

NERA TELECOMMUNICATIONS LTD

(Co. Reg. No. 197802690R)

UNAUDITED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE FIRST QUARTER ENDED 31 MARCH 2018

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a) An income statement and statement of comprehensive income or a statement of comprehensive income for the group together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group First Quarter		
	2018 S\$'000	2017 S\$'000	Increase/ (Decrease) %
Turnover	41,603	44,109	(5.7)
Cost of sales	(30,975)	(32,784)	(5.5)
Gross profit	10,628	11,325	(6.2)
Gross margin %	25.5%	25.7%	(0.2) pt
Other operating income	98	379	(74.1)
Distribution and selling expenses	(5,091)	(5,128)	(0.7)
Administrative expenses	(2,056)	(2,147)	(4.2)
Other operating expenses	(1,309)	(841)	55.6
Profit from operating activities	2,270	3,588	(36.7)
Financial income	36	46	(21.7)
Financial expenses	(69)	(70)	(1.4)
Profit before tax	2,237	3,564	(37.2)
% of revenue	5.4%	8.1%	(2.7) pt
Tax	(500)	(705)	(29.1)
Profit after tax	1,737	2,859	(39.2)
% of revenue	4.2%	6.5%	(2.3) pt
Other comprehensive income / (expense):			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation of financial statements of foreign operations	761	(299)	nm
Items that may not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit obligation	(8)	(80)	(90.0)
	753	(379)	nm
Total comprehensive income for the period	2,490	2,480	0.4

nm: not meaningful

		Group First Quarter		
		2018 S\$'000	2017 S\$'000	Increase / (Decrease) %
Profit for the period is arrived after crediting / (charging) the following:				
Over provision of tax in respect of prior years		74	–	nm
Amortisation of intangible asset		(16)	(16)	0.0
Depreciation of property, plant and equipment	(1)	(153)	(197)	(22.3)
Foreign exchange loss	(2)	(1,293)	(749)	72.6
Interest expense		(69)	(70)	(1.4)
Interest income	(3)	36	46	(21.7)
Net writeback for doubtful debts	(4)	25	2	nm
Net provision for warranty		(153)	(243)	(37.0)

nm: not meaningful

Notes :

- (1) Decrease in depreciation of property, plant and equipment was due to certain assets being fully depreciated.
- (2) Foreign exchange loss in Q1 2018 was mainly due to devaluation of USD against the SGD and EUR, thus resulting in an unrealised exchange loss upon revaluation of USD receivables to SGD and EUR. In addition, there was also foreign exchange loss arising from revaluation of USD payables due to the strengthening of the USD against Philippine Peso.
- (3) Decrease in interest income was mainly due to absence of interest income from escrow account which was released in Q2 2017.
- (4) Increase in writeback for doubtful debts was due to doubtful debts recovered.

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

Balance sheet as at	Group		Company	
	31/03/2018 S\$'000	31/12/2017 S\$'000	31/03/2018 S\$'000	31/12/2017 S\$'000
Non-current assets				
Property, plant and equipment	1,245	1,376	392	457
Intangible asset	822	838	822	838
Investment in subsidiaries	–	–	4,668	4,668
Long term trade receivables	737	784	698	762
Deferred tax assets	2,690	2,618	1,024	1,024
	5,494	5,616	7,604	7,749
Current assets				
Stocks	53	61	–	–
Contract assets	38,575	36,921	19,609	17,860
Trade receivables	82,153	87,778	23,200	22,633
Other receivables, deposits and prepayments	4,829	6,213	473	683
Amounts due from subsidiaries				
- trade	–	–	17,635	16,522
- non-trade	–	–	5,091	8,523
Fixed deposits	3,626	1,249	2,519	–
Cash and bank balances	25,791	19,450	8,778	7,103
	155,027	151,672	77,305	73,324
Current liabilities				
Trade payables	53,857	53,063	21,132	18,590
Other payables and accruals	18,244	16,663	11,014	8,519
Amounts due to subsidiaries (trade)	–	–	–	7
Short term borrowings	10,168	11,300	8,390	11,300
Provision for taxation	3,042	3,363	1,673	1,618
Provision for warranty	2,656	2,660	1,368	1,410
	87,967	87,049	43,577	41,444
Net current assets	67,060	64,623	33,728	31,880
Non-current liabilities				
Defined benefit obligation	407	422	–	–
	407	422	–	–
Net assets	72,147	69,817	41,332	39,629
Equity attributable to the equity holders of the Company				
Share capital	29,909	29,909	29,909	29,909
Revenue reserve	45,456	43,879	11,423	9,720
Translation reserve	(3,406)	(4,167)	–	–
Other reserve	188	196	–	–
	72,147	69,817	41,332	39,629

