
# NETAŞ TELEKOMÜNİKASYON A.Ş.
# TWELVE MONTHS EARNINGS RELEASE

## CEO'S MESSAGE

*C. Mujdat Altay, Netas CEO commented: "I am proud to announce we have successfully hit our 2016 targets. Despite challenging market conditions, we increased our EBITDA from TL 73 million to TL 91 million. We also increased our EBITDA margin by more than 200 basis points to 9.4%.*

*Our R&D capabilities and technology know-how have been the steering factors in our achievement. We carried out a significant project such as 4.5G at our R&D center consisting more than 700 engineers.  We offered locally developed technology solutions in various fields that are very critical for our country such as cyber security. Besides, we kept our edge in exporting software to the world's largest operators.  We have 118 patent applications in 2016 and took active part in European R&D Institutions.*

*Additionally, reshaping our service solutions fully in line with market conditions and customer needs increased our efficiencies and created a positive impact on our financial results.  In this context, we have increased the number of managed services and value-added service solutions in our portfolio.*

*Another success achieved in 2016 has been the increase in orders booked by 220% in our international markets. This alone vouches for the substantial growth Netas continues in the Region.*

*With the objective to meet the demand for net generation technology solutions products. we continued to offer end-to-end value-added solutions to our customers in a wide range including technology consultancy, business applications and post-sales support.*

*We are proud to close the year 2016 with substantial success thanks to our solid strategies and accurate insight.  Netas is extremely well positioned for 2017.*

## TWELVE MONTHS SUMMARY

- **EBIT increased by 29% and reached TL 69 million**
- **TL-based EBITDA increased by 24% to TL 91 million**

## FINANCIAL HIGHLIGHTS

| TL Million | 12M16 | 12M15 | y/y % |
|---|---|---|---|
| **Revenue** | **969,8** | **1009,0** | **(3,9%)** |
| Cost of Sales | (835,4) | (895,1) | (6,7%) |
| **Gross Profit** | **134,4** | **113,9** | **18,0%** |
| *Gross margin %* | *13,9%* | *11,3%* | *257* |
| Sales, Marketing & Distribution Expenses | (44,4) | (42,6) | 4,3% |
| General Administrative Expenses | (24,4) | (23,8) | 2,3% |
| Research & Development Expenses | - | (4,0) | n/a |
| Incentives | 3,1 | 9,7 | n/a |
| **EBIT** | **68,7** | **53,2** | **29,1%** |
| *EBIT margin %* | *7,1%* | *5,3%* | *181* |
| Depreciation | 22,5 | 20,3 | 10,5% |
| **EBITDA** | **91,1** | **73,5** | **24,0%** |
| *EBITDA margin %* | *9,4%* | *7,3%* | *211* |

*EBIT = Gross Profit – Sales, Marketing and Distribution Expenses - General Administrative Expenses – Research and Development Expenses + R&D Incentives*

*R&D Incentives: Disclosed under Other Income from Operating Activities in the financial statements prepared in accordance with the Capital Markets Board requirements.*

*Operating Expenses= Sales, Marketing and Distribution Expenses + General Administrative Expenses + Research and Development Expenses- R&D Incentives*

