



# NETAŞ TELEKOMÜNİKASYON A.Ş. 1Q2018 EARNINGS RELEASE



## TWELVE MONTHS SUMMARY

- ❑ Consolidated orders booked was TL 255 million in 1Q2018, grew by 52%.
- ❑ TL 189 million revenue generation with 13% growth.
- ❑ In 1Q2018, Order on Hand was TL 578 million.

## FINANCIAL HIGHLIGHTS

TL Million	1Q2018	1Q2017	y/y %
<b>Revenue</b>	<b>189</b>	<b>168</b>	<b>13%</b>
Cost of Sales	(169)	(150)	12%
<b>Gross Profit</b>	<b>20</b>	<b>18</b>	<b>16%</b>
<i>Gross margin %</i>	<i>11%</i>	<i>10%</i>	<i>27</i>
Operating Expenses	(28)	(20)	37%
General Administrative Expenses	(9)	(7)	35%
Sales, Marketing & Distribution Expenses	(13)	(13)	1%
Research & Development Expenses	(5)	-	n/a
Incentives	1	1	n/a
<b>EBIT</b>	<b>(7)</b>	<b>(2)</b>	<b>328%</b>
<i>EBIT margin %</i>	<i>(4%)</i>	<i>(1%)</i>	<i>-</i>
Depreciation	6	7	(2%)
<b>EBITDA</b>	<b>(0)</b>	<b>5</b>	<b>(103%)</b>
<i>EBITDA margin %</i>	<i>0%</i>	<i>3%</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



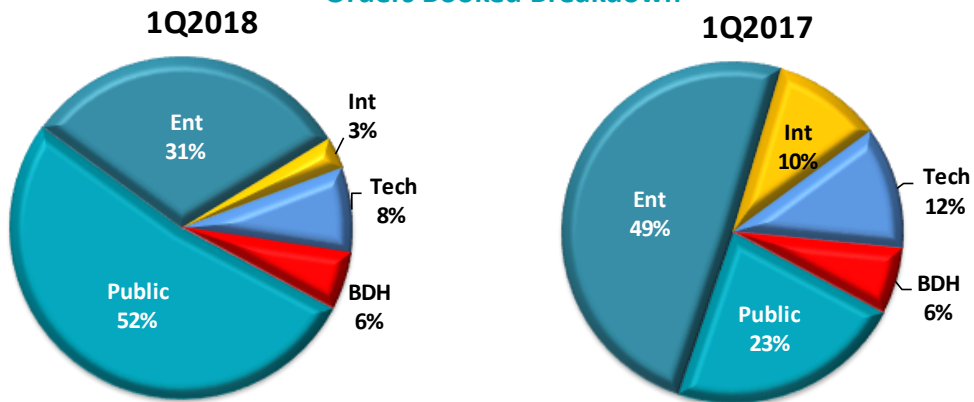
## OPERATIONAL PERFORMANCE

### Orders & Revenue



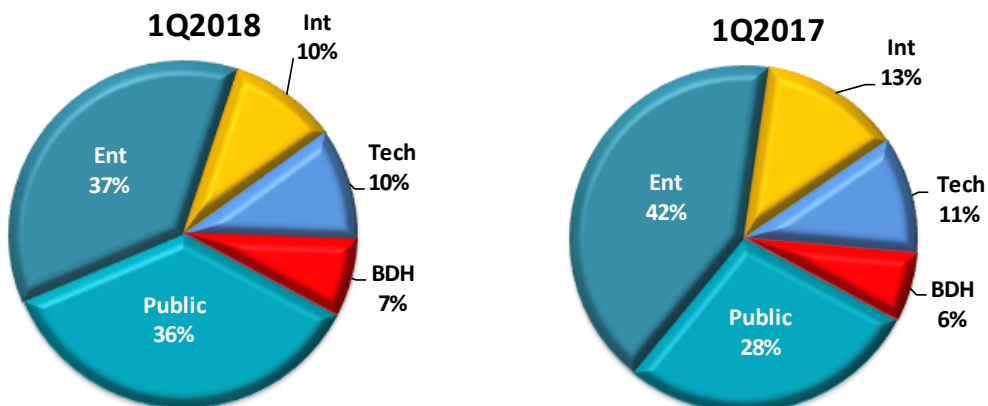
**Orders booked** in the first quarter of 2018 increased by 52% y-o-y and reached TL 255 million (USD 67 million) and **orders on hand** were TL 578 million (USD 146 million) in the first quarter of the year. In 1Q2018, successful order booking performance in public segment softened the decline in Enterprise and International segments.

### Orders Booked Breakdown



**Consolidated sales revenue** reached to TL 189 million with a successful growth momentum of 13% y-o-y in 1Q2018 with the support of Public segments.

