

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS' SUBSIDIARIES

BOARD OF DIRECTORS ACTIVITIES REPORT

FOR THE PERIOD ENDED 30 JUNE 2016

Trade Registration Number: 94955/403045

Headquarters

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ORGANIZATION AND OPERATIONS OF THE GROUP

Netaş Telekomünikasyon A.Ş. and its' subsidiaries (The "Group") is an incorporated company, registered in İstanbul. The Group is engaged in the manufacture and trade of telecommunication equipment, project installation services, technical support, repair and maintenance services, IT services, strategic outsourcing services, implementation activities, and integration services. The shares of the Company are quoted on the Borsa İstanbul. The headquarters address has been registered as Yenişehir Mah. Osmanlı Bulvarı No:11 34912 Kurtköy-Pendik/İstanbul at İstanbul Trade Registry Office as of 23 July 2013.

The related to joint ventures and association of the Company is as follows:

- **Probil**

From industrial solutions to business solutions and from systems integration and outsourcing to care and maintenance services, network solutions and consultancy, Probil has been providing a wide range of services in international markets since 1989. Global competition is constantly increasing. Companies now begin to operate on a service- and customer oriented basis rather than simply focusing on products. This mandates companies to closely follow and use IT technologies more effectively. The Company has 100% shares of Probil.

- **BDH**

BDH offers brand-independent consultancy, strategic outsourcing, hardware and support services in the IT sector to a wide range of customers including small-scaled companies and larger enterprises and public institutions. With a service team of experienced and certified professionals specializing in different areas of IT, BDH provides with 36 branches and 46 partners to its customers throughout Turkey.

Centers located in İstanbul, Ankara, İzmir, Bursa and Samsun offer hardware support for all kinds of IT products including servers, storage units, handheld devices, printers and more. The Company has indirectly 100% shares of BDH.

- **Netaş Telecom LLP**

Founded in Almaty, Kazakhstan, in 2012, Netaş Telecom LLP operates in line with Netaş's vision "To Become the Regional Systems Integrator". Netaş Telecom LLP is fully owned by the Company.

- **Netaş Telecommunication Malta**

"Netaş Telecommunications Malta Ltd" with an initial capital of only 1,200 Euros, this fully-owned subsidiary was established in Malta on 4 November 2014 for the purpose of improving operational effectiveness. Netaş Telecommunication Malta is fully owned by the Company.

- **Kron**

Kron Telekomünikasyon Hizmetleri A.Ş. produces software solutions for national and regional telecoms operators and service providers. The Company acquired the company's Group A shares in 2013 in line with its strategic growth goal and for the purpose of offering innovative solutions to its customers. Having strengthened its systems integration capabilities by acquiring Kron, the Company now provides a wider range of end to-end solutions to its customers in Turkey and the region. The Company has 10% shares of Kron.

The Group helps companies and institutions increase their productivity by providing service providers and institutions with end-to-end value added solutions, systems integration services and technology services in national and international markets through innovative and creative information technologies solutions.

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ORGANIZATION AND OPERATIONS OF THE GROUP (cont'd)

The Group provides its customers with new generation solutions in various areas such as network, security, unified communications, virtualization, cloud computing, broadband access, defense technologies, optic and carrier Ethernet, GSM-R, IT integration, strategic outsourcing and original software development.

The Group also plays an important role in the modernization of the defense communications network needed by the Turkish Armed Forces. As the lead systems integrator of Turkey, the Group carries out our activities with the power of our R&D department, which has strong insight about new generation technologies.

The Group acts upon the vision of working under global standards and becoming the number one systems integrators of Turkey and the region. The Group conducts strategic partnerships with global technology giants in order to help its customers closely follow developments in the information technologies business and to more effectively use technology. The Group's strategic partners include some of the best in class companies such as Cisco, Microsoft, Avaya, HP, Oracle, Genband, Kapsch and Wesley Clover. In addition to being the lead software exporter, the Group also develops software solutions for more than 200 global operators.

The Group provides services to more than 1.500 customers from the leading global telecom operators, to international companies in the enterprise market, leading banks and insurance companies, public institutions, including ministries and universities, energy and health businesses, defense and other industries. The Group is always investing in technology and innovation and delivers large integration projects. The Group offers solutions to institutions particularly in Asia-Pacific countries, Commonwealth of Independent States and North Africa.

SHAREHOLDER STRUCTURE

Shareholder structure of the Company as of 30 June 2016 and 31 December 2015 is as follows:

	Share %	Share %	Share Amount TL	Share Amount TL
	30 June 2016	31 December 2015	30 June 2016	31 December 2015
OEP (*)	48,04	48,04	31.162.570	31.162.570
TSKGV (**)	15,00	15,00	9.729.720	9.729.720
Public	36,96	36,96	23.972.510	23.972.510
Total	100,00	100,00	64.864.800	64.864.800

(*) OEP Turkey Tech B.V.

