



# NETAŞ TELEKOMÜNİKASYON A.Ş. NINE MONTHS EARNINGS RELEASE



## NINE MONTHS SUMMARY

- ❑ Orders booked TL 609 million in 9M2017, y-o-y increase by 35%
- ❑ Orders On Hand recorded at TL 701 million, up by 10% in 9M2017 compared to YE2016
- ❑ Revenue up by 5% , reaching TL 688 million

## FINANCIAL HIGHLIGHTS

| TL Million             | 9M2017      | 9M2016      | y/y %        |
|------------------------|-------------|-------------|--------------|
| <b>Revenue</b>         | <b>688</b>  | <b>655</b>  | <b>5%</b>    |
| Cost of Sales          | (612)       | (580)       | 6%           |
| <b>Gross Profit</b>    | <b>76</b>   | <b>75</b>   | <b>2%</b>    |
| <i>Gross margin %</i>  | <i>11%</i>  | <i>11%</i>  | <i>(33)</i>  |
| Operating Expenses     | (64)        | (51)        | 26%          |
| <b>EBIT</b>            | <b>14,6</b> | <b>24,1</b> | <b>(39%)</b> |
| <i>EBIT margin %</i>   | <i>2%</i>   | <i>4%</i>   | <i>(156)</i> |
| Depreciation           | 19          | 16          | 18%          |
| <b>EBITDA</b>          | <b>34</b>   | <b>41</b>   | <b>(16%)</b> |
| <i>EBITDA margin %</i> | <i>5%</i>   | <i>6%</i>   | <i>(125)</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



