Istanbul, March 2010

Forecasting EMEA Corporates Recovery: The Slow Haul Back

Raymond Hill

Head Of Emerging Markets, Corporates

Istanbul, March 2010

Agenda:

Overview and Context

Expectations for 2010 and Beyond

Fitch's New Credit Update Report Format

Fitch's New Credit Update Report Format

Q&A

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Overview

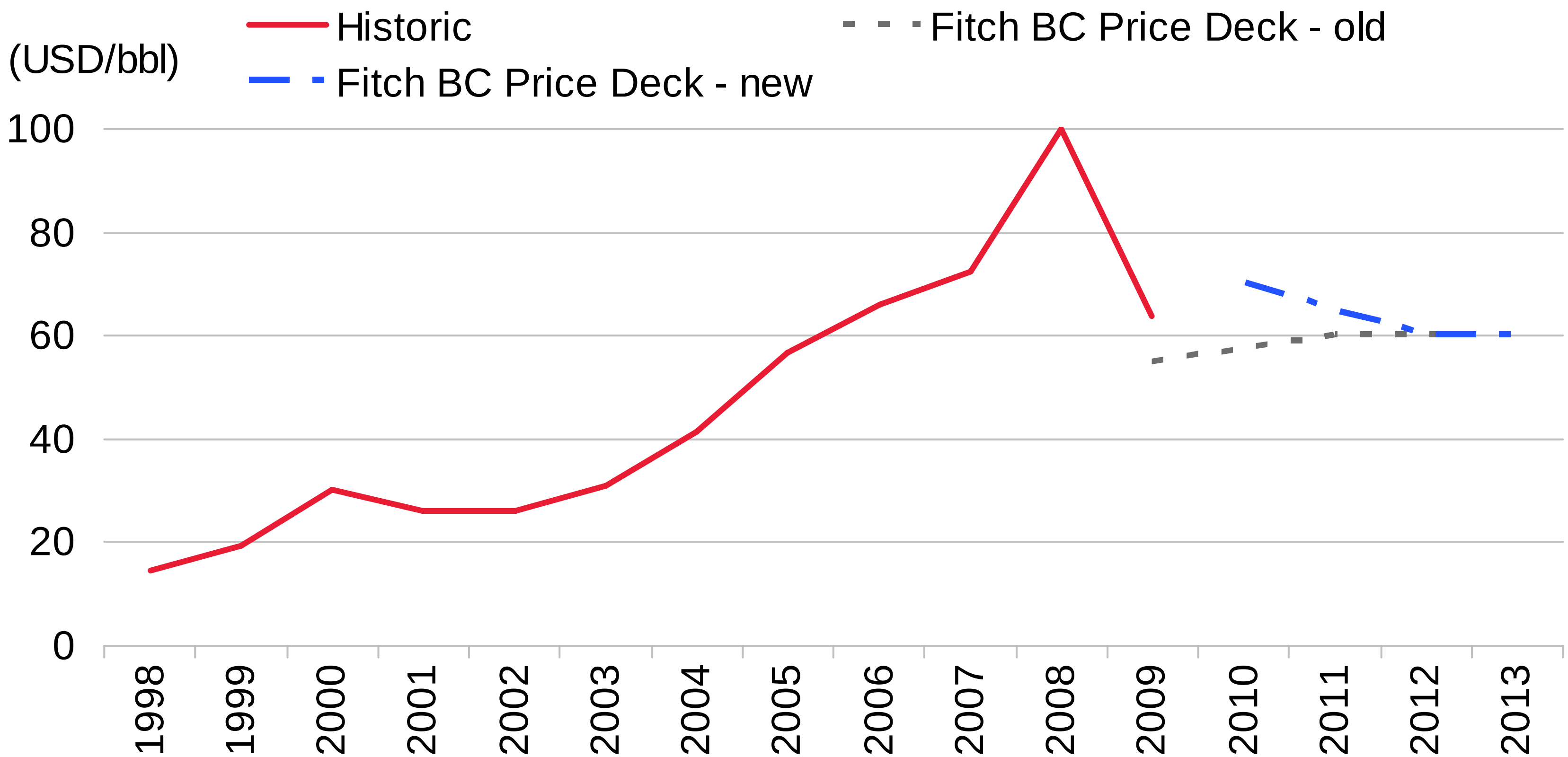
Expectations for 2010 and Beyond

- Anaemic growth in 2010 after 2009 low point
- Growth dependent on private sector and consumer recovery
- Corporate liquidity aided by 2009’s exuberant bond market and impaired banks rolling existing exposures at higher cost
- Companies have conserved cash
  - some equity issuance, cancel share buybacks, reduce capex, some reduce dividend, working capital management
- Management action
- Less fall in profit v. turnover decline as companies cut costs

Overview (cont.)

- All credit ratings and outlooks based on our independent forecasts
  - Forecasting the downturn and ‘exit point’
- By FY11e some sectors yet to recover to FY07’s absolute profit levels