1(b)(ii) Aggregate amount of group's borrowings and debt securities

Amount repayable in one year or less, or on demand

As at 31/03/2018		As at 31/12/2017	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
–	10,168	–	11,300

Amount repayable after one year

As at 31/03/2018		As at 31/12/2017	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
–	–	–	–

Details of any collateral

Nil.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group First Quarter	
	2018 S\$'000	2017 S\$'000
Cash flows from operating activities		
Profit before tax	2,237	3,564
<u>Adjustments for :</u>		
Amortisation of intangible assets	16	16
Depreciation of property, plant and equipment	153	197
Interest expense	69	70
Interest income	(36)	(46)
Net writeback for doubtful debts	(25)	(2)
Net provision for warranty	153	243
Pension income	(8)	(80)
Operating profit before working capital changes	2,559	3,962
(Increase) / Decrease in :		
Stocks	8	(30)
Contract assets	(1,654)	4,582
Trade receivables	5,553	(9,848)
Other receivables, deposits and prepayments	1,482	579
(Decrease) / Increase in :		
Trade payables	794	(3,265)
Other payables and accruals	1,581	644
Provision for warranty	(157)	(81)
Effect of exchange rate changes	852	129
Cash flows from operations	11,018	(3,328)
Income taxes paid	(1,014)	(83)
Interest paid	(68)	(70)
Net cash flows from / (used in) operating activities	9,936	(3,481)
Cash flows from investing activities		
Purchase of property, plant and equipment	(41)	(43)
Interest received	21	7
(Increase) / Decrease of deposit pledged	(4)	4
Net cash flows used in investing activities	(24)	(32)
Cash flows from financing activities		
Proceeds from bank loans	7,888	473
Repayment of bank loans	(9,020)	(312)
Net cash flows (used in) / from financing activities	(1,132)	161
Net increase / (decrease) in cash and cash equivalents	8,780	(3,352)
Effect of exchange rate changes on cash and bank balances	(66)	(340)
Cash and cash equivalents at beginning of the year	20,570	22,751
Cash and cash equivalents at end of the period	29,284	19,059
Cash and cash equivalents comprise :		
Cash and bank balances	25,791	19,059
Fixed deposits	3,626	130
Deposits pledged	(133)	(130)
	29,284	19,059

- 1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.**

For First Quarter ended 31 March	Share Capital S\$'000	Revenue Reserve S\$'000	Translation Reserve S\$'000	Other Reserve S\$'000	Total S\$'000
Group					
Balance as at 1.1.2018 (as previously stated)	29,909	43,879	(4,167)	196	69,817
Effect of adoption of SFRS (I) 9	–	(160)	–	–	(160)
Balance as at 1.1.2018 (as restated)	29,909	43,719	(4,167)	196	69,657
Total comprehensive income for the period	–	1,737	761	(8)	2,490
Balance as at 31.03.2018	29,909	45,456	(3,406)	188	72,147
Balance as at 01.1.2017	29,909	40,767	(4,620)	224	66,280
Total comprehensive income for the period	–	2,859	(299)	(80)	2,480
Balance as at 31.03.2017	29,909	43,626	(4,919)	144	68,760
Company					
Balance as at 1.1.2018	29,909	9,720	–	–	39,629
Total comprehensive income for the period	–	1,703	–	–	1,703
Balance as at 31.03.2018	29,909	11,423	–	–	41,332
Balance as at 01.1.2017	29,909	10,877	–	–	40,786
Total comprehensive income for the period	–	2,222	–	–	2,222
Balance as at 31.03.2017	29,909	13,099	–	–	43,008

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year**

There has been no change in the Company's share capital since 31 December 2017. As at 31 March 2018, there was no share options granted (31 March 2017 : Nil). There was also no treasury share in issue as at the end of the current financial period (31 March 2017 : Nil).

