

NERA TELECOMMUNICATIONS LTD

ANALYSTS' BRIEFING

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Content

- Result analysis :
 - 3Q FY16 vs 2Q FY16
 - 3Q FY16 vs 3Q FY15
 - YTD 3QFY16 vs YTD 3Q FY15
- Outlook



Financial performance summary



Nera Telecommunications Ltd

	Note	Group			Group		
		3rd Quarter			Period ended 30 September		
		2016	2015	Increase/ (Decrease)	2016	2015	Increase/ (Decrease)
		S\$'000	S\$'000	%	S\$'000	S\$'000	%
Continuing operations							
Turnover		33,793	28,068	20.4	115,293	95,402	20.8
Cost of sales		(27,435)	(19,082)	43.8	(85,620)	(63,433)	35.0
Gross profit		6,358	8,986	(29.2)	29,673	31,969	(7.2)
Other operating income		362	474	(23.6)	599	386	55.2
Distribution and selling expenses		(6,078)	(5,327)	14.1	(16,465)	(15,216)	8.2
Administrative expenses		(1,729)	(1,883)	(8.2)	(6,105)	(6,258)	(2.4)
Other operating expenses		(664)	(29)	2,189.7	(2,974)	155	N.M.
(Loss) / Profit from continuing operations		(1,751)	2,221	N.M.	4,728	11,036	(57.2)
Financial expenses		8	(185)	N.M.	(436)	(354)	23.2
Financial income		23	18	27.8	31	32	(3.1)
(Loss) / Profit before taxation from continuing operations		(1,720)	2,054	N.M.	4,323	10,714	(59.7)
Taxation expense		402	(455)	N.M.	(1,367)	(1,965)	(30.4)
(Loss) / Profit from continuing operations, net of tax		(1,318)	1,599	N.M.	2,956	8,749	(66.2)
Discontinued operation							
Profit from discontinued operation, net of tax		66,192	407	16,163	65,886	259	25,339
Net profit for the financial period		64,874	2,006	3,134.0	68,842	9,008	664.2
Other comprehensive income / (expense) :							
Items that may be reclassified subsequently to profit or loss :							
Foreign currency translation of financial statements of foreign operations		718	(1,624)	N.M.	2,024	(2,604)	N.M.
Total comprehensive income for the period		65,592	382	17,071	70,866	6,404	1,006.6

