding. Any accrued and unpaid interest on the principal purchased was paid to the date of purchase.

During November 2012, we issued $4.5 billion aggregate principal amount of fixed rate notes at varying maturities resulting in cash proceeds of approximately $4.47 billion, net of discounts and issuance costs. The net proceeds were used for general corporate purposes, for the Tender Offer, and to redeem $0.7 billion of $2.0 billion of 8.75% Verizon Communications Notes due 2018, $1.0 billion of 4.625% Verizon Virginia LLC Debentures, Series A due 2013 and $0.75 billion of 4.35% Verizon Communications Notes due 2013.

In addition, during 2012, various fixed rate notes totaling approximately $0.2 billion were repaid and any accrued and unpaid interest was paid to the date of payment.

See "Other Items" regarding the early debt redemption costs incurred in connection with the aforementioned repurchases and redemptions.

2011

During 2011, proceeds from long-term borrowings totaled $11.1 billion, which was primarily used to repay outstanding debt, redeem higher interest bearing debt maturing in the near term and for other general corporate purposes.

During 2011, $0.5 billion of 5.35% Verizon Communications Notes matured and were repaid, and we utilized $0.3 billion under fixed rate vendor financing facilities.

During March 2011, we issued $6.25 billion aggregate principal amount of fixed and floating rate notes at varying maturities resulting in cash proceeds of approximately $6.19 billion, net of discounts and issuance costs. The net proceeds were used for the repayment of commercial paper and other general corporate purposes, as well as to redeem $2.0 billion aggregate principal amount of telephone subsidiary debt during April 2011.

The debt obligations of Terremark that were outstanding at the time of its acquisition by Verizon were repaid during the second quarter of 2011.

During November 2011, we issued $4.6 billion aggregate principal amount of fixed rate notes at varying maturities resulting in cash proceeds of approximately $4.55 billion, net of discounts and issuance costs. During November 2011, the net proceeds were used to redeem $1.6 billion aggregate principal amount of Verizon Communications notes and $1.9 billion aggregate principal amount of telephone subsidiary debt. The remaining net proceeds were used for the repayment of commercial paper and other general corporate purposes. See "Other Items" regarding the early debt redemption costs incurred in connection with the aforementioned redemptions.

During December 2011, we repaid $0.9 billion upon maturity for the €0.7 billion of 7.625% Verizon Wireless Notes, and the related cross currency swap was settled. During May 2011, $4.0 billion Verizon Wireless two-year fixed and floating rate notes matured and were repaid.

2010
During 2010, Verizon received approximately $3.1 billion in cash in connection with the completion of the spin-off and merger of Spinco (see "Acquisitions and Divestitures"). This special cash payment was subsequently used to redeem $2.0 billion of 7.25% Verizon Communications Notes due December 2010 at a redemption price of 102.7% of the principal amount of the notes, plus accrued and unpaid interest to the date of redemption, as well as other short-term borrowings. During 2010, $0.3 billion of 6.125% and $0.2 billion of 8.625% Verizon New York Inc. Debentures, $0.2 billion of 6.375% Verizon North Inc. Debentures and $0.2 billion of 6.3% Verizon Northwest Inc. Debentures matured and were repaid. In addition, during 2010 Verizon repaid $0.2 billion of floating rate vendor financing debt.

In 2010, Verizon Wireless exercised its right to redeem the outstanding $1.0 billion of aggregate floating rate notes due June 2011 at a redemption price of 100% of the principal amount of the notes, plus accrued and unpaid interest to the date of redemption. In addition, during 2010, Verizon Wireless repaid the remaining $4.0 billion of borrowings that were outstanding under a $4.4 billion Three-Year Term Loan Facility Agreement with a maturity date of September 2011 (Three-Year Term Loan Facility). As there were no borrowings outstanding under this facility, it was cancelled.

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.

Other, net
The change in Other, net financing activities during 2012 compared to the prior year was primarily driven by higher distributions to Vodafone, which owns a 45% noncontrolling interest in Verizon Wireless and higher early debt redemption costs (see "Other Items"). The change in Other, net financing activities during 2011 compared to 2010 was primarily driven by lower distributions to Vodafone.

Dividends
The Verizon Board of Directors determines the appropriateness of the level of our dividend payments on a periodic basis by considering such factors as long-term growth opportunities, internal cash requirements and the expectations of our shareowners. During the third quarter of 2012, the Board increased our quarterly dividend payment 3.0% to $.515 per share from $.50 per share in the same period of 2011. This is the sixth consecutive year that Verizon's Board of Directors has approved a quarterly dividend increase. During the third quarter of 2011, the Board increased our quarterly dividend payment 2.6% to $.50 per share from $.4875 per share in the same period of 2010. During the third quarter of 2010, the Board increased our quarterly dividend payment 2.6% to $.4875 per share from $.475 per share in the same period of 2009.

During 2012, we paid $5.2 billion in dividends compared to $5.6 billion in 2011 and $5.4 billion in 2010. As in prior periods, dividend payments were a significant use of capital resources. While the dividends declared per common share increased, the total amount of cash dividends paid decreased during 2012 compared with 2011 as a portion of the dividends was satisfied through the issuance of common shares from Treasury stock, as noted below (see "Common Stock").

Credit Facility
As of December 31, 2012, the unused borrowing capacity under a $6.2 billion three-year credit facility with a group of major financial institutions was approximately $6.1 billion. On August 13, 2012, we amended our credit facility primarily to reduce fees and borrowing costs and extend the maturity date to August 12, 2016. 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 to support the issuance of commercial paper, for the issuance of letters of credit and for general corporate purposes.

Net Debt and the Net Debt to Consolidated Adjusted EBITDA ratio are non-GAAP financial measures that management believes are useful to investors and other users of our financial information in evaluating Verizon's leverage. Net Debt is calculated by subtracting cash and cash equivalents from the sum of debt maturing within one year and long-term debt. For purposes of the Net Debt to Adjusted EBITDA Ratio, Adjusted EBITDA (See "Consolidated Results of Operations") is calculated for the last 12 months. Management believes this presentation assists investors in understanding trends that are indicative of future operating results given the non-operational or non-recurring nature of the items excluded from the calculation.

Verizon's ratio of net debt to Consolidated Adjusted EBITDA was 1.3x at December 31, 2012 and 1.2x at December 31, 2011. Consolidated Adjusted EBITDA excludes the effects of non-operational items (see "Other Items").

Common Stock
Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans, including 24.6 million common shares issued from Treasury stock during 2012, related to dividend payments, which had an aggregate value of $1.0 billion. On February 3, 2011, the Board of Directors replaced the previously authorized share buyback program with a new program for the repurchase of up to 100 million common shares terminating no later than the close of business on February 28, 2014. The Board also determined that no additional shares were to be purchased under the prior program. Through February 15, 2013, we purchased approximately 3.50 million shares under this authorization.

There were no repurchases of common stock during 2012, 2011 or 2010.

Credit Ratings
The debt securities of Verizon Communications and its subsidiaries continue to be accorded high ratings by the three primary rating agencies.

Although a one-level ratings downgrade would not be expected to significantly impact our access to capital, it could increase both the cost of refinancing existing debt and the cost of financing any new capital requirements. 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.

We and our consolidated subsidiaries are in compliance with all debt covenants.

Increase (Decrease) In Cash and Cash Equivalents

Our Cash and cash equivalents at December 31, 2012 totaled $3.1 billion, a $10.3 billion decrease compared to Cash and cash equivalents at December 31, 2011 for the reasons discussed above. Our Cash and cash equivalents at December 31, 2011 totaled $13.4 billion, a $6.7 billion increase compared to Cash and cash equivalents at December 31, 2010 for the reasons discussed above.

As of December 31, 2012, Verizon Wireless cash and cash equivalents and debt outstanding totaled $0.8 billion and $10.1 billion, respectively.

Free Cash Flow

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 provided by operating activities to Free cash flow:

(dollars in millions)

Years Ended December 31,	**2012**	2011	2010
Net cash provided by operating activities	**$ 31,486**	$ 29,780	$ 33,363
Less Capital expenditures (including capitalized software)	**16,175**	16,244	16,458
Free cash flow	**$ 15,311**	$ 13,536	$ 16,905

The changes in free cash flow during 2012, 2011 and 2010 were a result of the factors described in connection with net cash provided by operating activities and capital expenditures above.

Employee Benefit Plan Funded Status and Contributions

Pension Annuitization

On October 17, 2012, we, along with our subsidiary Verizon Investment Management Corp., and Fiduciary Counselors Inc., as independent fiduciary of the Verizon Management Pension Plan (the Plan), entered into a definitive purchase agreement with The Prudential Insurance Company of America (Prudential) and Prudential Financial, Inc., pursuant to which the Plan would purchase a single premium group annuity contract from Prudential.

On December 10, 2012, upon issuance of the group annuity contract by Prudential, Prudential irrevocably assumed the obligation to make future annuity payments to approximately 41,000 Verizon management retirees who began receiving pension payments from the Plan prior to January 1, 2010. The amount of each retiree's annuity payment equals the amount of such individual's pension benefit. In addition, the group annuity contract is intended to replicate the same rights to future payments, such as survivor benefits, that are currently offered by the Plan.

We contributed approximately $2.6 billion to the Plan between September 1, 2012 and December 31, 2012 in connection with the transaction so that the Plan's funding percentage would not decrease as a result of the transaction.

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 2012 and 2011, we contributed $0.9 billion and $0.4 billion, respectively, to our qualified pension plans, excluding the pension annuitization discussed above. During 2010, contributions to our qualified pension plans were not significant. We also contributed $0.2 billion, $0.1 billion and $0.1 billion to our nonqualified pension plans in 2012, 2011 and 2010, respectively.

In an effort to reduce the risk of our portfolio strategy and better align assets with liabilities, we have shifted our strategy to one that is more liability driven, where cash flows from investments better match projected benefit payments but result in lower asset returns. We intend to 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. Based on the revised strategy and the funded status of the plans at December 31, 2012, we expect the minimum required qualified pension plan contribution in 2013 to be immaterial. Nonqualified pension contributions are estimated to be approximately $0.1 billion in 2013.

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 $1.5 billion, $1.4 billion and $1.2 billion to our other postretirement benefit plans in 2012, 2011 and 2010, respectively. Contributions to our other postretirement benefit plans are estimated to be approximately $1.5 billion in 2013.

Leasing Arrangements

We are the lessor in leveraged and direct financing lease agreements for commercial aircraft and power generating facilities, which comprise the majority of our leasing portfolio along with telecommunications equipment, commercial real estate property and other equipment. These leases have remaining terms of up to 38 years as of December 31, 2012. In addition, we lease space on certain of our cell towers to other wireless carriers. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which is secured by a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with GAAP. All recourse debt is reflected in our consolidated balance sheets.

Off Balance Sheet Arrangements and Contractual Obligations

Contractual Obligations and Commercial Commitments

The following table provides a summary of our contractual obligations and commercial commitments at December 31, 2012. Additional detail about these items is included in the notes to the consolidated financial statements.

(dollars in millions)

	Payments Due By Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt(1)	$ 51,189	$ 3,805	$ 8,906	$ 5,417	$ 33,061
Capital lease obligations(2)	298	64	91	71	72
Total long-term debt, including current maturities	51,487	3,869	8,997	5,488	33,133
Interest on long-term debt(1)	32,761	2,780	4,818	4,321	20,842
Operating leases(2)	11,841	2,038	3,412	2,272	4,119
Purchase obligations (3)	41,768	29,645	7,503	4,162	458
Income tax audit settlements(4)	52	–	52	–	–
Other long-term liabilities(5)	3,921	1,663	2,258	–	–
Total contractual obligations	$ 141,830	$ 39,995	$ 27,040	$ 16,243	$ 58,552

(1) Items included in long-term debt with variable coupon rates are described in Note 8 to the consolidated financial statements.

(2) See Note 7 to the consolidated financial statements.

(3) The purchase obligations reflected above are primarily commitments to purchase handsets and peripherals, equipment, software, programming and network services, and marketing activities, which will be used or sold in the ordinary course of business. These amounts do not represent our entire anticipated purchases in the future, but represent only those items that are the subject of contractual obligations. We also purchase products and services as needed with no firm commitment. For this reason, the amounts presented in this table alone do not provide a reliable indicator of our expected future cash outflows or changes in our expected cash position (see Note 16 to the consolidated financial statements).

(4) We are not able to make a reliable estimate of when the unrecognized tax benefits balance of $2.9 billion and related interest and penalties will be settled with the respective taxing authorities until issues or examinations are further developed (see Note 12 to the consolidated financial statements).

(5) Other long-term liabilities include estimated postretirement benefit and qualified pension plan contributions (see Note 11 to the consolidated financial statements).

Guarantees

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 16 to the consolidated financial statements).

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries. As of December 31, 2012, $4.3 billion principal amount of these obligations remain outstanding. Each guarantee will remain in place for the life of the obligation unless terminated pursuant to its terms, including the operating telephone company no longer being a wholly-owned subsidiary of Verizon.

We also guarantee the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003. As of December 31, 2012, $1.7 billion principal amount of these obligations remain outstanding (see Note 8 to the consolidated financial statements).

As of December 31, 2012 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 16 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. We do not expect that our net income, liquidity and cash flows will be materially affected by these risk management strategies.

Interest Rate Risk

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, 2012, substantially all 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, that is not material. The interest rates on 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, 2012 and 2011. 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.

(dollars in millions)

At December 31, 2012	Fair Value	Fair Value assuming + 100 basis point shift	Fair Value assuming - 100 basis point shift
Long-term debt and related derivatives	**$ 61,045**	**$ 56,929**	**$ 65,747**
At December 31, 2011			
Long-term debt and related derivatives	$ 61,870	$ 58,117	$ 66,326

Interest Rate Swaps

We have entered 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 the London Interbank Offered Rate, 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. At December 31, 2012 the fair value of these interest rate swaps was not material, and at December 31, 2011, the fair value was $0.6 billion, primarily included in Other assets and Long-term debt. As of December 31, 2012, the total notional amount of these interest rate swaps was $1.3 billion. During 2012, interest rate swaps with a notional value of $5.8 billion were settled. As a result of the settlements, we received net proceeds of $0.7 billion, including accrued interest which is included in Other, net operating activities in the consolidated statement of cash flows. The fair value basis adjustment to the underlying debt instruments will be recognized into earnings as a reduction of Interest expense over the remaining lives of the underlying debt obligations.

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, 2012, our primary translation exposure was to the British Pound Sterling, the Euro, the Indian Rupee, the Australian Dollar and the Japanese Yen.

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. A portion of the gains and losses recognized in Other comprehensive income was reclassified to Other income and (expense), net to offset the related pretax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was not material at December 31, 2012 or December 31, 2011. During 2012 and 2011 the gains and losses with respect to these swaps were not material.

CRITICAL ACCOUNTING ESTIMATES AND RECENT ACCOUNTING STANDARDS

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 indicates 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 $77.7 billion as of December 31, 2012. 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. Our impairment test consists 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 is less than the aggregated carrying amount of the wireless licenses then an impairment charge is recognized. Our annual impairment tests for 2012, 2011 and 2010 indicated that the fair value significantly exceeded the carrying value and, therefore, did not result in an impairment.

  We estimate 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 are 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 consider 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 represents our estimate of the weighted-average cost of capital (or expected return, "WACC") that a marketplace participant would require as of the valuation date. We develop 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 incorporates our estimate of the expected return a marketplace participant would require 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 represents our estimate of the marketplace's long-term growth rate.

  Goodwill
  At December 31, 2012, the balance of our goodwill was approximately $24.1 billion, of which $18.2 billion was in our Verizon Wireless segment and $5.9 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, Verizon Wireless and Wireline, are deemed to be our reporting units for purposes of goodwill impairment testing. The fair value of Verizon Wireless significantly exceeded its carrying value and the fair value of Wireline exceeded its carrying value. Accordingly, our annual impairment tests for 2012, 2011 and 2010 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, 2012, 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, 2012 and for the year then ended pertaining to Verizon's pension and postretirement benefit plans is provided in the table below.

(dollars in millions)	Percentage point change	Increase (decrease) at December 31, 2012*
Pension plans discount rate	+0.50	$ (1,350)
	-0.50	1,504
Rate of return on pension plan assets	+1.00	(239)
	-1.00	239
Postretirement plans discount rate	+0.50	(1,678)
	-0.50	1,886
Rate of return on postretirement plan assets	+1.00	(24)
	-1.00	24
Health care trend rates	+1.00	3,251
	-1.00	(2,669)

* In determining its pension and other postretirement obligation, the Company used a weighted-average discount rate of 4.20%. 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, 2012. 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 in income tax expense. Actual tax payments may materially differ from estimated liabilities as a result of changes in tax laws as well as unanticipated transactions impacting related income tax balances.

- Our Plant, property and equipment balance represents a significant component of our consolidated assets. We record plant, property and equipment at cost. We depreciate plant, property and equipment on a straight-line basis over the estimated useful life of the assets. We expect that a one-year increase in estimated useful lives of our plant, property and equipment would result in a decrease to our 2012 depreciation expense of $1.5 billion and that a one-year decrease would result in an increase of approximately $1.8 billion in our 2012 depreciation expense.

