2017
ANNUAL REPORT

50 years

NETAS

CONTENT

INTRODUCTION FROM BOARD OF DIRECTORS

INTRODUCTION FROM BOARD OF DIRECTORS

Dear Shareholders,

With a proud history of 50 years full of success, within the past year Netas hosted one of the largest foreign investments in the Turkish technology market in the recent years. As one of the largest global producers of IT solutions (ZTE Cooperatief U.A.), we acquired 48.04 percent of Netas shares from OEP Turkey Tech B.V, a portfolio company managed by One Equity Partners.
Thanks to this investment that we made into Netas and the Turkish communications and information technologies market in line with our long-term strategic perspective, our first priority, as ZTE, is to support the healthy growth of Netas.

Concerning this share acquisition, as the global patent leader in its own field, ZTE invested in Turkish talents, the ability of Turkey to develop technology and to the high performance of Netas management, increasing the company value by nine-fold between 2009 and 2017.
In partnership with ZTE, Netas has obtained the opportunity to leverage its highly qualified human resources, corporate culture, agile structure and ability to adapt to change, this time with increased support added by the power of ZTE.

The fact that Netas is Turkey's number one system integrator, exposure of its technological capabilities to international markets and the resulting growth performance it achieved will be taken even further with this investment.
The successful performance of Netas in 2017 supports this expectation. Despite the pressure emerging from macro-economic and geopolitical difficulties, decrease in exchange rate and other unexpected developments in 2017, Netas achieved a 16% increase in its consolidated sales revenues, reaching TL 1.1 billion, while its EBITDA increased from TL 91 million in 2016 to TL 106 million in 2017. Orders booked in the Enterprise Segment increased by 77% in 2017 with the contribution coming from ongoing projects. The 2017 Enterprise segment revenue increased by 35% compared to the previous year, rising to TL 351.3 million. As such, the Enterprise segment constituted 31% of the consolidated revenues. A significant increase was achieved in Global Markets with the strengthened orders on hand. Thus, Netas increased its International sales revenues by 271% compared to the previous year and rose to TL 252.8 million.

As ZTE, we respect the achievements of Netas and the skills of its employees. With the dexterous and successful project delivery capabilities of Netas, we will develop our service skills for many key markets in both Turkey and overseas.
On the other hand, joining the R&D center skills of Netas with that of ZTE will expand the scope of our business opportunities. Through ZTE's vision, know-how and patent portfolio, and along with Netas' expertise in many fields, particularly in the VoIP, IT, GSM-R and cyber security among others, we will offer new exciting solutions to the ICT industry. ZTE will provide support to Netas in areas such as transfer of R&D capabilities and know-how transfer in product development processes, hardware and software support, test equipment and environment, interoperability experience, increased pricing power based on higher volume component supply, and documentation.
Additionally, Netas will gain access rights to solutions ZTE developed for the telecommunication service providers and for public and private corporations and consumers, while innovative products developed by Netas will be offered to ZTE's international customers.
In addition, in order to ensure a more effective public safety, Netas continues its contributions at an increased pace through advanced technology communication solutions developed by its Defense R&D department. Accordingly, our Board of Directors agrees with a total harmony in further reinforcing our cooperation with Turkish Armed Forces Foundation (TAFF), one of the main shareholders of Netas.
ZTE will continue to invest for further development of Netas, and will provide support for the breakthrough desired in the Turkish ICT industry, with its know-how, designing abilities and its expertise in the supply chain management and documentation.

Our aim is to position Netas as a technology powerhouse in the EMEA region. For this reason, ZTE and Netas have agreed to establish the "Netas Academy", a "GSM-R Center of Excellence" and a "Repair and Return Center" by Netas, in order to provide service to the EMEA region.
Through our partnership, we are aiming to increase our income and source utilization at the one hand, while increasing service capabilities of ZTE in this region, thanks to Netas expertise in repair and return service, customer support and training center managing capabilities.

Having become the new partner of Netas upon completion of the share transfer, ZTE will exercise due diligence in observing its obligations towards the other shareholders. In the coming period, Netas will continue to work closely with its current suppliers and partners to offer the best value and service level to its customers, adhering to its corporate values and continues to support the innovations developed in Turkey.
In the light of all these developments and under the alignment of the 2023 Vision of the Republic of Turkey and the One Belt One Road initiative of the People's Republic of China, we believe that we will increase Netas value in the next five years with the support of our governments, customers and you, our valuable investors.
Best regards,

Xiao Ming
Chairman of the Board of Directors
NETAŞ

MESSAGE FROM CEO

2017 YEAR ASSESSMENT CEO C.MÜJDAT ALTAY

Dear Shareholders,

Since its foundation in 1967, as the driving force of the telecommunication leap of Turkey with its R&D culture and production structure, Netas proudly continues to maintain its position as the leading systems integrator and largest software exporter of our country. Following our past full of success and breakthroughs, we celebrated our 50th anniversary in 2017 with the motto "Proud of our past, ready for the future". In addition to this milestone, Netas witnessed another major development in 2017 and received the largest single foreign investment in our country in telecommunication and information technologies, apart from telecom privatizations. One of the global telecommunication leaders, ZTE acquired 48.04% shares of Netaş as of July 2017.

This important investment has been intended for developing technology and shows the significant confidence of international capital in the potential, creativity and production capacity of Turkish people.

Our target is to become the global technology brand of Turkey by 2023.

Turkey's dynamism is shaped by the advantages and risks brought by its geography. The market conditions require being both cautious and ambitious. Resilience to crises and flexibility against changing market conditions are essential for corporations like us. At the same time, the rapid transformation in technology results in a platform shift in the business world. Our way of working and human resources have changed and developed with an unprecedented pace and scale. The ability to read the present and the future, develop strategies for the new digital environment and having a pioneering technology and innovation vision are now an indispensable part of our business.

Our government has comprehensive works, relevant incentives and investments in line with Turkey's vision of becoming the technology hub of our region by 2023. We believe in the importance of this approach and consider it as a very significant input for achieving this target. In line with the strategic vision of our country, it is our aim to make Netas a global technology brand of Turkey by 2023 and we have worked accordingly in the past decade.

We believe we are taking firm steps towards the 2023 vision together with ZTE. In this context, we achieved far-reaching developments to move our country forward in the technological expansion and increase the Netas footprint in the international platform.

Our 50th anniversary ceremony honored by our Prime Minister and our Minister of Transport, Maritime Affairs and Communications.

Honoring Netas' 50th anniversary ceremony held in November 2017, our Prime Minister Mr. Binali Yıldırım provided a valuable insight on Netas in his speech. He said, "Developing high value-added products with locally developed technology is our top priority […] The importance of Netas and ZTE partnership stands out this point […] As the government, we shall continue to support Netas-ZTE partnership in the same manner that we supported Netas in the past."

Mr. Ahmet Arslan, the Minister of Transport, Maritime Affairs and Communications stated that Turkey made important investments in the last 15 years to join the league of pioneering countries in the ICT world and expressed his expectations from Netas and ZTE regarding the studies on national and international 5G solutions.

When 3G licenses were just being granted in Turkey back in 2008, we had initiated our 4G development efforts using our own resources. We have accomplished decisive achievements in the 4.5G technology since the start of the project. Today, we have the honor and responsibility of having developed the 4.5G Base Band Unit in accordance with LTE-Advanced Release 11 under the ULAK project. Now, we are working rapidly and confidently to develop 5G technology with the most experienced team of Turkey in the field of 4.5G and the country's most comprehensive R&D laboratory in this domain.

In addition to these, we signed three memorandums of understanding with ZTE, regarding investments to increase local technology production and service in Turkey.

Netas footprint on the international platform…

The first of these agreements is on starting a GSM-R Center of Excellence in Turkey in 2018 to conduct joint R&D works with ZTE in the field of GSM-R, the wireless broadband communication standard specific for railroads.

In the context of the second agreement, Netas will provide repair, maintenance and support services for ZTE products in the EMEA (Europe, Middle East and Africa) region. This cooperation will expand Netas' international market reach, while increasing the customer satisfaction for ZTE products. It will also increase the company's contribution to the service exports of Turkey, with improved revenues.

Our third agreement with ZTE is for the foundation of "Netas Academy". ZTE will provide all product and service trainings to its customers and employees in Europe, the Middle East and Africa at this academy to be established at Netas. This project will also contribute to Turkey's service exports.

Netas is a company that has achieved significant success in software, service and technology exports, earning almost 30% of its revenues from international projects. I believe that these strong and concrete developments will accelerate our company's performance towards a stable growth target.

Pioneering digital transformation…

In 2017, we had the honor of pioneering the digital transformation with many important projects.

We signed a cooperation protocol at the Barcelona Mobile World Congress with the Istanbul Metropolitan Municipality (IMM) and its affiliate Istanbul Bilişim ve Akıllı Kent Teknolojileri A.Ş. (İSBAK) both of which are endeavoring to make Istanbul a global brand city. The protocol includes developing solutions for the "Smart City Istanbul" project and to establish and operate Network Management and Operation Centers.

On the other hand, the ULAK project aims to reduce Turkey's import dependency in mobile communication

2017 YEAR ASSESSMENT CEO C.MÜJDAT ALTAY

technologies and it received its first purchase orders in the past year. The project is conducted by Netaş, Aselsan and Argela by improving national software and hardware components in 4.5G communication technology. The signature ceremony at the Mobile World Congress Barcelona on February 27, 2017 was honored by the participation of Mr. Suat Hayri Aka, Undersecretary of the Ministry of Transport, Maritime Affairs and Communications. The ULAK project, receiving its first orders with 250 base station orders from each three operators in Turkey, reinforced its commitment to carry Turkey to the future in mobile communication.
In 2017, we won the tender for the deployment and 5-year operation of all the wired and wireless networks of Istanbul New Airport. The airport is expected to become the world's largest once completed. Under the project, Netas will install the wired and wireless communication infrastructure of Istanbul New Airport, to all enterprises within the airport premises including the airlines desks, restaurants, parking lots and duty-free shops.

I would like to continue with some of the other important agreements and projects of the year.
We signed a wide-range cooperation protocol on cyber security with TUBITAK BILGEM (Scientific and Technological Research Council of Turkey - Informatics and Information Security Research Center). We will join forces to develop cyber security technologies to create added-value and increase our national competitiveness through effective and efficient use of our national resources.
One of the domains where the digital transformation is taking place in Turkey is in the new hospitals in Turkey. Adana City Hospital, commissioned on September 18 with a bed capacity of 1,550, is a recent example. As a subcontractor, Netas carried out the deployment of the hospital's data centers and network infrastructure as a part of the project's IT infrastructure. We will also provide all PC and IT equipment infrastructure and user support, remote monitoring and administration services for five years and ensure its data security with our partners.

Another project we continued in the past year was the digital transformation of Turkey's stadiums in partnership with the Turkish Football Federation. As of year-end 2017, we have completed the digital transformation of nearly 50 stadiums. We also deployed the electronic ticket infrastructure, which constitutes the foundation of digital transformation in sports.

We have also proceeded further with FATİH (Movement of Enhancing Opportunities and Improving Technology in upper secondary education) project. We successfully completed the supply, installation and integration of the IT and wireless internet access infrastructure of nearly 8,000 schools. In this long-term investment that set a global example, we provided students with secure access to educational content through internet.
In international markets, we signed an agreement for cloud-based digital transformation of Sonatrach. Sonatrach is Algeria's and Africa's largest and world's 11th largest oil company. We designed, installed and are now commissioning six data centers in five cities under the project worth USD 44.2 million.

As the leading systems integrator of Turkey, we created added-value for our customers through our joint efforts with many hardware and software producers. We strengthened our R&D relationship with multinational companies, including Ribbon and Microsoft. We are proud to be chosen as Microsoft's 2017 Country Partner, as one of Microsoft's few LSPs (Licensing Solution Partner) and a reliable partner for 25 years. We developed products in our solutions that can be integrated with the products of global giants such as Cisco and Avaya.

We got excited with seven awards we received in Turkey's Top 500 IT Company (IT 500) Survey. The survey has been organized for the 18th time the past year by BTHaber Group of Companies and we have been chosen as: Turkey's Largest Systems Integrator, top rank in the Software and Hardware sub-categories of the SE category and Turkey's top IT company in the categories of R&D Investment, Industrial Software, Software Exports and Network Hardware. Thus, Netas stepped one rank higher on the overall list of Turkey's top 500 IT Companies and ranked 18th.

We are privileged to receive decent awards thanks to our R&D efforts and we recently added a new award to our previous achievements in R&D. We won the "Cooperation and Interaction' award for the second time at the Private Industry R&D Centers Summit organized by the Ministry of Science, Industry and Technology. We have been chosen for this award due to our successful collaborations to strengthen ties between university and the industry, our ongoing projects and the strong R&D ecosystem we established with the local and international technology companies.

The key to efficient resource-utilization: Platforms

Today, it's the "platforms" triggering the dynamism in the world. Technologies such as cloud computing and mobile broadband create platforms that ensure shared and more efficient use of resources.
The university-industry cooperation is one of the most important platforms in the technological development. We strongly believe that creating research programs in accordance with the needs of the industry and solving R&D and technology needs with the scientific approach of the universities, will provide added-value to our country. Netas is currently conducting studies with significant importance with more than 20 universities in Turkey.
We signed Framework Agreements with 17 universities to increase university-industry cooperation and to determine the projects together. We believe that 'BAU-Netaş Techno Academy' Computer Engineering post-graduate and PhD program we previously introduced with Bahcesehir University set an example to the industry. A sustainable example of the university-industry cooperation by opening the know-how of the industry to universities, BAU-Netaş Techno Academy is also a communication network where the university gains applied know-how from the industry and the industry acquires the latest technological studies from the university. On top of that, our R&D engineers at Netas are providing full-time lectures at Bogazici and Bahcesehir Universities to share their know-how and experience; in addition to participating in lectures and seminars upon invitations from universities.

2017 YEAR ASSESSMENT CEO C.MÜJDAT ALTAY

Additionally, Netas is conducting studies within the framework of short and long-term internship, scholarship and PhD thesis incentives under the Co-op project in order to support students studying in the focus areas of Netas.

In terms of national initiatives, Netas is one of the founding members of the 5GTR Forum. With this platform, we are creating a "5G and beyond" cooperation in our country by working together with universities, industry representatives and especially operators.

Additionally, we hold the Vice Chairmanship position at Celtic-Plus, the telecommunication and IT cluster under EUREKA. We also contribute to studies in the telecommunication field in Europe as a board member of Networld2020, which is setting the 5G roadmap of the EU. Also, we are closely monitoring international efforts regarding 5G standards and we are a member of ETSI, 3GPP and 5GIA Infrastructure Associations.

'Netaş as a platform'…

In order to strengthen the ICT ecosystem, we are offering our resources, including ten thousand square meters of test area and 200 test specialists at disposal of companies, of which we certify and integrate the products they develop to the end-to-end solutions of Netas under 'Netaş as a platform'. The platform has been created to support young entrepreneurs, who have innovative ideas, using current technologies in innovative applications or developing new technologies, with our strong R&D structure. The comprehensive support we provide to these companies include offering them working space, the right to use of our laboratories, trainings on presentation techniques and finance as well as offering mentorship on developing their business plans. More than 30 companies are included in the 'Netas as a platform' structure.

Another contribution we provide to the start-up ecosystem continues to develop, through the "Netas Wesley Clover Technology Fund". We are providing support to innovative ideas of new graduates from universities, offering mentorship and addressing their needs in order to turn these ideas into value-added solutions, and products, helping them to commercialize these solutions.

R&D and our global vision blend with local information in our DNA.

Since 1973, we have been providing end-to-end value-added solutions, systems integration and technology services to service providers and institutions in the national and international market. Our innovative and creative solutions in information technologies are developed at our R&D center, which focuses on local production of next generation technologies with its nearly 800 engineers today. We published 103 scientific articles and submitted nearly 300 patent applications in national and international platforms in the past three years.

In addition to mobile broadband communication technologies such as VoLTE, VoWiFi and GSM-R, our R&D activities also focus on VoIP (voice data transmission over the internet), multimedia, internet of things (IoT), defense communication technologies and developing cyber security solutions. We benefit from a comprehensive 4.5/5G laboratory as well as one of the world's top 10 VoIP and multimedia laboratories and have the most equipped signal-processing laboratory of the region.

Thanks to our capabilities, we have undertaken important roles in developing technologies ranging from establishing the switchboard infrastructure that constitutes the cornerstone of the information and communication industry of our country, to base stations today. Our current capabilities are a result of the know-how we gained for half a century and efforts in creating value-added solutions for our country with every single new product we launch.
Supporting local technology production and realizing digital transformation are crucial to ensure that our country takes the place it deserves in tomorrow's world. We must manage and increase digital transformation processes, while preventing disruptions in the business processes of companies and avoiding cyber threats. We will never abstain from undertaking responsibility for our country on this path.

Netas has focused on local production in all its R&D efforts for 50 years and positioned every product and solution it developed to provide contribution to our country.

As the cornerstone of the telecommunication industry in our country, Netas shall continue to be the pioneer of local production in information and communication technologies.

C. Müjdat Altay
CEO

50 YEARS OF **NETAŞ**

NETAŞ CELEBRATED ITS 50TH ANNIVERSARY

Turkey's leading digital transformation company Netas celebrated its 50th anniversary with 'Netas 50th Anniversary Special Concert' featuring Turkey's popular pop band MFÖ. The concert gathered leaders from Turkey's business world, Netas business partners and stakeholders, prominent figures from the media, Netas board of directors and employees together.

At its 50th Year Ankara Summit with the participation of Turkish Prime Minister Mr.Binali Yıldırım, Netas announced its investment plans with its new main shareholder ZTE.
Turkish Maritime Transport and Communications Minister Mr. Ahmet Arslan, People's Republic of China Ambassador to Turkey Yu Hongyang, ZTE Senior Vice President and the Strategy Officer Executive Committee Member Jia Chen, President Zhang Zhenhua in charge of Global Sales and more than 1,000 professionals from the public and private sectors participated in the Summit.

NETAS AT A GLANCE

A Global Systems Integrator

- HQ in Istanbul, Turkey
- Installed base in MENA, CIS and South Asia
- Strong local partners in Bangladesh, Morocco, Algeria and Malaysia
- Offices in Kazakhstan and Algeria

50-Year Experience In Ict

- Founded in 1967 as Nortel's first venture outside Canada
- Listed on Istanbul Stock Exchange (BIST) in 1993
- Turkey's #1 Software Exporter
- Global R&D Center of Excellence
- Turkey's #1 Systems Integrator
- ZTE affiliate since July 2017

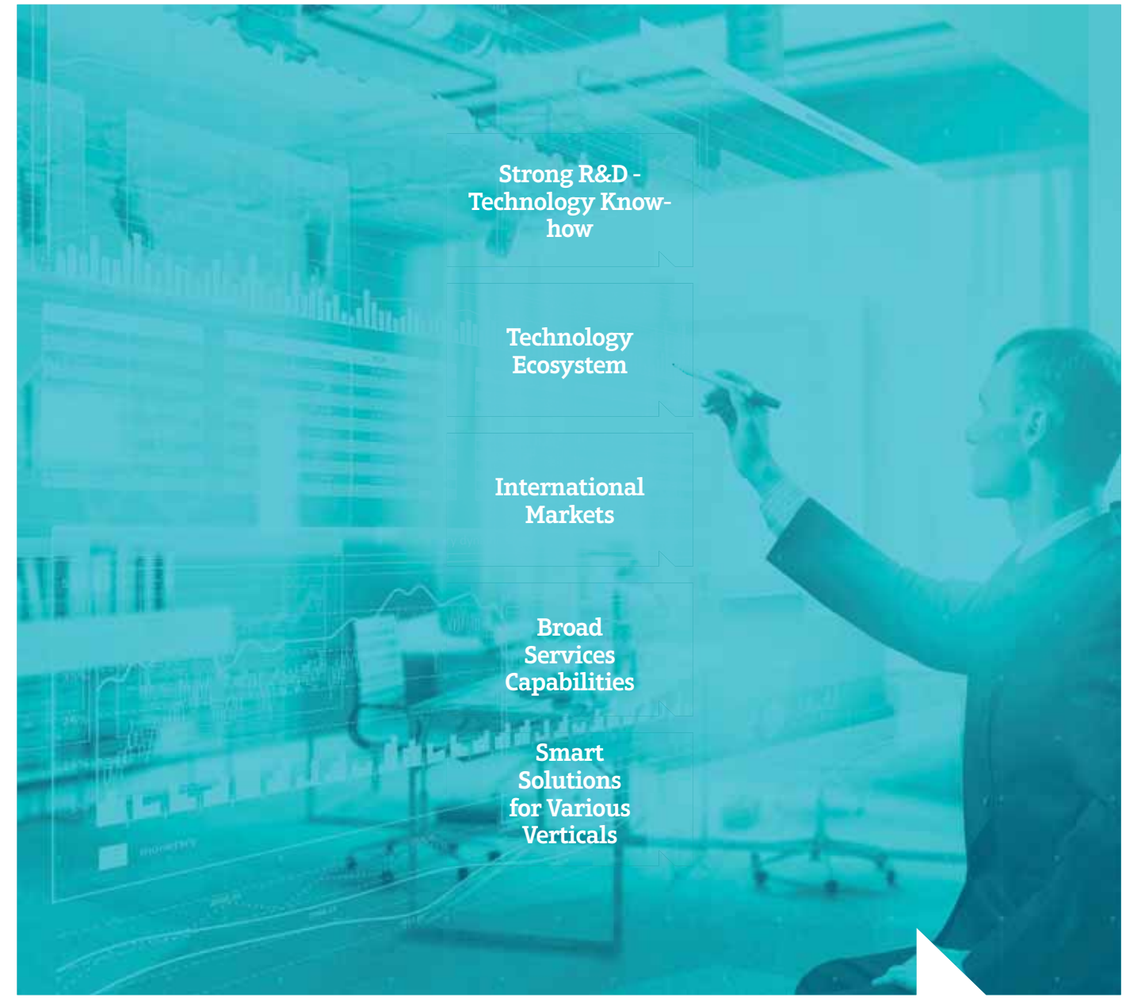
Powerful R&D And Multi-Tech Expertise

- 4/5G Mobile Broadband
- Internet of Things
- Unified Communications
- Multimedia
- Cyber Security
- 800+ R&D Engineers
- Software Solutions for 200+ Global Operators
- One of World's Top 10 VoIP laboratories
- NOVA Cyber Security Solutions
- NEOS Smart Energy Solutions
- Mobi-fi Smart Field Services Management
- Smart Entertainment Management
- VIO Video Communication Platform
- TestCenter Services & Visium Testing Tool
- ION IoT Platform
- Network Operations Center (NOC)
- Cyber Security Operations Center (CSOC)

A Multi National End-To-End Solutions Provider

- 120+ global solutions partners
- Data center and next generation technology solutions & services for Africa's #1 oil company
- IP infrastructure solutions provided to telecom operators in Kazakhstan and Uzbekistan
- Optic infrastucture deployment in Bangladesh
- Major projects with public companies and mobile operators in Algeria
- ICT infrastructure of new Istanbul airport
- GSM-R Center of Excellence
- NETAS Academy Training and expertise center
- Repair Sub-Center Service & Repair center

COMPETENCIES



MILESTONES

1967 Establishment of Netas under the partnership agreement between PTT and Northern Electric.
51 percent of shares owned by Northern Electric and 49 percent by PTT.
Capacity at the time of establishment was 40,000 lines.

1969 Commissioning of the factory.

1970 First exports to Lebanon.

500 automatic telephone units exported.

1971 Number of employees reaches 1,000.

1973 Establishment of Turkey's first private sector R&D in telecom business.
Manufacturing of exchanges and telephone units by Netas helps save more than TL 100 million equivalent of foreign currency.

1975 Annual production capacity: 190,000 telephones, 160,000 lines

1976 First automatic long distance call between subscribers.

1977 Commissioning of the 500,000th line in Ankara.

1978 First exports to Ireland and Canada.

1979 First automatic international call.

Production of the 1 millionth telephone unit.

1981 Commissioning of the 1 millionth telephone line.

1982 Development of the first electronic exchange of Turkey: "SpaceNet."
Designing of Turkey's first rural exchange.

1983 Transition of Netas to digital technologies.
Establishment of Printed Circuit Board production plant.

1984 DMS 10, the first digital exchange of Turkey is manufactured.

Introduction of Efes touch-tone telephone set.

DMS 200, the first long distance digital exchange of Turkey commissioned in Tahtakale, followed by Ankara.

1985 Number of active lines exceeds 2 million.

1986 Commissioning of Netas Training Center, featuring computer aided training facilities and modern test devices.

1987 Turkey steps into a fully digital communications era.

Number of lines delivered to PTT exceeds 3.5 million.

1989 Digital design ownership of digital DMS 100i product.

Dicle (DRX-4), the first digital rural exchange is designed, developed and commissioned in Yalova and Istanbul.

1990 Production of the 1.5 millionth DMS line.

Expansion of exports territory: USSR, Azerbaijan, Nigeria, Turkish Republic of Northern Cyprus and Canada.

1991 Netas establishes the data network to be used within the scope of interbank Electronic Fund Transfer (EFT) project.

The largest R&D department in the private sector - 200 employees.

1992 NATO AQAP-110 quality certification.

Begins multiplexer production for transmission network.

1993 Netas is entrusted the worldwide development and software control responsibilities of the digital DMS 100i.
ISO 9001 quality assurance system certification from Turkish Standards Institution
29 percent of Netas shares are traded in Istanbul Stock Exchange.

1994 Design of the first ASIC

1995 Production starts for the first project for the Turkish Air Force: Identification Friend--or-- Foe System

Commissioning of the 1 millionth PABX line.

1996 European Quality Achievement Award.

Start of production of TASMUS (Tactical Area Communications System) for Turkish Land Forces.

1997 Netas becomes the first Turkish company to receive ISO 14001 environmental certificate in the ICT industry.

1998 European Quality Achievement Award

Software exports total USD 10 million.

2000 Signed contract for the sale and delivery of SDH transmission products.

Growth in Russia, Morocco, Bangladesh and Kazakhstan by 40 percent compared to the previous year.

2001 Acting as the largest supplier of telecommunications equipment infrastructure in Turkey, manufactured carrier-class optic and data network equipment worth USD 70 million.

2002 Commissioning of the state-of-the-art optic system for Türk Telekom. The system's SDH optic network is capable of data transmission at 10GB/s.
Signing of Aycell GSM 1800 mobile telecommunication network contract worth USD 145 million.
400 base stations installed in 35 cities.
Establishment of fiber optic transmission network for local and central data/voice traffic of TEIAS.
R&D program of Nortel Networks focusing on international switching fully entrusted to Netas.

2003 Signing of a USD 40 million contract for the modernization of Turk Telekom's fixed line network.

2004 Begins the modernization and expansion projects for TURPAK and TSDNet data networks.

TN--1XE, a local product, introduced in transmission infrastructure of Türk Telekom.

2005 New generation exchange-soft switch installed as an international exchange in Türk Telekom network.

2006 New projects in defense communications: New patrol boat, MILGEM, search and rescue boat projects.

Two separate transmission projects completed and commissioned in Bangladesh.

2007 Nortel Global High Technology Development and Solution Center established: 800 R&D engineers working for the development of new generation communication networks.
'Software Export Champion' of Turkey

2008 'R&D Center' status granted within the scope of the relevant law.
'Software Export Champion' of Turkey.

2009 Begins developing third generation (3G) mobile core technologies.

2010 'Software Export Champion' of Turkey.

OEP RHEA Türkiye Teknoloji BV acquires 53.13 percent of Nortel shares.

Partnership and R&D cooperation contracts signed with global technology giants such as Genband, Avaya, Ciena, Kapsch and CarrierCom.

2011 Acquisition of Probil.

Named as the first Cisco Cloud Infrastructure Provider of Turkey.

'Microsoft - Enterprise Sales Partner of the Year' award.

Continuing growth of Strategic Partnership Network with the participation of global technology companies such as Microsoft, Cisco, HP, Motorola, Oracle, Fujitsu, Hitachi and Mitel.

Development of Turkey's first '4G -LTE/ Mobile and Fixed Wireless Broadband Access Technology'.

Design and development of 'Through the Wall Imaging System' based on ultra-broadband radar technology.

E-census system commissioned in Turkish Republic of Northern Cyprus.

The Largest Voice and Video Network Project of Turkey: Contract with the Ministry of Justice for Voice and Video IT System interconnecting courts and prisons.

110 Smart Classrooms project with the Ministry of Education, implementation of smart classroom concept in 110 classrooms nationwide, enabling centralized training facility for teachers.

Named as 'Genband R&D Center of Excellence'.

Named as the "Most successful R&D Center in telecommunications business" by the Ministry of Science, Industry and Technology.

Netas Kazakhstan office established.

MILESTONES

2013

Growing stronger with the acquisition of 10 percent Group A shares of Kron. Celebrating the 40th Anniversary in R&D, Netas moves to its new technology base in Kurtköy.

Awarded 'Best Global Partner in Enterprise Business' by Cisco.

Awarded the contract for the Fourth Generation (4G) Communications Technology Development

Project (ULAK) for Military, Public Security and Civilian Applications under the leadership of the Undersecretary for Defense Industries.

Netas increases Aydem's productivity through the Automatic Meter Reading System Project.

Deployment of technology infrastructure for Odeabank.

Finance Sector's Biggest Project for Cloud Transition - Netas moves all branches of Akbank to cloud.

Implementation of Network, IP Telephone and Call Center Project covering all branches and ATMs of Ziraat Bank.

First smart stadium project of Turkey - Deployment of e-ticketing infrastructure for 31 stadiums within the scope of Smart Stadium project awarded by Turkish Football Federation.

Named as the 'Most successful R&D Center in the telecommunications business' in 2013 by the Ministry of Science, Industry and Technology.

The Turkish Patent Institute published the list of "Companies with the Highest Number of National Patent Applications in 2013' and Netas ranks 2nd in the telecommunications industry segment and 7th in the country overall list with 34 patent applications.

Becomes the highest growing company in the Turkish information technologies industry.

Crowned 'The Turkish Systems Integrator Partner of the Year' award by Microsoft.

2014

A first in the history of technology exports of Turkey: Digital Field Exchange, developed and manufactured by Netas for 10 years, exported to Canada.

Signed a five-year contract for the improvement of 2G and 3G transmission infrastructure of and delivery of radio frequency (RF) optimization solutions for ATM Mobilis, an Algerian mobile operator.

Signed a contract with Bangladeshi national service provider BTCL (Bangladesh Telecommunications Company Ltd.) for capacity upgrade of national transmission backbone and renewal of devices & software.

Signed a contract with Ucell, mobile operator of Uzbekistan, for the nationwide completion of IP-based infrastructure.

Deployed the network infrastructure for the new Primary Data Center (BVM) of the Istanbul Stock Exchange.

Signed a contract for the delivery of radio and wire communications in the Haydarpasa-Gebze-Köseköy section of Marmaray and Ankara-Istanbul High-Speed Rail Line.

Filed 35 patent applications.

2015

With the assistance and guidance of the Undersecretariat for Defense Industries (SSM), the Fourth Generation (4G) Communications Technology Development Project's product (ULAK), locally developed by Turkish engineers.

Under the FATIH Project, '2nd Phase Local Area Network Installation Work' including infrastructure installation for schools awarded to Netas by the Turkish Ministry of Education.

Ranked 3rd in the Service industry category at the 9th Export All Stars 2014 Awards organized by the Istanbul Mineral and Metals Exporters' Association.

Ranked 1st at BT Haber Yayıncılık's 16th ICT 500-Top 500 ICT Company survey. Netas ranks first in the following categories: 'Network Hardware of the Year', 'Software Export of the Year' and 'Systems Integrator and Hardware of the Year'.

In collaboration with Wesley Clover, owned by the Canadian investor Sir Terrence H. Matthews, there are now seven companies under the Netas Wesley Clover Technology Fund (NWCTF), founded in order to invest in start-up companies and entrepreneurs, as well as to promote high value-added technology projects.

Ranks 1st in two different categories at the 4th Private Sector R&D Centers Summit organized by the Ministry of Science, Industry and Technology: 'R&D Employment' and 'Most Successful R&D Center in the Telecommunications Industry in 2014'.

Launched the 'Netas Remedy Forest' project in collaboration with the Ministry of Forests and Water Affairs, General Directorate of Forestry and the Provincial Directorate of Forestry of Istanbul.

"Highest Volume of Investment in the Expertise of the Year" and the "Fastest-growing Business Partner in Server Business of the Year" awards by HP.

Launched Turkey's first locally developed cyber security solutions under NOVA brand; NOVA Cyber Security Solutions to ensure safety in online audio and video conference for VoIP and multimedia technologies.

Filed 71 patent applications in 2015.

2016

The '5G Technologies Consortium Cooperation Agreement' is signed with Aselsan and Havelsan, under the leadership of the Turkish Armed Forces Foundation (TSKGV).

44.2 million-dollar digital transformation project agreement signed with Sonatrach, the largest oil company of Algeria and Africa, and the 11th largest oil company of the world.

Sponsored IT infrastructure services for the Turkish Football Federation Press Tent in Marseille, France during the Euro 2016 European Football Championship.

The number of its employees since its foundation exceeds 10,000 people.

Elected to the board of directors of NetWorld2020, which aims to contribute to and steer the research of future mobile and fixed communication systems to be used in 2020 and beyond.