(**) Turkish Armed Forces Foundation

As of 30 June 2016, total shares of OEP Turkey Tech B.V. in the Company is 48,04 % including 23.351.328 A-type and 7.811.242 B-type.

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BOARD OF DIRECTORS

The Members of Board of Directors as of 30 June 2016 are as follows:

Chairperson:	David Arthur Walsh
Vice-Chairperson:	M. Cumhuri Özdemir
Member:	Joseph Patrick Huffsmith
Member:	Memet Yazıcı
Member:	Andrew Glover Dunn
Member:	Alpaslan Korkmaz (Independent)
Member:	Emre Şehsuvaroğlu (Independent)

THE GROUP'S MANAGEMENT:

C. Müjdat Altay	Chief Executive Officer
M. İlker Çalışkan	Chief Financial Officer
Yasemin Akad	Chief People Officer
Selcan Taşkıran	Chief Marketing Officer
Kamil Orman	General Manager -Defense Sytems and Public Sales
Ali İhsan Kuralkan	General Manager -International Sales
M.Ali Tombalak	General Manager -Enterprise Sales
Bilgehan Çataloğlu	General Manager-BDH
Gönül Kamalı	Research and Development Leader-Carrier Networking
Ömer Aydın	Research and Development Leader-Defense Systems
Öner Tekin	Research and Development Leader-Information Technology

VISION, CORE VALUES, QUALITY POLICY

Vision

Becoming Turkey's and Region's number 1 systems integrator working as per global standards.

Core Values

- Customers are our driving force.
- People are our strength.
- Quality is in every aspect.
- Innovation fuels our future.
- Accountability and integrity underpin everything.

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VISION, CORE VALUES, QUALITY POLICY (Cont'd)

Quality Policy

To constantly improve and ensure the sustainability of the Group's data-based quality management system established in compliance with international standards and aimed at achieving "Excellence" in order to create maximum value for its customers in line with the Group vision.

It is the responsibility of all Group employees to achieve "Excellence" through constant improvement.

R&D PROJECTS

The Group operates with the support of R&D Center that employs more than 750 people, who have a deep insight on new generation technologies. Having acquired the "R&D Center" status in 2008 pursuant to Law 5746 on Supporting Research and Development Activities, the Group has been given many awards and has become the lead software exporter 4 times in the last 8 years in line with the "National Goal of Making Turkey a Regional Center for Medium and High Technology and Creating a Global Brand from Turkey".

Netaş, the oldest and the biggest private telecom R&D of Turkey, has been chosen the most successful R&D center for 2012,2013 and 2014 in the performance evaluation of Science, Industry and Technology Ministry between the ongoing R&D centers for at least 2 years.

Netas "The Best R&D Employment" awards by the ministry of Science, Industry and Technology, in 2014, because of importance given to the quality of employment and in period this purpose as a result of the activities.

Knowing the importance of a strong R&D Center, we focus on the following 6 key topics for the purpose of expanding and strengthening the scope of the R&D ecosystem:

- Innovation and New Products
- International Relations and Cooperation
- Academic Relations and Cooperation
- Number of Patents, National and International Statements and Publications
- Training Qualified Personnel
- Cooperating with Technology Entrepreneurs

The Group switched to a faster and more effective business model in 2014 in order to make better use of R&D and innovation. This model is based on the "Business Unit" model, which is innovative, proactive and capable of meeting the needs of the future. Research and Development has turned into a business unit under the name of "Technology and Innovation Directorate" and the Company CEO Mr. Müjdat Altay has assumed the role of General Manager of the unit.

The most important goal of the Technology and Innovation Directorate is making innovation a corporate culture and enriching their product portfolio by adding high-technology value added products that would compete globally. For this purpose, the Group has organized various innovation events such as "Focus Innovation/Hackathon" and carried out activities under the "New Product Process".

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R&D PROJECTS (Cont'd)

The Group focuses on innovative and creative solutions in national and international markets in order to provide service providers and enterprises with network, unified communications, virtualization, cloud computing, cyber, defense technologies, public security, broadband mobile access, optic and carrier Ethernet, GSM-R, systems integration and technology services. The Group has provided more than 200 global operators with the software solutions that the Group developed in their own R&D laboratories. These solutions have helped the Group reaches a software export figure of USD 400 million in the last 10 years.

Implemented innovative new products like the first 4G LTE Advanced Base Station design in Turkey, products for 4G infrastructure (RCS, AAA, DRA/DRS), one soft switch for 5G network (MEC), and VoIP cyber security product family (NOVA Cyber Security Solutions) projects with certain “path-breaking” capabilities. Netaş also planned for other projects to become the market.

Our R&D project portfolio includes 11 ongoing, 29 newly started, 38 planned and 24 completed big-sized projects for the operating cycle.

