

**FONET BİLGİ TEKNOLOJİLERİ
ANONİM ŞİRKETİ**

**CONVENIENCE TRANSLATION INTO
ENGLISH OF CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE
INTERIM PERIOD JANUARY 1-31 MARCH
2020**

(ORIGINALLY ISSUED IN TURKISH)

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FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Interim Condensed Consolidated Financial Statements as at 31 March 2020

(All amounts expressed in Turkish Lira (TL) unless otherwise stated.)

		Current period	Prior period
		Not Audited	Audited
	Notes	31 March 2020	31 December 2019
Assets			
Current assets			
Cash and cash equivalents	5	1.576.411	2.927.899
Trade Receivables			
- <i>Trade receivables from third parties</i>	7	8.027.241	7.650.170
Other receivables:			
- <i>Other receivables from third parties</i>	8	130.604	213.821
Inventories	9	775.532	522.616
Prepaid expenses	10	874.574	640.520
Current income tax asset	25	93.580	92.995
Other current assets	17	31.595	25.756
Total current assets		11.509.537	12.073.777
Non-current assets			
Other receivables			
- <i>Other receivables from third parties</i>	8	39.380	39.380
Right to use assets	13	1.381.510	1.416.058
Property, plant and equipment	11	4.503.328	4.726.109
Intangible assets	12	61.317.999	58.579.889
Prepaid expenses	10	778.146	773.211
Deferred tax assets	25	1.917.266	1.713.106
Total non-current assets		69.937.629	67.247.753
Total Assets		81.447.166	79.321.530

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

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Interim Condensed Consolidated Financial Statements as at 31 March 2020

(All amounts expressed in Turkish Lira (TL) unless otherwise stated.)

		Current period	Prior period
		Not Audited	Audited
	Notes	31 March 2020	31 December 2019
Liabilities			
Current Liabilities			
Short-term borrowings	6	1.287.897	1.187.593
Current portion of long-term borrowings	6	--	65.418
Other financials borrowings	6	141.052	212.168
Trade payables			
- <i>Trade payables due to third parties</i>	7	540.567	1.368.436
Liabilities for employee benefits	16	3.014.295	2.471.601
Other payables			
- <i>Other payables due to third parties</i>	8	484.689	651.341
Deferred income	10	--	2.291.805
Short term provisions			
- <i>Short term provisions for employee benefits</i>	16	159.521	299.181
- <i>Other short term provisions</i>	15	1.078.818	584.145
Other current liabilities	17	49.959	--
Total Current Liabilities		6.756.798	9.131.688
Non-Current Liabilities			
Long-term borrowings	6	946.783	1.020.879
Long term provisions	16	684.473	902.491
Deferred tax liability	25	2.271.274	1.353.888
Total Non-Current Liabilities		3.902.530	3.277.258
Total Liabilities		10.659.328	12.408.946
Equity			
Equity holders of the parent			
Paid-in share capital	18	40.000.000	40.000.000
Other comprehensive income (loss) not to be reclassified to profit or loss:			
- <i>Actuarial gain/(loss) arising from defined benefit plans</i>	18	(381.134)	(783.508)
Restricted reserves allocated from net profit	18	2.281.006	1.749.772
Retained earnings	18	25.415.086	11.295.290
Net income for the period		3.472.880	14.651.030
Total Equity		70.787.838	66.912.584
Total Liabilities and Equity		81.447.166	79.321.530

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

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Interim Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income for the Three Months Period Ended 1 January 2020 – 31 March 2020 (All amounts expressed in Turkish Lira (TL) unless otherwise stated.)

	Notes	Not Audited	
		1 January 2020- 31 March 2020	1 January 2019- 31 March 2019
Revenue	19	13.885.406	10.975.736
Cost of sales (-)	19	(7.826.013)	(6.749.268)
Gross profit		6.059.393	4.226.468
General administrative expenses (-)	20	(1.397.770)	(1.074.338)
Marketing expenses (-)	20	(109.613)	(263.863)
Research and development expenses (-)	20	(4.000)	--
Other operating income	21	540.997	1.228.795
Other operating expense (-)	21	(611.664)	(201.088)
Operating profit		4.477.343	3.915.974
Income from investing activities	22	16.936	402.701
Operating profit before financial income / (expenses)		4.494.279	4.318.675
Financial income	23	4.752	--
Financial expenses (-)	23	(240.366)	(146.758)
Profit before tax from continuing operations		4.258.665	4.171.917
Tax income / (expenses) from continued operations (-)			
Tax income/ (expense) for the period (-)	25	--	--
Deferred tax income / (expense)	25	(785.785)	(722.082)
Profit for the period		3.472.880	3.449.835
Attributable to:			
- Non-controlling interests		--	--
- Equity Holders of the Parent		3.472.880	3.449.835
Earnings per share for continuing operations	26	0,09	0,19
Profit/Loss for the period other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Defined benefit plans re-measurement gains / losses		474.933	69.565
Deferred tax effect of re-measurement gains / loss on defined benefit plans		(72.559)	(15.304)
Other comprehensive income	18	402.374	54.261
Total comprehensive income		3.875.254	3.504.096
Distribution of Total Comprehensive Income:			
- Non-controlling interest		--	--
- Equity holders of the parent		3.875.254	3.504.096
EBITDA	28	6.060.378	4.117.641
EBITDA Margin	28	43,65	37,52

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

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Interim Condensed Consolidated Statements of Changes in Equity for the Three Months Period Ended 31 March 2020 and 2019

(All amounts expressed in Turkish Lira (TL) unless otherwise stated.)

				Other Comprehensive Income or Expense Not To Be Reclassified To Profit or Loss		Retained Earnings				
	Note	Paid-in Capital	Share Premium	Profit / Loss on Remeasurements of Defined Benefit Plans	Restricted Reserves Allocated from Net Profit	Retained Earnings	Net Profit	Attributable to Equity Holders of the Parent NonControlling Interests	Non Controlling Interests	Equity
Balance as of 1 January 2019	18	18.000.000	11.496.200	(448.017)	818.198	10.494.235	12.236.429	52.597.045	--	52.597.045
Transfers		--	--	--	--	614.002	(614.002)	--	--	--
Net profit		--	--	--	--	--	3.449.835	3.449.835	--	3.449.835
Total Comprehensive Income		--	--	54.261	--	--	--	54.261	--	54.261
Balance as of 31 March 2019	18	18.000.000	11.496.200	(393.756)	818.198	11.108.237	15.072.262	56.101.141	--	56.101.141
Balance as of 1 January 2020	18	40.000.000	--	(783.508)	1.749.772	11.295.290	14.651.030	66.912.584	--	66.912.584
Transfers		--	--	--	531.234	14.119.796	(14.651.030)	--	--	--
Net profit		--	--	--	--	--	3.472.880	3.472.880	--	3.472.880
Total Comprehensive Income		--	--	402.374	--	--	--	402.374	--	402.374
Balance as of 31 March 2020	18	40.000.000	--	(381.134)	2.281.006	25.415.086	3.472.880	70.787.838	--	70.787.838

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

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Interim Condensed Consolidated Statements of Cash Flow for the Three Months Period Ended 1 January 2020 – 31 March 2020

(All amounts expressed in Turkish Lira (TL) unless otherwise stated.)

		Not Audited	
	Notes	1 January– 31 March 2020	1 January– 31 March 2020
A. Cash flows from operating activities			
Profit from continuing operations		3.472.880	3.449.835
Adjustments to reconcile profit / (loss)			
Adjustments for depreciation and amortization expense	11-13	1.512.368	1.229.374
Adjustments for (reversal of) provisions related with employee benefits	16	44.697	55.083
Adjustment for deferred financing expenses	7	(10.718)	(98.918)
Adjustments for (reversal of) warranty provisions	15	494.673	(30.153)
Adjustments for impairment loss (reversal) of receivables	7	566.852	309.004
Adjustments for interest expense	23	14.235	102.488
Adjustment for deferred financing incomes	7	168.281	318.477
Other adjustments to reconcile profit (loss)	10	(2.291.805)	8.138.889
Adjustments for tax income/ (expense)	25	713.226	722.082
Adjustments for Working Capital		4.684.689	14.196.161
Adjustments for decrease (increase) in trade receivables	7	(933.205)	2.742.805
Adjustments for decrease (increase) in other receivables	8	(156.357)	(1.028.031)
Adjustments for decrease (increase) in inventories	9	(252.916)	(20.552)
Adjustments for increase (decrease) in trade payables	7	(996.151)	(651.821)
Adjustments for decrease (increase) in other payables	8	(166.652)	(677.820)
Increase (decrease) in employee benefit liabilities	16	542.694	1.150.373
Change in other current and non-current assets	17	(5.839)	(10.089.102)
Change in short-term and long-term liabilities	17	49.959	(2.033.992)
Cash Flows Generated from Operating Activities (+)		2.766.322	3.588.021
Payments related to employee benefits	16	--	(95.341)
Net Cash Generated from Operating Activities		2.766.222	3.492.680
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Cash outflows from purchases of property, plant, equipment	11	(50.417)	(472.897)
Cash outflows from purchases of intangible assets	12	(3.942.732)	(2.898.164)
Net Cash Used In Investing Activities		(3.993.149)	(3.371.061)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	23	(14.235)	(102.488)
Repayments of Borrowings	6	(110.326)	402.212
Net Cash Used in Financing Activities		(124.561)	299.724
Net Increase / (Decrease) In Cash and Cash Equivalents	5	(1.351.488)	421.343
D. Cash and Cash Equivalents at The Beginning Of The Period	5	2.927.899	6.095.046
Cash And Cash Equivalents At The End Of The Period		1.576.411	6.516.389

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

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Fonet Bilgi Teknolojileri Anonim Şirketi ("The Company or "Fonet") was established in in 1997 to provide computer software and technical support (designing, developing, implementing, operating, maintaining and consulting services in information technology) to both Public and Private Institutions.

The Company's headquarter is located at Kızılırmak Mah. Ufuk Üniversitesi Cad. 1445 Sokak No:2 The Paragon Tower İş Merkezi B Blok 1-6 Çukurambar, Çankaya Ankara.