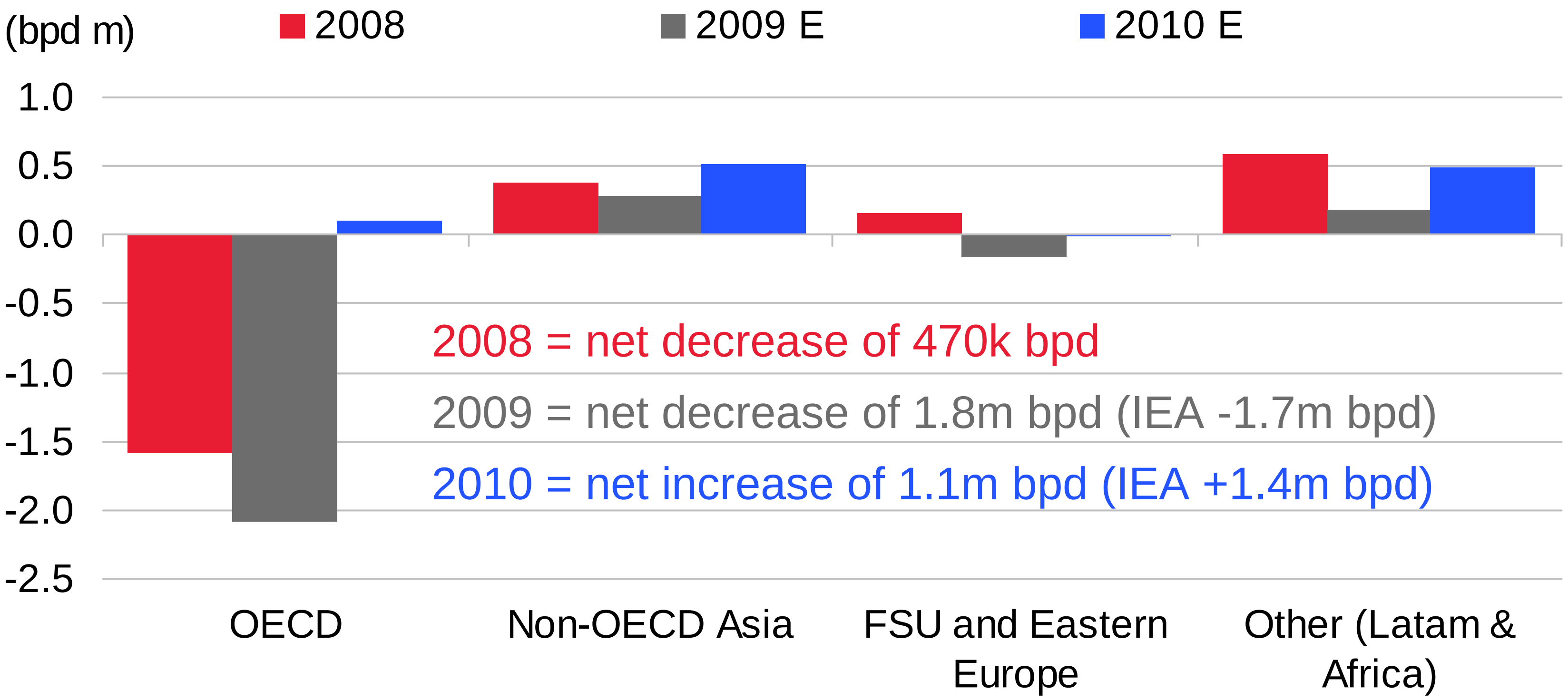
Oil Price Dynamics - WTI



Source: Bloomberg, Fitch

Oil Consumption Recovery Expected in 2010

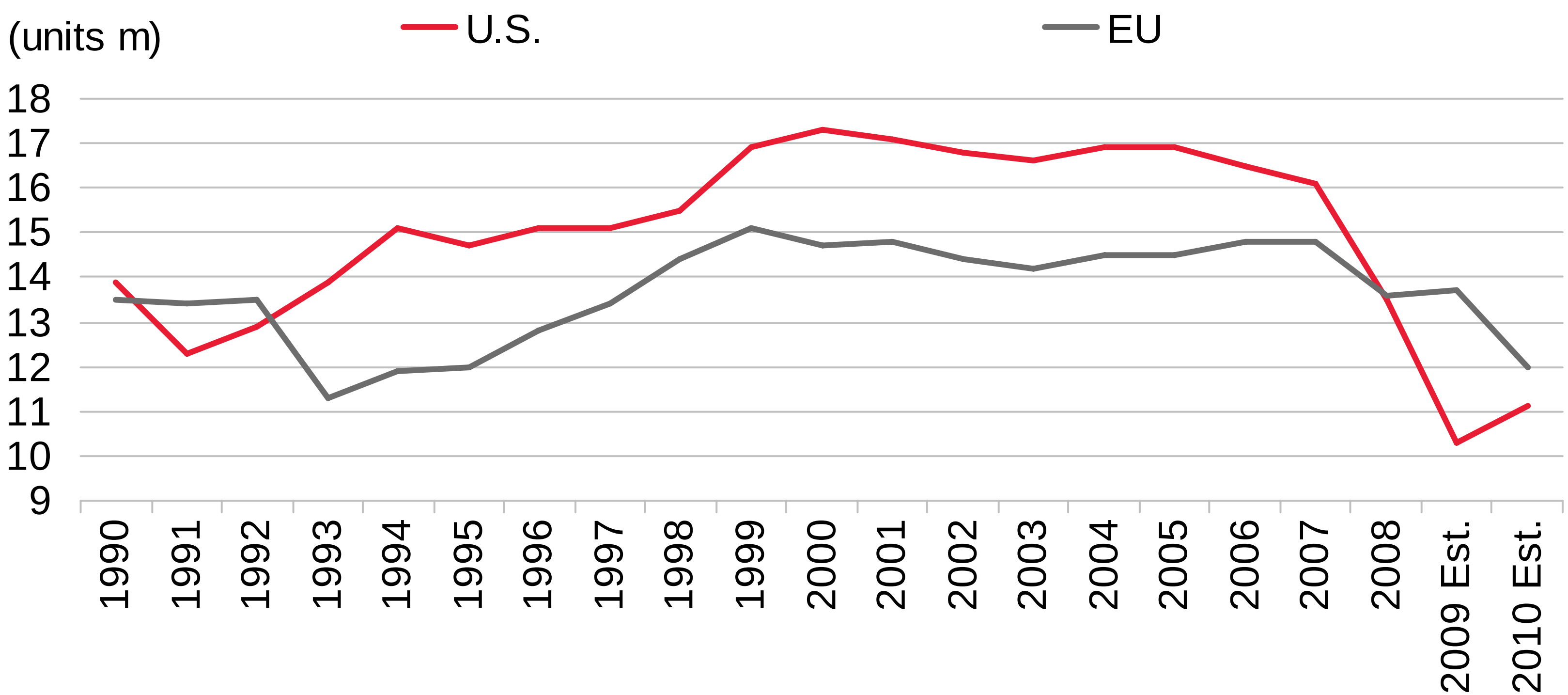
World Oil Consumption Growth – Change From Previous Year



Source: EIA short-term energy outlook, October 2009

Industrial

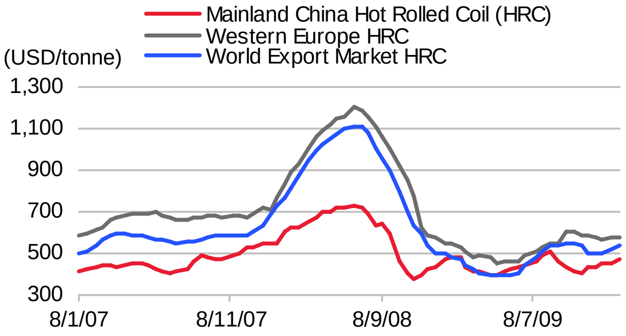
US Light Vehicle Sales & Western Europe New Passenger Car Registrations (m)