Financial performance summary

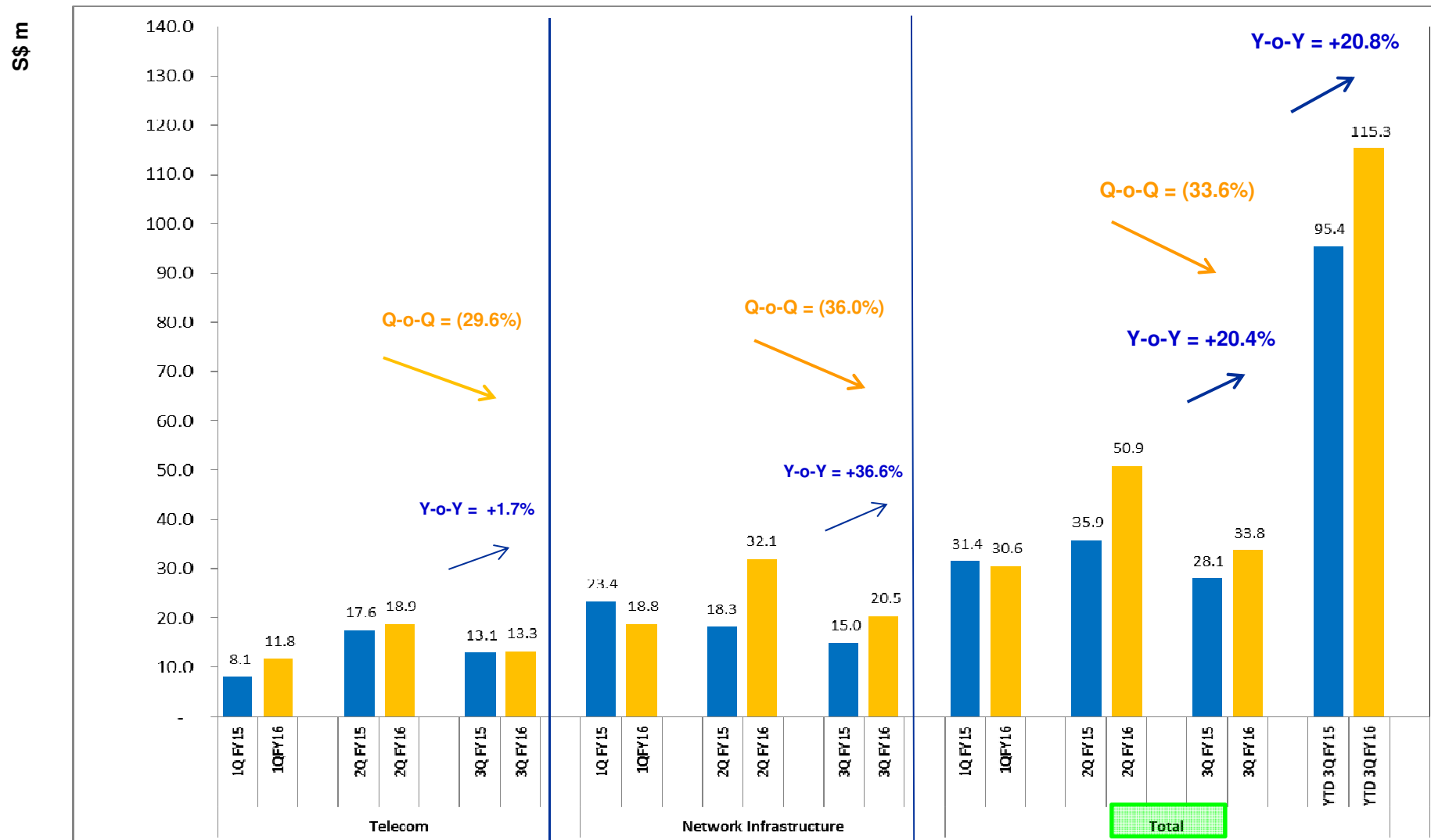


Nera Telecommunications Ltd

Discontinued Operation

	Group			Group		
	3rd Quarter			Period ended 30 September		
	2016	2015	Increase/ (Decrease)	2016	2015	Increase/ (Decrease)
	S\$'000	S\$'000	%	S\$'000	S\$'000	%
Turnover	15,555	11,529	34.9	28,471	34,715	(18.0)
Cost of sales	(12,817)	(7,756)	65.3	(20,945)	(23,943)	(12.5)
Gross profit	2,738	3,773	(27.4)	7,526	10,772	(30.1)
Other operating income	219	-	N.M.	436	130	235.4
Operating expenses	(2,350)	(3,227)	(27.2)	(7,406)	(9,886)	(25.1)
Net financial expenses	(250)	(21)	1,090.5	(251)	(74)	239.2
Profit from discontinued operation	357	525	(32.0)	305	942	(67.6)
Gain on disposal of subsidiaries	66,171	-	N.M.	66,171	-	N.M.
Profit before taxation from discontinued operation	66,528	525	12,572	66,476	942	6,957
Taxation expense	(336)	(118)	184.7	(590)	(683)	(13.6)
Profit from discontinued operation, net of tax	66,192	407	16,163	65,886	259	25,339

