

**NETAŞ TELEKOMÜNİKASYON
A.Ş.
H1 2019 EARNINGS RELEASE**



H1 2019 SUMMARY

- ❑ Consolidated orders booked was 590 million TL in H1 2019.
- ❑ Sales Revenue increased by 39% and reached to 566 million TL
- ❑ Order on Hand was 711 million TL in H1 2019.

FINANCIAL HIGHLIGHTS

TL Million	H1 2019	H1 2018	y/y %
Revenue	566	408	39%
Cost of Sales	(530)	(371)	43%
Gross Profit	35	37	(4%)
<i>Gross margin %</i>	<i>6%</i>	<i>9%</i>	<i>(280)</i>
Operating Expenses	(75)	(51)	47%
General Administrative Expenses	(34)	(18)	93%
Sales, Marketing & Distribution Expenses	(37)	(28)	30%
Research & Development Expenses	(4)	(5)	(22%)
Incentives	2	(2)	(214%)
EBIT	(37)	(16)	132%
<i>EBIT margin %</i>	<i>-7%</i>	<i>-4%</i>	<i>(267)</i>
Depreciation	29	14	108%
EBITDA	(9)	(2)	279%
<i>EBITDA margin %</i>	<i>-2%</i>	<i>-1%</i>	<i>(97)</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

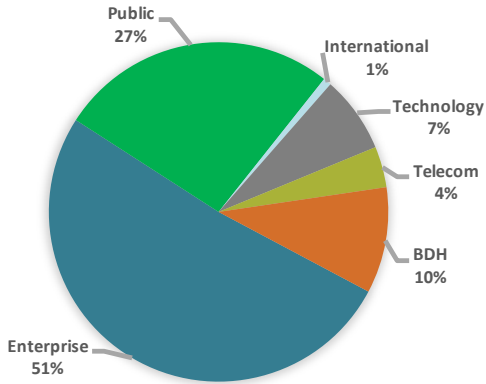


Orders: Orders booked in the first half of 2019 increased significantly by 43% year over year and recorded at 590 million TL (105 million USD) and orders on hand were 711 million TL (127 million USD) in H1 2019.

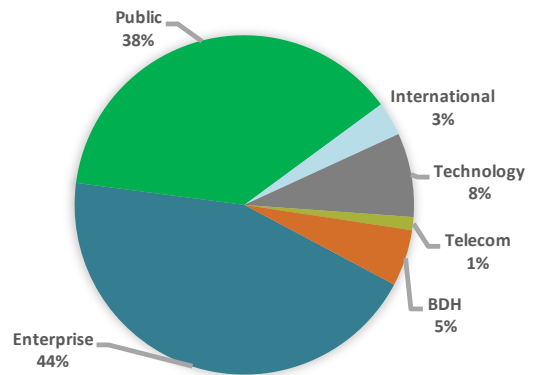
Sales Revenue: In H1 2019 Consolidated Group revenues was recorded at 566 million TL with a sharp 39% increase year over year.

