

# Consolidated Statements of Income

(dollars in millions, except per share amounts)

Years Ended December 31,	2016	2015	2014
<b>Operating Revenues</b>			
Service revenues and other	\$ 108,468	\$ 114,696	\$ 116,122
Wireless equipment revenues	17,512	16,924	10,957
<b>Total Operating Revenues</b>	<b>125,980</b>	131,620	127,079
<b>Operating Expenses</b>			
Cost of services (exclusive of items shown below)	29,186	29,438	28,306
Wireless cost of equipment	22,238	23,119	21,625
Selling, general and administrative expense, net	31,569	29,986	41,016
Depreciation and amortization expense	15,928	16,017	16,533
<b>Total Operating Expenses</b>	<b>98,921</b>	98,560	107,480
<b>Operating Income</b>	<b>27,059</b>	33,060	19,599
Equity in (losses) earnings of unconsolidated businesses	(98)	(86)	1,780
Other income and (expense), net	(1,599)	186	(1,194)
Interest expense	(4,376)	(4,920)	(4,915)
<b>Income Before Provision For Income Taxes</b>	<b>20,986</b>	28,240	15,270
Provision for income taxes	(7,378)	(9,865)	(3,314)
<b>Net Income</b>	<b>\$ 13,608</b>	\$ 18,375	\$ 11,956
<b>Net income attributable to noncontrolling interests</b>	<b>\$ 481</b>	\$ 496	\$ 2,331
<b>Net income attributable to Verizon</b>	<b>13,127</b>	17,879	9,625
<b>Net Income</b>	<b>\$ 13,608</b>	\$ 18,375	\$ 11,956
<b>Basic Earnings Per Common Share</b>			
Net income attributable to Verizon	\$ 3.22	\$ 4.38	\$ 2.42
Weighted-average shares outstanding (in millions)	4,080	4,085	3,974
<b>Diluted Earnings Per Common Share</b>			
Net income attributable to Verizon	\$ 3.21	\$ 4.37	\$ 2.42
Weighted-average shares outstanding (in millions)	4,086	4,093	3,981

See Notes to Consolidated Financial Statements

# Consolidated Statements of Comprehensive Income

(dollars in millions)

Years Ended December 31,	2016	2015	2014
<b>Net Income</b>	<b>\$ 13,608</b>	\$ 18,375	\$ 11,956
<b>Other Comprehensive Income, net of taxes</b>			
Foreign currency translation adjustments	(159)	(208)	(1,199)
Unrealized gains (losses) on cash flow hedges	198	(194)	(197)
Unrealized losses on marketable securities	(55)	(11)	(5)
Defined benefit pension and postretirement plans	2,139	(148)	154
Other comprehensive income (loss) attributable to Verizon	2,123	(561)	(1,247)
Other comprehensive loss attributable to noncontrolling interests	-	-	(23)
<b>Total Comprehensive Income</b>	<b>\$ 15,731</b>	\$ 17,814	\$ 10,686
Comprehensive income attributable to noncontrolling interests	481	496	2,308
Comprehensive income attributable to Verizon	15,250	17,318	8,378
<b>Total Comprehensive Income</b>	<b>\$ 15,731</b>	\$ 17,814	\$ 10,686

See Notes to Consolidated Financial Statements

# Consolidated Balance Sheets

(dollars in millions, except per share amounts)

At December 31,	2016	2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,880	\$ 4,470
Short-term investments	—	350
Accounts receivable, net of allowances of \$845 and \$882	17,513	13,457
Inventories	1,202	1,252
Assets held for sale	882	792
Prepaid expenses and other	3,918	2,034
Total current assets	<u>26,395</u>	<u>22,355</u>
Plant, property and equipment	232,215	220,163
Less accumulated depreciation	147,464	136,622
Plant, property and equipment, net	<u>84,751</u>	<u>83,541</u>
Investments in unconsolidated businesses	1,110	796
Wireless licenses	86,673	86,575
Goodwill	27,205	25,331
Other intangible assets, net	8,897	7,592
Non-current assets held for sale	613	10,267
Other assets	8,536	7,718
Total assets	<u>\$ 244,180</u>	<u>\$ 244,175</u>
<b>Liabilities and Equity</b>		
Current liabilities		
Debt maturing within one year	\$ 2,645	\$ 6,489
Accounts payable and accrued liabilities	19,593	19,362
Liabilities related to assets held for sale	24	463
Other	8,078	8,738
Total current liabilities	<u>30,340</u>	<u>35,052</u>
Long-term debt	105,433	103,240
Employee benefit obligations	26,166	29,957
Deferred income taxes	45,964	45,484
Non-current liabilities related to assets held for sale	6	959
Other liabilities	12,239	11,641
Equity		
Series preferred stock (\$.10 par value; none issued)	—	—
Common stock (\$.10 par value; 4,242,374,240 shares issued in each period)	424	424
Contributed capital	11,182	11,196
Reinvested earnings	15,059	11,246
Accumulated other comprehensive income	2,673	550
Common stock in treasury, at cost	(7,263)	(7,416)
Deferred compensation — employee stock ownership plans and other	449	428
Noncontrolling interests	1,508	1,414
Total equity	<u>24,032</u>	<u>17,842</u>
Total liabilities and equity	<u>\$ 244,180</u>	<u>\$ 244,175</u>

See Notes to Consolidated Financial Statements

# Consolidated Statements of Cash Flows

(dollars in millions)

Years Ended December 31,	2016	2015	2014
<b>Cash Flows from Operating Activities</b>			
Net Income	\$ 13,608	\$ 18,375	\$ 11,956
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	15,928	16,017	16,533
Employee retirement benefits	2,705	(1,747)	8,130
Deferred income taxes	(1,063)	3,516	(92)
Provision for uncollectible accounts	1,420	1,610	1,095
Equity in losses (earnings) of unconsolidated businesses, net of dividends received	138	127	(1,743)
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses			
Accounts receivable	(5,067)	(945)	(2,745)
Inventories	61	(99)	(132)
Other assets	449	942	(695)
Accounts payable and accrued liabilities	(1,079)	2,545	1,412
Other, net	(4,385)	(1,411)	(3,088)
Net cash provided by operating activities	22,715	38,930	30,631
<b>Cash Flows from Investing Activities</b>			
Capital expenditures (including capitalized software)	(17,059)	(17,775)	(17,191)
Acquisitions of businesses, net of cash acquired	(3,765)	(3,545)	(182)
Acquisitions of wireless licenses	(534)	(9,942)	(354)
Proceeds from dispositions of wireless licenses	—	—	2,367
Proceeds from dispositions of businesses	9,882	48	120
Other, net	493	1,171	(616)
Net cash used in investing activities	(10,983)	(30,043)	(15,856)
<b>Cash Flows from Financing Activities</b>			
Proceeds from long-term borrowings	12,964	6,667	30,967
Proceeds from asset-backed long-term borrowings	4,986	—	—
Repayments of long-term borrowings and capital lease obligations	(19,159)	(9,340)	(17,669)
Decrease in short-term obligations, excluding current maturities	(149)	(344)	(475)
Dividends paid	(9,262)	(8,538)	(7,803)
Proceeds from sale of common stock	3	40	34
Purchase of common stock for treasury	—	(5,134)	—
Acquisition of noncontrolling interest	—	—	(58,886)
Other, net	(2,705)	1,634	(3,873)
Net cash used in financing activities	(13,322)	(15,015)	(57,705)
Decrease in cash and cash equivalents	(1,590)	(6,128)	(42,930)
Cash and cash equivalents, beginning of period	4,470	10,598	53,528
Cash and cash equivalents, end of period	\$ 2,880	\$ 4,470	\$ 10,598

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,	2016		2015		2014	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Common Stock</b>						
Balance at beginning of year	4,242,374	\$ 424	4,242,374	\$ 424	2,967,610	\$ 297
Common shares issued (Note 2)	-	-	-	-	1,274,764	127
Balance at end of year	4,242,374	424	4,242,374	424	4,242,374	424
<b>Contributed Capital</b>						
Balance at beginning of year		11,196		11,155		37,939
Acquisition of noncontrolling interest (Note 2)		-		-		(26,898)
Other		(14)		41		114
Balance at end of year		11,182		11,196		11,155
<b>Reinvested Earnings</b>						
Balance at beginning of year		11,246		2,447		1,782
Net income attributable to Verizon		13,127		17,879		9,625
Dividends declared (\$2.285, \$2.23, \$2.16) per share		(9,314)		(9,080)		(8,960)
Balance at end of year		15,059		11,246		2,447
<b>Accumulated Other Comprehensive Income</b>						
Balance at beginning of year attributable to Verizon		550		1,111		2,358
Foreign currency translation adjustments		(159)		(208)		(1,199)
Unrealized gains (losses) on cash flow hedges		198		(194)		(197)
Unrealized losses on marketable securities		(55)		(11)		(5)
Defined benefit pension and postretirement plans		2,139		(148)		154
Other comprehensive income (loss)		2,123		(561)		(1,247)
Balance at end of year attributable to Verizon		2,673		550		1,111
<b>Treasury Stock</b>						
Balance at beginning of year	(169,199)	(7,416)	(87,410)	(3,263)	(105,610)	(3,961)
Shares purchased	-	-	(104,402)	(5,134)	-	-
Employee plans (Note 14)	3,439	150	17,072	740	14,132	541
Shareowner plans (Note 14)	70	3	5,541	241	4,105	157
Other	-	-	-	-	(37)	-
Balance at end of year	(165,690)	(7,263)	(169,199)	(7,416)	(87,410)	(3,263)
<b>Deferred Compensation-ESOPs and Other</b>						
Balance at beginning of year		428		424		421
Restricted stock equity grant		223		208		166
Amortization		(202)		(204)		(163)
Balance at end of year		449		428		424
<b>Noncontrolling Interests</b>						
Balance at beginning of year		1,414		1,378		56,580
Acquisition of noncontrolling interest (Note 2)		-		-		(55,960)
Net income attributable to noncontrolling interests		481		496		2,331
Other comprehensive loss		-		-		(23)
Total comprehensive income		481		496		2,308
Distributions and other		(387)		(460)		(1,550)
Balance at end of year		1,508		1,414		1,378
<b>Total Equity</b>		<b>\$ 24,032</b>		<b>\$ 17,842</b>		<b>\$ 13,676</b>

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 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 around the world. We have two reportable segments, Wireless and Wireline. For further information concerning our business segments, see Note 12.

The Wireless segment provides wireless communications services and products across one of the most extensive wireless networks in the United States (U.S.). We provide these services and equipment sales to consumer, business and government customers in the United States on a postpaid and prepaid basis.

The Wireline segment provides voice, data and video communications products and enhanced services, including broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice 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 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, as well as variable interest entities (VIE) where we are deemed to be the primary beneficiary. For controlled subsidiaries that are not wholly-owned, the noncontrolling interests are 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. 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.

#### Use of Estimates

We prepare our financial statements using U.S. generally accepted accounting principles (GAAP), which requires 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, fair values of financial instruments, unrecognized tax benefits, valuation allowances on tax assets, accrued expenses, pension and postretirement benefit obligations, contingencies and the identification and valuation of assets acquired and liabilities assumed in connection with business combinations.

#### Revenue Recognition

##### *Multiple Deliverable Arrangements*

We offer products and services to our wireless and wireline customers through bundled arrangements. These arrangements involve multiple deliverables which may include products, services, or a combination of products and services.

##### *Wireless*

Our Wireless segment earns revenue primarily by providing access to and usage of its network as well as the sale of equipment. 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 devices and accessories is generally 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.

Under the Verizon device payment program, our eligible wireless customers purchase wireless devices under a device payment plan agreement. On select devices, certain marketing promotions have been revocably offered to customers to upgrade to a new device after paying down a certain specified portion of the required device payment plan agreement amount as well as trading in their device in good working order. When a customer enters into a device payment plan agreement with the right to upgrade to a new device, we account for this trade-in right as a guarantee obligation. The full amount of the trade-in right's fair value (not an allocated value) is recognized as a guarantee liability and the remaining allocable consideration is allocated to the device. The value of the guarantee liability effectively results in a reduction to the revenue recognized for the sale of the device.

We may offer our customers certain promotions where a customer can trade-in his or her owned device in connection with the purchase of a new device. Under these types of promotions, the customer will receive trade-in credits that are applied to the customer's monthly bill. As a result, we recognize a trade-in obligation measured at fair value using weighted-average selling prices obtained in recent resales of devices eligible for trade-in.

In multiple element arrangements that bundle devices and monthly wireless service, revenue is allocated to each unit of accounting using a relative selling price method. At the inception of the arrangement, the amount allocable to the delivered units of accounting is limited to the amount that is not contingent upon the delivery of the monthly wireless service (the noncontingent amount). We effectively recognize revenue on the delivered device at the lesser of the amount allocated based on the relative selling price of the device or the noncontingent amount owed when the 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.

### **Other**

Advertising revenues are generated through display advertising and search advertising. Display advertising revenue is generated by the display of graphical advertisements and other performance-based advertising. Search advertising revenue is generated when a consumer clicks on a text-based advertisement on their screen. Agreements for advertising typically take the forms of impression-based contracts, time-based contracts or performance-based contracts. Advertising revenues derived from impression-based contracts, in which we provide impressions in exchange for a fixed fee, are generally recognized as the impressions are delivered. Advertising revenues derived from time-based contracts, in which we provide promotions over a specified time period for a fixed fee, are recognized on a straight-line basis over the term of the contract, provided that we meet and will continue to meet our obligations under the contract. Advertising revenues derived from contracts where we are compensated based on certain performance criteria are recognized as we complete the contractually specified performance.

We report taxes imposed by governmental authorities on revenue-producing transactions between us and our customers, which we pass through to 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 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 14).

### **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 6 million, 8 million and 7 million outstanding dilutive securities, primarily consisting of restricted stock units, included in the computation of diluted earnings per common share for the years ended December 31, 2016, 2015 and 2014, respectively. For the years ended December 31, 2016 and 2015, respectively, there were no outstanding options to purchase shares that would have been anti-dilutive. 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, 2014.

On January 28, 2014, at a special meeting of our shareholders, we received shareholder approval to increase our authorized shares of common stock by 2 billion shares to an aggregate of 6.25 billion authorized shares of common stock. On February 4, 2014, this authorization became effective. On February 21, 2014, we issued approximately 1.27 billion shares of common stock upon completing the acquisition of Vodafone Group Plc's (Vodafone) indirect 45% interest in Cellco Partnership d/b/a Verizon Wireless. See Note 2 for additional information.

### **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 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.

### **Allowance for Doubtful Accounts**

Accounts receivable are recorded in the consolidated financial statements at cost net of an allowance for credit losses, with the exception of device payment plan agreement receivables which are initially recorded at fair value. We maintain allowances for uncollectible accounts receivable, including our device payment plan agreement receivables, for estimated losses resulting from the failure or inability of our customers to make required payments. Our allowance for uncollectible accounts receivable is based on management's assessment of the collectability of specific customer accounts and includes consideration of the credit worthiness and financial condition of those customers. We record an allowance to reduce the receivables to the amount that is reasonably believed to be collectible. We also record an allowance for all other receivables based on multiple factors including historical experience with bad debts, the general economic environment and the aging of such receivables. Similar to traditional service revenue accounting treatment, we record device payment plan agreement bad debt expense based on an estimate of the percentage of equipment revenue that will not be collected. This estimate is based on a number of factors including historical write-off experience, credit quality of the customer base and other factors such as macroeconomic conditions. Due to the device payment plan agreement being incorporated in the standard Verizon Wireless bill, the collection and risk strategies continue to follow historical practices. We monitor the aging of our accounts with device payment plan agreement receivables and write-off account balances if collection efforts are unsuccessful and future collection is unlikely.

### **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 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 depreciable assets 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 useful lives of plant, property and equipment during 2016, we determined that the average useful lives of certain leasehold improvements would be increased from 5 to 7 years. This change resulted in a decrease to depreciation expense of \$0.2 billion in 2016. We determined that changes were also necessary to the remaining estimated useful lives of certain assets as a result of technology upgrades, enhancements, and planned retirements. These changes resulted in an increase in depreciation expense of \$0.3 billion, \$0.4 billion and \$0.6 billion in 2016, 2015 and 2014, 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 8 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 or more frequently if impairment indicators are present. To determine if goodwill is potentially impaired, we have the option to perform a qualitative assessment. However, we may elect to bypass the qualitative assessment and 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. Step one, performed to identify potential impairment, 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 to measure the amount of the impairment charge. 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 charge is recognized. Our assessments in 2016, 2015 and 2014 indicated that the fair value of each of our reporting units exceeded their carrying value and therefore, did not result in an impairment.

#### **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). License renewals 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 re-evaluate the useful life determination for wireless licenses each year to determine whether events and circumstances continue to support an indefinite useful life. 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.