The Group has been strengthening and continuing the R&D relations established with multinational companies such as Genband, Kapsch, Ciena and Microsoft and developing products that would interoperate with the products of global giants such as Cisco and Avaya.

The Company uses the “open innovation” approach and aims to strengthen its relations with universities with the purpose of gaining a competitive edge and producing projects that compete globally.

In addition to its own R&D Center, our Group is also open to external ideas. Instead of using their own resources in everything, the Group prefers reaching the source of ideas, information and experience, making cooperation a win-win situation.

Another activity for supporting technology entrepreneurship is to support young entrepreneurs in developing value added projects and encourage them to establish their technology companies by using the internationally-acknowledged original business model of the Netaş Wesley Clover Technology Fund. We have been successfully implementing these activities. The Netaş Wesley Clover Technology Fund receives the strong and continuous support of both the Group and Wesley Clover in terms of technology and consultancy.

The fund consists of four companies with the fifth being established. Three of these companies operate with four people and one with three people. These companies operate in the fields of IoT (Internet of Things), crowd sourcing, cloud-based form design for mobile field components, mobile software for collecting feedback from end users for quality improvement purposes and “venue management and indoor navigation”.

With the purpose of offering value added innovative products globally, the Group uses patents and brand protections measures in order to protect their working or planned ideas and strengthens our corporate value by adding ideas that are not directly related to their business We use patents and brand protection measures in order to protect intellectual property of our innovative ideas. The number of our patent applications was 32 in the year 2013, increased to 35 in the year 2014, and to 71 (68 domestic and 3 international applications) in 2015.

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GOVERNMENT GRANTS

The Group is qualified for the incentives and exemptions provided by Support of Research and Development Act, numbered 5746 effective from 24 November 2008. As of 30 June 2016, the Group has a corporate tax benefit of 131 million TL, this amount has not been used as of 30 June 2016 and handed over to other terms (As of 31 December 2015, the benefit arising from 2015 was 162 million TL, of which 68 million TL was utilised).

For the period ended 30 June 2016, the amount of income tax incentive within the scope of Act numbered 5746 is 6 million TL (For the period ended 30 June 2015: 5 million TL) and the total amount of social premium incentive within the scope of Act numbered 5746 and Social Security and General Health Insurance Act numbered 5510 is 5 million TL (For the period ended 30 June 2015: 4 million TL).

For the period ended 30 June 2016 the Group has received approved and accrued incentive from TÜBİTAK is 11 million TL, 10 million TL is net off with Research and Development Expenses and the rest amount is classified under "Other Income from Operating Activities.(For the period ended 30 June 2015: 4 million TL accrued incentive received, 3 million TL is accounted under "Other Income From Operating Activities" ,the rest amount is net off with "Research and Development Expenses").

DONATIONS MADE DURING THE PERIOD

The Group does not have any donations for the interim period ended 30 June 2016.

REMUNERATION PROVIDED FOR BOARD OF DIRECTORS

Total remuneration provided for the board of directors for the period ended 30 June 2016 is 0,3 million TL.(It was 0,3 million TL for the period ended 30 June 2015 for the board of auditors and board of auditors of the Group).

RENUMERATION PROVIDED FOR TOP MANAGEMENT

For the period ended 30 June 2016 and 2015, total remuneration provided for the Group Executive Management is 6 million TL and 6 million TL, consecutively.

No loans were extended to board of directors and board of auditors as of 30 June 2016 and 2015. The Group pays Executive Management bonuses and premiums on top of their salaries.

FINANCIAL PERFORMANCE

a) Orders

Orders booked for the interim period ended 30 June 2016 is 334 million TL (For the interim period ended 30 June 2015:580 million TL). Orders on hand as at 30 June 2016 is 572 million TL (31 December 2015: 652 million TL).

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FINANCIAL PERFORMANCE (Cont'd)

b) Income Statement Analysis

The Group's total revenue increased from 336 million TL to 453 million TL compared to last year's same interim period, which implies 35% year over year growth. At the first half of 2016, export increased from 64 million TL to 73 million TL compared to last year's same interim period, which implies 14% growth year over year.

Gross profit increased from 31 million TL to 52 million TL compared to interim period ended 30 June 2016 and 2015, which implies 65% growth year over year. At the same period, the Group's gross margin is 11 % which increased 200 bps (For the interim period ended 30 June 2015: 9%). The new service strategy which means more value added services and increase weight of such services in total solution portfolio drives 200 bps gross margin improvement year over year basis.

TL-based EBITDA profitability has increased by 173% and reached to TL 29 million TL.

