

consolidated statements of income

(dollars in millions, except per share amounts)

Unaudited	3 Mos. Ended 3/31/04	3 Mos. Ended 3/31/03	% Change
Operating Revenues	\$ 17,136	\$ 16,490	3.9
Operating Expenses			
Cost of services and sales	5,510	5,124	7.5
Selling, general & administrative expense	5,703	4,292	32.9
Depreciation and amortization expense	3,428	3,367	1.8
Total Operating Expenses	14,641	12,783	14.5
Operating Income	2,495	3,707	(32.7)
Equity in earnings of unconsolidated businesses	199	148	34.5
Income from other unconsolidated businesses	72	19	*
Other income and (expense), net	(34)	57	*
Interest expense	(638)	(755)	(15.5)
Minority interest	(477)	(342)	39.5
Income Before Provision for Income Taxes, Discontinued Operations and Cumulative Effect of Accounting Change	1,617	2,834	(42.9)
Provision for income taxes	(418)	(924)	(54.8)
Income Before Discontinued Operations and Cumulative Effect of Accounting Change	1,199	1,910	(37.2)
Discontinued Operations			
Loss from operations of Iusacell	—	(5)	(100.0)
Provision for income taxes	—	(2)	(100.0)
Loss on discontinued operations	—	(7)	(100.0)
Cumulative Effect of Accounting Change, Net of Tax	—	503	(100.0)
Net Income	\$ 1,199	\$ 2,406	(50.2)
Basic Earnings per Share	\$.43	\$.88	(51.1)
Weighted average number of common shares (in millions)	2,770	2,748	
Diluted Earnings per Share⁽¹⁾	\$.43	\$.87	(50.6)
Weighted average number of common shares— assuming dilution (in millions)	2,804	2,780	

Footnote:

(1) Diluted Earnings per Share include income related to share dilution (exchangeable equity interests) of \$6 million for the first quarter of 2004, and \$5 million for the first quarter of 2003, and the dilutive effect of shares issuable under our stock-based compensation plans and exchangeable equity interests, which represent the only potential dilution.

* Not meaningful

consolidated statements of income before special items

(dollars in millions, except per share amounts)

Unaudited	3 Mos. Ended 3/31/04	3 Mos. Ended 3/31/03	% Change
Operating Revenues			
Domestic Telecom	\$ 9,614	\$ 9,941	(3.3)
Domestic Wireless	6,162	5,086	21.2
Information Services	999	1,021	(2.2)
International	468	517	(9.5)
Other	(107)	(75)	42.7
Total Operating Revenues	17,136	16,490	3.9
Operating Expenses			
Cost of services and sales	5,510	5,124	7.5
Selling, general & administrative expense	4,975	4,292	15.9
Depreciation and amortization expense	3,428	3,367	1.8
Total Operating Expenses	13,913	12,783	8.8
Operating Income	3,223	3,707	(13.1)
Equity in earnings of unconsolidated businesses	199	148	34.5
Income from other unconsolidated businesses	29	19	52.6
Other income and (expense), net	9	57	(84.2)
Interest expense	(638)	(755)	(15.5)
Minority interest	(477)	(342)	39.5
Income Before Provision for Income Taxes and Discontinued Operations	2,345	2,834	(17.3)
Provision for income taxes	(716)	(924)	(22.5)
Income Before Discontinued Operations	1,629	1,910	(14.7)
Discontinued Operations			
Loss from operations of Iusacell	—	(5)	(100.0)
Provision for income taxes	—	(2)	(100.0)
Loss on discontinued operations	—	(7)	(100.0)
Net Income Before Special Items	\$ 1,629	\$ 1,903	(14.4)
Basic Earnings per Share	\$.59	\$.69	(14.5)
Weighted average number of common shares (in millions)	2,770	2,748	
Diluted Adjusted Earnings per Share	\$.58	\$.69	(15.9)
Weighted average number of common shares— assuming dilution (in millions)	2,804	2,780	

consolidated statements of income – reconciliations

First Quarter 2004

(dollars in millions, except per share amounts)

