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Conference

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CORPORATE PARTICIPANTS

Lowell McAdam *Verizon Communications Inc. - Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

John Hodulik *UBS - Analyst*

PRESENTATION

John Hodulik - UBS - Analyst

Good morning. Thank you Bob for the introduction. My name is John Hodulik; I'm the telecom analyst here at UBS. Thank you all for braving the weather and joining us this morning. We are very pleased to announce our keynote speaker is Lowell McAdam, the Chairman and CEO of Verizon. Lowell, thanks for being here.

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Good morning, John. Thank you all. Bob, congratulations on another great conference, 40 years, 40 plus years, very impressive. And thank you all for coming, braving the first storm of the year here in New York, welcome to winter. It is good to be here with you.

John Hodulik - UBS - Analyst

Great, we're just going to dive right in. We have got about 45 minutes here for Q&A. I am going to lead off with a number of questions and then we will have some time to take some questions from the audience. So, Lowell, 2013 was a big year for the Company, I think it will be remembered mostly for the end of the partnership with Vodafone and Verizon taking full control of Verizon Wireless. But can you highlight some of the other big milestones that the Company had this year?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Sure, so let me just comment quickly on Vodafone and then we can move to the broader business. Obviously that is a huge thing for us. We have been focused on that for about 10 years. So as they say, good things come to those who wait. And I think we found a win-win for Vodafone and for us. It gives them the money to sort of retool their business and it gives us what we would argue is the strong position to do whatever we need to do.

We see a huge growth spurt ahead of us in the wireless industry and in telecom in the US. And Bob did a little bit of an overview of why he is excited and UBS is excited about this whole sector of the economy. So if you look at day one we will have 10% EPS accretion. Some of you in the audience are arguing we are conservative on that, we will see. But sets us up for probably some of the things we'll talk about in the next 45 minutes.

If you look around the rest of the business though you feel -- I feel very good that this year we completed our LTE build, I think we announced in June or July 301 million pops covered, gives us tremendous platform for video and machine to machine going forward. Lots of opportunity to make that more profitable.

On the wireline side we introduced FiOS Quantum, so in the market we have 300 megabit service into the home, soon to be 500 megabits, more broadly available. We have converted 300,000 this year; we said we will hit that number and we will, copper customers over to fiber customers. So with that comes better cost structure and better revenue structure.

And then on the VES side, while we are still seeing the headwinds that everybody sees in the government sector, etc., for enterprise, but we have taken this time to sort of retool and redesign our processes, make us more efficient. We have been able to accomplish that and we are seeing nice growth in our strategic services side, in our cloud platforms, our security platforms, etc.

So I think we have had a very good year from an overall return; we are seeing at the end of third quarter I think 16.6% growth for our customers -- or for our shareholders. And we expect to have good results to end the year and we'll be set up well for next year.

John Hodulik - UBS - Analyst

Great, nice overview. So why don't we first start with -- we're digging into those different pieces starting with wireless. Obviously being the first to deploy LTE in the US is a big win for Verizon, it allows you to build upon your leading market share. Now that some of your competitors most notably AT&T has LTE in the market, how do you, as you look forward to 2014, how do you continue to differentiate Verizon Wireless?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, if you look back over the last decade you see this effect where we typically have led out with the next generation of technology, we have used it as a competitive advantage. And then others talk about sort of catching up to us. But our view is there is always another chapter in that book.

So as we are deploying AWS now, that gives us additional speed and additional capacity in the network to provide services like video. And one of the things we're going to do at the Super Bowl here in what -- less than two months now is demonstrate the broadcast technology. So in New York City with the right device, with that caveat, you will be able to watch the Super Bowl live.

I think you will see as we roll out services in 2014 and beyond more and more things that you will be able to watch live on your device. And that sets us up for things like machine to machine and all the healthcare and energy and education, the smart home that we have talked about as well.

So I think our goal is to keep the network ahead of our competition, we think we can do that. But that by itself is not enough. It is what are the applications and the solutions that you are bringing to take advantage of that technology and I think that is how we differentiate going forward.