2017

Celebrated its 50th anniversary with a series of events.

ZTE (0763.HK / 000063.SZ), a major international provider of telecommunications, enterprise and consumer technology solutions, through its subsidiary ZTE Cooperatief U.A., acquired 48.04 percent of Netas shares, which were held by OEP Turkey Tech. B.V, an investment managed by One Equity Partners.

First orders of ULAK, the first locally developed base station in the country, received from Turkey's three operators where Netas designed the base band unit.

Launch of a horizontal cloud-based IoT (Internet of Things) platform, ION by Netas that provides the infrastructure for the IoT applications of objects.

Awarded the contract to deploy all wired and wireless communication networks of Istanbul New Airport and to manage its operation for five years.

Signed a set of business partnership protocols with TÜBİTAK BİLGEM for the development of new generation cyber security products and projects.

AWARDS

"Commercialization of Innovation Award" at TESID (Turkish Electronics Industrialists Association) Innovation and Creativity Awards, with NEOS by Netas, automatic meter read and energy monitoring system.

Microsoft Country Partner for Turkey Award for 2017, thanks to demonstrating excellence in offering and implementing innovation for customer solutions based on Microsoft technology.

Seven awards in the traditional Informatics 500 survey results: Turkey's top company in the "Systems Integrator" category and its 'Software' and 'Hardware' sub-categories, Ranked first in "Sectoral Software", "Network Hardware", "Company with the Largest R&D Investment" and "Turkey's Software Exporter" categories.

Ranked second in "ICT Services" category in "Turkey's Top 500 Service Exporter Companies" survey by Turkish Exporters Assembly and Ministry of Economy.

'Cooperation and Interaction' award at 6th Private R&D Centers Summit, organized by Turkey's Ministry of Science, Industry and Technology

SUCCESS STORIES

Turkey's leader systems integrator, pioneer in ICT

Founded 50 years ago in order to lay Turkey's telecommunication infrastructure, supplying hardware, devices and technology, NETAS today is the country's largest systems integrator and one of the most competent 4.5/5G technology developer. The company offers value added end-to-end solutions, as well as systems integration and technology services.

NETAS is the ICT company generating the largest investment in R&D operations in Turkey. Employing almost 800 engineers, the NETAS R&D focuses on the mobile broadband solutions, unified communications, GSM-R, networking, cyber security, internet of things (IoT), virtualization, cloud computing, defense technologies, optical and carrier Ethernet, IT integration services, strategic outsourcing and tailored software development solutions to an international diverse multi-vertical customer base, including public sector, telecommunication, finance among other industries.

In addition, through its certified and experienced service team at BDH (IT Support Services), a 100% Netas subsidiary specialized in various fields of IT, NETAS offers consultancy, managed services, hardware and support services to all companies in Turkey, from small-scale companies to large enterprises and public institutions.

TELECOMMUNICATION

Turkey's locally developed macro base station ULAK received first orders

In February 2017, Turkey's locally developed 4.5G-compatible base station received its first orders.
ULAK Macro Base Station is the first in Turkey and consist of Baseband Unit (BBU) and Remote Radio Unit (RRU). The BBU is completely developed by NETAS including hardware and mechanical design, software which consist of physical layer, MAC layer, Scheduler, RLC and PDCP software, IPv4 ,IPv6 protocols and X2, S1 protocols design. The product has the Release 11 feature that meets mobile broadband data needs in Commercial and Public Communication and NETAS is among the few companies worldwide that can offer this product.
Accordingly, the ULAK project, received its first orders for 250 base stations from each of three operators of Turkey and thus strengthened its commitment to carry Turkey to the future in mobile communications.

SMART TRANSPORTATION

Building communications infrastructure for the world's busiest airport

Turkey is building Istanbul's third airport, the largest single investment in the country's history. The airport is expected to become world's busiest airport once complete.

The country's largest systems integrator NETAS is establishing all wired and wireless networks of Istanbul New Airport and its operation will be run also by NETAS as well for five years.

Once the project is complete, the new airport management will be able to offer wireless and wired communication services, to all businesses within the airport, including airlines desks and offices, customs offices, police facilities, restaurants, parking areas, duty free shops… etc.

Within the scope of the project, NETAS will provide WiFi coverage at speeds reaching up to 5 Gbps, to about 50,000 visitors simultaneously in the terminals and parking areas through 4,500 access points.

End-to-end tailored solutions for rail networks

NETAS is providing end-to-end tailored GSM-R solutions for railway networks. The company deployed GSM-R and transmission network for Turkey's high-speed railway lines including Gebze-Köseköy, Polatli-Konya and Menemen-Bandirma, as well as their wired communication infrastructure.

In 2017, NETAS, with its substantial expertise as a systems integrator and its R&D power, has started to deploy the transmission network infrastructure for the Samsun-Kalin Railway Modernization Project in Turkey.

Railways, the backbone of the goods transportation for the past couple of centuries, are now hosting trains reaching breathtaking speeds up to over 400 km per hour. Fast and reliable communication and control at such high speeds are crucial for operators.

SMART EDUCATION

Education at smart classrooms

Turkey's Ministry of Education has started the Movement of Enhancing Opportunities and Improving Technology (FATIH), designed to provide every student with the best education, the highest quality educational content and equal opportunities.

In 2015, NETAS was chosen to install the technological infrastructure of these next generation schools.

As of the end of 2017, NETAS delivered smart classrooms for over 8,000 schools in Turkey's 46 provinces. Accordingly, the company is laying the high-speed broadband internet infrastructure of these schools.

Next generation remote education tools

Online learning has already become a part of the contemporary education model. VIO Akademi, developed by NETAS R&D, stands out as a cost-effective, result-driven and efficient tool for educational establishments. Its multi-point video enabled virtual classroom features enable effective remote training sessions. Screen sharing feature allows collaborative working on the same document and shared whiteboard enables shared drawing and working on the same whiteboard.

VIO Akademi offers an interactive user interface designed for educational use, connectivity support via WebRTC enabled web browsers without installing a new software, support for recording live sessions and replaying recorded sessions anytime and an easy use of shared whiteboard via tablet extension support.

With its outstanding features, the VIO Akademi is already at the radar of education establishments and talks continue for its deployment in higher education institutions.

SMART ENTERTAINMENT

Digitizing stadium experience

In cooperation with the Turkish Football Federation (TFF), NETAS has completed the digital transformation of 49 stadiums as of the end of 2017. The company had delivered its first smart stadium back in August 2014.

Within the framework of the project, transforming the visitor experience and the match & security operations into the digital age, NETAS Smart Stadiums are offering high capacity Wi-Fi to visitors, e-ticketing, indoor location services, smart parking, customized campaigns through beacons, effective advertisement platforms, including digital signage and video walls, operation centres for smooth event management and increased security via surveillance systems and access control with smart card.

Offering improved CRM approach by event management platform

Offering an improved CRM approach, NETAS designed an all-in-one easy-to-use event management platform in 2017, gathering customer relations management, ticketing, corporate sales and loyalty campaign management together.

The cloud-based event management platform by NETAS is scalable and upgradable, and is capable of crafting custom-tailored sales and loyalty campaigns based on insights.

SMART HEALTHCARE

Digital powered hospitals

Healthcare providers all over the world are focusing on increasing the reach, extent and quality of the services they provide. As they feel more budget pressure on public spending arising from increased populations and life expectancy rates, the digital transformation is gaining greater importance.

NETAS has already laid the ICT infrastructure of two new generation city hospitals in Turkey, deploying their data centers and network infrastructure. The latest one of these hospitals, Adana City Hospital entered into service on September 18, 2017.

The infrastructure NETAS provided is scalable and ensures end-to-end back-up since the continuation of hospital's operation is vital, in the full sense of the word. On top of that, the company is also providing technical and user support for IT equipment, as well as remote monitoring and management for five years.

NETAS had deployed the ICT infrastructure of Yozgat City Hospital in 2016.

PUBLIC SERVICES

Connected courthouses, courtrooms and prisons

Within the framework of Turkey's Ministry of Justice project, namely SEGBIS, in line with a contract signed in 2012, NETAS provided the video conference infrastructure, platform and services, connecting 600 courthouses, 3,000 courtrooms and 550 prisons, currently in Turkey.
Following this project, in 2017, NETAS has installed the video conference system to 30 legal interview rooms.

Quicker and more effective response in times of emergency

Quick and effective response in the times of emergency is vital for the public health and security. Each tool shortening the response time and increasing effectiveness can save lives. Within the scope of the AYDES (Disaster Management and Decision Support System) project of Turkey's Disaster and Emergency Management Presidency (AFAD), NETAS has created a decision support system based on geographical information by tracking all phases of the integrated disaster management in electronic environment.

AYDES is a web-based information system where all authorized institutions can manage their resources, and so it enables faster coordination through joint decision support mechanisms via its communication network, in order to shorten the response time with the critical importance.

In November 2017, NETAS is agreed to undertake the Phase II of the project AYDES. The project is expected to be completed in 2018.

SMART ENERGY

Reducing costs for utility providers with award winning solutions

Developed by the NETAS R&D, as a part of its smart city solutions, the cloud-based management software NEOS AMI (Advanced Metering Infrastructure) provides remote reading/management of energy meters, storing meter data, generating various reports at several management levels.

NEOS by NETAS has been installed in Turkey's five provinces on transformer substations of two major utility providers operating in the west of country. Through the system, hundreds of thousands of street lamps are being switched on and off remotely, according to pre-set scenarios or astronomical time, in addition to remote consumption monitoring, following-up field alarms, lighting management and transformer load optimization. The system is designed as scalable and high performing in order to meet the increasing number of meters on site.

In 2017, the OSOS system is continued to be improved in line with feedbacks coming from on-site implementation and awarded by Turkish Electronic Industrialists Association (TESID) for 'Commercialization of Innovation'.

SMART CAMPUS SOLUTIONS

Turnkey end-to-end communication infrastructure for the ICT Valley

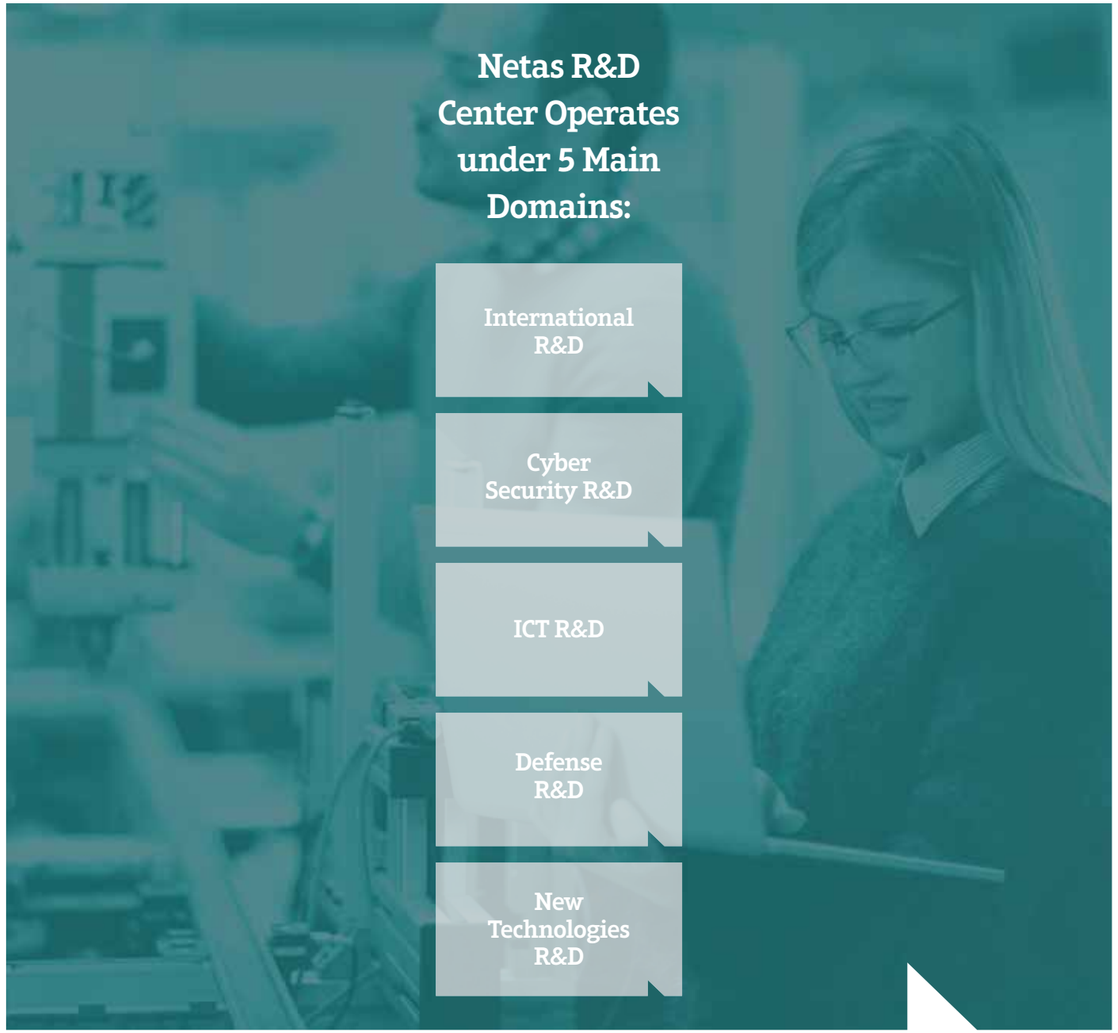
Aiming to become one of the world's technology hubs, Turkey is building its ICT Valley in order to bolster the open innovation approach across various verticals and to boost tech-entrepreneurship and help tech-based growth of all business sectors.

Once complete, the ICT Valley in Gebze district of Kocaeli province, will include R&D offices, an entrepreneurship center, prototype & test center, an international innovation center, a congress hall, hotels & guest houses and a marina.

NETAS, as the technology partner of the project, is the main systems integrator of R&D offices building and delivered the network & communication infrastructure, network systems, unified communication systems, server-storage solutions and cyber security solutions in 2017.

Unlike traditional networks, NETAS has used the ZTE GPON Technology, providing direct point-to-point links from customers to providers, delivering fast, secure, stable, easy-to-manage, cost-effective and future proof services for 56 companies located in the R&D Building. The Valley's common network backbone, including general purpose wireless APs, BGP peering, NAC is also delivered by NETAS.

The network solutions provided to the ICT Valley are all secured with NETAS Cyber Security proficiency and solutions, covering a next-generation firewall, SIEM, mail-web-end point security and DDOS protection.



R&D

Netas R&D Center, employing almost 800 researchers with exceptional expertise, including 125 MSc and 16 PhD engineers, focuses on developing solutions that would compete globally. Projecting to become the technology powerhouse of its region, Netas develops next generation technology solutions and carries out successful systems integration projects in order to align Turkey to the digital future shaped by next generation technology.

The Netas R&D center contributes to Turkey's economic growth through its patent applications for ongoing projects and products in the fields of mobile communication, cyber security, defense, multimedia, cloud computing, data center, IoT technology and managed services. With its tailored R&D solutions, Netas leads the digital transformation of corporations both in private and public sectors.

Netas follows and contributes in the 5G technology studies in the European Union, as a 3GPP and ETSI member. In addition, Netas is a member of 5GIA Infrastructure Association and elected as an executive board member of NetWorld200 Platform, one of the most effective European Union platforms direct studies for 5G and beyond. On top of that, elected as vice president in the Celtic Plus, which manages technological cooperation in the field of ICT and telecom, Netas has been participating actively to working groups of all these organizations.
In 2017, Netas R&D is crowned with 'Cooperation and Interaction' award at the 6th Private Sector R&D and Design Center Summit, in the recognition of the successful partnerships it has formed in order to create a harmonious ICT ecosystem.

INTERNATIONAL R&D

Netas has been supplying communication infrastructure products for international companies for 50 years and is carrying out R&D studies of these products. Among these international companies, Ribbon Communications offers intelligent network solutions in more than 80 countries for service providers and major corporations. Ribbon Communications products and solutions, with a target of connecting anything anywhere at any time, are in a leading position in the field of integrated communications. Next generation product development activities are planned with the collaboration of Ribbon Communications and Netas. As a result of all these efforts, today, Netas is the Ribbon Communications's largest R&D and innovation laboratory.

In terms of competitiveness, producing virtualized and cloud-ready versions of products is among Netas' priorities. In this context, Netas conducts the R&D project for the virtualization in Experius and SPiDR products and to leverage, design, build cloud-based systems and infrastructure for those products.

The WebRTC technology is trending up and is expected to have an increased market share and impact in the mobile information and communication technology in the coming period. Using this technology, Netas has developed the SPiDR WebRTC gateway, which is one of the first product in the world that enables audio and video communication among all IP-based systems (VoIP, IMS, PSTN).

In addition, SPiDR mobile SDK product based on SPiDR WebRTC gateway has been developed by R&D Center engineers. SPiDR mobile SDK makes possible to use WebRTC technology in today's popular mobile applications; it also includes protocol-based media support and cloud serving capabilities.

Rich Communications Suite (RCS) provides an environment in which telecom operators can compete with Over the TOP (OTT) service providers and allows end users to benefit from rich communications services with a single, standard platform.

R&D engineers have developed the Smart Office project for our Ribbon Communications client. This project is an end-to-end video conferencing solution designed for telecom operators, so they can to provide services to their customers. Using the video conferencing solution, participants at remote locations can meet and collaborate in a virtual meeting room at the same time, using their laptops, desktop computers, tablets or smartphones.

CYBER SECURITY R&D

Netas penetrated into the next generation communications security market with three new products that were developed under NOVA brand and started providing service for the customers. Netas expanded its Cyber Security R&D unit to form four new departments: "NOVA Security Technologies Development", "Managed Network and Security Services", "Consultancy" and "Security Solutions". Netas aims to provide a wide variety of cyber security services for its customers, starting from product developments to delivery of solutions, to security consultancy.

Netas provides its customers with remote security services from Cyber Security Operations Center and provide effective and high quality security solutions and consultancy to solve customer problems. Moreover, the NOVA Technology Design developed Turkey's first security products for next generation telecommunications systems and mobile media, and continues to develop and design new security products that will meet the emerging requirements.

NOVA V-GATE - VoIP Call Management and Firewall

NOVA V-SPY - VoIP Vulnerability Analysis Tool

Using its expertise and know-how in the field of Voice over IP (VoIP) along with its state-of-the-art telecommunications laboratory, Netas developed two cyber security products: NOVA V-GATE and NOVA V-SPY. NOVA V-GATE, VoIP Firewall, enables operators to manage, secure and observe VoIP networks, whereas NOVA V-SPY, VoIP Vulnerability Analysis Tool, enables operators to reveal the potential weak points of their VoIP systems. Taking into account the statement, "Creating a secure VoIP infrastructure starts with vulnerability analysis", NOVA V-SPY is a vulnerability analysis tool that aims to exploit the vulnerabilities of VoIP systems by employing comprehensive attack scenarios. These scenarios include protocol compatibility scenarios and stress tests along with scenarios that contain malformed messages.

NOVA V-SPY also generates a security report that advises the operator which steps to take in order to overcome the vulnerabilities it uncovered. NOVA V-SPY enables to investigate how secure a system is, detect its vulnerabilities and to report them to the system operators.

NOVA V-GATE uses deep packet inspection and behavioral analysis to detect and prevent incoming cyber-attacks on VoIP systems. NOVA V-Gate enables detailed call control and provides in-depth analysis reports for our customers.

NOVA MSP - Media Security Platform

Among Netas' portfolio of new technologies is NOVA MSP (Media Security Platform), which enables secure communications by using the WebRTC technology. The increase in internet based communications services and smart phone usage has resulted in users questioning the security of the platform they are using, which in turn led to a demand in secure communications technologies. Therefore, Netas designed a modular and flexible solution composed of clients and servers that enable users to communicate via audio, video and text over a secure channel on the internet.

NOVA MSP, which uses a smart card, provides secure communications for standard smart phones. It also provides rich features such as whiteboard sharing, location tracking and message broadcasting.

NOVA Cyber Security Technology Research unit is currently developing a Web Security Firewall and a Web Service Vulnerability Analyzer by utilizing Netas' expertise in web technologies. Also, fraud detecting solutions that use big-data analytics, business intelligence and machine learning are currently projects. Cyber Security achieved CMMI (Capability Maturity Model Integration) Level 3, which is a methodology accepted and used around the globe. CMMI, a methodology used mostly in information technology and defense projects, enables us to improve our project management processes, ensures on-time delivery and to stay within the budget limits. Cyber Security Group submitted 37 patent applications in three years in order to protect our innovative solutions, we utilized in the products we developed.

ICT R&D

Netas ICT R&D department employs about 100 researchers, focusing on research and new product development activities in line with customer needs, in addition to R&D activities for Cisco and Microsoft products for every vertical.

Netas developed the e-ticketing project for TFF (Turkish Football Federation), undertook the second phase of disaster management system developed for AFAD (governmental organization of Disaster and Emergency Management Presidency), e-government project for Northern Cyprus Turkish Republic, and NEOS AMI, cloud based advanced metering infrastructure project.

With the TFF e-ticket project, Netas has focused on the fields requiring specialization including blacklisting, entry approvals, face detection/identification, and developed and activated sophisticated e-ticketing software which provides simultaneous data flow from all stadiums and is scalable according to needs of TFF.

In the AFAD project, a software solution called AYDES has been developed and activated, for application of all sort of disaster management processes defined by AFAD Management Authority.
The registry system project based on residential addresses and address changes, that has been developed by Netas, was the first e-government project of Northern Cyprus Turkish Republic.
In addition, electronic ID cards were integrated into the registry system.

In the energy vertical, Netas has released NEOS Energy Management Systems product family. The first and fundamental member of this family is NEOS AMI (Advanced Metering Infrastructure), which is a cloud-based management software. NEOS AMI provides remote reading/management of all meter types, storing meter data, generating various reports at several management levels. Special cabinets have been designed and produced in Netas facilities. In 2016, about 15,000 of these cabinets have been installed on transformer substations of Aydem and Gediz Electricity Retail Companies. There are two meters in each cabinet, one for energy distribution and related metering, remote monitoring, billing, reporting, management etc., and the other for street lighting. Through the communication system established and the automatic control system, the street lamps can be switched on and off remotely.

Defense R&D

With more than 150 engineers, defense R&D department designs high-tech products for the Turkish Armed Forces. Many world-class strategic and tactical communication systems and general-purpose or application-specific military electronics and avionics system solutions have been designed, operated on the field and delivered for military systems.

Tactical Area Network Solutions are integrated communication networks realized with local design and production capabilities in order to provide the voice, data and video communication services required by the Turkish Armed Forces on the tactical area. These products have rugged design to operate at the harsh conditions of the tactical area. Deployment and field test activities related with the developed products continue on customer sites.

ULAK Macro Base Station is the first 4.5G-compatible base station which is developed locally in Turkey and consist of Baseband Unit (BBU) and Remote Radio Unit (RRU). BBU is completely developed by Netas including hardware and mechanical design, software which consist of physical layer, MAC layer, Scheduler, RLC and PDCP software, IPv4 ,IPv6 protocols and X2, S1 protocols design. The product has the Release 11 feature that meets mobile broadband data needs in commercial and public communications and Netas is one of the few companies worldwide, which has the competency to offer this type of product. Deployment and field test activities related with the developed products are completed and 500 ULAK base station order is taken from operators and production still on going.

The IFF Mode 5/S System has been developed to meet the Identification-Friend-or-Foe need of the Turkish Armed Forces on various platforms. The system uses IFF equipment with high identification capabilities and the more reliable Mode-5/ Mose-S features. IFF systems, known as identification-recognition friend-foe systems, play an important role in military air surveillance and navigation control, air defense systems, maritime and coastguard security controls and acquire target information (altitude, tail number, task etc.). Defense Department develops control and power units of the Interrogator and the transponder units and Remote Control Unit. Field test activities related with the developed products continue on customer sites.

Defense Department develops Naval Communication Systems customized for the requirements of various surface vessels and underwater platforms of the Naval Forces Command. The system provides secure/insecure voice and data communication including internal communication for intra-vessel and external communication for inter-vessel or vessel-to-shore communication. Requirement determination activities related with IP based communication control systems continue.

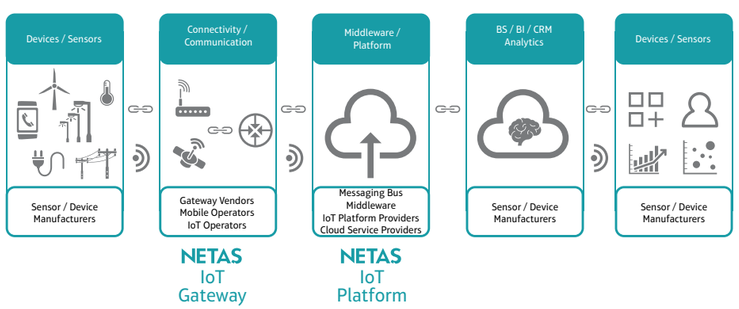
NEW TECHNOLOGIES R&D

Netas IoT Solutions

The IoT (Internet of Things) market, which has undergone rapid development in recent years, is expected to sustain its accelerated growth, especially with the development on 5G and Industry 4.0 technologies. Parameters such as data width, high speed and low latency that 5G technology provides, are key technologies for M2M and IoT solutions and the key enablers for the market growth. Different IoT solutions in heterogeneous structure interact with each other to achieve end-to-end services for end users in a connected world. Netas offers solutions to overcome these challenges and reflects its technological competence to the field in accordance with the sectorial configuration.

Netas IoT Gateway

IoT Gateway - as defined Middle Node in oneM2M standard - provides software services to allow integration of various protocol adapters in the south-bound direction towards the devices/sensors/actuators as well as north-bound direction towards different types of IoT core/cloud platforms. The product offers a key building block to enable the connectivity of both legacy and non-legacy devices and next generation intelligent infrastructure to the cloud.



Netas IoT Platform

The Netas IoT Core Platform is designed to be scalable in the dimensions of data, core services and availability for the needs of today's IoT applications, with many clients serving the same needs. The data architecture used (oneM2M) is so flexible that it can collect the information that many different devices produce, and can create the desired hierarchy between devices (eg. sensors, triggers).

4G/5G Solutions

Netas has set up the first 4/5G lab other than those of operators in Turkey, in the scope of 4G LTE Advanced studies in 2015. This laboratory is the first of its kind in Turkey to carry out research and development activities in 4/5G. These efforts were accelerated in 2016 to integrate mobile and fixed operator networks with global solution partners, such as Wind River, Intel, HP and Mitel in order to turn them into NFV-based virtualized networks. Solutions for Turkcell and Turk Telekom NFV projects were developed and PoC studies were conducted.
Two critical components of 4G and 5G LTE network are now being developed in R&D:
- Multi-Access Edge Computing (MEC) product can provide functions for QoE and QoS improvements such as network slicing, location and latency sensitive services and network monitoring
- AAA (Authentication, Authorization and Accounting) server is used as a system for tracking user activities on an IP-based network and controlling their access to network resources

Netas R&D Ecosystem

Netas, operates an R&D Center that employs about 800 researchers, who have a deep insight into the next generation technologies. The company undertakes large-scale projects for the communications infrastructures of the leading banks of the country, and customized projects for health care, energy and sports industries, while focusing on the finance, education and public safety.
Knowing the importance of a strong R&D Center, the company focuses on the following key topics for the purpose of expanding and strengthening the scope of R&D ecosystem:

Innovative and Creative Solutions

One of the most important goals of Netas is to make innovation an integral part of its corporate culture and enrich its product portfolio by adding high-technology value added products that would compete globally. For this purpose,

Netas organizes various innovation events, including the Focus Innovation/ Hackathon/Innovation Workshops, and implemented innovative new products such as the first 4G LTE Advanced Base Station design in Turkey, integrator role in mobile and fixed operator network transformation via NFV based virtual networks, products including MEC, AAA for 5G security infrastructure, and VoIP cyber security (NOVA Cyber Security Product Family) projects with certain "path-breaking" capabilities.

Netas also planned other projects to become the market leader in vertical industries. The company started R&D activities in IoT technologies via 'Smart Meter' project and continued with Smart Home and Smart Door projects. Due to the standardization and security requirements of IoT infrastructure and the necessity for compatible IoT systems, Netas started development of IoT Gateway and ION by NETAS, IoT platform products.

Netas aims to become a prominent and leading company both in national and international markets with its hands-on experience in the IoT. It has 32 EU Project applications in total, 20 of them at H2020, five projects at Celtic Plus, six at ITEA, one at Europides.

The company's R&D project portfolio includes nearly 60 projects, 40% of those are outcomes of innovation activities and process.

Netas in Management of EU Framework Programs

In order to increase international cooperation Netas spent consistent and patient efforts in the European Union (EU) Framework Programs. As a result, Netas is Vice Chair of the Celtic-Plus Core Group for the past two years, which is a EUREKA ICT cluster and an industry-driven European research initiative. This provides its active support for the formation of European technology as being part of the top management of the Celtic Plus organization, supporting more than 500 members and industry-initiated multinational, innovative and competitive R&D projects. The company is also represented as a Board Member in Networld2020 technology platform, and became a member of 5GIA (5G Infrastructure Association).

In 2017, Netas has been in EU project consortiums with national/international companies and universities, and filed 10 international project applications in total. In addition, company has two H2020, one Celtic Plus and two ITEA projects for those funding being approved. There are four more projects in the ITEA and Celtic Plus that have received international approval and awaiting TUBITAK approval for funding. In 2017, one H2020 project is approved, one project has passed the threshold value and rated at high evaluation score.

Cooperation with Universities

For the purpose of improving university-industry cooperation, institutionalizing the relations and mutually determining projects that would be carried out together, Netas signed and currently maintain framework agreements with 17 national universities: Boğaziçi, ODTÜ, İTÜ, İÜ, Koç, Sabancı, Yeditepe, Özyeğin, Gazi, BAU, YTÜ, Gebze Teknik, Işık, İstanbul Ticaret, Kocaeli, Kadir Has and Marmara University.

Since its beginning, seven semesters have been left behind in the M.Sc and PhD programs with Bahçeşehir University, within the scope of "BAU-Netas Techno Academy". Currently 64 R&D engineers are benefiting from this program and the academy gave its first graduates in 2017.

Netas is conducting various activities for supporting the education of university students who attend studies that relate to its focus topics. For this purpose, the company grants short and long-term internships & full scholarships and Ph.D. dissertation to students.

Netas experts currently give lectures at Boğaziçi University and Bahçeşehir University in order to share their know-how and experiences. Researchers from Netas continue their preparations to provide courses at Ozyegin University.

Since it is a major necessity to meet the research needs of the industrialists and to create research programs related to the social demands and industry related problems, the SAN-TEZ Project has been created for this task. Acknowledging the importance of this program, Netas has already completed eight projects in the scope of the program. Netas has one ongoing SAN-TEZ project with Yeditepe University.

Twelve percent of researchers continue their education, as postgraduate students and at Ph.D. level. 22 percent of the researchers have received their post-graduate degrees.

Netas receives academic consultancy for the projects to benefit from the knowledge and research of academics and it has 16 academic consultancy agreements with universities for projects in 2017.

Rapid Growth in Patent Applications

DünWith the purpose of offering value added innovative products globally, it is important that ideas of Netas employees are registered and IP protected, and results of Netas researches are shared in scientific platforms.

The number of the company's patent applications was 35 (34 national and one international) in 2013, 37 (34 national and three international) in 2014, 71 (68 national and three international) in 2015, 119 (118 national and one international) in 2016, 105 (104 national and one international) in 2017.

As a result of ever-increasing patent applications, Netas received the '3rd Best Company of 2015' award as the first and only telecom company of Turkey in Patent Awards organized by Turkish Patent Institute.

The study conducted by Netas researchers, is shared through scientific papers and publications to become a nationally and internationally recognized R&D Center. A total of 39 scientific papers are published in 2016, including 29 assertions (20 of which are at international conferences), four articles and six posters. In 2017, approximately 30 scientific papers are presented in national & international conferences and symposiums.

SERVICES

NETAS Test Center Services

The test automation and verification teams at NETAS TestCenter, perform the most suitable test processes to ensure high customer satisfaction, high-quality products and system sustainability. NETAS TestCenter successfully performs testing services for many industries through its R&D competence gained from many years of experience. Through resources that are found only in a very few companies, NETAS offers verification tests for both military and commercial communication systems.

As a result, the company continues to offer high reliability and quality by implementing corrective actions on products, if necessary.

Testing Outsourcing Service
Providing test services at world-class standards, NETAS TestCenter reduces project costs and allows for the efficient use of resources and technologies.

Software Services
Software Testing service offers software tests for various platforms, including web, desktop, server, embedded software ad business applications software.

Test Automation
NETAS Test Automation Service increases the speed and efficiency of the test stage using the most suitable automation method.

M2M and Mobile Terminal Tests
NETAS tests phones, tablets, M2M devices, PCs, modems and routers.

Mobile Application Tests
NETAS Mobile Application Testing Service ensures increased end-user satisfaction through comprehensive tests on different mobile devices, using the maximum number of mobile devices available.

Performance Tests
Operating performances of software, help determining response behaviours and time under excessive traffic conditions.

Penetration Tests
NETAS Penetration Testing (Pentest) Service analyses the status of the IT infrastructure and the steps to be taken in order to create a secure IT infrastructure.

Environmental Tests
NETAS Environmental Tests Service accurately assesses the resilience of military and civilian systems against natural environmental conditions.

