

**NETAŞ TELEKOMÜNİKASYON A.Ş.  
AND ITS' SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
AND INDEPENDENT AUDITORS' REPORT

**(CONVENIENCE TRANSLATION OF  
THE REPORT AND THE CONSOLIDATED FINANCIAL  
STATEMENTS ORIGINALLY ISSUED IN TURKISH)**

**(CONVENIENCE TRANSLATION OF  
INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)**

**INDEPENDENT AUDITOR'S REPORT**

**To the Board of Directors of  
Netaş Telekomünikasyon A.Ş.**

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated statement of Netaş Telekomünikasyon A.Ş. ("the Company") and its subsidiaries (together will be referred as "the Group") ,which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards ("TAS") and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by Capital Markets Board and Independent Auditing Standards which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Netaş Telekomünikasyon A.Ş. and its subsidiaries as at 31 December 2016 and of their financial performance and their cash flows for the year then ended in accordance with Turkish Accounting Standards.

## *Emphasis of matter*

Nortel Networks Corporation, the ultimate parent of Nortel Networks International Finance and Holding B.V. which is holding 53,13% shares of the Company until 22 December 2010 (see note 7), has announced that Nortel Networks Limited, which was another indirect parent of the Company, and certain of its other Canadian subsidiaries have obtained an order from the Ontario Superior Court of Justice for creditor protection under the Companies' Creditors Arrangement Act in Canada filed as of 14 January 2009. Nortel Networks UK Limited, and certain subsidiaries of the Nortel Group incorporated in the EMEA region, obtained an administration order from the English High Court of Justice under the Insolvency Act 1986. 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%. As detailed in Note 7, the Company's receivables from Nortel Group companies amounted to TL 48.222.475 as of 31 December 2016 (31 December 2015: TL 39.846.125), in the frame of this plan, the Company management booked a provision of 45% against for Nortel receivables on a net basis amounted to TL 21.700.114 in the accompanying consolidated financial statements.

## **Report on Other Legal and Regulatory Requirements**

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 1 March 2017.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Company's and subsidiaries, localized in Turkey, set of accounts and financial statements prepared for the period 1 January-31 December 2016 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

**DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.**  
**Member of DELOITTE TOUCHE TOHMATSU LIMITED**



Burç Seven, SMMM  
Partner

İstanbul, 1 March 2017

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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 BALANCE SHEET AS OF 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

	Notes	Current Period 31 December 2016	Previous Period 31 December 2015
<b>ASSETS</b>			
<b>Current Assets</b>		<b>1.122.788.685</b>	<b>1.093.955.696</b>
Cash and Cash Equivalents	5	115.641.750	226.061.741
Trade Receivables		697.710.992	596.232.981
<i>Due from related parties</i>	28	26.807.040	18.541.627
<i>Trade receivables, third parties</i>	7	670.903.952	577.691.354
Other Receivables		511.938	251.083
<i>Other receivables, third parties</i>	8	511.938	251.083
Derivative Instruments	29	-	109.927
Inventories	9	83.991.024	103.016.525
Deferred Costs	11	148.684.598	99.108.517
Prepaid Expenses	10	16.848.978	32.716.639
Other Current Assets	19	59.399.405	36.458.283
<b>Non-Current Assets</b>		<b>252.698.207</b>	<b>258.659.460</b>
Trade Receivables		88.574.586	109.479.328
<i>Trade receivables, third parties</i>	7	88.574.586	109.479.328
Other Receivables		157.115	145.962
<i>Other Receivables, third parties</i>	8	157.115	145.962
Property, Plant and Equipment	12	40.167.155	40.220.084
Financial Investments		1.940.781	862.056
Intangible Assets		105.917.725	90.035.336
<i>Goodwill</i>	13	64.500.278	53.290.807
<i>Other intangible assets</i>	13	41.417.447	36.744.529
Associates	3	5.121.827	2.601.418
Other Non-Current Assets	19	7.478.474	6.872.784
Prepaid Expenses	10	1.053.159	1.098.957
Deferred Tax Assets	26	2.287.385	7.343.535
<b>TOTAL ASSETS</b>		<b>1.375.486.892</b>	<b>1.352.615.156</b>

The accompanying notes form an integral part of these consolidated financial statements.

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NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

AUDITED CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

	Notes	Current Period 31 December 2016	Previous Period 31 December 2015
<b>LIABILITIES</b>			
<b>Short Term Liabilities</b>		<b>784.118.707</b>	<b>866.372.756</b>
Financial Liabilities	6	354.859.452	333.068.285
Derivative Liabilities	29	2.678.753	-
Trade Payables		240.464.539	350.117.975
<i>Due to related parties</i>	28	1.321.109	45.443
<i>Trade payables, third parties</i>	7	239.143.430	350.072.532
Other Payables		8.686.841	12.731.107
<i>Other payables, third parties</i>	8	8.686.841	12.731.107
Employee Benefit Obligations	17	17.825.631	13.034.339
Deferred Revenues	11	59.914.737	67.306.810
Provisions		21.178.816	21.376.150
<i>Provision for Employee Benefits</i>	17	16.851.535	16.637.781
<i>Other Short Term Provisions</i>	15	4.327.281	4.738.369
Advances Received	18	78.212.274	66.778.156
Current Tax Liabilities	26	297.664	1.959.934
<b>Long Term Liabilities</b>		<b>41.672.308</b>	<b>49.041.503</b>
Trade Payables		1.945.728	12.781.889
<i>Trade payables, third parties</i>	7	1.945.728	12.781.889
Provisions		22.207.434	20.513.651
<i>Provision for Employee Benefits</i>	17	22.207.434	20.513.651
Deferred Tax Liabilities	26	17.519.146	15.745.963
<b>SHAREHOLDERS' EQUITY</b>			
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>549.695.877</b>	<b>437.200.897</b>
Share Capital	20	64.864.800	64.864.800
Capital Reserves		41.612.160	41.612.160
Other comprehensive income to be reclassified in profit and loss		16.764.885	7.661.632
<i>Currency Translation Reserves</i>		16.764.885	7.661.632
Other comprehensive income not to be reclassified in profit and loss		230.056.150	145.334.434
<i>Actuarial Loss</i>		(8.240.661)	(8.321.961)
<i>Currency Translation Reserves</i>		238.296.811	153.656.395
Restricted Reserves Appropriated From Profit		33.182.076	33.182.076
Profit for the Period	20	18.670.011	34.305.075
Retained Earnings		144.545.795	110.240.720
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1.375.486.892</b>	<b>1.352.615.156</b>

The accompanying notes form an integral part of these consolidated financial statements.

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NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

AUDITED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

		Current Period 1 January- 31 December 2016	Previous Period 1 January- 31 December 2015
	Note		
<b>INCOME OR LOSS FROM OPERATIONS</b>			
Revenue	21	969.843.424	1.008.993.097
Cost of Sales (-)	21	(835.419.643)	(895.090.264)
<b>GROSS PROFIT</b>		<b>134.423.781</b>	<b>113.902.833</b>
Sales, Marketing and Distribution Expenses (-)	22	(44.406.817)	(42.588.722)
General Administrative Expenses (-)	22	(24.402.568)	(23.844.072)
Research and Development Expenses (-)	22	-	(3.968.273)
Other Income from Operating Activities	23	4.840.922	11.091.203
Other Expenses from Operating Activities (-)	23	(50.720.228)	(30.248.471)
<b>OPERATING PROFIT</b>		<b>19.735.090</b>	<b>24.344.498</b>
Income from Investment Activities	24	147.978	179.642
Expenses from Investment Activities (-)	24	(106.583)	(248.408)
Income from Associates	3	1.257.100	624.581
<b>OPERATING PROFIT BEFORE FINANCE INCOME</b>		<b>21.033.585</b>	<b>24.900.313</b>
Financial Income	25	51.405.211	60.326.697
Financial Expenses (-)	25	(49.766.936)	(38.153.518)
<b>PROFIT BEFORE TAX</b>		<b>22.671.860</b>	<b>47.073.492</b>
Tax (Expenses)/Income		<b>(4.001.849)</b>	<b>(12.768.417)</b>
- Current Tax (Expenses) / Income	26	(313.751)	(2.499.583)
- Deferred Tax (Expenses)/Income	26	(3.688.098)	(10.268.834)
<b>PROFIT AFTER TAX</b>		<b>18.670.011</b>	<b>34.305.075</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Other comprehensive income or expenses that will not be reclassified subsequently to profit or loss</b>		<b>84.721.716</b>	<b>77.651.735</b>
Currency translation reserves		84.640.416	77.920.165
Actuarial gain/(loss)		81.300	(268.430)
<b>Other comprehensive income or expenses that may be reclassified subsequently to profit or loss</b>		<b>9.103.253</b>	<b>2.346.071</b>
Currency translation reserves		9.103.253	2.346.071
<b>OTHER COMPREHENSIVE INCOME</b>		<b>93.824.969</b>	<b>79.997.806</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>112.494.980</b>	<b>114.302.881</b>
<b>Earnings per share</b>	27	<b>0,2878</b>	<b>0,5289</b>

The accompanying notes form an integral part of these consolidated financial statements.

**NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES****AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 1 JANUARY - 31 DECEMBER 2016**

(Unless otherwise stated the amounts are in TL).

	Other comprehensive income or expenses that may be reclassified subsequently to profit or loss			Other comprehensive income or expenses that will not be reclassified subsequently to profit or loss			Retained Earnings		
	Capital	Capital Reserves	Currency Translation Reserves	Currency Translation Reserves	Actuarial (Loss)/Gain	Restricted Reserves Appropriated from Profit	Retained Earnings	Net Profit for the Period	TOTAL
Balance as at 1 January 2015	64.864.800	41.612.160	5.315.561	75.736.230	(8.053.531)	32.809.042	98.768.665	11.845.089	322.898.016
Currency translation differences	-	-	2.346.071	77.920.165	-	-	-	-	80.266.236
Actuarial loss	-	-	-	-	(335.537)	-	-	-	(335.537)
Deferred tax benefit on actuarial loss	-	-	-	-	67.107	-	-	-	67.107
Net profit for the period	-	-	-	-	-	-	-	34.305.075	34.305.075
Total comprehensive income	-	-	2.346.071	77.920.165	(268.430)	-	-	34.305.075	114.302.881
Transfer	-	-	-	-	-	-	11.845.089	(11.845.089)	-
Transfer to reserves	-	-	-	-	-	373.034	(373.034)	-	-
Balance as at 31 December 2015	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 gain	-	-	-	-	101.625	-	-	-	101.625
Deferred tax loss on actuarial gain	-	-	-	-	(20.325)	-	-	-	(20.325)
Net profit for the period	-	-	-	-	-	-	-	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

Retained earnings contain extraordinary reserves.

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 CASH FLOWS  
FOR THE YEAR ENDED 1 JANUARY - 31 DECEMBER 2016**

(Unless otherwise stated the amounts are in TL).

