NETAŞ TELEKOMÜNİKASYON A.Ş.
AND ITS' SUBSIDIARIES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017

(CONVENIENCE TRANSLATION OF
CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS ORIGINALLY ISSUED IN TURKISH)

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NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2017

(Unless otherwise stated the amounts are in TL).

	Notes	Unaudited 31 March 2017	Audited 31 December 2016
ASSETS			
Current Assets		**1.103.970.840**	**1.122.788.685**
Cash and Cash Equivalents	5	77.871.444	115.641.750
Trade Receivables		636.062.853	697.710.992
Due from related parties	*20*	*24.074.244*	*26.807.040*
Trade receivables, third parties	*7*	*611.988.609*	*670.903.952*
Other Receivables		513.637	511.938
Other receivables, third parties		*513.637*	*511.938*
Inventories	8	134.728.922	83.991.024
Deferred Costs	4	183.473.873	148.684.598
Prepaid Expenses	9	11.994.061	16.848.978
Other Current Assets		59.326.050	59.399.405
Non-Current Assets		**258.366.695**	**252.698.207**
Trade Receivables		92.054.331	88.574.586
Trade receivables, third parties	*7*	*92.054.331*	*88.574.586*
Other Receivables		-	157.115
Other Receivables,third parties		-	*157.115*
Property, Plant and Equipment		40.288.360	40.167.155
Financial Investments		2.243.137	1.940.781
Intangible Assets		107.014.067	105.917.725
Goodwill	*11*	*66.688.654*	*64.500.278*
Other intangible assets		*40.325.413*	*41.417.447*
Associates	3	5.270.786	*5.121.827*
Other Non-Current Assets		7.516.576	7.478.474
Prepaid Expenses	9	1.267.842	1.053.159
Deferred Tax Assets	18	2.711.596	2.287.385
TOTAL ASSETS		**1.362.337.535**	**1.375.486.892**

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

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2017

(Unless otherwise stated the amounts are in TL).

	Notes	Unaudited 31 March 2017	Audited 31 December 2016
LIABILITIES			
Short Term Liabilities		**759.643.196**	**784.118.707**
Financial Liabilities	6	381.228.040	354.859.452
Derivative Liabilities	21	2.013.534	2.678.753
Trade Payables		204.443.112	240.464.539
Due to related parties	*20*	*65.999*	*1.321.109*
Trade payables, third parties	*7*	*204.377.113*	*239.143.430*
Other Payables		6.885.338	8.686.841
Other payables, third parties		*6.885.338*	*8.686.841*
Employee Benefit Obligations		18.465.337	17.825.631
Deferred Revenues	4	53.700.500	59.914.737
Provisions		15.605.730	21.178.816
Provision for Employee Benefits		*11.760.686*	*16.851.535*
Other Short Term Provisions	*13*	*3.845.044*	*4.327.281*
Advances Received	4	77.301.605	78.212.274
Current Tax Liabilities		-	297.664
Long Term Liabilities		**32.957.137**	**41.672.308**
Trade Payables		1.708.751	1.945.728
Trade payables, third parties	*7*	*1.708.751*	1.945.728
Provisions		20.349.151	22.207.434
Provision for Employee Benefits		*20.349.151*	*22.207.434*
Deferred Tax Liabilities	18	10.899.235	17.519.146
SHAREHOLDERS' EQUITY			
Equity Attributable to Equity Holders of the Parent		**569.737.202**	**549.695.877**
Share Capital		64.864.800	64.864.800
Capital Reserves		41.612.160	41.612.160
Other comprehensive income to be reclassed in profit and loss		18.438.382	16.764.885
Currency Translation Reserves		*18.438.382*	*16.764.885*
Other comprehensive income not to be reclassed in profit ar		247.646.099	230.056.150
Actuarial Loss		*(8.240.661)*	*(8.240.661)*
Currency Translation Reserves		*255.886.760*	*238.296.811*
Restricted Reserves Appropriated From Profit		33.182.076	33.182.076
Profit for the Period		777.879	18.670.011
Retained Earnings		163.215.806	144.545.795
SHAREHOLDERS' EQUITY		**1.362.337.535**	**1.375.486.892**

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

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2017
(Unless otherwise stated the amounts are in TL).

		Unaudited	
	Note	For The Period Ended 31 March 2017	For The Period Ended 31 March 2016
INCOME OR LOSS FROM OPERATIONS			
Revenue	15	167.878.237	204.465.478
Cost of Sales (-)	15	(150.329.760)	(181.983.717)
GROSS PROFIT		**17.548.477**	**22.481.761**
Sales, Marketing and Distribution Expenses (-)		(13.098.055)	(12.990.246)
General Administrative Expenses (-)		(6.998.659)	(4.428.600)
Research and Development Expenses (-)		-	(583.902)
Other Income from Operating Activities	16	1.937.370	6.669.112
Other Expenses from Operating Activities (-)	16	(3.846.246)	(2.554.705)
OPERATING (LOSS)/PROFIT		**(4.457.113)**	**8.593.420**
Income from Investment Activities		16.211	105.959
Expenses from Investment Activities (-)		-	(86.801)
Income from Associates	3	48.424	40.862
OPERATING PROFIT BEFORE FINANCE (EXPENSES)/INCOME		**(4.392.478)**	**8.653.440**
Financial Income	17	9.053.175	545.893
Financial Expenses (-)	17	(11.684.164)	(21.512.143)
LOSS BEFORE TAX		**(7.023.467)**	**(12.312.810)**
Tax Income/(Expenses)		**7.801.346**	**10.545.039**
- Current Tax Income/(Expenses)	18	-	-
- Deferred Tax Income/(Expenses)	18	7.801.346	10.545.039
PROFIT/(LOSS) AFTER TAX		**777.879**	**(1.767.771)**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income or expenses that will not be reclassified subsequently to profit of loss		**17.589.949**	**(11.804.896)**
Currency translation reserves		17.589.949	(11.804.896)
Other comprehensive income or expenses that may be reclassified subsequently to profit or loss		**1.673.497**	**821.446**
Currency translation reserves		1.673.497	821.446
OTHER COMPREHENSIVE INCOME/(EXPENSES)		**19.263.446**	**(10.983.450)**
TOTAL COMPREHENSIVE INCOME/(EXPENSES)		**20.041.325**	**(12.751.221)**
Earnings/(Loss) per share	19	**0,0120**	**(0,0273)**

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

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 MARCH 2017

(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)**	**Restricted Reserves Appropriated from Profit**	**Retained Earnings**	**Net (Loss)/Profit for the Period**	**TOTAL**
Balance as at 1 January 2016	**64.864.800**	**41.612.160**	**7.661.632**	**123.400.607**	**(8.321.961)**	**33.182.076**	**140.496.508**	**34.305.075**	**437.200.897**
Currency translation differences	-	-	821.446	(11.804.896)	-	-	-	-	(10.983.450)
Net loss for the period	-	-	-	-	-	-	-	(1.767.771)	(1.767.771)
Total comprehensive income	**-**	**-**	**821.446**	**(11.804.896)**	**-**	**-**	**-**	**(1.767.771)**	**(12.751.221)**
Transfer	-	-	-	-	-	-	34.305.075	(34.305.075)	-
Balance as at 31 March 2016	**64.864.800**	**41.612.160**	**8.483.078**	**111.595.711**	**(8.321.961)**	**33.182.076**	**174.801.583**	**(1.767.771)**	**424.449.676**
Balance as at 1 January 2017	**64.864.800**	**41.612.160**	**16.764.885**	**238.296.811**	**(8.240.661)**	**33.182.076**	**144.545.795**	**18.670.011**	**549.695.877**
Currency translation differences	-	-	1.673.497	17.589.949	-	-	-	-	19.263.446
Net profit for the period	-	-	-	-	-	-	-	777.879	777.879
Total comprehensive income	**-**	**-**	**1.673.497**	**17.589.949**	**-**	**-**	**-**	**777.879**	**20.041.325**
Transfer	-	-	-	-	-	-	18.670.011	(18.670.011)	-
Balance as at 31 March 2017	**64.864.800**	**41.612.160**	**18.438.382**	**255.886.760**	**(8.240.661)**	**33.182.076**	**163.215.806**	**777.879**	**569.737.202**

Retained earnings contain extraordinary reserves.

