

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

**CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS AS AT AND FOR THE  
PERIOD ENDED 30 JUNE 2019 AND  
AUDITOR'S REVIEW REPORT**

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

**(Convenience translation of a report and condensed consolidated financial statements  
originally issued in Turkish)**

**Report on Review of Interim Condensed Consolidated Financial Statements**

To Board of Directors of Netaş Telekomünikasyon Anonim Şirketi

*Introduction*

We have reviewed the accompanying interim condensed consolidated statement of financial position of Netaş Telekomünikasyon Anonim Şirketi (the Company) and its subsidiaries (the Group) as of June 30, 2019 and the interim condensed consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement cash flows for the six-month period then ended, and explanatory notes. Group management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Turkish Accounting Standard 34, Interim Financial Reporting (TAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

*Scope of Review*

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards and the objective of which is to express an opinion on the financial statements. Consequently, a review of the interim financial information does not provide assurance that the audit firm will be aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with TAS 34.

*Other Matters*

The consolidated financial statements of the Group, prepared in accordance with the TAS as of December 31, 2018, were audited by another audit firm whose independent auditor's report thereon dated March 8, 2019 expressed an unqualified opinion. The interim condensed consolidated financial statements as of June 30, 2018 of the Group prepared in accordance with TAS 34 were also reviewed by the same audit firm, whose independent auditor's review report thereon dated August 15, 2018 expressed that nothing had come to their attention that caused them to believe that the interim condensed consolidated financial statements were not prepared in accordance with TAS 34.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of Ernst & Young Global Limited

  
Sinem Arı Öz, SMMM  
Partner

August 19, 2019  
İstanbul, Türkiye

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# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

	Notes	Reviewed 30 June 2019	Audited 31 December 2018
<b>ASSETS</b>			
<b>Current Assets</b>		<b>1.752.513.478</b>	<b>1.563.754.051</b>
Cash and Cash Equivalents	5	294.168.461	192.787.683
Trade Receivables		924.168.714	916.704.334
<i>Due from related parties</i>	25	178.729	7.142
<i>Trade receivables, third parties</i>	7	923.989.985	916.697.192
Other Receivables		433.791	1.728.286
<i>Other receivables, third parties</i>	8	433.791	1.728.286
Inventories	9	119.774.443	89.377.544
Deferred Costs		347.938.306	305.680.684
<i>Deferred Costs</i>	4	347.938.306	305.680.684
Prepaid Expenses	10	7.589.955	13.361.876
Other Current Assets	18	58.439.808	44.113.644
<b>Non-Current Assets</b>		<b>453.913.192</b>	<b>297.685.066</b>
Trade Receivables		60.264.672	54.296.299
<i>Trade receivables, third parties</i>	7	60.264.672	54.296.299
Property, Plant and Equipment	11	122.986.082	51.441.407
Right of Use Assets	12	57.604.914	-
Financial Investments		5.293.683	4.733.887
Intangible Assets		140.978.695	129.450.068
<i>Goodwill</i>	13	105.480.094	96.422.343
<i>Other intangible assets</i>	13	35.498.601	33.027.725
Associates-Investments accounted for using equity method	3	8.507.478	7.784.350
Other Non-Current Assets	18	27.407.054	25.401.602
Prepaid Expenses	10	290.923	554.765
Deferred Tax Assets	23	30.579.691	24.022.688
<b>TOTAL ASSETS</b>		<b>2.206.426.670</b>	<b>1.861.439.117</b>

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

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

	Notes	Reviewed 30 June 2019	Audited 31 December 2018
<b>LIABILITIES</b>			
<b>Short Term Liabilities</b>		<b>1.273.065.682</b>	<b>1.016.624.156</b>
Short Term Financial Liabilities		693.617.729	487.836.269
<i>Bank Loans</i>	6	673.146.110	487.836.269
<i>Lease Liabilities</i>	6	20.471.619	-
Trade Payables		311.575.147	298.956.476
<i>Due to related parties</i>	25	16.466.401	353.107
<i>Trade payables, third parties</i>	7	295.108.746	298.603.369
Other Payables		12.090.236	17.064.203
<i>Other payables, third parties</i>	8	12.090.236	17.064.203
Employee Benefit Obligations	17	30.435.971	22.373.870
Deferred Revenues		123.165.127	83.881.957
<i>Deferred Revenues</i>	4	123.165.127	83.881.957
Provisions		34.129.686	34.856.887
<i>Provision for Employee Benefits</i>	15	26.010.971	28.613.313
<i>Other Short Term Provisions</i>	15	8.118.715	6.243.574
Advances Received	4	68.051.786	66.589.646
Current Tax Liabilities		-	5.064.848
<b>Long Term Liabilities</b>		<b>129.863.985</b>	<b>31.150.023</b>
Long Term Financial Liabilities		96.426.506	-
<i>Bank Loans</i>	6	56.701.139	-
<i>Lease Liabilities</i>	6	39.725.367	-
Trade Payables		62.326	57.416
<i>Trade payables, third parties</i>	7	62.326	57.416
Provisions		24.667.468	29.265.838
<i>Provision for Employee Benefits</i>	17	24.667.468	29.265.838
Deferred Tax Liabilities	23	8.707.685	1.826.769
<b>SHAREHOLDERS' EQUITY</b>			
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>803.032.554</b>	<b>813.664.938</b>
Paid-in Share Capital	19	64.864.800	64.864.800
Share Capital Adjustments		41.612.160	41.612.160
Other comprehensive income to be reclassified in profit and loss		46.582.405	28.564.108
<i>Currency Translation Differences</i>		46.582.405	28.564.108
Other comprehensive income not to be reclassified in profit and loss		551.130.592	487.612.954
<i>Actuarial Loss</i>		(7.862.007)	(7.862.007)
<i>Currency Translation Differences</i>		558.992.599	495.474.961
Restricted Reserves Appropriated From Profit		34.897.360	34.897.360
Retained Earnings		156.113.556	175.927.647
(Loss) for the Period		(92.168.319)	(19.814.091)
<b>Non-controlling interests</b>		<b>464.449</b>	-
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>2.206.426.670</b>	<b>1.861.439.117</b>

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

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

	Notes	Reviewed	Unaudited	Reviewed	Unaudited
		1 January- 30 June 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
<b>INCOME OR LOSS FROM OPERATIONS</b>					
Revenue	20	565.521.166	346.106.901	407.900.763	218.691.981
Cost of Sales (-)	4	(530.377.874)	(320.167.838)	(371.103.650)	(202.110.381)
<b>GROSS PROFIT</b>		<b>35.143.292</b>	<b>25.939.063</b>	<b>36.797.113</b>	<b>16.581.600</b>
Sales, Marketing and Distribution Expenses (-)		(36.665.117)	(18.551.520)	(28.249.062)	(15.035.153)
General Administrative Expenses (-)		(34.469.738)	(17.862.325)	(17.838.557)	(8.393.446)
Research and Development Expenses (-)		(3.781.287)	(781.833)	(4.878.328)	-
Other Income from Operating Activities	21	22.091.468	5.380.515	3.655.221	1.430.344
Other Expenses from Operating Activities (-)	21	(46.815.436)	(31.146.019)	(41.949.393)	(37.377.248)
<b>OPERATING (LOSS)</b>		<b>(64.496.818)</b>	<b>(37.022.119)</b>	<b>(52.463.006)</b>	<b>(42.793.903)</b>
Income from Investment Activities		15.829	5.054	12.380	12.380
Expenses from Investment Activities (-)		(4.528)	(3.938)	(15.850)	(7.484)
Income from Associates- share in profit of investments accounted for using equity method	3	281.231	196.510	135.768	339.555
<b>OPERATING (LOSS) BEFORE FINANCE EXPENSES</b>		<b>(64.204.286)</b>	<b>(36.824.493)</b>	<b>(52.330.708)</b>	<b>(42.449.452)</b>
Financial Income	22	53.542.911	15.504.244	69.596.571	56.989.358
Financial Expenses (-)	22	(80.922.456)	(39.377.306)	(35.506.312)	(21.327.014)
<b>(LOSS) BEFORE TAX</b>		<b>(91.583.831)</b>	<b>(60.697.555)</b>	<b>(18.240.449)</b>	<b>(6.787.108)</b>
Tax Expenses		<b>(618.223)</b>	<b>(6.091.206)</b>	<b>(4.778.987)</b>	<b>(13.521.635)</b>
<i>Current Tax Expenses</i>	23	(88.692)	(88.692)	(77.410)	(77.410)
<i>Deferred Tax Expenses</i>	23	(529.531)	(6.002.514)	(4.701.577)	(13.444.225)
<b>(LOSS) AFTER TAX</b>		<b>(92.202.054)</b>	<b>(66.788.761)</b>	<b>(23.019.436)</b>	<b>(20.308.743)</b>
<b>Attributable to:</b>					
<i>Non-controlling Interest</i>		(33.735)	(33.735)	-	-
<i>Equity Holders of the Parent</i>		<b>(92.168.319)</b>	<b>(66.755.026)</b>	<b>(23.019.436)</b>	<b>(20.308.743)</b>
<b>(Loss) per share</b>		<b>(1,4209)</b>	<b>(1,0291)</b>	<b>(0,3549)</b>	<b>(0,3131)</b>
<i>(Loss) per common share</i>	24	(1,4209)	(1,0291)	(0,3549)	(0,3131)
<b>OTHER COMPREHENSIVE INCOME</b>					
<b>Other comprehensive income or expenses that will not be reclassified subsequently to profit or loss</b>					
Currency translation reserves		15.321.298	(16.569.067)	120.933.367	89.334.909
<b>Other comprehensive income or expenses that will be reclassified subsequently to profit or loss</b>					
Currency translation reserves		66.214.637	32.257.814	4.953.261	(11.342.106)
<b>OTHER COMPREHENSIVE INCOME</b>		<b>81.535.935</b>	<b>15.688.747</b>	<b>125.886.628</b>	<b>77.992.803</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>(10.666.119)</b>	<b>(51.100.014)</b>	<b>102.867.192</b>	<b>57.684.060</b>
<b>Attributable to:</b>					
<i>Non-controlling Interest</i>		(33.735)	(33.735)	-	-
<i>Equity Holders of the Parent</i>		(10.632.384)	(51.066.279)	102.867.192	57.684.060

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# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

	Paid-in Share Capital	Share Capital Adjustment	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	Restricted Reserves Appropriated from Profit	Retained Earnings		Equity Holders for the Period of the Parent	Non-controlling Interest	TOTAL	
			Currency Translation Reserves	Currency Translation Reserves		Actuarial Loss	Retained Earnings (*)				Net Profit/ (Loss) for the Period of the Parent
<b>Balance as at 1 January 2018</b>	<b>64.864.800</b>	<b>41.612.160</b>	<b>6.008.477</b>	<b>291.106.537</b>	<b>(8.901.434)</b>	<b>34.897.360</b>	<b>161.500.522</b>	<b>53.518.202</b>	<b>644.606.624</b>	<b>-</b>	<b>644.606.624</b>
Changes in accounting policies	-	-	-	(8.174.936)	-	-	(39.091.077)	-	(47.266.013)	-	(47.266.013)
<b>Restated reported as of 1 January 2018</b>	<b>64.864.800</b>	<b>41.612.160</b>	<b>6.008.477</b>	<b>282.931.601</b>	<b>(8.901.434)</b>	<b>34.897.360</b>	<b>122.409.445</b>	<b>53.518.202</b>	<b>597.340.611</b>	<b>-</b>	<b>597.340.611</b>
Currency translation differences	-	-	4.953.261	120.933.367	-	-	-	-	125.886.628	-	125.886.628
Net loss for the period	-	-	-	-	-	-	-	(23.019.436)	(23.019.436)	-	(23.019.436)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>4.953.261</b>	<b>120.933.367</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23.019.436)</b>	<b>102.867.192</b>	<b>-</b>	<b>102.867.192</b>
Transfer	-	-	-	-	-	-	53.518.202	(53.518.202)	-	-	-
<b>Balance as at 30 June 2018</b>	<b>64.864.800</b>	<b>41.612.160</b>	<b>10.961.738</b>	<b>403.864.968</b>	<b>(8.901.434)</b>	<b>34.897.360</b>	<b>175.927.647</b>	<b>(23.019.436)</b>	<b>700.207.803</b>	<b>-</b>	<b>700.207.803</b>
<b>Balance as at 1 January 2019</b>	<b>64.864.800</b>	<b>41.612.160</b>	<b>28.564.108</b>	<b>495.474.961</b>	<b>(7.862.007)</b>	<b>34.897.360</b>	<b>175.927.647</b>	<b>(19.814.091)</b>	<b>813.664.938</b>	<b>-</b>	<b>813.664.938</b>
Currency translation differences	-	-	18.018.297	63.517.638	-	-	-	-	81.535.935	-	81.535.935
Net loss for the period	-	-	-	-	-	-	-	(92.168.319)	(92.168.319)	(33.735)	(92.202.054)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>18.018.297</b>	<b>63.517.638</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(92.168.319)</b>	<b>(10.632.384)</b>	<b>(33.735)</b>	<b>(10.666.119)</b>
Transfer	-	-	-	-	-	-	(19.814.091)	19.814.091	-	-	-
Additions to the scope of consolidation	-	-	-	-	-	-	-	-	-	498.184	498.184
<b>Balance as at 30 June 2019</b>	<b>64.864.800</b>	<b>41.612.160</b>	<b>46.582.405</b>	<b>558.992.599</b>	<b>(7.862.007)</b>	<b>34.897.360</b>	<b>156.113.556</b>	<b>(92.168.319)</b>	<b>803.032.554</b>	<b>464.449</b>	<b>803.497.003</b>

(\*) Retained earnings contain extraordinary reserves.

