



**NETAŞ TELEKOMÜNİKASYON A.Ş.
THREE MONTHS EARNINGS RELEASE**

THREE MONTHS SUMMARY

- Order On Hand at TL 760.5 million
- Order booked at TL 167.3 million
- Revenue at TL 167.9 million

FINANCIAL HIGHLIGHTS

TL Million	1Q2017	1Q2016	y/y %
Revenue	167,9	204,5	(17,9%)
Cost of Sales	(150,3)	(182,0)	(17,4%)
Gross Profit	17,5	22,5	(21,9%)
<i>Gross margin %</i>	<i>10,5%</i>	<i>11,0%</i>	<i>(54)</i>
Operating Expenses	(19,1)	(18,0)	6,1%
EBIT	(1,6)	4,5	(134,8%)
<i>EBIT margin %</i>	<i>(0,9%)</i>	<i>2,2%</i>	<i>(312)</i>
Depreciation	6,7	4,9	35,5%
EBITDA	5,1	9,4	(45,7%)
<i>EBITDA margin %</i>	<i>3,0%</i>	<i>4,6%</i>	<i>(156)</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.

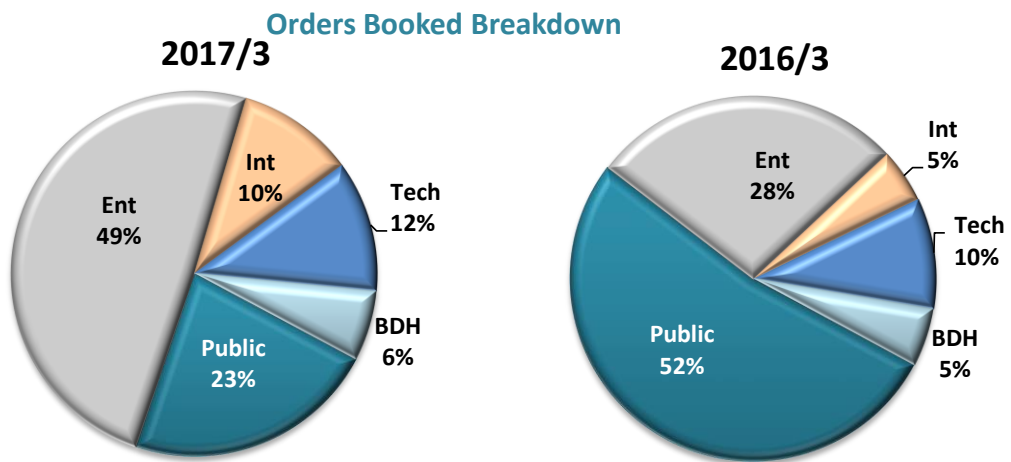
Operating Expenses= Sales, Marketing and Distribution Expenses + General Administrative Expenses + Research and Development Expenses- R&D Incentives