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

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 MARCH 2017

(Unless otherwise stated the amounts are in TL).

		Unaudited	
	Notes	1 January- 31 March 2017	1 January- 31 March 2016
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) for the Period		**777.879**	**(1.767.771)**
Profit/(Loss) from Continuing Operations		*777.879*	*(1.767.771)*
Adjustments to Reconcile Profit/(Loss)		**12.422.009**	**14.990.689**
Adjustments for Depreciation and Amortisation Expense		6.652.186	4.907.704
Adjustments for (Reversal of) Impairment Loss Recognised in Profit or Loss		283.961	207.797
Adjustments for (Reversal of) Provision of Receivables	*7*	*283.961*	*207.797*
Adjustment for Reversal of Provision of Inventory	*8*	-	-
Adjustments For Provisions		9.299.657	7.157.078
Adjustments for Provisions Related with Employee Benefits		*9.781.894*	*7.358.877*
Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions	*13*	*(113.546)*	*(224.544)*
Adjustments for (Reversal of) Provisions Arising From Sectoral Requirements	*13*	*(368.691)*	*22.745*
Adjustments for Interest (Income) and Expenses		10.091.418	9.607.158
Adjustments for Interest Income	*17*	*(297.107)*	*(545.893)*
Adjustments for Interest Expense	*17*	*10.689.259*	*10.823.513*
Unearned Financial Income from Credit Sales	*16*	*(300.734)*	*(670.462)*
Adjustments For Unrealised Foreign Exchange Losses (Gains)	*16-17*	(5.374.013)	3.606.084
Other Adjustments for Fair Value Losses (Gains)		(665.219)	109.927
Adjustments for Fair Value Losses (Gains) on Derivative Financial Instruments	*21*	*(665.219)*	*109.927*
Adjustments for Share of Profit of Investments Accounted for Using the Equity Method	*3*	(48.424)	(40.862)
Adjustments for Losses Tax Expense	18	(7.801.346)	(10.545.039)
Adjustments for Losses/(Gains) Disposal of Non-Current Assets		(16.211)	(19.158)
Adjustments for Losses/(Gains) Arising From Sale of Tangible Assets		*(16.211)*	*(19.158)*
Changes in Working Capital		**(52.217.410)**	**(132.859.021)**
Adjustments for Decrease / (Increase) in Trade Accounts Receivable		77.898.673	(2.839.658)
Decrease (Increase) in Trade Accounts Receivables from Related Parties	*20*	*3.695.063*	*(124.726)*
Decrease (Increase) in Trade Accounts Receivables from Unrelated Parties	*7*	*74.203.610*	*(2.714.932)*
Adjustments for Decrease (Increase) in Other Receivables Related with Operations		2.299.616	(13.803.707)
Adjustments for Decrease (Increase) in Other Receivables Related with Operations from Third Parties		*2.299.616*	*(13.803.707)*
Adjustments for Decrease / (Increase) in Inventories	8	(48.581.830)	(2.280.894)
Decrease / (Increase) in Prepaid Expenses	9	5.323.625	19.186.109
Adjustments for Increase/(Decrease) In Trade Accounts Payable		(45.127.213)	(99.515.842)
Increase (Decrease) in Trade Accounts Payables to Related Parties	*20*	(1.318.761)	120.687
Increase/(Decrease) in Trade Accounts Payables to Unrelated Parties	*7*	*(43.808.452)*	*(99.636.529)*
Increase (Decrease) in Payables due to Employee Benefits		35.421	14.868.814
Increase/(Decrease) in Payables Due to Ongoing Construction or Service Contracts		(30.175.489)	(30.889.129)
Adjustments for Increase/(Decrease) in Other Operating Payables		(2.126.593)	(9.133.770)
Increase/(Decrease) in Other Operating Payables to Unrelated Parties		*(2.126.593)*	*(9.133.770)*
Increase/(Decrease) in Deferred Income		(8.366.481)	(3.925.313)
Other Adjustments for Other Increase/(Decrease) in Working Capital		(3.397.139)	(4.525.631)
Cash Flows (Used in) Generated From Operations		**(39.017.522)**	**(119.636.103)**
Payments Related with Provisions for Employee Benefits		(16.731.026)	(10.841.338)
Income Taxes Paid		-	-
		(55.748.548)	**(130.477.441)**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 MARCH 2017

(Unless otherwise stated the amounts are in TL).

		Unaudited	
	Notes	1 January- 31 March 2017	1 January- 31 March 2016
B.CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		16.211	105.438
Proceeds from Sales of Property, Plant, Equipment		16.211	105.438
Purchase of Property, Plant, Equipment and Intangible Assets		(2.268.068)	(3.563.880)
Purchase of Property, Plant, Equipment		(1.931.481)	(1.764.945)
Purchase of Intangible Assets		(336.587)	(1.798.935)
Interest Received	17	297.107	545.893
Other Outflows of Cash/(Proceeds)		(302.356)	(261.341)
		(2.257.106)	**(3.173.890)**
C.CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings	*6*	26.368.588	705.228
Interest Paid		(1.430.255)	(323.568)
		24.938.333	**381.660**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		**(33.067.321)**	**(133.269.671)**
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(4.702.985)	(5.218.220)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**(37.770.306)**	**(138.487.891)**
E.CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5	115.641.750	226.061.741
CASH AND CASH EQUIVALENTS AT END OF PERIOD (A+B+C+D+E)		**77.871.444**	**87.573.850**

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 Uzbekstan with strategic business partnerships like Cisco and Microsoft. Specialized in all IT services, BDH Bilişim Destek Hizmetleri San. Tic.A.Ş. ("BDH") was founded in April 2006 in order to provide consultancy, strategic outsourcing, data center and support services.

According to Board of Directors resolution as 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 ("KRONT") and the Company for the acquisition of 10 % of A group shares from Lütfi Yenel for TL 1.700.000.

The Company has established organization (Netas Telecommunications Malta Ltd.) in Maltha and which hold all of share capital (100%) has belong to the Company which is amounted 1.200 EUR. Registiration 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 March 2017 is 2.120 white-collar (31 December 2016: 2.050), and the Group has no blue-collar employees.

Approval of Condensed Consolidated Financial Statements

The condensed consolidated financial statements for the period ended March 31, 2017 have been approved for issue by the Board of Directors May 5, 2017.

