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# EDITED TRANSCRIPT

VZ - Verizon at Morgan Stanley Technology Media & Telecoms Conference

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## CORPORATE PARTICIPANTS

**Fran Shammo** *Verizon Communications Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Simon Flannery** *Morgan Stanley - Analyst*

## PRESENTATION

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**Simon Flannery - Morgan Stanley - Analyst**

Good afternoon, everybody. I'm Simon Flannery with Morgan Stanley's telecom team in New York. It's my great pleasure to welcome back Verizon and Fran Shammo, Verizon's Chief Financial Officer.

It's great to have you here, Fran, a lot going on and I think it's listening to the presentations this morning there's been a lot of talk about how Europe is following the path of the United States and, obviously, Verizon is one of the leaders in the LTE deployment. Perhaps we can start there.

Your service revenue growth in wireless is over 8%. Can you just talk about what the drivers of that are and how you see that evolving going forward?

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**Fran Shammo - Verizon Communications Inc. - CFO**

Okay. Thanks, Simon. Good afternoon, everyone. Before we start our discussion I just want to refer you to our website for the Safe Harbor around today's discussion.

So as far as LTE, we came out of the second quarter or third quarter at 8.4%. So there's really a number of things that are driving that.

Obviously, we continue to add new customers to our network from the LTE perspective. So we added 480,000 of the 900,000-plus adds that we had in the third quarter. But what's also driving this growth is the fact that you have 3G customers migrating to 4G and what we see is that the minute that they migrate over their video consumption goes way up and they're more than doubling, if not doubling, their usage on the 4G network versus the 3G network.

And, within Verizon, when we launched our 4G LTE network, we immediately followed up with what we call our share pricing plan, which is a plan that makes you pay by tiers of usage, so that we're not unlimited any longer. So each of that is monetizing that increase in usage, but really there's two things that are also generating the growth.

Number one, with the shared pricing plan that we have, number one people are more enticed to add more devices. So if they have a Smartphone they'll add a tablet, they'll add a Dongle, they'll add additional smart phones. We actually sold a camera last Christmas that they added to this plan, so it's very easy for them to add devices.

And what you see is, on an account level basis, our device attachment is increasing 4% quarter-over-quarter, year-over-year. So that is creating additional access charges as they increase their devices.

But then it's really the consumption of the data and the LTE network really allows video to perform very nicely. And what we're seeing is that consumption is driving usage up so people are buying up in the tier. So, really, it's base consumption and device attachment that's really generating the growth.

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**Simon Flannery - Morgan Stanley - Analyst**

Well, let's stay on the consumption side. You talked on the quarter about some congestion issues in some of your markets. Can you just talk about how the AWS deployment is going and how you think about network investment and handling that traffic?



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**Fran Shammo - Verizon Communications Inc. - CFO**

In certain cities, say for New York, it's not the entire city it's very small pockets of the city. And what we're finding is during peak hours of the day there's so much usage on the network that it's being constrained and what happens is people fall back to 3G.

So we've launched -- we pre-positioned and actually started up our AWS spectrum, the iPhone 5 and 5c and Samsung product that we're downloading some software into those products. They're enabling the AWS spectrum so that's relieving some of the pressure. We're also doing some in-building coverage; throughout November and December we're going to be launching some diversified antenna systems in certain pockets of the city.

So we think that by the end of the year the congestion will be gone, we'll be back on track. And then if you think about our capital spending going forward, this year, obviously, we completed our coverage build through June of this year. We're now into the capacity and next year all of our spend will be pretty much dedicated to the capacity of the network.

So we will get way ahead of this consumption model. But consumption of video is far outpacing what our expectations were and we'll deliver the capacity to deliver that customer support.

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**Simon Flannery - Morgan Stanley - Analyst**

AT&T has talked about adding 10,000 macro sites as part of Project VIP. How do you think about your cell site count over the next few years?

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**Fran Shammo - Verizon Communications Inc. - CFO**

We don't really get into a cell site count because, really, what matters is where between a small cell or a diversified antenna system or in-building coverage or macro cell, so there's all types of technology that can be launched. I can't really even tell you how many number of cells, but, obviously, within the LTE technology you definitely have more small cell technology. You're going to have more in-building coverage that you need to do.

