

Vodafone Group Analyst and Investor Conference Call

Verizon Wireless to Acquire Alltel

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Arun Sarin**Chief Executive Officer, Vodafone Group**

Good afternoon, everybody, and thank you for joining us on very short notice. The purpose of this call is for us to run through our perspective on today's transaction, the value creation, and the impact on Vodafone. On the call today we have Andy Halford, our Chief Financial Officer; Lowell McAdam, who's the President and CEO of Verizon Wireless; John Townsend, who's the Chief Financial Officer of Verizon Wireless. All of us are here in New York City.

If I can ask you to turn to page four, I'm sure many of you are aware in the tremendous increase in the value of our stake in Verizon Wireless that we've enjoyed in the last three or four years. Consensus values are now around \$60-70 billion for our stake. Today's deal is about taking an industry leader which operates in the world's largest mobile market and accelerating its growth profile, its profits and its cash flows. Synergies from cost and capex will be at least \$9 billion on an NPV basis. As you're aware, the Vodafone Board is focused on maximising the value of the Verizon Wireless stake for our shareholders. This transaction clearly enhances the value of your assets.

If I can ask you to go to page five. I'd like to set out the core reasons why we see the US market as attractive and why this creates an environment for future value growth of Verizon Wireless:

- First, the US is the largest mobile market in the world. Last year, total market revenues were \$150 billion, up 10% over prior year.
- Penetration is still below 90%, well below European levels, and while growth from increasing customers will slow over time, customer propensity to adopt new products like data are very strong. In 2007, data revenue growth was 57%.
- Add to this an industry structure where one of our competitors – Sprint – continues to falter, and the platform for growth for the leading players is clear.

Turn to page six, please; page six sets out the deal terms. Enterprise value is \$28.1 billion, implying a multiple of 8.3 times 2008 EBITDA, or post-year three run rate cost synergies of \$1.1 billion, a multiple of 6.2 times. Neither we nor Verizon Wireless are contributing equity, as Verizon can finance this entire deal efficiently using debt. The deal should close by the end of the year.

Now I'm going to ask Lowell to run through why Alltel and Verizon Wireless are such a strong combination. Lowell?

Lowell McAdam**President and Chief Executive Officer, Verizon Wireless****John Townsend****Chief Financial Officer, Verizon Wireless****Lowell McAdam**

Thank you, Arun, and good afternoon, everyone. We at Verizon and Vodafone have had our eye on the Alltel asset for quite some time. It is a great asset: a very strong network with good coverage and good performance within the network; they have a great distribution network as well, with a combination of stores and indirect distribution, but the majority comes through direct distribution. They have been a proven performer in their financial metric delivery quarter after quarter, and the culture that exists within Alltel is a very strong performance-based culture and we felt that would sit very well with us.

From a scale perspective, with Alltel being the number five primarily regional provider, with 13 million customers, they sell in the white space on our network map very well. It's a strong complement and would result in in excess of 80 million subscribers. Verizon Wireless has about 260 million POPs covered, and that will result in well over 290 million POPs covered in the final network, with 35,000 cell sites and about 30,000 distribution outlets.

The technology path that they are on is identical to ours. They use 1x CDMA for their second generation network. They have converted to EVDO, as has Verizon Wireless, and Rev A, for our 3G network, and they have announced to be on the path for LTE, along with Vodafone and Verizon Wireless and other large carriers around the country, so integrating the networks will be quite simple. We have an extensive roaming agreement with them today and so we do pass traffic back and forth and have links with their billing systems, so again that helps with the transition.

The other thing that Alltel, I think, has done well is, over the years, as they have purchased property, they have completely acquired and integrated those properties. As an example, they have one billing system. When Verizon Wireless came together in 2000, the four companies that we had had a combined 17 billing systems that needed to be integrated, and so this type of integration with Alltel will be much more streamlined than what you might see with other acquisitions.

If you look at the financial highlights for both 2007 and first quarter 2008, you see a strong overall performance in most of the networks. Because their acquisitions were behind them, they were really achieving the kind of synergy performance that had been expected. You can begin to see the benefits of the scale, even as a regional carrier.