Recent Accounting Standards

In July 2012, the accounting standard update regarding testing of intangible assets for impairment was issued. This standard update allows companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not the asset is impaired. We will adopt this standard update during the first quarter of 2013. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

In February 2013, the accounting standard update regarding reclassifications out of accumulated other comprehensive income was issued. This standard update requires companies to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in our consolidated statements of income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. We will adopt this standard in the first quarter of 2013. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

ACQUISITIONS AND DIVESTITURES

Spectrum Licenses

During the third quarter of 2012, after receiving the required regulatory approvals, Verizon Wireless completed the following previously announced transactions in which we acquired wireless spectrum that will be used to deploy additional fourth-generation (4G) Long Term Evolution (LTE) capacity:

- Verizon Wireless acquired AWS spectrum in separate transactions with SpectrumCo and Cox TMI Wireless, LLC for which it paid an aggregate of $3.9 billion at the time of the closings. Verizon Wireless has also recorded a liability of $0.4 billion related to a three-year service obligation to SpectrumCo's members pursuant to commercial agreements executed concurrently with the SpectrumCo transaction.
- Verizon Wireless completed license purchase and exchange transactions with Leap Wireless, Savary Island Wireless, which is majority owned by Leap Wireless, and a subsidiary of T-Mobile. As a result of these transactions, Verizon Wireless received an aggregate $2.6 billion of AWS and PCS licenses at fair value and net cash proceeds of $0.2 billion, transferred certain AWS licenses to T-Mobile and a 700 megahertz (MHz) lower A block license to Leap Wireless, and recorded an immaterial gain.

HUGHES Telematics, Inc.

On June 1, 2012, we agreed to acquire HUGHES Telematics for approximately $12 per share in cash for a total acquisition price of $0.6 billion and we completed the acquisition on July 26, 2012. As a result of the transaction, HUGHES Telematics became a wholly-owned subsidiary of Verizon. The consolidated financial statements include the results of HUGHES Telematics' operations from the date the acquisition closed. Upon closing, we recorded approximately $0.6 billion of goodwill, $0.1 billion of other intangibles, and assumed the debt obligations of HUGHES Telematics, which were approximately $0.1 billion as of the date of acquisition, and which were repaid by Verizon. Had this acquisition been completed on January 1, 2012 or 2011, the results of the acquired operations of HUGHES Telematics would not have had a significant impact on the consolidated net income attributable to Verizon. The acquisition has accelerated our ability to bring more telematics offerings to market for existing and new HUGHES Telematics and Verizon customers.

The acquisition of HUGHES Telematics was accounted for as a business combination under the acquisition method. The cost of the acquisition was allocated to the assets and liabilities acquired based on their fair values as of the close of the acquisition, with the excess amount being recorded as goodwill.

Terremark Worldwide, Inc.

During April 2011, we acquired Terremark for $19 per share in cash. Closing and other direct acquisition-related costs totaled approximately $13 million after-tax. The acquisition was completed via a "short-form" merger under Delaware law through which Terremark became a wholly owned subsidiary of Verizon. The acquisition enhanced Verizon's offerings to business and government customers globally.

Telephone Access Line Spin-off

On July 1, 2010, after receiving regulatory approval, we completed the spin-off of the shares of a newly formed subsidiary of Verizon (Spinco) to Verizon stockholders and the merger of Spinco with Frontier. Spinco held defined assets and liabilities that were used in Verizon's local exchange businesses and related activities in 14 states. The total value of the transaction to Verizon and its stockholders was approximately $8.6 billion.

Alltel Divestiture Markets

As a condition of the regulatory approvals to complete the acquisition of Alltel Corporation in January 2009, Verizon Wireless was required to divest overlapping properties in 105 operating markets in 24 states (Alltel Divestiture Markets). During the second quarter of 2010, AT&T Mobility acquired 79 of the 105 Alltel Divestiture Markets, including licenses and network assets, for approximately $2.4 billion in cash, and Atlantic Tele-Network, Inc. acquired the remaining 26 Alltel Divestiture Markets, including licenses and network assets, for $0.2 billion in cash.

See Note 2 to the consolidated financial statements for additional information relating to the above acquisitions and divestitures.

OTHER FACTORS THAT MAY AFFECT FUTURE RESULTS

Regulatory and Competitive Trends

Competition and Regulation

Technological, regulatory and market changes have provided Verizon both new opportunities and challenges. These changes have allowed Verizon to offer new types of services in an increasingly competitive market. At the same time, they have allowed other service providers to broaden the scope of their own competitive offerings. Current and potential competitors for network services include other telephone companies, cable companies, wireless service providers, foreign telecommunications providers, satellite providers, electric utilities, Internet service providers, providers of VoIP services, and other companies that offer network services using a variety of technologies. Many of these companies have a strong market presence, brand recognition and existing customer relationships, all of which contribute to intensifying competition and may affect our future revenue growth. Many of our competitors also remain subject to fewer regulatory constraints than us.

We are unable to predict definitively the impact that the ongoing changes in the telecommunications industry will ultimately have on our business, results of operations or financial condition. The financial impact will depend on several factors, including the timing, extent and success of competition in our markets, the timing and outcome of various regulatory proceedings and any appeals, and the timing, extent and success of our pursuit of new opportunities.

FCC Regulation

The FCC has jurisdiction over our interstate telecommunications services and other matters under the Communications Act of 1934, as amended (Communications Act). The Communications Act generally provides that we may not charge unjust or unreasonable rates, or engage in unreasonable discrimination when we are providing services as a common carrier, and regulates some of the rates, terms and conditions under which we provide certain services. The FCC also has adopted regulations governing various aspects of our business including: (i) use and disclosure of customer proprietary network information; (ii) telemarketing; (iii) assignment of telephone numbers to customers; (iv) provision to law enforcement agencies of the capability to obtain call-identifying information and call content information from calls pursuant to lawful process; (v) accessibility of services and equipment to individuals with disabilities; (vi) interconnection with the networks of other carriers; and (vii) customers' ability to keep (or "port") their telephone numbers when switching to another carrier. In addition, we pay various fees to support other FCC programs, such as the universal service program discussed below. Changes to these mandates, or the adoption of additional mandates, could require us to make changes to our operations or otherwise increase our costs of compliance.

Broadband

The FCC previously adopted a series of orders that impose lesser regulatory requirements on broadband services and facilities than apply to narrowband or traditional telephone services. With respect to wireline facilities, the FCC determined that certain unbundling requirements that apply to narrowband facilities of local exchange carriers do not apply to broadband facilities such as fiber to the premise loops and packet switches. With respect to services, the FCC concluded that both wireline and wireless broadband Internet access services qualify as largely deregulated information services. Separately, certain of our wireline broadband services sold primarily to larger business customers were largely deregulated when our forbearance petition was granted. The latter relief has been upheld on appeal, but is subject to a continuing challenge before the FCC.

In December of 2010, the FCC adopted so-called "net neutrality" rules governing broadband Internet access services that it describes as intended to preserve the openness of the Internet. These rules, which took effect in November 2011 and are subject to a pending appeal, require providers of broadband Internet access to publicly disclose information relating to the performance and terms of its services. For "fixed" services, the rules prohibit blocking lawful content, applications, services or non-harmful devices. The rules also prohibit unreasonable discrimination in transmitting lawful traffic over a consumer's fixed broadband Internet access service. For "mobile" services, the rules prohibit blocking access to lawful websites or blocking applications that compete with the provider's voice or video telephony services. The restrictions are subject to "reasonable network management." The rules also establish a complaint process, and state that the FCC will continue to monitor developments to determine whether to impose further regulations.

Video

The FCC has a body of rules that apply to cable operators under Title VI of the Communications Act of 1934, and these rules also generally apply to telephone companies that provide cable services over their networks. In addition, the Act generally requires companies that provide cable service over a cable system to obtain a local cable franchise, and the FCC has adopted rules that interpret and implement this requirement.

Interstate Access Charges and Intercarrier Compensation

In 2011, the FCC issued a broad order changing the framework for the interstate and intrastate switched access per-minute rates that carriers charge each other for the exchange of voice traffic. The new rules will gradually reduce to zero the rates that Verizon pays to other carriers and the rates that Verizon charges other carriers. This order also established a per-minute intercarrier compensation rate applicable to the exchange of Voice over IP traffic regardless of whether such traffic is intrastate or interstate. This order is subject to certain pending reconsideration petitions and appeals.

The FCC's current rules for special access services provide for pricing flexibility and ultimately the removal of services from price regulation when prescribed competitive thresholds are met. More than half of special access revenues are now removed from price regulation. The FCC currently has a rulemaking proceeding underway to determine whether and how these rules should be modified.

Universal Service

The FCC has adopted a body of rules implementing the universal service provisions of the Telecommunications Act of 1996, including provisions to support rural and non-rural high-cost areas, low income subscribers, schools and libraries and rural health care. The FCC's rules require telecommunications companies including Verizon to pay into the Universal Service Fund (USF), which then makes distributions in support of the programs. Under the broad order issued by the FCC in 2011, the focus of the USF will be gradually shifted from support of voice services to support of broadband services. The FCC is also currently considering other changes to the rules governing contributions to the fund. Any change in the current rules could result in a change in the contribution that Verizon and others must make and that would have to be collected from customers, or in the amounts that these providers receive from the USF.

Unbundling of Network Elements

Under Section 251 of the Telecommunications Act of 1996, incumbent local exchange carriers are required to provide competing carriers with access to components of their network on an unbundled basis, known as UNEs, where certain statutory standards are satisfied. The FCC has adopted rules defining the network elements that must be made available, including criteria for determining whether high-capacity loops, transport or dark fiber transport must be unbundled in individual wire centers. The Telecommunications Act of 1996 also adopted a cost-based pricing standard for these UNEs, which the FCC interpreted as allowing it to impose a pricing standard known as "total element long run incremental cost" or "TELRIC."

Wireless Services

The FCC regulates the licensing, construction, operation, acquisition and transfer of wireless communications systems, including the systems that Verizon Wireless operates, pursuant to the Communications Act, other legislation, and the FCC's rules. The FCC and Congress continuously consider changes to these laws and rules. Adoption of new laws or rules may raise the cost of providing service or require modification of Verizon Wireless' business plans or operations.

To use the radio frequency spectrum, wireless communications systems must be licensed by the FCC to operate the wireless network and mobile devices in assigned spectrum segments. Verizon Wireless holds FCC licenses to operate in several different radio services, including the cellular radiotelephone service, personal communications service, wireless communications service, and point-to-point radio service. The technical and service rules, the specific radio frequencies and amounts of spectrum Verizon Wireless holds, and the sizes of the geographic areas it is authorized to operate in, vary for each of these services. However, all of the licenses Verizon Wireless holds allow it to use spectrum to provide a wide range of mobile and fixed communications services, including both voice and data services, and Verizon Wireless operates a seamless network that utilizes those licenses to provide services to customers. Because the FCC issues licenses for only a fixed time, generally 10 years, Verizon Wireless must periodically seek renewal of those licenses. Although the FCC has routinely renewed all of Verizon Wireless' licenses that have come up for renewal to date, challenges could be brought against the licenses in the future. If a wireless license were revoked or not renewed upon expiration, Verizon Wireless would not be permitted to provide services on the licensed spectrum in the area covered by that license.

The FCC has also imposed specific mandates on carriers that operate wireless communications systems, which increase Verizon Wireless' costs. These mandates include requirements that Verizon Wireless: (i) meet specific construction and geographic coverage requirements during the license term; (ii) meet technical operating standards that, among other things, limit the radio frequency radiation from mobile devices and antennas; (iii) deploy "Enhanced 911" wireless services that provide the wireless caller's number, location and other information to a state or local public safety agency that handles 911 calls; (iv) provide roaming services to other wireless service providers; and (v) comply with regulations for the construction of transmitters and towers that, among other things, restrict siting of towers in environmentally sensitive locations and in places where the towers would affect a site listed or eligible for listing on the National Register of Historic Places. Changes to these mandates could require Verizon Wireless to make changes to operations or increase its costs of compliance. In its November 4, 2008 order approving Verizon Wireless' acquisition of Alltel, the FCC adopted conditions that impose additional requirements on Verizon Wireless in its provision of Enhanced 911 services and roaming services. Subsequently, in its August 23, 2012 order approving Verizon Wireless' acquisition of various spectrum licenses from several cable companies and wireless carriers, the FCC adopted conditions obligating Verizon Wireless to meet specified buildout milestones for the acquired spectrum and to offer data roaming arrangements.

The Communications Act imposes restrictions on foreign ownership of U.S. wireless systems. The FCC has approved the interest that Vodafone Group Plc holds, through various of its subsidiaries, in Verizon Wireless. The FCC may need to approve any increase in Vodafone's interest or the acquisition of an ownership interest by other foreign entities. In addition, as part of the FCC's approval of Vodafone's ownership interest, Verizon Wireless, Verizon and Vodafone entered into an agreement with the U.S. Department of Defense, Department of Justice and Federal Bureau of Investigation which imposes national security and law enforcement-related obligations on the ways in which Verizon Wireless stores information and otherwise conducts its business.

Verizon Wireless anticipates that it will need additional spectrum to meet future demand. It can meet spectrum needs by purchasing licenses or leasing spectrum from other licensees, or by acquiring new spectrum licenses from the FCC. Under the Communications Act, before Verizon Wireless can acquire a license from another licensee in order to expand its coverage or its spectrum capacity in a particular area, it must file an application with the FCC, and the FCC can grant the application only after a period for public notice and comment. This review process can delay acquisition of spectrum needed to expand services, and can result in conditions on the purchaser that can impact its costs and business plans. The Communications Act also requires the FCC to award new licenses for most commercial wireless services through a competitive bidding process in which spectrum is awarded to bidders in an auction. Verizon Wireless has participated in spectrum auctions to acquire licenses for radio spectrum in various bands. Most recently, Verizon Wireless participated in the FCC's auction of spectrum in the 700 MHz band, and was the high bidder on 109 licenses in the 700 MHz band. The FCC granted all of those licenses to Verizon Wireless on November 26, 2008.

The FCC also adopted service rules that will impose costs on licensees that acquire the 700 MHz band spectrum either through auction or by purchasing such spectrum from other companies. These rules include minimum coverage mandates by specific dates during the license terms, and, for approximately one-third of the spectrum, known as the "C Block," "open access" requirements, which generally require licensees of that spectrum to allow customers to use devices and applications of their choice on the LTE network we are deploying on that spectrum, including those obtained from sources other than us or our distributors or dealers, subject to certain technical limitations established by us. Verizon Wireless holds the C Block 700 MHz licenses covering the entire United States. In adopting its "net neutrality" rules discussed above, the FCC stated that the new rules operate independently from the "open access" requirements that continue to apply to the C Block licensees.

The FCC is also conducting several proceedings to explore making additional spectrum available for licensed and/or unlicensed use or restricting spectrum holdings. Most recently, on September 28, 2012, pursuant to legislation that Congress enacted in February 2012, the FCC began a proceeding to consider making available certain spectrum currently used for television broadcast operations. On that day it also began a proceeding to consider whether to limit the aggregate amount of spectrum any one licensee could acquire or otherwise regulate licensees' spectrum holdings.

State Regulation and Local Approvals

Telephone Operations

State public utility commissions regulate our telephone operations with respect to certain telecommunications intrastate matters. Our competitive local exchange carrier and long distance operations are lightly regulated the same as other similarly situated carriers. Our incumbent local exchange operations (California, Connecticut, Delaware, the District of Columbia, Florida, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, Texas and Virginia) are subject to various levels of pricing flexibility, deregulation, detariffing, and service quality standards. None of the states are subject to earnings regulation.

Video

Companies that provide cable service over a cable system are typically subject to state and/or local cable television rules and regulations. As noted above, cable operators generally must obtain a local cable franchise from each local unit of government prior to providing cable service in that local area. Some states have enacted legislation that enables cable operators to apply for, and obtain, a single cable franchise at the state, rather than local, level. To date, Verizon has applied for and received state-issued franchises in California, Florida, New Jersey, Texas and the unincorporated areas of Delaware. We also have obtained authorization from the state commission in Rhode Island to provide cable service in certain areas in that state, have obtained required state commission approvals for our local franchises in New York, and will need to obtain additional state commission approvals in these states to provide cable service in additional areas. Virginia law provides us the option of entering a given franchise area using state standards if local franchise negotiations are unsuccessful.

Wireless Services

The rapid growth of the wireless industry has led to efforts by some state legislatures and state public utility commissions to regulate the industry in ways that may impose additional costs on Verizon Wireless. The Communications Act generally preempts regulation by state and local governments of the entry of, or the rates charged by, wireless carriers, but does not prohibit states from regulating the other "terms and conditions" of wireless service. While numerous state commissions do not currently have jurisdiction over wireless services, state legislatures may decide to grant them such jurisdiction, and those commissions that already have authority to impose regulations on wireless carriers may adopt new rules.

State efforts to regulate wireless services have included proposals to regulate customer billing, termination of service, trial periods for service, advertising, the use of handsets while driving, reporting requirements for system outages and the availability of broadband wireless services. Wireless tower and antenna facilities are also subject to state and local zoning and land use regulation, and securing approvals for new or modified tower or antenna sites is often a lengthy and expensive process.

Verizon Wireless (as well as AT&T and Sprint-Nextel) is a party to an Assurance of Voluntary Compliance (AVC) with 33 State Attorneys General. The AVC, which generally reflected Verizon Wireless' practices at the time it was entered into in July 2004, obligates the company to disclose certain rates and terms during a sales transaction, to provide maps depicting coverage, and to comply with various requirements regarding advertising, billing, and other practices.

Environmental Matters

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. In September 2005, the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to a reserve previously established for the remediation may be made. Adjustments to the reserve may also be made based upon actual conditions discovered during the remediation at this or any other site requiring remediation.

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 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;
- competition in our markets;
- material changes in available technology or technology substitution;
- disruption of our key suppliers' provisioning of products or services;
- changes in the regulatory environments 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 significant litigation and any resulting financial impact not covered by insurance;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets impacting the cost, including interest rates, and/or availability of financing;
- changes in our 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;
- 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 investments returns on plan assets; and
- the inability to implement our business strategies.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We, the management of Verizon Communications Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the company. Management has evaluated internal control over financial reporting of the company using the criteria for effective internal control established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2012. Based on this assessment, we believe that the internal control over financial reporting of the company is effective as of December 31, 2012. In connection with this assessment, there were no material weaknesses in the company's internal control over financial reporting identified by management.