Managed Services

Companies require professional, efficient and flexible IT management. Compared to conventional IT outsourcing, NETAS Managed Services play an important role in the technology management of the changing and digitalized world as solutions are developed to meet the needs of the business, targeting optimal efficiencies while providing cost advantages.

The management and control of all IT assets of enterprises now have NETAS expertise with Managed Services. NETAS, the leading provider of ICT services, securely and effectively transform businesses to the digital future with its extensive service competence and with its 24/7 on duty expert support staff.

NETAS Cyber Security Operations Center (CSOC)

The rapid change in technology is accompanied with the difficulty of finding, training and retaining competent engineers and together with budgetary constraints, making the operation of a security monitoring and incident intervention infrastructure even more difficult.

NETAS has structured its integrated Cyber Security Operations Center to meet these needs and ensure corporations receive maximum efficiency from their security investment with their existing personnel. NETAS CSOC is fully integrated with global technology partners of NETAS and leader technologies, and it is operated in compliance with global standards. It is run by NETAS experts on a 24/7 basis and is operated in an auditable manner with the required certifications in full compliance with the laws, regulations and industry standards to which corporations are subject to.
Services provided by the center are developed to provide four basic cyber security competencies required by corporations: Prevention, Detection, Intelligence and Response.

NETAS Network Operations Center (NOC)

NETAS Network Operations Center (NOC)
NETAS Network Operations Center offers infrastructure installation support for the central management of companies' IT infrastructures and 24/7 network monitoring and management support.

The center provides the very best quality service with minimum employment costs. It continuously monitors system and network infrastructures handling all the business data of our customers and the required actions are taken immediately. NETAS brings a proactive approach to network and system infrastructure management to enable business continuity.

NETAS team includes experienced support engineers and technicians specialized in network and system management and the team actively operates the center on a 24/7 basis. Data collected from devices in the corporate network are reported at certain time intervals, while problems on the network are quickly detected and resolved, thus ensuring the continuity of business flows and processes. Network performance measurements are made and assessed to ensure that systems operate at optimum performance and software updates are timely carried out from a single center.

A GLOBALLY LEADING NEW PARTNER: ZTE

About ZTE

ZTE is a global leader in telecommunications and information technology. Founded in 1985 and listed on both the Hong Kong and Shenzhen Stock Exchanges, the company has been committed to providing integrated end-to-end innovations to deliver excellence and value to consumers, carriers, businesses and public sector customers from over 160 countries around the world to enable increased connectivity and productivity.

ZTE believes in technology innovation as a core value of the company, investing more than 10% of annual revenue in R&D. The company has established state-of-the-art R&D centres in USA, Canada, Sweden, China and so forth, and employs over 30,000 research professionals in the development of next-generation technologies including 5G, 1Ot, NFV, SDN, Cloud Computing and Big Data. ZTE has filed applications for more than 68,000 patents, with over 28,000 granted. Since 2010, ZTE has been ranked among the world's Top-3 for patent applications under the Patent Cooperation Treaty (PCT) each year, according to the World Intellectual Property Organization.

As a member of the UN Global Compact, ZTE is committed to a vision of balanced, sustainable development in the social, environmental and economic arenas. Promoting freedom of communication around the world, the company has incorporated innovation, technological convergence and the concept of "going green" into the product life cycle. This includes R&D, production, logistics and customer service. The company is also committed to maximizing energy efficiency and minimizing carbon emissions.

With Corporate Social Responsibility (CSR) a key priority for the company, ZTE played an active role in relief efforts following events such as the 2015 earthquake in Nepal. ZTE also established the ZTE Special Children Care Fund, the largest charity fund of its kind in China.

Looking forward, the company will be committed to becoming a pioneer in telecommunications industry, taking the lead in standardization, technical perspective and commercialization, and driving innovations in telecommunications and ICT globally as the business and technology needs of the industry continue to evolve.

NETAS-ZTE INVESTMENTS

50th Anniversary Summit: Three Investments

Turkey's ICT pioneer NETAS celebrated its 50th anniversary on November 29, 2017, with a summit in the country's capital Ankara. The event featured an inaugural speech from the Turkish Prime Minister Binali Yıldırım. NETAS and ZTE announced three new investments they agreed to undertake in Turkey.

GSM-R Centre of Excellence

At the summit, NETAS and ZTE announced that they will establish a GSM-R Centre of Excellence at NETAS in 2018.

The GSM-R technology is an international wireless broadband communications standard for railway communication and applications. It is designed to improve the network interoperability, reduce operational costs, improve the safety at higher speeds and deliver new services. With a powerful standard support, GSM-R has mature supplier chains and has been widely commercially deployed since 1998.

NETAS and ZTE will cooperate on the GSM-R R&D activities and integrate their GSM-R solutions in the EMEA region and Central Asia. The products and solutions in question include railways signalling solutions, communications networks and data products, transmission networks and grid meters.

Undertaking a total of seven different railway communication projects, NETAS has worked for the GSM-R implementation of Turkey's high-speed railway lines including Gebze-Köseköy, Polatli-Konya and Menemen-Bandirma, as well as their wired communication infrastructure.

On the other hand, ZTE has been involved in the railway industry to provide railway solutions for more than 20 railways in nearly 40 cities in China and other countries around the world, including Russia and Nigeria.

Repair & Return Center

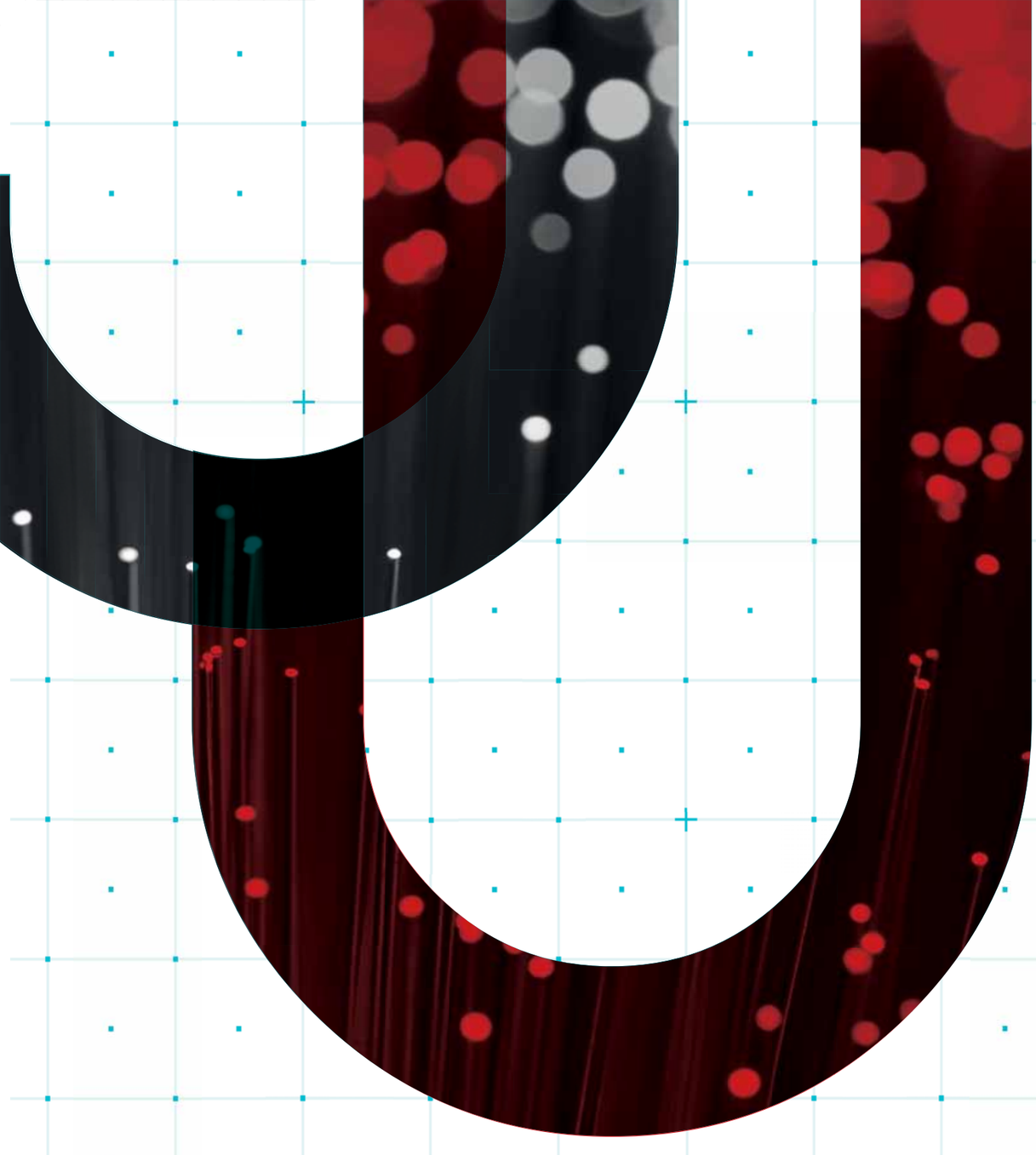
With its proficient service expertise for 50 years and wide coverage, ranging from consultancy to managed services and hardware & support services, NETAS will provide repair and maintenance services for ZTE products in the EMEA region (Europe, the Middle East and Africa).

This co-operation between NETAS and ZTE is expected to extend the market reach and increase customer satisfaction for ZTE products with cutting-edge technology, while contributing to higher revenues for NETAS.

NETAS Academy

NETAS and ZTE have agreed to establish a new training center in order to provide product trainings for ZTE products for customers and employees in the EMEA region (Europe, the Middle East and Africa) and Eurasia: NETAS Academy.

The new training center located in Istanbul, will ensure an easy and cost-effective travel scheme for training participants, since time is one of the most critical sources in today's business world. In addition, with its 50 years of expertise in the ICT industry and powerful R&D capabilities, NETAS employs a significantly competent workforce, the crucial element in any sort of education.
The NETAS Academy is expected to be commissioned in 2018.



ICT SECTOR

DEVELOPMENTS IN THE INDUSTRY

In 2017, the global economy continued to show a recovery albeit slow and the recovery gained further ground. World Bank's global growth forecast for 2017 is revised upwards by 0.4 percentage points compared to half-year forecast to 3.0 percent.
In 2017, the Turkish economy grew by 7.4 percent However, negative atmosphere of the previous year continued to remain effective in 2017. As the tensions in the Middle East still high, geopolitical risks caused an increased risk perception and depreciation of the Turkish Lira.
In the Middle East and North Africa, key markets of Netas, the economic growth is projected to stand at 1.8 percent, significantly slower as compared to the previous year due to lower oil prices and increased geopolitical risks. The Asia-Pacific economy, on the other hand, showed a positive performance, with a 6.5 percent growth.

(Source: World Bank, OECD, IDC, Turkish Statistical Institute)

A Positive Momentum in Global ICT Market

After a year of stagnation in the global ICT market in 2016, the market began to move upwards in 2017, with an expected growth rate of 4.1 percent on a fixed exchange rate basis, by the end of 2017. (Source: Gartner Market Databook, Q4 2017)
The Middle-Eastern and North African ICT markets are projected move sideways, while the Asia-Pasific ICT market is expected to show a strong growth at 8.7 percent on a nominal exchange rate basis, far higher than the global average. (Source: Gartner Market Databook, Q4 2017)
The Turkish ICT market, on the other hand, was marked by stagnation on a fixed exchange rate basis. Despite this hindering factor, Netas continued to outperform compared to the Y2017 market average.

A Fast Growth in the Software Segment

Examining sub-segments of the world ICT market on a fixed exchange rate basis, the software category is expected to become the fastest growing cluster, with an annual growth rate of 8.3 percent in 2017. Growth rates of the software and IT services markets are expected to be 1.5 times higher than the industry average by 2021.
In the Turkish ICT market, on the other hand, we see that the software and corporate network equipment categories to become the fastest growing segments, with a growth rate of approximately 12 percent
(Source: Gartner Market Databook, Q4 2017)

Cyber Security is the Essential Requirement for Any Business

In 2017, many large-scale and high-impact cyber-attacks are witnessed throughout the world, despite the increased cyber security awareness. Especially, ransomware attacks caused remarkable damage. WannaCry ransomware attack, which began to spread in May, infected more than 200,000 computers in 150 countries and it is estimated to be the biggest ransomware attack the world has ever seen. Other large-scale ransomware attacks, Petra and Bad Rabbit hit Europe.

Given the increasing pace and complexity of the cyber threats, maintaining security is the most significant technology related challenge facing Turkish CIOs. Cyber security is no longer only an IT issue, it has been elevated to boardroom discussions. Accordingly, cyber security solutions market of Turkey, which is expected to stand at $230 million in 2017, is projected to grow more than 11 percent per annum until 2021. (Sources: IDC The Turkish CIO's 2017 Digital Agenda, IDC Turkey IT Security Solutions Market 2017-2021 Report)

Internet of Things - The Pillar of Digital Transformation

While the potential increases in Netas' main focus areas, the Internet of Things (IoT) and related technologies were among technologies with the greater impact in 2017. As expected, IoT use cases are increasing rapidly: the number of connected devices used worldwide, which is currently about 8.4 billion, is expected to reach 20 billion by 2020. Moreover, the IoT technology will be embedded within new device electronics by a stunning rate of 95 percent by 2020. The global enterprise IoT services market is expected to grow at a rate of 16 percent per annum until 2021. (Source: Forecast Analysis: Internet of Things - Services, Worldwide, 2017 Update).
With this regard, the systems integrators with high technological competence, such as Netas, and technology providers may seize significant opportunity in the growing market. Netas contributes to the development of the IoT with relevant R&D studies; including global standards, IoT platform, smart city solutions, smart energy solutions and various smart enterprise solutions. Netas has been successful in transferring its technological competencies to the field in line with the industry use-cases.
In 2017, Netas has launched its horizontal IoT Platform, ION by NETAS, which enables fast and secure communication of

IoT devices and applications in a scalable manner.

With ION by NETAS, smart city solutions on various areas including transportation, energy, education, health care, safety and environment can be used to improve the quality of life with value-added outputs of smart processes, leveraging big data collected from millions of sensors.

In 2017, Netas has launched its horizontal IoT Platform, ION by NETAS, which enables fast and secure communication of IoT devices and applications in a scalable manner. With ION by NETAS, smart city solutions on various areas including transportation, energy, education, health care, safety and environment are used to improve the quality of life with value-added outputs of smart processes, leveraging big data collected from millions of sensors.

Netas, Regional Hub of Innovation and Technology

In 2017, as a reputable and trusted brand in the region, Netas increased its international sales revenue to 29 percent of its total revenue. Using its high technology experience that it gained in Turkey, the company provides value-added end-to-end solutions including technology consultancy and after sales support to the enterprises, public institutions and defense sector in its international markets.

In Algeria, Netas is designing, installing and commissioning data centers for Sonatrach, the largest oil company in Africa, the world's 11th largest oil company. Moreover, Netas succeeded in delivering some other large-scale projects with Ministry of Defense and mobile operators in Algeria, totaling more than $200 million. Many of its international large-scale projects, such as optic infrastructure deployment in Bangladesh, IP infrastructure solutions for telecom operators in Kazakhstan and Uzbekistan are projects with a reference value, not only in Turkey but also in the region.

The Netas management believes that the company's access to international markets will be faster and more efficient with its new shareholder ZTE. Three new investment decisions of Netas and ZTE are expected to support Turkey in becoming an ICT powerhouse, especially in the EMEA region, where the IT services market is projected to grow by 4.5 percent per annum until 2021 (Source: Gartner Market Databook, Q4 2017).
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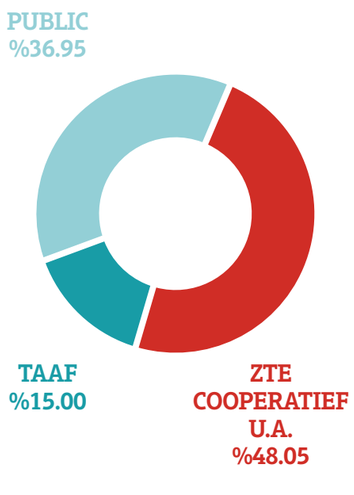
SHARE HOLDING

CAPITAL & SHAREHOLDING STRUCTURE



As of December 31, 2017, ZTE Cooperatief U.A. represents 48.05% of the total shares in the company as the owner of 23,351,328 A shares and 7,817,023 B shares.

The company shares are divided into two groups and all are registered shares. Separation of the shares into two groups grants no privileges to the mentioned (A) and (B) group shares other than as specified in article 9 and 15 of the Articles of Association.

As of end of 2017, shareholding structure of the Group is summarized below;

December 31, 2017	Share in Capital (TL)	Share in Capital (TL)
ZTE Cooperatief U.A.	31,168,351.34	48.05%
Turkish Armed Forces Foundation (TAFF)	9,729,720.00	15.00%
Public	23,966,728.66	36.95%
Total Issued Capital	64,864,800.00	
BIST Code	NETAS.IS	

**As of 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.*

Investor Data

01.01.2017-31.12.2017	Lowest	Highest	Average	29.12.2017
Share Price (TL)	9.85	18.41	12.65	15.84
Market Value (TL)	638,918,280	1,194,160,968	820,846,168	1,027,458,432
BIST-100	76,144	115,333	98,930	115,333

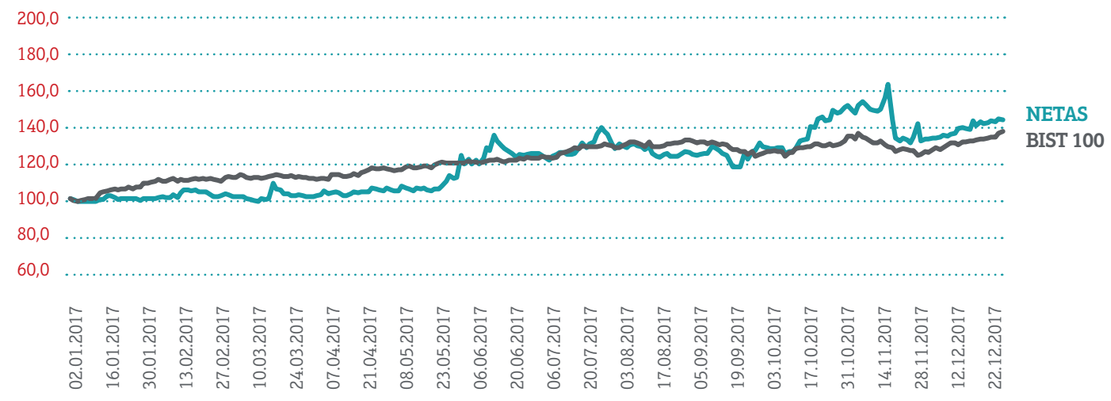
Registration date: 03.03.1967 Public offering date: 15.03.1993 Free float rate: %36.95

Earnings per share

Gain per share was TL 0.8251 in the period between January 1 - December 31, 2017.

The Company shares traded in Borsa Istanbul had a closing price of TL 15.84 as of December 31, 2017 and a market value of TL 1,027.5 million.

Stock Performance



OPERATIONAL STRUCTURE

OPERATIONAL STRUCTURE

Probil

The ever increasing global competition and shifting the focus from product to customer focus solutions mandate companies to always keep up with the IT technologies and use the technology more effectively. Probil has been providing a wide range of services from industrial solutions to business solutions, systems integration, outsourcing, care and maintenance services, network solutions and consultancy since 1989.

BDH

BDH offers brand-independent consultancy, strategic outsourcing, hardware and support services in IT field to a wide range of customers from small scale companies to enterprises and public institutions. With a service team of experienced and certified specialists in different IT fields, the company has a single point of access to its customers in Turkey.

BDH operates with 36 branches and 46 partners in different cities of Turkey. Centers located in Istanbul, Ankara, Izmir, Bursa and Samsun offer hardware support for all kinds of IT products from servers and storage units to hand-held devices and printers.

NETAŞ Telekom LLP

"Netas Telecom LLP" is founded in Almaty, Kazakhstan in 2012. The company is fully owned by Netas. The Company operates in line with Netas' vision "To Become the Regional Systems Integrator".

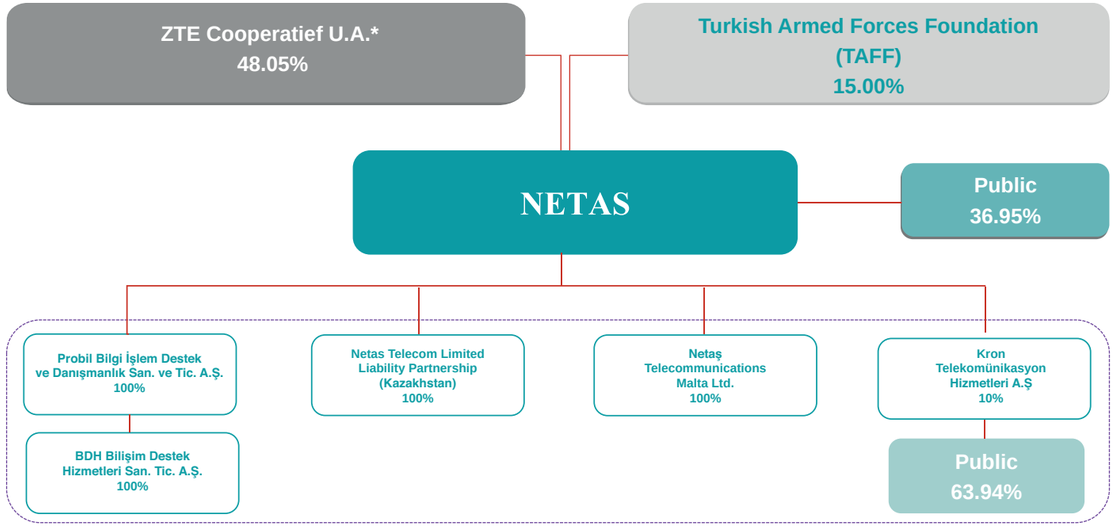
Netas Telecommunication Malta

A fully-owned subsidiary is established in Malta with an initial capital of €1,200 for the purpose of improving the operational effectiveness, and registered with the name of Netas Telecommunications Malta Ltd in 4 November 2014.

Kron

Kron Telekomünikasyon Hizmetleri A.Ş. is a company that produces software solutions for national and regional telecom operators and service providers. Netas acquired Group A shares of the company in 2013 in line with the strategic growth goal and the purpose of offering innovative solutions to its customers.

Having strengthened its capabilities in the field of systems integration with the acquisition of Kron, a company that develops customized solutions and products, Netas now provides a wider range of end-to-end solutions to its customers in Turkey and in the region



Note: *On 28 July 2017, shares of OEP in Netas has been transferred to ZTE Cooperatief. A.U. As of December 31, 2017, ZTE Cooperatief holds 48.05% of Netas.*

MANAGEMENT

Top Management

Board of Directors

Name Surname	Title
Xiao Ming	Chairman
Turkish Armed Forces Foundation (TAFF): M. Cumhur Özdemir)	Vice Chairman
Jiang Xiangyang	Board Member
Ding Minzhongxia	Board Member
Yang Jun	Board Member
David Arthur Walsh*	Chairman
Joseph Patrick Huffsmith*	Board Member
Andrew Glover Dunn*	Board Member
Memet Yazıcı**	Board Member
Alpaslan Korkmaz	Independent Board Member
Emre Şehsuvaroğlu	Independent Board Member

** After the completion of the transaction on 28 July 2017, Jiang Xiangyang, Ding Minzhongxia, Xiao Ming and Yang Jun are appointed as new board members to replace the board members including David Arthur Walsh, Joseph Patrick Huffsmith, Andrew Glower Dunn and Mehmet Yazıcı.*

The Board of Directors has established three committees: Corporate Governance Committee, Auditing Committee and Committee for the Early Detection of Risks (Risk Committee). Corporate Governance Committee consists of a chairman and four members, Auditing Committee consists of two Independent Board Members, and Risk Committee consists of one independent member and two members.

Corporate Governance Committee

Chairman: Alpaslan Korkmaz - Independent Board Member

Member: Xiao Ming - Board Member

Member: TAFF (Rep:M. Cumhur Özdemir)- Board Member

Member: Ding Minzhongxia - Board Member

Member: Çağrı Demirel - Investor Relations Manager

Auditing Committee

Chairman: Emre Şehsuvaroğlu - Independent Board Member

Member: Alpaslan Korkmaz - Independent Board Member

Committee for Early Detection of Risks

Chairman: Alpaslan Korkmaz - Independent Member

Member: TAFF (Rep: M. Cumhur Özdemir)- Board

Committee meetings are typically held one day before the Board meetings.

Since Nomination Committee and Compensation Committee required by Corporate Governance Principles are not established due to the structure of the Board of Directors, their duties are fulfilled by Corporate Governance Committee.

CVs of the Board Members are available at our Company website.

Executive Committee

Adı Soyadı	Görevi
C. Müjdat Altay	Chief Executive Officer
M. İlker Çalışkan	Chief Financial Officer
Yasemin Akad	Chief People Officer
Selcan T. Taşkıran*	Chief Marketing Officer
Kamil Orman	Public & Defense and Telecom Sector Business Unit General Manager
Ali İhsan Kuralkan**	International Markets Business Unit General Manager
M. Ali Tombalak	Enterprise Business Unit General Manager
Bilgehan Çataloğlu	BDH General Manager
Ömer Aydın	Defense Product Solutions Senior Director

** Selcan Taşkıran has resigned as of February 2, 2018.*

*** Ali İhsan Kuralkan resigned as of 6 March 2018, and Serdar Urçar was appointed as the General Manager of International Markets.*

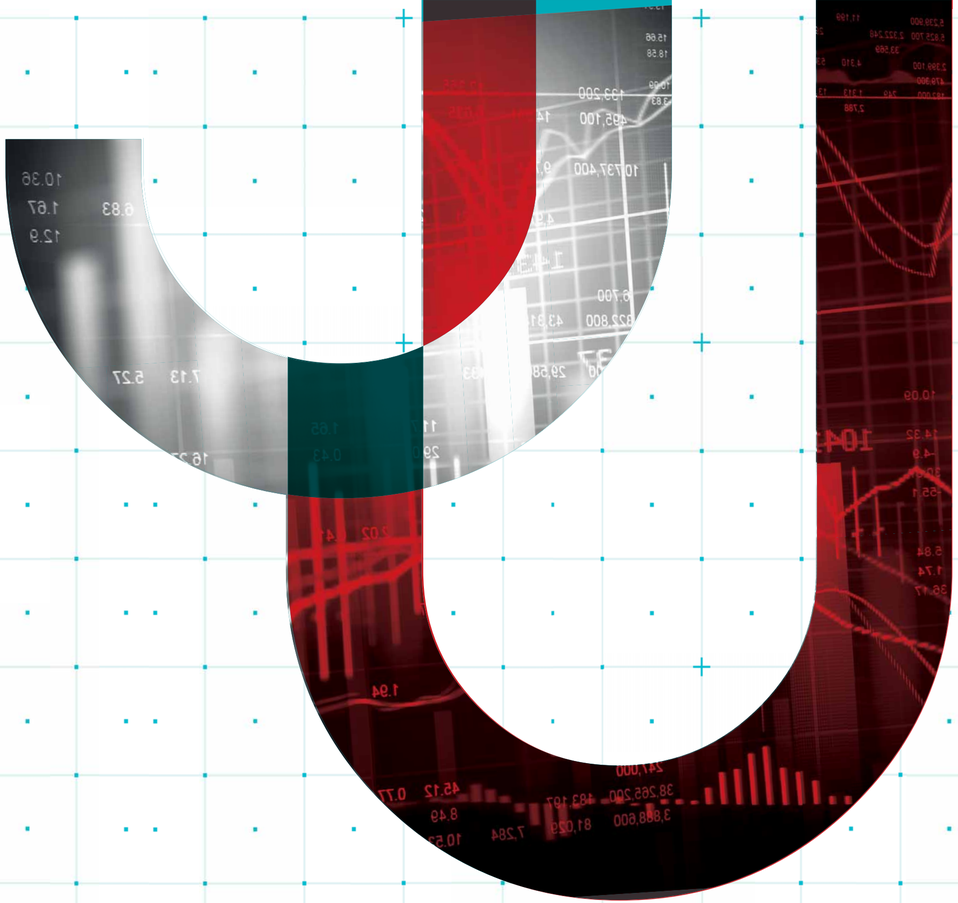
Financial Benefits Allocated to the Board of Directors and Senior Management

Financial benefits paid and allocated to the Members of the Board of Directors as of the fiscal year that ended by 31 December 2017 was TL 0.6 million. Financial benefits paid and allocated to the Members of the Board of Directors as of the fiscal year that ended by 31 December 2016 was TL 0.5 million. There are no Group credits utilized by the Members of the Board of Directors as of 31 December 2017 and 2016.

Financial benefits paid and allocated to the senior managers as of the fiscal year that ended by 31 December 2017 was TL 9.7 million. Financial benefits paid and allocated to the senior managers as of the fiscal year that ended by 31 December 2016 was TL 6.6 million.

There were no Group credits utilized by the senior managers of the Group as of 31 December 2017 and 2016. Group pays bonuses and premiums to the senior managers in addition to their remuneration.

EXECUTIVE COMMITTEE



FINANCIAL PERFORMANCE

FINANCIAL HIGHLIGHTS

Financial Highlights

Million TL	2017	2016	y/y%
Revenue	**1.122**	**970**	**16%**
Cost of sales	(950)	(835)	14%
Gross profit	**173**	**134**	**28%**
Gross margin %	*15%*	*14%*	*151*
Operating Expenses	(93)	(69)	35%
EBIT	**80**	**69**	**16%**
EBIT margin%	*7%*	*7%*	-
Depreciation	26	22	16%
EBITDA	**106**	**91**	**16%**
EBITDA margin%	9%	9%	-

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.*

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

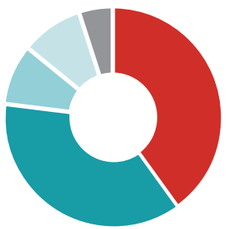
EBITDA= *EBIT + Depreciation*

Orders & Revenue

Despite the delay in Phase III- Fatih Project, Group minimized the contraction in order booking performance and Group recorded at TL 835 million new order in 2017 vs TL 879 million in FY2016. Order on hand (OOH) was at TL 472 million in the same period (637 million in YE2016). Consolidated sales revenue reached to TL 1.1 billion with a significant growth of 16% y-o-y as a result of large-scale projects as IGA and Sonatrach signed in late 2016 and early 2017.

Orders Booked Breakdown

2017



2016

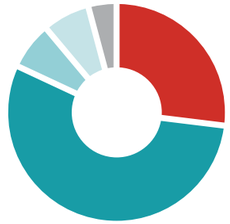
BDH 5%
Tech 9%
Int 9%
Public 37%
ENT 40%

BDH 4%
Tech 7%
Int 24%
Public 43%
ENT 21%

Revenue Contribution

2017

2016



BDH 4%
Tech 6%
Int 23%
Public 36%
ENT 31%

BDH 4%
Tech 7%
Int 7%
Public 55%
ENT 27%

OPERATIONAL PERFORMANCE

Performance of Business Units

2017 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Orders Booked	**307.9**	**335.1**	**77,4**	**71,1**	**43,7**	**-**	**835.1**
Revenue	**406.9**	**351.3**	**252.8**	**67.6**	**43.7**	**-**	**1,122.3**
Cost of sales	(334.5)	(312.2)	(196.9)	(68.8)	(30.2)	(10.1)	(949.7)
Gross Profit	**72.3**	**39.1**	**55.9**	**1.8**	**13.5**	**(10.1)**	**172.5**
Sales,marketing and distribution expenses	(21.3)	(22.2)	(12.6)	-	-	-	(56.1)
General administrative expenses	-	-	-	-	-	(32.5)	(32.5)
Research and development expenses	-	-	-	(4.3)	-	-	(4.3)
Operating profit / (loss) of segment	**51.0**	**16.9**	**43.3**	**(2.4)**	**13.5**	**(42.6)** -	**(79.7)**
Operating Profit Margin	**13%**	**5%**	**17%**	**-4%**	**31%**		**7%**

2017 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated	Total
Orders Booked	**374.7**	**189.6**	**208.8**	**73.3**	**32.5**	**-**	**878.9**
Revenue	**534.1**	**260.0**	**68.1**	**73.0**	**34.7**	**-**	**969.8**
Cost of sales	(453.5)	(231.7)	(54.3)	(69.8)	(18.0)	(8.2)	(835.4)
Gross Profit	**80.6**	**28.3**	**13.9**	**3.2**	**16.7**	**(8.2)**	**134.4**
Sales,marketing and distribution expenses	(14.3)	(21.2)	(8.8)	-	-	-	(44.4)
General administrative expenses	-	-	-	-	-	(24.4)	(24.4)
Research and development expenses	-	-	-	-	-	-	-
Operating profit / (loss) of segment	**66.2**	**7.0**	**5.0**	**3.2**	**16.7**	**(32.6)**	**65.6**
Operating Profit Margin	**12%**	**3%**	**7%**	**4%**	**48%**	**0%**	**7%**

Public Segment

Even though the government increased its public sector spending in the second half of 2017 as a reflection of the economic recovery, some projects in the public safety area and the public sector could not be realized at the desired terms and had to be postponed to 2018.

Consequently, Group's total order booking in public segment reported as TL 307.9 million at year-end 2017 with a contraction by 17.8% y-o-y.