2. BASIS OF PRESENTATION OF THE CONDENSED 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 condensed 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 condensed 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

The accompanying condensed consolidated financial statements for the period ended 31 March 2017 have been prepared in accordance with IAS 34 "Interim Financial Statements" and in consistency with the accounting policies applied in preparation of consolidated financial statements as of 31 December 2016. Accordingly, the accompanying condensed consolidated financial statements should be assessed together with the consolidated financial statements as of 31 December 2016

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 March 2017 are as follows:

	Place of establishment of operation	Group's shares in capital and voting rights	Main operating activity
Probil Bilgi İşlem Destek ve 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 telecomunication equipment

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

2.1 Basis of Presentation (cont'd)

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

The condensed 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.

2. BASIS OF PRESENTATION OF THE CONDENSED 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 March 2017 and 31 December 2016 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	28.11.2013	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 condensed 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.

2. BASIS OF PRESENTATION OF THE CONDENSED 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 of the balance sheet date. Consequently, non-monetary balance sheet items, income, expenses and cash flows are translated to US $ by using rates at the date of transactions (historical rates). Translation gain or losses that are generated from the translation of foreign currency based transactions are recognized in the consolidated statement of profit or loss as net foreign exchange gain or loss.

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 March 2017 (Turkish Central Bank USD Buying rate: (1 USD: = 3,6386TL) , statements of income and statements of cash flows have been translated to TL by using three months average exchange rate (1 USD: 3,6913TL) for the period ended 31 March 2017(for the 1 January-31 March 2016 1 USD: 2,9434 TL) in accordance with TAS 21. In the accompanying condensed consolidated financial statements capital and legal reserves are carried with their values in statutory accounts.

2. BASIS OF PRESENTATION OF THE CONDENSED 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 condensed consolidated financial statements are translated by using USD rates as of 31 December 2016 (31 December 2016:1 USD: 3,5192 TL).

2.2 Comparative Information and Restatement of Prior Period Consolidated Financial Statements

Group's condensed 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.

The Group's condensed consolidated profit or loss, other comprehensive income, cash flows and changes in equity statements for the three months ended 31 March 2017 are prepared, and compared to financial statements for the three months ended 31 March 2016. The nature, reasons and amounts of related reclassifications are explained below.

As of 31 March 2016, the Group presented currency translation reserves amounting to TL 6.061.593 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".

As of 31 March 2016, the Group presented Group's share in Kron total comprehensive income amounting to TL 40.862 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 March 2016, the Group presented bank and current interest income amounting to TL 545.893 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 March 2016, the Group presented gain from scrap sales amounting to TL 6.475 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 March 2016, the Group presented foreign exchange gain/ (loss) of cash and cash equivalents and financial borrowing accrued expenses amounting to TL 655.105 under "Other Income from Operating Activities". In the current year, the Group's management has been classified these amounts under "Financial Income".

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

2.5 Accounting Estimates and Assumptions

The preparation of condensed 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.

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 condensed 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 8	Inventories: Estimations regarding to inventory provision
Note 10 and 11	Tangible and intangible assets: Estimations regarding to useful lives
Note 11	Goodwill: Estimations regarding to impairment of goodwill
Note 13	Provisions: Estimations regarding to provision amounts
Note 15	Revenue and cost of sales: Estimation of revenue and cost based on project based analysis
Note 18	Tax Assets and liabilities: Estimations regarding to recoverability of deferred tax assets
Note 22	Financial instruments and risk management: Estimations and accounting judgments regarding to collectability of receivables

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

[1] Effective for annual periods beginning on or after 31 December 2015.
[2] Effective for annual periods beginning on or after 1 January 2016

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

2.6 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 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	*Financial Instruments* [1]
TFRS 15	*Revenue from Contracts with Customers* [1]

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

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.

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

2.6 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*

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

Detail of Important Associates

As of 31 March 2017, the details of important associate is as in the following;

	Main operating activity	Acquisition date	Acquired share of capital	Acquisition amount
Kron Telekomünikasyon Hizmetleri A.Ş.	Information technology	28.11.2013	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.

Equity method is used in the accounting of Kron Telekomünikasyon Hizmetleri A.Ş. figures in the accompanying consolidated financial statements

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 condensed consolidated financial statements.

3. SHARES IN ASSOCIATES (cont'd)

Associates (cont'd)

Goodwill

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

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

	31 March 2017	**31 December 2016**
Current assets	28.121.092	31.660.181
Non-current assets	11.893.189	11.041.678
Short term liabilities	6.284.510	9.541.266
Long term liabilities	672.310	587.370
Net assets	33.057.461	32.573.223
Share of the Group in net assets	3.305.746	3.257.322

	1 January 2017 -31 March 2017	**1 January 2016 -31 March 2016**
Net profit	515.572	298.623
Other comprehensive (expenses)/ income	(31.335)	109.993
Total comprehensive income	484.237	408.616
Share of the Group in total comprehensive income	48.424	40.862

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

	31 March 2017	**31 March 2016**
As of 1 January	5.121.827	2.601.418
Share from the profit of the year	48.424	40.862
Currency translation reserves	100.535	686.005
As of 31 March	**5.270.786**	**3.328.285**

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 March 2017	**Enterprise**	**Public**	**International**	**Technology**	**BDH**	**Unallocated (*)**	**Total**
Revenue	69.531.845	47.226.552	22.114.291	18.258.768	10.746.781	-	167.878.237
Cost of sales (-)	(64.869.737)	(40.213.550)	(19.388.595)	(17.333.682)	(6.014.704)	(2.509.492)	(150.329.760)
Gross margin	**4.662.108**	**7.013.002**	**2.725.696**	**925.086**	**4.732.077**	**(2.509.492)**	**17.548.477**
Sales,marketing and distribution expenses (-)	(5.210.753)	(5.414.876)	(2.472.426)	-	-	-	(13.098.055)
General administrative expenses (-)	-	-	-	-	-	(6.998.659)	(6.998.659)
Research and development expenses (-)	-	-	-	-	-	-	-
Operating (loss)/ profit of segment	**(548.645)**	**1.598.126**	**253.270**	**925.086**	**4.732.077**	**(9.508.151)**	**(2.548.237)**

For the period ended 31 March 2016	**Enterprise**	**Public**	**International**	**Technology**	**BDH**	**Unallocated (*)**	**Total**
Revenue	66.586.051	95.876.416	15.473.046	18.446.222	8.083.743	-	204.465.478
Cost of sales (-)	(59.493.779)	(82.733.224)	(12.442.606)	(17.983.339)	(7.094.386)	(2.236.383)	(181.983.717)
Gross margin	**7.092.272**	**13.143.192**	**3.030.440**	**462.883**	**989.357**	**(2.236.383)**	**22.481.761**
Sales,marketing and distribution expenses (-)	(4.915.186)	(5.580.415)	(2.494.645)	-	-	-	(12.990.246)
General administrative expenses (-)	-	-	-	-	-	(4.428.600)	(4.428.600)
Research and development expenses (-)	-	-	-	(583.902)	-	-	(583.902)
Operating profit / (loss) of segment	**2.177.086**	**7.562.777**	**535.795**	**(121.019)**	**989.357**	**(6.664.983)**	**4.479.013**

