

**NETAŞ TELEKOMÜNİKASYON  
A.Ş.  
Q1 2019 EARNINGS RELEASE**



## Q1 2019 SUMMARY

- ❑ Consolidated orders booked was TL 251 million in Q1 2019.
- ❑ Sales Revenue increased by 16% and reached to TL 219 million
- ❑ Order on Hand was TL 962 million in Q1 2019.

## FINANCIAL HIGHLIGHTS

| TL Million                               | 1Q2019      | 1Q2018      | y/y %         |
|--|-------------|-------------|---------------|
| <b>Revenue</b>                           | <b>219</b>  | <b>189</b>  | <b>16%</b>    |
| Cost of Sales                            | (210)       | (169)       | 24%           |
| <b>Gross Profit</b>                      | <b>9</b>    | <b>20</b>   | <b>(55%)</b>  |
| <i>Gross margin %</i>                    | <i>4%</i>   | <i>11%</i>  | <i>(653)</i>  |
| <b>Operating Expenses</b>                | <b>(38)</b> | <b>(28)</b> | <b>37%</b>    |
| General Administrative Expenses          | (17)        | (9)         | 76%           |
| Sales, Marketing & Distribution Expenses | (18)        | (13)        | 37%           |
| Research & Development Expenses          | (3)         | (5)         | (39%)         |
| Incentives                               | 4           | 1           | 434%          |
| <b>EBIT</b>                              | <b>(25)</b> | <b>(7)</b>  | <b>275%</b>   |
| <i>EBIT margin %</i>                     | <i>-11%</i> | <i>-4%</i>  | <i>(787)</i>  |
| Depreciation                             | 14          | 6           | 113%          |
| <b>EBITDA</b>                            | <b>(11)</b> | <b>(0)</b>  | <b>6.341%</b> |
| <i>EBITDA margin %</i>                   | <i>-5%</i>  | <i>0%</i>   | <i>(502)</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.*

*EBITDA= EBIT + Depreciation*

**CONSOLIDATED  
OPERATIONAL & FINANCIAL  
PERFORMANCE**



# OPERATIONAL PERFORMANCE

## Orders & Sales Revenue

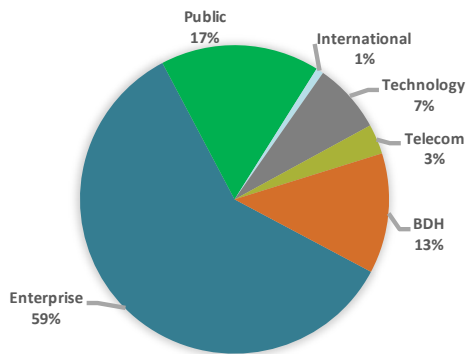


**Orders:** Orders booked in the first quarter of 2019 decreased slightly by 2% year over year and recorded at TL 251 million (USD 47 million) and **orders on hand** were TL 962 million (USD 179 million) in Q1 2019.

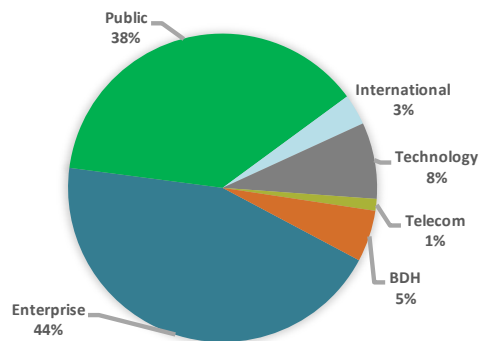
**Sales Revenue:** In Q1 2019 Consolidated Group revenues was recorded at TL 219 million with a 16% increase year over year.