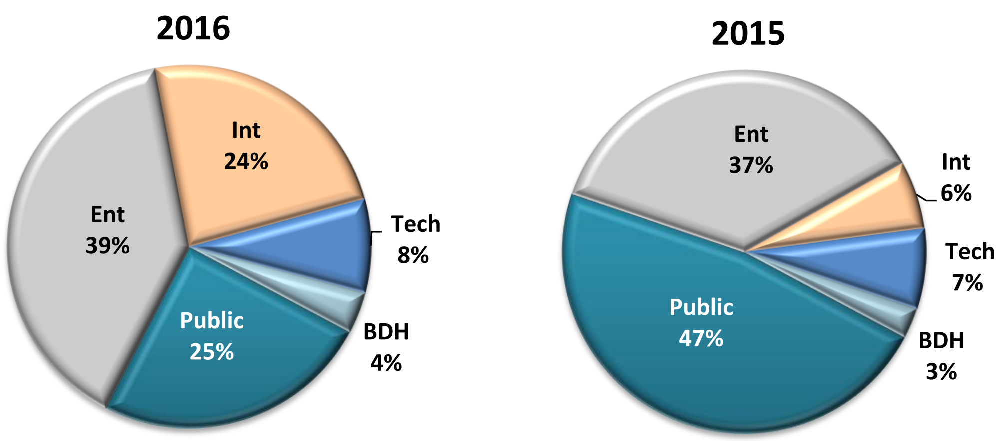
*EBITDA= EBIT + Depreciation*

## OPERATIONAL PERFORMANCE

### Orders & Revenue

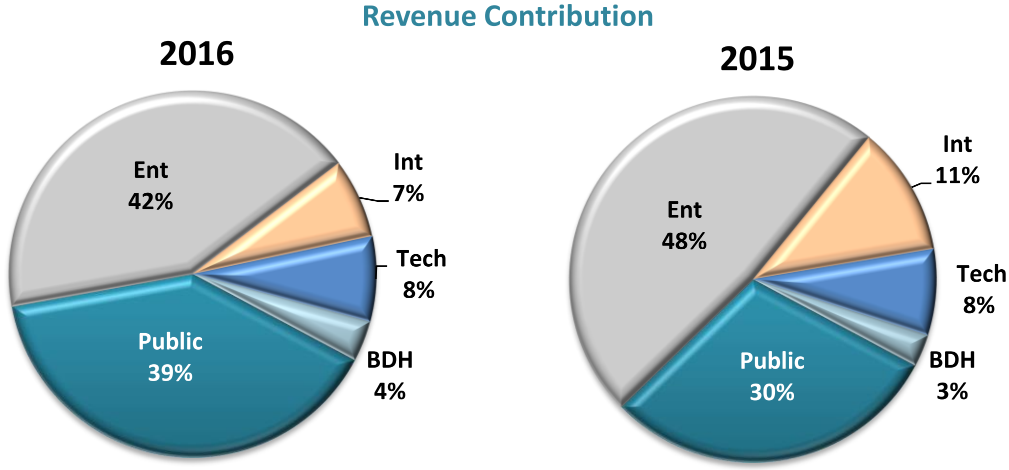
Orders booked in 2016 was TL 878.9 million (USD 290.7 million) and orders on hand were TL 637 million (TL 210.4 million). Order booking performance of international markets improved significantly in 2016 with the positive contribution of Sonatrach project signed in December 2016. Despite the Group's total order booking performance decreased by 18.3% compared to the previous year mainly due to the slowdown in public and enterprise segments, decline in order on hands was limited to 2.4% in terms of TL year on year.

**Orders Booked Breakdown**




- Consolidated revenue declined by 3.9% in 2016 compared to 2015 mainly due to the lower performance in international markets. Despite the unfavorable effect of international markets and Enterprise segment on sales revenue, improvement in BDH and public segment narrowed the gap on a large scale. Domestic revenue grew by 2.5% on a year over year basis.

**Revenue Contribution**



## OPERATIONAL PERFORMANCE

| 2016 (TL million) | Public | Enterprise | International | Technology | BDH | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| **Revenue** | **382,0** | **412,1** | **68,1** | **73,0** | **34,7** | **-** | **969,8** |
| Cost of sales | (323,1) | (362,1) | (54,3) | (69,8) | (18,0) | (8,2) | (835,4) |
| **Gross margin** | **58,9** | **49,9** | **13,9** | **3,2** | **16,7** | **(8,2)** | **134,4** |
| Sales,marketing and distribution expenses | (14,3) | (21,2) | (8,8) | - | - | - | (44,4) |
| General administrative expenses | - | - | - | - | - | (24,4) | (24,4) |
| Research and development expenses | - | - | - | - | - | - | - |
| **Operating profit / (loss) of segment** | **44,6** | **28,7** | **5,0** | **3,2** | **16,7** | **(32,6)** | **65,6** |
| **Operating Profit Margin** | **12%** | **7%** | **7%** | **4%** | **48%** | | **7%** |

