



NETAŞ TELEKOMÜNİKASYON A.Ş. SIX MONTHS EARNINGS RELEASE



SIX MONTHS SUMMARY

- ❑ Orders booked TL 445 million in 1H2017, y-o-y increase by 33%
- ❑ Orders On Hand recorded at TL 709 million, up by 11% in 1H2017 compared to YE2016
- ❑ Revenue up by 9% , reaching TL 493 million

FINANCIAL HIGHLIGHTS

TL Million	1H2017	1H2016	y/y %
Revenue	493,3	453,1	8,9%
Cost of Sales	(440,8)	(401,2)	9,9%
Gross Profit	52,5	51,9	1,2%
<i>Gross margin %</i>	<i>10,6%</i>	<i>11,5%</i>	<i>(81)</i>
Operating Expenses	(41,8)	(35,2)	18,7%
EBIT	10,7	17,5	(39,2%)
<i>EBIT margin %</i>	<i>2,2%</i>	<i>3,9%</i>	<i>(171)</i>
Depreciation	13,2	11,0	19,7%
EBITDA	23,9	28,6	(16,5%)
<i>EBITDA margin %</i>	<i>4,8%</i>	<i>6,3%</i>	<i>(147)</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



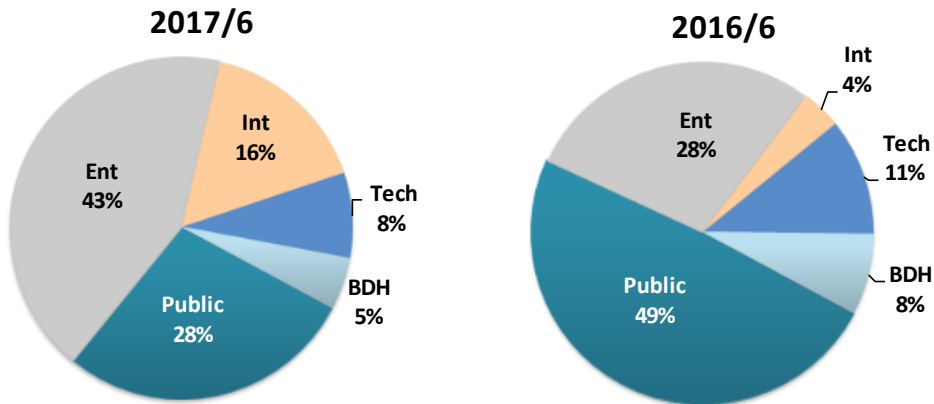
OPERATIONAL PERFORMANCE

Orders & Revenue



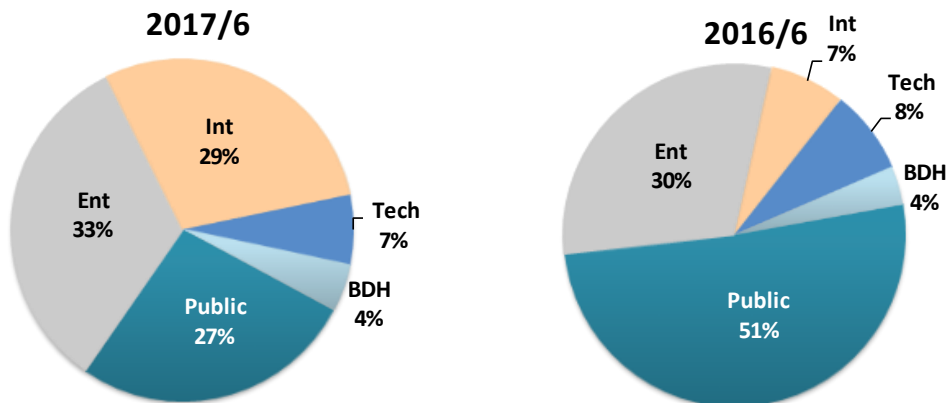
Group's consolidated order booking performance **increased by 33% y-o-y** and recorded at **TL 445 million** due to significant improvement in International and Enterprise segments in the first half of 2017. **Order on hand (OOH) grew by 11% compared to the year-end 2016** and reached **TL 709 million** vs TL 637 million in YE2016.