EBITDA= EBIT + Depreciation

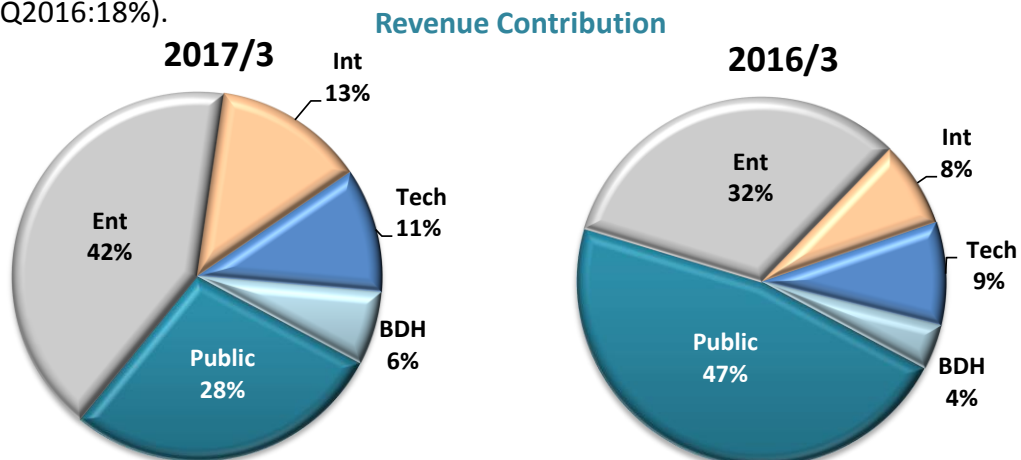
OPERATIONAL PERFORMANCE

Orders & Revenue

Orders booked in the first quarter of 2017 was TL 167.3 million (USD 45 million) and **orders on hand** were TL 760.5 million (USD 209.0 million). Despite the increase in order booking performance of international segment and enterprise segment by 79.7% and 49.0% respectively, which softened the decline in public segment to a large extent, total order booking performance decreased by 16% y-o-y basis in terms of TL.



Consolidated revenue was TL167.9 million in the 1Q2017. In general manner, the first quarter is always the smallest quarter in Group's yearly revenue. Group benefited from its diversified business structure in 1Q2017 despite the continued economic and political challenges in the domestic market which made up approximately 75% of total revenue. Continuing challenges in the domestic market negatively affected operating performance of the Group, especially in Public segment. However, the revenue growth in enterprise, international segments and BDH mostly compensated for the poor results in Public segment. International operations generated %26 of total revenue in the first quarter of the year (1Q2016:18%).



OPERATIONAL PERFORMANCE

2017/3 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Revenue	47,2	69,5	22,1	18,3	10,7	-	167,9
Cost of sales	(40,2)	(64,9)	(19,4)	(17,3)	(6,0)	(2,5)	(150,3)
Gross margin	7,0	4,7	2,7	0,9	4,7	(2,5)	17,5
Sales,marketing and distribution expenses	(5,4)	(5,2)	(2,5)	-	-	-	(13,1)
General administrative expenses	-	-	-	-	-	(7,0)	(7,0)
Research and development expenses	-	-	-	-	-	-	-
Operating profit / (loss) of segment	1,6	(0,5)	0,3	0,9	4,7	(9,5)	(2,5)
Operating Profit Margin	3%	-1%	1%	5%	44%		-2%
2016/3 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Revenue	95,9	66,6	15,5	18,4	8,1	-	204,5
Cost of sales	(82,7)	(59,5)	(12,4)	(18,0)	(7,1)	(2,2)	(182,0)
Gross margin	13,1	7,1	3,0	0,5	1,0	(2,2)	22,5
Sales,marketing and distribution expenses	(5,6)	(4,9)	(2,5)	-	-	-	(13,0)
General administrative expenses	-	-	-	-	-	(4,4)	(4,4)
Research and development expenses	-	-	-	(0,6)	-	-	(0,6)
Operating profit / (loss) of segment	7,6	2,2	0,5	(0,1)	1,0	(6,7)	4,5
Operating Profit Margin	8%	3%	3%	-1%	12%		2%

Public Segment

Despite the increasing share of in total public sector revenue, sharp decline in the government projects pulled down total revenue in public segment in 1Q2017.

Following the law suit against Ministry of Interior to cancel the decision concerning the ban imposed on May 31, 2016 for government tender bids for one year, the Group has filed an appeal to the Administrative Litigation Department and the appeal was resulted in favour of company and the blacklisting decision has been cancelled on March 20, 2017. Thus, the Group expects a positive impact on the order booking performance and top line growth for the rest of the year.

Enterprise Segment

Turbulent geopolitical backdrop, ongoing political uncertainty elevated the tension in domestic market. And consequently, unfavorable market conditions impaired the business confidence of companies and led to holding back business investments. Despite all, the Group succeeded to increase its order booking performance by 49.0% in the first quarter of the year thanks to contract signatures with new logos and add-on businesses with its existing clients during the period. In 1Q2017, IGA project positively contributed to the total order booking performance that was signed in February 2017 to install and operate the wired and wireless area networks of Istanbul 3rd airport, amounting to approximately 10.8 million Euro. Enterprise segment recorded a revenue growth in 1Q2017 by 4.4% compared to the same period of 2016 under the favour of the continued projects in finance sector and general industry.

