



NETAŞ TELEKOMÜNİKASYON A.Ş. TWELVE MONTHS EARNINGS RELEASE



TWELVE MONTHS SUMMARY

- ❑ Group's orders booked in 2017 reached TL 835 million.
- ❑ TL 1.1 billion Revenue generation with 16% growth
- ❑ Sustainable EBITDA growth by 16% y-o-y
- ❑ Order on Hand was recorded at 472 million as of YE2017

FINANCIAL HIGHLIGHTS

TL Million	2017	2016	y/y %
Revenue	1.122	970	16%
Cost of Sales	(950)	(835)	14%
Gross Profit	173	134	28%
<i>Gross margin %</i>	<i>15%</i>	<i>14%</i>	<i>151</i>
Operating Expenses	(93)	(69)	35%
EBIT	80	69	16%
<i>EBIT margin %</i>	<i>7%</i>	<i>7%</i>	<i>-</i>
Depreciation	26	22	16%
EBITDA	106	91	16%
<i>EBITDA margin %</i>	<i>9%</i>	<i>9%</i>	<i>-</i>

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



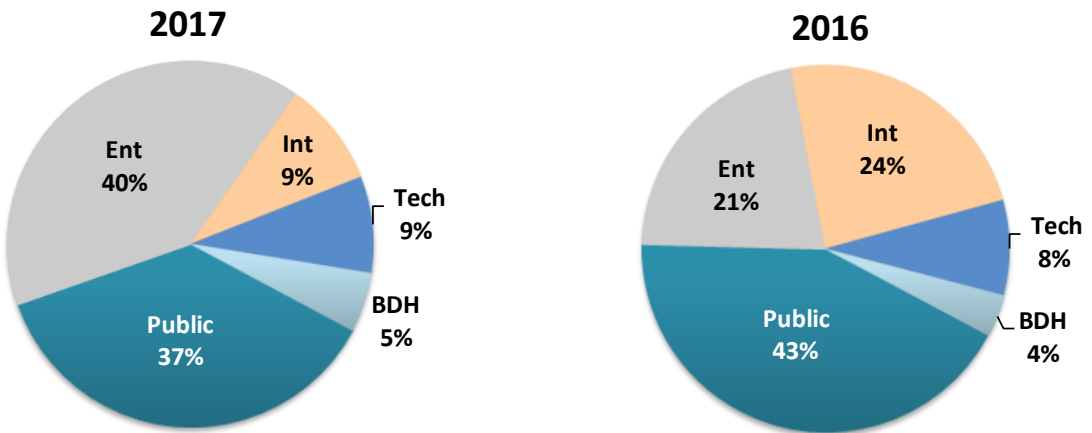
OPERATIONAL PERFORMANCE

Orders & Revenue



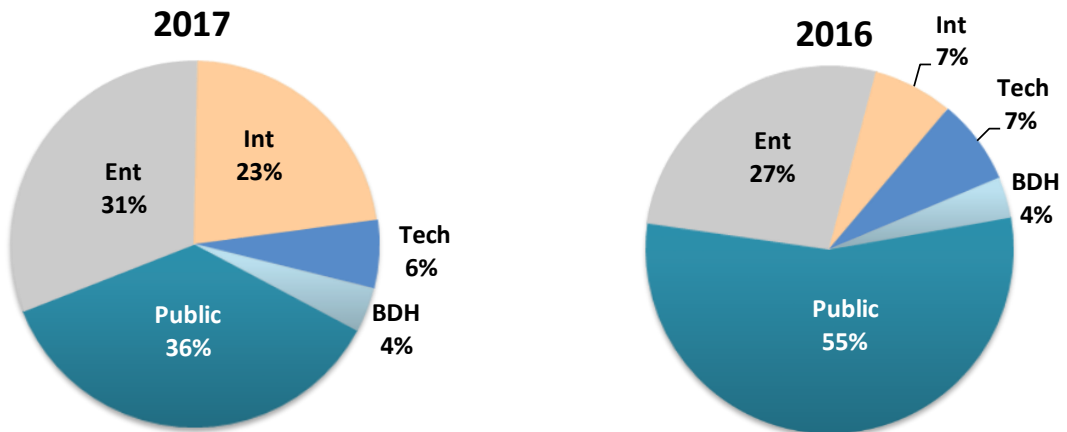
Despite the delay in Phase III- Fatih Project, Group minimized the contraction in order booking performance and Group recorded at TL 835 million new order in 2017 vs TL 879 million in FY2016. Order on hand (OOH) was at TL 472 million in the same period (637 million in YE2016).