John Hodulik - UBS - Analyst

Staying on that video point. I mean video seems to be getting a lot of attention. Can you just talk about on the wireless side exactly how you are doing to monetize that opportunity? You talked about the multicast network, when will that be ready? And then in terms of the relationship with the NFL and the Super Bowl, how are you monetizing that? Is it driving subs or is it ARPU or (inaudible)?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes. Well, I mean, none of these things are one single effect, right? So the NFL mobile app, as an example, we are seeing significant rise. If you just watch -- and the NFL has never been more popular, never had more viewers. And so, we sell that -- that service is available as a free app and then it has premium services that we sell on top of that. And so the regular basic app drives a lot of usage for us and then we get additional revenue -- subscription revenue as a result of the premium apps.

I think that is our formula going forward, whether we are working with other sports networks or providing other video applications. The big trend that I see coming we call converged services and that is the ability to take the things that you have in your home on mobile as well. I think we just announced last week another dozen channels -- so we are up in the 20, 25 range at this point -- that you can take that content from your FiOS set-top box and stream it onto your mobile device. And I see that coming more and more.

And if you look at -- whether it is Google and YouTube or you look at some of the Facebook and Twitter applications -- much more focused on mobile video. Now there are lots of ways to monetize that. We just announced EdgeCast this morning as an acquisition for us. That is part of our Verizon Digital Media Service platform, VDMS.

That allows you to insert ads, it allows you to tailor the content of the individual user. So there will be lots of ways for us to monetize, including these 800 numbers that you hear about. But I don't think those models are clear yet, but I think there is lots of opportunity to monetize.

John Hodulik - UBS - Analyst

So switching to the competitive environment, I think 2013 will also be seen as the year where we started to see a little bit more pressure definitely in the low end of the market as -- with T-Mobile starting to grow subs again. As you look out into 2014, how do you see the competitive environment evolving?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, I think the good news is that you are hopefully going to see a couple of the carriers that have had some difficulty get a little bit healthier. And I think that is better for the overall marketplace to have four healthy carriers than it is two very healthy ones and two that are struggling because frankly that forces them to do irrational things in the marketplace. So I am hopeful that they are.

Now if you look though over the last 10 years or 15 years now of Verizon, we have not been the one to go down and chase the low end of the market. And whether it be a prepay or an MVNO or carriers that have kind of come and gone over the years, we have continued to offer that sort of high-end reliable experience with good customer service. And as a result we have had the lowest churn in the industry for probably 10 years. So I do expect the dynamics to change but we are going to continue to play our game and you won't see us going down in chasing the low end of the market.

John Hodulik - UBS - Analyst

Now some of the success you have had in 4G has driven some traffic that seems as if it was maybe stronger than you had expected coming out of the gate here and has resulted in some congestion issues in some big markets. Can you update us on where you are in terms of remedying those issues?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

You are very nice in how you -- as you go around New York you hear it in a little clearer terms. So let's put that in perspective. So, yes, we have seen tremendous relative market share growth for Verizon over the last couple of years and there are certain hotspots that frankly the network hasn't performed at the level that we would like it to. But let's also put it in perspective.

There are, depending on how you want to define the New York market as an example, 300 cell sites, there were -- there are maybe a handful, a dozen that we felt we had issues with with capacity. And with LTE if you load the cell site up the cell site actually shrinks, they call it breathing.

So we have had to go in and fortify -- we are fortifying 49 cells in the New York area, 42 of them are already done, so we have got just a handful left. And when you put AWS on those we advertise and talk about 8 to 12 megabits of throughput. If you read the bloggers that have AWS handsets they are seeing 50, 60 megabits of throughput.

So the cells recover very quickly when you can add that additional spectrum. So we are I think now back where we want to be with exception of those couple of cell sites we have got left to do and we will have a plan to stay ahead of that. So I think it is a short-term blip and this just proves that you have got to stay ahead of the demand and we will do that.

John Hodulik - UBS - Analyst

It seems -- now you discuss New York, is that -- are you in the same schedule in other markets where you are seeing the same issues?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, but there is no place I would say that we are seeing the issues that we saw in New York. New York is just a different animal. But we have got in the neighborhood of 50 different cities around the country that we have got -- we are planning on having AWS fully deployed in the first half of this year to stay ahead of it. So I think -- and that involves deploying the handsets as well as deploying distributed antenna systems, some in building systems and obviously the spectrum on the cell sites.