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# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

	Notes	Reviewed	Reviewed
		Current Period	Previous Period
		1 January- 30 June 2019	1 January- 30 June 2018
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>(Loss) for the Period</b>		<b>(92.202.054)</b>	<b>(23.019.436)</b>
<i>(Loss) from Continuing Operations</i>		<i>(92.202.054)</i>	<i>(23.019.436)</i>
<b>Adjustments to Reconcile Profit/Loss</b>		<b>104.246.283</b>	<b>30.778.456</b>
Adjustments for Depreciation and Amortisation Expense	11-12-13-18	28.814.859	13.834.296
Adjustments for (Reversal of) Impairment Loss Recognised in Profit or Loss		(13.911.063)	1.655.262
<i>Adjustments for Provision for Impairment of Receivables</i>	7	<i>(13.911.063)</i>	<i>1.655.262</i>
Adjustments For Provisions		27.908.700	15.130.202
<i>Adjustments for Provisions Related with Employee Benefits</i>		<i>24.861.525</i>	<i>13.109.270</i>
<i>Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions</i>	15	<i>1.455.104</i>	<i>1.599.159</i>
<i>Adjustments for (Reversal of) Other Provisions From Sectoral Requirements</i>	15	<i>1.592.071</i>	<i>421.773</i>
Adjustments for Interest (Income) and Expenses		66.012.013	27.870.215
<i>Adjustments for Interest Income</i>	22	<i>(7.596.589)</i>	<i>(3.263.473)</i>
<i>Adjustments for Interest Expense</i>	22	<i>76.470.021</i>	<i>32.629.585</i>
<i>Unearned Financial Loss/Income from Credit Sales</i>	21	<i>(2.861.419)</i>	<i>(1.495.897)</i>
Adjustments For Unrealised Foreign Exchange Losses (Gains)	21-22	(4.903.917)	(32.358.208)
Adjustments for Share of Profit of Investments Accounted for Using the Equity Method	3	(281.231)	(135.768)
Adjustments for Tax Expenses	23	618.223	4.778.987
Adjustments for (Gains)/Losses on disposal of non-current assets		(11.301)	3.470
<i>Adjustments for (Gains)/Losses Arising From Sale of Tangible Assets</i>	11	<i>(11.301)</i>	<i>3.470</i>
<b>Changes in Working Capital</b>		<b>15.055.752</b>	<b>(177.801.452)</b>
Adjustments for Decrease / (Increase) in Trade Accounts Receivable		81.757.531	185.328.646
<i>Decrease (Increase) in Trade Accounts Receivables from Related Parties</i>	25	<i>(166.633)</i>	<i>(15.732)</i>
<i>Decrease (Increase) in Trade Accounts Receivables from Third Parties</i>	7	<i>81.924.164</i>	<i>185.344.378</i>
Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(8.506.736)	5.376.379
<i>Adjustments for Decrease (Increase) in Other Receivables Related with Operations from Third Parties</i>	8	<i>(8.506.736)</i>	<i>5.376.379</i>
Adjustments for Decrease / (Increase) in Inventories	9	(21.449.668)	(7.736.243)
Decrease / (Increase) in Prepaid Expenses	10	7.159.082	(4.679.884)
Adjustments for (Decrease) In Trade Accounts Payable		(15.077.779)	(207.534.300)
Increase (Decrease) in Trade Accounts Payables to Related Parties	25	15.677.219	(202.142)
(Decrease)/Increase in Trade Accounts Payables to Third Parties	7	(30.754.998)	(207.332.158)
Increase (Decrease) in Payables due to Employee Benefits	15	5.810.996	(1.199.736)
(Decrease)/Increase in Payables Due from Ongoing Construction or Service Contracts		(54.540.221)	(108.049.411)
Adjustments for Decrease in Other Operating Payables		(6.412.159)	(3.130.722)
<i>(Decrease) in Other Operating Payables to Unrelated Parties</i>	8	<i>(6.412.159)</i>	<i>(3.130.722)</i>
(Decrease)/ Increase in Deferred Income		30.616.594	(30.868.422)
Other Adjustments for Other (Decrease)/ Increase in Working Capital		(4.301.888)	(5.307.759)
<b>Cash Flows (Used in) Generated From Operations</b>		<b>27.099.981</b>	<b>(170.042.432)</b>
Payments Related with Provisions for Employee Benefits		(32.062.237)	(21.180.171)
Payments Related with Lawsuits	15	(1.296.589)	(1.357.423)
		<b>(6.258.845)</b>	<b>(192.580.026)</b>

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# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

		<u>Reviewed</u> <u>Current Period</u> <u>1 January-</u> <u>30 June 2019</u>	<u>Reviewed</u> <u>Previous Period</u> <u>1 January-</u> <u>30 June 2018</u>
	<u>Notes</u>		
<b>B.CASH FLOWS FROM/ (USED IN) INVESTING ACTIVITIES</b>			
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		15.829	12.380
<i>Proceeds from Sales of Property, Plant, Equipment</i>	<i>11</i>	<i>15.829</i>	<i>12.380</i>
Purchases of Property, Plant, Equipment and Intangible Assets		(14.163.928)	(6.857.449)
<i>Purchases of Property, Plant, Equipment</i>	<i>11</i>	<i>(7.990.558)</i>	<i>(6.168.964)</i>
<i>Purchases of Intangible Assets</i>	<i>13</i>	<i>(6.173.370)</i>	<i>(688.485)</i>
Interest Received	22	7.596.589	3.263.473
Other Outflows of Cash		(559.796)	(886.133)
		<u>(7.111.306)</u>	<u>(4.467.729)</u>
<b>C.CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES</b>			
Cash inflows/outflows from borrowings,net	6	230.802.478	303.510.412
Interest Paid		(60.357.602)	(25.362.062)
Cash outflows from payments of lease liabilities	6	(16.655.251)	-
		<u>153.789.625</u>	<u>278.148.350</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)</b>			
		<u>140.419.474</u>	<u>81.100.595</u>
<b>D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		(39.038.696)	(36.959.248)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>			
		<u>101.380.778</u>	<u>44.141.347</u>
<b>E.CASH AND CASH EQUIVALENTS AT THE BEGINNING</b>			
	5	192.787.683	187.212.070
<b>CASH AND CASH EQUIVALENTS AT THE END (A+B+C+D+E)</b>			
	5	<u>294.168.461</u>	<u>231.353.417</u>

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

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

### 1. ORGANIZATION AND OPERATIONS OF THE GROUP

Netaş Telekomünikasyon A.Ş. (the “Company”) and its’ subsidiaries (together the “Group”) is an incorporated company, registered in Istanbul. The Company is engaged in the manufacture and trade of telecommunication equipment, project installation services, technical support, repair and maintenance services, IT services, strategic outsourcing services, implementation activities, and associated services. The shares of the Company are quoted on the Borsa İstanbul (“BIST”) since 1993. The former headquarter which was located at Alemdağ Street No:171 Ümraniye/ İstanbul has been registered at Yenişehir Mah. Osmanlı Bulvarı No:11 34912 Kurtköy-Pendik/İstanbul at Istanbul Trade Registry Office as of 23 July 2013.

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

The title of "Probil Bilgi İşlem Destek ve Danışmanlık Sanayi Ve Ticaret A.Ş." into "Netaş Bilişim Teknolojileri A.Ş." (“Netaş Bilişim”) effective as of 2 May 2018. In the meantime, its tax office and number have remained unchanged. The Group, %100 subsidiaries is, Netaş Bilişim Teknolojileri A.Ş. offers industrial solutions, system integration, outsourcing, support services, network solutions and consultancy services to its domestic customers. Founded in 1989, Netaş Bilişim Teknolojileri A.Ş (“Netaş Bilişim”) also provides value added solutions to international customers in Commonwealth of Independent States (CIS), mainly in Asia Pasific (Nepal), Kazakhstan, Azerbaijan, Algeria and Uzbekstan with strategic business partnerships.

Specialized in all IT services, The Netaş Bilişim Teknolojileri A.Ş. (“Netaş Bilişim”) of %100 subsidiaries is BDH Bilişim Destek Hizmetleri San. Tic.A.Ş. (“BDH”) in order to provide consultancy, strategic outsourcing, data center and support services.

Foundation of a “Limited Liability Partnership” (Netas Telecom Limited Liability Partnership) was completed in Almaty, Kazakhstan, and the amount of capital is TENGE 161.800 (approximately USD 1.100) where all shares belongs to Netas. Registration was completed and the operations started on 4 July 2012 where it is valid from 25 June 2012.

As of 28 November 2013, an agreement is signed between Kron Telekomünikasyon Hizmetleri A.Ş. (“KRON”) and the Company for the acquisition of 10 % of A group is TL 1.700.000.

The Company, which is, amounted EUR 1.200 Registration of Netas Telecommunications Malta Ltd. has been established organization in date of 4 November 2014 in Malta.

As of 12 June 2018, the Group’s liaison office established in Azerbaijan.

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

### 1. ORGANIZATION AND OPERATIONS OF THE GROUP (Cont'd)

The Company which is amounted TRY 50.000 registration of NETRD Bilgi Teknolojileri ve Telekomünikasyon A.Ş. has been established organization in date of 29 August 2018 in Istanbul. The subject of the Company, including all kinds of information and telecommunication systems, hardware and software design and coding, research and development activities, product development, consultancy, including all kinds of information activities and services, technical support, technological solution, integration, VOIP to develop, install, service, operate and operate advanced communication technologies in Turkey or abroad, to provide business services and to carry out all these activities on behalf of its own customers or to the customers it serves.

The Company which is amounted DZD 23.800.000 registration of Netas Telecommunications Algeria Sarl LLC has been established organization in date of 31 March 2019 in Algeria between the Company and Mohamed Karim Faraoun. The management control of the company, which is owned %49, belongs to Netas Telecommunications A.Ş. in accordance with the agreement and therefore, Netas Telecommunications Algeria Sarl LLC is consolidated.

The Group's largest ultimate partner and the controlling shareholder is ZTE Cooperatief U.A.

As of 30 June 2019 the Group has no blue-collar employees (31 December 2018: None). The average number of personnel employed in the Group as of 30 June 2019 is 2.587 white-collar (31 December 2018: 2.453).

#### Approval of Condensed Consolidated Financial Statements

The condensed consolidated financial statements were approved by the Board of Directors on 8 August 2019. The General Assembly and relevant regulatory bodies have the right to amend the condensed consolidated financial statements.

### 2. BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 2.1 Basis of Presentation

##### a) Statement of Compliance

The accompanying financial statements are prepared in accordance with Turkish Financial Reporting Standards Accounting Standards ("TFRS") published by Public Oversight Accounting and Auditing Standards Authority ("POA") together with the provisions of accordance with to Capital Market Board of Turkey ("CMB")'s "Principles of Financial Reporting in Capital Market" dated 13 June 2013 and published in the Official Gazette numbered 28676 Series II. No.14.1. IFRS consist of standards and interpretations which are published as Turkish Accounting Standards ("TAS"), Turkish Financial Reporting Standards, TAS interpretations and IFRS interpretations.

The condensed consolidated financial statements are presented in accordance with "Announcement regarding with TAS Taxonomy" which was published on 7 June 2019 by POA.

For the period ended 30 June 2019, the Group prepared its condensed consolidated financial statements in accordance with the Turkish Accounting Standard No.34 Interim Financial Reporting. Condensed consolidated financial statements of the Group do not include all the information and disclosures required in the annual financial statements, therefore should be read in conjunction with the Group's annual financial statements as of 31 December 2018.

The Group adopted TFRS 16, "Leases" Standard for the first time for the year commencing 1 January 2019.

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

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

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

#### 2.1 Basis of Presentation (Cont'd)

##### b) Basis of presentation of condensed consolidated financial statements:

The details of the Company's subsidiaries as of 30 June 2019 are as follows:

	Place and establishment of operation	Group's shares in capital and voting rights	Main operating activity
Netaş Bilişim Teknolojileri A.Ş.	Turkey	%100	Consultancy of project installment and network
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
Netaş Telecommunications Malta Ltd	Malta	%100	Supply of telecommunication equipment
NETRD Bilgi Teknolojileri ve Telekomünikasyon A.Ş.	Turkey	%100	Computer programming activity
Netas Telecommunications Algeria Sarl LLC	Algeria	%49	Manufacture of small installation and electric lighting equipment

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 period are included in the condensed 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.

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

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

### 2.1 Basis of Presentation (Cont'd)

#### b) Basis of presentation of condensed consolidated financial statements: (Cont'd)

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.