| 2015 (TL million) | Public | Enterprise | International | Technology | BDH | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| **Revenue** | **302,4** | **485,7** | **115,8** | **76,5** | **28,6** | **-** | **1.009,0** |
| Cost of sales | (269,5) | (438,5) | (82,1) | (71,3) | (27,6) | (6,1) | (895,1) |
| **Gross margin** | **32,9** | **47,2** | **33,7** | **5,2** | **1,0** | **(6,1)** | **113,9** |
| Sales,marketing and distribution expenses | (14,8) | (19,7) | (8,1) | - | - | - | (42,6) |
| General administrative expenses | - | - | - | - | - | (23,8) | (23,8) |
| Research and development expenses | - | - | - | (4,0) | - | - | (4,0) |
| **Operating profit / (loss) of segment** | **18,1** | **27,5** | **25,6** | **1,2** | **1,0** | **(29,9)** | **43,5** |
| **Operating Profit Margin** | **6%** | **6%** | **22%** | **2%** | **4%** | | **4%** |

### Public Segment

Despite declining order booking performance in 2016 due to the challenging economic and political environment in the domestic and international markets, we made a good progress in public segment and reported 26.3% revenue growth compared to the previous year. The ban imposed for government tender bids on May 31, 2016 for one year had a limited impact on Group’s full year financials thanks to diversified customer portfolio more than 1500 in domestic and international markets.

Government projects share increased from 17% to 25% in total revenue of 2016 with the positive touch of Fatih and TFF (Turkish Futball Federation) projects during the year.

Furthermore, public safety projects had positive impact on 2016 financials. Share of public safety projects in total revenue increased from 6% to 11% in 2016 compared to the previous year thanks to continuing projects with Aselsan, Roketsan and among others.

### Enterprise Segment

Order booking performance of enterprise segment was down by 12.2% in terms of TL due to the unfavorable market conditions. Despite 15.1% revenue decline in FY2016 compared to the previous year, margin contribution increased by 4.3% thanks to the high profitable projects. Enterprise segment’s contribution to the consolidated EBIT was TL 29 million in 2016.

## OPERATIONAL PERFORMANCE

### International Segment

International operations delivered a significant order booking performance in 2016 through Sonatrach project signed in December 2016. Year on year basis, orders booked grew by 220.3% in 2016. Excluding Sonatrach project, order booking performance of international markets was still over the previous year thanks to continuing large-scaled projects as ATM Mobilis Project in Algeria, signed in 2014 for five years for the improvement of 2G and 3G transmission infrastructure of and delivery of radio frequency (RF) optimization solutions for ATM Mobilis, an Algerian mobile operator.

Revenue for this line of business declined in 2016 compared to the previous year due to high base of 2015.

### Technology Segment

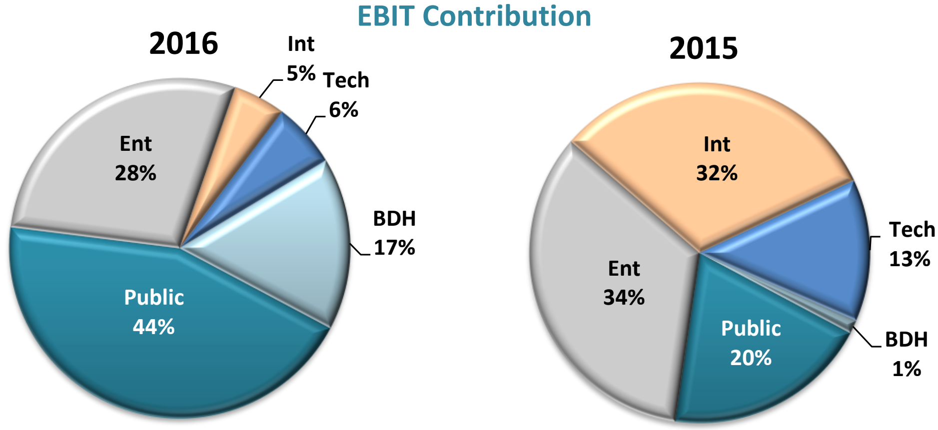
The relations established with multinational companies such as Genband, Kapsch, Mitel were also continued in 2016. Kapsch project was completed in December 2016. Group's revenue in Technology segment was relatively flat in 2016 compared to the previous year due to the challenging market environment.