Breakdown of Orders Booked

1H 2019

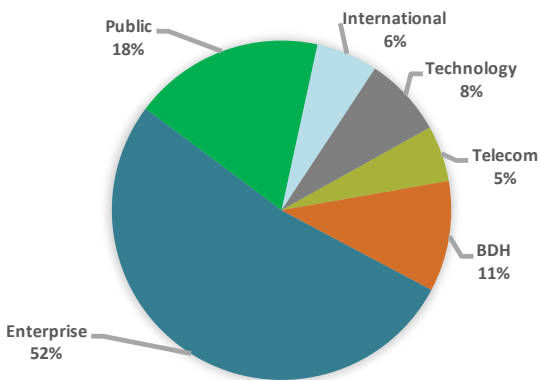


1H 2018

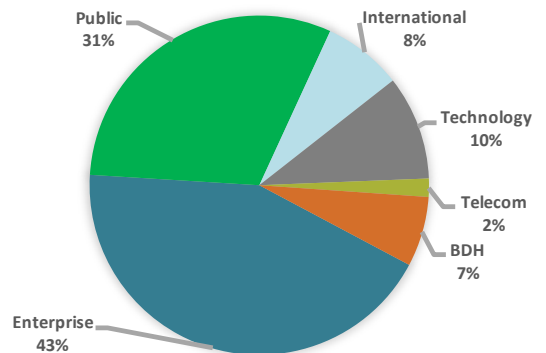


Sales Breakdown

1H 2019

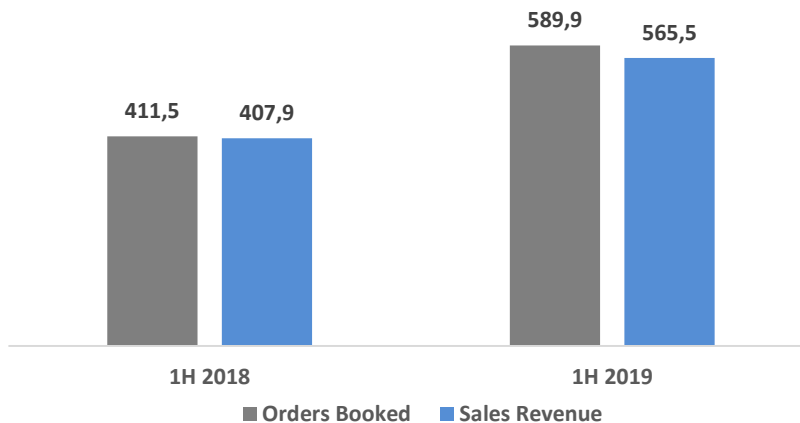


1H 2018



CONSOLIDATED FINANCIAL PERFORMANCE

- Group's **consolidated order booking performance** was reported at **589.9 million TL in H1 2019 with a %43 increase year over year**. USD's appreciation against TL contributed to this increase however the Group's order booking performance improved also in USD terms. Thanks to the company's greater presence in domestic market and diversified business structure, **all Corporate, Public, Telecom, BDH and Technology segments contributed to the increase** in order booking performance of H1 2019.
- Consolidated **sales revenue of the Group increased 39% year over year** in H1 2019 to 566 million TL.



- FX based expenses of the projects increased as a result of increasing FX rates** and resulted in slightly lower **gross profit**, down 4% year over year, and realized as 35.2 million TL as of 30 June 2019.
- Consolidated operating expenses (OPEX) increased** as a result of increasing marketing, sales and distribution expenses and general & administrative expenses. Operational expenses **reached to 75 million TL in H1 2019 including 8 million TL IFRS 16 (Leases Standard) effect** versus 51 million TL in H1 2018. Consequently, **consolidated Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)** recorded as a loss of TL 9 million in H1 2019.
- Group recorded 80.9 million TL financial expenses as a result of **higher interest rates in H1 2019**. Even if increased financial expenses was compensated with **53.5 million TL financial income** with support of favorable FX rates of USD against Turkish Lira, this could not prevent to Group's first half bottom-line turn to red and the company recorded 92.2 million TL loss in H1 2019.

DEBT STRUCTURE & NET WORKING CAPITAL

Balance sheet wise;

- **Group's cash and cash equivalents** was **294.2 million TL** for H1 2019 with a **net debt position** of **435.7 million TL**.
- Gross **financial debt** was **729.8 million TL in H1 2019** and whole debt in TL terms. Maturity of 92% of the financial debt were less than one year as of June 30, 2019.

(million TL)	Consolidated Total Financial Debt	Cash and Cash Equivalents	Net Debt
H1 2019	729,8	294,2	435,7
2018	487,8	192,8	295,0

1H 2019	TL	USD
Short Term Financial Debt (Bank Loans)	673,1	117,0
Long Term Financial Debt (Bank Loans)	56,7	9,9
Interest Expense Accruals for Borrowings	11,5	2,0
Total Debt	741,3	128,8

- **Group's net working capital*** (incl. non-current trade receivables and trade payables) requirement for the financing of continuing projects was **1,036 million TL** as of H1 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