Orders Booked Breakdown



In the first half of the year, Netas delivered a **strong revenue growth by 9%** compared to the same period of the previous year. International and Enterprise Segments were the main contributors of this success in 1H2017 thanks to the new contracts signed in Enterprise segments and positive reflection of strong backlog in International markets as of YE2016 associated with Sonatrach project. International markets share (exc. Technology) in total revenue increased to 29% in 1H2017 vs 7% in 1H2016.

Revenue Contribution



OPERATIONAL PERFORMANCE

2017/6 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Orders Booked	124,8	190,2	72,3	35,6	21,6	-	444,6
Revenue	132,0	163,0	143,2	33,2	21,9	-	493,3
Cost of sales	(116,4)	(148,7)	(120,7)	(28,8)	(20,2)	(5,9)	(440,8)
Gross Profit	15,6	14,3	22,5	4,4	1,7	(5,9)	52,5
Sales,marketing and distribution expenses	(10,9)	(10,4)	(5,0)	-	-	-	(26,3)
General administrative expenses	-	-	-	-	-	(15,5)	(15,5)
Research and development expenses	-	-	-	-	-	-	-
Operating profit / (loss) of segment	4,7	3,8	17,5	4,4	1,7	(21,5)	10,7
Operating Profit Margin	4%	2%	12%	13%	8%		2%
2016/6 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Orders Booked	164,1	95,0	12,9	36,9	25,3	-	334,3
Revenue	231,0	137,1	32,5	36,2	16,3	-	453,1
Cost of sales	(196,4)	(125,9)	(25,4)	(34,7)	(14,8)	(3,9)	(401,2)
Gross Profit	34,5	11,2	7,1	1,4	1,5	(3,9)	51,9
Sales,marketing and distribution expenses	(10,3)	(10,0)	(4,6)	-	-	-	(24,8)
General administrative expenses	-	-	-	-	-	(10,4)	(10,4)
Research and development expenses	-	-	-	-	-	-	-
Operating profit / (loss) of segment	24,3	1,3	2,5	1,4	1,5	(14,4)	16,7
Operating Profit Margin	11%	1%	8%	4%	9%		4%

Public Segment



Comparing to the same period of the previous year, order booking performance of the public safety projects increased by 36% and reflected on revenues with 83% growth. Despite the positive impact of these projects on the public segment's financial results, postponed new projects in Telecom and Government segments damped down the consolidated results. Hence, consolidated order booking performance of public segment declined by 24% in the first half of 2017 vs 1H2016.

Although the revenue improvement in public safety projects that was widely offset by the performance in Telco and Government projects, consolidated public segment's revenue was down to TL 132 million in the first half of 2017.

Enterprise Segment

Enterprise segment's order booking performance materialized at TL 190 million in 1H2017 vs TL 95 million in the same period of the previous year thanks to the new contracts signed with major enterprises such as IGA, and more of other existing customers.

Netas gained agility and resilience against the continuing challenging environment with its superior 50 year experience and diversified business model in the market, managed to increase its revenue in Enterprise segment by 19% in 1H2017 cycling the contraction in 1H2016 thanks to its leadership position in Turkey and technology focused business structure.



OPERATIONAL PERFORMANCE

International Segment

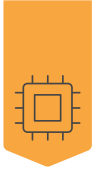


As part of its strategic objectives, the Group is working to broaden its footprint within the international markets and diversify its business in the international platforms. International operations of the Group delivered a fantastic order booking performance in the first half of the year with a 459% growth y-o-y thanks to the incremental new orders of Algerian Ministry of Defense to its existing contract and continuing relations with the customers in Turkmenistan and Kazakhstan.

As a result of the strong backlog in international markets as of end 2016, the revenue generated by the international operations increased tremendously in 1H2017 and recorded 343% growth compared to the same period of 2016. With the contribution of Sonatrach project and continuing ATM Mobilis project, total revenue of the international markets increased to 143 million TL in the first half of 2017.