We test our wireless licenses for potential impairment annually or more frequently if impairment indicators are present. We have the option to first perform a qualitative assessment to determine whether it is necessary to perform a quantitative impairment test. However, we may elect to bypass the qualitative assessment in any period and proceed directly to performing the quantitative impairment test. In 2016 and 2014, we performed a qualitative assessment to determine whether it is more likely than not that the fair value of our wireless licenses was less than the carrying amount. As part of our assessment, we considered several qualitative factors including the business enterprise value of our Wireless segment, macroeconomic conditions (including changes in interest rates and discount rates), industry and market considerations (including industry revenue and EBITDA (Earnings before interest, taxes, depreciation and amortization) margin projections), the projected financial performance of our Wireless segment, as well as other factors. The most recent quantitative assessments of our wireless licenses occurred in 2015. Our quantitative assessment consisted of comparing the estimated fair value of our aggregate wireless licenses to the aggregated carrying amount as of the test date. Using a quantitative assessment, we estimated the fair value of our aggregate wireless licenses using the Greenfield approach. The Greenfield approach is an income based valuation approach that values the wireless licenses by calculating the cash flow generating potential of a hypothetical start-up company that goes into business with no assets except the wireless licenses to be valued. A discounted cash flow analysis is used to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. If the estimated fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the wireless licenses then an impairment charge is recognized. Our assessments in 2016, 2015 and 2014 indicated that the fair value of our wireless licenses exceeded the carrying value and, therefore, did not result in an impairment.

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 estimated 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 re-evaluate the useful life determinations for these intangible assets each year to determine whether events and circumstances warrant a revision to their remaining useful lives.

For information related to the carrying amount of goodwill, 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 categorization 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 basis 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.

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 9 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, 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. 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 10).

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, net of applicable income tax.

### **Derivative Instruments**

We enter into derivative transactions primarily to manage our exposure to fluctuations in foreign currency exchange rates and interest 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 and interest rate caps. We do not hold derivatives for trading purposes. See Note 8.

We measure all derivatives 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 (loss) and recognized in earnings when the hedged item is recognized in earnings. Changes in the fair value of the effective portion of net investment hedges of certain of our foreign operations are reported in Other comprehensive income (loss) as part of the cumulative translation adjustment and partially offset the impact of foreign currency changes on the value of our net investment.

### **Variable Interest Entities**

VIEs are entities which lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, have equity investors which do not have the ability to make significant decisions relating to the entity's operations through voting rights, do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity. We consolidate the assets and liabilities of VIEs when we are deemed to be the primary beneficiary. The primary beneficiary is the party which has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

### **Recently Adopted Accounting Standards**

During the first quarter of 2016, we adopted the accounting standard update related to the simplification of the accounting for measurement-period adjustments in business combinations. This standard update requires an acquirer to recognize measurement-period adjustments in the reporting period in which the adjustments are determined and to record the effects on earnings of any changes resulting from the change in provisional amounts, calculated as if the accounting had been completed at the acquisition date. The prospective adoption of this standard update did not have a significant impact on our consolidated financial statements.

During the first quarter of 2016, we adopted the accounting standard update related to disclosures for investments in certain entities that calculate net asset value (NAV) per share. This standard update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The standard update limits the required disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. The retrospective adoption of this standard update impacted our presentation of pension and other postretirement benefit plan assets in the notes to the consolidated financial statements but did not have an impact on the measurement of the assets.

During the first quarter of 2016, we adopted the accounting standard update related to the simplification of the presentation of debt issuance costs. This standard update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. During the first quarter of 2016, we also adopted the accounting standard update related to the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. This standard adds Securities and Exchange Commission (SEC) paragraphs pursuant to an SEC Staff Announcement that the SEC staff would not object to an entity deferring and presenting debt issuance costs associated with a line-of-credit arrangement as an asset and subsequently amortizing the costs ratably over the term of the arrangement. We applied the amendments in these accounting standard updates retrospectively to all periods presented. The adoption of these standard updates did not have a significant impact on our consolidated financial statements.

During the first quarter of 2016, we adopted the accounting standard update related to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The standard requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The prospective adoption of this standard update did not have an impact on our consolidated financial statements.

During the second quarter of 2016, we prospectively changed our method for determining the date at which we remeasure plan assets and obligations as a result of a significant event during an interim period in accordance with Accounting Standards Update (ASU) 2015-04, *Compensation — Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*. As a practical expedient, we elected to remeasure defined benefit plan assets and obligations using the month-end that is closest to the date of the significant event. While this standard update may impact the amounts recognized in an interim period as the result of a remeasurement, the adoption of this standard update did not impact our annual consolidated financial statements as the employee benefit obligations are measured annually as of December 31.

### Recently Issued Accounting Standards

In January 2017, the accounting standard update related to the simplification of the accounting for goodwill impairment was issued. The amendments in this update eliminate the requirement to perform step two of the goodwill impairment test, which requires a hypothetical purchase price allocation when an impairment is determined to have occurred. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This standard update is effective as of the first quarter of 2020; however, early adoption is permitted for any interim or annual impairment tests performed after January 1, 2017. Verizon expects to early adopt this standard as of January 1, 2017. The prospective adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

In November 2016, the accounting standard update related to the classification and presentation of changes in restricted cash was issued. The amendments in this update require that cash and cash equivalent balances in a statement of cash flows include those amounts deemed to be restricted cash and restricted cash equivalents. This standard update is effective as of the first quarter of 2018; however, early adoption is permitted. We are currently evaluating the impact that this standard update will have on our consolidated financial statements.

In August 2016, the accounting standard update related to the classification of certain cash receipts and cash payments was issued. This standard update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice for these issues. Among the updates, this standard update requires cash receipts from payments on a transferor's beneficial interests in securitized trade receivables to be classified as cash inflows from investing activities. This standard update is effective as of the first quarter of 2018; however, early adoption is permitted. We are currently evaluating the impact that this standard update will have on our consolidated financial statements. We expect the amendment relating to beneficial interests

in securitization transactions will have an impact on our presentation of collections of the deferred purchase price from sales of wireless device payment plan agreement receivables in our consolidated statements of cash flows. Upon adoption of this standard update in the first quarter of 2018, we expect to retrospectively reclassify approximately \$1.1 billion of collections of deferred purchase price related to collections from customers for the year ended December 31, 2016 from Cash flows from operating activities to Cash flows from investing activities in our consolidated statements of cash flows.

In June 2016, the standard update related to the measurement of credit losses on financial instruments was issued. This standard update requires that certain financial assets be measured at amortized cost reflecting an allowance for estimated credit losses expected to occur over the life of the assets. The estimate of credit losses must be based on all relevant information including historical information, current conditions and reasonable and supportable forecasts that affect the collectability of the amounts. This standard update is effective as of the first quarter of 2020; however early adoption is permitted. We are currently evaluating the impact that this standard update will have on our consolidated financial statements.

In March 2016, the accounting standard update related to employee share-based payment accounting was issued. This standard update intends to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This standard update is effective as of the first quarter of 2017. The retrospective adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

In February 2016, the accounting standard update related to leases was issued. This standard update intends to increase transparency and improve comparability by requiring entities to recognize assets and liabilities on the balance sheet for all leases, with certain exceptions. In addition, through improved disclosure requirements, the standard update will enable users of financial statements to further understand the amount, timing, and uncertainty of cash flows arising from leases. This standard update is effective as of the first quarter of 2019; however, early adoption is permitted. Verizon's current operating lease portfolio is primarily comprised of network, real estate, and equipment leases. Upon adoption of this standard, we expect our balance sheet to include a right of use asset and liability related to substantially all operating lease arrangements. We have established a cross-functional coordinated implementation team to implement the standard update related to leases. We are in the process of assessing the impact to our systems, processes and internal controls to meet the standard update's reporting and disclosure requirements.

In May 2014, the accounting standard update related to the recognition of revenue from contracts with customers was issued. This standard update along with related subsequently issued updates clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. The standard update also amends current guidance for the recognition of costs to obtain and fulfill contracts with customers such that incremental costs of obtaining and direct costs of fulfilling contracts with customers will be deferred and amortized consistent with the transfer of the related good or service. The standard update intends to provide a more robust framework for addressing

revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; and provide more useful information to users of financial statements through improved disclosure requirements. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the standard is applied only to the most current period presented and the cumulative effect of applying the standard would be recognized at the date of initial application. In August 2015, an accounting standard update was issued that delayed the effective date of this standard until the first quarter of 2018, at which time we plan to adopt the standard.

We are in process of evaluating the impact of the standard update. The ultimate impact on revenue resulting from the application of the new standard will be subject to assessments that are dependent on many variables, including, but not limited to, the terms of our contractual arrangements and our mix of business. Upon adoption, we expect that the allocation of revenue between equipment and service for our wireless fixed-term service plans will result in more revenue allocated to equipment and recognized earlier as compared with current GAAP. We expect the timing of recognition of our sales commission expenses will also be impacted, as a substantial portion of these costs (which are currently expensed) will be capitalized and amortized as described above. In 2016, total sales commission expenses were approximately \$4.2 billion. In 2017, we expect total sales commission expenses to decline as our wireless customers continue to migrate from our fixed-term service plans to device payment plans which have lower commission structures. We continue to evaluate the available transition methods. Our considerations include, but are not limited to, the comparability of our financial statements and the comparability within our industry from application of the new standard to our contractual arrangements. We plan to select a transition method by the second half of 2017.

We have established a cross-functional coordinated implementation team to implement the standard update related to the recognition of revenue from contracts with customers. We have identified and are in the process of implementing changes to our systems, processes and internal controls to meet the standard update's reporting and disclosure requirements.

## Note 2 Acquisitions and Divestitures

### Wireless Wireless Transaction

On September 2, 2013, Verizon entered into a stock purchase agreement (the Stock Purchase Agreement) with Vodafone and Vodafone 4 Limited (Seller), pursuant to which Verizon agreed to acquire Vodafone's indirect 45% interest in Cellco Partnership d/b/a Verizon Wireless (the Partnership, and such interest, the Vodafone Interest) for aggregate consideration of approximately \$130 billion.

On February 21, 2014, pursuant to the terms and subject to the conditions set forth in the Stock Purchase Agreement, Verizon acquired (the Wireless Transaction) from Seller all of the issued and outstanding capital stock (the Transferred Shares) of Vodafone Americas Finance 1 Inc., a subsidiary of Seller (VF1 Inc.), which indirectly through certain

subsidiaries (together with VF1 Inc., the Purchased Entities) owned the Vodafone Interest. In consideration for the Transferred Shares, upon completion of the Wireless Transaction, Verizon (i) paid approximately \$58.89 billion in cash, (ii) issued approximately 1.27 billion shares of Verizon's common stock, par value \$0.10 per share, which was valued at approximately \$61.3 billion at the closing of the Wireless Transaction, (iii) issued senior unsecured Verizon notes in an aggregate principal amount of \$5.0 billion (the Verizon Notes), (iv) sold Verizon's indirectly owned 23.1% interest in Vodafone Omnitel N.V. (Omnitel, and such interest, the Omnitel Interest), valued at \$3.5 billion and (v) provided other consideration, which included the assumption of preferred stock valued at approximately \$1.7 billion. The total cash paid to Vodafone and the other costs of the Wireless Transaction, including financing, legal and bank fees, were financed through the incurrence of third-party indebtedness.

In accordance with the accounting standard on consolidation, a change in a parent's ownership interest while the parent retains a controlling financial interest in its subsidiary is accounted for as an equity transaction and remeasurement of assets and liabilities of previously controlled and consolidated subsidiaries is not permitted. As a result, we accounted for the Wireless Transaction by adjusting the carrying amount of the noncontrolling interest to reflect the change in Verizon's ownership interest in the Partnership. Any difference between the fair value of the consideration paid and the amount by which the noncontrolling interest is adjusted has been recognized in equity attributable to Verizon.

### Omnitel Transaction

On February 21, 2014, Verizon and Vodafone also consummated the sale of the Omnitel Interest (the Omnitel Transaction) by a subsidiary of Verizon to a subsidiary of Vodafone in connection with the Wireless Transaction pursuant to a separate share purchase agreement. As a result, during 2014, we recognized a pre-tax gain of \$1.9 billion on the disposal of the Omnitel interest in Equity in (losses) earnings of unconsolidated businesses on our consolidated statement of income.

### Verizon Notes (Non-Cash Transaction)

The Verizon Notes were issued pursuant to Verizon's existing indenture. The Verizon Notes were issued in two separate series, with \$2.5 billion due February 21, 2022 (the eight-year Verizon Notes) and \$2.5 billion due February 21, 2025 (the eleven-year Verizon Notes). The Verizon Notes bear interest at a floating rate, which will be reset quarterly, with interest payable quarterly in arrears, beginning May 21, 2014. The eight-year Verizon notes bear interest at a floating rate equal to the three-month London Interbank Offered Rate (LIBOR), plus 1.222%, and the eleven-year Verizon notes bear interest at a floating rate equal to the three-month LIBOR, plus 1.372%. On December 7, 2016, we redeemed the eight-year Verizon Notes (see Note 6 for additional details).

### Other Consideration (Non-Cash Transaction)

Included in the other consideration provided to Vodafone is the indirect assumption of long-term obligations with respect to 5.143% Class D and Class E cumulative preferred stock issued by one of the Purchased Entities. Both the Class D shares (825,000 shares outstanding) and Class E shares (825,000 shares outstanding) are mandatorily redeemable in April 2020 at \$1,000 per share plus any accrued and unpaid dividends. Dividends accrue at 5.143% per annum and will be treated as interest expense. Both the Class D and Class E shares have been classified as liability instruments and were recorded at fair value as determined at the closing of the Wireless Transaction.

**Deferred Tax Liabilities**

Certain deferred taxes directly attributable to the Wireless Transaction have been calculated based on an analysis of taxes attributable to the difference between the tax basis of the investment in the noncontrolling interest that is assumed compared to Verizon's book basis. As a result, Verizon recorded a deferred tax liability of approximately \$13.5 billion.

**Spectrum License Transactions**

Since 2014, we have entered into several strategic spectrum transactions including:

- During the second quarter of 2014, we completed license exchange transactions with T-Mobile USA, Inc. (T-Mobile USA) to exchange certain Advanced Wireless Services (AWS) and Personal Communication Services (PCS) licenses. The exchange included a number of swaps that we expect will result in more efficient use of the AWS and PCS bands. As a result of these exchanges, we received \$0.9 billion of AWS and PCS spectrum licenses at fair value and we recorded an immaterial gain.
- During the second quarter of 2014, we completed transactions pursuant to two additional agreements with T-Mobile USA with respect to our remaining 700 MHz A block spectrum licenses. Under one agreement, we sold certain of these licenses to T-Mobile USA in exchange for cash consideration of approximately \$2.4 billion, and under the second agreement we exchanged the remainder of our 700 MHz A block spectrum licenses as well as AWS and PCS spectrum licenses for AWS and PCS spectrum licenses. As a result, we received \$1.6 billion of AWS and PCS spectrum licenses at fair value and we recorded a pre-tax gain of approximately \$0.7 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2014.
- During the third quarter of 2014, we entered into a license exchange agreement with affiliates of AT&T Inc. (AT&T) to exchange certain AWS and PCS spectrum licenses. This non-cash exchange was completed in January 2015 at which time we recorded an immaterial gain.
- On January 29, 2015, the FCC completed an auction of 65 MHz of spectrum, which it identified as the AWS-3 band. Verizon participated in that auction and was the high bidder on 181 spectrum licenses, for which we paid cash of approximately \$10.4 billion. During the fourth quarter of 2014, we made a deposit of \$0.9 billion related to our participation in this auction which is classified within Other, net investing activities on our consolidated statement of cash flows for the year ended December 31, 2014. During the first quarter of 2015, we submitted an application to the FCC and paid \$9.5 billion to the FCC to complete payment for these licenses. The cash payment of \$9.5 billion is classified within Acquisitions of wireless licenses on our consolidated statement of cash flows for the year ended December 31, 2015. On April 8, 2015, the FCC granted us these spectrum licenses.
- During the fourth quarter of 2015, we completed a license exchange transaction with an affiliate of T-Mobile USA to exchange certain AWS and PCS spectrum licenses. As a result we received \$0.4 billion of AWS and PCS spectrum licenses at fair value and recorded a pre-tax gain of approximately \$0.3 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2015.

- During the fourth quarter of 2015, we entered into a license exchange agreement with affiliates of AT&T to exchange certain AWS and PCS spectrum licenses. This non-cash exchange was completed in March 2016. As a result, we received \$0.4 billion of AWS and PCS spectrum licenses at fair value and recorded a pre-tax gain of \$0.1 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2016.
- During the first quarter of 2016, we entered into a license exchange agreement with affiliates of Sprint Corporation, which provides for the exchange of certain AWS and PCS spectrum licenses. This non-cash exchange was completed in September 2016. As a result, we received \$0.3 billion of AWS and PCS spectrum licenses at fair value and recorded an immaterial gain in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2016.
- During the fourth quarter of 2016, we entered into a license exchange agreement with affiliates of AT&T to exchange certain AWS and PCS spectrum licenses. As a result of this agreement, \$0.9 billion of Wireless licenses are classified as held for sale on our consolidated balance sheet as of December 31, 2016. This non-cash exchange was completed in February 2017. We expect to record a gain on this transaction in the first quarter of 2017.

**Tower Monetization Transaction**

During March 2015, we completed a transaction with American Tower Corporation (American Tower) pursuant to which American Tower acquired the exclusive rights to lease and operate approximately 11,300 of our wireless towers for an upfront payment of \$5.0 billion. Under the terms of the leases, American Tower has exclusive rights to lease and operate the towers over an average term of approximately 28 years. As the leases expire, American Tower has fixed-price purchase options to acquire these towers based on their anticipated fair market values at the end of the lease terms. As part of this transaction, we also sold 162 towers for \$0.1 billion. We have subleased capacity on the towers from American Tower for a minimum of 10 years at current market rates, with options to renew. The upfront payment, including the towers sold, which is primarily included within Other liabilities on our consolidated balance sheet, is accounted for as deferred rent and as a financing obligation. The \$2.4 billion accounted for as deferred rent, which is presented within Other, net cash flows provided by operating activities, relates to the portion of the towers for which the right-of-use has passed to the tower operator. The \$2.7 billion accounted for as a financing obligation, which is presented within Other, net cash flows used in financing activities, relates to the portion of the towers that we continue to occupy and use for network operations. See Note 5 for additional information.