The contraction in order booking performance was partly offset by the expansion in government projects in 2017. In addition to the ongoing TFF projects, new projects for Ministry of Education (Safe School Project - Güvenli Okul Projesi), Ministry of Transport, Maritime Affairs and Communications Transportation (Seeing Eye), Turksat-KKTC e-government projects (e-Gümrük, e-Tüzel) and infrastructure and networking installation for the City Hospitals contributed positively to the order booking performance.

In 2017, Revenues from public safety projects increased by almost 50% mainly due to the strong backlogs during the year. While the revenues from the telecom sector remained flat. Unfortunately, the revenues from government projects recorded in 2017 was lower than its level in 2016 due to the strong base of 2016 stemming mainly from Fatih Project. Consequently, public segment's total revenue declined by 24% in 2017 vs 2016.

Enterprise Segment

Consolidated order booking performance of Enterprise segment increased by 77% in 2017 and reached TL 335.1 million thanks to sizeable projects in General Industry and on-going service projects in Finance Sector. Thanks to long-run relations with the banks and other companies in the finance sector and General industry. Thus, Group succeeded to increase its revenue in Enterprise segment in 2017 by 35% over the previous year and Enterprise segment generated 31% of total Group's consolidated revenue with TL 351.3 million.

IGA Project agreement is signed in the first quarter of 2017, in addition to recurring service businesses in General Industry positively contributed to the Group's consolidated order booking performance in 2017. Group had a striking order booking performance by 113% in General Industry in 2017 over the previous year through strong customer relations and thanks to the enlarging playing field. While sales revenue in General Industry increased by 31% in 2017.

In 2017, Finance Sector continued to keep its strong seat with a 32% growth year on year in terms of order booking performance in Enterprise segment and revenue grew by 43%. Field maintenance projects, POS maintenance projects, application supports, software tests services etc. in Finance sector constituted large portion of Group's total finance sector revenues in FY2017.

International Segment

Group's orders booked was limited at TL 77.3 million as of end of 2017 mainly due to gradually falling oil prices reflected as a decline in government spending of the Asian and North African countries in 2017 besides the strong base of 2016. With its diversified business structure, Group managed to diminish the negative impact of this economic downturn in its flagship market of Algeria in 2017.

Despite its lower order booking performance in 2017 compared to the previous year, International markets recorded a strong revenue growth in 2017 mainly due to the strong backlog arising from the Sonatrach project, ATM Mobilis Project signed in 2016 and recently booked second phase of Algerian Ministry of Defense's Project. Consequently Group's revenues from International grew by 271% over the previous year and reached to TL 252.8 million with a gross profit margin of 22.1%.

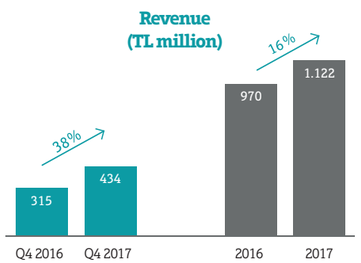
OPERATIONAL PERFORMANCE

Technology Segment

Group's order and revenue performance in Technology segment was relatively stable in 2017 and Group recorded TL 68 million revenue and TL 1.8 million gross margin in 2017 thanks to long-continued strong relations with Ribbon (Genband), the largest R&D customer of Netas, is a company that offers intelligent network solutions in more than 80 countries for service providers and major corporations. Operating profit of Technology segment turned to negative as a result of R&D spending in cyber security and other R&D areas amounting to approximately TL 4.3 million in 2017.

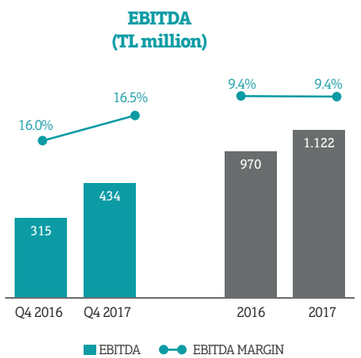
BDH

BDH's orders-booked increased by 35% in 2017 compared the same period of the year. Furthermore, as a result of continuous efficiency improvement, BDH's revenue increased by 26% y-o-y for the same period.



CONSOLIDATED FINANCIAL PERFORMANCE

Group's consolidated order booking performance was almost flat in 2017 resulting from the postponed public projects to 2018 in national market and challenging market conditions in international markets. However, the contraction in public and international segments were offset by the order expansion in Enterprise segment. Although 2017 was another challenging year as a result of ongoing geopolitical uncertainties in national and international markets, Group delivered a successful growth and consolidated sales revenue was up by 15.7% y-o-y and increased to TL 1.1 billion, in line with the Company's guidance for 2017. Strong backlog in International market was the primary reason for Group's solid consolidated revenue growth in 2017 while accelerated growth in Enterprise segment also provided a positive contribution.



Consolidated gross profit of the Group increased from TL 134.4 million in 2016 to TL 172.5 million in 2017 increasing by 28.4% y-o-y ahead of revenue growth, escalating its gross profit margin to 15.4% in 2017 from 13.9% in 2016 with an increase of 151bps year on year. Thanks to increased operational efficiencies coming from Enterprise segment and International markets.

Consolidated operating expenses (OPEX) increased to TL 92.8 million in 2017 compared to TL 68.8 million in 2016, mainly due to rising USD based operating expenses in national market. While, operating expenses as a percentage of net sales was almost flat in 2017.

In contrast with the presumable increase in OPEX due to higher FX rates, lower other expenses from operating activities resulted in a favorable operating profit in 2017 amounting to TL 64.5 million.

Group's consolidated Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) was realized as TL 106 million in 2017 with an increase of 16% y-o-y, while EBITDA margin remained flat at 9.4%.

Despite a lower financial income in 2017, bottom-line, recorded in 2017, was significantly higher than its level in 2016. Excluding the effect of provisions reflected to 2016 financial results for the doubtful receivables from Nortel Networks amounting to TL 21.7 million, Group was able to improve its bottom-line to TL 53.5 million in 2017 from 18.7 million in 2016.

DEBT STRUCTURE & NET WORKING CAPITAL

Group's cash and cash equivalents was TL 187 million for the year-ended 2017 with a net debt positioning of TL139 million. Gross financial debt was TL 326 million in 2017 and approximately 71% of debt in TL and 29% held in USD.

Maturities of more than 90% of total financial debts are shorter than one year.

(TL million)	Gross Debt	Cash & Cash Eq.	Net Debt
2017/12	326.1	187.2	138.9
2016/12	354.9	115.6	239.2

2017/12	TL	USD
Shtort Term Debt	298.4	79.1
Long Term Debt	24.0	6.4
Interest Expense Accruals fo Borrowings	3.7	1.0
TOTAL DEBT	**326.1**	**86.5**

Group's net working capital* (incl. non-current trade receivables and trade payables) requirement for the financing of continuing projects decreased to TL 615 million as of year-end 2017 (FY2016: TL665 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)*

2018 GUIDANCE

Market Expectations

- Year over year increase in overall global ICT market/flat market growth for Turkey
- Higher investment in Public projects
- Digitalization trends in Public and Enterprise segments

Key Assumptions

- 2018 Average $/TL: TL 3.9
- Inflation Rate : c.12%

Key Metrics of The Company

- Order On Hand: $ basis- Significant order booking performance- high double digit order development
- Revenue : $ basis- Revenue growth- low to mid double-digit growth
- EBITDA : $ basis- Sustainable EBITDA growth - high single digit growth
- Cash : $ basis- Positive cash flow generation

RISK MANAGEMENT

RISK MANAGEMENT

Credit Risk

A credit limit is assigned to each customer and transactions are kept within such limits. The Group has a significant amount of assets in banks. In this sense, the Group assigns a credit limit to each bank and transactions are kept within such limits. Financial Audit and Treasury Department of the Group controls whether or not transactions are kept within such limits (Financial statements footnote 30).

Liquidity risk

Adaption of a management policy to ensure that the collection due dates for receivables comply with debt due dates protects the Group against liquidity risk. The Group holds adequate sources to be able to fulfil its current and future liabilities.

Currency risk

Functional currency of the Group is USD and therefore, currency risk is associated for the most part with the shifts of USD value against TL and other currencies. With the purpose of limiting the effects of appreciation or depreciation of USD against other currencies, the Group makes use of its assets in compliance with its liabilities to the extent possible and undertakes contracted expenditures in the contract currency (Financial statements footnote 30).

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 36% of the total liabilities.

Information about Internal Control and Internal Auditing Activities

As specified on CMB Corporate Governance Principles, an Audit Committee with independent Board Members was established within the Group to ensure that the Board accurately performs its tasks and liabilities.

The Group performs internal control activities to define the operational, financial and adaption risks associated with the industry and business processes, take the measures against these risks or avoid them. Internal control activities include increasing process efficiency, ensuring same or similar implementations for all processes by setting certain standard procedures for business flows, facilitating the tasks, roles and responsibilities, increasing coordination between departments and ensuring full compliance with the legislation, laws and regulations.

CORPORATE GOVERNANCE PRINCIPLE COMPLIANCE REPORT

CORPORATE GOVERNANCE PRINCIPLE COMPLIANCE REPORT

SECTION I: CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE DISCLOSURE

In the conduct of its business activities Netaş Telekomünikasyon A.Ş. exerts utmost care to the requirements of Turkish Commercial Code, the Articles of Association of the Company, the Capital Markets Law, the Communiqués of the Capital Markets Board (CMB) and other relevant legislation. Aiming to create the highest level of value to its customers, shareholders, employees, business partners and the society with innovative and creative communication solutions, the Company gives great importance to transparency. In this regard, the Company has adopted "Corporate Governance Principles" published by the Capital Markets Board in July 2003. Since 2004, The Company has issued its Corporate Governance Principles Compliance Report together with its Annual Reports.

Netaş Telekomünikasyon A.Ş. complies with the compulsory provisions of Corporate Governance Communiqué published on the Official Gazette dated January 03, 2014 with the number 28871 and puts forth effort to comply with the discretionary provisions to a large extent. Our corporate governance understanding and practice are based on the core values, code of conduct, vision and objectives of our company and Corporate Governance Principles.

SECTION II- SHAREHOLDERS

2.1. Investor Relations

Netaş Telekomünikasyon A.Ş. has an investor relations unit reporting to the Company's Chief Financial Officer (CFO). The investor relations manager is also a member of the Corporate Governance Committee. The contact information for the investor relations department of the Company are as follows:

Cagri DEMIREL
Investor Relations Manager
Phone: +90 216 522 5209
Fax: +90 2016 522 2222
E-mail: cagrid@netas.com.tr

Feral Derya UZAY YILMAZ
Accounting and Control Director
Phone: +90 216 522 2951
Fax: +90 216 522 2222
E-mail: duzay@netas.com.tr

The Investor Relations Department plays an essential role in,
• Ensuring that records of correspondence between investors and the shareholding as well as the records pertaining to other data and documents are kept correctly, safely and up to date;

• Responding to the information requests of shareholders regarding the shareholding;

• With regard to the general meetings; preparing the documents to be submitted to the perusal of the shareholders and taking necessary measures as to ensure that general meetings are held in compliance with the relevant legislation, articles of association and other internal regulations;

• Ensuring and monitoring that duties and obligations arising out of the capital market legislation including the issues related to corporate governance and public disclosure are fully respected.

The current key activities of the Investor Relations Department are as follows:

• Information requests of our investors communicated through e-mail or phone have been replied in compliance with relevant legal regulations. Except from the requests involving confidential information and trade secrets, all of the information requests are met respecting equality principle.

• It is ensured that general assembly is carried out in compliance with the relevant legislation, articles of association and other internal regulations.

• Prior to the general assembly, informative documents are prepared for the perusal of the shareholders.

• Legal obligations regarding public disclosure are fulfilled and it is ensured that required information is provided to Public Disclosure Platform so that such information is complete, clear, adequate, and direct and does not involve misleading expressions.

• An analysts meeting was held in 2017, where financial and operational performance of the Company were presented and the management review regarding the new business opportunities and ICT market.
• During the period, many information requests were received from shareholders and their representatives through e-mail and phone and these were replied in compliance with relevant legal regulations.

2.2. Exercise of the Information Rights by Shareholders

The majority of the requests were related to transfer of the OEP Turkey Tech B.V.'s shares to ZTE Cooperatief U.A., fluctuations in stock prices, investments of the Company and dividend distribution. The requests were mostly received through telephone and replied based on available information, to the extent permitted by legislation and confidentiality rules relating to business secrets. Requests received through electronic mail were responded through electronic mail.

Announcements related to the Company's activities and developments, which could be of interest to the shareholders, were disclosed to the public through Public Disclosure Platform in accordance with Communiqué of the CMB Material Events Disclosure. The media was also informed through press releases. These released and announcements were also placed on the website of the Company at www.netas.com.tr/en

The Articles of Association of the Company does not have a provision for the appointment of a special auditor; however, the shareholders have a right to request the appointment of a special auditor in accordance with Article 438 of Turkish Commercial Code. During the period no request was made for the appointment of a special auditor.

CORPORATE GOVERNANCE PRINCIPLE COMPLIANCE REPORT

2.3 General Assembly Meetings

During the year, two extra ordinary general meeting and one ordinary general meeting were held.
The Extra-ordinary General Assembly Meeting was held on 3rd of March, 2017. The required majority of shareholders under the Articles of Association of the Company and the Law were present at this meeting. Shareholders and their representatives were present at the meeting. The invitation to the meeting was made in conformity with Article 14 of the Articles of Association of the Company and Article 414 of the Turkish Commercial Code and the provisions of the Capital Markets Law. Additionally, invitations were published in Turkish Commercial Registry Gazette, holders of registered shares were invited by registered mail and the meeting was announced at the Public Disclosure Platform (PDP). At the extraordinary general assembly meeting, the board member change was voted on and rejected by a majority vote.
The Ordinary General Meeting was held on 23rd of May, 2017. The required majority of shareholders under the Articles of Association of the Company and the Law were present at this meeting. Shareholders and their representatives were present at the meeting. The invitation to the meeting was made in conformity with Article 14 of the Articles of Association of the Company and Article 414 of the Turkish Commercial Code and the provisions of the Capital Markets Law. Additionally, invitations were published in Turkish Commercial Registry Gazette, holders of registered shares were invited by registered mail and the meeting was announced at the Public Disclosure Platform (PDP). The meeting was conducted by the physical attendance and electronic participation of shareholders through the Electronic General Assembly System of the Central Registry Agency.
In the notice of invitation, shareholders intending to participate through the Electronic General Assembly System were reminded of their obligations. The Financial Statements, Annual Report and The Dividend Distribution Proposal were made available for the review of the shareholders three weeks prior to the Ordinary General Assembly. Shareholders were allowed to comment and raise questions at the meeting. Proposals made by shareholders were put to vote at the General Assembly by the Chairman. No proposals were made for addition of items in the agenda of meeting. At the Ordinary General Assembly, shareholders were informed of donations made under a separate agenda item. There are no donations or charities in 2017.
At the Extraordinary General Assembly Meeting held on 28th of July 2017, to replace the resigned board members of David Arthur Walsh, Andrew Glover Dunn, Joseph Patrick Huffsmith and Memet Yazıcı, due to the completion of the share transfer between OEP Turkey Tech B.V. ("OEP") and the ZTE Cooperatief U.A. ("ZTE"). It has been accepted with the majority vote of candidates of the board of directors of Ding Minzhongxia, Jiang Xiangyang, Xiao Ming and Yang Jun in accordance with Article 15 of the Articles of Association of the Company and Corporate Governance Committee's recommendation in order to complete the remaining terms of office.
In order to accommodate wider attendance, the meetings were organized at the head office of the Company in its social facilities. The minutes of the Shareholders Meetings were submitted to CMB, Borsa İstanbul and the regional office of the Ministry of Science, Industry and Technology, announced to the public through Public Disclosure Platform (PDP), registered with the Commercial Registry, published in the Commercial Registry Gazette and copies were sent to shareholders upon request and additional copies are made available to the shareholders at the head office and the web site of the Company for review.

2.4. Voting Rights and Minority Rights

According to the Articles of Association of the Company, every share has a right to one vote at meetings of shareholders. The ordinary and extraordinary meetings of shareholders are held in accordance with the Turkish Commercial Code. Minority rights are subject to the provisions of the Turkish Commercial Code and Capital Markets Law.

The shares of the Company are divided into two groups, where both (A) group shares are and (B) group shares are registered shares. The differentiation of the shares between (A) and (B) groups, does not give the owners any rights nor privileges, except as provided in Articles 9, 15, of the Articles of Association.

According to Article 9 of the Articles of Association; the required quorum for meetings and the required majority for resolutions of the shareholders shall be subject to the provisions of the Turkish Commercial Code (T.C.C.) and Capital Markets legislation. However, resolution of the shareholders concerning amendments to the Articles of Association shall require the affirmative votes of the shareholders representing at least one half of the total number of shares within Group A.
There is no cross shareholding relationship between the Company and its shareholders. Cumulative voting procedure is not stated in the Articles of Association and thus not implemented.

2.5. Dividend Rights

There is no privilege granted to shareholders regarding participation to the company profit. The Dividend Policy of the company has been submitted to shareholders on the corporate website of the company. Dividend Policy shall be submitted to the approval of the general assembly at the first ordinary general assembly meeting.

There are no privileges with regards to participation to company profit, and the profit distribution procedure has been described in article 22 of the Articles of Association. At the general assembly meeting of the company held on May 23, 2017, the Proposal to Not Distribute Profit for the period, presented by the Board of Directors, was submitted to the information and approval of the shareholders and was accepted unanimously by all participants. Accordingly, it was decided not to distribute profit during the period and to use the undistributed profit in the financing of the operating activities of the Company.

2.6. Transfer of Shares

The transfer of shares is stipulated in Article 6 subparagraph (c) of the Articles of Association of the Company. Accordingly, bearer shares can be transferred without being subject to any limitation or condition.

However, concerning the transfer of registered Company A shares the existing shareholders in Group A are entitled to preemptive rights which are required to be exercised within 30 days from the date of the offer for sale. Therefore, a shareholder wishing to transfer its shares, in full or in part, must first offer, in writing, to transfer its shares to the other shareholders in Group A in proportion to their respective shares, stating the price and other conditions for sale.

If any shareholder, to whom the offer was made, declines to purchase the offered shares, such shares shall be offered to the other shareholders in proportion to their share ownership and this method will be pursued in the same manner until all shares are sold or rejected. Following the application of the above procedures, the transferor will be free to offer any rejected shares to third parties without restrictions, provided that the price and other conditions of sale are no more favorable to the third party than the price and other conditions contained in the initial offer.

CORPORATE GOVERNANCE PRINCIPLE COMPLIANCE REPORT

SECTION III- PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Website and Content

The corporate website www.netas.com.tr/en of the Company is actively used both in Turkish and in English for implementation of the disclosure policy within the framework of the Corporate Governance Principles of the Capital Market Board.

3.2. Annual Report

The annual report is prepared in line with the capital market regulations and the Corporate Governance Principles of the Capital Markets Board.

SECTION IV- STAKEHOLDERS

4.1. Informing Stakeholders

Stakeholders are persons, corporations or interest groups such as employees, creditors, customers and suppliers, in direct relation with the company and having interest in the achievement of the Company objectives or in its activities. Stakeholders are invited to the meetings regarding any matters concerning them. "Bizbize" meetings are held for the employees and informative meetings are held for suppliers and distributors.

Public announcements are made through press releases, press bulletins and interviews; published press releases are simultaneously announced on corporate web sites and corporate social media accounts. Employees are regularly informed via announcements and various events organized by Company.

With the general assembly meetings, open to all stakeholders, our website, annual and interim reports, our press releases and our Public Disclosure Policy based on transparency aim to inform not only the shareholders but also all stakeholders.

Stakeholders may share information through the investor relations e-mail and phone, to communicate any practices that they consider to be breaching the legislation or to be ethically inappropriate to the Audit Committee.

4.2. Participation of Stakeholders in Management

Models are being developed to support participation of stakeholders, especially company employees, in the company management, without disrupting company operations. The relevant groups can meet with company executives at any time. The opinions of relevant groups are received through employee satisfaction, customer satisfaction and supplier satisfaction surveys that are periodically conducted by independent organizations and the company, and strategies are developed accordingly.

4.3. Human Resources Policy

The fundamental aspects of the Company's human resources policy can be outlined as follows;

The success of Netas in a dynamic and rapidly changing information and Communication Technologies sector is dependent upon the contributions and development of its employees. The Company aims to maximize the potential, motivation and innovation of its employees in order to achieve corporate objectives. To this end, the Company provides equal opportunities for employment, rewards performance, promotes the development of individuals and teams, fosters environmental protection, and meets the requirements of health and safety regulations. Competitive compensation and social benefit programs are prepared, the knowledge and the competencies of the employees are assessed through the attributes defined in Core Competencies. Within the performance management process and throughout the career development process, employees are given opportunities to assess and develop their skills.

The human resources policy is available at the website of the Company. Related policies and procedures are accessible by all employees. Managers and Human Resources department are responsible to maintain relations with employees in line with the human resources policy.

All employees are informed in detail and transparently about all human resources processes including their employment contracts, mutual responsibilities of the company and its employees and working standards defined in the Personnel Regulations since their recruitment. Employee rights are governed by human rights principles, current legislation, labor contracts, personnel regulations and ethical rules. During the period, no discrimination complaint was received from the employees.

4.4. Ethical Rules and Social Responsibility

The Board of Directors has established a Code of Conduct for the Company and its affiliates and communicated it to employees. No disclosure was made to the public.

Netas has been implementing Environment, Health and Safety Program since 1997. Within the scope of this program ISO14001 Environmental Management System and OHSAS 18001 Employee Health and Safety Management System are implemented. No claims were raised against the Company for environmental pollution.

Activities related to social responsibility of the Company include maintenance of relations with universities and the provision of scholarship to successful students in need. Students are offered opportunities for internships. Furthermore, through memberships in foundations and associations, contributions are made to the society, and to scientific and technological development. Voluntary initiatives of employees for public aid and environmental activities are encouraged and supported.

CORPORATE GOVERNANCE PRINCIPLE COMPLIANCE REPORT

SECTION V- BOARD OF DIRECTORS

5.1. The Structure and Composition of the Board of Directors

The Board of Directors of the Company is composed of 7 (seven) members elected for three years by the general assembly of shareholders, from among the shareholders or their nominees. Four of the seven members are elected at the meeting of the Shareholders from among the candidates nominated by Group A and three members are elected from among the nominees of the Group B shareholders. The members of the Board of Directors can be re-elected.

Name Surname	Title	Executive/Non- Executive/ Independent	Start- Due Date
Xiao Ming*	Chairman	Non-Executive	28.07.2017/3 years
Turkish Armed Forces Foundation (TAFF) (Rep:M. Cumhur Özdemir)	Vice Chairman	Non-Executive	28.07.2017/3 years
Ding Minzhongxia*	Member	Non-Executive	28.07.2017/3 years
Jiang Xiangyang*	Member	Non-Executive	28.07.2017/3 years
Yang Jun*	Member	Non-Executive	28.07.2017/3 years
Alpaslan Korkmaz	Independent Member	Independent	02.05.2016/3 years
Emre Şehsuvaroğlu	Independent Member	Independent	02.05.2016/3 years
C. Müjdat Altay	General Manager		

** After the completion of the transaction on 28 July 2017, Jiang Xiangyang, Ding Minzhongxia, Xiao Ming and Yang Jun appointed as new board members to replace the board members of David Arthur Walsh, Joseph Patrick Huffsmith, Andrew Glower Dunn and Mehmet Yazıcı.*

There are no restrictions imposed on the Board of Directors concerning other duties and occupations they can assume other than the restrictions concerning conflict of interest and competition with the Company. Such restrictions are submitted to the approval of the shareholders each year at the General Meeting.

Activities of Directors outside the Company;

Mr. Xiao Ming is Group SVP and President of Europe and Americas of ZTE Corporation. Ding Minzhongxia is in charge of all acquisition and investment related operations for ZTE with a strategic focus on European and American market. Also Mr. Ding is a Board member of ZTE Services Deutschland GmbH (Germany), and ZTE Managed Services Southern Europe, S.L. (Spain) on behalf of ZTE Group's shareholder interest. Mr. Yang Jun is the Vice President of ZTE Corporation as well as the General Manager of overseas Government & Enterprise Business Sales Center. He is responsible for the oversea Government & Enterprise business development and operations. Mr. Jiang holds the position of Vice President-Strategic Initiatives for Europe and Americas.M. Cumhur Özdemir is a manager at Turkish Armed Forces Foundation, Memet Yazıcı is managing partner at TRPE Capital, Alpaslan Korkmaz is Chief Executive Officer at Kayı Holding and Emre Şehsuvaroğlu is the Head of Internal Audit at Yıldız Holding.

The written statements of all independent members, regarding their independence in line with the criteria specified in the legislation, the articles of association and the communiqué:
To the Board of Directors of Netaş Telekomünikasyon A.Ş.;
I hereby declare that;

There have been no employment relations in management positions undertaking important duties and responsibilities; I do not jointly or individually own more than 5% share in capital, voting rights or privileged shares or no significant commercial relation has been established, during the last five years; between the Company or partnerships where the Company controls the management or has significant influence, partnerships controlling the management of or having significant influence in the Company or legal entities controlling the management of such partnerships; and me, my spouse and my blood relatives or my relatives by marriage,

I have not been partner of (5% and higher), have not been employed in management positions undertaking important duties and responsibilities or have not been a member of the board of directors, in companies to/ from which the Company sold/purchased significant services or products in the framework of agreements, especially regarding audit (including tax audit, legal audit, internal audit), rating and consultancy of the Company, during periods when the services or products were purchased or sold, during the last five years,

I have the required professional training, knowledge and experience to duly perform the duties I shall assume as an independent member of the board of directors,

I do not have a full-time job in public institutions and organizations and if elected, I shall maintain this status throughout my term in office (except for university faculty membership),

I comply with the criteria for residence in Turkey according to the Income Tax Law No. 193 dated 31/12/1960,

I have strong ethical standards, professional reputation and experience to positively contribute in Company activities, to maintain neutrality in conflicts of interest between the Company and shareholders, and to freely make decisions by taking into consideration the rights of stakeholders,

I shall allocate time to Company affairs to follow the operation of Company activities and to fully fulfill the requirements of the duties I shall undertake,

I have not been a member of the Company board of directors for more than six years during the last ten years,

I do not serve as independent member of board of directors in more than three Companies management of which are controlled by the Company or by partners controlling the management of the Company; and in more than a total of five Companies traded in the stock exchange.

I have not been registered and announced on behalf of the legal entity elected as member of the board of directors.

There have been no events compromising the independence of the independent members serving as members of the board of directors in 2016.

5.2. Working Principles of the Board of Directors

The agenda for the meeting of the Board of Directors is determined by consultation between the Chairman, the members of the Board and the General Manager. The Board of Directors has held fourteen meetings during the period with the attendance of the required majority. Invitations to meetings were made at least three days in advance of the meeting together with the notification of the agenda. In order to facilitate communication with the Board Members and to provide related services a Corporate Secretarial Services function exists within the Company. In the event that differences of opinion are expressed in the Board Meetings, these are reflected in the minutes of the meeting. Questions raised and comments made at the meetings of the Board and related responses are recorded in the minutes of the meeting. Members of the Board of Directors are not granted weighted voting rights or veto rights under the Articles of Association.

According to the Articles of Association, the required quorum for Board meetings is the presence of five members of the Board. The majority vote of those present is required for the approval of any subject.

An amount of USD 20 million has been insured against possible losses to be incurred by the Company arising from faults of Members of the Board of Directors during service, and the insurance exceeds 25% of our capital.

CORPORATE GOVERNANCE PRINCIPLE COMPLIANCE REPORT

5.3. The Number, Structure and Independence of the Committees

Three committees have been established by the Board of Directors as the Corporate Governance Committee, the Audit Committee and Early Detection of Risks Committee.

Corporate Governance Committee
Chairman: Alpaslan Korkmaz - Independent Board Member
Member: Xiao Ming (*) - Board Member
Member: TAFF (Rep:M. Cumhur Özdemir)- Board Member
Member: Ding Minzhongxia(*) -Board Member
Member: Çağrı Demirel - Investor Relations Manager

(*) After the completion of the transaction on 28 July 2017, Xiao Ming, Ding Minzhongxia is appointed as Corporate Governance Committee member to replace the board members, David Arthur Walsh and Mehmet Yazıcı.

Auditing Committee
Chairman: Emre Şehsuvaroğlu - Independent Board Member
Member: Alpaslan Korkmaz - Independent Board Member
Committee For Early Detection of Risks
Chairman: Alpaslan Korkmaz - Independent member
Member: Ding Minzhongxia(*) - Board Member
Member: TAFF (Rep: M. Cumhur Özdemir)- Board Member

(*) After the completion of the transaction on 28 July 2017, Ding Minzhongxia is appointed as a member of the Committee for Early Detection of Risks to replace the board members Joseph Patrick Huffsmith.

As there are only two independent members, they serve in multiple committees. Committee meetings are held one day before meetings of the Board of Directors. As the Nomination Committee and the Remuneration Committee specified in the Corporate Governance Principles could not be established due to the structure of the Board of Directors, these duties have been undertaken by the Corporate Governance Committee.

Working principles have been prepared for the committees and arrangements have been made for follow-up by relevant functions. 4 corporate governance committee meetings, 5 audit committee meetings and 6 early detection of risks committee meetings were held in 2016.

The Audit Committee has communicated to the board of directors all its proposals regarding issues under its responsibility. The Corporate Governance Committee has offered recommendations to the board of directors on improvement of corporate governance applications and has supervised the work of the Investor Relations Department. The Early Detection of Risks Committee which works for early detection of risks endangering the existence, development and sustainment of the company, for taking measures, for detected risks and for risk management; has reviewed the Risk Management Systems of the Company in accordance with the Corporate Governance Principles and the Early Detection of Risks Committee Regulations.

5.4. Risk Management and Internal Control Mechanism

The Board of Directors has formed an Audit Committee composed of independent members and an Early Detection of Risk Committee to establish an internal control mechanism for the Company.

The Company implemented Sarbanes Oxley rules which were a requirement for its former parent Nortel Networks and continues to implement the same rules at its discretion even after the affiliation with Nortel Networks ceased. Within this framework the Company operates an internal control process.

The Company maintains its internal control activities in order to determine operational, financial and adaptation related risks originating from market conditions and business processes. Necessary measures to mitigate and avoid risks are taken accordingly. Activities relating to internal control include; increasing efficiency of processes, implementing same or similar procedures for all work conducted within the workflow, contributing to the conduct of roles and responsibilities, promoting coordination between teams, ensuring and controlling full compliance with provisions of rules, regulations and laws.

5.5. Strategic Objectives of the Company

The strategic objectives of the Company are reviewed and determined by the Board of Directors during budget review discussions within the scope of three year plans prepared by the management and submitted to the Board. The activities of the Company, the level of achievement of objectives and past performance are reviewed by the Board each quarter and at the end of the budget period. *5.5.*

5.6. Financial Benefits

Compensation for the Members of the Board of Directors is determined by the General Assembly of the Shareholders each year, in accordance with Article 15 of the Articles of Association. Accordingly, Board Members receive a monthly fee payable at the end of each month. There are no incentives available to Board Members based on performance in connection with the performance of the Company.

Financial benefits provided to members of the Board of Directors and senior management team are explained in the annual report

The Company did not lend any money, extend any credit, extend a personal credit through a third party, nor provided any guarantees to or in favor of any Member of the Board of Directors or any Manager of the Company.