Source: US – Wards. EU – ACEA. 2009 & 2010 E - Fitch

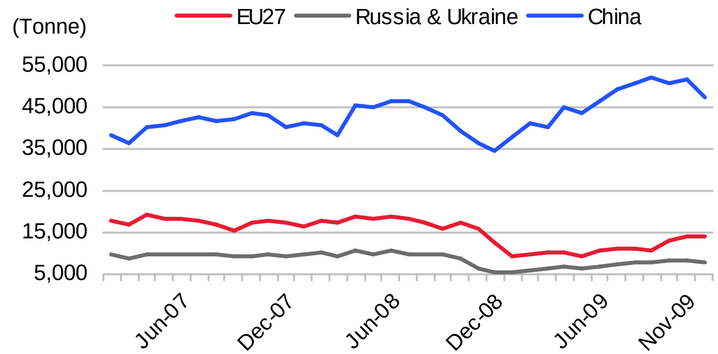
Metals & Mining

Steel Price Evolution



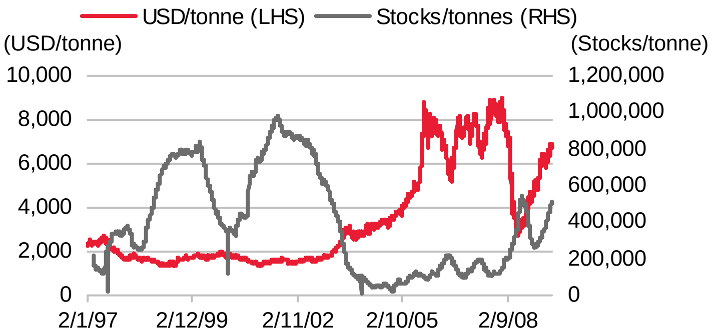
Source: Metal Bulletin

Steel Production Evolution



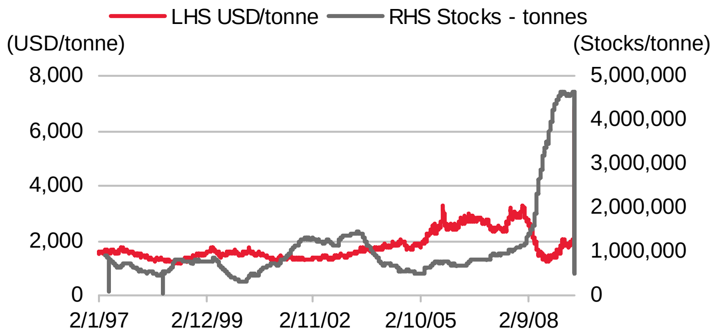
Source: Metal Bulletin

Copper Prices & Stocks



Source: LME

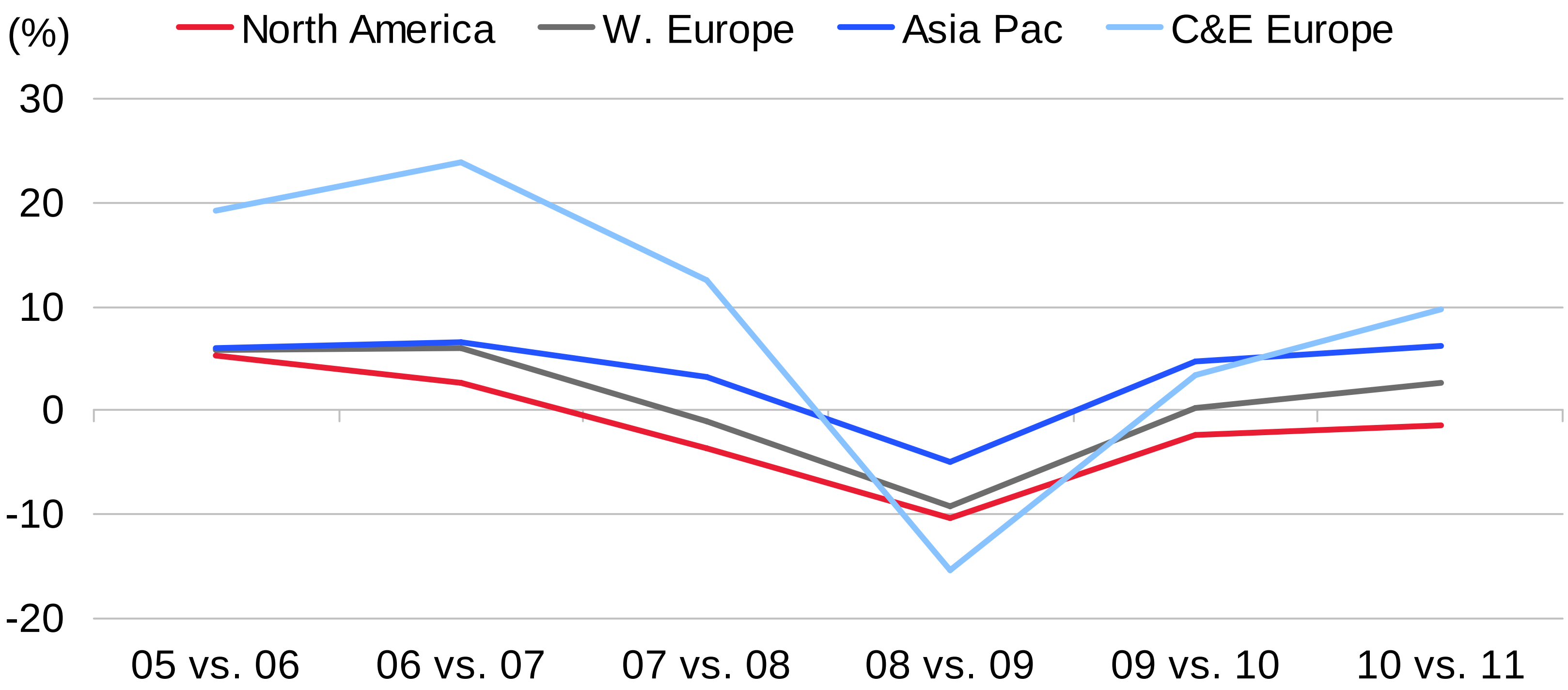
Aluminium Price & Stocks



Source: LME

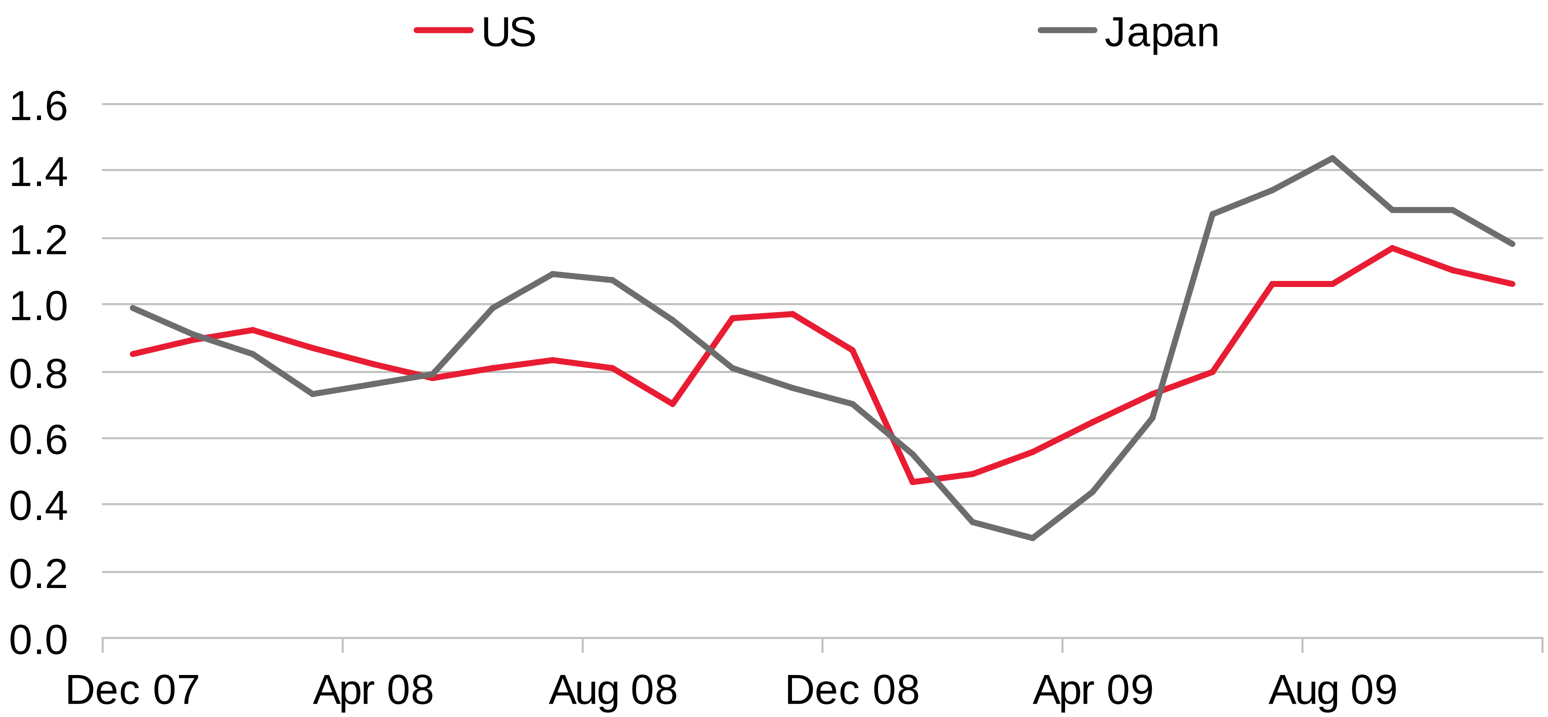
Advertising Spend Downturn:2009 – Eye of the Storm?

Year-on-Year Ad Growth



Source: Zenith

Semiconductors: 2010 – Improved spending?



Source: SEAJ

RLCP

Like-for-like (LFL) Sales

		2007				2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Food													
Carrefour	France LFL incl. VAT & Petrol	-0.4	0.0	-2.4	4.0	2.7	0.8	3.2	-2.4	-5.0	-2.7	-4.2	
Casino	France growth incl. Petrol	1.5	0.9	-0.3	5.0	5.3	4.2	5.3	0.1	-4.5	-3.9	-4.4	
Sainsbury	LFL excl Petrol	5.9	7.1	3.1	3.7	4.1	3.4	4.3	4.5	6.2	7.0	4.6	3.7
Tesco	LFL excl Petrol	4.7	2.4	4.1	3.1	3.5	4.0	2.0	3.5	4.3	3.1	2.8	5.1
M&S	Food only LFL	3.0	0.7	0.5	-1.5	-0.5	-4.5	-5.9	-5.2	-3.7	-0.5	0.0	0.4
Apparel													
Next	Next Retail LFL (excl Directory)	-2.7	-3.6	-2.9	-3.2	-9.4	-2.4	-4.4	-6.1	-2.3	-1.2	-1.3	1.6
M&S	GM only LFL	4.6	2.9	1.7	-3.2	-3.1	-6.2	-6.4	-8.9	-4.8	-2.4	-0.8	1.2
Non-Food													
DSG	Total Group LFL			5.0				-7.0				-4.0	
Kingfisher	Total France LFL	5.1	2.7	2.3	1.1	-1.5	0.0	-1.2	-2.9	-2.8	-4.0	-2.4	
	Total UK LFL	5.5	-1.5	-0.5	-1.9	-7.9	-1.7	-9.2	-6.8	0.9	-1.2	3.9	

Key: LFL > +5% ☐ LFL > 0% to +5% ☐ LFL -5% to 0% ☐ LFL > -5% ☐

Note: LFL numbers are aligned into "Calendar" quarters as much as possible.
Source: Fitch Ratings from company statements

Istanbul, March 2010

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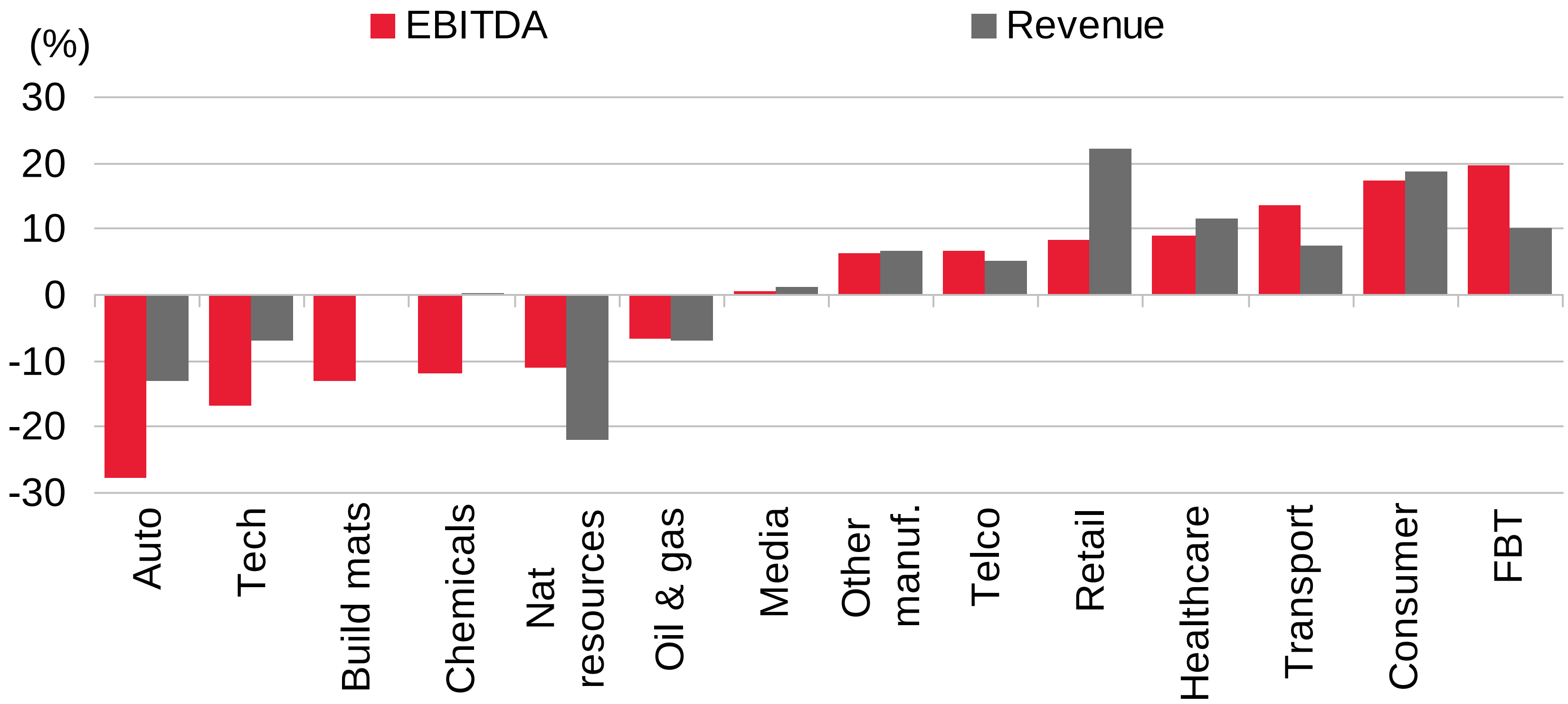
Fitch's New Credit Update Report Format