The Company has two branches, one located at Büyükdere Cad. A2 Blok No:33/4 Levent İstanbul and the other branch in İpekyol Cad. No: 12/1 Şanlıurfa. The Company has liaison office abroad located in Klarabergsviadukten 70 D4, 111 64 Stockholm, Sweden.

The Company provides information management systems, system integration, consultancy and turnkey project services in the field of health informatics. Although the main operations of the Company is in the field of health informatics, the Company also participates in different IT projects related to field expertise.

The Company's main product is hospital information management system (Fonet HBYS). Fonet HBYS ensures that all medical, administrative and financial business processes of health institutions are managed within the automation system. Fonet HBYS consists of 58 separate software modules.

All the software products which owned by Fonet are as follows:

S. No	Modül Adı	S. No	Modül Adı
1	Patient Record / Admission Management Sys.	30	Diabetes Education Management System
2	Polyclinic Management System	31	Social Services Management System
3	Clinic Management System	32	Home Health Care Services Management System
4	Emergency Management System	33	Interoperability System
5	Laboratory Information System	34	Decision Support Management System
6	Radiology Information System	35	Material Resource and Inventory Management System
7	PACS (Picture Archiving and Communication S.)	36	Fixture and Asset Management System
8	Nursing Management System	37	Financial Information Man. S. (Invoice, Cash Desk, etc.)
9	Operating Room Information System	38	Purchasing Information System
10	Pharmacy Information System	39	Human Resources / Pay-Roll Information System
11	Cancer Management System	40	Personnel Attendance Control Management System
12	Mouth and Dental Health Information System	41	Document Management System
13	Physical Treatment and Rehabilitation Man. S.	42	Medical Record Archive Management System
14	Intensive Care Management System	43	Device Tracking Management System
15	Hemodialysis Management System	44	Medical Device Calibration and Quality Control M. Sys.
16	Pathology Management System	45	Quality Management System
17	Psychology Management System	46	Quality Indicator Management System
18	Oncology Management System	47	Laundry Management System
19	Diet Management System	48	Occupational Health and Safety Management System
20	Blood Center Information System	49	LCD / Display Information and Qmatic Man. Sys.
21	Sterilization Information System	50	Kiosk Management System
22	Healthcare Commission Management System	51	SMS Management System
23	Organ and Tissue Donation Management S.	52	Technical Service Management System
24	Clinic Engineering Information System	53	Central Computer Management System
25	Information System, Statistic & Reporting Sys.	54	Process Management System
26	Medical Research Management System	55	Medical Waste Management System
27	Information Desk Management System	56	Dynamic Medical / Administrative Module Des. Sys.
28	Appointment Procedure Management System	57	Subscription Counter Tracking Module
29	Pregnant Education Management System	58	Mobile Doctor Examination Man. System

The average number of personnel employed within the Group as of 31 March 2020 is 468 (31 December 2019: 460).

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

1. ORGANIZATION AND OPERATIONS OF THE GROUP (CONTINUED)

Detailed information about the personnel is as follows:

Shareholders	31 March 2020		31 December 2019	
	Share Amount	Rate %	Share Amount	Rate %
Abdülkerim GAZEN	23.333.333	58,33%	23.333.333	58,33%
Other (Public)	16.666.667	41,67%	16.666.667	41,67%
Paid Capital	40.000.000	100,00%	40.000.000	100,00%

The Company's issued capital consists of 40.000.000 shares, all with a par value of 1 Turkish Liras each as at 31 March 2019 (31 December 2019: 40.000.000 shares).

As of 31 March 2020, 2,222,000 shares of 40,000,000 shares consist of Group A shares and 37,778,000 shares consist of Group B shares. Group A shares has a privilege in determining the members of the board of directors and in exercising voting rights in the general assembly.

At the ordinary and extraordinary general assembly meetings to be held by the Company, group (A) shareholders have 15 voting rights for each share, and Group (B) shareholders have 1 voting right for each share.

The Company has accepted the registered capital system in accordance with the provisions of the Capital Market Law and has been involved to the registered capital system with the permission of the Capital Markets Board dated 27.02.2015 and numbered 5/253. The Company's registered capital ceiling amount is 100.000.000 TL, , all with a par value of 1 Turkish Liras and total shares are 100.000.000. The permission of the registered capital ceiling valid date is between 2019- 2023.

Subsidiaries fully consolidated included in the accompanying consolidated financial statements:

Pidata Bilişim Teknolojileri Anonim Şirketi ("Pidata")

The Company was established on 16 July 2018 and registered in Ankara. The establishment of the Company was announced in the Turkish Trade Registry Gazette dated 19 July 2018, numbered 9624.

Company Title	Main operating activity	Main operating activity type	Country	Established year
Pidata Bilişim Teknolojileri A.Ş.	Information Technology	Service	Turkey/Ankara	2018

From hereon after, Fonet Bilgi Teknolojileri Anonim Şirketi and the aforementioned subsidiary will be referred as "Group" or "Community".

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

Financial reporting standards

The Group maintains and prepares its statutory record and legal financial statements in accordance with the accounting principles determined by the Turkish Commercial Code ("TCC") and tax legislation.

The consolidated financial statements of the Group have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards, (—TAS/IFRSI) and interpretations as adopted in line with international standards by the Public Oversight Accounting and Auditing Standards Authority of Turkey (—POAI) in line with the communiqué numbered II-14.1 —Communiqué on the Principles of Financial Reporting In Capital MarketsI (—the CommuniquéI) announced by the Capital Markets Board of Turkey (—CMBI) on June 13, 2013 which is published on Official Gazette numbered 28676.

The communicate appropriate reporting companies involved in the CMB legislation Public Oversight according to Article 5 Accounting and Auditing Standards Board ("UPS") issued by Turkey Accounting Standards / Turkey Financial Reporting Standards as adopted with additional and reviews related to them ("IAS / IFRS").

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financial reporting standards (Continued)

The consolidated financial statements are presented in accordance with —Announcement regarding with TAS Taxonomy which was published by POA and the format and mandatory information recommended by CMB.

With the decision taken on March 17, 2005, the CMB announced that, effective from January 1, 2005, the application of inflation accounting is no longer required for companies operating in Turkey. The Group has prepared its consolidated financial statements in accordance with this decision. Consolidated financial statements have been prepared under the historical cost convention except for the derivative instruments and available for sale financial assets presented at fair values and revaluations related to the differences between carrying value and fair value of tangible and intangible assets arising from business combinations.

There are no seasonal and periodic changes that will significantly affect the Group's activities.

Comparative Information

The financial statements of the Group include comparative financial information to enable the determination of the financial position and performance. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current year financial statements and the significant changes are explained.

Currency Used In The Financial Statements

The financial statements of the Group is presented in the currency (functional currency) of the economic environment in which the Group operate. Financial position and results of operations of the Group are stated in Turkish Lira (TL) which is the Group's ruling currency and presentation currency for financial statements.

Going concern

Consolidated financial statements have been prepared on the basis of continuity of the business, assuming that the Group will benefit from its assets and fulfill its liabilities within the next year and within the natural flow of its operations.

Netting/Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Statement of Compliance with TAS/IFRS

The consolidated financial statements of the Group have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards, ("TAS/IFRS") and interpretations as adopted in line with international standards by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA") in line with the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board of Turkey ("CMB") on June 13, 2013 which is published on Official Gazette numbered 28676.

Basis of Consolidation

The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and have been prepared in accordance with IFRS applying uniform accounting policies and presentation.

Subsidiaries

As of 31 March 2020, the Group has control over financial and operating policies consolidated financial statements includes the financial statements of the subsidiaries.

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Basis of Consolidation (continued)

Subsidiaries (continued)

As of 31 December 2020, the direct and indirect participation rates of the companies subject to consolidation are as follows

Company Tittle	Main operating activity	Activities	Country	Year established
Pidata Bilişim Teknolojileri A.Ş.	Information Technology	Service	Türkiye/Ankara	2018

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All significant intra-group transactions and balances between Bade Dokuma and its consolidated subsidiaries are eliminated.

Under the equity method, an investment in associate 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. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), 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.

Even if non-controlling interests result in negative balance, total comprehensive income is transferred to the main shareholder shareholders and non-controlling interests.

The Group considers all relevant events and conditions in the assessment of whether the majority of votes in the relevant investment is sufficient to provide control power, including the following factors.

- Comparison of the voting right of the company with the voting right of other shareholders;
- Potential voting rights of the company and other shareholders;
- Rights arising from other contractual agreements, and
- Other events and conditions that may indicate whether the Group has current power in managing the relevant activities (including voting at previous general meetings) in cases where a decision is required.

If necessary, adjustments are made in the financial statements of the subsidiaries to match the accounting policies followed by the Group.

Cash flows related to all intra-group assets and liabilities, equity, income and expenses and transactions between the Group companies are eliminated in consolidation.

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Basis of Consolidation (continued)

Unrealized income and expenses arising from intra-group transactions, intra-group balances and intra-group transactions are mutually deleted during the preparation of consolidated financial statements. The profits and losses resulting from the transactions between the subsidiary and the parent and the subsidiaries subject to consolidation and jointly controlled partnerships are netted off in proportion to the share of the parent. Unrealized losses are deleted in the same way as unrealized gains unless there is evidence of impairment.

Consolidated statement of financial position and consolidated comprehensive income statement regulation principles

Full Consolidation Method:

Paid-in capital and statement of financial position items of the Group and its subsidiaries were collected. In the collection process, the receivables and debts of the partnerships subject to consolidation method have been mutually reduced.

- Paid-in capital of the consolidated statement of financial position is the paid-in capital of the Group; paid-in capital of subsidiaries is not included in the consolidated balance sheet.
- From all equity group items including the paid / issued capital of the subsidiaries within the scope of consolidation, the amounts corresponding to the shares other than the parent and subsidiaries have been reduced and the consolidated financial following the equity account group of the status table, it is shown as the account group —Non-Controlling Sharesl.
- Current and non-current assets purchased by partnerships subject to consolidation method as a result, adjustments are made to ensure that these assets are presented at the acquisition cost to the companies subject to consolidation method, and are included in the consolidated balance sheet at the amount prior to the sales transaction.
- The comprehensive income statement items of the Group and its subsidiaries were collected separately, and the sales of goods and services made by the companies subject to consolidation were reduced from the total sales and the cost of the goods sold.