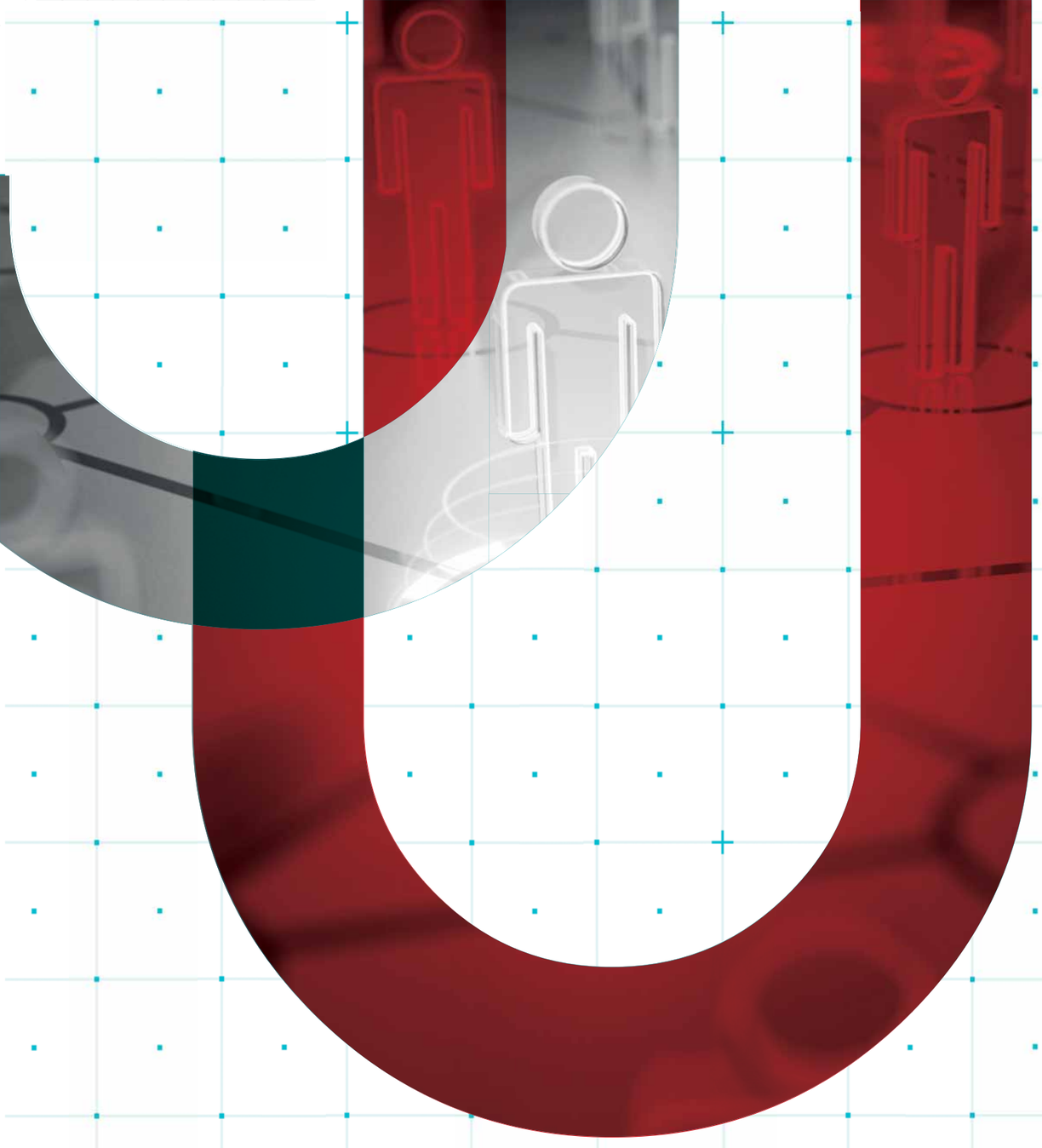
Compensation policy is available at our website.

OTHER ISSUES

The issues contained within the scope of "Determination of the Minimum Content of the Companies' Annual Reports" regulations published by the Ministry of Customs and Trade, are as follows:

- The company acquired none of its own shares during the reporting period.
- The company did not undergo any special audits during the reporting period.
- As of the reporting date, the company was not a respondent in any suit whose outcome would be capable of significantly affecting either the company's financial position or the conduct of its business.
- As of the reporting date, none of the members of the company's Board of Directors had demanded the issuance of any report as provided for under Article 199/4 of the Turkish Commercial Code.
- The company's financial position is solid. There is no risk of its having insufficient capital or of its becoming insolvent.

None of the persons from the company's management has been engaged in business, on their own behalf or on behalf of someone else that is in competition with the company, in accordance with the permission given by the general assembly.



HUMAN RESOURCES

HUMAN RESOURCES

PERFORMANCE MANAGEMENT

Performance management as an important part of the compensation management aims to ensure employees to be incentivized in a consistent, fair and encouraging way while another purpose is to lead employees' career developments and improve their skills according to their development needs, establish supportive steps in training and career planning monitor the achievements on objective targets and provide meaningful feedback.

The system includes multiple steps to get objective views of more than one participant; other than the immediate supervisor, the performance of employees can be also asked optionally to the stakeholders while joint feedback-sharing and peer review meetings are also held within that department.

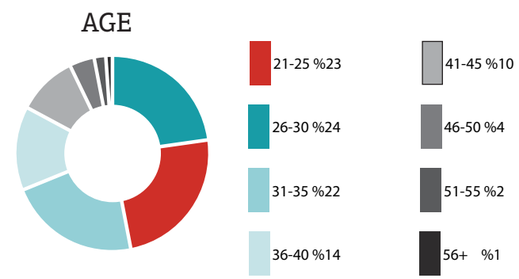
Performance management system does not only measure the success of the mutually agreed roles and responsibilities of the employees; but also measures performance with the core values of Netas, which are key for Netas' vision of working in global standards and becoming the #1 systems integrator of Turkey and the region in the current dynamic and developing nature of the ICT sector.

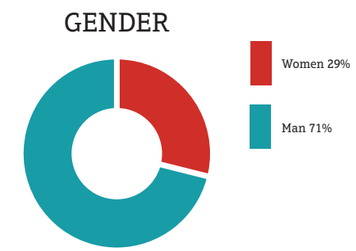
Netas Employees in Figures

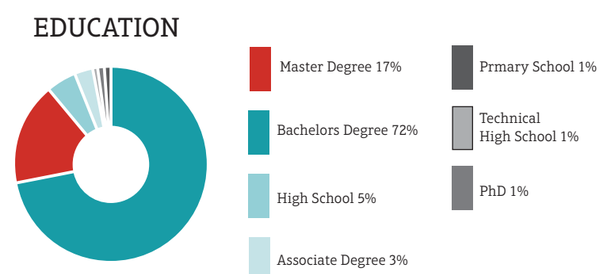
As of December 31, 2017, Netas workforce stands at 2,154 employees with an average age of 32 and 29% of whom are women.

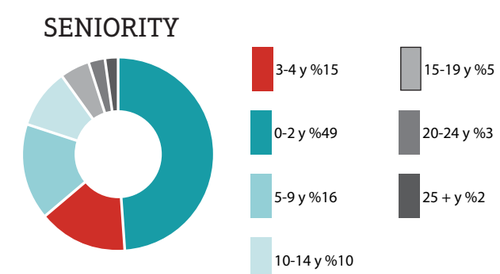
Netas Employees in Figures

As of December 31, 2017, Netas workforce stands at 2,154 employees with an average age of 32 and 29% of whom are women.









NETAS HUMAN RESOURCES ACTIVITIES

Netas Human Resources Activities

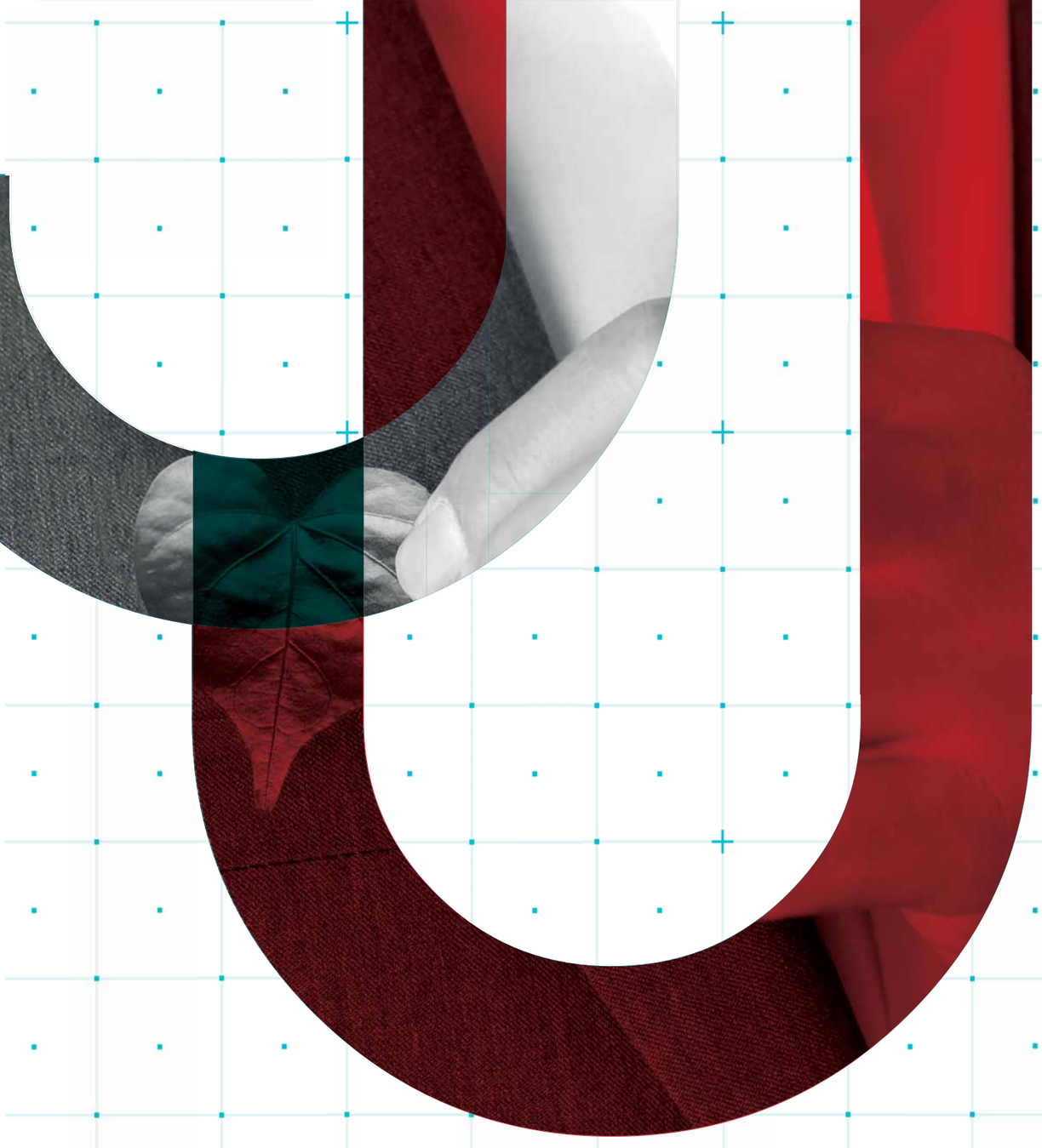
Netas Coop Program (long-term internship program), which was launched in June 2014, ensures that the students to gain experience before they begin to work. This program offers 200 interns on average every year the chance to gain experience. In 2017, three programs are held in fall, spring and summer.

With this program, Netas goes beyond the standard practices and provide students the opportunity to work in different departments at its R&D Center in Kurtköy and gain experience in various projects including research projects throughout the internship period. These projects include the VoIP switchboard design, VoIP and web security projects, IPv6, JITC, Log Wizard, Smart Office and Application Server Replacement.

The students who work as a full-time intern for at least three months and complete their internship successfully during fall, spring and summer programs are offered part-time jobs while they continue their education to ensure that they gain professional R&D experience and they proceed with internal training and development processes. Through regular communication between human resources and R&D teams and with continuous feedback and internal trainings, Netas contributes to the development of candidate engineers before graduation. With this program, the company offers full-time jobs to candidates who have 8-18 months experience in Netas technologies, comply with its company culture, pass certain evaluation criteria, prove themselves through their success and above all, want to shape their career with Netas. This practice also enhances its cooperation with universities and its social responsibility initiatives.

Netas 50th Anniversary Olympic Games

Since its foundation, Netas organizes sports competitions in the fields demanded by its employees, in order to reinforce the team spirit, fair play and fair competition values in the corporate culture. 2017 was no exception and Netas 50th Anniversary Olympic Games are held between March and November. The games featured competitions in 15 categories under six branches (table tennis, tennis, squash, basketball, volleyball and football). 810 Netas employees participated in the games. Participants ranking in the games received their cups and plates at the New Year Party on January 4, 2018.



CORPORATE RESPONSIBILITY & SUSTAINABILITY

CORPORATE RESPONSIBILITY & SUSTAINABILITY

Netaş Şifa Ormanı

Following to our goal to achieve "clean environment and clean industry", as Netas we created the Netas Healing Forest in November 2015 in cooperation with the Ministry of Forestry and Water Affairs, the General Directorate of Forests and the Regional Directorate of Forestry of Istanbul.
Located over a field of 10 hectares in Gazikoy, at the county of Sarkoy in the province of Tekirdag, the Netas Healing Forest is home to 23 different species of trees, including white mulberry, hawthorn, almond, walnut, laurel, stone pine, cherry laurel, chestnut, calabrian pine, cranberry, strawberry tree, rosehip, mahleb, medlar, cypress, persimmon, sour cherry, crabapple, and wild plums, as well as many medicinal aromatic herbs such as sage, rosemary, thyme and lavender.
More than sixteen thousand trees have been planted in the Netas Healing Forest, where we aim both to preserve and develop biodiversity and to ensure that villagers in the region are able to gain additional income.
Changing the lives of the people of Gazikoy for the better, the Netas Healing Forest not only provides opportunity to the people of the region to benefit directly and economically from the non-wood aromatic value of the herbs and the wild fruits, but also it turns the region into a source of oxygen. The Forest ensures increased sustaining of wild fruit types in their suitable environments, contributes to preservation and development of wild life in the region, encourages beekeeping and serves to increase the existing ecotourism potential. Full support of the project by the people of Gazikoy has had a significant role in the success and continuation of the project.
We will continue with our projects to prevent waste of natural resources and contribute to the preservation of nature.

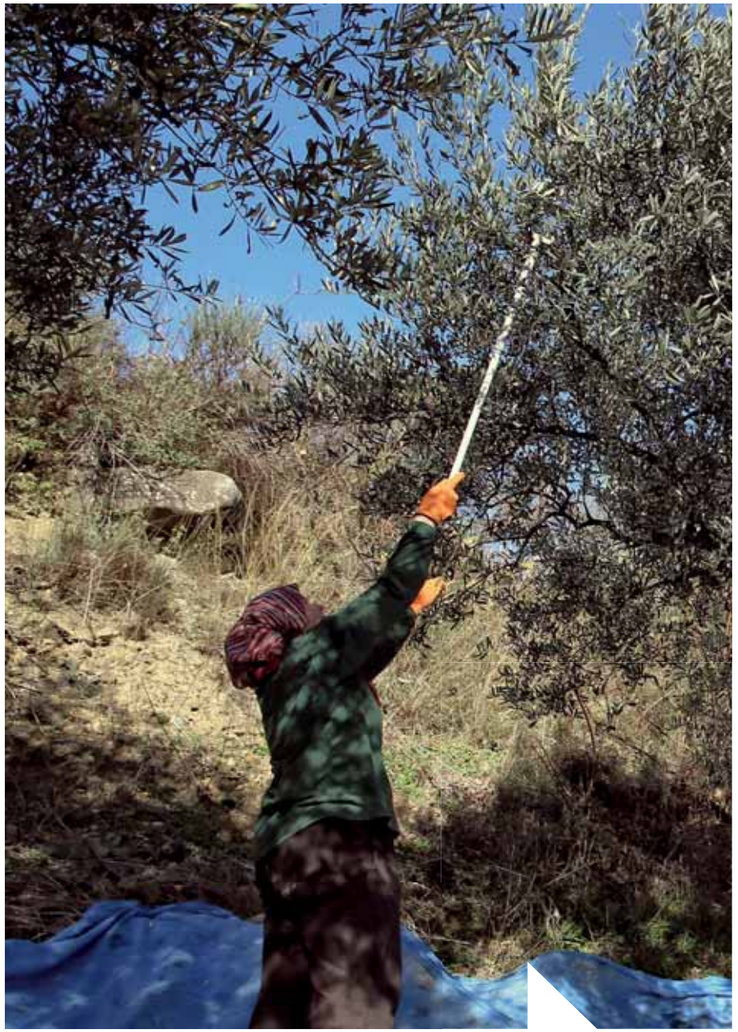
Sustainability

Environmental sustainability requires efficient use of renewable resources and acting responsibly towards nature. Netas works to preserve natural resources and pass them onto future generations in their most pristine form possible.

Our company has an effectively implemented system to mitigate its negative effects on the environment, where quantitative target values are determined each year and quarterly meetings are held by the Environmental Board to examine compliance with these ratios and to review the data, the results of which are reported to the senior management.

Our company continues its efforts to make more efficient use of raw materials and energy, take measures to protect ecological balance, reduce waste, preserve human health and the environment and develop environmental awareness.

Moreover, the ISO14001 Environmental Management system we established as part of our environmental responsibility and to fulfill legal requirements, has successfully passed the interim audit performed by the TUV NORD audit organization.



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NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

AUDITED CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

	Notes	Current Period 31 December 2017	Previous Period 31 December 2016
ASSETS			
Current Assets		**1.286.317.631**	**1.116.216.028**
Cash and Cash Equivalents	5	187.212.070	115641750
Trade Receivables		806.226.238	697.710.992
Due from related parties	*28*	-	26.807.040
Trade receivables, third parties	*7*	*806.226.238*	670.903.952
Other Receivables		1.479.485	511.938
Other receivables, third parties	*8*	*1.479.485*	511.938
Inventories	9	70.801.802	83.991.024
Deferred Costs	11	165.497.546	148.684.598
Prepaid Expenses	10	11.457.890	16.848.978
Other Current Assets	19	43.642.600	52.826.748
Non-Current Assets		**263.534.876**	**259.270.864**
Trade Receivables		83.903.835	88.574.586
Trade receivables, third parties	*7*	*83.903.835*	*88.574.586*
Other Receivables		-	157.115
Other Receivables,third parties	*8*	-	*157.115*
Property, Plant and Equipment	12	36.598.628	40.167.155
Financial Investments		2.928.818	1.940.781
Intangible Assets		103.327.185	105.917.725
Goodwill	*13*	*69.131.791*	64500278
Other intangible assets	*13*	*34.195.394*	41417447
Associates	3	6.155.424	5.121.827
Other Non-Current Assets	*19*	18.909.728	14.051.131
Prepaid Expenses	10	416.766	1.053.159
Deferred Tax Assets	26	11.294.492	2.287.385
TOTAL ASSETS		**1.549.852.507**	**1.375.486.892**

The accompanying notes form an integral part of these consolidated financial statements.
(Convenience translation of the report and the consolidated financial statements originally issued in Turkish)

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES
AUDITED CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

	Notes	Current Period 31 December 2017	Previous Period 31 December 2016
LIABILITIES			
Short Term Liabilities		**845.140.220**	**784.118.707**
Short Term Financial Liabilities	6	302.073.547	354.859.452
Derivative Liabilities	29	-	2.678.753
Trade Payables		382.578.302	240.464.539
Due to related parties	*28*	*1.715.824*	*1.321.109*
Trade payables, third parties	*7*	*380.862.478*	*239.143.430*
Other Payables		10.710.962	8.686.841
Other payables, third parties	*8*	*10.710.962*	*8.686.841*
Employee Benefit Obligations	17	11.623.440	17.825.631
Deferred Revenues	11	55.182.524	59.914.737
Provisions		27.300.712	21.178.816
Provision for Employee Benefits	*17*	*21.736.094*	*16.851.535*
Other Short Term Provisions	*15*	*5.564.618*	*4.327.281*
Advances Received	18	52.676.354	78.212.274
Current Tax Liabilities	26	2.994.379	297.664
Long Term Liabilities		**60.105.663**	**41.672.308**
Long Term Financial Liabilities	*6*	24.044.293	-
Trade Payables		46.357	1.945.728
Trade payables, third parties	*7*	*46.357*	*1.945.728*
Provisions		24.974.362	22.207.434
Provision for Employee Benefits	*17*	*24.974.362*	*22.207.434*
Deferred Tax Liabilities	26	11.040.651	17.519.146
SHAREHOLDERS' EQUITY			
Equity Attributable to Equity Holders of the Parent		**644.606.624**	**549.695.877**
Share Capital	20	64.864.800	64.864.800
Capital Reserves		41.612.160	41.612.160
Other comprehensive income to be reclassed in profit and loss		6.008.477	16.764.885
Currency Translation Reserves		*6.008.477*	*16.764.885*
Other comprehensive income not to be reclassed in profit and loss		282.205.103	230.056.150
Actuarial Loss		*(8.901.434)*	*(8.240.661)*
Currency Translation Reserves		*291.106.537*	*238.296.811*
Restricted Reserves Appropriated From Profit		34.897.360	33.182.076
Profit for the Period	20	53.518.202	18.670.011
Retained Earnings		161.500.522	144.545.795
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1.549.852.507**	**1.375.486.892**

The accompanying notes form an integral part of these consolidated financial statements.
(Convenience translation of the report and the consolidated financial statements originally issued in Turkish)

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES
AUDITED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

	Notes	Current Period 1 January- 31 December 2017	Previous Period 1 January- 31 December 2016
INCOME OR LOSS FROM OPERATIONS			
Revenue	21	1.122.265.684	969.843.424
Cost of Sales (-)	21	(949.726.015)	(835.419.643)
GROSS PROFIT		**172.539.669**	**134.423.781**
Sales, Marketing and Distribution Expenses (-)	22	(56.109.411)	(44.406.817)
General Administrative Expenses (-)	22	(32.452.882)	(24.402.568)
Research and Development Expenses (-)	22	(4.252.477)	-
Other Income from Operating Activities	23	2.019.542	4.840.922
Other Expenses from Operating Activities (-)	23	(17.248.271)	(50.720.228)
OPERATING PROFIT		**64.496.170**	**19.735.090**
Income from Investment Activities	24	35.519	147.978
Expenses from Investment Activities (-)	24	(44.008)	(106.583)
Income from Associates	3	820.823	1.257.100
OPERATING PROFIT BEFORE FINANCE INCOME		**65.308.504**	**21.033.585**
Financial Income	25	22.711.867	51.405.211
Financial Expenses (-)	25	(47.830.723)	(49.766.936)
PROFIT BEFORE TAX		**40.189.648**	**22.671.860**
Tax Income/(Expenses)		**13.328.554**	**(4.001.849)**
- Current Tax Expenses	26	(3.016.501)	(313.751)
- Deferred Tax Income/(Expenses)	26	16.345.055	(3.688.098)
PROFITAFTER TAX		**53.518.202**	**18.670.011**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income or expenses that will not be reclassified subse		**52.148.953**	**84.721.716**
Currency translation reserves		52.809.726	84.640.416
Actuarial (loss)/gain		(660.773)	81.300
Other comprehensive income or expenses that may be reclassified subsequ		**(10.756.408)**	**9.103.253**
Currency translation reserves		(10.756.408)	9.103.253
OTHER COMPREHENSIVE INCOME		**41.392.545**	**93.824.969**
TOTAL COMPREHENSIVE INCOME		**94.910.747**	**112.494.980**
Earnings per share	27	**0,8251**	**0,2878**

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(Convenience translation of the report and the consolidated financial statements originally issued in Turkish)

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES
AUDITED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

						Retained Earnings		
	Capital	Capital Reserves	Currency Translation Reserves	Other comprehensive income or expenses that may be reclassified subsequently to profit or loss	Currency Translation Reserves	Actuarial Loss	Restricted Reserves Appropriated from Profit	Retained Earnings (*)	Net Profit for the Year	TOTAL
Balance as at 1 January 2016	**64.864.800**	**41.612.160**	**7.661.632**	**-**	**153.656.395**	**(8.321.961)**	**33.182.076**	**110.240.720**	**34.305.075**	**437.200.897**
Currency translation differences	-	-	9.103.253	-	84.640.416	-	-	-	-	93.743.669
Actuarial loss	-	-	-	-	-	101.625	-	-	-	101.625
Deferred tax benefit on actuarial loss	-	-	-	-	-	(20.325)	-	-	-	(20.325)
Net profit for the year	-	-	-	-	-	-	-	-	18.670.011	18.670.011
Total comprehensive income	**-**	**-**	**9.103.253**	**-**	**84.640.416**	**81.300**	**-**	**-**	**18.670.011**	**112.494.980**
Transfer	-	-	-	-	-	-	-	34.305.075	(34.305.075)	-
Balance as at 31 December 2016	**64.864.800**	**41.612.160**	**16.764.885**	**-**	**238.296.811**	**(8.240.661)**	**33.182.076**	**144.545.795**	**18.670.011**	**549.695.877**
Currency translation differences	-	-	(10.756.408)	-	52.809.726	-	-	-	-	42.053.318
Actuarial gain	-	-	-	-	-	(825.966)	-	-	-	(825.966)
Deferred tax loss on actuarial gain	-	-	-	-	-	165.193	-	-	-	165.193
Net profit for the year	-	-	-	-	-	-	-	-	53.518.202	53.518.202
Total comprehensive income	**-**	**-**	**(10.756.408)**	**-**	**52.809.726**	**(660.773)**	**-**	**-**	**53.518.202**	**94.910.747**
Transfer	-	-	-	-	-	-	1.715.284	16.954.727	(18.670.011)	-
Balance as at 31 December 2017	**64.864.800**	**41.612.160**	**6.008.477**	**-**	**291.106.537**	**(8.901.434)**	**34.897.360**	**161.500.522**	**53.518.202**	**644.606.624**

The accompanying notes form an integral part of these consolidated financial statements.
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AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 1 JANUARY - 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

	Notes	Current Period 1 January- 31 December 2017	Previous Period 1 January- 31 December 2016
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the Year		**53.518.202**	**18.670.011**
Profit from Continuing Operations	*20*	*53.518.202*	*18.670.011*
Adjustments to Reconcile Profit		**75.522.255**	**94.628.007**
Adjustments for Depreciation and Amortisation Expense	12-13-19	26.000.001	22.452.952
Adjustments for (Reversal of) Impairment Loss Recognised in Profit or Loss		6.389.650	25.543.958
Adjustments for (Reversal of) Provision of Receivables	*7*	*6.389.650*	*24.873.031*
Adjustment for Reversal of Provision of Inventory	*9*	*-*	*670.927*
Adjustments For Provisions		35.571.990	29.418.350
Adjustments for Provisions Related with Employee Benefits	*17*	*33.787.761*	*27.866.051*
Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions	*15*	*2.050.622*	*1.423.399*
Adjustments for (Reversal of) Provisions Arising From Sectoral Requirements	*15*	*(266.393)*	*128.900*
Adjustments for Interest (Income) and Expenses		42.635.718	41.760.575
Adjustments for Interest Income	*25*	*(1.777.651)*	*(1.287.919)*
Adjustments for Interest Expense	*25*	*43.984.031*	*43.793.734*
Unearned Financial Loss/Income from Credit Sales	*23*	*429.338*	*(745.240)*
Adjustments For Unrealised Foreign Exchange Losses (Gains)		(18.255.463)	(30.014.406)
Other Adjustments for Fair Value Losses (Gains)		(2.678.753)	2.763.224
Adjustments for Fair Value Losses (Gains) on Derivative Financial Instruments	*29*	*(2.678.753)*	*2.763.224*
Adjustments for Share of Profit of Investments Accounted for Using the Equity Method	*3*	(820.823)	(1.257.100)
Adjustments for Losses Tax Expense	26	(13.328.554)	4.001.849
Adjustments for (Gains)/Losses Disposal of Non-Current Assets		8.489	(41.395)
Adjustments for (Gains)/Losses Arising From Sale of Tangible Assets	*12*	*8.489*	*(41.395)*
Changes in Working Capital		**41.006.315**	**(150.444.443)**
Adjustments for Decrease / (Increase) in Trade Accounts Receivable		(60.842.002)	25.238.701
Decrease (Increase) in Trade Accounts Receivables from Related Parties	*28*	*27.789.680*	*(3.750.023)*
Decrease (Increase) in Trade Accounts Receivables from Unrelated Parties	*7*	*(88.631.682)*	*28.988.724*
Adjustments for Decrease (Increase) in Other Receivables Related with Operations		11.814.446	(13.281.725)
Adjustments for Decrease (Increase) in Other Receivables Related with Operations from Third Parties	*8-19*	*11.814.446*	*(13.281.725)*
Adjustments for Decrease / (Increase) in Inventories	9	18.589.957	35.629.935
Decrease / (Increase) in Prepaid Expenses	10	7.073.134	19.781.043
Adjustments for (Decrease) In Trade Accounts Payable		118.780.357	(169.083.300)
Increase (Decrease) in Trade Accounts Payables to Related Parties	*28*	290.018	1.087.661
(Decrease)/Increase in Trade Accounts Payables to Unrelated Parties	*7*	*118.490.339*	*(170.170.961)*
Increase (Decrease) in Payables due to Employee Benefits	17	(7.236.801)	1.760.710
(Decrease)/Increase in Payables Due to Ongoing Construction or Service Contracts	*11*	(5.935.241)	(24.679.963)
Adjustments for Decrease in Other Operating Payables		1.354.428	(5.774.761)
(Decrease) in Other Operating Payables to Unrelated Parties	*8*	*1.354.428*	*(5.774.761)*
(Decrease)/ Increase in Deferred Income	11	(8.738.170)	(18.512.499)
Other Adjustments for Other (Decrease)/ Increase in Working Capital		(33.853.793)	(1.522.584)
Cash Flows (Used in) Generated From Operations		**170.046.772**	**(37.146.425)**
Payments Related with Provisions for Employee Benefits	17	(26.962.240)	(25.856.888)
Income Taxes Paid	26	(319.786)	(1.976.021)
Payments Related with Lawsuits	15	(585.907)	(2.074.667)
		142.178.839	**(67.054.001)**

The accompanying notes form an integral part of these consolidated financial statements.
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AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 1 JANUARY - 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

	Notes	Current Period 1 January- 31 December 2017	Previous Period 1 January- 31 December 2016
B.CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		35.519	237.132
Proceeds from Sales of Property, Plant, Equipment	*24*	35.519	237.132
Purchase of Property, Plant, Equipment and Intangible Assets		(7.353.615)	(10.269.822)
Purchase of Property, Plant, Equipment	*12*	(5.956.774)	(4.032.778)
Purchase of Intangible Assets	*13*	(1.396.841)	(6.237.044)
Interest Received	25	1.777.651	1.287.919
Other Outflows of Cash		(988.037)	(1.078.725)
		(6.528.482)	**(9.823.496)**
C.CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings/Outflows,net		(14.176.375)	21.791.167
Interest Paid		(40.293.805)	(38.318.971)
		(54.470.180)	**(16.527.804)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		**81.180.177**	**(93.405.301)**
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(9.609.857)	(17.014.690)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**71.570.320**	**(110.419.991)**
E.CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5	115.641.750	226.061.741
CASH AND CASH EQUIVALENTS AT END OF YEAR (A+B+C+D+E)		**187.212.070**	**115.641.750**

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AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 1 JANUARY - 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Netaş Telekomünikasyon A.Ş. (the "Company") and its' subsidiaries (together the "Group") is an incorporated company, registered in Istanbul. The Company 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 associated services. The shares of the Company are quoted on the Borsa İstanbul ("BIST") since 1993. The headquarter of the Group was located at Alemdağ Caddesi No:171 Ümraniye / İstanbul and then the headquarter is registered as Yenişehir Mah. Osmanlı Bulvarı No:11 34912 Kurtköy-Pendik/İstanbul at Istanbul Trade Registry Office as of 23 July 2013.

The Group works with major clients such as Aselsan Elektronik Sanayi ve Ticaret A.Ş, Türk Telekomünikasyon A.Ş, Vodafone İletişim Hizmetleri A.Ş., Avea İletişim Hizmetleri A.Ş., Turkcell İletişim Hizmetleri A.Ş, service providers, corporate and governmental institutions in Turkey, to provide communications solutions and the infrastructure needed for modern communication systems. The Company is also engaged in research and development and provided design and development services to the foreign customers as well as to local customers.

Probil Bilgi İşlem Destek ve Danışmanlık San. ve Tic.A.Ş. ("Probil"), offers industrial solutions, system integration, outsourcing, support services, network solutions and consultancy services to its domestic customers. Founded in 1989, Probil also provides value added solutions to international customers in CIS region, mainly in Asia Pasific (Nepal), Kazakhstan, Azerbaijan, Algeria and Uzbekstan with strategic business partnerships like Cisco and Microsoft. Specialized in all IT services, BDH Bilişim Destek Hizmetleri San. Tic.A.Ş. ("BDH") was founded in April 2006 in order to provide consultancy, strategic outsourcing, data center and support services.

According to Board of Directors resolution as of 11 April 2012, foundation of a "Limited Liability Partnership" (Netas Telecom Limited Liability Partnership) was completed Almaty in Kazakhstan. The amount of capital which solely belongs to Netaş is TENGE 161.800 (approximately USD 1.100). Registration was made on 25 June 2012 and it will be valid starting from 4 July 2012.

As of 28 November 2013, an agreement is signed between Kron Telekomünikasyon Hizmetleri A.Ş.("KRONT") and the Company for the acquisition of 10 % of A group shares from Lütfi Yenel for TL 1.700.000.

The Company has established organization (Netas Telecommunications Malta Ltd.) in Malta and which hold all of share capital (100%) has belong to the Company which is amounted EUR 1.200. Registiration processes are completed in date of 4 November 2014.

The Group's ultimate partner and the controlling shareholders are ZTE Cooperatief U.A. and Türk Silahlı Kuvvetleri Güçlendirme Vakfı respectively.

As of 31 December 2017 the Group has no blue-collar employees (31 December 2016: None). The average number of personnel employed in the Group as of 31 December 2017 is 2.154 white-collar (31 December 2016: 2.050).

Approval of Consolidated Financial Statements

The consolidated financial statements as of and for the year ended 31 December 2017 have been approved for issue by the Board of Directors 9 March 2018. General Assembly has power to change Group's consolidated financial statements.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

a) Statement of Compliance

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 accompanying consolidated financial statements and disclosures are presented in accordance with the formats and by including the compulsory information announced by the CMB dated 7 June 2013.