Orders Booked Breakdown



Consolidated sales revenue reached to TL 1.1 billion with a significant growth of 16% y-o-y as a result of large scaled projects as IGA and Sonatrach signed in late 2016 and early 2017.

Revenue Contribution



OPERATIONAL PERFORMANCE

2017 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Orders Booked	307,9	335,1	77,4	71,1	43,7	-	835,1
Revenue	406,9	351,3	252,8	67,6	43,7	-	1.122,3
Cost of sales	(334,5)	(312,2)	(196,9)	(65,8)	(30,2)	(10,1)	(949,7)
Gross Profit	72,3	39,1	55,9	1,8	13,5	(10,1)	172,5
Sales,marketing and distribution expenses	(21,3)	(22,2)	(12,6)	-	-	-	(56,1)
General administrative expenses	-	-	-	-	-	(32,5)	(32,5)
Research and development expenses	-	-	-	(4,3)	-	-	(4,3)
Operating profit / (loss) of segment	51,0	16,9	43,3	(2,4)	13,5	(42,6)	79,7
Operating Profit Margin	13%	5%	17%	-4%	31%		7%
2016 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Orders Booked	374,7	189,6	208,8	73,3	32,5	-	878,9
Revenue	534,1	260,0	68,1	73,0	34,7	-	969,8
Cost of sales	(453,5)	(231,7)	(54,3)	(69,8)	(18,0)	(8,2)	(835,4)
Gross Profit	80,6	28,3	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	66,2	7,0	5,0	3,2	16,7	(32,6)	65,6
Operating Profit Margin	12%	3%	7%	4%	48%		7%

Public Segment



Even though the government increased its **public sector** spending in the second half of 2017 as a reflection of the economic recovery, some projects in the public safety area and the public sector could not be realized at the desired terms and had to be postponed to 2018. Consequently, Group's total order booking in public segment reported as TL 307.9 million at year-end 2017 with a contraction by 17.8% 1 y-o-y.

The contraction in order booking performance was partly offset by the expansion in **government projects** in 2017. In addition to the ongoing TFF projects, new projects for Ministry of Education (Güvenli Okul Projesi (Safe School Project)), Ministry of Transport, Maritime Affairs and Communications Transportation (Seeing Eye), Turksat-KKTC e-government projects (e-Gümrük, e-Tüzel) and infrastructure and networking installation for the City Hospitals contributed positively to the order booking performance.

In 2017, Revenues from **public safety projects** increased by almost 50% mainly due to the strong backlogs during the year. While the revenues from the telecom sector remained flat. Unfortunately, the revenues from **government projects** recorded in 2017 was lower than its level in 2016 due to the strong base of 2016 stemming mainly from Fatih Project. Consequently, public segment's total revenue declined by 24% in 2017 vs 2016.

OPERATIONAL PERFORMANCE

Enterprise Segment

Consolidated order booking performance of Enterprise segment increased by 77% in 2017 and reached TL 335.1 million thanks to sizeable projects in General Industry and on-going service projects in Finance Sector.

Thanks to long-run relations with the banks and other companies in the finance sector and General industry. Thus, Group succeeded to increase its **revenue in Enterprise segment in 2017 by 35%** over the previous year and Enterprise segment generated 31% of total Group's consolidated revenue with TL 351.3 million.

IGA Project signed in the first quarter of 2017 in addition to recurring service businesses in **General Industry** positively contributed to the Group's consolidated order booking performance in 2017. Group had a tremendous order booking performance by 113% in General Industry in 2017 over the previous year through strong customer relations and thanks to the enlarging playing field. While sales revenue in General Industry increased by 31% in 2017.

In 2017, Finance Sector continued to keep its strong seat with a 32% growth year on year in terms of order booking performance in Enterprise segment and revenue grew by 43%. Field maintenance projects, POS maintenance projects, application supports, software tests services etc. in Finance sector constituted large portion of Group's total finance sector revenues in FY2017.