Unaudited	3 Mos. Ended 3/31/04 Reported (GAAP)	Special and Non-Recurring Items			3 Mos. Ended 3/31/04 Before Special Items
		Severance, Pension and Benefit Charges	Sales of Investments, Net	Other Special Items	
Operating Revenues	\$ 17,136	\$ —	\$ —	\$ —	\$ 17,136
Operating Expenses					
Cost of services and sales	5,510	—	—	—	5,510
Selling, general & administrative expense	5,703	(728)	—	—	4,975
Depreciation and amortization expense	3,428	—	—	—	3,428
Total Operating Expenses	14,641	(728)	—	—	13,913
Operating Income	2,495	728	—	—	3,223
Equity in earnings of unconsolidated businesses	199	—	—	—	199
Income from other unconsolidated businesses	72	—	(43)	—	29
Other income and (expense), net	(34)	—	—	43	9
Interest expense	(638)	—	—	—	(638)
Minority interest	(477)	—	—	—	(477)
Income Before Provision for Income Taxes	1,617	728	(43)	43	2,345
Provision for income taxes	(418)	(282)	—	(16)	(716)
Net Income	\$ 1,199	\$ 446	\$ (43)	\$ 27	\$ 1,629
Basic Earnings per Common Share⁽¹⁾	\$.43	\$.16	\$ (.02)	\$.01	\$.59
Diluted Earnings per Common Share⁽¹⁾	\$.43	\$.16	\$ (.02)	\$.01	\$.58

Footnote:

(1) EPS totals may not add across due to rounding.

Note: See www.verizon.com/investor for a reconciliation of other non-GAAP measures included in this *Quarterly Bulletin*.

consolidated statements of income – reconciliations

First Quarter 2003

(dollars in millions, except per share amounts)

Unaudited	3 Mos. Ended 3/31/03 Reported (GAAP)	Special and Non-Recurring Items	
		Cumulative Effect of Accounting Change	3 Mos. Ended 3/31/03 Before Special Items
Operating Revenues	\$ 16,490	\$ —	\$ 16,490
Operating Expenses			
Cost of services and sales	5,124	—	5,124
Selling, general & administrative expense	4,292	—	4,292
Depreciation and amortization expense	3,367	—	3,367
Total Operating Expenses	12,783	—	12,783
Operating Income	3,707	—	3,707
Equity in earnings of unconsolidated businesses	148	—	148
Income from other unconsolidated businesses	19	—	19
Other income and (expense), net	57	—	57
Interest expense	(755)	—	(755)
Minority interest	(342)	—	(342)
Income Before Provision for Income Taxes, Discontinued Operations and Cumulative Effect of Accounting Change	2,834	—	2,834
Provision for income taxes	(924)	—	(924)
Income Before Discontinued Operations and Cumulative Effect of Accounting Change	1,910	—	1,910
Discontinued Operations			
Loss from operations of Iusacell	(5)	—	(5)
Provision for income taxes	(2)	—	(2)
Loss on discontinued operations	(7)	—	(7)
Cumulative Effect of Accounting Change, Net of Tax	503	(503)	—
Net Income	\$ 2,406	\$ (503)	\$ 1,903
Basic Earnings per Common Share⁽¹⁾	\$.88	\$ (.18)	\$.69
Diluted Earnings per Common Share⁽¹⁾	\$.87	\$ (.18)	\$.69

Footnote:

(1) EPS totals may not add across due to rounding.

Note: See www.verizon.com/investor for a reconciliation of other non-GAAP measures included in this Quarterly Bulletin.

selected financial and operating statistics

(dollars in millions, except per share amounts)

Unaudited	3 Mos. Ended 3/31/04	3 Mos. Ended 3/31/03
Debt to debt and shareowners' equity ratio-end of period	57.0%	60.9%
Book value per common share	\$ 12.09	\$ 12.46
Cash dividends declared per common share	\$.385	\$.385
Common shares outstanding (in millions)		
End of period	2,770	2,750
Capital expenditures (including capitalized software)		
Domestic Telecom	\$ 1,282	\$ 1,286
Domestic Wireless	1,314	1,107
Information Services	15	18
International	28	48
Other	4	7
Total	<u>\$ 2,643</u>	<u>\$ 2,466</u>
Total employees	205,146	225,582

consolidated balance sheets

(dollars in millions)