Revenue overview



Revenue – Overall group

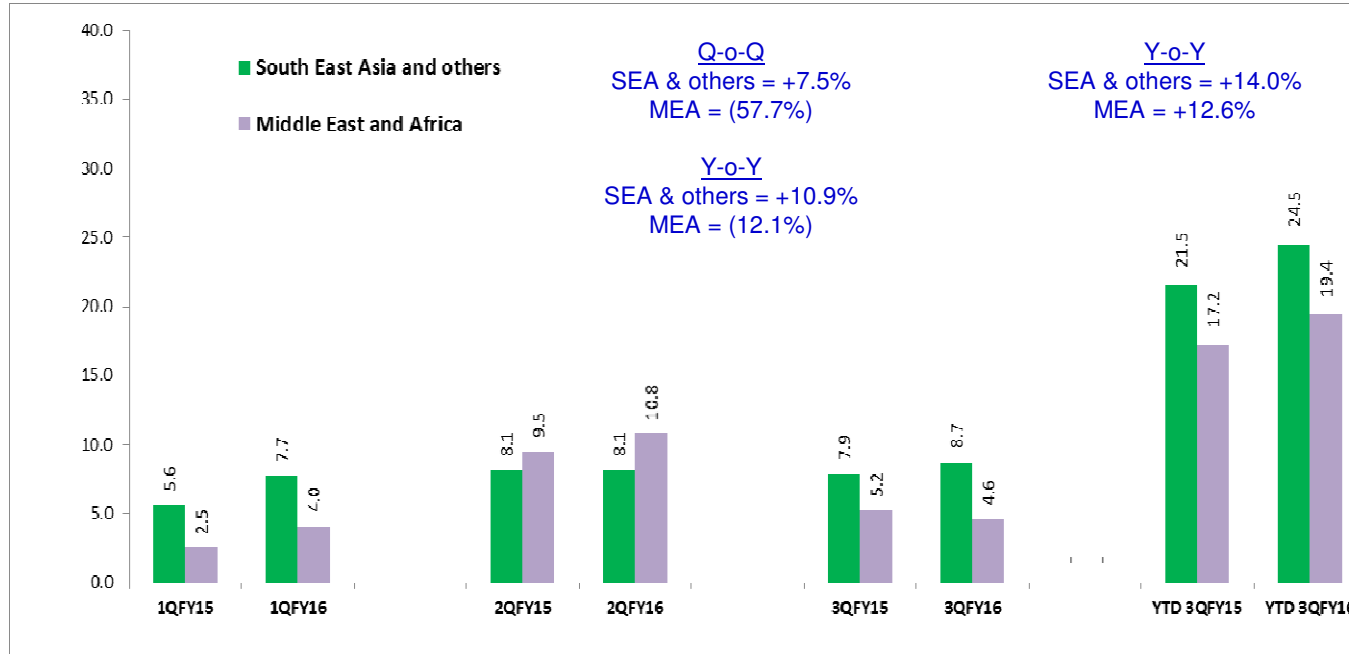
3Q FY16

- Revenue in 3Q FY16 increased 20.4% (\$5.7m) y-o-y from \$28.1m to \$33.8m
 - Telecom - increased 1.7% (\$0.2m) y-o-y from \$13.1m to \$13.3m
 - Network Infrastructure - increased 36.6% (\$5.5m) y-o-y from \$15.0m to \$20.5m

9 Months FY16

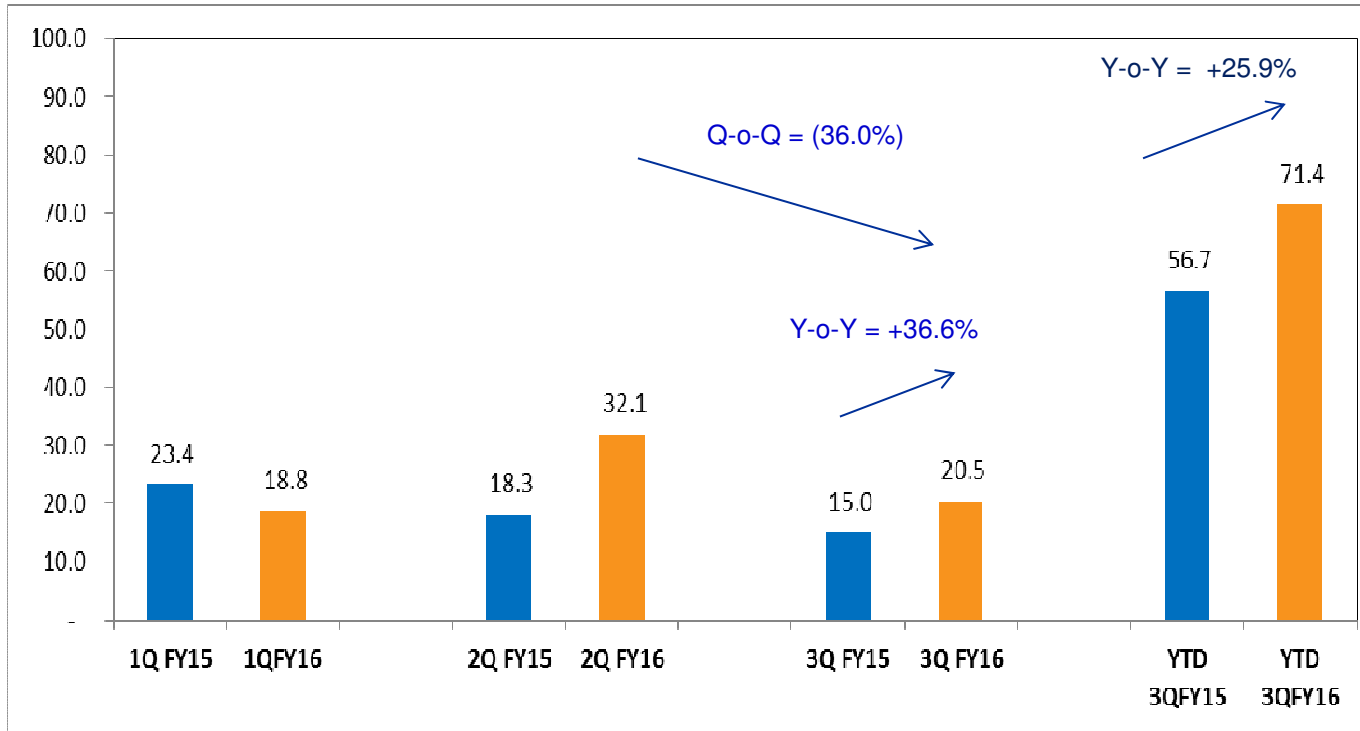
- Revenue in 9M FY16 increased 20.8% (\$19.9m) y-o-y from \$95.4m to \$115.3m
 - Telecom - increased 13.4% (\$5.2m) y-o-y from \$38.7m to \$43.9m
 - Network Infrastructure - increased 25.9% (\$14.7m) y-o-y from \$56.7m to \$71.4m