### Breakdown of Orders Booked

1Q 2019

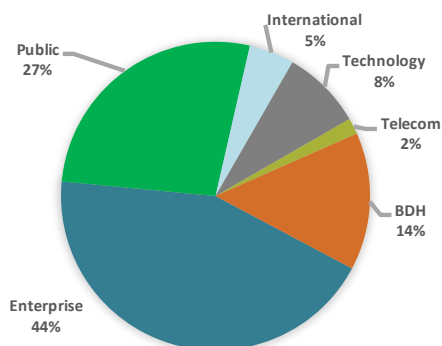


1Q 2018

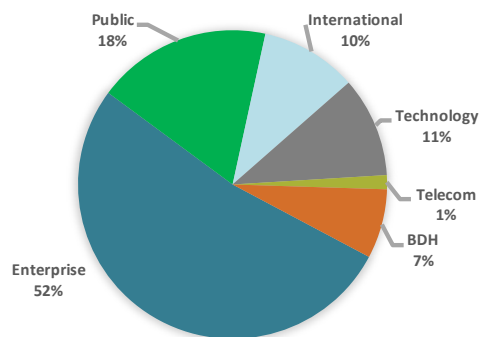


### Sales Breakdown

1Q 2019

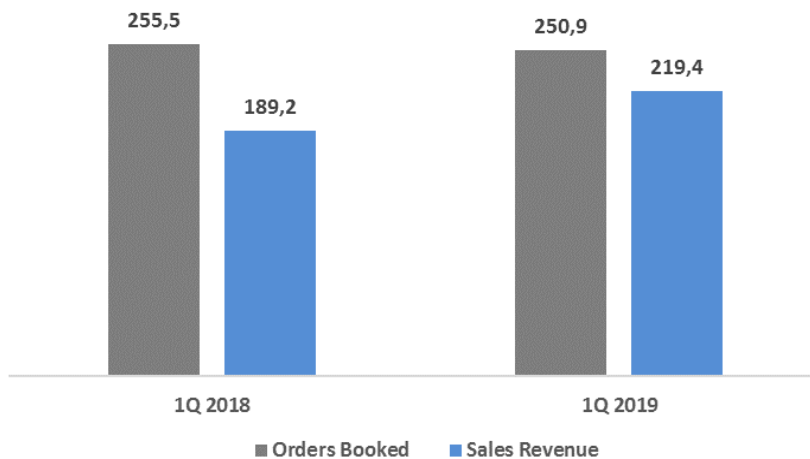


1Q 2018



## CONSOLIDATED FINANCIAL PERFORMANCE

- Group's **consolidated order booking performance** was reported at TL 255.5 million in Q1 2018 versus **TL 250.9 million in Q1 2019**. Despite the **continuation of macroeconomic instability and the turbulence in financial markets** in 2019, **order booking performance** of the Group almost **remained same year over year** with the **positive contribution of Corporate, Telecom and BDH segments**; thanks to the company's greater presence in domestic market and diversified business structure.



- FX based expenses of the projects increased as a result of increasing FX rates** and resulted in lower gross profit; **gross profit** declined %55 year over year and was recorded at TL 9.2 million in Q1 2019.
- Consolidated operating expenses (OPEX) increased** as a result of increasing marketing, sales and distribution expenses and general & administrative expenses. Operational expenses (incl. other income/expense from operating activities) reached to 37 million TL in Q1 2019 versus 31 million TL in Q1 2018. Consequently, **consolidated Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)** recorded as a loss of TL 11 million in Q1 2019.
- Group recorded TL 41.5 million financial expenses as a result of **higher interest rates in Q1 2019**. Even if increased financial expenses was compensated with **TL 38 million financial income** with support of favorable FX rates of USD against Turkish Lira, this could not prevent to Group's first quarter bottom-line turn to red and the company recorded TL 25.4 million net loss in Q1 2019.

## DEBT STRUCTURE & NET WORKING CAPITAL

### Balance sheet wise;

- **Group's cash and cash equivalents** was **TL 397 million** for Q1 2019 with a **net debt positioning** of **TL 280.8 million**.
- Gross **financial debt** was **TL 677.4 million in Q1 2019** and whole debt in TL terms and maturities of the financial debt were less than one year as of March 31, 2019.
- **Effective interest rate** for the **TL loans** used by the Group was **21.35%**.