The profit arising from the purchase and sale of goods between these partnerships regarding the stocks of the companies subject to consolidation method has been added to the cost of the goods sold by deducting from the stocks in the consolidated financial statements, and the loss has been reduced from the cost of the goods sold.

- The portion of the subsidiaries within the scope of consolidation that hits shares other than those subject to consolidation method from net profit or loss is shown as the —Non-Controlling Sharesl account group after the net consolidated period profit.
- In cases deemed necessary, adjustments have been made to make the financial statements of the subsidiaries in accordance with the accounting principles applied by other in-group companies.

Application of New and Revised International Financial Reporting Standards

The accounting policies adopted in preparation of the consolidated financial statements as at 31 March 2020 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2020. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Application of New and Revised International Financial Reporting Standards (continued)

The new standards, amendments and interpretations which are effective as at 1 January 2019 are as follows:

Definition of a business; (Amendments to IFRS 3);

UPS; TFRS 3 published amendments related to the business definition in 'Business Combinations' in May 2019. The purpose of this change helps to determine whether an entity will be accounted for as a business combination or as an asset acquisition.

The changes are as follows:

- Clarification of minimum requirements for the enterprise
- Elimination of the assessment of market participants in completing the missing items
- Add application guide to help businesses assess whether the acquisition process is important
- To limit the definitions of the business and outputs; and
- Publishing an optional fair value concentration test.

The amendment will be applied for annual accounting periods starting on 1 January 2020 and after.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform

Effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect, summarize,

- The provision regarding the high probability of transactions,
- Forward-looking evaluations,
- retrospective assessments and
- They are separately identifiable risk components.

The exemptions applied to the amendment to TFRS 9 and TAS 39 are intended to be disclosed in the consolidated financial statements in accordance with the regulation in TFRS 7.

Definition of Materiality (TAS 1 and TAS 8 Changes)

In June 2019, the UPS made amendments to the standards of "Presentation of TAS 1 Financial Statements" and "TAS 8 Accounting Policies, Changes and Errors in Accounting Estimates". The purpose of these changes is to harmonize the definition of "materiality" between standards and to clarify certain parts of the definition. According to the new definition, information is important if it can be assumed that financial statements may affect the decisions made by primary users based on these statements if the information is stored, inaccurate or not provided. The changes explain that the importance of the information will depend on the nature, size or both.. Companies are obliged to evaluate the materiality of the impact on the financial statements when information is used alone or in combination with other information.

The amendment will be applied for annual accounting periods starting on 1 January 2020 and after. Early application is allowed.

ii) Standards published but not enforced and not implemented early

The new standards, comments and amendments that have been published as of the date of approval of the consolidated financial statements but have not entered into force for the current reporting period yet and have not started to be applied early by the Group. Unless stated otherwise, the group will make the necessary changes that will affect the financial statements and footnotes after the new standards and interpretations become effective.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Application of New and Revised International Financial Reporting Standards (Continued)

TFRS 10 and TAS 28: Asset Sales or Contributions of the Investor Enterprise to the Associate or Joint Venture – Amendment;

The UPS postponed the validity date of the amendments made in TFRS 10 and TMS 28 in December 2017 indefinitely changed depending on the ongoing research project outputs related to the equity method. However, early application is allowed.

TFRS 17 - New Insurance Contracts Standard

In February 2019, KGK released TFRS 17 a comprehensive new accounting standard for insurance contracts that includes accounting and measurement, presentation and disclosure. TFRS 17 introduces a model that provides both measurement of liabilities arising from insurance contracts with current balance sheet values and accounting for profit during the period when services are provided TFRS 17 will be applied for annual accounting periods beginning on or after 1 January 2023. early application is allowed. The standard does not apply to the Company and will not have an impact on the financial position or performance of the Group.

Changes in IAS 1 - Classification of liabilities as short and long term;

On 12 March 2020, the UPS made amendments to the “Presentation of TAS 1 Financial Statements” standard. These amendments, which are effective for annual reporting periods beginning on or after 1 January 2022, provide explanations to the criteria for the long and short term classification of liabilities. The changes should be applied retrospectively according to TAS 8 “Accounting Policies, Changes and Errors in Accounting Estimates”. Early application is allowed.

Restatement in the Accounting Policies Estimates

No changes were made to the accounting policies that would affect the presentation of the effects of transactions and events on the financial position, performance or cash flows of the Group in a more appropriate and reliable manner. No changes are foreseen in the accounting policies applied in the near future.

Restatement and Errors in the Accounting Policies Estimates

The effect of a change in an accounting estimate is for only one period, in the current period when the change is made; if they are related to future periods, they are reflected in the financial statements both in the future and in the next period, to be taken into consideration in determining the net period profit or loss.

The correction amount of an error is considered retrospectively. An error is corrected by reorganizing comparative amounts for previous periods when it occurred or by reorganizing the accumulated profits account for that period when it occurs before the next reporting period.

If the re-adjustment of the information causes an excessive cost, the comparative information of the previous periods is not rearranged, accumulated profits calculation of the next period is re-adjustment under the cumulative effect of the error before the beginning of the said period.

Summary of Significant Accounting Policies

Accounting policies within TFRS; are specific principles, principles, traditions, rules and practices used by enterprises in the preparation and presentation of financial statements.

Revenue Recording

The Group transfers a committed good or service to its customer and records the revenue in its financial statements as it fulfills or obtains its performance obligation. When an asset is in control (or as it passes) to the customer, the asset is transferred.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Revenue Recording (continued)

The company records revenue in its financial statements in accordance with the following basic principles:

- a. Determination of contracts with customers,
- b. Determination of performance obligations in the contract,
- c. Determination of the transaction price in the contract,
- d. Dividing the transaction price into performance obligations in the contract,
- e. Accounting of revenue when each performance obligation is fulfilled)

The Group accounts for a contract with its customer as revenue if all of the following conditions are met:

- a. The parties to the contract have approved the contract (in writing, verbally or in accordance with other commercial practices) and undertake to perform their own actions,
- b. The company can define the rights related to the goods or services to be transferred by each party,)
- c. The company can define payment terms for the goods or services to be transferred,
- d. The contract is inherently commercial in nature
- e. It is probable that the Group will collect a price for goods or services to be transferred to the customer. When evaluating whether a price is likely to be collected, the entity takes into account only the customer's ability to pay this amount on due date and the intention to do so.)

Revenue from product sales

The Group receives revenue by selling the software programs it produces. Revenue is recorded when products are handed over to the customer

The Group revenue mainly consists of the sales revenue of the software product specified in the first footnote and the modules that are part of this product.

When another party is involved in providing the goods or services to the customer, the Group determines the quality of its commitment as a performance obligation to provide the specified goods or services in person (principal) or to mediate those goods or services provided by the other party (proxy). It is noble if the company checks the specified goods or services before transferring those goods or services to the customer. In that case, when it fulfills (or brings) its obligation to perform, it records the revenue in the financial statements as much as the gross amount of the price it expects to deserve in return for the assigned goods or services. If the Group acts as an intermediary in the provision of goods or services whose performance obligation is determined by another party, it is a proxy and does not reflect the revenue in the financial statements for the performance obligation in question.

If the company is entitled to collect a price directly corresponding to the value of its completed performance from its customers (in the delivery of the products), the company records the revenue in the financial statements as much as it has the right to invoice. The Group does not make any adjustments at the beginning of the contract, since the period between the transfer date of the goods and services promised to the customer and the date when the customer pays the price of this goods or service will be one year or less, there will be no impact on the promised financing component.

The Group does not have contract assets arising from its contracts with its customers and contract costs to be capitalized regarding the said contracts.

Financial assets

Financial assets other than those that are classified as financial assets whose fair value difference is reflected in profit or loss and recorded at fair value are accounted for their total market value and the total amount of expenses directly attributable to the purchase transaction. As a result of the purchase or sale of financial assets, which are bound to a contract that has the condition of delivery of the investment instruments in accordance with the period determined by the relevant market, the relevant assets are recorded or removed from the records at the transaction date.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**Financial assets (continued)**

Financial assets are classified as financial assets whose fair value difference is reflected in profit or loss, investments held to maturity, financial assets available for sale and loans and receivables. The classification is determined during the first registration, depending on the purpose and characteristics of the financial asset. The Group does not have —financial assets with fair value difference reflected in profit or loss and —investments to be held until maturity.

Effective interest method

Effective interest method is the method of evaluating the financial asset with the amortized cost and distributing the related interest income to the related period. Effective interest rate; It is the rate that reduces the estimated cash total to be collected during the expected life of the financial instrument or, if appropriate, during a shorter period of time, to the net present value of the financial asset. Income related to financial assets classified with the exception of financial assets whose fair value difference is reflected to profit or loss is calculated by using effective interest method.

Financial assets available for sale

Quoted equity instruments and some debt securities are listed as available-for-sale financial assets and are shown at fair value. The Group has equity instruments that are not traded in an active market and are not quoted on the stock market, but are classified as available-for-sale financial assets, and are shown at cost because their fair values cannot be measured reliably. Except for the depreciation recorded in the income statement, interest rate and monetary assets, exchange rate difference profit / loss calculated using the effective interest method, gains and losses arising from changes in fair value are recognized in other comprehensive income and financial assets are accumulated in the value increase fund.

In the event of an investment disposal or impairment, the total profit / loss accumulated in the financial assets appreciation fund is classified in the income statement.

Dividends related to equity instruments ready for sale are recognized in the income statement, when the Group has the right to receive dividends. The Group does not have any financial assets investment ready for sale.

Loans and receivables

Commercial and other receivables and loans with fixed and determinable payments that are not traded in the market are classified in this category. Loans and receivables are shown by deducting the impairment from their discounted cost by using the effective interest method.