John Hodulik - UBS - Analyst

Now in terms of the excess usage you saw, was it faster growth in 4G devices or was it more usage per device, I mean what was --?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

It is a little bit of both. I mean I am not here to talk about fourth-quarter numbers, but when the analysts and the audience do the net add in the market share you will see that we are taking a lot of market share right now. And people love the service. The video demand on the network is pretty dramatic. So if you look at our LTE devices, in the ballpark of 50%, and we are seeing over 60% of our usage is on LTE now. So people, when they get the device in their hands, they use it a lot.

John Hodulik - UBS - Analyst

Staying on the technology side, where is Verizon in terms of LTE Advanced and what kind of speeds -- what are really the advantages to rolling out LTE Advanced versus LTE?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, so I sat down with a couple of -- well, our two main vendors, Alcatel Lucent and Ericsson and talked about this. And I think -- we love to think about events and there will be a 5G or there will be an LTE Advanced. But it really is a series of upgrades and use cases to improve things like throughput, improve things like handling video, improve some of the security aspects of it.

So there won't be this massive change out of antennas and networks as we did between 3G and 4G. So it will be this sort of ongoing peel back the layers of the onion approach. So it will be much more around optimization, throughput, capacity -- those sorts of things.

John Hodulik - UBS - Analyst

In your opening remarks you talked a little bit about some of the new opportunities like video and machine to machine. I think you have said on the call that it is going to be hard to maintain the kind of 8%-ish service revenue growth that we see. First, could you talk about -- in a little bit more detail about now that we are reaching capacity on the sort of traditional handset market or reaching full penetration what these other growth areas are and do you continue to expect to be able to grow faster than the market?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes. Well, so in our case about two-thirds of our devices in the market are LTE -- are smartphones. And so, we've still got a little bit of headroom here, 30% headroom to change out basic devices. Then our smartphone base, about half of those are LTE. And when you convert to LTE you see that rise in usage and revenue associated with it. So I would say we are definitely not tapped out from a growth perspective. And then you layer on the video applications that we talked about.

And then just to say a couple words about machine to machine, if you walked around CES last year, and those of you that will be there this year I expect even more, they had an entire hall dedicated to machine to machine applications. So all of the smart homes, the medical devices -- I am on a CEO Council with Muhtar Kent from Coke that is looking at healthcare and how we can deploy technology and best practices to lower healthcare costs for employees.

We work our way through literally thousands of applications in healthcare that will improve management of chronic diseases and that sort of thing. Those aren't huge usage drivers on the network, but you are looking at tens of millions of connections. So -- and at margins that we expect that will be pretty good. So I think there's a great opportunity to see, as I said in the opening remarks, the next wave of innovation and the next wave of growth for the wireless industry is going to be a good one.

John Hodulik - UBS - Analyst

So maybe we could drill down a little bit on the cost side. First of all churn has started to rise a bit from admittedly very low industry leading levels. Is this something we should worry about? And if you could talk a little bit about what is driving the basis points increases in churn you guys have seen?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes. I mean if you look over the years, you remember when we started we had churn of 2.5%, so being down well below 1% doesn't feel like a high level. A basis point up or down on sort of a seasonal basis doesn't worry me, but you do have to pay attention to what customer needs are. That is why things like staying ahead of the network, staying ahead of these applications are important.

My expectation is as you see competition change as other carriers come in and out of the marketplace you will see a little bit of that, but the core high-end post pay customer for us is very strong. And we will make some tweaks; I think you saw AT&T make some pricing adjustments over the weekend. That was, in my view, is just some slight adjustments, nothing that we need to react to. They really at the high end just came down to match us, where we were.

But as I said in the beginning, our main customer base isn't the low end it has a tendency to move. So we will see a movement in churn but I don't expect to see major shifts. And to the extent we have to react, we will react.

John Hodulik - UBS - Analyst

Let's turn to subsidies. You focused on cutting subsidy costs through fewer upgrades. Any chance that we could see some pressure on the subsidy per device over time as you get more comparability between the smartphones?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, that is something we have always talked about is are you going to see handset subsidies come down because you are at the lifecycle position or you are able, in our case, maybe to take a chip out of the phone here in the next couple of years as you move to VoLTE.