| (million TL)  | Consolidated Total<br>Financial Debt | Cash and Cash<br>Equivalents | Net Debt |
|---------------|--------------------------------------|------------------------------|----------|
| <b>1Q2019</b> | 677,4                                | 396,7                        | 280,8    |
| <b>2018</b>   | 487,8                                | 192,8                        | 295,0    |

| <b>1Q 2019</b>                           | <b>TL</b>    | <b>USD</b>   |
|--|--------------|--------------|
| Short Term Financial Debt (Bank Loans)   | 677,4        | 120,4        |
| Long Term Financial Debt (Bank Loans)    | 0,0          | 0,0          |
| Interest Expense Accruals for Borrowings | 15,0         | 2,7          |
| <b>Total Debt</b>                        | <b>692,4</b> | <b>123,0</b> |

- **Group's net working capital\*** (incl. non-current trade receivables and trade payables) requirement for the financing of continuing projects was **TL 903 million** as of Q1 2019 (2018 YE: TL 896 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)*

**SEGMENT BASED  
OPERATIONAL & FINANCIAL  
PERFORMANCE**



## SEGMENT BASED FINANCIAL PERFORMANCE

| 2019/3M (Million TL)                       | Enterprise | Public | International | Technology | Telecom | BDH    | Unallocated | Total   |
|--|------------|--------|---------------|------------|---------|--------|-------------|---------|
| Orders Booked                              | 149,3      | 41,8   | 2,0           | 18,4       | 7,9     | 31,6   | -           | 250,9   |
| Sales Revenue                              | 95,9       | 59,4   | 10,4          | 18,4       | 3,7     | 31,6   | -           | 219,4   |
| Cost of Sales                              | (86,3)     | (54,9) | (8,7)         | (18,8)     | (3,5)   | (36,6) | (1,4)       | (210,2) |
| Gross Profit                               | 9,7        | 4,5    | 1,6           | (0,4)      | 0,2     | (5,0)  | (1,4)       | 9,2     |
| Sales, marketing and distribution expenses | (9,6)      | (2,6)  | (2,9)         | -          | (3,1)   | -      | -           | (18,1)  |
| General administrative expenses            | -          | -      | -             | -          | -       | -      | (16,6)      | (16,6)  |
| Research and development expenses          | -          | -      | -             | (3,0)      | -       | -      | -           | (3,0)   |
| Operating profit/ (loss) of segment        | 0,07       | 1,9    | (1,2)         | (3,4)      | (2,9)   | (5,0)  | (18,0)      | (28,5)  |
| Operating profit margin                    | 0%         | 3%     | -12%          | -18%       | -78%    | -16%   | -           | -13%    |

| 2018/3M (Million TL)                       | Enterprise | Public | International | Technology | Telecom | BDH    | Unallocated | Total   |
|--|------------|--------|---------------|------------|---------|--------|-------------|---------|
| Orders Booked                              | 113,2      | 96,7   | 8,3           | 20,4       | 3,2     | 13,8   | -           | 255,5   |
| Sales Revenue                              | 100,2      | 34,7   | 19,1          | 19,9       | 1,6     | 13,8   | -           | 189,2   |
| Cost of Sales                              | (93,2)     | (27,9) | (14,5)        | (16,2)     | (1,5)   | (13,4) | (2,3)       | (168,9) |
| Gross Profit                               | 7,0        | 6,8    | 4,6           | 3,7        | 0,1     | 0,3    | (2,3)       | 20,3    |
| Sales, marketing and distribution expenses | (6,1)      | (4,2)  | (2,7)         | -          | (0,2)   | -      | -           | (13,2)  |
| General administrative expenses            | -          | -      | -             | -          | -       | -      | (9,4)       | (9,4)   |
| Research and development expenses          | -          | -      | -             | (5,0)      | -       | -      | -           | (5,0)   |
| Operating profit/ (loss) of segment        | 0,9        | 2,5    | 2,0           | (1,3)      | (0,09)  | 0,3    | (11,7)      | (7,3)   |
| Operating profit margin                    | 1%         | 7%     | 10%           | -6%        | -6%     | 2%     | -           | -4%     |

### Enterprise Segment



Despite the negative developments in the global markets and deliberate standing of Turkish companies regarding their spending in the first three months of the year, **the Group managed to increase its order bookings by 32% to 149.3 million TL in the Enterprise segment in Q1 2019.**

Even though **positive contribution from Istanbul Airport (IGA) project was non-existent** in the Q1 2019, Sales revenue of the Group from enterprise segment decreased only 4% year over year to 95.9 Million TL.