Impairment of financial assets

Financial assets or groups of financial assets, other than financial assets whose fair value difference is reflected in profit or loss, are assessed at each balance sheet on whether there are indicators of impairment. Impairment loss occurs when one or more events occur after the initial recognition of the financial asset and the adverse impact of that event on the future cash flows that can be reliably predicted by the relevant financial asset or group of assets is impaired. The depreciation amount for the financial assets shown from their amortized value is the difference between the present value calculated by discounting the expected cash flows over the effective interest rate of the financial asset and the book value.

Except for trade receivables, where the carrying amount is reduced through the use of a reserve account, the impairment is directly deducted from the book value of the relevant financial asset. If the trade receivable is not collected, the amount in question is deleted by deducting from the reserve account. Changes in reserve account are accounted for in the income statement.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**Financial assets (continued)**

Except for the equity instruments available for sale, if the impairment loss decreases in the following period and the decrease can be associated with an event that occurred after the impairment loss is recognized, the impairment loss previously recognized will not exceed the amortized cost at the date when the impairment was not recognized. is canceled in the income statement. The increase in the fair value of equity instruments available for sale after the impairment is directly accounted in equity.

Cash And Cash Equivalents

Cash and cash equivalents include cash, demand deposits and other short-term highly liquid investments with maturities less than 3 months or 3 months from the date of purchase, which can be immediately converted to cash and without significant risk of value change.

Financial Liabilities

Financial liabilities are recorded with their values after the transaction expenses are deducted from the financial debt amount received on the date of receipt. Financial liabilities are followed in the financial statements with their discounted values calculated with effective interest rate on the following dates. The difference between the amount of the financial debt received (excluding transaction expenses) and the repayment value is recognized on the accrual basis during the financial debt period in the statement of profit or loss. Financial debts are classified as short term liabilities if the company does not have unconditional right such as postponing the liability for 12 months from the balance sheet date.

Trade Paybles

Trade payables are recorded at their fair values and are subsequently accounted for at their discounted values using the effective interest rate.

Recording and extraction of financial assets and liabilities

All financial asset purchases and sales are reflected in the records on the transaction date, that is, on the date when the Group commits to buy or sell the asset. Aforementioned purchases and sales are trades that require the delivery of the financial asset within the timeframe determined by the general practices and regulations that occur in the market.

A financial asset (or part of a financial asset or group of similar financial assets);

period regarding the right to obtain cash flow from the asset has expired;)

Although the Group has the right to obtain cash flow from the asset, in the event that it has an obligation to pay the whole party without spending too much time under an agreement that has to be transferred directly to third parties;

If the Group has transferred its right to obtain cash flows from the financial asset and (a) all risks or rewards related to the asset have been transferred or (b) all rights or rewards have not been transferred, they are removed from the records. In the event that the Group delegates its right to obtain cash flow from the asset, however, if all risks or interests are not transferred or transferring control over the asset, the asset is carried in the financial statements depending on the Group 's ongoing relationship with the asset. Financial liabilities are removed from the records in case the debts arising from these liabilities are eliminated, canceled and expired.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Inventories

It is the item that shows assets that are held to be sold for sale in the normal course of business, that are produced to be sold or that are found in the form of items and materials to be used in the production process or service delivery. Order advances given are classified as other current assets until the relevant stock is recognized.

Inventories are valued at the lower of cost or net realizable value. Costs comprise purchase cost and, where applicable and those overheads that have been incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Financing costs incurred for inventories purchased on deferred settlement terms are excluded from the cost of inventories. Cost is calculated by the weighted average method. The acquisition cost of each item of inventory is discounted to net realizable value. This discount is made by impairment provision of the inventory.

Investment Property

Investment properties are properties that are held for the purpose of earning rental and / or appreciation gains, and are first measured by their cost values and the transaction costs involved. The Group does not have investment properties.

Property, Plant and Equipment

Property, plant and equipment are revealed the amount after deducting accumulated depreciation and accumulated impairment. Assets for hire or administration purpose assets or assets which are in construction phase are revealed the amount which is deducted by the possible impairment cost. Legal fees are included to the costs. When there is time needed for the assets to be used or sale, borrowing costs related to asset are capitalized according to the related accounting policies of the Group. These type of assets are subjected to depreciation, like depreciation method used for other fixed assets, when they are ready to use

Except land and continuing investments, tangible assets' cost or amounts are depreciated by linear depreciation method according to their expected useful life. Expected useful life, remainder value and depreciation method, is revised in order to determine the possible effects of change every year and capitalized.

Comprised revenues or losses from sale of tangible assets or getting it out from service, is determined as the difference of sales revenue and assets' book value and included in the income statement.

The Group follows its vehicle at revaluation value model. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Property, Plant and Equipment (continued)

	<u>Useful Life</u> 31 March 2020	<u>Useful Life</u> 31 December 2019
Buildings	50	50
Vehicles	--	5
Machinery and equipment	5	5
Furniture and fittings	3-15	3-15
Leasehold improvements	5-10	5-10

Property, plant and equipment are reviewed for impairment losses. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the asset net selling price or value in use. The recoverable amount of the property, plant and equipment is the higher of future net cash flows from the utilization of this property, plant and equipment or fair value less cost to sell.

Costs of property plant and equipment are included in the asset's carrying amount or recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statements of income during the financial period in which they were incurred. Gain or losses on disposal of property, plant and equipment are included in the —Income/Expense from Investing Activities and are determined as the difference between the carrying value and amounts received.

The gain on revaluation on tangible assets presented in the equity is transferred directly to the retained earnings when the asset is retired from use or disposed of or fully depreciated

Intangible Assets and Amortization

Intangible assets acquired

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in accounting estimates for on a prospective basis.

Computer software

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

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognised.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**Intangible Assets and Amortization (continued)**

Intangible assets are stated by deducting the accumulated fall in value and depreciation shares from the acquisition costs. Intangible assets are subjected to depreciation on the basis of the useful life principle by means of linear depreciation. Expected useful life and depreciation method, is revised in order to determine the possible effects of change for the future every year.

Research and development costs

Research is defined as the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. The expenditure on research is recognized as an expense when it is incurred.

Development is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use and an intangible asset arising from development is recognized when the following are demonstrated by the Group:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale,
- Its intention to complete the intangible asset and use or sell it,
- Its ability to use or sell the intangible asset,
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset,
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs comprise salaries, wages and related costs of the staff working directly in development activities and other directly attributable costs. The government grants related development costs are deducted from the carrying value of associated development costs.

	Useful Life 31 March 2020	Useful Life 31 December 2019
Rights	10-15	10-15
Development costs	12	12
New HBYS working in Java based cloud	15	--
Web portals	5	51
Other intangible fixed assets	3-101	3-10

Leases***Group - as a lessee***

At inception of a contract, the Group assesses whether the 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.

Group considers following indicators for the assessment of whether a contract conveys the right to control the use of an identified asset for a period of time or not:

- The contract includes an identified asset (contract includes a definition of a specified asset explicitly or implicitly),
- A capacity portion of an asset is physically distinct or represents substantially all of the capacity of an asset (if the supplier has a substantive right to substitute the asset and obtain economic benefits from use of the asset, then the asset is not an identified asset),

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Leases (continued)

Group - as a lessee (continued)

- Group has the right to obtain substantially all of the economic benefits from use of the identified asset,
- Group has the right to direct the use of an identified asset.

Group recognises a right-of-use asset and a lease liability at the commencement date of the lease following the consideration of the above mentioned factors.

Group has the right to direct the use of the asset throughout the period of use only if either:

- a) Group has the right to direct how and for what purpose the asset is used throughout the period of use or
- b) Relevant decisions about how and for what purpose the asset is used are predetermined:
 - i. Group has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or
 - ii. Group designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

Right-of-use asset

At the commencement date, the Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

- a) the 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
- d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease (unless those costs are incurred to produce inventories).

When applying the cost model, Group measures the right-of-use asset at cost:

- a) less any accumulated depreciation and any accumulated impairment losses; and
- b) adjusted for any remeasurement of the lease liability. Group applies the depreciation requirements in TAS 16 Property, Plant and Equipment Standard in depreciating the right-of-use asset.

Group applies TAS 36 Impairment of Assets Standard to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Lease liability

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease, if that rate can be readily determined, or by using the Group's incremental borrowing rate.

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date,;

- a) fixed payments, less any lease incentives receivable,
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date,
- c) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, Group measures the lease liability by:

- a) increasing the carrying amount to reflect interest on the lease liability,
- b) reducing the carrying amount to reflect the lease payments made, and
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications. The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Leases (continued)

Practical expedients

The short-term lease agreements with a lease term of 12 months or less and agreements related to information technology equipment leases (mainly printer, laptop, mobile phone etc.), which are determined by the Group as low value, have been evaluated within the scope of practical expedients introduced by the TFRS 16 Leases Standard and related lease payments are recognised as an expense in the period in which they are incurred.

Group - as a lessor

All the leases that Group is the lessor are operating leases. Assets leased out under operating leases are classified under investment properties, property, plant and equipment or other current assets in the consolidated balance sheet. Rental income is recognised in the consolidated statement of income on a straight-line basis over the lease term.

Impairment of Assets

Impairment test is applied when it is not possible to recover assets’ book value which is subject to depreciation. Provision of impairment is entered when asset’s book value is higher than its recoverable value. Recoverable amount, after deducting sales costs, is fair value or value in use whichever is higher. In order to evaluate impairment, assets are grouped into lowest level of separate definable cash flows (cash generating units). Except goodwill, nonfinancial assets which are subject to impairment are revised in every reporting periods in case when there is a possibility of cancellation of impairment.

Borrowing Costs and Funds

As far as qualifying assets requiring a considerable amount of time to be ready for use and sale are concerned, borrowing costs directly associated with the purchase, production or generation of the said assets could be included in the cost until the qualifying asset is ready for use or sale. All other borrowing costs could be entered into related period’s income statement.