But what I expect is that you are going to see additional capabilities move into the phone as well. We talked about the broadcast technology for video, that is one of those that would add to the cost. So our belief is that we will see relatively flat on the subsidy side because there are some puts and takes here. But every time you have seen devices have increased capability.

I remember huge discussions around this when we did the original Apple deal, and they said, oh my God, the cost of the device is so much more, your subsidy is going to be higher. Well, our revenue, that is what's driving our revenue up by 8% on wireless and we have never had higher margins than we have had in 2013. As we said, we will come in in the 49% to 50% range. So I think at the end of the day increased capability on the mobile device is a good thing for the industry, not a bad thing.

John Hodulik - UBS - Analyst

So, update us on it your VoLTE plans. I mean say it is something you have talked about, it is starting to roll out I think by the end of 2013 year. And then -- but how soon -- first of all what are the advantages, one, to the customer and then to the Company and when can we start thinking about phones that are VoLTE only?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes. So, as you said, we are testing VoLTE in the market now. The advantages to the customer really there is a whole suite of sort of high-end communication services that has been on the roadmap for quite a while. So HD voice, conferencing, the video, the face time-like applications will be much easier from the device than they are today. So I think those will be a nice set of improvements for the customer.

What it really allows us to do from a cost perspective, eventually we will take the chips out of the handset and that will take 5 bucks or whatever you want to believe on the handset out of it. But what it allows us to do is manage our spectrum better. Then we will be able to retire some of the spectrum that we have had dedicated to the voice and move that onto data, that refarming. And that is really the prize for us. So the prize for customers is higher definition and a few more services and the prize for us is reducing our cost on managing the network.

John Hodulik - UBS - Analyst

Got you. So finishing up on cost, the 45% to 50% margin guidance has been really the hallmark. I think it has been the big stake in the ground for Verizon Wireless.

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

It is 49% to 50%.

John Hodulik - UBS - Analyst

49% -- did I say --.

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, you said 45%, Fran would not want me to let that go. 45% -- our business units would love it.

John Hodulik - UBS - Analyst

How sustainable is this level given the increasing competition or spectrum (multiple speakers)?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, I know a lot of the folks in the audience would love to hear us say, well, we can push that higher. Inside the business here is how we think about it. There is lots of opportunity for us to take more cost out of the business. Our IT team does a terrific job of streamlining the processes and the systems so we can activate more and self-heal the networks. So that is a positive.

We deployed what we call Verizon Lean Six Sigma a couple of years ago; this year we will take about \$5 billion of cost out of the business. And how that manifests itself is by improving the product and the network, you take fewer calls into the call centers. We shut down I think three call centers and call centers are typically 800 people for us. We are shifting more traffic to the Web.

So there is all sorts of opportunities to take cost out of the business. And that gives us a little bit of headroom if we have to do something from a competitive perspective. So our view is maintain those margins on the wireless side. And on the wireline side we said this year would be flat, it is. We had a good third quarter and lots of people are expecting that to improve, but we said flat.

And then next year we expect to see some expansion and that is things like moving people off of copper onto FiOS, seeing greater penetration of FiOS in markets like New York, growing strategic services on the VES side. So we think those are sustainable and we've got lots of opportunity to make sure they are.

John Hodulik - UBS - Analyst

Before we switch to wireline just a couple questions on spectrum. The AWS spectrum is being rolled out I think faster than you had originally planned. Do you still feel confident that Verizon has enough spectrum in its current holdings to see you through to the incentive auctions or some of these other auctions that are coming up?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, we think so. And you have to look at this from several aspects. If you look at it from the product side, I mentioned handling video through more broadcast technology, we are also working with some compression techniques with chipmakers. So instead of needing 10 megabits of throughput for video, we will be rolling out chips next year that you can do it with 2 megabits of throughput, same quality video, so that expands the capacity dramatically.

We talked about things like VoLTE that allows you to repurpose your old spectrum that has been deployed on the 1X technology. So we still do feel that we will be able to see our way through to the spectrum auctions. And we've said we are interested in AWS and we will see how the broadcast spectrum gets repurposed. I saw that Chairman Wheeler pushed that out to 2015. But even if it is auctioned in 2015 we think we are in good shape through 2017, 2018.