The company's financial statements included in this Annual Report have been audited by Ernst & Young LLP, independent registered public accounting firm. Ernst & Young LLP has also provided an attestation report on the company's internal control over financial reporting.

Lowell C. McAdam
Chairman and Chief Executive Officer

Francis J. Shammo
Executive Vice President and Chief Financial Officer

Robert J. Barish
Senior Vice President and Controller

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To The Board of Directors and Shareowners of Verizon Communications Inc.:

We have audited Verizon Communications Inc. and subsidiaries' (Verizon) internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Verizon's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Verizon maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Verizon as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2012 of Verizon and our report dated February 26, 2013 expressed an unqualified opinion thereon.

Ernst + Young LLP

Ernst & Young LLP
New York, New York

February 26, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

To The Board of Directors and Shareowners of Verizon Communications Inc.:

We have audited the accompanying consolidated balance sheets of Verizon Communications Inc. and subsidiaries (Verizon) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of Verizon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Verizon at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Verizon's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2013 expressed an unqualified opinion thereon.

Ernst + Young LLP

Ernst & Young LLP
New York, New York

February 26, 2013

CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except per share amounts)

Years Ended December 31,	**2012**	2011	2010
Operating Revenues	**$ 115,846**	$ 110,875	$ 106,565
Operating Expenses			
Cost of services and sales (exclusive of items shown below)	**46,275**	45,875	44,149
Selling, general and administrative expense	**39,951**	35,624	31,366
Depreciation and amortization expense	**16,460**	16,496	16,405
Total Operating Expenses	**102,686**	97,995	91,920
Operating Income	**13,160**	12,880	14,645
Equity in earnings of unconsolidated businesses	**324**	444	508
Other income and (expense), net	**(1,016)**	(14)	54
Interest expense	**(2,571)**	(2,827)	(2,523)
Income Before (Provision) Benefit For Income Taxes	**9,897**	10,483	12,684
(Provision) Benefit for income taxes	**660**	(285)	(2,467)
Net Income	**$ 10,557**	$ 10,198	$ 10,217
Net income attributable to noncontrolling interest	**$ 9,682**	$ 7,794	$ 7,668
Net income attributable to Verizon	**875**	2,404	2,549
Net Income	**$ 10,557**	$ 10,198	$ 10,217
Basic Earnings Per Common Share			
Net income attributable to Verizon	**$ .31**	$ .85	$ .90
Weighted-average shares outstanding (in millions)	**2,853**	2,833	2,830
Diluted Earnings Per Common Share			
Net income attributable to Verizon	**$ .31**	$ .85	$ .90
Weighted-average shares outstanding (in millions)	**2,862**	2,839	2,833

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in millions)

Years Ended December 31,	**2012**	2011	2010
Net Income	**$ 10,557**	$ 10,198	$ 10,217
Other Comprehensive Income, net of taxes			
Foreign currency translation adjustments	**69**	(119)	(171)
Unrealized gain (loss) on cash flow hedges	**(68)**	30	89
Unrealized gain (loss) on marketable securities	**29**	(7)	29
Defined benefit pension and postretirement plans	**936**	316	2,451
Other comprehensive income attributable to Verizon	**966**	220	2,398
Other comprehensive income (loss) attributable to noncontrolling interest	**10**	1	(35)
Total Comprehensive Income	**$ 11,533**	$ 10,419	$ 12,580
Comprehensive income attributable to noncontrolling interest	**9,692**	7,795	7,633
Comprehensive income attributable to Verizon	**1,841**	2,624	4,947
Total Comprehensive Income	**$ 11,533**	$ 10,419	$ 12,580

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(dollars in millions, except per share amounts)

At December 31,	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 3,093	$ 13,362
Short-term investments	470	592
Accounts receivable, net of allowances of $641 and $802	12,576	11,776
Inventories	1,075	940
Prepaid expenses and other	4,021	4,269
Total current assets	21,235	30,939
Plant, property and equipment	209,575	215,626
Less accumulated depreciation	120,933	127,192
	88,642	88,434
Investments in unconsolidated businesses	3,401	3,448
Wireless licenses	77,744	73,250
Goodwill	24,139	23,357
Other intangible assets, net	5,933	5,878
Other assets	4,128	5,155
Total assets	$ 225,222	$ 230,461
Liabilities and Equity		
Current liabilities		
Debt maturing within one year	$ 4,369	$ 4,849
Accounts payable and accrued liabilities	16,182	14,689
Other	6,405	11,223
Total current liabilities	26,956	30,761
Long-term debt	47,618	50,303
Employee benefit obligations	34,346	32,957
Deferred income taxes	24,677	25,060
Other liabilities	6,092	5,472
Equity		
Series preferred stock ($.10 par value; none issued)	–	–
Common stock ($.10 par value; 2,967,610,119 shares issued in both periods)	297	297
Contributed capital	37,990	37,919
Reinvested earnings (Accumulated deficit)	(3,734)	1,179
Accumulated other comprehensive income	2,235	1,269
Common stock in treasury, at cost	(4,071)	(5,002)
Deferred compensation – employee stock ownership plans and other	440	308
Noncontrolling interest	52,376	49,938
Total equity	85,533	85,908
Total liabilities and equity	$ 225,222	$ 230,461

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

Years Ended December 31,	2012	2011	2010
Cash Flows from Operating Activities			
Net Income	$ 10,557	$ 10,198	$ 10,217
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	16,460	16,496	16,405
Employee retirement benefits	8,198	7,426	3,988
Deferred income taxes	(952)	(223)	3,233
Provision for uncollectible accounts	972	1,026	1,246
Equity in earnings of unconsolidated businesses, net of dividends received	77	36	2
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses			
Accounts receivable	(1,717)	(966)	(859)
Inventories	(136)	208	299
Other assets	306	86	(313)
Accounts payable and accrued liabilities	1,144	(1,607)	1,075
Other, net	(3,423)	(2,900)	(1,930)
Net cash provided by operating activities	31,486	29,780	33,363
Cash Flows from Investing Activities			
Capital expenditures (including capitalized software)	(16,175)	(16,244)	(16,458)
Acquisitions of investments and businesses, net of cash acquired	(913)	(1,797)	(652)
Acquisitions of wireless licenses, net	(3,935)	(221)	(786)
Proceeds from dispositions	–	–	2,594
Net change in short-term investments	27	35	(3)
Other, net	494	977	251
Net cash used in investing activities	(20,502)	(17,250)	(15,054)
Cash Flows from Financing Activities			
Proceeds from long-term borrowings	4,489	11,060	–
Repayments of long-term borrowings and capital lease obligations	(6,403)	(11,805)	(8,136)
Increase (decrease) in short-term obligations, excluding current maturities	(1,437)	1,928	(1,097)
Dividends paid	(5,230)	(5,555)	(5,412)
Proceeds from sale of common stock	315	241	–
Proceeds from access line spin-off	–	–	3,083
Special distribution to noncontrolling interest	(8,325)	–	–
Other, net	(4,662)	(1,705)	(2,088)
Net cash used in financing activities	(21,253)	(5,836)	(13,650)
Increase (decrease) in cash and cash equivalents	(10,269)	6,694	4,659
Cash and cash equivalents, beginning of period	13,362	6,668	2,009
Cash and cash equivalents, end of period	$ 3,093	$ 13,362	$ 6,668

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(dollars in millions, except per share amounts, and shares in thousands)

Years Ended December 31,	2012		2011		2010	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	**2,967,610**	**$ 297**	2,967,610	$ 297	2,967,610	$ 297
Balance at end of year	**2,967,610**	**297**	2,967,610	297	2,967,610	297
Contributed Capital						
Balance at beginning of year		**37,919**		37,922		40,108
Telephone access line spin-off (Note 2)		**–**		–		(2,184)
Other		**71**		(3)		(2)
Balance at end of year		**37,990**		37,919		37,922
Reinvested Earnings (Accumulated Deficit)						
Balance at beginning of year		**1,179**		4,368		7,260
Net income attributable to Verizon		**875**		2,404		2,549
Dividends declared ($2.03, $1.975, $1.925) per share		**(5,788)**		(5,593)		(5,441)
Balance at end of year		**(3,734)**		1,179		4,368
Accumulated Other Comprehensive Income (Loss)						
Balance at beginning of year attributable to Verizon		**1,269**		1,049		(1,372)
Telephone access line spin-off (Note 2)		**–**		–		23
Adjusted balance at beginning of year		**1,269**		1,049		(1,349)
Foreign currency translation adjustments		**69**		(119)		(171)
Unrealized gains (losses) on cash flow hedges		**(68)**		30		89
Unrealized gains (losses) on marketable securities		**29**		(7)		29
Defined benefit pension and postretirement plans		**936**		316		2,451
Other comprehensive income		**966**		220		2,398
Balance at end of year attributable to Verizon		**2,235**		1,269		1,049
Treasury Stock						
Balance at beginning of year	**(133,594)**	**(5,002)**	(140,587)	(5,267)	(131,942)	(5,000)
Employee plans (Note 15)	**11,434**	**433**	6,982	265	347	13
Shareowner plans (Note 15)	**13,119**	**498**	11	–	8	–
Other (Note 9)	**–**	**–**	–	–	(9,000)	(280)
Balance at end of year	**(109,041)**	**(4,071)**	(133,594)	(5,002)	(140,587)	(5,267)
Deferred Compensation-ESOPs and Other						
Balance at beginning of year		**308**		200		89
Restricted stock equity grant		**196**		146		97
Amortization		**(64)**		(38)		14
Balance at end of year		**440**		308		200
Noncontrolling Interest						
Balance at beginning of year		**49,938**		48,343		42,761
Net income attributable to noncontrolling interest		**9,682**		7,794		7,668
Other comprehensive income (loss)		**10**		1		(35)
Total comprehensive income		**9,692**		7,795		7,633
Distributions and other		**(7,254)**		(6,200)		(2,051)
Balance at end of year		**52,376**		49,938		48,343
Total Equity		**$ 85,533**		$ 85,908		$ 86,912

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Verizon Communications Inc. (Verizon or the Company) is a holding company, which 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 in over 150 countries around the world. We have two reportable segments, Verizon Wireless and Wireline. For further information concerning our business segments, see Note 13.

Verizon Wireless provides wireless communications services across one of the most extensive wireless networks in the United States (U.S.) and has the largest third-generation (3G) and fourth-generation (4G) Long-Term Evolution technology (LTE) networks of any U.S. wireless service provider.

The Wireline segment provides communications products and services including local exchange and long distance voice service, broadband video and data, IP network services, network access and other services to consumers, small businesses and carriers in the United States, as well as to businesses and government customers both in the United States and in over 150 other countries around the world.

Consolidation

The method of accounting applied to investments, whether consolidated, equity or cost, involves an evaluation of all significant terms of the investments that explicitly grant or suggest evidence of control or influence over the operations of the investee. The consolidated financial statements include our controlled subsidiaries. For controlled subsidiaries that are not wholly owned, the noncontrolling interest is included in Net income and Total equity. Investments in businesses which we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. Investments in which we do not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method. Equity and cost method investments are included in Investments in unconsolidated businesses in our consolidated balance sheets. Certain of our cost method investments are classified as available-for-sale securities and adjusted to fair value pursuant to the accounting standard related to debt and equity securities. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

We have reclassified certain prior year amounts to conform to the current year presentation.

Corporate, eliminations and other during the periods presented include a non-cash adjustment of $0.2 billion in 2010, primarily to adjust wireless service revenues. This adjustment was recorded to properly defer previously recognized wireless service revenues that were earned and recognized in future periods. The adjustment was recorded during 2010, which reduced Net income attributable to Verizon by approximately $0.1 billion.

Use of Estimates

We prepare our financial statements using U.S. generally accepted accounting principles (GAAP), which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Examples of significant estimates include: the allowance for doubtful accounts, the recoverability of plant, property and equipment, the recoverability of intangible assets and other long-lived assets, unbilled revenues, fair values of financial instruments, unrecognized tax benefits, valuation allowances on tax assets, accrued expenses, pension and postretirement benefit assumptions, contingencies and allocation of purchase prices in connection with business combinations.

Revenue Recognition

Multiple Deliverable Arrangements

In both our Verizon Wireless and Wireline segments, we offer products and services to our customers through bundled arrangements. These arrangements involve multiple deliverables which may include products, services, or a combination of products and services.

On January 1, 2011, we prospectively adopted the accounting standard updates regarding revenue recognition for multiple deliverable arrangements, and arrangements that include software elements. These updates require us to allocate revenue in an arrangement using its best estimate of selling price if neither vendor specific objective evidence (VSOE) nor third party evidence (TPE) of selling price exists.

Verizon Wireless

Our Verizon Wireless segment earns revenue primarily by providing access to and usage of its network. In general, access revenue is billed one month in advance and recognized when earned. Usage revenue is generally billed in arrears and recognized when service is rendered. Equipment sales revenue associated with the sale of wireless handsets and accessories is recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from providing wireless services. For agreements involving the resale of third-party services in which we are considered the primary obligor in the arrangements, we record the revenue gross at the time of the sale. For equipment sales, we currently subsidize the cost of wireless devices. The amount of this subsidy is generally contingent on the arrangement and terms selected by the customer. The equipment revenue is recognized up to the amount collected when the wireless device is sold.

Wireline

Our Wireline segment earns revenue based upon usage of its network and facilities and contract fees. In general, fixed monthly fees for voice, video, data and certain other services are billed one month in advance and recognized when earned. Revenue from services that are not fixed in amount and are based on usage is generally billed in arrears and recognized when service is rendered.

We sell each of the services offered in bundled arrangements (i.e., voice, video and data), as well as separately; therefore each product or service has a standalone selling price. For these arrangements revenue is allocated to each deliverable using a relative selling price method. Under this method, arrangement consideration is allocated to each separate deliverable based on our standalone selling price for each product or service. These services include FiOS services, individually or in bundles, and High Speed Internet.

When we bundle equipment with maintenance and monitoring services, we recognize equipment revenue when the equipment is installed in accordance with contractual specifications and ready for the customer's use. The maintenance and monitoring services are recognized monthly over the term of the contract as we provide the services.

Installation related fees, along with the associated costs up to but not exceeding these fees, are deferred and amortized over the estimated customer relationship period.

For each of our segments we report taxes imposed by governmental authorities on revenue-producing transactions between us and our customers on a net basis.

Maintenance and Repairs
We charge the cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, principally to Cost of services and sales as these costs are incurred.

Advertising Costs
Costs for advertising products and services as well as other promotional and sponsorship costs are charged to Selling, general and administrative expense in the periods in which they are incurred (see Note 15).

Earnings Per Common Share
Basic earnings per common share are based on the weighted-average number of shares outstanding during the period. Where appropriate, diluted earnings per common share include the dilutive effect of shares issuable under our stock-based compensation plans.

There were a total of approximately 9 million, 6 million and 3 million stock options and restricted stock units outstanding included in the computation of diluted earnings per common share for the years ended December 31, 2012, 2011 and 2010, respectively. Outstanding options to purchase shares that were not included in the computation of diluted earnings per common share, because to do so would have been anti-dilutive for the period, were not significant for the year ended December 31, 2012 and included approximately 19 million and 73 million weighted-average shares for the years ended December 31, 2011 and 2010, respectively.

We are authorized to issue up to 4.25 billion and 250 million shares of common stock and Series Preferred Stock, respectively.

Cash and Cash Equivalents
We consider all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates quoted market value and include amounts held in money market funds.

Marketable Securities
We have investments in marketable securities, which are considered "available-for-sale" under the provisions of the accounting standard for certain debt and equity securities, and are included in the accompanying consolidated balance sheets in Short-term investments, Investments in unconsolidated businesses or Other assets. We continually evaluate our investments in marketable securities for impairment due to declines in market value considered to be other-than-temporary. That evaluation includes, in addition to persistent, declining stock prices, general economic and company-specific evaluations. In the event of a determination that a decline in market value is other-than-temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established.

Inventories
Inventory consists of wireless and wireline equipment held for sale, which is carried at the lower of cost (determined principally on either an average cost or first-in, first-out basis) or market.

Plant and Depreciation
We record plant, property and equipment at cost. Plant, property and equipment of wireline and wireless operations are generally depreciated on a straight-line basis.

Leasehold improvements are amortized over the shorter of the estimated life of the improvement or the remaining term of the related lease, calculated from the time the asset was placed in service.

When the depreciable assets of our wireline and wireless operations are retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts, and any gains or losses on disposition are recognized in income.

We capitalize and depreciate network software purchased or developed along with related plant assets. We also capitalize interest associated with the acquisition or construction of network-related assets. Capitalized interest is reported as a reduction in interest expense and depreciated as part of the cost of the network-related assets.

In connection with our ongoing review of the estimated remaining average useful lives of plant, property and equipment at our local telephone operations, we determined that there were no changes necessary for average useful lives for 2012, 2011, and 2010. In connection with our ongoing review of the estimated remaining average useful lives of plant, property and equipment at our wireless operations, we determined that changes were necessary to the remaining estimated useful lives as a result of technology upgrades, enhancements, and planned retirements. These changes resulted in increases in depreciation expense of $0.4 billion and $0.3 billion in 2011 and 2010, respectively. While the timing and extent of current deployment plans are subject to ongoing analysis and modification, we believe the current estimates of useful lives are reasonable.

Computer Software Costs
We capitalize the cost of internal-use network and non-network software that has a useful life in excess of one year. Subsequent additions, modifications or upgrades to internal-use network and non-network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Planning, software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of internal-use network and non-network software. Capitalized non-network internal-use software costs are amortized using the straight-line method over a period of 3 to 7 years and are included in Other intangible assets, net in our consolidated balance sheets. For a discussion of our impairment policy for capitalized software costs, see "Goodwill and Other Intangible Assets" below. Also, see Note 3 for additional detail of internal-use non-network software reflected in our consolidated balance sheets.