Fitch's New Credit Update Report Format

Q&A

Fitch Forecasts 2009 to 2011

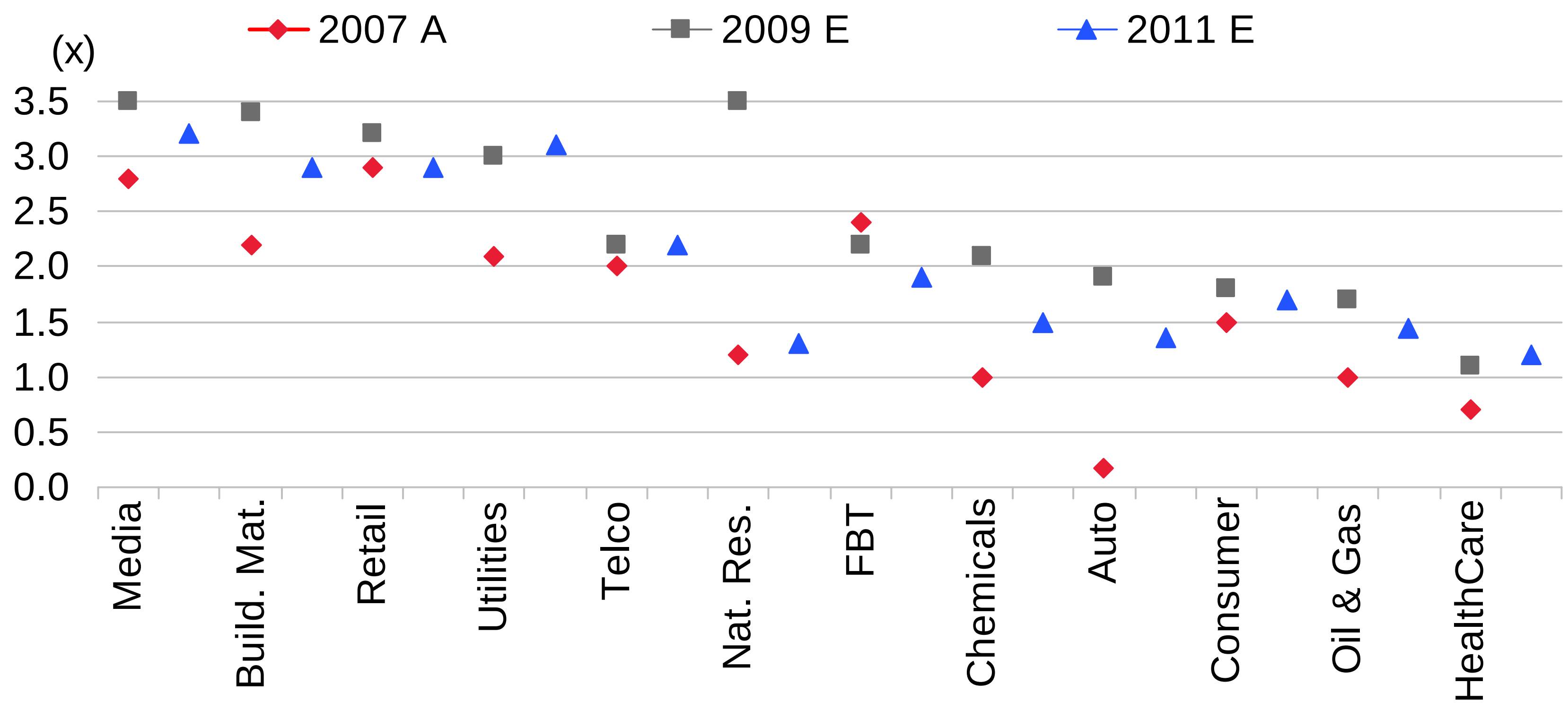
Sub-Sectors by Cumulative EBITDA Movement 2007 A – 2011 E



Source: Forecasting EMEA Corporates' Recovery, December 2009

Fitch Forecasts 2009 to 2011

Adjusted Net Debt/EBITDA Leverage Ratio



Source: Forecasting EMEA Corporates' Recovery, December 2009

Severity of Downgrades

Rating Movements (Dec07 - Dec09)

Industrials	Avg Rating	Mean Notches Change	RLCP	Avg Rating	Mean Notches Change
Auto & Related	BBB-	-2.3	Retailing	BBB-	-0.8
Building Mats & Construct	BB+	-1.7	Food, Bev & Tobacco	BBB	-0.1
Natural Resources	BB	-1.2	Healthcare	A	-0.6
Chemicals	BB+	-0.6	Consumer	BBB+	-1.0
Capital Goods	BBB	-0.5	**TMT**		
Energy, Utilities & Reg			Media & Entertain.	BBB+	-0.7
Energy (Oil & Gas)	BBB-	-0.3	Technology	BBB-	-0.4
Utilities	BBB+	-0.1	Telecommunications	BB+	+0.1

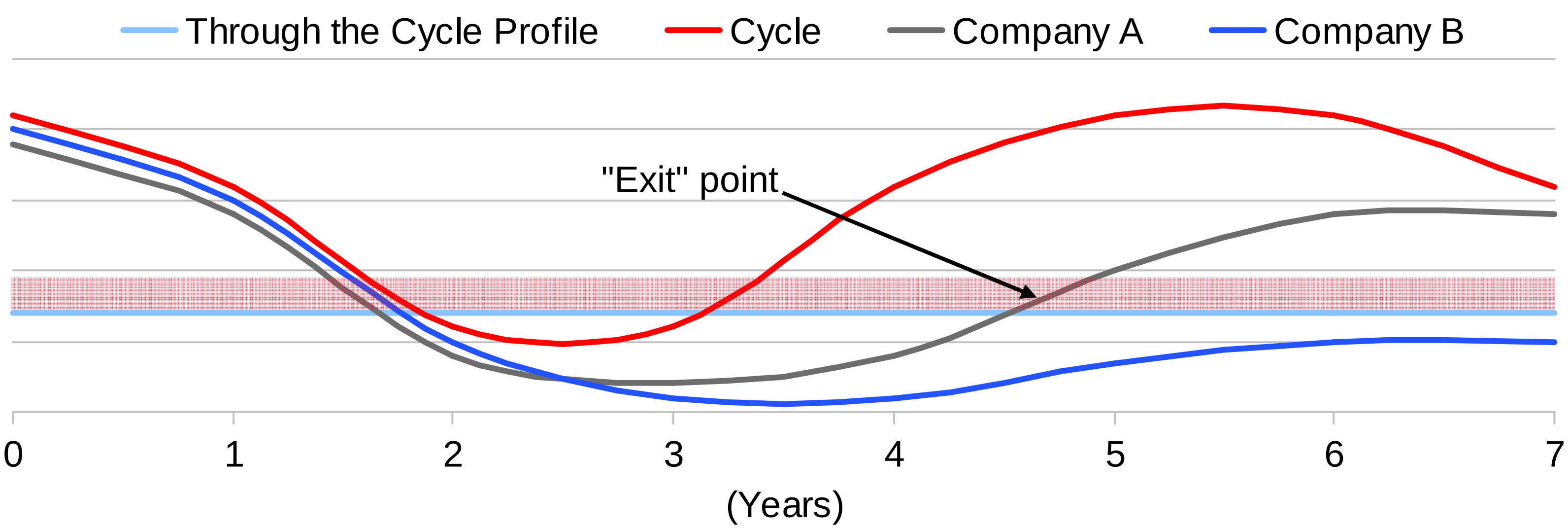
Source: Forecasting EMEA Corporates's Recovery (14 December 2009)

Forecasting the Downturn and Exit Point

> Rating focus on the degree to which incremental change in financial profile, or decline in business model prospects, leave an issuer fundamentally weakened by the passage through the recession

Impact of Recession

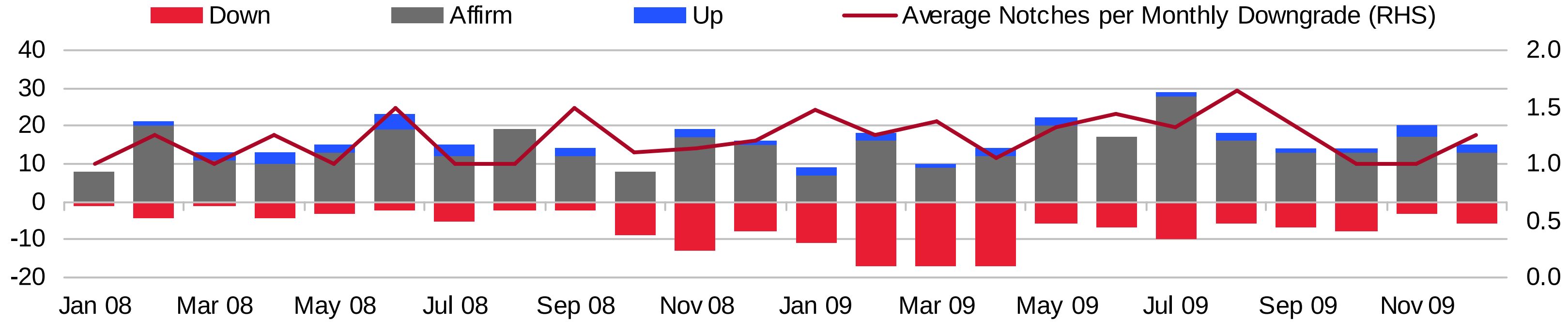
Illustrative curves (Rating through the cycle)