John Hodulik - UBS - Analyst

Okay. Now obviously the other side of the coin to spectrum is CapEx. I think we are building in higher CapEx not just for Verizon Wireless but for every of the major four in 2014 versus 2013. I mean how should we see that? Is the overall capital intensity of the business growing given all this data traffic? Or is this sort of just getting the capacity out there for the growth that is LTE now?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, I think the thing you have seen out of Verizon over the years is pretty consistent in our deployment of capital. We are not bragging about being down in single-digits of revenue one quarter and then announcing a big network build the next quarter. So I think we are on track for -- Fran has said 16.6, we added 400 because we saw the opportunity really to pull in AWS for this year.

We are expecting to be relatively flat. We will give guidance probably in January on that. But consistency is the name of the game for us. If you get behind in a network then you have got to do this massive build, but we have kept ourselves in a pretty solid position, so we expect to be consistent.

John Hodulik - UBS - Analyst

Got you. And then last thing on the wireless, obviously centerpiece is this rather large wireless transaction you have going on right now. First of all, I guess could you update us on what is the latest you said in terms of when that Verizon Wireless deal will close?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, so I think most of you saw we got the FCC approvals last week, that is a great milestone for us, really no issues whatsoever for us from a regulatory perspective. In our filings we said we're going to do the shareholder meeting January 28 I think is the exact date. And then from there it is a little bit in Vodafone's court. They will have their shareholder vote which I don't want to speak for Vittorio but I don't think we have seen any major issues there. Then it, all in the UK, it has to circulate back through the court.

So we are a little bit at the mercy of their court approval process, but we monitor this very closely, we don't see any hiccups. So sometime in that -- we have always said first quarter, sometime in that timeframe should easily get done.

John Hodulik - UBS - Analyst

And before the Verizon Wireless deal there was a lot of speculation that Verizon could be looking into Canada as another area of growth. Is that completely off the table now? And how do you view Verizon Wireless as it relates to other international opportunities?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes. So I think that people mischaracterized a little bit and I will come back to Canada, our motivation here on Vodafone. When we looked at the Vodafone deal we compared a full merger to what we felt we could do in the US. And it was very clear in our minds that our shareholders would be better off being very focused on the US for the next several years. I didn't ever say that we wouldn't go international and we wouldn't look at properties that came available to us as we go along.

Now we don't feel a huge need, especially in Europe, to own the underlying network because the regulatory environment is such that an MVNO is really in a very strong position in Europe. So if we need to service our customers we have -- we are in 150 countries around the world through our VES service, we have got cloud data centers all over the world. If we need to go in and service that segment for us we think there is lots of ways to do it.

Now that doesn't rule out if we saw the right regulatory environment, we saw the right economic environment, we would go in and very selectively participate in those particular markets.

Canada is a great market, but given our priorities over the next couple of years, and that is: network, it is deploying things like video, machine to machine, it is paying back the bonds that we took out so we have got a lot in the next couple of years we need to pay back there. Obviously we want to maintain a strong dividend for our shareholders. If you look at those priorities for us going in and doing a major acquisition that would involve many, many countries we didn't think was the right thing for our shareholders.

John Hodulik - UBS - Analyst

Great. So now switching to the wireline side, as you said, there is a lot going on in wireline, and it was an unexpected bright spot in the quarter. You sound very confident --.

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Maybe unexpected for you. We had a plan, John.

John Hodulik - UBS - Analyst

So as you look out to 2014 you sound very confident that you are going to continue to see the year-over-year margin improvement. Can you talk about what are some of the factors driving that margin improvement?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes. Well, and simply put it goes back to some of the work we are doing around process improvement, that VLSS program that we talked about. But that is what is driving things like moving customers off of copper onto fiber. We were maintaining networks because people -- certain people just wanted voice service. We were maintaining those copper networks when we really didn't need to. So if they want voice we give it to them at the same price but we provide it to them over copper and we cut it out completely.

I am very pleased with the work that Bobby Mudge and his team are doing here in New York City, as an example, our fastest-growing market in FiOS at this point. And because we have got the fiber running down the street we are literally during these short runs into these high rise buildings and we're taking significant share in New York City for FiOS.