Revenue – Telecom segment



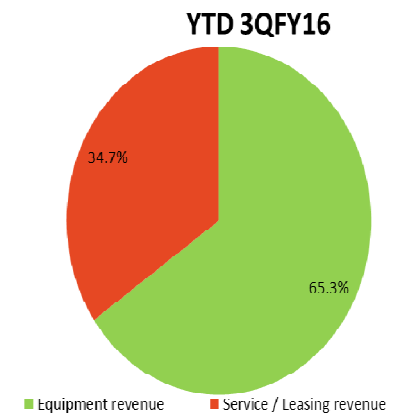
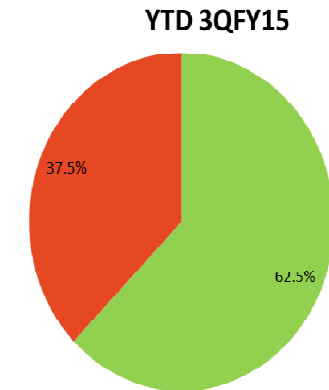
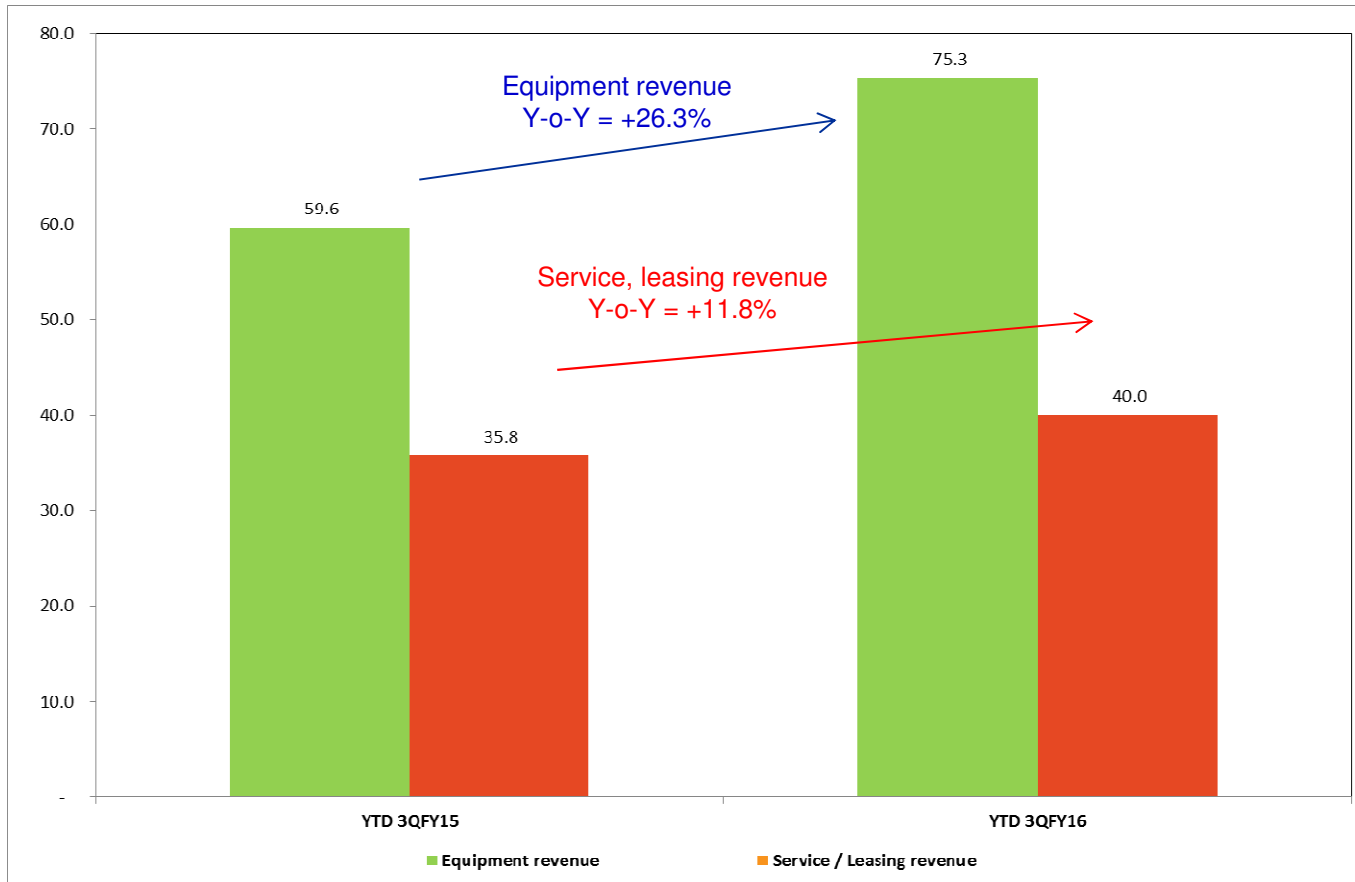
- In 3Q FY16, Telecom segment revenue from SEA & others region increased 7.5% Q-o-Q and 10.9% for Y-o-Y.
- In 3Q FY16, Telecom segment revenue from Middle East and Africa region declined both Q-o-Q and Y-o-Y at 57.7% and 12.1% respectively.
- Overall, total Telecom segment revenue increased 13.4% Y-o-Y in for 9 months FY16 from S\$38.7m to S\$43.9m, due to higher sales in both regions.