So that's part of just how you run the LTE network and, obviously, we'll do that more in the cities, less in the rural areas. But the other thing is there is a financial metric here, too, that you have to watch because although small cell technology is cheaper it still takes a fiber link to every small cell to enable that on LTE.

So at some point, if you're going to launch, say, for example, 10 small cells, you may be better off just putting a macro cell in that site. So there is some financial metrics that the engineers manage to what is best being supported for the customer usage.

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**Simon Flannery - Morgan Stanley - Analyst**

And we've seen some increased capital spending. Vodafone was on the stage earlier today. Can you talk about your overall CapEx plans over the medium term?

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**Fran Shammo - Verizon Communications Inc. - CFO**

Coming into this year we pretty much said we would be flat with last year. Now coming out of the second quarter I said that we would increase the spend by \$500 million to deal with some of the capacity issues we were seeing in the wireless area.

And I think what you should look at us as is once we close the transaction with Vodafone and become 100% owned, really look at us on a total basis. So pretty much this year we're giving a range of \$16.4 billion to \$16.6 billion.

That's kind of where we should be in the future. I don't anticipate that going substantially up from there.

You may see wireless go up with Wireline coming down a little bit as the FiOS build comes to an end. So the mix will shift a bit but the overall will be about the same.



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**Simon Flannery - Morgan Stanley - Analyst**

You mentioned the Vodafone transaction. Could you just update us on the timing?

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**Fran Shammo - Verizon Communications Inc. - CFO**

We have completed all of our regulatory filings in the United States. We've completed our filing with the Securities and Exchange Commission. We're working through the comments now.

We will be coordinating with Vodafone on the filing of the proxies, which we think will be sometime in December with a shareholder vote in January. We anticipate that we're right on track to close sometime in the first quarter.

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**Simon Flannery - Morgan Stanley - Analyst**

And how do you think about the flow-back dynamic?

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**Fran Shammo - Verizon Communications Inc. - CFO**

So from on the flow-back issue, we've looked at this a number of different ways and it's very, very hard to actually determine exactly what the flow back will be. But given that there will be flow back, but then there will be others that have to buy up because of index funds, we think the net net of it all is around 300 million shares that will have to make its way through the marketplace through normal course.

But if you think about 300 million shares on a number of shares that will be somewhere between 4.1 and 4.2 billion shares outstanding, the daily average trading, Vodafone has said they think it's about 27 days. We're telling investors it could be up to 45 because some Vodafone shareholders don't have to divest immediately, they have up to six months to divest if they can't hold the stock. So we think it will work its way through normal course.

The other thing that we watched was we think that people who have to divest immediately because they can't hold it in the funds have already taken short positions and hedges against the stock price, which is why we saw some pressure immediately following the close. So not really sure what the impact will be, but it's going to be pretty minimal.

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**Simon Flannery - Morgan Stanley - Analyst**

And you're going to lever up as part of this transaction. Can you just talk about your leverage and your leverage targets' time frame and how that sort of influences your use of free cash flow?

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**Fran Shammo - Verizon Communications Inc. - CFO**

I think what we said was coming into this we have still three major priorities that we wanted to deliver on. The first was we were going to continue to invest in our networks and our platforms.

We're going to continue to acquire spectrum, which we need to deliver our wireless performance. So the auctions are coming up, so we intend to participate in those auctions.

Second is, the dividend policy is very important to our equity shareholders so we want to maintain a consistent dividend policy. And then third is we need to delever as quickly as possible. And what we've told everybody coming into this transaction is that we believe it's 10% accretive, immediately, to earnings-per-share and that's within four to five years we will regain our A-minus rating.

Now the components that go into that, obviously, our EBITDA margin will continue to increase and, of course, we'll pay down debt. And if you look at our peers you would kind of tend to think that the rating agencies are around a two times at this point given where our peers are and what their ratings are. So that target would be



around two times, but that's kind of a placeholder at this point. But we think from a cash flow perspective we'll be back into that A-minus rating between four and five years.

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**Simon Flannery - Morgan Stanley - Analyst**

Okay, and you said margins are going to increase, I think you mean consolidated margins? So it will be a mix shift towards wireless and then you have some opportunities on the Wireline side?

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**Fran Shammo - Verizon Communications Inc. - CFO**

That's correct.