International Segment



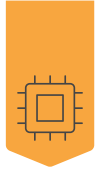
Group's orders booked was limited at TL 77.3 million as of end of 2017 mainly due to gradually falling oil prices reflected as a decline in government spending of the Asian and North African countries in 2017 besides the strong base of 2016. With its diversified business structure, Group managed to diminish the negative impact of this economic downturn in its flagship market of Algeria in 2017.

Despite its lower order booking performance in 2017 compared to the previous year, International markets recorded a strong revenue growth in 2017 mainly due to the strong backlog arising from the Sonatrach project, ATM Mobilis Project signed in 2016 and recently booked second phase of Algerian Ministry of Defense's Project. Consequently Group's revenues from International grew by 271% over the previous year and reached to TL 252.8 million with a gross profit margin of 22.1%.

OPERATIONAL PERFORMANCE

Technology Segment

Group's order and revenue performance in Technology segment was relatively stable in 2017 and Group recorded TL 68 million revenue and TL 1.8 million gross margin in 2017 thanks to long-continued strong relations with Ribbon (Genband), the largest R&D customer of Netas, is a company that offers intelligent network solutions in more than 80 countries for service providers and major corporations. Operating profit of Technology segment turned to negative as a result of R&D spending in cyber security and other R&D areas amounting to approximately TL 4.3 million in 2017.



BDH

BDH's orders-booked increased by 35% in 2017 compared the same period of the year. Furthermore, as a result of continuous efficiency improvement, BDH's revenue increased by 26% y-o-y for the same period.

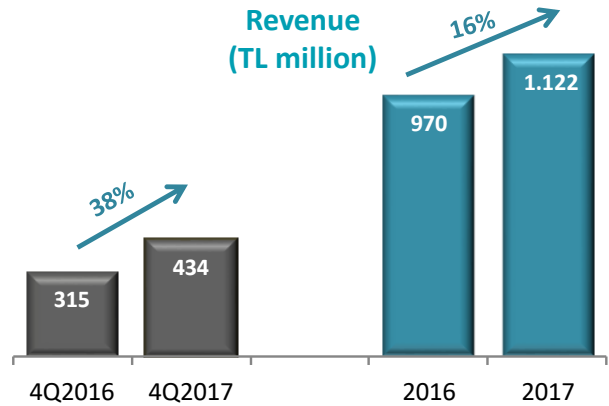


CONSOLIDATED FINANCIAL PERFORMANCE



CONSOLIDATED FINANCIAL PERFORMANCE

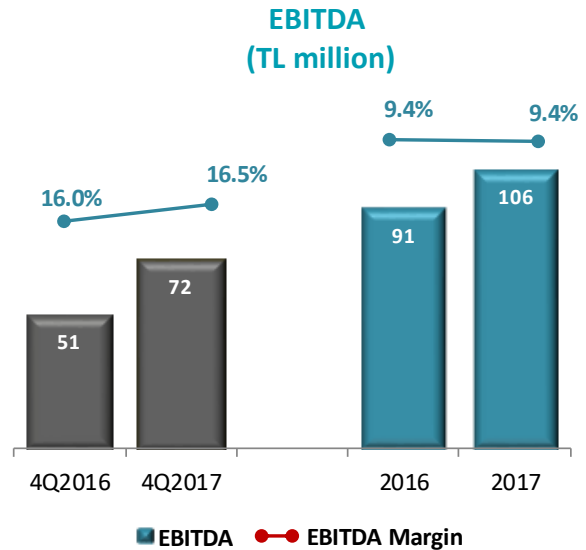
- **Group's consolidated order booking performance** was almost flat in 2017 resulting from the postponed public projects to 2018 in domestic market and challenging market conditions in international markets. However, the contraction in public and international segments were offset by the order expansion in Enterprise segment.