		<b>Current Period</b>	<b>Previous Period</b>
		<b>1 January-</b>	<b>1 January-</b>
	<b>Notes</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit for the Period</b>		<b>18.670.011</b>	<b>34.305.075</b>
<i>Profit from Continuing Operations</i>		<i>18.670.011</i>	<i>34.305.075</i>
<b>Adjustments to Reconcile Profit</b>		<b>92.358.942</b>	<b>60.232.327</b>
Adjustments for Depreciation and Amortisation Expense	12-13	22.452.952	20.318.101
Adjustments for (Reversal of) Impairment Loss Recognised in Profit or Loss		25.543.958	4.126.220
<i>Adjustments for (Reversal of) Provision of Receivables</i>	7	<i>24.873.031</i>	<i>4.302.925</i>
<i>Adjustment for Reversal of Provision of Inventory</i>	9	<i>670.927</i>	<i>(176.705)</i>
Adjustments For Provisions		27.343.683	25.005.297
<i>Adjustments for Provisions Related with Employee Benefits</i>	17	<i>27.866.051</i>	<i>23.955.401</i>
<i>Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions</i>	15	<i>(651.268)</i>	<i>2.549.944</i>
<i>Adjustments for (Reversal of) Provisions Arising From Sectoral Requirements</i>	15	<i>128.900</i>	<i>(1.500.048)</i>
Adjustments for Interest (Income) and Expenses		41.760.575	42.959.388
<i>Adjustments for Interest Income</i>	25	<i>(1.287.919)</i>	<i>(1.054.628)</i>
<i>Adjustments for Interest Expense</i>	25	<i>43.793.734</i>	<i>35.076.184</i>
<i>Unearned Financial Income from Credit Sales</i>	23	<i>(745.240)</i>	<i>8.937.832</i>
Adjustments For Unrealised Foreign Exchange Losses (Gains)		(30.014.406)	(44.282.739)
Other Adjustments for Fair Value Losses (Gains)		2.568.826	(109.927)
<i>Adjustments for Fair Value Losses (Gains) on Derivative Financial Instruments</i>	29	<i>2.568.826</i>	<i>(109.927)</i>
Adjustments for Share of Profit of Investments Accounted for Using the Equity Method	3	(1.257.100)	(621.196)
Adjustments for Losses Tax Expense	26	4.001.849	12.768.417
Adjustments for (Gains)/Losses Disposal of Non-Current Assets		(41.395)	68.766
<i>Adjustments for (Gains)/Losses Arising From Sale of Tangible Assets</i>	12	<i>(41.395)</i>	<i>68.766</i>
<b>Changes in Working Capital</b>		<b>(150.444.443)</b>	<b>(5.178.900)</b>
Adjustments for Decrease / (Increase) in Trade Accounts Receivable		25.238.701	(81.870.266)
<i>Decrease (Increase) in Trade Accounts Receivables from Related Parties</i>	28	<i>(3.750.023)</i>	<i>3.293.671</i>
<i>Decrease (Increase) in Trade Accounts Receivables from Unrelated Parties</i>	7	<i>28.988.724</i>	<i>(85.163.937)</i>
Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(13.281.725)	4.709.533
<i>Adjustments for Decrease (Increase) in Other Receivables Related with Operations from Third Parties</i>	8-19	<i>(13.281.725)</i>	<i>4.709.533</i>
Adjustments for Decrease / (Increase) in Inventories	9	35.629.935	(31.768.997)
Decrease / (Increase) in Prepaid Expenses	10	19.781.043	(21.768.728)
Adjustments for Decrease In Trade Accounts Payable		(169.083.300)	102.887.762
<i>Increase (Decrease) in Trade Accounts Payables to Related Parties</i>	28	<i>1.087.661</i>	<i>(19.810)</i>
<i>(Decrease)/Increase in Trade Accounts Payables to Unrelated Parties</i>	7	<i>(170.170.961)</i>	<i>102.907.572</i>
Increase (Decrease) in Payables due to Employee Benefits	17	1.760.710	6.454.537
(Decrease)/Increase in Payables Due to Ongoing Construction or Service Contracts	11	(24.679.963)	11.507.365
Adjustments for Decrease in Other Operating Payables		(5.774.761)	(1.834.216)
<i>(Decrease) in Other Operating Payables to Unrelated Parties</i>	8	<i>(5.774.761)</i>	<i>(1.834.216)</i>
(Decrease)/ Increase in Deferred Income	11	(18.512.499)	(3.784.979)
Other Adjustments for Other (Decrease)/ Increase in Working Capital		(1.522.584)	10.289.089
<b>Cash Flows (Used in) Generated From Operations</b>		<b>(39.415.490)</b>	<b>89.358.502</b>
Payments Related with Provisions for Employee Benefits	17	(25.856.888)	(21.086.123)
Income Taxes Paid	26	(1.976.021)	(2.373.974)
		<b>(67.248.399)</b>	<b>65.898.405</b>

The accompanying notes form an integral part of these consolidated financial statements.

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NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

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

(Unless otherwise stated the amounts are in TL).

		Current Period 1 January- 31 December 2016	Previous Period 1 January- 31 December 2015
	Notes		
<b>B.CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		237.132	272.883
<i>Proceeds from Sales of Property, Plant, Equipment</i>	24	237.132	272.883
Purchase of Property, Plant, Equipment and Intangible Assets		(10.269.822)	(6.444.883)
<i>Purchase of Property, Plant, Equipment</i>	12	(4.032.778)	(3.220.454)
<i>Purchase of Intangible Assets</i>	13	(6.237.044)	(3.224.429)
Interest Received	25	1.287.919	1.054.628
Other Outflows of Cash		(1.078.725)	(560.598)
		<b>(9.823.496)</b>	<b>(5.677.970)</b>
<b>C.CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from Borrowings		21.791.167	115.302.999
Interest Paid		(38.318.971)	(28.251.660)
		<b>(16.527.804)</b>	<b>87.051.339</b>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)</b>			
		<b>(93.599.699)</b>	<b>147.271.774</b>
<b>D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		(16.820.292)	(5.535.207)
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>			
		<b>(110.419.991)</b>	<b>141.736.567</b>
<b>E.CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>			
	5	226.061.741	84.325.174
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD (A+B+C+D+E)</b>			
		<b>115.641.750</b>	<b>226.061.741</b>

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**

**NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 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 (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, Türk Telekom, Vodafone, Avea, and Turkish Football Association 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 provides design and development services to the customers of Kapsch and Genband 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 Uzbekistan 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 at 11 April 2012, foundation of a “Limited Liability Partnership” (Netas Telecom Limited Liability Partnership) was completed in Kazakhstan Almaty. The amount of capital which solely belongs to Netaş is 161.800 Tenge (approximately 1.100 American USD). Registration was made on 25 June 2012 and it will be valid starting from 4 July 2012.

As at 28 November 2013, an agreement is signed between Kron Telekomünikasyon Hizmetleri A.Ş.'nin (“KRON”) 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 Maltha and which hold all of share capital (100%) has belong to the Company which is amounted 1.200 EUR. Registration processes are completed in date of 4 November 2014.

The Group’s ultimate partner and the controlling shareholders are OEP Turkey Tech B.V. and Türk Silahlı Kuvvetleri Güçlendirme Vakfı respectively.

The average number of personnel employed in the Group as of 31 December 2016 is 2.050 white-collar (31 December 2015: 2.204), and the Group has no blue-collar employees (31 December 2015: None).

**Approval of Consolidated Financial Statements**

The consolidated financial statements as at and for the year ended December 31, 2016 have been approved for issue by the Board of Directors March 1, 2017. General Assembly has power to change Group’s consolidated financial statements.

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**NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

(Unless otherwise stated the amounts are in TL).

**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 at 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 2016 are as follows:

	<u>Place of establishment of operation</u>	<u>Group's shares in capital and voting rights</u>	<u>Main operating activity</u>
Probil Bilgi İşlem Destek ve Danışmanlık San.ve Tic.A.Ş.	Turkey	100%	Consultancy of project installment and network solution
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş.	Turkey	100%	Technical support and maintenance services
Netaş Telecom Limited Liability Partnership	Republic of Kazakhstan	100%	Consultancy of project installment, design and technical support services
Netaş Telecommunications Malta Ltd	Malta	100%	Supply of telecommunication equipment

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(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.

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(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)**

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

	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

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.

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(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 a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture 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 or joint venture 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 or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture 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 or joint venture 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 or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are 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 at 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.

On 17 March 2005, CMB has announced that the Turkey is no longer hyperinflationary economy and Financial Reporting under Hyperinflationary Economy is not applicable effective from 1 January 2005. Accordingly in the accompanying consolidated financial statements TL is treated as a currency for non-hyperinflationary economy. 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 2016 (Turkish Central Bank USD Buying rate: 1 USD: 3,5192 TL ), statements of income and statements of cash flows have been translated to TL by using twelve months average exchange rate (1 USD: 3,0232 TL ) for the period ended 31 December 2016 (for the period ended 31 December 2015 1 USD: 2,72TL ) in accordance with TAS 21. In the accompanying consolidated financial statements capital and legal reserves are carried with their values in statutory accounts.

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(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)**

**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 2015 (31 December 2015 1 USD: 2,9076 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 2015, the Group presented Group's share in Kron total comprehensive income amounting to TL 624.581 under "Income from Investment Activities". In the current year, the Group's management has been classified these amounts under "Income from Associates". As of 31 December 2015, the Group presented bank and current interest income amounting to TL 1.054.628 under "Other Income from Operating Activities". In the current year, the Group's management has been classified these amounts under "Financial Income". As of 31 December 2015, the Group presented gain from scrap sales amounting to TL 9.845 under "Other Income from Operating Activities". In the current year, the Group's management has been classified these amounts under "Income from Investment Activities". As of 31 December 2015, the Group presented business advances amounting to TL 179.711 under "Short Term Prepaid Expenses". In the current year, the Group's management has been classified these amounts under "Other Current Assets". As of 31 December 2015, the Group presented deposits and guarantees given amounting to TL 145.962 under "Other Receivables" in current assets. In the current period, the Group's management has been classified these amounts under from "Other Receivables" in current assets to "Other Receivables" in non-current assets. As of 31 December 2015, the Group presented currency translation reserves amounting to TL 30.255.788 under "Retained Earnings". In the current period, the Group's management has been classified these amounts under from "Retained Earnings" in to "Other comprehensive income or expenses that will not be reclassified subsequently to profit of loss".

**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**

Any error is applied retroactively and the financial statements for the prior years are adjusted accordingly. 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.

**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.



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(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)**

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

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.

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**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.

## 2. 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.

##### 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.

## **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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **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 income 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.

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.

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**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)*

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented her in may not necessarily be indicative of the amounts the Group could realize in a current market exchange.

The fair values of certain financial assets carried at cost are considered to be representative of carrying values due to their short-term nature.

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 2016, where the Group can estimate the recoverability, are provided in the financial statement Note 7.

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**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.

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**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:

## 2. 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)

- 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 interest 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.

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.



## **2. 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 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.

#### **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 2016 (1 US \$ = 3,5192 TL , 1EUR = 3,7099 TL , 1 CAD = 2,6066 TL, 1 GBP = 4,3189 TL and 1 BDT = 0,0438 TL).

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

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

**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 financial statements if adjusting events occur after the balance sheet 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.

**2.5.14 Leasing**

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the Group. All other leases are classified as operational lease. Lease payments for operational lease are recognized in the statement of income during the life of the contract.

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

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

#### **2.5.15 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) 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) 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).
- (iii) Both entities are joint ventures of the same third party.
- (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.

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

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

#### **2.5.16 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.

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

#### **2.5.17 Government Grants and Incentives**

All government grants, including non-monetary government grants are recognized in the financial statements with their fair values, if the Group provides sufficient assurance that the requirements for such grants will be fulfilled.

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.

#### **2.5.18 Taxation and Deferred Tax**

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 income 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 balance sheet date.

##### 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.

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

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

#### 2.5.18 Taxation and Deferred Tax (cont'd)

##### Deferred tax (cont'd)

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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

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

#### **2.5.19 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.

#### **2.5.20 Statements of Cash Flows**

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

#### **2.5.21 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.

#### **2.5.22 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.

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**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

The 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 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.

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**2. 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:

Note 7	Trade receivables and payables: Estimations and accounting judgments regarding to collectability of receivables
Note 9	Inventories: Estimations regarding to inventory provision
Note 12 and 13	Tangible and intangible assets: Estimations regarding to useful lives
Note 13	Goodwill: Estimations regarding to impairment of goodwill
Note 15	Provisions: Estimations regarding to provision amounts
Note 21	Revenue and cost of sales: Estimation of revenue and cost based on project based analysis
Note 26	Tax Assets and liabilities: Estimations regarding to recoverability of deferred tax assets
Note 30	Financial instruments and risk management: Estimations and accounting judgments regarding to collectability of receivables

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%. As per the plan issued above, the Company management booked 45 % provision for Nortel receivables in the accompanying consolidated financial statements.

