

Nera Telecommunications Ltd Analysts' Briefing

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- Result analysis - Jacqueline
 - Q4 FY16 vs Q4 FY15
 - FY16 vs FY15
- Outlook – Beck
- Q&A



FY16 Financial Performance Summary - Continuing Operations



Nera Telecommunications Ltd

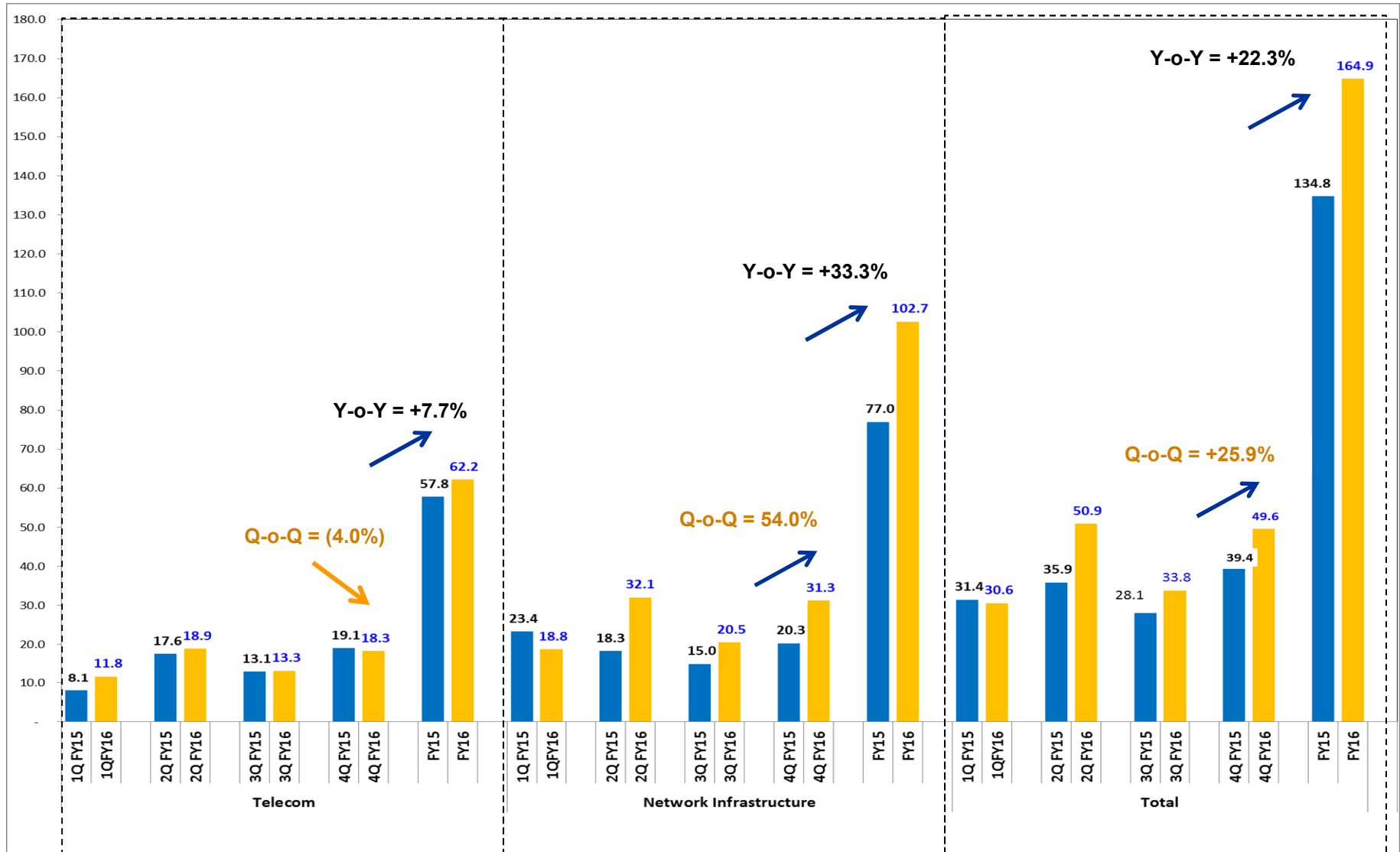
	Note	Group 4th Quarter			Group Year ended 31 December		
		2016 S\$'000	2015 S\$'000	Increase/ (Decrease) %	2016 S\$'000	2015 S\$'000	Increase/ (Decrease) %
Continuing operations							
Turnover		49,584	39,377	25.9	164,877	134,779	22.3
Cost of sales		(37,019)	(26,109)	41.8	(122,639)	(89,542)	37.0
Gross profit		12,565	13,268	(5.3)	42,238	45,237	(6.6)
Other operating income	(1)	621	12	Nm	1,220	398	206.5
Distribution and selling expenses		(6,812)	(5,823)	17.0	(23,277)	(21,039)	10.6
Administrative expenses		(5,414)	(2,032)	166.4	(11,519)	(8,290)	38.9
Other operating expenses		(199)	(346)	(42.5)	(3,173)	(191)	Nm
Profit from continuing operations		761	5,079	(85.0)	5,489	16,115	(65.9)
Financial income		118	6	Nm	149	38	292.1
Financial expenses		45	(242)	(118.6)	(391)	(596)	(34.4)
Profit before taxation from continuing operations		924	4,843	(80.9)	5,247	15,557	(66.3)
Taxation		4	(850)	(100.5)	(1,363)	(2,815)	(51.6)
Profit from continuing operations, net of tax		928	3,993	(76.8)	3,884	12,742	(69.5)
Discontinued operation							
Profit from discontinued operation, net of tax		365	400	(8.9)	66,251	659	Nm
Net profit for the financial period		1,293	4,393	(70.6)	70,135	13,401	423.4
Other comprehensive income / (expense) : Items that may be reclassified subsequently to profit or loss :							
Foreign currency translation of financial statements of foreign operations	(2)	(626)	563	(211.1)	1,398	(2,041)	(168.5)
Remeasurement of defined benefit obligation	(3)	221	3	Nm	221	3	Nm
Total comprehensive income for the period / year		888	4,959	(82.1)	71,754	11,363	531.5