We feel that we can improve on those, however, and if you go to page eight, you see some of the key performance indicators that we would expect to see as a combined entity. By any measure, the premier asset in the wireless industry. John will talk about some of the synergies, but we have based those synergies mostly on cost, so you'll see additional opportunity around things like post-pay churn. There's a 30-basis-point difference between our post-pay churn and theirs, and there's about a \$3 difference in data ARPU per customer. Again, those have not been reflected in

our synergies, so lots of opportunity but, clearly, we'll be putting together the premier wireless asset based on any measure in the US market.

So, John, would you take it from there, please?

John Townsend

Thanks, Lowell. I'd like to move to slide nine and I'd like to talk through the synergies that we see coming from the acquisition of Alltel. You'll notice immediately that they are significant. We expect to realise from the combination of the two businesses over \$9 billion in terms of net present value. So let me give you a little bit of flavour in terms of how we see that materialising. So, within the first year of close of the deal, we expect to yield synergies in the region of around \$1 billion, and that will increase to around \$1.5-1.7 billion on an annual basis by year three. In terms of the composition of those synergies, cost synergies in year one will be between half a billion dollars and slightly over, rising to around \$1.1-1.2 billion by year three.

In terms of how we see those being made up, we see a number of categories:

- Firstly, from consolidating the two networks that the businesses have, significant savings from there.
- Then removing advertising and media overlap from the markets in which we carry out those activities.
- Then, of course, from removing duplicate activities across the two businesses.
- Then, finally, we also see significant roaming savings coming about as a result of internalising traffic.

From a capex point of view, we see these coming primarily from rationalising and consolidating the two networks of the two businesses, and also the IT infrastructure.

If you then move down the slide, you can see that we anticipate integration costs of around \$1.6-1.8 billion over the first two years of the deal, and then the integration being substantially complete. In terms of the factors which will give rise to those, then it's primarily the network consolidation and the work that we'll have to do in terms of removing the duplication there, removing the duplication from the various functions across the business, and then also re-branding.

But I guess, just to reiterate what Lowell said, we feel very comfortable about the \$9 billion that we have on this slide in terms of our ability to realise it. The operational models of both businesses are very well-aligned and in terms of both management teams have a lot of experience in terms of assimilating businesses successfully. So very confident about our ability to achieve these. So, Andy, I'll hand over to you.

Andy Halford**Chief Financial Officer, Vodafone Group**

Thank you very much, John. On page 10 now, let me run through briefly the impact on Vodafone. First, the deal will enhance adjusted earnings per share before intangibles and integration costs. This reflects the attractive price being paid, the efficient financing structure and the significant operating and capital cost synergies that John has just summarised.

Next, the Verizon Wireless Board has formally agreed to review Verizon Wireless dividends annually, taking into account factors including its business outlook, its cash accumulation and its debt maturity profile. It is, however, clear that Verizon Wireless will be significantly geared from closing, so we expect that, in the first three years, the focus will be on reducing the overall level of debt.

Separately, the Verizon Wireless Board has agreed to increase the cash paid to both partners to cover their tax liabilities. Vodafone's share of this over the next four years will total at least \$1.15 billion: \$250 million in the first year, \$300 million in the second year and at least \$300 million in each of the third and fourth years.

From our perspective, this transaction materially enhances Verizon Wireless's future growth profile, profitability, and, hence, value. The Vodafone Board, therefore, remains of the view that the best option for shareholders is for Vodafone to continue to hold its stake in Verizon Wireless and benefit from this value appreciation going forwards.

Thank you and, with that, we will now open up for questions.

Questions and Answers

Paul Howard, Cazenove

A couple of questions: I think Verizon Wireless, in the past, has talked about double-digit revenue growth in the near term. I wonder whether you can clarify what the near term is and whether this transaction changes that. Is there a period of consolidation or does it, in fact, enhance it in any way?

Then, secondly, I understand that Vodafone didn't have a right of veto on this transaction and, clearly, Vodafone liked this transaction, but I'm just wondering why the decision was taken to review the distribution policy annually and the extra tax distributions. Did Vodafone have some leverage in that respect to allow that agreement to take place?

Arun Sarin

Paul, thank you for your questions. Maybe, Lowell, do you want to take the first part and I'll take the second part?

Lowell McAdam

Yes, absolutely, Arun. The planning period that we have is over a three-year period. Obviously, it's a rolling period. This transaction does nothing but enhance our revenue growth opportunities, so we would stand by our double-digit revenue growth.