2016 TAS Taxonomy, which is prepared in accordance with paragraph 9(b) of Decree Law No.660 to enable users to analyze TAS financial statements in an Extensible. Business Reporting Language "XBRL" format, was approved upon the Board's decision no.30 as of June 2nd, 2016. 2016 TAS Taxonomy is taken into account in the accompanying consolidated financial statements.

b) Basis of presentation of consolidated financial statements:

The details of the Company's subsidiaries as of 31 December 2017 are as follows:

	Place of establishment of operation	Group's shares in capital and voting rights	Main operating activity
Probil Bilgi İşlem Destek ve installment and network solution	Turkey	100 %	Consultancy of project
BDH Bilişim Destek Hizmetleri	Turkey	100%	Technical support and maintenance services
Netaş Telecom Limited Liability	Republic ofKazakhstan	100%	Consultancy of project installment, design and technical suppor services Partnership
Netaş Telecommunications Malta Ltd.	Malta	100%	Supply of telecomunication equipment

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

b) Basis of presentation of consolidated financial statements (cont'd):

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2.1 Basis of Presentation (cont'd)b) Konsolidasyona İlişkin Esaslar (devamı)

b) Basis of presentation of consolidated financial statements (cont'd)

As of 31 December 2016 and 2015 the details of associate of the Group is given below:

Alınan iştirakler

Kron Telekomünikasyon Hizmetleri A.Ş.

Main operating activity	Acquisition date	Acquired share of capital	Acquisition amount
Information technology	28 November 2013	10%	1,700,000

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or a joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or a joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or a joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of TAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with TAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with TAS 36 to the extent that the recoverable amount of the investment subsequently increases.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

b) Basis of presentation of consolidated financial statements (cont'd):

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with TAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate is recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

c) Functional Currency and Reporting Currency

US Dollar (US $) is the currency that the Group's operations are denominated and has a significant impact on the Group's operations. US $ reflects the economic basis of events and situations that are important to the Group. In accordance with the analysis done by the Group's Management and current economical and operational conditions, the management has concluded that US $ is the functional currency and TL is the reporting currency of the Group in accordance with Turkish Accounting Standard ("TAS") No:21 - The Effects of Changes in Foreign Exchange Rates ("TAS 21").

For the purpose of the preparation of the consolidated financial statements and the notes in accordance with TAS 21, monetary balance sheet items in the statutory standalone financial statements of the Group are translated to US $ by using rates as of the balance sheet date. Consequently, non-monetary balance sheet items, income, expenses and cash flows are translated to US $ by using rates at the date of transactions (historical rates). Translation gain or losses that are generated from the translation of foreign currency based transactions are recognized in the consolidated statement of profit or loss as net foreign exchange gain or loss.

For the purpose of presentation of the USD financial statements in TL (as explained in the paragraph above), balance sheet (except for some equity accounts) have been translated to TL by using USD rate as of 31 December 2017 (Turkish Central Bank USD Buying rate: 1 USD: 3,7719 TL), statements of income and statements of cash flows have been translated to TL by using twelve months average exchange rate (1 USD: 3,6482 TL) for the year ended 31 December 2017 (for the year ended 31 December 2016 1 USD: 3,0232TL) in accordance with TAS 21. In the accompanying consolidated financial statements capital and legal reserves are carried with their values in statutory accounts.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2.1 Basis of Presentation (cont'd)

c) Functional Currency and Reporting Currency (cont'd)

Translation differences for capital and legal reserves due to preparation of the financial statements in accordance with TAS are presented as currency translation reserves and retained earnings respectively in the accompanying consolidated financial statements. Comparative consolidated financial statements are translated by using USD rates as of 31 December 2016 (31 December 2016: 1 USD: 3,5192 TL).

2.2 Comparative Information and Restatement of Prior Period Consolidated Financial Statements

Group's consolidated financial statements have been prepared comparatively with the prior period for allow the determination of financial position and performance trend. Comparative information is reclassified when necessary and important differences are explained, in order to conform to the current period financial statement's presentation.

As of 31 December 2016, Telecom group companies are reclassified from enterprise segment group to public segment. These reclassifications are occurred in "Segment Reporting" and there are not any effects on profit loss statements.

As of 31 December 2016, the withholding amount that was included in prepaid tax and funds under "Other Current Assets" is reclassified to "Other Non-Current Assets".

2.3 Change in Accounting Policies

Significant changes in accounting policies are applied retrospectively and prior period financial statements are adjusted accordingly. There are not any changes in accounting policies in the current year. Applied accounting standards are consistent with previous periods.

2.4 Change in Accounting Estimates and Errors

If changes in accounting policies are for only one period, changes are applied on the current year but if the changes affect the future periods, changes are applied both on the current period and future periods prospectively. There has been no significant change in the Group's accounting estimates during the current year.

2.5 Summary of Significant Accounting Policies

2.5.1 Revenue

Revenue is recognized when the Group transfers the risk of loss and ownership; deliver the products and services to the buyer.
In general, the Group recognizes revenue from the sale of goods and equipment when persuasive evidence of an arrangement with its customer exists, delivery occurs, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. The Group defers revenue and associated costs until to deliver all contractual obligations. Deferred revenues and cost are presented on the face of balance sheet under "Short and Long Term Deferred Revenues" and "Short and Long Term Deferred Costs" accounts.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.1 Revenue (cont'd)

TAS 11- Construction Accounting ("TAS11") defines a construction contract, as contracts specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose of use. For revenues generated from construction contracts, the Group applies the percentage of completion method of accounting in application of the above principles, provided certain specified conditions are met, based either on the achievement of contractually defined milestones or on costs incurred compared with total estimated costs. Any probable construction contract losses are recognized immediately in costs of sales. If uncertainty exists relating to customer acceptance, or the contract's duration is relatively short, revenues are recognized only to the extent of costs incurred that are recoverable, or on completion of the contract.

The Group records the revenue according to the percentage of completion for the projects that includes product that includes software which is more than incidental to the product as a whole.
The revenues from software licenses are recorded separately from the revenues from services as the agreement criteria like market value can be determined by the Group. If these criteria cannot be provided, the revenues are deferred and recognized when the service is completed.

The revenues related to the agreements of projects with hardware with minimal engineering and related services, training or consulting are recorded when the service is given or the goods are delivered.
Maintenance revenues including post contract support are deferred during the service and recorded as income when the service is rendered.

Advance payments received on construction contracts, before corresponding works had been carried out, are booked in "Order Advances" account group under "Advances Received". Costs incurred to date, adjusted by profits and losses recognized and progress billings, is determined on a contract by contract basis. If the amount is positive it is included as asset under "unbilled receivables" under "Trade receivables" group.

For revenues generated from licensing, selling or otherwise marketing software solution, the Group recognizes revenue generally upon delivery of the software and on the related services as and when they are performed, in application of the principles described in the first paragraph. For arrangements to sell software licenses with services, software license revenue is recognized separately from the related service revenue, provided that the transaction adheres to certain criteria, such as the existence of sufficient vendor-specific objective evidence of fair value to permit allocation of the revenue to the various elements of the arrangement. If the arrangement does not meet the specified criteria, revenue is deferred and recognized ratably over the service period. For arrangements to sell services only, revenue from training or consulting services is recognized when the services are rendered.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.2 Inventories

Inventories are stated at the lower of cost and net realizable value and valued on monthly weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

2.5.3 Plant, Property and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.4 Intangible Assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Licenses

Separately acquired licenses is carried at their acquisition costs. Licenses acquired in a business combination are accounted for at their fair values at the acquisition date. Licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (5 years).

Costs associated with developing or maintaining computer software program are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.
Computer software development costs recognized as assets are amortized over their estimated useful lives.

Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship.

2.5.5 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.5 Impairment of tangible and intangible assets other than goodwill (cont'd)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2.5.6 Borrowing Costs

Interest expenses directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recorded in the profit and loss statement in the period in which they are incurred.

2.5.7 Financial Instruments

Financial Assets

Financial assets are recognized on a trade-date basis and are initially measured at fair value.
At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity are measured at amortized cost, less any impairment loss recognized to reflect irrecoverable amounts.
Financial assets other than held-to-maturity debt securities are classified as either held for trading or available-for-sale and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, any gains and losses arising from measurement are recognized in the statements of income. For available-for-sale assets, any gains and losses arising from the measurement are recognized in the shareholders' equity.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.7 Financial Instruments (cont'd)

Financial Assets (Cont'd)

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Market value is the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate fair value.

Cash and cash equivalents: Cash and cash equivalents comprise cash on hand and bank deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Spot loans bearing no interest are shown under cash and cash equivalents. The carrying amount of these assets approximates their fair value.

Trade and other receivables: Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The Group estimates that the carrying amount of trade and other receivables approximates their fair value.

Trade and other payables: Trade and other payables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. The Group estimates that the carrying amount of trade and other payables approximates their fair value.

Due to/from related parties: The carrying value of due to and due from related parties are estimated to be their fair value. The details of the receivables from Nortel group companies prior to 14 January 2009 included in trade receivables as of 31 December 2017, where the Group can estimate the recoverability, are provided in Note 7.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.7 Financial Instruments (cont'd)

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

The Group uses financial instruments, such as letter of credits, which have off balance sheet risks for its operations. The possible loss from these instruments to the Group is equal to the amount on the instruments contracts.

Financial liabilities

Financial liabilities are initially measured at fair value. Financial liabilities other than fair value through profit or loss are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.7 Financial Instruments (cont'd)

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 made a provision against the pre-filing receivables from Nortel as the Group is able to estimate the recoverability due to predictable as at the balance sheet date - see note 7) estimated by the Group's management based on prior experience and the current economic environment. Thus, The Group does not anticipate any risks relevant to the trade receivables except allowances for doubtful 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.

Foreign Currency Risk

Due to its core business, the Group is subject to exchange rate volatility tied to the value change of foreign currencies. The Group's foreign currency risk for assets and liabilities has been disclosed in Note 30.

Liquidity Risk

The Group is generally raising funds by liquidating its short-term financial instruments such as collecting its receivables and selling out securities. The Group's proceedings from these instruments generally approximate their fair values.

2.5.8 Business combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquire. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5. Business combinations (cont'd)

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with TAS 12 Income Taxes and TAS 19 Employee Benefits respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with TFRS 2 Share-based Payment at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held intere st in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquire's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another TAS.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.8 Business combinations (cont'd)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with TAS 39, or TAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2.5.9 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.10 The Effects of Change in Foreign Exchange Rates

The effects of change in foreign exchange rates on the financial statements have been disclosed in note 2 "Basis of Financial Statements" section 2.1.c "Functional and Reporting Currency". For the purpose of presentation of the consolidated financial statements as TL, balance sheet has been translated to TL by using Turkish Central Bank foreign exchange buying rates as of 31 December 2017 (1 USD = 3,7719 TL , 1 EUR = 4,5155 TL , 1 CAD = 3,0031 TL, 1 GBP = 5,0803 TL and 1 BDT = 0,0453 TL).

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

2.5.11 Earnings per Share

Earnings per share disclosed in the accompanying consolidated statement of income is determined by dividing net income by the weighted average number of shares in existence during the year concerned.

In Turkey, companies can raise their share capital by distributing "Bonus Shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

2.5.12 Subsequent Events

Events after the reporting period are those events that occur between the balance sheet date and the date when the financial statements are authorized for issue, even if they occur after an announcement related with the profit for the year or public disclosure of other selected financial information. The Group adjusts the amounts recognized in its consolidated financial statements if adjusting events occur after the reporting date.

2.5.13 Provisions, Contingent Liabilities and Assets

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 2.5 Summary of Significant Accounting Policies (cont'd)

2.5.14 Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;(ii) raporlayan işletme üzerinde önemli etkiye sahip olması durumunda,

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) İşletmenin, diğer işletmenin (veya diğer işletmenin de üyesi olduğu bir grubun üyesinin) iştiraki ya da iş ortaklığı olması halinde.

(iii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.15 Reporting of Financial Information on Segment Basis

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group Management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments are affected from different kinds of economic and geographical conditions, and managed as the sole authority. While assessing the performance of the operating segments, Group Management is focused on their gross margin and operating profit.

The Group evaluates the performance of five segments to determine resource allocation. The segments of the Group are system enterprise, public, international, technology and BDH.

2.5.16 Government Grants and Incentives

Gains arising from incentives for investment and research and development activities together with government grants are recognized when there is a reasonable assurance for the necessary conditions to be fulfilled and incentive to be acquired by the Group.

Vested government grants related with expense or capitalization realized in previous accounting periods, are recognized in statements of profit or loss when collectible and grants relating to capital assets are accounted for as deferred income in the consolidated balance sheet and are credited to consolidated profit and loss statement on a straight-line basis over the expected lives of related assets.

Government grants are presented in the consolidated financial statements regardless of whether the grants are obtained in cash or by decreasing a liability to the government. Government grants are presented in Note 14.

2.5.17 Taxes Calculated on Corporation Earnings

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Tax expense form continues operation includes current year income tax expense and deferred income tax (expense) / benefit.

Current tax

Current year income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.17 Taxes Calculated on Corporation Earnings

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that expected to apply to the period when asset is realized or the liability is settled.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.18 Employee Benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per Turkish Accounting Standard No. 19 (revised) "Employee Benefits" ("TAS 19").

The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized in other comprehensive income.

Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Retirement Plans

As it is disclosed in Note 17, the Group pays a special pension to employees who have worked over 15 years for the Group. The assumptions used in the calculation of future obligations are disclosed in Note 17.

2.5.19 Statements of Cash Flows

In statement of cash flows, cash flows are classified according to operating, investing and financing activities.

2.5.20 Share Capital and Dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

2.5.21 Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.22 Determination of Fair Values (cont'd)

(a) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(b) Intangible assets

TThe fair value of intangible assets recognized as a result of a business combination is based on market values. The market value of intangible assets is the estimated amount for which an intangible could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The fair values of other intangible assets are carried at cost and are considered to approximate its respective carrying amount.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Trade and Other Receivables/Due From Related Parties

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purpose.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair value of trade and other payables is carried out at cost and is considered to approximate its respective carrying amount.

2.6 Accounting Estimates and Assumptions

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Accounting Estimates and Assumptions (cont'd)

In particular, information about significant areas at estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements is included in the following notes:

Not 7 Trade receivables and payables: Estimations and accounting judgments regarding to collectability of receivables
Not 9 Inventories: Estimations regarding to inventory provision
Not 12,13 Tangible and intangible assets: Estimations regarding to useful lives
Not 13 Goodwill: Estimations regarding to impairment of goodwill
Not 15 Provisions: Estimations regarding to provision amounts
Not 21 Revenue and cost of sales: Estimation of revenue and cost based on project based analysis
Not 26 Tax Assets and liabilities: Estimations regarding to recoverability of deferred tax assets
Not 30 Financial instruments and risk management: Estimations and accounting judgments regarding to collectability of receivables

Group has netted-off Nortel Companies' trade receivables and payables. As of 31 December 2016, the Group Management decided to finalize uncertainty of collections, and book a provision of 45% against for Nortel receivables on a net basis. As of 31 December 2017, 5% additional provision is booked for the receivables due from Nortel companies.

2.7 New and Revised Turkish Accounting Standards

a) Amendments to IFRSs that are mandatorily effective for the current year

Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses [1]
Amendments to IAS 7	Disclosure Initiative [1]
Annual Improvements to IFRS Standards 2014–2016 Cycle	IFRS 12 [1]

[1] Effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 New and Revised Turkish Accounting Standards(Cont'd)

a) Amendments to IFRSs that are mandatorily effective for the current year (cont'd)

Amendments to IAS 7 *Disclosure Initiative*

This amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings (note 6) and certain other financial liabilities. A reconciliation between the opening and closing balances of these items is provided. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in the application of these amendments has had no impact on the Group's consolidated financial statements

Annual Improvements to IFRS Standards 2014–2016 Cycle

IFRS 12: IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

b) New and revised IFRSs in issue but not yet effective:

The Group has not applied the following new and revised TFRSs that have been issued but are not yet effective:

IFRS 9	*Financial Instruments* [1]
IFRS 15	*Revenue from Contracts with Customers* [1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IFRS 2	*Classification and Measurement of Share-Based Payment Transactions* [1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration* [1]
Amendments to IAS 40	*Transfers of Investment Property* [1]
Annual Improvements to IFRS Standards 2014–2016 Cycle	*IFRS 1* [1], *IAS 28* [1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures* [2]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.

IFRS 9 ***Financial Instruments***

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

2.BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 New and Revised Turkish Accounting Standards (Cont'd)

(b) New and revised IFRSs in issue but not yet effective (cont'd)

IFRS 9 ***Financial Instruments (cont'd)***

Key requirements of IFRS 9:

• All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

• With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

• In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 New and Revised Turkish Accounting Standards(Cont'd)

a) Amendments to IFRSs that are mandatorily effective for the current year (cont'd)

IFRS 9 Financial Instruments (cont'd)

Based on an analysis of the Group's financial assets and financial liabilities as of 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

The Group intends to use the cumulative effect method of transition to IFRS 9, and accordingly as of 1 January 2018 opening entry based on prior years profit and losses.

The Group is reviewing of trade receivables and customer portfolio and grouping of receivables with similar credit risk characteristics, calculating historical default information per type of customer portfolio, preparation of expected credit loss calculation tool for each customer portfolio and expected credit loss assessment of unbilled receivables, preparation of time value of money calculation tool for each customer portfolio.

The Group is in the process of assessing the impact of the standard on financial position and the performance of the Group.

IFRS 15 Revenue from Contracts with Customers

FRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contracts with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies a performance obligation

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

2.BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 New and Revised Turkish Accounting Standards (Cont'd)

(b) New and revised IFRSs in issue but not yet effective (cont'd)

IFRS 15 Revenue from Contracts with Customers (cont'd)

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group intends to use the cumulative effect method of transition to IFRS 15, and accordingly as of 1 January 2018 opening entry based on prior years profit and losses.

Apart from providing more extensive disclosures on the Group's revenue transactions, the Group is in the process of assessing the impact of the standard on financial position on performance of the Group. Revenues impacted by the implementation of IFRS 15 are mainly:

(i) Performance obligations in the contracts will be defined as design, hardware, installation, maintenance, extended warranty and licenses and recognized when control of them are transferred to the customer according to requirements of standard,

(ii) Assessment over timing of the satisfaction of a performance obligation,

(iii) Assessment over principal versus agent consideration for licenses.

Amendments to IFRS 10 and IAS 28 ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture.

Amendments to IFRS 2 ***Classification and Measurement of Share-Based Payment Transactions***

In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income;
- the prepayment asset or deferred income liability is non-monetary.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 New and Revised Turkish Accounting Standards (Cont'd)

b) New and revised IFRSs in issue but not yet effective (cont'd)

IFRIC 22 *Foreign Currency Transactions and Advance Consideration (cont'd)*

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Amendments to TAS 40 *Transfers of Investment Property*

The amendments to TAS 40:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** The amendments delete certain short-term exemptions in IFRS 1 because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable.
- **IAS 28:** The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

This amendment clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The Group evaluates the effects of these standards amendments and improvements on the consolidated financial statements.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

3. SHARES IN ASSOCIATES

Associates

Details of significant associates

As of 31 December 2017, the details of important associates are as in the following;

	Main operating activity	Acquisition date	Acquired share of capital	Acquisition amount
Kron Telekomünikasyon Hizmetleri A.Ş.	Information technology	28 November 2013	10%	1,700,000

On 28 November 2013, the Company made a new investment and came to an agreement on acquisition of 10% of the shares of Kron Telekomünikasyon Hizmetleri A.Ş. for TL 1,700,000. Furthermore, the Company acquired the right to be represented with 3 members out of 6 in the Board of Directors at Kron and to be active in taking strategic growth decisions of the company.
Goodwill arises from the acquisition of Kron Telekomünikasyon Hizmetleri A.Ş. Additionally; the cost includes synergy, the benefits arising from the rising market share and also the labor force of Kron Telekomünikasyon Hizmetleri A.Ş. As these benefits are not separable, they are not recognized in the accompanying consolidated financial statements.

Goodwill

	Kron Telekomünikasyon Hizmetleri A.Ş.
Amount transferred	1.700.000
Fair value of the net assets of the acquired company	(1.098.805)
Goodwill	**601.195**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

3. SHARES IN ASSOCIATES (cont'd)

Associates (cont'd)

The summary of the financial information of Kron Telekomünikasyon Hiz. A.Ş. is explained below. This financial information is prepared according to TAS.

	31 December 2017	31 December 2016
Current assets	32.789.365	31.660.181
Non- current assets	15.602.416	11.041.678
Short term liabilities	9.072.256	9.541.266
Long term liabilities	888.245	587.370
Net assets	38.431.280	32.573.223
Share of the Group in net assets	3.843.128	3.257.322

	1 January 2017-31 December 2017	1 January 2016-31 December 2016
Net profit	8.230.464	12.546.506
Other comprehensive (expenses)/ income	(22.231)	24.490
Total comprehensive income	8.208.233	12.570.996
Share of the Group in total comprehensive income	820.823	1.257.100

The movement of acquisition balance arising from Kron Telekomünikasyon Hizmetleri A.Ş. is given below;

	2017	2016
As of 1 January	5.121.827	2.601.418
Share from the profit of the year	820.823	1.257.100
Currency translation reserves	212.774	1.263.309
As of 31 December	**6.155.424**	**5.121.827**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

4. SEGMENT REPORTING

The Group evaluates the performance of five segments to decide resource allocation. The following table shows the information about each segment. The operational profit and details below should be considered together in evaluating the performance of segments.

For the year ended 31 December 2016	Enterprise	Public	International	Technology	BDH	Unallocated (*)	Total
Revenue	260.009.560	534.069.973	68.117.779	72.995.412	34.650.700	-	969.843.424
Cost of sales (-)	(231.739.161)	(453.504.565)	(54.257.137)	(69.778.349)	(17.984.079)	(8.156.352)	(835.419.643)
Gross margin	**28.270.399**	**80.565.408**	**13.860.642**	**3.217.063**	**16.666.621**	**(8.156.352)**	**134.423.781**
Sales,marketing and distribution expenses (-)	(21.234.200)	(14.336.922)	(8.835.695)	-	-	-	(44.406.817)
General administrative expenses (-)	-	-	-	-	-	(24.402.568)	(24.402.568)
Research and development expenses (-)	-	-	-	-	-	-	-
Operating profit / (loss) of segment	**7.036.199**	**66.228.486**	**5.024.947**	**3.217.063**	**16.666.621**	**(32.558.920)**	**65.614.396**

For the year ended 31 December 2017	Enterprise	Public	International	Technology	BDH	Unallocated (*)	Total
Revenue	351.302.921	406.857.264	252.804.957	67.612.205	43.688.337	-	1.122.265.684
Cost of sales (-)	(312.179.724)	(334.532.286)	(196.886.897)	(65.802.974)	(30.191.862)	(10.132.272)	(949.726.015)
Gross margin	**39.123.197**	**72.324.978**	**55.918.060**	**1.809.231**	**13.496.475**	**(10.132.272)**	**172.539.669**
Sales,marketing and distribution expenses (-)	(22.200.566)	(21.284.084)	(12.624.761)	-	-	-	(56.109.411)
General administrative expenses (-)	-	-	-	-	-	(32.452.882)	(32.452.882)
Research and development expenses (-)	-	-	-	(4.252.477)	-	-	(4.252.477)
Operating profit / (loss) of segment	**16.922.631**	**51.040.894**	**43.293.299**	**(2.443.246)**	**13.496.475**	**(42.585.154)**	**79.724.899**

(*) Unallocated costs of sales are shown as amortization, rent and general expenses etc., and they are not directly allocated to the segments.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

4.SEGMENT REPORTING (cont'd)

31 December 2017	Enterprise	Public	International	Technology	BDH	Unallocated(*)	Total
Trade receivables	160.689.280	521.839.489	122.086.455	25.973.499	5.346.753	54.194.597	890.130.073
Due from related parties	-	-	-	-	-	-	-
Inventories	8.414.972	56.874.568	4.928.180	343.871	1.708	238.503	70.801.802
Deferred costs	22.874.870	108.419.484	2.373.914	14.049.910	9.238.440	8.540.928	165.497.546
Segments assets	**191.979.122**	**687.133.541**	**129.388.549**	**40.367.280**	**14.586.901**	**62.974.028**	**1.126.429.421**
Trade payables (*)	128.421.191	139.449.963	81.093.860	1.126.294	14.458.759	16.358.768	380.908.835
Due to related parties	1.715.824	-	-	-	-	-	1.715.824
Deferred revenues	32.335.840	20.591.842	1.099.784	-	1.113.596	41.462	55.182.524
Advances received	2.553.394	49.268.440	845.650	-	130	8.740	52.676.354
Segment liabilities	**165.026.249**	**209.310.245**	**83.039.294**	**1.126.294**	**15.572.485**	**16.408.970**	**490.483.537**

31 December 2016	Enterprise	Public	International	Technology	BDH	Unallocated(*)	Total
Trade receivables	90.811.398	576.010.590	33.138.229	1.264.208	11.111.765	47.142.348	759.478.538
Due from related parties	-	-	-	26.807.040	-	-	26.807.040
Inventories	18.354.327	62.002.227	3.071.685	29.667	-	533.118	83.991.024
Deferred costs	28.168.345	81.055.375	10.504.269	10.252.337	13.506.922	5.197.350	148.684.598
Segments assets	**137.334.070**	**719.068.192**	**46.714.183**	**38.353.252**	**24.618.687**	**52.872.816**	**1.018.961.200**
Trade payables (*)	93.167.736	96.848.239	17.544.935	199.946	11.588.128	21.740.174	241.089.158
Due to related parties	8.305	-	-	1.312.804	-	-	1.321.109
Deferred revenues	20.553.340	39.322.003	24.305	-	-	15.089	59.914.737
Advances received	13.915.781	61.925.101	2.371.262	-	130	-	78.212.274
Segment liabilities	**127.645.162**	**198.095.343**	**19.940.502**	**1.512.750**	**11.588.258**	**21.755.263**	**380.537.278**

(*)Unallocated trade payables are shown as rent, insurance, consultancy and etc. The uncollated amount of trade receivable and trade payables are related to Nortel companies under bankruptcy protection as of 31 December 2017 and 2016.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

4. SEGMENT REPORTING (cont'd)

Reconciliation of profit before tax, assets, liabilities and other material items:

	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Operating profit of segment	79.724.899	65.614.396
Other (expenses)/income from operating activities (net)	(15.228.729)	(45.879.306)
Other (expenses)/income from investments (net)	(8.489)	41.395
Income from associates	820.823	1.257.100
Finance (expenses)/income (net)	(25.118.856)	1.638.275
Profit before tax	**40.189.648**	**22.671.860**

Assets	**31 December 2017**	**31 December 2016**
Assets	**31 December 2017**	**31 December 2016**
Segment assets	1.126.429.421	1.018.961.200
Other assets	423.423.086	356.525.692
Total assets	**1.549.852.507**	**1.375.486.892**

Liabilities	**31 December 2017**	**31 December 2016**
Segment liabilities	490.483.537	380.537.278
Other liabilities	414.762.346	445.253.737
Total liabilities	**905.245.883**	**825.791.015**

5. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Bank- demand deposits	72.023.775	19.199.752
Bank- time deposits	114.553.052	95.947.358
Other cash and cash equivalents(*)	635.243	494.640
	187.212.070	**115.641.750**

Currency	Original Currency Amount	Interest Rate %	Maturity	31 December 2017
USD	25.202.584	1,90-2,50	January 18-September 18	95.061.627
EURO	2.022.000	0,6	January 18	9.130.341
TL	10.361.084	12,0	January 18	10.361.084
				114.553.052

Currency	Original Currency Amount	Interest Rate %	Maturity	31 December 2016
USD	22.269.675	0,25-2,50	January 17-September 17	78.371.441
EURO	996.231	0,01-0,1	January 17	3.695.917
TL	13.880.000	6,00-7,00	January 17	13.880.000
				95.947.358

The credit risk, foreign currency and sensitivity risks of financial assets and liabilities are disclosed in Note 30.
As of 31 December 2017 and 2016, there are no restriction / blockage on bank accounts.
(*) Other cash and cash equivalents are consisted of credit card receivables.
(Convenience translation of the report and the consolidated financial statements originally issued in Turkish)

6. FINANCIAL LIABILITIES

Short term financial liabilities	31 December 2017	31 December 2016
Short term unsecured loans	302.073.436	354.858.764
Non interest bearing unsecured spot loans	111	688
	302.073.547	**354.859.452**

As of 31 December 2017, effective interest rate for TL loans is 15,33 % and USD loans is 4,44 % (31 December 2016: effective interest rate for TL loans is 11,53 % and effective interest rate for USD loans is 3,47%).

The details of short term loans of the Group are given below;

Currency	Original Currency Amount	Effective Interest Rate %	Maturity	31 December 2017
USD	25.102.209	4,30-4,60	April 18-June 18	94.683.023
TL	207.390.413	13,35-15,70	February 18-October 18	207.390.413
				302.073.436

Currency	Original Currency Amount	Effective Interest Rate %	Maturity	31 December 2016
USD	20.044.444	Libor+%1,25-4,00	October 17	70.540.407
TL	284.318.357	10,85-12,40	February 17- May 17	284.318.357
				354.858.764

Long term financial liabilities	31 December 2017	31 December 2016
		-
Long term unsecured loans	**24.044.293**	-

The detail of long term loans of the Group is given below;

Currency	Original Currency Amount	Effective Interest Rate %	Maturity	31 December 2017
TL	24.044.293	16,51-16,75	January 19	24.044.293

The Group has no collaterals given for bank loans as of 31 December 2017 and 2016.

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non–cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	2017	2016
1 January 2017	354.859.452	333.068.285
Financing cash flows	(14.176.375)	21.791.167
Fair value adjustment	(3.690.226)	(5.474.763)
Currency translations	(10.875.011)	5.474.763
31 December 2017	**326.117.840**	**354.859.452**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

7. TRADE RECEIVABLES AND PAYABLES

Trade Receivables from Third Parties	31 December 2017	31 December 2016
Trade receivables	528.318.398	362.283.947
Unbilled receivables	314.170.034	338.562.364
Notes receivables	0	195278
Discount on trade receivables (*)	(599.276)	(404.060)
Allowance for doubtful receivables	(35.662.918)	(29.733.577)
	806.226.238	**670.903.952**

Movement of allowance for doubtful receivables	31 December 2017	31 December 2016
As of 1 January	(29.733.577)	(21.060.373)
Charge for the period	(3.890.144)	(3.263.966)
Provision reversal	8.033	336.201
Currency translation differences	(2.047.230)	(5.745.439)
As of 31 December	**(35.662.918)**	**(29.733.577)**

Doubtful receivables, for which no possibility of collection is foreseen and no further cash inflow are expected, are written off from the records along with the related provisions. No guarantee has been obtained for trade receivables.

Long Term Trade Receivables from Third Parties	31 December 2017	31 December 2016
Receivables from Nortel companies	51.685.143	48.222.475
Other trade receivables	66.083.917	69.840.757
Provision amount for Nortel companies	(25.842.571)	(21.700.114)
Discount on trade receivables(*)	(8.022.654)	(7.788.532)
	839.038.35	885.745.86

(*) As of 31 December 2017, Group will collect its trade receivable in every year by equal payment; total amount is USD 19.097.290 based on the agreement, and its maturity date spreads 5 years. Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

Movement of allowance for Nortel receivables	31 December 2017	31 December 2016
As of 1 January	(21.700.114)	-
Charge for the period	(2.499.506)	(18.641.677)
Currency translation differences	(1.642.951)	(3.058.437)
As of 31 December	**(25.842.571)**	**(21.700.114)**

Trade Payables to Third Parties	31 December 2017	31 December 2016
Trade payables(*)	380.164.376	238.732.272
Other trade payables	698.102	411.158
	380.862.478	**239.143.430**

Long Term Trade Payables to Third Parties	31 December 2017	31 December 2016
Trade payables to Nortel companies	18.517	17.276
Other trade payables	27.840	1.928.452
	46.357	**1.945.728**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

7. TRADE RECEIVABLES AND PAYABLES (cont'd)

Nortel Networks Corporation, the ultimate parent of Nortel Networks International Finance and Holding B.V. ("NNIFH"), which was shareholder of the Company until 22 December 2010, holding 53,13 % of the share capital of the Company, has announced that it, Nortel Networks Limited, which is another indirect parent of the Company, and certain of its other Canadian subsidiaries have obtained an Order from the Ontario Superior Court of Justice (the "Canadian Court") for creditor protection under the Companies' Creditors Arrangement Act ("CCAA") in Canada filed as of 14 January 2009. Under the terms of the Order, Ernst & Young Inc. serves as the Court-appointed Monitor under the CCAA process and assists the Company in formulating its restructuring plan.

Nortel Networks Corporation's certain subsidiaries (Alteon Websystems International Inc., XROS Inc., Sonoma Systems, CoreTek Inc.) by Nortel Network Inc. and its' subsidiaries (QTERA Corporation, Nortel Networks Optical Components Inc., Nortel Networks Capital Corporation, Nortel Networks International Inc., Northern Telecom International Inc., Nortel Networks Cable Solutions, Inc.) also have made similar filings in the United States under Chapter 11 of the U.S: Bankruptcy Code.The Company offset its payables to Nortel Group Companies by USD 277.820 and made CAD 5.282.370 of payment to Nortel Networks Limited as of 24 April 2013.

On 24 January 2017, the final revised plan is presented to Nortel Networks Inc., Delaware Region High Court of Justice about the payments which will be made to debtors as part of protection from the bankruptcy. According to this plan, Nortel Networks Inc. predicted that payments can be made from sales of different assets that belong to Nortel with the total estimated unsecured receivables between the range of 55,1%-61,2%.

