consolidated statements of income

(dollars in millions, except per share amounts)

Years Ended December 31,	2003	2002	2001
Operating Revenues	**$ 67,752**	$ 67,304	$ 66,713
Operating Expenses			
Cost of services and sales (exclusive of items shown below)	**21,783**	19,911	20,538
Selling, general & administrative expense	**24,999**	21,846	20,829
Depreciation and amortization expense	**13,617**	13,290	13,523
Sales of businesses, net	**(141)**	(2,747)	350
Total Operating Expenses	**60,258**	52,300	55,240
Operating Income	**7,494**	15,004	11,473
Equity in earnings (loss) of unconsolidated businesses	**1,278**	(1,547)	446
Income (loss) from other unconsolidated businesses	**331**	(2,857)	(5,486)
Other income and (expense), net	**38**	192	199
Interest expense	**(2,797)**	(3,130)	(3,276)
Minority interest	**(1,583)**	(1,404)	(625)
Income before provision for income taxes, discontinued operations and cumulative effect of accounting change	**4,761**	6,258	2,731
Provision for income taxes	**(1,252)**	(1,597)	(2,147)
Income Before Discontinued Operations and Cumulative Effect of Accounting Change	**3,509**	4,661	584
Discontinued Operations			
Income (loss) from operations of Iusacell	**(957)**	(74)	6
Income tax benefit (provision)	**22**	(12)	(19)
Loss on discontinued operations, net of tax	**(935)**	(86)	(13)
Cumulative Effect of Accounting Change, Net of Tax	**503**	(496)	(182)
Net Income	**$ 3,077**	$ 4,079	$ 389
Basic Earnings Per Common Share:			
Income before discontinued operations and cumulative effect of accounting change	**$ 1.27**	$ 1.71	$ .22
Loss on discontinued operations, net of tax	**(.34)**	(.03)	–
Cumulative effect of accounting change, net of tax	**.18**	(.18)	(.07)
Net Income[1]	**$ 1.12**	$ 1.49	$ .14
Weighted-average shares outstanding (in millions)	**2,756**	2,729	2,710
Diluted Earnings Per Common Share:			
Income before discontinued operations and cumulative effect of accounting change	**$ 1.27**	$ 1.70	$ .21
Loss on discontinued operations, net of tax	**(.34)**	(.03)	–
Cumulative effect of accounting change, net of tax	**.18**	(.18)	(.07)
Net Income[1]	**$ 1.11**	$ 1.49	$ .14
Weighted-average shares outstanding (in millions)	**2,789**	2,745	2,730

(1) Total per share amounts may not add due to rounding.

See Notes to Consolidated Financial Statements.

consolidated balance sheets

(dollars in millions, except per share amounts)

At December 31,	2003	2002
Assets		
Current assets		
Cash and cash equivalents	$ 699	$ 1,422
Short-term investments	2,172	2,042
Accounts receivable, net of allowances of $2,387 and $2,771	9,905	12,496
Inventories	1,283	1,497
Assets of discontinued operations	-	1,305
Prepaid expenses and other	4,234	3,331
Total current assets	18,293	22,093
Plant, property and equipment	180,975	176,838
Less accumulated depreciation	105,659	103,080
	75,316	73,758
Investments in unconsolidated businesses	5,789	4,986
Wireless licenses	40,907	40,038
Goodwill	1,389	1,339
Other intangible assets, net	4,733	4,962
Other assets	19,541	20,292
Total assets	$ 165,968	$ 167,468
Liabilities and Shareowners' Investment		
Current liabilities		
Debt maturing within one year	$ 5,967	$ 9,267
Accounts payable and accrued liabilities	14,699	12,642
Liabilities of discontinued operations	-	1,007
Other	5,904	5,013
Total current liabilities	26,570	27,929
Long-term debt	39,413	44,003
Employee benefit obligations	16,759	15,389
Deferred income taxes	21,708	19,467
Other liabilities	3,704	4,007
Minority interest	24,348	24,057
Shareowners' investment		
Series preferred stock ($.10 par value; none issued)	-	-
Common stock ($.10 par value; 2,772,313,619 shares and 2,751,650,484 shares issued)	277	275
Contributed capital	25,363	24,685
Reinvested earnings	9,409	10,536
Accumulated other comprehensive loss	(1,250)	(2,110)
	33,799	33,386
Less common stock in treasury, at cost	115	218
Less deferred compensation-employee stock ownership plans and other	218	552
Total shareowners' investment	33,466	32,616
Total liabilities and shareowners' investment	$ 165,968	$ 167,468

See Notes to Consolidated Financial Statements.

consolidated statements of cash flows

(dollars in millions)

Years Ended December 31,	2003	2002	2001
Cash Flows from Operating Activities			
Income before discontinued operations and cumulative effect of accounting change	**$ 3,509**	$ 4,661	$ 584
Adjustments to reconcile income before discontinued operations and cumulative effect of accounting change to net cash provided by operating activities:			
Depreciation and amortization expense	**13,617**	13,290	13,523
Sales of businesses, net	**(141)**	(2,747)	350
Employee retirement benefits	**3,048**	(501)	(1,327)
Deferred income taxes	**826**	1,704	1,084
Provision for uncollectible accounts	**1,803**	2,899	1,940
(Income) loss from unconsolidated businesses	**(1,609)**	4,404	5,040
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses:			
Accounts receivable	**(844)**	(1,001)	(2,414)
Inventories	**(65)**	450	(59)
Other assets	**(8)**	405	(767)
Accounts payable and accrued liabilities	**2,643**	(1,435)	573
Other, net	**(297)**	(30)	999
Net cash provided by operating activities	**22,482**	22,099	19,526
Cash Flows from Investing Activities			
Capital expenditures (including capitalized software)	**(11,884)**	(13,061)	(18,369)
Acquisitions, net of cash acquired, and investments	**(1,162)**	(1,088)	(3,072)
Proceeds from disposition of businesses	**229**	4,638	415
Proceeds from spectrum payment refund	**–**	1,740	–
Purchases of short-term investments	**(1,887)**	(2,073)	(1,928)
Proceeds from sale of short-term investments	**1,767**	1,857	1,546
Other, net	**691**	1,187	84
Net cash used in investing activities	**(12,246)**	(6,800)	(21,324)
Cash Flows from Financing Activities			
Proceeds from long-term borrowings	**4,653**	7,820	13,870
Repayments of long-term borrowings and capital lease obligations	**(10,759)**	(8,391)	(7,293)
Decrease in short-term obligations, excluding current maturities	**(1,330)**	(11,024)	(546)
Dividends paid	**(4,239)**	(4,200)	(4,168)
Proceeds from sale of common stock	**839**	915	501
Other, net	**(123)**	71	(391)
Net cash provided by (used in) financing activities	**(10,959)**	(14,809)	1,973
Increase (decrease) in cash and cash equivalents	**(723)**	490	175
Cash and cash equivalents, beginning of year	**1,422**	932	757
Cash and cash equivalents, end of year	**$ 699**	$ 1,422	$ 932

See Notes to Consolidated Financial Statements.

consolidated statements of changes in shareowners' investment

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

Years Ended December 31,	2003		2002		2001	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	2,751,650	$ 275	2,751,650	$ 275	2,751,650	$ 275
Shares issued-employee and shareowner plans	20,664	2	–	–	–	–
Shares retired	–	–	–	–	–	–
Balance at end of year	2,772,314	277	2,751,650	275	2,751,650	275
Contributed Capital						
Balance at beginning of year		24,685		24,676		24,555
Shares issued-employee and shareowner plans		725		–		–
Tax benefit from exercise of stock options		12		46		101
Other		(59)		(37)		20
Balance at end of year		25,363		24,685		24,676
Reinvested Earnings						
Balance at beginning of year		10,536		10,704		14,667
Net income		3,077		4,079		389
Dividends declared ($1.54 per share)		(4,250)		(4,208)		(4,176)
Shares issued-employee and shareowner plans		39		(48)		(188)
Other		7		9		12
Balance at end of year		9,409		10,536		10,704
Accumulated Other Comprehensive Loss						
Balance at beginning of year		(2,110)		(1,187)		(2,176)
Foreign currency translation adjustment		568		220		(40)
Unrealized gains (losses) on marketable securities		1		(304)		1,061
Unrealized derivative gains (losses) on cash flow hedges		(21)		12		(45)
Minimum pension liability adjustment		312		(851)		13
Other comprehensive income (loss)		860		(923)		989
Balance at end of year		(1,250)		(2,110)		(1,187)
Treasury Stock						
Balance at beginning of year	8,624	218	35,173	1,182	49,215	1,861
Shares purchased	–	–	–	–	395	18
Shares distributed						
Employee plans	(4,047)	(102)	(26,531)	(963)	(14,376)	(694)
Shareowner plans	(23)	(1)	(18)	(1)	(61)	(3)
Balance at end of year	4,554	115	8,624	218	35,173	1,182
Deferred Compensation – ESOPs and Other						
Balance at beginning of year		552		747		882
Amortization		(312)		(150)		(155)
Other		(22)		(45)		20
Balance at end of year		218		552		747
Total Shareowners' Investment		$ 33,466		$ 32,616		$ 32,539
Comprehensive Income						
Net income		$ 3,077		$ 4,079		$ 389
Other comprehensive income (loss) per above		860		(923)		989
Total Comprehensive Income		$ 3,937		$ 3,156		$ 1,378

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) is one of the world's leading providers of communications services. Verizon companies are the largest providers of wireline and wireless communications in the United States. Verizon is also the largest directory publisher in the world, as measured by directory titles and circulation. Verizon's international presence includes wireline and wireless communications operations and investments, primarily in the Americas and Europe. We have four reportable segments, which we operate and manage as strategic business units: Domestic Telecom, Domestic Wireless, Information Services and International. For further information concerning our business segments, see Note 17.

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. Investments in businesses which we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. Investments in which we do not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method. Equity and cost method investments are included in Investments in Unconsolidated Businesses in our consolidated balance sheets. Certain of our cost method investments are classified as available-for-sale securities and adjusted to fair value pursuant to Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

All significant intercompany accounts and transactions have been eliminated.

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

Discontinued Operations and Sales of Businesses and Investments

We classify as discontinued operations any component of our business that we hold for sale or dispose of that has operations and cash flows that are clearly distinguishable operationally and for financial reporting purposes from the rest of Verizon. For those components, Verizon has no significant continuing involvement after disposal and their operations and cash flows are eliminated from Verizon's ongoing operations. Sales not classified as discontinued operations are reported as either Sales of Businesses, Net, Equity in Earnings (Loss) of Unconsolidated Businesses or Income (Loss) From Other Unconsolidated Businesses in our consolidated statements of income.

Use of Estimates

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

Examples of significant estimates include the allowance for doubtful accounts, the recoverability of intangibles and other long-lived assets, valuation allowances on tax assets and pension and postretirement benefit assumptions.

Revenue Recognition

Domestic Telecom

Our Domestic Telecom segment earns revenue based upon usage of our network and facilities and contract fees. In general, fixed fees for local telephone, long distance and certain other services are billed one month in advance and recognized the following month when earned. Revenue from other products that are not fixed fee or that exceed contracted amounts is recognized when such services are provided.

We recognize equipment revenue for services, in which we bundle the equipment with maintenance and monitoring services, 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. Long-term contracts are accounted for using the percentage of completion method. We use the completed contract method if we cannot estimate the costs with a reasonable degree of reliability.

Customer activation fees, along with the related costs up to but not exceeding the activation fees, are deferred and amortized over the customer relationship period.

Domestic Wireless

Our Domestic Wireless segment earns revenue by providing access to and usage of our network, which includes roaming and long distance revenue. In general, access revenue is billed one month in advance and recognized when earned. Airtime and usage revenue, roaming revenue and long distance revenue are recognized when the service is rendered. Equipment sales revenue associated with the sale of wireless handsets and accessories is recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. Customer activation fees are considered additional consideration when handsets are sold to the customers at a discount and are recorded as equipment sales revenue.

Information Services

Information Services earns revenues primarily from print and online directory publishing. Revenues from our online directory, SuperPages.com™, is amortized over the term of the advertising contracts that generally last one year.

During 2002 and 2001 we recognized revenues for our print directory publishing under the publication-date method. Under that method, we recorded revenues and direct expenses when the directories were published.

During the second quarter of 2003, we changed our method for recognizing revenues and expenses in our print directory business from the publication-date method to the amortization method. The publication-date method recognizes revenues and direct expenses when directories are published. Under the amortization method, which is increasingly becoming the industry standard, revenues and direct expenses, primarily printing and distribution costs, are recognized over the life of the directory, which is usually 12 months. This accounting change affects the timing of the recognition of revenues and expenses. As required by GAAP, the directory accounting change was recorded retroactively to January 1, 2003, and resulted in an impact on previously reported first-quarter financial results, including a cumulative effect of the accounting change (see Note 2).

International

The consolidated wireline and wireless businesses that comprise our International segment recognize revenue in a similar manner as our other segments. In addition, this segment holds several investments that are either accounted for under the equity or cost method of accounting. For additional detail on our accounting policy related to these investments, see "Consolidation" above.

Maintenance and Repairs

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

Earnings Per Common Share

Basic earnings per common share are based on the weighted-average number of shares outstanding during the year. Diluted earnings per common share include the dilutive effect of shares issuable under our stock-based compensation plans and an exchangeable equity interest (see Note 13), which represent the only potentially dilutive common shares.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents, except cash equivalents held as short-term investments. Cash equivalents are stated at cost, which approximates market value.

Short-Term Investments

Our short-term investments consist primarily of cash equivalents held in trust to pay for certain employee benefits. Short-term investments are stated at cost, which approximates market value.

Marketable Securities

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. These investments are included in the accompanying consolidated balance sheets in Investments in Unconsolidated Businesses or Other Assets.

Inventories

We include in inventory new and reusable supplies and network equipment of our telephone operations, which are stated principally at average original cost, except that specific costs are used in the case of large individual items. Inventories of our other subsidiaries are stated 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. Our telephone operations' depreciation expense is principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

The asset lives used by our telephone operations are presented in the following table:

Average Lives (in years)	
Buildings	25–42
Central office equipment	5–12
Outside communications plant	15–50
Furniture, vehicles and other	5–15

When we replace or retire depreciable plant used in our wireline network, we deduct the carrying amount of such plant from the respective accounts and charge it to accumulated depreciation (see Note 2 for additional information on the adoption of SFAS No. 143 "Accounting for Asset Retirement Obligations.")

Plant, property and equipment of our other subsidiaries is generally depreciated on a straight-line basis over the following estimated useful lives: buildings, 8 to 40 years; wireless plant equipment, 3 to 15 years; and other equipment, 1 to 20 years.

When the depreciable assets of our other subsidiaries 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 network software purchased or developed in connection with related plant assets. We also capitalize interest associated with the acquisition or construction of plant assets. Capitalized interest is reported as a cost of plant and a reduction in interest cost.

Computer Software Costs

We capitalize the cost of internal-use network and non-network software which has a useful life in excess of one year in accordance with Statement of Position (SOP) No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." 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. Software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of non-network internal-use software. Capitalized non-network internal-use software costs are amortized using the straight-line method over a period of 3 to 7 years and are included in Other Intangible Assets, Net in our consolidated balance sheets. For a discussion of our impairment policy for capitalized software costs under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," see "Goodwill and Other Intangibles" below. Also, see Note 7 for additional detail of non-network internal-use software reflected in our consolidated balance sheets.