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding financial year.**

The total number of issued shares excluding treasury shares as at the end of the current financial period was 361,897,000 shares (31 December 2017 : 361,897,000).

- (1)(d)(iv) A statement showing all sales, transfers, disposal, cancellation and / or use of treasury shares as at the end of the current financial period reported on.**

Not applicable.

- 2. Whether the figures have been audited, or reviewed and in accordance with which standard or practice [e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard].**

The figures have not been audited nor reviewed by the Company's auditor.

3. **Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter).**

Not applicable.

4. **Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group has consistently applied the same accounting policies and methods of computation in the financial statements for the current reporting period as in the latest audited annual financial statements for the financial year ended 31 December 2017, except for the adoption of Singapore Financial Reporting Framework (International) ("SFRS(I)"), a new financial reporting framework identical to the International Financial Reporting Standards.

The Group adopted SFRS(I) on 1 January 2018, including improvements to SFRS(I) and Interpretations of SFRS(I) that are mandatory for financial years beginning on or after 1 January 2018, and in the first quarter ended 31 March 2018, where applicable.

The Group expects that the adoptions of the SFRS(I) will have no material impact on the financial statements in the year of initial application.

The adoption of these new / revised standards and interpretations applicable for the financial year beginning 1 January 2018 did not result in significant change to the Group's accounting policies and did not have a material impact on the Group's results.

5. **If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Please refer to item 4 above.

6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	Group First Quarter	
	2018	2017
Earnings per Ordinary Share from continuing operations attributable to shareholders for the period :		
(i) Basic (cents)	0.48	0.79
(ii) Fully diluted (cents)	0.48	0.79
Weighted average number of shares for the period :		
(i) Basic ('000)	361,897	361,897
(ii) Fully diluted ('000)	361,897	361,897

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current financial period reported on and (b) immediately preceding financial year.**

	Group		Company	
	31/03/2018	31/12/2017	31/03/2018	31/12/2017
Net asset value per ordinary share based on issued share capital at the end of the financial period/year (in cents) :	19.94	19.29	11.42	10.95

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Consolidated Statement of Comprehensive Income

Continuing operations

(a) Turnover

On a year-on-year ("YOY") basis, the Group's turnover for Q1 2018 decreased by 5.7% (\$2.5 million) to \$41.6 million in Q1 2018 from \$44.1 million in Q1 2017. Both the Network Infrastructure and Wireless Infrastructure Network business segments reported lower turnover. The decrease in turnover was largely due to the delay in project completion.

Network Infrastructure ("NI")

On a YOY basis, turnover for Q1 2018 decreased by 7.2% (\$2.2 million) to \$28.3 million from \$30.5 million, mainly due to lower turnover booked from Service Provider markets in Singapore and Philippines and partially offset by higher turnover in Myanmar, Australia and Pakistan.

Wireless Infrastructure Network ("WIN")

On a YOY basis, turnover for Q1 2018 decreased by 2.2% (\$0.3 million) to \$13.3 million from \$13.6 million, mainly due to lower turnover in the Middle East and Africa markets.

(b) Gross Profit

On a YOY basis, gross profit for Q1 2018 decreased by 6.2% to \$10.6 million from \$11.3 million mainly due to lower turnover. The gross profit margin decreased marginally from 25.7% in Q1 2017 to 25.5% in Q1 2018.

(c) Other operating income

On a YOY basis, other operating income for Q1 2018 decreased by 74.1% (\$0.3 million) to \$0.1 million from \$0.4 million. Higher other operating income in Q1 2017 was largely due to income generated from services rendered to Ingenico to facilitate a smooth transition after the divestiture of the Payment Solutions business.

(d) Operating Expenses

On a YOY basis, total operating expenses increased by 4.2% (\$0.3 million) to \$8.4 million from \$8.1 million were mainly due to increase in other operating expenses.

Distribution and selling expenses decreased by 0.7% (\$0.1 million) mainly due to increase in writeback for doubtful debts arising from doubtful debts recovered.

Administrative expenses decreased by 4.2% (0.1 million) mainly due to lower payroll-related costs.

