



NETAŞ TELEKOMÜNİKASYON A.Ş. 1H2018 EARNINGS RELEASE



SIX MONTHS SUMMARY

- ❑ Consolidated orders booked was TL 412 million in 1H2018.
- ❑ TL 408 million revenue was recorded in 1H2018.
- ❑ Order on Hand was TL 594 million in 1H2018.

FINANCIAL HIGHLIGHTS

TL Million	1H2018	1H2017	y/y %
Revenue	408	493	(17%)
Cost of Sales	(371)	(441)	(16%)
Gross Profit	37	52	(30%)
<i>Gross margin %</i>	9%	11%	(162)
Operating Expenses	(51)	(42)	22%
General Administrative Expenses	(18)	(16)	15%
Sales, Marketing & Distribution Expenses	(28)	(26)	7%
Research & Development Expenses	(5)	-	n/a
Incentives	(2)	-	n/a
EBIT	(16)	11	(251%)
<i>EBIT margin %</i>	-4%	2%	-
Depreciation	14	13	5%
EBITDA	(2)	24	(110%)
<i>EBITDA margin %</i>	-1%	5%	-

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



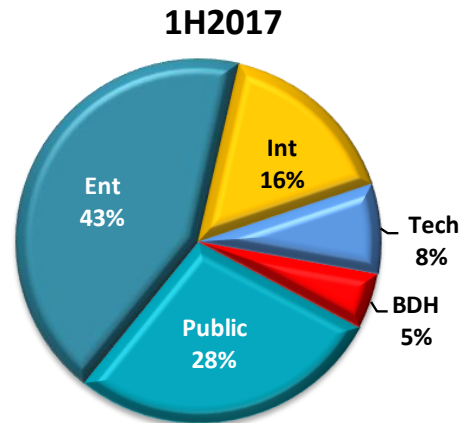
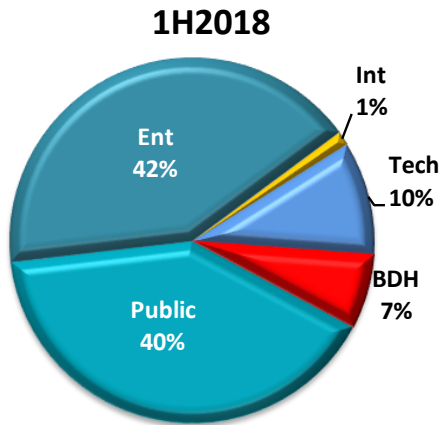
OPERATIONAL PERFORMANCE

Orders & Revenue



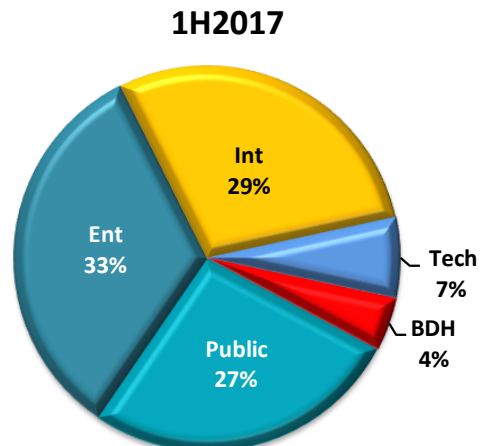
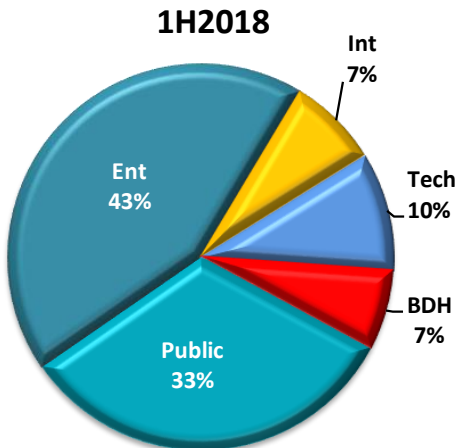
Orders booked in the first half of 2018 decreased by 7% y-o-y and recorded at TL 412 million (USD 101 million) and **orders on hand** were TL 594 million (USD 130 million) in 1H2018.

Orders Booked Breakdown



In 1H2018 Consolidated Group revenues was recorded at TL 408 million with a 17% decline.