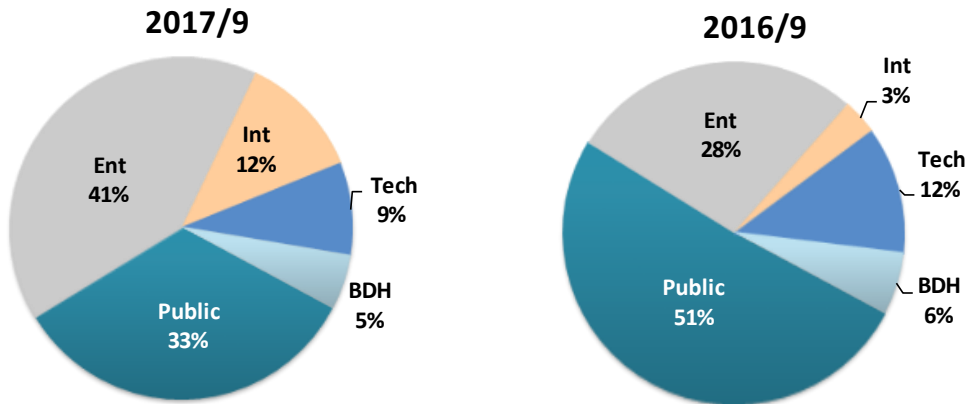
# OPERATIONAL PERFORMANCE

## Orders & Revenue

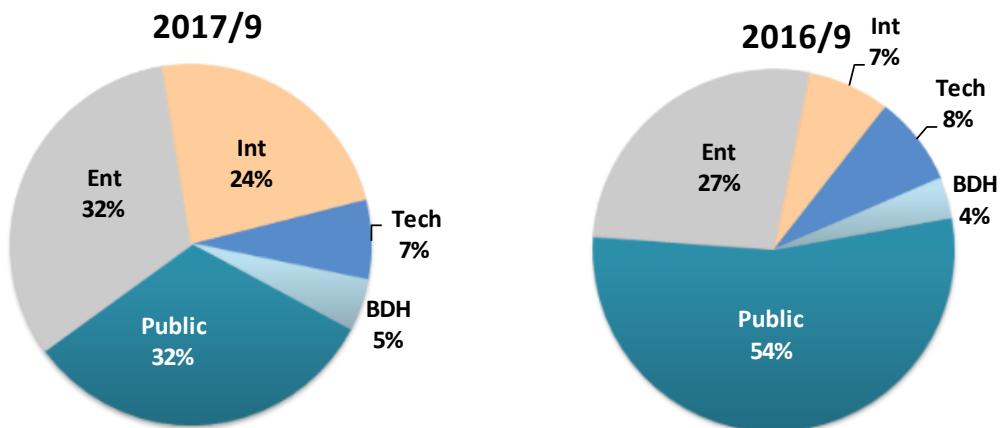


Group's consolidated order booking performance **increased by 35% y-o-y** and recorded at **TL 609 million** thanks to significant improvement in International and Enterprise segments within the nine months of 2017. **Order on hand (OOH) grew by 10% in 9M2017 compared to the year-end** and reached **TL 701 million** (637 million in YE2016).

### Orders Booked Breakdown



In the nine months of 2017, Group succeeded to increase consolidated revenue by %5 compared to the same period of the previous year thanks to successful revenue expansion in International market and Enterprise segment. Strong backlog in international markets and the contribution of continuing projects in Enterprise segment positively impacted the consolidated results in 9M2017.



## OPERATIONAL PERFORMANCE

| 2017/9 (TL million)                         | Public      | Enterprise | International | Technology | BDH        | Unallocated   | Total       |
|---|-------------|------------|---------------|------------|------------|---------------|-------------|
| Orders Booked                               | 203,9       | 248,8      | 72,1          | 53,2       | 31,3       | -             | 609,3       |
| Revenue                                     | 221,5       | 223,6      | 162,6         | 49,0       | 31,6       | -             | 688,3       |
| Cost of sales                               | (186,8)     | (201,8)    | (137,8)       | (46,2)     | (31,6)     | (7,7)         | (611,9)     |
| Gross Profit                                | 34,7        | 21,8       | 24,8          | 2,8        | 0,0        | (7,7)         | 76,4        |
| Sales,marketing and distribution expenses   | (14,8)      | (15,0)     | (9,6)         | -          | -          | -             | (39,4)      |
| General administrative expenses             | -           | -          | -             | -          | -          | (24,5)        | (24,5)      |
| Research and development expenses           | -           | -          | -             | -          | -          | -             | -           |
| <b>Operating profit / (loss) of segment</b> | <b>19,8</b> | <b>6,8</b> | <b>15,2</b>   | <b>2,8</b> | <b>0,0</b> | <b>(32,1)</b> | <b>12,6</b> |
| <b>Operating Profit Margin</b>              | <b>9%</b>   | <b>3%</b>  | <b>9%</b>     | <b>6%</b>  | <b>0%</b>  |               | <b>2%</b>   |
| 2016/9 (TL million)                         | Public      | Enterprise | International | Technology | BDH        | Unallocated   | Total       |
| Orders Booked                               | 230,6       | 125,2      | 15,4          | 54,1       | 26,5       | -             | 451,9       |
| Revenue                                     | 353,1       | 176,8      | 48,1          | 53,1       | 23,7       | -             | 654,8       |
| Cost of sales                               | (302,5)     | (161,6)    | (36,8)        | (50,9)     | (22,3)     | (5,8)         | (579,9)     |
| Gross Profit                                | 50,6        | 15,2       | 11,3          | 2,2        | 1,4        | (5,8)         | 74,9        |
| Sales,marketing and distribution expenses   | (13,8)      | (13,9)     | (6,5)         | -          | -          | -             | (34,1)      |
| General administrative expenses             | -           | -          | -             | -          | -          | (16,6)        | (16,6)      |
| Research and development expenses           | -           | -          | -             | -          | -          | -             | -           |
| <b>Operating profit / (loss) of segment</b> | <b>36,8</b> | <b>1,3</b> | <b>4,8</b>    | <b>2,2</b> | <b>1,4</b> | <b>(22,4)</b> | <b>24,1</b> |
| <b>Operating Profit Margin</b>              | <b>10%</b>  | <b>1%</b>  | <b>10%</b>    | <b>4%</b>  | <b>6%</b>  |               | <b>4%</b>   |