**Enterprise segment generated 44% of total Group's consolidated revenue in Q1 2019.**



## OPERATIONAL PERFORMANCE

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### Public Segment

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**Total Order booking performance** of Public segment **was down** 57% to TL 41.8 million in Q1 2019 on the back of **lower spending appetite of Public institutions**.

Despite the slowdown in orders booking performance, **sales revenues from Public increased by 71% year over year** to 59.4 million TL. **Projects taken from Turkish Aerospace Industries largely contributed** to the increase of the segment.



### International Segment

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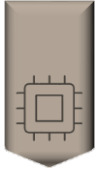


**Orders booked and sales revenue from International segment decreased** by 76% and 46% respectively in the first three months of 2019 due to **longer than expected order execution process of two large scale projects** (projects from Algeria Ministry of Defense and an airport project in Saudi Arabia).

### Technology Segment

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**Long-term business relations with Ribbon continues** in Technology segment. Orders booked decreased 10% year over year in the first three months of 2019. **Sales revenue of the segment was slightly down 7% to 18.4 million TL** for the same period. The main reason for this limited decrease was less number of people provided consulting service to clients throughout the term.



### BDH

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Both **orders-booked and sales revenue of BDH increased by 130% year over year** in Q1 2019; sales revenue of the segment reached to 31.6 million TL.

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

|   | Q1 2019             | Q1 2018             |
|---|---------------------|---------------------|
| <b>SALES REVENUE</b>                                      | <b>219.414.265</b>  | <b>189.208.782</b>  |
| Cost of Sales (-)   | (210.210.036)       | (168.917.098)       |
| <b>GROSS PROFIT FROM OPERATIONS</b>                       | <b>9.204.229</b>    | <b>20.291.684</b>   |
| Sales and Marketing Expenses (-)                          | (18.113.597)        | (13.213.909)        |
| General Administrative Expenses (-)                       | (16.607.413)        | (9.445.111)         |
| Research and Development Expenses (-)                     | (2.999.454)         | (4.954.499)         |
| Other Income from Operating Activities                    | 16.710.953          | 2.224.877           |
| Other Expenses from Operating Activities (-)              | (15.669.417)        | (4.572.145)         |
| <b>OPERATING PROFIT</b>                                   | <b>(27.474.699)</b> | <b>(9.669.103)</b>  |
| Income/(Expenses) from Investment Activities (net)        | 10.185              | (8.366)             |
| Income from Associates                                    | 84.721              | (203.787)           |
| <b>OPERATING LOSS/PROFIT BEFORE FINANCE INCOME/(EXP.)</b> | <b>(27.379.793)</b> | <b>(9.881.256)</b>  |
| Financial Income  | 38.038.667          | 12.607.213          |
| Financial Expenses (-)                                    | (41.545.150)        | (14.179.298)        |
| <b>PROFIT BEFORE TAX</b>                                  | <b>(30.886.276)</b> | <b>(11.453.341)</b> |
| Tax Income / (Expense)                                    | 5.472.983           | 8.742.648           |
| - Current Tax (Expense) / Income                          | -                   | -                   |
| - Deferred Tax Income / (Expense)                         | 5.472.983           | 8.742.648           |
| <b>NET PROFIT</b>   | <b>(25.413.293)</b> | <b>(2.710.693)</b>  |
| <b>EBITDA</b>   | <b>(11.207.577)</b> | <b>(174.574)</b>    |