Goodwill and Other Intangible Assets
Goodwill
Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Impairment testing for goodwill is performed annually in the fourth fiscal quarter. The Company has the option to perform a qualitative assessment to determine if the fair value of the entity is less than its carrying value. However, the Company may elect to perform an impairment test even if no indications of a potential impairment exist. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. We have determined that in our case, the reporting units are our operating

segments since that is the lowest level at which discrete, reliable financial and cash flow information is available. Step one compares the fair value of the reporting unit (calculated using a market approach and/or a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment is recognized.

Intangible Assets Not Subject to Amortization

A significant portion of our intangible assets are wireless licenses that provide our wireless operations with the exclusive right to utilize designated radio frequency spectrum to provide wireless communication services. While licenses are issued for only a fixed time, generally ten years, such licenses are subject to renewal by the Federal Communications Commission (FCC). Renewals of licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses. As a result, we treat the wireless licenses as an indefinite-lived intangible asset. We reevaluate the useful life determination for wireless licenses each year to determine whether events and circumstances continue to support an indefinite useful life.

We test our wireless licenses for potential impairment annually. We evaluate our licenses on an aggregate basis using a direct value approach. The direct value approach estimates fair value using 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. If the fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the licenses, an impairment is recognized.

Interest expense incurred while qualifying activities are performed to ready wireless licenses for their intended use is capitalized as part of wireless licenses. The capitalization period ends when the development is discontinued or substantially complete and the license is ready for its intended use.

Intangible Assets Subject to Amortization and Long-Lived Assets

Our intangible assets that do not have indefinite lives (primarily customer lists and non-network internal-use software) are amortized over their useful lives. All of our intangible assets subject to amortization and long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any indications were present, we would test for recoverability by comparing the carrying amount of the asset group to the net undiscounted cash flows expected to be generated from the asset group. If those net undiscounted cash flows do not exceed the carrying amount, we would perform the next step, which is to determine the fair value of the asset and record an impairment, if any. We reevaluate the useful life determinations for these intangible assets each year to determine whether events and circumstances warrant a revision in their remaining useful lives.

For information related to the carrying amount of goodwill by segment, wireless licenses and other intangible assets, as well as the major components and average useful lives of our other acquired intangible assets, see Note 3.

Fair Value Measurements

Fair value of financial and non-financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities
Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities
Level 3 – No observable pricing inputs in the market

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Income Taxes

Our effective tax rate is based on pre-tax income, statutory tax rates, tax laws and regulations and tax planning strategies available to us in the various jurisdictions in which we operate.

Deferred income taxes are provided for temporary differences in the bases between financial statement and income tax assets and liabilities. Deferred income taxes are recalculated annually at tax rates then in effect. We record valuation allowances to reduce our deferred tax assets to the amount that is more likely than not to be realized.

We use a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. The first step is recognition: we determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset, or an increase in a deferred tax liability.

The accounting standard relating to income taxes generated by leveraged lease transactions requires that changes in the projected timing of income tax cash flows generated by a leveraged lease transaction be recognized as a gain or loss in the year in which the change occurs.

Significant management judgment is required in evaluating our tax positions and in determining our effective tax rate.

Stock-Based Compensation

We measure and recognize compensation expense for all stock-based compensation awards made to employees and directors based on estimated fair values. See Note 10 for further details.

Foreign Currency Translation

The functional currency of our foreign operations is generally the local currency. For these foreign entities, we translate income statement amounts at average exchange rates for the period, and we translate assets and liabilities at end-of-period exchange rates. We record these translation adjustments in Accumulated other comprehensive income (loss), a separate component of Equity, in our consolidated balance sheets. We report exchange gains and losses on intercompany foreign currency transactions of a long-term nature in Accumulated other comprehensive income (loss). Other exchange gains and losses are reported in income.

Employee Benefit Plans

Pension and postretirement health care and life insurance benefits earned during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are generally amortized over the average remaining service period of the employees expected to receive benefits. Expected return on plan assets is determined by applying the return on assets assumption to the actual fair value of plan assets. Actuarial gains and losses are recognized in operating results in the year in which they occur. These gains and losses are measured annually as of December 31 or upon a remeasurement event. Verizon management employees no longer earn pension benefits or earn service towards the company retiree medical subsidy (see Note 11).

We recognize a pension or a postretirement plan's funded status as either an asset or liability on the consolidated balance sheets. Also, we measure any unrecognized prior service costs and credits that arise during the period as a component of Accumulated other comprehensive income (loss), net of applicable income tax.

Derivative Instruments

We have entered into derivative transactions primarily to manage our exposure to fluctuations in foreign currency exchange rates, interest rates, equity and commodity prices. 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 and commodity swap agreements and interest rate locks. We do not hold derivatives for trading purposes.

We measure all derivatives, including derivatives embedded in other financial instruments, at fair value and recognize them as either assets or liabilities on our consolidated balance sheets. Our derivative instruments are valued primarily using models based on readily observable market parameters for all substantial terms of our derivative contracts and thus are classified as Level 2. Changes in the fair values of derivative instruments not qualifying as hedges or any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in Other comprehensive income and recognized in earnings when the hedged item is recognized in earnings.

Recently Adopted Accounting Standards

During the first quarter of 2012, we adopted the accounting standard update regarding the presentation of comprehensive income. This update was issued to increase the prominence of items reported in other comprehensive income. The update requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate, but consecutive statements. In connection with the adoption of this standard our consolidated financial statements include a separate statement of comprehensive income.

During the first quarter of 2012, we adopted the accounting standard update regarding fair value measurement. This update was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. This standard update also changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The adoption of this standard update did not have a significant impact on our consolidated financial statements.

During the first quarter of 2012, we adopted the accounting standard update regarding testing of goodwill for impairment. This standard update gives companies the option to perform a qualitative assessment to first assess whether the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The Company did not elect to use the qualitative assessment in 2012.

Recent Accounting Standards

In July 2012, the accounting standard update regarding testing of intangible assets for impairment was issued. This standard update allows companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not the asset is impaired. We will adopt this standard update during the first quarter of 2013. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

In February 2013, the accounting standard update regarding reclassifications out of accumulated other comprehensive income was issued. This standard update requires companies to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in our consolidated statements of income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. We will adopt this standard in the first quarter of 2013. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

NOTE 2

ACQUISITIONS AND DIVESTITURES

Verizon Wireless

Spectrum Licenses

During the third quarter of 2012, after receiving the required regulatory approvals, Verizon Wireless completed the following previously announced transactions in which we acquired wireless spectrum that will be used to deploy additional fourth-generation (4G) Long Term Evolution (LTE) capacity:

- Verizon Wireless acquired Advanced Wireless Service (AWS) spectrum in separate transactions with SpectrumCo, LLC (SpectrumCo) and Cox TMI Wireless, LLC for which it paid an aggregate of $3.9 billion at the time of the closings. Verizon Wireless has also recorded a liability of $0.4 billion related to a three-year service obligation to SpectrumCo's members pursuant to commercial agreements executed concurrently with the SpectrumCo transaction.
- Verizon Wireless completed license purchase and exchange transactions with Leap Wireless, Savary Island Wireless, which is majority owned by Leap Wireless, and a subsidiary of T-Mobile USA, Inc. (T-Mobile). As a result of these transactions, Verizon Wireless received an aggregate $2.6 billion of AWS and PCS licenses at fair value and net cash proceeds of $0.2 billion, transferred certain AWS licenses to T-Mobile and a 700 megahertz (MHz) lower A block license to Leap Wireless, and recorded an immaterial gain.

During 2011, Verizon Wireless entered into commercial agreements, modified in 2012, with affiliates of Comcast Corporation, Time Warner Cable, Bright House Networks and Cox Communications Inc. (the cable companies). Through these agreements, the cable companies and Verizon Wireless became agents to sell certain of one another's products and services and, over time, the cable companies will have the option, subject to the terms and conditions of the agreements, of selling Verizon Wireless service on a wholesale basis.

During the fourth quarter of 2012, we entered into license exchange agreements with T-Mobile and Cricket License Company, LLC, a subsidiary of Leap Wireless, to exchange certain AWS licenses. These non-cash exchanges, which are subject to approval by the Federal Communications Commission (FCC) and other customary closing conditions, are expected to close in 2013. The exchange includes a number of intra-market swaps that will result in more efficient use of the AWS band. As a result of these transactions, we expect to record an immaterial gain.

On April 18, 2012, we announced plans to initiate an open sale process for all of our 700 MHz lower A and B block spectrum licenses, subject to the receipt of acceptable bids. We acquired these licenses as part of FCC Auction 73 in 2008. On January 25, 2013, Verizon Wireless agreed to sell 39 lower 700 MHz B block spectrum licenses to AT&T Inc. (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 agreed to sell certain lower 700 MHz B block spectrum licenses to an investment firm for a payment of $0.2 billion. These transactions are subject to approval by the FCC and the Department of Justice (DOJ). When finalized, the sales will result in the completion of the open sale process. We expect to deploy the remaining licenses as necessary to meet our own spectrum needs.

Alltel Divestiture Markets

As a condition of the regulatory approvals to complete the acquisition of Alltel Corporation (Alltel) in January 2009, Verizon Wireless was required to divest overlapping properties in 105 operating markets in 24 states (Alltel Divestiture Markets). During the second quarter of 2010, AT&T Mobility acquired 79 of the 105 Alltel Divestiture Markets, including licenses and network assets, for approximately $2.4 billion in cash and Atlantic Tele-Network, Inc. acquired the remaining 26 Alltel Divestiture Markets, including licenses and network assets, for $0.2 billion in cash.

During the second quarter of 2010, we recorded a tax charge of approximately $0.2 billion for the taxable gain associated with these transactions.

Other

During 2012, we acquired various other wireless licenses and markets for cash consideration that was not significant and recorded $0.2 billion of goodwill as a result of these transactions.

During 2011, we acquired various other wireless licenses and markets for cash consideration that was not significant.

During 2010, Verizon Wireless acquired the net assets and related customers of six operating markets in Louisiana and Mississippi in a transaction with AT&T for cash consideration of $0.2 billion. The purchase price allocation resulted in $0.1 billion of wireless licenses and $0.1 billion in goodwill.

Merger Integration Charges

During 2010, we recorded pre-tax merger integration charges of $0.9 billion primarily related to the Alltel acquisition. These charges were primarily due to the decommissioning of overlapping cell sites, preacquisition contingencies, handset conversions and trade name amortization.

Wireline

HUGHES Telematics, Inc.

On June 1, 2012, we agreed to acquire HUGHES Telematics, Inc. (HUGHES Telematics) for approximately $12 per share in cash for a total acquisition price of $0.6 billion and we completed the acquisition on July 26, 2012. As a result of the transaction, HUGHES Telematics became a wholly-owned subsidiary of Verizon. The consolidated financial statements include the results of HUGHES Telematics' operations from the date the acquisition closed. Upon closing, we recorded approximately $0.6 billion of goodwill, $0.1 billion of other intangibles, and assumed the debt obligations of HUGHES Telematics, which were approximately $0.1 billion as of the date of acquisition, and which were repaid by Verizon. Had this acquisition been completed on January 1, 2012 or 2011, the results of the acquired operations of HUGHES Telematics would not have had a significant impact on the consolidated net income attributable to Verizon. The acquisition has accelerated our ability to bring more telematics offerings to market for existing and new HUGHES Telematics and Verizon customers.

The acquisition of HUGHES Telematics was accounted for as a business combination under the acquisition method. The cost of the acquisition was allocated to the assets and liabilities acquired based on their fair values as of the close of the acquisition, with the excess amount being recorded as goodwill.

Terremark Worldwide, Inc.

During April 2011, we acquired Terremark Worldwide, Inc. (Terremark), a global provider of information technology infrastructure and cloud services, for $19 per share in cash. Closing and other direct acquisition-related costs totaled approximately $13 million after-tax. The acquisition was completed via a "short-form" merger under Delaware law through which Terremark became a wholly owned subsidiary of Verizon. The acquisition enhanced Verizon's offerings to business and government customers globally.

The consolidated financial statements include the results of Terremark's operations from the date the acquisition closed. Had this acquisition been consummated on January 1, 2011 or 2010, the results of Terremark's acquired operations would not have had a significant impact on the consolidated net income attributable to Verizon. The debt obligations of Terremark that were outstanding at the time of its acquisition by Verizon were repaid during May 2011.

The acquisition of Terremark was accounted for as a business combination under the acquisition method. The cost of the acquisition was allocated to the assets and liabilities acquired based on their fair values as of the close of the acquisition, with the excess amount being recorded as goodwill. The fair values of the assets and liabilities acquired were determined using the income and cost approaches. The income approach was primarily used to value the intangible assets, consisting primarily of customer relationships. The cost approach was used, as appropriate, for plant, property and equipment. The fair value of the majority of the long-term debt acquired was primarily valued based on redemption prices. The final purchase price allocation presented below includes insignificant adjustments from the initial purchase price to the values of certain assets and liabilities acquired.

The following table summarizes the allocation of the acquisition cost to the assets acquired, including cash acquired of $0.1 billion, and liabilities acquired as of the acquisition date:

(dollars in millions)	Final Purchase Price Allocation
Assets	
Current assets	$ 221
Plant, property and equipment	521
Goodwill	1,211
Intangible assets subject to amortization	410
Other assets	12
Total assets	2,375
Liabilities	
Current liabilities	158
Debt maturing within one year	748
Deferred income taxes and other liabilities	75
Total liabilities	981
Net assets acquired	$ 1,394

Intangible assets subject to amortization include customer lists which are being amortized on a straight-line basis over 13 years, and other intangibles which are being amortized on a straight-line basis over a period of 5 years.

Telephone Access Line Spin-off

On July 1, 2010, after receiving regulatory approval, we completed the spin-off of the shares of a newly formed subsidiary of Verizon (Spinco) to Verizon stockholders and the merger of Spinco with Frontier Communications Corporation (Frontier). Spinco held defined assets and liabilities that were used in Verizon's local exchange businesses and related activities in 14 states. The total value of the transaction to Verizon and its stockholders was approximately $8.6 billion. The accompanying consolidated financial statements for the year ended December 31, 2010 include these operations prior to the completion of the spin-off.

During 2010, we recorded pre-tax charges of $0.5 billion, primarily for costs incurred related to network, non-network software and other activities to enable the divested markets in the transaction with Frontier to operate on a stand-alone basis subsequent to the closing of the transaction; professional advisory and legal fees in connection with this transaction; and fees related to the early extinguishment of debt from the use of proceeds from the transaction.

Other

In February 2012, Verizon entered into a venture with Redbox Automated Retail, LLC (Redbox), a subsidiary of Coinstar, Inc., to offer customers nationwide access to media rentals through online and mobile content streaming as well as physical media rentals through Redbox kiosks. Verizon holds a 65% majority ownership share in the venture and Redbox holds a 35% ownership share. The venture is consolidated by Verizon for reporting purposes. In December 2012, the venture introduced its product portfolio, which includes subscription services, under the name Redbox Instant by Verizon. The initial funding related to the formation of the venture is not significant to Verizon.

During 2011, we acquired a provider of cloud software technology for cash consideration that was not significant.

NOTE 3

WIRELESS LICENSES, GOODWILL AND OTHER INTANGIBLE ASSETS

Wireless Licenses

Changes in the carrying amount of Wireless licenses are as follows:

	(dollars in millions)
Balance at January 1, 2011	$ 72,996
Acquisitions (Note 2)	58
Capitalized interest on wireless licenses	196
Balance at December 31, 2011	$ 73,250
Acquisitions (Note 2)	**4,544**
Capitalized interest on wireless licenses	**205**
Reclassifications, adjustments and other	**(255)**
Balance at December 31, 2012	**$ 77,744**

Reclassifications, adjustments, and other includes the exchanges of wireless licenses in 2012. See Note 2 ("Acquisitions and Divestitures") for additional details.

At December 31, 2012 and 2011, approximately $7.3 billion and $2.2 billion, respectively, of wireless licenses were under development for commercial service for which we were capitalizing interest costs.

The average remaining renewal period of our wireless license portfolio was 6.1 years as of December 31, 2012 (see Note 1, Goodwill and Other Intangible Assets – *Intangible Assets Not Subject to Amortization*).