Goodwill and Other Intangible Assets

Accounting Policy – 2001

During 2001, we generally amortized goodwill, wireless licenses and other identifiable intangibles on a straight-line basis over their estimated useful life, not exceeding 40 years. We assessed the impairment of other identifiable intangibles and goodwill related to our consolidated subsidiaries under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," whenever events or changes in circumstances indicated that the carrying value may not have been recoverable. A determination of impairment (if any) was made based on estimates of future cash flows. In instances where goodwill was recorded for assets that were subject to an impairment loss, the carrying amount of the goodwill was eliminated before any reduction was made to the carrying amounts of impaired long-lived assets and identifiable intangibles. On a quarterly basis, we assessed the impairment of enterprise level goodwill under Accounting Principles Board (APB) Opinion No. 17, "Intangible Assets." A determination of impairment (if any) was made based primarily on estimates of market value.

Accounting Policy – Effective January 1, 2002

Effective January 1, 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets." As required under SFAS No. 142, we no longer amortize goodwill (including goodwill recorded on our equity method investments), acquired workforce intangible assets and wireless licenses, which we have determined have an indefinite life (see Note 2 for additional information on the impact of adopting SFAS No. 142).

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 at least annually unless indicators of impairment exist. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Reporting units may be operating segments or one level below an operating segment, referred to as a component. Businesses for which discrete financial information is available are generally considered to be components of an operating segment. Components that are economically similar and managed by the same segment management group are aggregated and considered a reporting unit under SFAS No. 142. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment.

Intangible Assets Not Subject to Amortization

A significant portion of our intangible assets are Domestic Wireless licenses, including licenses associated with equity method investments, that provide our wireless operations with the exclusive right to utilize designated radio frequency spectrum to provide cellular communication services. While licenses are issued for only a fixed time, generally ten years, such licenses are subject to renewal by the Federal Communications Commission (FCC). Renewals of licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses. As a result, we treat the wireless licenses as an indefinite-lived intangible asset under the provisions of SFAS No. 142. We reevaluate the useful life determination for wireless licenses each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

Similar to goodwill, we are required by SFAS No. 142 to test our Domestic Wireless licenses for impairment as least annually unless indicators of impairment exist. In performing these tests, we determine the fair value of the wireless business by estimating future cash flows of the wireless operations. The fair value of aggregate wireless licenses is determined by subtracting from the fair value of the wireless business the fair value of all of the other net tangible and intangible (primarily recognized and unrecognized customer relationship intangible assets) assets of our wireless operations. We determine the fair value of our customer relationship intangible assets based on our average customer acquisition costs. In addition, our calculation of the fair value of the wireless business is then subjected to a reasonableness analysis using public information of comparable wireless carriers. If the fair value of the aggregated wireless licenses as determined above is less than the aggregated carrying amount of the licenses, an impairment will be recognized.

Intangible Assets Subject to Amortization

Our intangible assets that do not have indefinite lives (primarily customer lists and non-network internal-use software) are amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, which only requires testing whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any indicators were present, we would test for recoverability by comparing the carrying amount of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount (i.e., the asset is not recoverable), we would perform the next step which is to determine the fair value of the asset and record an impairment, if any. We reevaluate the useful life determination for these intangible assets each reporting period to determine whether events and circumstances warrant a revision in their remaining useful life.

For information related to the carrying amount of goodwill by segment as well as the major components and average useful lives of our other acquired intangible assets, see Note 7.

Sale of Stock By Subsidiary

We recognize in consolidation changes in our ownership percentage in a subsidiary caused by issuances of the subsidiary's stock as adjustments to Contributed Capital.

Income Taxes

Verizon and its domestic subsidiaries file a consolidated federal income tax return.

Our telephone operations use the deferral method of accounting for investment tax credits earned prior to the repeal of investment tax credits by the Tax Reform Act of 1986. We also defer certain transitional credits earned after the repeal. We amortize these credits over the estimated service lives of the related assets as a reduction to the Provision for Income Taxes.

Stock-Based Compensation

Prior to 2003, we accounted for stock-based employee compensation under APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and followed the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123, using the prospective method (as permitted under SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure") to all new awards granted, modified or settled after January 1, 2003. Under the prospective method, employee compensation expense in the first year will be recognized for new awards granted, modified, or settled. The options generally vest over a term of three years, therefore the expenses related to stock-based employee compensation included in the determination of net income for 2003 are less than what would have been recorded if the fair value method was also applied to previously issued awards (see Note 2 for additional information on the impact of adopting SFAS No. 123).

Foreign Currency Translation

The functional currency for nearly all of our foreign operations is 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 Loss, a separate component of Shareowners' Investment, 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 Loss. Other exchange gains and losses are reported in income.

When a foreign entity operates in a highly inflationary economy, it is our policy to use the U.S. dollar as the functional currency rather than the local currency. We translate nonmonetary assets and liabilities and related expenses into U.S. dollars at historical exchange rates. We translate all other income statement amounts using average exchange rates for the period. Monetary assets and liabilities denominated in other than U.S. dollars are translated at end-of-period exchange rates, and any gains or 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 amortized over the average remaining service period of the employees expected to receive benefits.

Derivative Instruments

We have entered into derivative transactions to manage our exposure to fluctuations in foreign currency exchange rates, interest rates and equity prices. We employ risk management strategies using a variety of derivatives including foreign currency forwards, equity options, interest rate swap agreements, interest rate locks and basis swap agreements. We do not hold derivatives for trading purposes.

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and related amendments and interpretations, we measure all derivatives, including derivatives embedded in other financial instruments, at fair value and recognize them as either assets or liabilities on our consolidated balance sheets. 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.

NOTE 2

ACCOUNTING CHANGE

Directory Accounting

As discussed in Note 1, we changed our method for recognizing revenues and expenses in our directory business from the publication-date method to the amortization method. The cumulative effect of this accounting change resulted in a charge of $2,697 million ($1,647 million after-tax), recorded as of January 1, 2003.

The following table presents our 2002 and 2001 results of operations for comparison to the current period, assuming we had applied the amortization method in all periods:

(dollars in millions, except per share amounts)

	Year Ended December 31, 2002		Year Ended December 31, 2001	
	Before Directory Accounting Change	After Directory Accounting Change	Before Directory Accounting Change	After Directory Accounting Change
Operating revenues	$ 67,304	$ 67,226	$ 66,713	$ 66,449
Operating expenses	52,300	52,277	55,240	55,314
Income before discontinued operations and cumulative effect of accounting change	4,661	4,624	584	382
Per common share – diluted	1.70	1.69	.21	.14
Income before cumulative effect of accounting change	4,575	4,538	571	369
Per common share – diluted	1.67	1.66	.21	.14
Net income	4,079	4,042	389	187
Per common share – diluted	1.49	1.48	.14	.07

Stock-Based Compensation

As discussed in Note 1, we adopted the fair value recognition provisions of SFAS No. 123 using the prospective method as permitted under SFAS No. 148. The following table illustrates the effect on reported net income and earnings per share if the fair value method had been applied to all outstanding and unvested options in each period.

(dollars in millions)			
Years Ended December 31,	**2003**	2002	2001
Net Income, As Reported	**$ 3,077**	$ 4,079	$ 389
Add: Stock option-related employee compensation expense included in reported net income, net of related tax effects	**44**	–	–
Deduct: Total stock option-related employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(215)**	(467)	(498)
Pro Forma Net Income (Loss)	**$ 2,906**	$ 3,612	$ (109)
Earnings (Loss) Per Share			
Basic – as reported	**$ 1.12**	$ 1.49	$ .14
Basic – pro forma	**1.05**	1.32	(.04)
Diluted – as reported	**1.11**	1.49	.14
Diluted – pro forma	**1.05**	1.32	(.04)

After-tax compensation expense for other stock-based compensation included in net income as reported for the years ended December 31, 2003, 2002 and 2001 was $80 million, $15 million and $31 million, respectively.

For additional information on assumptions used to determine the pro forma amounts as well as other information related to our stock-based compensation plans, see Note 14.

Asset Retirement Obligations

Effective January 1, 2003, we adopted SFAS No. 143 which provides the accounting for the cost of legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires that companies recognize the fair value of a liability for asset retirement obligations in the period in which the obligations are incurred and capitalize that amount as part of the book value of the long-lived asset. We have determined that Verizon does not have a material legal obligation to remove long-lived assets as described by this statement. However, prior to the adoption of SFAS No. 143, we included estimated removal costs in our group depreciation models. These costs have increased depreciation expense and accumulated depreciation for future removal costs for existing assets. These removal costs were recorded as a reduction to accumulated depreciation when the assets were retired and removal costs were incurred.

For some assets, such as telephone poles, the removal costs exceeded salvage value. Under the provisions of SFAS No. 143, we are required to exclude costs of removal from our depreciation rates for assets for which the removal costs exceed salvage. Accordingly, in connection with the initial adoption of this standard on January 1, 2003, we have reversed accrued costs of removal in excess of salvage from our accumulated depreciation accounts for these assets. The adjustment was recorded as a cumulative effect of an accounting change, resulting in the recognition of a gain of $3,499 million ($2,150 million after-tax). Effective January 1, 2003, we began expensing costs of removal in excess of salvage for these assets as incurred. The impact of this change in accounting results in a decrease in depreciation expense and an increase in cost of services and sales.

Goodwill and Other Intangible Assets

The initial impact of adopting SFAS No. 142 on our consolidated financial statements was recorded as a cumulative effect of an accounting change as of January 1, 2002, resulting in a charge of $496 million, net of tax. This charge was comprised of $204 million ($203 million after-tax) for goodwill and $294 million ($293 million after-tax) for wireless licenses and goodwill of equity method investments and for other intangible assets. The following tables present the impact of SFAS No. 142 on reported income before discontinued operations and cumulative effect of accounting change, reported net income and earnings per share had SFAS No. 142 been in effect for the year ended December 31, 2001:

Year Ended December 31, 2001	(dollars in millions)
Reported income before discontinued operations and cumulative effect of accounting change	$ 584
Goodwill amortization	32
Wireless licenses amortization	334
Adjusted income before discontinued operations and cumulative effect of accounting change	$ 950

Year Ended December 31, 2001	Basic	Diluted
Earnings per common share	$ .22	$ .21
Goodwill amortization	.01	.01
Wireless licenses amortization	.12	.12
Adjusted earnings per common share(1)	$ .35	$ .35

Year Ended December 31, 2001	(dollars in millions)
Reported net income	$ 389
Goodwill amortization	49
Wireless licenses amortization	334
Adjusted net income	$ 772

Year Ended December 31, 2001	Basic	Diluted
Earnings per common share	$ .14	$ .14
Goodwill amortization	.02	.02
Wireless licenses amortization	.12	.12
Adjusted earnings per common share(1)	$ .28	$ .28

(1) Total per share amounts may not add due to rounding.

The preceding tables exclude $115 million ($.04 per share) for the year ended 2001, related to amortization of goodwill and other intangible assets with indefinite lives of equity method investments.

Derivatives

We adopted the provisions of SFAS No. 133 effective January 1, 2001. The initial impact of adoption of SFAS No. 133 on our consolidated financial statements was recorded as a cumulative effect of an accounting change resulting in a charge of $182 million to current earnings and income of $110 million to other comprehensive income (loss). The recognition of assets and liabilities was immaterial to our financial position.

NOTE 3

DISCONTINUED OPERATIONS AND SALES OF BUSINESSES, NET

Discontinued Operations

Grupo Iusacell, S.A. de C.V. (Iusacell) is a wireless telecommunications company in Mexico. Prior to June 2003 we consolidated Iusacell, since we appointed a majority of the members of its board of directors. In June 2003, we announced our decision to sell our 39.4% consolidated interest in Iusacell into the tender offer launched by Movil Access, a Mexican company. Verizon tendered its shares shortly after the tender offer commenced, and the tender offer closed on July 29, 2003. In accordance with SFAS No. 144, we have classified the results of operations of Iusacell as discontinued operations. In connection with the decision to sell our interest in Iusacell and a comparison of expected net sale proceeds to the net book value of our investment in Iusacell (including the foreign currency translation balance), we recorded a pretax loss of $957 million ($931 million after-tax). This loss included $317 million of goodwill. In addition, the assets and liabilities of Iusacell are summarized and disclosed as current assets and current liabilities in the consolidated balance sheet at December 31, 2002. Additional detail related to the assets and liabilities of Iusacell, which was part of our International segment, follows:

At December 31, 2002	(dollars in millions)
Current assets	$ 133
Plant, property and equipment, net	738
Other non-current assets	434
Total assets	$ 1,305
Current liabilities	$ 125
Long-term debt	788
Other non-current liabilities	94
Total liabilities	$ 1,007

Summarized results of operations for Iusacell are as follows:

			(dollars in millions)
Years Ended December 31,	2003	2002	2001
Income (loss) from operations of Iusacell before income taxes	$ –	$ (74)	$ 6
Investment loss	(957)	–	–
Income tax benefit (provision)	22	(12)	(19)
Loss on discontinued operations, net of tax	$ (935)	$ (86)	$ (13)

Included in income (loss) from operations of Iusacell before income taxes in the preceding table are operating revenues of $181 million, $540 million and $644 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Sales of Businesses, Net

During 2003 and 2002, we recognized net gains in operations related to sales of businesses and other charges. During 2001, we recognized net losses in operations related to sales of businesses, impairments of assets held for sale and other charges. These net gains and losses are summarized as follows:

						(dollars in millions)
Years Ended December 31,	2003		2002		2001	
	Pretax	After-tax	Pretax	After-tax	Pretax	After-tax
Wireline property sales	$ –	$ –	$2,527	$1,550	$ –	$ –
Wireless overlap property sales	–	–	–	–	(92)	(60)
Other, net	141	88	220	116	(258)	(166)
	$ 141	$ 88	$2,747	$1,666	$ (350)	$ (226)

Wireline Property Sales

During the third quarter of 2002, we completed the sales of all 675,000 of our switched access lines in Alabama and Missouri to CenturyTel Inc. and 600,000 of our switched access lines in Kentucky to ALLTEL Corporation for $4,059 million in cash proceeds ($191 million of which was received in 2001). We recorded a pretax gain of $2,527 million ($1,550 million after-tax). The operating revenues of the access lines sold were $623 million and $997 million for the years 2002 and 2001, respectively. Operating expenses of the access lines sold were $241 million and $413 million for the years 2002 and 2001, respectively.

Wireless Overlap Property Sales

During 2001, we recorded a pretax gain of $80 million ($48 million after-tax) on the sale of the Cincinnati wireless market and a pretax loss of $172 million ($108 million after-tax) related to the sale of the Chicago wireless market.

Other Transactions

During 2003, we recorded a net pretax gain of $141 million ($88 million after-tax) primarily related to the sale of our directory publication operations in Austria, the Czech Republic, Gibraltar, Hungary, Poland and Slovakia.

During 2002, we recorded a net pretax gain of $220 million ($116 million after-tax), primarily resulting from a pretax gain on the sale of TSI Telecommunication Services Inc. of $466 million ($275 million after-tax), partially offset by an impairment charge in connection with our exit from the video business and other charges of $246 million ($159 million after-tax).