As of 30 June 2019 and 31 December 2018 the details of associate of the Group is given below:

	Main Operating Activity	Acquisition Date	Acquired Share of Capital	Acquisition Amount
Kron Telekomünikasyon Hizmetleri A.Ş.	Information technology	28 November 2013	%10	TL 1.700.000

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

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

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, 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 TFRS 9 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.

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

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

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

##### 2.1 Basis of Presentation (Cont'd)

##### b) Basis of presentation of condensed consolidated financial statements (Cont'd)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with TFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

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

##### c) Functional Currency and Presentation Currency

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.

Nevertheless, 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. Items included in the condensed consolidated financial statements of the Subsidiaries and Associates of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The condensed consolidated financial statements are presented in TL, which is the presentation currency of Netaş.

For the purpose of the preparation of the condensed consolidated financial statements and the notes in accordance with TAS 21, monetary financial position items in the statutory standalone financial statements of the Group are translated to US \$ by using rates as of the financial position date. Consequently, non-monetary financial position 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 condensed consolidated statement of profit or loss as net foreign exchange gain or loss.

For the purpose of presentation of the USD financial statements in TL (as explained in the paragraph above), financial position (except for some equity accounts) have been translated to TL by using USD rate as of 30 June 2019 (Turkish Central Bank USD Buying rate: 1 USD: 5,7551 TL ), statements of income and statements of cash flows have been translated to TL by using six months average exchange rate (1 USD: 5,6109 TL ) for the period ended 30 June 2019 (for the period ended 30 June 2018 1 USD: 4,0861 TL ) in accordance with TAS 21. The functional currency of Netaş Telecom Limited Liability Partnership is Kazakhstan Tenge and converted into TL for condensed consolidated financial statements, which is the presentation currency of the Group. In the accompanying condensed consolidated financial statements capital and legal reserves are carried with their values in statutory accounts.

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

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

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

#### 2.1 Basis of Presentation (Cont'd)

##### e) Functional Currency and Reporting Currency (Cont'd)

Translation differences for capital and legal reserves due to preparation of the financial statements in accordance with TAS are presented as currency translation reserves and retained earnings respectively in the accompanying consolidated financial statements. Comparative consolidated financial statements are translated by using USD rates as of 31 December 2018 (31 December 2018: 1 USD: 5,2609 TL).

#### 2.2 Comparative Information and Restatement of Prior Period Consolidated Financial Statements

Group's consolidated financial statements have been prepared comparatively with the prior period for allow the determination of financial position and performance trend. Comparative information is reclassified when necessary and important differences are explained, in order to conform to the current period financial statement's presentation. There has no significant changes have occurred in the Group's accounting policies except that the new and revised accounting standards described in Note 2.3 have been applied.

As of 30 June 2019, the Group Management decided that the Telecom Group companies should be separated on a different business group and followed up in a separate business segment. The reclassifications are made within the segment reporting, and do not have any effects on the profit or loss statements.

As of 30 June 2019, the amount of "raw materials" is reclassified into "finished goods." This reclassifications do not have any effects on the profit or loss statements.

The accounting policies adopted in preparation of the condensed consolidated financial statements as at 30 June 2019 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS 16 interpretations effective as of January 1, 2019. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

#### 2.3 Change in Accounting Policies

Except for the following changes, the accounting policies adopted in preparation of the condensed consolidated financial statements are consistent with those of the presented financial years.

Impacts of the first time adoption of TFRS 16 on the condensed consolidated financial statements of the Group are as below:

##### *The Group – as a lessee*

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, The Group assess whether:



## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

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

#### 2.3 Change in Accounting Policies (Cont'd)

- a) The contract involved the use of an identified asset – this may be specified explicitly or implicitly.
- b) The asset should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified.
- c) The Group has the right to obtain substantially all of the economic benefits from the use of an asset throughout the period of use; and
- d) The Group has the right to direct use of the asset. The Group concludes to have the right of use, when it is predetermined how and for what purpose the Group will use the asset. The Group has the right to direct use of asset if either:
  - i. Group has the right to operate (or to have the right to direct others to operate) the asset over its useful life and the lessor does not have the rights to change the terms to operate or;
  - ii. The Group designed the asset (or the specific features) in a way that predetermines how and for what purpose it is used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

#### *Right of use asset*

The right of use asset is initially recognized at cost comprising of:

- a) amount of the initial measurement of the lease liability,
- b) any lease payments made at or before the commencement date, less any lease incentives received,
- c) any initial direct costs incurred by the Group and

The Group re-measure the right of use asset:

- a) after netting-off depreciation and reducing impairment losses from right of use asset and
- b) adjusted for certain re-measurements of the lease liability recognized at the present value

The Group applies TMS16 “Property, Plant and Equipment” to amortize the right of use asset and to asses for any impairment. In the event that supplier transfers of the ownership of the end of the lease term or if the cost of right of use assets indicates that the Group will use a purchase option, the Group depreciates the right of use assets to the end of the useful life of the underlying asset from the effective date of the lease. In other cases, the Group depreciates right of use assets by the shorter than the useful life of the asset or the lease term, starting from the date on which the lease actually commences.

The Group applies IAS 36 Impairment of Asset standard to determine whether the entity has been impaired or not, and to recognize any identified impairment losses.

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

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

#### 2.3 Change in Accounting Policies (Cont'd)

##### *Lease Liability*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease liabilities are discounted to present value by using the interest rate implicit in the lease if readily determined or with the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- a) Fixed payments, including in-substance fixed payments,
- b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date,
- c) The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewable period if the Group is reasonably certain to exercise an extension option and
- d) Penalties for early termination of a lease unless the Group is reasonably certain to terminate early.

After initial recognition, the lease liability is measured:

- a) increasing the carrying amount to reflect interest on lease liability,
- b) reducing the carrying amount to reflect the lease payments made and
- c) re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

##### *Extension and termination options*

In determining the lease liability, the Group considers the extension and termination options. The majority of extension and termination options held are exercisable both by the group and by the respective lessor. Extension options are included in the lease term if the lease is reasonably certain to be extended. The group re-measures the lease term, if a significant event or a significant change in circumstances occurs which affects the initial assessment.

##### *Variable lease payments*

Group's lease contracts also include variable lease payments which are not in the scope of TFRS 16. Variable lease payments are recognized in profit or loss in the related period.

##### *Exemptions and simplifications*

Short-term lease payments and payments for leases of low-value assets like IT equipments (mainly printers, laptops and mobile phones etc.) are not included in the measurement of the lease liabilities in the scope of TFRS 16. Lease payments of these contracts are continued to be recognized in profit or loss in the related period. The Group applied a single discount rate to a portfolio of leases which have similar characteristics (asset classes which have similar remaining rent periods in a similar economic environment).

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

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

### 2.3 Change in Accounting Policies (Cont'd)

#### *First time adoption of TFRS 16 Leases*

The Group has applied TFRS 16 “Leases”, which replaces TAS 17, for the effective period beginning on 1 January 2019. The cumulative impact of applying TFRS 16 is accounted in the condensed consolidated financial statements retrospectively at the start of the current accounting period. The simplified transition approach of the related standard does not require a restatement in the comparative periods. The Group measured right-of-use assets at an amount equal to the lease liability (adjusted by the amount of any prepaid or accrued lease payments) under TFRS 16 simplified transition approach.

With the transition to TFRS 16 “Leases”, a “lease liability” is recognized in the condensed consolidated financial statements for the lease contracts which were previously measured under TAS 17 as operational leases. At transition, lease liabilities are measured at the net present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate on the effective transition date. The weighted average of the Group’s incremental borrowing rates for Turkish Lira is 21%, for USD is %5 and for Euro is %4 as at 1 January 2019.

As of 1 January and 30 June 2019, the details of the right of use assets that are accounted in the condensed consolidated financial statements are as follows:

	<b>Buildings (Branches, warehouse)</b>	<b>Vehicles</b>	<b>Total</b>
Right of use assets- 1 January 2019	42.658.001	19.340.555	61.998.556
Additions	7.814.538	854.072	8.668.610
Depreciation charge for the period	(6.687.358)	(6.374.894)	(13.062.252)
<b>Right of use assets- 30 June 2019</b>	<b>43.785.181</b>	<b>13.819.733</b>	<b>57.604.914</b>

As a result of TFRS 16, as at 1 January 2019, the Group has accounted TL 61.998.556 for both right of use assets and lease liabilities. The Group discounted its lease payments by using the alternative borrowing rates as of 1 January 2019.

As for the lease agreements within the scope of TFRS 16, the Group has accounted for depreciation and interest expenses instead of operational lease expenses. During the period ended 30 June 2019, the Group has accounted for the depreciation expenses amounting to TL 13.062.252 and interest expenses amounting to TL 5.479.830.

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

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

### 2.4 New and Amended Turkish Accounting Standards

#### a) *Standards, amendments and interpretations applicable as at 30 June 2019:*

**Amendment to TFRS 9, 'Financial instruments'**; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortized cost is modified without this resulting in de-recognition, a gain or loss should be recognized immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

**Amendment to IAS 28, 'Investments in associates and joint venture'**; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that company's account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.

**TFRS 16, 'Leases'**; Details are described in Note 2.3.

**IFRIC 23, 'Uncertainty over income tax treatments'**; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

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

### 2.4 New and Amended Turkish Accounting Standards

#### *a) Standards, amendments and interpretations applicable as at 30 June 2019 (cont'd):*

**Annual improvements 2015-2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

- TFRS 3, 'Business combinations', – a company re-measures its previously held interest in a joint operation when it obtains control of the business.
- TFRS 11, 'Joint arrangements', – a company does not re-measure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

**Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement';** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

- use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
- recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling.

#### *b) Standards, amendments and interpretations that are issued but not effective as at 30 June 2019:*

**Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other TFRSs:

- i) Use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- ii) Clarify the explanation of the definition of material; and
- iii) Incorporate some of the guidance in IAS 1 about immaterial information.

**Amendments to TFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

**TFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

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## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

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

### 2.4 New and Amended Turkish Accounting Standards

#### TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

## 3. SHARES IN ASSOCIATES

### Associates

#### *Details of significant associate:*

As of 30 June 2019, the details of important associates are as in the following;

	<u>Main Operating Activity</u>	<u>Acquisition Date</u>	<u>Acquired Share of Capital</u>	<u>Acquisition Amount</u>
Kron Telekomünikasyon Hizmetleri A.Ş.	Information technology	28 November 2013	% 10	TL 1.700.000

On 28 November 2013, the Company made a new investment and came to an agreement on acquisition of 10% of the shares of Kron Telekomünikasyon Hizmetleri A.Ş. for TL 1.700.000. Furthermore, the Company acquired the right to be represented with 3 members out of 6 in the Board of Directors at Kron and to be active in taking strategic growth decisions of the company.

Goodwill arises from the acquisition of Kron Telekomünikasyon Hizmetleri A.Ş. Goodwill represents the synergy to be created, revenue growth and the benefits to be obtained because of the growth of the market in the future.

	<u>Kron Telekomünikasyon Hizmetleri A.Ş.</u>
<u>Amount transferred</u>	<u>1.700.000</u>
<u>Fair value of the net assets of the acquired company</u>	<u>(1.098.805)</u>
<b>Goodwill</b>	<b><u>601.195</u></b>

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## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

#### 3. SHARES IN ASSOCIATES (Cont'd)

##### Associates (Cont'd)

The summary of the financial information of Kron Telekomünikasyon Hiz. A.Ş. is explained below. This financial information is prepared in accordance with TFRS.