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**Simon Flannery - Morgan Stanley - Analyst**

Okay. And can we talk about sustainability of wireless margins here? You're targeting 49% to 50% for this year. I think maybe what given with the competitive environment your ability to continue to support those margins going forward.

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**Fran Shammo - Verizon Communications Inc. - CFO**

I think we have a pretty good track record here around our margins and our management style of delivering both growth and profitability at the same time, so you should not anticipate that that will change. For this year we gave guidance of 49% to 50%.

Through the third quarter of this year we're actually sitting at 50.2%. Given the volumes of the fourth quarter, we'll end the year between that 49% and 50%.

Going into next year, what I would say is I'd like everybody to shift over to the consolidated margin because that's really what's going to matter post the close of the Vodafone acquisition because every dollar is now a true dollar. So I think that the way I look at this is wireless will continue to maintain their momentum and what they do on a daily basis, given profitability and taking costs out of the business, which we have been very successful of over the last three years taking out almost \$5 billion worth of cost structure.

So they will continue to maintain that momentum from their business unit. But I also think that, as part of the acquisition, this also raises the value of the Wireline side of the business because now we can more synergize within ourselves, become more of an efficient corporation.

And this doesn't mean that Vodafone held us back doing anything we wanted to. But it does allow us to become more of an efficient company, which I think then, just overall, improves the efficiency and margins of the overall corporation.

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**Simon Flannery - Morgan Stanley - Analyst**

There's been a lot that's been written about T-Mobile resurgent; Sprint's investing a lot of money. How can investors feel comfortable that Verizon is going to continue to be a dominant player in the US market and not see some increased pricing pressure in the industry?

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**Fran Shammo - Verizon Communications Inc. - CFO**

I've been in this business for 25 years now and I spent 23 of it in the wireless side of the house and I have never seen a day go by where the wireless industry wasn't a competitive business. So every day we wake up, we pay attention to our competitors, and we look at them as they make us better every day. And I think Verizon Wireless has proven track record that they can compete every day and compete very successfully and I don't see that changing.



There will be times when we will respond. There will be times when we won't respond. And we'll pick and choose when that happens because there are certain things we don't need to respond to given the quality of our network, our brand, our customer loyalty.

There's a lot of things that go into being a successful business. It's not just building a network. So we've built ourselves around all of that, and we'll continue to do that.

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**Simon Flannery - Morgan Stanley - Analyst**

You talked about your interest in the upcoming auctions. Are you still open to potentially divesting spectrum if you get the right offer?

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**Fran Shammo - Verizon Communications Inc. - CFO**

We were pretty public, I guess it was now about a year or so ago where we put our A&B up for auction and, obviously, we completed the transaction with AT&T where we sold off the B spectrum and did some AWS swaps within that. We've done some other swaps with T-Mobile and we did one with Leap swapping some AWS for some A spectrum.

And look, the A spectrum's out there. If somebody was to walk up to me and offer me a deal that made sense for us, obviously we would entertain that deal. At this point, though, as I said from the very beginning, this was not a fire sale and if we don't get the right offer we'll deploy that spectrum within our network.

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**Simon Flannery - Morgan Stanley - Analyst**

Okay. Good.

Earlier with Vodafone we were talking a little bit about machine-to-machine and I know you've had some important initiatives in that moving beyond sort of the traditional handset or even the tablets. Can you just give us a sense of what Verizon is developing in its labs and where you're starting to see real traction now because I think the challenge for investors is seeing dollars and cents today as opposed to some Google Glass kind of vision of the future?

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**Fran Shammo - Verizon Communications Inc. - CFO**

From a machine-to-machine perspective, I guess I would split it down to there's two main things for machine-to-machine. One is the transport side of it, which happens on the wireless network. So if you looked at our relationship with OnStar, we were the transport agent for OnStar, which if you look at that that was about \$0.50 per month per sub, very low transmission costs, very high-margin, but very low ARPUs.

Then you move into our Hughes Telematics acquisition, which actually is the platform that machine-to-machine runs off of. And to give you a second example, which is something that Hughes does today, is we have an insurance carrier in the states where they're going to embed a chip in your car to monitor your individual driving habits. It's the option of the consumer to get this, but the sales pitch is if you do this they can lower your insurance rates based on your personal driving habits.

The Hughes Telematics platform, the chip's embedded in the car, that's transported through the wireless network. But within the platform we do all of the analytics behind the scenes and pass that off to the insurance carrier so they can determine what the driving habits are and set your insurance rates based on that.