Revenue Contribution



OPERATIONAL PERFORMANCE

1H2018 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Orders Booked	166,2	171,9	5,0	41,3	27,2	-	411,7
Revenue	133,1	176,2	30,8	40,6	27,2	-	407,9
Cost of sales	(112,3)	(159,1)	(24,0)	(38,1)	(31,8)	(5,8)	(371,1)
Gross Profit	20,8	17,1	6,8	2,4	(4,5)	(5,8)	36,8
Sales,marketing and distribution expenses	(11,2)	(11,4)	(5,7)	-	-	-	(28,2)
General administrative expenses	-	-	-	-	-	(17,8)	(17,8)
Research and development expenses	-	-	-	(4,9)	-	-	(4,9)
Operating profit / (loss) of segment	9,6	5,7	1,1	(2,4)	(4,5)	(23,6)	(14,2)
Operating Profit Margin	7%	3%	4%	-6%	-17%		-3%
1H2017 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Orders Booked	124,8	190,2	72,3	35,6	21,9	-	444,8
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%

Public Segment



Total Order booking performance of Public segment was up to TL 166 million in 1H2018 increasing by 33% compared to the same period of the previous year. Thanks to successful order booking performance in **Defense category** which has offset the melting in **Government** and **Telco** categories in a large extent. City Security Projects, Safety School Projects and System Integration project for 112 S.O.S and GSM-R project positively contributed to the consolidated order booking performance of the Public segment in 1H2018.

Consolidated public segment revenue was almost flat in the first half of the year thanks to favourable FX rate and Group's diversified business structure. Through the strong backlog in **Government category** resulted in a 23% revenue growth while new projects in **Defense category substantially** balanced the contraction in **Telco's** category on a consolidated basis. Consequently, **Public Segment's consolidated revenue** reached TL133 million in 1H2018 with a slight increase of 0.8% over the same period of previous year.

OPERATIONAL PERFORMANCE

Enterprise Segment

Despite several challenges in Group's operational markets, it succeeded to its **order bookings** at a flat level in **Enterprise segment** and recorded TL 172 million new order during 1H2018.

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 Group recorded circa TL 100 million new order in **Enterprise segment** in 2Q2018.

Moreover, under the favour of strong backlogs with highly margined large scaled projects and favorable FX rate, Group recorded 8% revenue growth in Enterprise segment in 1H2018.

In spite of shrink in order booking performance of Enterprise segment in 1H2018, **revenue** remained flat at TL 176 million thanks to long-run relations with the banks and other companies in the **Finance Sector** and **General industry**. Enterprise segment generated 43% of total Group's consolidated revenue in 1H2018.



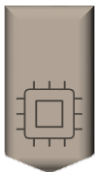
International Segment



Mainly due to high base of 1H2017 and long order execution process of potential large scaled projects in Algeria and other target markets, Group's international operations' order bookings and revenue numbers in 1H2018 were far below compared to the results of same period of the last years.

Technology Segment

Once- more long-run continuing business relations with Ribbon showed its positive impact in Group's financial results and thereupon Group's order performance in Technology segment increased by 16% y-o-y in 1H2018 and reached TL41.3 million. While revenue grew by 22% over the same period of the previous year with the contribution of favorable FX rate.



BDH



BDH's orders-booked increased by 24% in 1H2018 vs 1H2017 and revenue was recorded at TL22 million increasing by 24% y-o-y for the same period.