### BDH

In spite of an another challenging year for whole service providers, BDH's revenue increased by 21% in 2016 and order booking performance grew by 11.6% compared to the previous year thanks to its successful operational performance and improved management efficiency.

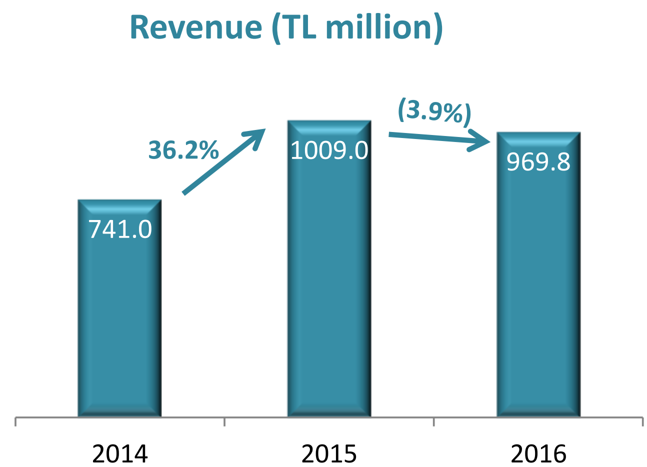
BDH's EBIT contribution was TL16.7 million in 2016 significantly higher than its level in 2015 (TL 1 million) due to focusing on more value added servicing business. BDH's revenue continued to grow in 2016 and its share in total revenue increased from 2.8% to 3.6% compared to 2015, reflecting the increasing focus on value added services. The Group will continue to focus on its market execution to leverage the high potential of the market going forward.

EBIT Contribution



## CONSOLIDATED FINANCIAL PERFORMANCE

- **Consolidated sales revenue** was TL 969.8 million in FY2016 contracted by 3.9% year-on-year basis mainly due to the lower performance in **international markets** widely offset by good progress in BDH and Public segment. Despite the challenging market conditions, **Turkey operations** delivered 2.5% revenue growth on a consolidated basis year on year at TL 820.1 million thanks to continuing large-scaled project.

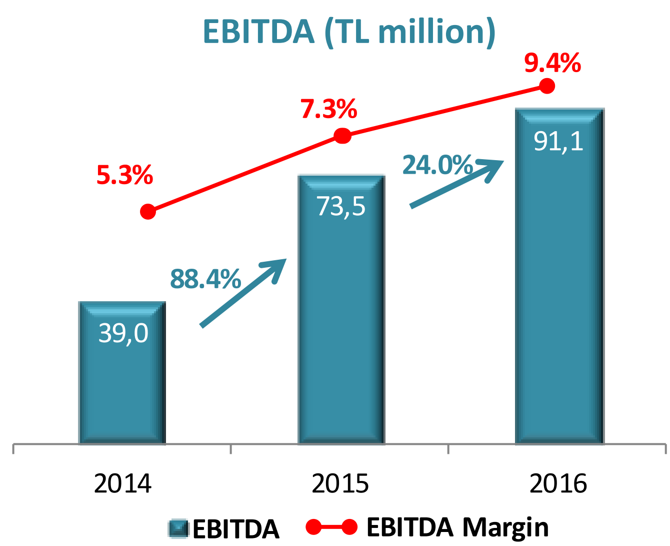



- **Consolidated gross profit margin** increased by 257 bps to 13.9% in FY2016 over the previous year. As a result of the successful implementation of new servicing strategy which contributed significantly in gross margin. Gross margin from service segment reached 19% of total revenue in 2016 versus 8% in 2015.