That ARPU per month is about \$8 per month per sub. So it's not just the transport of machine-to-machine it's the value proposition with the platform, the cloud, and we have the Hughes Telematics platform running in the Terremark cloud.

So when we look at this, this is not just a platform or cloud that can be done in the US, this is something that we can carry internationally. So if you think about Hughes, the two biggest customers of Hughes are international customers. They're not US-based.

So our Terremark acquisition allowed us to have data centers throughout the world. This platform now sits in those data centers.

So we believe that we can deliver machine-to-machine, but not just owning the infrastructure like we do in the states, but we can deliver the platform and the value prop outside of the states by utilizing other people's networks. So that's really the proposition that we bring around machine-to-machine.



The entire industry, if you look at everything within that's being developed, and we have two innovation centers in the United States one on the East Coast and one on the West Coast. And application developers are coming in those innovation centers and developing technologies that are going to run over an LTE network.

If you look at the amount of technology that's coming, the entire industry not only within the United States but around the world, but especially in the states, is absolutely going to grow. So the pie is going to grow and that means that all of the carriers should raise with the increase in demand that's going to come from these types of products.

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**Simon Flannery - Morgan Stanley - Analyst**

One of the innovations in the industry this past year has been the early upgrade programs and Verizon came out with the Edge program. Can you talk a little bit about how you see adoption of that and the economics and so forth?

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**Fran Shammo - Verizon Communications Inc. - CFO**

We just started this at the beginning of September, so I don't have even a full quarter under our belt yet to look at it. But there is a certain customer segment who wants the option to upgrade every year.

Now, this is an expensive option, obviously, because you're buying into a program that you're paying more for the phone over a 12-month period that allows you to upgrade in 12 months. And the whole model is based on the residual of that phone in the secondary market that the carrier can recoup to offset the subsidy, if you will.

So the cost of that phone hasn't changed. The consumer is paying more up front to reduce the amount of subsidy and then the residual happens.

So it's costly to the consumer but there are people that want the option to upgrade every year and it's just an option that we're offering. I would not say it's a material part of our portfolio.

I would also say that it's not materially going to change any of our operating results at this point. So it's just an additional option for our customers.

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**Simon Flannery - Morgan Stanley - Analyst**

Maybe we can turn to the Wireline side of the business. As with your LTE network, your FiOS network is one of the world leaders in terms of deploying fiber to the home. Can you talk about -- you continue to grow that consumer business now about 4% -- talk about the opportunities to sustain growth in your consumer business and what sort of demand characteristics you're seeing on that side.

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**Fran Shammo - Verizon Communications Inc. - CFO**

I think overall on FiOS we are growing the top line around 4% per quarter year-over-year now and I think that is a sustainable growth rate for us based on what I see. We continue to penetrate and gain share in our markets.

Now some of our markets are almost at 50%, some are actually at 50%, so some markets are maturing. Other markets like New York City are way underpenetrated because of how we entered the market and had to build into MDUs and dealing with landlords and letting cable let us in. So we're a little bit behind in like a New York City, but that's also now the fastest growing market we have within the FiOS footprint.

So if you look at this there's really two components here. What we're seeing is, number one, people want more speed from the broadband side of the house so we see that most of our customers are buying up to a 50 megabit.

So that's increasing the ARPU on the broadband side. And then, of course, we sell the linear TV side with that.

And I think the thing that we have gotten much better on over the last two years is, obviously, we all know come January 1 it's the magical time of the year where content costs go up. And we've gotten better with matching our content costs increases with price increases, very similar to what cable has done over the last 10 years. So we have become more knowledgeable and more strategic in how we approach that and that gives us the ability to maintain the growth that we have.



So from just a going forward perspective I see us continuing to do the same thing there. And then, finally, with the migration strategy that we started two years ago where we're migrating those copper customers within the FiOS footprint over to the FiOS product, we'll do over 300,000 this year. We came into the year with a target of 300,000; we'll actually do more than that.

But what we're seeing is that as these customers move over they are voluntarily buying up in speed. So we are seeing about a \$20 to \$30 ARPU increase once they move off of copper over into FiOS, and that's just strictly on a double play.

