



## **Vodafone Group plc**

### **Turkey Webinar**

**Thursday 12<sup>th</sup> September 2013**

#### **Serpil Timuray, Vodafone Turkey Chief Executive Officer**

Good afternoon and welcome to the Vodafone Turkey Webinar. I am Serpil Timuray, the CEO of Vodafone Turkey since January 2009. I have here with me my three colleagues today, Gökhan Ögüt, who will be taking on a broader responsibility as Chief Commercial Operation Officer as of October 1, Frank Krause, our Chief Financial Officer, and Hasan Süel, our Regulatory and Corporate Affairs Director. In the next 20 minutes I will first provide you an overview of Vodafone Turkey's position in Turkish telecommunications market, and our strategy over the last four years. Then I'll hand over to Gökhan and Frank to take you through the details of how we have implemented our strategy, together with our financial performance. At the end, I will brief you about our future prospects before moving to the Q&A session.

So I'd like to begin with giving you a brief update on Turkey's demographic and macro-economic highlights on slide 3. Turkey is an attractive market mainly with a technology savvy young population and growing economy. Out of the 76 million inhabitants 42% is aged under 25, which is one of the key growth factors. Turkey is currently the 18<sup>th</sup> largest economy, and aims to be in the top 10 economies of the world, with ICT market corresponding to 8% of the GDP according to government's 2023 vision.

In terms of foreign direct investment, Turkey is the 24<sup>th</sup> largest recipient country, and it is potentially expected to increase its ranking up to number 19 over the next three years. As a result of a strong economic programme, Turkey's credit rating was upgraded to investment-grade by Fitch in November 2012, and by Moody's in May 2013.

As seen in the next slide, Turkish mobile market has been growing at a higher rate than the Turkish economy over the last five years. In fiscal year 2012/13 mobile market revenue reached to £6.3bn with 12% growth rate, whilst total mobile customers increased by 3% to 68 million. Postpaid customers demonstrated a significant increase over the last five years, reaching up to 40% of the total market from 22% five years ago. Turkey has still relatively low customer penetration at 90%, offering future opportunities for market growth. Data remains an untapped opportunity given that smartphone penetration is at around 25% only.

Now I'd like to take you through Vodafone Turkey's successful performance over the last four years. As you can see on slide 5, the company was significantly underperforming in the market with decreasing revenue and loss of market share in fiscal year 2008/09. At the beginning of 2009 we kicked off a comprehensive turnaround programme, re-launching every commercial and operational aspect of the company. As a result, our total revenue doubled over the last four years with continuously high double digit growth track record. Our

mobile revenue market share increased by 11.3 percentage points and reached to a milestone of 30% revenue market share by the end of fiscal year 2012/13.

Slide 6 presents you the main strategies of our turnaround programme. With this programme we set our objective as to become the strong challenger brand of the Turkish telecoms market, the brand that dares to change the market paradigms, that offers consumers new and innovative solutions, has become the popular choice. In order to achieve this goal, we executed five main strategies. First and foremost was to build a customer centric brand positioning that wins the hearts and minds of the Turkish community. Second was to establish a value added segmentation strategy offering innovative and leading propositions separately designed for each focused segment. Third was to step-change the quality of service by significantly investing in our network, IT, retail coverage and call centre capabilities, to enable best end-to-end customer experience. Fourth was to start operating as a reliable mobile centric total telecommunications provider, but also investing in fixed line services. Last was to control costs and reinvest the savings as fuel for growth. We executed these strategies with great team coordination and excellence, which resulted in doubling our top line whilst restoring our bottom line to a record performance.

Now Gökhan will provide us more details about the implementation of these strategies.

### **Gökhan Ögüt, Vodafone Turkey Consumer Business Unit Director**

Thank you Serpil. Let's start with the slide number 7, our first strategy of repositioning our brand as a strong challenger and a truly customer centric brand. We define Vodafone to be the hero of the customer: simple to deal with; transparent; reliable; and confident. We took bold moves both in products and services as well as our network. We introduced to Turkish market very daring claims and campaigns such as money-back guarantee if not satisfied with our coverage, and reimbursement for dropped calls, together with many other segmented first to market bold propositions.

To increase our emotional connection with the Turkish people, we created what we called Social Business Models. For disabled, women and farmers, special programmes targeted at special groups to improve their lives through the use of our mobile technologies. You can find a short video of our Farmers' Club Programme on the website after this call. Furthermore, we have implemented a sustainability agenda through engaging in environmental protection activities, and establishing a strong and continuous dialogue with our stakeholders.