- In 2016, **Operating expenses excluding depreciation and amortization (OPEX)** were lower compared to the previous year helped by successful measures to cut costs and improve efficiency.

- Consequently, Group's **consolidated EBIT** increased by 29.1% to TL 68.7 million, with the EBIT margin increasing by 181bps to 7.1% in FY2016 from 5.3% in FY2015 thanks to its new service strategy.

- **Other operating expenses** increased from the level of TL 30.2 million in 2015 to 50.7 million in 2016 reflecting the provision* booked in YE2016 financials for the trade receivables from Nortel Networks amounting to TL 21.7 million and other provision expenses for doubtful receivables.




- **Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)** surged from TL73.5 million in FY2015 to TL 91.1 million, representing an increase of 24.0%. EBITDA margin marked as 9.4% in FY2016 with 211bps increase compared to last year, over the Group's full year guidance of 100bps.

**The provisions consists of Nortel receivables provision amounting to 45 % of net-off Nortel companies' trade receivables and payables which is approved by the related authorities*

## CONSOLIDATED FINANCIAL PERFORMANCE

- Consolidated **financial income** of the Group was TL 51.4 million in FY2016 compared to TL 60.3 million in FY2015 as a result of lower non-cash FX gain compared to the previous year. During the same period, **financial expenses** increased due to refinancing of bank loans to fund the delay in Fatih Project after the July coup attempts and resulted in TL 49.8 million **financial expenses** in FY2016 versus TL 38.2 million in FY2015.

- Accordingly, Group recorded TL 18.7million **net income** in FY2016 versus TL 34.3 million in FY2015 reflecting the effect of the provisions made for the trade receivables from Nortel Networks.

## DEBT STRUCTURE & NET WORKING CAPITAL

- **Group's cash and cash equivalents** was TL 115.6 million as of YE2016 leading to a **net debt positio**n of TL 239.2 million.

- Gross **financial debt** was TL 354.9 million as of 2016 and approximately 80% of debt in TL and 20% held in USD.

- **Maturities of financial debts** are less than one year.

| (TL million) | Consolidated Gross Debt | Cash & Cash Eq. | Net Debt |
|---|---|---|---|
| **2016** | 354,9 | 115,6 | 239,2 |
| **2015** | 333,1 | 226,1 | 107,0 |

| 2016 | TL | USD |
|---|---|---|
| Short Term Debt | 349,5 | 99,3 |
| Credit Interest Accruals | 5,4 | 1,5 |
| **Total Debt** | **354,9** | **100,8** |

- **Net working capital* (inc. non-current trade receivables and trade payables)** requirement of the Group increased to TL665 million in FY2016 in an absolute term (FY2015: TL431 million) due to financing of projects.

**Net Working Capital = (Total Current Assets - Cash & Cash Eq. + Non-current Trade Receivables)- (Total Short Term Liabilities – Financial Liabilities + Long Term Trade Payables)*