OPERATIONAL PERFORMANCE

International Segment

International operations recorded a notable growth by 79.7% through the new project signed in Algeria in February 2017.

International segment also performed an excellent revenue growth by 42.9% in the first quarter of the year with the positive contribution of continued Mobilis project and recently signed Sonatrach.

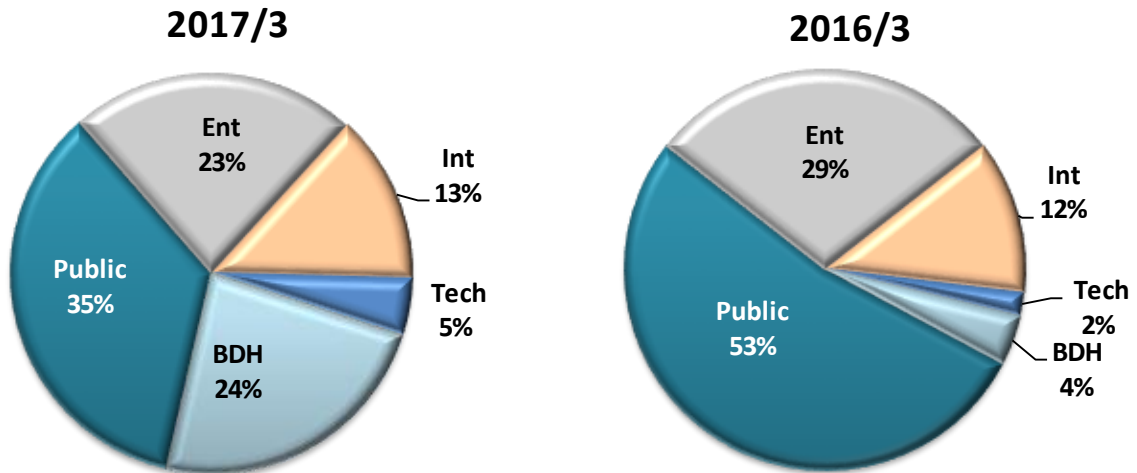
Technology Segment

In the first quarter of the year, Group continued to offer value added solutions to its customers including technology consultancy with its experience and strength in R&D. Group's revenue and order booking performance were almost flat in the first quarter of the year. Revenue contribution of the technology segment was around 18 million TL in the quarter thanks to the long-running relations established with multinational companies.

BDH

As a result of the successful execution of the strategy to improve the existing business processes and to capture new opportunities in the expanding ICT market, BDH continued to increase its share in total revenue and released 32.9% revenue growth in the first quarter of the year. EBIT contribution of BDH increased to TL 4.7 million in 1Q2017 from TL 1 million in 1Q2016 due to focusing on more value added servicing business.

Contribution Breakdown



CONSOLIDATED FINANCIAL PERFORMANCE

- **Consolidated sales revenue** was 167.9 million TL in this challenging quarter and it was down by 17.9% year-on-year basis. Despite continued economic and political uncertainty in operating regions especially in Turkey, consolidated results are better than expected. Group benefited from its diversified business structure and the growth in Enterprise, International and BDH segments mostly compensated for the results in Public segment. International operations sales revenue increased by 17.6% in 1Q2017.
- Despite a lower consolidated revenue compared to the same period of the previous year Group managed to mitigate the decline in **gross profit margin** by continued focus on costs management. Consequently the gross margin was flat at 10.5% in 1Q2017 vs 11.0% in 1Q2016. As a result of its new servicing strategy, gross margin contribution of BDH increased to 4.7 million TL in the first quarter of the year compared to the amount of 1.0 million TL in 1Q2016.
- Accordingly, in the first quarter of 2017 **Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)** of the Group was TL 5.1 million compared to TL 9.4 million in 1Q2016. However EBITDA margin decline was limited to 156 bps in 1Q2017.
- Positive impact of stronger USD vs TL in the first quarter of the year resulted in TL 9.1 million consolidated **financial income** compared to TL 0.5 million in 1Q2016 while **financial expenses** were lower than the same quarter of the previous year despite the short term bank loans to fund the projects and it was recorded as TL11.7 million in 1Q2017.
- Group recorded TL 0.8 million **net profit** in the first quarter of the year compared to TL1.8 million net loss in 1Q2016.