Moving to slide number 8, let me give you an overview of our segmentation strategy that has been instrumental to our customer centric brand model. Since 2009 we focused on providing innovative propositions to our customers, specifically targeting postpaid and high value customers, youth and enterprise segments. For postpaid we first launched All-net Tariffs behind a simple portfolio, and the first hybrid tariff in the market in 2012 that combines the cost control advantage of prepaid with ease of user advantage of postpaid. As data becoming one of the key pillars of our sustainable growth, we have launched smartphone campaigns and affordable Vodafone branded smartphones with free data trial, to simplify smartphone buying experience for all our postpaid customers.

We took our high value customer focus to a new level by launching Vodafone Red this year through providing generous integrated offers. Vodafone Red also differentiates itself in the market by offering family and roaming propositions, as well as providing a wide variety of loyalty programme benefits. We launched Vodafone Freezone to increase our focus in youth segment in 2012. We complemented youth focused price plans with loyalty offers such as Movie Tickets campaign and a big High School Music contest.

On the enterprise side, our strategy is to become the trusted business partner of companies by contributing to their success through providing new and smarter ways of doing business. Accordingly, we provide tailored innovations through M2M and Red Cloud services, to increase the efficiency of our business customers, provide exclusive mobile solutions to specific professions like lawyers, doctors, pharmacists, architects, and we also leverage our global expertise by providing worry free international and roaming packages.

Moving onto the next slide and our third strategy. We achieved strong performance, not only through our commercial offerings, but also through investments in our network, retail coverage and call centres, to enhance the quality of service for a superior customer experience. We invested more than £1.3bn in the last four years to support our smart network. Our population coverage has exceeded 99%, and now we are offering dual carrier 3G services in all cities and districts in Turkey. We also tripled our network of equipment in the last four years and transformed our sites into single RAN technology, which is LTE ready today.

Together with our new investment initiatives supported by Project Spring, we expect to strengthen our network in the following years, which we are sure will translate into strong revenue growth and profitability, as it was proven in the past. Furthermore, we have strengthened our sales and distribution network by re-launching our 780 shops to primary locations. We extended our reach, we are increasing our number of shops to 1,250 by forming a new regional structure, and became a more easily accessible brand.

Lastly, through our R&D centre in Turkey, namely Oksijen, we have developed innovative services such as mobile payment card, Vodafone Locate, social media applications such as Facebook self-service app. Oxygen became one of the global excellence centres, and we are now exporting some of these to other Vodafone OpCos.

Moving onto the next slide, slide number 10. We also achieved some performance in data, enterprise and fixed segments, as part of our strategy of being a mobile centric operator, along with providing total telecommunication services. Since the launch of 3G in Turkey in 2009, we dramatically increased our data revenues and reached £182m in fiscal year 2012/13. Our rapid growth is mainly driven by growing smartphone penetration, which reached 25% of our base in the first quarter of this fiscal year. On the enterprise segments we performed exceptionally over the last four years and tripled our mobile revenue, with +36% year-over-year growth in 2012/13, behind strong total communication propositions. We started providing total comms solutions to our business customers through the acquisition of two fixed line companies since 2010. As a result, our fixed line revenues grew by +86% and reached £111m in 2012/13.

Now let's move to slide number 11 and start reviewing the results of these four truly customer focused strategies. These actions were very much welcomed by our customers, by making us the most recommended operator among its customers. We are leader in Net Promoter Score for nine consecutive quarters. I will now hand over to Frank to provide you the financial results behind these strategies.

### **Frank Krause, Vodafone Turkey Chief Financial Officer**

Thanks Gökhan. So let's move to slide 12 and let's look at how our strong commercial propositions and customer centricity enabled us to enhance our customer base and to grow our ARPU. Since the beginning of turnaround, our customer base has increased by 3.7 million and reached to 19.2 million as of the end of '12/'13 fiscal year. This led us to be the driving force of customer growth in the Turkish mobile market. In parallel to this, we have also improved our customer mix through increasing our postpaid base, which now

corresponds to 36% of total, with around 7 million postpaid customers. On the other hand, our blended ARPU also demonstrated an increasing trend over the last four years, reaching to 20.8 TL in the last quarter of '12/'13, with 9.4% year-over-year growth. The increase is mainly driven by the improvement of our customer mix, as well as stimulating more voice and data users. During this period we have also increased our postpaid ARPU significantly up to 36.6 TL.