FY16 Financial Performance Summary - Discontinued Operation

	Group 4th Quarter			Group Year ended 31 December		
	2016 S\$'000	2015 S\$'000	Increase/ (Decrease) %	2016 S\$'000	2015 S\$'000	Increase/ (Decrease) %
Turnover	88	12,019	(99.3)	28,559	46,734	(38.9)
Cost of sales	365	(8,510)	(104.3)	(20,580)	(32,453)	(36.6)
Gross profit	453	3,509	(87.1)	7,979	14,281	(44.1)
Other operating income	2	68	(97.1)	438	198	121.2
Operating expenses	(156)	(3,200)	(95.1)	(7,562)	(13,086)	(42.2)
Net financial expenses	47	(37)	(227.0)	(204)	(111)	83.8
Profit from discontinued operation	345	340	1.3	651	1,282	(49.3)
Gain on disposal of subsidiaries	(43)	-	Nm	66,128	-	Nm
Profit before taxation from discontinued operation	303	340	(11)	66,779	1,282	Nm
Taxation expense	62	60	3.3	(528)	(623)	(15.2)
Profit from discontinued operation, net of tax	365	400	(8.9)	66,251	659	Nm

FY16 Revenue Overview

S\$m



FY16 Group Revenue

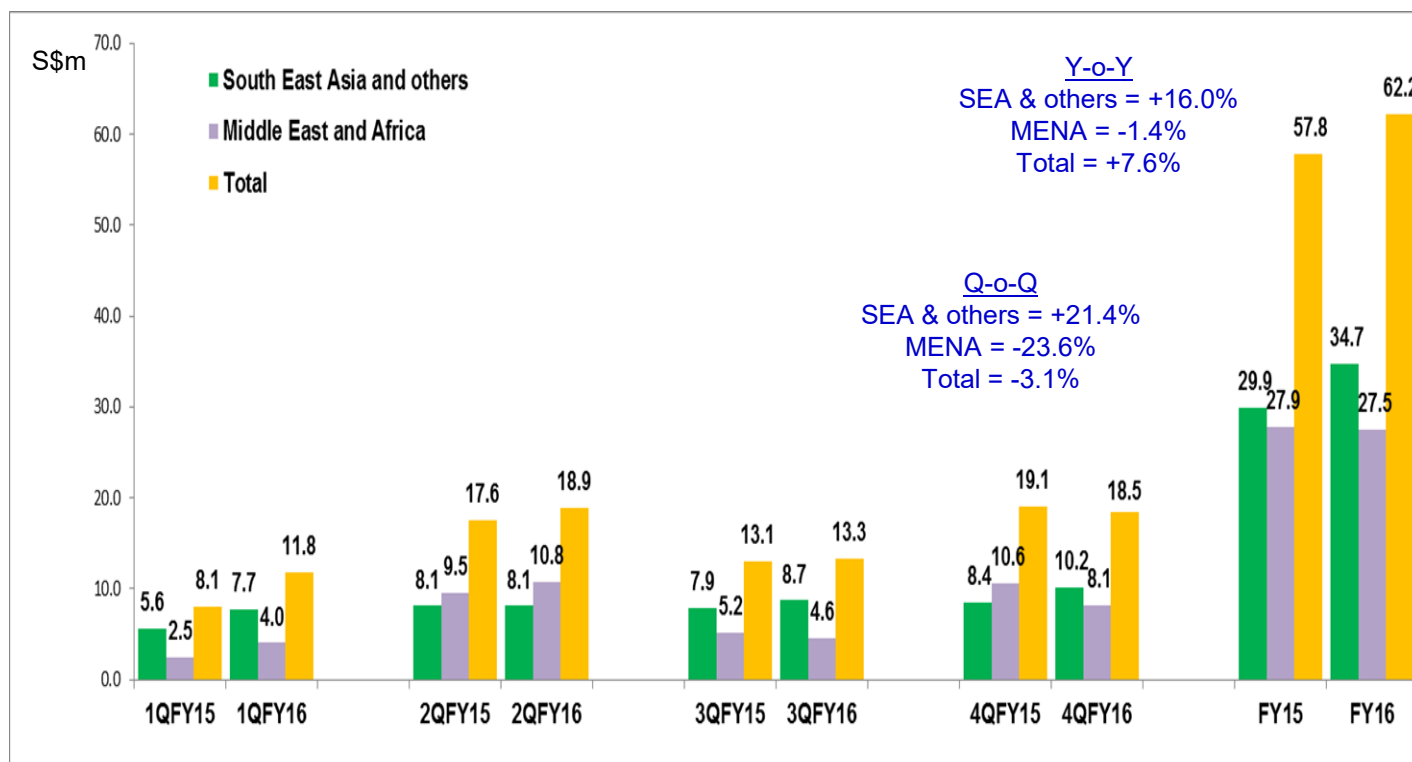
Q4 FY16 vs Q4 FY15

- Revenue in Q4 2016 increased by 25.9% (\$10.2 million) from \$39.4 million to \$49.6 million.
 - ❖ Telecom - decreased slightly by 4% (\$0.8 million) from \$19.1 million to \$18.3 million.
 - ❖ Network Infrastructure - improved by 54.0% (\$11.0 million) from \$20.3 million to \$31.3 million.

FY16 vs FY15

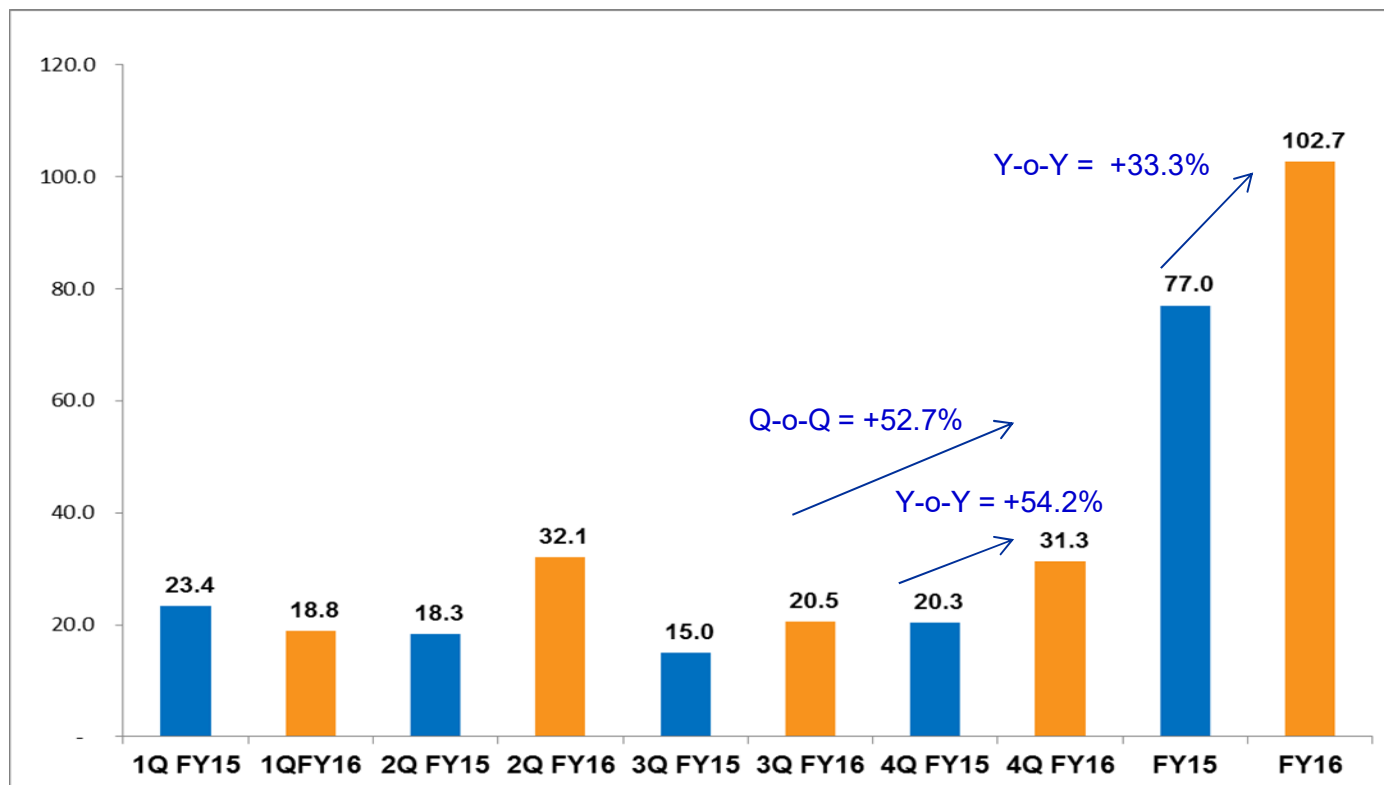
- Revenue increased by 22.3% (\$19.9 million) from \$134.8 million to \$164.9 million.
 - ❖ Telecom - increased by 7.6% (\$4.4 million) from \$57.8 million to \$62.2 million.
 - ❖ Network Infrastructure - increased by 33.3% (\$25.7 million) YOY from \$77.0 million to \$102.7 million.