Goodwill

Changes in the carrying amount of Goodwill are as follows:

(dollars in millions)

	Verizon Wireless	**Wireline**	**Total**
Balance at January 1, 2011	$ 17,869	$ 4,119	$ 21,988
Acquisitions (Note 2)	94	1,275	1,369
Balance at December 31, 2011	$ 17,963	$ 5,394	$ 23,357
Acquisitions (Note 2)	**209**	**551**	**760**
Reclassifications, adjustments and other	**–**	**22**	**22**
Balance at December 31, 2012	**$ 18,172**	**$ 5,967**	**$ 24,139**

Other Intangible Assets

The following table displays the composition of Other intangible assets, net:

(dollars in millions)

			2012			2011
At December 31,	**Gross Amount**	**Accumulated Amortization**	**Net Amount**	Gross Amount	Accumulated Amortization	Net Amount
Customer lists (6 to 13 years)	**$ 3,556**	**$ (2,338)**	**$ 1,218**	$ 3,529	$ (2,052)	$ 1,477
Non-network internal-use software (3 to 7 years)	**10,415**	**(6,210)**	**4,205**	9,536	(5,487)	4,049
Other (2 to 25 years)	**802**	**(292)**	**510**	561	(209)	352
Total	**$ 14,773**	**$ (8,840)**	**$ 5,933**	$ 13,626	$ (7,748)	$ 5,878

The amortization expense for Other intangible assets was as follows:

Years	(dollars in millions)
2012	**$ 1,540**
2011	1,505
2010	1,812

Estimated annual amortization expense for Other intangible assets is as follows:

Years	(dollars in millions)
2013	$ 1,633
2014	1,176
2015	988
2016	790
2017	593

NOTE 4

PLANT, PROPERTY AND EQUIPMENT

The following table displays the details of Plant, property and equipment, which is stated at cost:

At December 31,	Lives (years)	2012	2011
			(dollars in millions)
Land	–	$ 859	$ 862
Buildings and equipment	15 – 45	22,909	21,969
Central office and other network equipment	3 – 15	113,262	107,322
Cable, poles and conduit	11 – 50	53,761	67,190
Leasehold improvements	5 – 20	5,404	5,030
Work in progress	–	4,126	3,417
Furniture, vehicles and other	3 – 20	9,254	9,836
		209,575	215,626
Less accumulated depreciation		120,933	127,192
Total		$ 88,642	$ 88,434

NOTE 5

INVESTMENTS IN UNCONSOLIDATED BUSINESSES

Our investments in unconsolidated businesses are comprised of the following:

At December 31,	Ownership	2012	2011
			(dollars in millions)
Equity Investees			
Vodafone Omnitel	23.1%	$ 2,200	$ 2,083
Other	Various	1,106	1,320
Total equity investees		3,306	3,403
Cost Investees	Various	95	45
Total investments in unconsolidated businesses		$ 3,401	$ 3,448

Dividends and repatriations of foreign earnings received from these investees amounted to $0.4 billion in 2012, $0.5 billion in 2011 and $0.5 billion in 2010. See Note 12 regarding undistributed earnings of our foreign subsidiaries.

Equity Method Investments

Vodafone Omnitel

Vodafone Omnitel N.V. (Vodafone Omnitel) is one of the largest wireless communications companies in Italy. At December 31, 2012 and 2011, our investment in Vodafone Omnitel included goodwill of $1.0 billion, respectively.

Other Equity Investees

We have limited partnership investments in entities that invest in affordable housing projects, for which we provide funding as a limited partner and receive tax deductions and tax credits based on our partnership interests. At December 31, 2012 and 2011, we had equity investments in these partnerships of $0.9 billion and $1.1 billion, respectively. We adjust the carrying value of these investments for any losses incurred by the limited partnerships through earnings.

The remaining investments include wireless partnerships in the U.S. and other smaller domestic and international investments.

Summarized Financial Information

Summarized financial information for our equity investees is as follows:

Balance Sheet

At December 31,	2012	2011
		(dollars in millions)
Current Assets	$ 3,516	$ 3,720
Noncurrent Assets	8,159	8,469
Total Assets	$ 11,675	$ 12,189
Current liabilities	$ 5,526	$ 6,123
Noncurrent liabilities	5	8
Equity	6,144	6,058
Total liabilities and equity	$ 11,675	$ 12,189

Income Statement

Years Ended December 31,	2012	2011	2010
			(dollars in millions)
Net revenue	$ 10,825	$ 12,668	$ 12,356
Operating income	2,823	4,021	4,156
Net income	1,679	2,451	2,563

NOTE 6

NONCONTROLLING INTEREST

Noncontrolling interests in equity of subsidiaries were as follows:

At December 31,	2012	2011
		(dollars in millions)
Noncontrolling interests in consolidated subsidiaries:		
Verizon Wireless	$ 51,492	$ 49,165
Wireless partnerships and other	884	773
	$ 52,376	$ 49,938

Wireless Joint Venture

Our Verizon Wireless segment is primarily comprised of Cellco Partnership doing business as Verizon Wireless (Verizon Wireless). Cellco Partnership is a joint venture formed in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone. Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%.

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.

NOTE 7

LEASING ARRANGEMENTS

As Lessor

We are the lessor in leveraged and direct financing lease agreements for commercial aircraft and power generating facilities, which comprise the majority of our leasing portfolio along with telecommunications equipment, commercial real estate property and other equipment. These leases have remaining terms of up to 38 years as of December 31, 2012. In addition, we lease space on certain of our cell towers to other wireless carriers. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which is secured by a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with GAAP. All recourse debt is reflected in our consolidated balance sheets.

At each reporting period, we monitor the credit quality of the various lessees in our portfolios. Regarding the leveraged lease portfolio, external credit reports are used where available and where not available we use internally developed indicators. These indicators or internal credit risk grades factor historic loss experience, the value of the underlying collateral, delinquency trends, and industry and general economic conditions. The credit quality of our lessees primarily varies from AAA to CCC+. For each reporting period the leveraged leases within the portfolio are reviewed for indicators of impairment where it is probable the rent due according to the contractual terms of the lease will not be collected. All significant accounts, individually or in the aggregate, are current and none are classified as impaired.

Finance lease receivables, which are included in Prepaid expenses and other and Other assets in our consolidated balance sheets, are comprised of the following:

(dollars in millions)

At December 31,			**2012**			2011
	Leveraged Leases	**Direct Finance Leases**	**Total**	Leveraged Leases	Direct Finance Leases	Total
Minimum lease payments receivable	**$ 1,253**	**$ 58**	**$ 1,311**	$ 1,610	$ 119	$ 1,729
Estimated residual value	**923**	**6**	**929**	1,202	9	1,211
Unearned income	**(654)**	**(10)**	**(664)**	(874)	(19)	(893)
Total	**$ 1,522**	**$ 54**	**$ 1,576**	$ 1,938	$ 109	$ 2,047
Allowance for doubtful accounts			**(99)**			(137)
Finance lease receivables, net			**$ 1,477**			$ 1,910
Prepaid expenses and other			**$ 22**			$ 46
Other assets			**1,455**			1,864
			$ 1,477			$ 1,910

Accumulated deferred taxes arising from leveraged leases, which are included in Deferred income taxes, amounted to $1.2 billion at December 31, 2012 and $1.6 billion at December 31, 2011.

The following table is a summary of the components of income from leveraged leases:

(dollars in millions)

Years Ended December 31,	**2012**	2011	2010
Pretax income	**$ 30**	$ 61	$ 74
Income tax expense	**12**	24	32

The future minimum lease payments to be received from noncancelable capital leases (direct financing and leveraged leases), net of nonrecourse loan payments related to leveraged leases and allowances for doubtful accounts, along with expected receipts relating to operating leases for the periods shown at December 31, 2012, are as follows:

(dollars in millions)

Years	Capital Leases	Operating Leases
2013	$ 123	$ 184
2014	45	162
2015	52	139
2016	122	114
2017	38	89
Thereafter	931	90
Total	$ 1,311	$ 778

As Lessee

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense under operating leases amounted to $2.5 billion in 2012, 2011 and 2010, respectively.

Amortization of capital leases is included in Depreciation and amortization expense in the consolidated statements of income. Capital lease amounts included in Plant, property and equipment are as follows:

(dollars in millions)

At December 31,	**2012**	2011
Capital leases	**$ 358**	$ 362
Less accumulated amortization	**158**	132
Total	**$ 200**	$ 230

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2012, are as follows:

(dollars in millions)

Years	Capital Leases	Operating Leases
2013	$ 86	$ 2,038
2014	67	1,840
2015	57	1,572
2016	54	1,280
2017	44	992
Thereafter	99	4,119
Total minimum rental commitments	407	$ 11,841
Less interest and executory costs	109	
Present value of minimum lease payments	298	
Less current installments	64	
Long-term obligation at December 31, 2012	**$ 234**	

NOTE 8

DEBT

Changes to debt during 2012 are as follows:

(dollars in millions)

	Debt Maturing within One Year	Long-term Debt	Total
Balance at January 1, 2012	$ 4,849	$ 50,303	$ 55,152
Proceeds from long-term borrowings	–	4,489	4,489
Repayments of long-term borrowings and capital leases obligations	(6,403)	–	(6,403)
Decrease in short-term obligations, excluding current maturities	(1,437)	–	(1,437)
Reclassifications of long-term debt	7,062	(7,062)	–
Debt acquired (Note 2)	122	–	122
Other	176	(112)	64
Balance at December 31, 2012	$ 4,369	$ 47,618	$ 51,987

Debt maturing within one year is as follows:

(dollars in millions)

At December 31,	2012	2011
Long-term debt maturing within one year	$ 3,869	$ 2,915
Commercial paper	500	1,934
Total debt maturing within one year	$ 4,369	$ 4,849

The weighted-average interest rate for our commercial paper outstanding was 0.4% at December 31, 2012 and 2011, respectively.

Credit Facility

On August 13, 2012, we amended our credit facility to reduce fees and borrowing costs and extend the maturity date to August 12, 2016. As of December 31, 2012, the unused borrowing capacity under this $6.2 billion four-year credit facility with a group of major financial institutions was approximately $6.1 billion.

Long-Term Debt

Outstanding long-term debt obligations are as follows:

(dollars in millions)

At December 31,	Interest Rates %	Maturities	2012	2011
Verizon Communications – notes payable and other	0.70 – 3.85	2013 – 2042	$ 11,198	$ 6,900
	4.35 – 5.50	2013 – 2041	7,062	7,832
	5.55 – 6.90	2016 – 2041	11,031	11,043
	7.35 – 8.95	2018 – 2039	5,017	6,642
	Floating	2014	1,000	1,000
Verizon Wireless – notes payable and other	5.55 – 8.88	2013 – 2018	8,635	9,331
Verizon Wireless – Alltel assumed notes	6.50 – 7.88	2013 – 2032	1,500	2,315
Telephone subsidiaries – debentures	4.75 – 7.00	2013 – 2033	2,045	4,045
	7.15 – 7.88	2022 – 2032	1,349	1,449
	8.00 – 8.75	2019 – 2031	880	880
Other subsidiaries – debentures and other	6.84 – 8.75	2018 – 2028	1,700	1,700
Capital lease obligations (average rate of 6.3% in 2012 and 2011, respectively)			298	352
Unamortized discount, net of premium			(228)	(271)
Total long-term debt, including current maturities			51,487	53,218
Less long-term debt maturing within one year			3,869	2,915
Total long-term debt			$ 47,618	$ 50,303

2012

On November 2, 2012, we announced the commencement of a tender offer (the Tender Offer) to purchase for cash any and all of the outstanding $1.25 billion aggregate principal amount of 8.95% Verizon Communications Notes due 2039. In the Tender Offer that was completed November 9, 2012, $0.9 billion aggregate principal amount of the notes was purchased at a price of 186.5% of the principal amount of the notes (see "Early Debt Redemption and Other Costs" below) and $0.35 billion principal amount of the notes remains outstanding. Any accrued and unpaid interest on the principal purchased was paid to the date of purchase.

During November 2012, we issued $4.5 billion aggregate principal amount of fixed rate notes resulting in cash proceeds of approximately $4.47 billion, net of discounts and issuance costs. The issuances consisted of the following: $1.0 billion of 0.70% Notes due 2015, $0.5 billion of 1.10% Notes due 2017, $1.75 billion of 2.45% Notes due 2022 and $1.25 billion of 3.85% Notes due 2042. During December 2012, the net proceeds were used to redeem: $0.7 billion of the $2.0 billion of 8.75% Notes due November 2018 at a redemption price of 140.2% of the principal amount of the notes (see "Early Debt Redemption and Other Costs" below), $0.75 billion of 4.35% Notes due February 2013 at a redemption price of 100.7% of the principal amount of the notes and certain telephone subsidiary debt (see "Telephone and Other Subsidiary Debt" below), as well as for the Tender Offer and other general corporate purposes. Any accrued and unpaid interest was paid to the date of redemption.

In addition, during 2012 we utilized $0.2 billion under fixed rate vendor financing facilities.

2011

During March 2011, we issued $6.25 billion aggregate principal amount of fixed and floating rate notes resulting in cash proceeds of approximately $6.19 billion, net of discounts and issuance costs. The issuances consisted of the following: $1.0 billion of Notes due 2014 that bear interest at a rate equal to three-month London Interbank Offered Rate (LIBOR) plus 0.61%, $1.5 billion of 1.95% Notes due 2014, $1.25 billion of 3.00% Notes due 2016, $1.5 billion of 4.60% Notes due 2021 and $1.0 billion of 6.00% Notes due 2041. The net proceeds were used for the repayment of commercial paper and other general corporate purposes, as well as for the redemption of certain telephone subsidiary debt during April 2011 (see "Telephone and Other Subsidiary Debt" below).

During November 2011, we issued $4.6 billion aggregate principal amount of fixed rate notes resulting in cash proceeds of approximately $4.55 billion, net of discounts and issuance costs. The issuances consisted of the following: $0.8 billion of 1.25% Notes due 2014, $1.3 billion of 2.00% Notes due 2016, $1.9 billion of 3.50% Notes due 2021 and $0.8 billion of 4.75% Notes due 2041. During November 2011, the net proceeds were used to redeem $1.0 billion of 7.375% Verizon Communications Notes due September 2012 at a redemption price of 105.2% of principal amount of the notes, $0.6 billion of 6.875% Verizon Communications Notes due June 2012 at a redemption price of 103.5% of principal amount of the notes and certain telephone subsidiary debt (see "Telephone and Other Subsidiary Debt" below), as well as for the repayment of commercial paper and other general corporate purposes. Any accrued and unpaid interest was paid to the date of redemption. In addition, we settled the interest rate swap with a notional value totaling $1.0 billion related to the $1.0 billion of 7.375% Verizon Communications Notes due September 2012.

During 2011, $0.5 billion of 5.35% Verizon Communications Notes matured and were repaid and we utilized $0.3 billion under fixed rate vendor financing facilities.

The debt obligations of Terremark that were outstanding at the time of its acquisition by Verizon were repaid during the second quarter of 2011.

Verizon Wireless – Notes Payable and Other

Verizon Wireless Capital LLC, a wholly owned subsidiary of Verizon Wireless, is a limited liability company formed under the laws of Delaware on December 7, 2001 as a special purpose finance subsidiary to facilitate the offering of debt securities of Verizon Wireless by acting as co-issuer. Other than the financing activities as a co-issuer of Verizon Wireless indebtedness, Verizon Wireless Capital LLC has no material assets, operations or revenues. Verizon Wireless is jointly and severally liable with Verizon Wireless Capital LLC for co-issued notes.

2012

During February 2012, $0.8 billion of 5.25% Verizon Wireless Notes matured and were repaid. During July 2012, $0.8 billion of 7.0% Verizon Wireless Notes matured and were repaid.

2011

During May 2011, $4.0 billion aggregate principal amount of Verizon Wireless two-year fixed and floating rate notes matured and were repaid. During December 2011, we repaid $0.9 billion upon maturity for the €0.7 billion of 7.625% Verizon Wireless Notes and the related cross currency swap was settled.

Telephone and Other Subsidiary Debt

2012

During January 2012, $1.0 billion of 5.875% Verizon New Jersey Inc. Debentures matured and were repaid. During December 2012, we redeemed the $1.0 billion of 4.625% Verizon Virginia LLC Debentures, Series A, due March 2013 at a redemption price of 101.1% of the principal amount of the debentures. Any accrued and unpaid interest was paid to the date of redemption.

In addition, during 2012, various Telephone and Other Subsidiary Debentures totaling approximately $0.2 billion were repaid and any accrued and unpaid interest was paid to the date of payment.

2011

During April 2011, we redeemed the $1.0 billion of 5.65% Verizon Pennsylvania Inc. Debentures due November 15, 2011 at a redemption price of 102.9% of the principal amount of the debentures; and the $1.0 billion of 6.50% Verizon New England Inc. Debentures due September 15, 2011 at a redemption price of 102.3% of the principal amount of the debentures. Any accrued and unpaid interest was paid through the date of redemption.

During November 2011, we redeemed the following debentures: $0.4 billion of 6.125% Verizon Florida Inc. Debentures due January 2013 at a redemption price of 106.3% of the principal amount of the debentures; $0.5 billion of 6.125% Verizon Maryland Inc. Debentures due March 2012 at a redemption price of 101.5% of the principal amount of the debentures; and $1.0 billion of 6.875% Verizon New York Inc. Debentures due April 2012 at a redemption price of 102.2% of the principal amount of the debentures. Any accrued and unpaid interest was paid through the date of redemption.

Early Debt Redemption and 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.

During November 2011, we recorded debt redemption costs of $0.1 billion in connection with the early redemption of $1.0 billion of 7.375% Verizon Communications Notes due September 2012, $0.6 billion of 6.875% Verizon Communications Notes due June 2012, $0.4 billion of 6.125% Verizon Florida Inc. Debentures due January 2013, $0.5 billion of 6.125% Verizon Maryland Inc. Debentures due March 2012 and $1.0 billion of 6.875% Verizon New York Inc. Debentures due April 2012.

Guarantees

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries. As of December 31, 2012, $4.3 billion principal amount of these obligations remain outstanding. Each guarantee will remain in place for the life of the obligation unless terminated pursuant to its terms, including the operating telephone company no longer being a wholly-owned subsidiary of Verizon.

We also guarantee the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003. As of December 31, 2012, $1.7 billion principal amount of these obligations remain outstanding.

Debt Covenants

We and our consolidated subsidiaries are in compliance with all debt covenants.

Maturities of Long-Term Debt

Maturities of long-term debt outstanding at December 31, 2012 are as follows:

Years	(dollars in millions)
2013	$ 3,869
2014	6,809
2015	2,188
2016	4,146
2017	1,342
Thereafter	33,133

NOTE 9

FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

The following table presents the balances of assets measured at fair value on a recurring basis as of December 31, 2012:

(dollars in millions)

	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]	Total
Assets:				
Short-term investments:				
Equity securities	$ 310	$ –	$ –	$ 310
Fixed income securities	–	160	–	160
Other current assets:				
Interest rate swaps	–	7	–	7
Other assets:				
Fixed income securities	–	943	–	943
Cross currency swaps	–	153	–	153
Total	$ 310	$ 1,263	$ –	$ 1,573

(1) quoted prices in active markets for identical assets or liabilities
(2) observable inputs other than quoted prices in active markets for identical assets and liabilities
(3) no observable pricing inputs in the market

Equity securities consist of investments in common stock of domestic and international corporations measured using quoted prices in active markets.