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

|   | Q1 2019              | Q1 2018              |
|---|----------------------|----------------------|
| Cash & Cash Equivalents                           | 396.657.509          | 192.787.683          |
| Trade Receivables                                 | 865.639.048          | 916.704.334          |
| Other Receivables                                 | 1.793.526            | 1.728.286            |
| Inventories                                       | 115.305.214          | 89.377.544           |
| Deferred Cost                                     | 417.007.032          | 305.680.684          |
| Other Current Assets                              | 73.841.592           | 57.475.520           |
| <b>Total Current Assets</b>                       | <b>1.870.243.921</b> | <b>1.563.754.051</b> |
| Trade Receivables                                 | 62.631.816           | 54.296.299           |
| Property, Plant and Equipment                     | 55.007.472           | 51.441.407           |
| Right of Use Assets                               | 55.784.818           | -                    |
| Financial Investments                             | 5.177.141            | 4.733.887            |
| Intangible Assets                                 | 137.348.958          | 129.450.068          |
| <i>Goodwill</i>                                   | 103.157.923          | 96.422.343           |
| <i>Other intangible assets</i>                    | 34.191.035           | 33.027.725           |
| Associates  | 8.741.346            | 7.784.350            |
| Deferred Tax Assets                               | 44.527.223           | 24.022.688           |
| Other Non-Current Assets                          | 26.641.395           | 25.956.367           |
| <b>Total Non-Current Assets</b>                   | <b>395.860.169</b>   | <b>297.685.066</b>   |
| <b>Total Assets</b>                               | <b>2.266.104.090</b> | <b>1.861.439.117</b> |
| Short Term Financial Liabilities                  | 697.877.751          | 487.836.269          |
| Bank Loans  | 677.428.106          | 487.836.269          |
| Lease Liabilities                                 | 20.449.645           | -                    |
| Trade Payables                                    | 354.087.932          | 298.956.476          |
| Other Payables                                    | 17.688.853           | 17.064.203           |
| Employee Benefit Obligations                      | 48.254.180           | 22.373.870           |
| Deferred Revenues                                 | 119.220.246          | 83.881.957           |
| Provisions  | 21.671.290           | 34.856.887           |
| Advances Received                                 | 72.467.727           | 66.589.646           |
| Current Tax Liabilities                           | -                    | 5.064.848            |
| <b>Total Short Term Liabilities</b>               | <b>1.331.267.979</b> | <b>1.016.624.156</b> |
| Long-Term Financial Liabilities                   | 36.441.188           | -                    |
| Lease Liabilities                                 | 36.441.188           | -                    |
| Trade Payables                                    | 58.599               | 57.416               |
| Provisions  | 27.790.786           | 29.265.838           |
| Deferred Tax Liabilities                          | 16.446.705           | 1.826.769            |
| <b>Total Long Term Liabilities</b>                | <b>80.737.278</b>    | <b>31.150.023</b>    |
| <b>Total Equity</b>                               | <b>854.098.833</b>   | <b>813.664.938</b>   |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>2.266.104.090</b> | <b>1.861.439.117</b> |

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

|   | Q1 2019             | Q1 2018              |
|---|---------------------|----------------------|
| <b>Loss for the Period</b>                                    | <b>(25.413.293)</b> | <b>(2.710.693)</b>   |
| <b>Adjustments to reconcile loss for the period</b>           | <b>19.754.800</b>   | <b>6.253.293</b>     |
| <b>Changes in Working Capital</b>                             | <b>76.484.894</b>   | <b>(109.298.086)</b> |
| Payments Related with Provisions for Employee Benefits        | (23.716.387)        | (18.184.910)         |
| Payments Related with Lawsuits                                | (906.119)           | (53.630)             |
| <b>Cash Flows (Used in) Generated From Operations</b>         | <b>46.203.975</b>   | <b>(123.994.026)</b> |
| <b>Cash flow from investing activities</b>                    | <b>(6.329.375)</b>  | <b>(3.652.148)</b>   |
| <b>Cash flow from financing activities</b>                    | <b>162.176.904</b>  | <b>71.343.238</b>    |
| Effect of exchange rate changes on cash & cash equivalents    | 1.818.322           | (7.411.868)          |
| <b>Cash and Cash Equivalents at The Beginning of the year</b> | <b>192.787.683</b>  | <b>187.212.070</b>   |
| <b>Cash and Cash Equivalents at The End of The Period</b>     | <b>396.657.509</b>  | <b>123.497.266</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. Netas' constant increase in productivity is based on its next generation competencies around technology skillset and expertise. **The company holds a track-record of 51 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 March 31, 2019, 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

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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 31.03.2019 and 31.03.2018 and balance sheet for the period ended 31.03.2019 and 31.12.2018.

## 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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