Revenue – Network Infrastructure



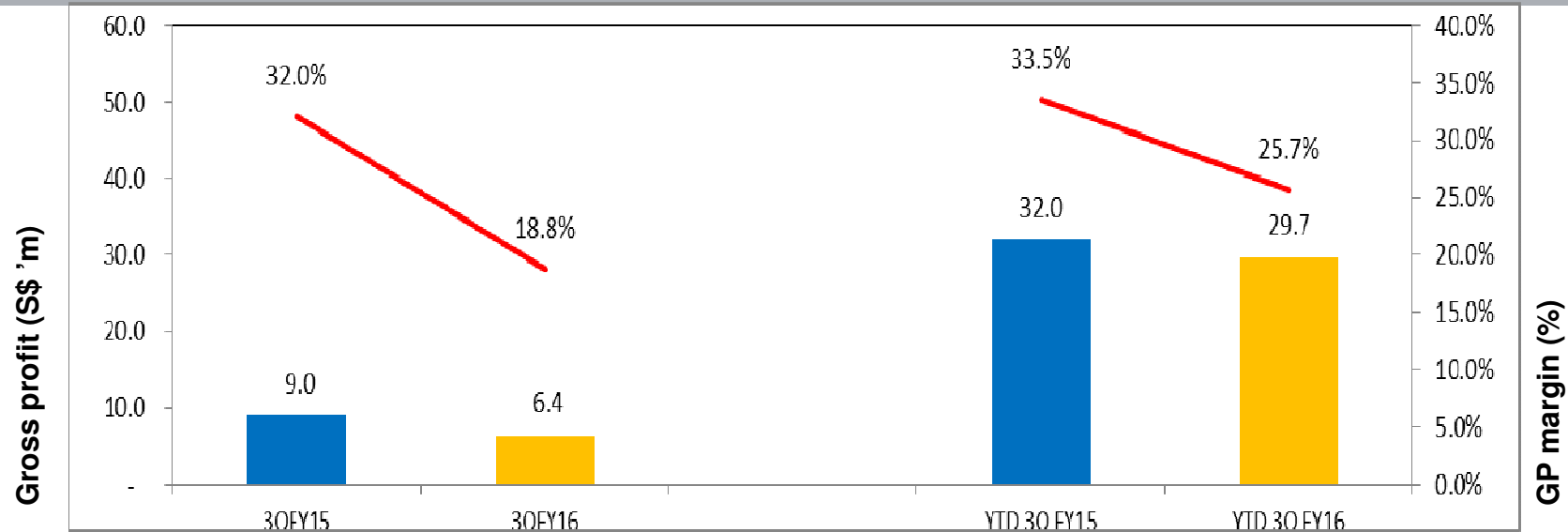
- 3Q FY16 revenue contribution from Network Infrastructure segment declined Q-o-Q by 36.0% but increased Y-o-Y by 36.6%.
- The higher revenue for 3Q FY16 Y-o-Y was mainly due to higher sales of network equipment to the Service Provider market.
- For 9 months 2016, turnover increased 25.9% Y-o-Y from \$56.7 million to \$71.4 million, with higher sales of network equipment to the Service Provider market.