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

4. SEGMENT REPORTING (cont'd)

31 March 2017	Enterprise	Public	International	Technology	BDH	Unallocated(*)	Total
Trade receivables	69.912.371	542.299.100	29.629.947	15.994	10.885.207	51.300.321	704.042.940
Due from related parties	75.137	-	-	23.999.107	-	-	24.074.244
Inventories	15.371.720	73.020.904	45.854.674	107.905	69.384	304.335	134.728.922
Deferred costs	26.265.376	99.352.849	12.310.968	16.945.892	22.636.053	5.962.735	183.473.873
Segments assets	**111.624.604**	**714.672.853**	**87.795.589**	**41.068.898**	**33.590.644**	**57.567.391**	**1.046.319.979**
Trade payables (*)	61.771.014	55.964.084	66.118.729	1.032.737	9.487.363	11.711.937	206.085.864
Due to related parties	-	-	-	65.999	-	-	65.999
Deferred revenues	15.255.359	37.498.337	239.231	-	692.045	15.528	53.700.500
Advances received	11.270.171	64.471.201	1.560.103	-	130	-	77.301.605
Segment liabilities	**88.296.544**	**157.933.622**	**67.918.063**	**1.098.736**	**10.179.538**	**11.727.465**	**337.153.968**

31 December 2016	Enterprise	Public	International	Technology	BDH	Unallocated(*)	Total
Trade receivables	90.811.398	576.010.590	33.138.229	1.264.208	11.111.765	47.142.348	759.478.538
Due from related parties	-	-	-	26.807.040	-	-	26.807.040
Inventories	18.354.327	62.002.227	3.071.685	29.667	-	533.118	83.991.024
Deferred costs	28.168.345	81.055.375	10.504.269	10.252.337	13.506.922	5.197.350	148.684.598
Segments assets	**137.334.070**	**719.068.192**	**46.714.183**	**38.353.252**	**24.618.687**	**52.872.816**	**1.018.961.200**
Trade payables (*)	93.176.041	96.848.239	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	20.553.340	39.322.003	24.305	-	-	15.089	59.914.737
Advances received	13.915.781	61.925.101	2.371.262	-	130	-	78.212.274
Segment liabilities	**127.645.163**	**198.095.342**	**19.940.502**	**1.512.750**	**11.588.258**	**21.755.263**	**380.537.278**

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

4. SEGMENT REPORTING (cont'd)

Reconciliation of (loss) before tax, operating loss, assets, liabilities and other material items:

	For the Period Ended 31 March 2017	For the Period Ended 31 March 2016
Operating (loss)/profit of segment	(2.548.237)	4.479.013
Other income/(expenses) from operating activities (net)	(1.908.876)	4.114.407
Other income/(expenses) from investments (net)	16.211	19.158
Income from associates	48.424	40.862
Finance income/(expenses) (net)	(2.630.989)	(20.966.250)
(Loss) before tax	**(7.023.467)**	**(12.312.810)**

Assets	**31 March 2017**	**31 December 2016**
Segment assets	1.046.319.979	1.018.961.200
Other assets	316.017.556	356.525.692
Total assets	**1.362.337.535**	**1.375.486.892**

Liabilities	**31 March 2017**	**31 December 2016**
Segment liabilities	337.153.968	380.537.278
Other liabilities	455.446.365	445.253.737
Total liabilities	**792.600.333**	**825.791.015**

5. CASH AND CASH EQUIVALENTS

	31 March 2017	31 December 2016
Bank- demand deposits	18.107.273	19.199.752
Bank- time deposits	59.540.820	95.947.358
Other cash and cash equivalents(*)	223.351	494.640
	77.871.444	**115.641.750**

Currency	Original Currency Amount	Interest Rate %	Maturity	31 March 2017
US$	15.341.573	0,60-2,50	April 17-September 17	55.821.848
EURO	840.000	0,01	April 17	3.282.972
TL	436.000	6,75	April 17	436.000
				59.540.820

Currency	Original Currency Amount	Interest Rate %	Maturity	31 December 2016
US$	22.269.675	0,20-2,50	January 17-September 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
				95.947.358

The credit risk, foreign currency and sensitivity risks of financial assets and liabilities are disclosed in Note 22. As of 31 March 2017 and 31 December 2016, there are no restriction / blockage on bank accounts.

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

6. FINANCIAL LIABILITIES

Short term financial liabilities	31 March 2017	31 December 2016
Short term unsecured loans	377.531.006	354.858.764
Non interest bearing unsecured spot loans	3.697.034	688
	381.228.040	**354.859.452**

As of 31 March 2017, the average interest rate for TL loans is 12,67 % and USD loans is 3,50 % (31 December 2016: the average interest rate for TL loans is 11,53% and the average interest rate for USD loans is 3,47%).

The details of loans of the Group are given below;

Currency	Original currency amount	Effective interest rate %	Maturity	31 March 2017
US$	20.094.444	Libor+%1,26-4,00	October 17	73.115.646
TL	304.415.360	11,70-14,50	April 17-July 17	304.415.360
				377.531.006

Currency	Original currency amount	Effective interest rate %	Maturity	31 December 2016
US$	20.044.444	Libor+%1,26-4,00	October 17	70.540.407
TL	284.318.357	10,85-12,40	February 17- May 17	284.318.357
				354.858.764

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

7. TRADE RECEIVABLES AND PAYABLES

Trade Receivables from Third Parties	31 March 2017	31 December 2016
Trade receivables	340.972.161	362.283.947
Unbilled receivables	302.486.843	338.562.364
Notes receivables	17.496	195.278
Discount on trade receivables (*)	(313.644)	(404.060)
Allowance for doubtful receivables	(31.174.247)	(29.733.577)
	611.988.609	**670.903.952**

Movement of allowance for doubtful receivables	31 March 2017	31 March 2016
As of 1 January	(29.733.577)	(21.060.373)
Charge for the period	(283.961)	(207.797)
Provision reversal	31.686	95.673
Currency translation differences	(1.188.395)	554.200
As of 31 March	**(31.174.247)**	**(20.618.297)**

No guarantee has been obtained for trade receivables

Long Term Trade Receivables from Third Parties	31 March 2017	31 December 2016
Receivables from Nortel companies	27.425.043	48.222.475
Other trade receivables	72.207.502	69.840.757
Provision amount for Nortel companies	-	(21.700.114)
Discount on trade receivables(*)	(7.578.214)	(7.788.532)
	92.054.331	**88.574.586**

(*) As of 31 March 2017, 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.

Trade Payables to Third Parties	31 March 2017	31 December 2016
Trade payables	204.211.300	238.732.272
Other trade payables	165.813	411.158
	204.377.113	**239.143.430**

Long Term Trade Payables to Third Parties	31 March 2017	31 December 2016
Trade payables to Nortel companies	17.860	17.276
Other trade payables	1.690.891	1.928.452
	1.708.751	**1.945.728**

7. TRADE RECEIVABLES AND PAYABLES (Cont'd)

Nortel Networks Corporation, the ultimate parent of Nortel Networks International Finance and Holding B.V. ("NNIFH"), which was shareholder of the Company until 22 December 2010, holding 53,13 % of the share capital of the Company, has announced that it, Nortel Networks Limited, which is another indirect parent of the Company, and certain of its other Canadian subsidiaries have obtained an Order from the Ontario Superior Court of Justice (the "Canadian Court") for creditor protection under the Companies' Creditors Arrangement Act ("CCAA") in Canada filed as of 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 of 24 April 2013.