**Other**

During 2016, 2015, and 2014, we acquired various other wireless licenses and markets for cash consideration that was not significant.

## **Wireline**

### **Access Line Sale**

On February 5, 2015, we entered into a definitive agreement with Frontier Communications Corporation (Frontier) pursuant to which Verizon sold its local exchange business and related landline activities in California, Florida and Texas, including Fios Internet and video customers, switched and special access lines and high-speed Internet service and long distance voice accounts in these three states, for approximately \$10.5 billion (approximately \$7.3 billion net of income taxes), subject to certain adjustments and including the assumption of \$0.6 billion of indebtedness from Verizon by Frontier (Access Line Sale). The transaction, which included the acquisition by Frontier of the equity interests of Verizon's incumbent local exchange carriers (ILECs) in California, Florida and Texas, did not involve any assets or liabilities of Verizon Wireless. The transaction closed on April 1, 2016.

The transaction resulted in Frontier acquiring approximately 3.3 million voice connections, 1.6 million Fios Internet subscribers, 1.2 million Fios video subscribers and the related ILEC businesses from Verizon. For the years ended December 31, 2016, 2015 and 2014, these businesses generated revenues of approximately \$1.3 billion, \$5.3 billion and \$5.4 billion, respectively, and operating income of \$0.7 billion, \$2.8 billion and \$2.0 billion, respectively, for Verizon. The operating results of these businesses are excluded from our Wireline segment for all periods presented to reflect comparable segment operating results consistent with the information regularly reviewed by our chief operating decision maker.

During April 2016, Verizon used the net cash proceeds received of \$9.9 billion to reduce its consolidated indebtedness (see Note 6). The assets and liabilities that were sold were included in Verizon's continuing operations and classified as assets held for sale and liabilities related to assets held for sale on our consolidated balance sheets through the completion of the transaction on April 1, 2016. As a result of the closing of the transaction, we derecognized plant, property, and equipment of \$9.0 billion, goodwill of \$1.3 billion, \$0.7 billion of defined benefit pension and other postretirement benefit plan obligations and \$0.6 billion of indebtedness assumed by Frontier.

We recorded a pre-tax gain of approximately \$1.0 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2016. The pre-tax gain included a \$0.5 billion pension and postretirement benefit curtailment gain due to the elimination of the accrual of pension and other postretirement benefits for some or all future services of a significant number of employees covered by three of our defined benefit pension plans and one of our other postretirement benefit plans.

### **XO Holdings**

On February 20, 2016, we entered into a purchase agreement to acquire XO Holdings' wireline business, which owns and operates one of the largest fiber-based Internet Protocol (IP) and Ethernet networks, for approximately \$1.8 billion, subject to adjustment. We completed the acquisition on February 1, 2017. Separately, we entered into an agreement to lease certain wireless spectrum from a wholly-owned subsidiary of XO Holdings that holds its wireless spectrum. Verizon has an option, exercisable under certain circumstances, to buy that subsidiary.

The acquisition of XO Holdings' wireline business will be accounted for as a business combination. While we have commenced the appraisals necessary to identify the tangible and intangible assets acquired and liabilities assumed and the amount of goodwill to be recognized as of the acquisition date, the initial identification of the assets acquired and liabilities assumed is not yet available.

### **Data Center Sale**

On December 6, 2016, we entered into a definitive agreement with Equinix, Inc. (Equinix) pursuant to which Verizon will sell 24 customer-facing data center sites in the United States and Latin America, for approximately \$3.6 billion, subject to certain adjustments. The sale does not affect Verizon's data center services delivered from 27 sites in Europe, Asia-Pacific and Canada, or its managed hosting and cloud offerings.

We plan to account for a portion of the transaction, consisting of the data center buildings, land and related assets, as a sale of real estate. The real estate assets to be sold of \$0.7 billion are currently included in Verizon's continuing operations and classified as held and used within Plant, property and equipment, net on our consolidated balance sheet at December 31, 2016. The non-real estate assets and liabilities that will be sold are currently included in Verizon's continuing operations and classified as assets held for sale and liabilities related to assets held for sale on our consolidated balance sheet as of December 31, 2016. At December 31, 2016, assets to be sold classified as Non-current assets held for sale of \$0.6 billion were principally comprised of goodwill, plant, property and equipment and other intangible assets. The transaction is subject to customary regulatory approvals and closing conditions, and is expected to close during the first half of 2017.

### **Other**

On July 1, 2014, we sold a non-strategic Wireline business that provides communications solutions to a variety of government agencies for net cash proceeds of \$0.1 billion and recorded an immaterial gain.

During the fourth quarter of 2015, we completed a sale of real estate for which we received total gross proceeds of \$0.2 billion and recognized an immaterial deferred gain. The proceeds received as a result of this transaction have been classified within Cash flows used in investing activities on our consolidated statement of cash flows for the year ended December 31, 2015.

**Other****Acquisition of AOL Inc.**

On May 12, 2015, we entered into an Agreement and Plan of Merger (the Merger Agreement) with AOL Inc. (AOL) pursuant to which we commenced a tender offer to acquire all of the outstanding shares of common stock of AOL at a price of \$50.00 per share, net to the seller in cash, without interest and less any applicable withholding taxes.

On June 23, 2015, we completed the tender offer and merger, and AOL became a wholly-owned subsidiary of Verizon. The aggregate cash consideration paid by Verizon at the closing of these transactions was approximately \$3.8 billion. Holders of approximately 6.6 million shares exercised appraisal rights under Delaware law. If they had not exercised these rights, Verizon would have paid an additional \$330 million for such shares at the closing.

AOL is a leader in the digital content and advertising platform space. Verizon has been investing in emerging technology that taps into the market shift to digital content and advertising. AOL's business model aligns with this approach, and we believe that its combination of owned and operated content properties plus a digital advertising platform enhances our ability to further develop future revenue streams.

The acquisition of AOL has been accounted for as a business combination. The identification of the assets acquired and liabilities assumed are finalized. The fair values of the assets acquired and liabilities assumed were determined using the income, cost and market approaches. The fair value measurements were primarily based on significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in Accounting Standards Codification (ASC) 820, other than long-term debt assumed in the acquisition. The income approach was primarily used to value the intangible assets, consisting primarily of acquired technology and customer relationships. The income approach indicates value for an asset based on the present value of cash flow projected to be generated by the asset. Projected cash flow is discounted at a required rate of return that reflects the relative risk of achieving the cash flow and the time value of money. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used, as appropriate, for plant, property and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation.

The following table summarizes the consideration to AOL's shareholders and the identification of the assets acquired, including cash acquired of \$0.5 billion, and liabilities assumed as of the close of the acquisition, as well as the fair value at the acquisition date of AOL's noncontrolling interests:

(dollars in millions)	<b>As of June 23, 2015</b>
Cash payment to AOL's equity holders	\$ 3,764
Estimated liabilities to be paid <sup>(1)</sup>	377
Total consideration	<u>\$ 4,141</u>
Assets acquired:	
Goodwill	\$ 1,938
Intangible assets subject to amortization	2,504
Other	1,551
Total assets acquired	<u>5,993</u>
Liabilities assumed:	
Total liabilities assumed	1,851
Net assets acquired:	
Noncontrolling interest	(1)
Total consideration	<u>\$ 4,141</u>

(1) During the year ended December 31, 2016, we made cash payments of \$179 million in respect of acquisition-date estimated liabilities to be paid. As of December 31, 2016, the remaining balance of estimated liabilities to be paid was \$198 million.

Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the fair value of the net assets acquired. The goodwill recorded as a result of the AOL transaction represents future economic benefits we expect to achieve as a result of combining the operations of AOL and Verizon as well as assets acquired that could not be individually identified and separately recognized. The goodwill related to this acquisition is included within Corporate and other (see Note 3 for additional details).

**Acquisition of Yahoo! Inc.'s Operating Business**

On July 23, 2016, Verizon entered into a stock purchase agreement (the Purchase Agreement) with Yahoo! Inc. (Yahoo). Pursuant to the Purchase Agreement, upon the terms and subject to the conditions thereof, we agreed to acquire the stock of one or more subsidiaries of Yahoo holding all of Yahoo's operating business for approximately \$4.83 billion in cash, subject to certain adjustments (the Transaction). Prior to the closing of the Transaction, pursuant to a related reorganization agreement, Yahoo will transfer all of the assets and liabilities constituting Yahoo's operating business to the subsidiaries to be acquired in the Transaction. The assets to be acquired will not include Yahoo's cash, its ownership interests in Alibaba, Yahoo! Japan and certain other investments, certain undeveloped land recently divested by Yahoo or certain non-core intellectual property. We will receive for our benefit and that of our current and certain future affiliates a non-exclusive, worldwide, perpetual, royalty-free license to all of Yahoo's intellectual property that is not being conveyed with the business.

Yahoo employees who transfer to Verizon will have any unvested Yahoo restricted stock units that they hold converted into cash-settleable Verizon restricted stock units, which will have the same vesting schedule as their Yahoo restricted stock units. The value of those outstanding restricted stock units on the date of signing was approximately \$1.1 billion.

On February 20, 2017, Verizon and Yahoo entered into an amendment to the Purchase Agreement, pursuant to which the Transaction purchase price will be reduced by \$350 million to approximately \$4.48 billion in cash, subject to certain adjustments. Subject to certain exceptions, the parties also agreed that certain user security and data breaches incurred by Yahoo (and the losses arising therefrom) will be disregarded (1) for purposes of specified conditions to Verizon's obligations to close the Transaction and (2) in determining whether a "Business Material Adverse Effect" under the Purchase Agreement has occurred.

Concurrently with the amendment of the Purchase Agreement, Yahoo and Yahoo Holdings, Inc., a wholly owned subsidiary of Yahoo that Verizon has agreed to purchase pursuant to the Transaction, also entered into an amendment to the related reorganization agreement, pursuant to which Yahoo (which has announced that it intends to change its name to Altaba Inc. following the closing of the Transaction) will retain 50% of certain post-closing liabilities arising out of governmental or third party investigations, litigations or other claims related to certain user security and data breaches incurred by Yahoo. In accordance with the original Transaction Agreements, Yahoo will continue to retain 100% of any liabilities arising out of any shareholder lawsuits (including derivative claims) and investigations and actions by the SEC.

The Transaction remains subject to customary closing conditions, including the approval of Yahoo's stockholders, and is expected to close in the second quarter of 2017.

#### **Fleetmatics Group PLC**

On July 30, 2016, we entered into an agreement (the Transaction Agreement) to acquire Fleetmatics Group PLC, a public limited company incorporated in Ireland (Fleetmatics). Fleetmatics is a leading global provider of fleet and mobile workforce management solutions. Pursuant to the terms of the Transaction Agreement, we acquired Fleetmatics for \$60.00 per ordinary share in cash. The aggregate merger consideration was approximately \$2.5 billion, including cash acquired of \$0.1 billion. We completed the acquisition on November 7, 2016. As a result of the transaction, Fleetmatics became a wholly-owned subsidiary of Verizon.

The consolidated financial statements include the results of Fleetmatics' operations from the date the acquisition closed. Had this acquisition been completed on January 1, 2016 or 2015, the results of the acquired operations of Fleetmatics would not have had a significant impact on the consolidated net income attributable to Verizon. Upon closing, we recorded approximately \$1.4 billion of goodwill and \$1.1 billion of other intangibles.

The acquisition of Fleetmatics was accounted for as a business combination. The consideration was allocated to the assets acquired and liabilities assumed based on their fair values as of the close of the acquisition.

Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the fair value of the net assets acquired. The goodwill recorded as a result of the Fleetmatics transaction represents future economic benefits we expect to achieve as a result of the acquisition. The goodwill related to this acquisition is included within Corporate and other (see Note 3 for additional details).

#### **Other**

On July 29, 2016, we acquired Telogis, Inc., a global cloud-based mobile enterprise management software business, for \$0.9 billion of cash consideration. Upon closing, we recorded \$0.5 billion of goodwill that is included within Corporate and other.

On September 12, 2016, we announced an agreement to acquire a leading provider of IoT solutions for smart communities for cash consideration that is not significant. The transaction was completed in October 2016.

On September 3, 2015, AOL announced an agreement to acquire an advertising technology business for cash consideration that was not significant. The transaction was completed in October 2015.

On October 7, 2014, Redbox Instant by Verizon, a venture between Verizon and Redbox Automated Retail, LLC (Redbox), a wholly-owned subsidiary of Outerwall Inc., ceased providing service to its customers. In accordance with an agreement between the parties, Redbox withdrew from the venture on October 20, 2014 and Verizon wound down and dissolved the venture during the fourth quarter of 2014. As a result of the termination of the venture, we recorded a pre-tax loss of \$0.1 billion in the fourth quarter of 2014.

During February 2014, we acquired a business dedicated to the development of IP television for cash consideration that was not significant.

#### **Real Estate Transaction**

On May 19, 2015, we consummated a sale-leaseback transaction with a financial services firm for the buildings and real estate at our Basking Ridge, New Jersey location. We received total gross proceeds of \$0.7 billion resulting in a deferred gain of \$0.4 billion, which will be amortized over the initial leaseback term of twenty years. The leaseback of the buildings and real estate is accounted for as an operating lease. The proceeds received as a result of this transaction have been classified within Cash flows used in investing activities on our consolidated statement of cash flows for the year ended December 31, 2015.

## **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, 2015	\$ 75,341
Acquisitions (Note 2)	10,474
Capitalized interest on wireless licenses	389
Reclassifications, adjustments and other	371
Balance at December 31, 2015	\$ 86,575
Acquisitions (Note 2)	<b>28</b>
Capitalized interest on wireless licenses	<b>506</b>
Reclassifications, adjustments and other	<b>(436)</b>
<b>Balance at December 31, 2016</b>	<b>\$ 86,673</b>

Reclassifications, adjustments and other includes the exchanges of wireless licenses in 2016 and 2015 as well as \$0.9 billion and \$0.3 billion of Wireless licenses that are classified as Assets held for sale on our consolidated balance sheets at December 31, 2016 and 2015, respectively. See Note 2 for additional details.

At December 31, 2016 and 2015, approximately \$10.0 billion and \$10.4 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 5.1 years as of December 31, 2016. See Note 1 for additional details.

**Goodwill**

Changes in the carrying amount of Goodwill are as follows:

	(dollars in millions)			
	Wireless	Wireline	Other	Total
Balance at January 1, 2015	\$ 18,390	\$ 6,249	\$ –	\$ 24,639
Acquisitions (Note 2)	3	–	2,035	2,038
Reclassifications, adjustments and other	–	(1,918)	572	(1,346)
Balance at December 31, 2015	\$ 18,393	\$ 4,331	\$ 2,607	\$ 25,331
Acquisitions (Note 2)	–	–	2,310	2,310
Reclassifications, adjustments and other	–	(547)	111	(436)
<b>Balance at December 31, 2016</b>	<b>\$ 18,393</b>	<b>\$ 3,784</b>	<b>\$ 5,028</b>	<b>\$ 27,205</b>

During the second quarter of 2016, we allocated \$0.1 billion of Goodwill on a relative fair value basis from Wireline to Other as a result of the reclassification of our telematics businesses (see Note 12 for additional details). During the fourth quarter of 2016, we allocated \$0.4 billion of Goodwill on a relative fair value basis from Wireline to Non-current assets held for sale on our consolidated balance sheet as of December 31, 2016 as a result of our agreement to sell 24 data center sites (see Note 2 for additional details). As a result of acquisitions completed during 2016, we recognized preliminary Goodwill of \$2.3 billion, which is included within Other (see Note 2 for additional details).

As a result of the acquisition of AOL in the second quarter of 2015, we recognized Goodwill of \$1.9 billion, which is included within Other (see Note 2 for additional details). We also allocated \$0.6 billion of goodwill on a relative fair value basis from Wireline to Other as a result of an internal reorganization. This increase was partially offset by a decrease in Goodwill in Wireline primarily due to the reclassification of \$1.3 billion of Goodwill to Non-current assets held for sale on our consolidated balance sheet at December 31, 2015 as a result of the Access Line Sale (see Note 2 for additional details). The amount of Goodwill reclassified was based on a relative fair value basis.

**Other Intangible Assets**

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

	2016			2015		
At December 31,	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Customer lists (6 to 14 years)	\$ 2,884	\$ (480)	\$ 2,404	\$ 4,139	\$ (2,365)	\$ 1,774
Non-network internal-use software (3 to 8 years)	16,135	(10,913)	5,222	14,542	(9,620)	4,922
Other (5 to 25 years)	1,854	(583)	1,271	1,346	(450)	896
Total	<b>\$ 20,873</b>	<b>\$ (11,976)</b>	<b>\$ 8,897</b>	<b>\$ 20,027</b>	<b>\$ (12,435)</b>	<b>\$ 7,592</b>

The amortization expense for Other intangible assets was as follows:

Years	(dollars in millions)
<b>2016</b>	<b>\$ 1,701</b>
2015	1,694
2014	1,567

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

Years	(dollars in millions)
2017	\$ 1,749
2018	1,564
2019	1,358
2020	1,121
2021	938

**Note 4  
Plant, Property and Equipment**

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

	Lives (years)		(dollars in millions)	
At December 31,		2016	2015	
Land	–	\$ 667	\$ 709	
Buildings and equipment	7–45	27,117	25,587	
Central office and other network equipment	3–50	136,737	129,201	
Cable, poles and conduit	7–50	45,639	44,290	
Leasehold improvements	5–20	7,627	7,104	
Work in progress	–	5,710	4,907	
Furniture, vehicles and other	3–20	8,718	8,365	
		<b>232,215</b>	220,163	
Less accumulated depreciation		<b>147,464</b>	136,622	
Plant, property and equipment, net		<b>\$ 84,751</b>	\$ 83,541	

## Note 5 Leasing Arrangements

### 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 \$3.6 billion in 2016, \$3.2 billion in 2015 and \$2.7 billion in 2014.