Now we are also seeing the broadband outpace the TV service, which is good, from our perspective. You don't have all those content costs on top of it. So there is a number of areas there.

Then if you look at VES, we are beginning to see cloud and security grow nicely, what we call our strategic services in the enterprise group. And as we said over the last almost three years now, we went on a four-year retooling of that business so that as we deployed single billing systems instead of multiple billing systems you don't have all the manual effort, we are seeing flow-through dramatically improve.

So while enterprise still is a work in progress I think that what we call the consumer and mass business side is on its way to expanding margins and that is why we feel comfortable about saying we will expand wireline in 2014.

John Hodulik - UBS - Analyst

Maybe if we just drill down on the residential side in FiOS. Fiber migration seems to be gathering some momentum. It seems like you were out there in a few markets, you saw the cost savings, you saw some revenue uplift, why not go faster with that initiative?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, at the end of this year we will have less than 1 million customers left on copper where we have fiber capability. And it is really a balance. I have to meet the current demand, I don't want to grow a fixed labor force frankly to do that. So it is a balance of being able to do this on the margin while we take care of the core business.

And it really funds itself because as you transition someone to fiber and they see the improvement within 90 days we see roughly 30% of the customers then move off of just the voice service onto a triple play. So it is a very good thing for us to do, but I have to balance how quickly I do it just for overall labor costs and structural costs.

John Hodulik - UBS - Analyst

Got it, makes sense. Can you see looking out five years an environment where there is no more copper loops in the residential market in Verizon territories?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, I would love to say that is the case and I know Randall is going to be here tomorrow he has got a formula to do that I think. I would love to see that. In our markets I think it will be tough to get completely off. But what we use the term as we modernize the network we are sort of pinching down the copper. So we talked about where we have got fiber, where we don't and mid-Pennsylvania is a good example of that.

We're actually deploying wireless to handle those sorts of lower speed, I'm certainly not promising 300 megs over wireless, but you can certainly do voice, you can do what we think of as DSL quality data and that is going to be our goal to minimize the amount of copper there. And it is an antiquated technology, it doesn't really meet the majority of customers' demands and it is a leakage from a value perspective for our shareholders. So we are going to be very focused on getting as much copper out as we can.

John Hodulik - UBS - Analyst

I don't think you have quantified -- you talked about the cost savings, but whether it is retiring the copper through the fiber migration, whether it is IP transition that you were talking about I mean what kind of cost savings are we talking about from a margin stand -- a wireline margin standpoint?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

The reason it is a little difficult to do that is it is almost a jurisdiction by jurisdiction. If you -- just as an example, some jurisdictions have said it is very nice that you pulled all the copper off the polls, you still have to pay the same amount of tax whether it is up there or not. So we get the operational savings, we recycle all the copper, we can be much more efficient. But it is a little hard, John, and we haven't said anything publicly about what the savings is. But that is what is driving some of the margin expansion.

John Hodulik - UBS - Analyst

And then in FiOS penetration, the penetration numbers I think across the board have been much stronger than we had originally targeted and some markets obviously even higher than the overall. I mean how much growth is there left in your existing fiber markets?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, that is part of the reason why we are interested in these converged services. So let's break it down. I mean in Texas we are roughly 50% penetration on the broadband side and maybe 5 or 8 points below that on the TV side. I still think there is opportunity there because as you roll out things like Quantum and you give 300 megs and you give 500 megs, people see that.

I got an email from a 15-year-old in Florida in Daytona Beach that I read on the way in here this morning begging for us to deploy FiOS because I can't get those kind of speeds and he has a friend that does have it. There is a lot of push to do that.

I think how penetration goes up is for us to get it right and I believe we are on a path to get the converged services right. And I know you've got Les coming in I think this afternoon. Les and I talk about how do we mobilize more and more of that content. And when you can have the great experience in your house and team that with the best experience on the mobile platforms that we have just finished talking about that is the next wave of penetration for both. So I don't think 50% is a ceiling for FiOS penetration at all.