Unaudited	3/31/04	12/31/03	\$ Change
Assets			
Current assets			
Cash and cash equivalents	\$ 600	\$ 699	\$ (99)
Short-term investments	1,892	2,172	(280)
Accounts receivable, net	9,499	9,905	(406)
Inventories	1,309	1,283	26
Prepaid expenses and other	3,894	4,234	(340)
Total current assets	17,194	18,293	(1,099)
Plant, property and equipment	181,754	180,975	779
Less accumulated depreciation	107,138	105,659	1,479
	74,616	75,316	(700)
Investments in unconsolidated businesses	5,770	5,789	(19)
Wireless licenses	40,924	40,907	17
Goodwill	1,379	1,389	(10)
Other intangible assets, net	4,552	4,733	(181)
Other assets	18,986	19,541	(555)
Total Assets	\$ 163,421	\$ 165,968	\$ (2,547)
Liabilities and Shareowners' Investment			
Current liabilities			
Debt maturing within one year	\$ 6,320	\$ 5,967	\$ 353
Accounts payable and accrued liabilities	12,701	14,699	(1,998)
Other	5,935	5,904	31
Total current liabilities	24,956	26,570	(1,614)
Long-term debt	38,132	39,413	(1,281)
Employee benefit obligations	17,184	16,759	425
Deferred income taxes	21,827	21,708	119
Other liabilities	3,643	3,704	(61)
Minority interest	24,184	24,348	(164)
Shareowners' investment			
Common stock	277	277	—
Contributed capital	25,445	25,363	82
Reinvested earnings	9,542	9,409	133
Accumulated other comprehensive loss	(1,528)	(1,250)	(278)
	33,736	33,799	(63)
Less common stock in treasury, at cost	115	115	—
Less deferred compensation — employee stock ownership plans and other	126	218	(92)
Total shareowners' investment	33,495	33,466	29
Total Liabilities and Shareowners' Investment	\$ 163,421	\$ 165,968	\$ (2,547)

condensed consolidated statements of cash flows

(dollars in millions)

Unaudited	3 Mos. Ended 3/31/04	3 Mos. Ended 3/31/03	\$ Change
Cash Flows From Operating Activities			
Income before discontinued operations and cumulative effect of accounting change	\$ 1,199	\$ 1,910	\$ (711)
Adjustments to reconcile income before discontinued operations and cumulative effect of accounting change to net cash provided by operating activities:			
Depreciation and amortization expense	3,428	3,367	61
Employee retirement benefits	1,054	(78)	1,132
Deferred income taxes	124	421	(297)
Provision for uncollectible accounts	394	436	(42)
Income from unconsolidated businesses	(271)	(167)	(104)
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses	(1,783)	495	(2,278)
Other, net	(107)	(582)	475
Net cash provided by operating activities	<u>4,038</u>	<u>5,802</u>	<u>(1,764)</u>
Cash Flows From Investing Activities			
Capital expenditures (including capitalized software)	(2,643)	(2,466)	(177)
Acquisitions, net of cash acquired, and investments	(34)	(169)	135
Proceeds from disposition of businesses	117	—	117
Net change in short-term investments	282	518	(236)
Other, net	189	24	165
Net cash used in investing activities	<u>(2,089)</u>	<u>(2,093)</u>	<u>4</u>
Cash Flows From Financing Activities			
Proceeds from long-term borrowings	500	1,946	(1,446)
Repayments of long-term borrowings and capital lease obligations	(2,049)	(3,580)	1,531
Increase in short-term obligations, excluding current maturities	572	1,576	(1,004)
Dividends paid	(1,065)	(1,056)	(9)
Proceeds from sale of common stock	80	256	(176)
Other, net	(86)	(142)	56
Net cash used in financing activities	<u>(2,048)</u>	<u>(1,000)</u>	<u>(1,048)</u>
Increase (decrease) in cash and cash equivalents	(99)	2,709	(2,808)
Cash and cash equivalents, beginning of period	699	1,422	(723)
Cash and cash equivalents, end of period	\$ 600	\$ 4,131	\$ (3,531)

domestic telecom selected financial results

(dollars in millions)

Unaudited	3 Mos. Ended 3/31/04	3 Mos. Ended 3/31/03	% Change
Operating Revenues			
Local services	\$ 4,681	\$ 4,900	(4.5)
Network access services	3,099	3,324	(6.8)
Long distance services	998	881	13.3
Other services	836	836	—
Total Operating Revenues	9,614	9,941	(3.3)
Operating Expenses			
Cost of services and sales	3,718	3,523	5.5
Selling, general & administrative expense	2,149	2,000	7.5
Depreciation and amortization expense	2,257	2,331	(3.2)
Total Operating Expenses	8,124	7,854	3.4
Operating Income	\$ 1,490	\$ 2,087	(28.6)
Operating Income Margin	15.5%	21.0%	
Segment Income	\$ 697	\$ 1,007	(30.8)

Footnotes:

The segment financial results above are adjusted to exclude the effects of special and non-recurring items. The company's chief decision makers exclude these items in assessing business unit performance, primarily due to their non-operational nature.