During 2001, we recorded charges totaling $258 million ($166 million after-tax) related to exiting several businesses, including our video business and some leasing activities.

OTHER STRATEGIC ACTIONS AND COMPLETION OF MERGER

Severance, Pension and Benefit Charges

Total pension, benefit and other costs related to severance activities were $5,524 million ($3,399 million after-tax) in 2003, primarily in connection with the voluntary separation of more than 25,000 employees, as follows:

- In the fourth quarter of 2003, we recorded a pretax charge of $4,695 million ($2,882 million after-tax) primarily associated with costs incurred in connection with a voluntary separation plan under which more than 21,000 employees accepted the separation offer. This pretax voluntary separation plan charge included $2,716 million recorded in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" for pension and postretirement benefit enhancements and a net curtailment gain for a significant reduction of the expected years of future service resulting from early retirements. In addition, we recorded a pretax charge of $76 million for pension settlement losses related to lump-sum settlements of some existing pension obligations. SFAS No. 88 requires that settlement losses be recorded once prescribed payment thresholds have been reached. The fourth quarter pretax charge also included severance costs of $1,720 million, included primarily in Selling, General & Administrative Expense, and costs related to other severance-related activities of $183 million.
- We also recorded a special charge in 2003 of $235 million ($150 million after-tax) primarily associated with employee severance costs and severance-related activities in connection with the voluntary separation of approximately 4,000 employees. In addition, we recorded pretax pension settlement losses of $131 million ($81 million after-tax) in 2003 related to employees that received lump-sum distributions during the year in connection with previously announced employee separations.
- Further, in 2003 we recorded a special charge of $463 million ($286 million after-tax) in connection with enhanced pension benefits granted to employees retiring in the first half of 2003, estimated costs associated with the July 10, 2003 Verizon-New York arbitration ruling and pension settlement losses related to lump-sum pay-outs in 2003. On July 10, 2003, an arbitrator ruled that Verizon-New York's termination of 2,300 employees in 2002 was not permitted under a union contract; similar cases were pending impacting an additional 1,100 employees. Verizon offered to reinstate all 3,400 impacted employees, and accordingly, recorded a charge in the second quarter of 2003 representing estimated payments to employees and other related company-paid costs.

Total pension, benefit and other costs related to severances were $2,010 million ($1,264 million after taxes and minority interest) in 2002, primarily in connection with the separation of approximately 8,000 employees and pension and other postretirement benefit charges associated with 2002 and 2001 severance activity, as follows:

- In the fourth quarter of 2002, we recorded a pretax charge of $981 million ($604 million after taxes and minority interest) primarily associated with pension and benefit costs related to severances in 2002 and 2001. This pretax charge included $910 million recorded in accordance with SFAS No. 88 and SFAS No. 106 for curtailment losses related to a significant reduction of the expected years of future service resulting from early retirements once the prescribed threshold was reached, pension settlement losses related to lump-sum settlements of some existing pension obligations and pension and postretirement benefit enhancements. The fourth quarter charge also included severance costs of $71 million.
- We also recorded a pretax charge in 2002 of $295 million ($185 million after-tax) related to settlement losses incurred in connection with previously announced employee separations.
- In addition, we recorded a charge of $734 million ($475 million after taxes and minority interest) in 2002 primarily associated with employee severance costs and severance-related activities in connection with the voluntary and involuntary separation of approximately 8,000 employees.

During 2001, we recorded a special charge of $1,613 million ($1,001 million after-tax) primarily associated with employee severance costs and related pension enhancements. The pretax charge included severance and related benefits of $765 million for the voluntary and involuntary separation of approximately 10,000 employees. We also recorded a pretax charge of $848 million primarily associated with related pension enhancements.

We expect to complete the severance activities within a year of when the respective charges are recorded.

Other Charges and Special Items

During 2003, we recorded other special pretax charges of $557 million ($419 million after-tax). These charges included $240 million ($156 million after-tax) primarily in connection with environmental remediation efforts relating to several discontinued businesses including a former facility that processed nuclear fuel rods in Hicksville, New York (see Note 22) and a pretax impairment charge of $184 million ($184 million after-tax) pertaining to our leasing operations for airplanes leased to airlines experiencing financial difficulties and for power generating facilities. These 2003 charges also include pretax charges of $61 million ($38 million after-tax) related to the early retirement of debt and other pretax charges of $72 million ($41 million after-tax).

During 2002, we recorded pretax charges of $626 million ($469 million after-tax). These charges related to an impairment charge in connection with our financial statement exposure to MCI due to its July 2002 bankruptcy of $300 million ($183 million after-tax), an impairment charge of $117 million ($136 million after-tax) pertaining to our leasing operations for airplanes leased to airlines experiencing financial difficulties and other charges of $209 million ($150 million after-tax). In addition, we recorded a charge of $175 million ($114 million after-tax) related to a settlement of a litigation matter that arose from our decision to terminate an agreement with NorthPoint Communications Group, Inc. (NorthPoint) to combine the two companies' digital subscriber line (DSL) businesses.

Other charges and special items recorded during 2001 include an asset impairment charge of $151 million ($95 million after-tax) related to property sales and facility consolidation, a charge of $182 million ($179 million after taxes and minority interest) in connection with mark-to-market adjustments related to some of our financial instruments and a charge of $29 million ($19 million after-tax) resulting from the early retirement of debt. In 2001, we also recorded a loss of $35 million ($26 million after-tax) related to international losses.

Merger Transition Costs

We announced at the time of the Bell Atlantic–GTE merger in 2000 that we expected to incur a total of approximately $2 billion of transition costs related to the merger and the formation of the wireless joint venture. These costs were incurred to establish the Verizon brand, integrate systems, consolidate real estate and relocate employees. Transition activities were complete at December 31, 2002 and totaled $2,243 million. For 2002 and 2001, transition costs were $510 million ($288 million after taxes and minority interest) and $1,039 million ($578 million after taxes and minority interest), respectively.

NOTE 5

MARKETABLE SECURITIES AND OTHER SECURITIES

We have investments in marketable securities which are considered "available-for-sale" under SFAS No. 115. These investments have been included in our consolidated balance sheets in Investments in Unconsolidated Businesses and Other Assets.

Under SFAS No. 115, available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses (net of income taxes) that are considered temporary in nature recorded in Accumulated Other Comprehensive Loss. The fair values of our investments in marketable securities are determined based on market quotations. 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 in Income (Loss) From Other Unconsolidated Businesses in the consolidated statements of income for all or a portion of the unrealized loss, and a new cost basis in the investment is established.

The following table shows certain summarized information related to our investments in marketable securities:

(dollars in millions)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2003				
Investments in unconsolidated businesses	**$ 160**	**$ -**	**$ (10)**	**$ 150**
Other assets	**194**	**41**	**-**	**235**
	$ 354	**$ 41**	**$ (10)**	**$ 385**
At December 31, 2002				
Investments in unconsolidated businesses	$ 115	$ 5	$ (20)	$ 100
Other assets	196	46	–	242
	$ 311	$ 51	$ (20)	$ 342

Our investments in marketable securities are primarily bonds and mutual funds.

During 2002, we recognized a net loss of $347 million ($230 million after-tax) primarily related to the market value of our investment in Cable & Wireless plc (C&W) and losses totaling $231 million ($231 million after-tax) relating to several other investments in marketable securities. We determined that market value declines in these investments during 2002 were considered other than temporary.

During 2002, we sold nearly all of our investment in Telecom Corporation of New Zealand Limited (TCNZ) for net cash proceeds of $769 million, which resulted in a pretax gain of $383 million ($229 million after-tax).

During 2002, we also recorded a pretax loss of $516 million ($436 million after-tax) to market value due primarily to the other than temporary decline in the market value of our investment in Metromedia Fiber Network, Inc. (MFN). We wrote off our remaining investment and other financial statement exposure related to MFN primarily as a result of its deteriorating financial condition and related defaults.

During 2001, we recognized a pretax loss of $4,686 million ($3,607 million after-tax) primarily relating to our investments in C&W, NTL Incorporated (NTL) and MFN. We determined that market value declines in these investments during 2001 were considered other than temporary.

Certain other investments in securities that we hold are not adjusted to market values because those values are not readily determinable and/or the securities are not marketable. We have, however, adjusted the carrying values of these securities in situations where we believe declines in value below cost were other than temporary. During 2002 and 2001, we recognized pretax losses of $2,898 million ($2,735 million after-tax) and $1,251 million ($1,251 million after-tax), respectively, primarily in Income (Loss) From Other Unconsolidated Businesses in the consolidated statements of income relating to our investment in Genuity Inc. (Genuity). The 2002 loss includes a write-down of our investments and loans of $2,624 million ($2,560 million after-tax). We also recorded a pretax charge of $274 million ($175 million after-tax) related to the remaining financial exposure to our assets, including receivables, as a result of Genuity's bankruptcy. During 2003, we recorded a net pretax gain of $176 million as a result of a payment received in connection with the liquidation of Genuity. In connection with this payment, Verizon recorded a contribution of $150 million to Verizon Foundation to fund its charitable activities and increase its self-sufficiency. Consequently, we recorded a net gain of $17 million after taxes related to this transaction and the accrual of the Verizon Foundation contribution. The carrying values for investments not adjusted to market value were $24 million at December 31, 2003 and $103 million at December 31, 2002.

As a result of capital gains and other income from access line sales and investment sales in 2002, as well as assessments and transactions related to several of the impaired investments during the third and fourth quarters of 2002, we recorded tax benefits of $2,104 million in 2002 pertaining to current and prior year investment impairments. The investment impairments primarily related to debt and equity investments in MFN and in Genuity.

NOTE 6

PLANT, PROPERTY AND EQUIPMENT

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

		(dollars in millions)
At December 31,	**2003**	2002
Land	**$ 812**	$ 915
Buildings and equipment	**15,677**	14,572
Network equipment	**142,296**	137,353
Furniture, office and data processing equipment	**16,352**	17,396
Work in progress	**1,137**	1,476
Leasehold improvements	**1,575**	1,573
Other	**3,126**	3,553
	180,975	176,838
Accumulated depreciation	**(105,659)**	(103,080)
Total	**$ 75,316**	$ 73,758

NOTE 7

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Changes in the carrying amount of goodwill for the year ended December 31, 2003 are as follows:

(dollars in millions)

	Domestic Telecom	Domestic Wireless	Information Services	International	Corporate & Other	Total
Balance as of December 31, 2002	$ 314	$ –	$ 579	$ 446	$ –	$ 1,339
Goodwill reclassifications and other	–	–	52	(2)	–	50
Balance as of December 31, 2003	**$ 314**	**$ –**	**$ 631**	**$ 444**	**$ –**	**$ 1,389**

Other Intangible Assets

(dollars in millions)

	As of December 31, 2003		As of December 31, 2002	
	Gross Carrying Amount	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists (4 to 7 years)	**$ 3,441**	**$ 2,362**	$ 3,440	$ 1,846
Non-network internal-use software (3 to 7 years)	**5,799**	**2,208**	4,700	1,399
Other (2 to 30 years)	**86**	**23**	81	14
Total	**$ 9,326**	**$ 4,593**	$ 8,221	$ 3,259
Unamortized intangible assets:				
Wireless licenses	**$ 40,907**		$ 40,038	

Intangible asset amortization expense was $1,402 million, $1,154 million and $2,161 million for years ended December 31, 2003, 2002 and 2001, respectively. It is estimated to be $1,382 million in 2004, $1,236 million in 2005, $703 million in 2006, $409 million in 2007 and $290 million in 2008, primarily related to customer lists and non-network internal-use software.

NOTE 6

INVESTMENTS IN UNCONSOLIDATED BUSINESSES

Our investments in unconsolidated businesses are comprised of the following:

(dollars in millions)

At December 31,	2003 Ownership	2003 Investment	2002 Ownership	2002 Investment
Equity Investees				
CANTV	28.5%	$ 219	28.5%	$ 475
Omnitel	23.1	3,639	23.1	2,226
TELUS	20.9	574	21.3	463
Other	Various	1,183	Various	1,620
Total equity investees		5,615		4,784
Cost Investees	Various	174	Various	202
Total investments in unconsolidated businesses		$ 5,789		$ 4,986

Dividends received from investees amounted to $198 million in 2003, $182 million in 2002 and $244 million in 2001, respectively.

Equity Investees

CANTV

Compañia Anónima Nacional Teléfonos de Venezuela (CANTV) is Venezuela's largest full-service telecommunications provider. CANTV offers local services, national and international long distance, Internet access and wireless services in Venezuela as well as public telephone, private network, data transmission, directory and other value-added services.

In October 2001, shareholders of CANTV approved an extraordinary dividend of approximately $550 million, paid in two installments in December 2001 and March 2002, and a share repurchase program of up to 15% of CANTV's shares. During December 2001, we received approximately $167 million from the repurchase program and $85 million in extraordinary dividends. In 2002, we received $67 million in extraordinary dividends.

During 2002, we recorded a pretax loss of $1,400 million ($1,400 million after-tax) due to the other than temporary decline in the market value of our investment in CANTV. As a result of the political and economic instability in Venezuela, including the devaluation of the Venezuelan bolivar, and the related impact on CANTV's future economic prospects, we no longer expected that the future undiscounted cash flows applicable to CANTV were sufficient to recover our investment. Accordingly, we wrote our investment down to market value as of March 31, 2002.

Vodafone Omnitel

Vodafone Omnitel N.V. (Omnitel) is an Italian digital cellular telecommunications company. It is the second largest wireless provider in Italy. At December 31, 2003 and 2002, our investment in Omnitel included goodwill of $996 million and $830 million, respectively.

TELUS

TELUS Corporation (TELUS) is the largest telecommunications company in Western Canada and the second largest in Canada. The company is a full-service telecommunications provider and provides subscribers with a full range of telecommunications products and services including data, voice and wireless services across Canada.

In 2002, we recorded a pretax loss of $580 million ($430 million after-tax) to the market value of our investment in TELUS. We determined that the market value decline in this investment was considered other than temporary.

Other Equity Investees

Verizon has limited partnership investments in entities that invest in affordable housing projects, for which Verizon provides funding as a limited partner and receives tax deductions and tax credits based on its partnership interests. At December 31, 2003 and 2002, Verizon had equity investments in these partnerships of $863 million and $954 million, respectively. Verizon currently adjusts the carrying value of these investments for any losses incurred by the limited partnerships through earnings.