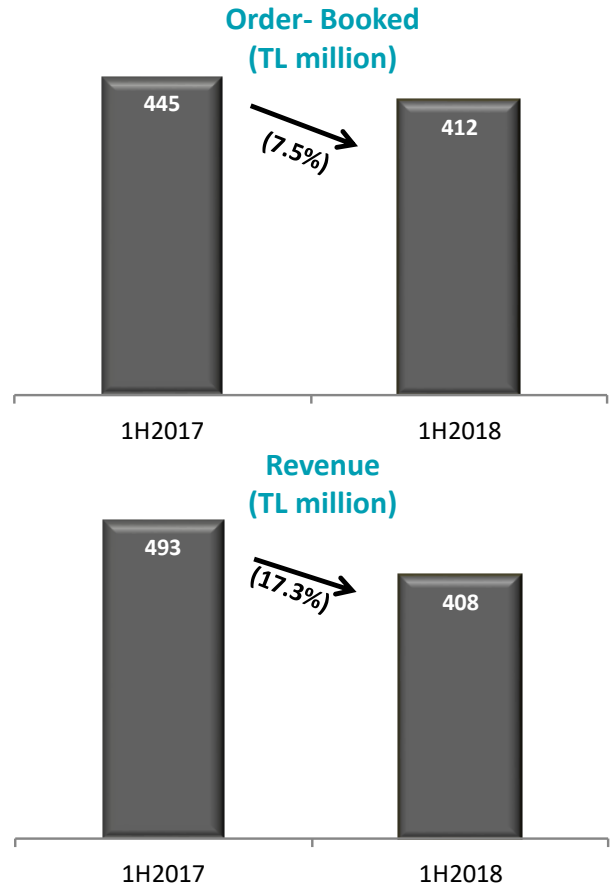


CONSOLIDATED FINANCIAL PERFORMANCE



CONSOLIDATED FINANCIAL PERFORMANCE

- Group's **consolidated order booking performance** was reported at TL412 million in 1H2018 against TL 445 million in 1H2017. Despite the macroeconomic instability and challenging global external financing environment, decline in the order booking performance of the Group was eased at a large extent with an improvement in Public, Technology and BDH segments. Thanks to its greater presence in domestic market and diversified business structure.
- Excluding the International markets Group recorded a growth in its other business segments in terms of revenue. Due to the strong base effect of last year in international markets **consolidated revenue declined by 17% y-o-y** and was recorded at TL 408 million in 1H2018.
- In 1H2018, **Group's gross profit** declined by 30% mainly due to increased USD based expenses and reported at TL 37 million as of end of June 30, 2018. While, **gross profit margin** eased to 9.0% with a 162bps decline in 1H2018 from 10.7% level in the same period of the previous year.
- Consolidated operating expenses (OPEX)** increased by %22 to TL 51 million in 1H2018 from TL 42 million in 1H2017 mainly attribute to rising USD based operating expenses and increased G&A expenses of continuing projects. While, **other expenses** increased to TL 42 million as a result of increased non-cash operating FX losses.
- Group recorded an **operating loss** of TL 52 million in 1H2018 mainly due to non-cash FX losses incurred from FX based operating expenses. And consequently, consolidated **Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)** recorded as a loss of TL 2.3 million in 1H2018.
- Group recorded TL 35 million **interest expenses** as a result of increased bank loans and higher interest rates in 1H2018 to meet operational requirements. Even if increased **financial expenses** was compensated with TL 70 million **financial income** with support of favorable FX rates of USD against Turkish Lira, this can not prevent to Group's first half **bottom-line** turn to red and recorded TL 23.0 million loss in 1H2018.
- Excluding** the impact of new standards of **IFRS-9 and IFRS-15 bottom-line** would be recorded at TL 22.6 million for the first half of 2018.



CONSOLIDATED FINANCIAL PERFORMANCE

Even it was not directly related with Group (Netaş) and its subsidiaries, the ban imposed by the U.S. Department of Commerce against ZTE Corporation of prohibiting from participating in any transactions involving any item subject to Export Administration Regulations (EAR), Group's operations negatively affected. Due to the imposed ban Group missed some tender offer opportunities and stopped the sales of US products to tear carefully until the assurance of the ban borders. In addition to that, Group's plans on the international markets with ZTE were also suspended during this period.

According to the latest news, The U.S. Department of Commerce and ZTE reached an agreement on settlement and the further steps required to terminate the Order. ZTE has taken the required steps, and BIS terminated the Order, effective from July 13, 2018. Accordingly, Subsidiaries and affiliates of ZTE are no longer prohibited from participating in transactions with ZTE involving Items subject to the EAR globally. That might be helpful to utilize coming further opportunities for Netaş in near terms and bring heat to international operations.

CONSOLIDATED DEBT STRUCTURE & NET WORKING CAPITAL

Balance sheet wise;

- **Group's cash and cash equivalents** was **TL 231 million** for 1H2018 with a **net debt positioning** of **TL 406 million**.
- Gross **financial debt** was **TL 637 million in 1H2018** and whole debt in TL term and maturities of the financial debt were less than one year as of June 30, 2018.

(TL million)	Cash & Cash		Net Debt
	Gross Debt	Eq.	
1H2018	636,9	231,4	405,5
2017	326,1	187,2	138,9

1H2018	TL	USD
Short Term Debt	628,6	137,8
Long Term Debt	0,0	0,0
Interest Expense Accruals for Borrowings	8,3	1,8
Total Debt	636,9	139,6

- **Group's net working capital*** (incl. non-current trade receivables and trade payables) requirement for the financing of continuing projects was TL 934 million as of 1H2018 (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)*

2018 GUIDANCE

Group has revised its full year 2018 guidance as disclosed below due to long order execution process of Fatih Project, various economic, political and geopolitical challenges in its domestic and international markets and the ban imposed by the U.S. Department of Commerce against ZTE Corporation of prohibiting from participating in any transactions involving any item subject to Export Administration Regulations (EAR) which increased the pressure on the Group's operations.