	<u>30 June 2019</u>	<u>31 December 2018</u>
Current assets	33.283.673	31.820.099
Non-current assets	30.585.089	23.512.486
Short term liabilities	15.672.522	13.234.199
Long term liabilities	3.718.790	429.729
<b>Net assets</b>	<b><u>44.477.450</u></b>	<b><u>41.668.657</u></b>

Share of the Group in net assets	4.447.745	4.166.866
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	<u>1 January 2019- 30 June 2019</u>	<u>1 January 2018- 30 June 2018</u>
Net profit	3.393.398	1.901.939
Other comprehensive expenses	(581.091)	(544.259)
Total comprehensive income	2.812.307	1.357.680
Share of the Group in total comprehensive income	281.231	135.768

The movement of investment in Kron Telekomünikasyon Hizmetleri A.Ş. is given below;

	<u>30 June 2019</u>	<u>30 June 2018</u>
As of 1 January	7.784.350	6.155.424
Share from the profit of the period	281.231	135.768
Currency translation reserves	441.897	664.170
As of 30 June	<b><u>8.507.478</u></b>	<b><u>6.955.362</u></b>

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

#### 4. SEGMENT REPORTING

The Group evaluates the performance of six 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 30 June 2019	Enterprise	Public	International	Technology	Telecom	BDH	Unallocated (*)	Total
Revenue	296.553.941	102.857.740	33.200.030	43.145.088	30.119.107	59.645.260	-	565.521.166
Cost of sales (-)	(275.274.817)	(85.809.770)	(28.319.944)	(42.709.409)	(26.783.290)	(69.241.613)	(2.239.031)	(530.377.874)
<b>Gross margin</b>	<b>21.279.124</b>	<b>17.047.970</b>	<b>4.880.086</b>	<b>435.679</b>	<b>3.335.817</b>	<b>(9.596.353)</b>	<b>(2.239.031)</b>	<b>35.143.292</b>
Sales,marketing and distribution expenses (-)	(20.854.410)	(5.177.070)	(6.217.547)	(1.538.889)	(2.877.201)	-	-	(36.665.117)
General administrative expenses (-)	-	-	-	-	-	-	(34.469.738)	(34.469.738)
Research and development expenses (-)	-	-	-	(3.781.287)	-	-	-	(3.781.287)
<b>Operating profit / (loss) of segment</b>	<b>424.714</b>	<b>11.870.900</b>	<b>(1.337.461)</b>	<b>(4.884.497)</b>	<b>458.616</b>	<b>(9.596.353)</b>	<b>(36.708.769)</b>	<b>(39.772.850)</b>
For the period ended 30 June 2018	Enterprise	Public	International	Technology	Telecom	BDH	Unallocated (*)	Total
Revenue	176.216.594	125.983.095	30.807.873	40.575.761	7.110.021	27.207.419	-	407.900.763
Cost of sales (-)	(159.135.769)	(106.182.611)	(23.980.398)	(38.138.370)	(6.119.850)	(31.751.314)	(5.795.338)	(371.103.650)
<b>Gross margin</b>	<b>17.080.825</b>	<b>19.800.484</b>	<b>6.827.475</b>	<b>2.437.391</b>	<b>990.171</b>	<b>(4.543.895)</b>	<b>(5.795.338)</b>	<b>36.797.113</b>
Sales,marketing and distribution expenses (-)	(11.363.123)	(9.638.905)	(5.723.592)	-	(1.523.442)	-	-	(28.249.062)
General administrative expenses (-)	-	-	-	-	-	-	(17.838.557)	(17.838.557)
Research and development expenses (-)	-	-	-	(4.878.328)	-	-	-	(4.878.328)
<b>Operating profit / (loss) of segment</b>	<b>5.717.702</b>	<b>10.161.579</b>	<b>1.103.883</b>	<b>(2.440.937)</b>	<b>(533.271)</b>	<b>(4.543.895)</b>	<b>(23.633.895)</b>	<b>(14.168.834)</b>

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



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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019**

(Unless otherwise stated the amounts are in TL).

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

<b>30 June 2019</b>	<b>Enterprise</b>	<b>Public</b>	<b>International</b>	<b>Technology</b>	<b>Telecom</b>	<b>BDH</b>	<b>Unallocated (*)</b>	<b>Total</b>
Trade receivables	281.484.581	551.858.036	105.530.824	24.120.875	7.128.553	13.587.300	544.488	984.254.657
Due from related parties	178.729	-	-	-	-	-	-	178.729
Inventories	10.842.873	96.798.959	4.093.854	814.366	5.152.732	1.664.995	406.664	119.774.443
Deferred costs	103.926.220	135.264.743	37.121.355	-	13.870.961	48.295.104	9.459.923	347.938.306
<b>Segments assets</b>	<b>396.432.403</b>	<b>783.921.738</b>	<b>146.746.033</b>	<b>24.935.241</b>	<b>26.152.246</b>	<b>63.547.399</b>	<b>10.411.075</b>	<b>1.452.146.135</b>
Trade payables (*)	174.436.110	37.890.502	25.118.911	911.698	24.960.195	19.251.299	12.602.357	295.171.072
Due to related parties	16.466.401	-	-	-	-	-	-	16.466.401
Deferred revenues	62.391.508	14.574.441	41.105.147	-	1.649.308	3.337.409	107.314	123.165.127
Advances received	4.043.978	63.785.464	171.444	32.555	-	130	18.215	68.051.786
<b>Segment liabilities</b>	<b>257.337.997</b>	<b>116.250.407</b>	<b>66.395.502</b>	<b>944.253</b>	<b>26.609.503</b>	<b>22.588.838</b>	<b>12.727.886</b>	<b>502.854.386</b>
<b>31 December 2018</b>	<b>Enterprise</b>	<b>Public</b>	<b>International</b>	<b>Technology</b>	<b>Telecom</b>	<b>BDH</b>	<b>Unallocated (*)</b>	<b>Total</b>
Trade receivables	236.347.435	538.970.778	98.284.113	39.926.212	39.363.703	17.599.426	501.824	970.993.491
Due from related parties	7.142	-	-	-	-	-	-	7.142
Inventories	6.147.946	74.641.974	5.989.412	665.120	920.378	688.293	324.421	89.377.544
Deferred costs	79.585.504	131.651.563	33.048.918	6.050.035	4.639.075	44.696.344	6.009.245	305.680.684
<b>Segments assets</b>	<b>322.088.027</b>	<b>745.264.315</b>	<b>137.322.443</b>	<b>46.641.367</b>	<b>44.923.156</b>	<b>62.984.063</b>	<b>6.835.490</b>	<b>1.366.058.861</b>
Trade payables (*)	153.391.781	59.114.041	34.247.151	453.664	5.882.991	25.273.763	20.297.394	298.660.785
Due to related parties	353.107	-	-	-	-	-	-	353.107
Deferred revenues	50.076.735	11.519.035	16.317.930	-	1.760.429	4.163.108	44.720	83.881.957
Advances received	893.010	65.250.530	346.059	29.759	61.029	130	9.129	66.589.646
<b>Segment liabilities</b>	<b>204.714.633</b>	<b>135.883.606</b>	<b>50.911.140</b>	<b>483.423</b>	<b>7.704.449</b>	<b>29.437.001</b>	<b>20.351.243</b>	<b>449.485.495</b>

(\*) Unallocated trade payables are shown as rent, insurance, consultancy and etc. The uncollated amount of trade payables are related to Nortel companies as of 30 June 2019 and 31 December 2018.

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

### 4. SEGMENT REPORTING (Cont'd)

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

	<b>For the Period Ended 30 June 2019</b>	<b>For the Period Ended 30 June 2018</b>
Operating loss of segment	(39.772.850)	(14.168.834)
Other (expenses)/income from operating activities (net)	(24.723.968)	(38.294.172)
Other (expenses)/income from investment activities (net)	11.301	(3.470)
Income from associates	281.231	135.768
Finance (expenses)/income (net)	(27.379.545)	34.090.259
<b>(Loss) before tax</b>	<b>(91.583.831)</b>	<b>(18.240.449)</b>
<b>Assets</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
Segment assets	1.452.146.135	1.366.058.861
Other assets	754.280.535	495.380.256
<b>Total assets</b>	<b>2.206.426.670</b>	<b>1.861.439.117</b>
<b>Liabilities</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
Segment liabilities	502.854.386	449.485.495
Other liabilities	900.075.281	598.288.684
<b>Total liabilities</b>	<b>1.402.929.667</b>	<b>1.047.774.179</b>

### 5. CASH AND CASH EQUIVALENTS

	<b>30 June 2019</b>	<b>31 December 2018</b>
Bank- demand deposits	49.983.702	75.451.741
Bank- time deposits	243.885.269	116.933.685
Other cash and cash equivalents (*)	299.490	402.257
	<b>294.168.461</b>	<b>192.787.683</b>

<b>Currency</b>	<b>Original Currency Amount</b>	<b>Interest Rate %</b>	<b>Maturity</b>	<b>30 June 2019</b>
USD	34.605.406	0,01-3,15	July 19-Sep 19	199.157.572
TL	33.090.267	0,01-23,25	July 19	33.090.267
EUR	1.776.517	0,01-0,1	July 19	11.637.430
				<b>243.885.269</b>

<b>Currency</b>	<b>Original Currency Amount</b>	<b>Interest Rate %</b>	<b>Maturity</b>	<b>31 December 2018</b>
USD	17.925.428	1,65-4,0	Jan 19-Sep 19	94.303.885
EUR	350.000	0,05	Jan 19	2.109.800
TL	20.520.000	21,5	Jan 19	20.520.000
				<b>116.933.685</b>

The credit risk, foreign currency and sensitivity risks of financial assets and liabilities are disclosed in Note 26. As of 30 June 2019 and 31 December 2018, there are no restriction / blockage on bank accounts.

(\*) Other cash and cash equivalents are consisted of credit card receivables less than 3 months.

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(Unless otherwise stated the amounts are in TL).

**6. FINANCIAL LIABILITIES**

	<u>30 June 2019</u>	<u>31 December 2018</u>
<b>Short term financial liabilities</b>		
Short term unsecured loans	673.142.622	482.638.393
Non interest bearing unsecured spot loans	3.488	5.197.876
	<u><b>673.146.110</b></u>	<u><b>487.836.269</b></u>

As of 30 June 2019, effective rate for TL loans is 26,54 %. (31 December 2018: effective rate for TL loans is 19,44 %).

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

Original Currency				<u>30 June 2019</u>
Currency	Amount	Interest Rate(%) (*)	Maturity	
TL	673.142.622	20,50-40,00	July 19-June 20	673.142.622
				<u><b>673.142.622</b></u>

Original Currency				<u>31 December 2018</u>
Currency	Amount	Interest Rate(%) (*)	Maturity	
TL	482.638.393	15,10-42,00	Jan 19-May 19	482.638.393
				<u><b>482.638.393</b></u>

	<u>30 June 2019</u>	<u>31 December 2018</u>
<b>Long term financial liabilities</b>		
Long term unsecured loans	56.701.139	-
	<u><b>56.701.139</b></u>	<u><b>-</b></u>

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

Original Currency				<u>30 June 2019</u>
Currency	Amount	Interest Rate(%) (*)	Maturity	
TL	56.701.139	25,8-26,75	July 20	56.701.139

(\*) Presents the lower and upper rates.

The Group has no collaterals given for bank loans as of 30 June 2019 and 31 December 2018. The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

	<u>30 June 2019</u>	<u>30 June 2018</u>
1 January	487.836.269	326.117.840
Financing cash flows, net	230.802.478	303.510.412
Interest accrual changes	1.814.985	21.671.836
Currency translations	9.393.517	(14.404.313)
30 June	<u><b>729.847.249</b></u>	<u><b>636.895.775</b></u>

The movement table of lease liabilities is at below.

<b>1 January 2019</b>	<b>61.998.556</b>
Additions	8.668.610
Payments (-)	(16.655.251)
Interest expenses (Note 22)	(5.479.830)
Currency translations	11.664.901
<b>30 June 2019</b>	<u><b>60.196.986</b></u>

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**NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019**

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**7. TRADE RECEIVABLES AND PAYABLES**

	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Trade Receivables from Third Parties</b>		
Trade receivables	607.499.923	547.646.457
Unbilled receivables	402.132.801	459.993.967
Notes receivables	114.239	894.353
Discount on trade receivables (*)	(511.018)	(1.133.976)
Allowances for doubtful receivables (-)	(85.245.960)	(90.703.609)
	<b>923.989.985</b>	<b>916.697.192</b>
<b>Movement of Allowance for Doubtful Receivables</b>	<b>30 June 2019</b>	<b>30 June 2018</b>
1 January-Calculated according to TAS 39	-	(35.662.918)
Impact due to the changes in accounting policies TFRS 9	-	(13.480.037)
<b>Reported as of 1 January</b>	<b>(90.703.609)</b>	<b>(49.142.955)</b>
Provision/(Reversal of provision) for the period	13.911.063	(2.659.344)
Foreign currency exchange differences	(8.453.414)	(11.212.111)
<b>As of 30 June</b>	<b>(85.245.960)</b>	<b>(63.014.410)</b>

(\*) As of 30 June 2019, Group will collect its trade receivable in every year by equal payment; total amount is USD 15.277.832 based on the agreement, and its maturity date spreads 4 years. Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

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

<b>Long Term Trade Receivables from Third Parties</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
Other trade receivables	67.739.689	64.009.777
Discount on trade receivables (*)	(7.475.017)	(9.713.478)
	<b>60.264.672</b>	<b>54.296.299</b>
<b>Movement of Allowance for Nortel Receivables</b>	<b>30 June 2019</b>	<b>30 June 2018</b>
As of 1 January	-	(25.842.571)
Provision no longer required	-	1.004.082
Foreign currency exchange differences	-	(5.287.713)
<b>As of 30 June</b>	<b>-</b>	<b>(30.126.202)</b>
<b>Trade Payables to Third Parties</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
Trade payables	294.812.091	298.277.489
Other trade payables	296.655	325.880
	<b>295.108.746</b>	<b>298.603.369</b>
<b>Long Term Trade Payables to Third Parties</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
Payables to Nortel companies	28.253	25.827
Other trade payables	34.073	31.589
	<b>62.326</b>	<b>57.416</b>

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# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

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### 8. OTHER RECEIVABLES AND PAYABLES

	<u>30 June 2019</u>	<u>31 December 2018</u>
<b>Other Receivables from third parties</b>		
Deposits and guarantees given	311.568	299.656
Other	122.223	1.428.630
	<u><b>433.791</b></u>	<u><b>1.728.286</b></u>

	<u>30 June 2019</u>	<u>31 December 2018</u>
<b>Short Term Other Payables from third parties</b>		
Taxes and duties payables	11.907.164	16.886.952
Other	183.072	177.251
	<u><b>12.090.236</b></u>	<u><b>17.064.203</b></u>

### 9. INVENTORIES

	<u>30 June 2019</u>	<u>31 December 2018</u>
Finished goods	90.722.432	69.799.179
Trade goods	29.052.011	19.578.365
	<u><b>119.774.443</b></u>	<u><b>89.377.544</b></u>

Inventories are stated at their cost values and allocated the provision for impairment on inventories.