2019/6M (Million TL)	Enterprise	Public	International	Technology	Telecom	BDH	Unallocated	Total
Orders Booked	302,8	156,8	4,6	43,1	23,0	59,6	-	589,9
Sales Revenue	296,6	102,9	33,2	43,1	30,1	59,6	-	565,5
Cost of Sales	(275,3)	(85,8)	(28,3)	(42,7)	(26,8)	(69,2)	(2,2)	(530,4)
Gross Profit	21,3	17,0	4,9	0,4	3,3	(9,6)	(2,2)	35,1
Sales, marketing and distribution expenses	(20,9)	(5,2)	(6,2)	(1,5)	(2,9)	-	-	(36,7)
General administrative expenses	-	-	-	-	-	-	(34,5)	(34,5)
Research and development expenses	-	-	-	(3,8)	-	-	-	(3,8)
Operating profit/ (loss) of segment	0,42	11,9	(1,3)	(4,9)	0,5	(9,6)	(36,7)	(39,8)
Operating profit margin	0%	12%	-4%	-11%	2%	-16%		-7%

2018/6M (Million TL)	Enterprise	Public	International	Technology	Telecom	BDH	Unallocated	Total
Orders Booked	219,2	113,2	5,1	41,3	5,5	27,2	-	411,5
Sales Revenue	176,2	126,0	30,8	40,6	7,1	27,2	-	407,9
Cost of Sales	(159,1)	(106,2)	(24,0)	(38,1)	(6,1)	(31,8)	(5,8)	(371,1)
Gross Profit	17,1	19,8	6,8	2,4	1,0	(4,5)	(5,8)	36,8
Sales, marketing and distribution expenses	(11,4)	(9,6)	(5,7)	-	(1,5)	-	-	(28,2)
General administrative expenses	-	-	-	-	-	-	(17,8)	(17,8)
Research and development expenses	-	-	-	(4,9)	-	-	-	(4,9)
Operating profit/ (loss) of segment	5,7	10,2	1,1	(2,4)	(0,53)	(4,5)	(23,6)	(14,2)
Operating profit margin	3%	8%	4%	-6%	-7%	-17%		-3%

Enterprise Segment



Despite the negative developments in the global markets and deliberate standing of Turkish companies regarding their spending in the first half of the year, **the Group managed to increase its order bookings robustly by 38% to 302.8 million TL in the Enterprise segment in H1 2019.**

Sales revenue of the Group from enterprise segment increased significantly by 68% year over year to 296.6 Million TL. The main reason of the increasing OPEX of enterprise segment in H1 2019 compared to the same period of last year was the investment in Cyber Security teams.

Enterprise segment generated 52% of total Group's consolidated revenue in H1 2019.

OPERATIONAL PERFORMANCE

Public Segment

Total Order booking performance of Public segment **improved especially in Q2 2019** with Microsoft license businesses and **increased by 39% year over year** in the first half of 2019 and recorded as 156.8 million TL.



Despite the increase order booking performance, **sales revenues from Public segment** decreased 18% year over year and stood at 102.9 million TL.

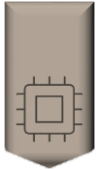
International Segment



Orders booked from international segment declined by 11% year over year in the first half of 2019 whilst **sales revenues increased 8%** for the same period. Execution processes are extended for some projects in international segment in the first half of 2019.

Technology Segment

Long-term business relations with Ribbon continues in Technology segment. **Orders booked increased 4%** year over year in the first half of 2019. **Sales revenue** of the segment **improved** especially in Q2 and was up 6% year over year, realized as 40.6 million TL for the same period.



Telecom Segment



Orders booked increased 321% year over year in the first half of 2019 and reached 23 million TL. **Sales revenue of the segment was up 324%** year over year and realized as 30.1 million TL for the same period. Post warranty support contracts contributed to the profit margin of the segment.

BDH

Both **orders-booked and sales revenue of BDH increased by 119% year over year** in H1 2019; sales revenue of the segment reached to 59.6 million TL.