- Despite of another challenging year of 2017 as a result of ongoing geopolitical uncertainties in domestic and international markets, Group delivered a successful growth and **consolidated sales revenue was up by 15.7% y-o-y and increased to TL 1.1 billion inline with the Company's guidance for 2017**. Strong backlog in International market was the primary reason for Group's solid consolidated revenue growth in 2017 while accelerated growth in Enterprise segment in also positively contributed.
- Consolidated **gross profit of the Group increased** from TL 134.4 million in 2016 to **TL 172.5 million in 2017 increasing by 28.4% y-o-y a head of revenue growth, escalating its gross profit margin to 15.4% in 2017** from 13.9% in 2016 **with an increase of 151bps year on year**. Thanks to increased operational efficiencies coming from Enterprise segment and International markets.
- **Consolidated operating expenses (OPEX)** increased to TL 92.8 million in 2017 from the amount of TL 68.8 million in 2016 mainly due to rising USD based operating expenses in domestic market. While, operating expenses as a percentage of net sales was almost flat in 2017.
- In contrast with the presumable increase in OPEX due to higher FX rates, lower other expenses from operating activities resulted in a favorable **operating profit in 2017 amounting to TL 64.5 million**.

CONSOLIDATED FINANCIAL PERFORMANCE

- Group's consolidated **Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)** was realized as TL 106 million in 2017 with an increase of 16% y-o-y while EBITDA margin remained flat at 9.4%.
- Despite a lower financial income in 2017, **bottom-line**, recorded in 2017, was significantly higher than its level in 2016. Excluding the effect of provisions reflected to 2016 financial results for the doubtful receivables from Nortel Networks amounting to TL 21.7 million, Group was able to **improve its bottom-line to TL 53.5 million** in 2017 from 18.7 million in 2016.



DEBT STRUCTURE & NET WORKING CAPITAL

- Group's **cash and cash equivalents** was **TL 187 million** for the year-ended 2017 with a **net debt positioning** of **TL139 million**.
- Gross **financial debt** was **TL 326 million in 2017** and approximately 71% of debt in TL and 29% held in USD.
- Maturities of more than 90% of total financial debts** are less than one year.

(TL million)	Gross Debt	Cash & Cash Eq.	Net Debt
2017/12	326,1	187,2	138,9
2016/12	354,9	115,6	239,2

2017/12	TL	USD
Short Term Debt	298,4	79,1
Long Term Debt	24,0	6,4
Interest Expense Accruals for Borrowings	3,7	1,0
Total Debt	326,1	86,5

- Group's **net working capital*** (incl. non-current trade receivables and trade payables) requirement for the financing of continuing projects decreased to TL 615 million as of year-end 2017 (FY2016: TL665 million).

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

2018 GUIDANCE

Market Expectations

- Year over year increase in overall global ICT market /flat market growth for Turkey
- Higher investment in Public projects
- Digitalization trends in Public and Enterprise segments
- Increasing focus on Cyber Security solutions

Key Assumptions

2018 Average \$/TL: TL 3.9

Inflation Rate : c.12%

Key Metrics of The Company

- Order On Hand:** \$ basis- Significant **order booking performance**- high double digit order development
- Revenue** : \$ basis- **Revenue growth**- low to mid double digit growth
- EBITDA** : \$ basis- **Sustainable EBITDA growth** – high single digit growth
- Cash** : \$ basis- **Positive cash flow** generation

NETAŞ TELEKOMÜNİKASYON A.Ş.
Consolidated Income Statements
Prepared in accordance with IFRS as per CMB Regulations
(TL)

	12M/2017	12M/2016
SALES REVENUE	1.122.265.684	969.843.424
Cost of Sales (-)	(949.726.015)	(835.419.643)
GROSS PROFIT FROM OPERATIONS	172.539.669	134.423.781
Sales and Marketing Expenses (-)	(56.109.411)	(44.406.817)
General Administrative Expenses (-)	(32.452.882)	(24.402.568)
Research and Development Expenses (-)	(4.252.477)	-
Other Income from Operating Activities	2.019.542	4.840.922
Other Expenses from Operating Activities (-)	(17.248.271)	(50.720.228)
OPERATING PROFIT	64.496.170	19.735.090
Income/(Expenses) from Investment Activities	(8.489)	41.395
Income from Associates	820.823	1.257.100
OPERATING PROFIT BEFORE FINANCE INCOME/(EXP.)	65.308.504	21.033.585
Financial Income	22.711.867	51.405.211
Financial Expenses (-)	(47.830.723)	(49.766.936)
PROFIT BEFORE TAX	40.189.648	22.671.860
Tax Income / (Expense)	13.328.554	(4.001.849)
- Current Tax (Expense) / Income	(3.016.501)	(313.751)
- Deferred Tax Income / (Expense)	16.345.055	(3.688.098)
NET PROFIT	53.518.202	18.670.011
EBITDA	105.724.899	91.124.536