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

In the frame of this plan, Group has net-off Nortel Companies' trade receivables and payables. Group management decided to finalize uncertainty of collections, and book a provision of 45% against for Nortel receivables on a net basis as of 31 December 2016.

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 March 2017 and the bankruptcy protection filing date of 14 January 2009 are given below:

		14 January 2009			31 March 2017				31 December 2016			
Country	Company	Trade Receivables	Trade Payables	Net Balance	Trade Receivables	Trade Payables	Provision Amount	Net Balance	Trade Receivables	Trade Payables	Provision Amount	Net Balance
USA	Nortel Networks Inc.	51.892.159	(9.094.497)	42.797.662	47.421.777	-	(21.337.775)	26.084.002	57.629.551	(11.768.262)	(20.637.580)	25.223.709
Ireland	Nortel Networks (Ireland) Limited	1.768.119	-	1.768.119	1.768.120	-	(795.654)	972.466	1.710.099	-	(769.545)	940.554
Canada	Nortel Networks Technology Corporation	414.436	(56.123)	358.313	-	-	-	-	-	-	-	-
Egypt	Nortel Networks Inc. (Egypt Branch)	315.106	-	315.106	319.326	-	(143.697)	175.629	308.847	-	(138.981)	169.866
Europe	Nortel Networks N.V.	162.956	-	162.956	162.955	-	(73.330)	89.625	157.608	-	(70.924)	86.684
India	Nortel Networks (India) Private Limited	49.983	-	49.983	31.108	-	(13.999)	17.109	30.087	-	(13.539)	16.548
Holland	Nortel Networks BV.	98.695	-	98.695	-	-	-	-	-	-	-	-
Italy	Nortel Networks S.p.A.	24.439	-	24.439	24.439	-	(10.998)	13.441	23.637	-	(10.636)	13.001
		54.725.893	**(9.150.620)**	**45.575.273**	**49.727.725**	**-**	**(22.375.453)**	**27.352.272**	**59.859.829**	**(11.768.262)**	**(21.641.205)**	**26.450.362**
Mexico	Nortel de México, S. de R.L. de C.V.	-	(17.861)	(17.861)	-	(17.860)	-	(17.860)	-	(17.276)	-	(17.276)
Germany	Nortel GmbH	-	(254.179)	(254.179)	-	-	-	-	-	-	-	-
France	Nortel Networks S.A.	37.478	(108.402)	(70.924)	133.679	-	(60.908)	72.771	216.338	(85.430)	(58.909)	71.999
Canada	Nortel Networks Limited	595.336	(1.494.988)	(899.652)	-	-	-	-	-	-	-	-
England	Nortel Networks UK Limited	6.370.261	(7.053.740)	(683.479)	-	-	-	-	-	-	-	-
Canada	Nortel Networks Limited - EMEA Sales	-	(17.443.487)	(17.443.487)	-	-	-	-	-	-	-	-
		61.728.968	**(35.523.277)**	**26.205.691**	**49.861.404**	**(17.860)**	**(22.436.361)**	**27.407.183**	**60.076.167**	**(11.870.968)**	**(21.700.114)**	**26.505.085**

The foreign currency risk and liquidity risk of short term trade receivables and payables are disclosed in Note 22.

8. INVENTORIES

	31 March 2017	31 December 2016
Raw materials	31.140.341	32.433.761
Finished goods	95.317.379	47.111.610
Trade goods	16.712.157	14.430.765
Other inventories	1.567.455	1.514.039
Allowance for inventory impairment	(10.008.410)	(11.499.151)
	134.728.922	**83.991.024**

Movement for allowance	31 March 2017	31 March 2016
As of 1 January	(11.499.151)	(8.855.448)
(Provision) / charge for the period	-	-
Foreign currency exchange differences	1.490.741	225.985
As of 31 March	**(10.008.410)**	**(8.629.463)**

9. PREPAID EXPENSES

Short Term Prepaid Expenses

	31 March 2017	31 December 2016
Advances given for inventories	4.264.721	6.061.168
Short term prepaid expenses	5.163.838	5.879.015
Goods in transit	2.565.502	4.908.795
	11.994.061	**16.848.978**

Long Term Prepaid Expenses	31 March 2017	31 December 2016
Long term prepaid expenses	1.267.842	1.053.159
	1.267.842	**1.053.159**

10. PLANT, PROPERTY AND EQUIPMENT

For the period ended 31 March 2017, the purchasing amount of tangible fixed assets is TL 1.931.481. For the period ended 31 March 2017 has no disposal amount of tangible fixed assets.(31 March 2016: purchases: TL 1.764.945, net book value of disposal: TL 86.280, and including scrap sales).

11. 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 have 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
Goodwill calculated as of acquisition date	**33.820.858**
Currency Translation Reserves	799.105
Goodwill as of 31 December 2011	**34.619.963**
Currency Translation Reserves	(1.948.278)
Goodwill as of 31 December 2012	**32.671.685**
Currency Translation Reserves	6.445.996
Goodwill as of 31 December 2013	**39.117.681**
Currency Translation Reserves	3.383.369
Goodwill as of 31 December 2014	**42.501.050**
Currency Translation Reserves	10.789.757
Goodwill as of 31 December 2015	**53.290.807**
Currency Translation Reserves	11.209.471
Goodwill as of 31 December 2016	**64.500.278**
Currency Translation Reserves	2.188.376
Goodwill as of 31 March 2017	**66.688.654**

11. INTANGIBLE ASSETS (cont'd)

Goodwill (Cont'd)

According to accounting policies,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.

11. INTANGIBLE ASSETS (cont'd)

Other Intangible Assets

For the period ended 31 March 2017, the Group purchased TL 336.587 of intangible assets and no disposal amount for intangible assets (31 March 2016: purchases TL 1.798.935 and no disposal amount).

12. GOVERNMENT GRANTS

For the period ended 31 March 2017 the Group has received approved and accrued incentive from TÜBİTAK is TL 18.575.393 TL, which is net off with the total amount of R&D expenses to TL 17.584.947 and TL 990.446 is classified under "Other Income from Operating Activities". (For the period ended 31 March 2016 has no accrued incentive received from TUBITAK).

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 March 2017 the Group has a corporate tax benefit of TL 192.570.965 due to research and development disbursement and this amount has no utilized by the period end, handed over to other terms (As of 31 December 2016, the benefit is TL 168.679.599 and TL 3.699.882 of this amount is utilized by the period end). The Group has booked deferref tax assets for unused R&D tax benefit (Note 18).

For the period ended 31 March 2017, the amount of income tax incentive within the scope of Act numbered 5746 is TL 2.928.786 (For the period ended 31 March 2016: TL 2.896.238) 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 2.365.031 (For the period ended 31 March 2016: TL 2.247.853).

13. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Other Short Term Provisions	31 March 2017	31 December 2016
Provision for legal cases	3.544.946	3.658.492
Other debt ve expense provisions	300.098	668.789
	3.845.044	**4.327.281**

For the period ended 31 March 2017, the Group had a cash outflow of TL 359.335 for legal cases during the period (For the period ended 31 March 2016: TL 1.094.298).