FY16 Revenue – Telecom Segment ('WIN')



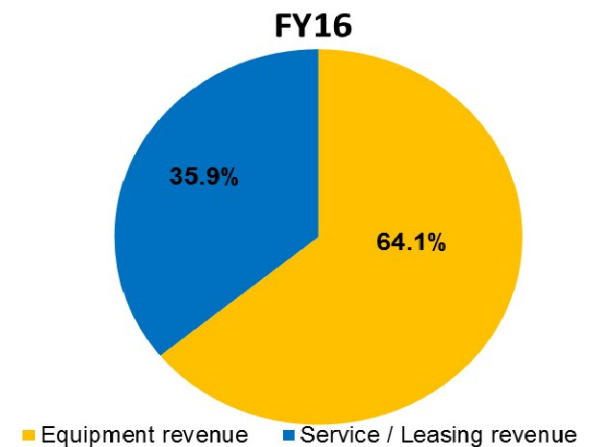
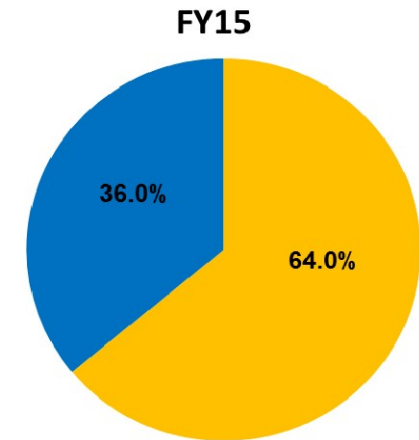
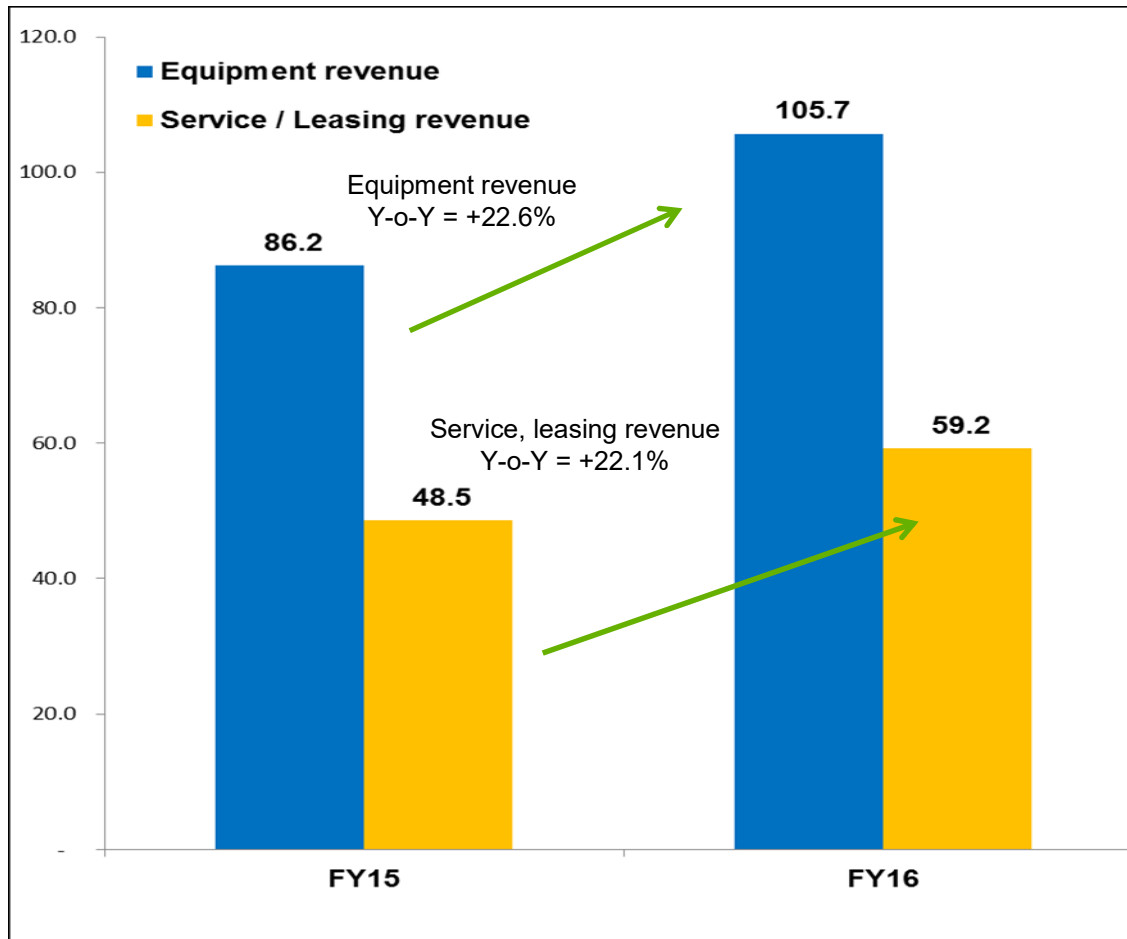
- In Q4 2016, WIN segment revenue from SEA & others region increased 21.4% Q-o-Q and 16.0% Y-o-Y.
- In Q4 2016, WIN segment revenue from Middle East and Africa region declined both Q-o-Q and Y-o-Y at 23.6% and 1.4% respectively.
- Overall, total WIN segment revenue increased 7.6% Y-o-Y in FY 2016 from \$57.8m to \$62.2m, due to higher sales in both regions.