Technology Segment

Thanks to the continuing strong relations with Genband, order booking performance of the segment was almost flat in the first half of the year. Despite a decline in revenue, with the positive impact of successful cost saving initiatives, gross profit increased to TL 4 million in 1H2017 from TL 1 million in 1H2016.



BDH

Impaired business confidence as a result of continuing unfavorable market conditions, order booking performance of BDH decreased by 15% in the first half of the year. However, revenue of servicing group increased by 34% as a result of continuous efficiency improvement and prudent expense management due to economic challenges.

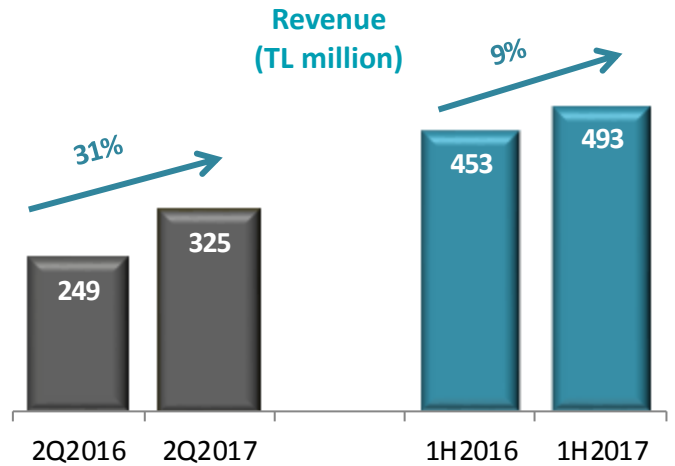


CONSOLIDATED FINANCIAL PERFORMANCE



CONSOLIDATED FINANCIAL PERFORMANCE

Consolidated sales revenue increased by **31%** in the second quarter of 2017 with the **support of** the project for Algerian Ministry of Defense, Sonatrach project and other continuing national and international projects, **consolidated sales revenue of the Group** reached **TL 493 million** in **1H2017**, with **9%** increase over 1H2016 with the help of successful revenue growth management in **international markets** and **Enterprise segment**.



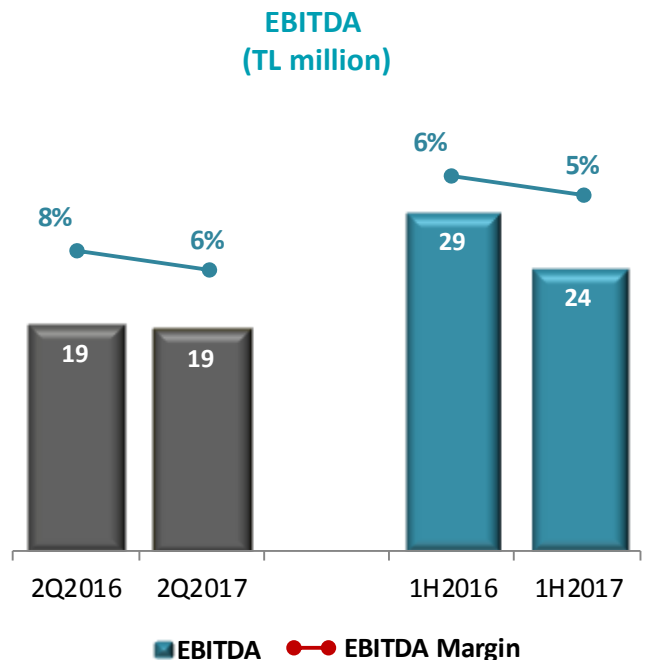
Consolidated gross Profit increased by **19%** to **TL 35 million** in **2Q2017** and a slight improvement in **1H2017** by **1.2%** and reached **TL 52 million**.

Although gross profit margins of Enterprise and Technology segments soared in the period of 1H2017, gross profit margin of public segment was negatively impacted by unfavorable market conditions. Consequently, consolidated gross profit margin of the Group decreased from 11.5% in 1H2016 to 10.6% in 1H2017.