**2.7 New and Revised Turkish Accounting Standards**

**(a) Amendments to TAS affecting amounts reported and disclosures in the consolidated financial statements**

None.

**(b) New and Revised TAS applied in with no material effect on the consolidated financial statements**

Amendments to TAS 16 and TAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortization</i> <sup>1</sup>
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	<i>Agriculture: Bearer Plants</i> <sup>1</sup>
Amendments to TFRS 11 and TFRS 1	<i>Accounting for Acquisition of Interests in Joint operations</i> <sup>1</sup>
Annual Improvements to 2011-2013 Cycle	<i>TFRS 1</i> <sup>2</sup>
Amendments to TAS 1	<i>Disclosure Initiative</i> <sup>2</sup>
Annual Improvements to 2012-2014 Cycle	<i>TFRS 5, TFRS 7, TAS 34, TAS 19</i> <sup>2</sup>
Amendments to TAS 27	<i>Equity Method in Separate Financial Statements</i> <sup>2</sup>
Amendments to TFRS 10 and TAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup>
Amendments to TFRS 10, TFRS 12 and TAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>2</sup>
TFRS 14	<i>Regulatory Deferral Accounts</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 31 December 2015.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016.



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**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 TAS applied in with no material effect on the consolidated financial statements (Cont'd)**

***Amendments to TAS 16 and TAS 38 Clarification of Acceptable Methods of Depreciation and Amortization(Cont'd)***

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

***Amendments to TAS 16 and TAS 41 and Amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 Agriculture: Bearer Plants***

This amendment include ‘bearer plants’ within the scope of TAS 16 rather than TAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with TAS 16. The amendment also introduces a definition of ‘bearer plants’ as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of TAS 41.

Amendments to TAS 16 and TAS 41 also led to amendments in related provisions of TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40, respectively.

***Amendments to TFRS 11 and TFRS 1 Accounting for Acquisition of Interests in Joint operations***

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in TFRS 3 and other TAS, except for those principles that conflict with the guidance in TFRS 11,
- disclose the information required by TFRS 3 and other TAS for business combinations.

Amendments to TFRS 11 also led to amendments in related provisions of TFRS 1.

**Annual Improvements 2011-2013 Cycle**

**TFRS 1:** Clarify which versions of TAS can be used on initial adoption (amends basis for conclusions only)

**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 TAS applied in with no material effect on the consolidated financial statements (Cont'd)**

***Amendments to TAS 1 Disclosure Initiative***

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

***Annual Improvements 2012-2014 Cycle***

**TFRS 5:** Adds specific guidance in TFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

**TFRS 7:** Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

**TAS 34:** Clarify the meaning of ‘elsewhere in the interim report’ and require a cross-reference.

Annual Improvements to 2012-2014 Cycle also led to amendments in related provisions of TAS 19.

***Amendments to TAS 27 Equity Method in Separate Financial Statements***

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

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

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

**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 TAS applied in with no material effect on the consolidated financial statements (Cont'd)**

***Amendments to TFRS 10, TFRS 12 and TAS 28 Investment Entities: Applying the Consolidation Exception***

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by TFRS 12.

***TFRS 14 Regulatory Deferral Accounts***

TFRS 14 *Regulatory Deferral Accounts* permits an entity, which is a first-time adopter of Turkish Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of TFRS and in subsequent financial statements.

TFRS 14 also led to amendments in related provisions of TFRS 1.

**(c) New and Revised TAS in issue but not yet effective**

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

TFRS 9	<i>Financial Instruments</i> <sup>1</sup>
TFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

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

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

**(c) New and Revised TAS in issue but not yet effective (Cont'd)**

***TFRS 9 Financial Instruments***

TFRS 9, issued by Public Oversight Authority (“POA”) in 2010, introduces new requirements for the classification and measurement of financial assets. TFRS 9 is amended in 2011 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Revised version of IFRS 9 is issued by POA in January 2017 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income (“FVTOCI”) measurement category for certain simple debt instruments.

TFRS 9 is effective for the annual periods beginning on or after 1 January 2018. Early adoption is permitted unless before 1 February 2015.

***TFRS 15 Revenue from Contracts with Customers***

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognize revenue when the entity satisfies a performance obligation.

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

**3. SHARES IN ASSOCIATES**

**Associates**

***Details of important associates***

As of 31 December 2016, 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 in the Board of Directors at Kron and to be active in taking strategic growth decisions of the company.

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**3. SHARES IN ASSOCIATES (cont'd)**

**Associates (cont'd)**

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	<b>601.195</b>

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
Current assets	31.660.181	18.060.465
Non-current assets	11.041.678	9.131.425
Short term liabilities	9.541.266	6.627.093
Long term liabilities	587.370	562.570
Net assets	32.573.223	20.002.227

Share of the Group in net assets	3.257.322	2.000.223
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	<b>1 January 2016 -31 December 2016</b>	<b>1 January 2015 -31 December 2015</b>
Net profit	12.546.506	6.216.280
Other comprehensive income	24.490	29.530
Total comprehensive income	12.570.996	6.245.810
Share of the Group in total comprehensive income	1.257.100	624.581

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
As of 1 January	2.601.418	1.980.222
Share from the profit of the year	1.257.100	624.581
Currency translation reserves	1.263.309	(3.385)
As of 31 December	<b>5.121.827</b>	<b>2.601.418</b>

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**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 period ended 31 December 2016	Enterprise	Public	International	Technology	BDH	Unallocated (*)	Total
Revenue	412.053.381	382.026.152	68.117.779	72.995.412	34.650.700	-	969.843.424
Cost of sales (-)	(362.107.239)	(323.136.487)	(54.257.137)	(69.778.349)	(17.984.079)	(8.156.352)	(835.419.643)
<b>Gross margin</b>	<b>49.946.142</b>	<b>58.889.665</b>	<b>13.860.642</b>	<b>3.217.063</b>	<b>16.666.621</b>	<b>(8.156.352)</b>	<b>134.423.781</b>
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 (-)	-	-	-	-	-	-	-
<b>Operating profit / (loss) of segment</b>	<b>28.711.942</b>	<b>44.552.743</b>	<b>5.024.947</b>	<b>3.217.063</b>	<b>16.666.621</b>	<b>(32.558.920)</b>	<b>65.614.396</b>
For the period ended 31 December 2015	Enterprise	Public	International	Technology	BDH	Unallocated (*)	Total
Revenue	485.673.470	302.382.758	115.750.722	76.538.488	28.647.659	-	1.008.993.097
Cost of sales (-)	(438.490.845)	(269.515.993)	(82.053.730)	(71.340.214)	(27.621.876)	(6.067.606)	(895.090.264)
<b>Gross margin</b>	<b>47.182.625</b>	<b>32.866.765</b>	<b>33.696.992</b>	<b>5.198.274</b>	<b>1.025.783</b>	<b>(6.067.606)</b>	<b>113.902.833</b>
Sales,marketing and distribution expenses (-)	(19.674.196)	(14.780.123)	(8.134.403)	-	-	-	(42.588.722)
General administrative expenses (-)	-	-	-	-	-	(23.844.072)	(23.844.072)
Research and development expenses (-)	-	-	-	(3.968.273)	-	-	(3.968.273)
<b>Operating profit / (loss) of segment</b>	<b>27.508.429</b>	<b>18.086.642</b>	<b>25.562.589</b>	<b>1.230.001</b>	<b>1.025.783</b>	<b>(29.911.678)</b>	<b>43.501.766</b>

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

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**4. SEGMENT REPORTING (cont'd)**

<b>31 December 2016</b>	<b>Enterprise</b>	<b>Public</b>	<b>International</b>	<b>Technology</b>	<b>BDH</b>	<b>Unallocated(*)</b>	<b>Total</b>
Trade receivables	156.937.166	509.884.822	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	20.962.054	59.394.500	3.071.685	29.667	-	533.118	83.991.024
Deferred costs	60.791.329	48.432.391	10.504.269	10.252.337	13.506.922	5.197.350	148.684.598
<b>Segments assets</b>	<b>238.690.549</b>	<b>617.711.713</b>	<b>46.714.183</b>	<b>38.353.252</b>	<b>24.618.687</b>	<b>52.872.816</b>	<b>1.018.961.200</b>
Trade payables (*)	133.657.399	56.366.881	17.544.935	191.641	11.588.128	21.740.174	241.089.158
Due to related parties	-	-	-	1.321.109	-	-	1.321.109
Deferred revenues	41.960.634	17.914.709	24.305	-	-	15.089	59.914.737
Advances received	14.408.469	61.432.413	2.371.262	-	130	-	78.212.274
<b>Segment liabilities</b>	<b>190.026.502</b>	<b>135.714.003</b>	<b>19.940.502</b>	<b>1.512.750</b>	<b>11.588.258</b>	<b>21.755.263</b>	<b>380.537.278</b>
<b>31 December 2015</b>	<b>Enterprise</b>	<b>Public</b>	<b>International</b>	<b>Technology</b>	<b>BDH</b>	<b>Unallocated(*)</b>	<b>Total</b>
Trade receivables	179.315.387	346.456.702	89.979.032	599.050	5.626.981	65.193.530	687.170.682
Due from related parties	-	-	-	18.541.627	-	-	18.541.627
Inventories	22.470.332	76.267.437	3.789.681	-	-	489.075	103.016.525
Deferred costs	31.289.755	66.078.132	1.740.630	-	-	-	99.108.517
<b>Segments assets</b>	<b>233.075.474</b>	<b>488.802.271</b>	<b>95.509.343</b>	<b>19.140.677</b>	<b>5.626.981</b>	<b>65.682.605</b>	<b>907.837.351</b>
Trade payables (*)	113.524.825	167.329.182	45.447.227	201.574	5.485.100	30.866.513	362.854.421
Due to related parties	-	-	-	45.443	-	-	45.443
Deferred revenues	44.822.619	12.709.886	9.421.140	-	-	353.165	67.306.810
Advances received	763.316	65.802.855	95.108	-	116.877	-	66.778.156
<b>Segment liabilities</b>	<b>159.110.760</b>	<b>245.841.923</b>	<b>54.963.475</b>	<b>247.017</b>	<b>5.601.977</b>	<b>31.219.678</b>	<b>496.984.830</b>

(\*) 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 2016 and 2015.

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4. SEGMENT REPORTING (cont'd)

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

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Operating profit of segment	65.614.396	43.501.766
Other income/(expenses) from operating activities (net)	(45.879.306)	(19.157.268)
Other income/(expenses) from investments (net)	41.395	(68.766)
Income from associates	1.257.100	624.581
Finance income/(expenses) (net)	1.638.275	22.173.179
<b>Profit before tax</b>	<b>22.671.860</b>	<b>47.073.492</b>
<b>Assets</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Segment assets	1.018.961.200	907.837.351
Other assets	356.525.692	444.777.805
<b>Total assets</b>	<b>1.375.486.892</b>	<b>1.352.615.156</b>
<b>Liabilities</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Segment liabilities	380.537.278	496.984.830
Other liabilities	445.253.737	418.429.429
<b>Total liabilities</b>	<b>825.791.015</b>	<b>915.414.259</b>

5. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Bank- demand deposits	19.199.752	38.598.503
Bank- time deposits	95.947.358	187.084.434
Other cash and cash equivalents(*)	494.640	378.804
	<b>115.641.750</b>	<b>226.061.741</b>

Currency	Original Currency Amount	Interest Rate %	Maturity	31 December 2016
US\$	22.269.675	0,20-2,50	September 17-January 17	78.371.441
EURO	996.231	0,01-0,10	January 17	3.695.917
TL	13.880.000	6,00-7,00	January 17	13.880.000
				<b>95.947.358</b>

Currency	Original Currency Amount	Interest Rate %	Maturity	31 December 2015
US\$	51.285.090	0,25-2,90	January 16	149.116.529
EURO	822.245	2,75	January 16	2.612.767
TL	35.355.138	7,50-13,90	January 16	35.355.138
				<b>187.084.434</b>

The credit risk, foreign currency and sensitivity risks of financial assets and liabilities are disclosed in Note 30. As of 31 December 2016 and 2015, there are no restriction / blockage on bank accounts.