	Provision for Legal Cases	Other Provisions	Total
As of 1 January 2017	3.658.492	668.789	4.327.281
Provision booked and release	245.789	(368.691)	(122.902)
Paid in the period	(359.335)	-	(359.335)
As of 31 March 2017	**3.544.946**	**300.098**	**3.845.044**

	Provision for Legal Cases	Other Provisions	Total
As of 1 January 2016	4.309.760	428.609	4.738.369
Provision booked and release	869.754	300.939	1.170.693
Paid in the period	(1.094.298)	(278.194)	(1.372.492)
Foreign currency exchange differences	-	(553)	(553)
As of 31 March 2016	**4.085.216**	**450.801**	**4.536.017**

14. COMMITMENTS

The Group's off-balance sheet commitments and contingencies as of 31 March 2017 and 31 December 2016 are as follows:

	31 March 2017	31 December 2016
Guarantee letters given(*)	342.999.464	379.591.575

(*) The Group has no off-balance sheet commitments and contingencies in favor of subsidiaries which are fully consolidated and non-consolidated as of 31 March 2017.

14. COMMITMENTS (cont'd)

The off-balance sheet commitments and contingencies as of 31 March 2017 and 31 December 2016 are as follows:

Commitments, Pledges, Mortgages ("CPM") are given by the Company	31 March 2017	31 December 2016
A. Total amount of CPM is given on behalf of own legal personality	342.999.464	379.591.575
B. Total amount of CPM is given in favor of subsidiaries which are fully consolidated	-	-
C. Total amount of CPM is given for assurance of third party's debts in order to conduct of usual business activities	-	-
D. Total Amount of other CPM	-	-
i. Total amount of CPM is given in favor of parent company	-	-
ii. Total amount of CPM is given in favor of other group companies, which B and C doesn't include	-	-
iii. The amount of CPM is given in favor of third party which C doesn't include	-	-
	342.999.464	**379.591.575**

The rate of total amount of other "CPM"s to total equity of the Company is 0%.

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+witholding tax for the first year, USD 504.000+witholding tax for the second year, USD 529.200 +witholding tax for the third year, USD 603.288 +witholding tax for the fourth year and USD 633.442 +witholding tax for the fifth year.

Company signed a rent contract with Yudo Leon Mizrahi (Renter) and Salvo Özsarfati (Lessor) for "Buyaka İs Merkezi" which 50 plate, 1840 block of buildings, 233 parcels that registered immovable for 15th floor in C Block each of which is 845 m2 are utilized as an office. The amount which 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.

14. COMMITMENTS (cont'd)

Rent Agreements **(cont'd)**

Unrevokable operational lease commitments	**31 March 2017**	**31 December 2016**
Within 1 year	9.359.001	9.733.379
Between 1-5 years	597.514	2.389.632
	9.956.515	**12.123.011**

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.

15. REVENUE AND COST OF SALES

Sales:

	For The Period Ended 31 March 2017	**For The Period Ended 31 March 2016**
Total domestic	**124.531.192**	**167.608.620**
United States	18.039.781	17.796.997
Asia	722.081	667.347
Africa	21.405.862	14.145.042
Europe	3.179.321	4.247.472
Total export	**43.347.045**	**36.856.858**
Total sales	**167.878.237**	**204.465.478**

Cost of Sales:

	For The Period Ended 31 March 2017	**For The Period Ended 31 March 2016**
Equipment expenses	71.899.244	113.321.255
Personnel expenses	48.088.625	44.657.968
Service/ support expenses	20.335.964	15.966.795
Depreciation and amortization expenses	4.346.888	3.800.047
Rent expenses	2.279.098	1.864.513
Transportation expenses	1.195.225	600.094
Other	2.184.716	1.773.045
	150.329.760	**181.983.717**

16. OTHER INCOME/ EXPENSES FROM OPERATING ACTIVITIES

Other Income from Operating Activities	**For The Period Ended 31 March 2017**	**For The Period Ended 31 March 2016**
R&D Incentives	990.446	-
Foreign exchange gains	-	5.546.018
Discount income on receivables (*)	300.734	670.462
Service income	60.412	53.515
Other income and gains	585.778	399.117
	1.937.370	**6.669.112**

(*) Discount income related to trade receivables is accounted under Other Income from Operating Activities.

Other Expenses from Operating Activities	**For The Period Ended 31 March 2017**	**For The Period Ended 31 March 2016**
Foreign exchange losses	2.716.836	-
Legal case expenses	277.212	1.634.407
Other tax expenses	405.101	219.056
Other expenses and losses	447.097	701.242
	3.846.246	**2.554.705**

17. FINANCIAL INCOME / (EXPENSES)

Financial Income:

	For The Period Ended 31 March 2017	For The Period Ended 31 March 2016
Foreign exchange gain(*)	8.090.849	-
Interest income	297.107	545.893
Gain on derivative instrument	665.219	-
	9.053.175	**545.893**

Financial Expenses:

	For The Period Ended 31 March 2017	For The Period Ended 31 March 2016
Bank interest expenses	10.689.259	10.823.513
Foreign exchange loss(*)	-	9.152.102
Guarantee letter commissions	616.415	755.603
Other financial expenses	378.490	780.925
	11.684.164	**21.512.143**

(*)Foreign exchange gain and loss related to cash and cash equivalents, financial borrowings, and other financial liability.

18. TAX ASSETS AND LIABILITIES

	For The Period Ended 31 March 2017	For The Period Ended 31 March 2016
Current tax expenses	-	-
Deferred tax expenses	7.801.346	10.545.039
	7.801.346	**10.545.039**

18. TAX ASSETS AND LIABILITIES (Cont'd)

Movement for deferred taxes as of 31 March 2017 and 2016 are as follows;

	1 January 2017	Charge to (Loss)/Profit	Translation Difference	31 March 2017
Tangible and intangible assets	(11.361.781)	633.693	(523.590)	(11.251.678)
Trade receivables	(64.660.327)	8.307.600	(2.312.412)	(58.665.139)
Trade payables and cost provisions	1.299.169	1.783.995	18.609	3.101.773
Inventory and deferred costs	1.537.007	(10.291.775)	199.082	(8.555.686)
Advances received	2.490.727	(260.932)	88.231	2.318.026
Provisions for employee premiums	2.512.033	(1.730.937)	109.941	891.037
Provision for unused vacation	1.177.554	247.122	36.424	1.461.100
Severance indemnity and retirement provisions	4.122.207	(195.020)	142.643	4.069.830
Deferred revenues	12.125.739	(1.819.917)	437.387	10.743.209
Unused R&D tax exemption	32.995.943	4.462.468	1.055.782	38.514.193
Carryforward tax losses	1.829.948	6.732.571	(34.033)	8.528.486
Other	700.020	(67.522)	24.712	657.210
	(15.231.761)	**7.801.346**	**(757.225)**	**(8.187.639)**

	1 January 2016	Charge to (Loss)/Profit	Translation Difference	31 March 2016
Tangible and intangible assets	(9.628.160)	439.855	299.681	(8.888.624)
Trade receivables	(41.139.634)	996.549	1.012.613	(39.130.472)
Trade payables and cost provisions	2.240.615	(22.738.703)	792.606	(19.705.482)
Inventory and deferred costs	3.360.460	25.394.475	(1.034.792)	27.720.143
Advances received	2.168.521	(1.203.977)	(10.344)	954.200
Provisions for employee premiums	2.272.264	(1.503.350)	(1.804)	767.110
Provision for unused vacation	1.002.494	(26.714)	(24.585)	951.195
Severance indemnity and retirement provisions	4.155.527	(292.367)	(95.120)	3.768.040
Deferred revenues	6.279.027	1.130.530	(202.486)	7.207.071
Unused R&D tax exemption	18.885.370	4.825.123	(662.265)	23.048.228
Carryforward tax losses	1.227.063	3.530.229	(163.244)	4.594.048
Other	774.025	(6.611)	(19.507)	747.907
	(8.402.428)	**10.545.039**	**(109.247)**	**2.033.364**

19. EARNINGS / (LOSS) PER SHARE

	For The Period Ended 31 March 2017	For The Period Ended 31 March 2016
Number of shares	64.864.800	64.864.800
Net profit/(loss) for the period	777.879	(1.767.771)
Earnings/(Loss) per share	0,0120	(0,0273)

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.