And then, obviously now, we're hitting a pivotal point because we will have less than 1 million customers come at the end of this year who are going to be left on copper within the FiOS footprint. So if you think about we're migrating 300,000 a year in about 2.5 years we'll be fully done with copper within the FiOS footprint.

Now we can start to actually start to speed up the decommissioning of some of that copper, get it out of the plant, and then you start to see some of these operating expense efficiencies that we've been talking about. So based on the FiOS successfulness, what I would say is, and I'm still confident about this, the Wireline margin will start to increase in 2014.

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**Simon Flannery - Morgan Stanley - Analyst**

How do you think about over-the-top either within the FiOS footprint or out of region? Now you'll have a lot more flexibility about converged strategies with wireless.

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**Fran Shammo - Verizon Communications Inc. - CFO**

So the way we look at over-the-top is obviously the big wall right now for anything over-the-top is content rights. So the content providers own the content and they give the rights as to where you can take that content. And most of the content today is within the rights of the home or if you take it out of the home it always goes back and authenticates to a linear TV subscription.

Now the first thing that has broken that mold, if you will, the traditional model, is the deal that we just entered into with the NFL, where we have the rights to stream content to a mobile handset of 7.5 inches or lower with live football games in the United States. So Monday night football, Sunday night, Thursday night and then Sunday games in a regional basis. So this isn't NFL ticket, this is something a little different to the mobile handset.

So from an over-the-top standpoint, I think the ecosystem's going to have some time to figure out how it's going to do over-the-top. But I think the position that at least Verizon we are in, is we're positioning ourselves to position it no matter how the ecosystem transforms.

We have our FiOS assets, we have our wireless assets, we have our Verizon digital media server asset, which is our content delivery platform, we have our Redbox joint venture, which we have learned a lot around how over-the-top works, what consumers like, what they don't like. So I think we have the assets to be prepared; if the market opens up we'll be ready to go over-the-top outside of our 13 states.

So I think we're positioning ourselves and our assets to take whatever opportunity comes down the pike. But I think it's going to take a little while for the content, if you call it disaggregation to happen, and how that whole ecosystem comes in from a value prop of how the content winners win, how over-the-top wins, and how mobile providers win.

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**Simon Flannery - Morgan Stanley - Analyst**

And any early indications of how willing people are to look at the NFL on small screens.

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**Fran Shammo - Verizon Communications Inc. - CFO**

It's very interesting. What we're finding is that people are willing to view that content and I think what happens is people are out doing other things during the day and they want to catch up on their games so they're streaming that game onto their handset.



So it's been, so far, we would say successful. Not that we're going to disclose anything on how many customers there are but we're learning a lot as to how many people want to watch it, on what devices they're watching. So it's been an education for us but it's been successful, as well.

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**Simon Flannery - Morgan Stanley - Analyst**

Good. Maybe we can turn to the enterprise side.

I think you referenced Terremark earlier and you introduced the Verizon cloud product. Maybe you could just sort of give people who don't know exactly what that is offering the client and what we should look for there.

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**Fran Shammo - Verizon Communications Inc. - CFO**

Sure. So I guess about two years ago we bought Terremark, which is a cloud center company which has data centers around the world. Immediately following that acquisition we did another very small acquisition called CloudSwitch, which came with a lot of software programmers who were very knowledgeable in the cloud space.

And over the last year and a half we have been developing really what you would call a virtual cloud which seems to be really seamless with no human interaction where you can go online and really buy à la carte, select what you want, what security you want, what service-level you want, and we think this will be extremely competitive in the small-medium business space. And also we'll be appealing to enterprise because it comes with the security side that enterprises are looking for.

So we've just launched this more in a beta trial about two months ago. We will commercially launch it in 2014. So we do think this could be a differentiator but it's too soon to tell, so we'll keep up this pace on this in 2014.

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**Simon Flannery - Morgan Stanley - Analyst**

Any comments, overall, on the macro environment, the enterprise demand side of things?

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**Fran Shammo - Verizon Communications Inc. - CFO**

I would say that the good news is that it's not getting worse but the bad news is it's not getting better. And I would say that, at least in the States, that we still have too much uncertainty around what the tax reform looks like.

As you know, may not know, we come to another cliff at the end of this year, which is we come out of the extension of bonus depreciation and some other tax preference items. So at December 31 that all expires. 50/50 chance as to whether that's renewed again for another year while we work through tax reform.