(\*) Other cash and cash equivalents are consisted of credit card receivables.



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**6. FINANCIAL LIABILITIES**

<b>Short term financial liabilities</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Short term unsecured loans	354.858.764	329.886.371
Non interest bearing unsecured spot loans	688	3.181.914
	<b>354.859.452</b>	<b>333.068.285</b>

As of 31 December 2016, the average interest rate for TL loans is 11,53 % and USD loans is 3,47 % (2015: average interest rate for TL loans is 13,40 % and average interest rate for USD loans is 3,13%).

The details of loans of the Group are given below;

<b>Currency</b>	<b>Original currency amount</b>	<b>Effective interest rate %</b>	<b>Maturity</b>	<b>31 December 2016</b>
US\$	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
				<b>354.858.764</b>

  

<b>Currency</b>	<b>Original currency amount</b>	<b>Effective interest rate %</b>	<b>Maturity</b>	<b>31 December 2015</b>
US\$	20.103.125	3,00-3,25	October 16-November 16	58.451.846
TL	271.434.525	12,45-14,50	February 16- October 16	271.434.525
				<b>329.886.371</b>

The Group has no collaterals given for bank loans as of 31 December 2016 and 2015.

**7. TRADE RECEIVABLES AND PAYABLES**

<b>Trade Receivables from Third Parties</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade receivables	361.758.207	405.517.617
Unbilled receivables	338.562.364	192.680.792
Notes receivables	721.018	553.318
Discount on trade receivables (*)	(404.060)	-
Allowance for doubtful receivables	(29.733.577)	(21.060.373)
	<b>670.903.952</b>	<b>577.691.354</b>

<b>Movement of allowance for doubtful receivables</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
As of 1 January	(21.060.373)	(14.255.324)
Charge for the period	(3.263.966)	(4.302.925)
Provision reversal	336.201	578.356
Currency translation differences	(5.745.439)	(3.080.480)
As of 31 December	<b>(29.733.577)</b>	<b>(21.060.373)</b>

No guarantee has been obtained for trade receivables.

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**7. TRADE RECEIVABLES AND PAYABLES (cont'd)**

<b>Long Term Trade Receivables from Third Parties</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Receivables from Nortel companies	48.222.475	49.638.506
Other trade receivables	69.840.757	68.778.654
Provision amount for Nortel companies	(21.700.114)	-
Discount on trade receivables(*)	(7.788.532)	(8.937.832)
	<b>88.574.586</b>	<b>109.479.328</b>

(\*) As of 31 December 2016, Group will collect its trade receivable in every year by equal payment; total amount is USD 22.916.748 based on the agreement, and its maturity date spreads 6 years. Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

<b>Trade Payables to Third Parties</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade payables	238.732.272	347.705.986
Other trade payables	411.158	2.366.546
	<b>239.143.430</b>	<b>350.072.532</b>

<b>Long Term Trade Payables to Third Parties</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade payables to Nortel companies	17.276	9.806.654
Other trade payables	1.928.452	2.975.235
	<b>1.945.728</b>	<b>12.781.889</b>

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 January 14, 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 at 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. Group management decided to finalize uncertainty of collections, and book a provision of 45% against for Nortel receivables on a net basis.

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**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 2016 and the bankruptcy protection filing date of 14 January 2009 are given below:

Country	Company	14 January 2009			31 December 2016				31 December 2015		
		Trade Receivables	Trade Payables	Net Balance	Trade Receivables	Trade Payables	Provision Amount	Net Balance	Trade Receivables	Trade Payables	Net Balance
USA	Nortel Networks Inc.	50.189.328	(8.796.063)	41.393.265	57.629.551	(11.768.262)	(20.637.580)	25.223.709	47.614.139	(9.719.208)	37.894.931
Ireland	Nortel Networks (Ireland) Limited	1.710.099	-	1.710.099	1.710.099	-	(769.545)	940.554	1.412.902	-	1.412.902
Canada	Nortel Networks Technology Corporation	400.836	(54.281)	346.555	-	-	-	-	-	-	-
Egypt	Nortel Networks Inc. (Egypt Branch)	304.765	-	304.765	308.847	-	(138.981)	169.866	255.174	-	255.174
Europe	Nortel Networks N.V.	157.608	-	157.608	157.608	-	(70.924)	86.684	130.217	-	130.217
India	Nortel Networks (India) Private Limited	48.343	-	48.343	30.087	-	(13.539)	16.548	27.800	-	27.800
Holland	Nortel Networks BV.	95.456	-	95.456	-	-	-	-	-	-	-
Italy	Nortel Networks S.p.A.	23.637	-	23.637	23.637	-	(10.636)	13.001	19.530	-	19.530
		<b>52.930.072</b>	<b>(8.850.344)</b>	<b>44.079.728</b>	<b>59.859.829</b>	<b>(11.768.262)</b>	<b>(21.641.205)</b>	<b>26.450.362</b>	<b>49.459.762</b>	<b>(9.719.208)</b>	<b>39.740.554</b>
Mexico	Nortel de México, S. de R.L. de C.V.	-	(17.274)	(17.274)	-	(17.276)	-	(17.276)	-	(14.273)	(14.273)
Germany	Nortel GmbH	-	(245.839)	(245.839)	-	-	-	-	-	-	-
France	Nortel Networks S.A.	36.248	(104.845)	(68.597)	216.338	(85.430)	(58.909)	71.999	178.744	(73.173)	105.571
Canada	Nortel Networks Limited	575.800	(1.445.930)	(870.130)	-	-	-	-	-	-	-
England	Nortel Networks UK Limited	6.161.222	(6.822.273)	(661.051)	-	-	-	-	-	-	-
Canada	Nortel Networks Limited - EMEA Sales	-	(16.871.082)	(16.871.082)	-	-	-	-	-	-	-
		<b>59.703.342</b>	<b>(34.357.587)</b>	<b>25.345.755</b>	<b>60.076.167</b>	<b>(11.870.968)</b>	<b>(21.700.114)</b>	<b>26.505.085</b>	<b>49.638.506</b>	<b>(9.806.654)</b>	<b>39.831.852</b>

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

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**8. OTHER RECEIVABLES AND PAYABLES**

<b>Other Receivables from Third Parties</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Deposits and guarantees given	82.182	18.131
Other	429.756	232.952
	<b>511.938</b>	<b>251.083</b>

<b>Long Term Other Receivables from Third Parties</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Deposits and guarantees given	157.115	145.962
	<b>157.115</b>	<b>145.962</b>

<b>Other Payables to Third Parties</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Taxes and duties payable	8.505.159	12.731.107
Other	181.682	-
	<b>8.686.841</b>	<b>12.731.107</b>

**9. INVENTORIES**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Raw materials	32.433.761	25.109.488
Finished goods	47.111.610	47.400.127
Trade goods	14.430.765	38.444.605
Other inventories	1.514.039	917.753
Allowance for inventory impairment	(11.499.151)	(8.855.448)
	<b>83.991.024</b>	<b>103.016.525</b>

<u>Movement for allowance</u>	<b>31 December 2016</b>	<b>31 December 2015</b>
As of 1 January	(8.855.448)	(7.213.137)
(Provision) / charge for the period	(670.927)	176.705
Foreign currency exchange differences	(1.972.776)	(1.819.016)
As of 31 December	<b>(11.499.151)</b>	<b>(8.855.448)</b>

**10. PREPAID EXPENSES**

<b>Short Term Prepaid Expenses</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Advances given for inventories	6.061.168	25.951.614
Short term prepaid expenses	5.879.015	4.818.986
Goods in transit	4.908.795	1.946.039
	<b>16.848.978</b>	<b>32.716.639</b>
<b>Long Term Prepaid Expenses</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Long term prepaid expenses	1.053.159	1.098.957
	<b>1.053.159</b>	<b>1.098.957</b>

## 11. DEFERRED COSTS AND DEFERRED REVENUES

Details of the deferred costs are given below;

Customer	31 December 2016			31 December 2015		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Telco	60.457.807	-	60.457.807	43.013.450	-	43.013.450
Enterprise	28.167.062	-	28.167.062	12.781.371	-	12.781.371
Public	19.450.515	-	19.450.515	40.398.185	-	40.398.185
Defense	1.148.337	-	1.148.337	1.174.883	-	1.174.883
International	10.504.269	-	10.504.269	1.740.629	-	1.740.629
BDH	13.506.922	-	13.506.922	-	-	-
Other	15.449.686	-	15.449.686	-	-	-
	<b>148.684.598</b>	-	<b>148.684.598</b>	<b>99.108.517</b>	-	<b>99.108.517</b>

Details of the deferred revenue are given below;

Customer	31 December 2016			31 December 2015		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Telco	27.783.418	-	27.783.418	8.290.394	-	8.290.394
Enterprise	20.553.250	-	20.553.250	44.796.275	-	44.796.275
Public	8.174.479	-	8.174.479	12.039.252	-	12.039.252
Defense	3.364.195	-	3.364.195	2.023.382	-	2.023.382
Other	39.395	-	39.395	157.507	-	157.507
	<b>59.914.737</b>	-	<b>59.914.737</b>	<b>67.306.810</b>	-	<b>67.306.810</b>

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**12. PROPERTY, PLANT AND EQUIPMENT**

	Buildings,Machinery and Equipment	Vehicles	Furniture and fixtures	Leasehold Improvement	Total
<u>Cost</u>					
1 January 2016	<b>118.154.508</b>	<b>306.430</b>	<b>10.100.175</b>	<b>28.954.848</b>	<b>157.515.961</b>
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)
<b>31 December 2016</b>	<b>142.766.848</b>	<b>187.721</b>	<b>12.797.524</b>	<b>35.314.290</b>	<b>191.066.383</b>
<u>Accumulated Depreciation</u>					
1 January 2016	<b>(102.483.023)</b>	<b>(201.174)</b>	<b>(6.123.722)</b>	<b>(8.487.958)</b>	<b>(117.295.877)</b>
Translation difference	(16.833.050)	(32.243)	(1.492.029)	(2.309.967)	(20.667.289)
Period charge	(9.135.860)	(6.816)	(1.250.561)	(3.197.241)	(13.590.478)
Disposals	586.221	68.195	-	-	654.416
<b>31 December 2016</b>	<b>(127.865.712)</b>	<b>(172.038)</b>	<b>(8.866.312)</b>	<b>(13.995.166)</b>	<b>(150.899.228)</b>
<b>Net book value at</b>					
<b>31 December 2016</b>	<b>14.901.136</b>	<b>15.683</b>	<b>3.931.212</b>	<b>21.319.124</b>	<b>40.167.155</b>

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 TL13.590.478. TL 9.637.984 is accounted in cost of sales, TL 3.382.890 in general administrative expenses, TL 569.604 in sales, marketing and distribution expenses.