<u>Movement for allowance:</u>	<u>30 June 2019</u>	<u>30 June 2018</u>
Opening balance	-	(12.328.785)
Released for the period	-	-
Foreign currency exchange differences	-	(2.578.262)
Closing balance	<u>-</u>	<u><b>(14.907.047)</b></u>

### 10. PREPAID EXPENSES

<b>Short term prepaid expenses</b>	<u>30 June 2019</u>	<u>31 December 2018</u>
Advances given for inventories	2.043.127	4.829.891
Short term prepaid expenses	5.155.554	8.126.532
Goods in transit	391.274	405.453
	<u><b>7.589.955</b></u>	<u><b>13.361.876</b></u>

<b>Long term prepaid expenses</b>	<u>30 June 2019</u>	<u>31 December 2018</u>
Long term prepaid expenses	290.923	554.765
	<u><b>290.923</b></u>	<u><b>554.765</b></u>

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

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

### 11. PROPERTY, PLANT AND EQUIPMENT

	Machinery and Equipment	Vehicles	Furniture and fixtures	Leasehold Improvements	Construction in Progress	Total
<u>Cost</u>						
1 January 2019	223.341.214	280.626	21.390.577	55.510.645	7.054.522	307.577.584
Translation difference	10.830.578	27.444	273.142	2.044.911	2.403.693	15.579.768
Purchases	4.275.654	42.095	1.847.477	1.825.332	67.743.398	75.733.956
Disposals	(1.355.357)	-	-	-	-	(1.355.357)
<b>30 June 2019</b>	<b>237.092.089</b>	<b>350.165</b>	<b>23.511.196</b>	<b>59.380.888</b>	<b>77.201.613</b>	<b>397.535.951</b>
<u>Accumulated Depreciation</u>						
1 January 2019	(206.505.766)	(273.913)	(17.223.340)	(32.133.158)	-	(256.136.177)
Translation difference	(10.105.116)	(25.840)	(281.524)	(1.947.670)	-	(12.360.150)
Period charge	(3.751.243)	(4.210)	(753.661)	(2.895.257)	-	(7.404.371)
Disposals	1.350.829	-	-	-	-	1.350.829
<b>30 June 2019</b>	<b>(219.011.296)</b>	<b>(303.963)</b>	<b>(18.258.525)</b>	<b>(36.976.085)</b>		<b>(274.549.869)</b>
<b>Net book value at 30 June 2019</b>	<b>18.080.793</b>	<b>46.202</b>	<b>5.252.671</b>	<b>22.404.803</b>	<b>77.201.613</b>	<b>122.986.082</b>

As of 30 June 2019 depreciation charge is TL 7.404.371 TL 3.028.458 is accounted in cost of sales, TL 4.094.959 in general administrative expenses, TL 290.544 in sales, marketing and distribution expenses.

As of 30 June 2019, there are not any mortgage and financial leasing on property, plant and equipment.

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

### 11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	Machinery and Equipment	Vehicles	Furniture and fixtures	Leasehold Improvements	Construction in Progress	Total
<u>Cost</u>						
1 January 2018	157.159.078	201.200	14.286.158	38.072.808	875.293	210.594.537
Translation difference	33.384.717	42.076	3.091.864	8.113.390	187.211	44.819.258
Purchases	3.931.915	-	897.703	1.303.490	35.856	6.168.964
Disposals	(24.936)	-	-	-	-	(24.936)
<b>30 June 2018</b>	<b>194.450.774</b>	<b>243.276</b>	<b>18.275.725</b>	<b>47.489.688</b>	<b>1.098.360</b>	<b>261.557.823</b>
<u>Accumulated Depreciation</u>						
1 January 2018	(143.815.845)	(190.936)	(11.042.782)	(18.946.346)	-	(173.995.909)
Translation difference	(30.493.625)	(40.342)	(2.406.252)	(4.213.967)	-	(37.154.186)
Period charge	(3.219.575)	(3.547)	(831.456)	(2.167.950)	-	(6.222.528)
Disposals	9.086	-	-	-	-	9.086
<b>30 June 2018</b>	<b>(177.519.959)</b>	<b>(234.825)</b>	<b>(14.280.490)</b>	<b>(25.328.263)</b>	<b>-</b>	<b>(217.363.537)</b>
<b>Net book value at 30 June 2018</b>	<b>16.930.815</b>	<b>8.451</b>	<b>3.995.235</b>	<b>22.161.425</b>	<b>1.098.360</b>	<b>44.194.286</b>

As of 30 June 2018 depreciation charge is TL 6.222.528. TL 3.792.344 is accounted in cost of sales, TL 2.218.013 in general administrative expenses, TL 212.171 in sales, marketing and distribution expenses.

As of 30 June 2018, there are not any mortgage and financial leasing on property, plant and equipment.

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

### 11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

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

	Useful life
Machinery and Equipment	10
Vehicles	5-10
Leasehold Improvement	5-10
Furniture and fixtures	5-15

### 12. RIGHT OF USE ASSETS

The right of use asset is initially recognized at cost comprising of amount of the initial measurement of the lease liability, and any lease payments made at or before the commencement date, less any lease incentives received. The Group re-measures the right of use asset after netting-off depreciation and reducing impairment losses from the right of use asset and adjusted for certain re-measurements of the lease liability recognized at the present value.

As of 1 January and 30 June 2019, the details of the right of use assets that are accounted in the condensed consolidated financial statements are as follows:

	Buildings (Branches, warehouse)	Vehicles	Total
Right of use assets- 1 January 2019	42.658.001	19.340.555	61.998.556
Additions	7.814.538	854.072	8.668.610
Depreciation charge for the period	(6.687.358)	(6.374.894)	(13.062.252)
<b>Right of use assets- 30 June 2019</b>	<b>43.785.181</b>	<b>13.819.733</b>	<b>57.604.914</b>

### 13. INTANGIBLE ASSETS

#### Goodwill

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

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

Changes in goodwill between the acquisition date and the date of statement of financial position presented below:

Cost	30 June 2019	30 June 2018
Opening balance	96.422.343	69.131.791
Translation difference	9.057.751	14.457.211
Closing balance	<b>105.480.094</b>	<b>83.589.002</b>



## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

#### 13. INTANGIBLE ASSETS (Cont'd)

##### Goodwill (Cont'd)

According to the Group accounting policies, goodwill is subject to impairment test.

With the estimated profit or loss statement covering the period between 1 January 2019 and 31 December 2023, a valuation report has been prepared by considering Netaş Bilişim's potential projects and income items.

The Company has engaged an independent assessment report to perform a valuation analysis of Netaş Bilişim as of 31 December 2018. The valuation report has been performed by an independent valuation company. An independent assessment has been prepared a valuation of 100% of the share capital of Netaş Bilişim, based on its financial statements on a consolidated basis by applying adjusted Discounted Cash Flow ("DCF") valuation. The present value of cash flows expected to be generated by the Company in the future is calculated by discounting cash flows today using a discount rate appropriate to the Company's risk profile. The variable weighted average cost of capital ratio was used. In this context, it is foreseen that the risk premium of the country, which is observed to be %3 in the previous period, will return to its normal level in the long term. During the projection year, the debt / equity ratio of Netaş Bilişim will be realized at 20% and the standard profit margin will be realized as approximately 10%. Starting from year 2019, EBITDA margin is expected to be around 7%, with the assumption that the public segment and BDH's standard profit margins will continue at 10% and 20%, respectively. Netaş Bilişim does not plan to invest a large amount during the projection year. Investment expenditures are expected to be approximately 0,6% of net sales during the projection year. It is predicted that the company's net working capital needs will continue to normalize to around 32% during the projection year as of 2019.

The result of DCF analysis concluded indicative firm value of Netaş Bilişim is between USD 49 million and USD 60 million. As of the valuation date, the value of the company calculated by considering the net debt of USD 22 million was estimated between USD 27 million and USD 38 million.

As of 30 June 2019, the Company Management has concluded that there are no impairment indicators in the amount of goodwill.

##### **Significant assumptions used in discounted cash flow projections**

The significant assumptions used in the calculation of recoverable amounts are discount rates and final growth rates. The after-tax discount rate was used in the valuation studies. The Weighted Average Cost of Capital rate used in the study is variable and ranges from %10,2 to %12,5 over the years. The final growth rate was %2,2 based on the IMF's long-term inflation expectations.

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

#### 13. INTANGIBLE ASSETS (Cont'd) Other Intangible Assets

	1 January- 30 June 2019		
	Customer Relations	Other Intangible Assets(*)	Total
<u>Cost</u>			
Opening balance	56.121.397	109.874.802	165.996.199
Additions	-	6.173.370	6.173.370
Translation difference	5.271.949	10.116.976	15.388.925
<b>Closing balance</b>	<b>61.393.346</b>	<b>126.165.148</b>	<b>187.558.494</b>
<u>Accumulated amortization</u>			
Opening balance	(40.688.013)	(92.280.461)	(132.968.474)
Translation difference	(3.899.077)	(8.407.745)	(12.306.822)
Period charge	(2.992.754)	(3.791.843)	(6.784.597)
<b>Closing balance</b>	<b>(47.579.844)</b>	<b>(104.480.049)</b>	<b>(152.059.893)</b>
<b>Net book value</b>	<b>13.813.502</b>	<b>21.685.099</b>	<b>35.498.601</b>

As of 30 June 2019 amortization charge is TL 6.784.597. TL 3.124.731 is accounted in cost of sales, TL 3.396.543 in general administrative expenses and TL 263.323 in sales, marketing and distribution expenses.

	1 January- 30 June 2018		
	Customer Relations	Other Intangible Assets (*)	Total
<u>Cost</u>			
Opening balance	40.237.278	77.354.124	117.591.402
Additions	-	688.485	688.485
Translation difference	8.414.636	16.255.136	24.669.772
<b>Closing balance</b>	<b>48.651.914</b>	<b>94.297.745</b>	<b>142.949.659</b>
<u>Accumulated amortization</u>			
Opening balance	(25.147.682)	(58.248.326)	(83.396.008)
Translation difference	(5.512.291)	(12.672.878)	(18.185.169)
Period charge	(2.179.479)	(4.240.398)	(6.419.877)
<b>Closing balance</b>	<b>(32.839.452)</b>	<b>(75.161.602)</b>	<b>(108.001.054)</b>
<b>Net book value</b>	<b>15.812.462</b>	<b>19.136.143</b>	<b>34.948.605</b>

As of 30 June 2018 amortization charge is TL 6.149.877. TL 3.938.016 is accounted in cost of sales, TL 2.344.009 in general administrative expenses and TL 147.852 in sales, marketing and distribution expenses.

(\*) Other intangible assets are included rights, computer software and licenses.

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

#### 13. INTANGIBLE ASSETS (Cont'd)

##### Other Intangible Assets (Cont'd)

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

	<u>Depreciation Ratio (%)</u>
Softwares	20
Customer Portfolio	10
Licenses	3-15
Rights	20

#### 14. GOVERNMENT GRANTS

For the period ended 30 June 2019 the Group has received approved and accrued incentive from TÜBİTAK, TL 7.339.023 (For the year ended 31 December 2018 the Group has received approved and accrued incentive from TÜBİTAK, TL 6.741.920).

The Group is qualified for the incentives and exemptions provided by Support of Research and Development Act, numbered 5746 effective from 24 November 2008.

As of 30 June 2019, the Group has a corporate tax benefit of TL 416.778.199 due to research and development disbursement and TL 3.791.921 is used by the period end (As of 31 December 2018, the Group has a corporate tax benefit of TL 344.020.426 due to research and development disbursement and TL has no amount is utilized by the year end). The Group has booked deferred tax assets for unused R&D tax benefit (Note 23).

For the period ended 30 June 2019, the amount of income tax incentive within the scope of Act numbered 5746 is TL 5.835.071 (30 June 2018: TL 6.523.009) 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 5.932.295 (30 June 2018: TL 5.687.088).

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

<b>Other Short-term Provisions</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
Provision for lawsuits	5.511.694	5.353.179
Other provisions	2.607.021	890.395
	<b>8.118.715</b>	<b>6.243.574</b>

For the period ended 30 June 2019, the Group has cash outflows of TL 1.296.589 for legal cases during the period (30 June 2018: TL 1.357.423).

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

### 15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Cont'd)

	<u>Provision for Legal Cases</u>	<u>Other Provisions (*)</u>	<u>Total</u>
1 January 2019	5.353.179	890.395	6.243.574
Rversal of provision and no longer required, net	1.455.104	1.592.071	3.047.175
Payments (-)	(1.296.589)	-	(1.296.589)
Foreign currency translations	-	124.555	124.555
30 June 2019	<u><b>5.511.694</b></u>	<u><b>2.607.021</b></u>	<u><b>8.118.715</b></u>

	<u>Provision for Legal Cases</u>	<u>Other Provisions (*)</u>	<u>Total</u>
1 January 2018	5.123.207	441.411	5.564.618
Rversal of provision and no longer required, net	1.599.159	421.773	2.020.932
Payments (-)	(1.357.423)	-	(1.357.423)
Foreign currency translations	-	141.296	141.296
30 June 2018	<u><b>5.364.943</b></u>	<u><b>1.004.480</b></u>	<u><b>6.369.423</b></u>

(\*) Including the types of general administrative provisions especially subscription, electric, gas, water and communication.