EARNINGS PER SHARE

- **Earnings per share** was TL 0.0120 for the period 1 January-31 March 2017. Earnings per share through the past quarters are summarized as follows:

	2017/3	2016/12	2016/9	2016/6	2016/3
Earnings per Share (TL)	0,0120	0,2878	(0,0332)	0,0565	(0,0273)

(*)Earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period.

- **The closing share price** was 10.16 TL as of March 31, 2017 (31 December 2016: 9.99 TL). **The market capitalization** was TL 659.0 million as of March 31, 2017 (31 December 2016: TL 648 million).

DEBT STRUCTURE & NET WORKING CAPITAL

- **Group's cash and cash equivalents** was TL 77.9 million as of 1Q2017 leading to a **net debt position** of TL 303.4 million.
- Gross **financial debt** was TL 381 million in 1Q2017and approximately 80% of debt in TL and 20% held in hard currency.
- **Maturities of financial debts** are less than one year.

(TL million)	Consolidated Gross Debt	Cash & Cash Eq.	Net Debt
2017/3	381,2	77,9	303,4
2016/12	333,1	226,1	107,0

1Q2017	TL	USD
Short Term Debt	372,0	102,2
Credit Interest Accruals	9,3	2,5
Total Debt	381,2	104,8

- **Net working capital* (inc. non-current trade receivables and trade payables)** requirement of the Group increased to TL 738.0 million in 1Q2017 in an absolute term (2016: TL664.5 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)

2017 GUIDANCE

Main Focus Areas

- Expand vertically in services offerings, homegrown products and software development, higher efficiency and resource utilization
 - Managed and cloud based services through Netas Cyber Operations Center
 - Consultancy and/or solutions delivery in digitalization
 - Local hardware and software development in 4.5/5G mobile broadband
- Continue to penetrate deeper into existing customers
- Increase footprint in existing international markets while penetrating new areas, e.g. Middle East

Market Expectations*

- Year over year decrease in overall ICT spending in the Turkish market
- Stagnation within the Enterprise segment
- Fewer new projects in the Public segment

Key Assumptions

Average TL / USD: \$1 / TL 3.65

Inflation Rate : c.12%

Key Metrics of The Company

Order Booking	: TL basis- Significant order booking growth - low-to-mid double digit growth
Revenue	: TL basis- Revenue growth - low double digit growth
EBITDA	: TL basis- EBITDA growth – low double digit growth
Cash	: Positive cash flow generation

* Source: Gartner Q4'16 market databook

FINANCIAL STATEMENTS

NETAŞ TELEKOMÜNİKASYON A.Ş.

Consolidated Income Statements For the Three-Month Period Ended 31.03.2016 and 31.03.2017

Prepared in accordance with IFRS as per CMB Regulations

(TL)