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

	Buildings,Machinery and Equipment	Vehicles	Furniture and fixtures	Leasehold Improvement	Total
<u>Cost</u>					
1 January 2015	<b>98.602.887</b>	<b>1.108.336</b>	<b>8.032.412</b>	<b>20.280.162</b>	<b>128.023.797</b>
Translation difference	24.809.554	263.219	2.041.034	8.612.451	35.726.258
Purchases	2.800.198	-	358.021	62.235	3.220.454
Disposals	(8.058.131)	(1.065.125)	(331.292)	-	(9.454.548)
<b>31 December 2015</b>	<b>118.154.508</b>	<b>306.430</b>	<b>10.100.175</b>	<b>28.954.848</b>	<b>157.515.961</b>
<u>Accumulated Depreciation</u>					
1 January 2015	<b>(83.192.175)</b>	<b>(195.035)</b>	<b>(4.222.324)</b>	<b>(2.290.328)</b>	<b>(89.899.862)</b>
Translation difference	(18.367.699)	(46.321)	(1.127.395)	(3.345.003)	(22.886.418)
Period charge	(8.878.184)	(59.940)	(1.105.296)	(2.852.627)	(12.896.047)
Disposals	7.955.035	100.122	331.293	-	8.386.450
<b>31 December 2015</b>	<b>(102.483.023)</b>	<b>(201.174)</b>	<b>(6.123.722)</b>	<b>(8.487.958)</b>	<b>(117.295.877)</b>
<b>Net book value at</b>					
<b>31 December 2015</b>	<b>15.671.485</b>	<b>105.256</b>	<b>3.976.453</b>	<b>20.466.890</b>	<b>40.220.084</b>

As of 31 December 2015 assets have been covered by insurance worth of TL 180.600.245.

As of 31 December 2015 depreciation charge is TL 12.896.047. TL 8.880.009 is accounted in cost of sales, TL 2.982.726 in general administrative expenses, TL 1.033.312 in sales, marketing and distribution expenses.

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**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 - 50
Vehicles	20
Leasehold Improvement	20
Furniture and fixtures	10
Other	16,7

**13. INTANGIBLE ASSETS**

**Goodwill**

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:

	Goodwill TL
<b>Goodwill calculated as of acquisition date</b>	<b>33.820.858</b>
Currency Translation Reserves	799.105
<b>Goodwill as of 31 December 2011</b>	<b>34.619.963</b>
Currency Translation Reserves	(1.948.278)
<b>Goodwill as of 31 December 2012</b>	<b>32.671.685</b>
Currency Translation Reserves	6.445.996
<b>Goodwill as of 31 December 2013</b>	<b>39.117.681</b>
Currency Translation Reserves	3.383.369
<b>Goodwill as of 31 December 2014</b>	<b>42.501.050</b>
Currency Translation Reserves	10.789.757
<b>Goodwill as of 31 December 2015</b>	<b>53.290.807</b>
Currency Translation Reserves	11.209.471
<b>Goodwill as of 31 December 2016</b>	<b>64.500.278</b>



**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. 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 DCF model is based on a cash flow forecast provided by Management over the period of 1 January 2017-31 December 2021.

According to DCF method, company’s estimated periodic cash flow has been reduced the present value; as a result, company’s present value of future cash flow has been attained.

Weighted average cost of capital has been calculated as 9,4 %, based on USD Dollar. While calculating Probil’s final term value has been based on USD Dollar long term inflation expectation report, as a result, 1,8 % final growth rate has been predicted. As of the valuation date, Probil has net debt of 41,4 million USD. Company management has not predicted any capital expenditures.

The result of DCF analysis concluded indicative firm value of Probil is nearly 89,6 million USD. As of the valuation date Probil has a net debt of 41,4 million USD, equity value of Probil with considering its net debt position is nearly 48,2 million USD.

As conclusion, an independent assessment report has been obtained, and no goodwill impairment is noted for Probil as of 31 December 2016.

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**13. INTANGIBLE ASSETS (cont'd)**

**Other Intangible Assets**

	1 January- 31 December 2016		
	Customer Relations	Other Intangible Assets	Total
<u>Cost</u>			
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
<b>31 December 2016</b>	<b>37.541.565</b>	<b>70.824.796</b>	<b>108.366.361</b>
<u>Accumulated amortization</u>			
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)
<b>31 December 2016</b>	<b>(19.708.705)</b>	<b>(47.240.209)</b>	<b>(66.948.914)</b>
<b>Net book value</b>	<b>17.832.860</b>	<b>23.584.587</b>	<b>41.417.447</b>

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.

	1 January- 31 December 2015		
	Customer Relations	Other Intangible Assets	Total
<u>Cost</u>			
1 January 2015	24.737.194	39.137.593	63.874.787
Purchases	-	3.224.429	3.224.429
Translation difference	6.280.041	10.156.895	16.436.936
<b>31 December 2015</b>	<b>31.017.235</b>	<b>52.518.917</b>	<b>83.536.152</b>
<u>Accumulated amortization</u>			
1 January 2015	(8.039.589)	(22.949.111)	(30.988.700)
Translation difference	(2.241.138)	(6.139.731)	(8.380.869)
Period charge	(2.901.599)	(4.520.455)	(7.422.054)
<b>31 December 2015</b>	<b>(13.182.326)</b>	<b>(33.609.297)</b>	<b>(46.791.623)</b>
<b>Net book value</b>	<b>17.834.909</b>	<b>18.909.620</b>	<b>36.744.529</b>

As of 31 December 2015 amortization charge is TL 7.422.054. TL 3.901.247 is accounted in cost of sales, TL 3.276.138 in general administrative expenses and TL 244.669 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

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**14. GOVERNMENT GRANTS**

For the period ended 31 December 2016 the Group has received approved and accrued incentive from TÜBİTAK, TL 15.284.525, which is net-off with the total amount of “Research and Development Expenses”, amounting to TL 12.227.338, and TL 3.057.187 is accounted under “Other Income from Operating Activities” (For the period ended 31 December 2015: TL 10.688.475 approved and accrued incentive from TÜBİTAK received, TL 207.654 is accounted under “Cost of Sales” and TL 9.480.821 is accounted under “Other Income from Operating Activities”).

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 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 period end (As of 31 December 2015, the corporate tax benefit is TL 162.422.957 and TL 67.996.102 of this amount is utilized by the period end). The Group has booked deferred tax assets for unused R&D tax benefit (Note 26).

For the period ended 31 December 2016, the amount of income tax incentive within the scope of Act numbered 5746 is TL 12.259.873 (31 December 2015: TL 10.728.973) 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 9.252.701 (31 December 2015: TL 7.429.510).

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**15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**

<b>Other Short Term Provisions</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Provision for legal cases	3.658.492	4.309.760
Other provisions	668.789	428.609
	<b>4.327.281</b>	<b>4.738.369</b>

For the period ended 31 December 2016, the Group has cash outflows of TL 2.074.667 for legal cases during the period (For the period ended 31 December 2015: TL 4.201.720).

	<b>Provision for Legal Cases</b>	<b>Other Provisions</b>	<b>Total</b>
As of 1 January 2016	4.309.760	428.609	4.738.369
Provision booked	1.423.399	144.713	1.568.112
Paid / provision no longer required	(2.074.667)	(15.813)	(2.090.480)
Foreign currency exchange differences	-	111.280	111.280
As of 31 December 2016	<b>3.658.492</b>	<b>668.789</b>	<b>4.327.281</b>

	<b>Provision for Legal Cases</b>	<b>Other Provisions</b>	<b>Total</b>
As of 1 January 2015	1.759.816	1.924.756	3.684.572
Provision booked	6.751.664	974.283	7.725.947
Paid / provision no longer required	(4.201.720)	(2.474.331)	(6.676.051)
Foreign currency exchange differences	-	3.901	3.901
As of 31 December 2015	<b>4.309.760</b>	<b>428.609</b>	<b>4.738.369</b>

**16. COMMITMENTS**

The Group's off-balance sheet commitments and contingencies as of 31 December 2016 and 2015 are as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Guarantee letters given(*)	379.591.575	318.911.600

(\*) The Group has no off-balance sheet commitments and contingencies in favor of subsidiaries which are fully consolidated as of 31 December 2016.

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**16. COMMITMENTS (cont'd)**

Maturities of guarantee letters are given below.

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	-
	<b>379.591.575</b>	<b>132.976.172</b>	<b>66.916.426</b>	<b>2.952.468</b>	<b>5.350.020</b>

31 December 2015		Original Currency		
Maturity	TL Equivalent	TL	USD	EUR
2015	267.700	267.700	-	-
2016	75.048.546	48.416.015	9.110.683	44.785
2017	10.634.419	1.792.411	2.421.003	567.315
2018	3.694.889	1.758.398	666.010	-
2019	24.873.584	817.265	8.273.600	-
2025	210.000	210.000	-	-
Indefinite	204.182.462	80.986.849	40.335.371	1.861.936
	<b>318.911.600</b>	<b>134.248.638</b>	<b>60.806.667</b>	<b>2.474.036</b>

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**16. COMMITMENTS (cont'd)**

The off-balance sheet commitments and contingencies as of 31 December 2016 and 2015 are as follows:

**Commitments, Pledges, Mortgages ("CPM") are given by the Company**

	<b>31 December 2016</b>	<b>31 December 2015</b>
A. Total amount of CPM is given on behalf of own legal personality	379.591.575	318.911.600
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	-	-
	<b>379.591.575</b>	<b>318.911.600</b>

Maturity and the original currency balances stated in the above table.

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 2016 and 2015 are as follows:

<b>31 December 2016</b>		<b>Original Currency</b>		
<b>Maturity</b>	<b>TL Equivalent</b>	<b>TL</b>	<b>USD</b>	<b>EUR</b>
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	-
	<b>33.712.446</b>	<b>3.355.468</b>	<b>8.214.881</b>	<b>390.083</b>

<b>31 December 2015</b>		<b>Original Currency</b>		
<b>Maturity</b>	<b>TL Equivalent</b>	<b>TL</b>	<b>USD</b>	<b>EUR</b>
2007-2014 (*)	14.178.465	966.496	4.543.943	-
2015	12.668.836	302.000	4.208.621	40.864
2016	2.156.016	193.000	670.297	4.425
2017	2.529.022	2.162.000	100.000	24.000
2018	2.185.020	576.100	202.767	320.794
2019	437.172	204.000	80.194	-
2020	1.996.710	412.068	545.000	-
Indefinite	404.400	126.500	95.577	-
	<b>36.555.641</b>	<b>4.942.164</b>	<b>10.446.399</b>	<b>390.083</b>

(\*) Guarantee letters from 2007 and 2015 are consisted of the letters to be returned by the customers.

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**16. COMMITMENTS (cont'd)**

**Rent Agreements**

As at 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 at 3 October 2012, Probil Bilgi İşlem Destek ve Danışmanlık Sanayi ve Ticaret A.Ş., the subsidiary of the Company, signed an agreement with Ahmet Bülent Koyuncuoğlu to lease the real estate addressed Orhanlı District, İrfan St. No. 28, Tuzla, İstanbul. The rental period is 5 years beginning from 1 October 2012. The rents to be paid in cash are USD 480.000+withholding tax for the first year, USD 504.000+withholding tax for the second year, USD 529.200 +withholding tax for the third year, USD 603.288 +withholding tax for the fourth year and USD 633.442 +withholding tax for the fifth year.

Company signed a rent contract with Yudo Leon Mizrahi (Renter) and Salvo Özserfati (Lessor) for "Buyaka İş 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 it will be paid for the rented place starting on 1 January 2016 for 15th floor is USD 17.705. 3% will be applied for the increase of next year rental. The amount of rent between 1 February 2016 and 31 January 2017 is net USD 18.236 and between 1 February 2017 and 31 January 2018, net USD 18.784 which will be paid.

<b>Unrevokable Operational Lease Commitments</b>	<b><u>31 December 2016</u></b>	<b><u>31 December 2015</u></b>
Within 1 year	9.733.379	8.656.502
Between 1-5 years	2.389.632	10.805.625
	<b><u>12.123.011</u></b>	<b><u>19.462.127</u></b>

**Guarantees Given**

According to the System Integration Agreement signed between Probil and Cisco System International B.V., the Company agrees that all financial obligations will be jointly performed by the Company and Probil.