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

	H1 2019	H1 2018
SALES REVENUE	565.521.166	407.900.763
Cost of Sales (-)	(530.377.874)	(371.103.650)
GROSS PROFIT FROM OPERATIONS	35.143.292	36.797.113
Sales and Marketing Expenses (-)	(36.665.117)	(28.249.062)
General Administrative Expenses (-)	(34.469.738)	(17.838.557)
Research and Development Expenses (-)	(3.781.287)	(4.878.328)
Other Income from Operating Activities	22.091.468	3.655.221
Other Expenses from Operating Activities (-)	(46.815.436)	(41.949.393)
OPERATING PROFIT	(64.496.818)	(52.463.006)
Income/(Expenses) from Investment Activities (net)	11.301	(3.470)
Income from Associates	281.231	135.768
OPERATING LOSS/PROFIT BEFORE FINANCE INCOME/(EXP.)	(64.204.286)	(52.330.708)
Financial Income	53.542.911	69.596.571
Financial Expenses (-)	(80.922.456)	(35.506.312)
PROFIT BEFORE TAX	(91.583.831)	(18.240.449)
Tax Income / (Expense)	(618.223)	(4.778.987)
- Current Tax (Expense) / Income	(88.692)	(77.410)
- Deferred Tax Income / (Expense)	(529.531)	(4.701.577)
NET PROFIT	(92.202.054)	(23.019.436)
EBITDA	(8.727.944)	(2.287.343)

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

	H1 2019	2018 YE
Cash & Cash Equivalents	294.168.461	192.787.683
Trade Receivables	924.168.714	916.704.334
Other Receivables	433.791	1.728.286
Inventories	119.774.443	89.377.544
Deferred Cost	347.938.306	305.680.684
Other Current Assets	66.029.763	57.475.520
Total Current Assets	1.752.513.478	1.563.754.051
Trade Receivables	60.264.672	54.296.299
Property, Plant and Equipment	122.986.082	51.441.407
Right of Use Assets	57.604.914	-
Financial Investments	5.293.683	4.733.887
Intangible Assets	140.978.695	129.450.068
<i>Goodwill</i>	105.480.094	96.422.343
<i>Other intangible assets</i>	35.498.601	33.027.725
Associates	8.507.478	7.784.350
Deferred Tax Assets	30.579.691	24.022.688
Other Non-Current Assets	27.697.977	25.956.367
Total Non-Current Assets	453.913.192	297.685.066
Total Assets	2.206.426.670	1.861.439.117
Short Term Financial Liabilities	693.617.729	487.836.269
Bank Loans	673.146.110	487.836.269
Lease Liabilities	20.471.619	-
Trade Payables	311.575.147	298.956.476
Other Payables	12.090.236	17.064.203
Employee Benefit Obligations	30.435.971	22.373.870
Deferred Revenues	123.165.127	83.881.957
Provisions	34.129.686	34.856.887
Advances Received	68.051.786	66.589.646
Current Tax Liabilities	-	5.064.848
Total Short Term Liabilities	1.273.065.682	1.016.624.156
Long-Term Financial Liabilities	96.426.506	-
Bank Loans	56.701.139	-
Lease Liabilities	39.725.367	-
Trade Payables	62.326	57.416
Provisions	24.667.468	29.265.838
Deferred Tax Liabilities	8.707.685	1.826.769
Total Long Term Liabilities	129.863.985	31.150.023
Total Equity	803.032.554	813.664.938
Non-Controlling Interest	464.449	-
Total Liabilities and Shareholders' Equity	2.206.426.670	1.861.439.117

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

	H1 2019	H1 2018
Loss for the Period	(92.202.054)	(23.019.436)
Adjustments to reconcile loss for the period	104.246.283	30.778.456
Changes in Working Capital	15.055.752	(177.801.452)
Cash Flows (Used in) Generated From Operations	27.099.981	(170.042.432)
Payments Related with Provisions for Employee Benefits	(32.062.237)	(21.180.171)
Payments Related with Lawsuits	(1.296.589)	(1.357.423)
Cash flow from investing activities	(7.111.306)	(4.467.729)
Cash flow from financing activities	153.789.625	278.148.350
Effect of exchange rate changes on cash & cash equivalents	(39.038.696)	(36.959.248)
Cash and Cash Equivalents at The Beginning of the year	192.787.683	187.212.070
Cash and Cash Equivalents at The End of The Period	294.168.461	231.353.417

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 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 June 30, 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

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 30.06.2019 and 30.06.2018 and balance sheet for the period ended 30.06.2019 and 31.12.2018.

ENQUIRIES

For financial reports and further information regarding Netas, please visit our website at www.netas.com.tr or you may contact;

Feyruze Aslı KONDU
Investor Relations Manager
Tel: +90 216 522 2804
asli.kondu@netas.com.tr
yatirimci@netas.com.tr