FY16 Revenue – Network Infrastructure ('NI')



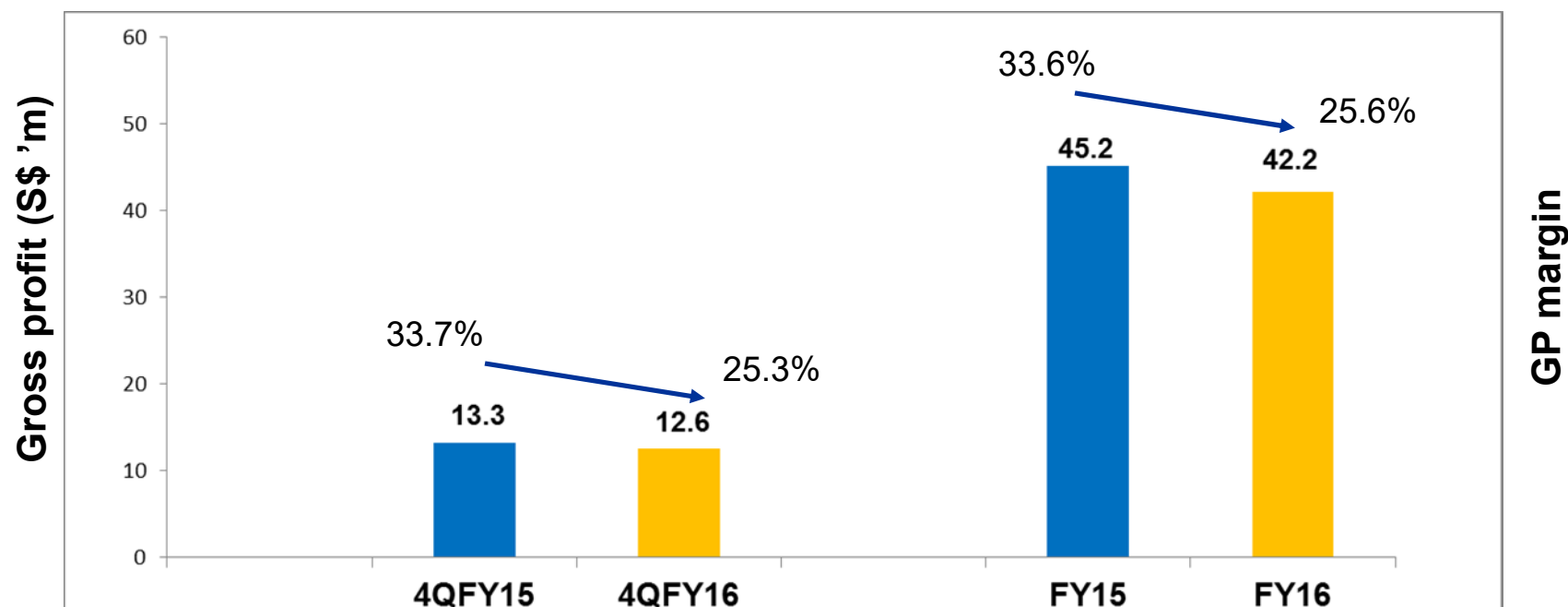
- Q4 2016 revenue contribution from NI segment increased Q-o-Q by 52.7% but increased Y-o-Y by 54.2%.
- The higher revenue for Q4 2016 Y-o-Y was mainly due to higher sales of network equipment to the Service Provider market.
- For FY 2016, turnover increased 33.3% Y-o-Y from \$77.0 million to \$102.7 million, with higher sales of network equipment to the Service Provider market.