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**17. EMPLOYEE BENEFITS**

**Employee Benefit Obligations:**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Payables to employees	8.804.624	7.905.105
Social security payables	9.021.007	5.129.234
	<b>17.825.631</b>	<b>13.034.339</b>

**Short Term and Long Term Provisions for Employee Benefits:**

<b>Short Term</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Provision for employee premiums	12.560.168	11.361.325
Unused vacation provision	4.291.367	3.758.229
Provision for severance indemnity	-	1.033.200
Provision for retirement benefits	-	485.027
	<b>16.851.535</b>	<b>16.637.781</b>
<b>Long Term</b>		
Unused vacation provision	1.596.400	1.254.241
Provision for severance indemnity	18.668.568	16.309.816
Provision for retirement benefits	1.942.466	2.949.594
	<b>22.207.434</b>	<b>20.513.651</b>
<b>Total</b>		
Provision for employee premiums	12.560.168	11.361.325
Unused vacation provision	5.887.767	5.012.470
Provision for severance indemnity	18.668.568	17.343.016
Provision for retirement benefits	1.942.466	3.434.621
	<b>39.058.969</b>	<b>37.151.432</b>

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 2016. Expected interest and service charges for 2017 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 4.297,21 per year as of 31 December 2016 (31 December 2015: TL 3.828,37 per year).



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**17. EMPLOYEE BENEFITS (cont'd)**

**Severance Indemnity (cont'd)**

The movement for severance indemnity provision is as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Present value of severance indemnity provision	18.668.568	17.343.016
Net liability in balance sheet	<b>18.668.568</b>	<b>17.343.016</b>
	<b>2016</b>	<b>2015</b>
Current service cost	3.239.648	2.593.501
Interest cost	1.600.707	1.074.203
Extra payment or loss	(155.646)	345.675
Period charge at 31 December	<b>4.684.709</b>	<b>4.013.379</b>
Portion that is accounted under Other Comprehensive Income	105.224	(64.485)

<b><u>Movement for severance indemnity provision:</u></b>	<b>2016</b>	<b>2015</b>
As of 1 January	17.343.016	15.554.216
Period charge	4.684.709	4.013.379
Severance indemnity paid	(3.464.381)	(2.160.094)
Actuarial loss/(gain)	105.224	(64.485)
As of 31 December	<b>18.668.568</b>	<b>17.343.016</b>

**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:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Present value of retirement benefit provision	1.942.466	3.434.621
Net liability in balance sheet	<b>1.942.466</b>	<b>3.434.621</b>

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**17. EMPLOYEE BENEFITS (cont'd)**

**Retirement Benefit Provision (cont'd)**

	<b>2016</b>	<b>2015</b>
Current service cost	-	-
Interest cost	183.752	133.162
Extra payment or (gain)/loss	-	71.019
Period charge at 31 December	<b>183.752</b>	<b>204.181</b>
Portion that is accounted under Other Comprehensive Income	(206.849)	400.022

<b>Movement for retirement benefit provision:</b>	<b>2016</b>	<b>2015</b>
As of 1 January	3.434.621	3.329.050
Period charge	183.752	204.181
Actuarial loss	(206.849)	400.022
Benefit paid	(1.469.058)	(498.632)
As of 31 December	<b>1.942.466</b>	<b>3.434.621</b>

The assumption used to determine present value of severance indemnity and retirement benefit provision as of 31 December 2016 and 2015 are as follows:

<b>Assumptions</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Annual inflation rate	8,00 %	7,75 %
Annual discount rate	11,30 %	10,70 %

**Provision for Employee Premiums and Unused Vacation**

The movement for employee premiums provision is as follows:

	<b>2016</b>	<b>2015</b>
As of 1 January	11.361.325	10.736.792
Period charge	19.505.132	17.684.732
Premium payments	(18.306.289)	(17.060.199)
As of 31 December	<b>12.560.168</b>	<b>11.361.325</b>

The movement for unused vacation provision is as follows:

	<b>2016</b>	<b>2015</b>
As of 1 January	5.012.470	4.326.559
Period charge	3.492.458	2.053.109
Payments	(2.617.161)	(1.367.198)
As of 31 December	<b>5.887.767</b>	<b>5.012.470</b>

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**18. ADVANCES RECEIVED**

As of 31 December 2016, the amount of advances received is consisted of TL 60.790.881 related to the defense projects and TL 17.421.393 related to system integration projects (31 December 2015: defense projects; TL 39.837.286, system integration projects; TL 26.940.870).

**19. OTHER ASSETS AND LIABILITIES**

<b>Other Current Assets</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
VAT receivables	51.596.561	30.855.989
Prepaid taxes and funds	6.828.937	4.717.257
Personnel and business advances	484.650	637.690
Other	489.257	247.347
	<b>59.399.405</b>	<b>36.458.283</b>
<b>Other Non-Current Assets</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Other non-current assets (*)	7.478.474	6.872.784
	<b>7.478.474</b>	<b>6.872.784</b>

(\*) The balance includes of spare parts which will be used in long term.

**20. SHAREHOLDERS' EQUITY**

**Paid in Capital**

As of 31 December 2016 and 2015, capital structure of the Company is as in the following:

	<b>Share %</b>	<b>Share %</b>		
	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
OEP (*)	48,04	48,04	31.162.570	31.162.570
TSKGV (**)	15,00	15,00	9.729.720	9.729.720
Public	36,96	36,96	23.972.510	23.972.510
<b>Total</b>	<b>100,00</b>	<b>100,00</b>	<b>64.864.800</b>	<b>64.864.800</b>

(\*) 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 2015: 64.864.800 shares with nominal value of TL 64.864.800)

As at 22 December 2010 Nortel Networks International Finance and Holding B.V. transferred and sold its 53,13% shareholding to OEP Turkey Tech B.V.

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 OEP 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.

## 20. SHAREHOLDERS' EQUITY (cont'd)

### *Paid in Capital (Cont'd)*

According to the Article 6 of Articles of Association section B, concerning the transfer of registered Group A shares the existing shareholders 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 willing to sell its shares, in full or in part, must first offer, in writing, 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 388 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.

According to Article 15 of the Articles of Association; The Board of Directors of the Company shall be composed of 7 (seven) members elected by the general assembly of shareholders, for a period of 3 (three) years. Four of the seven members shall be elected from among the candidates nominated by Group A shareholders, provided that two of the seven shall be elected from among the candidates nominated by OEP and one member shall be elected from among the nominees of Turkish Armed Forces Foundation, and three members shall be elected from among the nominees of the Group B shareholders.

According to Article 19 of the Articles of Association; the Board of Auditors composed of five members shall be elected by the General Assembly of shareholders for a period of three years. Three auditors shall be elected from among the nominees of the Group A, two auditors shall be elected from among the nominees of the Group B shareholders.

With the resolution of the board of directors dated 20 September 2011 and numbered 1, it is decided that the Company applies for the registered capital system, and the registered capital limit is to be set as 300.000.000 TL, and to be proposed for approval of the General Assembly upon completion of the formal procedures. Company's application to the Capital Markets Board on 19 October 2011 for the registered capital system has been reviewed and approved by the Capital Markets Board Council at the meeting dated 16 December 2011 and numbered 42/1117, and this approval is announced to the Company on 28 December 2011.

### *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.

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**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 33.182.076 as of 31 December 2016 (31 December 2015: TL 33.182.076). Translation differences are presented in currency translation reserves in the accompanying consolidated financial statements prepared by in accordance with TAS.

	<b>Retained Earnings</b>	<b>Extraordinary Reserves</b>	<b>Total Retained Earnings</b>
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	<b>252.179.983</b>	<b>(88.964.177)</b>	<b>163.215.806</b>

	<b>Retained Earnings</b>	<b>Extraordinary Reserves</b>	<b>Total Retained Earnings</b>
As of 1 January 2015	199.577.931	(88.964.177)	110.613.754
Transfers to legal reserves	(373.034)	-	(373.034)
Net profit for the year	34.305.075	-	34.305.075
As of 31 December 2015	<b>233.509.972</b>	<b>(88.964.177)</b>	<b>144.545.795</b>

Capital Market Board set the rules for profit distributions in the Capital Market Board bulletin numbered 2010/4. Accordingly, the Company makes the profit distribution based on the financial statements filed at Capital Market Board prepared in accordance with Communiqué Series IX, No. 29, in accordance with Communiqué Series IV No: 27.

Based on the authority granted to the Board by Article 6 of the Articles of Association of the Company and within the authorized capital ceiling of 300.000.000 TL; it is resolved to increase the issued capital of TL 6.486.480 through a bonus issue of shares utilizing internal resources from capital reserves amounting to TL 58.378.320, representing a ratio of 900% bonus issue, increasing the issued capital to TL 64.864.800 and to distribute the bonus shares within the framework of Capital Markets Legislation and to authorize the management to make applications for approval to the Capital Markets Board and conduct necessary activities. The applications are sent to CMB as at 7 May 2012 and CMB has approved the applications by its decision numbered 25/852 as at 19 July 2012 and the certificate dated 23 July 2012 and numbered 78/852 is given to the Company. The certificate was registered in Istanbul Trade Registry on 30 July 2012 based on the resolution of Board of Directors to increase the issued capital. Distribution of issued capital to shareholders started and was completed on 3 August 2012.

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 2016 are TL 138.699.559 (31 December 2015: TL 202.019.007).

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**21. REVENUE AND COST OF SALES**

**Sales:**

	<b>For the Period Ended 31 December 2016</b>	<b>For the Period Ended 31 December 2015</b>
<b>Total domestic</b>	<b>820.100.035</b>	<b>800.171.666</b>
United States	69.618.884	73.271.042
Asia	8.185.493	3.601.409
Africa	54.483.072	113.097.961
Europe	17.455.940	18.851.019
<b>Total export</b>	<b>149.743.389</b>	<b>208.821.431</b>
<b>Total sales</b>	<b>969.843.424</b>	<b>1.008.993.097</b>

**Cost of Sales:**

	<b>For the Period Ended 31 December 2016</b>	<b>For the Period Ended 31 December 2015</b>
Equipment expenses	478.398.242	582.990.636
Personnel expenses	183.200.806	165.123.511
Service/ support expenses	131.342.918	111.599.597
Depreciation and amortization expenses	14.889.484	12.781.256
Rent expenses	8.223.966	6.065.015
Transportation expenses	3.880.130	4.026.279
Other	15.484.097	12.503.970
	<b>835.419.643</b>	<b>895.090.264</b>

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**22. RESEARCH AND DEVELOPMENT, SALES, MARKETING and DISTRIBUTION, AND GENERAL ADMINISTRATIVE EXPENSES**

	<b>For the Period Ended 31 December 2016</b>	<b>For the Period Ended 31 December 2015</b>
Sales, marketing and distribution expenses	44.406.817	42.588.722
General administrative expenses	24.402.568	23.844.072
Research and development expenses(*)	-	3.968.273
	<b>68.809.385</b>	<b>70.401.067</b>

(\*)The amount of “Research and Development” expenses, TL 12.227.338, is net off with approved and accrued incentive from TÜBİTAK referring to Note 14.