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds, net of transaction costs, and the redemption value is recognized in the income statement over the period of the borrowings. Borrowing costs are charged to the income statement when they are incurred. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Effects of Change in Rates

Foreign currency (currencies other than TRY) transactions are entered in the accounts by taking the rates on the date of transactions during the preparation of company’s financial statements. Foreign currency monetary assets and liabilities are exchanged into Turkish Lira by taking the valid rates on the balance sheet date. Foreign currency monitored nonmonetary items are exchanged into Turkish Lira with the rates when their fair value is set. Nonmonetary items which are measured by historical cost are not subject to be exchanged again. Foreign currency gain/loss is entered in the profit/loss accounts when they are realized.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**Effects of exchange rate differences (continued)**

During the preparation of the Group's financial statements, transactions in foreign currency (currencies other than TL) are recorded based on the exchange rates at the date of the transaction. Foreign currency indexed monetary assets and liabilities in the balance sheet are converted into Turkish Lira by using the exchange rates valid on the balance sheet date. Of the non-monetary items that are monitored with their fair value, those recorded in foreign currency are converted into TL based on the exchange rates on the date the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences are recognized in profit or loss in the period they occur except for the following situations:

- Exchange differences that are related to assets being built for future use and are included in the cost of such assets, which are considered as a correction item to interest costs on debts denominated in foreign currency,
- Foreign exchange differences arising from transactions to provide financial protection against risks arising from foreign currency (accounting policies for providing financial protection against risks are explained below),
- Foreign exchange differences arising from foreign debt and receivables arising from foreign operations, which are part of the net investment in foreign activity, accounted for in the reserve reserves and associated with profit or loss in the sale of the net investment, with no intention to pay or probability.

Earnings Per Share

Earnings per share on the income statement are determined by dividing net profit into average shares on market throughout the year.

In Turkey companies can increase their capital by giving out to shareholders —free sharel way which is from previous year's profit. This type of free sharel distribution is set, in the calculation of earnings per share, average share number, and by considering previous effects of such share distribution.

Events Subsequent To The Balance Sheet Date

Events after the balance sheet date refer to events occurring in favor or against the Company between the balance sheet date and the date when the financial statements are approved for publication. Based on whether or not corrections are made, two types of situations are defined:

- events requiring post-balance sheet correction; Situations where there are proofs of evidence of the existence of related developments indicating that the relevant events occurred after the balance sheet date (events that do not require post-balance sheet correction)
- In the attached financial statements of the Group, events requiring correction after the balance sheet date are recorded and the events that do not require post-balance sheet correction are shown in the footnotes.

Provisions, contingent asset and contingent liabilities**Provisions**

Provision is made in the financial statements if there is an existing legal or implied obligation arising from past events and sources with economic benefits are likely to leave the Company and the liability amount is estimated safely to fulfill the obligation. Provisions are calculated according to the most realistic estimation made by the Company management of the expenditure to be made to fulfill the obligation as of the balance sheet date and discounted to its present value when the effect is significant.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Provisions, contingent asset and contingent liabilities (continued)

Contingent Liabilities

Liabilities included in this group are considered as contingent liabilities and are not included in the financial statements. Because, in order to fulfill the obligation, there is no possibility of the resources containing economic benefits to leave the business or the amount of the obligation cannot be measured reliably enough. The Company shows its contingent liabilities in the footnotes of the financial statements, unless the sources of economic benefits are far from likely to leave the business.

Contingent Asset

The asset, which will be confirmed by the occurrence of one or more inaccurate events arising from past events and whose existence is not under the full control of the business, is considered as a conditional asset. Contingent assets are explained in the footnotes of financial statements if the entry of resources with economic benefits is not definitive.

In cases where all or part of the economic benefits used to pay the allowance amount are expected to be met by third parties, the amount to be collected is recognized and reported as an asset if the reimbursement of this amount is definite and the amount is calculated reliably.

Related Parties

For the purpose of these financial statements, shareholders, key management personnel and Board members, in each case together with their families and companies controlled by/or affiliated with them, associated companies and other companies within the Company are defined and referred to as related parties.

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

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity;
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.;

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

iii) Both entities are joint ventures of the same third party.

iv) Tarafın, Grup'un veya ana ortaklığının kilit yönetici personelinin bir üyesi olması;

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

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

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

Transaction with related party is a transfer of resources, services or liabilities between the reporting entity and the related party, disregarding it is with or without a value

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

Taxes on Income

Tax expense includes current period tax expense and deferred tax expense, Tax is included in the income statement, provided that it is not related to a transaction recognized directly in equity, Otherwise, the tax is also recognized in equity with the related transaction.

Current tax

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

Deferred Tax

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**Employee Benefits and Retirement Benefits**

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. TAS 19 (Employee Benefits) stipulates the development of Company's liabilities by using actuarial valuation methods under defined benefit plans.

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

Reporting of cash flows

The Group organizes the cash flow statements in order to inform the users of the financial statements about the changes in the net assets, the financial structure and the ability to direct the amount and timing of the cash flows according to the changing conditions. In the cash flow statement, cash flows for the period are classified and reported based on operating, investment and financing activities.

Cash flows arising from operating activities show cash flows arising from the main activities of the Group. Cash flows related to investment activities show the cash flows used and obtained by the Group in its investment activities (fixed asset investments and financial investments). Cash flows related to financial activities show the resources used by the Group in financial activities and repayments of these resources.

Cash and cash equivalents include cash and demand bank deposits, and short-term investments with high liquidity that can be easily converted to a certain amount of cash, with a maturity of 3 months or less.

Capital and Dividends

Dividends receivable are recognized as income in the period when they are declared. Dividends payable are recognized as an appropriation of profit in the period in which they are declared

Significant Accounting Judgments, Estimates and Assumptions

In the preparation of consolidated financial statements in accordance with TAS, the Group management is required to make assumptions and estimates that will affect the reported assets and liabilities amounts, the probable liabilities and commitments that will be realized as of the reporting date and the income and expense amounts in the reporting period and specify them in the related footnotes at the report. However, the uncertainties associated with these assumptions and estimates used may require adjustments to be recorded that may differ materially from the carrying amounts of these assets and liabilities in the future.

In order to eliminate the uncertainties regarding the future at the reporting date which estimates that could significantly affect the carrying amounts of the liabilities are as follows:

- a) The Group makes various actuarial assumptions in the calculation of employee benefits such as discount rate, inflation rate, real salary increase rate, probability of voluntary departure (Note 14).
- b) The Group has made certain important assumptions based on experiences of technical personnel in determining useful economic life of some machinery and equipment as of December 31, 2019. Therefore the estimates and assumptions made to determine their carrying value and related depreciation are material to the Group's financial position.(Note 10)
- c) The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated)

3. BUSINESS COMBINATION

None (31 December 2019: None).

4. SEGMENT REPORTING

Fonet Bilgi Teknolojileri Anonim Şirketi. and its subsidiary Pidata Bilişim Teknolojileri A.Ş. operates in the same sector and in the same geographical regions.

As of the end of the current period, Pidata Bilişim Teknolojileri A.Ş. has not started its activities yet and has no revenue. Therefore, no reporting has been submitted by the department in the current period.

5. CASH AND CASH EQUIVALENTS

	31 March 2020	31 December 2019
Cash	1,864	3,147
Banks:		
-Time deposits	143.266	2.159.673
-Demand Deposits	1.431.281	765.079
Total	1.576.411	2.927.899

As of the reporting period, the time deposits of the Group is comprised of TL assets, with a maturity range of approximately 2-32 days and interest rates between 4.5% and 8%.

6. FINANCIAL LIABILITIES

Current financial liabilities

	31 March 2020	31 December 2019
Bank borrowings	917.417	792.414
Current part of the non current liabilities	--	65.418
Liabilities arising from renting	370.480	395.179
Other	141.052	212.168
Total	1.428.949	1.465.179

Non current financial liabilities

	31 March 2020	31 December 2019
Liabilities consist from rentings	946.783	1.020.879
Total	946.783	1.020.879

The redemption schedule of bank borrowings are as follows:

	31 March 2020	31 December 2019
0-3 month	1.058.469	1.059.492
3-12 month	--	10.508
Total	1.058.469	1.070.000

All of the loans are in Turkish Lira and the details of the TRIs against the loans received are given in Note 15.

he redemption schedule of liabilities arising from renting are as follows:

	31 March 2020	31 December 2019
0-3 month	92.620	98.795
3-12 month	277.860	296.384
1-5 years	946.783	1.020.879
Total	1.317.263	1.416.058

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(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated)

7. TRADE RECEIVABLES AND TRADE PAYABLES

Current Trade Receivables

	31 March 2020	31 December 2019
Trade receivables from related parties (Note: 24)	--	--
Trade receivables	8.762.374	8.336.459
Deferred financing incomes (-)	(168.281)	(115.060)
Provision for trade receivables (-)	(566.852)	(571.229)
Total	8.027.241	7.650.170

The movement table of the Group regarding provisions for trade receivables is as follows:

	31 March 2020	31 December 2019
Beginning of the period	571.229	440.334
Provision during the period	--	--
Provision canceled during the period	(4.377)	(131.330)
End of the period	566.852	309.004

Current Trade Payables

	31 March 2020	31 December 2019
Trade payables to related parties (Note: 24)	416.785	--
Trade payables	--	186.599
Notes payables	134.500	1.198.746
Deffered financing incomes (-)	(10.718)	(16.909)
Total	540.567	1.368.436

8. OTHER RECEIVABLES and OTHER LIABILITIES

Other current receivables

	31 March 2020	31 December 2019
Due from personnel	6.000	13.500
Deposits and guarantees given	124.604	200.321
Total	130.604	213.821

Other non current receivables

	31 March 2020	31 December 2019
Deposits and guarantees given	39.380	39.380
Total	39.380	39.380

Other current liabilities

	31 March 2020	31 December 2019
Taxes and funds payables	482.505	646.673
Other	2.184	4.668
Total	484.689	651.341

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

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(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

9. INVENTORIES

	31 March 2020	31 December 2019
Merchandise	775.532	522.616
Total	775.532	522.616

Merchandise consist of the hardware and software inventories for various projects the Group has acquired.