Revenue – Breakdown by nature



- Revenue contribution from service and leasing revenue increased 11.8% Y-o-Y for 9 months FY16.
- Revenue contribution from equipment sales increased 26.3% Y-o-Y for 9 months FY16.

Gross Profit, GP Margin



- On a YOY comparison, gross profit for Q3 2016 declined 29.2% from \$9.0 million to \$6.4 million. Compared to nine months of 2015, gross profit for nine months of 2016 also declined by 7.2% from \$32.0 million to \$29.7 million.
- the continued devaluation of Nigerian Naira against the US dollar. During Q3 2016, Nigerian Naira depreciated by a further 13% compared to the end of Q2 2016, resulting in a total depreciation of 59% from the start of devaluation on 20 June 2016. This resulted in a loss of \$1.2 million for a project in Nigeria as the equipment costs denominated in US dollar were higher in Nigerian Naira as a result of the devaluation, as compared to a profit of \$0.3 million if the Nigerian Naira had not depreciated in value. Excluding this loss resulting from the Nigeria Naira devaluation, the gross profit would have been \$7.8 million (23.2%) for the quarter and \$31.2 million (27.0%) for nine months of 2016.
- There were also higher equipment sales and lower writeback from project closures for nine months of 2016

Other income, Operating Expenses

Distribution and Selling expenses

- Distribution and selling expenses increased 14.1% (\$0.7 million) YOY for the quarter and 8.2% (\$1.2 million) for nine months of 2016. The increase was mainly due to higher payroll related costs and provision made for doubtful debts.