Key Metrics of Group

Order Booking	: USD basis- low double digit order booking growth on a consolidated basis
Revenue	: USD basis- Revenue contraction due to long order execution process of potential large scaled projects and economic volatility
EBITDA	: USD basis- tightening EBITDA margin due to decrease in revenue
Cash	: Positive cash generation

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

	1H/2018	1H/2017
SALES REVENUE	407.900.763	493.302.768
Cost of Sales (-)	(371.103.650)	(440.809.637)
GROSS PROFIT FROM OPERATIONS	36.797.113	52.493.131
Sales and Marketing Expenses (-)	(28.249.062)	(26.312.389)
General Administrative Expenses (-)	(17.838.557)	(15.514.549)
Research and Development Expenses (-)	(4.878.328)	-
Other Income from Operating Activities	3.655.221	1.794.185
Other Expenses from Operating Activities (-)	(41.949.393)	(1.842.407)
OPERATING PROFIT	(52.463.006)	10.617.971
Income/(Expenses) from Investment Activities	(3.470)	249.857
Income from Associates	135.768	71.082
OPERATING LOSS/PROFIT BEFORE FINANCE INCOME/(EXI	(52.330.708)	10.938.910
Financial Income	69.596.571	5.008.810
Financial Expenses (-)	(35.506.312)	(21.651.110)
PROFIT BEFORE TAX	(18.240.449)	(5.703.390)
Tax Income / (Expense)	(4.778.987)	13.094.621
- Current Tax (Expense) / Income	(77.410)	-
- Deferred Tax Income / (Expense)	(4.701.577)	13.094.621
NET PROFIT	(23.019.436)	7.391.231
EBITDA	(2.287.343)	23.855.753

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



	1H/2018	YE/2017
Cash & Cash Equivalents	231.353.417	187.212.070
Trade Receivables	798.222.473	806.226.238
Other Receivables	1.612.843	1.479.485
Inventories	94.243.062	70.801.802
Deffered Cost	289.314.127	165.497.546
Other Current Assets	65.936.597	55.100.490
Total Current Assets	1.480.682.519	1.286.317.631
Trade Receivables	101.721.642	83.903.835
Property, Plant and Equipment	44.194.286	36.598.628
Financial Investments	3.814.951	2.928.818
Intangible Assets	118.537.607	103.327.185
<i>Goodwill</i>	83.589.002	69.131.791
<i>Other intangible assets</i>	34.948.605	34.195.394
Associates	6.955.362	6.155.424
Deferred Tax Assets	22.148.559	11.294.492
Other Non-Current Assets	21.919.353	19.326.494
Total Non-Current Assets	319.291.760	263.534.876
Total Assets	1.799.974.279	1.549.852.507
Financial Liabilities	636.895.775	302.073.547
Trade Payables	212.934.514	382.578.302
Other Payables	9.456.541	10.710.962
Employee Benefit Obligations	12.715.111	11.623.440
Deferred Revenues	101.711.054	55.182.524
Provisions	24.391.734	27.300.712
Advances Received	56.233.810	52.676.354
Current Tax Liabilities	0	2.994.379
Total Short Term Liabilities	1.054.338.539	845.140.220
Long-Term Financial Liabilities	0	24.044.293
Trade Payables	51.994	46.357
Provisions	28.081.825	24.974.362
Deferred Tax Liabilities	17.294.118	11.040.651
Total Long Term Liabilities	45.427.937	60.105.663
Total Equity	700.207.803	644.606.624
Total Liabilities and Shareholder:	1.799.974.279	1.549.852.507

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

	1H/2018	1H/2017
(Loss)/ Profit for the Period	(23.019.436)	7.391.231
Adjustments to reconcile income for the period	30.778.456	32.102.011
Changes in Working Capital	(177.801.452)	(8.224.072)
Cash Flows (Used in) Generated From Operations	(170.042.432)	31.269.170
Payments Related with Provisions for Employee Benefits	(21.180.171)	(21.209.269)
Cash flow from investing activities	(4.467.729)	(2.839.208)
Cash flow from financing activities	278.148.350	(61.271.608)
Cash and Cash Equivalents at The End of The Period	231.353.417	63.933.382

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. Netas' 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.

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 June 30, 2018, Netas' 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 Netas.*

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 for the period ended 30.06.2018 and 30.06.2017 and balance sheet for the period ended 30.06.2018 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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