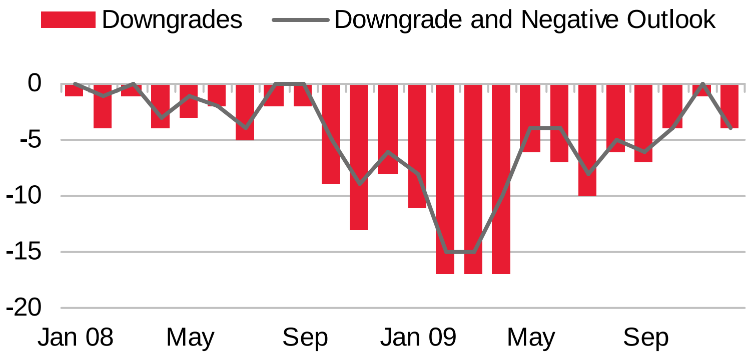
Source: Fitch

Recent Rating Action

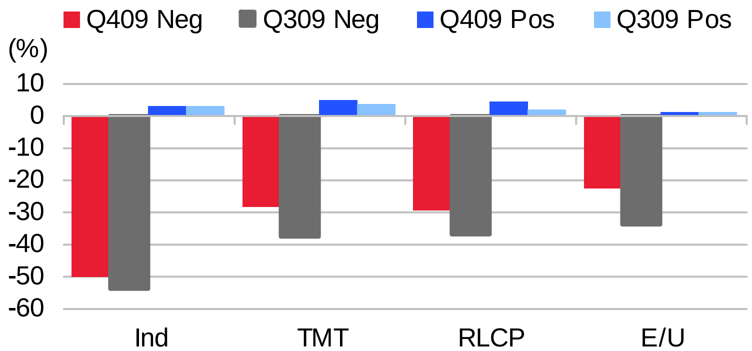
Rating Actions 2008-09



Cyclical Company Downgrades, 2008-09 by Issuer, Europe and Asia



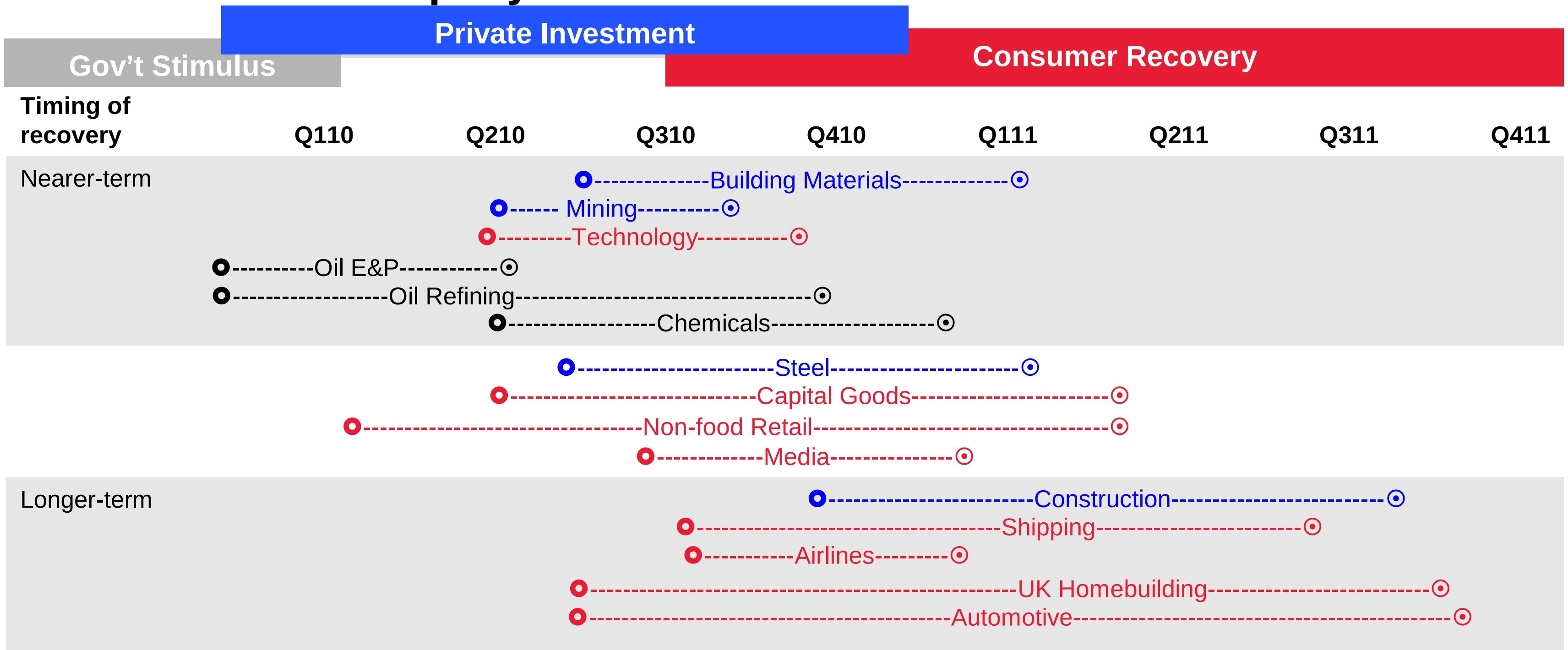
EMEA IDRs on Watch/Directional Outlook, 31 Dec 2009



Source: Fitch

Stabilisation

EMEA Timeline for Estimated Stabilisation of Credit Ratings vs. Stabilisation of Company Fortunes



⭘ Start period for move from negative bias. ⦿ Sector should show first sustainable evidence of reaching its (potentially altered) rating profile. "----" period of anticipatory Outlook stabilisation to evidence from issuer

Not including non-cyclical: Food, Beverage & Tobacco, Food Retailing, Telecoms, Aerospace & Defence, Healthcare, and Utilities

Source: *Stabilising Corporate Ratings in Europe and Asia Pacific* (Oct 2009)

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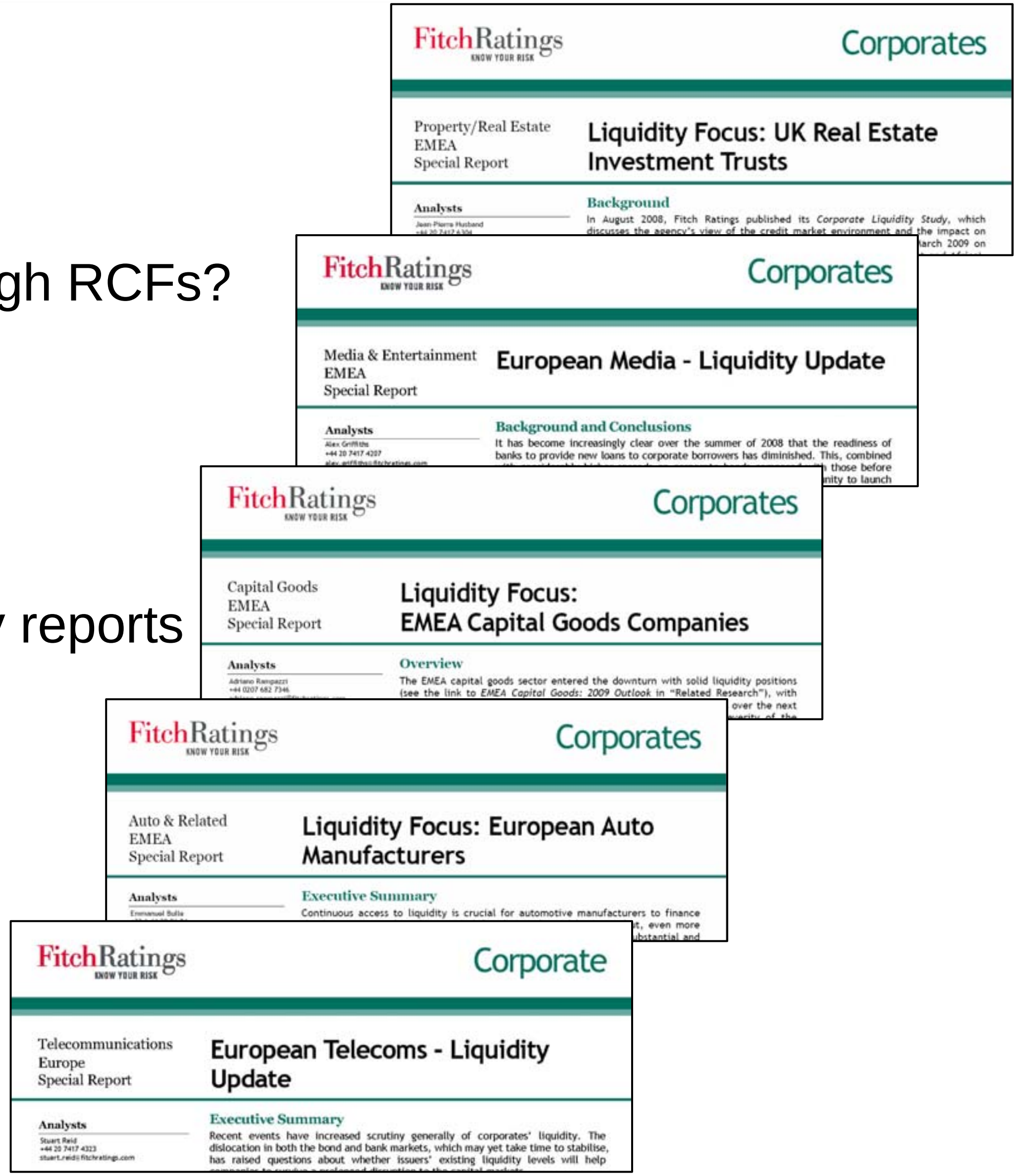
Corporate Liquidity

- Do corporates have enough RCFs?
- Health of banks
- Refinance Risk
- Annual Liquidity Study
- Each sub-sector: Liquidity reports