10. PREPAID EXPENSES AND DEFERRED INCOMES

Current Prepaid Expenses

	31 March 2020	31 December 2019
Prepaid expenses (*)	571.100	582.708
Advances given	217.311	9.796
Advances given for business purposes	86.163	48.016
Total	874.574	640.520

Current Prepaid Expenses

	31 March 2020	31 December 2019
Prepaid expenses (*)	778.146	773.211
Total	778.146	773.211

(*) The prepaid expenses include software licenses acquired in accordance with the contracts made within the scope of the tenders that the Group has participated in, and are closed by monthly invoicing to the customers during the period.

Current Deferred Incomes

	31 March 2020	31 December 2019
Deferred incomes	--	2.263.889
Other	--	27.916
Total	--	2.291.805

11. PROPERTY, PLANT AND EQUIPMENT

Cost	1 January 2020	Addition	Disposal	31 March 2020
Buildings	1.500.000	--	--	1.500.000
Machinery and equipment	--	--	--	--
Motor vehicles	1.722.576	--	--	1.722.576
Fixtures and fittings	3.472.335	50.417	--	3.522.752
Leasehold improvements	966.532	--	--	966.532
Total	7.661.443	50.417	--	7.711.860

Accumulated depreciation (-)

Buildings	(270.000)	(7.500)	--	(277.500)
Machinery and equipment	--	--	--	--
Motor vehicles	(535.338)	(80.770)	--	(616.108)
Fixtures and fittings	(1.768.172)	(136.601)	--	(1.904.773)
Leasehold improvements	(361.824)	(48.327)	--	(410.151)
Total	(2.935.334)	(273.198)	--	(3.208.532)
Net book value	4.726.109			4.503.328

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Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	31 December 2018	Addition	Disposal	31 December 2019
Buildings	1.500.000	--	--	1.500.000
Machinery and equipment	216.915	--	(216.915)	--
Motor vehicles	1.166.428	556.148	--	1.722.576
Fixtures and fittings	2.936.223	536.112	--	3.472.335
Leasehold improvements	1.270.878	18.907	(323.253)	966.532
Total	7.090.444	1.111.167	(540.168)	7.661.443
Accumulated depreciation (-)				
Buildings	(240.000)	(30.000)	--	(270.000)
Machinery and equipment	(216.915)	--	216.915	--
Motor vehicles	(223.322)	(312.016)	--	(535.338)
Fixtures and fittings	(1.266.227)	(501.945)	--	(1.768.172)
Leasehold improvements	(492.651)	(192.426)	323.253	(361.824)
Total	(2.439.115)	(1.036.387)	540.168	(2.935.334)
Net book value	4.651.329			4.726.109

The net book value of the tangible fixed assets are as follows:

Property, Plant and Equipment	Net Book Value	
	31 March 2020	31 December 2019
Buildings	1.222.500	1.230.000
Motor vehicles	1.106.468	1.187.238
Fixtures and fittings	1.617.979	1.704.163
Leasehold improvements	556.381	604.708
Total	4.503.328	4.726.109

As of 31 March 2020, there is an insurance coverage of TL 800,000 TL (Prior period: TL 800,000) on the total assets. There are no restrictions on real estates.

12. INTANGIBLE ASSETS

Cost	1 January 2020	Additions	Disposals	31 March 2020
Rights	6.462.747	--	--	6.462.747
Development costs ".net based HBYS"	4.588.814	--	--	4.588.814
Development costs —New HBYS working on cloud system based on JAVA	62.485.188	3.947.425	(4.693)	66.427.920
Total	73.536.749	3.947.425	(4.693)	77.479.481
Accumulated amortization (-)				
Rights	(4.975.910)	(68.127)	--	(5.044.037)
Development costs ".net based HBYS"	(3.130.536)	(95.600)	--	(3.226.136)
Development costs —New HBYS working on cloud system based on JAVA	(6.850.414)	(1.040.895)	--	(7.891.309)
Total	(14.956.860)	(1.204.622)	--	(16.161.482)
Net book value	58.579.889			61.317.999

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

12. INTANGIBLE ASSETS (continued)

Cost	31 December 2018	Additions	Disposals	31 December 2019
Rights	6.451.694	11.053	--	6.462.747
Development costs ".net based HBYS"	4.588.814	--	--	4.588.814
Development costs —New HBYS				
working on cloud system based on JAVA	48.758.733	13.726.455	--	62.485.188
Other intangible assets	2.359.050	--	(2.359.050)	--
Total	62.158.291	13.737.508	(2.359.050)	73.536.749
Accumulated amortization (-)				
Rights	(4.704.253)	(271.657)	--	(4.975.910)
Development costs ".net based HBYS"	(2.748.135)	(382.401)	--	(3.130.536)
Development costs —New HBYS				
working on cloud system based on JAVA	(3.138.088)	(3.712.326)	--	(6.850.414)
Other intangible assets	(2.359.050)	--	2.359.050	--
Total	(12.949.526)	(4.366.384)	2.359.050	(14.956.860)
Net book value	49.208.765			58.579.889

The net book value of the intangible fixed assets are as follows:

Intangible assets	Net Book Value	
	31 March 2020	31 December 2019
Rights	1.418.710	1.486.837
Development costs ".net based HBYS"	1.362.678	1.458.278
Development costs —New HBYS working on cloud system based on JAVA	58.536.611	55.634.774
Total	61.317.999	58.579.889

The Group capitalises cost of the new HIS program running on Java-based cloud architecture. These costs consist of outsourced services and personnel costs in software development, project implementation and system support departments.

The details of the program costs capitalized during the period are as follows:

	01.01.- 31.03.2020	01.01.- 31.03.2019
Personel costs		
(the personnels work on software development, project implementation and system support departments)	3.947.425	13.161.455
Outsource costs		
(services and products rendered from 3rd parties)	--	565.000
Toptal	3.947.425	13.726.455

Development costs incurred in prior periods are consist of costs related to the HBYS. The development costs associated with the ".Net-based HBYS program" that the Group is currently selling. As of 2013, the company has completed the development on ".Net-based Fonet HBYS programme".

13. RIGHT OF USE ASSETS

	01.01.2020			31.03.2020
	Balance	Additions	Disposals	Balance
Buildings	1.554.251	--	--	1.554.251
Building depreciations	(138.193)	(34.548)	--	(172.741)
Net book value	1.416.058	(34.548)	--	1.381.510

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Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

13. RIGHT OF USE ASSETS (continued)

Group in the case of tenant

The Group has 2 lease agreement that is subject to operating leases. The details of the mentioned lease agreements are as follows. The term of the contract is five years.

Leased Locations	Contract Start Date	Contract Date of Completion	Monthly Rent Amount	Yearly Rent Amount
The Paragon Business Center Flat:1	15.08.2017	15.08.2022	34.531	414.372
The Paragon Business Center Flat:8	15.07.2018	15.07.2023	16.900	202.800

14. GOVERNMENT PROMOTIONS

The Group has investment incentive certificates that are deemed appropriate to be issued by the Official Departments regarding investment expenditures. The rights owned by the Group due to these incentives are as follows:

- Incentives under the jurisdiction of the research and development law (100% corporate tax exemption, Social Security Institution incentives, etc.),
- Taxes and funds exemptions for R&D centres which are regulated under research and development law.
- Cash refunds from "Tübitak" and "Teydeb" for research and development expenses,

In accordance with the article; "Within the scope of the temporary second article of the Law No. 4691 on Technology Development Zones, amended by the 8th article of the Corporate Tax General Communiqué No 6, the earnings obtained by the management companies within this law and the income and corporate taxpayers operating in the region are exempt from income and corporate tax until 31 December 2023, exclusively from the software and R&D activities in this region. If the Group's revenues to be obtained as a result of research and development activities are within the scope of exemption from corporate tax.

15. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Other Current Provisions

	31 March 2020	31 December 2019
Provisions for law suits	1.078.818	584.145
Total	1.078.818	584.145

As of the date of this report, summary information about the Group related to litigation and execution are as follows:

	Total	Amount
Ongoing lawsuits on behalf of the Group	8	183.223
Ongoing execution proceedings	3	95.998
Ongoing lawsuits against the Group	59	823.673
Ongoing enforcement proceedings	4	265.478

The Group management has provided a provision in the amount of TL1.078.818 in the financial statements (Prior period: TL 584.145 TL).

Contingent Liabilities

	31 March 2020	31 December 2019
Guarantees given	12.284.416	16.157.166
Total	12.284.416	16.157.166

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

15. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

Collaterals, pledges and mortgages (CPM's) given by the Company are as follows;

TRI's Given by the Company (Collateral-Securities-Mortgages)

	31 March 2020	31 December 2019
A. CPM's given on behalf of own corporate entities	12.284.416	16.157.166
B. CPM's given on behalf of fully consolidated subsidiaries	--	--
C. CPM's given for continuation of its economic activities on behalf of third parties.	--	--
D. Total amount of other CPM's	--	--
i) Total amount of CPM's given on behalf of the parent company	--	--
ii) Total amount of CPM's given to on behalf of other Group Companies which are not in scope of B and C	--	--
iii) Total amount of CPM's given on behalf of third parties which are not in scope of C	--	--
Total	12.284.416	16.157.166

(*) The Group does not expect any cash outflow for ongoing lawsuits in line with the opinion it received from its legal counsel.

16. LIABILITIES FROM EMPLOYEE BENEFITS

Liabilities from Employee Benefits

	31 March 2020	31 December 2019
Payables due to personnel	2.050.836	1.686.115
Social security withholdings payables	963.459	785.486
Total	3.014.295	2.471.601

Current Provisions for Employee Benefits

	31 March 2020	31 December 2019
Provisions for unused vacations	159.521	299.181
Total	159.521	299.181

Movements in the provisions for unused vacations are as follows:

	31 March 2020	31 March 2019
Beginning of the period	299.181	350.469
Provision amount canceled in the current period	(139.660)	(2.668)
Provision amount for the current period	--	--
End of the period	159.521	347.801

Non Current Provisions for Employee Benefits

	31 March 2020	31 December 2019
Provision for employee termination benefits	684.473	902.491
Total	684.473	902.491

Provision for Severance Pay

Under the Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age. Severance payment provision is calculated as 30 days gross salary for each service year.