In the frame of this plan, Group has net-off Nortel Companies' trade receivables and payables. The Group Management decided to finalize uncertainty of collections, and book a provision of 45% against for Nortel receivables on a net basis as of 31 December 2016. As of 31 December 2017, considering the changing conditions 5% additional provision is booked for the receivables due from Nortel companies. Total amount of provision 50% reflected into the consolidated financial statements.

The Group filed a lawsuit against Nortel for its receivables on 10 March 2017 amounting to USD 14.261.663 regarding to the invoices issued. Based on the lawyer letter obtained from Law office, is not able to assess the outcome of lawsuit of defending against the Claim Objection Motion. The next hearing will be on September 12, 2017. On 12 September 2017, the bankruptcy judge conducted a hearing and the bankruptcy court denied Nortel's motion for summary judgment. Parties agreed that counsel for each party will exchange written requests for documents to the other party by October 13, 2017, and that each party will respond to the requests for documents by 13 November 2017. As of report date, after the production and review of documents, the parties may schedule the examination of witnesses. Lawyers have not given opinion regarding with ongoing cases yet.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

7. TRADE RECEIVABLES AND PAYABLES (cont'd)

The details of trade receivables and payables of the Company to and from Nortel companies under bankruptcy protection as of 31 December 2017 and the bankruptcy protection filing date of 14 January 2009 are given below:

		14 January 2009				31 December 2017				31 December 2016			
Country	Company	Trade Receivables	Trade Payables	Net Balance	Trade Receivables	Trade Payables	Provision Amount	Net Balance	Trade Receivables	Trade Payables	Provision Amount	Net Balance
USA	Nortel Networks Inc.	53.793.227	(9.427.673)	44.365.554	61.767.705	(12.613.295)	(24.577.204)	24.577.206	57.629.551	(11.768.262)	(20.637.380)	25.223.709
Ireland	Nortel Networks (Ireland) Limited	1.832.894	-	1.832.894	1.832.895	-	(916.448)	916.447	1.710.099	-	(769.545)	940.554
Canada	Nortel Networks Technology Corporation	429.619	(58.179)	371.440	-	-	-	-	-	-	-	-
Egypt	Nortel Networks Inc. (Egypt Branch)	326.649	-	326.649	331.024	-	(165.512)	165.512	308.847	-	(138.981)	169.866
Europe	Nortel Networks N.V.	168.925	-	168.925	168.925	-	(84.463)	84.462	157.608	-	(70.924)	86.684
India	Nortel Networks (India) Private Limited	51.814	-	51.814	32.247	-	(16.123)	16.124	30.087	-	(13.539)	16.548
Holland	Nortel Networks BV.	102.311	-	102.311	-	-	-	-	-	-	-	-
Italy	Nortel Networks S.p.A.	25.334	-	25.334	25.334	-	(12.667)	12.667	23.637	-	(10.636)	13.001
		56.730.773	**(9.485.852)**	**47.244.921**	**64.158.130**	**(12.613.295)**	**(25.772.417)**	**25.772.418**	**59.859.829**	**(11.768.262)**	**(21.641.205)**	**26.450.362**
Mexico	Nortel de México, S. de R.L. de C.V.	-	(18.515)	(18.515)	-	(18.517)	-	(18.517)	-	(17.276)	-	(17.276)
Germany	Nortel GmbH	-	(263.491)	(263.491)	-	-	-	-	-	-	-	-
France	Nortel Networks S.A.	38.851	(112.374)	(73.523)	231.872	-	-	-	-	-	-	-
Canada	Nortel Networks Limited	617.146	(1.549.756)	(932.610)	-	-	-	-	-	-	-	-
England	Nortel Networks UK Limited	6.603.635	(7.312.153)	(708.518)	-	-	-	-	-	-	-	-
Canada	Nortel Networks Limited - EMEA Sales	-	(18.082.528)	(18.082.528)	-	-	-	-	-	-	-	-
		63.990.405	**(36.824.669)**	**27.165.736**	**64.390.002**	**(12.723.376)**	**(25.842.571)**	**25.824.055**	**60.076.167**	**(11.870.968)**	**(21.700.114)**	**26.505.085**

The foreign currency risk and liquidity risk of short term trade receivables and payables are disclosed in Note 30.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

8. OTHER RECEIVABLES AND PAYABLES

Other Receivables from Third Parties	31 December 2017	31 December 2016
Deposits and guarantees given	225.264	82.182
Other	1.254.221	429.756
	1.479.485	**511.938**

Long Term Other Receivables from Third Parties	31 December 2017	31 December 2016
Deposits and guarantees given	-	157.115
	-	**157.115**

Other Payables to Third Parties	31 December 2017	31 December 2016
Taxes and duties payable	10.529.984	8.505.159
Other	180.978	181.682
	10.710.962	**8.686.841**

9. INVENTORIES

	31 December 2017	31 December 2016
Raw materials	26.466.826	32.433.761
Finished goods	37.841.366	47.111.610
Trade goods	17.120.022	14.430.765
Other inventories	1.702.373	1.514.039
Allowance for inventory impairment(-)	(12.328.785)	(11.499.151)
	70.801.802	**83.991.024**

Movement for allowance	2017	2016
As of 1 January	(11.499.151)	(8.855.448)
(Provision) / charge for the period	-	(670.927)
Foreign currency exchange differences	(829.634)	(1.972.776)
As of 31 December	**(12.328.785)**	**(11.499.151)**

10. PREPAID EXPENSES

Short Term Prepaid Expenses

	31 December 2017	31 December 2016
Advances given for inventories	1.602.356	6.061.168
Short term prepaid expenses	6.576.443	5.879.015
Goods in transit	3.279.091	4.908.795
	11.457.890	**16.848.978**

Long Term Prepaid Expenses	31 December 2017	31 December 2016
Long term prepaid expenses	416.766	1.053.159
	416.766	**1.053.159**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

11. DEFERRED COSTS AND DEFERRED REVENUES

Details of the deferred costs are given below;

Customer	31 December 2017			31 December 2016		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Public	102.070.916	-	102.070.916	79.907.038	-	79.907.038
Enterprise	22.874.870	-	22.874.870	28.168.345	-	28.168.345
BDH	9.238.440	-	9.238.440	13.506.922	-	13.506.922
Defense	6.348.568	-	6.348.568	1.148.337	-	1.148.337
International	2.373.914	-	2.373.914	10.504.269	-	10.504.269
Other	22.590.838	-	22.590.838	15.449.687	-	15.449.687
	165.497.546	**-**	**165.497.546**	**148.684.598**	**-**	**148.684.598**

Details of the deferred costs are given below;

Customer	31 December 2017			31 December 2016		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Enterprise	32.335.840	-	32.335.840	20.553.340	-	20.553.340
Public	19.435.155	-	19.435.155	35.957.808	-	35.957.808
Defense	1.156.687	-	1.156.687	3.364.195	-	3.364.195
BDH	1.113.596	-	1.113.596	-	-	-
International	1.099.784	-	1.099.784	24.305	-	24.305
Other	41.462	-	41.462	15.089	-	15.089
	55.182.524	**-**	**55.182.524**	**59.914.737**	**-**	**59.914.737**

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings,Machinery and Equipment	Vehicles	Furniture and fixtures	Leasehold Improvement	Construction in progrss	Total
Cost						
1 January 2017	**142.766.848**	**187.721**	**12.797.524**	**35.314.290**	-	**191.066.383**
Translation difference	10.330.015	13.479	937.625	2.543.086	28.705	13.852.910
Purchases	4.320.089	-	574.665	215.432	846.588	5.956.774
Disposals	(257.874)	-	(23.656)	-	-	(281.530)
31 December 2017	**157.159.078**	**201.200**	**14.286.158**	**38.072.808**	**875.293**	**210.594.537**
Accumulated Depreciation						
1 January 2017	**(127.865.712)**	**(172.038)**	**(8.866.312)**	**(13.995.166)**	-	**(150.899.228)**
Translation difference	(9.405.979)	(12.568)	(687.427)	(1.134.355)	-	(11.240.329)
Period charge	(6.768.776)	(6.330)	(1.501.943)	(3.816.825)	-	(12.093.874)
Disposals	224.622	-	12.900	-	-	237.522
31 December 2017	**(143.815.845)**	**(190.936)**	**(11.042.782)**	**(18.946.346)**	-	**(173.995.909)**
Net book value at 31 December 2017	**13.343.233**	**10.264**	**3.243.376**	**19.126.462**	**875.293**	**36.598.628**

As of 31 December 2017 assets have been covered by insurance worth of TL 359.759.659.
As of 31 December 2017 depreciation charge is TL 12.093.874. TL 7.531.640 is accounted in cost of sales, TL 4.114.608 in general administrative expenses, TL 447.626 in sales, marketing and distribution expenses.
As of 31 December 2017, there are not any mortgage and financial leasing on property, plant and equipment.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR
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(Unless otherwise stated the amounts are in TL).

12. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Buildings,Machinery and Equipment	Vehicles	Furniture and fixtures	Leasehold Improvement	Total
Cost					
1 January 2016	**118.154.508**	**306.430**	**10.100.175**	**28.954.848**	**157.515.961**
Translation difference	21.996.232	38.640	2.204.505	6.128.420	30.367.797
Purchases	3.308.912	-	492.844	231.022	4.032.778
Disposals	(692.804)	(157.349)	-	-	(850.153)
31 December 2016	**142.766.848**	**187.721**	**12.797.524**	**35.314.290**	**191.066.383**
Accumulated Depreciation					
1 January 2016	**(102.483.023)**	**(201.174)**	**(6.123.722)**	**(8.487.958)**	**(117.295.877)**
Translation difference	(19.445.848)	(32.243)	(1.492.029)	(2.309.967)	(23.280.087)
Period charge	(6.523.062)	(6.816)	(1.250.561)	(3.197.241)	(10.977.680)
Disposals	586.221	68.195	-	-	654.416
31 December 2016	**(127.865.712)**	**(172.038)**	**(8.866.312)**	**(13.995.166)**	**(150.899.228)**
Net book value at 31 December 2016	**14.901.136**	**15.683**	**3.931.212**	**21.319.124**	**40.167.155**

As of 31 December 2016 assets have been covered by insurance worth of TL 300.740.410.
As of 31 December 2016 depreciation charge is TL 10.977.680. TL 7.025.186 is accounted in cost of sales, TL 3.382.890 in general administrative expenses, TL 569.604 in sales, marketing and distribution expenses.
As of 31 December 2016, there are not any mortgage and financial leasing on property, plant and equipment.

12. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Tangible fixed assets are depreciated principally on a straight-line basis using the following rates, which amortize the assets over their expected useful lives:

	Depreciation rate (%)
Machinery and Equipment	10
Vehicles	5-10
Leasehold Improvement	5-10
Furniture and fixtures	5-15

13. INTANGIBLE ASSETS

Goodwill (Cont'd)

The shares transfer of Probil Bilgi İşlem Destek ve Danışmanlık Sanayi ve Ticaret A.Ş ("Probil") and its subsidiary BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ("BDH") to the Company was completed on 11 October 2011.

During the acquisition, fair value of the customer relations has been identified as a separable intangible asset. Further, a write-up is made on the inventory based on the mark-up margin on the inventory. The difference between the net amount transferred and the total fair value of the net assets acquired is recognized as goodwill.

Changes in goodwill between the acquisition date and the balance sheet date is presented below:

	2017	2016
As of 1 January	64.500.278	53.290.807
Currency Translation Reserves	4.631.513	11.209.471
As of 31 December	**69.131.791**	**64.500.278**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

13. INTANGIBLE ASSETS (cont'd)

Goodwill (Cont'd)

According to accounting policies, refer to Note 2.5.9, Group has put goodwill amount to the test of impairment.

Netas has engaged an independent assessment report to perform a valuation analysis of Probil as of 31 December 2017. An independent assessment has been prepared a valuation of 100% of the share capital of Probil, based on its financial statements on a consolidated basis by applying adjusted Discounted Cash Flow ("DCF") valuation. The present value of cash flows expected to be generated by the Company in the future is calculated by discounting cash flows today using a discount rate appropriate to the Company's risk profile. In the valuation study, weighted average capital cost ratio was 10,7% and asset beta value was 0,75. During the projection year, the debt / equity ratio of the Company will be realized at 20% and the borrowing cost will be realized as approximately 5,6%.

The DCF model is based on a cash flow forecast provided by management over the year of 1 January 2018-31 December 2022.

It is estimated that the standard profit margin will be 12% during the projection year.

Starting from year 2018, EBITDA margin is expected to be around 9%, with the assumption that the corporate segment and BDH's standard profit margins will continue at 11% and 20%, respectively.

It is predicted that the company's net working capital needs will continue to normalize to around 32%during the projection year as of 2018.

The Company does not plan to invest a large amount during the projection year. Investment expenditures are expected to be approximately 0,6% of net sales during the projection year.

The result of DCF analysis concluded indicative firm value of Probil is between USD 82,5 million and USD 107,3 million. As of the valuation date, the value of the company calculated by considering the net debt of USD 37,3 million was estimated between USD 45 million and USD 70 million.

As conclusion, no goodwill impairment is noted for Probil as of 31 December 2017.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

13. INTANGIBLE ASSETS (cont'd)

Other Intangible Assets

	1 January- 31 December 2017		
	Customer Relations	Other Intangible Assets	Total
Cost			
1 January 2017	**37.541.565**	**70.824.796**	**108.366.361**
Purchases	-	1.396.841	1.396.841
Translation difference	2.695.713	5.132.487	7.828.200
31 December 2017	**40.237.278**	**77.354.124**	**117.591.402**
Accumulated amortization			
1 January 2017	**(19.708.705)**	**(47.240.209)**	**(66.948.914)**
Translation difference	(1.547.208)	(3.641.344)	(5.188.552)
Period charge	(3.891.769)	(7.366.773)	(11.258.542)
31 December 2017	(25.147.682)	(58.248.326)	(83.396.008)
Net book value	**15.089.596**	**19.105.798**	**34.195.394**

As of 31 December 2017 amortization charge is TL 11.258.542. TL 7.015.587 is accounted in cost of sales, TL 4.197.706 in general administrative expenses and TL 45.249 in sales, marketing and distribution expenses.

	1 January- 31 December 2016		
	Customer Relations	Other Intangible Assets	Total
Cost			
1 January 2016	**31.017.235**	**52.518.917**	**83.536.152**
Purchases	-	6.237.044	6.237.044
Translation difference	6.524.330	12.068.835	18.593.165
31 December 2016	**37.541.565**	**70.824.796**	**108.366.361**
Accumulated amortization			
1 January 2016	**(13.182.326)**	**(33.609.297)**	**(46.791.623)**
Translation difference	(3.301.337)	(7.993.480)	(11.294.817)
Period charge	(3.225.042)	(5.637.432)	(8.862.474)
31 December 2016	(19.708.705)	(47.240.209)	(66.948.914)
Net book value	**17.832.860**	**23.584.587**	**41.417.447**

As of 31 December 2016 amortization charge is TL 8.862.474. TL 5.251.500 is accounted in cost of sales, TL 3.573.057 in general administrative expenses and TL 37.917 in sales, marketing and distribution expenses. Intangible fixed assets are amortized principally on a straight-line basis using the following rates, which amortize the assets over their expected useful lives:

	Amortization rate (%)
Software Licences	20
Customer Portfolio	10
Licenses	3-15
Rights	20

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

14. GOVERNMENT GRANTS

For the year ended 31 December 2017 the Group has received approved and accrued incentive from TÜBİTAK, TL 21.648.681 (For the year ended 31 December 2016 the Group has received approved and accrued incentive from TÜBİTAK, TL 15.284.525).

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 31 December 2017, the Group has a corporate tax benefit of TL 268.583.663 due to research and development disbursement and TL 61.227.387 of this amount is utilized by the year end (As of 31 December 2016, the Group has a corporate tax benefit of TL 168.679.599 due to research and development disbursement and TL 3.699.882 of this amount is utilized by the year end). The Group has booked deferred tax assets for unused R&D tax benefit (Note 26).

For the year ended 31 December 2017, the amount of income tax incentive within the scope of Act numbered 5746 is TL 13.278.261 (31 December 2016: TL 12.259.873) 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 TL 10.089.367 (31 December 2016: TL 9.252.701).

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Other Short Term Provisions	31 December 2017	31 December 2016
Provision for legal cases	5.123.207	3.658.492
Other provisions	441.411	668.789
	5.564.618	**4.327.281**

For the year ended 31 December 2017, the Group has cash outflows of TL 585.907 for legal cases during the year (31 December 2016: TL 2.074.667).

	Provision for Legal Cases	Other Provisions	Total
As of 1 January 2017	3.658.492	668.789	4.327.281
Provision booked	2.452.679	-	2.452.679
Payment within the year	(585.907)	-	(585.907)
Provision no longer required	(402.057)	(266.393)	(668.450)
Foreign currency exchange differences	-	39.015	39.015
As of 31 December 2017	**5.123.207**	**441.411**	**5.564.618**

	Provision for Legal Cases	Other Provisions	Total
As of 1 January 2016	4.309.760	428.609	4.738.369
Provision booked	1.423.399	144.713	1.568.112
Payment within the year	(2.074.667)	-	(2.074.667)
Provision no longer required	-	(15.813)	(15.813)
Foreign currency exchange differences	-	111.280	111.280
As of 31 December 2016	**3.658.492**	**668.789**	**4.327.281**

16. COMMITMENTS

(*) The Group has no off-balance sheet commitments and contingencies in favor of subsidiaries which are fully consolidated as of 31 December 2017.

	31 December 2017	31 December 2016
Guarantee letters given(*)	405.511.901	379.591.575

The Group's off-balance sheet commitments and contingencies as of 31 December 2017 and 2016 are as follows:

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

16. COMMITMENTS (cont'd)

Maturities and currencies of guarantee letters are given below:

31 December 2017		Original Currency			
Maturity	TL Equivalent	TL	USD	EUR	DZD
2017	160.155	-	42.460	-	-
2018	70.675.401	19.033.528	11.023.989	2.182.801	6.255.408
2019	51.507.843	1.079.765	13.301.367	56.838	-
2020	14.402.510	10.104.547	756.246	320.115	-
2021	2.531.798	1.631.000	238.818	-	-
2022	4.401.728	2.351.700	543.500	-	-
2023	649.004	-	172.063	-	-
2025	210.000	210.000	-	-	-
Indefinite	260.973.462	69.959.222	47.287.992	2.801.166	-
	405.511.901	**104.369.762**	**73.366.434**	**5.360.920**	**6.255.408**

31 December 2016		Original Currency			
Maturity	TL Equivalent	TL	USD	EUR	DZD
2016	2.350.534	450.000	318.289	210.359	-
2017	93.750.007	48.005.671	12.319.293	598.540	5.350.020
2018	7.949.196	3.481.243	784.263	460.383	-
2019	47.856.293	1.119.565	13.220.580	56.838	-
2020	10.411.424	9.831.301	19.246	138.115	-
2021	707.292	-	200.981	-	-
2022	2.340.000	2.340.000	-	-	-
2025	210.000	210.000	-	-	-
2026	422.304	-	120.000	-	-
Indefinite	213.594.525	67.538.392	39.933.774	1.488.233	-
	379.591.575	**132.976.172**	**66.916.426**	**2.952.468**	**5.350.020**

16. COMMITMENTS (cont'd)

The off-balance sheet commitments and contingencies as of 31 December 2017 and 2016 are as follows:

Commitments, Pledges, Mortgages ("CPM") are given by the Company	31 December 2017	31 December 2016
A. Total amount of CPM is given on behalf of own legal personality	405.511.901	379.591.575
B. Total amount of CPM is given in favor of subsidiaries which are fully consolidated	-	-
C. Total amount of CPM is given for assurance of third party's debts in order to conduct of usual business activities	-	-
D. Total Amount of other CPM	-	-
i. Total amount of CPM is given in favor of parent company	-	-
ii. Total amount of CPM is given in favor of other group companies, which B and C doesn't include	-	-
iii. The amount of CPM is given in favor of third party which C doesn't include	-	-
	405.511.901	**379.591.575**

The rate of total amount of other "CPM"s to total equity of the Company is 0%.
The off-balance sheet commitments as of 31 December 2017 and 2016 are as follows:

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
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31 December 2017		Original Currency		
Maturity	TL Equivalent	TL	USD	EUR
2007-2016 (*)	7.584.043	1.839.800	1.468.687	45.289
2017	2.793.880	2.049.000	168.750	24.000
2018	3.741.895	1.528.533	202.767	320.794
2019	506.484	204.000	80.194	-
2020	2.467.754	412.068	545.000	-
Indefinite	457.007	96.500	95.577	-
	17.551.063	**6.129.901**	**2.560.975**	**390.083**

31 December 2016		Original Currency		
Maturity	TL Equivalent	TL	USD	EUR
2007-2015 (*)	17.074.063	1.146.800	4.482.741	40.864
2016	3.235.681	693.000	717.852	4.425
2017	7.673.805	227.000	2.090.750	24.000
2018	2.479.791	576.100	202.767	320.794
2019	486.219	204.000	80.194	-
2020	2.330.032	412.068	545.000	-
Indefinite	432.855	96.500	95.577	-
	33.712.446	**3.355.468**	**8.214.881**	**390.083**

(*) The related amounts are consisted of the letters to be returned by the customers.

16. COMMITMENTS (cont'd)

Rent Agreements

As of 7 June 2012, the Company signed an agreement with ESAS Real Estate Group EAG Turizm İnşaat Sanayi ve Ticaret A.Ş. to rent the real estate ("Esas Aeropark") addressed in İstanbul city, Pendik district, Kurtköy Mahallesi with 15.744 square meters area. The rental period is 5 years beginning from 1 May 2013. The rent for the five years was USD 6.339.816 + VAT at the beginning of the rental period and the agreement have been revised for the remaining four years as USD 5.563.920 + VAT. The rents to be paid quarterly USD 1.046.756 + VAT for the first year, USD 1.339.848 for the second year, USD 1.507.328 for the third year, USD 1.669.988 for the fourth year. The leased real estate is used as the new Head Office and operation building of the Group.

As of 3 October 2012, Probil Bilgi İşlem Destek ve Danışmanlık Sanayi ve Ticaret A.Ş., the subsidiary of the Company, signed a lease agreement with Ahmet Bülent Koyuncuoğlu for the real estate addressed Orhanlı District, İrfan St. No. 28, Tuzla, İstanbul. The rental period is 5 years beginning from 1 October 2012. It has been agreed that the monthly rent for the period of 5 years starting from October 1, 2017 will be fixed as USD 52.788 + withholding.

Company signed a rent contract with Yudo Leon Mizrahi (Renter) and Salvo Özsarfati (Lessor) for "Buyaka İs Merkezi" which 50 plate, 1840 block of buildings, 233 parcels that registered immovable for 15th floor in C Block each of which is 845 m2 are utilized as an office. The amount which will be paid for the rented place starting on 1 January 2016 for 15th floor is USD 17.705. 3% increase will be applied next year rental. The amount of rent between 1 February 2016 and 31 January 2017 is agreed as USD 18.236 and between 1 February 2017 and 31 January 2018, net USD 18.784 which will be paid.

Unrevokable Operational Lease Commitments	31 December 2017	31 December 2016
Within 1 year	4.711.622	9.733.379
Between 1-5 years	11.468.797	2.389.632
	16.180.419	**12.123.011**

(*)The length of the lease contract has an option of 5+5 year and the lease amount will be adjusted by US WPI and CPI annually.

Guarantees Given

According to the System Integration Agreement signed between fully-consolidated subsidiary, Probil, and Cisco System International B.V., the Company agrees that all financial obligations will be jointly performed by the Company and Probil.

According to the contract between Netaş Telekomünikasyon A.Ş. and İGA Havalimanları İnşaatı Adi Ortaklığı Ticari İşletmesi, fully-consolidated subsidiary and subcontracter, BDH Bilişim Destek Hizmetleri San. Ve Tic. A.Ş., and its whole commitments are guaranteed by Netaş Telekomünikasyon A.Ş.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
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17. EMPLOYEE BENEFITS

Employee Benefit Obligations:

	31 December 2017	31 December 2016
Payables to employees	753.957	8.804.624
Social security payables	10.869.483	9.021.007
	11.623.440	**17.825.631**

Short Term and Long Term Provisions for Employee Benefits:

Short Term	31 December 2017	31 December 2016
Provision for employee premiums	17.246.698	12.560.168
Unused vacation provision	4.489.396	4.291.367
	21.736.094	**16.851.535**
Long Term		
Unused vacation provision	2.573.167	1.596.400
Provision for severance indemnity	21.076.530	18.668.568
Provision for retirement benefits	1.324.665	1.942.466
	24.974.362	**22.207.434**
Total		
Provision for employee premiums	17.246.698	12.560.168
Unused vacation provision	7.062.563	5.887.767
Provision for severance indemnity	21.076.530	18.668.568
Provision for retirement benefits	1.324.665	1.942.466
	46.710.456	**39.058.969**

An actuarial valuation was performed by an independent and authorized company named Aon Hewitt for the Company's total liability for severance indemnity and retirement benefit as of 31 December 2017. Expected interest and service charges for 2018 have also been calculated by the actuarial firm. Expected service and interest charges for 2017 will be amortized on a periodic basis during the year.

Severance Indemnity

Under Turkish Law, the Company is required to pay employment termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires.

The provision is made in respect of all eligible employees, at a rate of 30 days gross pay for each year of service. The retirement pay provision ceiling at the respective balance sheet dates, is subject to a maximum of TL 4.732,48 per year as of 31 December 2017 (31 December 2016: TL 4.297,21 per year).

As the maximum liability is revised semi-annually, the maximum amount of TL 5.001,76 (1 January 2017: TL 4.426,16) which is effective from 1 January 2018 has been taken into consideration in calculating the reserve for employment termination benefits of the Company.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

17. EMPLOYEE BENEFITS (cont'd)

Severance Indemnity (cont'd)

The movement for severance indemnity provision is as follows:

	31 December 2017	31 December 2016
Present value of severance indemnity provision	21.076.530	18.668.568
Net liability in balance sheet	**21.076.530**	**18.668.568**

	2017	2016
Current service cost	2.577.704	3.239.648
Interest cost	1.830.487	1.600.707
Extra payment or loss/(gain)	416.012	(155.646)
Period charge at 31 December	**4.824.203**	**4.684.709**

Movement for severance indemnity provision:	2017	2016
As of 1 January	18.668.568	17.343.016
Period charge	4.824.203	4.684.709
Severance indemnity paid	(3.226.321)	(3.464.381)
Actuarial loss	810.080	105.224
As of 31 December	**21.076.530**	**18.668.568**

Retirement Benefit Provision

As of 31 December 2012 the Company repealed the Lump Sum plan for new eligibility and HR department announced this to all employees on 27 December 2012. Accordingly, only the employees who are already entitled to Lump Sum as of 31 December 2012 will continue to be considered as members and also continue accrual of future benefits as well. This calculation is yearly prepared by Aon Hewitt and reported at their current value.

The movement for retirement benefit provision is as follows:

Movement for retirement benefit provision:	2017	2016
As of 1 January	1.942.466	3.434.621
Period charge	105.811	183.752
Actuarial loss/(gain)	15.886	(206.849)
Benefit paid	(739.498)	(1.469.058)
As of 31 December	**1.324.665**	**1.942.466**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

17. EMPLOYEE BENEFITS (cont'd)

Retirement Benefit Provision (cont'd)

The assumption used to determine present value of severance indemnity and retirement benefit provision as of 31 December 2017 and 2016 are as follows:

Assumptions	31 December 2017	31 December 2016
Annual inflation rate	% 8,30	% 8,00
Annual discount rate	% 11,50	% 11,30

Provision for Employee Premiums and Unused Vacation

The movement for employee premiums provision is as follows:

Movement for vacation provision

	31 December 2017	31 December 2016
As of 1 January	5.887.767	5.012.470
Period charge	2.584.814	2.217.509
Payments	(1.410.018)	(1.342.212)
As of 31 December	**7.062.563**	**5.887.767**

The movement for employee premiums provision is as follows:

	2017	2016
As of 1 January	12.560.168	11.361.325
Period charge	26.272.933	20.113.186
Payments	(21.586.403)	(18.914.343)
As of 31 December	**17.246.698**	**12.560.168**

18. ADVANCES RECEIVED

As of 31 December 2017, the amount of advances received is consisted of TL 23.836.043 related to the defense projects and TL 28.840.311 related to system integration projects (31 December 2016: the TL 60.790.881 related to the defense projects and TL 17.421.393 system integration projects).

19. OTHER ASSETS AND LIABILITIES

Other Current Assets	31 December 2017	31 December 2016
VAT receivables	41.655.642	51.596.561
Prepaid taxes and funds	1.030.170	256.280
Personnel and business advances	441.836	484.650
Other	514.952	489.257
	43.642.600	**52.826.748**

Other Non-Current Assets	31 December 2017	31 December 2016
Other non-current assets (*)	7.945.069	7.478.474
Long term taxes and funds	10.964.659	6.572.657
	18.909.728	**14.051.131**

(*) The balance includes of spare parts which will be used in long term. The total depreciation expenses for spare parts is TL 2.647.585, which is fully under cost of sales (31 December 2016: TL 2.612.798, which is fully under cost of sales).

20. SHAREHOLDERS' EQUITY

Paid in Capital

As of 31 December 2017 and 2016, capital structure of the Company is as in the following:

	Share % 31 December 2017	Share % 31 December 2016	31 December 2017	31 December 2016
ZTE (*)	48,05	-	31.168.351	-
OEP (**)	-	48,04	-	31.162.570
TSKGV (***)	15,00	15,00	9.729.720	9.729.720
Public	36,95	36,96	23.966.729	23.972.510
Total	**100,00**	**100,00**	**64.864.800**	**64.864.800**

(*) ZTE Cooperatief U.A.
(**) OEP Turkey Tech B.V.
(***) Turkish Armed Forces Foundation

The Company's issued capital assigned to 64.864.800 shares with nominal value of 1 TL each (31 December 2016: 64.864.800 shares with nominal value of TL 64.864.800).

(Convenience translation of the report and the consolidated financial statements originally issued in Turkish)

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

20. SHAREHOLDERS' EQUITY (cont'd)

Paid in Capital (Cont'd)

In the public disclosure made by our company, Netaş Telekomünikasyon A.Ş. ("Company") ,and OEP Turkey Tech B.V. ("OEP") on 6 December 2016 and subsequent updates made thereafter, it was announced that a share purchase agreement ("Agreement") for the transfer of shares representing 48.04% of our Company ("Shares") has been executed between Company's shareholder OEP and ZTE Cooperatief U.A. ("ZTE Cooperatief") and that the share purchase price which was agreed between the parties through bargaining shall be paid at the date of completion of the share transfer which is subject to amongst other, approval of the Competition Board.

Following the above mentioned disclosure, it was announced on 8 May 2017 that several supplemental agreements were signed between the parties related to the transfer of the Shares and accordingly USD 10.000.000 was paid by ZTE Cooperatief to OEP as deposit of a portion of the share purchase price.

According to Article 23/7 of the Communiqué on Special Circumstances numbered (II/15.1), we hereby submit to the investors' attention that as informed by OEP, the Shares of OEP was transferred to ZTE Cooperatief as of 28 July 2017. Following the transaction, ZTE Cooperatief has become a shareholder of our Company whose ratio of the shares to the entire share capital of Netaş is 48,04%.

Mandatory takeover bid process in relation to the purchase of other shareholders' shares in Company conducted by ZTE Cooperatief U.A. ("ZTE Cooperatief") in line with the Communiqué on Takeover Bids II-26.1 of the Capital Markets Board is completed between 4 October 2017 and 17 October 2017.
At the end of the takeover bid process, 12 shareholders have accepted the offer; and accordingly, ZTE Cooperatief has acquired 5.781,71 shares owned by 12 tendering shareholders.

Shareholding structure of Company after completion of the takeover bid process is as follows:

Trade name	Share class	Capital Nominal Value (TL)	Capital Amount (Number)	Shareholding Ratio (%)
ZTE Cooperatief U.A.	***A***	*23.351.328,00*	*23.351.328,00*	*36,00 %*
ZTE Cooperatief U.A.	***B***	*7.817.023,34*	*7.817.023,34*	*12,05 %*
ZTE Cooperatief U.A. (Total)		**31.168.351,34**	**31.168.351,34**	**48,05 %**
Türk Silahlı Kuvvetlerini Güçlendirme Vakfı	**A**	9.729.720,00	9.729.720,00	15,00 %
Other Shareholders	**B**	23.966.728,66	23.966.728,66	36,95 %
TOTAL		**64.864.800,00**	**64.864.800,00**	**100,00 %**

ZTE Cooperatief's shareholding in Company share capital before and after the takeover bid process is shown below:
Nominal Value and Shareholding Ratio Before the Takeover Bid: 31.162.569,63 shares, 48,04%. Nominal Value and Shareholding Ratio After the Takeover Bid: 31.168.351,34 shares, 48,05%.
The shares of the company are divided into two groups, where (A) group shares are registered and (B) group shares are bearer shares. (A) group shares are owned by ZTE and Turkish Armed Forces Foundation. The differentiation of the shares between (A) and (B) groups, does not give the owners any rights nor privileges, except as provided in Articles 9, 15 and 19 of the Articles of Association.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

20. SHAREHOLDERS' EQUITY (cont'd)

Paid in Capital (Cont'd)

In Group (A) are entitled to pre-emptive rights which are required to be exercised within 30 days from the date of the offer for sale. Therefore a shareholder wishing to transfer its shares, in full or in part, must first offer, in writing, to transfer its shares to the other shareholders in Group A in proportion to their respective shares, stating the price and other conditions for sale.