Moving to slide 13 now. Let's look at how the increase in our customer base and ARPU led to a strong revenue and market performance. As you can see, we have achieved very good progress in total revenue and practically doubled it over the last four years, by increasing it from £1.1billion to nearly £2billion in '12/'13. In terms of revenue growth, we have sustained our double digit growth over the last three years and we were the highest growing operator in the Turkish mobile market. In the last fiscal years we have increased our total revenue by 19% and continue growing our revenue by double digit in the first quarter of 2013/14.

Looking ahead as you know there has been MTR cuts in the Turkish mobile market, voice MTR cut by 20% and SMS by 75% effective from 1<sup>st</sup> July, making Turkey to have the lowest MTR rate in SMS and second lowest rate in voice among European peers. However, excluding MTR cuts, which have a high single digit impact on revenue growth, we continue to expect underlying revenue growth trends to remain broadly consistent as in the prior quarters.

If you look back to our progress in the Turkish mobile market we have continuously gained market share each year over the last four years and reached a milestone of 30% total mobile revenue market share as of '12/'13, year end, which we continued to sustain in the first quarter of the fiscal year. Altogether we have gained more than 11.5 percentage points since the beginning of our turnaround programme.

As you can see on slide 14 we achieved very good progress not only in revenue but also increased our profitability at the same time. As a result of this our EBITDA reached to an all time high level at £322m in the fiscal year '12/'13 with 35% year over year growth by doubling our service revenue growth in the same period.

Our EBITDA margin, which was -0.7% at the beginning of our turnaround period in '09/'10, reached to 16.5% in '12/'13. As you may know the current tax structure in Turkey is different than in other European countries where no mobile revenue specific taxation exists. For like-for-like comparison, excluding the telco specific taxes and fees in Turkey, like treasury share, usage fee and acquisition taxes our EBITDA margin would be 33% in '12/'13, which is higher than the Vodafone average.

Through this period the key drivers of our margin improvement were firstly top line growth, mainly by increasing our customer base by 3.7m and doubling our blended ARPU at the same time. And secondly we have focus on efficiency by establishing an extensive cost control programme which also contributed to improve our profitability and to fuel the growth over the last four years.

Another point to highlight is we have achieved positive adjusted operating profit of £15m and positive operating free cash flow of £83m for the first time in '12/'13.

With that I will now hand over back to Serpil to provide you our future growth prospects and to give you the final remarks.

## **Serpil Timuray**

Thank you, Frank. Let's look at the last slide, number 15. Building on our strong commercial and financial track record over the last four years our objective is to continue to generate sustainable growth for Vodafone Turkey. Our future programme aims to maximise the growth opportunities in the market by focusing mainly on three areas: data, enterprise and value-added consumer segmentation.

Firstly there is huge growth potential in data in Turkey. Data revenues still constitute relatively a lower portion in service revenue compared to Vodafone Group's average. This is mainly driven by the gap in smartphone penetration. We had been driving smartphone penetration up through more integrated data offers together with a new smartphone marketing platform campaign that has generated successful data growth.

On the enterprise side we will continue to leverage our global M2M experience to provide tailor-made solutions to our enterprise customers, to focus on convergence by investing selectively in fibre and also to leverage our Vodafone Global Enterprise VGE, know-how and customer base.

Thirdly we will continue our value added segmentation strategy by investing in firstly high value segments through Vodafone Red propositions; and secondly youth segment through Vodafone Freezone offerings.

We believe all of these will further strengthen our position in the Turkish telecommunications market and sustain our future growth.

So this brings our presentation to an end. Thank you all for listening. Now we will be very happy to take your questions.

### **Question and Answer session**

#### **Question 1**

##### **Maurice Patrick – Barclays Capital**

How are you performing in enterprise? Any data points you share on the markets/share prospects?

##### **Answer: Serpil Timuray**

Thank you for this question. Our enterprise business has been growing above our Vodafone Turkey performance. Over the last four years we have tripled our enterprise revenue. If we look at the top 500 companies of turkey we have captured half of the market share from a starting base which was lower than 10%. So we're very happy with our performance so far.