	2017/3	2016/3
SALES REVENUE	167.878.237	204.465.478
Cost of Sales (-)	(150.329.760)	(181.983.717)
GROSS PROFIT FROM OPERATIONS	17.548.477	22.481.761
Sales and Marketing Expenses (-)	(13.098.055)	(12.990.246)
General Administrative Expenses (-)	(6.998.659)	(4.428.600)
Research and Development Expenses (-)	-	(583.902)
Other Income from Operating Activities	1.937.370	6.669.112
Other Expenses from Operating Activities (-)	(3.846.246)	(2.554.705)
OPERATING PROFIT	(4.457.113)	8.593.420
Income/(Expenses) from Investment Activities	16.211	19.158
Income from Associates	48.424	40.862
OPERATING PROFIT BEFORE FINANCE INCOME/(EXPENSE)	(4.392.478)	8.653.440
Financial Income	9.053.175	545.893
Financial Expenses (-)	(11.684.164)	(21.512.143)
PROFIT BEFORE TAX	(7.023.467)	(12.312.810)
Tax Income / (Expense)	7.801.346	10.545.039
- Current Tax (Expense) / Income	-	-
- Deferred Tax Income / (Expense)	7.801.346	10.545.039
PROFIT AFTER TAX	777.879	(1.767.771)
TOTAL COMPREHENSIVE INCOME	20.041.325	(12.751.221)
EBITDA	5.094.395	9.386.812

FINANCIAL STATEMENTS

NETAŞ TELEKOMÜNİKASYON A.Ş.
Consolidated Balance Sheet as of 31.12.2016 and 31.03.2017
Prepared In Accordance with IFRS as per CMB Regulations
(TL)

	2017/3	2016/12
Cash & Cash Equivalents	77.871.444	115.641.750
Trade Receivables from Related Parties	636.062.853	697.710.992
Other Receivables	513.637	511.938
Derivative Instruments	0	0
Inventories	134.728.922	83.991.024
Deffered Cost	183.473.873	148.684.598
Other Current Assets	71.320.111	76.248.383
Total Current Assets	1.103.970.840	1.122.788.685
Trade Receivables	92.054.331	88.574.586
Property, Plant and Equipment	40.288.360	40.167.155
Financial Investments	2.243.137	1.940.781
Intangible Assets	107.014.067	105.917.725
<i>Goodwill</i>	66.688.654	64.500.278
<i>Other intangible assets</i>	40.325.413	41.417.447
Associates	5.270.786	5.121.827
Deferred Tax Assets	2.711.596	2.287.385
Other Non-Current Assets	8.784.418	8.688.748
Total Non-Current Assets	258.366.695	252.698.207
Total Assets	1.362.337.535	1.375.486.892
Financial Liabilities	381.228.040	354.859.452
Derivative Instruments	2.013.534	2.678.753
Trade Payables	204.443.112	240.464.539
Other Payables	6.885.338	8.686.841
Employee Benefit Obligations	18.465.337	17.825.631
Deferred Revenues	53.700.500	59.914.737
Provisions	15.605.730	21.178.816
Advances Received	77.301.605	78.212.274
Current Tax Liabilities	0	297.664
Total Short Term Liabilities	759.643.196	784.118.707
Trade Payables	1.708.751	1.945.728
Provisions	20.349.151	22.207.434
Deferred Tax Liabilities	10.899.235	17.519.146
Total Long Term Liabilities	32.957.137	41.672.308
Total Equity	569.737.202	549.695.877
Total Liabilities and Shareholders' Equity	1.362.337.535	1.375.486.892

FINANCIAL STATEMENTS

NETAŞ TELEKOMÜNİKASYON A.Ş.

Consolidated Cash Flow Statements For the Period Ended 31.03.2016 and 31.03.2017

Prepared in accordance with IFRS as per CMB Regulations

(TL)

	2017/3	2016/3
Profit for the year	777.879	(1.767.771)
Adjustments to reconcile income for the period	12.422.009	14.990.689
Changes in Working Capital	(52.217.410)	(132.859.021)
Cash Flows (Used in) Generated From Operations	(39.017.522)	(119.636.103)
Income Taxes Paid	-	-
Payments Related with Provisions for Employee	(16.731.026)	(10.841.338)
Cash flow from investing activities	(2.257.106)	(3.173.890)
Cash flow from financing activities	24.938.333	381.660
Cash and Cash Equivalents at The End of The Period	77.871.444	87.573.850

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 for the period ended 31.03.2017 and 31.03.2016 and balance sheet for the period ended 31.03.2017 and 31.12.2016.

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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