

READING OUR ANNUAL REPORT

ABOUT THIS GUIDE

As a leader in communications, Verizon's mission is to enable people and businesses to communicate with each other. We are also committed to providing full and open communication with our customers, employees and investors. This brief guide is designed to help you understand one of our most important communication tools – our annual report.

WHAT IS AN ANNUAL REPORT?

The Securities and Exchange Commission (SEC) requires that all public companies report to investors about their financial performance on an annual basis. Like most companies, Verizon meets this obligation by publishing an annual report, which contains detailed information about our performance in the preceding year. In addition, the annual report is an opportunity to communicate more broadly with stakeholders about our mission, business environment, accomplishments and plans for the future.

SECTIONS OF AN ANNUAL REPORT

Annual reports are generally organized into three sections:

- Narrative Section
- Management's Discussion and Analysis
- Financial Statements

Narrative Section

The key element of this section in most annual reports is a letter to shareowners from the Chairman and/or Chief Executive Officer. Verizon's letter is addressed to "Fellow Shareowners," making it clear that company leaders are investors in Verizon, too. The letter generally discusses performance during the prior year as well as future plans, and is an excellent source of information about the chief executive's priorities.

The narrative section is also the place where investors can learn about important trends and developments in the company and its industry. Typically, annual reports present useful information such as a profile of the company, a statement of purpose and summary charts revealing important highlights. Most annual reports amplify this section with text, graphs, charts and photos that tell the company's story clearly and concisely.

At Verizon, we conclude this section with a page called "Straight Talk from Ivan Seidenberg," in which our chief executive responds to some of the most common questions investors have asked during the year.

Management's Discussion and Analysis

This section, often called the "MD&A" for short, is where investors can find a more detailed explanation of the company's performance during its most recent year, as well as some of the challenges and opportunities for each of its major business units. This section also includes some forward-looking information.

The MD&A shows through words and charts how the company performed financially during the reporting period. Verizon's MD&A consists of a number of sections:

- An "Overview" provides a context for understanding the rest of the annual report and highlights matters that are important to executive management, including economic and industry information.
- "Consolidated Results of Operations" reviews the company's results as a whole organization.
- "Segment Results of Operations" presents separate reports on the performance of each major operating segment – Domestic Telecom, Domestic Wireless, Information Services and International.
- "Special Items" tells investors about events or actions that had an impact on financial results but were not typical of its day-to-day activities. An example would be the sale of a business unit.

The MD&A also includes sections detailing the company's consolidated financial position, the risks from marketplace forces and other factors that could affect the company's future. Finally, it also includes a statement regarding the company's accounting policies and a caution to investors about factors that might impact all forward-looking statements.

Financial Statements

The Securities and Exchange Commission requires companies to produce financial statements reflecting their financial performance over their most recent history. These statements summarize the company's earnings, current assets and liabilities, and cash flow. All these financial statements help investors understand how healthy a company is financially.

Verizon's financial statements are prepared on a consolidated basis, which means the activities of all the company's business units and subsidiaries have been combined into a report that reflects the performance of Verizon as a whole. The section consists of a number of sub-sections, which are discussed below.

Report of Management

This is a statement from Verizon's management regarding its responsibility for the company's consolidated financial statements and internal controls. It is signed by Verizon's Chief Executive Officer, Chief Financial Officer and Controller.

Report of Independent Auditors

This report is the audit opinion on Verizon's financial statements, signed by Ernst & Young, independent auditors.

Consolidated Statements of Income

This statement provides an important item of information for investors – how much profit the company made during the current and prior two reporting

periods. That profit, which Verizon labels “Net Income,” comes from revenues, minus expenses, interest, taxes and other items. Directly below the net income section is the “Per Share” section, which shows Verizon’s net earnings divided by shares outstanding. The income statement is a summary of how the company performed over each of the years presented.

Consolidated Balance Sheets

In contrast to the income statement, the Consolidated Balance Sheets are a snapshot of the company as of a specific date. Verizon’s 2003 annual report shows the company’s financial position as of December 31, 2003, and the previous year’s snapshot for comparison.

The first section, “Assets,” lists all of the things Verizon owns or has rights to, including such items as cash, accounts receivable, and long-term assets like property and equipment.

The second section contains two components. “Liabilities” lists everything Verizon owes to others or others have rights to – such as money we owe to vendors or payments on long-term debt. “Shareowners’ Investment” includes shares issued and the amount of earnings that were reinvested into the company’s operations. Shareowners’ investment may also be referred to as “net book value,” since it represents assets minus liabilities.

Consolidated Statements of Cash Flows

This, as its title implies, is a statement of how cash flowed into and out of the company during the reporting period. Cash flow is critically important for any company, since cash is necessary to meet expenses, make investments and pay debt. Cash flow is not the same thing as net income, since several items – for example, depreciation – affect earnings but not cash flow. We show the cash flows from three specific activities – operating, investing and financing.

Consolidated Changes in Shareowners’ Investment

This statement provides details of the specific items that impact shareowners’ equity. Shareowners’ equity is presented on the statement noted earlier, Consolidated Balance Sheets. Shareowners’ investment, however, does not represent the market value of Verizon. Market value is reflected in the price of our stock.

Notes to Consolidated Financial Statements

These notes generally provide additional information related to specific line items in the financial statements that require a more complete explanation. Many of the disclosures are required by generally accepted accounting principles (GAAP). The notes section is an integral part of the financial statements, as well as a valuable source of knowledge and information for investors.

GETTING THE MOST FROM YOUR ANNUAL REPORT

We hope this guide helps you better understand the different sections of our annual report and more easily locate specific information. As well, we hope this interactive version of our annual report provides a unique learning experience.