But I think the uncertainty is is do we get extension, don't we get extension, and then what does tax reform look like? Obviously, we have to have tax reform because we are now the highest effective tax rate in the world.

So it's not a competitive situation for the states to be in. So we have to bring tax reform to be more competitive across the international footprint, but what does that look like?

And until enterprise understands what that looks like they're just sitting on the sidelines waiting because they're not sure where to invest, what not to invest, what tax deduction do I get, what's my rate? so I think, Simon, until we come to a conclusion on this soap opera, I think we'll be in this steady-state and what I'm projecting for 2014 is probably no change in the enterprise space.

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**Simon Flannery - Morgan Stanley - Analyst**

And on the bonus depreciation, how does that impact your cash taxes if it does indeed expire?



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**Fran Shammo - Verizon Communications Inc. - CFO**

If you think back we were 100% at one point, I think two years ago in 2012, or 2011, we had 100% bonus depreciation then it went to 50%, then it was extended this year. So we've already eaten through 50% of the reversal that's happening, so that's already in our tax base.

The bigger piece of my cash tax actually comes with the acquisition of the other 45% of Verizon Wireless. So when you bring that 45% in, my cash tax we'll be pretty close to my book tax which will be about 35%, 36% because my tax preference items are already included in my consolidated return.

So cash tax will go up but the way the outside world should look at it is we had a mandatory tax distribution that we did to Vodafone every quarter for specific tax payment. So instead of distributing that tax payment to Vodafone who would then pay the tax, we'll just distribute that tax payment into the federal government.

So that cash flow really doesn't change, it's just how it impacts our books and records versus what Vodafone had to pay directly. So our cash tax will go up but it's going to be more impacted by the 45% acquisition.

## QUESTION AND ANSWER

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**Simon Flannery - Morgan Stanley - Analyst**

Okay. Thank you. With that, we've got time for some questions from the audience. If you would just wait for the mics.

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**Unidentified Audience Member**

(inaudible) just given the incremental innovation on the Smartphone kind of slowing down what is the smartphone upgrade cycle going forward and how does that impact your subsidy cost?

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**Fran Shammo - Verizon Communications Inc. - CFO**

I think as far as smart phones go, I think what'll happen is over time the subsidy model will start to come down as competition continues to be enhanced with the manufacturers that are out there. As far as subsidies go, though, I think the way to look at this is everybody looks at subsidy as a bad thing and if you look at what it has done for our industry it's actually not a bad thing, it's been a very profitable thing. What you have to do, though, is you have to manage the subsidies along with your prices, along with your returns.

As far as the upgrade cycle goes, as you know we've changed a lot of our upgrade cycles to a two-year cycle. Obviously, Edge allows you to upgrade every year but on the two-year cycle we're still seeing positive upgrades because we still have about 50% of our smart phones still on the 3G network.

So every time they upgrade into 4G I'm getting a new device in the customer's hand that's actually using it even more. And under the shared pricing plan we're actually monetizing that upgrade.

But I think over the next two years you're going to start to see the Smartphone subsidy start to decrease and then if you take it to the next stage, which is starting at the very tail end of 2014 beginning of 2015, we'll launch voice over LTE at the beginning of 2014. At some point I'll get to a VoLTE-only handset which will actually decrease the overall subsidy of the handset. Obviously, I'll put other chips in that handset for like multi-cast and some other things, but net-net the subsidies will start to come down.



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**Unidentified Audience Member**

You mentioned that you would be selective depending on the competitive environment in the US. In light of T-Mobile's new value plans and trying to shift more, trying to get some low-end postpaid and after your subscriber losses, at one point -- and firstly, what do you think of their new plans right now in trying to get the family plans to come over, and at what point would you be more inclined to bring your prices maybe more in line?

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**Fran Shammo - Verizon Communications Inc. - CFO**

The rule that we have at Verizon wireless is don't overreact to your competition, let's see how it plays out in the marketplace. And there's going to be certain circumstances where I don't need to respond to a price plan because, first of all, I have the lowest churn in the industry, my customers are loyal to the brand because of the quality of the network, the quality of our customer service. So, again, there's a lot more that goes behind than just a price plan to retain customers.