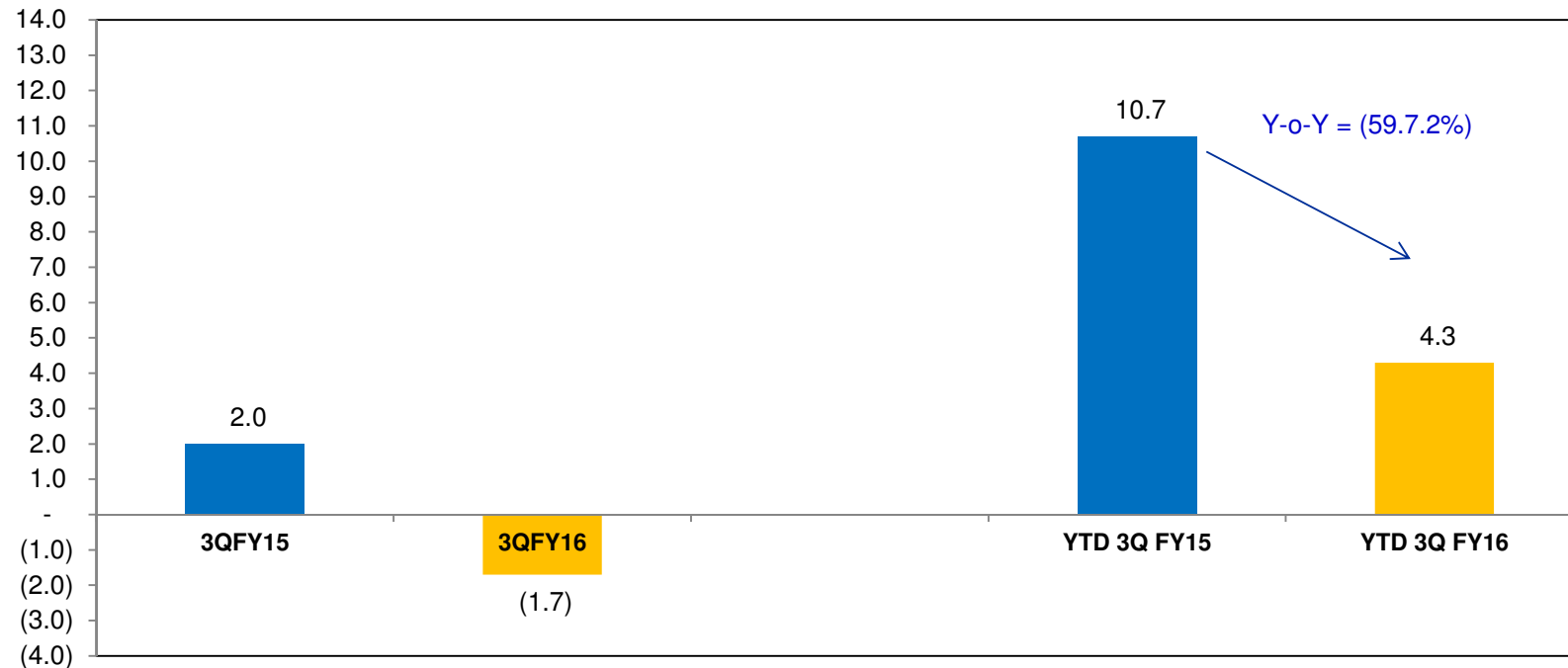
Administrative expenses

- Administrative expenses declined by 8.2% (\$0.1 million) YOY for the quarter and 2.4% (\$0.1 million) YOY for nine months of 2016 mainly due to lower payroll and related costs.

Other expenses

- The increase in other operating expenses for Q3 2016 and nine months of 2016 was mainly due to higher exchange loss.
- During Q3 2016, Nigerian Naira depreciated by a further 13% compared to the end of Q2 2016, resulting in a total depreciation of 59% from the start of devaluation on 20 June 2016. As a result of revaluation of US dollar payables to Nigerian Naira, the Group recorded an unrealised exchange loss of \$0.3 million for the quarter and \$1.5 million for nine months of 2016.
- The rest of the exchange loss was mainly due to weakening of the Philippine Peso against US dollar in the third quarter and the weakening of the US dollar against the Singapore dollar.

Profit before tax



- The Group registered a loss before tax of \$1.7 million for Q3 2016 and a decline of 59.7% YOY for nine months of 2016. The decline was mainly due to lower gross profit and higher exchange loss as explained above.
- If the effect of the devaluation of Nigerian Naira was excluded from the gross profit (\$1.5 million for the quarter and year-to-date) and the foreign exchange loss (\$0.3 million for the quarter and \$1.5 million for year-to-date), the Group would have been profitable for the quarter and registered a profit before taxation of \$7.3 million for nine months of 2016.

- **Borrowings**

As of 30 Sep 2016, long term and short term loans were \$10.1m and \$2.5m respectively.

- **Warranty provision, approximately \$2.3m**

- **Cash position of \$74.1m as of 30 September 2016**

For Q3 2016, the net cashflow from operating activities was negative \$5.1 million due to the high working capital requirement. For first nine months of 2016, the Group generated positive cashflow from operating activities of \$0.7 million.

There was a significant increase in net cashflows from investing activities due to the receipt of the net proceeds from the sale of the PS business. Part of the proceeds were used to repay bank loans



Nera Telecommunications - Overall

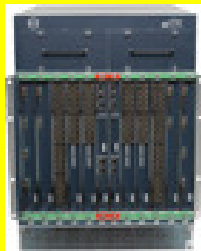


- The Group's business comprises two main business segments, namely Telecommunications and Info-communications.