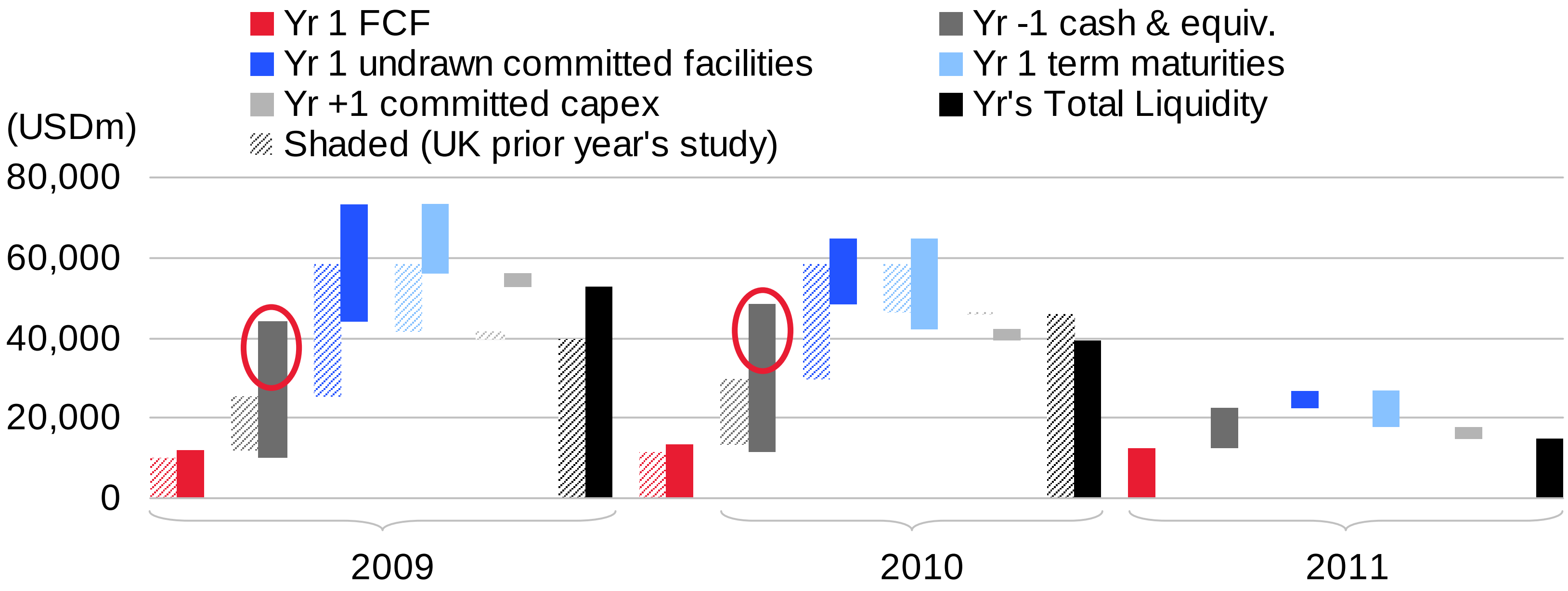


Corporate Liquidity (cont.)

- > Developed market companies – sufficient liquidity through 2011
  - – External liquidity: Sufficient 3-5 yr committed Revolving Credit Facilities (RCFs), retained cash, accessed the bond market

'BBB' and Below (UK)

UK prior study and UK total



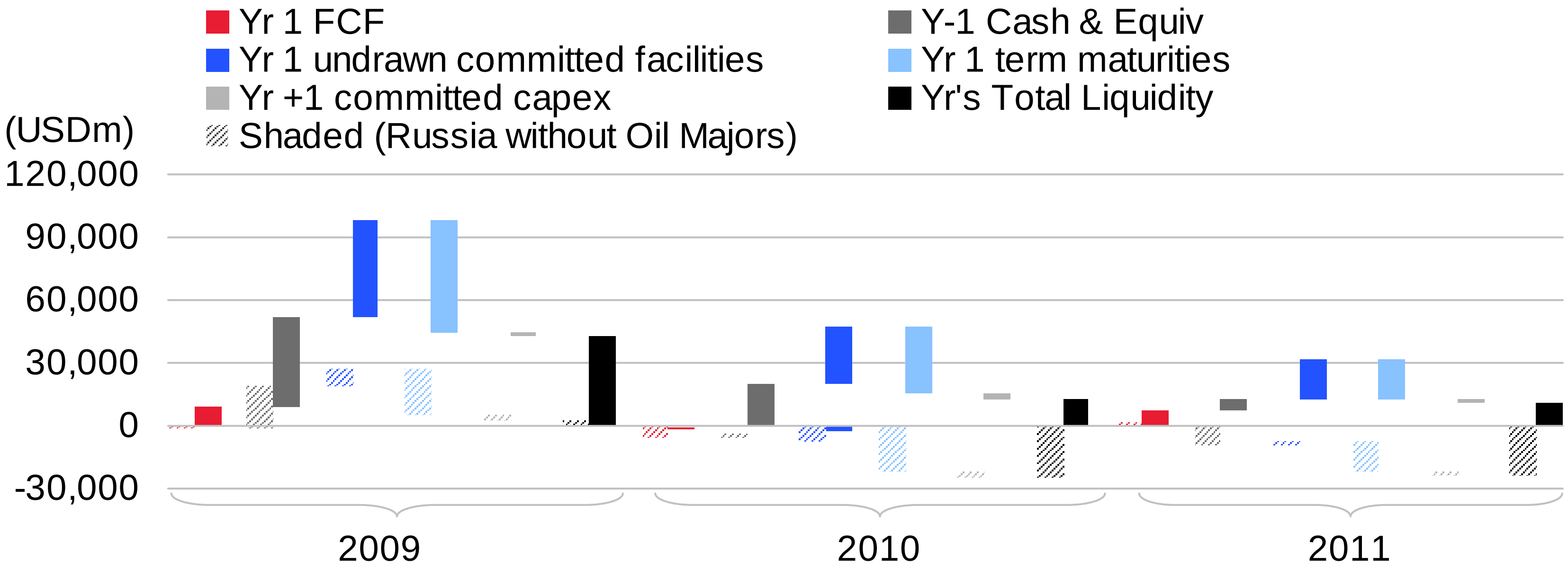
Source: *Corporate Liquidity Study*, September 2009

Corporate Liquidity (cont.)

> Emerging market companies – Insufficient liquidity (1-2 years horizon)
  – Short-term debt, less sophisticated markets, lack of disclosure, concept of committed available lines is less prevalent

'BBB' and Below (Russia)

Russia without oil majors and Russia total



Source: *Corporate Liquidity Study*, September 2009

2009 Outlook – EMEA Corporates

Rating Environment [a]

Rows run from + (top) to − (bottom) on the Asset Environment axis; columns run from − (left) to + (right) on the Rating Environment axis.

Asset Environment	Rating Environment −		Rating Environment +
+		Oil & Gas	
	Utilities Tobacco	Telecom, Transport Aero/Defence Food & Beverage	
−	Auto & Related Building Materials/Construct Chemicals Consumer Goods, Retailing Media & Entertainment	Commercial Property Pharma	

[a] Defined as more than 20% of ratings in a sector being on directional watch or outlook
Source: Fitch

2010 Outlook – EMEA Corporates

Rating Environment [a] (– to +)

Asset Environment (+ to –)

	Oil & Gas	
Consumer Goods	Telecom, Transport Aero/Defence Food & Beverage Utilities, Tobacco Building Materials	
Auto & Related Construction Chemicals Retailing Media & Entertainment	Commercial Property Pharma	

Red: Sector average rating for the sub-sector around 1 or more rating notch lower compared with beginning 2008

[a] Defined as more than 20% of ratings in a sector being on directional watch or outlook

Source: Fitch

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Fitch's New Credit Update Report Format

Fitch's New Special Credit Factor Reports

Q&A

Objectives

- Continue to provide research which states clearly:
  - Rating rationale
  - Potential triggers of rating movements
- Provide issuers and investors with a deeper understanding of the rating using:
  - Peer analysis
  - Comparison of key financial and credit metrics against sector and rating medians
  - Forward-looking data
- Improve frequency of output

Front Page

Front page unchanged from current version except more focus on what could move even a *stable* rating

Note: The draft report presented here is intended to be for illustrative purposes only

FitchRatings KNOW YOUR RISK

Corporates

Telecommunications
United Kingdom
Credit Update

Vodafone Group Plc

Ratings

Security Class	Current Ratings
Long-Term IDR	A-
Short-Term IDR	F2
Senior Unsecured	A-

Outlooks

Foreign-Currency Long-Term Rating	Negative

Financial Data

Vodafone Group Plc

(GBPm)	Mar 2009	Mar 2008
Revenue	41,017	35,478
Revenue growth (%)	15.6	14.1
Adjusted EBITDA	14,490	13,178
Adjusted EBITDA margin (%)	35.3	37.1
Cash flow from operations	11,800	10,312
Free cash flow	657	1,843
Funds from operations (FFO)/Net interest expense (x)	9.4	12.3
Total debt including preferred shares	39,101	26,846
Net debt including preferred shares	34,223	25,147
Adjusted net debt/operating EBITDAR (x)	2.8	2.3
Adjusted leverage/FFO (x)	[illegible]	2.8

Analysts

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Related Research

Applicable Criteria

- *Corporate Rating Methodology (November 2009)*

Other Research

- *European Telecoms and Cable Outlook 2010 (December 2009)*
- *European Telecoms — Spectrum Issues to the Fore (November 2009)*
- *Vodafone Group Plc (August 2009)*

Rating Rationale

- Vodafone Group Plc's Long-Term IDR of 'A-' is based on its strong market position in mobile services in developed and emerging markets, significant economies of scale, and technology leadership. The Negative Outlook reflects Fitch Ratings' concerns that its operational performance and cash flow will be negatively affected by weak economic conditions and rising competition in its core European business and several key emerging-market operations.
- In Europe, underlying revenue trends are encouraging, with voice usage growth stabilising and continued strong data revenue growth. In Fitch's view, alongside continued efficiency gains of GBP2bn via operating cost savings by financial year ending March 2012 (FY12), the EBITDA margin should stabilise. Fitch expects Vodafone's interim management statement on 4 February 2010 to confirm these trends, and that the company is on track to meet its full-year guidance.
- With Vodafone expected to generate free cash flow (FCF; before dividends and spectrum payment) towards the upper end of the GBP6.0bn-6.5bn range and a slight increase in dividend payments, Fitch expects leverage in FY11-FY12 to remain above 2.5x (net lease-adjusted debt/EBITDAR). This is mainly due to Fitch's expectation of limited EBITDA growth in FY10 and FY11 and that Vodafone could spend around GBP2.8bn on upcoming spectrum auctions in FY11 and FY12.
- Verizon Wireless (VZW), the leading US mobile operator, remains a potential upside factor for Vodafone's credit rating. Fitch acknowledges the value of Vodafone's 45% stake in VZW both as a potential source of significant dividends, and because the stake could be monetised. However, Vodafone's credit metrics (based on EBITDA and/or funds from operations) do not benefit from the growth in VZW's earnings as the latter is accounted by Vodafone as an associate.
- Vodafone has limited scope at the current rating level to participate in industry consolidation as an acquirer. Fitch recognises management's commitment to a low 'A' category credit rating, and will continue to judge any potential acquisition on its merits.