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,	2016	2015
Capital leases	\$ 1,277	\$ 1,046
Less accumulated amortization	(524)	(318)
<b>Total</b>	<b>\$ 753</b>	<b>\$ 728</b>

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2016, are as follows:

	(dollars in millions)	
Years	Capital Leases	Operating Leases
2017	\$ 366	\$ 2,822
2018	272	2,583
2019	149	2,304
2020	111	1,927
2021	62	1,515
Thereafter	79	6,724
Total minimum rental commitments	1,039	\$ 17,875
Less interest and executory costs	89	
Present value of minimum lease payments	950	
Less current installments	335	
<b>Long-term obligation at December 31, 2016</b>	<b>\$ 615</b>	

## Note 6 Debt

Changes to debt during 2016 are as follows:

	(dollars in millions)		
	Debt Maturing within One Year	Long-term Debt	Total
Balance at January 1, 2016	\$ 6,489	\$ 103,240	\$ 109,729
Proceeds from long-term borrowings	120	12,844	12,964
Proceeds from asset-backed long-term borrowings	-	4,986	4,986
Repayments of long-term borrowings and capital leases obligations	(8,125)	(11,034)	(19,159)
Decrease in short-term obligations, excluding current maturities	(149)	-	(149)
Reclassifications of long-term debt	4,088	(4,088)	-
Other	222	(515)	(293)
<b>Balance at December 31, 2016</b>	<b>\$ 2,645</b>	<b>\$ 105,433</b>	<b>\$ 108,078</b>

Debt maturing within one year is as follows:

	(dollars in millions)	
At December 31,	2016	2015
Long-term debt maturing within one year	\$ 2,477	\$ 6,325
Short-term notes payable	168	158
Commercial paper and other	-	6
<b>Total debt maturing within one year</b>	<b>\$ 2,645</b>	<b>\$ 6,489</b>

### Tower Monetization Transaction

During March 2015, we completed a transaction with American Tower pursuant to which American Tower acquired the exclusive rights to lease and operate approximately 11,300 of our wireless towers for an upfront payment of \$5.0 billion. We have subleased capacity on the towers from American Tower for a minimum of 10 years at current market rates, with options to renew. Under this agreement, total rent payments amounted to \$0.3 billion and \$0.2 billion for the years ended December 31, 2016 and 2015, respectively. We expect to make minimum future lease payments of approximately \$2.4 billion. We continue to include the towers in Plant, property and equipment, net in our consolidated balance sheets and depreciate them accordingly. At December 31, 2016 and 2015, \$0.5 billion of towers related to this transaction were included in Plant, property and equipment, net. See Note 2 for additional information.

**Credit facilities**

On September 23, 2016, we amended our \$8.0 billion credit facility to increase the availability to \$9.0 billion and extend the maturity to September 23, 2020. As of December 31, 2016, the unused borrowing capacity under our \$9.0 billion credit facility was approximately \$8.9 billion. 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 for the issuance of letters of credit and for general corporate purposes.

In March 2016, we entered into an equipment credit facility insured by Eksportkreditnämnden Stockholm, Sweden (EKN), the Swedish export credit agency, with the ability to borrow up to \$1 billion to finance locally-sourced network equipment-related purchases. The facility has borrowings available through June 2017, contingent upon the amount of equipment-related purchases made by Verizon. As of December 31, 2016 we had drawn \$0.5 billion on the facility and the unused borrowing capacity was \$0.5 billion.

**Long-Term Debt**

Outstanding long-term debt obligations are as follows:

At December 31,	Interest Rates %	Maturities	(dollars in millions)	
			2016	2015
Verizon Communications — notes payable and other	<b>0.50–3.85</b>	<b>2017–2042</b>	<b>\$ 28,491</b>	\$ 26,281
	<b>4.11–5.50</b>	<b>2018–2055</b>	<b>53,909</b>	51,156
	<b>5.85–6.90</b>	<b>2018–2054</b>	<b>11,295</b>	16,420
	<b>7.35–8.95</b>	<b>2018–2039</b>	<b>1,860</b>	2,300
	<b>Floating</b>	<b>2017–2025</b>	<b>9,750</b>	14,100
Verizon Wireless — Alltel assumed notes	<b>6.80–7.88</b>	<b>2029–2032</b>	<b>525</b>	686
Telephone subsidiaries — debentures	<b>5.13–6.50</b>	<b>2028–2033</b>	<b>319</b>	575
	<b>7.38–7.88</b>	<b>2022–2032</b>	<b>561</b>	1,099
	<b>8.00–8.75</b>	<b>2022–2031</b>	<b>328</b>	780
Other subsidiaries — notes payable, debentures and other	<b>6.84–8.75</b>	<b>2018–2028</b>	<b>1,102</b>	1,500
Verizon Wireless and other subsidiaries — asset-backed debt	<b>1.42–2.36</b>	<b>2021</b>	<b>2,485</b>	–
	<b>Floating</b>	<b>2021</b>	<b>2,520</b>	–
Capital lease obligations (average rate of 3.5% and 3.4% in 2016 and 2015, respectively)			<b>950</b>	957
Unamortized discount, net of premium			<b>(5,716)</b>	(5,824)
Unamortized debt issuance costs			<b>(469)</b>	(465)
Total long-term debt, including current maturities			<b>107,910</b>	109,565
Less long-term debt maturing within one year			<b>2,477</b>	6,325
Total long-term debt			<b>\$ 105,433</b>	\$ 103,240

**2016****April Tender Offers**

On March 4, 2016, we announced the commencement of three concurrent, but separate, tender offers (the April Tender Offers) to purchase for cash (1) any and all of the series of notes listed below in the Group 1 Any and All Offer, (2) any and all of the series of notes listed below in the Group 2 Any and All Offer and (3) up to \$5.5 billion aggregate purchase price, excluding accrued and unpaid interest and any fees or commissions, of the series of notes listed below in the Group 3 Offer.

The April Tender Offers for each series of notes were conditioned upon the closing of the sale of our local exchange business and related landline activities in California, Florida and Texas to Frontier and the receipt of at least \$9.5 billion of the purchase price cash at closing (the Sale Condition). The Sale Condition was satisfied and the April Tender Offers were settled on April 4, 2016, resulting in the notes listed below being repurchased and cancelled for \$10.2 billion, inclusive of accrued interest of \$0.1 billion.

The table below lists the series of notes included in the Group 1 Any and All Offer:

(dollars in millions, except for Purchase Price)	Interest Rate	Maturity	Principal Amount Outstanding	Purchase Price <sup>(1)</sup>	Principal Amount Purchased
Verizon Communications Inc.	2.50%	2016	\$ 2,182	\$ 1,007.60	\$ 1,272
	2.00%	2016	1,250	1,007.20	731
	6.35%	2019	1,750	1,133.32	970
					<b>\$ 2,973</b>

(1) Per \$1,000 principal amount of notes tendered and not withdrawn prior to early expiration

Notes to Consolidated Financial Statements *continued*

The table below lists the series of notes included in the Group 2 Any and All Offer:

(dollars in millions, except for Purchase Price)	Interest Rate	Maturity	Principal Amount Outstanding	Purchase Price <sup>(1)</sup>	Principal Amount Purchased
Verizon Delaware LLC	8.375%	2019	\$ 15	\$ 1,182.11	\$ 15
	8.625%	2031	15	1,365.39	5
Verizon Maryland LLC	8.00%	2029	50	1,301.32	22
	8.30%	2031	100	1,347.26	76
	5.125%	2033	350	1,012.50	171
Verizon New England Inc.	7.875%	2029	349	1,261.63	176
Verizon New Jersey Inc.	8.00%	2022	200	1,238.65	54
	7.85%	2029	149	1,311.32	63
Verizon New York Inc.	6.50%	2028	100	1,151.71	28
	7.375%	2032	500	1,201.92	256
Verizon Pennsylvania LLC	6.00%	2028	125	1,110.47	57
	8.35%	2030	175	1,324.10	127
	8.75%	2031	125	1,356.47	72
Verizon Virginia LLC	7.875%	2022	100	1,227.79	43
	8.375%	2029	100	1,319.78	81
					\$ 1,246

(1) Per \$1,000 principal amount of notes tendered and not withdrawn prior to early expiration

The table below lists the series of notes included in the Group 3 Offer:

(dollars in millions, except for Purchase Price)	Interest Rate	Maturity	Principal Amount Outstanding	Purchase Price <sup>(1)</sup>	Principal Amount Purchased
Verizon Communications Inc.	8.95%	2039	\$ 353	\$ 1,506.50	\$ 63
	7.75%	2032	251	1,315.19	33
	7.35%	2039	480	1,293.50	68
	7.75%	2030	1,206	1,377.92	276
	6.55%	2043	6,585	1,291.74	2,340
	6.40%	2033	2,196	1,220.28	466
	6.90%	2038	477	1,243.29	92
	6.25%	2037	750	1,167.66	114
	6.40%	2038	866	1,176.52	116
	5.85%	2035	1,500	1,144.68	250
	6.00%	2041	1,000	1,164.56	–
	5.15%	2023	8,517	1,152.83	–
	Alltel Corporation	7.875%	2032	452	1,322.92
6.80%		2029	235	1,252.93	47
GTE Corporation	6.94%	2028	800	1,261.35	237
	8.75%	2021	300	1,307.34	93
					\$ 4,310

(1) Per \$1,000 principal amount of notes

#### *April Early Debt Redemption*

On April 8, 2016, we redeemed in whole the following series of outstanding notes which were called for redemption on April 5, 2016 (collectively, April Early Debt Redemption): \$0.9 billion aggregate principal amount of Verizon Communications 2.50% Notes due 2016 at 100.8% of the principal amount of such notes, \$0.5 billion aggregate principal amount of Verizon Communications 2.00% Notes due 2016 at 100.8% of the principal amount of such notes, and \$0.8 billion aggregate principal amount of Verizon Communications 6.35% Notes due 2019 at 113.5% of the principal amount of such notes. These notes were repurchased and cancelled for \$2.3 billion, inclusive of an immaterial amount of accrued interest.

#### *Debt Issuances and Redemptions*

During August 2016, we issued \$6.2 billion aggregate principal amount of fixed and floating rate notes. The issuance of these Notes resulted in cash proceeds of approximately \$6.1 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The issuance consisted of the following series of notes: \$0.4 billion aggregate principal amount of Verizon Communications Floating Rate Notes due 2019, \$1.0 billion aggregate principal amount of Verizon Communications 1.375% Notes due 2019, \$1.0 billion aggregate principal amount of Verizon Communications 1.750% Notes due 2021, \$2.3 billion aggregate principal amount of Verizon Communications 2.625% Notes due 2026, and \$1.5 billion aggregate principal amount of Verizon Communications 4.125% Notes due 2046. The floating rate notes bear interest at a rate equal to the three-month LIBOR plus 0.370%, which rate will be reset quarterly. The net proceeds were used for general corporate purposes, including to repay at maturity on September 15, 2016, \$2.3 billion aggregate principal amount of our floating rate notes, plus accrued interest on the notes.

During September 2016, we issued \$2.1 billion aggregate principal amount of 4.20% Notes due 2046. The issuance of these Notes resulted in cash proceeds of approximately \$2.0 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The net proceeds were used to redeem in whole \$0.9 billion aggregate principal amount of Verizon Communications 4.80% Notes due 2044 at 100% of the principal amount of such notes, plus any accrued and unpaid interest to the date of redemption, for an immaterial loss. Proceeds not used for the redemption of these notes were used for general corporate purposes.

During October 2016, we issued the following series of notes: €1.0 billion aggregate principal amount of Verizon Communications 0.500% Notes due 2022, €1.0 billion aggregate principal amount of Verizon Communications 0.875% Notes due 2025, €1.25 billion aggregate principal amount of Verizon Communications 1.375% Notes due 2028, and £0.45 billion aggregate principal amount of Verizon Communications 3.125% Notes due 2035. The issuance of these notes resulted in cash proceeds of approximately \$4.1 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The net proceeds from the sale of the notes were used for general corporate purposes, including the financing of our acquisition of Fleetmatics and the repayment of outstanding indebtedness.

During December 2016, we redeemed in whole \$2.0 billion aggregate principal amount of Verizon Communications 1.35% Notes due 2017 at 100.321% of the principal amount of such notes, plus any accrued and unpaid interest to the date of redemption, for an immaterial loss. Also in December 2016, we repurchased \$2.5 billion aggregate principal amount of the eight-year Verizon Notes at 100% of the aggregate principal amount of such notes plus accrued and unpaid interest to the date of redemption.

During February 2017, we issued \$1.5 billion aggregate principal amount of 4.95% Notes due 2047. The issuance of these Notes resulted in cash proceeds of approximately \$1.5 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The net proceeds were used for general corporate purposes.

#### *2017 Term Loan Agreement*

During January 2017, we entered into a term loan credit agreement with a syndicate of major financial institutions, pursuant to which we can borrow up to \$5.5 billion for (i) the acquisition of Yahoo and (ii) general corporate purposes. Borrowings under the term loan credit agreement mature 18 months following the funding date, with a partial mandatory prepayment required within six months following the funding date. The term loan agreement contains certain negative covenants, including a negative pledge covenant, a merger or similar transaction covenant and an accounting changes covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. In addition, the term loan credit agreement requires us to maintain a leverage ratio (as defined in the term loan credit agreement) not in excess of 3.50:1.00, until our credit ratings are equal to or higher than A3 and A- at Moody's Investor Service and S&P Global Ratings, respectively. To date, we have not drawn on this term loan.

#### *January 2017 Exchange Offers and Cash Offers*

On January 25, 2017, we commenced eighteen separate private offers to exchange (the January 2017 Exchange Offers) specified series of outstanding Notes issued by Verizon Communications (the Old Notes) for new Notes to be issued by Verizon Communications. In connection with the January 2017 Exchange Offers, which expired on January 31, 2017 and settled on February 3, 2017, we issued \$3.2 billion aggregate principal amount of Verizon Communications 2.946% Notes due 2022, \$1.7 billion aggregate principal amount of Verizon Communications 4.812% Notes due 2039 and \$4.1 billion aggregate principal amount of Verizon Communications 5.012% Notes due 2049 (collectively, the New Notes) plus applicable cash of \$0.6 billion (not including accrued and unpaid interest on the Old Notes) in exchange for \$8.3 billion aggregate principal amount of tendered Old Notes. We concurrently commenced eighteen separate offers to purchase for cash (the January 2017 Cash Offers) the Old Notes. In connection with the January 2017 Cash Offers, which expired on January 31, 2017 and settled on February 3, 2017, we repurchased \$0.5 billion aggregate principal amount of Old Notes for \$0.5 billion, exclusive of accrued interest.

#### **2015**

##### *February Exchange Offers*

On February 11, 2015, we announced the commencement of seven separate private offers to exchange (the February Exchange Offers) specified series of outstanding notes and debentures issued by Verizon and GTE Corporation (collectively, the Old Notes) for new Notes to be issued by Verizon (the New Notes) and, in the case of the 6.94% debentures due 2028 of GTE Corporation, cash. The February Exchange Offers have been accounted for as a modification of debt. On March 13, 2015, Verizon issued \$2.9 billion aggregate principal amount of 4.272% Notes due 2036 (the 2036 New Notes), \$5.0 billion aggregate principal amount of 4.522% Notes due 2048 (the 2048 New Notes) and \$5.5 billion aggregate principal amount of 4.672% Notes due 2055 (the 2055 New Notes) in satisfaction of the exchange offer consideration on tendered Old Notes (not including accrued and unpaid interest on the Old Notes). The following tables list the series of Old Notes included in the February Exchange Offers and the principal amount of each such series accepted by Verizon for exchange.

## Notes to Consolidated Financial Statements *continued*

The table below lists the series of Old Notes included in the February Exchange Offers for the 2036 New Notes:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted For Exchange
Verizon Communications Inc.	5.15%	2023	\$ 11,000	\$ 2,483

The table below lists the series of Old Notes included in the February Exchange Offers for the 2048 New Notes:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted For Exchange
Verizon Communications Inc.	6.90%	2038	\$ 1,250	\$ 773
	6.40%	2038	1,750	884
	6.40%	2033	4,355	2,159
	6.25%	2037	750	–
GTE Corporation	6.94%	2028	800	–
				\$ 3,816

The table below lists the series of Old Notes included in the February Exchange Offers for the 2055 New Notes:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted For Exchange
Verizon Communications Inc.	6.55%	2043	\$ 10,670	\$ 4,084

### **Term Loan Agreement**

During the first quarter of 2015, we entered into a term loan agreement with a major financial institution, pursuant to which we borrowed \$6.5 billion for general corporate purposes, including the acquisition of spectrum licenses. Borrowings under the term loan agreement were to mature in March 2016, with a \$4.0 billion mandatory prepayment required in June 2015. The term loan agreement contained certain negative covenants, including a negative pledge covenant, a merger or similar transaction covenant and an accounting changes covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. In addition, the term loan agreement required us to maintain a leverage ratio (as defined in the term loan agreement) not in excess of 3.50:1.00, until our credit ratings were equal to or higher than A3 and A- at Moody's Investors Service and Standard & Poor's Ratings Services, respectively.