John Hodulik - UBS - Analyst

So just talking about Les and CBS. You have had this SpectrumCo JV with the cable industry that was essentially wound down during the year. I mean could you talk about your relationship with Comcast, with Time Warner Cable and if you are still doing anything to work on converged services?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, so let's be real specific about that. And I don't know whether you have anybody from Comcast over the next couple of days. But all we wound down was the joint development of products together. We still do the distribution, we still meet regularly at the senior levels, Dan and Neil Smith meet regularly. I think we are important partners to each other.

What we found though was we hoped on the way in that we would be able to do one set of products and deploy it nationally with all four of the cable partners. What we really found was that their infrastructure was so different that we ended up with four different sets of products which just became unwieldy for Verizon Wireless.

We have gotten to that 49% to 50% margin by being very disciplined about our processes and what we offer and we just found that the costs were such and it slowed us down to market. That doesn't mean we can't work with any of the cable companies to do converged services. So it is just not a joint win for our companies.

John Hodulik - UBS - Analyst

Got you. And then lastly on the residential side, AT&T is now saying that it will deploy more fiber or begin to do fiber-to-the-home, they are doing it in Austin, where they get the kind of regulatory framework that Google has gotten in a few markets. How does Verizon view that, is it possible given this seeming change in the local regulatory environment that Verizon can do more FiOS markets?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, we kind of smile at that when I meet with Eric Schmidt and Larry Page, I kind of laugh with them about the fiber deployment because we have been doing it for almost a decade here and they are now going, oh, this is a new thing. So that is good, I guess.

I think though the point for us is that while there might be a couple of things on the fringe, going in and digging up backyards again and deploying fiber into a lot of new markets I don't think is in the cards. More and more things are going mobile. We have got a great footprint that we can concentrate on. I think there is opportunities to partner out of market with companies that are there versus us going in and deploying FiOS.

As I said it is moving more and more to the broadband side than it is the TV side. So I have not seen a case that would make any sense for us to go in and open up new markets. Now what Randall has already got is he has got copper into the homes, right, he is changing out the last mile or whatever it is for him. A little bit of different situation for us, we would have to go in and get the local franchise agreements and that always gets pretty complicated.

John Hodulik - UBS - Analyst

So last question on wireline. You talked a little bit about VES and the cleaning out the basement and repositioning that whole sound and enterprise business. Talk a little bit about Terremark. How has that acquisition been for the Company, what does it do in terms of growth and when can it start to be a real needle mover for the Company?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes. So Terremark has been a great acquisition for us, having the cloud data centers around the world, London and Frankfurt and Amsterdam, Hong Kong when you combine it in with the ones that we already have. So it gives us a great base.

We did another less known purchase of CloudSwitch, which brought some real -- it was almost an aqua hire; we got some great talent associated with that and we announced our next generation of cloud, which gives the customer a lot of flexibility in deciding the performance parameters and the capacity of their cloud and we're deploying it now. It is been very well received by our customer base.

And when you combine that with all the security aspects that we got with Cybertrust and we have added, quietly added capability to that, those are really the big drivers of growth. Now I mean relative to the core market is it going to really move the needle? I think that is what will get VES, we are in a very 8%, 10% decline in the core market. So it is so big but does that really move the needle. But that is what flattens it out. And if you think about the history of Verizon that is exactly what we were saying about FiOS five or six years ago. And eventually that will turn. But it is not a 2014 phenomenon in our view.

John Hodulik - UBS - Analyst

And my last question before we poll the audience. You mentioned Chairman Wheeler coming new to the FCC. One of the first things he did was push back the incentive auctions. He has made a number of comments that I think sound a little bit more sort of bullish for the industry from a business standpoint and some that have been a little bit, in my mind, a little bit surprising. How do you from a regulatory standpoint are there any big issues in it coming in 2014 that either worry you or that may work out good for the Company? And just generally how do you see the new leadership of the FCC?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, I am encouraged I have to say by Chairman Wheeler. I have known Tom for over a decade. He is certainly nobody's Patsy. He is a very bright guy, he knows the business well on both sides. But I also think that Tom understands what has been created here and where the US is. I was reading some facts on the way in here and obviously the last full year of data is 2012 and there was about \$30 billion of capital deployed by the wireless carriers in the US, that was 25% of the entire world's CapEx.