Other operating expenses increased by 55.6% (\$0.5 million) mainly due to higher foreign exchange loss from the devaluation of USD against the SGD and EUR, thus resulting in an unrealised exchange loss upon revaluation of USD receivables to SGD and EUR. In addition, there was also foreign exchange loss arising from revaluation of USD payables due to the strengthening of the USD against Philippine Peso.

(e) Profit before tax ("PBT")

The Group registered a profit before tax of \$2.2 million for Q1 2018, a decrease of 37.2% YOY, mainly due to lower gross profit and higher other operating expenses as explained in (b) and (d) above. PBT as a percentage of turnover ("**PBT %**") for Q1 2018 was lower at 5.4% compared to 8.1% in Q1 2017.

(f) Tax

On a YOY basis, tax expenses decreased by 29.1% (\$0.2 million) in Q1 2018. Tax expense was lower in Q1 2018 mainly due to lower taxable profits.

Statement of Financial Position

(g) Current assets

The Group's current assets increased by \$3.4 million mainly due to higher contract assets and higher cash and balances. These were partially offset by lower trade and other receivables.

(h) Current liabilities

The Group's current liabilities increased by \$0.9 million mainly due to higher trade payables and other payables, partially offset by repayment of short term bank borrowings.

(k) Cash flow

For Q1 2018, the increase in cash and cash equivalents of \$8.8 million was mainly due to positive cash flow from operating activities of \$9.9 million as a result of positive change in working capital from lower receivables and higher payables. These were partially offset by net repayment of bank loans of \$1.0 million.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

In Q1 2018, the Group secured approximately \$50.7 million in order in-take, a decline of 13.6% (\$8.1 million) compared to \$58.7 million in Q1 2017 due mainly to lower orders from both the Wireless Infrastructure Network and Network Infrastructure business segments that was partly caused by delays in award of tenders.

The Group maintains a long-term view to ensure sustainable growth in business, and will continue to capitalise on growth opportunities through the vertical extension of its value chain. It also seeks to encourage existing customers to engage the Group for services and maintenance contracts that offer healthy margins and to strengthen its recurring income streams.

Network Infrastructure (“NI”)

In Q1 2018, the Group’s NI business segment secured approximately \$36.3 million in order in-take, an 11.7% decrease compared to \$41.1 million in Q1 2017 due mainly to lower order in-take from the Service Provider markets.

Network Security and Digitisation will continue to be the key drivers for growth. The Group will therefore continue to develop its capabilities in these domains in order to address our customers’ needs. The Group had in February 2018 announced \$3.2 million worth of new strategic contracts for the NI segment, one from a repeat tier-one customer in Singapore and the other marking the Group’s first-ever contract with a key telco in Malaysia.

The Group will also continue to strengthen offerings in other business domains such as data centre/cloud, software define networking where it has observed an increase in demand from its client base.

Wireless Infrastructure Network (“WIN”)

In Q1 2018, the Group’s Wireless Infrastructure Network business segment secured order in-take of approximately \$14.4 million, a decline of 18.2% compared to \$17.6 million in Q1 2017 due mainly to delays in the award of some key projects in EMEA.

The Group believes that demand for Wireless Infrastructure Networks will continue to be driven by Mobile Operators expanding their network capabilities in order to meet increasing digital needs from end users.

The Group will continue to provide a comprehensive suite of end-to-end wireless solutions – comprising microwave radios, mobile coverage solutions, network performances and management solutions – to capitalise on the digitisation wave.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

None.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommendeded, a statement to that effect.

No dividend has been declared or recommended for the financial period.

13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

There is no IPT mandate obtained.

14. Negative assurance confirmation on interim financial results under Rule 705(5) of the SGX-ST.

To the best of our knowledge, nothing has come to the attention of the Board of Directors which may render the first quarter financial statements for the period ended 31 March 2018, to be false or misleading in any material respect.

On behalf of the Board

Wong Su-Yen
Chairman

Beck Tong Hong
Director

15. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).

The Company has procured the revised undertakings from all directors and from executive officers in the format set out in Appendix 7.7 under Rule 720(1).

BY ORDER OF THE BOARD

Tan Wee Sin
Company Secretary

10 May 2018