### Public Segment



In addition to continuing projects (with Aselsan, Roketsan and other customers), with the contribution of new defense projects in the Public Safety area, order booking performance of Public Safety projects increased by 73% y-o-y in 9M2017. Even though the notable growth in Public Safety projects compensated the decline in the order booking performance of Telco and government segments due to postponement in projects, the public segment order booking performance contracted in the nine months period of the year. This contraction was limited to 12% y-o-y.

Although revenues from Public Safety projects increased by 130% in 9M2017, sharp decline in Government projects and slowing Telco revenues resulted in a 37% decrease in consolidated revenue of public segment. Consequently, public segment's share in total revenue decreased to 32% in 9M2017 from 54% in 9M2016.

## OPERATIONAL PERFORMANCE

### Enterprise Segment

In 9M2017, Group doubled its order booking in Enterprise segment. Through the new contracts signed with major enterprises in General Industry and continuing projects in Finance sector, order booking performance of Enterprise segment reached to TL 249 million in 9M2017 from TL 125 million in 9M2016.



Group offers next generation technologies to its existing customers while enlarging its playing field and supporting its growth. Hence, Enterprise segment's revenue was up by 27% in 9M2017 thanks to ongoing IGA project and other Finance sector projects.

### International Segment



In addition to new orders of Algerian Ministry of Defense to its existing contract in 2Q2017, new orders from the customers in Turkmenistan and Kazakhstan have positive impact on consolidated results and total orders booked increased by 367% in 9M2017 compared to the same period of the previous year.

With the contribution of Sonatrach project, continuing ATM Mobilis project and recently booked project for Algerian Ministry of Defense, total revenue of the international markets increased by 238%y-o-y and reached to TL163 million in 9M2017.

### Technology Segment

Thanks to long-continued strong relations with Genband, order booking performance of the segment was almost flat in the nine months of the year. Despite a decline in revenue, gross profit of Technology segment increased by 26% y-o-y with the positive impact of successful cost saving initiatives of Company.



### BDH

BDH's orders-booked increased by 18% in 9M2017 compared the same period of the year. Furthermore, as a result of continuous efficiency improvement, BDH's revenue increased by 34% y-o-y for the same period.

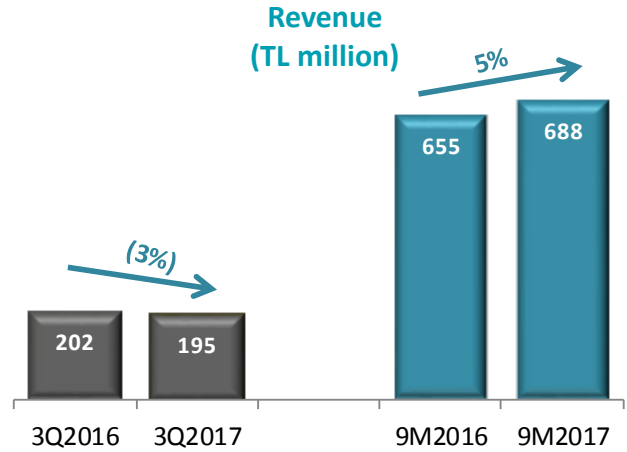


# CONSOLIDATED FINANCIAL PERFORMANCE



## CONSOLIDATED FINANCIAL PERFORMANCE

Consolidated sales revenue increased by 5% in 9M2017 vs 9M2016 and reached TL 688 million mainly due to the revenue expansions in international & enterprise segments. In spite of ongoing geopolitical challenges in international markets, with the support of strong backlogs in international markets and economic recovery in local market, Group recorded a flat revenue performance in the third quarter of 2017 at TL 195 million.