What Could Trigger a Rating Action?

- In the short term, a downgrade could be triggered by a spike in leverage above 3x net lease-adjusted debt/EBITDAR, or evidence that the group will not meet Fitch's rating-case forecast, with leverage returning to 2.5x by March 2012 (below funds from operations/adjusted leverage of 3x).
- A revision of the Outlook from Negative to Stable could be triggered by faster-than-expected deleveraging. Fitch's expectations of Vodafone's leverage based on funds from operations are shown in the text box below. A significant increase of dividends from VZW, which is not reflected in Fitch's ratings case, would improve Vodafone's credit profile.

Liquidity and Debt Structure

Vodafone's liquidity remains very strong. Taking into account recent bond offerings, Vodafone has sufficient cash and committed borrowing facilities to cover maturities until the middle of 2012.

Page 2: Peer Analysis

Peer Group

Issuer	Country
A-	
France Telecom	France
Telefonica	Spain
BBB+	
Deutsche Telekom	Germany

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
20 May 09	A-	Negative
14 Jul 08	A-	Stable
16 Jul 07	A-	Stable
12 Feb 07	A-	Stable
30 May 06	A-	Stable
27 Feb 06	A	Stable
7 Feb 06	A	Stable
15 Jul 05	A	Stable
17 Jan 05	A	Stable
20 Feb 04	A	Stable
16 Oct 02	A	Stable
31 May 02	A	Stable
21 Sep 01	A	Stable
2 May 01	A	Stable
13 Apr 00	A	
19 Nov 99	A	RWN
26 Aug 99	A	
10 Apr 97	A	RWN

"RW" denotes Rating Watch

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating Factor	Status[a]	Trend
Operations	Average	Improving
Market position	Strong	Neutral
Finances	Strong	Neutral
Governance	Average	Neutral
Geography	Strong	Neutral

[a] Relative to European telecoms

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Fixed access line attrition in domestic markets (a function of regulation, competition and fixed-to-mobile substitution) continues to affect all incumbents to varying degrees. Subscriber growth in mobile telephony and fixed broadband, which has offset competitive and regulatory pressures since FY06, is coming to an end in developed Western economies. A new technology cycle is disrupting the value chain and leading to the rise of new competitors.

Financial Risks

Mobile revenue is proving more susceptible to the economic downturn than previously expected. Convergence and multimedia services will continue to keep capex and subscriber acquisition and retention costs high; over the longer term the industry needs to find ways to monetise the strong growth in data traffic if it is not to face ongoing erosion of revenue and margin while needing to maintain investments in new technology.

Peer Group Analysis

	France Telecom	Telefonica	Vodafone	Deutsche Telekom
Last reported full financial year	A-/Stable	A-/Stable	A-/Negative	BBB+/Stable
Operating EBITDAR margin (%)	37.9	40.7	38.7	32.7
Pre-dividend FCF/sales (%)	14.6	14.6	11.8	10.8
FFO Adjusted leverage (x)	2.7	2.8	3.5	3.2
FFO/net interest (x)	6.6	6.4	9.4	6.9

Source: Fitch, Companies

Key Credit Characteristics

Fitch expects anaemic top-line growth in the mature Western markets, but growth from international assets combined with cost-cutting measures should minimise the decline in profitability. Cash flows remain under pressure, especially with upcoming spectrum auctions. Fitch expects most incumbents to remain cautious about excessive dividend distributions, and to seek to keep leverage at the current levels.

Overview of Companies

- **France Telecom** – French incumbent, with dominant positions in its domestic market and strong positions in its international footprint. The ratings are underpinned by management's conservative financial policy (net debt/EBITDA below 2.0x) and ability to generate solid organic cash flow.
- **Telefonica** – The largest European incumbent in terms of customers, with a strong domestic presence and diversification in Latin America. Telefonica has one of the healthiest cash flow metrics among peers, with a well-balanced financial policy, including debt protection, mergers and acquisitions, and shareholder remuneration.
- **Vodafone** – Leading mobile telecoms company, with controlled subsidiaries in 19 countries. Revenue in the core European business is suffering from regulatory and competitive pressure, although this is easing slightly. Upcoming spectrum auctions in the next two years should slow the deleveraging process.
- **Deutsche Telekom** – Strong position as the German telecom incumbent, with broad geographical and product diversification. The ratings also reflect the company's solid FCF generation, although this is likely to weaken due to the auction of mobile frequencies in Germany in mid-2010 and the UK in H111.

Peer group analysis to allow users to understand our overall view of a sector, and how an issuer measures up compared to its closest peers

FitchRatings
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FitchRatings
KNOW YOUR RISK

Corporates

Peer Group

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31 May 02	A	Stable
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2 May 01	A	Stable
13 Apr 00	A	
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Page 2: Peer Analysis

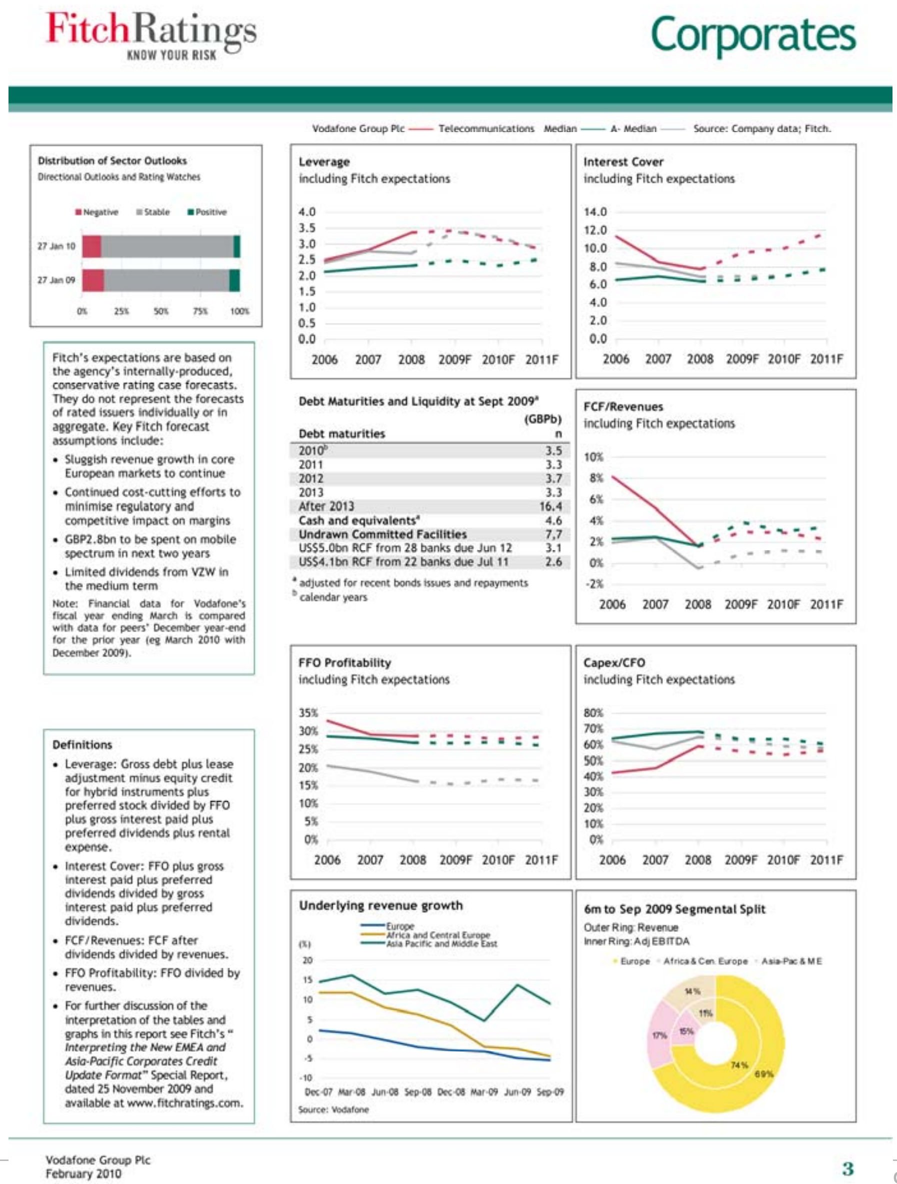
Snapshot profile of key credit considerations vs peers

Page 3: Context and Direction

Make clear to issuers and investors:

•How the issuer compares to a broader peer group based on sector/rating

•What expectations we are building into the rating



FitchRatings KNOW YOUR RISK

Corporates

Vodafone Group Plc — Telecommunications Median — A- Median — Source: Company data; Fitch.