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

	12M/2017	YE/2016
Cash & Cash Equivalents	187.212.070	115.641.750
Trade Receivables	806.226.238	697.710.992
Other Receivables	1.479.485	511.938
Derivative Instruments	0	0
Inventories	70.801.802	83.991.024
Deffered Cost	165.497.546	148.684.598
Other Current Assets	55.100.490	69.675.726
Total Current Assets	1.286.317.631	1.116.216.028
Trade Receivables	83.903.835	88.574.586
Property, Plant and Equipment	36.598.628	40.167.155
Financial Investments	2.928.818	1.940.781
Intangible Assets	103.327.185	105.917.725
<i>Goodwill</i>	69.131.791	64.500.278
<i>Other intangible assets</i>	34.195.394	41.417.447
Associates	6.155.424	5.121.827
Deferred Tax Assets	11.294.492	2.287.385
Other Non-Current Assets	19.326.494	15.261.405
Total Non-Current Assets	263.534.876	259.270.864
Total Assets	1.549.852.507	1.375.486.892
Financial Liabilities	302.073.547	354.859.452
Derivative Instruments	0	2.678.753
Trade Payables	382.578.302	240.464.539
Other Payables	10.710.962	8.686.841
Employee Benefit Obligations	11.623.440	17.825.631
Deferred Revenues	55.182.524	59.914.737
Provisions	27.300.712	21.178.816
Advances Received	52.676.354	78.212.274
Current Tax Liabilities	2.994.379	297.664
Total Short Term Liabilities	845.140.220	784.118.707
Long-Term Financial Liabilities	24.044.293	0
Trade Payables	46.357	1.945.728
Provisions	24.974.362	22.207.434
Deferred Tax Liabilities	11.040.651	17.519.146
Total Long Term Liabilities	60.105.663	41.672.308
Total Equity	644.606.624	549.695.877
Total Liabilities and Shareholders' Equity	1.549.852.507	1.375.486.892

NETAŞ TELEKOMÜNİKASYON A.Ş.
Consolidated Cash Flow Statements
 Prepared in accordance with IFRS as per CMB Regulations
 (TL)

	12M/2017	12M/2016
Profit for the year	53.518.202	18.670.014
Adjustments to reconcile income for the period	75.522.255	94.628.007
Changes in Working Capital	41.006.315	(150.444.443)
Cash Flows (Used in) Generated From Operations	170.046.772	(37.146.425)
Payments Related with Provisions for Employee Benefits	(26.962.240)	(25.856.888)
Cash flow from investing activities	(6.528.482)	(9.823.496)
Cash flow from financing activities	(54.470.180)	(16.527.804)
Cash and Cash Equivalents at The End of The Period	187.212.070	115.641.750

ABOUT NETAS

Netaş Telekomünikasyon A.Ş. («Netaş» or «Company») 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. Netaş'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. Netaş also plays an important role in the modernization of the Turkish Armed Forces defense communication networks.

Netaş 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.

As of December 31st, 2017, Netaş' majority shareholders were ZTE Cooperatief U.A. ("ZTE Cooperatief") with 48,05% and The Turkish Armed Forces Foundation with 15%. The remaining shares of 36,95% are traded on Borsa Istanbul (BIST).

** As at 28 July 2017, the conditions precedent to completion of the Transaction stipulated under the Share Purchase Agreement have been satisfied in full and the shares of OEP were transferred to ZTE Cooperatief. Following the transaction, a Mandatory Takeover Bid Obligation has arisen for the shares owned by ZTE Cooperatief . Takeover bid has been completed on October 17, 2017. As of October 17, 2017, ZTE Cooperatief holds 48.05% of Netaş.*

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 statement and balance sheet for the period ended 31.12.2016 and 31.12.2017.

ENQUIRIES

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

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