Arun Sarin

To your second question, Paul, we have a good partnership here in Verizon Wireless. It's a very successful business. Both partners want to enhance what we're doing here and the tax liability – enhanced tax liability – obviously accrues to both partners. So, as Andy said, \$250 million for us, the proportionate equivalent value for Verizon Communications and, likewise, in the other three years of 300 and no less than 300 and no less than 300. Both parties win in this process and it's a good relationship.

Mandeep Singh, Morgan Stanley

I'm really interested in the timing of this transaction. Clearly, the Alltel LBO was done at the height of the credit bubble in May 2007. Whilst it wasn't official, I guess there was an opportunity for you to look at Alltel back then, because the synergies were as compelling then as they are now. So I'm interested in understanding a bit more about the timing because, clearly, it's not an impression of a distressed seller because you haven't paid less than what they paid so, if you could give some colour on the timing, that would be interesting.

Arun Sarin

Mandeep, this is Arun. So, yes, you're right: we did look at this transaction last year but, at that time, there was a sense that there was going to be a bidding war for the asset. We went to a level that we were comfortable with and we were outbid by a private equity consortium. As the year has worn on, first of all, the company has performed really well and, as you can see from their numbers, double-digit revenues, double-digit profits, and the opportunity came up in the last few weeks for us to look at this asset again. There is a credit issue here – there is a credit crunch aspect to this valuation, which helps us bridge where we think values are today and where values were nine to twelve months ago. We're very pleased with this. We're buying this asset at 8.3 times 2008 EBITDA and, if you take it after the synergies, it's more like 6.2, so we're very pleased with the price that we're paying for this asset and, hopefully, we'll do better.

Justin Funnell, CSFB

A couple of questions, please. On the dividend – the extra \$250 million plus – your US dividends, or dividends you've received as a partner in the asset, have been gradually increasing anyway as the profits of the business have grown, so should we be adding these extra dividends on top of what naturally your dividend would have been growing at under the previous payout ratio, or do we just literally add these on to the roughly £400 million that you received last year, if my calculation is right?

Secondly, when we think about the intangible amortisation, presumably we are looking at the equity you're paying in this deal as the base for that, and then it's some proportion of that that we're writing down. Please correct me if my understanding of the accounting is wrong, which it probably is.

And then, finally, on antitrust, I'm sure you were asked about this in the Verizon call, but could you just explain to us what degree of confidence you have on this deal being approved?

Arun Sarin

Andy, do you want to take the first two and, Lowell, would you take the third one?

Lowell McAdam

Yes, sir.

Andy Halford

Yes, so, Justin, on the tax divis, there's been a formula to recompense the partners for some of the tax costs that they bear directly, as distinct from those that are borne in the partnership. That has left a bit of a shortfall just recently, so a combination of this supplementary payment plus some internal restructuring that we have done will actually mean that we are now awash on the overall tax payments. So, to answer your question another way, this 250 etc will be incremental to what we would otherwise have expected to have received.

Secondly, from a UK perspective, the valuation essentially will start with what was the agreed valuation and then we will have to apportion the various component parts to the customer lists and the usual thing, and that is an exercise which, obviously, will happen in due course and, once we've done that, then we'll know exactly what the numbers are, what the amortisation costs etc will be.

Justin Funnell

Just a clarification there: the valuation of the equity or the EV?

Andy Halford

It will be the valuation of the enterprise of the business.

Justin Funnell

The EV. Okay, thank you. And the third one – the antitrust question?

Lowell McAdam

Yes, this will need to be approved by the Department of Justice and the Federal Communications Commission. The FCC has a 180-day clock for approval of mergers like this and the SEC has their targets as well, but we clearly think that we can get this approved by the end of the year. As far as what we would have to divest, there will be some markets where we both overlap and we both have very, very strong market shares. You may not be aware, but we have recent experience in getting our Rural Cellular Corporation acquisition approved and so we know what the DOJ is thinking about. For our planning purposes, we're estimating we could be in the 10-15% of POPs that would need to be divested and we clearly see opportunities with other companies, other carriers, to divest those assets fairly cleanly. So, again, on track for approval end of the year and then we can begin full integration.