*The details of research and development, sales, marketing and distribution and general administrative expenses are as in the following:*

	<b>For the Period Ended 31 December 2016</b>	<b>For the Period Ended 31 December 2015</b>
Payroll expenses	38.806.883	39.066.738
Depreciation and amortization expenses	7.563.469	7.536.845
Consultancy, audit and legal expenses	3.663.138	2.767.457
Travel and meeting expenses	2.543.168	2.053.291
Rent expenses	2.446.068	3.459.621
Fair and advertising expenses	2.193.882	1.508.527
Maintenance expenses	1.736.049	1.473.806
Cafeteria expenses	1.670.423	1.156.257
Provision expenses	1.589.009	3.254.999
Software expenses	957.851	833.232
Communication expenses	909.481	543.603
Private health insurance expenses	650.937	607.925
Severance indemnity and pension provision expenses	589.228	840.718
Salaries of the BOD and BOA members	533.235	365.426
Electricity, water and gas expenses	458.427	779.127
Personnel transportation expenses	402.743	238.062
Training expenses	301.306	369.639
Other	1.794.087	3.545.794
	<b>68.809.385</b>	<b>70.401.067</b>

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**23. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES**

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
<b>Other Income from Operating Activities</b>		
R&D Incentives	3.057.187	9.480.821
Discount income on receivables (*)	745.240	-
Service income	621.164	1.128.250
Other income and gains	417.331	482.132
	<b>4.840.922</b>	<b>11.091.203</b>

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
<b>Other Expenses from Operating Activities</b>		
Foreign exchange expenses	20.102.886	12.656.014
Legal case expenses	3.413.834	4.932.571
Discount expense on receivables (*)	-	8.937.832
Uncollectible receivables(**)	24.006.656	-
Other tax expenses	1.485.651	508.693
Other expenses and losses	1.711.201	3.213.361
	<b>50.720.228</b>	<b>30.248.471</b>

(\*) Discount expenses related to trade receivables are accounted under Other Income/(Expenses) from Operating Activities.

(\*\*) Total amount consists of Nortel receivables provision amounting to 45 % of net-off Nortel companies' trade receivables and payables which is approved by the related authorities and other provision expenses for doubtful receivables.

**24. INCOME AND EXPENSES FROM INVESTMENTS ACTIVITIES**

**Income from Investment Activities:**

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Income from sales of tangible asset	102.181	169.797
Income from scrap sales	45.797	9.845
	<b>147.978</b>	<b>179.642</b>

**Expenses from Investment Activities:**

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Losses from sales of tangible assets	106.583	248.408
	<b>106.583</b>	<b>248.408</b>



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**25. FINANCIAL INCOME / (EXPENSES)**

**Financial Income:**

	<b>For the Period Ended 31 December 2016</b>	<b>For the Period Ended 31 December 2015</b>
Foreign exchange gain from loans	50.117.292	56.938.753
Interest income	1.287.919	1.054.628
Gains on derivative instruments	-	2.333.316
	<b>51.405.211</b>	<b>60.326.697</b>

**Financial Expenses:**

	<b>For the Period Ended 31 December 2016</b>	<b>For the Period Ended 31 December 2015</b>
Bank interest expenses	43.793.734	35.076.184
Losses from derivative instruments	2.763.224	-
Guarantee letter commissions	2.301.206	2.674.342
Other financial expenses	908.772	402.992
	<b>49.766.936</b>	<b>38.153.518</b>

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**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 2016 and 2015, tax rate is 20%.

In Turkey, advance tax returns are filed on a quarterly basis. The rate applied for advance corporate income tax rate for 2016 is 20% (2015: 20%).

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% (31 December 2015: 35 %) Corporate tax rate in Kazakhstan is 20% (31 December 2015: 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 and 2015 is 20%.

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**26. TAX ASSETS AND LIABILITIES (cont'd)**

<u>Deferred tax (liabilities)/assets</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Trade receivables	(64.660.327)	(41.139.634)
Tangible and intangible assets	(11.361.781)	(9.628.160)
Trade payables and cost provisions	1.299.169	2.240.615
Carryforward tax losses	1.829.948	1.227.063
Unused R&D tax exemption	32.995.943	18.885.370
Provision for unused vacation	1.177.554	1.002.494
Inventory and deferred costs	1.537.007	3.360.460
Provisions for employee premiums	2.512.033	2.272.264
Advances received	2.490.727	2.168.521
Deferred revenues	12.125.739	6.279.027
Severance indemnity and retirement provisions	4.122.207	4.155.527
Other	700.020	774.025
	<u><b>(15.231.761)</b></u>	<u><b>(8.402.428)</b></u>

The movement of deferred tax (liabilities)/assets is as follows:

	<u>For the Period Ended 31 December 2016</u>	<u>For the Period Ended 31 December 2015</u>
As of 1 January	(8.402.428)	2.435.497
Current charge deferred tax expenses	(3.688.098)	(10.268.834)
Charge to equity	(20.325)	67.107
Translation difference	(3.120.910)	(636.198)
As of 31 December	<u><b>(15.231.761)</b></u>	<u><b>(8.402.428)</b></u>

	<u>For the Period Ended 31 December 2016</u>	<u>For the Period Ended 31 December 2015</u>
Current tax expenses	(313.751)	(2.499.583)
Deferred tax expenses	(3.688.098)	(10.268.834)
	<u><b>(4.001.849)</b></u>	<u><b>(12.768.417)</b></u>

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**26. TAX ASSETS AND LIABILITIES (cont'd)**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Corporate tax	313.751	2.499.583
Prepaid taxes	(16.087)	(539.649)
Current tax liabilities	<b>297.664</b>	<b>1.959.934</b>

Movement for deferred taxes as of 31 December 2016 and 2015 are as follows;

	<b>1 January 2016</b>	<b>Charge to (Loss)/Profit</b>	<b>Charge to Equity</b>	<b>Translation Difference</b>	<b>31 December 2016</b>
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
	<b>(8.402.428)</b>	<b>(3.688.098)</b>	<b>(20.325)</b>	<b>(3.120.910)</b>	<b>(15.231.761)</b>

	<b>1 January 2015</b>	<b>Charge to (Loss)/Profit</b>	<b>Charge to Equity</b>	<b>Translation Difference</b>	<b>31 December 2015</b>
Tangible and intangible assets	(7.408.373)	131.081	-	(2.350.868)	(9.628.160)
Trade receivables	(35.874.160)	3.594.030	-	(8.859.504)	(41.139.634)
Trade payables and cost provisions	(3.268.110)	5.929.444	-	(420.719)	2.240.615
Inventory and deferred costs	11.231.492	(10.030.561)	-	2.159.529	3.360.460
Advances received	1.298.299	505.741	-	364.481	2.168.521
Provisions for employee premiums	2.147.358	(393.130)	-	518.036	2.272.264
Provision for unused vacation	865.312	(77.172)	-	214.354	1.002.494
Severance indemnity and retirement provisions	3.776.653	(594.900)	67.107	906.667	4.155.527
Deferred revenues	11.381.215	(7.475.923)	-	2.373.735	6.279.027
Unused R&D tax exemption	15.991.423	(1.090.583)	-	3.984.530	18.885.370
Carryforward tax losses	1.938.391	(1.125.782)	-	414.454	1.227.063
Other	355.997	358.921	-	59.107	774.025
	<b>2.435.497</b>	<b>(10.268.834)</b>	<b>67.107</b>	<b>(636.198)</b>	<b>(8.402.428)</b>

The Group has tax losses to be used future are TL 9.149.740 as of 31 December 2016 (31 December 2015: TL 6.135.315).

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**26. TAX ASSETS AND LIABILITIES (cont'd)**

<u>Tax reconciliation</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Profit before tax	22.671.860	47.073.492
Tax rate	% 20	% 20
Computed tax expense	(4.534.372)	(9.414.698)
<u>Tax effects of:</u>		
Non-deductible expenses	(1.082.712)	(2.497.729)
Nondutiable gain	334.647	758.221
Loss used	-	(711.328)
Used R&D deduction	739.976	13.599.220
Unused R&D deduction	(14.850.549)	(16.493.168)
Tax effect of other adjustments	15.391.161	1.991.065
<b>Total tax expenses</b>	<b>(4.001.849)</b>	<b>(12.768.417)</b>

As of 31 December 2016, the Company has TL 164.979.717 unused R&D tax exemption provided by Support of Research and Development Act, numbered 5746 (31 December 2015: TL 94.426.855).

Group's total carryforward tax losses of which deferred tax assets have been calculated and their maturity years are below;

	<u>31 December 2016</u>	<u>31 December 2015</u>
At the end of 2019	-	1.227.063
At the end of 2021	602.885	-
	<b>602.885</b>	<b>1.227.063</b>

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**27. EARNINGS PER SHARE**

	<b>For the Period Ended 31 December 2016</b>	<b>For the Period Ended 31 December 2015</b>
Number of shares	64.864.800	64.864.800
Net profit for the year	18.670.011	34.305.075
Earnings per share	0,2878	0,5289

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**

David Arthur Walsh and Joseph Patrick Huffsmith were selected as the member of the Board of Directors of the Company as at 22 December 2010. As David Arthur Walsh and Joseph Patrick Huffsmith are also the members of the Board of Directors of Genband US LLC, and its associates (collectively Genband) Genband is accounted as related parties effective from 22 December 2010.

Due from related parties as of 31 December 2016 and 2015 is as follows:

<b>Due from Related Parties</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Genband US LLC	25.329.936	17.903.265
Genband Ireland Ltd.	1.359.373	319.025
Genband Japan GK	-	41.917
Genband Telecommunications (UK)	19.238	196.044
Genband Telecomunicacoes	98.493	81.376
	<b>26.807.040</b>	<b>18.541.627</b>

<b>Due to Related Parties</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Genband Ireland Ltd.	1.312.804	21.588
Genband US LLC	-	23.855
Kron Telekomunikasyon A.Ş.	8.305	-
	<b>1.321.109</b>	<b>45.443</b>

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**28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont'd)**

Main transactions with related parties are as follows for the period ended 31 December 2016 and 2015:

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
<b>Sales</b>		
Genband US LLC	68.851.921	71.898.510
Genband Ireland Ltd.	2.488.523	1.806.737
Genband Telecommunications (UK)	42.829	958.535
Genband Japan GK	-	14.506
Genband Telecommunicacoes	-	76.125
	<b>71.383.273</b>	<b>74.754.413</b>

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
<b>Purchases</b>		
Genband Ireland Ltd.	2.563.451	2.019.032
Kron Telekomunikasyon A.Ş.	6.046	1.799.596
Genband US LLC	-	46.240
	<b>2.569.497</b>	<b>3.864.868</b>

For the year ended 31 December 2016, total remuneration for the directors, management, board and audit members of the Group is TL 7.175.102 (for the year ended 31 December 2015 total remuneration for the directors, management, and board and audit members of the Group is TL 6.193.549). As of 31 December 2016 and 2015 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.

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**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.

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 3,0998 and 3,3700 USD/TL, If the spot rate is above the "barrier" rate, which is 3,3800 USD / TL, then the forward contracts will in favor of bank.

Option Contract

The maturity date of Group's option contract is 20 October 2017, and its type is "Call Option Contract". The contract exchange rate is 4,00 USD/TL. If the exchange rate exceeds the 4,00 USD/TL 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 4,00 USD/TL 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 and 2015 are as follows:

	Currency	Nominal Value		Fair Value (Liability)/Asset	
		2016	2015	2016	2015
European Type, USD Call Option	USD	5.000.000	-	(2.299.731)	-
Asymmetric Forward Knockout	USD	1.791.222	4.800.000	(379.022)	109.927



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**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 at the date of balance sheet maximum credit risks are as follows:

<u>31 December 2016</u>	<u>Trade Receivables</u>		<u>Other Receivables</u>	<u>Deposits at Banks</u>
	<u>Related Parties</u>	<u>Other</u>	<u>Other (*)</u>	
<b>Maximum credit risks as of balance sheet date(A+B+C+D)</b>	<b>26.807.040</b>	<b>759.478.538</b>	<b>669.053</b>	<b>115.147.110</b>
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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**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

**Credit risk (cont'd)**

**31 December 2015**

	<b>Trade Receivables</b>		<b>Other Receivables</b>	
	<b>Related Parties</b>	<b>Other</b>	<b>Other (*)</b>	<b>Deposits at Banks</b>
<b>Maximum credit risks as of balance sheet date (A+B+C+D)</b>	<b>18.541.627</b>	<b>687.170.682</b>	<b>397.045</b>	<b>225.682.937</b>
Maximum risk guaranteed by collateral	-	-	-	-
(A) Net book value of unexpired or not impaired financial assets	18.032.221	596.400.799	397.045	225.682.937
(B) Net book value of overdue but not impaired financial assets (**)	509.406	90.769.883	-	-
Guaranteed by collateral	-	-	-	-
(C) Net book value of impaired assets	-	-	-	-
Overdue (gross book value)	-	21.060.373	-	-
Impairment (-)	-	(21.060.373)	-	-
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.