FY16 Revenue – Breakdown By Nature



- Revenue contribution from service and leasing revenue increased 22.1% Y-o-Y for FY16.
- Revenue contribution from equipment sales increased 22.6% Y-o-Y for FY16.

FY16 Gross Profit, GP Margin



- On a YOY comparison, gross profit for Q4 2016 declined by 5.3% from \$13.3 million to \$12.6 million. Compared to FY 2015, gross profit for FY 2016 also declined by 6.6% from \$45.2 million to \$42.2 million.
- The gross profit margin declined from 33.7% to 25.3% for the quarter, and from 33.6% to 25.6% for FY 2016.

FY16 Other Operating Income & Operating Expenses

Other operating income

- The increase in other operating income was largely contributed by income generated from services rendered to Ingenico to facilitate a smooth transition after the divestiture of Payment Solutions business, and wages credit scheme payment received from government in Q4 2016.

Distribution and Selling expenses

- The increase in distribution and selling expenses by 17.0% (\$1.0 million) YOY for the quarter was mainly due to higher payroll related costs resulting from higher incentive provision with higher gross profit booked in Q4 2016, and partially offset by writebacks of provision for doubtful debts during Q4 2016.
- The increase in distribution and selling expenses YOY for FY 2016 by 10.6% (\$2.2 million) was mainly due to higher payroll related costs and provision made for doubtful debts in FY 2016 as compared to FY 2015.

Administrative expenses

- The increase in administrative expenses by 166.4% (\$3.4 million) YOY for the quarter was mainly contributed by the booking of the former CEO's remuneration for the remaining service period with the company, higher incentive provision in-line with higher gross profit, and the booking of dispute claims from former employees.