The other thing is if you look at any survey done over the last 20 years, the number one reason a customer leaves you is because network quality, not because of price. There'll be certain niches that carriers will play in that we may not play in. We said this back when prepaid first started and the low-end prepaid came in and we did not play in that space and even today our prepaid is at a premium to the marketplace but we still sell prepaid because of the quality of our network.

So there's going to be times that we will respond, but there's going to be a lot of times that we're not going to respond. And so we watch our competition everyday and we'll respond where it's necessary and we'll play it out where we don't think it's necessary.

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**Simon Flannery - Morgan Stanley - Analyst**

And you have a tablet promo ad out in the market today?

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**Fran Shammo - Verizon Communications Inc. - CFO**

We do have a tablet promo out in the marketplace today for the holidays to entice tablets. We think that we want to really energize the market around tablets.

There's going to be a day when really no one has a desktop or laptop in their hands, they're all going to be tablets. And if you look at what came out of the third quarter, we actually activated more than 100% of the tablets on our 4G LTE postpaid network, or on a postpaid network.

And you can say, how is it more than 100%? Well, all the new tablets we sold came with a postpaid plan in the shared plan. And the upgrades from the old first iPads that were only Wi-Fi enabled who now upgraded to a 4G tablet that just came out, they're also taking the shared plan.

So we want to entice the market to take more of the tablets, add them to the share plan, stimulate usage. So we're doing this promo through the holiday season to stimulate the usage.

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**Unidentified Audience Member**

There's a lot of speculation that AT&T is looking at making acquisitions in Europe. What do you think the new owner could do with wireless assets in Europe and turning fairly poor return businesses into more American-like returns?

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**Fran Shammo - Verizon Communications Inc. - CFO**

I think you should ask that question to AT&T. I can't answer that question.



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**Simon Flannery - Morgan Stanley - Analyst**

Can you just talk about your appetite for overseas expansion -- You did look at Canada this year quite seriously -- or not? Given your balance sheet constraints, you've talked about Hughes Telematics going global, so is there an opportunity to do something over the next several years or will deleveraging limit that?

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**Fran Shammo - Verizon Communications Inc. - CFO**

I think that the way we look at the international marketplace, obviously, with our Terremark asset, we continue to expand in Latin America. I actually cannot keep up with the pace of expansion in the data center there. The more I build the more overcapacity I need.

So there are certain pockets where we're expanding internationally. But the way I guess that strategically we're looking at it is we want to expand with our platforms, with our cloud. Hughes Telematics, obviously, is one of those platforms.

But we don't think we need to own the underlying network to be successful internationally. And I think that's, probably, the difference of a viewpoint in strategic looks. So you will see us expand internationally but not necessarily buying network companies to do the expansion.

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**Unidentified Audience Member**

Has the experience of the last few months in terms of congestion in certain urban areas changed your view of how much spectrum you need since, say, the summertime?

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**Fran Shammo - Verizon Communications Inc. - CFO**

No, it does not change our perspective on spectrum. It just accelerated the advancement of the AWS positioning in certain areas of the country.

But if you look at our portfolio, we still have enough spectrum to carry what we need for the next three to four years. But, obviously, we absolutely need more spectrum for the future.

Our anticipation is we will absolutely participate in the auctions coming up to get that or the secondary market, whichever is more appealing to us. But we will acquire more spectrum really for the next four years out.

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**Unidentified Audience Member**

And as a follow on, how realistic is it that you would expect to get spectrum in the broadcast-related auctions, the incentive auctions?

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**Fran Shammo - Verizon Communications Inc. - CFO**

We're not quite sure exactly what the FCC is going to auction. It's their option. And there's a number of things that they're talking about auctioning.

So I think at this point we'll just wait and see what is auctioned. But we're interested in the spectrum that they believe they're going to auction. They're actually talking about an AWS slice with a DoD overlay; that's appealing.

The broadcast licenses are appealing. H Block could be appealing. But we will definitely participate in auctions for additional spectrum.

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**Unidentified Audience Member**

If the broadcast auctions were delayed in some way past your deadline or timeframe you mentioned, is there actually enough other spectrum available through the FCC to accomplish your plan or would you have to go to the private market?



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**Fran Shammo - Verizon Communications Inc. - CFO**

Just to be straight, under congressional law they have to auction something at the end of 2014. So something will come to market at the end of 2014 because under Congress they have to. So it's a matter of what they bring to market.