Fixed income securities consist primarily of investments in municipal bonds that do not have quoted prices in active markets. For these securities, we use alternative matrix pricing resulting in these debt securities being classified as Level 2.

Derivative contracts are valued using models based on readily observable market parameters for all substantial terms of our derivative contracts and thus are classified within Level 2. We use mid-market pricing for fair value measurements of our derivative instruments.

We recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during 2012.

Fair Value of Short-term and Long-term Debt
The fair value of our debt is determined using various methods, including quoted prices for identical terms and maturities, which is a Level 1 measurement, as well as quoted prices for similar terms and maturities in inactive markets and future cash flows discounted at current rates, which are Level 2 measurements. The fair value of our short-term and long-term debt, excluding capital leases, was as follows:

(dollars in millions)

At December 31,	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short- and long-term debt, excluding capital leases	$ 51,689	$ 61,552	$ 54,800	$ 64,485

Derivative Instruments

Interest Rate Swaps
We have entered 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 the London Interbank Offered Rate, 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. At December 31, 2012 the fair value of these interest rate swaps was not material, and at December 31, 2011, the fair value was $0.6 billion, primarily included in Other assets and Long-term debt. As of December 31, 2012, the total notional amount of these interest rate swaps was $1.3 billion. During 2012, interest rate swaps with a notional value of $5.8 billion were settled. As a result of the settlements, we received net proceeds of $0.7 billion, including accrued interest which is included in Other, net operating activities in the consolidated statement of cash flows. The fair value basis adjustment to the underlying debt instruments will be recognized into earnings as a reduction of Interest expense over the remaining lives of the underlying debt obligations.

Forward Interest Rate Swaps
In order to manage our exposure to future interest rate changes, during the second quarter of 2012, we entered into forward interest rate swaps with a notional value of $1.0 billion. We designated these contracts as cash flow hedges. In November 2012, we settled these forward interest rate swaps and the pretax loss was not material.

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. A portion of the gains and losses recognized in Other comprehensive income was reclassified to Other income and (expense), net to offset the related pretax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was not material at December 31, 2012 or December 31, 2011. During 2012 and 2011 the gains and losses with respect to these swaps were not material.

Prepaid Forward Agreement
During the first quarter of 2009, we entered into a privately negotiated prepaid forward agreement for 14 million shares of Verizon common stock at a cost of approximately $0.4 billion. We terminated the prepaid forward agreement with respect to 5 million of the shares during the fourth quarter of 2009 and 9 million of the shares during the first quarter of 2010, which resulted in the delivery of those shares to Verizon.

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments, short-term and long-term investments, trade receivables, certain notes receivable, including lease receivables, and derivative contracts. Our policy is to deposit our temporary cash investments with major financial institutions. Counterparties to our derivative contracts are also major financial institutions. The financial institutions have all been accorded high ratings by primary rating agencies. We limit the dollar amount of contracts entered into with any one financial institution and monitor our counterparties' credit ratings. We generally do not give or receive collateral on swap agreements due to our credit rating and those of our counterparties. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial condition.

NOTE 10

STOCK-BASED COMPENSATION

Verizon Communications Long-Term Incentive Plan

The Verizon Communications Inc. Long-Term Incentive Plan (the Plan) permits the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and other awards. The maximum number of shares available for awards from the Plan is 119.6 million shares.

Restricted Stock Units

The Plan provides for grants of Restricted Stock Units (RSUs) that generally vest at the end of the third year after the grant. The RSUs granted prior to January 1, 2010 are classified as liability awards because the RSUs will be paid in cash upon vesting. The RSUs granted subsequent to January 1, 2010 are classified as equity awards because the RSUs will be paid in Verizon common stock upon vesting. The RSU equity awards are measured using the grant date fair value of Verizon common stock and are not remeasured at the end of each reporting period. Dividend equivalent units are also paid to participants at the time the RSU award is paid, and in the same proportion as the RSU award.

Performance Stock Units

The Plan also provides for grants of Performance Stock Units (PSUs) that generally vest at the end of the third year after the grant. As defined by the Plan, the Human Resources Committee of the Board of Directors determines the number of PSUs a participant earns based on the extent to which the corresponding performance goals have been achieved over the three-year performance cycle. The PSUs are classified as liability awards because the PSU awards are paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the price of Verizon common stock as well as performance relative to the targets. Dividend equivalent units are also paid to participants at the time that the PSU award is determined and paid, and in the same proportion as the PSU award. The granted and cancelled activity for the PSU award includes adjustments for the performance goals achieved.

The following table summarizes Verizon's Restricted Stock Unit and Performance Stock Unit activity:

(shares in thousands)	Restricted Stock Units	Performance Stock Units
Outstanding January 1, 2010	19,443	29,895
Granted	8,422	17,311
Payments	(6,788)	(14,364)
Cancelled/Forfeited	(154)	(462)
Outstanding December 31, 2010	20,923	32,380
Granted	6,667	10,348
Payments	(7,600)	(12,137)
Cancelled/Forfeited	(154)	(2,977)
Outstanding December 31, 2011	19,836	27,614
Granted	**6,350**	**20,537**
Payments	**(7,369)**	**(8,499)**
Cancelled/Forfeited	**(148)**	**(189)**
Outstanding December 31, 2012	**18,669**	**39,463**

As of December 31, 2012, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately $0.4 billion and is expected to be recognized over approximately two years.

The RSUs granted in 2012 and 2011, and classified as equity awards, have weighted-average grant date fair values of $38.67 and $36.38 per unit, respectively. During 2012, 2011 and 2010, we paid $0.6 billion, $0.7 billion and $0.7 billion, respectively, to settle RSUs and PSUs classified as liability awards.

Verizon Wireless' Long-Term Incentive Plan

The Verizon Wireless Long-Term Incentive Plan (the Wireless Plan) provides compensation opportunities to eligible employees of Verizon Wireless (the Partnership). Under the Wireless Plan, Value Appreciation Rights (VARs) were granted to eligible employees. As of December 31, 2012, all VARs were fully vested. We have not granted new VARs since 2004.

VARs reflect the change in the value of the Partnership, as defined in the Wireless Plan. Similar to stock options, the valuation is determined using a Black-Scholes model. Once VARs become vested, employees can exercise their VARs and receive a payment that is equal to the difference between the VAR price on the date of grant and the VAR price on the date of exercise, less applicable taxes. All outstanding VARs are fully exercisable and have a maximum term of 10 years. All VARs were granted at a price equal to the estimated fair value of the Partnership, as defined in the Wireless Plan, at the date of the grant.

The following table summarizes the assumptions used in the Black-Scholes model during 2012:

	End of Period
Risk-free rate	0.19%
Expected term (in years)	0.62
Expected volatility	43.27%

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the measurement date. Expected volatility was based on a blend of the historical and implied volatility of publicly traded peer companies for a period equal to the VARs expected life ending on the measurement date.

The following table summarizes the Value Appreciation Rights activity:

(shares in thousands)	VARs	Weighted-Average Grant-Date Fair Value
Outstanding rights, January 1, 2010	16,591	$ 16.54
Exercised	(4,947)	24.47
Cancelled/Forfeited	(75)	22.72
Outstanding rights, December 31, 2010	11,569	13.11
Exercised	(3,303)	14.87
Cancelled/Forfeited	(52)	14.74
Outstanding rights, December 31, 2011	8,214	12.39
Exercised	**(3,427)**	**10.30**
Cancelled/Forfeited	**(21)**	**11.10**
Outstanding rights, December 31, 2012	**4,766**	**13.89**

During 2012, 2011 and 2010, we paid $0.1 billion, respectively, to settle VARs classified as liability awards.

Stock-Based Compensation Expense

After-tax compensation expense for stock-based compensation related to RSUs, PSUs, and VARs described above included in Net income attributable to Verizon was $0.7 billion, $0.5 billion and $0.5 billion for 2012, 2011 and 2010, respectively.

Stock Options

The Plan provides for grants of stock options to participants at an option price per share of no less than 100% of the fair market value of Verizon common stock on the date of grant. Each grant has a 10-year life, vesting equally over a three-year period, starting at the date of the grant. We have not granted new stock options since 2004.

The following table summarizes Verizon's stock option activity:

(shares in thousands)	Stock Options	Weighted-Average Exercise Price
Outstanding, January 1, 2010	107,765	$ 44.52
Exercised	(372)	34.51
Cancelled/Forfeited	(50,549)	44.90
Outstanding, December 31, 2010	56,844	44.25
Exercised	(7,104)	35.00
Cancelled/Forfeited	(21,921)	51.06
Outstanding, December 31, 2011	27,819	41.24
Exercised	**(7,447)**	**35.20**
Cancelled/Forfeited	**(17,054)**	**45.15**
Outstanding, December 31, 2012	**3,318**	**34.69**

All stock options outstanding at December 31, 2012, 2011 and 2010 were exercisable.

The following table summarizes information about Verizon's stock options outstanding as of December 31, 2012:

Range of Exercise Prices	Stock Options (in thousands)	Weighted-Average Remaining Life (years)	Weighted-Average Exercise Price
$ 30.00-39.99	3,273	0.8	$ 34.58
40.00-49.99	45	0.3	42.99
Total	**3,318**	**0.8**	**34.69**

The total intrinsic value for stock options outstanding as of December 31, 2012 is not significant. The total intrinsic value of stock options exercised was $0.1 billion in 2012 and the associated tax benefits were not significant in 2012, 2011 and 2010. The amount of cash received from the exercise of stock options was $0.3 billion in 2012, $0.2 billion in 2011 and not significant in 2010. There was no stock option expense for 2012, 2011 and 2010.

NOTE 11

EMPLOYEE BENEFITS

We maintain non-contributory defined benefit pension plans for many of our employees. In addition, we maintain postretirement health care and life insurance plans for our retirees and their dependents, which are both contributory and non-contributory, and include a limit on our share of the cost for certain recent and future retirees. In accordance with our accounting policy for pension and other postretirement benefits, operating expenses include pension and benefit related 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 is 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.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for many of our employees are subject to collective bargaining agreements. Modifications in benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans. The following tables summarize benefit costs, as well as the benefit obligations, plan assets, funded status and rate assumptions associated with pension and postretirement health care and life insurance benefit plans.

Obligations and Funded Status

(dollars in millions)

	Pension		Health Care and Life	
At December 31,	**2012**	2011	**2012**	2011
Change in Benefit Obligations				
Beginning of year	**$ 30,582**	$ 29,217	**$ 27,369**	$ 25,718
Service cost	**358**	307	**359**	299
Interest cost	**1,449**	1,590	**1,284**	1,421
Plan amendments	**183**	(485)	**(1,826)**	–
Actuarial loss, net	**6,074**	3,360	**1,402**	1,687
Benefits paid	**(2,735)**	(2,564)	**(1,744)**	(1,756)
Annuity purchase	**(8,352)**	–	**–**	–
Settlements paid	**(786)**	(843)	**–**	–
End of Year	**$ 26,773**	$ 30,582	**$ 26,844**	$ 27,369
Change in Plan Assets				
Beginning of year	**$ 24,110**	$ 25,814	**$ 2,628**	$ 2,945
Actual return on plan assets	**2,326**	1,191	**312**	63
Company contributions	**3,719**	512	**1,461**	1,376
Benefits paid	**(2,735)**	(2,564)	**(1,744)**	(1,756)
Settlements paid	**(786)**	(843)	**–**	–
Annuity purchase	**(8,352)**	–	**–**	–
End of year	**$ 18,282**	$ 24,110	**$ 2,657**	$ 2,628
Funded Status				
End of year	**$ (8,491)**	$ (6,472)	**$ (24,187)**	$ (24,741)

(dollars in millions)

	Pension		Health Care and Life	
At December 31,	**2012**	2011	**2012**	2011
Amounts recognized on the balance sheet				
Noncurrent assets	**$ 236**	$ 289	**$ –**	$ –
Current liabilities	**(129)**	(195)	**(766)**	(735)
Noncurrent liabilities	**(8,598)**	(6,566)	**(23,421)**	(24,006)
Total	**$ (8,491)**	$ (6,472)	**$ (24,187)**	$ (24,741)
Amounts recognized in Accumulated Other Comprehensive Income (Pretax)				
Prior Service Cost	**$ 181**	$ (3)	**$ (2,247)**	$ (510)
Total	**$ 181**	$ (3)	**$ (2,247)**	$ (510)

See Note 12 ("Taxes") for details regarding the impact of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010.

Beginning in 2013, as a result of federal health care reform, Verizon will no longer file for the Retiree Drug Subsidy (RDS) and will instead contract with a Medicare Part D plan on a group basis to provide prescription drug benefits to Medicare eligible retirees. This change to our Medicare Part D strategy resulted in the adoption of plan amendments during the fourth quarter of 2010 which will allow the company to be eligible for greater Medicare Part D plan subsidies over time.

During 2012, we reached agreements with the Communications Workers of America and the International Brotherhood of Electrical Workers on new, three-year contracts that cover approximately 43,000 Wireline employees. This resulted in the adoption of plan amendments which will result in lower other postretirement benefit costs in 2013 and beyond.

The accumulated benefit obligation for all defined benefit pension plans was $26.5 billion and $30.3 billion at December 31, 2012 and 2011, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets follows:

(dollars in millions)

At December 31,	**2012**	2011
Projected benefit obligation	**$ 26,351**	$ 29,643
Accumulated benefit obligation	**26,081**	29,436
Fair value of plan assets	**17,623**	22,916

Net Periodic Cost

The following table summarizes the benefit (income) cost related to our pension and postretirement health care and life insurance plans:

(dollars in millions)

	Pension			Health Care and Life		
Years Ended December 31,	**2012**	2011	2010	**2012**	2011	2010
Service cost	**$ 358**	$ 307	$ 353	**$ 359**	$ 299	$ 305
Amortization of prior service cost (credit)	**(1)**	72	109	**(89)**	(57)	375
Subtotal	**357**	379	462	**270**	242	680
Expected return on plan assets	**(1,795)**	(1,976)	(2,176)	**(171)**	(163)	(252)
Interest cost	**1,449**	1,590	1,797	**1,284**	1,421	1,639
Subtotal	**11**	(7)	83	**1,383**	1,500	2,067
Remeasurement (gain) loss, net	**5,542**	4,146	(166)	**1,262**	1,787	758
Net periodic benefit (income) cost	**5,553**	4,139	(83)	**2,645**	3,287	2,825
Curtailment and termination benefits	**–**	–	860	**–**	–	386
Total	**$ 5,553**	$ 4,139	$ 777	**$ 2,645**	$ 3,287	$ 3,211

Other pre-tax changes in plan assets and benefit obligations recognized in other comprehensive (income) loss are as follows:

(dollars in millions)

	Pension		Health Care and Life	
At December 31,	**2012**	2011	**2012**	2011
Prior service cost	**$ 183**	$ (485)	**$ (1,826)**	$ –
Reversal of amortization items				
Prior service cost	**1**	(72)	**89**	57
Total recognized in other comprehensive (income) loss (pretax)	**$ 184**	$ (557)	**$ (1,737)**	$ 57

The estimated prior service cost for the defined benefit pension plan that will be amortized from Accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year is not significant. The estimated prior service cost for the defined benefit postretirement plans that will be amortized from Accumulated other comprehensive income (loss) into net periodic benefit (income) cost over the next fiscal year is $(0.2 billion).

Assumptions

The weighted-average assumptions used in determining benefit obligations follow:

	Pension		Health Care and Life	
At December 31,	**2012**	2011	**2012**	2011
Discount Rate	**4.20%**	5.00%	**4.20%**	5.00%
Rate of compensation increases	**3.00**	3.00	**N/A**	N/A

The weighted-average assumptions used in determining net periodic cost follow:

	Pension			Health Care and Life		
At December 31,	**2012**	2011	2010	**2012**	2011	2010
Discount Rate	**5.00%**	5.75%	6.25%	**5.00%**	5.75%	6.25%
Expected return on plan assets	**7.50**	8.00	8.50	**7.00**	6.00	8.25
Rate of compensation increases	**3.00**	3.00	4.00	**N/A**	N/A	N/A

In order to project the long-term target investment return for the total portfolio, estimates are prepared for the total return of each major asset class over the subsequent 10-year period. Those estimates are based on a combination of factors including the current market interest rates and valuation levels, consensus earnings expectations and historical long-term risk premiums. To determine the aggregate return for the pension trust, the projected return of each individual asset class is then weighted according to the allocation to that investment area in the trust's long-term asset allocation policy.

The assumed health care cost trend rates follow:

	Health Care and Life		
At December 31,	**2012**	2011	2010
Healthcare cost trend rate assumed for next year	**7.00%**	7.50%	7.75%
Rate to which cost trend rate gradually declines	**5.00**	5.00	5.00
Year the rate reaches the level it is assumed to remain thereafter	**2016**	2016	2016

A one percentage point change in the assumed health care cost trend rate would have the following effects:

(dollars in millions)

One-Percentage Point	Increase	Decrease
Effect on 2012 service and interest cost	$ 232	$ (187)
Effect on postretirement benefit obligation as of December 31, 2012	3,251	(2,669)

Plan Assets

Historically, our portfolio strategy emphasized a long-term equity orientation, significant global diversification, and the use of both public and private investments. In an effort to reduce the risk of our portfolio strategy and better align assets with liabilities, we have shifted our strategy to one that is more liability driven, where cash flows from investments better match projected benefit payments but result in lower asset returns. We intend to 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. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors. Our diversification and risk control processes serve to minimize the concentration of risk.