### 16. COMMITMENTS

The Group's off-balance sheet commitments and contingencies as of 30 June 2019 and 31 December 2018 are as follows:

	<u>30 June 2019</u>	<u>31 December 2018</u>
Guarantee letters given (*)	<u>574.882.699</u>	<u>588.704.899</u>
	<u><b>574.882.699</b></u>	<u><b>588.704.899</b></u>

(\*) The Group has no off-balance sheet commitments and contingencies in favor of subsidiaries which are fully consolidated as of 30 June 2019 and 31 December 2018.

**NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019**

(Unless otherwise stated the amounts are in TL).

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

Maturities and currencies of guarantee letters are given below:

<b>30 June 2019</b>		<b>Original Currency</b>		
<b>Maturity</b>	<b>TL Equivalent</b>	<b>TL</b>	<b>USD</b>	<b>EUR</b>
2018	16.482.606	-	2.864.000	-
2019	126.288.262	17.526.140	16.452.355	2.148.957
2020	58.488.099	11.069.140	7.657.342	511.425
2021	7.820.836	4.872.342	491.895	17.951
2022	25.983.701	22.198.168	610.541	41.493
2023	14.236.607	9.531.450	817.563	-
2024	1.343.098	115.047	83.625	114.000
2025	210.000	210.000	-	-
2027	279.468	-	48.560	-
2029	62.846	-	10.920	-
Indefinite	323.687.176	67.014.275	41.204.758	2.982.185
	<b>574.882.699</b>	<b>132.536.562</b>	<b>70.241.559</b>	<b>5.816.011</b>

<b>31 December 2018</b>		<b>Original Currency</b>		
<b>Maturity</b>	<b>TL Equivalent</b>	<b>TL</b>	<b>USD</b>	<b>EUR</b>
2018	26.379.699	52.100	4.938.904	57.153
2019	175.882.235	23.267.280	27.354.784	1.443.957
2020	25.183.958	10.127.051	2.493.530	321.615
2021	7.438.233	4.813.238	478.395	17.951
2022	23.527.361	21.562.173	373.546	-
2023	11.338.901	9.531.450	343.563	-
2025	210.000	210.000	-	-
2026	631.308	-	120.000	-
2027	255.469	-	48.560	-
2029	57.449	-	10.920	-
Indefinite	317.800.286	66.024.198	44.816.144	2.654.751
	<b>588.704.899</b>	<b>135.587.490</b>	<b>80.978.346</b>	<b>4.495.427</b>

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

### 16. COMMITMENTS (Cont'd)

The off-balance sheet commitments and contingencies as of 30 June 2019 and 31 December 2018 are as follows:

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

	<b>30 June 2019</b>	<b>31 December 2018</b>
A. Total amount of CPM is given on behalf of own legal personality	574.882.699	588.704.899
B. Total amount of CPM is given in favor of subsidiaries which are fully consolidated	-	-
C. Total amount of CPM is given for assurance of third party's debts in order to conduct of usual business activities	-	-
D. Total Amount of other CPM	-	-
i. Total amount of CPM is given in favor of parent company	-	-
ii. Total amount of CPM is given in favor of other group companies, which B and C doesn't include	-	-
iii. The amount of CPM is given in favor of third party which C doesn't include	-	-
	<b><u>574.882.699</u></b>	<b><u>588.704.899</u></b>

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

#### **Guarantees Given**

According to the System Integration Agreement signed between fully-consolidated subsidiary, Netaş Bilişim, and Cisco System International B.V., the Company agrees that all financial obligations will be jointly performed by the Company and Netaş Bilişim.

According to the contract between the Company and İGA Havalimanları İnşaatı Adi Ortaklığı Ticari İşletmesi, fully-consolidated subsidiary and subcontractor, BDH Bilişim Destek Hizmetleri San. Ve Tic. A.Ş., and its whole commitments are guaranteed by Netaş Telekomünikasyon A.Ş.

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

### 17. EMPLOYEE BENEFITS

#### Employee Benefit Obligations:

	<u>30 June 2019</u>	<u>31 December 2018</u>
Payables to employees	14.854.966	13.631.501
Social security payables	15.581.005	8.742.369
	<u><b>30.435.971</b></u>	<u><b>22.373.870</b></u>

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

	<u>30 June 2019</u>	<u>31 December 2018</u>
<b>Short Term</b>		
Provision for employee premiums	12.649.168	20.103.031
Provision for unused vacation	13.361.803	8.510.282
	<u><b>26.010.971</b></u>	<u><b>28.613.313</b></u>
<b>Long Term</b>		
Provision for unused vacation	3.044.235	6.508.863
Provision for severance indemnity	20.895.675	21.813.865
Provision for retirement benefits	727.558	943.110
	<u><b>24.667.468</b></u>	<u><b>29.265.838</b></u>
<b>Total</b>		
Provision for employee premiums	12.649.168	20.103.031
Provision for unused vacation	16.406.038	15.019.145
Provision for severance indemnity	20.895.675	21.813.865
Provision for retirement benefits	727.558	943.110
	<u><b>50.678.439</b></u>	<u><b>57.879.151</b></u>

### 18. OTHER ASSETS AND LIABILITIES

	<u>30 June 2019</u>	<u>31 December 2018</u>
<b>Other Current Assets</b>		
VAT receivable	27.256.708	35.646.342
Taxes and funds deductible	22.559.035	5.136.280
Prepaid taxes and funds	7.113.154	1.318.980
Personnel and business advances	416.784	562.076
Other	1.094.127	1.449.966
	<u><b>58.439.808</b></u>	<u><b>44.113.644</b></u>

	<u>30 June 2019</u>	<u>31 December 2018</u>
<b>Other Non-Current Assets</b>		
Other non-current assets (*)	12.953.283	12.573.486
Long term prepaid taxes and funds	14.453.771	12.828.116
	<u><b>27.407.054</b></u>	<u><b>25.401.602</b></u>

(\*) The balance includes of spare parts which will be used in long term. The total depreciation expenses for spare parts is TL 1.563.639, which is fully under cost of sales (31 December 2018: TL 3.217.372, which is fully under cost of sales). It is the service products that are provided by BDH, customer and BDH inventories to be followed in all steps by giving special identification to each product, followed by event and inventory records related to the contract conditions and mobile use in the field.

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

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

### 19. SHAREHOLDERS' EQUITY

#### Paid in Capital

As of 30 June 2019 and 31 December 2018, capital structure as in the following:

	Share % 30 June 2019	Share % 31 December 2018	Nominal Value 30 June 2019	Nominal Value 31 December 2018
ZTE (*)	48,05	48,05	31.168.351	31.168.351
TSKGV (**)	15,00	15,00	9.729.720	9.729.720
Public	36,95	36,95	23.966.729	23.966.729
<b>Total</b>	<b>100,00</b>	<b>100,00</b>	<b>64.864.800</b>	<b>64.864.800</b>

(\*) ZTE Cooperatief U.A.

(\*\*) Turkish Armed Forces Foundation

The capital of the company is TL 64.864.800 which is divided into 64.864.800 shares with a nominal value of TL 1 each (31 December 2018: TL 64.864.800 which is divided into 64.864.800 shares with a nominal value of TL 1 each). The share capital of the Company is fully paid.

### 20. REVENUE

#### Geographical Revenue:

	1 January- 30 June 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
Net domestic sales	490.084.617	300.486.269	334.880.856	183.408.737
United States	32.590.004	24.465.313	39.250.878	21.499.130
Asia	4.312.561	2.373.430	541.592	83.936
Africa	23.988.537	16.020.914	22.966.232	7.731.327
Europe	14.545.447	2.760.975	10.261.205	5.968.851
Net export	75.436.549	45.620.632	73.019.907	35.283.244
<b>Total net sales</b>	<b>565.521.166</b>	<b>346.106.901</b>	<b>407.900.763</b>	<b>218.691.981</b>



**NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE**  
**PERIOD ENDED 30 JUNE 2019**  
(Unless otherwise stated the amounts are in TL).

**20. REVENUE (Cont'd)**

**Disaggregated Revenue**

**1 January -30 June 2019**

**Performance Obligations:**

	<b>Enterprise</b>	<b>Public</b>	<b>International</b>	<b>Technology</b>	<b>Telecom</b>	<b>BDH</b>	<b>Total</b>
Design performance obligation	913.248	15.826.842	-	43.145.088	53.585	-	59.938.763
Hardware performance obligation	104.146.654	26.568.882	17.001.293	-	20.517.763	-	168.234.592
Installation performance obligation	4.649.348	12.402.728	3.603.228	-	42.082	-	20.697.386
Maintenance performance obligation	48.055.856	11.120.090	7.824.880	-	7.550.887	59.645.260	134.196.973
Licence performance obligation	125.521.410	36.832.049	4.463.098	-	1.442.450	-	168.259.007
Other performance obligations	13.267.425	107.149	307.531	-	512.340	-	14.194.445
	<b>296.553.941</b>	<b>102.857.740</b>	<b>33.200.030</b>	<b>43.145.088</b>	<b>30.119.107</b>	<b>59.645.260</b>	<b>565.521.166</b>

**Satisfaction of Performance**

**Obligations:**

Overtime	8.077.229	47.455.296	23.988.537	43.145.088	1.272.489	59.645.260	183.583.899
At a point in time	288.476.712	55.402.444	9.211.493	-	28.846.618	-	381.937.267
	<b>296.553.941</b>	<b>102.857.740</b>	<b>33.200.030</b>	<b>43.145.088</b>	<b>30.119.107</b>	<b>59.645.260</b>	<b>565.521.166</b>

**1 January -30 June 2018**

**Performance Obligations:**

	<b>Enterprise</b>	<b>Public</b>	<b>International</b>	<b>Technology</b>	<b>Telecom</b>	<b>BDH</b>	<b>Total</b>
Design performance obligation	-	13.983.234	3.891.379	40.575.761	856.714	-	59.307.088
Hardware performance obligation	39.626.596	55.074.020	8.759.784	-	1.556.524	-	105.016.924
Installation performance obligation	7.344.482	26.242.699	4.082.593	-	-	-	37.669.774
Maintenance performance obligation	39.579.756	9.952.372	7.607.788	-	2.570.893	27.207.419	86.918.228
Licence performance obligation	76.658.861	19.489.429	5.737.328	-	511.905	-	102.397.523
Other performance obligations	13.006.899	1.241.341	729.001	-	1.613.985	-	16.591.226
	<b>176.216.594</b>	<b>125.983.095</b>	<b>30.807.873</b>	<b>40.575.761</b>	<b>7.110.021</b>	<b>27.207.419</b>	<b>407.900.763</b>

**Satisfaction of Performance**

**Obligations:**

Overtime	20.030.408	75.073.697	19.342.929	40.575.761	1.533.168	27.207.419	183.763.382
At a point in time	156.186.186	50.909.398	11.464.944	-	5.576.853	-	224.137.381
	<b>176.216.594</b>	<b>125.983.095</b>	<b>30.807.873</b>	<b>40.575.761</b>	<b>7.110.021</b>	<b>27.207.419</b>	<b>407.900.763</b>

**NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019**

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

	<b>1 January- 30 June 2019</b>	<b>1 April- 30 June 2019</b>	<b>1 January- 30 June 2018</b>	<b>1 April- 30 June 2018</b>
<b>Other Income from Operating Activities</b>				
R&D incentives	2.230.047	(1.288.572)	-	(659.794)
Reversal provision of doubtful receivables (TFRS 9)	13.911.063	3.416.679	-	-
Discount income on receivables, net (*)	2.861.419	769.410	1.495.897	1.185.540
Reversal of provisions	-	-	1.004.082	67.135
Service income	20.820	10.427	33.708	9.415
Other income and gains	3.068.119	2.472.571	1.121.534	828.048
	<b>22.091.468</b>	<b>5.380.515</b>	<b>3.655.221</b>	<b>1.430.344</b>

	<b>1 January- 30 June 2019</b>	<b>1 April- 30 June 2019</b>	<b>1 January- 30 June 2018</b>	<b>1 April- 30 June 2018</b>
<b>Other Expenses from Operating Activities</b>				
Foreign exchange losses, net	41.042.405	26.794.747	33.974.890	32.518.432
Provision for doubtful receivables expenses (TFRS 9)	-	-	2.659.344	698.792
R&D incentives expenses	-	-	1.952.805	1.952.805
Legal case expenses	2.377.545	1.574.878	2.069.643	1.331.535
Other tax expenses	258.124	110.080	383.711	298.039
Other expenses and losses	3.137.362	2.666.314	909.000	577.645
	<b>46.815.436</b>	<b>31.146.019</b>	<b>41.949.393</b>	<b>37.377.248</b>

(\*) Discount income/ (expenses) related to trading activities are accounted under Other Income/ (Expenses) from Operating Activities.