During March 2015, we prepaid approximately \$5.0 billion of the term loan agreement, which satisfied the mandatory prepayment. During the third and fourth quarters of 2015, respectively, we made repayments of approximately \$1.0 billion and \$0.5 billion. As of December 31, 2015, no amounts remained outstanding under the term loan agreement.

### **Other**

During June 2015, as part of the Merger Agreement with AOL, we assumed approximately \$0.6 billion of debt and capital lease obligations. During 2015, approximately \$0.4 billion of the assumed debt and capital lease obligations were repaid.

During October 2015, we executed a \$0.2 billion, 1.5% loan due 2018. Also, during March 2015, \$0.5 billion of floating rate Verizon Communications Notes matured and were repaid. During November 2015, \$1.0 billion of 0.7% Verizon Communications Notes matured and were repaid.

During December 2015, we repaid \$0.6 billion upon maturity for €0.5 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.750% Notes due 2015, and the related cross currency swap was settled.

### **Asset-Backed Debt**

As of December 31, 2016, the carrying value of our asset-backed debt was \$5.0 billion. Our asset-backed debt includes notes (the Asset-Backed Notes) issued to third-party investors (Investors) and loans (ABS Financing Facility) received from banks and their conduit facilities (collectively, the Banks). Our consolidated asset-backed securitization bankruptcy remote legal entities (each, an ABS Entity or collectively, the ABS Entities) issue the debt or are otherwise party to the transaction documentation in connection with our asset-backed debt transactions. Under the terms of our asset-backed debt, we transfer device payment plan agreement receivables from Cellco Partnership and certain other affiliates of Verizon (collectively, the Originators) to one of the ABS Entities, which in turn transfer such receivables to another ABS Entity that issues the debt. Verizon entities retain the equity interests in the ABS Entities, which represent the rights to all funds not needed to make required payments on the asset-backed debt and other related payments and expenses.

Our asset-backed debt is secured by the transferred device payment plan agreement receivables and future collections on such receivables. The device payment plan agreement receivables transferred to the ABS Entities and related assets, consisting primarily of restricted cash, will only be available for payment of asset-backed debt and expenses related thereto, payments to the Originators in respect of additional transfers of device payment plan agreement receivables, and other obligations arising from our asset-backed debt transactions, and will not be available to pay other obligations or claims of Verizon's creditors until the associated asset-backed debt and other obligations are satisfied. The Investors or Banks, as applicable, which hold our asset-backed debt have legal recourse to the assets securing the debt, but do not have any recourse to Verizon with respect to the payment of principal and interest on the debt. Under a parent support agreement, Verizon has agreed to guarantee certain of the payment obligations of Cellco Partnership and the Originators to the ABS Entities.

Cash collections on the device payment plan agreement receivables are required at certain specified times to be placed into segregated accounts. Deposits to the segregated accounts are considered restricted cash and are included in Prepaid expenses and other and Other assets on our consolidated balance sheets.

Proceeds from our asset-backed debt transactions, deposits to the segregated accounts and payments to the Originators in respect of additional transfers of device payment plan agreement receivables, are reflected in Cash flows from financing activities in our consolidated statements of cash flows. Repayments of our asset-backed debt and related interest payments made from the segregated accounts are non-cash activities and therefore are not reflected within Cash flows from financing activities in our consolidated statements of cash flows. The asset-backed debt issued and the assets securing this debt are included on our consolidated balance sheets.

#### **Asset-Backed Notes**

In July 2016, we issued \$1.2 billion aggregate principal amount of senior and junior asset-backed notes through an ABS Entity, of which \$1.1 billion of notes were sold to Investors. The senior asset-backed notes have an expected weighted-average life of about 2.5 years and bear interest at 1.42% per annum. The junior asset-backed notes have an expected weighted-average life of about 3.2 years and bear interest at a weighted-average rate of 1.53%.

In November 2016, we issued \$1.4 billion aggregate principal amount of senior and junior asset-backed notes through an ABS Entity. The senior asset-backed notes have an expected weighted-average life of about 2.6 years and bear interest at 1.68% per annum. The junior asset-backed notes have an expected weighted-average life of about 3.3 years and bear interest at a weighted-average rate of 2.26%.

Under the terms of the asset-backed notes, there is a two-year revolving period during which we may transfer additional receivables to the ABS Entity.

#### **ABS Financing Facility**

During September 2016, we entered into a device payment plan agreement financing facility through an ABS Entity with a number of financial institutions. Under the terms of the ABS Financing Facility, such counterparties made advances under asset-backed loans backed by device payment plan agreement receivables for proceeds of \$1.5 billion. We had the option of requesting an additional \$1.5 billion of committed funding. During December 2016, we received additional funding of \$1.0 billion under this option. These loans have an expected weighted-average life of about 2.4 years and bear interest at floating rates. There is a two-year revolving period, which may be extended, during which we may transfer additional receivables to the ABS Entity. Subject to certain conditions, we may also remove receivables from the ABS Entity. We may prepay the outstanding amounts of the loans without penalty, but in certain cases, with breakage costs. As of December 31, 2016, outstanding borrowings under the ABS Financing Facility were \$2.5 billion.

Although the ABS Financing Facility is fully drawn as of December 31, 2016, we have the right to prepay all or a portion thereof at any time. If we choose to prepay, the amount prepaid shall be available for further drawdowns until September 2018, except in certain circumstances.

#### **Variable Interest Entities (VIEs)**

The ABS Entities meet the definition of a VIE for which we have determined we are the primary beneficiary as we have both the power to direct the activities of the entity that most significantly impact the entity's performance and the obligation to absorb losses or the right to receive benefits of the entity. Therefore, the assets, liabilities and activities of the ABS Entities are consolidated in our financial results and are included in amounts presented on the face of our consolidated balance sheets.

The assets and liabilities related to our asset-backed debt arrangements included on our consolidated balance sheets were as follows:

	(dollars in millions)	
At December 31,	2016	2015
<b>Assets</b>		
Account receivable, net	\$ 3,383	\$ —
Prepaid expenses and other	236	—
Other Assets	2,383	—
<b>Liabilities</b>		
Accounts payable and accrued liabilities	4	—
Long-term debt	4,988	—

See Note 7 for more information on device payment plan agreement receivables used to secure asset-backed debt.

#### **Early Debt Redemption and Other Costs**

During 2016, we recorded net pre-tax losses on early debt redemption of \$1.8 billion primarily in connection with the April Tender Offers and the April Early Debt Redemption.

We recognize early debt redemption costs in Other income and (expense), net on our consolidated statements of income and within our Net cash used in financing activities on our consolidated statements of cash flows.

#### **Additional Financing Activities (Non-Cash Transaction)**

During the years ended December 31, 2016 and 2015, we financed, primarily through vendor financing arrangements, the purchase of approximately \$0.5 billion and \$0.7 billion, respectively, of long-lived assets consisting primarily of network equipment. At December 31, 2016, \$1.1 billion relating to vendor financing arrangements, including those entered into in prior years, remained outstanding. These purchases are non-cash financing activities and therefore not reflected within Capital expenditures on our consolidated statements of cash flows.

#### **Guarantees**

We guarantee the debentures of our operating telephone company subsidiaries. As of December 31, 2016, \$1.2 billion aggregate principal amount of these obligations remained 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.

As a result of the closing of the Access Line Sale on April 1, 2016, GTE Southwest Inc., Verizon California Inc. and Verizon Florida LLC are no longer wholly-owned subsidiaries of Verizon, and the guarantees of \$0.6 billion aggregate principal amount of debentures and first mortgage bonds of those entities have terminated pursuant to their terms.

We also guarantee the debt obligations of GTE LLC as successor in interest to GTE Corporation that were issued and outstanding prior to July 1, 2003. As of December 31, 2016, \$1.1 billion aggregate principal amount of these obligations remain outstanding.

### Debt Covenants

We and our consolidated subsidiaries are in compliance with all of our financial and restrictive covenants.

### Maturities of Long-Term Debt

Maturities of long-term debt outstanding, excluding unamortized debt issuance costs, at December 31, 2016 are as follows:

Years	(dollars in millions)
2017	\$ 2,477
2018	7,729
2019	5,548
2020	9,040
2021	12,097
Thereafter	71,988

## Note 7

### Wireless Device Payment Plans

Under the Verizon device payment program, our eligible wireless customers purchase wireless devices under a device payment plan agreement. Customers that activate service on devices purchased under the device payment program pay lower service fees as compared to those under our fixed-term service plans, and their device payment plan charge is included on their standard wireless monthly bill.

### Wireless Device Payment Plan Agreement Receivables

The following table displays device payment plan receivables, net, that continue to be recognized in our consolidated balance sheets:

	(dollars in millions)	
At December 31,	2016	2015
Device payment plan agreement receivables, gross	\$ 11,797	\$ 3,720
Unamortized imputed interest	(511)	(142)
Device payment plan agreement receivables, net of unamortized imputed interest	11,286	3,578
Allowance for credit losses	(688)	(444)
<b>Device payment plan agreement receivables, net</b>	<b>\$ 10,598</b>	<b>\$ 3,134</b>
<b>Classified on our consolidated balance sheets:</b>		
Accounts receivable, net	\$ 6,140	\$ 1,979
Other assets	4,458	1,155
<b>Device payment plan agreement receivables, net</b>	<b>\$ 10,598</b>	<b>\$ 3,134</b>

Included in our device payment plan agreement receivables, net at December 31, 2016 are net device payment plan agreement receivables of \$5.7 billion that have been transferred to ABS Entities and continue to be reported in our consolidated financial statements.

We may offer our customers certain promotions where a customer can trade-in his or her owned device in connection with the purchase of a new device. Under these types of promotions, the customer will receive trade-in credits that are applied to the customer's monthly bill. As a result, we recognize a trade-in obligation measured at fair value using weighted-average selling prices obtained in recent resales of devices eligible for trade-in. Device payment plan agreement receivables, net does not reflect this trade-in obligation. At December 31, 2016, the amount of trade-in obligations was not significant.

At the time of sale of a device, we impute risk adjusted interest on the device payment plan agreement receivables. We record the imputed interest as a reduction to the related accounts receivable. Interest income, which is included within Service revenues and other on our consolidated statements of income, is recognized over the financed device payment term.

When originating device payment plan agreements, we use internal and external data sources to create a credit risk score to measure the credit quality of a customer and to determine eligibility for the device payment program. If a customer is either new to Verizon Wireless or has less than 210 days of customer tenure with Verizon Wireless (a new customer), the credit decision process relies more heavily on external data sources. If the customer has 210 days or more of customer tenure with Verizon Wireless (an existing customer), the credit decision process relies on internal data sources. Verizon Wireless' experience has been that the payment attributes of longer tenured customers are highly predictive when considering their ability to pay in the future. External data sources include obtaining a credit report from a national consumer credit reporting agency, if available. Verizon Wireless uses its internal data and/or credit data obtained from the credit reporting agencies to create a custom credit risk score. The custom credit risk score is generated automatically (except with respect to a small number of applications where the information needs manual intervention) from the applicant's credit data using Verizon Wireless' proprietary custom credit models, which are empirically derived, demonstrably and statistically sound. The credit risk score measures the likelihood that the potential customer will become severely delinquent and be disconnected for non-payment. For a small portion of new customer applications, a traditional credit report is not available from one of the national credit reporting agencies because the potential customer does not have sufficient credit history. In those instances, alternate credit data is used for the risk assessment.

Based on the custom credit risk score, we assign each customer to a credit class, each of which has a specified required down payment percentage and specified credit limits. Device payment plan agreement receivables originated from customers assigned to credit classes requiring no down payment represent the lowest risk. Device payment plan agreement receivables originated from customers assigned to credit classes requiring a down payment represent a higher risk.

Subsequent to origination, Verizon Wireless monitors delinquency and write-off experience as key credit quality indicators for its portfolio of device payment plan agreements and fixed-term service plans. The extent of our collection efforts with respect to a particular customer are based on the results of proprietary custom empirically derived internal behavioral scoring models which analyze the customer's past performance to predict the likelihood of the customer falling further delinquent. These customer scoring models assess a number of variables, including origination characteristics, customer account history and payment patterns. Based on the score derived from these models, accounts are grouped by risk category to determine the collection strategy to be applied to such accounts. We continuously monitor collection performance results and the credit quality of our device payment plan agreement receivables based on a variety of metrics, including aging. Verizon Wireless considers an account to be delinquent and in default status if there are unpaid charges remaining on the account on the day after the bill's due date.

The balance and aging of the device payment plan agreement receivables on a gross basis was as follows:

	(dollars in millions)	
At December 31,	2016	2015
Unbilled	<b>\$ 11,089</b>	\$ 3,420
Billed:		
Current	<b>557</b>	227
Past due	<b>151</b>	73
<b>Device payment plan agreement receivables, gross</b>	<b>\$ 11,797</b>	<b>\$ 3,720</b>

Activity in the allowance for credit losses for the device payment plan agreement receivables was as follows:

	(dollars in millions)	
Balance at January 1, 2016	<b>\$ 444</b>	
Bad debt expense		<b>692</b>
Write-offs		<b>(479)</b>
Allowance related to receivables sold		<b>28</b>
Other		<b>3</b>
<b>Balance at December 31, 2016</b>	<b>\$ 688</b>	

Customers that entered into device payment plan agreements prior to May 31, 2015 have the right to upgrade their device, subject to certain conditions, including making a stated portion of the required device payment plan agreement payments and trading in their device in good working order. Generally, customers entering into device payment plan agreements on or after June 1, 2015 are required to repay all amounts due under their device payment plan agreements before being eligible to upgrade their device. However, on select devices, certain marketing promotions have been revocably offered to customers to upgrade to a new device after paying down a certain specified portion of the required device payment plan agreement amount as well as trading in their device in good working order. When a customer enters into a device payment plan agreement with the right to upgrade to a new device, we record a guarantee liability in accordance with our accounting policy.

## Sales of Wireless Device Payment Plan Agreement Receivables

During 2015 and 2016, we established programs pursuant to a Receivables Purchase Agreement, or RPA, to sell from time to time, on an uncommitted basis, eligible device payment plan agreement receivables to a group of primarily relationship banks (Purchasers) on both a revolving (Revolving Program) and non-revolving (Non-Revolving Program) basis. The receivables sold under the RPA are no longer considered assets of Verizon. The outstanding portfolio of device payment plan agreement receivables derecognized from our consolidated balance sheet, but which we continue to service, was \$4.3 billion at December 31, 2016. As of December 31, 2016, the total portfolio of device payment plan agreement receivables, including derecognized device payment plan agreement receivables, that we are servicing was \$16.1 billion.

Under the Non-Revolving Program, we transfer the eligible receivables to wholly-owned subsidiaries that are bankruptcy remote special purpose entities (Sellers). The Sellers then sell the receivables to the Purchasers for upfront cash proceeds and additional consideration upon settlement of the receivables (the deferred purchase price). Under the Revolving Program, we sell eligible device payment plan agreement receivables on a revolving basis, subject to a maximum funding limit, to the Purchasers. Sales of eligible receivables by the Sellers, once initiated, generally occur and are settled on a monthly basis. Customer payments made towards receivables sold under the Revolving Program will be available to purchase additional eligible device payment plan agreement receivables originated during the revolving period. We elected to end the revolving period in July 2016.

We continue to bill and collect on the receivables in exchange for a monthly servicing fee, which is not material. Eligible receivables under the RPA excluded device payment plan agreements where a new customer was required to provide a down payment. The sales of receivables under the RPA did not have a material impact on our consolidated statements of income. The cash proceeds received from the Purchasers are recorded within Cash flows provided by operating activities on our consolidated statements of cash flows.

During 2016, we sold \$3.3 billion of receivables, net of allowance and imputed interest, under the Revolving Program. We received cash proceeds from new transfers of \$2.0 billion and cash proceeds from reinvested collections of \$0.9 billion, and recorded a deferred purchase price of \$0.4 billion.

During 2015, we sold \$6.1 billion of receivables, net of allowances and imputed interest, under the Non-Revolving Program. In connection with this sale, we received cash proceeds from new transfers of \$4.5 billion and recorded a deferred purchase price of \$1.7 billion. During 2015, we also sold \$3.3 billion of receivables, net of allowances and imputed interest, under the Revolving Program. In connection with this sale, we received cash proceeds from new transfers of \$2.7 billion and recorded a deferred purchase price of \$0.6 billion.

**Deferred Purchase Price**

Under the RPA, the deferred purchase price was initially recorded at fair value, based on the remaining device payment amounts expected to be collected, adjusted, as applicable, for the time value of money and by the timing and estimated value of the device trade-in in connection with upgrades. The estimated value of the device trade-in considers prices expected to be offered to us by independent third parties. This estimate contemplates changes in value after the launch of a device. The fair value measurements are considered to be Level 3 measurements within the fair value hierarchy. The collection of the deferred purchase price is contingent on collections from customers. To date, we have collected \$1.1 billion which was returned as deferred purchase price and recorded within Cash flows provided by operating activities on our consolidated statements of cash flows. Collections which were returned as deferred purchase price and recorded within Cash flows provided by investing activities on our consolidated statements of cash flows were immaterial. At December 31, 2016, our deferred purchase price receivable, which is held by the Sellers, was comprised of \$1.2 billion included within Prepaid expenses and other and \$0.4 billion included within Other assets in our consolidated balance sheet. At December 31, 2015, our deferred purchase price receivable was \$2.2 billion, which was included within Other assets in our consolidated balance sheet.