(\*\*) TL 49.638.506 of overdue but not impaired is receivable from Nortel companies and as there is a continuing uncertainty regarding the collectability and collection time table of these receivables, no provision has been made.

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**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

**Credit risk (cont'd)**

As at the date of balance sheet aging of overdue but not impaired financial assets are as follows:

<b>31 December 2016</b>	<b>Receivables</b>	
	<b>Trade Receivables</b>	<b>Other Receivables</b>
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	-
<b>Total</b>	<b>102.205.324</b>	-

<b>31 December 2015</b>	<b>Receivables</b>	
	<b>Trade Receivables</b>	<b>Other Receivables</b>
1-30 days overdue	19.776.922	-
1-3 months overdue	3.332.034	-
3-12 months overdue	9.656.393	-
1-5 years overdue	8.875.434	-
Overdue more than 5 years	49.638.506	-
<b>Total</b>	<b>91.279.289</b>	-

**Liquidity risk**

The Group holds adequate sources to be able to fulfill its current and future liabilities. As of 31 December 2016 and 2015 liquidity risk table are as follows;

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**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

**Liquidity risk (cont'd)**

**31 December 2016**

<b><u>Maturities due to agreements</u></b>	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
<b><u>Non- derivative financial liabilities</u></b>	<b>597.269.719</b>	<b>601.756.648</b>	<b>439.125.390</b>	<b>160.685.530</b>	<b>1.945.728</b>
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
<b><u>Expected maturities</u></b>	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
<b><u>Non- derivative financial liabilities</u></b>	<b>30.839.753</b>	<b>30.839.753</b>	<b>27.181.261</b>	<b>3.658.492</b>	<b>-</b>
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.

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**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

**Liquidity risk (cont'd)**

**31 December 2015**

<b><u>Maturities due to agreements</u></b>	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
<b><u>Non- derivative financial liabilities</u></b>	<b>695.968.149</b>	<b>716.692.411</b>	<b>439.151.113</b>	<b>264.759.409</b>	<b>12.781.889</b>
Financial liabilities	333.068.285	353.792.547	89.033.138	264.759.409	-
Due to related parties	45.443	45.443	45.443	-	-
Other trade payables to third parties	362.854.421	362.854.421	350.072.532	-	12.781.889
<b><u>Expected maturities</u></b>	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
<b><u>Non- derivative financial liabilities</u></b>	<b>30.503.815</b>	<b>30.503.815</b>	<b>25.765.446</b>	<b>4.738.369</b>	<b>-</b>
Other short term provisions	4.738.369	4.738.369	428.609	4.309.760	-
Payables related to employee benefits	13.034.339	13.034.339	13.034.339	-	-
Other payables to third parties (*)	12.731.107	12.731.107	12.731.107	-	-

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.

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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 at the balance sheet date.

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Fixed interest rate financial instruments</b>	<b>386.806.122</b>	<b>516.970.805</b>
Financial assets (*)	95.947.358	187.084.434
Financial liabilities	290.858.764	329.886.371
<b>Variable interest rate financial instruments</b>	<b>64.000.000</b>	<b>-</b>
Financial assets	-	-
Financial liabilities	64.000.000	-
<b>Interest-free financial instruments</b>	<b>688</b>	<b>3.181.914</b>
Financial liabilities	688	3.181.914

(\*) As of 31 December 2016 and 2015, includes 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.

	<b>31 December 2016</b>	<b>31 December 2015</b>
Export	149.743.389	208.821.431
Import	326.811.761	374.793.579

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**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

**Foreign currency risk (cont'd)**

As of 31 December 2016 and 2015, the Group's foreign currency position table is given below.

31 December 2016	TL Equivalent (*)	Original Currency				
		TL	EURO	GBP	TAKA	Other
<b>Current Assets</b>	<b>267.916.251</b>	<b>253.035.189</b>	<b>1.720.528</b>	<b>631</b>	<b>13.113.887</b>	<b>642.863.905</b>
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
<b>TOTAL ASSETS (A)</b>	<b>267.916.251</b>	<b>253.035.189</b>	<b>1.720.528</b>	<b>631</b>	<b>13.113.887</b>	<b>642.863.905</b>
<b>Short Term Liabilities</b>	<b>394.714.241</b>	<b>388.657.102</b>	<b>1.366.619</b>	<b>7.303</b>	<b>-</b>	<b>31.246.825</b>
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	-	-	-	-
<b>Long Term Liabilities</b>	<b>22.207.434</b>	<b>22.207.434</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Provision for employee benefit	22.207.434	22.207.434	-	-	-	-
<b>TOTAL LIABILITIES (B)</b>	<b>416.921.675</b>	<b>410.864.536</b>	<b>1.366.619</b>	<b>7.303</b>	<b>-</b>	<b>31.246.825</b>
<b>Net Foreign Currency Asset / (Liability) Position</b>						
<b>(A-B)</b>	<b>(149.005.424)</b>	<b>(157.829.347)</b>	<b>353.909</b>	<b>(6.672)</b>	<b>13.113.887</b>	<b>611.617.080</b>

(\*) 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 yearend rates.

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**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

**Foreign currency risk (cont'd)**

31 December 2015	TL Equivalent (*)	Original Currency					
		TL	EURO	CAD	GBP	TAKA	Other
<b>Current Assets</b>	<b>230.670.927</b>	<b>216.714.939</b>	<b>2.865.403</b>	-	<b>62.797</b>	<b>15.361.031</b>	<b>579.561.650</b>
Cash and cash equivalents	58.084.253	49.582.078	1.455.245	-	61.726	15.358.695	535.666.291
Trade receivables, third parties	118.104.174	113.899.625	1.040.627	-	511	-	37.590.930
Other receivables, third parties	397.045	397.045	-	-	-	-	-
Prepaid expenses	18.066.540	17.095.629	297.433	-	560	2.336	612.103
Other current assets	36.018.915	35.740.562	72.098	-	-	-	5.692.326
<b>TOTAL ASSETS (A)</b>	<b>230.670.927</b>	<b>216.714.939</b>	<b>2.865.403</b>	-	<b>62.797</b>	<b>15.361.031</b>	<b>579.561.650</b>
<b>Short Term Liabilities</b>	<b>417.175.437</b>	<b>412.562.934</b>	<b>1.290.374</b>	<b>3.138</b>	<b>1.357</b>	-	<b>19.204.072</b>
Financial liabilities	274.616.439	274.616.439	-	-	-	-	-
Trade payables, third parties	95.397.802	90.793.273	1.290.374	3.138	1.357	-	18.276.863
Other payables, third parties	12.750.707	12.745.554	-	-	-	-	599.186
Employee benefit obligations	13.034.339	13.031.518	-	-	-	-	328.023
Provision for employee benefit	16.637.781	16.637.781	-	-	-	-	-
Other short term provisions	4.738.369	4.738.369	-	-	-	-	-
<b>Long Term Liabilities</b>	<b>20.513.651</b>	<b>20.513.651</b>	-	-	-	-	-
Provision for employee benefit	20.513.651	20.513.651	-	-	-	-	-
<b>TOTAL LIABILITIES (B)</b>	<b>437.689.088</b>	<b>433.076.585</b>	<b>1.290.374</b>	<b>3.138</b>	<b>1.357</b>	-	<b>19.204.072</b>
<b>Net Foreign Currency Asset / (Liability) Position</b>							
<b>(A-B)</b>	<b>(207.018.161)</b>	<b>(216.361.646)</b>	<b>1.575.029</b>	<b>(3.138)</b>	<b>61.440</b>	<b>15.361.031</b>	<b>560.357.578</b>

(\*) Since the functional currency of 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 yearend rates.



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**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

**Foreign currency risk (cont'd)**

**Exchange Rate Sensitivity Table**  
**31 December 2016**

	<b><u>Profit / (Loss)</u></b>	
	<b><u>Appreciation</u></b>	<b><u>Devaluation</u></b>
<i>Effect of 10 % appreciation/devaluation in TL -USD exchange rate :</i>		
Net asset / (liability) in TL	(15.782.935)	15.782.935
Not subjected to TL risk (-)	-	-
<b>(1) Net effect of TL</b>	<b>(15.782.935)</b>	<b>15.782.935</b>
<i>Effect of 10 % appreciation/devaluation in EURO – USD exchange rate :</i>		
Net asset / (liability) in EUR	131.297	(131.297)
Not subjected to EUR risk (-)	-	-
<b>(2) Net effect of EUR</b>	<b>131.297</b>	<b>(131.297)</b>
<i>Effect of 10 % appreciation/devaluation in exchange rate of other foreign currencies:</i>		
Net asset / (liability) in other currencies	751.096	(751.096)
Not subjected to other currency risk (-)	-	-
<b>(3) Net effect of other currencies</b>	<b>751.096</b>	<b>(751.096)</b>
<b>TOTAL (1+2+3)</b>	<b>(14.900.542)</b>	<b>14.900.542</b>

**31 December 2015**

	<b><u>Profit / (Loss)</u></b>	
	<b><u>Appreciation</u></b>	<b><u>Devaluation</u></b>
<i>Effect of 10 % appreciation/devaluation in TL -USD exchange rate :</i>		
Net asset / (liability) in TL	(21.636.165)	21.636.165
Not subjected to TL risk (-)	-	-
<b>(1) Net effect of TL</b>	<b>(21.636.165)</b>	<b>21.636.165</b>
<i>Effect of 10 % appreciation/devaluation in EURO – USD exchange rate :</i>		
Net asset / (liability) in EUR	500.481	(500.481)
Not subjected to EUR risk (-)	-	-
<b>(2) Net effect of EUR</b>	<b>500.481</b>	<b>(500.481)</b>
<i>Effect of 10 % appreciation/devaluation in exchange rate of other foreign currencies:</i>		
Net asset / (liability) in other currencies	433.868	(433.868)
Not subjected to other currency risk (-)	-	-
<b>(3) Net effect of other currencies</b>	<b>433.868</b>	<b>(433.868)</b>
<b>TOTAL (1+2+3)</b>	<b>(20.701.816)</b>	<b>20.701.816</b>

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**31. FAIR VALUE OF FINANCIAL INSTRUMENTS**

	Loans and Receivables (including cash and cash equivalents)	Amortized value of financial liabilities	Note
<b>31 December 2016</b>			
<u>Financial assets</u>			
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
<u>Financial liabilities</u>			
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
	Loans and Receivables (including cash and cash equivalents)	Amortized value of financial liabilities	Note
<b>31 December 2015</b>			
<u>Financial assets</u>			
Cash and cash equivalents	226.061.741	-	5
Trade receivables	687.170.682	-	7
Due from related parties	18.541.627	-	28
Financial investments	862.056	-	
Other current assets	397.045	-	8
<u>Financial liabilities</u>			
Borrowings	-	333.068.285	6
Trade payables	-	362.854.421	7
Due to related parties	-	45.443	28
Other liabilities	-	12.731.107	8

**32. SUBSEQUENT EVENTS**

On 6 December 2016, OEP Turkey Tech B.V. (“OEP”) and ZTE Cooperatief U.A. (“ZTE”) signed a share purchase agreement regarding to transfer of 48,04 % shares of the Company’s total equity and approval has been obtained from the Competition Authority on 31 December 2016. Extraordinary General Meeting is going to be held on 3 March 2017 regarding to this transaction.

**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.