20. 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 of 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 March 2017 and 31 December 2016 is as follows:

Due from Related Parties	31 March 2017	31 December 2016
Genband US LLC	22.651.978	25.329.936
Genband Ireland Ltd.	1.225.404	1.359.373
Genband Telecommunications (UK)	19.891	19.238
Kron Telekomunikasyon A.Ş.	75.137	-
Genband Telecomunicacoes do br	101.834	98.493
	24.074.244	**26.807.040**

Due to Related Parties

	31 March 2017	31 December 2016
Genband Ireland Ltd.	30.225	1.312.804
Genband US LLC	25.470	-
Kron Telekomunikasyon A.Ş.	10.304	8.305
	65.999	**1.321.109**

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

Main transactions with related parties are as follows for the period ended 31 March 2017 and 2016:

Sales	**For The Period Ended 31 March 2017**	**For The Period Ended 31 March 2016**
Genband US LLC	15.212.465	17.895.294
Genband Ireland Ltd.	720.458	674.145
Kron Telekomunikasyon A.Ş.	76.225	-
Genband Telecommunications (UK)	-	41.698
	16.009.148	**18.611.137**

Purchases	**For The Period Ended 31 March 2017**	**For The Period Ended 31 March 2016**
Genband Ireland Ltd.	109.103	148.682
Kron Telekomunikasyon A.Ş.	10.454	-
Genband US LLC	25.839	-
	145.396	**148.682**

For the period ended 31 March 2017, total remuneration for the directors, management, and board members of the Group is TL 4.285.713 (for the period ended 31 March 2016 total remuneration for the directors, management, and board members are TL 3.494.791). As of 31 March 2017 and 31 December 2016 there is no credit granted to the Group's management.

21. 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 portions 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.

21. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Derivative financial instruments and hedge accounting (Cont'd)

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.

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 March 2017 and 31 December 2016 are as follows:

	Currency	**Nominal Value**		**Fair Value (Liability)/Asset**	
		31 March 2017	31 December 2016	31 March 2017	31 December 2016
European Type,USD Call Option	USD	5.000.000	5.000.000	(2.013.534)	(2.299.731)
Asymmetric Forward Knockout	USD	-	1.791.222	-	(379.022)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's financial risk management policies are as follows:

Credit risk

Carrying values of the financial assets represents their maximum exposed credit risk. As of the date of balance sheet maximum credit risks are as follows:

31 March 2017	**Trade Receivables**		**Other Receivables**	
	Related Parties	**Other**	**Other (*)**	**Deposits at Banks**
Maximum credit risks as of balance sheet date(A+B+C+D)	**24.074.244**	**704.042.940**	**513.637**	**77.648.093**
Maximum risk guaranteed by collateral	-	-	-	-
(A) Net book value of unexpired or not impaired financial assets	23.896.949	606.416.979	513.637	77.648.093
(B) Net book value of overdue but not impaired financial assets (**)	177.295	97.625.961	-	-
Guaranteed by collateral	-	-	-	-
(C) Net book value of impaired assets	-	-	-	-
Overdue (gross book value)	-	31.174.247	-	-
Impairment (-)	-	(31.174.247)	-	-
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 27.425.043 receivables from Nortel companies.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

31 December 2016	**Trade Receivables**		**Other Receivables**	
	Related Parties	**Other**	**Other (*)**	**Deposits at Banks**
Maximum credit risks as of balance sheet date (A+B+C+D)	**26.807.040**	**759.478.538**	**669.053**	**115.147.110**
Maximum risk guaranteed by collateral	-	-	-	-
(A) Net book value of unexpired or not impaired financial assets	20.339.053	663.741.201	669.053	115.147.110
(B) Net book value of overdue but not impaired financial assets (**)	6.467.987	95.737.337	-	-
Guaranteed by collateral	-	-	-	-
(C) Net book value of impaired assets	-	-	-	-
Overdue (gross book value)	-	51.433.691	-	-
Impairment (-)	-	(51.433.691)	-	-
Guaranteed by collateral	-	-	-	-
Unexpired (gross book value)	-	-	-	-
Impairment (-)	-	-	-	-
Guaranteed by collateral	-	-	-	-
(D) Off balance sheet risks	-	-	-	-

(*) VAT receivable, prepaid taxes are not classified as financial assets and therefore are not included in other receivables and other current assets.

(**) The amount of overdue but not impaired financial assets is consisted of TL 26.522.361 receivables from Nortel companies. For the period enden 31 December 2016 as a result of net-off Nortel companies' receivables and payables, 45 % provision amount is adjusted..

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

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

	Receivables	
31 March 2017	**Trade Receivables**	**Other Receivables**
1-30 days overdue	27.561.145	-
1-3 months overdue	14.097.410	-
3-12 months overdue	14.509.833	-
1-5 years overdue	14.209.825	-
Overdue more than 5 years	27.425.043	-
Total	**97.803.256**	**-**

	Receivables	
31 December 2016	**Trade Receivables**	**Other Receivables**
1-30 days overdue	35.554.912	-
1-3 months overdue	9.988.473	-
3-12 months overdue	19.963.730	-
1-5 years overdue	10.175.848	-
Overdue more than 5 years	26.522.361	-
Total	**102.205.324**	**-**

Liquidity risk

The Group holds adequate sources to be able to fulfill its current and future liabilities. As of 31 March 2017 and 31 December 2016 liquidity risk table are as follows;

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

31 March 2017

Maturities due to agreements	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilities	**587.379.903**	**594.836.810**	**448.001.806**	**145.126.254**	**1.708.751**
Financial liabilities	381.228.040	388.684.947	243.558.694	145.126.254	-
Due to related parties	65.999	65.999	65.999	-	-
Other trade payables to third parties	206.085.864	206.085.864	204.377.113	-	1.708.751

Expected maturities	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilities	**29.195.719**	**29.195.719**	**25.650.773**	**3.544.946**	**-**
Other short term provisions	3.845.044	3.845.044	300.098	3.544.946	-
Payables related to employee benefits	18.465.337	18.465.337	18.465.337	-	-
Other payables to third parties (*)	6.885.338	6.885.338	6.885.338	-	-

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.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

31 December 2016

Maturities due to agreements	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilities	**597.269.719**	**601.756.648**	**439.125.390**	**160.685.530**	**1.945.728**
Financial liabilities	354.859.452	359.346.381	198.660.851	160.685.530	-
Due to related parties	1.321.109	1.321.109	1.321.109	-	-
Other trade payables to third parties	241.089.158	241.089.158	239.143.430	-	1.945.728

Expected maturities	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilities	**30.839.753**	**30.839.753**	**27.181.261**	**3.658.492**	**-**
Other short term provisions	4.327.281	4.327.281	668.789	3.658.492	-
Payables related to employee benefits	17.825.631	17.825.631	17.825.631	-	-
Other payables to third parties (*)	8.686.841	8.686.841	8.686.841	-	-

The Group management considers that net book value of financial instrument reflects with the fair value.