**Variable Interest Entities (VIEs)**

Under the RPA, the Sellers' sole business consists of the acquisition of the receivables from Celco Partnership and certain other affiliates of Verizon and the resale of the receivables to the Purchasers. The assets of the Sellers are not available to be used to satisfy obligations of any Verizon entities other than the Sellers. We determined that the Sellers are VIEs as they lack sufficient equity to finance their activities. Given that we have the power to direct the activities of the Sellers that most significantly impact the Sellers' economic performance, we are deemed to be the primary beneficiary of the Sellers. As a result, we consolidate the assets and liabilities of the Sellers into our consolidated financial statements.

**Continuing Involvement**

Verizon has continuing involvement with the sold receivables as it services the receivables. We continue to service the customer and their related receivables on behalf of the Purchasers, including facilitating customer payment collection, in exchange for a monthly servicing fee. While servicing the receivables, the same policies and procedures are applied to the sold receivables that apply to owned receivables, and we continue to maintain normal relationships with our customers. The credit quality of the customers we continue to service is consistent throughout the periods presented. To date, we have collected and remitted approximately \$7.1 billion, net of fees. To date, cash proceeds received, net of remittances, were \$3.0 billion. During 2016, credit losses on receivables sold were \$0.2 billion.

In addition, we have continuing involvement related to the sold receivables as we may be responsible for absorbing additional credit losses pursuant to the agreements. The Company's maximum exposure to loss related to the involvement with the Sellers is limited to the amount of the outstanding deferred purchase price, which was \$1.6 billion as of December 31, 2016. The maximum exposure to loss represents an estimated loss that would be incurred under severe, hypothetical circumstances whereby the Company would not receive the portion of the proceeds withheld by the Purchasers. As we believe the probability of these circumstances occurring is remote, the maximum exposure to loss is not an indication of the Company's expected loss.

## Note 8

### Fair Value Measurements and Financial Instruments

**Recurring Fair Value Measurements**

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	(dollars in millions)			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
<b>Assets:</b>				
Other assets:				
Equity securities	\$ 123	\$ -	\$ -	\$ 123
Fixed income securities	10	566	-	576
Interest rate swaps	-	71	-	71
Cross currency swaps	-	45	-	45
Interest rate cap	-	10	-	10
<b>Total</b>	<b>\$ 133</b>	<b>\$ 692</b>	<b>\$ -</b>	<b>\$ 825</b>
<b>Liabilities:</b>				
Other liabilities:				
Interest rate swaps	\$ -	\$ 236	\$ -	\$ 236
Cross currency swaps	-	1,803	-	1,803
<b>Total</b>	<b>\$ -</b>	<b>\$ 2,039</b>	<b>\$ -</b>	<b>\$ 2,039</b>

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

	(dollars in millions)			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
<b>Assets:</b>				
Short-term investments:				
Equity securities	\$ 265	\$ -	\$ -	\$ 265
Fixed income securities	-	85	-	85
Other current assets:				
Fixed income securities	250	-	-	250
Other assets:				
Fixed income securities	-	928	-	928
Interest rate swaps	-	128	-	128
Net investment hedges	-	13	-	13
Cross currency swaps	-	1	-	1
<b>Total</b>	<b>\$ 515</b>	<b>\$ 1,155</b>	<b>\$ -</b>	<b>\$ 1,670</b>
<b>Liabilities:</b>				
Other liabilities:				
Interest rate swaps	\$ -	\$ 19	\$ -	\$ 19
Cross currency swaps	-	1,638	-	1,638
Forward interest rate swaps	-	24	-	24
<b>Total</b>	<b>\$ -</b>	<b>\$ 1,681</b>	<b>\$ -</b>	<b>\$ 1,681</b>

(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 as well as U.S. Treasury securities. We use quoted prices in active markets for our U.S. Treasury securities, therefore these securities are classified as Level 1. For all other fixed income securities that

## Notes to Consolidated Financial Statements *continued*

do not have quoted prices in active markets, 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. Our derivative instruments are recorded on a gross basis.

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 2016.

### **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:

At December 31,	<b>2016</b>		2015	
	<b>Carrying Amount</b>	<b>Fair Value</b>	Carrying Amount	Fair Value
Short- and long-term debt, excluding capital leases	<b>\$ 107,128</b>	<b>\$ 117,584</b>	\$ 108,772	\$ 118,216

## **Derivative Instruments**

### **Interest Rate Swaps**

We enter into 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 LIBOR, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against interest rate risk exposure of designated debt issuances. We record the interest rate swaps at fair value on our consolidated balance sheets as assets and liabilities. Changes in the fair value of the interest rate swaps are recorded to Interest expense, which are offset by changes in the fair value of the hedged debt due to changes in interest rates.

During 2015, we entered into interest rate swaps with a total notional value of \$5.8 billion. During 2016, we entered into interest rate swaps with a total notional value of \$6.3 billion and settled \$0.9 billion notional amount of interest rate swaps. The ineffective portion of these interest rate swaps was not material at December 31, 2016 and 2015.

### **Forward Interest Rate Swaps**

In order to manage our exposure to future interest rate changes, we have entered into forward interest rate swaps. We designated these contracts as cash flow hedges. During 2015, we settled \$2.0 billion notional amount of forward interest rate swaps for a pre-tax loss that was not material, and entered into forward interest rate swaps with a total notional value of \$0.8 billion. During 2016, we entered into forward interest rate swaps with a total notional value of \$1.3 billion and settled \$2.0 billion notional amount of these forward interest rate swaps. During 2016, a pre-tax loss of \$0.2 billion was recognized in Other comprehensive income (loss). During 2015, a pre-tax loss of \$0.1 billion was recognized in Other comprehensive income (loss).

### **Cross Currency Swaps**

We have entered into cross currency swaps designated as cash flow hedges to exchange our 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. During 2015, we settled \$0.6 billion of cross currency swaps on maturity. During 2016, we entered into cross currency swaps with a total notional value of \$3.3 billion and settled \$0.1 billion notional amount of cross currency swaps upon redemption of the related debt.

A portion of the gains and losses recognized in Other comprehensive income (loss) was reclassified to Other income and (expense), net to offset the related pre-tax foreign currency transaction gain or loss on the underlying debt obligations. During 2016 and 2015, pre-tax losses of \$0.1 billion and \$1.2 billion, respectively, were recognized in Other comprehensive income (loss) with respect to these swaps.

### **Net Investment Hedges**

We have designated certain foreign currency instruments as net investment hedges to mitigate foreign exchange exposure related to non-U.S. dollar net investments in certain foreign subsidiaries against changes in foreign exchange rates. During 2015, we entered into foreign currency forward contracts with a total notional value of \$0.9 billion and designated them as net investment hedges. During 2016, we de-designated and settled these hedges. We simultaneously designated \$0.8 billion total notional value of Euro-denominated debt as a net investment hedge.

### **Undesignated Derivatives**

We also have the following derivative which we use as an economic hedge but for which we have elected not to apply hedge accounting.

### **Interest Rate Caps**

We enter into interest rate caps to mitigate our interest exposure to interest rate increases on our ABS Financing Facility. During 2016, we entered into such interest rate caps with a notional value of \$2.5 billion and recognized an immaterial reduction in Interest expense.

The following table sets forth the notional amounts of our outstanding derivative instruments:

(dollars in millions)	<b>At December 31, 2016</b>	At December 31, 2015
	<b>Notional Amount</b>	Notional Amount
Interest rate swaps	<b>\$ 13,099</b>	\$ 7,620
Forward interest rate swaps	–	750
Cross currency swaps	<b>12,890</b>	9,675
Net investment hedge	–	864
Interest rate caps	<b>2,540</b>	–

### **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, including device payment plan agreement 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 with whom we have negotiated derivatives agreements (ISDA master agreement) and credit support annex agreements which provide rules for collateral exchange. We generally apply collateralized arrangements with our counterparties for uncleared derivatives to mitigate credit risk. At December 31, 2016 and 2015, we posted collateral of approximately \$0.2 billion and \$0.1 billion, respectively, related to derivative contracts under collateral exchange arrangements, which were recorded as Prepaid expenses and other in our consolidated balance sheets. During the first and second quarters of 2015, we paid an immaterial amount of cash to enter into amendments to certain collateral exchange arrangements. These amendments suspend cash collateral posting for a specified period of time by both counterparties. We are in the process of negotiating extensions to amendments expiring during 2017. We may enter into swaps on an uncollateralized basis in certain circumstances. 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 9 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 are generally 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)	<b>Restricted Stock Units</b>	<b>Performance Stock Units</b>
Outstanding January 1, 2014	16,193	23,724
Granted	5,278	7,359
Payments	(6,202)	(9,153)
Cancelled/Forfeited	(262)	(1,964)
Outstanding December 31, 2014	15,007	19,966
Granted	4,958	7,044
Payments	(5,911)	(6,732)
Cancelled/Forfeited	(151)	(3,075)
Outstanding December 31, 2015	13,903	17,203
<b>Granted</b>	<b>4,409</b>	<b>6,391</b>
<b>Payments</b>	<b>(4,890)</b>	<b>(4,702)</b>
<b>Cancelled/Forfeited</b>	<b>(114)</b>	<b>(1,143)</b>
<b>Adjustments</b>	<b>-</b>	<b>170</b>
<b>Outstanding December 31, 2016</b>	<b>13,308</b>	<b>17,919</b>

As of December 31, 2016, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately \$0.3 billion and is expected to be recognized over approximately two years.

The RSUs granted in 2016 and 2015 have weighted-average grant date fair values of \$51.86 and \$48.15 per unit, respectively. During 2016, 2015 and 2014, we paid \$0.4 billion, \$0.4 billion and \$0.6 billion, respectively, to settle RSUs and PSUs classified as liability awards.

### Stock-Based Compensation Expense

After-tax compensation expense for stock-based compensation related to RSUs and PSUs described above included in Net income attributable to Verizon was \$0.4 billion, \$0.3 billion and \$0.3 billion for 2016, 2015 and 2014, respectively.

## Note 10 Employee Benefits

We maintain non-contributory defined benefit pension plans for certain employees. In addition, we maintain postretirement health care and life insurance plans for certain 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 credits and/or charges based on actuarial assumptions, including projected discount rates, an estimated return on plan assets, and health care trend rates. 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 and losses.

### Pension and Other Postretirement Benefits

Pension and other postretirement benefits for certain 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)

At December 31,	Pension		Health Care and Life	
	2016	2015	2016	2015
<b>Change in Benefit Obligations</b>				
Beginning of year	\$ 22,016	\$ 25,320	\$ 24,223	\$ 27,097
Service cost	322	374	193	324
Interest cost	677	969	746	1,117
Plan amendments	428	–	(5,142)	(45)
Actuarial (gain) loss, net	1,017	(1,361)	1,289	(2,733)
Benefits paid	(938)	(971)	(1,349)	(1,370)
Curtailment and termination benefits	4	–	–	–
Settlements paid	(1,270)	(2,315)	–	–
Divestiture (Note 2)	(1,144)	–	(310)	(167)
End of year	\$ 21,112	\$ 22,016	\$ 19,650	\$ 24,223
<b>Change in Plan Assets</b>				
Beginning of year	\$ 16,124	\$ 18,548	\$ 1,760	\$ 2,435
Actual return on plan assets	882	118	35	28
Company contributions	837	744	917	667
Benefits paid	(938)	(971)	(1,349)	(1,370)
Settlements paid	(1,270)	(2,315)	–	–
Divestiture (Note 2)	(972)	–	–	–
End of year	\$ 14,663	\$ 16,124	\$ 1,363	\$ 1,760
<b>Funded Status</b>				
End of year	\$ (6,449)	\$ (5,892)	\$ (18,287)	\$ (22,463)

As a result of the Access Line Sale which closed on April 1, 2016, we derecognized \$0.7 billion of defined benefit pension and other postretirement benefit plan obligations, including \$0.2 billion that had been reclassified to Non-current liabilities related to assets held for sale in our consolidated balance sheet as of December 31, 2015. See Note 2 for additional details.

(dollars in millions)

At December 31,	Pension		Health Care and Life	
	2016	2015	2016	2015
<b>Amounts recognized on the balance sheet</b>				
Noncurrent assets	\$ 2	\$ 349	\$ –	\$ –
Current liabilities	(88)	(93)	(639)	(695)
Noncurrent liabilities	(6,363)	(6,148)	(17,648)	(21,768)
Total	\$ (6,449)	\$ (5,892)	\$ (18,287)	\$ (22,463)
<b>Amounts recognized in Accumulated Other Comprehensive Income (Pre-tax)</b>				
Prior Service Cost (Benefit)	\$ 443	\$ (51)	\$ (6,072)	\$ (2,038)
Total	\$ 443	\$ (51)	\$ (6,072)	\$ (2,038)

The accumulated benefit obligation for all defined benefit pension plans was \$21.1 billion and \$22.0 billion at December 31, 2016 and 2015, respectively.

**2016 Collective Bargaining Negotiations**

In the collective bargaining agreements ratified in June 2016, Verizon's annual postretirement benefit obligation for retiree healthcare remains capped at the levels established by the previous contracts ratified in 2012. Effective January 2016, prior to reaching these new collective bargaining agreements, certain retirees began to pay for the costs of retiree healthcare in accordance with the provisions relating to caps in the previous contracts. In reaching new collective bargaining agreements in 2016, there is a mutual understanding that the substantive postretirement benefit plans provide that Verizon's annual postretirement benefit obligation for retiree healthcare is capped

and, accordingly, we began accounting for the contractual healthcare caps in June 2016. We also adopted changes to our defined benefit pension plans and other postretirement benefit plans to reflect the agreed upon terms and conditions of the collective bargaining agreements. The impact was a reduction in our postretirement benefit plan obligations of approximately \$5.1 billion and an increase in our defined benefit pension plan obligations of approximately \$0.4 billion, which have been recorded as a net increase to Accumulated other comprehensive income of \$2.9 billion (net of taxes of \$1.8 billion). The amount recorded in Accumulated other comprehensive income will be reclassified to net periodic benefit cost on a straight-line basis over

## Notes to Consolidated Financial Statements *continued*

the average remaining service period of the respective plans' participants which, on a weighted-average basis, is 12.2 years for defined benefit pension plans and 7.8 years for other postretirement benefit plans. The above-noted reclassification resulted in a decrease to net periodic benefit cost and increase to pre-tax income of approximately \$0.4 billion during 2016.

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

	(dollars in millions)	
At December 31,	<b>2016</b>	2015
Projected benefit obligation	<b>\$ 21,048</b>	\$ 21,694
Accumulated benefit obligation	<b>20,990</b>	21,636
Fair value of plan assets	<b>14,596</b>	15,452

### 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)					
Years Ended December 31,	<b>Pension</b>			<b>Health Care and Life</b>		
	<b>2016</b>	2015	2014	<b>2016</b>	2015	2014
Service cost	<b>\$ 322</b>	\$ 374	\$ 327	<b>\$ 193</b>	\$ 324	\$ 258
Amortization of prior service cost (credit)	<b>21</b>	(5)	(8)	<b>(657)</b>	(287)	(253)
Expected return on plan assets	<b>(1,045)</b>	(1,270)	(1,181)	<b>(54)</b>	(101)	(161)
Interest cost	<b>677</b>	969	1,035	<b>746</b>	1,117	1,107
Remeasurement (gain) loss, net	<b>1,198</b>	(209)	2,380	<b>1,300</b>	(2,659)	4,615
Net periodic benefit (income) cost	<b>1,173</b>	(141)	2,553	<b>1,528</b>	(1,606)	5,566
Curtailment and termination benefits	<b>4</b>	-	11	-	-	-
Total	<b>\$ 1,177</b>	\$ (141)	\$ 2,564	<b>\$ 1,528</b>	\$ (1,606)	\$ 5,566

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

	(dollars in millions)			
At December 31,	<b>Pension</b>		<b>Health Care and Life</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
Prior service cost (benefit)	<b>\$ 428</b>	\$ -	<b>\$ (5,142)</b>	\$ (45)
Reversal of amortization items				
Prior service cost (benefit)	<b>(21)</b>	5	<b>657</b>	287
Amounts reclassified to net income	<b>87</b>	-	<b>451</b>	-
<b>Total recognized in other comprehensive (income) loss (pre-tax)</b>	<b>\$ 494</b>	\$ 5	<b>\$ (4,034)</b>	\$ 242

Amounts reclassified to net income for the year ended December 31, 2016 includes the reclassification to Selling, general and administrative expense of a pre-tax pension and postretirement benefit curtailment gain of \$0.5 billion (\$0.3 billion net of taxes) due to the transfer of employees to Frontier, which caused the elimination of a significant amount of future service in three of our defined benefit pension plans and one of our other postretirement benefit plans requiring us to recognize a portion of the prior service credits. See Note 2 for additional detail.

The estimated prior service cost for the defined benefit pension plans that will be amortized from Accumulated other comprehensive income into net periodic benefit (income) 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 into net periodic benefit (income) cost over the next fiscal year is (\$0.9) billion.