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ

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(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

16. LIABILITIES FROM EMPLOYEE BENEFITS (continued)

Provision for Severance Pay (continued)

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. TAS 19 (—Employee Benefits) stipulates the development of Group's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

	31 March 2020	31 December 2019
Net discount rate (%)	% 2.84	% 2.81
	31 March 2020	31 December 2019
Beginning of the period	902.491	675.428
Increases during the period	54.263	37.937
Intrerest expense	57.534	19.814
Actuarial profit /(loss)	(329.815)	(69.565)
Payments during the year	--	95.341
End of the period	684.473	758.955

The main assumption is that the maximum liability amount for each year of service will increase in line with inflation. Therefore. The discount rate applied represents the expected real rate after adjusting for future inflation effects. Therefore, as of March 31, 2020 and December 31, 2019, the provisions in the attached financial statements are calculated by estimating the present value of the probable liability arising from the retirement of future employees.

In calculating the provision for severance pay of the Group, the ceiling amount of 6.379.86 TL, valid on 31 March 2020, was taken into account (31 December 2019: 6.379.86 TL).

17. OTHER ASSETS AND LIABILITIES

Other current assets

	31 March 2020	31 December 2019
VAT carried forward	31.595	25.756
Total	31.595	25.756

Other current liabilities

	31 March 2020	31 December 2019
Other	49.959	--
Total	49.959	--

18. EQUITY

The Shareholders structure of The Company is as follow:

	31 March 2020		31 December 2019	
Shareholders	Share amount	Rate%	Share amount	RAte%
Abdülkerim GAZEN	23.333.333	58.33%	23.333.333	58.33%
Other (Public)	16.666.667	41.67%	16.666.667	41.67%
Paid capital	40.000.000	100.00%	40.000.000	100.00%

The Company's issued capital consists of 40.000.000 shares, all with a par value of 1 Turkish Liras each as at 31 December 2020 (31 December 2019: 40.000.000 shares).

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(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

18. EQUITY (continued)

Other comprehensive income/loss not to be reclassified to profit or loss

Defined Benefit Plans Remeasurement Gains (Losses):

	31 March 2020	31 December 2019
Actuarial gain/loss	(381.134)	(783.508)
Total	(381.134)	(783.508)

Movements of the actuarial gain /(loss) are as follows:

	31 March 2020	31 December 2019
Beginning of the period	(783.508)	(448.017)
Increases during the period	402.374	(335.491)
End of the period	(381.134)	(783.508)

Restricted reserves allocated from profit

	31 March 2020	31 December 2019
Legal reserves	2.281.006	1.749.772
Total	2.281.006	1.749.772

Legal reserves movement table is as follows:

	31 March 2020	31 December 2019
Beginning of the period	1.749.772	818.198
Increases during the period	531.234	931.574
End of the period	2.281.006	1.749.772

The Turkish Commercial Code ("TCC") stipulates that the general legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Group's paid-in share capital. Other legal reserve is appropriated out of 10% of the distributable income after 5% dividend is paid to shareholders. Under the TCC, general legal reserves can only be used for compensating losses, continuing operations in severe conditions or preventing unemployment and taking actions for relieving its effects in case general legal reserves does not exceed half of paid-in capital or issued capital.

	31 March 2020	31 December 2019
Beginning of the period	11.295.290	10.494.235
Previous year profits / (loss)	14.651.030	12.236.429
Transfer to the capital	--	(10.503.800)
Transfer to the legal reserves	(531.234)	(931.574)
Prior Year Profit / Loss(-)	25.415.086	11.295.290

Accumulated profits other than net period profit are shown in previous years' profits / (losses). Extraordinary reserves, which are essentially accumulated profits and thus not restricted, are also considered as accumulated profits and shown in this item.

FONET BİLGİ TEKNOLOJİLERİ ANONİM ŞİRKETİ**Notes to the Interim Condensed Consolidated Financial Statements as at 31 March 2020**

(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

19. REVENUE AND COST OF SALES (-)

	01.01.- 31.03.2020	01.01.- 31.03.2019
Revenue, net		
Domestic sales	13.647.916	10.854.235
Exports	237.490	121.501
Total Revenues	13.885.406	10.975.736
Sales returns and discounts (-)	--	--
Revenue, net	13.885.406	10.975.736
	01.01.- 31.03.2020	01.01.- 31.03.2019
Cost of sales (-)		
Cost of services sold	7.826.013	5.722.766
Cost of merchandises sold	--	77.075
Cost of other sales	--	949.427
Cost of sales	7.826.013	6.749.268
Gross profit	6.059.393	4.226.468

20. GENERAL ADMINISTRATION EXPENSES, RESEARCH EXPENSES (-)

	01.01.- 31.03.2020	01.01.- 31.03.2019
General administrative expenses (-)	1.397.770	1.074.338
Marketing, selling and distribution expenses (-)	109.613	263.863
Research and development expenses (-)	4.000	--
Total	1.511.383	1.338.201

21. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES (-)**Other income from operating activities**

	01.01.- 31.03.2020	01.01.- 31.03.2019
Incentive revenues	400.259	479.353
Deferred financing expenses	--	10.857
Reversals of deferred financing income	--	132.357
Reversal of provisions for receivables	4.377	131.330
Other	136.361	474.898
Total	540.997	1.228.795

Other expenses from operating activities (-)

	01.01.- 31.03.2020	01.01.- 31.03.2019
Deferred financing income	59.412	88.695
Reversals of deferred financing income	--	98.918
Provisions for law suits	494.673	--
Other	57.579	13.475
Total	611.664	201.088

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22. INCOME AND EXPENSES FROM INVESTING ACTIVITIES (-)

Income from investing activities

	01.01.- 31.03.2020	01.01.- 31.03.2019
Interest income	16.936	402.701
Total	16.936	402.701

23. FINANCIAL INCOME AND EXPENSES (-)

Financial incomes

	01.01.- 31.03.2020	01.01.- 31.03.2019
Foreign exchange income	4.752	--
Total	4.752	--

Financial Losses (-)

	01.01.- 31.03.2020	01.01.- 31.03.2019
Foreign exchange expenses	739	--
Interest expenses	14.235	102.488
Letter of guarantee commission expenses	59.570	39.739
Leasing finance expenses	130.368	--
Other	35.454	4.531
Total	240.366	146.758

24. RELATED PARTIES

For the purpose of these financial statements, shareholders, key executives, board members, their families and companies are regarded as related parties and affiliates

Receivables from related parties

	<u>31 March 2020</u>		<u>31 December 2019</u>	
Shareholders	Trade	Non-trade	Trade	Non-trade
Abdülkerim GAZEN	--	--	--	--
Toplam	--	--	--	--

İlişkili Taraflara Borçlar

	<u>31 Mart 2020</u>		<u>31 Aralık 2019</u>	
Ortaklar	Trade	Non-trade	Trade	Non-Trade
Abdülkerim GAZEN	--	--	--	--
Toplam	--	--	--	--

The amount of rights granted to senior managers in the current period is TL 410.550 (Prior period: TL 1.950.000)

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25. TAXES ON INCOME (Deferred Tax Asset and Liability Included)

Corporate Tax Provision

	31 Mart 2020	31 Aralık 2019
Corporate tax provision of current period	--	--
Prepaid temporary taxes and funds (-)	(93.580)	(92.995)
Tax asset or liability	(93.580)	(92.995)

In Turkey, the corporation tax rate is 22% as of 31 March 2020 (31 December 22%). The corporate tax rate is applied to the tax base that will result in the deduction of non-deductible expenses in accordance with the tax legislation of the corporation's commercial income, the exemption in the tax laws (such as the exemption of participation profits) and deductions (such as investment discount). No further tax is paid if the profit is not distributed.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Bazı Vergi Kanunları ile Diğer Bazı Kanunlarda Değişiklik Yapılmasına Dair Kanun", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

Dividends paid to non-resident corporations which have a place of business in Turkey or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Advance (prepaid) corporation taxes are payable on quarterly profits at the rate of 22%. Such taxes after deduction of the taxes prepaid quarterly must be declared by the 14th of the second month following any tax period and paid by the 17th. Advance corporation tax may be offset against other debts to the government.

Tax losses that are reported in the Corporation Tax return can be carried forward and deducted from the corporation tax base for a maximum of five consecutive years. However financial losses can not be offsetted from last year's profits. In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the related financial year. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Tax provision in the income statement:	01.01.-	01.01.-
	31.03.2020	31.03.2019
Current period corporate tax provision	--	--
Deferred tax provision	(785.785)	(722.082)
Total	(785.785)	(722.082)

Deferred Tax Assets and Liabilities

Company is entering the deferred tax assets and liabilities into account for the temporary timing differences which are generated from the differences between statutory financial statements and financial statements that are prepared according to the Turkish Financial Reporting Standards ("TFRS"). These differences generally arise, because some of the income and expense items' amounts that are subject to taxation are placed in different periods in statutory financial statements and in financial statements prepared according to the TFRS and it is specified below. The tax rate used in the calculation of deferred tax assets and liabilities is 22% for the temporary timing differences (31 December 2019: %22)

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25. TAXES ON INCOME (Deferred Tax Asset and Liability Included) (continued)

	Cumulative temporary differences		Deferred Tax	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
Deferred Tax Assets				
Deferred financial expense	168.281	115.060	37.022	25.313
Provision for doubtful receivables	566.852	571.229	124.707	125.670
Amortization of intangible assets	4.717.218	3.331.277	1.037.788	666.255
Provision for unused vacation	159.521	299.181	35.095	65.820
Provision for litigation	1.078.818	584.145	237.340	128.512
Deferred tax adjustment	--	2.263.889	--	498.056
Provision for employee termination benefits	684.473	902.491	150.584	198.548
Adjustment for borrowings	1.339.680	22.417	294.730	4.932
Total	8.714.843	8.089.689	1.917.266	1.713.106
Deferred Tax Liabilities				
Deferred financial expense	(10.718)	(16.909)	(2.358)	(3.720)
Adjustment for time deposits accounts	(284)	--	(62)	--
Adjustment for depreciations	(1.416.194)	(126.563)	(311.563)	(25.313)
Capitalized costs of programs in progress	(3.476.679)	(3.476.679)	(764.869)	(695.336)
Accrued trade receivable adjustments	(2.151.761)	--	(473.387)	--
Capitalized development costs	(3.147.594)	(3.147.594)	(692.471)	(629.519)
Adjustment for deferred income	(120.743)	--	(26.564)	--
Total	(10.323.973)	(6.767.745)	(2.271.274)	(1.353.888)
Deferred Tax Assets / (Liabilities). net	(1.609.130)	1.321.944	(354.008)	359.218