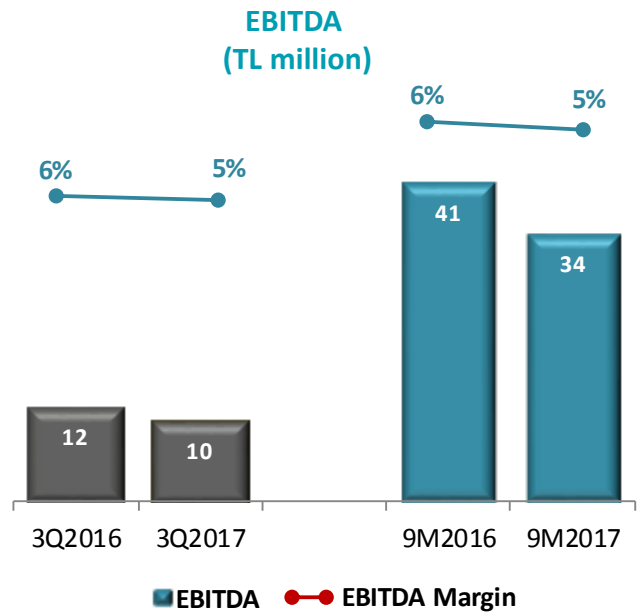


Group' consolidated gross Profit was TL 76 million in 9M2017 and consolidated gross profit margin of the Group remained flat at 11%. In 3Q2017 consolidated gross profit increased by 4% and gross profit margin recorded at 12% by 89 bps increase.

Operating expenses (OPEX) increased to TL 64 million mainly due to increase in USD based expenses in the period. Operating expenses as a percentage of net sales was almost flat.

As a result of higher OPEX and higher FX rates, operating profit in 9M2017 decreased to TL 11 million from TL 18 million in 9M2016.

Group delivered TL 34 million Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) in the nine months of 2017, indicating a drop by 16% over the same period of 2016. EBITDA margin marked as 5% in 9M2017 with a 125bps decrease compared to 9M2016.





## CONSOLIDATED FINANCIAL PERFORMANCE

- Consolidated **financial income** of the Group was **TL 8.4 million in 9M2017** compared to TL 7.6 million in 9M2016 mainly attributable to **favorable FX rates as a result of strong USD against TL and the gain recorded from derivative instruments** in the period. The Group also managed to decrease its **financial expenses** by TL 2 million year over year thanks to Group's disciplined financial management.
- Accordingly, Group recorded **TL 3 million net profit** in 9M2017 versus TL 2 million net loss in 9M2016.

## DEBT STRUCTURE & NET WORKING CAPITAL

- Group's cash and cash equivalents was TL 113 million as of 9M2017** leading to a **net debt position** of **TL 220 million**.
- Gross **financial debt was TL 333 million in 9M2017** and approximately 68% of debt in TL and 32% held in USD.
- Maturities of financial debts** are less than one year.

| (TL million) | Gross Debt | Cash & Cash Eq. | Net Debt |
|--------------|------------|-----------------|----------|
| 2017/9       | 333,3      | 113,4           | 219,9    |
| 2016/12      | 354,9      | 115,6           | 239,2    |

| 9M2017                                   | TL           | USD         |
|--|--------------|-------------|
| Short Term Debt                          | 330,4        | 93,0        |
| Interest Expense Accruals for Borrowings | 2,9          | 0,8         |
| <b>Total Debt</b>                        | <b>333,3</b> | <b>93,8</b> |

- Net working capital\* (incl. non-current trade receivables and trade payables)** requirement of the Group decreased to TL 647 million in 9M2017 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)

## 2017 GUIDANCE

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### Main Focus Areas

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- 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 digital transformation
  - 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\*

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- 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

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Average TL / USD: \$1 / TL 3.65  
 Inflation Rate : c.12%