Despite an increase in **operating expenses (OPEX)** to TL 42 million in 1H2017 from TL 35 million in 1H2016 mainly due to increase in USD based expenses, operating expenses as a percentage of net sales was almost flat.

As a result of higher OPEX and higher FX rates, operating profit in 1H2017 decreased to TL 11 million from TL 21 million in 1H2016.

Netas delivered TL 24 million **Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)** in the first six months of 2017, indicating a drop by 16% over the same period of 2016. EBITDA margin marked as 5% in 1H2017 with a 147 bps contraction compared to 1H2016. Despite the sharp decline in 1Q2017, Group succeeded to increase its EBITDA from TL 18.8 million to TL 19.2 million in 2Q2017.



CONSOLIDATED FINANCIAL PERFORMANCE

- Consolidated **financial income** of the Group was TL 5 million in 1H2017 compared to TL 1 million in 1H2016 mainly attribute to FX gain recorded as a result of strong USD against TL compared to the same period of the previous year. The Group managed to decrease its **financial expenses** by TL 6 million year over year thanks to successful debt management.
- Consequently, The Group recorded **TL 7 million net profit** in 1H2017 versus 4 million in 1H2016.

DEBT STRUCTURE & NET WORKING CAPITAL

- **Group's cash and cash equivalents was TL 64 million as of 1H2017** leading to a **net debt position of TL 247 million**.
- Gross **financial debt declined to TL 311 million** from TL 355 million as of 2016 and approximately 66% of debt in TL and 34% held in USD.
- **Maturities of financial debts** are less than one year.

(TL million)	Consolidated Gross Debt	Cash & Cash Eq.	Net Debt
2017/6	311,1	63,9	247,2
2016/12	354,9	115,6	239,2

1H2017	TL	USD
Short Term Debt	305,6	87,2
Interest Expense Accruals for Borrowings	5,5	1,6
Total Debt	311,1	88,7

- **Net working capital* (incl. non-current trade receivables and trade payables)** requirement of the Group decreased to TL 672 million in 1H2017 in an absolute term (FY2016: TL665 million) due to financing of continuing projects.

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

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

	2Q/2017	2Q/2016	1H/2017	1H/2016
SALES REVENUE	325.424.531	248.588.135	493.302.768	453.053.613
Cost of Sales (-)	(290.479.877)	(219.175.707)	(440.809.637)	(401.159.424)
GROSS PROFIT FROM OPERATIONS	34.944.654	29.412.428	52.493.131	51.894.189
Sales and Marketing Expenses (-)	(13.214.334)	(11.801.281)	(26.312.389)	(24.791.527)
General Administrative Expenses (-)	(8.515.890)	(6.014.647)	(15.514.549)	(10.443.247)
Research and Development Expenses (-)	-	583.902	-	-
Other Income from Operating Activities	2.898.060	2.696.686	1.794.185	8.360.544
Other Expenses from Operating Activities (-)	(1.037.405)	(2.491.074)	(1.842.407)	(4.040.525)
OPERATING PROFIT	15.075.085	12.386.014	10.617.971	20.979.434
Income/(Expenses) from Investment Activities	233.646	(2.047)	249.857	17.111
Income from Associates	22.658	38.427	71.082	79.289
OPERATING PROFIT BEFORE FINANCE INCOME/(EXP.)	15.331.389	12.422.394	10.938.910	21.075.834
Financial Income	1.880.285	5.755.920	5.008.810	781.969
Financial Expenses (-)	(15.891.596)	(12.040.018)	(21.651.110)	(28.032.317)
PROFIT BEFORE TAX	1.320.078	6.138.296	(5.703.390)	(6.174.514)
Tax Income / (Expense)	5.293.275	(708.300)	13.094.621	9.836.739
- Current Tax (Expense) / Income	-	-	-	-
- Deferred Tax Income / (Expense)	5.293.275	(708.300)	13.094.621	9.836.739
PROFIT AFTER TAX	6.613.353	5.429.996	7.391.231	3.662.225
EBITDA	18.761.357	19.166.531	23.855.753	28.553.343