CTI Holdings, S.A. (CTI) provides wireless services in Argentina. During 2002, we recorded a pretax loss of $230 million ($190 million after-tax) to fair value due to the other than temporary decline in the fair value of our remaining investment in CTI as a result of the impact of the deterioration of the Argentinean economy and the devaluation of the Argentinean peso on CTI's financial position. As a result of this 2002 charge and a $637 million ($637 million after-tax) charge recorded in 2001, our financial exposure related to our equity investment in CTI was eliminated as of year-end 2002. On March 28, 2002, Verizon transferred 5.5 million of its shares in CTI to an indirectly wholly owned subsidiary of Verizon and subsequently transferred ownership of that subsidiary to a newly created trust for CTI employees. This decreased Verizon's ownership percentage in CTI from 65% to 48%. We also reduced our representation on CTI's board of directors from five of nine members to four of nine (subsequently reduced to one of five members). As a result of these actions that surrender control of CTI, we changed our method of accounting for this investment from consolidation to the equity method. On June 3, 2002, as a result of an option exercised by Telfone (BVI) Limited (Telfone), a CTI shareholder, Verizon acquired approximately 5.3 million additional CTI shares. Also on June 3, 2002, we transferred ownership of a wholly owned subsidiary of Verizon that held 5.4 million CTI shares to a second independent trust leaving us with an approximately 48% non-controlling interest in CTI. Since we had no other future commitments or plans to fund CTI's operations and had written our investment down to zero, in accordance with the accounting rules for equity method investments, we ceased recording operating income or losses related to CTI's operations beginning in 2002. On October 16, 2003, we sold our entire remaining interest in CTI.

We also have an international wireless investment in Slovakia. This investment is a joint venture to build and operate a cellular network in that country. The remaining investments include wireless partnerships in the U.S., real estate partnerships, publishing joint ventures, and several other domestic and international joint ventures.

During 2003, we recorded a pretax gain of $348 million on the sale of our interest in Eurotel Praha, spol. s r.o. In connection with this sale transaction, Verizon recorded a contribution of $150 million to Verizon Foundation to fund its charitable activities and increase its self-sufficiency. Consequently, we recorded a net gain of $27 million after taxes related to this transaction and the accrual of the Verizon Foundation contribution.

Cost Investees

Some of our cost investments are carried at their current market value. Other cost investments are carried at their original cost, except in cases where we have determined that a decline in the estimated market value of an investment is other than temporary as described in Note 5.

Genuity

Prior to the merger of Bell Atlantic and GTE in 2000, we owned and consolidated Genuity, which was deconsolidated in June 2000 as a condition of the merger in connection with an initial public offering. Our remaining ownership interest in Genuity contained a contingent conversion feature that gave us the option to regain control of Genuity and was dependent on obtaining approvals to provide long distance service in the former Bell Atlantic region and satisfaction of other regulatory and legal requirements. On July 24, 2002, we converted all but one of our shares of Class B common stock of Genuity into shares of Class A common stock of Genuity and relinquished our right to convert our current ownership into a controlling interest in Genuity. On December 18, 2002, we sold all of our Class A common stock of Genuity. (See Note 5 for additional information.)

Other Cost Investees

TCNZ is the principal provider of telecommunications services in New Zealand. During 2002, we sold nearly all of our investment in TCNZ (see Note 5 for additional information). As of December 31, 2003, we hold an insignificant interest in TCNZ.

Other cost investments include a variety of domestic and international investments primarily involved in providing telecommunication services.

Summarized Financial Information

Summarized financial information for our equity investees is as follows:

Balance Sheet

(dollars in millions)

At December 31,	2003	2002
Current assets	$ 9,527	$ 4,778
Noncurrent assets	23,804	21,425
Total assets	$ 33,331	$ 26,203
Current liabilities	$ 5,377	$ 5,187
Noncurrent liabilities	8,044	7,345
Equity	19,910	13,671
Total liabilities and equity	$ 33,331	$ 26,203

Income Statement

(dollars in millions)

Years Ended December 31,	2003	2002	2001
Revenue	$ 15,364	$ 12,740	$ 12,658
Operating income	4,918	2,799	3,163
Net income	4,172	1,628	2,323

NOTE 9

MINORITY INTEREST

Minority interests in equity of subsidiaries were as follows:

(dollars in millions)

At December 31,	2003	2002
Minority interests in consolidated subsidiaries*:		
Wireless joint venture (55%)	$ 22,383	$ 22,018
Cellular partnerships and other (various)	1,549	1,544
TELPRI (52%)	316	276
Preferred securities issued by subsidiaries	100	219
	$ 24,348	$ 24,057

*Indicated ownership percentages are Verizon's consolidated interests.

Wireless Joint Venture

The wireless joint venture was formed in April 2000 in connection with the combination of the U.S. wireless operations and interests of Verizon and Vodafone Group Plc (Vodafone). The wireless joint venture operates as Verizon Wireless. Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%.

Under the terms of an investment agreement, Vodafone may require Verizon Wireless to purchase up to an aggregate of $20 billion worth of Vodafone's interest in Verizon Wireless at designated times between 2003 and 2007 at its then fair market value. In the event Vodafone exercises its put rights, we have the right, exercisable at our sole discretion, to purchase up to $12.5 billion of Vodafone's interest instead of Verizon Wireless for cash or Verizon stock at our option. Vodafone may require the purchase of up to $10 billion during a 61-day period opening on June 10 and closing on August 9 in 2004, and the remainder, which may not exceed $10 billion in any one year, during a 61-day period opening on June 10 and closing on August 9 in 2005 through 2007. Vodafone also may require that Verizon Wireless pay for up to $7.5 billion of the required repurchase through the assumption or incurrence of debt. Vodafone did not exercise its put rights during the 61-day period that ended on August 9, 2003.

Cellular Partnerships and Other

In August 2002, Verizon Wireless and Price Communications Corp. (Price) combined Price's wireless business with a portion of Verizon Wireless in a transaction valued at approximately $1.7 billion, including $550 million of net debt. The resulting limited partnership is controlled and managed by Verizon Wireless. In exchange for its contributed assets, Price received a limited partnership interest in the new partnership which is exchangeable into common stock of Verizon Wireless if an initial public offering of that stock occurs, or into the common stock of Verizon on the fourth anniversary of the asset contribution date if the initial public offering of Verizon Wireless common stock does not occur prior to then. The price of the Verizon common stock used in determining the number of Verizon common shares received in an exchange is also subject to a maximum and minimum amount.

TELPRI

Telecomunicaciones de Puerto Rico, Inc. (TELPRI) provides local, wireless, long distance, paging and Internet-access services in Puerto Rico. During 2002, we exercised our option to purchase additional equity in TELPRI, which increased our ownership percentage to 52%. As a result, Verizon changed the accounting for TELPRI from the equity method to consolidation, effective January 1, 2002.

NOTE 10

LEASING ARRANGEMENTS

As Lessor

We are the lessor in leveraged and direct financing lease agreements under which commercial aircraft and power generating facilities, which comprise the majority of the portfolio, along with industrial equipment, real estate property, telecommunications and other equipment are leased for remaining terms of less than 1 year to 45 years as of December 31, 2003. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which holds a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with GAAP. All recourse debt is reflected in our consolidated balance sheets. See Note 4 for a discussion of lease impairment charges.

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

(dollars in millions)

At December 31,	2003			2002		
	Leveraged Leases	Direct Finance Leases	Total	Leveraged Leases	Direct Finance Leases	Total
Minimum lease payments receivable	$ 4,381	$ 254	$ 4,635	$ 3,881	$ 260	$ 4,141
Estimated residual value	2,432	31	2,463	2,556	35	2,591
Unearned income	(2,782)	(56)	(2,838)	(2,426)	(41)	(2,467)
	$ 4,031	$ 229	4,260	$ 4,011	$ 254	4,265
Allowance for doubtful accounts			(423)			(214)
Finance lease receivables, net			$ 3,837			$ 4,051
Current			$ 51			$ 49
Noncurrent			$ 3,786			$ 4,002

Accumulated deferred taxes arising from leveraged leases, which are included in Deferred Income Taxes, amounted to $3,297 million at December 31, 2003 and $3,282 million at December 31, 2002.

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

Years Ended December 31,		2003		2002		2001
						(dollars in millions)
Pretax lease income	$	**108**	$	110	$	64
Income tax expense/(benefit)		**11**		17		(32)
Investment tax credits		**3**		3		3

The future minimum lease payments to be received from noncancelable leases, net of nonrecourse loan payments related to leveraged and direct financing leases in excess of debt service requirements, for the periods shown at December 31, 2003, are as follows:

Years	Capital Leases	Operating Leases
		(dollars in millions)
2004	$ 159	$ 35
2005	155	28
2006	106	26
2007	124	20
2008	168	14
Thereafter	3,923	39
Total	$ 4,635	$ 162

As Lessee

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense from continuing operations under operating leases amounted to $1,339 million in 2003, $1,259 million in 2002 and $1,258 million in 2001.

Capital lease amounts included in plant, property and equipment are as follows:

At December 31,		2003		2002
				(dollars in millions)
Capital leases	$	**558**	$	544
Accumulated amortization		**(354)**		(368)
Total	$	**204**	$	176

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2003, are as follows:

Years	Capital Leases	Operating Leases
		(dollars in millions)
2004	$ 103	$ 909
2005	37	822
2006	29	877
2007	22	521
2008	16	397
Thereafter	97	1,127
Total minimum rental commitments	304	$ 4,653
Less interest and executory costs	(64)	
Present value of minimum lease payments	240	
Less current installments	(83)	
Long-term obligation at December 31, 2003	$ 157	

As of December 31, 2003, the total minimum sublease rentals to be received in the future under noncancelable operating and capital subleases were $50 million and $4 million, respectively.

NOTE [illegible]

DEBT

Debt Maturing Within One Year

Debt maturing within one year is as follows:

At December 31,	2003	2002
		(dollars in millions)
Notes payable		
Commercial paper	**$ 767**	$ 2,057
Bank loans	**20**	40
Short-term notes	**–**	4
Long-term debt maturing within one year	**5,180**	7,166
Total debt maturing within one year	**$ 5,967**	$ 9,267
Weighted-average interest rates for notes payable outstanding at year-end	**1.9%**	1.4%

The weighted average interest rates for our domestic notes payable at year-end were 1.1% and 1.4% at December 31, 2003 and 2002, respectively.

Capital expenditures (primarily construction of telephone plant) are partially financed, pending long-term financing, through bank loans and the issuance of commercial paper payable within 12 months.

At December 31, 2003, we had approximately $5.9 billion of unused bank lines of credit. Certain of these lines of credit contain requirements for the payment of commitment fees.

Long-Term Debt

Outstanding long-term debt obligations are as follows:

At December 31,	Interest Rates %	Maturities	2003	(dollars in millions) 2002
Notes payable	1.24 – 10.05	2004 – 2032	**$ 17,364**	$ 16,974
Telephone subsidiaries – debentures and first/refunding mortgage bonds	2.00 – 7.00	2004 – 2042	**13,417**	13,492
	7.15 – 7.65	2006 – 2032	**3,625**	3,315
	7.85 – 9.67	2010 – 2031	**2,184**	2,288
Other subsidiaries – debentures and other	6.36 – 8.75	2004 – 2028	**3,926**	4,895
Zero-coupon convertible notes, net of unamortized discount of $2,198 and $2,293	3.00% yield	2021	**3,244**	3,149
Employee stock ownership plan loans:				
GTE guaranteed obligations	9.73	2005	**119**	222
NYNEX debentures	9.55	2010	**175**	203
Capital lease obligations (average rate 7.9% and 8.2%) and other lease-related debt (average rate 6.0% and 4.8%)			**521**	1,269
Exchangeable notes, net of unamortized discount of $90			**–**	5,204
Property sale holdbacks held in escrow, vendor financing and other	4.00 – 6.00	2004 – 2005	**99**	241
Unamortized discount, net of premium			**(81)**	(83)
Total long-term debt, including current maturities			**44,593**	51,169
Less: debt maturing within one year			**(5,180)**	(7,166)
Total long-term debt			**$ 39,413**	$ 44,003

Telephone Subsidiaries' Debt

The telephone subsidiaries' debentures outstanding at December 31, 2003 include $825 million that are callable. The call prices range from 100.0% to 103.7% of face value, depending upon the remaining term to maturity of the issue. In addition, our refunding mortgage bond issuance and first mortgage bonds of $305 million are secured by certain telephone operations assets.

See Note 21 for additional information about guarantees of subsidiary debt.

Zero-Coupon Convertible Notes

In May 2001, Verizon Global Funding Corp. (Verizon Global Funding) issued approximately $5.4 billion in principal amount at maturity of zero-coupon convertible notes due 2021, resulting in gross proceeds of approximately $3 billion. The notes are convertible into shares of our common stock at an initial price of $69.50 per share if the closing price of Verizon common stock on the New York Stock Exchange exceeds specified levels or in other specified circumstances. The conversion price increases by at least 3% a year. The initial conversion price represents a 25% premium over the May 8, 2001 closing price of $55.60 per share. There are no scheduled cash interest payments associated with the notes. The zero-coupon convertible notes are callable by Verizon Global Funding on or after May 15, 2006. In addition, the notes are redeemable at the option of the holders on May 15th in each of the years 2004, 2006, 2011 and 2016. As of December 31, 2003, the zero-coupon notes were classified as long-term debt maturing within one year since they are redeemable on May 15, 2004.

Exchangeable Notes

Previously, Verizon Global Funding issued two series of notes: $2,455 million of 5.75% senior exchangeable notes due on April 1, 2003 that were exchangeable into shares of TCNZ (the 5.75% Notes) and $3,180 million of 4.25% senior exchangeable notes due on September 15, 2005 that, in connection with a restructuring of Cable & Wireless Communications plc in 2000 and the bankruptcy of NTL in 2002, were exchangeable into shares of C&W and a combination of shares and warrants in the reorganized NTL entities (the 4.25% Notes).

On April 1, 2003, all of the outstanding $2,455 million principal amount of the 5.75% Notes were redeemed at maturity. On March 15, 2003, Verizon Global Funding redeemed all of the outstanding 4.25% Notes. The cash redemption price for the 4.25% Notes was $1,048.29 for each $1,000 principal amount of the notes. The principal amount of the 4.25% Notes outstanding, before unamortized discount, at the time of redemption, was $2,839 million.

The 5.75% Notes and the 4.25% Notes were indexed to the fair market value of the exchange property into which they are exchangeable. At December 31, 2002 and 2001, the exchange prices of each of the 5.75% Notes and the 4.25% Notes exceeded the fair market value of the exchange property. Consequently, the notes were recorded at their amortized carrying value with no mark-to-market adjustments.

Support Agreements

All of Verizon Global Funding's debt has the benefit of Support Agreements between us and Verizon Global Funding, which give holders of Verizon Global Funding debt the right to proceed directly against us for payment of interest, premium (if any) and principal outstanding should Verizon Global Funding fail to pay. The holders of Verizon Global Funding debt do not have recourse to the stock or assets of most of our telephone operations; however, they do have recourse to dividends paid to us by any of our consolidated subsidiaries as well as assets not covered by the exclusion. Verizon Global Funding's long-term debt, including current portion, aggregated $15,281 million at December 31, 2003. The carrying value of the available assets reflected in our consolidated balance sheets was approximately $56.8 billion at December 31, 2003.

Debt Covenants

Verizon and its consolidated subsidiaries are in compliance with all of their debt covenants.

Maturities of Long-Term Debt

Maturities of long-term debt outstanding at December 31, 2003 are $5.2 billion in 2004, $5.5 billion in 2005, $3.9 billion in 2006, $2.5 billion in 2007, $2.5 billion in 2008 and $25.1 billion thereafter. These amounts include the debt, redeemable at the option of the holder, at the earliest redemption dates.