	1st Half 2016	1st Half 2015	Change %
Revenue	453	336	35%
Cost of sales	(401)	(305)	32%
Gross profit	52	31	65%
<i>Gross margin%</i>	<i>11%</i>	<i>9%</i>	<i>200bps</i>
Sales and marketing expenses	(25)	(22)	13%
General administrative expenses	(10)	(11)	-2%
Research and development expenses	0	(1)	-100%
Incentives	1	3	-70%
EBIT	18	1	1513%
<i>EBIT margin %</i>	<i>4%</i>	<i>0%</i>	<i>400bps</i>
Depreciation	11	9	18%
EBITDA	29	10	173%
<i>EBITDA margin %</i>	<i>6%</i>	<i>3%</i>	<i>300bps</i>

EBIT = Gross Margin - Sales and Marketing 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.

Operating Expenses= Sales and Marketing Expenses + General and Administrative Expenses + Research and Development Expenses- R&D Incentives

EBITDA= EBIT + Depreciation

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FINANCIAL PERFORMANCE (Cont'd)

c) Balance Sheet Analysis

Net working capital requirement of the Group is 515 million TL as of 30 June 2016. Net working capital of the Group increased by 73 million TL due to financing big projects compared to 31 December 2015 (31 December 2015:442 million TL).

The Group does not make a provision against the pre-filing receivables of 49 million TL from Nortel Group companies because it is not able to estimate the recoverability due to uncertainties as of the balance sheet date note 7.

d) Cash Flow Analysis

	1st Half 2016	1st Half 2015	Change %
Net profit for the period	4	3	18%
Adjustments to net profit for the period	42	9	362%
Change in net working capital	(73)	29	-348%
Taxes paid	-	(2)	-100%
Payment for employee premiums, unused vacation accruals, retirement benefits	(21)	(14)	44%
Cash flow from operating activities	(48)	25	-292%
Cash flow from investing activities	(4)	(5)	-12%
Cash flow from financing activities	(14)	69	-120%
Effects of exchange rate changes on cash and cash equivalents	6	6	7%
Net (decrease) /increase in cash and cash equivalents	(60)	95	-163%
Cash and cash equivalents at the beginning of the period	226	84	168%
Cash and cash equivalents at the end of the period	166	179	-7%

No dividend payment is made during the reporting period.

e) Investor Information

Information on the share

Registration date: 03.03.1967

Number of shares: 6.486.400 shares between 01.01.2012-06.08.2012;
64.864.000 shares between 06.08.2012-31.12.2012

Initial public offering date: 15.03.1993

Percentage of publicly open shares: 36,96%

The Company shares are traded at XU100 index since the beginning of the fiscal year 2014.

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FINANCIAL PERFORMANCE (Cont'd)

Earnings per share

Earnings per share is 0,0565 TL for the interim period ended 30 June 2016 and the profit per share is 0,0478 TL for the same interim period of 2015.

Submission of no dividend distribution decision of Board of Directors on 9 March 2016 approved by the General Assembly of the Company.

The closing share price in Istanbul Stock Exchange was 8,51 TL as of 30 June 2016. (31 December 2015: 11,15 TL) The market capitalization of the Company is 552 million TL as of 30 June 2016 (31 December 2015:723 million TL).

RISK MANAGEMENT

a) Credit risk

The Group's credit risk is primarily dependent upon its trade receivables and exposures to the banks. The amounts presented in the balance sheet are net of allowances for doubtful receivables, (except for the amounts due from Nortel companies prior to 14 January 2009, where the Group has not made a provision against the pre-filing receivables from Nortel as the Group is not able to estimate the recoverability due to uncertainties as of the balance sheet date - see note 7 in the Financial Statements) estimated by the Group's management based on prior experience and the current economic environment.

Doubtful receivables are 3 % of the total receivables of the Group. The management of the Group does not foresee any other uncertainty on the receivables.

The Group assigns credit limits to its customer and exposures to the customers do not exceed these limits. The Group has significant exposures to the banks. The Group also assigns credit limits to the banks. Treasury and Control department monitors and controls exposures to the banks in order to ensure that the exposures are within the assigned limits.

b) Liquidity risk

The Group maintains its cash position in liquid assets and significant amount of liquid assets are kept in USD as USD has significant impact on the Group's operation. The Group is aiming to hold adequate resources to be able to fulfill its current and future liabilities.

c) Foreign currency risk

The Group's foreign currency risk is mainly associated with changes in the value of USD against TL and other currencies. In order to avoid possible losses due to fluctuations of foreign exchange rates, the Group places its assets with the same currency for liabilities.

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FINANCIAL PERFORMANCE (Cont'd)

d) Interest rate risk

Interest rate-sensitive financial assets are placed in short term instruments in order to avoid any possible interest rate fluctuations. Interest rate-sensitive liabilities constitute 41% of the total liabilities.

2016 OUTLOOK

Forecasted revenue in terms of TL will remain flat year over year and EBITDA margin will improve approximately at 100 basis point. Also group is planning cash generation in its actions.