## FINANCIAL STATEMENTS

### NETAŞ TELEKOMÜNİKASYON A.Ş.
### Consolidated Income Statements For the Twelve-Month Period Ended 31.12.2015 and 31.12.2016
### Prepared in accordance with IFRS as per CMB Regulations
### (TL)

| | 2016/12 | 2015/12 |
|---|---|---|
| **SALES REVENUE** | **969.843.424** | **1.008.993.097** |
| Cost of Sales (-) | (835.419.643) | (895.090.264) |
| **GROSS PROFIT FROM OPERATIONS** | **134.423.781** | **113.902.833** |
| Sales and Marketing Expenses (-) | (44.406.817) | (42.588.722) |
| General Administrative Expenses (-) | (24.402.568) | (23.844.072) |
| Research and Development Expenses (-) | - | (3.968.273) |
| Other Income from Operating Activities | 4.840.922 | 11.091.203 |
| Other Expenses from Operating Activities (-) | (50.720.228) | (30.248.471) |
| **OPERATING PROFIT** | **19.735.090** | **24.344.498** |
| Income/(Expenses) from Investment Activities | 41.395 | (68.766) |
| Income from Associates | 1.257.100 | 624.581 |
| **OPERATING PROFIT BEFORE FINANCE INCOME/(EXPENSE)** | **21.033.585** | **24.900.313** |
| Financial Income | 51.405.211 | 60.326.697 |
| Financial Expenses (-) | (49.766.936) | (38.153.518) |
| **PROFIT BEFORE TAX** | **22.671.860** | **47.073.492** |
| Tax Income / (Expense) | (4.001.849) | (12.768.417) |
| - Current Tax (Expense) / Income | (313.751) | (2.499.583) |
| - Deferred Tax Income / (Expense) | (3.688.098) | (10.268.834) |
| **PROFIT AFTER TAX** | **18.670.011** | **34.305.075** |
| **TOTAL COMPREHENSIVE INCOME** | **112.494.980** | **114.302.881** |
| **EBITDA** | **91.124.536** | **73.493.963** |

## FINANCIAL STATEMENTS

**NETAŞ TELEKOMÜNİKASYON A.Ş.**
**Consolidated Balance Sheet as of 31.12.2015 and 31.12.2016**
**Prepared In Accordance with IFRS as per CMB Regulations**
**(TL)**

| | 2016/12 | 2015/12 |
|---|---|---|
| Cash & Cash Equivalents | 115.641.750 | 226.061.741 |
| Trade Receivables from Related Parties | 697.710.992 | 596.232.981 |
| Other Receivables | 511.938 | 251.083 |
| Derivative Instruments | 0 | 109.927 |
| Inventories | 83.991.024 | 103.016.525 |
| Deffered Cost | 148.684.598 | 99.108.517 |
| Other Current Assets | 76.248.383 | 69.174.922 |
| **Total Current Assets** | **1.122.788.685** | **1.093.955.696** |
| Trade Receivables | 88.574.586 | 109.479.328 |
| Property, Plant and Equipment | 40.167.155 | 40.220.084 |
| Financial Investments | 1.940.781 | 862.056 |
| Intangible Assets | 105.917.725 | 90.035.336 |
| *Goodwill* | 64.500.278 | 53.290.807 |
| *Other intangible assets* | 41.417.447 | 36.744.529 |
| Associates | 5.121.827 | 2.601.418 |
| Deferred Tax Assets | 2.287.385 | 7.343.535 |
| Other Non-Current Assets | 8.688.748 | 8.117.703 |
| **Total Non-Current Assets** | **252.698.207** | **258.659.460** |
| **Total Assets** | **1.375.486.892** | **1.352.615.156** |
| Financial Liabilities | 354.859.452 | 333.068.285 |
| Derivative Instruments | 2.678.753 | 0 |
| Trade Payables | 240.464.539 | 350.117.975 |
| Other Payables | 8.686.841 | 12.731.107 |
| Employee Benefit Obligations | 17.825.631 | 13.034.339 |
| Deferred Revenues | 59.914.737 | 67.306.810 |
| Provisions | 21.178.816 | 21.376.150 |
| Advances Received | 78.212.274 | 66.778.156 |
| Current Tax Liabilities | 297.664 | 1.959.934 |
| **Total Short Term Liabilities** | **784.118.707** | **866.372.756** |
| Trade Payables | 1.945.728 | 12.781.889 |
| Provisions | 22.207.434 | 20.513.651 |
| Deferred Tax Liabilities | 17.519.146 | 15.745.963 |
| **Total Long Term Liabilities** | **41.672.308** | **49.041.503** |
| **Total Equity** | **549.695.877** | **437.200.897** |
| **Total Liabilities and Shareholders' Equity** | **1.375.486.892** | **1.352.615.156** |