(*) Social security premiums, income tax and other taxes payable are included in other liabilities.

22. 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 Level 1, other financial asset and liabilities in the table are categorized as Level 2.

Interest rate risk

Interest rate sensitive financial assets are placed in short term instruments in order to avoid any possible interest rate fluctuations. The Group has the following interest sensitive liability as of the balance sheet date.

	31 March 2017	31 December 2016
Fixed interest rate financial instruments	**427.571.826**	**386.806.122**
Financial assets (*)	59.540.820	95.947.358
Financial liabilities	368.031.006	290.858.764
Variable interest rate financial instruments	**9.500.000**	**64.000.000**
Financial assets	-	-
Financial liabilities	9.500.000	64.000.000
Interest-free financial instruments	**3.697.034**	**688**
Financial liabilities	3.697.034	688

(*) As of 31 March 2017 and 31 December 2016, time deposits are included in the fixed interest rate financial instruments.

Foreign currency risk

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

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign currency risk (cont'd)

As of 31 March 2017 and 31 December 2016, the Group's foreign currency position table is given below.

		Original Currency				
31 March 2017	**TL Equivalent (*)**	**TL**	**EURO**	**GBP**	**TAKA**	**Other**
Current Assets	**299.012.068**	**280.400.760**	**2.541.592**	**7.356**	**13.105.812**	**613.737.581**
Cash and cash equivalents	23.859.696	12.392.631	1.117.253	607	12.605.812	541.752.065
Trade receivables, third parties	207.838.138	201.851.933	1.197.844	602	-	56.076.394
Other receivables, third parties	442.367	382.469	9.322	-	500.000	35.816
Prepaid expenses	7.600.411	6.726.323	203.058	6.000	-	2.177.102
Other current assets	59.271.456	59.047.405	14.115	147	-	13.696.204
TOTAL ASSETS (A)	**299.012.068**	**280.400.760**	**2.541.592**	**7.356**	**13.105.812**	**613.737.581**
Short Term Liabilities	**383.411.490**	**379.989.162**	**779.233**	**1.401**	**278.777**	**25.195.494**
Financial liabilities	308.112.394	308.112.394	-	-	-	-
Trade payables, third parties	34.370.936	31.090.517	776.433	1.234	278.777	13.970.409
Other payables, third parties	6.894.598	6.791.549	-	-	-	8.883.524
Employee benefit obligations	18.427.832	18.388.972	2.800	167	-	2.341.561
Provision for employee benefit	11.760.686	11.760.686	-	-	-	-
Other short term provisions	3.845.044	3.845.044	-	-	-	-
Long Term Liabilities	**20.349.151**	**20.349.151**	-	-	-	-
Provision for employee benefit	20.349.151	20.349.151	-	-	-	-
TOTAL LIABILITIES (B)	**403.760.641**	**400.338.313**	**779.233**	**1.401**	**278.777**	**25.195.494**
Net Foreign Currency Asset / (Liability) Position (A-B)	**(104.748.573)**	**(119.937.553)**	**1.762.359**	**5.955**	**12.827.035**	**588.542.087**

(*) Since the functional currency of the Group is USD the currencies other than USD are shown in the table. Foreign currencies are denominated in their original currency amount and TL equivalents are calculated by using year-end rates.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign currency risk (cont'd)

		Original Currency				
31 December 2016	**TL Equivalent (*)**	**TL**	**EURO**	**GBP**	**TAKA**	**Other**
Current Assets	**267.916.251**	**253.035.189**	**1.720.528**	**631**	**13.113.887**	**642.863.905**
Cash and cash equivalents	34.150.329	23.230.179	1.058.139	29	12.613.887	579.561.577
Trade receivables, third parties	167.304.554	164.675.446	394.964	602	-	36.597.325
Other receivables, third parties	600.120	540.669	-	-	500.000	3.484.204
Prepaid expenses	6.883.679	6.123.745	195.315	-	-	1.452.487
Other current assets	58.977.569	58.465.150	72.110	-	-	21.768.312
TOTAL ASSETS (A)	**267.916.251**	**253.035.189**	**1.720.528**	**631**	**13.113.887**	**642.863.905**
Short Term Liabilities	**394.714.241**	**388.657.102**	**1.366.619**	**7.303**	**-**	**31.246.825**
Financial liabilities	284.319.045	284.319.045	-	-	-	-
Trade payables, third parties	62.790.540	56.762.542	1.365.069	6.505	-	30.618.282
Other payables, third parties	8.695.796	8.695.796	-	-	-	-
Employee benefit obligations	17.730.044	17.700.903	1.550	798	-	628.543
Provision for employee benefit	16.851.535	16.851.535	-	-	-	-
Other short term provisions	4.327.281	4.327.281	-	-	-	-
Long Term Liabilities	**22.207.434**	**22.207.434**	**-**	**-**	**-**	**-**
Provision for employee benefit	22.207.434	22.207.434	-	-	-	-
TOTAL LIABILITIES (B)	**416.921.675**	**410.864.536**	**1.366.619**	**7.303**	**-**	**31.246.825**
Net Foreign Currency Asset / (Liability) Position (A-B)	**(149.005.424)**	**(157.829.347)**	**353.909**	**(6.672)**	**13.113.887**	**611.617.080**

(*) Since the functional currency of Group is USD, the currencies other than USD are shown in the table. Foreign currencies are denominated in their original currency amount and TL equivalents are calculated by using year-end rates.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign currency risk (cont'd)

Exchange Rate Sensitivity Table

31 March 2017

	Profit /(Loss)	
	Appreciation	Devaluation
Effect of 10 % appreciation/devaluation in TL -USD exchange rate :		
Net asset / (liability) in TL	(11.993.755)	11.993.755
Not subjected to TL risk (-)	-	-
(1) Net effect of TL	**(11.993.755)**	**11.993.755**
Effect of 10 % appreciation/devaluation in EURO – USD exchange rate :		
Net asset / (liability) in EUR	688.783	(688.783)
Not subjected to EUR risk (-)	-	-
(2) Net effect of EUR	**688.783**	**(688.783)**
Effect of 10 % appreciation/devaluation in exchange rate of other foreign currencies:		
Net asset / (liability) in other currencies	830.115	(830.115)
Not subjected to other currency risk (-)	-	-
(3) Net effect of other currencies	**830.115**	**(830.115)**
TOTAL (1+2+3)	**(10.474.857)**	**10.474.857**

31 December 2016

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

23. SUBSEQUENT EVENTS

None.

24. DISCLOSURE OF OTHER MATTERS THAT MAY AFFECT CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SIGNIFICANTLY OR IS NECESSARY FOR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO BE CLEAR, INTERPRETABLE AND COMPREHENSIBLE

None.