Distribution of Sector Outlooks
Directional Outlooks and Rating Watches

Negative Stable Positive

27 Jan 10
27 Jan 09

0% 25% 50% 75% 100%

Leverage
including Fitch expectations

Interest Cover
including Fitch expectations

Fitch's expectations are based on the agency's internally-produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- Sluggish revenue growth in core European markets to continue
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- GBP2.8bn to be spent on mobile spectrum in next two years
- Limited dividends from VZW in the medium term

Note: Financial data for Vodafone's fiscal year ending March is compared with data for peers' December year-end for the prior year (eg March 2010 with December 2009).

Debt Maturities and Liquidity at Sept 2009[a]

Debt maturities	(GBPbn)
2010[b]	3.5
2011	3.3
2012	3.7
2013	3.3
After 2013	16.4
Cash and equivalents[a]	4.6
Undrawn Committed Facilities	7.7
US$5.0bn RCF from 28 banks due Jun 12	3.1
US$4.1bn RCF from 22 banks due Jul 11	2.6

[a] adjusted for recent bonds issues and repayments
[b] calendar years

FCF/Revenues
including Fitch expectations

Definitions

- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest Cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- FCF/Revenues: FCF after dividends divided by revenues.
- FFO Profitability: FFO divided by revenues.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "*Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format*" Special Report, dated 25 November 2009 and available at www.fitchratings.com.

FFO Profitability
including Fitch expectations

Capex/CFO
including Fitch expectations

Underlying revenue growth

Source: Vodafone

6m to Sep 2009 Segmental Split
Outer Ring: Revenue
Inner Ring: Adj EBITDA

Vodafone Group Plc
February 2010

3

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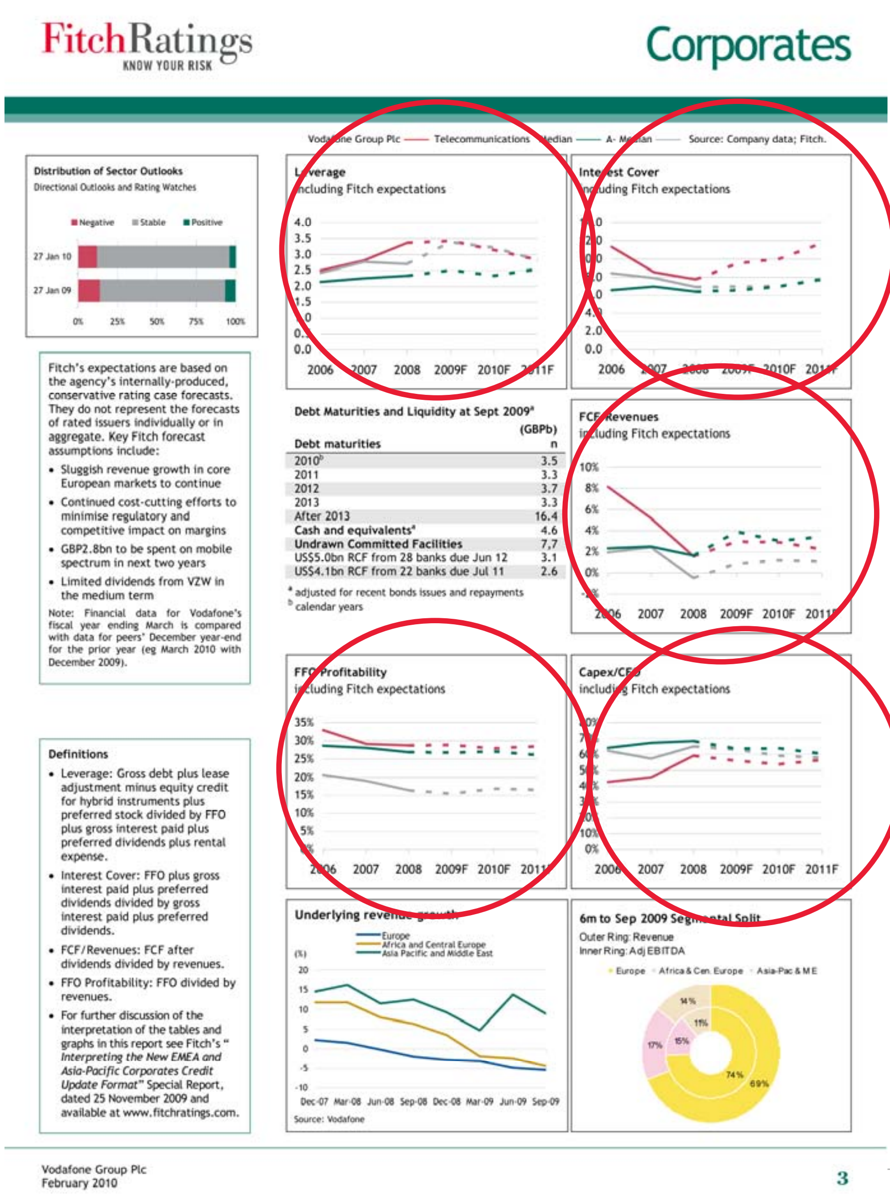
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Corporates

Vodafone Group Plc —— Telecommunications Median —— A- Median —— Source: Company data; Fitch.

Distribution of Sector Outlooks
Directional Outlooks and Rating Watches

Leverage
including Fitch expectations

Interest Cover
including Fitch expectations

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Vodafone Group Plc
February 2010

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Page 3: Context and Direction

- Key financial and operational metrics
- Historical and prospective comparisons against sector and rating medians
- Prospective cashflow-based ratios based on Fitch internal forecasts, to provide an indication of expected trend
- Context and key assumptions explained

Istanbul, March 2010

Agenda:

Overview and Context

Expectations for 2010 and Beyond

Fitch's New Credit Update Report Format

Fitch's New Special Credit Factor Reports

Q&A

Criteria Reports

Master Criteria: *Corporate Rating Methodology*

(November 2009)

FitchRatings KNOW YOUR RISK — Corporates

Global
Master Criteria

Corporate Rating Methodology

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Summary

Fitch Ratings' corporate ratings reflect both qualitative and quantitative factors encompassing the business and financial risks of fixed-income issuers and their individual debt issues.

Key Rating Factors

- Industry Risk
- Operating Environment
- Company Profile
- Management Strategy/Governance
- Group Structure
- Financial Profile
  - Cash Flow and Earnings
  - Capital Structure
  - Financial Flexibility

Sector-Specific Criteria Reports

New Sector Specific Criteria Reports to be structured as assessment of

1. **Sector Risk Profile**
   - Recognises inherent traits or limitations of the sector. Also indicates parameters, rating categories, within which representative companies operate.
2. **Company Specific Traits**
   - Company traits narrow down range within, or potential for position outside, the Sector Risk Profile.
3. **Financial Profile**
   - Financial profile, specific measures, help narrow down to rating level.
4. **Other Factors (some overriding) associated with that sector**
   - Country Ceiling, Economic Regulation, Gov't Support.

Telecoms SCF

European Telecoms

	Sector Risk Profile	Company-Specific Traits				Financial Profile (Historical where relevant and forecast, mid-points)				
		Market share & competitive intensity	Integrated network owner	Technology leadership	Geographical diversification & absolute scale	FFO adj. leverage (x)	FFO adj. net leverage (x)	FFO int. cover (x)	Op. EBITDAR margin (%)	Pre div FCF/ sales (%)
A		Dominant market positions >40% + no. 1 or no. 2 market position	• Operates and owns both fixed and mobile platforms	Deploying latest network upgrades (FTTH/FttC) + 4g	Operates in a number of markets. Large multi-jurisdictional operators	2.5	2.0	8	c. 35	15
BBB	• Incumbent operators	Smaller incumbents and strong market challengers 20%-40%	• Ownership can be limited to single platform	Slower rollout of technology upgrades	Limited to one or two geographies. Smaller incumbents	3.0	2.5	6	c. 30	10
BB	• Cable TV and altnets	Market challenger 15%-20%	• Ownership often limited to single platform	Selective network upgrades	Single geography	4.0	4.0	4	c. 20	0-7
B		Market challenger <15% market share	• Single platform and may not have ownership	Limited by scale to upgrade	Single geography	5.0	5.0	3	c. 15	Negative-2

General (to all rating levels)
- Essential service
- Broadly constant demand
- Technology risk
- Regulated licenses and tariffs
- Benefits from economies of scale

Source: Fitch

Example – Deutsche Telekom

European Telecoms

	Sector Risk Profile	Company-Specific Traits				Financial Profile (Historical where relevant and forecast, mid-points)				
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Source: Fitch

Example – Virgin Media

European Telecoms

	Sector Risk Profile	Company-Specific Traits				Financial Profile (Historical where relevant and forecast, mid-points)				
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Istanbul, March 2010

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> *Refinance Risk: EMEA and Asia Pac* (March 2009) *Corporate Forecasts: Macro Assumptions* (April 2009)

> *European Corporates in 2012* (June 2009)

> *Corporate Liquidity Study – EMEA and Asia-Pac* (September 2009)

> *The Long March – Outlook for European Leveraged Credit* (Sep09)

> *EMEA Corporates Capital Expenditure Update* (October 2009)

> *Stabilising Corporate Ratings in Europe and Asia* (October 2009)

> *Forecasting EMEA Corporates' Recovery: The Slow Haul Back* (December 2009)

> *EMEA Emerging Markets Corporate Outlook 2010* (December 2009)

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EMEA Corporates' 2010 Outlooks

Corporates

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Senior Director
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2010 Outlooks – EMEA

Overview
Forecasting EMEA Corporates' Recovery - The Slow Haul Back

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European Telecoms and Cable Outlook 2010
European Media Outlook 2010
Middle East and Africa Telecoms Outlook 2010

Energy, Utilities and Regulation Outlooks
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Russian Power Outlook 2010
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Fitch: European Auto Suppliers to Remain Challenged in 2010

Retail, Leisure and and Consumer Products Outlooks
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