FY16 Other Operating Income & Operating Expenses

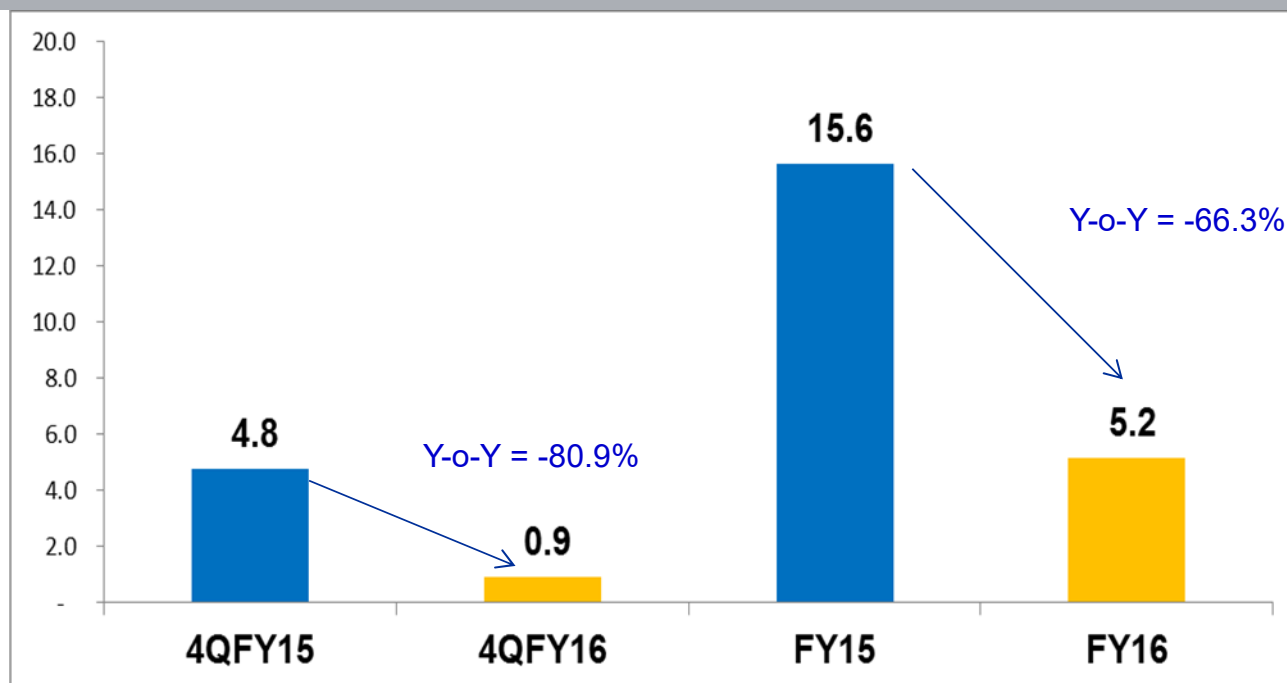
Administrative expenses

- The increase in administrative expenses YOY for FY 2016 by 38.9% (\$3.2 million) was mainly due to the booking of the former CEO's remuneration for the remaining service period with the company and the booking of dispute claims from former employees.

Other operating expenses

- Lower other operating expenses was contributed by Nigerian Naira appreciating against US dollar by approximately 3% during Q4 2016, thus resulting in an unrealised exchange gain, as compared to a depreciation of Nigerian Naira against US dollar by approximately 1% during Q4 2015.
- On the other hand, higher other operating expenses by \$3.0 million YOY for FY 2016 was mainly due to foreign exchange losses, out of which 40% was contributed by the devaluation of Nigerian Naira against US dollar.

FY16 Profit Before Tax



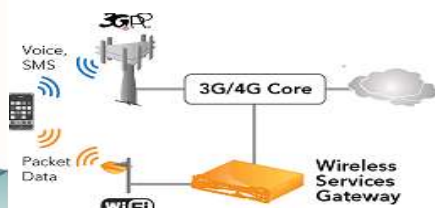
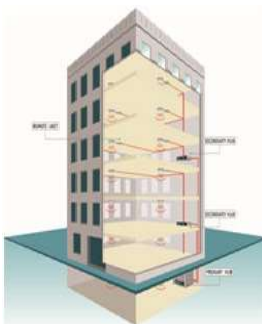
- The group registered a profit before tax of \$0.9 million for Q4 2016, a decline of 80.9% YOY for the quarter. The decline was mainly due to lower gross profit and higher operating expenses.
- For FY 2016, the group profit before tax decreased by 66.3% (\$10.3 million) from \$15.6 million to \$5.2 million. The decline was mainly due to lower gross profit, higher operating expenses and higher exchange loss.
- Group PBT for FY 2016 would have been higher by \$7.4 million if one off exceptional items were excluded and writebacks were of the same level as FY 2015.

Financial Position As At 31/12/2016

- Borrowings
 - Total borrowings at year-end 2016 was \$9.6m as compared to \$16.3m at year-end 2015. A reduction of \$6.7m in year 2016.
- Warranty provision at year-end 2016 was \$2.2m as compared to \$2.5m in year-end 2015.
- Cash position at year-end 2016 was \$22.9m as compared to year end 2015 of \$20.8m.
 - Net cashflow from operating activities for FY 2016 was \$6.5 million, a 7.3% decrease as compared to FY 2015. Positive cashflow of \$5.8 million was generated for the quarter.
 - There was an increase in net cashflow from investing activities due to cashflow of \$69.9 million received from the sale of the PS business. The bulk of the proceeds were used to repay bank loans and distributed as dividend to shareholders, thus resulting in a decrease of net cashflow from financing activities of \$68.2 million.



Nera Telecommunications - Overall



- The Group's business comprises two main business segments, namely Telecommunications and Info-communications.