NOTE 12

FINANCIAL INSTRUMENTS

Derivatives

The ongoing effect of SFAS No. 133 and related amendments and interpretations on our consolidated financial statements will be determined each quarter by several factors, including the specific hedging instruments in place and their relationships to hedged items, as well as market conditions at the end of each period. For the years ended December 31, 2003, 2002 and 2001, we recorded charges of $11 million, $14 million and $182 million, respectively, and losses of $21 million, gains of $12 million and losses of $43 million to other comprehensive income (loss), respectively.

Interest Rate Risk Management

We have entered into domestic interest rate swaps, to achieve a targeted mix of fixed and variable rate debt, where we principally receive fixed rates and pay variable rates based on LIBOR. These swaps hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value in our balance sheet as assets and liabilities and adjust debt for the change in its fair value due to changes in interest rates. The ineffective portions of these hedges were immaterial to our operating results in all periods presented.

Foreign Exchange Risk Management

Our foreign exchange risk management includes the use of foreign currency forward contracts and cross currency interest rate swaps with foreign currency forwards. These contracts are typically used to hedge short-term foreign currency transactions and commitments, or to offset foreign exchange gains or losses on the foreign currency obligations and are designated as cash flow hedges. The contracts have maturities ranging from approximately two months to 16 months. We record these contracts at fair value as assets or liabilities and the related gains or losses are deferred in shareowners' investment as a component of other comprehensive income (loss). We have recorded losses of $21 million, gains of $12 million and losses of $43 million in other comprehensive income (loss) for the years ended December 31, 2003, 2002 and 2001, respectively.

Other Derivatives

In 2001 and 2000, we invested a total of $1,025 million in MFN's convertible debt securities. The conversion options on the MFN debt securities had, as their underlying risk, changes in the MFN stock price. This risk was not clearly and closely related to the change in interest rate risk underlying the debt securities. Under the provisions of SFAS No. 133 and related amendments and interpretations, we were required to separate the conversion options, considered embedded derivatives, from the debt securities in order to account for changes in the fair value of the conversion options separately from changes in the fair value of the debt securities. The fair value of the conversion options were recognized as assets in our balance sheet and we recorded the mark-to-market adjustment in earnings. The fair value of the debt securities and the conversion options were recorded in Investments in Unconsolidated Businesses in the consolidated balance sheets. A net charge of $186 million related to the conversion options was included as part of the cumulative effect of the accounting change recorded on January 1, 2001. A net charge of $163 million was recorded as a mark-to-market adjustment for the year ended December 31, 2001. As of December 31, 2001, the value of the conversion options in our consolidated balance sheet was approximately $48 million. During 2002, we wrote-off the value of the conversion options due to the other than temporary decline in market value of our investment in MFN and recorded the charge of $48 million in Income (Loss) from Other Unconsolidated Businesses.

In addition, we previously entered into several other contracts and similar arrangements that require fair value accounting under the provisions of SFAS No. 133 and related amendments and interpretations. A net gain of $4 million was recorded as the cumulative effect of an accounting change on January 1, 2001. We recorded charges of $13 million, $15 million and $19 million as mark-to-market adjustments related to these instruments for the years ended December 31, 2003, 2002 and 2001, respectively.

Concentrations of Credit Risk

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

Fair Values of Financial Instruments

The tables that follow provide additional information about our significant financial instruments:

Financial Instrument	Valuation Method
Cash and cash equivalents and short-term investments	Carrying amounts
Short- and long-term debt (excluding capital leases and exchangeable notes)	Market quotes for similar terms and maturities or future cash flows discounted at current rates
Exchangeable notes	Market quotes
Cost investments in unconsolidated businesses and notes receivable	Future cash flows discounted at current rates, market quotes for similar instruments or other valuation models

(dollars in millions)

At December 31,	2003 Carrying Amount	2003 Fair Value	2002 Carrying Amount	2002 Fair Value
Short- and long-term debt	$ 45,140	$ 48,685	$ 47,825	$ 51,395
Exchangeable notes	–	–	5,204	5,239
Cost investments in unconsolidated businesses	174	174	202	202
Notes receivable, net	129	129	175	175

In 2003, all of the exchangeable notes were redeemed (see Note 11).

NOTE 13

EARNINGS PER SHARE AND SHAREOWNERS' INVESTMENT

Earnings Per Share

The following table is a reconciliation of the numerators and denominators used in computing earnings per share:

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

Years Ended December 31,	2003	2002	2001
Net Income Used For Basic Earnings Per Common Share			
Income before discontinued operations and cumulative effect of accounting change	$ 3,509	$ 4,661	$ 584
Loss on discontinued operations, net of tax	(935)	(86)	(13)
Cumulative effect of accounting change, net of tax	503	(496)	(182)
Net income	$ 3,077	$ 4,079	$ 389
Net Income Used For Diluted Earnings Per Common Share			
Income before discontinued operations and cumulative effect of accounting change	$ 3,509	$ 4,661	$ 584
After-tax minority interest expense related to exchangeable equity interest	21	7	–
Income before discontinued operations and cumulative effect of accounting change – after assumed conversion of dilutive securities	3,530	4,668	584
Loss on discontinued operations, net of tax	(935)	(86)	(13)
Cumulative effect of accounting change, net of tax	503	(496)	(182)
Net income – after assumed conversion of dilutive securities	$ 3,098	$ 4,086	$ 389
Basic Earnings Per Common Share(1)			
Weighted-average shares outstanding – basic	2,756	2,729	2,710
Income before discontinued operations and cumulative effect of accounting change	$ 1.27	$ 1.71	$ .22
Loss on discontinued operations, net of tax	(.34)	(.03)	–
Cumulative effect of accounting change, net of tax	.18	(.18)	(.07)
Net income	$ 1.12	$ 1.49	$ .14
Diluted Earnings Per Common Share(1)			
Weighted-average shares outstanding	2,756	2,729	2,710
Effect of dilutive securities:			
Stock options	5	6	20
Exchangeable equity interest	28	10	–
Weighted-average shares – diluted	2,789	2,745	2,730
Income before discontinued operations and cumulative effect of accounting change	$ 1.27	$ 1.70	$ .21
Loss on discontinued operations, net of tax	(.34)	(.03)	–
Cumulative effect of accounting change, net of tax	.18	(.18)	(.07)
Net income	$ 1.11	$ 1.49	$ .14

(1) Total per share amounts may not add due to rounding.

Certain outstanding options to purchase shares were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive for the period, including approximately 248 million shares during 2003, 228 million shares during 2002 and 116 million shares during 2001.

The diluted earnings per share calculation considers the assumed conversion of an exchangeable equity interest (see Note 9).

Shareowners' Investment

Our certificate of incorporation provides authority for the issuance of up to 250 million shares of Series Preferred Stock, $.10 par value, in one or more series, with such designations, preferences, rights, qualifications, limitations and restrictions as the Board of Directors may determine.

We are authorized to issue up to 4.25 billion shares of common stock.

On March 1, 2000, our Board of Directors authorized a two-year share buyback program for the repurchase of up to 80 million shares of common stock in the open market. On January 24, 2002, our Board of Directors approved the extension of the stock repurchase program to the earlier of the date on which the aggregate number of shares purchased under the program reached 80 million shares, or the close of business on February 29, 2004. Through December 31, 2003, we repurchased 36 million Verizon common shares, principally under this program.

On January 22, 2004, the Board of Directors authorized the repurchase of up to 80 million common shares terminating no later than the close of business on February 28, 2006. The Board of Directors also determined that no additional common shares may be purchased under the previous program.

[illegible]

STOCK INCENTIVE PLANS

We determined stock-option related employee compensation expense for 2003 and the pro forma amounts for prior years (see Note 2) using the Black-Scholes option-pricing model based on the following weighted-average assumptions:

	2003	2002	2001
Dividend yield	**4.0%**	3.2%	2.7%
Expected volatility	**30.9**	28.5	29.1
Risk-free interest rate	**3.4**	4.6	4.8
Expected lives (in years)	**6**	6	6

The weighted-average value of options granted during 2003, 2002 and 2001 was $8.41, $12.11 and $15.24, respectively.

Our stock incentive plans are described below:

Fixed Stock Option Plans

We have fixed stock option plans for substantially all employees. Options to purchase common stock were granted at a price equal to the market price of the stock at the date of grant. The options generally vest over three years and have a maximum term of ten years.

This table summarizes our fixed stock option plans:

	Stock Options (in thousands)	Weighted-Average Exercise Price
Outstanding, January 1, 2001	232,568	$ 45.58
Granted	34,217	55.93
Exercised	(15,358)	35.64
Canceled/forfeited	(6,219)	47.82
Outstanding, December 31, 2001	245,208	47.60
Granted	31,206	48.57
Exercised	(7,417)	28.15
Canceled/forfeited	(7,560)	43.62
Outstanding, December 31, 2002	261,437	48.32
Granted	22,207	38.94
Exercised	(4,634)	31.29
Canceled/forfeited	(7,917)	47.87
Outstanding, December 31, 2003	271,093	47.86
Options exercisable, December 31,		
2001	131,924	45.29
2002	162,620	48.37
2003	233,374	48.27

The following table summarizes information about fixed stock options outstanding as of December 31, 2003:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Shares (in thousands)	Weighted-Average Remaining Life	Weighted-Average Exercise Price	Shares (in thousands)	Weighted-Average Exercise Price
$ 20.00 - 29.99	6,756	.85 years	$ 25.88	6,729	$ 25.88
30.00 - 39.99	46,633	5.62	36.55	29,520	35.42
40.00 - 49.99	105,625	6.52	45.33	91,616	44.82
50.00 - 59.99	110,163	6.04	56.16	103,593	56.16
60.00 - 69.99	1,916	5.77	62.44	1,916	62.44
Total	271,093	6.02	47.86	233,374	48.27

Performance-Based Shares

In 2003, stock compensation awards consisted of stock options and performance-based stock units that vest over a period of three years. This was the first grant of performance based shares since 2000, when certain key Verizon employees were granted restricted stock units that vest over a three to five year period.

The number of shares accrued for the performance-based share programs was 6,707,000, 2,861,000 and 4,507,000 at December 31, 2003, 2002 and 2001, respectively.

NOTE 16

EMPLOYEE BENEFITS

We maintain noncontributory defined benefit pension plans for substantially all employees. The postretirement health care and life insurance plans for our retirees and their dependents are both contributory and noncontributory and include a limit on the company's share of cost for certain recent and future retirees. We also sponsor defined contribution savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis. We use a measurement date of December 31 for the majority of our pension and postretirement health care and life insurance plans.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for many of our employees are subject to collective bargaining agreements. Modifications in benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans.

The following tables summarize benefit costs, as well as the benefit obligations, plan assets, funded status and rate assumptions associated with pension and postretirement health care and life insurance benefit plans.

Obligations and Funded Status

(dollars in millions)

	Pension		Health Care and Life	
At December 31,	2003	2002	2003	2002
Change in Benefit Obligation				
Beginning of year	$ 37,908	$ 36,391	$ 17,431	$ 14,310
Service cost	788	718	176	126
Interest cost	2,439	2,488	1,204	1,066
Plan amendments	854	114	3,543	–
Actuarial loss, net	1,214	2,560	3,024	2,253
Benefits paid	(3,925)	(3,356)	(1,316)	(1,183)
Termination benefits	2,588	286	508	21
Acquisitions and divestitures, net	23	885	–	404
Settlements and curtailments	(900)	(2,256)	–	434
Other	54	78	22	–
End of year	41,043	37,908	24,592	17,431
Change in Plan Assets				
Beginning of year	38,676	48,558	3,992	4,720
Actual return on plan assets	8,671	(4,678)	777	(464)
Company contributions	285	157	1,014	919
Benefits paid	(3,925)	(3,356)	(1,316)	(1,183)
Settlements	(900)	(2,536)	–	–
Acquisitions and divestitures, net	34	531	–	–
End of year	42,841	38,676	4,467	3,992
Funded Status				
End of year	1,798	768	(20,125)	(13,439)
Unrecognized				
Actuarial loss, net	5,079	8,295	6,964	4,412
Prior service (benefit) cost	1,512	752	2,797	(892)
Transition asset	(3)	(44)	20	23
Net amount recognized	$ 8,386	$ 9,771	$ (10,344)	$ (9,896)
Amounts recognized on the balance sheet				
Prepaid pension cost (in Other Assets)	$ 12,332	$ 12,794	$ –	$ –
Employee benefit obligation	(5,397)	(4,540)	(10,344)	(9,896)
Other assets	511	72	–	–
Minority interest	79	71	–	–
Accumulated other comprehensive loss	861	1,374	–	–
Net amount recognized	$ 8,386	$ 9,771	$ (10,344)	$ (9,896)

Changes in benefit obligations were caused by factors including changes in actuarial assumptions (see "Assumptions"), special termination benefits, settlements and curtailments. As a result of extending and increasing limits (caps) on company payments toward retiree health care costs in connection with the union contracts ratified in the fourth quarter of 2003, we began recording retiree health care costs as if there were no caps in the fourth quarter of 2003 relative to these union contracts. This increased our postretirement benefits obligation by $5,158 million.

In 2003 and 2002, Verizon reduced its workforce using its employee severance plans (see Note 4). Additionally, in 2003, 2002 and 2001, several of the pension plans' lump-sum pension distributions surpassed the settlement threshold equal to the sum of service cost and interest cost requiring settlement recognition for all cash settlements for each of those years.

The accumulated benefit obligation for all defined benefit pension plans was $39,012 million and $35,999 million at December 31, 2003 and 2002, respectively.

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

(dollars in millions)

At December 31,	2003	2002
Projected benefit obligation	**$ 12,579**	$ 11,743
Accumulated benefit obligation	**12,061**	11,484
Fair value of plan assets	**7,828**	7,409

Net Periodic Cost

(dollars in millions)

	Pension			Health Care and Life		
Years Ended December 31,	2003	2002	2001	2003	2002	2001
Service cost	**$ 788**	$ 718	$ 665	**$ 176**	$ 126	$ 128
Interest cost	**2,439**	2,488	2,490	**1,204**	1,066	965
Expected return on plan assets	**(4,153)**	(4,883)	(4,811)	**(430)**	(476)	(461)
Amortization of transition asset	**(41)**	(109)	(112)	**2**	2	–
Amortization of prior service cost	**22**	(4)	(44)	**(16)**	(89)	(26)
Actuarial loss (gain), net	**(337)**	(707)	(878)	**137**	70	(78)
Net periodic benefit (income) cost	**(1,282)**	(2,497)	(2,690)	**1,073**	699	528
Termination benefits	**2,588**	286	813	**508**	21	–
Settlement loss	**229**	237	35	**–**	–	–
Curtailment (gain) loss and other, net	**62**	312	(13)	**(130)**	441	–
Subtotal	**2,879**	835	835	**378**	462	–
Total (income) cost	**$ 1,597**	$ (1,662)	$ (1,855)	**$ 1,451**	$ 1,161	$ 528

Additional Information

We evaluate each pension plan to determine whether any additional minimum liability is required. As a result of changes in interest rates and changes in investment returns, an adjustment to the additional minimum pension liability was required for a small number of plans. The adjustment in the liability is recorded as a charge or (credit) to Accumulated Other Comprehensive Loss, net of tax, in shareowners' investment in the consolidated balance sheets.