Intersegment transactions have not been eliminated.

domestic telecom selected operating statistics

Unaudited	3 Mos. Ended 3/31/04	3 Mos. Ended 3/31/03	% Change
Switched access lines in service (000)			
Residence	35,775	37,272	(4.0)
Business	18,806	19,713	(4.6)
Public	450	497	(9.5)
Total	55,031	57,482	(4.3)
Special DS0 equivalents	85,997	79,088	8.7
Total voice grade equivalents (000)	141,028	136,570	3.3
Resale & UNE-P lines (000)	6,232	4,571	36.3
Minutes of use from Carriers and CLECs (in millions)	58,473	60,877	(3.9)
Long distance lines (000)	17,643	13,191	33.8
DSL lines (000)	2,664	1,830	45.6
High capacity and digital data revenues (\$ in millions)			
Data transport	\$ 1,694	\$ 1,671	1.4
Data solutions	165	135	22.2
Total revenues	\$ 1,859	\$ 1,806	2.9

verizon wireless selected financial results

(dollars in millions)

Unaudited	3 Mos. Ended 3/31/04	3 Mos. Ended 3/31/03	% Change
Revenues			
Service revenues	\$ 5,501	\$ 4,660	18.0
Equipment and other	661	426	55.2
Total Revenues	6,162	5,086	21.2
Operating Expenses			
Cost of services and sales	1,658	1,439	15.2
Selling, general & administrative expense	2,247	1,866	20.4
Depreciation and amortization expense	1,055	907	16.3
Total Operating Expenses	4,960	4,212	17.8
Operating Income	\$ 1,202	\$ 874	37.5
Operating Income Margin	19.5%	17.2%	
Segment Income	\$ 318	\$ 218	45.9
Selected Operating Statistics			
Subscribers (000)	38,909	33,324	16.8
Penetration	16.2%	14.3%	
Subscriber net adds in period ⁽¹⁾ (000)	1,387	833	66.5
Total churn rate, including prepaid	1.6%	2.1%	

Footnotes:

The segment financial results above are adjusted to exclude the effects of special and non-recurring items. The company's chief decision makers exclude these items in assessing business unit performance, primarily due to their non-operational nature.

Intersegment transactions have not been eliminated.

(1) Includes acquisition of 6,000 subscribers in the first quarter of 2003.

information services selected financial results

(dollars in millions)

Unaudited	3 Mos. Ended 3/31/04	3 Mos. Ended 3/31/03	% Change
Operating Revenues	\$ 999	\$ 1,021	(2.2)
Operating Expenses			
Cost of services and sales	155	154	.6
Selling, general & administrative expense	348	344	1.2
Depreciation and amortization expense	24	21	14.3
Total Operating Expenses	527	519	1.5
Operating Income	\$ 472	\$ 502	(6.0)
Operating Income Margin	47.2%	49.2%	
Segment Income	\$ 287	\$ 300	(4.3)

Footnotes:

The segment financial results above are adjusted to exclude the effects of special and non-recurring items. The company's chief decision makers exclude these items in assessing business unit performance, primarily due to their non-operational nature.

Intersegment transactions have not been eliminated.

international selected financial results

(dollars in millions)

Unaudited	3 Mos. Ended 3/31/04	3 Mos. Ended 3/31/03	% Change
Operating Revenues	\$ 468	\$ 517	(9.5)
Operating Expenses			
Cost of services and sales	147	138	6.5
Selling, general & administrative expense	128	156	(17.9)
Depreciation and amortization expense	77	87	(11.5)
Total Operating Expenses	352	381	(7.6)
Operating Income	\$ 116	\$ 136	(14.7)
Operating Income Margin	24.8%	26.3%	
Equity in Earnings of Unconsolidated Businesses	\$ 239	\$ 186	28.5
Income from Other Unconsolidated Businesses	\$ 29	\$ 30	(3.3)
Segment Income	\$ 281	\$ 266	5.6

Footnotes:

The segment financial results above are adjusted to exclude the effects of special and non-recurring items. The company's chief decision makers exclude these items in assessing business unit performance, primarily due to their non-operational nature.

Intersegment transactions have not been eliminated.