The fixed businesses that we have acquired Koç.net and Borusan Telekom have also contributed to this performance so we have started to provide convergence services to our enterprise customers, and we think that the future of the market is very prospective given that there will be an increase of data usage, an increasing demand towards the new innovative solutions around M2M. We have also started to offer the very innovative services on the M2M site. Just very recently in August we have also established a new data centre, state of the art technology, which is equipped to provide cloud solutions to enterprise. So

overall we are very optimistic about what we can offer to our enterprise customers to encourage our future growth opportunity.

## **Question 2**

**Nick Lyall – UBS Limited**

Good afternoon. Could I just ask a question on the tariff regulation on Turkcell? Have you seen any price increases from them and how do you think you would respond? I mean is this an opportunity to take a share or would you raise prices in order to raise margins?

Secondly on the fixed business on Koç.net and others could you detail what sort of infrastructure that gives you and how you think about Project Spring? I mean I know it can be very broad because it's not decided yet but what would be your general aims with the cash coming in from Project Spring please?

**Answer: Serpil Timuray**

Thank you. Let's start with your question on the on-net regulation. We are very supportive of the new on-net regulation which will encourage more fair competition in the market. And as Vodafone our pricing strategy has always been to ensure that there is a very good value for money positioning in the market and we have always positioned ourselves in the middle in between the price leader and the number three operator. So if there is a movement upwards in the pricing of the market we will continue to adjust.

Coming to your second question about Project Spring we are very enthusiastic about the opportunities that Project Spring will offer us in terms of acceleration of our future growth programme and our future strategies. We have already prepared a growth programme for Vodafone Turkey which concentrates on seizing the data opportunities and the enterprise opportunities and Project Spring will give us an opportunity to invest more around these pillars as well as we have some pockets of growth in terms of network roll out with positive IRR that we will be also capturing as an opportunity to invest on the network.

And lastly we will be building selectively fibres to support our enterprise strategy.

## **Question 3**

**Cesar Tiron – Morgan Stanley**

Can you please share the key management KPIs for compensation for Vodafone Turkey, i.e. market share, margins, FCS?

**Answer: Serpil Timuray**

So the key management KPIs for Vodafone Turkey are the same as any OpCo around the world for the Vodafone Group, which are financial KPIs, revenue, profit, cash flow, as well as market share.

And the other thing I want to also stress as Gökhan has presented in his presentation we also have a specific focus on Net Promoter Score and we have been the outright market leader on NPS for the last nine consecutive quarters.

#### **Question 4**

**Stan Dylan**

With the turnaround plan having been so successful are the future objectives to continue to take market share or are you focusing more on profitability?

**Answer: Serpil Timuray**

In our turnaround plan we have not only delivered a significant market share growth and a revenue growth but we have also restored an all-time high record profitability. We have achieved positive EBIT and positive cash flow. Hence our focus has always been, both in terms of growing the business top line as well as restoring the profitability of the company. And our future focus will be on checking both these financials, hence we would like to seize the opportunities of market growth to continue to build on the revenue of the company as well as continue to build our profitability as we have done in the past.

#### **Question 5**

**Simon Weeden – Citigroup**

How do you see yourself positioned against Avea Turk Telekom since it also sees itself as a challenger and wants to turn its incumbent fixed line network into a convergence advantage?

**Answer: Serpil Timuray**

In our market we think we are a very strong challenger in mobile and we also offer convergence products towards mainly the enterprise segment where we have achieved outstanding performance so far. When it comes to residential strategy so far the consumer demand towards the convergence products has not been strong yet, but we will continue to keep a close eye on the future developments in the consumer convergence demands.

#### **Question 6**

**Mandeep Singh – Redburn Partners**

You've highlighted the gap between your reported EBITDA margin and the free regulatory adjustment EBITDA margins, there was a twofold gap there; given in the absence of any considerable regulatory position where do you see is the long term feeling for your EBITDA margin?

**Answer: Frank Krause**

As we said before our EBITDA margin we improved it, doubled the revenue growth in the last year and that is mainly due to our top line growth first. And secondly we focus very much on efficiency in our operating expenses and we introduced a few years ago a cost saving programme and based on that and top line growth we also expect the EBITDA margin to grow further in the future.

**Answer: Serpil Timuray**

Just to complement this looking forward, our company has a further profitability opportunity to mainly come from scale growth and also a better, higher value mix in the customer base

and also the data opportunity is another booster. Now also when we look at the macro environment of the market looking long term we think there could be an opportunity of an adjustment on the tax scheme. Government already in Turkey accepts that the Turkish telecommunications tax is high and should be reduced when there is a fiscal space for it. So long term we are expecting government to adjust the taxes down which will be a positive news for the profitability of the market as well as Vodafone.