### Key Metrics of The Company

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

\* Source: Gartner Q4'16 market databook

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

|  | 3Q/2017            | 3Q/2016            | 9M/2017             | 9M/2016             |
|--|--------------------|--------------------|---------------------|---------------------|
| <b>SALES REVENUE</b>                                 | <b>195.000.825</b> | <b>201.701.578</b> | <b>688.303.593</b>  | <b>654.755.191</b>  |
| Cost of Sales (-)                                    | (171.056.016)      | (178.728.678)      | (611.865.653)       | (579.888.102)       |
| <b>GROSS PROFIT FROM OPERATIONS</b>                  | <b>23.944.809</b>  | <b>22.972.900</b>  | <b>76.437.940</b>   | <b>74.867.089</b>   |
| Sales and Marketing Expenses (-)                     | (13.077.564)       | (9.323.760)        | (39.389.953)        | (34.115.287)        |
| General Administrative Expenses (-)                  | (8.964.345)        | (6.176.142)        | (24.478.894)        | (16.619.389)        |
| Research and Development Expenses (-)                | -                  | -                  | -                   | -                   |
| Other Income from Operating Activities               | 3.459.228          | (4.211.214)        | 5.253.413           | 4.149.330           |
| Other Expenses from Operating Activities (-)         | (4.614.720)        | (6.587.944)        | (6.457.127)         | (10.628.469)        |
| <b>OPERATING PROFIT</b>                              | <b>747.408</b>     | <b>(3.326.160)</b> | <b>11.365.379</b>   | <b>17.653.274</b>   |
| Income/(Expenses) from Investment Activities         | 2.059              | 5.093              | 251.916             | 22.204              |
| Income from Associates                               | 90.053             | 219.099            | 161.135             | 298.388             |
| <b>OPERATING PROFIT BEFORE FINANCE INCOME/(EXP.)</b> | <b>839.520</b>     | <b>(3.101.968)</b> | <b>11.778.430</b>   | <b>17.973.866</b>   |
| Financial Income                                     | 3.391.756          | 6.797.815          | 8.400.566           | 7.579.784           |
| Financial Expenses (-)                               | (11.952.553)       | (7.722.243)        | (33.603.663)        | (35.754.560)        |
| <b>PROFIT BEFORE TAX</b>                             | <b>(7.721.277)</b> | <b>(4.026.396)</b> | <b>(13.424.667)</b> | <b>(10.200.910)</b> |
| Tax Income / (Expense)                               | 3.590.285          | (1.789.604)        | 16.684.906          | 8.047.135           |
| - Current Tax (Expense) / Income                     | (21.891)           | (15.335)           | (21.891)            | (15.335)            |
| - Deferred Tax Income / (Expense)                    | 3.612.176          | (1.774.269)        | 16.706.797          | 8.062.470           |
| <b>PROFIT AFTER TAX</b>                              | <b>(4.130.992)</b> | <b>(5.816.000)</b> | <b>3.260.239</b>    | <b>(2.153.775)</b>  |
| <b>EBITDA</b>  | <b>10.189.474</b>  | <b>12.010.456</b>  | <b>34.045.227</b>   | <b>40.563.799</b>   |