(dollars in millions)

Years Ended December 31,	2003	2002	2001
Increase (decrease) in minimum liability included in other comprehensive income, before tax	**$ (513)**	$ 1,342	$ (20)

Assumptions

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

	Pension		Health Care and Life	
At December 31,	2003	2002	2003	2002
Discount rate	**6.25%**	6.75%	**6.25%**	6.75%
Rate of future increases in compensation	**5.00**	5.00	**4.00**	4.00

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

	Pension			Health Care and Life		
Years Ended December 31,	2003	2002	2001	2003	2002	2001
Discount rate	**6.75%**	7.25%	7.75%	**6.75%**	7.25%	7.75%
Expected return on plan assets	**8.50**	9.25	9.25	**8.50**	9.10	9.10
Rate of compensation increase	**5.00**	5.00	5.00	**4.00**	4.00	4.00

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, or longer. Those estimates are based on a combination of factors including the following: observable current market interest rates, consensus earnings expectations, historical long-term performance and value-added, and the use of conventional 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 projected long-term results are then also compared to the investment return earned over the previous 10 years.

The assumed Health Care Cost Trend Rates follows:

At December 31,	Health Care and Life 2003	2002	2001
Health care cost trend rate assumed for next year	**10.00%**	11.00%	10.00%
Rate to which cost trend rate gradually declines	**5.00**	5.00	5.00
Year the rate reaches level it is assumed to remain thereafter	**2008**	2007	2005

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

(dollars in millions)

One-Percentage-Point	Increase	Decrease
Effect on 2003 total service and interest cost	$ 121	$ (100)
Effect on postretirement benefit obligation as of December 31, 2003	1,780	(1,482)

Medicare Drug Act

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Drug Act) was signed into law. The Medicare Drug Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. We sponsor several postretirement health care plans that provide prescription drug benefits that are deemed actuarially equivalent to the Medicare Part D and have elected to recognize the impact of the federal subsidy on our accumulated postretirement benefit obligation and net postretirement benefit costs for 2003. We anticipate the recognition of the Medicare Drug Act to decrease our accumulated postretirement benefit obligation by $1,256 million and have reduced our net postretirement benefit cost for 2003 by $13 million. In 2004, our net postretirement benefit cost will be reduced by approximately $200 million. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could impact our current accounting for the effects of the Medicare Drug Act.

Plan Assets

Pension Plans

The weighted-average asset allocations for the pension plans by asset category follows:

At December 31,	2003	2002
Asset Category		
Equity securities	**55.9%**	59.6%
Debt securities	**17.3**	22.4
Real estate	**3.3**	4.5
Other	**23.5**	13.5
Total	**100.0%**	100.0%

Equity securities include Verizon common stock in the amounts of $97 million (less than 1% of total plan assets) and $115 million (less than 1% of total plan assets) at December 31, 2003 and 2002, respectively. Other assets include cash and cash equivalents (primarily used for the payment of benefits), private equity and absolute return strategies. At December 31, 2003, other assets included $4,343 million for 2004 payments related to the fourth quarter 2003 voluntary separation plan.

Health Care and Life Plans

The weighted asset allocations for the other postretirement benefit plans by asset category follows:

At December 31,	2003	2002
Asset Category		
Equity securities	**64.5%**	61.4%
Debt securities	**27.2**	29.3
Real estate	**0.1**	0.1
Other	**8.2**	9.2
Total	**100.0%**	100.0%

Equity securities include Verizon common stock in the amounts of $8 million (less than 1% of total plan assets) and $9 million (less than 1% of total plan assets) at December 31, 2003 and 2002, respectively.

The portfolio strategy emphasizes a long-term equity orientation, significant global diversification, the use of both public and private investments and professional financial and operational risk controls. Assets are allocated according to a long-term policy neutral position and held within a relatively narrow and pre-determined range. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors. Derivatives are also used primarily as a means for effectively controlling the portfolio's targeted asset mix.

Cash Flows

In 2004, we expect to contribute $266 million to our qualified pension trusts, including $138 million for TELPRI, $161 million to our other nonqualified pension plans and $1,149 million to our other postretirement benefit plans in 2004. In 2003, we contributed $126 million to our qualified pension trusts, including $122 million for TELPRI, $159 million to our nonqualified pension plans and $1,014 million to our other postretirement benefit plans.

Estimated Future Benefit Payments

The benefit payments to retirees, which reflect expected future service, are expected to be paid as follows:

(dollars in millions)

	Pension Benefits	Health Care and Life
2004	$ 8,925	$ 1,557
2005	2,564	1,594
2006	2,602	1,537
2007	2,589	1,561
2008	2,613	1,591
2009 – 2013	17,369	8,258

Expected pension benefit payments in 2004 include $6,328 million related to the fourth quarter 2003 voluntary separation plan.

Savings Plan and Employee Stock Ownership Plans

We maintain four leveraged employee stock ownership plans (ESOP). Under these plans, we match a certain percentage of eligible employee contributions to the savings plans with shares of our common stock from these ESOPs. Common stock is allocated from all leveraged ESOP trusts based on the proportion of principal and interest paid on ESOP debt in a year to the remaining principal and interest due over the term of the debt. At December 31, 2003, the number of unallocated and allocated shares of common stock was 10 million and 71 million, respectively. All leveraged ESOP shares are included in earnings per share computations.

We recognize leveraged ESOP cost based on the modified shares allocated method for two leveraged ESOP trusts which purchased securities before December 15, 1989 and the shares allocated method for the other leveraged ESOP trust which purchased securities after December 15, 1989.

ESOP cost and trust activity consist of the following:

(dollars in millions)

Years Ended December 31,	2003	2002	2001
Compensation	$ 148	$ 143	$ 121
Interest incurred	22	30	61
Dividends	(24)	(29)	(36)
Net leveraged ESOP cost	146	144	146
Additional ESOP cost	127	120	90
Total ESOP cost	$ 273	$ 264	$ 236
Dividends received for debt service	$ 76	$ 80	$ 87
Total company contributions to leveraged ESOP trusts	$ 306	$ 280	$ 259

In addition to the ESOPs described above, we maintain savings plans for non-management employees and employees of certain subsidiaries. Compensation expense associated with these savings plans was $220 million in 2003, $212 million in 2002 and $252 million in 2001.

Severance Benefits

The following table provides an analysis of our severance liability recorded in accordance with SFAS Nos. 112 and 146:

(dollars in millions)

Year	Beginning of Year	Charged to Expense	Payments	Other	End of Year
2001	$ 319	$ 819	$ (38)	$ –	$ 1,100
2002	1,100	707	(691)	21	1,137
2003	**1,137**	**1,985**	**(857)**	**–**	**2,265**

The remaining severance liability includes future contractual payments to employees separated as of December 31, 2003.

NOTE 16

INCOME TAXES

The components of income tax expense from continuing operations are as follows:

(dollars in millions)

Years Ended December 31,	2003	2002	2001
Current			
Federal	$ 87	$ (647)	$ 750
Foreign	72	45	56
State and local	267	495	257
	426	(107)	1,063
Deferred			
Federal	820	1,477	899
Foreign	18	(13)	2
State and local	(2)	255	232
	836	1,719	1,133
Investment tax credits	(10)	(15)	(49)
Total income tax expense	$ 1,252	$ 1,597	$ 2,147

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,	2003	2002	2001
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income tax, net of federal tax benefits	3.6	7.8	11.6
Tax benefits from investment losses	(3.0)	(17.2)	40.7
Equity in earnings (loss) from unconsolidated businesses	(10.4)	(3.1)	(11.2)
Other, net	1.1	3.0	2.5
Effective income tax rate	26.3%	25.5%	78.6%

The favorable impact on our 2003 effective income tax rate was primarily driven by increased earnings from our unconsolidated businesses.

The effective income tax rates in 2002 and 2001 were both impacted by losses resulting from the other than temporary decline in market value of our investments during those years. Tax benefits recognized in 2002 favorably impacted our 2002 effective income tax rate. In 2001, tax benefits on those losses were not available and, consequently, had an unfavorable impact on the 2001 effective income tax rate.

Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Significant components of deferred tax liabilities (assets) are shown in the following table:

(dollars in millions)

At December 31,	2003	2002
Depreciation	$ 9,722	$ 7,314
Employee benefits	(1,578)	(427)
Leasing activity	3,064	3,109
Loss on investments	(1,004)	(388)
Wireless joint venture including wireless licenses	9,977	9,251
Uncollectible accounts receivable	(740)	(704)
Other – net	(1,245)	(425)
	18,196	17,730
Valuation allowance	1,463	661
Net deferred tax liability	$ 19,659	$ 18,391
Net long-term deferred tax liabilities	$ 21,708	$ 19,467
Less net current deferred tax assets (in Prepaid Expenses and Other)	1,905	918
Less deferred investment tax credit	144	158
Net deferred tax liability	$ 19,659	$ 18,391

At December 31, 2003, undistributed earnings of our foreign subsidiaries amounted to approximately $3.4 billion. Deferred income taxes are not provided on these earnings as it is intended that the earnings are indefinitely invested outside of the U.S. It is not practical to estimate the amount of taxes that might be payable upon the remittance of such earnings.

The valuation allowance primarily represents the tax benefits of certain state net operating loss carry forwards and other deferred tax assets which may expire without being utilized. During 2003, the valuation allowance increased $802 million. This increase primarily relates to the sale or write-down of investments for which tax benefits may not be realized.

NOTE 17

SEGMENT INFORMATION

Reportable Segments

We have four reportable segments, which we operate and manage as strategic business units and organize by products and services. We measure and evaluate our reportable segments based on segment income. This segment income excludes unallocated corporate expenses and other adjustments arising during each period. The other adjustments include transactions that the chief operating decision makers exclude in assessing business unit performance due primarily to their non-operational and/or non-recurring 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, since these items are included in the chief operating decision makers' assessment of unit performance. These are mostly contained in Information Services and International since they actively manage investment portfolios.

Our segments and their principal activities consist of the following:

Domestic Telecom
Domestic wireline communications services, principally representing our telephone operations that provide local telephone services in 29 states and the District of Columbia. These services include voice and data transport, enhanced and custom calling features, network access, directory assistance, private lines and public telephones. This segment also provides long distance services, customer premises equipment distribution, data solutions and systems integration, billing and collections, Internet access services and inventory management services.

Domestic Wireless
Domestic wireless products and services include wireless voice and data services and equipment sales across the United States.

Information Services
Domestic and international publishing businesses, including print SuperPages® and electronic SuperPages.com™ directories, as well as website creation and other electronic commerce services. This segment has operations principally in North America and Latin America.

International
International wireline and wireless communications operations and investments primarily in the Americas, as well as investments in Europe.

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

(dollars in millions)

2003	Domestic Telecom	Domestic Wireless	Information Services	International	Total Segments
External revenues	$ 38,828	$ 22,436	$ 4,114	$ 1,921	$ 67,299
Intersegment revenues	774	53	–	28	855
Total operating revenues	39,602	22,489	4,114	1,949	68,154
Cost of services and sales	14,708	6,460	641	574	22,383
Selling, general & administrative expense	8,517	8,057	1,505	691	18,770
Depreciation & amortization expense	9,217	3,888	89	346	13,540
Sales of businesses, net	–	–	(141)	–	(141)
Total operating expenses	32,442	18,405	2,094	1,611	54,552
Operating income	7,160	4,084	2,020	338	13,602
Equity in earnings (loss) of unconsolidated businesses	–	15	(1)	1,091	1,105
Income (loss) from other unconsolidated businesses	(4)	–	–	169	165
Other income and (expense), net	47	12	7	32	98
Interest expense	(1,682)	(626)	(38)	(160)	(2,506)
Minority interest	–	(1,554)	(8)	(20)	(1,582)
Provision for income taxes	(2,186)	(848)	(774)	(58)	(3,866)
Segment income	$ 3,335	$ 1,083	$ 1,206	$ 1,392	$ 7,016
Assets	$ 82,087	$ 65,166	$ 2,431	$ 11,872	$ 161,556
Investments in unconsolidated businesses	64	288	4	4,555	4,911
Capital expenditures	6,820	4,590	84	358	11,852
2002					
External revenues	$ 40,260	$ 19,424	$ 4,287	$ 2,191	$ 66,162
Intersegment revenues	579	49	–	28	656
Total operating revenues	40,839	19,473	4,287	2,219	66,818
Cost of services and sales	13,390	5,456	688	586	20,120
Selling, general & administrative expense	9,048	7,084	1,411	610	18,153
Depreciation & amortization expense	9,456	3,293	74	376	13,199
Total operating expenses	31,894	15,833	2,173	1,572	51,472
Operating income	8,945	3,640	2,114	647	15,346
Equity in earnings of unconsolidated businesses	–	13	1	644	658
Income from other unconsolidated businesses	–	–	–	218	218
Other income and (expense), net	84	28	11	61	184
Interest expense	(1,745)	(626)	(35)	(238)	(2,644)
Minority interest	–	(1,349)	(16)	(102)	(1,467)
Provision for income taxes	(2,920)	(740)	(794)	(78)	(4,532)
Segment income	$ 4,364	$ 966	$ 1,281	$ 1,152	$ 7,763
Assets	$ 82,257	$ 63,470	$ 4,319	$ 11,955	$ 162,001
Investments in unconsolidated businesses	70	289	9	3,603	3,971
Capital expenditures	8,004	4,414	167	421	13,006

(dollars in millions)

2001	Domestic Telecom	Domestic Wireless	Information Services	International	Total Segments
External revenues	$ 41,670	$ 17,519	$ 4,267	$ 1,572	$ 65,028
Intersegment revenues	478	41	46	9	574
Total operating revenues	42,148	17,560	4,313	1,581	65,602
Cost of services and sales	14,313	5,085	743	398	20,539
Selling, general & administrative expense	9,402	6,461	1,218	610	17,691
Depreciation & amortization expense	9,260	3,709	79	278	13,326
Total operating expenses	32,975	15,255	2,040	1,286	51,556
Operating income	9,173	2,305	2,273	295	14,046
Equity in earnings of unconsolidated businesses	4	5	–	823	832
Income from other unconsolidated businesses	–	–	–	98	98
Other income and (expense), net	157	5	17	92	271
Interest expense	(1,810)	(577)	(39)	(323)	(2,749)
Minority interest	–	(788)	(7)	63	(732)
Provision for income taxes	(3,015)	(413)	(892)	(34)	(4,354)
Segment income	$ 4,509	$ 537	$ 1,352	$ 1,014	$ 7,412
Assets	$ 83,978	$ 60,262	$ 4,160	$ 15,119	$ 163,519
Investments in unconsolidated businesses	69	285	10	7,315	7,679
Capital expenditures	12,731	5,080	156	310	18,277

Reconciliation To Consolidated Financial Information

A reconciliation of the results for the operating segments to the applicable line items in the consolidated financial statements is as follows:

(dollars in millions)

	2003	2002	2001
Operating Revenues			
Total reportable segments	$ 68,154	$ 66,818	$ 65,602
Non-strategic access line sales	–	623	997
Corporate, eliminations and other	(402)	(137)	114
Consolidated operating revenues – reported	$ 67,752	$ 67,304	$ 66,713
Operating Expenses			
Total reportable segments	$ 54,552	$ 51,472	$ 51,556
Non-strategic access line sales	–	241	413
Sales of businesses and investments, net (see Notes 3, 5 and 8)	300	(2,747)	350
Transition costs (see Note 4)	–	510	1,039
Severance, pension and benefit charges (see Note 4)	5,523	1,949	1,597
Investment-related charges (see Notes 5 and 8)	–	732	705
NorthPoint settlement (see Note 4)	–	175	–
MCI exposure, lease impairment and other special items (see Note 4)	496	593	151
International restructuring (see Note 4)	–	–	35
Corporate, eliminations and other	(613)	(625)	(606)
Consolidated operating expenses – reported	$ 60,258	$ 52,300	$ 55,240
Net Income			
Segment income – reportable segments	$ 7,016	$ 7,763	$ 7,412
Sales of businesses and investments, net (see Notes 3, 5 and 8)	44	1,895	(226)
Transition costs (see Note 4)	–	(288)	(578)
Severance, pension and benefit charges (see Note 4)	(3,399)	(1,264)	(1,001)
Investment-related charges (see Notes 5 and 8)	–	(5,652)	(5,495)
NorthPoint settlement (see Note 4)	–	(114)	–
MCI exposure, lease impairment and other special items (see Note 4)	(419)	(469)	(293)
International restructuring (see Note 4)	–	–	(26)
Iusacell charge (see Note 3)	(931)	–	–
Tax benefits (see Note 5)	–	2,104	–
Loss on discontinued operations – Iusacell (see Note 3)	(3)	(83)	(13)
Cumulative effect of accounting change (see Note 2)	503	(496)	(182)
Corporate and other	266	683	791
Consolidated net income – reported	$ 3,077	$ 4,079	$ 389
Assets			
Total reportable segments	$ 161,556	$ 162,001	$ 163,519
Reconciling items	4,412	5,467	7,276
Consolidated assets	$ 165,968	$ 167,468	$ 170,795

Results of operations for Domestic Telecom exclude the effects of the non-strategic access lines sold in the third quarter of 2002. In addition, the transfer of Global Solutions Inc. from International to Domestic Telecom effective January 1, 2003 is reflected in this financial information as if it had occurred for all periods presented. Financial information for International excludes the effects of Iusacell (see Note 3).

Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses such as lease financing, and asset impairments and expenses that are not allocated in assessing segment performance due to their non-recurring nature.

We generally account for intersegment sales of products and services and asset transfers at current market prices. We are not dependent on any single customer.

Geographic Areas

Our foreign investments are located principally in the Americas and Europe. Domestic and foreign operating revenues are based on the location of customers. Long-lived assets consist of plant, property and equipment (net of accumulated depreciation) and investments in unconsolidated businesses. The table below presents financial information by major geographic area:

(dollars in millions)

Years Ended December 31,	2003	2002	2001
Domestic			
Operating revenues	**$ 65,303**	$ 64,576	$ 64,816
Long-lived assets	**74,346**	72,726	74,462
Foreign			
Operating revenues	**2,449**	2,728	1,897
Long-lived assets	**6,759**	6,018	9,295
Consolidated			
Operating revenues	**67,752**	67,304	66,713
Long-lived assets	**81,105**	78,744	83,757

NOTE 18

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other gains and losses affecting shareowners' investment that, under GAAP, are excluded from net income.

Changes in the components of other comprehensive income (loss), net of income tax expense (benefit), are as follows:

(dollars in millions)

Years Ended December 31,	2003	2002	2001
Foreign Currency Translation Adjustments, net of taxes of \$–, \$28 and \$–	**$ 568**	$ 220	$ (40)
Unrealized Gains (Losses) on Marketable Securities			
Unrealized gains (losses), net of taxes of \$2, \$(129) and \$(403)	**5**	(464)	(2,402)
Less reclassification adjustments for gains (losses) realized in net income, net of taxes of \$1, \$51 and \$(1,059)	**4**	(160)	(3,351)
Add reclassification of earnings due to accounting change for derivatives	**–**	–	112
Net unrealized gains (losses) on marketable securities	**1**	(304)	1,061
Unrealized Derivative Gains (Losses) on Cash Flow Hedges			
Cumulative effect of accounting change	**–**	–	(2)
Unrealized gains (losses)	**29**	70	(68)
Less reclassification adjustments for gains (losses) realized in net income	**50**	58	(25)
Net unrealized derivative gains (losses) on cash flow hedges	**(21)**	12	(45)
Minimum Pension Liability Adjustment, net of taxes of \$201, \$(491) and \$7	**312**	(851)	13
Other Comprehensive Income (Loss)	**$ 860**	$ (923)	$ 989

The reclassification adjustments for the net gains and losses realized in net income on marketable securities in 2003, 2002 and 2001 primarily relate to the other than temporary decline in market value of certain of our investments in marketable securities in 2002 and 2001. The net realized losses for 2002 are partially offset by realized gains on the sales of TCNZ and C&W. The unrealized derivative gains and losses primarily result from our hedges of foreign exchange risk in 2002 and 2001 (see Note 12). The changes in the minimum pension liability in 2003 and 2002 were required by accounting rules for certain pension plans based on their funded status (see Note 15). The foreign currency translation adjustment in 2003 is primarily driven by the impact of the euro on our investment in Omnitel and a reclassification of the foreign currency translation loss of Iusacell of $577 million in connection with the sale of Iusacell (see Note 3), partially offset by unrealized foreign currency translation losses at Verizon's operations in the Dominican Republic and CANTV.

The components of Accumulated Other Comprehensive Loss are as follows:

(dollars in millions)

At December 31,	2003	2002
Foreign currency translation adjustments	**$ (660)**	$ (1,228)
Unrealized gains on marketable securities	**24**	23
Unrealized derivative losses on cash flow hedges	**(54)**	(33)
Minimum pension liability adjustment	**(560)**	(872)
Accumulated other comprehensive loss	**$ (1,250)**	$ (2,110)

NOTE 19

ACCOUNTING FOR THE IMPACT OF THE SEPTEMBER 11, 2001 TERRORIST ATTACKS

The primary financial statement impact of the September 11, 2001 terrorist attacks pertains to Verizon's plant, equipment and administrative office space located either in, or adjacent to the World Trade Center complex, and the associated service restoration efforts. During the year ended December 31, 2001, we recorded an estimate of equipment losses and costs incurred associated with service disruption and restoration of $685 million. In addition, we accrued an insurance recovery of $400 million, resulting in a net impact of $285 million ($172 million after-tax) recorded in operating expenses (primarily cost of services and sales) in the consolidated statements of income, and also reported by our Domestic Telecom segment. The costs and estimated insurance recovery were recorded in accordance with Emerging Issues Task Force Issue No. 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001." In 2003 and 2002, we recorded additional insurance recoveries of $270 million and $200 million, respectively. Of the amounts recorded, approximately $130 million and $112 million were related to operating expenses (primarily cost of services and sales) in 2003 and 2002, respectively. As of December 31, 2003, we received insurance proceeds of $825 million.

NOTE 20

ADDITIONAL FINANCIAL INFORMATION

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

Income Statement Information

(dollars in millions)

Years Ended December 31,	**2003**	2002	2001
Depreciation expense	**$ 12,215**	$ 12,136	$ 11,362
Interest expense incurred	**2,941**	3,315	3,644
Capitalized interest	**(144)**	(185)	(368)
Advertising expense	**1,428**	1,536	1,410

Balance Sheet Information

Accounts Payable and Accrued Liabilities

(dollars in millions)

At December 31,	**2003**	2002
Accounts payable	**$ 4,130**	$ 4,851
Accrued expenses	**2,995**	2,796
Accrued vacation pay	**824**	960
Accrued salaries and wages	**3,376**	2,171
Interest payable	**633**	669
Accrued taxes	**2,741**	1,195
	$ 14,699	$ 12,642

Other Current Liabilities

Advance billings and customer deposits	**$ 1,686**	$ 1,566
Dividends payable	**1,084**	1,072
Other	**3,134**	2,375
	$ 5,904	$ 5,013

Cash Flow Information

(dollars in millions)

Years Ended December 31,	**2003**	2002	2001
Cash Paid			
Income taxes, net of amounts refunded	**$ (713)**	$ 522	$ 932
Interest, net of amounts capitalized	**2,646**	2,855	3,180
Supplemental investing and financing transactions:			
Assets acquired in business combinations	**1,121**	2,697	2,995
Liabilities assumed in business combinations	**13**	1,200	27
Debt assumed in business combinations	**4**	589	215

NOTE 21

GUARANTEES OF SUBSIDIARY DEBT

Verizon has guaranteed $300 million 7% debentures series F issued by Verizon South Inc. due 2041. Verizon South is an indirect wholly owned operating subsidiary of Verizon. This guarantee is full and unconditional and would require Verizon to make scheduled payments immediately if Verizon South failed to do so. Verizon may, in some future period, decide to guarantee $480 million 7% debentures series B, due 2042 issued by Verizon New England Inc., also an indirect wholly owned operating subsidiary of Verizon. Both of these securities were issued in denominations of $25 and were sold primarily to retail investors. SEC rules permit us to include condensed consolidating financial information for Verizon South in our periodic SEC reports rather than filing separate subsidiary periodic SEC reports. In addition, condensed consolidating financial information for Verizon New England is provided in the event that the debt issuance previously described is subsequently guaranteed.

Below is the condensed consolidating financial information. Verizon New England and Verizon South are presented in separate columns. The column labeled Parent represents Verizon's investments in all of its subsidiaries under the equity method and the Other column represents all other subsidiaries of Verizon on a combined basis. The Adjustments column reflects intercompany eliminations.

(dollars in millions)

Condensed Consolidating Statements of Income Year Ended December 31, 2003	Parent	Verizon New England	Verizon South	Other	Adjustments	Total
Operating revenues	$ -	$ 4,102	$ 951	$ 62,976	$ (277)	$ 67,752
Operating expenses	562	4,148	808	55,017	(277)	60,258
Operating Income (Loss)	(562)	(46)	143	7,959	-	7,494
Equity in earnings (loss) of unconsolidated businesses	3,176	(42)	-	1,272	(3,128)	1,278
Income (loss) from other unconsolidated businesses	(10)	-	-	341	-	331
Other income and (expense), net	75	(1)	2	(2)	(36)	38
Interest expense	(78)	(160)	(64)	(2,483)	(12)	(2,797)
Minority interest	-	-	-	(1,583)	-	(1,583)
Income (loss) before provision for income taxes, discontinued operations and cumulative effect of accounting change	2,601	(249)	81	5,504	(3,176)	4,761
Income tax benefit (provision)	476	82	(32)	(1,778)	-	(1,252)
Income (Loss) Before Discontinued Operations And Cumulative Effect Of Accounting Change	3,077	(167)	49	3,726	(3,176)	3,509
Loss on discontinued operations, net of tax	-	-	-	(935)	-	(935)
Cumulative effect of accounting change, net of tax	-	369	47	87	-	503
Net Income (Loss)	$ 3,077	$ 202	$ 96	$ 2,878	$ (3,176)	$ 3,077

(dollars in millions)

Condensed Consolidating Statements of Income Year Ended December 31, 2002	Parent	Verizon New England	Verizon South	Other	Adjustments	Total
Operating revenues	$ –	$ 4,365	$ 1,350	$ 61,833	$ (244)	$ 67,304
Operating expenses	385	3,826	(753)	49,086	(244)	52,300
Operating Income (Loss)	(385)	539	2,103	12,747	–	15,004
Equity in earnings (loss) of unconsolidated businesses	4,054	29	–	(1,621)	(4,009)	(1,547)
Loss from other unconsolidated businesses	(100)	–	–	(2,757)	–	(2,857)
Other income and (expense), net	62	(33)	16	170	(23)	192
Interest expense	(53)	(164)	(74)	(2,817)	(22)	(3,130)
Minority interest	–	–	–	(1,404)	–	(1,404)
Income (loss) before provision for income taxes, discontinued operations and cumulative effect of accounting change	3,578	371	2,045	4,318	(4,054)	6,258
Income tax benefit (provision)	501	(138)	(794)	(1,166)	–	(1,597)
Income (Loss) Before Discontinued Operations And Cumulative Effect Of Accounting Change	4,079	233	1,251	3,152	(4,054)	4,661
Loss on discontinued operations, net of tax	–	–	–	(86)	–	(86)
Cumulative effect of accounting change, net of tax	–	–	–	(496)	–	(496)
Net Income (Loss)	$ 4,079	$ 233	$ 1,251	$ 2,570	$ (4,054)	$ 4,079

(dollars in millions)

Condensed Consolidating Statements of Income Year Ended December 31, 2001	Parent	Verizon New England	Verizon South	Other	Adjustments	Total
Operating revenues	$ –	$ 4,650	$ 1,613	$ 60,790	$ (340)	$ 66,713
Operating expenses	248	3,768	986	50,578	(340)	55,240
Operating Income (Loss)	(248)	882	627	10,212	–	11,473
Equity in earnings (loss) of unconsolidated businesses	527	(139)	(9)	466	(399)	446
Loss from other unconsolidated businesses	–	–	–	(5,486)	–	(5,486)
Other income and (expense), net	9	22	3	170	(5)	199
Interest expense	(98)	(164)	(73)	(2,818)	(123)	(3,276)
Minority interest	–	–	–	(625)	–	(625)
Income (loss) before provision for income taxes, discontinued operations and cumulative effect of accounting change	190	601	548	1,919	(527)	2,731
Income tax benefit (provision)	199	(306)	(219)	(1,821)	–	(2,147)
Income (Loss) Before Discontinued Operations And Cumulative Effect Of Accounting Change	389	295	329	98	(527)	584
Loss on discontinued operations, net of tax	–	–	–	(13)	–	(13)
Cumulative effect of accounting change, net of tax	–	–	–	(182)	–	(182)
Net Income (Loss)	$ 389	$ 295	$ 329	$ (97)	$ (527)	$ 389

(dollars in millions)

Condensed Consolidating Balance Sheets December 31, 2003	Parent	Verizon New England	Verizon South	Other	Adjustments	Total
Cash	$ -	$ -	$ -	$ 699	$ -	$ 699
Short-term investments	-	200	40	1,932	-	2,172
Accounts receivable, net	3	1,117	162	10,424	(1,801)	9,905
Other current assets	5,201	380	192	5,073	(5,329)	5,517
Total current assets	5,204	1,697	394	18,128	(7,130)	18,293
Plant, property and equipment, net	1	6,751	1,280	67,284	-	75,316
Investments in unconsolidated businesses	30,869	117	-	6,354	(31,551)	5,789
Other assets	152	610	385	65,433	(10)	66,570
Total Assets	$ 36,226	$ 9,175	$ 2,059	$157,199	$(38,691)	$165,968
Debt maturing within one year	$ 30	$ 513	$ -	$ 11,125	$ (5,701)	$ 5,967
Other current liabilities	2,484	1,739	301	17,508	(1,429)	20,603
Total current liabilities	2,514	2,252	301	28,633	(7,130)	26,570
Long-term debt	145	2,749	900	35,629	(10)	39,413
Employee benefit obligations	99	1,787	216	14,657	-	16,759
Deferred income taxes	-	602	238	20,868	-	21,708
Other liabilities	2	235	39	3,428	-	3,704
Minority interest	-	-	-	24,348	-	24,348
Total shareowners' investment	33,466	1,550	365	29,636	(31,551)	33,466
Total Liabilities and Shareowners' Investment	$ 36,226	$ 9,175	$ 2,059	$157,199	$(38,691)	$165,968