Simon Weedon, Goldman Sachs

I wondered if you wouldn't mind elaborating a little bit more on the dividend policy beyond year three. How much of this is a firm commitment on the part of Verizon Wireless to set a dividend that may increase before net debt reaches nil and how much of this is conceptual, principally?

Secondly, much easier, I think – or quicker, anyway – to deal with, will Verizon Wireless be going back into the bond market in its own name again?

Andy Halford

So, Simon, the agreement that the Board of Verizon Wireless has is that, each year, they will review the potential for dividends, so that is now a commitment to happen once each year. It is not committing on the outcome of that review process, but it is a commitment to formally look at the prospects of the business, look at the cash that is being accumulated – and remember, the cash flows of the combined business are going to be very, very significant. It is accepted, for the first three years, however, that the focus will be on paying down the debt but, at that point in time each year, we will be having a review to see what is the right thing to do on the dividend. So it's not an absolute commitment to any amount; it's a commitment to have a review and to look at it as shareholders.

In terms of the debt financing, obviously a lot of this is detail that's being worked on at the moment, but I think you would expect that there will be some element of bond issuance at the Verizon Wireless level.

Simon Weedon

Okay. Can I just come back on the dividends? Would it be fair to say that you've essentially permanently changed the mechanism for calculating the tax distribution and that remains as a minimum – a growing minimum – over time beyond the third and fourth year?

Andy Halford

It is an agreed structure for a four-year period.

Christian Kern, Lehman Brothers

Two questions, if I may. The first one would be: can you quantify the enhancement you expect at your adjusted EPS level?

The second one is: do I understand you right that the tax payment which is incremental covers your tax liability out of that partnership but does not provide you with any additional cash. Is that correct?

Andy Halford

Okay, well, taking them in reverse order, there will be some tax payments that are made by the partnership, which have always been made by the partnership; there are some tax payments that are made directly by the parents. The tax distribution has been there to enhance or to cover the latter for the parents. The way the formula works has meant that it hasn't quite covered it in total, so by having this enhancement, it will actually go a further way to actually covering the net expense for the parents.

On the EPS side, we are going through the calculations. Obviously, there are a number of factors in terms of the timing of the close, the integration costs and how much of those will be capitalised and how much will be going through the P&L. The intangibles, as I just said on Simon's question. We have yet to go through the detailed exercise to go and allocate all of those. So we are expecting, before all of those, that there will be a steady increase in the EPS enhancement, but the net number is something which we'll work on between now and closing and we'll communicate externally when we have got more clarity on that.

Ariane Mahler, Tradewinds Global Investors

I want to ask you if this deal is going to potentially change the landscape for roaming arrangements in the US because my understanding is T-Mobile and AT&T Wireless rely to some extent on Alltel for those rural markets where they don't have any coverage. So I'm wondering to what extent these roaming arrangements are set in stone or you can renegotiate them and maybe incorporate that in your synergies.

Arun Sarin

Lowell, do you want to take that one?

Lowell McAdam

Yes, Arun, I will. Ariane, there's two aspects to this: first is the Verizon Wireless roaming agreement on Alltel and, as part of this agreement, we did renegotiate our roaming agreement that would occur between now and close to advantage both companies in exchanging our roaming traffic; and then it is our clear intention to maintain the GSM networks that Alltel has to the extent that we meet the Department of Justice's requirements. I'll use that as a caveat but we would maintain those GSM networks to maintain that roaming revenue as we go forward. So, certainly, those agreements can be renegotiated but it is our intention to keep those agreements functioning and to maintain that revenue and then, ultimately, transition those networks over to LTE, which is what AT&T and T-Mobile have both put themselves on the evolution path for.

Ariane Mahler

If I may follow up, these carriers and yourself in the US – and Sprint – are starting to offer those unlimited plans and, when you roam into these rural territories, it's pretty expensive. You'd be in a very good position to ask for more roaming charges from these companies that are your competitors.

Lowell McAdam

Well, yes, but there are lots of opportunities for us to leverage their network assets as well as ours. We'll certainly look at those as we go forward and find the best financial balance for us. So, obviously, we're going to use the scale and scope of those networks to the Verizon and Vodafone advantage, but we do think continuing to have a good roaming relationship is important.

Arun Sarin

Lowell, let me just cap that question off by saying it's no different than what Alltel had. Alltel was also competing with these companies and was in a similar position. Now, obviously, Alltel will be part of a larger organisation and these things will be reviewed over a period of time.