### Revenue Contribution



## OPERATIONAL PERFORMANCE

1Q2018 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Orders Booked	132,8	79,5	8,3	20,4	13,8	-	254,9
Revenue	68,6	67,8	19,1	19,9	13,8	-	189,2
Cost of sales	(59,5)	(63,1)	(14,5)	(16,2)	(13,4)	(2,3)	(168,9)
Gross Profit	9,1	4,8	4,6	3,7	0,3	(2,3)	20,3
Sales,marketing and distribution expenses	(5,3)	(5,2)	(2,7)	-	-	-	(13,2)
General administrative expenses	-	-	-	-	-	(9,4)	(9,4)
Research and development expenses	-	-	-	(5,0)	-	-	(5,0)
<b>Operating profit / (loss) of segment</b>	<b>3,8</b>	<b>(0,4)</b>	<b>2,0</b>	<b>(1,3)</b>	<b>0,3</b>	<b>(11,7)</b>	<b>(7,3)</b>
<b>Operating Profit Margin</b>	<b>6%</b>	<b>-1%</b>	<b>10%</b>	<b>-6%</b>	<b>2%</b>		<b>-4%</b>
1Q2017 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Orders Booked	37,4	82,6	17,3	19,4	10,7	-	167,5
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 Profit	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	-	-	-	-	-	-	-
<b>Operating profit / (loss) of segment</b>	<b>1,6</b>	<b>(0,5)</b>	<b>0,3</b>	<b>0,9</b>	<b>4,7</b>	<b>(9,5)</b>	<b>(2,5)</b>
<b>Operating Profit Margin</b>	<b>3%</b>	<b>-1%</b>	<b>1%</b>	<b>5%</b>	<b>44%</b>		<b>-2%</b>



**Total Order booking performance of Public segment** increased by 255% in 1Q2018 compared to 1Q2017 and reached TL 132.8 million. Melted order booking performance of **Government category** in first quarter of the year due to the postponed projects, was offset in a large extend by the significant increase in **Telco** and **Defense category** orders. With City Security Projects, Safety School Projects and System Integration project for 112 S.O.S in addition to continuing projects with Aselsan, were also positively contributed to the consolidated order booking performance of **Defense category**.

**Order booking performance in Telco also had a great improvement in 1Q2018** and it **reached to TL 36.3 million TL** from the level of TL 24.2 million in 1Q2017. Thanks to Regional data management and system integration projects for City Hospitals, Cyber Security projects for giant operators in Turkey (Vodafone and Turkcell) as well as intimate bussiness relationships with Cisco.

Strong backlogs in the public segment boosted Group's revenue in 1Q2018. **Group succeeded to record a 45% growth y-o-y in its Public Sector's revenues**, thanks to the new orders and ongoing projects in **Defense and Telco sectors**. **Defense segment's** revenue grew by 54% and **Telco** grew by 31% in 1Q2018 vs 1Q2017.

Despite the contraction in order booking performance of **Government** projects in first quarter of the year as a result of postponed projects (Fatih Phase III), revenues generated from Governments projects were almost doubled thanks to the strong backlogs and new orders for TFF projects (Turkish Football Federation).

## OPERATIONAL PERFORMANCE

### Enterprise Segment

Despite the strong base of 1Q2017, Group kept its **order booking performance of Enterprise segment** at a flat level in 1Q2018. Thanks to the lately signed second IGA project for the construction of the Data Center Cloud Automation System of the entire airport and maintenance and repairing services for 5 years. The first phase of this second project amounting to € 7.9 million (€10.75 million in total) was signed on February 23, 2018. Moreover, through the new contracts signed with major enterprises in General Industry and Finance sector also positively contributed to the total order booking performance of Enterprise segment and as of 1Q2018, Group recorded TL 80 million new order in Enterprise segment.



Hence, **Enterprise segment's revenue** remained flat at TL 67.8 million thanks to long-run relations with the banks and other companies in the finance sector and General industry. Group continued to record revenue from the first IGA Project during the quarter. Enterprise segment generated 31% of total Group's consolidated revenue in 1Q2018.

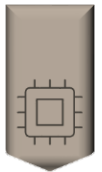
### International Segment



Despite its lower order booking performance in the first quarter of the year and strong base of 1Q2017, decline in the International markets' revenue was limited with 13% thanks to strong backlogs and continuing projects in our flagship market of Algeria.

### Technology Segment

Group's order and revenue performance in Technology segment increased to TL 20 million in 1Q2018 and Group recorded TL 20 million revenue as of the period-end thanks to long-continued strong relations with Ribbon (Genband).