### Assumptions

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

	(dollars in millions)			
At December 31,	<b>Pension</b>		<b>Health Care and Life</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
Discount Rate	<b>4.30%</b>	4.60%	<b>4.20%</b>	4.60%
Rate of compensation increases	<b>3.00</b>	3.00	<b>N/A</b>	N/A

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

	(dollars in millions)					
At December 31,	<b>Pension</b>			<b>Health Care and Life</b>		
	<b>2016</b>	2015	2014	<b>2016</b>	2015	2014
Discount rate in effect for determining service cost	<b>4.50%</b>	4.20%	5.00%	<b>4.50%</b>	4.20%	5.00%
Discount rate in effect for determining interest cost	<b>3.20</b>	4.20	5.00	<b>3.40</b>	4.20	5.00
Expected return on plan assets	<b>7.00</b>	7.25	7.25	<b>3.80</b>	4.80	5.50
Rate of compensation increases	<b>3.00</b>	3.00	3.00	<b>N/A</b>	N/A	N/A

Effective January 1, 2016, we changed the method we use to estimate the interest component of net periodic benefit cost for pension and other postretirement benefits. Historically, we estimated the interest cost component utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. We have elected to utilize a full yield curve approach in the estimation of interest cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We have made this change to provide a more precise measurement of interest cost by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. We have accounted for this change as a change in accounting estimate and accordingly accounted for it prospectively.

For the year ended December 31, 2016, the impact of this change on our consolidated GAAP results was a reduction of the interest cost component of net periodic benefit cost by approximately \$0.4 billion. The use of the full yield curve approach does not impact how we measure our total benefit obligations at year end or our annual net periodic benefit cost as any change in the interest cost component is completely offset by the actuarial gain or loss measured at year end which is immediately recognized in the income statement. Accordingly, this change in estimate did not impact our income from continuing operations, net income or earnings per share as measured on an annual basis.

In determining our pension and other postretirement benefit obligations, we used a weighted-average discount rate of 4.2%. 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, 2016. 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).

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:

At December 31,	Health Care and Life		
	2016	2015	2014
Healthcare cost trend rate assumed for next year	6.50%	6.00%	6.50%
Rate to which cost trend rate gradually declines	4.50	4.50	4.75
Year the rate reaches the level it is assumed to remain thereafter	2025	2024	2022

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

One-Percentage Point	(dollars in millions)	
	Increase	Decrease
Effect on 2016 service and interest cost	\$ 100	\$ (81)
Effect on postretirement benefit obligation as of December 31, 2016	609	(616)

## Plan Assets

The company's overall investment strategy is to achieve a mix of assets which allows us to meet projected benefit payments while taking into consideration risk and return. While target allocation percentages will vary over time, the current target allocation for plan assets is designed so that 65% 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 35% of the assets are invested as liability hedging assets (where cash flows from investments better match projected benefit payments, typically longer duration fixed income). This allocation will shift as funded status improves to a higher allocation of liability hedging assets. Target policies will be revisited periodically to ensure they are in line with fund objectives. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors. Due to our diversification and risk 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, 2016 are as follows:

Asset Category	(dollars in millions)			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 1,228	\$ 1,219	\$ 9	\$ -
Equity securities	1,883	1,883	-	-
Fixed income securities				
U.S. Treasuries and agencies	1,251	880	371	-
Corporate bonds	2,375	152	2,126	97
International bonds	713	20	679	14
Real estate	655	-	-	655
Other				
Private equity	624	-	-	624
Hedge funds	526	-	522	4
Total investments at fair value	9,255	4,154	3,707	1,394
Investments measured at NAV	5,408			
<b>Total</b>	<b>\$14,663</b>	<b>\$ 4,154</b>	<b>\$ 3,707</b>	<b>\$ 1,394</b>

The fair values for the pension plans by asset category at December 31, 2015 are as follows:

Asset Category	(dollars in millions)			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 1,387	\$ 1,375	\$ 12	\$ -
Equity securities	2,237	2,234	-	3
Fixed income securities				
U.S. Treasuries and agencies	1,265	884	381	-
Corporate bonds	2,350	192	2,030	128
International bonds	710	33	657	20
Other	2	-	2	-
Real estate	873	-	-	873
Other				
Private equity	609	-	-	609
Hedge funds	194	-	194	-
Total investments at fair value	9,627	4,718	3,276	1,633
Investments measured at NAV	6,497			
<b>Total</b>	<b>\$16,124</b>	<b>\$ 4,718</b>	<b>\$ 3,276</b>	<b>\$ 1,633</b>

## Notes to Consolidated Financial Statements *continued*

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)

	Equity Securities	Corporate Bonds	International Bonds	Real Estate	Private Equity	Hedge Funds	Total
Balance at January 1, 2015	\$ 1	\$ 100	\$ 18	\$ 692	\$ 624	\$ -	\$ 1,435
Actual gain (loss) on plan assets	-	6	(2)	93	45	-	142
Purchases and sales	-	18	5	(24)	(60)	-	(61)
Transfers in (out)	2	4	(1)	112	-	-	117
Balance at December 31, 2015	\$ 3	\$ 128	\$ 20	\$ 873	\$ 609	\$ -	\$ 1,633
<b>Actual gain (loss) on plan assets</b>	<b>(1)</b>	<b>(9)</b>	<b>(2)</b>	<b>169</b>	<b>12</b>	<b>-</b>	<b>169</b>
<b>Purchases and sales</b>	<b>(2)</b>	<b>(22)</b>	<b>(4)</b>	<b>(387)</b>	<b>3</b>	<b>4</b>	<b>(408)</b>
<b>Balance at December 31, 2016</b>	<b>\$ -</b>	<b>\$ 97</b>	<b>\$ 14</b>	<b>\$ 655</b>	<b>\$ 624</b>	<b>\$ 4</b>	<b>\$ 1,394</b>

### Health Care and Life Plans

The fair values for the other postretirement benefit plans by asset category at December 31, 2016 are as follows:

(dollars in millions)

Asset Category	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 131	\$ 1	\$ 130	\$ -
Equity securities	463	463	-	-
Fixed income securities				
U.S. Treasuries and agencies	23	22	1	-
Corporate bonds	170	145	25	-
International bonds	60	30	30	-
Total investments at fair value	847	661	186	-
Investments measured at NAV	516			
<b>Total</b>	<b>\$ 1,363</b>	<b>\$ 661</b>	<b>\$ 186</b>	<b>\$ -</b>

The fair values for the other postretirement benefit plans by asset category at December 31, 2015 are as follows:

(dollars in millions)

Asset Category	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 162	\$ -	\$ 162	\$ -
Equity securities	768	752	16	-
Fixed income securities				
U.S. Treasuries and agencies	21	19	2	-
Corporate bonds	208	133	75	-
International bonds	79	19	60	-
Total investments at fair value	1,238	923	315	-
Investments measured at NAV	522			
<b>Total</b>	<b>\$ 1,760</b>	<b>\$ 923</b>	<b>\$ 315</b>	<b>\$ -</b>

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.

Investments in securities traded on national and foreign securities exchanges are valued by the trustee at the last reported sale prices on the last business day of the year or, if no sales were reported on that date, at the last reported bid prices. Government obligations, corporate bonds, international bonds and asset-backed securities are valued using matrix prices with input from independent third-party valuation sources. Over-the-counter securities are valued at the bid prices or the average of the bid and ask prices on the last business day of the year from published sources or, if not available, from other sources considered reliable such as multiple broker quotes.

Commingled funds not traded on national exchanges are priced by the funds' custodian or administrator at NAV. Commingled funds held by third-party custodians appointed by the fund managers provide the fund managers with a NAV. The fund managers have the responsibility for providing this information to the custodian of the respective plan.

The investment manager of the entity values venture capital, corporate finance, and natural resource limited partnership investments. Real estate investments are valued at amounts based upon appraisal reports prepared by either independent real estate appraisers or the investment manager using discounted cash flows or market comparable data. Loans secured by mortgages are carried at the lesser of the unpaid balance or appraised value of the underlying properties. The values assigned to these investments are based upon available and current market information and do not necessarily represent amounts which might ultimately be realized. Because of the inherent uncertainty of valuation, estimated fair values might differ significantly from the values that would have been used had a ready market for the securities existed. These differences could be material.

Forward currency contracts, futures, and options are valued by the trustee at the exchange rates and market prices prevailing on the last business day of the year. Both exchange rates and market prices are readily available from published sources. These securities are classified by the asset class of the underlying holdings.

Hedge funds are valued by the custodian at NAV based on statements received from the investment manager. These funds are valued in accordance with the terms of their corresponding offering or private placement memoranda.

Commingled funds, hedge funds, venture capital, corporate finance, natural resource and real estate limited partnership investments for which fair value is measured using the NAV per share as a practical expedient are not leveled within the fair value hierarchy and are included as a reconciling item to total investments.

**Employer Contributions**

In 2016, we contributed \$0.8 billion to our qualified pension plans which included \$0.2 billion of discretionary contributions, \$0.1 billion to our nonqualified pension plans and \$1.1 billion to our other post-retirement benefit plans. We anticipate a minimum contribution of \$0.6 billion to our qualified pension plans in 2017. Nonqualified pension plans contributions are estimated to be \$0.1 billion and contributions to our other postretirement benefit plans are estimated to be \$0.8 billion in 2017.

**Estimated Future Benefit Payments**

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

Year	(dollars in millions)	
	Pension Benefits	Health Care and Life
2017	\$ 2,356	\$ 1,259
2018	1,790	1,284
2019	1,722	1,290
2020	1,204	1,302
2021	1,189	1,327
2022–2026	5,777	6,616

**Savings Plan and Employee Stock Ownership Plans**

We maintain four leveraged employee stock ownership plans (ESOP). 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, 2016, the number of allocated shares of common stock in this ESOP was 55 million. There were no unallocated shares of common stock in this ESOP at December 31, 2016. All leveraged ESOP shares are included in earnings per share computations.

Total savings plan costs were \$0.7 billion in 2016, \$0.9 billion in 2015 and \$0.9 billion in 2014.

**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:

Year	(dollars in millions)				
	Beginning of Year	Charged to Expense	Payments	Other	End of Year
2014	\$ 757	\$ 531	\$ (406)	\$ (7)	\$ 875
2015	875	551	(619)	(7)	800
<b>2016</b>	<b>800</b>	<b>417</b>	<b>(583)</b>	<b>22</b>	<b>656</b>

**Severance, Pension and Benefit Charges (Credits)**

During 2016, we recorded net pre-tax severance, pension and benefit charges of \$2.9 billion in accordance with our accounting policy to recognize actuarial gains and losses in the period in which they occur. The pension and benefit remeasurement charges of \$2.5 billion were primarily driven by a decrease in our discount rate assumption used to determine the current year liabilities of our pension and other postretirement benefit plans from a weighted-average of 4.6% at December 31, 2015 to a weighted-average of 4.2% at December 31, 2016 (\$2.1 billion), updated health care trend cost assumptions (\$0.9 billion), the difference between our estimated return on assets of 7.0% and our actual return on assets of 6.0% (\$0.2 billion) and other assumption adjustments (\$0.3 billion). These charges were partially offset by a change in mortality assumptions primarily driven by the use of updated actuarial tables (MP-2016) issued by the Society of Actuaries (\$0.5 billion) and lower negotiated prescription drug pricing

(\$0.5 billion). As part of these charges, we also recorded severance costs of \$0.4 billion under our existing separation plans.

The net pre-tax severance, pension and benefit charges during 2016 were comprised of a net pre-tax pension remeasurement charge of \$0.2 billion measured as of March 31, 2016 related to settlements for employees who received lump-sum distributions in one of our defined benefit pension plans, a net pre-tax pension and benefit remeasurement charge of \$0.8 billion measured as of April 1, 2016 related to curtailments in three of our defined benefit pension and one of our other postretirement plans, a net pre-tax pension and benefit remeasurement charge of \$2.7 billion measured as of May 31, 2016 in two defined benefit pension plans and three other postretirement benefit plans as a result of our accounting for the contractual healthcare caps and bargained for changes, a net pre-tax pension remeasurement charge of \$0.1 billion measured as of May 31, 2016 related to settlements for employees who received lump-sum distributions in three of our defined benefit pension plans, a net pre-tax pension remeasurement charge of \$0.6 billion measured as of August 31, 2016 related to settlements for employees who received lump-sum distributions in five of our defined benefit pension plans, and a net pre-tax pension and benefit credit of \$1.9 billion as a result of our fourth quarter remeasurement of our pension and other postretirement assets and liabilities based on updated actuarial assumptions.

During 2015, we recorded net pre-tax severance, pension and benefit credits of approximately \$2.3 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 credits were primarily driven by an increase in our discount rate assumption used to determine the current year liabilities from a weighted-average of 4.2% at December 31, 2014 to a weighted-average of 4.6% at December 31, 2015 (\$2.5 billion), the execution of a new prescription drug contract during 2015 (\$1.0 billion) and a change in mortality assumptions primarily driven by the use of updated actuarial tables (MP-2015) issued by the Society of Actuaries (\$0.9 billion), partially offset by the difference between our estimated return on assets of 7.25% at December 31, 2014 and our actual return on assets of 0.7% at December 31, 2015 (\$1.2 billion), severance costs recorded under our existing separation plans (\$0.6 billion) and other assumption adjustments (\$0.3 billion).

During 2014, we recorded net pre-tax severance, pension and benefit charges of approximately \$7.5 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 5.0% at December 31, 2013 to a weighted-average of 4.2% at December 31, 2014 (\$5.2 billion), a change in mortality assumptions primarily driven by the use of updated actuarial tables (RP-2014 and MP-2014) issued by the Society of Actuaries in October 2014 (\$1.8 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 7.25% and our actual return on assets of 10.5% (\$0.6 billion). As part of this charge, we recorded severance costs of \$0.5 billion under our existing separation plans.

## Note 11

### Taxes

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

	(dollars in millions)		
Years Ended December 31,	2016	2015	2014
Domestic	\$ 20,047	\$ 27,639	\$ 12,992
Foreign	939	601	2,278
Total	\$ 20,986	\$ 28,240	\$ 15,270

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

	(dollars in millions)		
Years Ended December 31,	2016	2015	2014
Current			
Federal	\$ 7,451	\$ 5,476	\$ 2,657
Foreign	148	70	81
State and Local	842	803	668
Total	8,441	6,349	3,406
Deferred			
Federal	(933)	3,377	(51)
Foreign	(2)	9	(9)
State and Local	(128)	130	(32)
Total	(1,063)	3,516	(92)
Total income tax provision	\$ 7,378	\$ 9,865	\$ 3,314

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,	2016	2015	2014
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State and local income tax rate, net of federal tax benefits	2.2	2.1	2.7
Affordable housing credit	(0.7)	(0.5)	(1.0)
Employee benefits including ESOP dividend	(0.5)	(0.4)	(0.7)
Disposition of Omnitel Interest	—	—	(5.9)
Noncontrolling interests	(0.6)	(0.5)	(5.0)
Non-deductible goodwill	2.2	—	—
Other, net	(2.4)	(0.8)	(3.4)
Effective income tax rate	35.2 %	34.9 %	21.7 %

The effective income tax rate for 2016 was 35.2% compared to 34.9% for 2015. The increase in the effective income tax rate was primarily due to the impact of \$527 million included in the provision for income taxes from goodwill not deductible for tax purposes in connection with the Access Line Sale on April 1, 2016. This increase was partially offset by the impact that lower income before income taxes in the current period has on each of the reconciling items specified in the table above. The decrease in the provision for income taxes was primarily due to lower income before income taxes due to severance, pension and benefit charges recorded in 2016 compared to severance, pension and benefit credits recorded in 2015.

The effective income tax rate for 2015 was 34.9% compared to 21.7% for 2014. The increase in the effective income tax rate and provision for income taxes was primarily due to the impact of higher income before income taxes due to severance, pension and benefit credits recorded in 2015 compared to severance, pension and benefit charges recorded in 2014, as well as tax benefits associated with the utilization of certain tax credits in connection with the Omnitel Transaction in 2014.

The amounts of cash taxes paid are as follows:

	(dollars in millions)		
Years Ended December 31,	2016	2015	2014
Income taxes, net of amounts refunded	\$ 9,577	\$ 5,293	\$ 4,093
Employment taxes	1,196	1,284	1,290
Property and other taxes	1,796	1,868	1,797
Total	\$ 12,569	\$ 8,445	\$ 7,180

The increase in cash taxes paid during 2016 compared to 2015 was due to a \$3.2 billion increase in income taxes paid primarily as a result of the Access Line Sale.

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,	2016	2015
Employee benefits	\$ 10,453	\$ 12,220
Tax loss and credit carry forwards	3,318	4,099
Other — assets	2,632	2,504
	16,403	18,823
Valuation allowances	(2,473)	(3,414)
Deferred tax assets	13,930	15,409
Spectrum and other intangible amortization	31,404	29,945
Depreciation	22,848	24,725
Other — liabilities	5,642	6,125
Deferred tax liabilities	59,894	60,795
Net deferred tax liability	\$ 45,964	\$ 45,386

At December 31, 2016, undistributed earnings of our foreign subsidiaries indefinitely invested outside the United States amounted to approximately \$2.3 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 represent 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, 2016, we had net after-tax loss and credit carry forwards for income tax purposes of approximately \$3.3 billion that primarily relate to state and foreign tax losses. Of these net after-tax loss and credit carry forwards, approximately \$1.9 billion will expire between 2017 and 2036 and approximately \$1.4 billion may be carried forward indefinitely.