**22. FINANCE INCOME / (EXPENSES)**

	<b>1 January- 30 June 2019</b>	<b>1 April- 30 June 2019</b>	<b>1 January- 30 June 2018</b>	<b>1 April- 30 June 2018</b>
<b>Financial Income</b>				
Foreign exchange gains, net (*)	45.946.322	11.004.093	66.333.098	54.002.172
Interest income	7.596.589	4.500.151	3.263.473	2.987.186
	<b>53.542.911</b>	<b>15.504.244</b>	<b>69.596.571</b>	<b>56.989.358</b>
<b>Financial Expenses</b>				
Bank interest expenses	70.990.191	33.660.990	32.629.585	20.074.446
Guarantee letter commissions	3.496.221	1.999.187	2.058.961	1.073.092
Other financial expenses	956.214	784.590	817.766	179.476
Interest expenses on lease liabilities (TFRS 16)	5.479.830	2.932.539	-	-
	<b>80.922.456</b>	<b>39.377.306</b>	<b>35.506.312</b>	<b>21.327.014</b>

(\*) Foreign exchange gains and losses are related to cash and cash equivalents, financial borrowings, and other financial liability.

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

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019**

(Unless otherwise stated the amounts are in TL).

#### **23. TAX ASSETS AND LIABILITIES**

##### **Corporate Tax**

The Company and its subsidiaries in Turkey is subject to Turkish corporate taxes. Provision is made in the accompanying condensed consolidated financial statements for the estimated charge based on the Company's results for the year.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

As of 30 June 2019 tax rate is %22. (31 December 2018:%20). Institutions tax rate is applied to commercial income of corporations by finding out the deduction of deductible expenses and deductions of tax exemptions and deductions in accordance with the tax legislation. In Turkey, advance tax returns are filed on a quarterly basis.

Accumulated losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. However, accumulated losses cannot be deducted from the profit occurred in the prior years retroactively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the fiscal year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years. Tax legislation in Turkey does not allow to fill consolidated tax returns of the Company and its subsidiaries. Therefore, provisions for taxes, as reflected in the condensed consolidated financial statements, it has been calculated on the basis of individual companies.

Corporate tax rate in Malta is 35% (2018: 35 %). Corporate tax rate in Kazakhstan is 20% (2018: 20 %).

##### **Withholding tax**

In addition to corporate taxes, companies should also calculate withholding taxes surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. This rate was changed to 15 % with the code numbered 5520 article 15 commencing from 23 July 2006. Transfer from retained earnings to share capital is not subject to withholding taxes.

##### **Deferred Taxes**

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising from its financial statements prepared in accordance with TFRS and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TFRS and tax purposes and are set out below.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017,"Law on the Amendment of Certain Tax Laws and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2018 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

#### 23. TAX ASSETS AND LIABILITIES (Cont'd)

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

<u>Movement for deferred taxes is as follows:</u>	<u>30 June 2019</u>	<u>30 June 2018</u>
<b>Balance as of January, 1– reported</b>	<b>22.195.919</b>	<b>253.841</b>
Impacts due to the changes in accounting policies	-	10.894.667
<b>Balance as of January, 1– restated</b>	<b>22.195.919</b>	<b>11.148.508</b>
Current period charge	(529.531)	(4.701.577)
Currency translation differences	205.618	(1.592.490)
Closing, 30 June	<b>21.872.006</b>	<b>4.854.441</b>

	<u>1 January- 30 June 2019</u>	<u>1 April- 30 June 2019</u>	<u>1 January- 30 June 2018</u>	<u>1 April- 30 June 2018</u>
Current tax expenses	(88.692)	(88.692)	(77.410)	(77.410)
Deferred tax	(529.531)	(6.002.514)	(4.701.577)	(13.444.225)
<b>Total tax expenses</b>	<b>(618.223)</b>	<b>(6.091.206)</b>	<b>(4.778.987)</b>	<b>(13.521.635)</b>

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between their statement of financial position accounts prepared in accordance with TFRS promulgated by POA Financial Reporting Standards and their statutory financial statements. These temporary differences usually results from the recognition of revenue and expenses in different reporting periods for TFRS and Tax Laws.

# NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

### 23. TAX ASSETS AND LIABILITIES (Cont'd)

Movement for deferred taxes as of 30 June 2019 and 2018 are as follows;

	1 Ocak 2019	Charge to (Loss)	Translation Difference	30 June 2019
Tangible and intangible assets	(12.255.815)	616.850	(1.935.295)	(13.574.260)
Trade receivables	(75.646.543)	(2.443.347)	(7.307.314)	(85.397.204)
Trade payables and cost provisions	4.904.937	(3.710.112)	365.412	1.560.237
Inventory and deferred costs	45.559	(16.644.338)	(506.208)	(17.104.987)
Advances received	1.182.359	(441.016)	182.464	923.807
Provisions for employee bonuses	4.422.667	(2.003.810)	363.960	2.782.817
Provision for unused vacation	3.304.216	(5.143)	310.260	3.609.333
Severance indemnity and retirement provisions	4.031.681	(637.904)	411.156	3.804.933
Deferred revenues	(725.388)	10.261.070	195.568	9.731.250
Unused R&D tax exemption (Note 14)	75.684.494	7.860.792	7.311.695	90.856.981
Carryforward tax losses	4.930.763	6.809.687	748.789	12.489.239
Impact TFRS 16 (Note 2.3)	-	518.414	-	518.414
Impact TFRS 9	2.965.608	-	-	2.965.608
Impact TFRS 15	8.060.080	-	-	8.060.080
Other	1.291.301	(710.674)	65.131	645.758
	<b>22.195.919</b>	<b>(529.531)</b>	<b>205.618</b>	<b>21.872.006</b>

	1 Ocak 2018	Charge to (Loss)	Translation Difference	30 June 2018
Tangible and intangible assets	(10.581.353)	1.718.884	(3.243.689)	(12.106.158)
Trade receivables	(63.950.025)	17.327.108	(11.361.032)	(57.983.949)
Trade payables and cost provisions	1.178.940	281.530	279.246	1.739.716
Inventory and deferred costs	3.272.470	(14.237.361)	(969.311)	(11.934.202)
Advances received	2.124.862	(211.137)	419.839	2.333.564
Provisions for employee bonuses	3.794.273	(2.069.949)	553.054	2.277.378
Provision for unused vacation	1.553.766	844.402	423.009	2.821.177
Severance indemnity and retirement provisions	4.480.239	(744.875)	850.415	4.585.779
Deferred revenues	12.141.644	(1.673.094)	2.344.796	12.813.346
Unused R&D tax exemption (Note 14)	42.695.803	(6.714.207)	8.148.921	44.130.517
Carryforward tax losses	2.431.458	999.534	624.575	4.055.567
Impact TFRS 9	2.930.367	-	35.241	2.965.608
Impact TFRS 15	7.964.300	-	95.780	8.060.080
Other	1.111.764	(222.412)	206.666	1.096.018
	<b>11.148.508</b>	<b>(4.701.577)</b>	<b>(1.592.490)</b>	<b>4.854.441</b>

### 24. (LOSS) PER SHARE

	1 January- 30 June 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
Number of shares	64.864.800	64.864.800	64.864.800	64.864.800
Net (loss) for the period	(92.168.319)	(66.755.026)	(23.019.436)	(20.308.743)
(Loss) per share (kurus)	(1,4209)	(1,0291)	(0,3549)	(0,3131)
(Loss) per common share (kurus)	(1,4209)	(1,0291)	(0,3549)	(0,3131)

Loss 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 period.

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

#### 25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Due from related parties as of 30 June 2019 and 31 December 2018 is as follows:

<b>Due from Related Parties</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
Kron Telekomünikasyon A.Ş.	16.763	7.142
ZTE İstanbul Telekomünikasyon San. Ve Tic. Ltd. Şti.	161.966	-
	<b>178.729</b>	<b>7.142</b>

  

<b>Due to Related Parties</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
Kron Telekomünikasyon A.Ş.	-	353.107
ZTE Corporation	16.150.406	-
ZTE İstanbul Telekomünikasyon San. Ve Tic. Ltd. Şti.	315.995	-
	<b>16.466.401</b>	<b>353.107</b>

According to ‘‘IAS 24 Related Party Disclosures’’, providers of finance, trade unions, public utilities, departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, and a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence are not evaluated as related parties. The Group has a significant business relation with Aselsan Elektronik Sanayi ve Ticaret A.Ş. (‘‘Aselsan’’), and evaluated in that context.

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

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

Main transactions with related parties are as follows for the period ended 30 June 2019 and 2018:

	1 January- 30 June 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
<b>Sales</b>				
Kron Telekomünikasyon A.Ş.	48.289	29.179	25.362	17.340
ZTE İstanbul Telekomünikasyon San. Ve Tic. Ltd. Şti.	505.494	279.198	-	-
	<b>553.783</b>	<b>308.377</b>	<b>25.362</b>	<b>17.340</b>
<b>Purchases</b>				
ZTE Corporation	13.382.475	11.011.949	-	-
Kron Telekomünikasyon A.Ş.	33.062	-	448.407	448.407
ZTE İstanbul Telekomünikasyon San. Ve Tic. Ltd. Şti.	267.880	205.441	-	-
	<b>13.683.417</b>	<b>11.217.390</b>	<b>448.407</b>	<b>448.407</b>

For the period ended 30 June 2019, total remuneration for the directors and management board of the Group is TL 12.703.839 (for the period ended 30 June 2018 total remuneration for the directors and management board of the Group is TL 8.103.529). As of 30 June 2019 and 31 December 2018 there is no credit granted to the Group's Management.

#### 26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

##### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

As of 30 June 2019 and 31 December 2018 the Group's net debt / total equity ratios are as follows:

	30 June 2019	31 December 2018
Short and long term borrowings (Note 6)	729.847.249	487.836.269
Cash and cash equivalents (Note 5)	(294.168.461)	(192.787.683)
Net debt	435.678.788	295.048.586
Equity	803.497.003	813.664.938
<b>Net debt/ Equity</b>	<b>54%</b>	<b>36%</b>

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

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### 26. 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 financial position maximum credit risks are as follows:

#### 30 June 2019

	<u>Trade Receivables</u>		<u>Other Receivables</u>	<u>Deposits at Banks</u>
	<u>Related Parties</u>	<u>Other</u>	<u>Other (*)</u>	
<b>Maximum credit risks as of balance sheet date (A+B+C+D)</b>	<b>178.729</b>	<b>984.254.657</b>	<b>433.791</b>	<b>293.868.971</b>
Maximum risk guaranteed by collateral	-	-	-	-
(A) Net book value of unexpired or not impaired financial assets	178.729	779.060.582	433.791	293.868.971
(B) Net book value of overdue but not impaired financial assets	-	205.194.075	-	-
Guaranteed by collateral	-	-	-	-
(C) Net book value of impaired assets	-	-	-	-
Overdue (gross book value)	-	85.245.960	-	-
Impairment (-)	-	(85.245.960)	-	-
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.



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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

**26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)****Credit risk (Cont'd)****31 December 2018**

	<u>Trade Receivables</u>		<u>Other Receivables</u>	<u>Deposits at Banks</u>
	<u>Related Parties</u>	<u>Other</u>	<u>Other (*)</u>	
<b>Maximum credit risks as of balance sheet date (A+B+C+D)</b>	<b>7.142</b>	<b>970.993.491</b>	<b>1.728.286</b>	<b>192.385.426</b>
Maximum risk guaranteed by collateral	-	-	-	-
(A) Net book value of unexpired or not impaired financial assets	7.142	768.219.325	1.728.286	192.385.426
(B) Net book value of overdue but not impaired financial assets	-	202.774.166	-	-
Guaranteed by collateral	-	-	-	-
(C) Net book value of impaired assets	-	-	-	-
Overdue (gross book value)	-	90.703.609	-	-
Impairment (-)	-	(90.703.609)	-	-
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.

## NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(Unless otherwise stated the amounts are in TL).

#### 26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

##### Credit risk (Cont'd)

The Group has applied the simplified approach stated in TFRS 9 to calculate the expected credit loss provision for trade receivables. This approach allows for a lifetime expected loan loss provision for all commercial receivables. In order to measure the expected credit loss, the Group first classifies its trade receivables by taking into account the characteristics of credit risk and credit risk. Expected credit loss ratios for each class of commercial receivables grouped using past credit loss experience, forward macroeconomic indicators were calculated, and the expected credit loss provision was calculated by multiplying the determined ratio by the trade receivable totals.