### BDH



BDH's orders-booked increased by 28% in 1Q2018 compared the same period of the year. Furthermore, as a result of continuous efficiency improvement, BDH's revenue increased by 28% y-o-y for the same period.

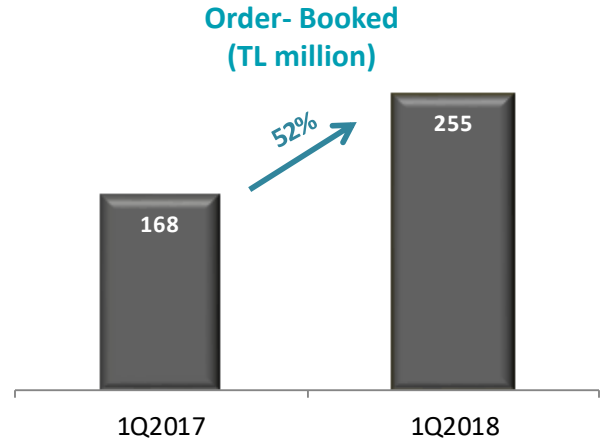


# CONSOLIDATED FINANCIAL PERFORMANCE

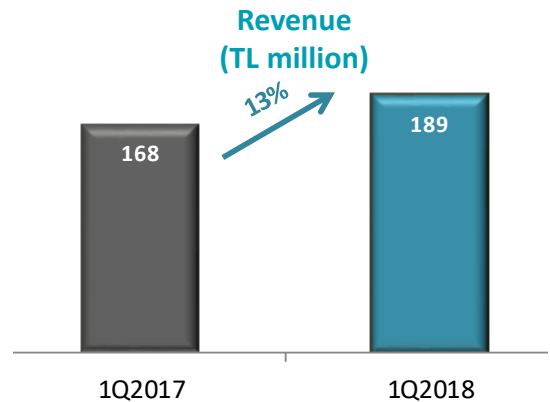


## CONSOLIDATED FINANCIAL PERFORMANCE

- Group's consolidated order booking performance had a great improvement in 1Q2018 cycling the strong growth of the previous year and reached from the level of TL 168 million in 1Q2017 to TL 255 million in 1Q2018 mainly driven by notable order growth in Public segment.



- Group succeeded to increase its top-line growth one more time and consolidated revenue reached to 189 million in the first quarter of 2018 with a 13% growth y-o-y.



- In 1Q2018, Group succeeded to report **TL 20.3 million Gross profit** vs TL 17.5 million in 1Q2017 with 16% growth. While, **gross profit margin** increased to **10.7% in 1Q2018** from 10.5% in 1Q2017 supported by solid revenue growth and efficient cost management during the quarter.
- Consolidated operating expenses (OPEX)** increased to TL 27.6 million in 1Q2018 from TL 20.1 million in 1Q2017 mainly attribute to rising USD based operating expenses and increased G&A expenses.
- Group's consolidated **Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)** was down to TL 0.2 million in 1Q2018 as a result of operating losses.
- Despite more favorable FX gain recorded at 12.3 million TL, Group recorded 12.6 million bank interest expenses due to increased bank loans and higher interest rates in 1Q2018. Thus, Group's quarterly **bottom-line** turned to red and recorded TL 2.7 million loss in 1Q2018. **Excluding the impact of new standards of IFRS-9 and IFRS-15 bottom-line would be recorded at TL 1.3 million for the first quarter of 2018.**



## DEBT STRUCTURE & NET WORKING CAPITAL

### Balance sheet wise;

- **Group's cash and cash equivalents** was **TL 123 million** for 1Q2018 with a **net debt positioning** of **TL 283 million**.
- Gross **financial debt** was **TL 406 million in 1Q2018** and approximately 76% of debt in TL and 24% held in USD.
- **88% of total financial debts** are less than one year and all long term borrowings are in TL terms.

(TL million)	Gross Debt	Cash & Cash	
		Eq.	Net Debt
<b>1Q2018</b>	406,1	123,5	282,6
<b>2017</b>	326,1	187,2	138,9
<b>1Q2018</b>		<b>TL</b>	<b>USD</b>
Short Term Debt		351,3	89,0
Long Term Debt		50,0	12,7
Interest Expense Accruals for Borrowings		4,8	1,2
<b>Total Debt</b>		<b>406,1</b>	<b>102,8</b>

- **Group's net working capital\*** (incl. non-current trade receivables and trade payables) requirement for the financing of continuing projects was TL 745 million as of 1Q2018 (FY2017: TL640 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)*