According to Article 9 of the Articles of Association; the required quorum for meetings and the required majority for resolutions of the shareholders shall be subject to the provisions of the Turkish Commercial Code (T.C.C.). However, resolution of the shareholders concerning matters stipulated in Article 421 of T.C.C. shall require the affirmative votes of the shareholders representing at least one half of the total number of shares within Group A. Resolution of the shareholders concerning amendments to the Articles of Association shall require the affirmative votes of the shareholders representing at least one half of the total numbers of shares within Group A.

Share Capital Adjustments

According to CMB Decree No: XI-26 "Changes to CMB Decree No: XI-20 Accounting Principles in Hyperinflationary Periods", account differences occurred in correction of shareholders' equity are shown at their nominal values in the financial statements, under currency translation reserves account. The differences arise from inflation adjustment of shareholders' equity accounts are shown together at "Currency Translation Reserves" account. According to Board of Directors decision on 5 April 2004 referring to the Annual General Meeting decision and related CMB Decrees, conversion differences within the meaning of the law, occurred in prior periods were net-off with accumulated losses.

Legal Reserves

According to Turkish Commercial Code, legal reserves consist of first and second legal reserves. The first legal reserves, appropriated out of historical statutory profit at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid in share capital. The second legal reserve is appropriated after the first legal reserves and dividends, at the rate of 10% per annum of all cash distribution.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

20. SHAREHOLDERS' EQUITY (cont'd)

Legal Reserves (cont'd)

The total amount of first and second legal reserves in the Company's statutory books of account is TL 34.897.360 as of 31 December 2017 (31 December 2016: TL 33.182.076). Translation differences are presented in currency translation reserves in the accompanying consolidated financial statements prepared by in accordance with TAS.

	Retained Earnings	Extraordinary Reserves	Total Retained Earnings
As of 1 January 2017	252.179.983	(88.964.177)	163.215.806
Net profit for the year	53.518.202	-	53.518.202
Transfer to the legal reserves	(1.715.284)	-	(1.715.284)
As of 31 December 2017	**303.982.901**	**(88.964.177)**	**215.018.724**

	Retained Earnings	Extraordinary Reserves	Total Retained Earnings
As of 1 January 2016	233.509.972	(88.964.177)	144.545.795
Net profit for the year	18.670.011	-	18.670.011
As of 31 December 2016	**252.179.983**	**(88.964.177)**	**163.215.806**

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, and listed companies distribute dividend in accordance with the Communiqué No, II-19.1 issued by the CMB is effective from 1 February 2014.

The total amount of the Company's net income and all available resources that can be distributed in its' statutory financial statements as of 31 December 2017 are TL 192.931.629 (31 December 2016: TL 137.445.766).

21. REVENUE AND COST OF SALES

Sales:

	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Total domestic	**794.437.003**	**820.100.035**
United States	64.894.151	69.618.884
Asia	1.957.982	8.185.493
Africa	245.980.928	54.483.072
Europe	14.995.620	17.455.940
Total export	**327.828.681**	**149.743.389**
Total sales	**1.122.265.684**	**969.843.424**

	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Equipment expenses	511.480.917	478.398.242
Personnel expenses	204.717.615	183.200.806
Service/ support expenses	183.121.121	131.342.918
Depreciation and amortization expenses	17.194.811	14.889.484
Rent expenses	7.877.066	8.223.966
Transportation expenses	3.664.291	3.880.130
Other	21.670.194	15.484.097
	949.726.015	**835.419.643**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

22. RESEARCH AND DEVELOPMENT, SALES, MARKETING AND DISTRIBUTION, AND GENERAL ADMINISTRATIVE EXPENSES

	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Sales, marketing and distribution expenses	56.109.411	44.406.817
General administrative expenses	32.452.882	24.402.568
Research and development expenses	4.252.477	-
	92.814.770	**68.809.385**

The details of research and development, sales, marketing and distribution and general administrative expenses are as in the following:

	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Payroll expenses	49.727.208	38.657.093
Depreciation and amortization expenses	8.805.190	7.563.469
Fair and advertising expenses	6.073.738	2.236.233
Consultancy, audit and legal expenses	5.534.514	4.088.504
Provision expenses	4.420.779	1.589.009
Maintenance expenses	4.048.571	2.993.564
Travel and meeting expenses	3.999.018	3.818.362
Software expenses	2.147.807	957.851
Rent expenses	1.436.551	1.182.869
Cafeteria expenses	977.860	594.155
Severance indemnity and pension provision expenses	854.257	605.549
Communication expenses	819.001	1.098.465
Private health insurance expenses	756.302	650.937
Salaries of the BOD and BOA members	565.430	692.693
Personnel transportation expenses	492.390	411.509
Electricity,water and gas expenses	491.911	510.410
Training expenses	279.390	301.306
Other	1.384.852	857.407
	92.814.770	**68.809.385**

During the year 2017, Group's organization structure changed, therefore reclassifications has been made between operational expenses.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

23. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

Other Income from Operating Activities	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
R&D Incentives	-	3.057.187
Discount income on receivables (*)	-	745.240
Service income	167.434	621.164
Invoince returned	1.577.919	108.860
Other income and gains	274.189	308.471
	2.019.542	**4.840.922**

Other Expenses from Operating Activities	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Foreign exchange expenses	8.458.256	20.102.886
Uncollectible receivables (**)	2.499.506	24.006.656
Legal case expenses	2.452.679	1.423.399
Reflection expenses on projects	1.143.920	715.640
Other tax expenses	945.239	1.485.651
Discount expense on receivables (*)	429.338	-
Other expenses and losses	1.319.333	2.985.996
	17.248.271	**50.720.228**

(*) Discount (expenses)/income related to trade receivables are accounted under Other (Expenses)/Income from Operating Activities.
(**) Total amount consists of Nortel receivables additional provision amounting to 5 % of net-off Nortel companies' trade receivables and payables which is approved by Company Management.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Unless otherwise stated the amounts are in TL).

24. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

Income from Investing Activities:

	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Income from sales of tangible asset	-	102.181
Dividend Income	-	-
Income from scrap sales	35.519	45.797
	35.519	**147.978**

Expenses from Investing Activities:

	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Losses from sales of tangible assets	44.008	106.583
	44.008	**106.583**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

25. FINANCE INCOME / (EXPENSES)

	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Foreign exchange gain (*)	18.255.463	50.117.292
Interest income	1.777.651	1.287.919
Gains on derivative instruments	2.678.753	-
	22.711.867	**51.405.211**

	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Bank interest expenses	43.984.031	43.793.734
Losses from derivative instruments	-	2.763.224
Guarantee letter commissions	2.814.487	2.301.206
Other financial expenses	1.032.205	908.772
	47.830.723	**49.766.936**

(*) Foreign exchange gain and loss related to cash and cash equivalents, financial borrowings, and other financial liability.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Unless otherwise stated the amounts are in TL).

26. TAX ASSETS AND LIABILITIES

Corporate Tax

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Company's results for the period.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

As of 31 December 2017 and 2016, tax rate is 20%. Institutions tax rate is applied to commercial income of corporations by finding out the deduction of deductible expenses and deductions of tax exemptions and deductions in accordance with the tax legislation.In Turkey, advance tax returns are filed on a quarterly basis.

Accumulated losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. However, accumulated losses cannot be deducted from the profit occurred in the prior years retroactively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the fiscal year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Corporate tax rate in Malta is 35% (2016: 35 %). Corporate tax rate in Kazakhstan is 20% (2016: 20 %).

Withholding tax

In addition to corporate taxes, companies should also calculate withholding taxes surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. This rate was changed to 15 % with the code numbered 5520 article 15 commencing from 23 July 2006. Transfer from retained earnings to share capital is not subject to withholding taxes.

Deferred Taxes

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising from its financial statements prepared in accordance with TAS and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TAS and tax purposes and are set out below. Tax rates applicable as of 31 December 2016 is 20%.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017,"Bazı Vergi Kanunları İle Diğer Bazı Kanunlarda Değişiklik Yapılmasına Dair Kanun", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax assets/(liabilities)	31 December 2017	31 December 2016
Trade receivables	(63.950.025)	(64.660.327)
Tangible and intangible assets	(10.581.353)	(11.361.781)
Trade payables and cost provisions	1.178.940	1.299.169
Carryforward tax losses	2.431.458	1.829.948
Unused R&D tax exemption	42.695.803	32.995.943
Provision for unused vacation	1.553.766	1.177.554
Inventory and deferred costs	3.272.470	1.537.007
Provisions for employee premiums	3.794.273	2.512.033
Advances received	2.124.862	2.490.727
Deferred revenues	12.141.644	12.125.739
Severance indemnity and retirement provisions	4.480.239	4.122.207
Other	1.111.764	700.020
	253.841	**(15.231.761)**

The movement of deferred tax assets/ (liabilities) is as follows:

	2017	2016
As of 1 January	(15.231.761)	(8.402.428)
Current charge deferred tax expenses	16.345.055	(3.688.098)
Charge to equity	165.193	(20.325)
Translation difference	(1.024.646)	(3.120.910)
As of 31 December	**253.841**	**(15.231.761)**

	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Current tax expenses	(3.016.501)	(313.751)
Deferred tax expenses	16.345.055	(3.688.098)
	13.328.554	**(4.001.849)**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

26. TAX ASSETS AND LIABILITIES (cont'd)

Corporate tax	3.016.501	313.751
Prepaid taxes	(22.122)	(16.087)
Current tax liabilities	**2.994.379**	**297.664**

Movement for deferred taxes as of 31 December 2017 and 2016 are as follows:

	1 January 2017	Charge to (Loss)/Profit	Charge to Equity	Translation Difference	31 December 2017
Tangible and intangible assets	(11.361.781)	1.853.364	-	(1.072.936)	(10.581.353)
Trade receivables	(64.660.327)	5.017.969	-	(4.307.667)	(63.950.025)
Trade payables and cost provisions	1.299.169	(206.515)	-	86.286	1.178.940
Inventory and deferred costs	1.537.007	1.571.802	-	163.661	3.272.470
Advances received	2.490.727	(526.850)	-	160.985	2.124.862
Provisions for employee premiums	2.512.033	1.065.725	-	216.515	3.794.273
Provision for unused vacation	1.177.554	282.091	-	94.121	1.553.766
Severance indemnity and retirement provisions	4.122.207	219.773	165.193	(26.934)	4.480.239
Deferred revenues	12.125.739	(826.763)	-	842.668	12.141.644
Unused R&D tax exemption	32.995.943	7.090.144	-	2.609.716	42.695.803
Carryforward tax losses	1.829.948	454.691	-	146.819	2.431.458
Other	700.020	349.624	-	62.120	1.111.764
	(15.231.761)	**16.345.055**	**165.193**	**(1.024.646)**	**253.841**

	1 January 2016	Charge to (Loss)/Profit	Charge to Equity	Translation Difference	31 December 2016
Tangible and intangible assets	(9.628.160)	910.907	-	(2.644.528)	(11.361.781)
Trade receivables	(41.139.634)	(12.771.770)	-	(10.748.923)	(64.660.327)
Trade payables and cost provisions	2.240.615	(1.213.635)	-	272.189	1.299.169
Inventory and deferred costs	3.360.460	(2.173.685)	-	350.232	1.537.007
Advances received	2.168.521	(115.056)	-	437.262	2.490.727
Provisions for employee premiums	2.272.264	(204.620)	-	444.389	2.512.033
Provision for unused vacation	1.002.494	(30.764)	-	205.824	1.177.554
Severance indemnity and retirement provisions	4.155.527	(736.474)	(20.325)	723.479	4.122.207
Deferred revenues	6.279.027	3.888.056	-	1.958.656	12.125.739
Unused R&D tax exemption	18.885.370	8.709.245	-	5.401.328	32.995.943
Carryforward tax losses	1.227.063	296.185	-	306.700	1.829.948
Other	774.025	(246.487)	-	172.482	700.020
	(8.402.428)	**(3.688.098)**	**(20.325)**	**(3.120.910)**	**(15.231.761)**

The Group has tax losses to be used future are TL 11.242.518 as of 31 December 2017 (31 December 2016: TL 9.149.741).

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

26. TAX ASSETS AND LIABILITIES (cont'd)

Tax reconciliation	31 December 2017	31 December 2016
Profit before tax	40.189.648	22.671.860
Tax rate	20%	20%
Computed tax expense	(8.037.930)	(4.534.372)
Tax effects of:		
Non-deductible expenses	(1.351.984)	(1.082.712)
Nondutiable gain	304.882	334.647
Used R&D deduction	12.245.477	739.976
Unused R&D deduction	(21.342.412)	(14.850.549)
Tax effect of other adjustments(Effect on deferred tax balances due to change in income tax rate from 20% to 22%	1.528.115	-
Other adjustment and monetary loss gain	29.982.406	15.391.161
Total tax income/(expenses)	**13.328.554**	**(4.001.849)**

As of 31 December 2017, the Company has TL 207.356.276 unused R&D tax exemption provided by Support of Research and Development Act, numbered 5746 (31 December 2016: TL 164.979.717).

Group's total carryforward tax losses of which deferred tax assets have been calculated and their maturity years are below;

	31 December 2017	31 December 2016
At the end of 2019	6.135.314	6.135.314
At the end of 2021	3.012.410	3.014.427
At the end of 2022	2.094.794	-
	11.242.518	**9.149.741**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

27. EARNINGS PER SHARE

	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Number of shares	64.864.800	64.864.800
Net profit for the year	53.518.202	18.670.011
Earnings per share	0.8251	0.2878

Earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

As of 28 July 2017, because of the shares of OEP (48,04 %) transferred to ZTE Cooperatief, Genband US LLC and its associates are not accounted as related parties. Due from related parties as of 31 December 2017 and 2016 is as follows:

Due from Related Parties	31 December 2017	31 December 2016
Genband US LLC (*)	-	25.329.936
Genband Ireland Ltd. (*)	-	1.359.373
Genband Telecommunications (UK) (*)	-	19.238
Genband Telecomunicacoes (*)	-	98.493
	0	**26.807.040**

Due to Related Parties	31 December 2017	31 December 2016
Genband Ireland Ltd. (*)	-	1.312.804
Kron Telekomunikasyon A.Ş.	1.715.824	8.305
	1.715.824	1.321.109

(*) Genband US LLC and its associates are not accounted as related parties effective from 28 July 2017, after the shares of OEP (48,04 %) was transferred to ZTE Cooperatief, so the amount of due from and due to Genband US LLC and its associates are not included at the note.

According to "IAS 24 Related Party Disclosures", providers of finance, trade unions, public utilities, departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, and a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence are not evaluated as related parties. The Group has a significant business relation with Aselsan Elektronik Sanayi ve Ticaret A.Ş. ("Aselsan"), and evaluated in that context.

As of 31 December 2017, the Group has due from balances that Aselsan is TL 23.687.695 (31 December 2016: TL 7.205.661), and the Group has due to balances that Aselsan is TL 713.525 (31 December 2016: None). For the year between 1 January-31 December 2017, the total purchase transaction amount from Aselsan is TL 863.231 (2016: TL 7.219) and the total sales transaction amount to Aselsan is TL 98.391.270 (2016: TL 57.971.307).

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont'd)

Main transactions with related parties are as follows for the year ended 31 December 2017 and 2016:

Sales	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Genband US LLC (*)	34.168.311	68.851.921
Genband Ireland Ltd. (*)	1.840.097	2.488.523
Genband Telecommunications (UK)(*)	-	42.829
Kron Telekomunikasyon A.Ş.	74.223	-
	36.008.408	**71.383.273**

Purchases	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016
Genband Ireland Ltd. (*)	2.471.693	2.563.451
Kron Telekomunikasyon A.Ş.	1.565.460	6.046
Genband US LLC(*)	25.385	-
	4.062.538	**2.569.497**

(*) Genband US LLC and its associates are not accounted as related parties effective from 28 July 2017, after the shares of OEP (48,04 %) was transferred to ZTE Cooperatief. Amount of purchases and sales to Genband companies are included from 1 January to 28 July 2017. For the year ended 31 December 2017, total remuneration for the directors and management board of the Group is TL 10.796.299 (for the year ended 31 December 2016 total remuneration for the directors and management board of the Group is TL 7.175.102). As of 31 December 2017 and 2016 there is no credit granted to the Group's Management.

29. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments and hedge accounting

Derivative financial instruments are calculated according to the fair value at the contract date and again are calculated in the following reporting period at fair value base. The effective portion of changes in the fair value of derivatives which are designed as cash flow hedge are recognized in other comprehensive income. Any ineffective portion of the changes in fair value of the derivatives is recognized in profit or loss.

When the hedging instrument expires, is sold, or when a hedge no longer meets the criteria for the hedge than hedge accounting is terminated. Any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction ultimately is recognized in the statement of income. However, if the hedge transaction is not realized, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss of the current period.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

29. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk in accordance to Group's risk management policy. Derivative financial instruments does not match the hedge accounting criteria's in TAS 39 (Financial Instruments: Recognition and Measurement), consequently stated as available for sale derivative financial instruments in the accompanying consolidated financial statements. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Fair values are determined as appropriate from the current market prices in active markets or, if appropriate, from discounted cash flows and option pricing models. Derivatives with fair value are carried as assets, while derivatives with fair value are carried as liabilities.

Asymmetric Forward Knockout

In order to meet the US Dollar funding requirement and minimize the negative exposure to appreciation of US Dollar against Turkish Lira, the Group has entered into a series of "asymmetric zero-cost collar forward knockout contracts", which have been accounted for as a derivative instrument. For each of these contracts, with maturities until 28 February 2017, the Group has agreed to purchase US Dollars: At strike rate, if the spot rate effective on the maturity of the forward contract is above the strike rate, which is ranging between USD/TL 3,0998 and 3,3700, If the spot rate is above the "barrier" rate, which is USD/TL 3,3800, then the forward contracts will in favor of bank.

Option Contract

The maturity date of Group option contract is 20 October 2017, and its type is "Call Option Contract". The contract exchange rate is USD/TL 4,00. If the exchange rate exceeds the USD/TL 4,00 at the maturity date, bank will use the warranty, purchase USD from the Group at that rate, and finally pay premiums to the Group related to this purchase. If the exchange rate is lower than the USD/TL 4,00 at the maturity date, bank does not use its warranty, but pays premiums to the Group.

The nominal amounts and the fair values of these derivative instruments as of 31 December 2016 are as follows and the Group does not have any derivative instruments as of 31 December 2017.

	Currency	Nominal Value		Fair Value (Liability)/Asset	
		2017	2016	2017	2016
European Type,USD Call Option	USD	-	5.000.000	-	(2.299.731)
Asymmetric Forward Knockout	USD	-	1.791.222	-	(379.022)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's financial risk management policies are as follows:

Credit risk
Carrying values of the financial assets represents their maximum exposed credit risk. As of the date of balance sheet maximum credit risks are as follows:

31 December 2017	Trade Receivables		Other Receivables	
	Related Parties	Other	Other (*)	Deposits at Banks
Maximum credit risks as of balance sheet date(A+B+C+D)	-	**890.130.073**	**1.479.485**	**186.576.827**
Maximum risk guaranteed by collateral	-	-	-	-
(A) Net book value of unexpired or not impaired financial assets	-	774.149.759	1.479.485	186.576.827
(B) Net book value of overdue but not impaired financial assets (**)	-	115.980.314	-	-
Guaranteed by collateral	-	-	-	-
(C) Net book value of impaired assets	-	-	-	-
Overdue (gross book value)	-	61.505.489	-	-
Impairment (-)	-	(61.505.489)	-	-
Guaranteed by collateral	-	-	-	-
Unexpired (gross book value)	-	-	-	-
Impairment (-)	-	-	-	-
Guaranteed by collateral	-	-	-	-
(D) Off balance sheet risks	-	-	-	-

(*) VAT receivable, prepaid taxes are not classified as financial assets and therefore are not included in other receivables and other current assets.

(**) The amount of overdue but not impaired financial assets is consisted of TL 25.842.572 receivables from Nortel companies. As a result of net-off Nortel companies' receivables and payables, 5 % additional provision amount is adjusted.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR
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(Unless otherwise stated the amounts are in TL).

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

31 December 2016	Trade Receivables		Other Receivables	
	Related Parties	Other	Other (*)	Deposits at Banks
Maximum credit risks as of balance sheet date (A+B+C+D)	**26.807.040**	**759.478.538**	**669.053**	**115.147.110**
Maximum risk guaranteed by collateral	-	-	-	-
(A) Net book value of unexpired or not impaired financial assets	20.339.053	663.741.201	669.053	115.147.110
(B) Net book value of overdue but not impaired financial assets (**)	6.467.987	95.737.337	-	-
Guaranteed by collateral	-	-	-	-
(C) Net book value of impaired assets	-	-	-	-
Overdue (gross book value)	-	51.433.691	-	-
Impairment (-)	-	(51.433.691)	-	-
Guaranteed by collateral	-	-	-	-
Unexpired (gross book value)	-	-	-	-
Impairment (-)	-	-	-	-
Guaranteed by collateral	-	-	-	-
(D) Off balance sheet risks	-	-	-	-

(*) VAT receivable, prepaid taxes are not classified as financial assets and therefore are not included in other receivables and other current assets.
(**) The amount of overdue but not impaired financial assets is consisted of TL 26.522.361 receivables from Nortel companies. As a result of net-off Nortel companies' receivables and payables, 45 % provision amount is adjusted.

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(Unless otherwise stated the amounts are in TL).

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

As of the date of balance sheet aging of overdue but not impaired financial assets are as follows:

	Receivables	
31 December 2017	**Trade Receivables**	**Other Receivables**
1-30 days overdue	51.302.959	-
1-3 months overdue	7.531.226	-
3-12 months overdue	18.473.277	-
1-5 years overdue	12.830.280	-
Overdue more than 5 years	25.842.572	-
Total	**115.980.314**	-

	Receivables	
31 December 2016	**Trade Receivables**	**Other Receivables**
1-30 days overdue	35.554.912	-
1-3 months overdue	9.988.473	-
3-12 months overdue	19.963.730	-
1-5 years overdue	10.175.848	-
Overdue more than 5 years	26.522.361	-
Total	**102.205.324**	-

Liquidity risk

The Group holds adequate sources to be able to fulfill its current and future liabilities. As of 31 December 2017 and 2016 liquidity risk table are as follows;

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30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd

31 December 2017

Maturities due to agreements	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilites	**708.742.499**	**733.604.238**	**388.816.693**	**316.266.842**	**28.520.703**
Financial liabilities	326.117.840	350.979.579	6.238.391	316.266.842	28.474.346
Due to related parties	1.715.824	1.715.824	1.715.824	-	-
Other trade payables to third parties	380.908.835	380.908.835	380.862.478	-	46.357

Expected maturities	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilities	**27.899.020**	**27.899.020**	**22.775.813**	**5.123.207**	-
Other short term provisions	5.564.618	5.564.618	441.411	5.123.207	-
Payables related to employee benefits	11.623.440	11.623.440	11.623.440	-	-
Other payables to third parties (*)	10.710.962	10.710.962	10.710.962	-	-

The Group Management considers that net book value of financial instrument reflects with the fair value.
(*) Social security premiums, income tax and other taxes payable are included in other liabilities.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd

31 December 2016

Maturities due to agreements	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilities	**597.269.719**	**601.756.648**	**439.125.390**	**160.685.530**	**1.945.728**
Financial liabilities	354.859.452	359.346.381	198.660.851	160.685.530	-
Due to related parties	1.321.109	1.321.109	1.321.109	-	-
Other trade payables to third parties	241.089.158	241.089.158	239.143.430	-	1.945.728

Expected maturities	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilities	**30.839.753**	**30.839.753**	**27.181.261**	**3.658.492**	-
Other short term provisions	4.327.281	4.327.281	668.789	3.658.492	-
Payables related to employee benefits	17.825.631	17.825.631	17.825.631	-	-
Other payables to third parties (*)	8.686.841	8.686.841	8.686.841	-	-

The Group Management considers that net book value of financial instrument reflects with the fair value.
(*) Social security premiums, income tax and other taxes payable are included in other liabilities.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
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30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1 The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2 The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3 The fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices.

In accordance with fair value hierarchy; while cash and cash equivalent are categorized as at Level 1, other financial asset and liabilities in the table are categorized as Level 2.

Interest rate risk

Interest rate sensitive financial assets are placed in short term instruments in order to avoid any possible interest rate fluctuations. The Group has the following interest sensitive liability as of the balance sheet date.

	31 December 2017	31 December 2016
Fixed interest rate financial instruments	**440.670.781**	**386.806.122**
Financial assets (*)	114.553.052	95.947.358
Financial liabilities	326.117.729	290.858.764
Variable interest rate financial instruments	**-**	**64.000.000**
Financial assets	-	-
Financial liabilities	-	64.000.000
Interest-free financial instruments	**111**	**688**
Financial liabilities	111	688

(*) As of 31 December 2017 and 2016, includes bank time deposits.

Foreign currency risk

The Group's foreign currency risk is mainly associated with change in value of US Dollar 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 and bears its contractual expenses in the same currency of contracts if possible.

	31 December 2017	31 December 2016
Export	327.828.681	149.743.389
Import	369.370.820	326.811.761

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign currency risk (cont'd)

As of 31 December 2017 and 2016, the Group's foreign currency position table is given below:

		Original Currency				
31 December 2017	**TL Equivalent (*)**	**TL**	**EURO**	**GBP**	**BDT**	**Other**
Current Assets	**325.425.541**	**271.834.289**	**9.295.550**	**33.441**	**12.601.173**	**699.565.437**
Cash and cash equivalents	35.754.805	17.233.160	2.216.912	33.441	12.601.173	574.000.091
Trade receivables, third parties	226.455.899	192.238.163	6.925.262	-	-	115.837.736
Other receivables, third parties	1.405.605	1.345.215	-	-	-	1.851.296
Prepaid expenses	7.590.503	6.886.781	153.376	-	-	983.379
Other current assets	54.218.729	54.130.970	-	-	-	6.892.935
TOTAL ASSETS (A)	**325.425.541**	**271.834.289**	**9.295.550**	**33.441**	**12.601.173**	**699.565.437**
Short Term Liabilities	**322.118.735**	**317.450.319**	**369.833**	**4.347**	**450.000**	**107.929.607**
Financial liabilities	207.390.413	207.390.413	-	-	-	-
Trade payables, third parties	67.031.853	62.369.948	369.833	4.347	450.000	105.911.965
Other payables, third parties	10.720.561	10.699.965	-	-	-	1.816.166
Employee benefit obligations	11.561.147	11.575.231	-	-	-	201.476
Provision for employee benefit	19.850.144	19.850.144	-	-	-	-
Other short term provisions	5.564.618	5.564.618	-	-	-	-
Long Term Liabilities	**49.018.655**	**49.018.655**	**-**	**-**	**-**	**-**
Long Term Financial Liabilities	24.044.293	24.044.293				
Provision for employee benefit	24.974.362	24.974.362	-	-	-	-
TOTAL LIABILITIES (B)	**371.137.390**	**366.468.974**	**369.833**	**4.347**	**450.000**	**107.929.607**
Net Foreign Currency Asset / (Liability) Position (A-B)	**(45.711.849)**	**(94.634.685)**	**8.925.717**	**29.094**	**12.151.173**	**591.635.830**

(*) Since the functional currency of the Group is USD the currencies other than USD are shown in the table. Foreign currencies are denominated in their original currency amount and TL equivalents are calculated by using year end rates.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated the amounts are in TL).

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign currency risk (cont'd)

		Original Currency				
31 December 2016	**TL Equivalent (*)**	**TL**	**EURO**	**GBP**	**BDT**	**Other**
Current Assets	**267.916.251**	**253.035.189**	**1.720.528**	**631**	**13.113.887**	**642.863.905**
Cash and cash equivalents	34.150.329	23.230.179	1.058.139	29	12.613.887	579.561.577
Trade receivables, third parties	167.304.554	164.675.446	394.964	602	-	36.597.325
Other receivables, third parties	600.120	540.669	-	-	500.000	3.484.204
Prepaid expenses	6.883.679	6.123.745	195.315	-	-	1.452.487
Other current assets	58.977.569	58.465.150	72.110	-	-	21.768.312
TOTAL ASSETS (A)	**267.916.251**	**253.035.189**	**1.720.528**	**631**	**13.113.887**	**642.863.905**
Short Term Liabilities	**394.714.241**	**388.657.102**	**1.366.619**	**7.303**	**-**	**31.246.825**
Financial liabilities	284.319.045	284.319.045	-	-	-	-
Trade payables, third parties	62.790.540	56.762.542	1.365.069	6.505	-	30.618.282
Other payables, third parties	8.695.796	8.695.796	-	-	-	-
Employee benefit obligations	17.730.044	17.700.903	1.550	798	-	628.543
Provision for employee benefit	16.851.535	16.851.535	-	-	-	-
Other short term provisions	4.327.281	4.327.281	-	-	-	-
Long Term Liabilities	**22.207.434**	**22.207.434**	**-**	**-**	**-**	**-**
Provision for employee benefit	22.207.434	22.207.434	-	-	-	-
TOTAL LIABILITIES (B)	**416.921.675**	**410.864.536**	**1.366.619**	**7.303**	**-**	**31.246.825**
Net Foreign Currency Asset / (Liability) Position (A-B)	**(149.005.424)**	**(157.829.347)**	**353.909**	**(6.672)**	**13.113.887**	**611.617.080**

(*) Since the functional currency of the Group is USD the currencies other than USD are shown in the table. Foreign currencies are denominated in their original currency amount and TL equivalents are calculated by using year end rates.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign currency risk (cont'd)

Exchange Rate Sensitivity Table
31 December 2017

	Profit /(Loss)	
	Appreciation	Devaluation
Effect of 10 % appreciation/devaluation in TL -USD exchange rate :		
Net asset / (liability) in TL	(9.463.468)	9.463.468
Not subjected to TL risk (-)	-	-
(1) Net effect of TL	**(9.463.468)**	**9.463.468**
Effect of 10 % appreciation/devaluation in EURO – USD exchange rate :		
Net asset / (liability) in EUR	4.030.408	(4.030.408)
Not subjected to EUR risk (-)	-	-
(2) Net effect of EUR	**4.030.408**	**(4.030.408)**
Effect of 10 % appreciation/devaluation in exchange rate of other foreign currencies:		
Net asset / (liability) in other currencies	861.875	(861.875)
Not subjected to other currency risk (-)	-	-
(3) Net effect of other currencies	**861.875**	**(861.875)**
TOTAL (1+2+3)	**(4.571.185)**	**4.571.185**

31 December 2016

	Profit / (Loss)	
	Appreciation	Devaluation
Effect of 10 % appreciation/devaluation in TL -USD exchange rate :		
Net asset / (liability) in TL	(15.782.935)	15.782.935
Not subjected to TL risk (-)	-	-
(1) Net effect of TL	**(15.782.935)**	**15.782.935**
Effect of 10 % appreciation/devaluation in EURO – USD exchange rate :		
Net asset / (liability) in EUR	131.297	(131.297)
Not subjected to EUR risk (-)	-	-
(2) Net effect of EUR	**131.297**	**(131.297)**
Effect of 10 % appreciation/devaluation in exchange rate of other foreign currencies:		
Net asset / (liability) in other currencies	751.096	(751.096)
Not subjected to other currency risk (-)	-	-
(3) Net effect of other currencies	**751.096**	**(751.096)**
TOTAL (1+2+3)	**(14.900.542)**	**14.900.542**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(Unless otherwise stated the amounts are in TL).

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

31 December 2017	Loans and Receivables (including cash and cash equivalents)	Amortized value of financial liabilities	Note
Financial assets			
Cash and cash equivalents	187.212.070	-	5
Trade receivables	890.130.073	-	7
Financial investments	2.928.818	-	
Other current assets	1.479.485	-	8
Financial liabilities			
Borrowings	-	326.117.840	6
Trade payables	-	380.908.835	7
Due to related parties	-	1.715.824	28
Other liabilities	-	10.710.962	8
Employee Benefit Obligations	-	11.623.440	17

31 December 2016	Loans and Receivables (including cash and cash equivalents)	Amortized value of financial liabilities	Note
Financial assets			
Cash and cash equivalents	115.641.750	-	5
Trade receivables	759.478.538	-	7
Due from related parties	26.807.040	-	28
Financial investments	1.940.781	-	
Other current assets	669.053	-	8
Financial liabilities			
Borrowings	-	354.859.452	6
Trade payables	-	241.089.158	7
Due to related parties	-	1.321.109	28
Other liabilities	-	8.686.841	8
Employee Benefit Obligations	-	17.825.631	17

32. SUBSEQUENT EVENTS

In accordance with the regulation numbered 7061, published in Official Gazette, number 30261 on 5 December 2017 "Bazı Vergi Kanunları İle Diğer Bazı Kanunlarda Değişiklik Yapılmasına Dair Kanun", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

33. DISCLOSURE OF OTHER MATTERS THAT MAY AFFECT CONSOLIDATED FINANCIAL STATEMENTS SIGNIFICANTLY OR IS NECESSARY FOR CONSOLIDATED FINANCIAL STATEMENTS TO BE CLEAR, INTERPRETABLE AND COMPREHENSIBLE

None.

NETAŞ

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