So something will come to market whether it's the broadcast license or the AWS with a DoD layover. But one of them will come to auction and our anticipation is we will participate in that auction.

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**Simon Flannery - Morgan Stanley - Analyst**

Any early thoughts on Chairman Wheeler's priorities for the FCC?

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**Fran Shammo - Verizon Communications Inc. - CFO**

No early thoughts. We like the outlook that has been presented. He wants a competitive environment.

I think Congress is in the same position we are. Don't put regulation over caps on spectrum because everybody's different, cities are different.

So I think he's coming with a background from this industry, so we think that's positive. So we will work with Mr. Wheeler and I think we'll have a successful FCC along with the industry.

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**Simon Flannery - Morgan Stanley - Analyst**

You touched earlier a little bit on the prepaid market and resellers and it seems like certainly in Q3, I think, the industry added maybe 200,000 subscribers. It was a couple of years ago, it was sort of in the ascendancy and it feels like a lot of the shared data plans that you discussed earlier have a little bit changed that dynamic. But do you think there's an opportunity for Verizon to use its 3G network and to work with resellers to basically have other sort of pipes into the marketplace?

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**Fran Shammo - Verizon Communications Inc. - CFO**

Yes, and again this goes back to the whole issue of do I respond or don't I respond. And we have responded pretty aggressively with our 3G network around prepaid.

As I said before, we were more a premium to the marketplace. We have become more aggressive, especially with resellers under different brands.

We've been very, very successful with our Wal-Mart partnership through distribution of TracFone. And that's under a different brand, which has been extremely successful for the prepaid market, which is not somewhere I want to take the Verizon wireless brand.

We also have our own retail product which we have become more aggressive. If you looked at us we've had several price decreases over the last 24 months in our own prepaid product to keep pace with where the prepaid market is.

So the way we think about it is as more people move to 4G we free up space in 3G, we appropriate over the 3G spectrum to 4G. I want to keep that network as full as possible because the returns on that are high and the contribution margin is high.

And I'm not really investing any more dollars into that 3G network other than to keep it up and running. So we will become more aggressive around the 3G network to be competitive in certain spaces and prepaid is one of them.

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**Simon Flannery - Morgan Stanley - Analyst**

How do you think about the lifetime of the CDMA network once you get VoLTE and you get more people on 4G? You've obviously got the coverage now?



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**Fran Shammo - Verizon Communications Inc. - CFO**

I think you have to look at it as we have 38% of our customer base now on LTE, which means the rest of it's still on 3G, so I think you are looking at the 3G network goes on for quite some time.

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**Simon Flannery - Morgan Stanley - Analyst**

Great. Well, Fran, we appreciate you coming to Barcelona, and thank you for your time today.

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**Fran Shammo - Verizon Communications Inc. - CFO**

Thank you, Simon. Thank you everyone.

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**Thomson Reuters Editor**

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Verizon Communications Inc. has filed with the SEC a registration statement on Form S-4 containing a preliminary prospectus with respect to the Verizon securities to be offered in the proposed transaction with Vodafone (the "preliminary prospectus"). Verizon has also filed with the SEC a preliminary proxy statement with respect to the special meeting of the Verizon shareholders to be held in connection with the proposed transaction (the "preliminary proxy statement"). The registration statement on Form S-4 has not yet been declared effective and the preliminary prospectus and the preliminary proxy statement are not yet final and will be further amended. VODAFONE SHAREHOLDERS ARE URGED TO READ CAREFULLY THE PRELIMINARY PROSPECTUS AND VERIZON SHAREHOLDERS ARE URGED



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Verizon, Vodafone and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the shareholders of Verizon in respect of the proposed transaction contemplated by the proxy statement. Information regarding the persons who are, under the rules of the SEC, participants in the solicitation of the shareholders of Verizon in connection with the proposed transaction, including a description of their direct or indirect interests, by security holdings or otherwise, is set forth in the preliminary proxy statement filed by Verizon with the SEC. Information regarding Verizon's directors and executive officers is contained in Verizon's Annual Report on Form 10-K for the year ended December 31, 2012 and its Proxy Statement on Schedule 14A, dated March 18, 2013, which are filed with the SEC. Information regarding Vodafone's directors and executive officers is contained in Vodafone's Annual Report on Form 20-F for the year ended March 31, 2013, which is filed with the SEC.

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