While target allocation percentages will vary over time, the company's overall investment strategy is to achieve a mix of assets, which allows us to meet projected benefits payments while taking into consideration risk and return. The current target allocation for plan assets is designed so that 70% of the assets have the objective of achieving a return in excess of the growth in liabilities (comprised of public equities, private equities, real estate, hedge funds and emerging debt) and 30% of the assets are invested as liability hedging assets (typically longer duration fixed income). This allocation will shift as funded status improves to a higher allocation to liability hedging assets. Target policies will be revisited periodically to ensure they are in line with fund objectives. Due to our diversification and risks control processes, there are no significant concentrations of risk, in terms of sector, industry, geography or company names.

Pension and healthcare and life plans assets do not include significant amounts of Verizon common stock.

Pension Plans

The fair values for the pension plans by asset category at December 31, 2012 are as follows:

(dollars in millions)

Asset Category	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	**$ 1,618**	**$ 1,586**	**$ 32**	**$ –**
Equity securities	**2,944**	**2,469**	**475**	**–**
Fixed income securities				
U.S. Treasuries and agencies	**1,589**	**1,125**	**464**	**–**
Corporate bonds	**2,456**	**35**	**2,225**	**196**
International bonds	**601**	**140**	**461**	**–**
Other	**210**	**–**	**210**	**–**
Real estate	**2,018**	**–**	**–**	**2,018**
Other				
Private equity	**5,039**	**–**	**–**	**5,039**
Hedge funds	**1,807**	**–**	**1,249**	**558**
Total	**$ 18,282**	**$ 5,355**	**$ 5,116**	**$ 7,811**

The fair values for the pension plans by asset category at December 31, 2011 are as follows:

(dollars in millions)

Asset Category	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 1,215	$ 1,184	$ 31	$ –
Equity securities	6,829	5,704	1,125	–
Fixed income securities				
U.S. Treasuries and agencies	1,796	1,239	557	–
Corporate bonds	2,140	65	1,886	189
International bonds	1,163	158	1,005	–
Other	359	–	359	–
Real estate	2,158	–	–	2,158
Other				
Private equity	6,109	–	54	6,055
Hedge funds	2,341	–	1,679	662
Total	$ 24,110	$ 8,350	$ 6,696	$ 9,064

The following is a reconciliation of the beginning and ending balance of pension plan assets that are measured at fair value using significant unobservable inputs:

(dollars in millions)

	Corporate Bonds	Real Estate	Private Equity	Hedge Funds	Total
Balance at January 1, 2011	$ 180	$ 1,769	$ 5,849	$ 716	$ 8,514
Actual gain (loss) on plan assets	(4)	258	477	(4)	727
Purchases and sales	48	43	(203)	(50)	(162)
Transfers in and/or out	(35)	88	(68)	-	(15)
Balance at December 31, 2011	$ 189	$ 2,158	$ 6,055	$ 662	$ 9,064
Actual gain on plan assets	**12**	**84**	**146**	**43**	**285**
Purchases and sales	**(14)**	**(224)**	**(1,162)**	**(147)**	**(1,547)**
Transfers in	**9**	**–**	**–**	**–**	**9**
Balance at December 31, 2012	**$ 196**	**$ 2,018**	**$ 5,039**	**$ 558**	**$ 7,811**

Health Care and Life Plans

The fair values for the other postretirement benefit plans by asset category at December 31, 2012 are as follows:

(dollars in millions)

Asset Category	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	**$ 291**	**$ 13**	**$ 278**	**$ –**
Equity securities	**1,753**	**1,004**	**749**	**–**
Fixed income securities				
U.S. Treasuries and agencies	**118**	**80**	**38**	**–**
Corporate bonds	**192**	**11**	**181**	**–**
International bonds	**189**	**72**	**117**	**–**
Other	**114**	**-**	**114**	**–**
Total	**$ 2,657**	**$ 1,180**	**$ 1,477**	**$ –**

The fair values for the other postretirement benefit plans by asset category at December 31, 2011 are as follows:

(dollars in millions)

Asset Category	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 281	$ 22	$ 259	$ –
Equity securities	1,695	951	744	–
Fixed income securities				
U.S. Treasuries and agencies	85	58	27	–
Corporate bonds	119	26	93	–
International bonds	192	67	125	–
Other	210	–	210	–
Other	46	–	46	–
Total	$ 2,628	$ 1,124	$ 1,504	$ –

The following are general descriptions of asset categories, as well as the valuation methodologies and inputs used to determine the fair value of each major category of assets.

Cash and cash equivalents include short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and are valued using quoted market prices or other valuation methods, and thus are classified within Level 1 or Level 2.

Equity securities are investments in common stock of domestic and international corporations in a variety of industry sectors, and are valued primarily using quoted market prices or other valuation methods, and thus are classified within Level 1 or Level 2.

Fixed income securities include U.S. Treasuries and agencies, debt obligations of foreign governments and domestic and foreign corporations. Fixed income also includes investments in collateralized mortgage obligations, mortgage backed securities and interest rate swaps. The fair value of fixed income securities is based on observable prices for identical or comparable assets, adjusted using benchmark curves, sector grouping, matrix pricing, broker/dealer quotes and issuer spreads, and thus is classified within Level 1 or Level 2.

Real estate investments include those in limited partnerships that invest in various commercial and residential real estate projects both domestically and internationally. The fair values of real estate assets are typically determined by using income and/or cost approaches or a comparable sales approach, taking into consideration discount and capitalization rates, financial conditions, local market conditions and the status of the capital markets, and thus are classified within Level 3.

Private equity investments include those in limited partnerships that invest in operating companies that are not publicly traded on a stock exchange. Investment strategies in private equity include leveraged buyouts, venture capital, distressed investments and investments in natural resources. These investments are valued using inputs such as trading multiples of comparable public securities, merger and acquisition activity and pricing data from the most recent equity financing taking into consideration illiquidity, and thus are classified within Level 3.

Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. The fair values of hedge funds are estimated using net asset value per share (NAV) of the investments. Verizon has the ability to redeem these investments at NAV within the near term and thus are classified within Level 2. Investments that cannot be redeemed in the near term are classified within Level 3.

Cash Flows

In 2012, we contributed $0.9 billion to our qualified pension plans, $0.2 billion to our nonqualified pension plans and $1.5 billion to our other postretirement benefit plans, exclusive of the annuitization discussed below. We expect the qualified pension plan contributions in 2013 to be immaterial. We anticipate approximately $0.1 billion in contributions to our non-qualified pension plans and $1.5 billion to our other postretirement benefit plans in 2013.

Estimated Future Benefit Payments

The benefit payments to retirees are expected to be paid as follows:

(dollars in millions)

Year	Pension Benefits	Health Care and Life
2013	$ 3,487	$ 1,662
2014	2,513	1,670
2015	2,315	1,665
2016	1,782	1,614
2017	1,686	1,567
2018–2022	6,703	7,174

Savings Plan and Employee Stock Ownership Plans

We maintain four leveraged employee stock ownership plans (ESOP). Only one plan currently has unallocated shares. We match a certain percentage of eligible employee contributions to the savings plans with shares of our common stock from this ESOP. At December 31, 2012, the number of unallocated and allocated shares of common stock in this ESOP was 711,000 and 64 million, respectively. All leveraged ESOP shares are included in earnings per share computations.

Total savings plan costs were $0.7 billion in 2012, 2011 and 2010, respectively.

Pension Annuitization

On October 17, 2012, we, along with our subsidiary Verizon Investment Management Corp., and Fiduciary Counselors Inc., as independent fiduciary of the Verizon Management Pension Plan (the Plan), entered into a definitive purchase agreement with The Prudential Insurance Company of America (Prudential) and Prudential Financial, Inc., pursuant to which the Plan would purchase a single premium group annuity contract from Prudential.

On December 10, 2012, upon issuance of the group annuity contract by Prudential, Prudential irrevocably assumed the obligation to make future annuity payments to approximately 41,000 Verizon management retirees who began receiving pension payments from the Plan prior to January 1, 2010. The amount of each retiree's annuity payment equals the amount of such individual's pension benefit. In addition, the group annuity contract is intended to replicate the same rights to future payments, such as survivor benefits, that are currently offered by the Plan.

We contributed approximately $2.6 billion to the Plan between September 1, 2012 and December 31, 2012 in connection with the transaction so that the Plan's funding percentage would not decrease as a result of the transaction.

Severance Benefits

The following table provides an analysis of our actuarially determined severance liability recorded in accordance with the accounting standard regarding employers' accounting for postemployment benefits:

(dollars in millions)

Year	Beginning of Year	Charged to Expense	Payments	Other	End of Year
2010	$ 1,638	$ 1,217	$ (1,307)	$ 21	$ 1,569
2011	1,569	32	(474)	(14)	1,113
2012	**1,113**	**396**	**(531)**	**32**	**1,010**

Severance, Pension and Benefit Charges

During 2012, we recorded net pre-tax severance, pension and benefits charges of approximately $7.2 billion primarily for our pension and postretirement 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, as described above, as well as severance charges of $0.4 billion primarily for approximately 4,000 management employees.

During 2011, we recorded net pre-tax severance, pension and benefits charges of approximately $6.0 billion for our pension and postretirement 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 5.75% at December 31, 2010 to 5% at December 31, 2011 ($5.0 billion); the difference between our estimated return on assets of 8% and our actual return on assets of 5% ($0.9 billion); and revisions to the life expectancy of participants and other adjustments to assumptions.

During 2010, we recorded net pre-tax severance, pension and benefits charges of $3.1 billion. The charges during 2010 included remeasurement losses of $0.6 billion, for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. Additionally, in 2010, we reached an agreement with certain unions on temporary enhancements to the separation programs contained in their existing collective bargaining agreements. These temporary enhancements were intended to help address a previously declared surplus of employees and to help reduce the need for layoffs. Accordingly, we recorded severance, pension and benefits charges associated with approximately 11,900 union-represented employees who volunteered for the incentive offer. These charges included $1.2 billion for severance for the 2010 separation programs mentioned above and a planned workforce reduction of approximately 2,500 employees in 2011. In addition, we recorded $1.3 billion for pension and postretirement curtailment losses and special termination benefits due to the workforce reductions.

NOTE 12

TAXES

The components of income before provision for income taxes are as follows:

(dollars in millions)

Years Ended December 31,	2012	2011	2010
Domestic	**$ 9,316**	$ 9,724	$ 11,921
Foreign	**581**	759	763
Total	**$ 9,897**	$ 10,483	$ 12,684

The components of the provision (benefit) for income taxes are as follows:

(dollars in millions)

Years Ended December 31,	2012	2011	2010
Current			
Federal	**$ 223**	$ 193	$ (705)
Foreign	**(45)**	25	(19)
State and Local	**114**	290	(42)
Total	**292**	508	(766)
Deferred			
Federal	**(553)**	276	2,945
Foreign	**10**	(38)	(24)
State and Local	**(403)**	(455)	316
Total	**(946)**	(217)	3,237
Investment tax credits	**(6)**	(6)	(4)
Total income tax provision (benefit)	**$ (660)**	$ 285	$ 2,467

The following table shows the principal reasons for the difference between the effective income tax rate and the statutory federal income tax rate:

Years Ended December 31,	2012	2011	2010
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
State and local income tax rate, net of federal tax benefits	**(1.9)**	(1.0)	1.4
Affordable housing credit	**(1.9)**	(1.8)	(1.3)
Employee benefits including ESOP dividend	**(1.1)**	(1.4)	(1.2)
Medicare Part D subsidy charge	**–**	–	6.9
Equity in earnings from unconsolidated businesses	**(1.4)**	(1.9)	(1.6)
Noncontrolling interest	**(33.7)**	(23.0)	(19.5)
Other, net	**(1.7)**	(3.2)	(0.3)
Effective income tax rate	**(6.7)%**	2.7%	19.4%

The effective income tax rate for 2012 was (6.7)% compared to 2.7% for 2011. The negative effective income tax rate for 2012 and the decrease in the provision for income taxes during 2012 compared to 2011 was primarily due to lower income before income taxes as a result of higher severance, pension, and benefit charges as well as early debt redemption costs recorded in the current year.

The effective income tax rate in 2011 decreased to 2.7% from 19.4% in 2010. This decrease was primarily driven by lower income before provision for income taxes as a result of higher pension and benefit charges recorded in 2011 as well as tax benefits from state valuation allowance reversals in 2011. The decrease was also due to a one-time, non-cash income tax charge of $1.0 billion recorded during the three months ended March 31, 2010 as a result of the enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively the Health Care Act). Under the Health Care Act, beginning in 2013, Verizon and other companies that receive a subsidy under Medicare Part D to provide retiree prescription drug coverage will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage to the extent of the subsidy received. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in Verizon's financial statements, this change in law required Verizon to reduce the value of the related tax benefits recognized in its financial statements in the period during which the Health Care Act was enacted.

The amounts of cash taxes paid are as follows:

(dollars in millions)

Years Ended December 31,	2012	2011	2010
Income taxes, net of amounts refunded	**$ 351**	$ 762	$ 430
Employment taxes	**1,308**	1,328	1,372
Property and other taxes	**1,727**	1,883	1,963
Total	**$ 3,386**	$ 3,973	$ 3,765

Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Significant components of deferred tax assets and liabilities are as follows:

(dollars in millions)		
At December 31,	**2012**	2011
Employee benefits	**$ 13,644**	$ 13,119
Tax loss and credit carry forwards	**4,819**	5,170
Uncollectible accounts receivable	**206**	224
Other – assets	**1,050**	952
	19,719	19,465
Valuation allowances	**(2,041)**	(2,376)
Deferred tax assets	**17,678**	17,089
Former MCI intercompany accounts receivable basis difference	**1,275**	1,435
Depreciation	**13,953**	13,743
Leasing activity	**1,208**	1,569
Wireless joint venture including wireless licenses	**22,171**	21,778
Other – liabilities	**1,320**	1,233
Deferred tax liabilities	**39,927**	39,758
Net deferred tax liability	**$ 22,249**	$ 22,669

At December 31, 2012, undistributed earnings of our foreign subsidiaries indefinitely invested outside of the United States amounted to approximately $1.8 billion. The majority of Verizon's cash flow is generated from domestic operations and we are not dependent on foreign cash or earnings to meet our funding requirements, nor do we intend to repatriate these undistributed foreign earnings to fund U.S. operations. Furthermore, a portion of these undistributed earnings represents amounts that legally must be kept in reserve in accordance with certain foreign jurisdictional requirements and are unavailable for distribution or repatriation. As a result, we have not provided U.S. deferred taxes on these undistributed earnings because we intend that they will remain indefinitely reinvested outside of the United States and therefore unavailable for use in funding U.S. operations. Determination of the amount of unrecognized deferred taxes related to these undistributed earnings is not practicable.

At December 31, 2012, we had net after tax loss and credit carry forwards for income tax purposes of approximately $4.6 billion. Of these net after tax loss and credit carry forwards, approximately $4.0 billion will expire between 2013 and 2032 and approximately $0.6 billion may be carried forward indefinitely. The amount of net after tax loss and credit carry forwards reflected as a deferred tax asset above has been reduced by approximately $0.1 billion at December 31, 2012 and 2011, respectively, due to federal and state tax law limitations on utilization of net operating losses.

During 2012, the valuation allowance decreased approximately $0.3 billion. The balance of the valuation allowance at December 31, 2012 and the 2012 activity is primarily related to state and foreign tax losses and credit carry forwards.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

(dollars in millions)			
	2012	2011	2010
Balance at January 1,	**$ 3,078**	$ 3,242	$ 3,400
Additions based on tax positions related to the current year	**131**	111	231
Additions for tax positions of prior years	**92**	456	476
Reductions for tax positions of prior years	**(415)**	(644)	(569)
Settlements	**100**	(56)	(256)
Lapses of statutes of limitations	**(43)**	(31)	(40)
Balance at December 31,	**$ 2,943**	$ 3,078	$ 3,242

Included in the total unrecognized tax benefits at December 31, 2012, 2011 and 2010 is $2.1 billion, $2.2 billion and $2.1 billion, respectively, that if recognized, would favorably affect the effective income tax rate.

We recognized the following net after tax benefits related to interest and penalties in the provision for income taxes:

Years Ended December 31,	(dollars in millions)
2012	**$ 82**
2011	60
2010	29

The after-tax accruals for the payment of interest and penalties in the consolidated balance sheets are as follows:

At December 31,	(dollars in millions)
2012	**$ 386**
2011	470

Verizon and/or its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state, local and foreign jurisdictions. As a large taxpayer, we are under audit by the Internal Revenue Service (IRS) and multiple state and foreign jurisdictions for various open tax years. The IRS commenced its examination of the Company's U.S. income tax returns for tax years 2007-2009 in the third quarter of 2012. Significant tax examinations are ongoing in Italy and New York City for tax years as early as 2000. The amount of unrecognized tax benefits will change in the next twelve months due to the resolution of various income tax matters, including the resolution of tax litigation in Canada in the first quarter of 2013. An estimate of the range of the possible change cannot be made until these tax matters are further developed or resolved. The impacts of the favorable resolution of the Canada litigation will be accounted for in the first quarter of 2013.

NOTE 13

SEGMENT INFORMATION

Reportable Segments

We have two reportable segments, 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, consistent with the chief operating decision maker's assessment of segment performance.

Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses, such as our investments in unconsolidated businesses, pension and other employee benefit related costs, lease financing, as well as the historical results of divested operations and 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.

The reconciliation of segment operating revenues and expenses to consolidated operating revenues and expenses below also includes those items of a non-recurring or non-operational nature. We exclude from segment results the effects of certain items that management does not consider in assessing segment performance, primarily because of their non-recurring or non-operational nature.