As of the date of financial position aging of overdue and undue but not impaired financial assets are as follows:

	Period End Balance	Expected Credit Loss Ratio	Expected Credit Loss
<b>30 June 2019</b>			
Undue	765.907.894	0,37%	(12.530.901)
1-30 days overdue	52.995.240	1,12%	(388.330)
1-3 months overdue	7.424.476	1,76%	(103.932)
3-6 months overdue	19.584.318	2,99%	(1.676.176)
6-12 months overdue	29.040.315	6,35%	(681.571)
1-5 years overdue	109.481.143	17,22%	(10.481.409)
	<b>984.433.386</b>		<b>(25.862.319)</b>

	Year End Balance	Expected Credit Loss Ratio	Expected Credit Loss
<b>31 December 2018</b>			
Undue	758.545.725	0,32%	(22.989.730)
1-30 days overdue	66.988.771	1,06%	(158.127)
1-3 months overdue	18.055.677	1,99%	(397.323)
3-6 months overdue	21.093.116	3,28%	(1.069.870)
6-12 months overdue	52.047.199	7,48%	(2.144.742)
1-5 years overdue	54.270.145	21,63%	(5.910.680)
	<b>971.000.633</b>		<b>(32.670.472)</b>

##### Liquidity risk

The Group holds adequate sources to be able to fulfill its current and future liabilities. As of 30 June 2019 and 31 December 2018 liquidity risk table are as follows;

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(Unless otherwise stated the amounts are in TL).

**26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)*****Liquidity risk (Cont'd)*****30 June 2019**

<b><u>Maturities due to agreements</u></b>	Carrying amount	Cash outflows			
		due to agreements	Up to 3 months	3-12 months	1-5 years
<b><u>Non- derivative financial liabilities</u></b>	<b>1.101.681.708</b>	<b>1.211.265.877</b>	<b>563.669.628</b>	<b>535.237.573</b>	<b>112.358.676</b>
Financial liabilities	729.847.249	839.431.418	252.094.481	514.765.954	72.570.983
Lease Liabilities	60.196.986	60.196.986	-	20.471.619	39.725.367
Due to related parties	16.466.401	16.466.401	16.466.401	-	-
Other trade payables to third parties	295.171.072	295.171.072	295.108.746	-	62.326
<b><u>Expected maturities</u></b>	Carrying amount	Cash outflows			
		due to agreements	Up to 3 months	3-12 months	1-5 years
<b><u>Non- derivative financial liabilities</u></b>	<b>50.644.922</b>	<b>50.644.922</b>	<b>45.133.228</b>	<b>5.511.694</b>	-
Other short term provisions	8.118.715	8.118.715	2.607.021	5.511.694	-
Payables related to employee benefits	30.435.971	30.435.971	30.435.971	-	-
Other payables to third parties (*)	12.090.236	12.090.236	12.090.236	-	-

The Group Management assumes that the carrying value of financial instruments reflect their fair values.

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

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**26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)****Liquidity risk (Cont'd)****31 December 2018**

<b><u>Maturities due to agreements</u></b>	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
<b><u>Non- derivative financial liabilities</u></b>	<b>786.850.161</b>	<b>832.784.383</b>	<b>392.438.673</b>	<b>440.288.294</b>	<b>28.531.762</b>
Financial liabilities	487.836.269	533.770.491	93.482.197	440.288.294	28.474.346
Due to related parties	353.107	353.107	353.107	-	-
Other trade payables to third parties	298.660.785	298.660.785	298.603.369	-	57.416
<b><u>Expected maturities</u></b>	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
<b><u>Non- derivative financial liabilities</u></b>	<b>45.681.647</b>	<b>45.681.647</b>	<b>40.328.468</b>	<b>5.353.179</b>	-
Other short term provisions	6.243.574	6.243.574	890.395	5.353.179	-
Payables related to employee benefits	22.373.870	22.373.870	22.373.870	-	-
Other payables to third parties (*)	17.064.203	17.064.203	17.064.203	-	-

The Group Management assumes that the carrying value of financial instruments reflect their fair values.

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

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

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### 26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

#### Liquidity risk (Cont'd)

#### The Reclassification of Fair Value Measurement

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 of Level 1, other financial asset and liabilities are categorized as Level 2.

#### Interest rate risk

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

	<u>30 June 2019</u>	<u>31 December 2018</u>
<b>Fixed interest rate financial instruments</b>	<b>856.729.030</b>	<b>579.572.078</b>
Financial assets (*)	243.885.269	116.933.685
Financial liabilities	612.843.761	462.638.393
<b>Variable interest rate financial instruments</b>	<b>117.000.000</b>	<b>20.000.000</b>
Financial assets	-	-
Financial liabilities	117.000.000	20.000.000
<b>Interest-free financial instruments</b>	<b>3.488</b>	<b>5.197.876</b>
Financial liabilities	3.488	5.197.876

(\*) As of 30 June 2019 and 31 December 2018, includes bank time deposits.

#### Foreign currency risk

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

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### 26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

#### Foreign currency risk (Cont'd)

As of 30 June 2019 and 31 December 2018, the Group's foreign currency position table is given below:

30 June 2019	TL Equivalent (*)	Original Currency				
		TL	Avro	GBP	BDT	Other
<b>Current Assets</b>	<b>397.067.309</b>	<b>309.988.232</b>	<b>10.990.937</b>	<b>24.835</b>	<b>1.286.850</b>	<b>399.427.080</b>
Cash and cash equivalents	71.759.490	51.396.359	2.413.954	21.935	1.850	162.728.212
Trade receivables, third parties	261.751.035	196.198.680	8.442.526	-	-	230.443.347
Other receivables, third parties	175.568	87.717	-	-	-	1.815.480
Prepaid expenses	4.981.460	4.475.747	59.480	-	1.285.000	1.425.162
Other current assets	58.399.756	57.829.729	74.977	2.900	-	3.014.879
<b>TOTAL ASSETS (A)</b>	<b>397.067.309</b>	<b>309.988.232</b>	<b>10.990.937</b>	<b>24.835</b>	<b>1.286.850</b>	<b>399.427.080</b>
<b>Short Term Liabilities</b>	<b>809.346.255</b>	<b>800.762.295</b>	<b>1.290.922</b>	<b>158</b>	<b>-</b>	<b>4.834.593</b>
Financial liabilities	673.146.110	673.146.110	-	-	-	-
Trade payables, third parties	59.551.331	51.020.440	1.290.922	158	-	1.320.057
Other payables, third parties	12.083.157	12.030.088	-	-	-	3.514.536
Employee benefit obligations	30.435.971	30.435.971	-	-	-	-
Provision for employee benefit	26.010.971	26.010.971	-	-	-	-
Other short term provisions	8.118.715	8.118.715	-	-	-	-
<b>Long Term Liabilities</b>	<b>81.368.607</b>	<b>81.368.607</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Long term financial liabilities	56.701.139	56.701.139	-	-	-	-
Provision for employee benefit	24.667.468	24.667.468	-	-	-	-
<b>TOTAL LIABILITIES (B)</b>	<b>890.714.862</b>	<b>882.130.902</b>	<b>1.290.922</b>	<b>158</b>	<b>-</b>	<b>4.834.593</b>
<b>Net Foreign Currency Asset / (Liability) Position (A-B)</b>	<b>(493.647.553)</b>	<b>(572.142.670)</b>	<b>9.700.015</b>	<b>24.677</b>	<b>1.286.850</b>	<b>394.592.487</b>

(\*) Since the functional currency of the Group companies 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 period end rates.

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### 26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

#### Foreign currency risk (Cont'd)

31 December 2018	Original Currency					
	TL Equivalent (*)	TL	Avro	GBP	BDT	Other
<b>Current Assets</b>	<b>306.729.385</b>	<b>246.868.769</b>	<b>8.911.889</b>	<b>45.848</b>	<b>2.499.425</b>	<b>158.700.906</b>
Cash and cash equivalents	42.890.888	37.918.156	722.246	4.043	2.499.425	17.364.893
Trade receivables, third parties	208.468.777	155.350.875	7.991.405	-	-	126.832.781
Other receivables, third parties	1.529.617	1.233.203	35.912	-	-	1.815.480
Prepaid expenses	9.818.039	9.249.494	85.717	-	-	2.241.089
Other current assets	44.022.064	43.117.041	76.609	41.805	-	10.446.663
<b>TOTAL ASSETS (A)</b>	<b>306.729.385</b>	<b>246.868.769</b>	<b>8.911.889</b>	<b>45.848</b>	<b>2.499.425</b>	<b>158.700.906</b>
<b>Short Term Liabilities</b>	<b>651.232.186</b>	<b>638.492.901</b>	<b>2.026.212</b>	<b>41.805</b>	<b>-</b>	<b>12.177.645</b>
Financial liabilities	487.836.269	487.836.269	-	-	-	-
Trade payables, third parties	88.954.458	76.253.969	2.026.212	41.805	-	9.370.421
Other payables, third parties	17.210.702	17.171.906	-	-	-	2.807.224
Employee benefit obligations	22.373.870	22.373.870	-	-	-	-
Provision for employee benefit	28.613.313	28.613.313	-	-	-	-
Other short term provisions	6.243.574	6.243.574	-	-	-	-
<b>Long Term Liabilities</b>	<b>29.265.838</b>	<b>29.265.838</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Provision for employee benefit	29.265.838	29.265.838	-	-	-	-
<b>TOTAL LIABILITIES (B)</b>	<b>680.498.024</b>	<b>667.758.739</b>	<b>2.026.212</b>	<b>41.805</b>	<b>-</b>	<b>12.177.645</b>
<b>Net Foreign Currency Asset / (Liability) Position (A-B)</b>	<b>(373.768.639)</b>	<b>(420.889.970)</b>	<b>6.885.677</b>	<b>4.043</b>	<b>2.499.425</b>	<b>146.523.261</b>

(\*) Since the functional currency of Group companies 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.

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**26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)****Foreign currency risk (Cont'd)****Exchange Rate Sensitivity Table****30 June 2019**

	<b><u>Profit / (Loss)</u></b>	
	<b><u>Appreciation</u></b>	<b><u>Devaluation</u></b>
<i>Effect of 10 % appreciation/devaluation in TL -USD exchange rate :</i>		
Net asset / (liability) in TL	(57.214.267)	57.214.267
Not subjected to TL risk (-)	-	-
<b>(1) Net effect of TL</b>	<b>(57.214.267)</b>	<b>57.214.267</b>
<i>Effect of 10 % appreciation/devaluation in EURO – USD exchange rate :</i>		
Net asset / (liability) in EUR	6.354.188	(6.354.188)
Not subjected to EUR risk (-)	-	-
<b>(2) Net effect of EUR</b>	<b>6.354.188</b>	<b>(6.354.188)</b>
<i>Effect of 10 % appreciation/devaluation in exchange rate of other foreign currencies:</i>		
Net asset / (liability) in other currencies	1.495.324	(1.495.324)
Not subjected to other currency risk (-)	-	-
<b>(3) Net effect of other currencies</b>	<b>1.495.324</b>	<b>(1.495.324)</b>
<b>TOTAL (1+2+3)</b>	<b>(49.364.755)</b>	<b>49.364.755</b>

**31 December 2018**

	<b><u>Profit / (Loss)</u></b>	
	<b><u>Appreciation</u></b>	<b><u>Devaluation</u></b>
<i>Effect of 10 % appreciation/devaluation in TL -USD exchange rate :</i>		
Net asset / (liability) in TL	(42.088.996)	42.088.996
Not subjected to TL risk (-)	-	-
<b>(1) Net effect of TL</b>	<b>(42.088.996)</b>	<b>42.088.996</b>
<i>Effect of 10 % appreciation/devaluation in EURO – USD exchange rate :</i>		
Net asset / (liability) in EUR	4.150.686	(4.150.686)
Not subjected to EUR risk (-)	-	-
<b>(2) Net effect of EUR</b>	<b>4.150.686</b>	<b>(4.150.686)</b>
<i>Effect of 10 % appreciation/devaluation in exchange rate of other foreign currencies:</i>		
Net asset / (liability) in other currencies	561.446	(561.446)
Not subjected to other currency risk (-)	-	-
<b>(3) Net effect of other currencies</b>	<b>561.446</b>	<b>(561.446)</b>
<b>TOTAL (1+2+3)</b>	<b>(37.376.864)</b>	<b>37.376.864</b>

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**27. FAIR VALUE OF FINANCIAL INSTRUMENTS**

<b>30 June 2019</b>	Loans and Receivables (including cash and cash equivalents)	Amortized value of financial liabilities	Note
<u>Financial assets</u>			
Cash and cash equivalents	294.168.461	-	5
Trade receivables	984.254.657	-	7
Due from related parties	178.729	-	25
Financial investments	4.743.953	-	
Other current assets	433.791	-	8
<u>Financial liabilities</u>			
Financial borrowings	-	790.044.235	6
Trade payables	-	295.171.072	7
Due to related parties	-	16.466.401	25
Other liabilities	-	12.090.236	8
Employee benefit obligations	-	30.435.971	17
<b>31 December 2018</b>	Loans and Receivables (including cash and cash equivalents)	Amortized value of financial liabilities	Note
<u>Financial assets</u>			
Cash and cash equivalents	192.787.683	-	5
Trade receivables	970.993.491	-	7
Due from related parties	7.142	-	25
Financial investments	4.733.887	-	
Other current assets	1.728.286	-	8
<u>Financial liabilities</u>			
Financial borrowings	-	487.836.269	6
Trade payables	-	298.660.785	7
Due to related parties	-	353.107	25
Other liabilities	-	17.064.203	8
Employee benefit obligations	-	22.373.870	17

**28. SUBSEQUENT EVENTS**

None.

**29. 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.