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

| | Notes | Current period<br>Not Audited<br>31 March 2020 | Prior period<br>Audited<br>31 December 2019 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | 1.576.411 | 2.927.899 |
| Trade Receivables | | | |
| *- Trade receivables from third parties* | 7 | 8.027.241 | 7.650.170 |
| Other receivables: | | | |
| - *Other receivables from third parties* | 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 | | | |
| - *Other receivables from third parties* | 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.

(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 | | | |
| *- Trade payables due to third parties* | 7 | 540.567 | 1.368.436 |
| Liabilities for employee benefits | 16 | 3.014.295 | 2.471.601 |
| Other payables | | | |
| *- Other payables due to third parties* | 8 | 484.689 | 651.341 |
| Deferred income | 10 | -- | 2.291.805 |
| Short term provisions | | | |
| *- Short term provisions for employee benefits* | 16 | 159.521 | 299.181 |
| *- Other short term provisions* | 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: | | | |
| *- Actuarial gain/(loss) arising from defined benefit plans* | 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.

**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.)

| | | Not Audited | |
|---|---|---|---|
| | **Notes** | **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:*** | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | |
| 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.

**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 Profi | Retained Earnings | Net Profit | Attributable to Equity Holders of the Parent NonControllin g 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.

(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.

(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).

(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:

| | 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 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/TFRS‖) 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.

The communique 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").

## 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/TFRS**

The consolidated financial statements of the Group have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards, ("TAS/TFRS") 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 TFRS 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.

## 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 Tecnology | 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.

## 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 Shares‖.

- 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 Shares‖ 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 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 continunuing 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.

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

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

### Property, Plant and Equipment (continued)

| | Useful Life 31 March 2020 | Useful Life 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 thecarrying 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.

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

## 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:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale,
b) Its intention to complete the intangible asset and use or sell it,
c) Its ability to use or sell the intangible asset,
d) 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,
e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
f) 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<br>31 March 2020 | Useful Life<br>31 December 2019 |
|---|---|---|
| Rights | 10-15 | 10-15 |
| Devolopment costs | 12 | 12 |
| New HBYS working in Java based cloud | 15 | -- |
| Web portals | 5 | 5l |
| Other intangible fixed assets | 3-10l | 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 borrowi ngs. 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 share‖ way which is from previous year‘s profit. This type of free share‖ 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.

## 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** |

(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** |

(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 |
| Advences given | 217.311 | 9.796 |
| Advences 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** |

(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:**

| | **Net Book Value** | |
|---|---|---|
| **Property, Plant and Equipment** | **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** |

(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:**

| | Net Book Value | |
|---|---|---|
| **Intangible assets** | **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 Balance** | **Additions** | **Disposals** | **31.03.2020 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** |

(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:

a) Incentives under the jurisdiction of the research and development law (100% corporate tax exemption, Social Security Institution incentives, etc.),
b) Taxes and funds exemptions for R&D centres which are regulated under research and development law.
c) 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. ‖ 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** |

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

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

Colleterals, 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 BENEFISTS

**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. Severence payment provision is calculated as 30 days gross salary for each service year.

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

## 16. LIABILITIES FROM EMPLOYEE BENEFISTS (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 Shaheholders 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).

(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.

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

## 19. REVENUE AND COST OF SALES (-)

| **Revenue, net** | **01.01.-31.03.2020** | **01.01.-31.03.2019** |
|---|---|---|
| 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** |

| **Cost of sales (-)** | **01.01.-31.03.2020** | **01.01.-31.03.2019** |
|---|---|---|
| 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** |

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

## 22. INCOME AND EXPENSES FROM INVESTING ACTIVITIES (-)

**Income from investing activities**

| | 01.01.-<br>31.03.2020 | 01.01.-<br>31.03.2019 |
|---|---|---|
| Interest income | 16.936 | 402.701 |
| **Total** | **16.936** | **402.701** |

## 23. FINANCIAL INCOME AND EXPENSES (-)

**Financial incomes**

| | 01.01.-<br>31.03.2020 | 01.01.-<br>31.03.2019 |
|---|---|---|
| Foreign exchange income | 4.752 | -- |
| **Total** | **4.752** | **--** |

**Financial Losses (-)**

| | 01.01.-<br>31.03.2020 | 01.01.-<br>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)

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

## 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 le Diger Bazı Kanunlarda Degisiklik 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.- 31.03.2020** | **01.01.- 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 assests 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 Financila 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)

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

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

| | **Cumulative temporary differences** | | **Deferred Tax** | |
|---|---|---|---|---|
| **Deferred Tax Assets** | **31 March 2020** | **31 December 2019** | **31 March 2020** | **31 December 2019** |
| 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** |

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

## 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** |

(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 extansion of the credit to customers. Credit limits are monitored regularly by the Company and the customer's financial position, taking into account the customers's credit quality and other factors considered. The Group does not have any derrivative financial intruments. (31 December 2019 : None) The imposed credit risk by financial intrument type is as follows as 31 March 2020 and 31 December 2019

### Exposed credit risks by types of financial instruments

| 31 March 2020 | Receivables | | | | | |
|---|---|---|---|---|---|---|
| | Trade Receivables | | Other Receivables | | | |
| | Related Parties | Other Parties | Relates Parties | Other Parties | Bank Deposits | Cash and Other |
| **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 | -- | -- | -- | -- | -- | -- |

(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 | | | | | |
|---|---|---|---|---|---|---|
| | Trade Receivables | | Other Receivables | | | |
| | Related Parties | Other Parties | Relates Parties | Other Parties | Bank Deposits | Cash and Other |
| **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)** |
|---|---|---|---|---|---|---|
| *Non-derivative Financial Liabilities* | -- | -- | -- | -- | -- | -- |
| 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** | **--** |
| *Non-derivative Financial Liabilities* | 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** | **--** | **--** | **--** |

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

## 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)** |
|---|---|---|---|---|---|---|
| *Non-derivative Financial Liabilities* | 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** | **--** | **--** |
| *Non-derivative Financial Liabilities* | | | | | | |
| 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.