During 2016, the valuation allowance decreased approximately \$0.9 billion. The balance of the valuation allowance at December 31, 2016 is primarily related to state and foreign tax losses and the 2016 activity is primarily the result of the utilization and expiration of certain tax attributes.

**Unrecognized Tax Benefits**

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

	(dollars in millions)		
	2016	2015	2014
Balance at January 1,	\$ 1,635	\$ 1,823	\$ 2,130
Additions based on tax positions related to the current year	338	194	80
Additions for tax positions of prior years	188	330	627
Reductions for tax positions of prior years	(153)	(412)	(278)
Settlements	(18)	(79)	(239)
Lapses of statutes of limitations	(88)	(221)	(497)
Balance at December 31,	<u>\$ 1,902</u>	<u>\$ 1,635</u>	<u>\$ 1,823</u>

Included in the total unrecognized tax benefits at December 31, 2016, 2015 and 2014 is \$1.5 billion, \$1.2 billion and \$1.3 billion, respectively, that if recognized, would favorably affect the effective income tax rate.

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

Years Ended December 31,	(dollars in millions)
<b>2016</b>	<b>\$ (25)</b>
2015	43
2014	92

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)
<b>2016</b>	<b>\$ 142</b>
2015	125

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 is currently examining the Company's U.S. income tax returns for tax years 2013–2014, Cellco Partnership's U.S. income tax return for tax year 2013, and AOL's U.S. income tax returns for tax years 2011–2012. Tax controversies are ongoing for tax years as early as 2006. The amount of the liability for unrecognized tax benefits will change in the next twelve months due to the expiration of the statute of limitations in various jurisdictions and it is reasonably possible that various current tax examinations will conclude or require reevaluations of the Company's tax positions during this period. An estimate of the range of the possible change cannot be made until these tax matters are further developed or resolved.

**Note 12  
Segment Information****Reportable Segments**

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

Our segments and their principal activities consist of the following:

Segment	Description
<b>Wireless</b>	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.
<b>Wireline</b>	Wireline's voice, data and video communications products and enhanced services include broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice 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 around the world.

Corporate and other includes the results of our digital media, including AOL, telematics and other businesses, investments in unconsolidated businesses, unallocated corporate expenses, pension and other employee benefit related costs and lease financing. Corporate and other also includes 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.

On April 1, 2016, we completed the Access Line Sale. On July 1, 2014, our Wireline segment sold a non-strategic business. See Note 2. The results of operations for these divestitures are included within Corporate and other for all periods presented to reflect comparable segment operating results consistent with the information regularly reviewed by our chief operating decision maker.

In addition, Corporate and other includes the results of our telematics businesses for all periods presented, which were reclassified from our Wireline segment effective April 1, 2016. The impact of this reclassification was not material to our consolidated financial statements or our segment results of operations.

The reconciliation of segment operating revenues and expenses to consolidated operating revenues and expenses below also includes those items of a 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-operational nature.

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

Notes to Consolidated Financial Statements *continued*

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

(dollars in millions)

2016	Wireless	Wireline	Total Reportable Segments
<b>External Operating Revenues</b>			
Service	\$ 66,362	\$ –	\$ 66,362
Equipment	17,511	–	17,511
Other	4,915	–	4,915
Consumer retail	–	12,751	12,751
Small business	–	1,651	1,651
Mass Markets	–	14,402	14,402
Global Enterprise	–	11,620	11,620
Global Wholesale	–	4,052	4,052
Other	–	320	320
Intersegment revenues	398	951	1,349
Total operating revenues	<b>89,186</b>	<b>31,345</b>	<b>120,531</b>
<b>Cost of services</b>			
Wireless cost of equipment	7,988	18,619	26,607
Selling, general and administrative expense	22,238	–	22,238
Depreciation and amortization expense	19,924	6,585	26,509
Total operating expenses	9,183	6,101	15,284
Operating income	<b>\$ 29,853</b>	<b>\$ 40</b>	<b>\$ 29,893</b>
<b>Assets</b>			
Plant, property and equipment, net	\$ 211,345	\$ 66,679	\$ 278,024
Capital expenditures	42,898	40,205	83,103
	11,240	4,504	15,744

(dollars in millions)

2015	Wireless	Wireline	Total Reportable Segments
<b>External Operating Revenues</b>			
Service	\$ 70,305	\$ –	\$ 70,305
Equipment	16,924	–	16,924
Other	4,294	–	4,294
Consumer retail	–	12,696	12,696
Small business	–	1,744	1,744
Mass Markets	–	14,440	14,440
Global Enterprise	–	12,048	12,048
Global Wholesale	–	4,301	4,301
Other	–	338	338
Intersegment revenues	157	967	1,124
Total operating revenues	91,680	32,094	123,774
<b>Cost of services</b>			
Wireless cost of equipment	7,803	18,816	26,619
Selling, general and administrative expense	23,119	–	23,119
Depreciation and amortization expense	21,805	7,256	29,061
Total operating expenses	8,980	6,543	15,523
Operating income (loss)	61,707	32,615	94,322
	<b>\$ 29,973</b>	<b>\$ (521)</b>	<b>\$ 29,452</b>
<b>Assets</b>			
Plant, property and equipment, net	\$ 185,405	\$ 78,305	\$ 263,710
Capital expenditures	40,911	41,044	81,955
	11,725	5,049	16,774

Notes to Consolidated Financial Statements *continued*

	(dollars in millions)		
2014	Wireless	Wireline	Total Reportable Segments
<b>External Operating Revenues</b>			
Service	\$ 72,555	\$ –	\$ 72,555
Equipment	10,957	–	10,957
Other	4,021	–	4,021
Consumer retail	–	12,168	12,168
Small business	–	1,829	1,829
Mass Markets	–	13,997	13,997
Global Enterprise	–	12,802	12,802
Global Wholesale	–	4,520	4,520
Other	–	527	527
Intersegment revenues	113	947	1,060
<b>Total operating revenues</b>	<b>87,646</b>	<b>32,793</b>	<b>120,439</b>
Cost of services	7,200	19,413	26,613
Wireless cost of equipment	21,625	–	21,625
Selling, general and administrative expense	23,602	7,394	30,996
Depreciation and amortization expense	8,459	6,817	15,276
<b>Total operating expenses</b>	<b>60,886</b>	<b>33,624</b>	<b>94,510</b>
<b>Operating income (loss)</b>	<b>\$ 26,760</b>	<b>\$ (831)</b>	<b>\$ 25,929</b>
Assets	\$ 160,333	\$ 76,629	\$ 236,962
Plant, property and equipment, net	38,276	50,318	88,594
Capital expenditures	10,515	5,750	16,265

**Reconciliation to Consolidated Financial Information**

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

	(dollars in millions)		
Years Ended December 31,	2016	2015	2014
<b>Operating Revenues</b>			
Total reportable segments	<b>\$ 120,531</b>	\$ 123,774	\$ 120,439
Corporate and other	<b>5,663</b>	3,738	2,106
Reconciling items:			
Impact of divested operations (Note 2)	<b>1,280</b>	5,280	5,625
Eliminations	<b>(1,494)</b>	(1,172)	(1,091)
<b>Consolidated operating revenues</b>	<b>\$ 125,980</b>	\$ 131,620	\$ 127,079

Fios revenues are included within our Wireline segment and amounted to approximately \$11.2 billion, \$10.7 billion, and \$9.8 billion for the years ended December 31, 2016, 2015, and 2014, respectively.

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,	2016	2015	2014
<b>Operating Income</b>			
Total reportable segments	<b>\$ 29,893</b>	\$ 29,452	\$ 25,929
Corporate and other	<b>(1,721)</b>	(1,720)	(1,217)
Reconciling items:			
Severance, pension and benefit credits (charges) (Note 10)	<b>(2,923)</b>	2,256	(7,507)
Gain on access line sale (Note 2)	<b>1,007</b>	–	–
Gain on spectrum license transactions (Note 2)	<b>142</b>	254	707
Impact of divested operations (Note 2)	<b>661</b>	2,818	2,021
Other costs	<b>–</b>	–	(334)
<b>Consolidated operating income</b>	<b>27,059</b>	33,060	19,599
Equity in (losses) earnings of unconsolidated businesses	<b>(98)</b>	(86)	1,780
Other income and (expense), net	<b>(1,599)</b>	186	(1,194)
Interest expense	<b>(4,376)</b>	(4,920)	(4,915)
<b>Income Before Provision for Income Taxes</b>	<b>\$ 20,986</b>	\$ 28,240	\$ 15,270

## Notes to Consolidated Financial Statements *continued*

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

At December 31,	2016	2015
<b>Assets</b>		
Total reportable segments	\$ 278,024	\$ 263,710
Corporate and other	213,787	205,476
Eliminations	(247,631)	(225,011)
Total consolidated	<u>\$ 244,180</u>	<u>\$ 244,175</u>

No single customer accounted for more than 10% of our total operating revenues during the years ended December 31, 2016, 2015 and 2014. International operating revenues and long-lived assets are not significant.

## Note 13 Comprehensive Income

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

### Accumulated Other Comprehensive Income

The changes in the balances of Accumulated other comprehensive income by component are as follows:

(dollars in millions)	Foreign currency translation adjustments	Unrealized gain (loss) on cash flow hedges	Unrealized gain (loss) on marketable securities	Defined benefit pension and postretirement plans	Total
Balance at January 1, 2014	\$ 853	\$ 113	\$ 117	\$ 1,275	\$ 2,358
Other comprehensive income (loss)	(288)	(89)	14	-	(363)
Amounts reclassified to net income	(911)	(108)	(19)	154	(884)
Net other comprehensive income (loss)	(1,199)	(197)	(5)	154	(1,247)
Balance at December 31, 2014	(346)	(84)	112	1,429	1,111
Other comprehensive loss	(208)	(1,063)	(5)	-	(1,276)
Amounts reclassified to net income	-	869	(6)	(148)	715
Net other comprehensive loss	(208)	(194)	(11)	(148)	(561)
Balance at December 31, 2015	(554)	(278)	101	1,281	550
Other comprehensive income (loss)	(159)	(225)	(13)	2,881	2,484
Amounts reclassified to net income	-	423	(42)	(742)	(361)
Net other comprehensive income (loss)	(159)	198	(55)	2,139	2,123
<b>Balance at December 31, 2016</b>	<b>\$ (713)</b>	<b>\$ (80)</b>	<b>\$ 46</b>	<b>\$ 3,420</b>	<b>\$ 2,673</b>

The amounts presented above in net other comprehensive income (loss) are net of taxes. The amounts reclassified to net income related to foreign currency translation adjustments in the table above are included in Equity in (losses) earnings of unconsolidated businesses (see Note 2 for additional information). The amounts reclassified to net income related to defined benefit pension and postretirement plans in the table above are included in Cost of services and Selling, general and administrative expense on our consolidated statements of income (see Note 10 for additional information). The amounts reclassified to net income related to unrealized gain (loss) on marketable securities in the table above are included in Other income and (expense), net on our consolidated statements of income. The amounts reclassified to net income related to unrealized gain (loss) on cash flow hedges in the table above are included in Other income and (expense), net and Interest expense on our consolidated statements of income (see Note 8 for additional information).

## Note 14 Additional Financial Information

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

### Income Statement Information

Years Ended December 31,	(dollars in millions)		
	2016	2015	2014
Depreciation expense	\$ 14,227	\$ 14,323	\$ 14,966
Interest costs on debt balances	5,080	5,504	5,291
Capitalized interest costs	(704)	(584)	(376)
Advertising expense	2,744	2,749	2,526

### Balance Sheet Information

At December 31,	(dollars in millions)	
	2016	2015
<i>Accounts Payable and Accrued Liabilities</i>		
Accounts payable	\$ 7,084	\$ 5,700
Accrued expenses	5,717	5,659
Accrued vacation, salaries and wages	3,813	4,420
Interest payable	1,463	1,529
Taxes payable	1,516	2,054
	<u>\$ 19,593</u>	<u>\$ 19,362</u>
<i>Other Current Liabilities</i>		
Advance billings and customer deposits	\$ 2,914	\$ 2,969
Dividends payable	2,375	2,323
Other	2,789	3,446
	<u>\$ 8,078</u>	<u>\$ 8,738</u>

### Cash Flow Information

Years Ended December 31,	(dollars in millions)		
	2016	2015	2014
<i>Cash Paid</i>			
Interest, net of amounts capitalized	\$ 4,085	\$ 4,491	\$ 4,429
<i>Other, net Cash Flows from Operating Activities</i>			
Changes in device payment plan agreement receivables-non-current	\$ (3,303)	\$ (23)	\$ (1,010)
Proceeds from Tower Monetization Transaction	—	2,346	—
Other, net	(1,082)	(3,734)	(2,078)
	<u>\$ (4,385)</u>	<u>\$ (1,411)</u>	<u>\$ (3,088)</u>

During the year ended December 31, 2016, Verizon did not repurchase any shares of Verizon's common stock under our authorized share buyback program. During the year ended December 31, 2015, Verizon repurchased approximately 2.8 million shares of the Company's common stock under our authorized share buyback program for approximately \$0.1 billion. At December 31, 2016, the maximum number of shares that could be purchased by or on behalf of Verizon under our share buyback program was 97.2 million.

In addition to the previously authorized three-year share buyback program, in 2015, the Verizon Board of Directors authorized Verizon to enter into an accelerated share repurchase (ASR) agreement to repurchase \$5.0 billion of the Company's common stock. On February 10, 2015, in exchange for an up-front payment totaling \$5.0 billion, Verizon received an initial delivery of 86.2 million shares having a value of approximately \$4.25 billion. On June 5, 2015, Verizon received an additional 15.4 million shares as final settlement of the transaction under the ASR agreement. In total, 101.6 million shares were delivered under the ASR at an average repurchase price of \$49.21.

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans. During the year ended December 31, 2016, we issued 3.5 million common shares from Treasury stock, which had an immaterial aggregate value. During the year ended December 31, 2015, we issued 22.6 million common shares from Treasury stock, which had an aggregate value of \$0.9 billion.

## Note 15 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.

Reserves have been established to cover environmental matters relating to discontinued businesses and past telecommunications activities. These reserves include funds to address contamination at the site of a former Sylvania facility in Hicksville NY, which had processed nuclear fuel rods in the 1950s and 1960s. In September 2005, the Army Corps of Engineers (ACE) accepted the site into its Formerly Utilized Sites Remedial Action Program. As a result, the ACE has taken primary responsibility for addressing the contamination at the site. An adjustment to the reserves may be made after a cost allocation is conducted with respect to the past and future expenses of all of the parties. Adjustments to the environmental reserve may also be made based upon the actual conditions found at other sites requiring remediation.

## Notes to Consolidated Financial Statements *continued*

Verizon is currently involved in approximately 35 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 have sold products and could seek injunctive relief as well. These cases have progressed to various stages and a small number may go to trial in the coming 12 months if they are not otherwise resolved.

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, 2016, letters of credit totaling approximately \$0.4 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 programming and network services, equipment, software and marketing services, which will be used or sold in the ordinary course of business, from a variety of suppliers totaling \$16.8 billion. Of this total amount, \$6.9 billion is attributable to 2017, \$6.4 billion is attributable to 2018 through 2019, \$1.3 billion is attributable to 2020 through 2021 and \$2.2 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 totaled approximately \$8.1 billion for 2016, \$10.2 billion for 2015, and \$21.0 billion for 2014. 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, 2016, 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 16 Quarterly Financial Information (Unaudited)

(dollars in millions, except per share amounts)

Quarter Ended	Operating Revenues	Operating Income	Net Income attributable to Verizon <sup>(1)</sup>			Net Income
			Amount	Per Share — Basic	Per Share — Diluted	
<b>2016</b>						
March 31	\$ 32,171	\$ 7,942	\$ 4,310	\$ 1.06	\$ 1.06	\$ 4,430
June 30	30,532	4,554	702	.17	.17	831
September 30	30,937	6,540	3,620	.89	.89	3,747
December 31	32,340	8,023	4,495	1.10	1.10	4,600
<b>2015</b>						
March 31	\$ 31,984	\$ 7,960	\$ 4,219	\$ 1.03	\$ 1.02	\$ 4,338
June 30	32,224	7,821	4,231	1.04	1.04	4,353
September 30	33,158	7,535	4,038	.99	.99	4,171
December 31	34,254	9,744	5,391	1.32	1.32	5,513

- Results of operations for the first quarter of 2016 include after-tax charges attributable to Verizon of \$0.1 billion related to a pension remeasurement, as well as after-tax credits attributable to Verizon of \$0.1 billion related to a gain on spectrum license transactions.
- Results of operations for the second quarter of 2016 include after-tax charges attributable to Verizon of \$2.2 billion related to pension and benefit remeasurements and after-tax charges attributable to Verizon of \$1.1 billion related to early debt redemption costs, as well as after-tax credits attributable to Verizon of \$0.1 billion related to a gain on the Access Line Sale.
- Results of operations for the third quarter of 2016 include after-tax charges attributable to Verizon of \$0.5 billion related to a pension remeasurement and severance costs.
- Results of operations for the fourth quarter of 2016 include after-tax credits attributable to Verizon of \$1.0 billion related to severance, pension and benefit credits.
- Results of operations for the third quarter of 2015 include after-tax charges attributable to Verizon of \$0.2 billion related to a pension remeasurement.
- Results of operations for the fourth quarter of 2015 include after-tax credits attributable to Verizon of \$1.6 billion related to severance, pension and benefit credits, as well as after-tax credits attributable to Verizon of \$0.2 billion related to a gain on spectrum license transactions.

(1) Net income 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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