(dollars in millions)

Condensed Consolidating Balance Sheets December 31, 2002	Parent	Verizon New England	Verizon South	Other	Adjustments	Total
Cash	$ -	$ -	$ -	$ 1,422	$ -	$ 1,422
Short-term investments	-	284	26	1,732	-	2,042
Accounts receivable, net	7	1,218	186	12,464	(1,379)	12,496
Other current assets	1,557	278	128	6,383	(2,213)	6,133
Total current assets	1,564	1,780	340	22,001	(3,592)	22,093
Plant, property and equipment, net	1	6,524	1,257	65,976	-	73,758
Investments in unconsolidated businesses	33,410	118	-	2,108	(30,650)	4,986
Other assets	109	580	417	65,535	(10)	66,631
Total Assets	$ 35,084	$ 9,002	$ 2,014	$155,620	$(34,252)	$167,468
Debt maturing within one year	$ 29	$ 770	$ -	$ 10,497	$ (2,029)	$ 9,267
Other current liabilities	1,964	1,795	294	16,172	(1,563)	18,662
Total current liabilities	1,993	2,565	294	26,669	(3,592)	27,929
Long-term debt	175	2,625	900	40,313	(10)	44,003
Employee benefit obligations	235	1,731	212	13,211	-	15,389
Deferred income taxes	63	231	208	18,965	-	19,467
Other liabilities	2	208	76	3,721	-	4,007
Minority interest	-	-	-	24,057	-	24,057
Total shareowners' investment	32,616	1,642	324	28,684	(30,650)	32,616
Total Liabilities and Shareowners' Investment	$ 35,084	$ 9,002	$ 2,014	$155,620	$(34,252)	$167,468

(dollars in millions)

Condensed Consolidating Statements of Cash Flows Year Ended December 31, 2003	Parent	Verizon New England	Verizon South	Other	Adjustments	Total
Net cash from operating activities	$ 8,763	$ 1,304	$ 283	$ 20,645	$ (8,513)	$ 22,482
Net cash from investing activities	-	(628)	(229)	(11,516)	127	(12,246)
Net cash from financing activities	(8,763)	(676)	(54)	(9,852)	8,386	(10,959)
Net Decrease in Cash	$ -	$ -	$ -	$ (723)	$ -	$ (723)

(dollars in millions)

Condensed Consolidating Statements of Cash Flows Year Ended December 31, 2002	Parent	Verizon New England	Verizon South	Other	Adjustments	Total
Net cash from operating activities	$ 8,345	$ 1,488	$ (306)	$ 20,716	$ (8,144)	$ 22,099
Net cash from investing activities	–	(754)	2,252	(8,008)	(290)	(6,800)
Net cash from financing activities	(8,345)	(734)	(1,946)	(12,218)	8,434	(14,809)
Net Increase in Cash	$ –	$ –	$ –	$ 490	$ –	$ 490

(dollars in millions)

Condensed Consolidating Statements of Cash Flows Year Ended December 31, 2001	Parent	Verizon New England	Verizon South	Other	Adjustments	Total
Net cash from operating activities	$ 6,239	$ 1,496	$ 500	$ 17,294	$ (6,003)	$ 19,526
Net cash from investing activities	18	(1,689)	(455)	(19,787)	589	(21,324)
Net cash from financing activities	(6,257)	193	(71)	2,694	5,414	1,973
Net Increase (Decrease) in Cash	$ –	$ –	$ (26)	$ 201	$ –	$ 175

NOTE 22

COMMITMENTS AND CONTINGENCIES

Several state and federal regulatory proceedings may require our telephone operations to pay penalties or to refund to customers a portion of the revenues collected in the current and prior periods. There are also various legal actions pending to which we are a party and claims which, if asserted, may lead to other legal actions. We have established reserves for specific liabilities in connection with regulatory and legal actions, including environmental matters, that we currently deem to be probable and estimable. We do not expect that the ultimate resolution of pending regulatory and legal matters in future periods, including the Hicksville matters described below, will have a material effect on our financial condition, but it could have a material effect on our results of operations.

During 2003, under a government-approved plan, remediation of the site of a former facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s commenced. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. In addition, a reassessment of costs related to remediation efforts at several other former facilities was undertaken. As a result, an additional environmental remediation expense of $240 million was recorded in Selling, General and Administrative Expense in the consolidated statements of income in the fourth quarter of 2003. We expect overall remediation efforts, including soil and ground water remediation and property costs, to take place over the next several years, and our cost estimates may be revised as remediation continues.

There are also litigation matters associated with the Hicksville site primarily involving personal injury claims in connection with alleged emissions arising from operations in the 1950s and 1960s at the Hicksville site. These matters are in various stages, and no trial date has been set.

As discussed in Note 4, during 2002 we recorded a pretax charge of $175 million ($114 million after-tax) for a proposed settlement of the NorthPoint litigation. The lawsuit arose from Verizon's decision to terminate an agreement with NorthPoint to combine the two companies' DSL businesses. Verizon terminated the merger agreement due to the deterioration in NorthPoint's business, operations and financial condition. The proposed settlement was approved by the bankruptcy court and paid by Verizon and the NorthPoint litigation has been dismissed with prejudice. Appeals of the bankruptcy court's order were dismissed in early 2003.

Our commercial relationship continues with Level 3 Communications LLC (Level 3), the purchaser of substantially all of Genuity's domestic assets and the assignee of Genuity's principal contract with us. We have a multi-year purchase commitment expiring on December 31, 2005 for services such as dedicated Internet access, managed web hosting, Internet security and some transport services. Under this purchase commitment, Verizon has agreed to pay Level 3 a minimum of $250 million between February 4, 2003 and December 31, 2005. Through December 31, 2003, $71 million of that purchase commitment had been met by Verizon.

We have several commitments primarily to purchase network services, equipment and software from a variety of suppliers, including the Level 3 commitment in the preceding paragraph, totaling $630 million. Of this total amount, $413 million, $194 million and $23 million are expected to be purchased in 2004, 2005 and 2006, respectively.

NOTE [illegible]

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(dollars in millions, except per share amounts)

			Income (Loss) Before Discontinued Operations and Cumulative Effect of Accounting Change			
Quarter Ended	Operating Revenues	Operating Income (Loss)	Amount	Per Share-Basic	Per Share-Diluted	Net Income (Loss)
2003						
March 31	**$ 16,490**	**$ 3,707**	**$ 1,910**	**$ .70**	**$ .69**	**$ 2,406**
June 30[a]	**16,829**	**2,730**	**1,266**	**.46**	**.46**	**338**
September 30	**17,155**	**3,205**	**1,791**	**.65**	**.64**	**1,791**
December 31[b]	**17,278**	**(2,148)**	**(1,458)**	**(.53)**	**(.53)**	**(1,458)**
2002						
March 31[c]	$ 16,285	$ 3,512	$ 6	$ –	$ –	$ (501)
June 30[d]	16,752	2,686	(2,077)	(.76)	(.76)	(2,115)
September 30[e]	17,113	6,014	4,415	1.62	1.61	4,405
December 31[f]	17,154	2,792	2,317	.85	.84	2,290

(a) Results of operations for the second quarter of 2003 include a $436 million after-tax charge for severance and related pension settlement benefits.

(b) Results of operations for the fourth quarter of 2003 include a $2,882 million after-tax charge for severance and related pension settlement benefits.

(c) Results of operations for the first quarter of 2002 include a $2,026 million after-tax loss on investments.

(d) Results of operations for the second quarter of 2002 include a $3,305 million after-tax loss on investments and a $475 million after-tax charge for severance and related pension settlement benefits.

(e) Results of operations for the third quarter of 2002 include a $1,550 million after-tax gain on the sale of non-strategic access lines and tax benefits of $983 million related to current and prior year investment losses.

(f) Results of operations for the fourth quarter of 2002 include tax benefits of $1,121 million related to current and prior year investment losses, partially offset by an after-tax severance, pension and benefits charge of $604 million.

Income (loss) before discontinued operations and cumulative effect of accounting change per common share is computed independently for each quarter and the sum of the quarters may not equal the annual amount.

board of directors*

James R. Barker
Chairman
Interlake Steamship Co.
and *Vice Chairman*
Mormac Marine Group, Inc. and
Moran Towing Corporation

Richard L. Carrión
Chairman, President and
Chief Executive Officer
Popular, Inc.
and *Chairman, President and*
Chief Executive Officer
Banco Popular de Puerto Rico

Robert W. Lane
Chairman and Chief Executive Officer
Deere & Company

Sandra O. Moose
President
Strategic Advisory Services

Joseph Neubauer
Executive Chairman of the Board
ARAMARK Corporation

Thomas H. O'Brien
Retired Chairman and Chief Executive Officer
The PNC Financial Services Group, Inc.
and PNC Bank, N.A.

Hugh B. Price
Senior Advisor
Piper Rudnick LLP

Ivan G. Seidenberg
Chairman and
Chief Executive Officer
Verizon Communications Inc.

Walter V. Shipley
Retired Chairman of the Board
The Chase Manhattan Corporation

John R. Stafford
Consultant
Retired Chairman of the Board
Wyeth

Robert D. Storey
Partner
Thompson Hine LLP

corporate officers

Ivan G. Seidenberg
Chairman and
Chief Executive Officer

Lawrence T. Babbio, Jr.
Vice Chairman and President -
Domestic Telecom

Dennis F. Strigl
Executive Vice President and President
and Chief Executive Officer -
Verizon Wireless

Doreen A. Toben
Executive Vice President and
Chief Financial Officer

William P. Barr
Executive Vice President and
General Counsel

Mary Beth Bardin
Executive Vice President -
Public Affairs and Communications

Marc C. Reed**
Executive Vice President -
Human Resources

David H. Benson
Senior Vice President and Controller

John W. Diercksen
Senior Vice President -
Strategy, Development and Planning

Marianne Drost
Senior Vice President, Deputy General
Counsel and Corporate Secretary

William F. Heitmann
Senior Vice President and Treasurer

Joleen D. Moden
Senior Vice President - Internal Auditing

Thomas A. Bartlett
Senior Vice President - Investor Relations

Thomas J. Tauke
Senior Vice President -
Public Policy and External Affairs

executive leadership

Katherine J. Harless
President - Information Services

Robert E. Ingalls
President - Retail Markets Group

Shaygan Kheradpir
Chief Information Officer -
Domestic Telecom

John F. Killian
Senior Vice President and CFO -
Domestic Telecom

Paul A. Lacouture
President - Network Services

Richard J. Lynch
Chief Technical Officer
Verizon Wireless

Lowell C. McAdam
Chief Operating Officer
Verizon Wireless

Eduardo R. Menascé
President - Enterprise Solutions

Daniel C. Petri
President - International

Virginia P. Ruesterholz
President - Wholesale Markets

John M. Bell**
Senior Vice President - Human Resources
Domestic Telecom

* Directors standing for election at the April 2004 Annual Meeting
** Effective April 1, 2004

Investor information

Registered Shareowner Services

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

Verizon Communications Shareowner Services
c/o EquiServe
P.O. Box 43005
Providence, RI 02940-3005
Phone: 800 631-2355
Website: www.equiserve.com
Email: verizon@equiserve.com

Persons outside the U.S. may call: 816 843-4284

Persons using a telecommunications device for the deaf (TDD) may call: 800 524-9955

Online Account Access – Registered shareowners can view account information online at: www.verizon.equiserve.com

You will need your account number, a password and taxpayer identification number to enroll. For more information, contact EquiServe.

Electronic Delivery of Proxy Materials – Registered shareowners can receive their Annual Report, Proxy Statement and Proxy Card online, instead of receiving printed materials by mail. Enroll at www.econsent.com/vz

Direct Dividend Deposit Service – Verizon offers an electronic funds transfer service to registered shareowners wishing to deposit dividends directly into savings or checking accounts on dividend payment dates. For more information, contact EquiServe.

Direct Invest Stock Purchase and Ownership Plan – Verizon offers a direct stock purchase and share ownership plan. The plan allows current and new investors to purchase common stock and to reinvest the dividends toward the purchase of additional shares. To receive a Plan Prospectus and enrollment form, contact EquiServe or visit their website.

Corporate Governance

Verizon's Corporate Governance Guidelines are available through the Corporate Governance link on our website – www.verizon.com/investor

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

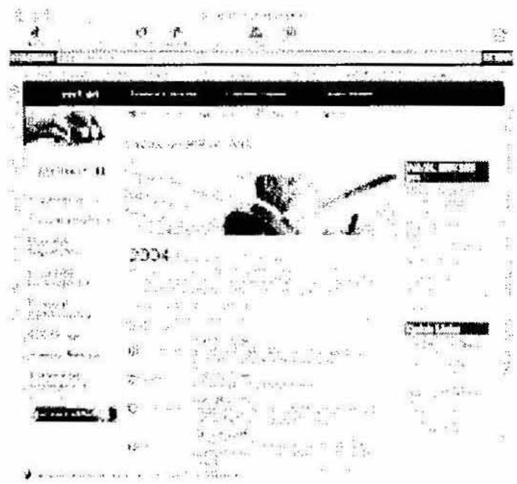
Verizon Communications Inc.
Assistant Corporate Secretary
1095 Avenue of the Americas – Room 3883
New York, NY 10036

Equal Opportunity Policy

The company maintains a long-standing commitment to equal opportunity and valuing the diversity of its employees, suppliers and customers. Verizon is fully committed to a workplace free from discrimination and harassment for all persons, without regard to race, color, religion, age, gender, national origin, sexual orientation, marital status, citizenship status, veteran status, disability or other protected classifications.

Investor Services

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



VZ Mail – Get the latest investor information delivered directly to your computer desktop. Subscribe to VZ mail at our investor information website.

Stock Market Information

Shareowners of record at December 31, 2003: 1,064,000

Verizon is listed on the New York Stock Exchange (ticker symbol: VZ)

Also listed on the Philadelphia, Boston, Chicago, Pacific, London, Swiss, Amsterdam and Frankfurt exchanges.

Common Stock Price and Dividend Information

	Market Price High	Market Price Low	Cash Dividend Declared
2003			
First Quarter	**$ 44.31**	**$ 32.06**	**$ 0.385**
Second Quarter	**41.35**	**32.80**	**0.385**
Third Quarter	**40.25**	**32.05**	**0.385**
Fourth Quarter	**35.25**	**31.10**	**0.385**
2002			
First Quarter	$ 51.09	$ 43.02	$ 0.385
Second Quarter	46.01	36.50	0.385
Third Quarter	40.20	26.01	0.385
Fourth Quarter	43.20	27.50	0.385

Form 10-K

To receive a copy of the 2003 Verizon Annual Report on Form 10-K, which is filed with the Securities and Exchange Commission, contact Investor Relations:

Verizon Communications Inc.
Investor Relations
1095 Avenue of the Americas
36th Floor
New York, NY 10036
Phone: 212 395-1525
Fax: 212 921-2917

Verizon Communications Inc.
1095 Avenue of the Americas
New York, New York 10036
212 395-2121

Make progress every day

verizon.com

Printed on recycled paper