Movements of deferred tax assets / (liabilities) are as follows:

	01.01.- 31.03.2020	01.01.- 31.12.2019
Opening balance of deferred tax assets / (liabilities)	359.218	1.812.290
Deferred tax expense / (income)	(785.785)	(1.547.698)
Deferred tax effect of other comprehensive income	72.559	94.626
Deferred tax asset / liability in the current period	(354.008)	359.218

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26. EARNINGS PER SHARE

	01.01.- 31.03.2020	01.01.- 31.03.2019
Net profit / (loss) for the period from continued operations:		
Net profit / (loss) of parent company from continued operations	3.472.880	14.651.030
Weighted average number of shares	40.000.000	40.000.000
Earnings / (loss) per share from continued operations (TL)	0,09	0,37
Earnings / (loss) per share:		
Profit / (loss) for the period	3.472.880	14.651.030
Net profit / (loss) of minority shares for the period	--	--
Net profit / (loss) of parent company for the period	3.472.880	14.651.030
Weighted average number of shares	40.000.000	40.000.000
Earnings / (loss) per share (TL)	0,09	0,37
	01.01.- 31.03.2020	01.01.- 31.03.2019
Number of weighted shares at the beginning of the period	40.000.000	18.000.000
Number of shares issued within the period	--	--
Number of shares at the end-of-period	40.000.000	18.000.000

27. EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

The exchange rate movements arising from foreign currency assets, liabilities and off-balance sheet are called as exchange risk. As of 31 March 2020 and 31 December 2019, there are no significant assets and liabilities in foreign currency.

28. THE NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The most important risks arising from the financial instruments of the company are interest rate risk, liquidity risk and credit risk.

Capital Risk Management

The company monitors its capital adequacy using the debt / equity ratio as in the previous period. This ratio is calculated by dividing net debt to total equity. Net debt is calculated by deducting cash and cash equivalents from the total debt amount (includes loans, trade and other debts shown on the balance sheet).

	31 March 2020	31 December 2019
Total Liabilities	10.659.328	12.408.946
Less: Cash and cash equivalents	(1.576.411)	(2.927.899)
Net (Cash)/Liabilities	9.082.917	9.481.047
Total Equity	70.693.660	66.912.584
Capital	40.000.000	40.000.000
Net (Cash) Liabilities / Total Equity Ratio	0,13	0,14

The current ratio from liquidity ratios has been realized as follows in terms of periods.

	31 Mart 2020	31 Aralık 2019
Current Assets	11.509.537	12.073.777
Short Term Liabilities	6.756.798	9.131.688
Net working capital excess / (deficit)	4.752.739	2.942.089
Current Ratio	1,70	1,32

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(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

28. THE NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Earnings Before Interest Tax Depreciation and Amortization (EBITDA)

	01.01.- 31.03.2020	01.01.- 31.03.2019
Net income / (loss) for the period	3.472.880	3.449.835
Other income / expenses from main activities.net	70.667	(1.027.707)
Income / expenses from investment activities net	(16.936)	(402.701)
Depreciation expenses	1.512.368	1.229.374
Financing (incomes) / expenses net	235.614	146.758
Tax (income) / loss net	785.785	722.082
EBITDA	6.060.378	4.117.641
EBITDA margin	43,65	37,52

Financial Risk Factors

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations. The Company management meets these risks by limiting the average risk for the counterparty in each agreement. The Group's collection risks mainly arise from its trade receivables. The Group manages this risks by limitation on the extension of the credit to customers. Credit limits are monitored regularly by the Company and the customer's financial position, taking into account the customers' credit quality and other factors considered. The Group does not have any derivative financial instruments. (31 December 2019 : None) The imposed credit risk by financial instrument type is as follows as 31 March 2020 and 31 December 2019

Exposed credit risks by types of financial instruments

31 March 2020	Receivables				Bank Deposits	Cash and Other
	Trade Receivables		Other Receivables			
	Related Parties	Other Parties	Relates Parties	Other Parties		
Maximum credit risk exposures as of report date	--	8.027.241	--	169.984	1.574.547	1.864
- Secured part of maximum credit risk exposure via collateral etc.	--	--	--	--	--	--
A. Net book value of the financial assets that are neither overdue nor impaired	--	8.027.241	--	169.984	1.574.547	1.864
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	--	--	--	--	--	--
C. Net book value of financial assets that are overdue but not impaired	--	--	--	--	--	--
- Secured part via collateral etc	--	--	--	--	--	--
D. Net book value of impaired financial assets	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	566.852	--	--	--	--
- Impairment asset (-)	--	(566.852)	--	--	--	--
- Net, secured part via collateral etc.	--	--	--	--	--	--
- Not Overdue (gross carrying amount)	--	--	--	--	--	--
- Impairment asset (-)	--	--	--	--	--	--
- Net, secured part via collateral etc	--	--	--	--	--	--
E. Off-balance sheet financial assets exposed to credit risk	--	--	--	--	--	--

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(Amounts are expressed in Turkish Lira ("TL" unless otherwise stated))

28. THE NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Exposed credit risks by types of financial instruments (continued)

31 December 2019	Receivables				Bank Deposits	Cash and Other
	Trade Receivables		Other Receivables			
	Related Parties	Other Parties	Relates Parties	Other Parties		
Maximum credit risk exposures as of report date	--	7.650.170	--	253.201	2.924.752	3.147
- Secured part of maximum credit risk exposure via collateral etc.	--	--	--	--	--	--
A. Net book value of the financial assets that are neither overdue nor impaired	--	7.650.170	--	253.201	2.924.752	3.147
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	--	--	--	--	--	--
C. Net book value of financial assets that are overdue but not impaired	--	--	--	--	--	--
- Secured part via collateral etc	--	--	--	--	--	--
D. Net book value of impaired financial assets	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	571.229	--	--	--	--
- Impairment asset (-)	--	(571.229)	--	--	--	--
- Net, secured part via collateral etc.	--	--	--	--	--	--
- Not Overdue (gross carrying amount)	--	--	--	--	--	--
- Impairment asset (-)	--	--	--	--	--	--
- Net, secured part via collateral etc	--	--	--	--	--	--
E. Off-balance sheet financial assets exposed to credit risk	--	--	--	--	--	--

Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. The company management, minimizes its liquidity risk by financing its assets with equity as in the previous period. The Company conducts its liquidity management not according to the expected terms, but it conducts with the terms determined in accordance with the contract. The company has no derivative financial liabilities.

Maturities accordance with the contract	Book value	Total contractual cash outflow (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1 – 5 years (III)	More than 5 years (IV)
<i>Non-derivative Financial Liabilities</i>	--	--	--	--	--	--
Bank loans	917.417	917.417	917.417	--	--	--
Finance lease obligations	141.052	141.052	141.052	--	--	--
Trade payables	134.500	134.500	134.500	--	--	--
Leasing payables	1.317.263	1.317.263	92.620	277.860	946.783	--
Total Liabilities	2.510.232	2.510.232	1.285.589	277.860	946.783	--
<i>Non-derivative Financial Liabilities</i>	416.784	416.784	416.784	--	--	--
Bank loans	3.014.295	3.014.295	3.014.295	--	--	--
Trade payables	--	--	--	--	--	--
Liabilities from employee benefits	484.689	484.689	484.689	--	--	--
Deferred income	3.915.768	3.915.768	3.915.768	--	--	--

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28. THE NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

Maturities accordance with the contract	Book value	Total contractual cash outflow (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1 – 5 years (III)	More than 5 years (IV)
<i>Non-derivative Financial Liabilities</i>	3.672.307	3.684.804	2.357.033	306.892	1.020.879	
Bank loans	857.832	857.832	847.324	10.508	--	--
Finance lease obligations	212.168	212.168	212.168	--	--	--
Trade payables	1.186.249	1.198.746	1.198.746	--	--	--
Leasing payables	1.416.058	1.416.058	98.795	296.384	1.020.879	--
Total Liabilities	5.569.018	5.573.430	5.007.457	565.973	--	--
<i>Non-derivative Financial Liabilities</i>						
Bank loans	182.187	186.599	186.599	--	--	--
Trade payables	2.471.601	2.471.601	2.471.601	--	--	--
Liabilities from employee benefits	2.263.889	2.263.889	1.697.916	565.973	--	--
Deferred income	651.341	651.341	651.341	--	--	--

Market Risk

Market risk is the risk of fluctuations in the fair value of a financial instrument or in future cash flows that will adversely affect a business due to changes in market prices. These are foreign currency risk, interest rate risk and financial instruments or commodity price change risk.

Interest Rate Risk

Interest rate risk arises from the possibility of interest rate changes that affect the financial statements. The Group is exposed to interest rate risk because of timing differences of its assets and liabilities which is expired in a current period. There is no risk management pattern and implementation which is defined and in the Group Company. The Group administration manages the interest rate risk by making decision and with its implementations although there isn't any risk management model defined in the Group.

The Group's interest position table is as follows:

Financial instruments with fixed interest	31 March 2020	31 December 2019
Financial liabilities (Note 4)	1.058.469	1.070.000
Nakit ve Nakit Benzerleri (Note 3)	1.431.281	765.079

29. EVENTS AFTER THE REPORTING DATE

As of the report date, due to the COVID-19 outbreak, a "Pandemic" has been declared by the World Health Organization. The aforementioned situation is expected to cause unfavourable results in the economy all over the globe as well as Turkey. Efforts are carried out through control-protection measures and significant support is being given primarily by government authorities to minimize losses. Although the current situation is expected to cause a severe economic contraction, the impact on the operations and going concern of the entities remain uncertain.

The Group, does not think that the situation will have a significant impact on its operations since it operates in the field of health informatics, but has taken necessary precautions.