And when you think about that you have got a market that is performing very well. If you look at how Europe is performing now there is really not much investment because there is been overregulation. And I know the big concern is, well how has pricing done over the last few years? Well, in the last -- again, between 2011 and 2012 the consumer price index for wireless, and that is a number published by the government, not a carrier, literally went down by 8% when the overall consumer price index went up by 16%. And if you look at data it dropped by 50% from \$0.06 a megabyte down to \$0.03 a megabytes.

So if you look at those dynamics prices are coming down for consumers, the carriers are still doing massive investment in the market, that is a pretty healthy economy. So I do expect that Chairman Wheeler will act on the things that he thinks are important and he has already said, and I like the way he did this, things like if the industry acts on this issue the FCC will not. And I think that is really where you want to get is to hold the industry accountable.

The problem that I see with overregulation is that the best -- the brightest commissioner of the world, the best you can do is take a snapshot of what is going on and try to regulate to that snapshot. We change so dramatically I mean think about how things were two years ago in this industry and what they're like today, how could you possibly predict what was going to happen? And I think that is the danger that we run into and that is what Europe kind of ran through that stop sign, and see what you've got. So I am comfortable that with a lot of dialogue we will find a good balance for consumers but to also maintain a healthy industry.

QUESTION AND ANSWER

John Hodulik - UBS - Analyst

Okay, we have some time to take some questions from the audience. I think we have got some microphones in the back if there any questions. Doug right here in the middle.

Unidentified Audience Participant

My question is about video over wireless and whether you think it is more going to be traditional video that is going to go over wireless through FiOS or whether Redbox Instant can do more things in the area? How do you think that is going to play out?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, Doug, I think there is going to be a whole bunch of sources for that. I mean the biggest drivers for us right now are things like Netflix and YouTube. Redbox certainly can play in there; we expect to scale that appropriately over time. But I also think that if you can get access to the news or to sports. We're having lots of discussions with the sports leagues; they like the idea especially out of market. There's a lot of content rights that need to be worked through.

I think Les, when he is here this afternoon, will talk about -- he doesn't necessarily -- well I don't want to attribute this to Les. When I talk to all of the content providers they are very careful about cannibalizing the day of broadcast. But three days, four days, two weeks, whatever it is out to get access to all of that content that is, quote, in the archives, and in our case, even though there are 101 million sets of eyeballs access to it, is a real win-win.

So I think there is -- I think the market has demonstrated that it wants it, you can see that in the performance of companies like Redbox and Netflix. And so, we are going to have to figure out how to get there. And there will be several different models, several different technology trials, several different venues to get it out there. But I predict that within the next two years you will see some dramatic change in viewership.

Unidentified Audience Participant

(Inaudible) metered bandwidth?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Metered bandwidth, so you are thinking on the fixed line side then? Well, so, I don't know anything about Australia, so let's just be really clear about that. But on the FiOS side, you really have an unlimited pipe. And we don't think -- we think it will be a long time before we would need to talk about metered bandwidth on the FiOS side.

I think the big knock against the cable companies is when the kids all come home from school for the day and they all get on the Internet the network slows down. We don't see that on the FiOS side, that is one of the competitive advantages we have. So that is not something that is on my radar to look at in the short run anyway is metered bandwidth.

John Hodulik - UBS - Analyst

Any other questions from the audience? Okay, that is great. Lowell, thank you very much for your time and I thank you all for being here.

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Thank you.

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 TO READ CAREFULLY THE PRELIMINARY PROXY STATEMENT, EACH TOGETHER WITH OTHER RELEVANT DOCUMENTS FILED OR TO BE FILED WITH THE SEC, IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY CONTAIN OR WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION AND RELATED MATTERS.** Investors and shareholders can obtain free copies of the preliminary prospectus, the preliminary proxy statement and other documents filed with the SEC by the parties through the website maintained by the SEC at www.sec.gov. In addition, investors and shareholders will be able to obtain free copies of the prospectus, the proxy statement and other documents filed with the SEC by Verizon by contacting Verizon's Assistant Corporate Secretary, Verizon Communications Inc., 140 West Street, 29th Floor, New York, New York 10007. These materials are also available on Verizon's website at www.verizon.com/investor.

PARTICIPANTS IN THE SOLICITATION

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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