Ariane Mahler

Can you just tell me when these agreements were renegotiated last with T-Mobile and AT&T Wireless? Do they expire next year? Do they expire this year?

Lowell McAdam

Ariane, I don't have visibility to that at this point. That's something that we'll get closer to as we go through the due diligence process.

Andrew Beale, Arete Research

Just a couple of questions: I know the increase in tax distribution is a pretty small number in the scheme of your free cash flow guidance, but how much of the increase in tax dividend is incremental to your free cash flow guidance, or was this already factored into your guidance before?

Secondly, in terms of the rural market, there are obviously further potential rural acquisitions out there. I know you won't want to box yourself in on this, but should we think that Verizon Wireless is largely done in terms of acquisitions or are there still things that you will continue to evaluate going forward?

Arun Sarin

Andy, do you want to take the first one and Lowell will take the second?

Andy Halford

Yes. So, Andrew, the first of the enhanced tax distributions will be in 2009. Realistically, probably, we'll be outside of our 2008-09 financial year so, therefore, in terms of the year that we have given outlook guidance on, it'll probably not have a consequence, but it will then kick in in the following financial year.

Lowell McAdam

Then, Andrew, on the acquisition front, I feel like our plate is fairly full at this point. Hopefully, we'll be closing on our Rural Cellular acquisition later this month and then we'll move on to the Alltel acquisition, but I think our view is we always keep our options open, we always look for good opportunities at the right time, just like we did with Alltel, so I certainly wouldn't close the door going forward.

Robert Grindle, Deutsche Bank

Apologies because I joined the call a bit late, but did you say anything about the Vodafone dividend policy? Will the growth in the dividends going forward be based more on the earnings before acquired intangible amortisation? I think this is quite a significant effect.

Andy Halford

Yes. So, Robert, as I said earlier, the full impact of the acquired intangibles, we have yet to work through, so obviously we'll do that between now and closing. I think that the thing I would say is, just as we said when we did the India transaction, the Board are keen to have a sensible dividend going forward and, therefore, if there was to be an adverse impact here, I'm sure the Board will look at it in the broader perspective and make sure we were doing the right thing overall on the dividends for our shareholders.

Arun Sarin

Operator, we'll take the final question now.

Laurent Sierra, Redburn Partners

Regarding fixed and mobile convergence, while your larger competitor in the US is currently playing this story, I know you have to now consolidate Alltel. Do you see any hurdle for Verizon Communications and Verizon Wireless getting a bit closer, as being managed as a joint venture?

My second question was on Home Station in Europe. How will you make sure that mobile broadband won't be slowed down on fears of cannibalisation of fixed-line solutions in the US? For example, how much do you think mobile broadband will cannibalise fixed broadband solutions in the US?

Lowell McAdam

Okay. A couple of questions there, then: on the convergence aspect, we do bundle services with Verizon where we are in footprint with them, so home phone, internet services, they have a high-speed offering over fibre called FiOS and we look to bundle those where we can in the fixed-line environment. We've also announced recently some additional partnerships with fixed-line companies out of the Verizon footprint. Quest is one that you could review but they have the Rocky Mountain/western parts of the States – a similar relationship with Verizon, obviously, without the partnership. So we'll leverage those where the opportunity comes up. We do see other partnership possibilities and we'll take advantage of those.

As far as mobile broadband cannibalising the fixed broadband, Ivan and Arun have been very clear with us that we should go out and be as aggressive as we can in the marketplace. If we cannibalise the service, Ivan's view in particular is he'd rather have that customer go to Verizon Wireless than to any other. So I personally still see that the fixed-line speeds are outpacing the wireless speeds. Obviously, our speeds have gone up dramatically in the last few years, but there still is some advantage to the wire-line side, so we view this, at this point, as complementary and, where it does become cannibalistic, we're going to be aggressive and make sure Verizon Wireless is the choice of the consumer.

Arun Sarin

Lowell, at this stage, can I thank you and John for joining us on this call? Thank you very much and thank you all for joining us this evening on short notice. I hope we've answered your questions as it relates to this transaction. Obviously, the closing will take several months and we expect this transaction to close by the end of the year. We'll keep you posted on the progress we are making. Thank you all once again and have a very good evening.

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