In order to comply with regulatory conditions related to the acquisition of Alltel in January 2009, Verizon Wireless divested overlapping properties in 105 operating markets in 24 states during the first half of 2010. In addition, on July 1, 2010, certain of Verizon's local exchange business and related activities in 14 states were spun off (see Note 2). Accordingly, the historical Verizon Wireless and Wireline results for these operations have been reclassified to Corporate and Other to reflect comparable segment operating results.

We have adjusted prior-period consolidated and segment information, where applicable, to conform to current year presentation.

Our segments and their principal activities consist of the following:

Segment	Description
Verizon Wireless	Verizon Wireless' communications products and services include wireless voice and data services and equipment sales, which are provided to consumer, business and government customers across the United States.
Wireline	Wireline's voice, data and video communications products and enhanced services include local and long distance voice, broadband Internet access and video, corporate networking solutions, data center and cloud services and security and managed network 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 in over 150 other countries around the world.

The following table provides operating financial information for our two reportable segments:

(dollars in millions)

2012	Verizon Wireless	Wireline	Total Segments
External Operating Revenues			
Retail service	$ 61,383	$ –	$ 61,383
Other service	2,290	–	2,290
Service revenue	63,673	–	63,673
Equipment	8,010	–	8,010
Other	4,096	–	4,096
Consumer retail	–	14,043	14,043
Small business	–	2,648	2,648
Mass Markets	–	16,691	16,691
Strategic services	–	8,052	8,052
Core	–	7,240	7,240
Global Enterprise	–	15,292	15,292
Global Wholesale	–	6,177	6,177
Other	–	508	508
Intersegment revenues	89	1,112	1,201
Total operating revenues	75,868	39,780	115,648
Cost of services and sales	24,490	22,413	46,903
Selling, general and administrative expense	21,650	8,883	30,533
Depreciation and amortization expense	7,960	8,424	16,384
Total operating expenses	54,100	39,720	93,820
Operating income	$ 21,768	$ 60	$ 21,828
Assets	$ 142,485	$ 84,815	$ 227,300
Plant, property and equipment, net	34,545	52,911	87,456
Capital expenditures	8,857	6,342	15,199

(dollars in millions)

2011	Verizon Wireless	Wireline	Total Segments
External Operating Revenues			
Retail service	$ 56,601	$ –	$ 56,601
Other service	2,497	–	2,497
Service revenue	59,098	–	59,098
Equipment	7,446	–	7,446
Other	3,517	–	3,517
Consumer retail	–	13,605	13,605
Small business	–	2,720	2,720
Mass Markets	–	16,325	16,325
Strategic services	–	7,607	7,607
Core	–	8,014	8,014
Global Enterprise	–	15,621	15,621
Global Wholesale	–	6,795	6,795
Other	–	704	704
Intersegment revenues	93	1,237	1,330
Total operating revenues	70,154	40,682	110,836
Cost of services and sales	24,086	22,158	46,244
Selling, general and administrative expense	19,579	9,107	28,686
Depreciation and amortization expense	7,962	8,458	16,420
Total operating expenses	51,627	39,723	91,350
Operating income	$ 18,527	$ 959	$ 19,486
Assets	$ 147,378	$ 86,185	$ 233,563
Plant, property and equipment, net	33,451	54,149	87,600
Capital expenditures	8,973	6,399	15,372

(dollars in millions)

2010	Verizon Wireless	Wireline	Total Segments
External Operating Revenues			
Retail service	$ 53,267	$ –	$ 53,267
Other service	2,321	–	2,321
Service revenue	55,588	–	55,588
Equipment	4,412	–	4,412
Other	3,341	–	3,341
Consumer retail	–	13,419	13,419
Small business	–	2,828	2,828
Mass Markets	–	16,247	16,247
Strategic services	–	6,602	6,602
Core	–	8,712	8,712
Global Enterprise	–	15,314	15,314
Global Wholesale	–	7,526	7,526
Other	–	858	858
Intersegment revenues	66	1,282	1,348
Total operating revenues	63,407	41,227	104,634
Cost of services and sales	19,245	22,618	41,863
Selling, general and administrative expense	18,082	9,372	27,454
Depreciation and amortization expense	7,356	8,469	15,825
Total operating expenses	44,683	40,459	85,142
Operating income	$ 18,724	$ 768	$ 19,492
Assets	$ 138,863	$ 83,849	$ 222,712
Plant, property and equipment, net	32,253	54,594	86,847
Capital expenditures	8,438	7,269	15,707

Reconciliation to Consolidated Financial Information

A reconciliation of the segment operating revenues to consolidated operating revenues is as follows:

(dollars in millions)

Years Ended December 31,	2012	2011	2010
Operating Revenues			
Total reportable segments	**$ 115,648**	$ 110,836	$ 104,634
Reconciling items:			
Deferred revenue adjustment (see Note 1)	**–**	–	(235)
Impact of divested operations	**–**	–	2,407
Corporate, eliminations and other	**198**	39	(241)
Consolidated operating revenues	**$ 115,846**	$ 110,875	$ 106,565

A reconciliation of the total of the reportable segments' operating income to consolidated Income before provision for income taxes is as follows:

(dollars in millions)

Years Ended December 31,	2012	2011	2010
Operating Income			
Total segment operating income	**$ 21,828**	$ 19,486	$ 19,492
Merger integration and acquisition related charges (see Note 2)	**–**	–	(867)
Access line spin-off related charges (see Note 2)	**–**	–	(407)
Litigation settlements (see Note 16)	**(384)**	–	–
Severance, pension and benefit charges (see Note 11)	**(7,186)**	(5,954)	(3,054)
Deferred revenue adjustment (see Note 1)	**–**	–	(235)
Impact of divested operations (see Note 2)	**–**	–	755
Other costs (see Note 8)	**(276)**	–	–
Corporate, eliminations and other	**(822)**	(652)	(1,039)
Consolidated operating income	**13,160**	12,880	14,645
Equity in earnings of unconsolidated businesses	**324**	444	508
Other income and (expense), net	**(1,016)**	(14)	54
Interest expense	**(2,571)**	(2,827)	(2,523)
Income Before Provision for Income Taxes	**$ 9,897**	$ 10,483	$ 12,684

A reconciliation of the total of the reportable segments' assets to consolidated assets is as follows:

(dollars in millions)

At December 31,	2012	2011
Assets		
Total reportable segments	**$ 227,300**	$ 233,563
Corporate, eliminations and other	**(2,078)**	(3,102)
Total consolidated	**$ 225,222**	$ 230,461

We generally account for intersegment sales of products and services and asset transfers at current market prices. No single customer accounted for more than 10% of our total operating revenues during the years ended December 31, 2012, 2011 and 2010. International operating revenues and long-lived assets are not significant.

NOTE 14

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other gains and losses affecting equity that, under GAAP, are excluded from net income. Significant changes in the components of Other comprehensive income, net of provision for income taxes are described below.

Foreign Currency Translation Adjustments
The change in Foreign currency translation adjustments during 2012, 2011 and 2010 was primarily related to our investment in Vodafone Omnitel N.V. and was primarily driven by the movements of the U.S. dollar against the Euro.

Net Unrealized Gains (Losses) on Cash Flow Hedges
During 2012, 2011 and 2010, Unrealized gains (losses) on cash flow hedges included in Other comprehensive income attributable to non-controlling interest, primarily reflect activity related to a cross currency swap (see Note 9). Reclassification adjustments for gains (losses) realized in net income were not significant.

Net Unrealized Gains (Losses) on Marketable Securities
During 2012, 2011 and 2010, reclassification adjustments on marketable securities for gains (losses) realized in net income were not significant.

Defined Benefit Pension and Postretirement Plans
The change in Defined benefit pension and postretirement plans of $0.9 billion, net of taxes of $0.6 billion at December 31, 2012 was primarily a result of plan amendments.

The change in Defined benefit pension and postretirement plans of $0.3 billion, net of taxes of $0.2 billion at December 31, 2011 was primarily a result of plan amendments.

Accumulated Other Comprehensive Income
The components of Accumulated other comprehensive income were as follows:

(dollars in millions)

At December 31,	**2012**	2011
Foreign currency translation adjustments	**$ 793**	$ 724
Net unrealized gain on cash flow hedges	**88**	156
Unrealized gain on marketable securities	**101**	72
Defined benefit pension and postretirement plans	**1,253**	317
Accumulated Other Comprehensive Income	**$ 2,235**	$ 1,269

NOTE 15

ADDITIONAL FINANCIAL INFORMATION

The tables that follow provide additional financial information related to our consolidated financial statements:

Income Statement Information

(dollars in millions)

Years Ended December 31,	2012	2011	2010
Depreciation expense	$ 14,920	$ 14,991	$ 14,593
Interest costs on debt balances	2,977	3,269	3,487
Capitalized interest costs	(406)	(442)	(964)
Advertising expense	2,381	2,523	2,451

Balance Sheet Information

(dollars in millions)

At December 31,	2012	2011
Accounts Payable and Accrued Liabilities		
Accounts payable	$ 4,740	$ 4,194
Accrued expenses	4,608	3,786
Accrued vacation, salaries and wages	5,006	4,857
Interest payable	632	774
Taxes payable	1,196	1,078
	$ 16,182	$ 14,689
Other Current Liabilities		
Advance billings and customer deposits	$ 3,554	$ 3,411
Dividends payable	1,494	1,440
Special distribution to noncontrolling interest	–	4,500
Other	1,357	1,872
	$ 6,405	$ 11,223

Cash Flow Information

(dollars in millions)

Years Ended December 31,	2012	2011	2010
Cash Paid			
Interest, net of amounts capitalized	$ 1,971	$ 2,629	$ 2,433

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans, including 24.6 million common shares issued from Treasury stock during 2012, related to dividend payments, which had an aggregate value of $1.0 billion.

NOTE 16

COMMITMENTS AND CONTINGENCIES

In the ordinary course of business Verizon is involved in various commercial litigation and regulatory proceedings at the state and federal level. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In none of the currently pending matters is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) uncertain damage theories and demands; (2) a less than complete factual record; (3) uncertainty concerning legal theories and their resolution by courts or regulators; and (4) the unpredictable nature of the opposing party and its demands. We continuously monitor these proceedings as they develop and adjust any accrual or disclosure as needed. We do not expect that the ultimate resolution of any pending regulatory or legal matter in future periods, including the Hicksville matter described below, will have a material effect on our financial condition, but it could have a material effect on our results of operations for a given reporting period.

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. In September 2005, the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to a reserve previously established for the remediation may be made. Adjustments to the reserve may also be made based upon actual conditions discovered during the remediation at this or any other site requiring remediation.

Verizon is currently involved in approximately 50 federal district court actions alleging that Verizon is infringing various patents. Most of these cases are brought by non-practicing entities and effectively seek only monetary damages; a small number are brought by companies that sell products and seek injunctive relief as well. These cases have progressed to various degrees and a small number may go to trial in the coming 12 months if they are not otherwise resolved. 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 next six years an additional $0.2 billion.

In connection with the execution of agreements for the sales 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 indemnity from certain financial losses. From time to time, counterparties may make claims under these provisions, and Verizon will seek to defend against those claims and resolve them in the ordinary course of business.

Subsequent to the sale of Verizon Information Services Canada in 2004, we continue to provide a guarantee to publish directories, which was issued when the directory business was purchased in 2001 and had a 30-year term (before extensions). The preexisting guarantee continues, without modification, despite the subsequent sale of Verizon Information Services Canada and the spin-off of our domestic print and Internet yellow pages directories business. The possible financial impact of the guarantee, which is not expected to be adverse, cannot be reasonably estimated as a variety of the potential outcomes available under the guarantee result in costs and revenues or benefits that may offset each other. We do not believe performance under the guarantee is likely.

As of December 31, 2012, 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.

We have several commitments primarily to purchase handsets and peripherals, equipment, software, programming and network services, and marketing activities, which will be used or sold in the ordinary course of business, from a variety of suppliers totaling $41.8 billion. Of this total amount, $29.6 billion is attributable to 2013, $7.5 billion is attributable to 2014 through 2015, $4.2 billion is attributable to 2016 through 2017 and $0.5 billion is attributable to years thereafter. These amounts do not represent our entire anticipated purchases in the future, but represent only those items that are the subject of contractual obligations. Our commitments are generally determined based on the noncancelable quantities or termination amounts. Purchases against our commitments for 2012 totaled approximately $16 billion. Since the commitments to purchase programming services from television networks and broadcast stations have no minimum volume requirement, we estimated our obligation based on number of subscribers at December 31, 2012, and applicable rates stipulated in the contracts in effect at that time. We also purchase products and services as needed with no firm commitment.

NOTE 17

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(dollars in millions, except per share amounts)

			Net Income (Loss) attributable to Verizon[(1)]			
Quarter Ended	Operating Revenues	Operating Income (Loss)	Amount	Per Share-Basic	Per Share-Diluted	Net Income (Loss)
2012						
March 31	**$ 28,242**	**$ 5,195**	**$ 1,686**	**$ .59**	**$ .59**	**$ 3,906**
June 30	**28,552**	**5,651**	**1,825**	**.64**	**.64**	**4,285**
September 30	**29,007**	**5,483**	**1,593**	**.56**	**.56**	**4,292**
December 31	**30,045**	**(3,169)**	**(4,229)**	**(1.48)**	**(1.48)**	**(1,926)**
2011						
March 31	$ 26,990	$ 4,453	$ 1,439	$ .51	$ .51	$ 3,264
June 30	27,536	4,892	1,609	.57	.57	3,604
September 30	27,913	4,647	1,379	.49	.49	3,542
December 31	28,436	(1,112)	(2,023)	(.71)	(.71)	(212)

- Results of operations for the third quarter of 2012 include after-tax charges attributable to Verizon of $0.2 billion related to legal settlements.
- Results of operations for the fourth quarter of 2012 include after-tax charges attributable to Verizon of $5.3 billion related to severance, pension and benefit charges and early debt redemption and other costs.
- Results of operations for the third quarter of 2011 include after-tax charges attributable to Verizon of $0.2 billion related to severance, pension and benefit charges.
- Results of operations for the fourth quarter of 2011 include after-tax charges attributable to Verizon of $3.5 billion relat ed to severance, pension and benefit charges and costs related to the early redemption of debt.

(1) Net income (loss) attributable to Verizon per common share is computed independently for each quarter and the sum of the quarters may not equal the annual amount.

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Target Corporation

Gregory D. Wasson*
President and Chief Executive Officer
Walgreen Co.

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* Gregory D. Wasson was elected to the Board in 2013.

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John G. Stratton
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Verizon Enterprise Solutions

INVESTOR INFORMATION

Stock Transfer Agent and Registrar

Questions or requests for assistance regarding changes to or transfers of your registered stock ownership should be directed to our Transfer Agent, Computershare Trust Company, N.A. at:

Verizon Communications Shareowner Services
c/o Computershare
P.O. Box 43078
Providence, RI 02940-3078
Phone: 800 631-2355
Website: www.computershare.com/verizon
Email: verizon@computershare.com

Persons outside the U.S. may call: 781 575-3994

Persons using a telecommunications device for the deaf (TDD) may call: 800 952-9245

Shareowner Services

Please contact our Transfer Agent regarding information on the following services:

Online Account Access — Registered shareowners can view account information online at: www.computershare.com/verizon.

Click on "Create Login" to register. For existing users, click on "Login."

Direct Dividend Deposit Service — Verizon offers an electronic funds transfer service to registered shareowners wishing to deposit dividends directly into savings or checking accounts on dividend payment dates.

Direct Invest Stock Purchase and Ownership Plan — Verizon offers a direct stock purchase and share ownership plan. The plan allows current and new investors to purchase common stock and to reinvest the dividends toward the purchase of additional shares. For more information, go to www22.verizon.com/investor/directinvest.

Electronic Delivery — Verizon is acting to conserve natural resources in a variety of ways. We are proud to offer shareowners an opportunity to be environmentally responsible. By receiving links to proxy, annual report and shareowner materials online, you can help Verizon reduce the amount of materials we print and mail. As a thank you for choosing electronic delivery, Verizon will plant a tree on your behalf. It's fast and easy, and you can change your electronic delivery options at any time. Sign up at www.eTree.com/verizon. If your shares are held by a broker, bank or other nominee, you may elect to receive an electronic copy of the annual report and proxy materials online at www.proxyvote.com, or you can contact your broker.

Investor Services

Investor Website — Get company information and news on our investor website — www.verizon.com/investor.

Email Alerts — Get the latest investor information delivered directly to you. Subscribe to Email alerts at our investor website.

Stock Market Information

Shareowners of record at December 31, 2012: 614,409

Verizon (ticker symbol: VZ) is listed on the New York Stock Exchange and the NASDAQ Global Select Market. Verizon is also listed on the London Stock Exchange.

Dividend Information

At its September 2012 meeting, the Board of Directors increased our quarterly dividend 3.0 percent. On an annual basis, this increased Verizon's dividend to $2.06 per share. Dividends have been paid since 1984.

Form 10-K

To receive a printed copy of the 2012 Annual Report on Form 10-K, which is filed with the U.S. Securities and Exchange Commission, contact Investor Relations:

Verizon Communications Inc.
Investor Relations
One Verizon Way
Basking Ridge, NJ 07920
Phone: 212 395-1525

Corporate Governance

Verizon's Corporate Governance Guidelines are available on our investor website — www.verizon.com/investor.

If you would prefer to receive a printed copy by mail, please contact the Assistant Corporate Secretary:

Verizon Communications Inc.
Assistant Corporate Secretary
140 West Street, 29th Floor
New York, NY 10007

Verizon Communications Inc.
140 West Street
New York, New York 10007
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verizon.com