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

	1H/2017	YE/2016
Cash & Cash Equivalents	63.933.382	115.641.750
Trade Receivables	698.625.351	697.710.992
Other Receivables	637.398	511.938
Derivative Instruments	0	0
Inventories	95.867.005	83.991.024
Deffered Cost	162.895.711	148.684.598
Other Current Assets	75.788.138	76.248.383
Total Current Assets	1.097.746.985	1.122.788.685
Trade Receivables	92.257.531	88.574.586
Property, Plant and Equipment	36.849.483	40.167.155
Financial Investments	2.162.070	1.940.781
Intangible Assets	100.506.133	105.917.725
<i>Goodwill</i>	64.278.508	64.500.278
<i>Other intangible assets</i>	36.227.625	41.417.447
Associates	5.182.722	5.121.827
Deferred Tax Assets	6.320.002	2.287.385
Other Non-Current Assets	8.908.298	8.688.748
Total Non-Current Assets	252.186.239	252.698.207
Total Assets	1.349.933.224	1.375.486.892
Financial Liabilities	311.135.539	354.859.452
Derivative Instruments	362.590	2.678.753
Trade Payables	290.779.023	240.464.539
Other Payables	9.378.368	8.686.841
Employee Benefit Obligations	16.045.286	17.825.631
Deferred Revenues	49.623.863	59.914.737
Provisions	19.416.308	21.178.816
Advances Received	68.376.295	78.212.274
Current Tax Liabilities	0	297.664
Total Short Term Liabilities	765.117.272	784.118.707
Trade Payables	38.272	1.945.728
Provisions	19.875.945	22.207.434
Deferred Tax Liabilities	8.845.016	17.519.146
Total Long Term Liabilities	28.759.233	41.672.308
Total Equity	556.056.719	549.695.877
Total Liabilities and Shareholders' Equity	1.349.933.224	1.375.486.892

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

	1H/2017	1H/2016
Profit for the year	7.391.231	3.662.225
Adjustments to reconcile income for the period	32.102.011	41.579.846
Changes in Working Capital	(8.224.072)	(66.122.290)
Cash Flows (Used in) Generated From Operations	31.269.170	(20.880.219)
Payments Related with Provisions for Employee Benefits	(21.572.645)	(20.881.775)
Cash flow from investing activities	(2.839.208)	(4.099.326)
Cash flow from financing activities	(61.271.608)	(14.368.923)
Cash and Cash Equivalents at The End of The Period	63.933.382	166.257.735

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.

Within the Turkey's first 500 Companies', Netaş, 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, Netaş 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.

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 June 30th, 2017, Netaş' majority shareholders were 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).

A share purchase agreement for the transfer of shares representing 48.04% of Netaş has been executed between OEP and ZTE Cooperatief U.A. ("ZTE Cooperatief") and that the share purchase price which was agreed between the parties through bargaining to be paid at the date of completion. **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 was transferred to ZTE Cooperatief. Following the transaction, ZTE Cooperatief has become a shareholder of Netaş whose ratio of the shares to the entire share capital of Company is 48.04%.



ABOUT ZTE

ZTE is a provider of advanced telecommunications systems, mobile devices, and enterprise technology solutions to consumers, carriers, companies and public sector customers. As part of ZTE's M-ICT strategy, the company is committed to provide customers with integrated end-to-end innovations to deliver excellence and value as the telecommunications and information technology sectors converge. Listed in the stock exchanges of Hong Kong and Shenzhen (H share stock code: 0763.HK / A share stock code: 000063.SZ), ZTE's products and services are sold to over 500 operators in more than 160 countries. ZTE commits 10 per cent of its annual revenue to research and development and has leadership roles in international standard-setting organizations. ZTE is committed to corporate social responsibility and is a member of the UN Global Compact.

For more information, please visit www.zte.com.cn.

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 30.06.2016 and 30.06.2017 and balance sheet for the period ended 31.12.2016 and 30.06.2017.

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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