### **Question 7**

**Tim Boddy – Goldman Sachs**

Margin improvements have flowed in the last year. How much scope is there for further improvement and how will the new lower MTR and FMS interconnection charges affect this in the current fiscal year? Is there any scope to reduce the size of the tax burden? Thank you.

**Answer: Serpil Timuray**

I think we have covered this question broadly in the previous answer, maybe just a word on the effect of the MTR, Frank you want to address that?

**Frank Krause**

Yes, as I said in my presentation we expect the MTR and SMS, MTR cut on voice and SMS to have a high single digit impact on our reported revenue growth, but as I also mentioned the underlying revenue growth is expected to still be on the same level as before.

### **Question 8**

**Andrea Devita – Banca Akros**

Which is your local strategy in fixed next generation networks? What are the next spectrum deadlines? Thank you.

**Answer: Serpil Timuray**

I think as I explained on our fixed strategy, our strategy has been so far to build our enterprise business through offering both mobile and fixed products and Koç.net and Borusan Telekom acquisitions have extremely contributed to this strategy, and looking at the consumer we will be tracking very closely the consumer trend coming up towards convergence products.

Now, I'd like to pass to Hasan regarding the spectrum question.

**Answer: Hasan Suel**

Well, spectrum is the main resource for our operations and we think that currently our spectrum capacity is well enough to bear the load of our customer needs, and just to make you remember that Turkey started 3G in 2009, a little bit late regarding the European countries but it gave her an advantage to invest with the state of the art technology, and currently there is no further need on a new spectrum. And then also we will get the data revenue and smartphone penetration in the country we may consider it a little bit early to talk about further spectrum needs.

### **Question 9**

**Simon Weeden – Citigroup**

What is your take on LTE in Turkey? Do you agree it seems that Turkcell may start pushing the idea soon?

**Answer: Hasan Suel**

As I mentioned in the previous question we think that there will be the right time and right conditions to launch 4G LTE in Turkey. And we as Vodafone Turkey are in constant contact and engagement with government to pass our experience worldwide also, to explain to them what should be the best conditions for the future generation of mobile networks.

### **Question 10**

**Cesar Tiron – Morgan Stanley**

Can you please share with us if there is a possibility to see further price increases following those which have been implemented by Avea and Vodafone in May 2013?

**Answer: Gökhan Ögüt**

Let me take this question please. As Serpil explained a while ago, our pricing strategy is value based pricing and we invest in our brand and network in order to have a premium for our pricing. And our current pricing position right now is in between the two operators. So in this context we expect the market leader to lead the pricing and we will be following any price adjustments, any product price adjustments in the market by keeping the same index.

### **Question 11**

**Simon Weeden – Citigroup**

How much additional investment will Turkey receive under the Project Spring and what will the priorities be? Thank you.

**Answer: Serpil Timuray**

Thank you, Simon. Unfortunately we cannot disclose the numbers regarding our investments. I believe I have answered this question, but just to summarise, Project Spring is a tremendous opportunity we think to accelerate our growth programme in Turkey. We already have made plans to grow our business mainly on data and enterprise and specific targeted segments, and we have a roll out plan for network especially in some special designated areas where there is a very good IRR for these initiatives and as well as selectively building and continuing to build fibre.

### **Question 12**

**Anne Nicols – Morning Star**

Vodafone has done a great job of turning the company around but has also benefited from Turkcell's fight over management control. If Turkcell becomes more focused and aggressive how will Vodafone respond?

**Answer: Serpil Timuray**

Thank you. Over the last four years as we have presented we have made a long term strategic programme for Vodafone Turkey, that's entirely focused on the customer, on becoming the net promoter score leader through providing the best end to end customer experience, so we have been pursuing a very well developed orchestrated, coordinated strategic programme that's entirely based on our customer and we will continue to do so for the future.

**Concluding Comments – Serpil Timuray**

So, thank you for giving us the opportunity to present to you our business story in Vodafone Turkey. We are very happy with the commercial and financial performance track record we have achieved over the last four years. We think we have an exceptional organisation that is really bringing the best of Vodafone Group's global experience and combining this with the local expertise and local market understanding. And we think that the market also has very interesting growth opportunities that we have already started working on and we would like to capitalise on for our future growth opportunities, both in terms of revenue as well as profitability. So thank you for listening to us today.