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

|   | 9M/2017              | YE/2016              |
|---|----------------------|----------------------|
| Cash & Cash Equivalents                           | 113.420.384          | 115.641.750          |
| Trade Receivables                                 | 642.347.115          | 697.710.992          |
| Other Receivables                                 | 740.509              | 511.938              |
| Derivative Instruments                            | 0                    | 0                    |
| Inventories                                       | 93.333.208           | 83.991.024           |
| Deferred Cost                                     | 173.051.887          | 148.684.598          |
| Other Current Assets                              | 77.305.948           | 76.248.383           |
| <b>Total Current Assets</b>                       | <b>1.100.199.051</b> | <b>1.122.788.685</b> |
| Trade Receivables                                 | 98.064.281           | 88.574.586           |
| Property, Plant and Equipment                     | 35.353.930           | 40.167.155           |
| Financial Investments                             | 2.402.937            | 1.940.781            |
| Intangible Assets                                 | 99.377.417           | 105.917.725          |
| <i>Goodwill</i>                                   | 65.103.272           | 64.500.278           |
| <i>Other intangible assets</i>                    | 34.274.145           | 41.417.447           |
| Associates  | 5.310.664            | 5.121.827            |
| Deferred Tax Assets                               | 7.905.697            | 2.287.385            |
| Other Non-Current Assets                          | 8.366.509            | 8.688.748            |
| <b>Total Non-Current Assets</b>                   | <b>256.781.435</b>   | <b>252.698.207</b>   |
| <b>Total Assets</b>                               | <b>1.356.980.486</b> | <b>1.375.486.892</b> |
| Financial Liabilities                             | 333.285.627          | 354.859.452          |
| Derivative Instruments                            | 23.765               | 2.678.753            |
| Trade Payables                                    | 269.103.278          | 240.464.539          |
| Other Payables                                    | 7.056.317            | 8.686.841            |
| Employee Benefit Obligations                      | 20.753.458           | 17.825.631           |
| Deferred Revenues                                 | 50.465.035           | 59.914.737           |
| Provisions  | 23.451.664           | 21.178.816           |
| Advances Received                                 | 67.150.695           | 78.212.274           |
| Current Tax Liabilities                           | 0                    | 297.664              |
| <b>Total Short Term Liabilities</b>               | <b>771.289.839</b>   | <b>784.118.707</b>   |
| Trade Payables                                    | 42.354               | 1.945.728            |
| Provisions  | 19.852.398           | 22.207.434           |
| Deferred Tax Liabilities                          | 6.807.803            | 17.519.146           |
| <b>Total Long Term Liabilities</b>                | <b>26.702.555</b>    | <b>41.672.308</b>    |
| <b>Total Equity</b>                               | <b>558.988.092</b>   | <b>549.695.877</b>   |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>1.356.980.486</b> | <b>1.375.486.892</b> |

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

|   | 9M/2017             | 9M/2016              |
|---|---------------------|----------------------|
| <b>Profit for the year</b>                                | <b>3.260.239</b>    | <b>(2.153.775)</b>   |
| <b>Adjustments to reconcile income for the period</b>     | <b>55.979.332</b>   | <b>60.237.157</b>    |
| <b>Changes in Working Capital</b>                         | <b>21.697.006</b>   | <b>(165.842.272)</b> |
| <b>Cash Flows (Used in) Generated From Operations</b>     | <b>80.936.577</b>   | <b>(107.758.891)</b> |
| Payments Related with Provisions for Employee Benefits    | (27.319.266)        | (23.605.826)         |
| <b>Cash flow from investing activities</b>                | <b>(3.777.148)</b>  | <b>(8.920.966)</b>   |
| <b>Cash flow from financing activities</b>                | <b>(50.971.988)</b> | <b>(24.104.057)</b>  |
| <b>Cash and Cash Equivalents at The End of The Period</b> | <b>113.420.384</b>  | <b>52.831.520</b>    |

## ABOUT NETAS

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Netas Telekomünikasyon A.Ş. («Netas» 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. 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.

As of September 30th, 2017, Netas' majority shareholders were ZTE Cooperatief U.A. ("ZTE Cooperatief") with 48,04% and The Turkish Armed Forces Foundation with 15%. The remaining shares of 36,96% 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 Netas.

## ACCOUNTING PRINCIPLES

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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 30.09.2016 and 30.09.2017 and balance sheet for the period ended 31.12.2016 and 30.09.2017.

## ENQUIRIES

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For financial reports and further information regarding Netas, please visit our website at [www.netas.com.tr](http://www.netas.com.tr) or you may contact;

**Çağrı DEMİREL**

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