Infocomm Network Infrastructure



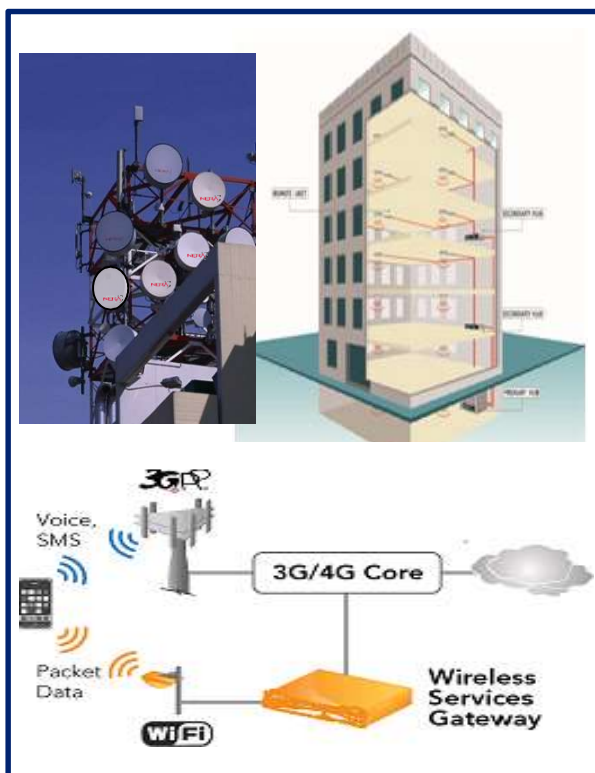
IP Networks

Optical Networks

Broadcast Networks

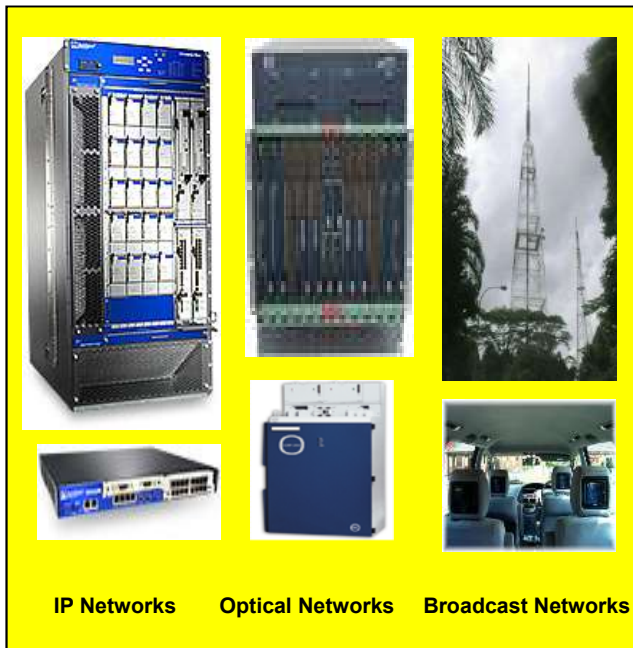
- In year 2016, the Group secured approximately \$220.4 million in order in-take, an increase of 6.5% compared to the corresponding period in 2015 of \$207.0 million.

BA : Wireless Infrastructure Networks (“WIN”)



- In FY 2016, the Group's Telecom business segment secured approximately \$75.0 million in order in-take, a decline of 2.1% compared to \$76.6 million in FY 2015 mainly due to keener competitions in the Middle East and African market. The decline in order in-take in the Middle East and African markets is partially offset by stronger order in-take in the Asia Pacific markets.
- Mobile Operators will continue to invest in expanding their mobile network infrastructure to provide higher capacity, better coverages and capabilities to support their customers' demand for mobility and broadband services as well as to comply with regulatory standards.
- Competition in the mobile industry will remain intense as operators are aggressively driving for lower capex and opex spending while they try to deliver their services to their customer base.
- The Group will continue to provide a comprehensive wireless infrastructure network, comprising of point-to-point and point-to-multi-point radio transmission systems, mobile coverage solutions (in-building and outdoor coverage solutions), wifi 3G data offload and network performances and management to non-mobile markets such as the Defence, Broadcast and Utilities customers.

BA : Network Infrastructure (“NI”)



- In FY 2016, the Group's Network Infrastructure business area managed to secure approximately \$110.1 million in order in-take, an increase of 37.2% compared to \$80.2 million in FY 2015.
- The Group believes that its Service Provider, Enterprise, and Government, Transport and Utilities customers will continue to invest in upgrading their ICT network infrastructure because of the rapid growth of internet traffic, increases in security threats as well as to meet regulatory compliances.
- Competition in the network equipment market remains intense and fragmented with both local resellers, distributors and system integrators, as well as global equipment vendors competing to increase their market share.
- The Group will focus on providing various end-to-end network infrastructure solutions to differentiate our offerings with respect to the competitions in the market. The Group will also continue to invest in Security, Cloud and Data center products and solutions while we continue to drive our business in the domains of IP, Optical and Broadcast.

FY16 Order In-take Summary