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

	1Q/2018	1Q/2017
<b>SALES REVENUE</b>	<b>189.208.782</b>	<b>167.878.237</b>
Cost of Sales (-)	(168.917.098)	(150.329.760)
<b>GROSS PROFIT FROM OPERATIONS</b>	<b>20.291.684</b>	<b>17.548.477</b>
Sales and Marketing Expenses (-)	(13.213.909)	(13.098.055)
General Administrative Expenses (-)	(9.445.111)	(6.998.659)
Research and Development Expenses (-)	(4.954.499)	-
Other Income from Operating Activities	2.224.877	1.937.370
Other Expenses from Operating Activities (-)	(4.572.145)	(3.846.246)
<b>OPERATING PROFIT</b>	<b>(9.669.103)</b>	<b>(4.457.113)</b>
Income/(Expenses) from Investment Activities	(8.366)	16.211
Income from Associates	(203.787)	48.424
<b>OPERATING PROFIT BEFORE FINANCE INCOME/(EXP.)</b>	<b>(9.881.256)</b>	<b>(4.392.478)</b>
Financial Income	12.607.213	9.053.175
Financial Expenses (-)	(14.179.298)	(11.684.164)
<b>PROFIT BEFORE TAX</b>	<b>(11.453.341)</b>	<b>(7.023.467)</b>
Tax Income / (Expense)	8.742.648	7.801.346
- Current Tax (Expense) / Income	-	-
- Deferred Tax Income / (Expense)	8.742.648	7.801.346
<b>NET PROFIT</b>	<b>(2.710.693)</b>	<b>777.879</b>
<b>EBITDA</b>	<b>(174.574)</b>	<b>5.094.395</b>

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

	1Q/2018	YE/2017
Cash & Cash Equivalents	123.497.266	187.212.070
Trade Receivables	689.816.588	806.226.238
Other Receivables	1.475.516	1.479.485
Inventories	76.005.127	70.801.802
Deffered Cost	253.885.596	165.497.546
Other Current Assets	68.664.977	55.100.490
<b>Total Current Assets</b>	<b>1.213.345.070</b>	<b>1.286.317.631</b>
Trade Receivables	90.759.707	83.903.835
Property, Plant and Equipment	38.534.777	36.598.628
Financial Investments	3.303.190	2.928.818
Intangible Assets	105.554.693	103.327.185
<i>Goodwill</i>	72.375.866	69.131.791
<i>Other intangible assets</i>	33.178.827	34.195.394
Associates	6.100.671	6.155.424
Deferred Tax Assets	22.876.457	11.294.492
Other Non-Current Assets	20.656.356	19.326.494
<b>Total Non-Current Assets</b>	<b>287.785.851</b>	<b>263.534.876</b>
<b>Total Assets</b>	<b>1.501.130.921</b>	<b>1.549.852.507</b>
Financial Liabilities	355.921.382	302.073.547
Trade Payables	242.359.144	382.578.302
Other Payables	4.347.529	10.710.962
Employee Benefit Obligations	15.263.233	11.623.440
Deferred Revenues	89.066.376	55.182.524
Provisions	20.385.125	27.300.712
Advances Received	61.361.998	52.676.354
Current Tax Liabilities	2.994.379	2.994.379
<b>Total Short Term Liabilities</b>	<b>791.699.166</b>	<b>845.140.220</b>
Long-Term Financial Liabilities	50.188.750	24.044.293
Trade Payables	51.096	46.357
Provisions	27.762.119	24.974.362
Deferred Tax Liabilities	2.782.488	11.040.651
<b>Total Long Term Liabilities</b>	<b>80.784.453</b>	<b>60.105.663</b>
<b>Total Equity</b>	<b>628.647.302</b>	<b>644.606.624</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>1.501.130.921</b>	<b>1.549.852.507</b>

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

	1Q/2018	1Q/2017
<b>Profit for the year</b>	<b>(2.710.693)</b>	<b>777.879</b>
Adjustments to reconcile income for the period	6.253.293	12.781.344
Changes in Working Capital	(109.298.086)	(52.217.410)
<b>Cash Flows (Used in) Generated From Operations</b>	<b>(105.755.486)</b>	<b>(38.658.187)</b>
Payments Related with Provisions for Employee Benefits	(18.184.910)	(16.731.026)
<b>Cash flow from investing activities</b>	<b>(3.652.148)</b>	<b>(2.257.106)</b>
<b>Cash flow from financing activities</b>	<b>78.311.621</b>	<b>21.053.342</b>
<b>Cash and Cash Equivalents at The End of The Period</b>	<b>123.497.266</b>	<b>77.871.444</b>

## ABOUT NETAS

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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' 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 March 31st, 2018, 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

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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 statement for the period ended 31.03.2018 and 31.03.2017 and balance sheet for the period ended 31.03.2018 and 31.12.2017.

## 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;

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