## FINANCIAL STATEMENTS

### NETAŞ TELEKOMÜNİKASYON A.Ş.
### Consolidated Cash Flow Statements For the Period Ended 31.12.2015 and 31.12.2016
### Prepared in accordance with IFRS as per CMB Regulations
### (TL)

| | 2016/12 | 2015/12 |
|---|---|---|
| **Profit for the year** | **18.670.011** | **34.305.075** |
| **Adjustments to reconcile income for the period** | **92.358.942** | **60.232.327** |
| **Changes in Working Capital** | **(150.444.443)** | **(5.178.900)** |
| **Cash Flows (Used in) Generated From Operations** | **(39.415.490)** | **89.358.502** |
| Income Taxes Paid | (1.976.021) | (2.373.974) |
| Payments Related with Provisions for Employee | (25.856.888) | (21.086.123) |
| **Cash flow from investing activities** | **(9.823.496)** | **(5.677.970)** |
| **Cash flow from financing activities** | **(16.527.804)** | **87.051.339** |
| **Cash and Cash Equivalents at The End of The Period** | **115.641.750** | **226.061.741** |

## ABOUT NETAS

Netas provides innovative end-to-end value added systems integration and technology services in the fields of information and communications technologies (ICT). Its customers range from telco providers to public and private enterprises in domestic and international markets. Netas's constant increase in productivity is based on its next generation competencies around technology skillset and expertise. The company holds a track-record of 49 years and continues its foray in the field of information technologies, supported by with its experienced, best of breed research and development department. Netas also plays an important role in the modernization of the Turkish Armed Forces defense communication networks.

Within the Turkey's first 500 Companies', Netas, awarded 4 times as the "Software Export Champion" developing software solutions for more than 160 global operators within the region. According to the financial results of first 500 companies in 2015, Netas continues its leadership in " Network Hardware of the Year" and " System Integrator - Hardware of the Year " categories. The company, provides its customers with networking, security, unified communications, virtualization, cloud computing, broadband access, defense technologies, optical and carrier Ethernet, GSM-R, IT integration services, strategic outsourcing and tailored software development solutions.

Netas provides extensive and goal oriented services, ranging from technology consultancy to post-sale assistance for government entities, companies and defense contractors in the Asia-Pacific, CIS and North African territories.

Netas' majority shareholders are OEP (One Equity Partners) Turkey Tech B.V with 48,04% and The Turkish Armed Forces Foundation with 15%. The remaining shares of 36,96% are traded on Borsa Istanbul (BIST).

## ACCOUNTING PRINCIPLES

The Company maintains its books of account in accordance with accounting principles set by Turkish Commercial Code ("TCC") and tax legislation.

The subsidiaries in foreign countries prepares their accounting and financial tables in their currency and according to the laws and regulations of their countries.

The consolidated financial statements and disclosures have been prepared in accordance with the communique numbered II-14.1 “Communique on the Principles of Financial Reporting in Capital Markets” (“the Communique”) announced by the Capital Markets Board (CMB) (hereinafter will be referred to as “the CMB Accounting Standards”). on 13 June 2013 which is published on Official Gazette numbered 28676.

The attached financial statements in this announcement comprise the profit and loss and balance sheet for the year ended 31.12.2016 and 31.12.2015.

## ENQUIRIES

For financial reports and further information regarding Netas, please visit our website at www.netas.com.tr or you may contact;

**Ms. Çağrı DEMİREL**
**Investor Relations Manager**
**Tel: +90 216 522 5209**
**cagrid@netas.com.tr**
**yatirimci@netas.com.tr**