Infocomm Network Infrastructure



IP Networks



Optical Networks

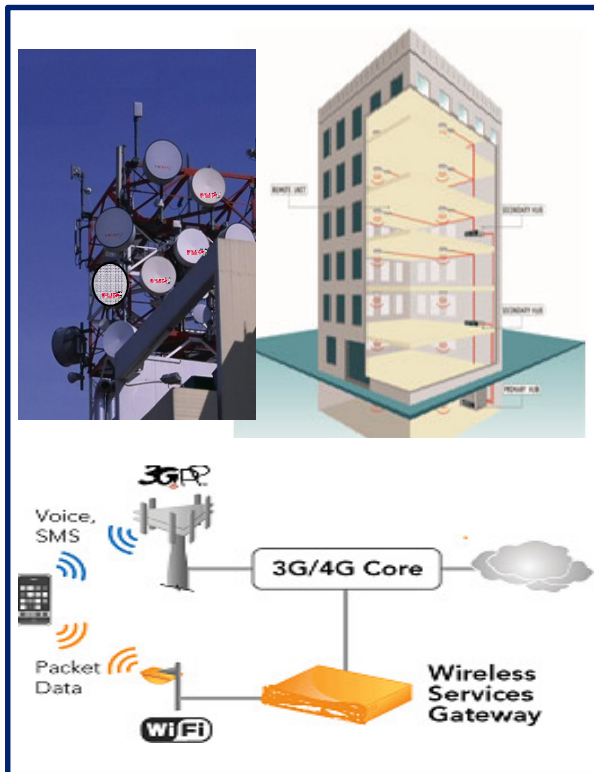


Broadcast Networks



- In the first nine months of 2016, the Group secured approximately \$136.6 million in order in-take, an increase of 8.9% compared to the corresponding period in 2015 of \$125.4 million.

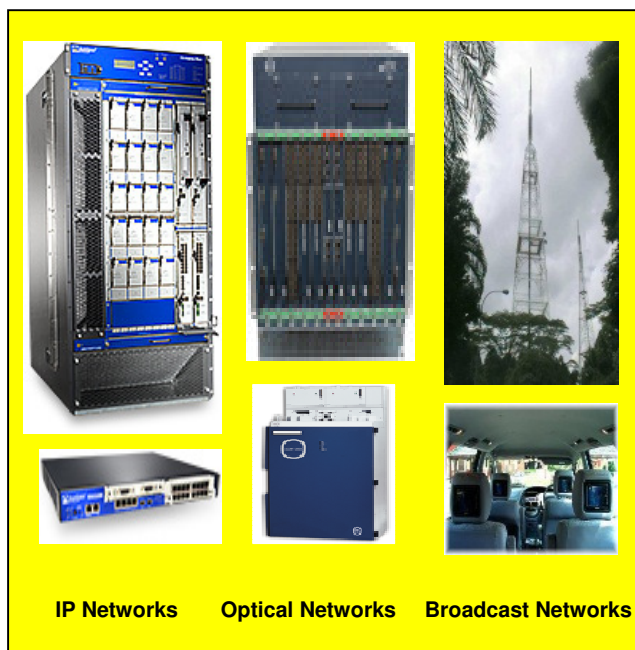
BA : Wireless Infrastructure Networks (“WIN”)



- In the first nine months of 2016, the Group’s Telecom business segment secured approximately \$51.9 million in order in-take, a decline of 19.1% compared to \$64.2 million in the corresponding period in 2015
- Competition in the wireless infrastructure network market remains intense as operators continue to demand for lower capex and opex costs
- The Group believes that Mobile Operators will continue to invest in their mobile network infrastructure in terms of increasing capacity, expanding their coverage and adding new capabilities to meet consumer demand for mobility and broadband services.
- The Group will continue to provide a comprehensive wireless infrastructure network, comprising point-to-point radios, point-to-multi-point radios, mobile coverage solutions (in-building and outdoor coverage solutions), wifi 3G data offload and network performances and management solutions to meet the demands of our customers.

INFOCOMM

BA : Network Infrastructure



- In the first nine months of 2016, the Group's Network Infrastructure business area secured approximately \$84.6 million in order in-take, a significant increase of 38.2% compared to \$61.2 million in the corresponding period in 2015.
- Competition in the network infrastructure business remains high in all business verticals, namely Service Providers, Enterprises and Government, Transport and Utilities.
- The Group believes that its Service Provider, Enterprise, and Government, Transport and Utilities customers will, however, continue to invest in upgrading their ICT network infrastructure because of the rapid growth of internet traffic as well as increases in security threats.
- In order to differentiate ourselves better from the competition, the Group will focus on offering a more comprehensive range of Network infrastructure solutions to our customers. The Group will continue to invest in Security and Cloud and Data center products and solutions while we continue to drive our business in the domains of IP, Optical and Broadcast.

Order in-take summary



Nera Telecommunications Ltd

